

cover

cover

HUMAN RESOURCE MANAGEMENT
TEXT AND CASES
SEVENTH EDITION

HUMAN RESOURCE MANAGEMENT

TEXT AND CASES

SEVENTH EDITION

K Aswathappa

Former Director

Canara Bank School of Management Studies
Bangalore



McGraw Hill Education (India) Private Limited

NEW DELHI

McGraw Hill Education Offices

New Delhi New York St Louis San Francisco Auckland Bogotá Caracas
Kuala Lumpur Lisbon London Madrid Mexico City Milan Montreal
San Juan Santiago Singapore Sydney Tokyo Toronto



McGraw Hill Education (India) Private Limited

Published by McGraw Hill Education (India) Private Limited
P-24, Green Park Extension, New Delhi 110 016

Human Resource Management, 7/e

Copyright © 2013 by McGraw Hill Education (India) Private Limited. No part of this publication may be reproduced or distributed in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise or stored in a database or retrieval system without the prior written permission of the publishers. The program listings (if any) may be entered, stored and executed in a computer system, but they may not be reproduced for publication.

This edition can be exported from India only by the publishers,
McGraw Hill Education (India) Private Limited

ISBN-13: 978-1-25-902682-9

ISBN-10: 1-25-902682-5

Vice President and Managing Director: *Ajay Shukla*

Head—Higher Education Publishing and Marketing: *Vibha Mahajan*

Senior Publishing Manager—B&E/HSSL: *Tapas K Maji*

Manager (Sponsoring): *Surabhi Khare*

Assistant Sponsoring Editor: *Anirudh Sharan*

Senior Production Manager: *Manohar Lal*

Senior Production Executive: *Atul Gupta*

Assistant General Manager—Higher Education Marketing: *Vijay Sarathi*

Assistant Product Manager: *Daisy Sachdeva*

Junior Product Specialist: *Megha Mehra*

Senior Graphic Designer (Cover Design): *Meenu Raghav*

General Manager—Production: *Rajender P Ghansela*

Manager—Production: *Reji Kumar*

Information contained in this work has been obtained by McGraw Hill Education (India), from sources believed to be reliable. However, neither McGraw Hill Education (India) nor its authors guarantee the accuracy or completeness of any information published herein, and neither McGraw Hill Education (India) nor its

authors shall be responsible for any errors, omissions, or damages arising out of use of this information. This work is published with the understanding that McGraw Hill Education (India) and its authors are supplying information but are not attempting to render engineering or other professional services. If such services are required, the assistance of an appropriate professional should be sought.

Typeset at The Composers, 260, C.A. Apt., Paschim Vihar, New Delhi 110 063 and printed at

Rajkamal Electric Press, Plot No.2, Phase IV, HSIIDC, Kundli, Sonapat, Haryana 131 028

Cover Printer: Rajkamal Electric Press

R**

To My Parents



Preface to the Seventh Edition

In one way, release of the 7th edition of *Human Resource Management* is not so exciting to me. Economies around the world are in a pretty bad shape. The USA has the same person re-elected as the President for second term. What he did or did not do in the first term is likely to stretch in the second term. The IMF predicts a growth rate of just two percent in 2013 for the super power. Contrary to the doomsayers, Eurozone has survived but economic recovery is nowhere near in sight. The growth projected by the world body for the continent is only one percent. Japan has a new Prime Minister but the incumbent is yet to get a grip on deflation, forget the revival of the country's falling economy. The IMF gives a growth rate of only one percent in 2013 for Japan. China has a new team of administrators in her government but the hope of democracy ushering in is dim. Her economy is also cooling. Arab Spring has almost dried up. Old order continues though hundreds of youth lost their lives fighting for democracy. Businesses in all these continents are witnessing down times so are the activities relating to people management. Release of a new edition/title of a book on human resource management is obviously cheerless.

However, the event is peachy in India. With a forecasted GDP growth rate of six percent for 2013, Indian economy stands out second only to China. Macroeconomic indicators in India are favourable for business growth. The country has a vibrant democracy; her growth has been propelled by internal consumption instead of being anchored on exports; service sector is dominating over manufacturing; and growth is bottom-up driven but not being imposed by the Government. Corporate sector has been doing well, executive compensation is skyrocketing and employee hiring is going on unabated. In the all-round upbeat mood, several new things are happening in

the field of human resource management. Any new title/edition on the subject should incorporate all the new dimensions and the 7th edition of *Human Resource Management* seeks to precisely do that.

The present edition of *Human Resource Management* carries several changes, as listed below:

Coverage

With a total of 33 chapters [28 in the book and 5 on the Online Learning Centre (OLC)], the book covers A to Z of HRM. It can be a point of reference for any concept on managing human resource.

New Feature

The present edition adds a new feature called “Walk the Talk”. Found in each chapter, “Walk the Talk” contains do’s and don’ts majorly addressed to the HR practitioners. These tidbits are practical guidelines ideal for would-be managers as well as for HR managers to handle people related issues with professionalism.

New Chapters

Four new chapters, stated below, are added in the book:

[Chapter 10](#) – Employee Engagement

[Chapter 15](#) – Organisational Culture

[Chapter 20](#) – Labour Laws

[Chapter 28](#) – HR Practices in Small Scale Units

Recast

Two chapters have been thoroughly recast: [Chapter 3](#) – Integrating HR Strategies with Business Strategy; and [Chapter 8](#) – Training and Development, and Career and Talent Management

Additions

New sections have been added in almost all chapters as shown below:

Chapter 1

- Factors determining status of HR department in an organisation
- Outsourcing
- Dave Ulrich model of human resource management

Chapter 2

- Impact of government on HR activities
- New observations on labour

Chapter 4

- Practical succession planning grid

Chapter 5

- Job characteristics model
- Digitised manufacturing

Chapter 6

- Contract workers and temps

Chapter 7

- Evaluation of selection process

Chapter 9

- Paradigm shifts in performance management
- Principles of performance management
- Performance Improvement Plans (PIPs)

Chapter 11

- Compensation philosophy
- Tax implications of salary/wage
- Salary bands

Chapter 13

- Opening vignette
- Popular benefits and services programmes
- Benefits strategy
- Ever rising benefits and services

Chapter 16

- Safety culture
- ISO safety standards
- Disclosure problem

Chapter 18

- Resolving conflict
- Managing discipline
- B-players

Chapter 19

- HR as a stakeholder in IR
- ILO as a stakeholder in IR
- NLC as a stakeholder in IR

Chapter 21

- Managing unions

Chapter 22

- Temp and contract labour as causes for disputes
- Technology resulting in disputes
- Disputes manifestation

Chapter 23

- Siemen's way of combating corruption
- Compliance department
- Enterprise risk management
- Vigilance/investigation unit

Chapter 24

- Balanced Score Card
- HR Dash Boards

Chapter 25

- Managing diversity
- Feminising workforce
- Knowledge management

Chapter 26

- Inpatriation

Additionally

With four new chapters, recasting of two chapters, the continuing cases on *Vybhav Corporation*, walk the talk, new cases, new tables and updated statistical data, additional pause and ponders and several additions to the text, 7th edition of the book looks more matured, more contemporaneous, better organised, pedagogically richer and highly student friendly.

On the Online Learning Centre

Section 8 which includes the following five chapters, is part of the Online Learning Centre (OLC):

- Inducting and Placing New Hires
- Motivation Perspectives
- Motivation in Action
- Empowering Employees
- Communicating with Employees

The ***HRM Assignments*** are designed with the objective of providing students with an opportunity to practise the HRM concepts by applying them in workplace situations. The HRM Assignments will have the following 3 sections for each chapter:

- Section A – Multiple Choice Questions, Fill in the Blanks and Match the Following
- Section B – Sample situations from the workplace followed by questions to test the students' abilities to resolve them
- Section C – News articles and live reports of existing companies, designed as mini cases, followed by questions to test the application of HRM concepts with relation to actual happenings in business

OLC will also contain PowerPoint Presentations, Bibliography and Web Resources.

Acknowledgements

My grateful thanks to the esteemed readers who have been such great patrons of the book and in particular those who gave feedback through e-mails or phones. It is their support that has enabled the book to appear in its 7th edition. Thank you dear readers for your indulgence.

It is my immense pleasure to thank Ms. Sadhna Dash who went through the entire text and offered comments which have contributed to the richness of the book. With deep conceptual knowledge on the subject coupled with hands-on experience gained as the HR head in several Bangalore based leading organisations, she is in a vantage position to comment on the text.

Mr. Suresh Hundre, CMD-Polyhydron, gave me permission to visit his plant and spent more than an hour with me sharing his experiences as the most successful entrepreneur. I am highly grateful to him.

Dr. G. Sudarsana Reddy, Associate Professor, Faculty of Commerce, Tumkur University, Tumkur, Karnataka, has been a constant source of support for me in all my academic endeavours. I thank him profusely.

My thanks are also due to the following for their timely help:


- V. Subrahmanyam, MD, HR Confluence, Bangalore.
- Dr. P.V Padmaja, Principal, MLA Academy of Higher Learning, Malleswaram, Bangalore.
- Prof. H. Y. Kambli, Professor, Faculty of Commerce, Rani Channamma University, Belgaum, Karnataka.
- Hemanth M. N., Senior Resource Manager, EMC², Bangalore.
- Tapas Kumar Maji, Surabhi Khare, Anirudh Sharan, Manohar Lal, Hema Razdan and other editorial staff of McGraw-Hill Education.

K. ASWATHAPPA

dr_k_aswathappa@yahoo.com

The publishers gratefully acknowledge and thank the following reviewers for their valuable suggestions: *Pooja Lakhanpal*, Indian Institute of Foreign Trade, Delhi; *Diganta Chakrabarti*, ICFAI Business School, Hyderabad; *Priya D. Gupta*, Symbiosis Centre for Management and Human Resource Development, Pune; *S.C.Gupta*, AIMA, Birla Institute of Management and Technology and BVB (Visiting Faculty); *Nidhi Mathur*, Institute of Management Technology, Center for Distance Learning, Ghaziabad; *Mitushi Jain*, IMT Engineering College, Meerut; *P.N.A.Rao*, Balaji Institute of

Modern Management (BIMM), Pune; *Shekhar Srivastava*, International Institute for Special Education, Lucknow.



Preface to the First Edition

Indian industry is waking up to the challenges thrown in by market economy. To survive in this highly competitive scenario, managers are being pressurised to improve quality, increase productivity, cut down waste and eliminate inefficiency. The collective efforts of the employer and the employee assume relevance in this context. And this is where human resource management can play a crucial role.

This book on *Human Resource and Personnel Management* is a modest but sincere attempt towards the understanding of human resource in its proper perspective. The contents have been logically divided into six sections to enable the reader comprehend thoroughly the vital aspects and applications of the various principles of human resource management. The sections are: (1) Nature of human resource management, (2) Employee hiring, (3) Employee and executive remuneration, (4) Employee motivation, (5) Employee maintenance, (6) Industrial relations. The text is replete with illustrations, examples and anecdotes drawn from the contemporary business world. In all, the book provides a refreshing and rewarding insight into all that a reader wants to know about management of human resources.

Finally, a request to the readers to express their views as well as their suggestions for improvement of the book.

K ASWATHAPPA

Chapter 1

Understanding the Nature and Scope of Human Resource Management

Learning Objectives

- After reading this chapter, you should have a good understanding of:
 - The nature, scope and objectives of human resource management
 - An organization chart for human resource management function in a typical business establishment
 - Describing the fringe and qualities of a human resource manager
 - The personnel programs and policies
 - The evolution of human resource management
 - Job and career in HRM
 - Studies of HRM
 - Importance of HRM

Cloning Case-1 Enterprise Autos on People

Other than people, there is no other firm, the names of Hertz and Avis usually come to mind, but in the old days, Enterprise Rent-A-Car has worked both of these markets quite well, and today it stands as both the largest and the most profitable business in the car-rental industry. In 2001, for instance, the firm had sales in excess of \$1.1 billion and employed over 60,000 people.

Just before entering Enterprise in its launch in 1957, "Opus" had a simple strategy to stand for Enterprise, and that strategy played a key role in the firm's initial success. Most clients hire the Hertz and Avis cars from their locations in their airports, train stations, and other transportation hubs. These firms use their customers as business travelers, and people who fly for business and their need transportation at the end of their flight. But Enterprise went after a different customer, it sought to meet the needs of individuals whose car use and business requirements were taking a strong rotation.

The firm got its start by working with insurance companies. A standard feature in many automobile insurance policies is the provision of a rental car when one's personal car has been in an accident or has been stolen. From the Hertz and Avis change requires high daily rates because their customers need the convenience of being near an airport until they are having their expenses paid by their employer. These rates are often higher than insurance companies are willing to do, so customers who use Hertz, Avis, and other parts of the rental firm, Enterprise, it offers, their customers are also often convenient for people seeking a replacement car when theirs is in the shop.

Case Studies

In order to understand the real world issues in HR, case studies have been provided at the beginning and end of each chapter. These cases center on live examples observed by the author personally or have been narrated to him by HR practitioners.

Pause and Ponder
 Pause and Ponder throws challenging questions to the reader to apply his mind to and to discuss among colleagues.

Human Resource Management 100

HRM department is of great help in preparing job description and job specifications and also in employee hiring. The fundamental aim of any HR department is to hire right people for right jobs. The perfect match between job and skills can be achieved when there is clarity about the competencies expected of a hire. HR provides the clarity. It provides overall support for the training department to design an appropriate training programme. HR ensures that the staff in various departments practices and performs which would help attract and retain talent. Benefits and incentives may also be reviewed in the light of HR objectives. Linking recruitment to performance may lead to understanding situations. Lead to higher production, production department staff recruit more input and without monitoring activities, leading to work pricing. Similarly, other cases involving organizational success for the market share of the company has not improved. Such activities need to be revised. The such interventions in terms of fixed and variable components in the total compensation. The prevailing practice is 60:40 (60 per cent fixed and variable is 40 per cent), but the aim is to make it 50:50. Decisions on all these issues can be made through HR department in the coming year.

Developing job candidates to be another responsibility from HRM (HR) in the business. Success and HRM have not set policies and procedures to identify potential talent and retain such people globally so as to enable them to become world-class leaders. HRM helps in identifying talent, setting a list of career goals, engagement and preparing work plans for success.

Pause and Ponder
 How, the organization in terms, the production needs, is always asking when he is getting promoted, but James feels, Pay is not fit for promotion, what can James do to prevent this from happening?

Increasing Investment in Human Resources
 Another compelling reason for HRM is the investment in equipping talent in its business activities. Human capital, is regarded as physical assets, can become so rich. An employee who gradually develops his/her skills and abilities becomes a more valuable resource. Because an organization takes investment in its personnel other through labor training or job engagement. It is important that employees are not affected by changing business. The rapid rate of a trained, flexible, motivated and productive workforce is difficult to decrease, although managers are being made to do so in a HR increasing HRM. As increasing number of activities are subcontracting for the quality of the work force can be significant. It is significant differences in activities and input performance.

Pause and Ponder
 How is the intellectual capital of your firm or organization? How is it evaluated?

Resistance to Change and Move
 There is growing concern among employees to change activities. There is also a growing emphasis on self-orientation and an emphasis on activity and dedication to the organization. All these changes are making it more difficult for the organization to ensure that it can meet its employees' diverse activities and activities needs. This increasing the importance and necessity of planning ahead!

Walkthrough

Minimum Wage

Minimum wage is the rate which provides an equity for the maintenance of life, but also for the preservation of the efficiency of the worker. For this purpose, the minimum wage must also provide for some measure of education, medical requirements and assistance. Minimum wages may be fixed by an agreement between the management and the workers, but it is usually determined through legislation. This is done so in the unorganized sector where labour is unskilled. In the domain of minimum wages, besides the needs of workers, other factors like ability of the industry to pay, nature of the job, and so on, are also considered.

Fair Wage

Fair wage is understood in two ways. In a narrow sense, wage is fair if it is equal to the cost prevailing in the same trade and in the neighbourhood for similar work. In a wider sense, it will be fair if it is equal to the performance rate for similar work throughout the industry and the trade in general. The perspective of the way in which fair wage is understood, it can be fixed only by comparison with an original standard wage. Such a standard can be determined with reference to those industries where labour is well organized and has been able to bargain well with the employers.

Living Wage

Living wage is a wage higher than the wage. Living wage can be described as one which should enable the wage earner to provide for himself/herself and his/her family not only the bare necessities of life

Minimum wage
providing for maintenance of life for preservation of the efficiency of worker

Fair wage
fair to the worker and to the employer, based on the performance rate for similar work throughout the industry

Margin Notes

These notes on the text margins are brief summaries or definitions of important concepts and key terms. These would enable the readers to reinforce their learning.



Walk the Talk

A new feature of this edition called Walk the Talk provides practical guidelines which are ideal for would-be managers as well as HR managers to handle people related issues with consummate ease.

Exhibits

Exhibits and Examples reflecting HR practices in the Indian corporate sector have been provided within the chapters.

400 Human Resource Management

The participative culture is premised on the notion that people are more committed to the decisions that are collectively made than to those which are imposed on them. Further, group problem-solving leads to better decisions, because several new ideas and information are exchanged during discussions. Participative cultures tend to emerge when senior organizational members are professionals and are themselves in search.

Development and Role of Culture

Large organizations tend to have dominant cultures. The values, beliefs and norms evolved by the large organizations are binding and shared by all employees. Dominant culture is a product of what is called national culture. National culture operates within the political boundaries of a nation-state. Business of an organization is mostly conducted in the language of the national culture. Sub-cultures are found in departments, divisions and geographical areas, and reflect the unique practices and experiences of employees who reside in those areas. A sub-culture could consist of the core values of the dominant culture as well as values unique to the department to which it relates. There could be differences in culture among sub-cultures and between a sub-culture and the dominant culture as shown in Exhibit 15.1.

Exhibit 15.1 Culture Clashes

There are two clashes between corporate culture and sub-culture:

- The marketing department of IndianOil/Indian Petrochemicals in India has, for many years, lived with the slogan from the local business schools in the country: Competitively, the best is very competitive and multi-oriented team capable of creation, innovation, and planning of superb results with courage, commitment, the HRD and production departments, more agreement contained in the head office, had not developed the same ideas in their living practices. Obviously, the knowledge gap between these two departments had become so substantial that IndianOil/Indian Petrochemicals in India ended up with a greater number of new products before than the market average.
- From the late 1980s and 1990s, the HRD was putting up its operations in India and in Bangalore. The building was made and at the same time was a white-collar office building. The staff office, Asia Pacific region, who was eventually the person in charge of the Indian operations, was coming to India. The culture and values were put up at the entrance of the plant. When questioned, he was puzzled and that the culture was meant for senior staff and using some means for finding employees when they were leaving the plant after completing their shifts. Finding was to be carried out in order to detect any irregularities of valuable components, for instance. The staff, in comparison to national, was afraid of these people, for him, finding of employees was something new, never mentioned in HRD operations. In the month of December, HRD used to be made, "Report and Staff People". Then, you are expected to report and find people and at the same time find new systems, supporting them in the office. He was particularly surprised when he saw that the living was to be done only for the use of employees.

Now the time came to enter the staff in the main hall with HRD under "Report and Staff People". The staff and his best friend, "You will not enter the staff with the credit entry, you will not the culture. You will not enter the staff with the credit entry, you will not the staff. You will not enter the staff with the credit entry, you will not the staff. You will not enter the staff with the credit entry, you will not the staff."

Strong, Weak and Unhealthy Cultures

Cultures in effect needs between strong and weak cultures. In a strong culture, the core values of the organization are widely shared and eagerly reinforced by all members and are deeply embedded in them. It is a strong culture that sends strong messages of its norms to various levels, their jobs

Human Resource Management, 7/e
 K Aswathappa
 Field, Professor and Former Director Canara Bank School of
 Management Studies Bangalore
 To learn more about the book this website supports, please visit its [Information center](#).

Online Supplement
 The book has a web supplement (<http://www.mhhe.com/aswathappa7e>). Among the features listed in this supplement include power point presentations, answers to review and discussion questions, objective type questions with answers, tips to chapter end case questions, group exercises, HR newroom, and hot updates.

Key Terms
 Key terms represent important concepts culled out from a chapter. These terms help reader recollect contents of the chapter.

Review Questions
 The Review Questions given at the end of each chapter would help in gauging the depth of understanding of the subject. The answers for review questions could be found in the text itself.

Discussion Questions
 Discussion questions take the reader beyond the book. They make the reader think, reason out and apply. Answering these questions will be a rewarding experience.

Impact Assessment Exercises
 This unique feature has been appended to each chapter. Students find solving this highly rewarding.

The screenshot displays the online supplement interface with the following sections:

- Key Terms:** Lists terms such as Employee welfare, Entrepreneur, Entrepreneurship, and Entrepreneurship. It also includes a 'Business perspective' table with 'Total assets' and 'Market price'.
- Review Questions:** A list of three questions: 1. Define the term 'entrepreneur'. 2. List out the main types of welfare. 3. Give a welfare assessment as a typical organization. 4. Describe how the effectiveness of welfare is assessed. 5. List out the main objectives to be met by welfare.
- Discussion Questions:** Two questions: 1. The type of welfare do you expect from your college/industry? 2. Evaluate a welfare scheme within your organization.
- Impact Assessment Exercise:** A task: 'From the figure given below, identify the term (internal and external) that appear between work, directly with an aspect of work and rank the items in a scale of 1 to 3 (1 being the best and 3 being the worst) according to...'

Below the text is a circular diagram with 'Entrepreneurship' at the center. It is surrounded by eight boxes: 'Culture', 'Values', 'Ethics', 'Social Responsibility', 'Welfare', 'Employee Welfare', 'Business', and 'Environment'. The diagram is enclosed in concentric circles.



Brief Contents

SECTION 1

1. **Understanding the Nature and Scope of Human Resource Management**
2. **Context of Human Resource Management**
3. **Integrating HR Strategy with Business Strategy**

SECTION 2

4. **Human Resource Planning**
5. **Analysis of Work, Designing Jobs and Job Evaluation**
6. **Recruiting Talent**
7. **Selecting Right Talent**

SECTION 3

8. **Training and Development, Career Management and Talent Management**
9. **Appraising and Managing Performance**
10. **Employee Engagement and Empowerment**

SECTION 4

11. **Compensation Management**

- 12. Incentives and Performance-based Pay**
- 13. Managing Employee Benefits and Services**
- 14. Compensating Top Brass**

SECTION 5

- 15. Organisational Culture**
- 16. A Safe and Healthy Environment**
- 17. Managing Betterment Work—Employee Welfare**
- 18. Managing Separations and Right Sizing**

SECTION 6

- 19. Industrial Relations**
- 20. Labour Laws**
- 21. Trade Unions**
- 22. Resolving Disputes**

SECTION 7

- 23. Managing Ethical Issues in Human Resource Management**
- 24. HR Audit and Evaluation**
- 25. Contemporary Challenges in Human Resource Management**
- 26. International Human Resource Management**
- 27. e-Human Resource Management**
- 28. Human Resource Management in Small Scale Units**

Bibliography and Web Resources

Name and Organisation Index

Subject Index

SECTION 8 (On the Online Learning Center)

- 29. Inducting and Placing New Hires
- 30. Motivation Perspectives
- 31. Motivation in Action
- 32. Empowering Employees
- 33. Communicating with Employees



Contents

Preface to the Seventh Edition

Preface to the First Edition

Brief Contents

SECTION 1

1. Understanding the Nature and Scope of Human Resource Management

Opening Vignettes

People Lend Competitive Advantage

Nature of HRM

HRM Functions

The Semantics

HRM: Functions and Objectives

Organisation for HR Department

HRM Paradoxes

Personnel Policies and Principles

Skills for HR Professionals

Line Managers

HRM Models

Evolution of HRM

Jobs and Careers in HRM

Why Study HRM?

Summary

Key Terms

Review Questions

Discussion Questions

Comprehensive Case

Exercise

Closing Case-1 Enterprise Builds on People

Closing Case-2 Conceptualise and Get Sacked

References

2. Context of Human Resource Management

Opening Vignette

External Forces

Internal Forces

Knowing the Environment

Scanning the Environment

HRM and Environmental Scanning

Summary

Key Terms

Review Questions

Discussion Questions

Continuing Case

Exercise

Closing Case

References

3. Integrating HR Strategy with Business Strategy

Opening Vignettes

Nature of Strategic HRM

Strategic HRM versus Conventional HRM

Strategic Management Process

Benefits of SHRM

Barriers to Strategic HRM

Typical HR Strategies

Selecting Strategies to Enhance Performance

Summary

Key Terms

Review Questions

Discussions Questions

Continuing Case

*Closing Case It is Good News Everywhere for Coca Cola
References*

SECTION 2

4. Human Resource Planning

Opening Vignette

Nature of HRP

Importance of HRP

Factors Affecting HRP

The Planning Process

Human Resource Planning and the Government

Requisites for Successful HRP

Barriers to HRP

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Exercise

Closing Case Promoting the Protege

References

5. Analysis of Work, Designing Jobs and Job Evaluation

Opening Vignette

Nature of Job analysis

Job Analysis and Competitive Advantage

The Process of Job Analysis

Methods of Collecting Job Data

Job Analysis and Total Quality Management (TQM)

Job Analysis and Strategic HRM

Potential Problems with Job Analysis

Requisites for Job Analysis

Competency-based Job Analysis

Job Design

Significance of Jobs Design
Factors Affecting Job Design
Job Design Approaches
Contemporary Issues in Job Design
Job Evaluation
Job Evaluation Process
Methods of Job Evaluation
Alternative to Job Evaluation
Summary
Key Terms
Review Questions
Discussion Questions
Continuing Case
Exercise
Closing Case Doing the Dirty Work
References

6. Recruiting Talent

Opening Vignette
Nature of Recruitment
Purposes and Importance
Factors Governing Recruitment
Recruitment Process
Evaluation and Control
Philosophies of Recruiting
Alternatives to Recruitment
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Exercise
Closing Case A Tale of Twists and Turns
References

7. Selecting Right Talent

Opening Vignette

Nature of Selection

Selection as a Source of Competitive Advantage

Organisation for Selection

Selection Process

Assessment Centres

Barriers to Effective Selection

Evaluation of Selection Process

Making Selection Effective

Selection in India

Placement

Summary

Key Terms

Review Questions

Discussion Questions

Continuing Case

Impact Assessment Exercise

Exercise

Closing Case Prejudices in Workplaces: Real or Perceived?

References

SECTION 3

8. Training and Development, Career Management and Talent Management

Opening Vignettes

Orientation

Orientation Programme

Requisites of an Effective Programme

Evaluation of Orientation Programme

Problems of Orientation

Typical Orientation Programme

Nature of Training and Development

Inputs in Training and Development

Training and Development as Source of Competitive Advantage

The Training Process
Impediments to Effective Training
How to Make Training Effective?
Government Initiative
Management Development
Career Development
Talent Management
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Exercise
Closing Case 1 Travails of a Training Manager
Closing Case 2 Backfired Surmise
References

9. Appraising and Managing Performance

Opening Vignette
Nature of Performance Appraisal
Appraisal Process
Edward Deming on Performance Appraisal
Challenges of Performance Appraisal
Legal Issues Associated with Performance Appraisal
Summary
Key Terms
Review Questions
Discussion Questions
Continuing Case
Impact Assessment Exercise
Exercise
Closing Case—1 Mechanist’s Indisciplined Behaviour
Closing Case—2
References

10. Employee Engagement and Empowerment

Opening Vignette

Nature of Employee Engagement

Types of Engagement

Drivers of Engagement

Benefits of Engagement

Measurement of Engagement

Empowerment

Summary

Key words

Review Questions

Discussion Questions

Continuing Case

Employee Engagement Study

Closing Case Not a Star Performance—Not a Loss

References

SECTION 4

11. Compensation Management

Opening Vignette

Compensation Philosophy

Components of Compensation

Theories of Compensation

Importance of an Ideal Compensation System

Factors Influencing Employee Compensation

Compensation Plans and Business Strategy

Devising a Compensation Plan

Challenges of Compensation

Concepts of Wages

Compensating Special Groups

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case
Exercise
Closing Case Determining Pay Raise
References

12. Incentives and Performance-based Pay

Opening Vignette
Nature of Incentive Payments
Prerequisites for an Effective Incentive System
Scope of Incentive Schemes
Types of Incentive Schemes
Group Incentive Plans
Incentives for Indirect Workers
Incentive Schemes in Indian Industries
Installing an Incentive Scheme
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Closing Case On Pegging Pay to Performance
References

13. Managing Employee Benefits and Services

Opening Case
Nature of Benefits and Services
Why Benefits and Services?
Types of Employee Benefits and Services
Principles of Fringes
Significant Benefit and Service Programmes
Administration of Benefits and Services
The Future of Fringe Benefits
Guidelines to Make Benefit Programmes More Effective
Ever Rising
Summary

Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Exercise
Closing Case More Benefits Please
References

14. Compensating Top Brass

Opening Vignette
Components of Compensation
Extent of Pay
Justification for Paying More
Relevant Issues in Executive Compensation
Remedials
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
References

SECTION 5

15. Organisational Culture

Opening Vignette
Nature of Culture
Organisational Vision, Mission, Values and Strategies
Cultural Dimensions
How is Culture Created?
Culture Artefacts
Sustaining Culture
Effects of Culture
Changing Organisational Culture

Summary

Key terms

Review Questions

Discussion Questions

Continuing Case

Closing Case Cultural Change at Chrysler (1994)

References

16. A Safe and Healthy Environment

Opening Vignettes

Safety

Types of Accidents

Need for Safety

Safety Programme

ISO Safety Standards

Health

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case A Case of Burnout

References

17. Managing Betterment Work—Employee Welfare

Opening Vignette

Nature of Welfare

Merits and Demerits of Welfare Measures

Types of Welfare Activities

Approaches to Labour Welfare

Administration of Welfare Facilities

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise
Continuing Case
References

18. Managing Separations and Right Sizing

Opening Vignette
Separations
Horizontal Movement of Employees
Upward movement of Employees
Workplace Conflict
Discipline
B-Players
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Closing Case-1 Problem Employees
Closing Case-2 Lakshmi Manufacturing Company
Closing Case-3 Rise and Fall
References

SECTION 6

19. Industrial Relations

Opening Vignette
Nature of IR
Importance of Peaceful IR
Approaches to IR
Parties to IR
IR Strategy
Summary
Key Terms
Review Questions
Discussion Questions

Impact Assessment Exercise
Continuing Case
Closing Case A Worried CEO
References

20. Labour Laws

Opening Vignette
Nature of Labour Laws
Need for labour laws
Principles of Labour Legislation
The Laws
Union Legislation
The Industrial Disputes Act, 1947
The Payment of Wages Act, 1936
The Factories Act, 1948
The Employees' Compensation Act, 1923
Other laws
Labour Law Reforms
Summary
Key Words
Review Questions
Discussion Questions
Continuing Case
Closing Case Crisis Blown Over
References

21. Trade Unions

Opening Vignette
Nature of Trade Unions
Strategic Choices before Managers
Why do Employees Join Unions?
Strategic Choices Before Unions
Union Tactics
Trade Union Movement in India
Trends in Trade Union Movement
Managing Unions

Personnel Research

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case “Whose Side are you on, Anyway?”

References

22. Resolving Disputes

Opening Vignette

Nature of Disputes

Causes of Disputes

Settlement of Disputes

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case Protest Over Job Losses

References

SECTION 7

23. Managing Ethical Issues in Human Resource Management

Opening Vignettes

Nature of Ethics

Sources of Business Ethics

Myths about Ethics

Why is Ethics Important?

Are Business Persons Ethical?

Ethical Dilemmas

HR Ethical Issues

Managing Ethics

Improving Ethical Decision Making

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case—1 When an Employee Says He is HIV Positive

Closing Case—2 The Non-Plussed MBA Student

References

24. HR Audit and Evaluation

Opening Vignette

Nature and Need for HR Evaluation

Evaluation Framework

Approaches to Evaluation

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case Chairman and CEO Seeking a Solution and Finding It

References

25. Contemporary Challenges in Human Resource Management

Opening Vignette

Outsourcing HR Activities

BPO and Call Centres

Making HR Activities Ethical

Managing Diversity

Feminising Workforce

Knowledge Management

Attitude Towards Unions

Globalisation

HRM in Mergers and Acquisitions

HRM in High Performing Organisations
New Organisational Forms
Changing Demographics of Workforce
Changed Employee Expectations
HR Professional as Change Agent
HR During Downturns
HR Manager as Strategist
Others
Summary
Key Terms
Review Questions
Discussion Questions
Continuing Case
References

26. International Human Resource Management

Opening Vignettes
Domestic HRM and IHRM Compared
Growing Interest in IHRM
Managing International HR Activities
The Expatriate Problem
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Exercise
Closing Case The Office Equipment Company
References

27. e-Human Resource Management

Nature of e-HRM
e-HR Activities
e-Recruitment
e-Selection

e-Performance Management

e-Learning

e-Compensation

Summary

Key Terms

Review Questions

Discussion Questions

Continuing Case

Exercise

References

28. Human Resource Management in Small Scale Units

Opening Vignette

What is a Small Business Unit?

Significance of MSM Enterprises

Facilities

Problems

People Practices in Small Units

Challenges in Introducing HR Practices

Current Practices

Guidelines for Application of HR Practices

Summary

Key Words

Review Questions

Discussion Questions

Continuing Case

Closing Case The Saga That Inspires

Bibliography and Web Resources

Name and Organisation Index

Subject Index

SECTION 8 (On the Online Learning Center)

29. Inducting and Placing New Hires

Induction
Orientation Programme
Requisites of an Effective Programme
Evaluation of Orientation Programme
Problems of Orientation
Typical Orientation Programme
Placement
Summary
Key Terms
Impact Assessment Exercise
Review Questions
Discussion Questions
Continuing Case
Exercise
Closing Case
References

30. Motivation Perspectives

What is Motivation?
Importance of Motivation
Motivational Challenges
Theories of Motivation
I. Early Theories
 (A) Scientific Management
 (B) Human Relations Model
II. Contemporary Theories
 (A) Content Theories
 (B) Process Theories
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Closing Case
References

31. Motivation in Action

Opening Vignette

Rewards

Job Design

Empowerment

Participative Management

Problem Employees

Quality of Work Life

Other Motivational Techniques

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case

References

32. Empowering Employees

Opening Vignette

Scope and Ways of Participation

Prerequisites for Successful Participation

Importance of Participation

Limitations of Participation

Evolution of Participative Management

Summary

Key Terms

Review Questions

Discussion Questions

Impact Assessment Exercise

Continuing Case

Closing Case—1

Closing Case—2

References

33. Communicating with Employees

Opening Vignette
Nature of Communication
Significance
Interpersonal Communication
Types of Communication
Barriers to Effective Communication
Overcoming Communication Barriers
Organisational Communication
Communication Networks
Communication Roles
Communication Policies and Communication Audit
Informal Communication
Information Technologies
Summary
Key Terms
Review Questions
Discussion Questions
Impact Assessment Exercise
Continuing Case
Exercise
Closing Case
References

SECTION 1

List of Chapters

- Chapter 1:** Understanding the Nature and Scope of Human Resource Management
- Chapter 2:** Context of Human Resource Management
- Chapter 3:** Integrating HR Strategy with Business Strategy

Understanding the Nature and Scope of Human Resource Management

Learning Objectives

After reading this chapter, you should have a good understanding of:

- The nature, scope and objectives of human resource management
- An organisation chart for human resource management function in a typical business establishment
- Describing the image and qualities of a human resource manager
- The personnel principles and policies
- The evolution of human resource management
- Jobs and careers in HRM
- Models of HRM
- Paradoxes in HRM

Opening Vignettes

The shift begins at its scheduled time. Gates open for company buses. Workers come and punch in their cards. In a way, things are looking normal at Bajaj Auto's Akurdi plant. The only difference: employees have no work. Once in, they do nothing—play cards or carrom to kill time till their 'duty hours' end.

Then they make way for the next shift. These days this is the routine that Bajaj Auto's over 2,700 workers follow five days a week. After 'successful intervention' by Union Agriculture Minister Sharad Pawar on November 5; the Bajaj management conceded one demand. That the workers will be let in,

though it maintained its stand the plant will not be re-started.

This is the only concession Rajiv Bajaj, MD, Bajaj Auto, has given to Mr Pawar since the company shut down its operations at the plant on September 1. The company has blamed local municipal body that made its operations unviable by charging heavy octroi.

As a result, it decided to get out of the Pipri-Chinchwad Municipal Corporation's boundary to save its outgo on octroi, which is ₹1,000 per vehicle/year. Thus, the company closed its Akurdi plant on September 1 and moved further deep to Chakan. Since then workers have been demanding to restart the shut unit. Mr Bajaj, however, has turned down their demand.

Expectedly, politicians of all hues jumped in the fray sensing the popular mood. Leading from the front was Sharad Pawar, in whose constituency the factory falls. He held as many as seven meetings with workers and the Bajaj Auto management. His entry into the ring raised hopes as he promised to take up their issue with the management. But the Maratha strongman could achieve only partial success. The management gave up its earlier stand that the workers need not come to office and they will continue to receive their wages sitting at home. Now, workers can go to office, though they will have no work to do. This has put the workers' unions in a fix as they face never-seen labour issue. "It is really bizarre. The company has committed to pay us till we retire. So, financially we are taken care off. But we are paid for sitting idle", said a middle-aged official. His complain is that he can't complain and take up the issue.

"Had the company refused to pay us, it would have been perfect labour dispute. But now for what shall we fight", he asked. The general feeling here around the company-once the most famous landmark on busy Mumbai—Pune belt—is that the management has outfoxed politicians and labour unions in one stroke. "Normally, you fight for something you are denied of. But what one can do if the management is giving us something and asking for nothing". A union official asked. Nevertheless, Vishwakarma Kamgar Sanghatna, a representative body of workers, has decided to keep talking to the management.

* * *

Uttar Pradesh police arrested 136 people on charges of murder and rioting, a day after Chief Executive Officer of an Italy-based auto component

manufacturing company was bludgeoned to death allegedly by a group of dismissed employees on Sept. 24, 2008. Among them, 63 have been charged with murder for beating the CEO to death.

* * *

These days, 37-year-old Gundlapally Ramalinga Reddy is a man on a mission. He has developed an HR services model, which he hopes will unleash a revolution of sorts in the world of small businesses. He's got a fancy name for it—Human Resources Function Outsourcing (HRFO), and yes, he's even patented it. If you are a small business owner who can't afford an HR department, Reddy's firm, Husys, will build it and run it for you—end-to-end.

Here's how it works. Husys assigns an HR manager who will always be on location at the client's office, and works closely with the promoter/CEO on creating basic HR systems, and then gradually building a complete HR department offering services such as organisational objectives design, role definition, setting internal policies and employee frame-works, performance management systems, training, and employee counseling.

Reddy's company is joined by many other Indian HR services firms that have taken the conventional HR outsourcing model forward, and applied it to companies that seem to need it the most—small businesses.

* * *

WIPRO, another software leader, has excellent human resource policies and practices. One such is the way a potential job-hopper is handled. Exit interviews are held when people quit WIPRO. Reasons why people leave WIPRO are ascertained and interestingly, the company helps them find placements in other firms with a guarantee that the doors of WIPRO would always be kept open to those willing to come back, and a few did come back.

* * *

Toyota is one company which has benefited immensely from employee suggestions scheme. The company's suggestions scheme, operational for decades now, nets almost 2,00,000 suggestions per year, that is 33 suggestions per employee every year. Interestingly, 95% of these are implemented. That makes about 5,000 improvements per day. Employee

suggestions helped British Airways cut its costs by £4.5 million. HSBC saved upto ₹50 lakh per annum just by adopting a single useful suggestion made by an employee. Gujarat Narmada Fertiliser received 5,000 suggestions over five years, with savings of ₹65 lakh per annum.

* * *

It's been almost a year now but Raj Shetty, 45, still winces with guilt when he looks back. One of the top executives at a Delhi based firm, last year he almost quit. A tempting offer from a rival firm, boredom with the company where he had worked for 12 years, dilly-dallying with promises by his bosses and a burning desire to do something different and exciting—all of it pushed him to seeking a new job. He collected his offer letter and resigned.

That was perhaps the easiest part. Then followed almost a week of drama, emotional blackmail sweetened with sky-high promise, and a series of meetings with the promoter telling him how valuable he was. “For nights I just could not sleep”, he recalls. On one hand was the guilt of accepting the offer letter and declining it leading to moral-ethical dilemmas. On the other, suddenly he could see many down-sides of ditching his old employer. It meant leaving a comfortable work environment with colleagues and bosses who respected him, all that bundled with an enticing job offer. “I knew I had spoiled my relationship with him (the prospective boss) for life yet I decided to stay back”. he says.

Emotions, dilemmas and some hindsight wincing—that's the view from the other side. But for India Inc. reeling under such 'No show'—executives accepting offer letter and not showing up—it's all about worsening talent war, lost time, bad ethics and often a business plan gone haywire. As a result, desperate employers in a ramp-up mode are creating plenty of Shettys in corporate India today.

* * *

Sexual harassment is on the rise, particularly in garments units. Most of these firms employ women who are in their late twenties. They work from early morning till late in the evening. In many cases these women become targets of the factory owner's sexual desires. They are forced into such a situation by the fear that if they lose their job their children will starve. While rejecting a complaint relating to sexual harassment, the judge in St.

Petersburg, Russia, declared–“If we had no sexual harassment, we would have no children”.

* * *

On October 3, 2003, Anant Dalvi and Akhtar Khan, who worked as contract workers in the Tata Electric Company until they were laid off in 1996, doused themselves with kerosene and set themselves ablaze even as their co-workers protested before the company’s offices. While Dalvi died on the spot, Khan died a few days later.

The Tata Electric Company said they were no longer on their payroll and were not permanent workers. The Tata Hydro Company’s Employees Union had taken up their case and filed a petition in the Labour Court before their contracts were terminated. The court directed the company not to terminate their services without following due process of law. Despite this, their services were terminated on June 30, 1996. The company union promised the workers that they would renegotiate. Yet on the night before they killed themselves when Khan and Dalvi spoke to the union leader, Kailash Shinde, they were told that nothing more could be done for them. It is this that led them to take their lives.

Dalvi had been in service as a peon for 17 years and Khan had been employed as a rigger for 19 years. Their services were not regularised. They were on contract with a service break of two or three days. Such workers draw salaries much lower than those of permanent employees.

* * *

It is a moving scene. Five thirty in the evening. Several charming children are joyfully playing in the park. At the entrance to the park is standing a lady, vending balloons and her 3-year-old daughter is helping by inflating them. The kid’s sight is pathetic–face unwashed, hair uncombed for days, clothes torn and soiled. The kid is inflating balloons one after another and the mother is making brisk business. The little one is not even looking at her counterparts playing in the park, forgetting to join them. The kid knows that if she strays, she would be beaten by her mother and probably starve that night.

Welcome to the exciting field of human resource management. As you flip through the pages of this book, you will find more interesting characters, issues and anecdotes.

Taking a look at the world of human beings is a rewarding experience. Contrasts abound in this world. Beauty is juxtaposed with ugliness, mercy with cruelty, compassion with indifference, health with disease, happiness with misery, industriousness with laziness, affluence with poverty and as the titbits told above, mercy with cruelty. These contrasts remain so, despite the passage of time, sweeping political and economic changes, and cultural differences. Contrasts notwithstanding, one thing is certain—it is the people who make an organisation a success or allow it to die. Who are these so-called patrons? How to attract them? How to retain them? How to motivate them? These and other such questions need an in-depth study. The present book makes an attempt to study these questions.

PEOPLE LEND COMPETITIVE ADVANTAGE

Human resource management (HRM) is the most happening function as of now. This is so because people offer competitive advantage to a firm and managing people is the domain of HRM. An organisation enjoys competitive advantage when it is the only one which can offer a product at a price and at quality while it's competitors cannot do so.

How do people lend competitive advantage? There are several ways. First, people offer skills, capabilities, systems, practices, speed, language, bonding and behaviours, which help execute firm's strategies successfully. Strategy implementation cannot be done by physical resources such as technology, buildings, machines and materials. It is the people who can craft strategies and execute them effectively.

Secondly, by aligning human resources (HR) plans to business plans, HR managers are becoming strategic partners. HR professionals work with line managers to identify HR practices that help accomplish business strategy.¹ The outcome of identifying HR planning with business planning is a framework for integrating HR practices into business decisions to ensure results. On integration line managers and HR professionals work as partners to ensure that an integrated HR planning process occurs.

Third, innovation is the key to competitive advantage. Fortunes of several companies have been revised thanks to innovation. Mahindra & Mahindra is one instance that can be cited in this context. In 1992, Sandesh Dahanukar, an R&D engineer, felt that chassis of the utility vehicles kept breaking down. To manufacture stronger chassis, Mahindra & Mahindra would have to purchase new presses, which would cost the company a cool ₹300 million. Instead the obscure engineer suggested that Mahindra & Mahindra would develop its own presses. Immediately, Mahindra, CEO of the group gave the engineer a starting budget of ₹600,000, complete autonomy and a commitment to increase the budget in small doses at every get away that the engineer successfully crossed. Come 1994, the brilliant engineer came out with a prototype as well as a new manufacturing process that is still in use. The company saved around ₹299 million.²

The Wall Street Journal Asia recently conducted a survey involving 2477 executives and professionals. The survey related to the innovativeness of Indian companies. Ranking from the survey is given in [Table 1.1](#). Bharti Airtel and ICICI Bank came first and second respectively.

Google promotes innovation in an unique way. It makes its workforce adhere to its 70/20/10 rule. An employee is expected to spend 70 percent of his or her time on own job. 20 percent on “continuous innovation” within that job, and 10 percent on “discontinuous innovation” in any area he or she deems productive.³

Fourth, HR function seeks to convert an adverse situation into an opportunity. HR often gets trapped in a policy role, mediating employee grievances, monitoring compliance with employment laws and enforcing codes of conduct. What is more, the function often has seen its mission as one of helping workers overcome deficiencies and obstacles that hinder their performances. Without ignoring these tasks, the new HR concentrates on the positive. How can a firm enhance its revenue by doing more for its employees? Instead of trying to ‘fix’ a chronic employee weakness, how can the firm tailor a role that matches and capitalises on strengths? For instance, after performance review rather than dwell on a talented marketing executive’s lack of knowledge in finance, a firm can seek to leverage executive’s creative talents in a broader marketing role—One that helps the company expand in key overseas markets.⁴

Table 1.1 *Ranking by Innovation*

Rank	Name of the Company
1	Bharti Airtel Extending its GSM service
2	ICICI Bank Big and profitable
3	Infosys Technologies Tech firm keeps expanding
4	Tata Consultancy Services Tech group going global
5	HCL Technologies Tech-services firm, PC maker
6	Reliance Communications One of biggest cellular networks
7	Wipro Enlarging its product portfolio
8	Satyam Computer Services Hyderabad tech outfit
9	Mahindra & Mahindra Big tractor maker got bigger
10	Hindustan Unilever Refining consumer-goods mix

(Source: *Mint*, July 14, 2008)

Fifth, organisational designs do not remain static over a period of time. Environmental changes compel organisations redesign their structures. Along with changes in designs, organisations adopt uncertainty avoidance mechanisms, differentiation mechanisms and integrating mechanisms to cope with the compulsions of environmental changes. These changes in organisational designs need to be reinforced by innovative HRM strategies as shown in [Fig 1.1](#).

Sixth, HR executive is becoming an effective change agent. Change

management is critical to the success of any firm and marks a difference between winners and losers. While winners anticipate and prepare themselves to adapt and assimilate the change, losers are overtaken by events, ruminate over them and are left behind.

Business adopts three general response types to face change: initiatives, processes, and cultural adaptations. *Initiative changes* focus on implementing new programs, projects, or procedures. Such initiatives for example, implementing new organisational structure, quality improvement effort, or cost reduction programmes occur annually in most firms. Through strategic planning, specific initiatives are identified as necessary and are implemented as part of an evolving management—improvement process. *Process changes* within a firm focus on the ways in which works are being executed. Companies first identify core processes and then try to improve those processes through work simplification, value added assessments, and other reengineering efforts. *Cultural changes* occur within a firm where the fundamental ways of doing business are reconceptualised. The identity of the firm is transformed for employees and customers.⁵ The role played by HR professionals in all the three response areas needs no over statement. Because people occupy strategic place in the organisation, they need to be managed effectively. HRM obviously is highly significant.

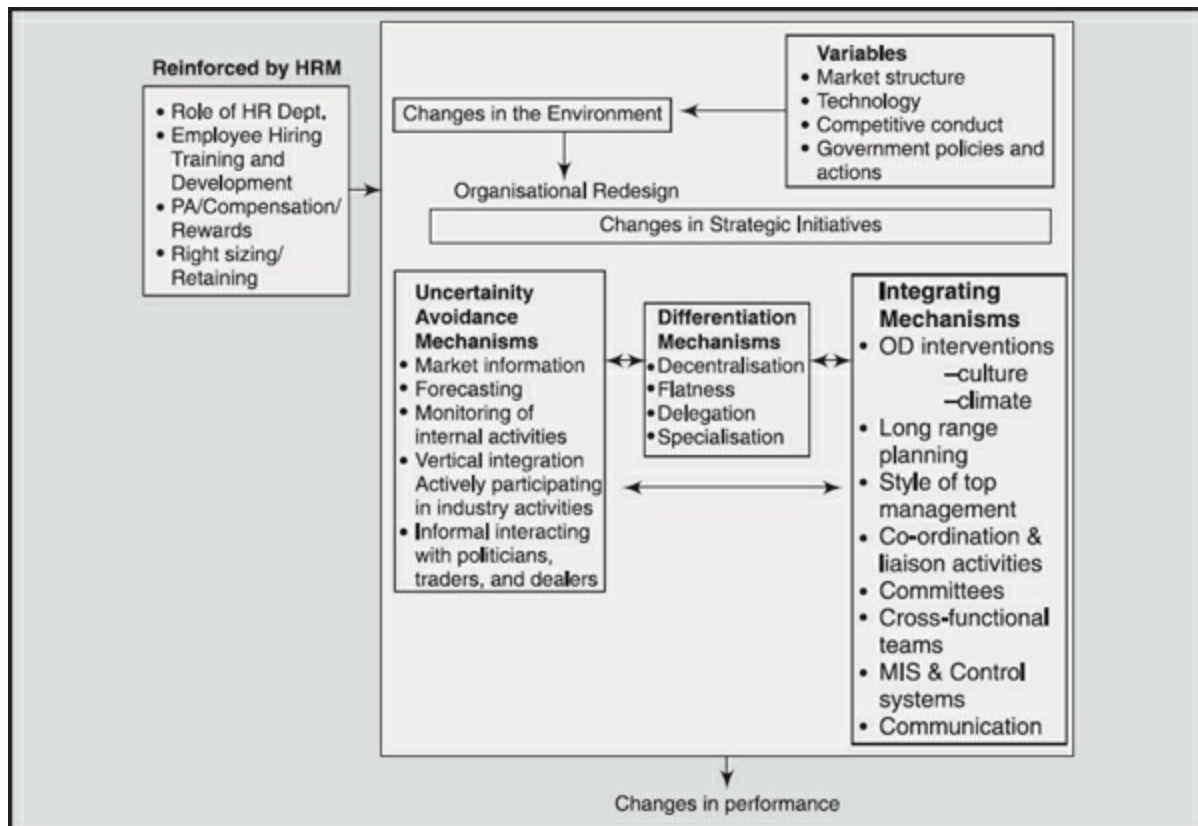


Fig. 1.1 HR interventions for Organisational Redesign

(Source: Ashok Som, *Organisation Redesign and Innovative HRM*, Oxford, 2008, p. 33)

The most effective contribution to competitive advantage probably comes from what is called the ‘best fit’ approach to HRM. The three strategies that help an organisation achieve competitive advantage are:

- Innovation—being the unique producer
- Quality—delivering high quality goods and services
- Cost leadership—leveraging on all possible means to save on cost.

Now, HRM moulds behaviours of employees to suit each of the above strategies as shown in [Table 1.2](#).

Table 1.2 Role behaviours appropriate for different strategies, (Shuler and Jackson (1987))

<i>Innovative</i>	<i>Quality</i>	<i>Cost-leadership strategy</i>
<ul style="list-style-type: none"> • High degree of creative behaviour • A longer-term focus • A relatively high level of cooperation and interdependent behaviour 	<ul style="list-style-type: none"> • Relatively repetitive and predictable behaviours • A more long-term or intermediate focus • A modest amount of cooperative, interdependent behaviour 	<ul style="list-style-type: none"> • Relatively repetitive and predictable behaviours • A rather short-term focus • Primarily autonomous or individual activity

<ul style="list-style-type: none"> • A moderate degree of concern for quantity • An equal degree of concern for process and results • A greater degree of risk taking • A high tolerance of ambiguity and unpredictability 	<ul style="list-style-type: none"> • A high concern for quality • A modest concern for output • High concern for process (how the goods or services are made or delivered) • Low risk-taking activity • Commitment to the goals of the organisation 	<ul style="list-style-type: none"> • Modest concern for quality • High concern for quantity of output • Primary concern for results • Low risk-taking activity • A relatively high degree of comfort with stability.
--	--	---

NATURE OF HRM

Simply put, HRM refers to the application of management principles to management of people in an organisation. This is too simple a statement and fails to capture the essence of HRM.

In its essence, HRM comprises the following:

- HRM consists of people-related functions as hiring, training and development, performance review, compensation, safety and health, welfare, industrial relations and the like. These are typically the functions of 'Personnel Management' and are administrative and supportive in nature. Appropriately called 'doables', these activities are highly routinised and have been often outsourced.

More important functions of HRM are the building of human capital. Human capital refers to the stock of employee skills, knowledge and capabilities that may not show up in a balance sheet but have significant impact on a firm's performance.

As stated earlier, human capital (also known as 'deliverables') lends competitive advantage to a firm. Obviously, building human capital is

the major function of an HR professional. These activities (routine as well as capital building initiatives) are not carried out in isolation. They are interdependent.

- HRM necessitates alignment of HR policies and practices with the organisation's strategies—both corporate as well as functional. By meshing HR practices and policies with strategies, the HR executive helps formulate and implement business strategies. The HR manager then assumes the mantle of a strategist. In fact, as will be stated later, the very concept of HRM signifies that the role of HR executive is elevated, from an administrative level, to that of the board. He or she becomes the member of the board and thus takes part in decision making.
- As stated above, HRM involves the application of management principles and functions to doables and deliverables of people management.
- HRM assumes that it is the people who make the difference. They alone are capable of generating value and adding to the competitive advantage to organisations.
- HR activities, both doables and deliverables, are not the sole responsibility of the HR specialists. Line managers are equally responsible for carrying out the activities.
- HR functions are not confined to business establishments only. They are applicable to nonbusiness organisations too, such as education, health care, recreation and the like.⁶

HRM FUNCTIONS

Henry Mintzberg identified 10 roles (read functions) which managers play in organisations. A typical manager, according to Mintzberg, acts as a monitor, disseminator, spokesperson, figure-head, leader, liaison, entrepreneur, disturbance handler, resource allocator and negotiator. He classifies these ten roles into three broad categories: first three together are called informational role, next three constitute the interpersonal role, and the decisional role includes the remaining four.

In the same vein, one can attempt to isolate the typical functions of HRM. Eight key HRM functions together with policies, programmes and practices

have been identified, each containing alternatives from which managers can choose. The functions are:

- *Planning*: Preparing forecasts of future HR needs in the light of an organisation's environment, mission and objectives, strategies, and internal strengths and weaknesses, including its structure, culture, technology and leadership.
- *Staffing*: Obtaining people with the appropriate skills, abilities, knowledge and experience to fill jobs in the work organisation. Key practices are human resource planning, job analysis, recruitment and selection.
- *Developing*: Analysing learning requirements to ensure that employees possess the knowledge and skills to perform satisfactorily in their jobs or to advance in the organisation. Performance appraisal can identify employees' key skills and 'competencies'.
- *Monitoring*: The design and administration of reward systems. HR practices include job evaluation, performance appraisal, pay and benefits.
- *Maintaining*: The administration and monitoring of workplace safety, health, and welfare policies to retain a competent workforce and comply with statutory standards and regulations.
- *Managing relationships*: Encompasses a range of employee involvement/participation schemes in non-union or union work places. In a union environment this includes negotiating contracts and administering the collective agreement.
- *Managing change*: This involves helping others to envision the future, communicating this vision, setting clear expectations for performance and developing the capability to reorganize people and reallocate other resources.
- *Evaluating*: Designing the procedures and processes that measure, evaluate and communicate the value-added component of HR practices and the entire HR system to the organisation. (See also [Fig 1.2](#))

We made a mention about doables and deliverables earlier. As stated earlier, doables include routine activities and competence building pursuits constitute the deliverables. Now, the eight functions listed above cover both doables as well as deliverables.

Pause and Ponder

Do we need HR managers to manage people functions? Can't line managers themselves manage HR functions?

THE SEMANTICS

As in any other discipline, there is the problem of semantics in HRM, too. First, we have two terms, namely, *personnel management (PM)* and *HRM*. Between these two terms there is a basic difference, and it is useful to understand as to what it is.



Fig. 1.2 *Functions of HRM*

HRM differs from PM both in scope and orientation. HRM views people as an important source or asset to be used for the benefit of organisations, employees and the society. It is emerging as a distinct philosophy of management aiming at policies that promote mutuality—mutual goals, mutual respect, mutual rewards and mutual responsibilities. The belief is that policies of mutuality will elicit commitment which, in turn, will yield both better economic performance and greater human resource development (HRD). Though a distinct philosophy, HRM cannot be treated in isolation. It is being integrated into the overall strategic management of business. Further,

HRM represents the latest term in the evolution of the subject. The year 1990 was a turning point in this evolution. The American Society for Personnel Administration (ASPA), the largest professional association in this field of management, changed its name to the Society for Human Resource Management (SHRM). Since then, the expression is gradually replacing the hackneyed term 'personnel management'.⁷

HRM is a broad concept. Personnel management (PM) and human resource development (HRD) are a part of HRM.

PM has a limited scope and an inverted orientation. It viewed labour as a tool, the behaviour of which could be manipulated for the benefit of the organisation and replaced when it was worn-out. The personnel department itself was not treated with respect. It was filled with not-very-productive employees whose services could be spared with minimal damage to the organisation's ongoing operations. Personnel function was treated as a routine activity meant to hire new employees and to maintain personnel records. It was never considered a part of the strategic management of businesses. Historically, PM preceded HRM.

Table 1.3 draws the line of separation between HRM and PM quite clearly.

Pause and Ponder

It is good to read that people management has matured from IR to PM to HRM to HCM. But has the change been only cosmetic or real? Have a debate.

Table 1.3 *Differences between HRM and PM*

<i>Dimension</i>	<i>Personnel Management</i>	<i>Human Resource Management</i>
1. Employment contract	Careful delineation of written contracts	Aim to go beyond contract
2. Rules	Importance of devising clear rules	Can do outlook, impatience with rules
3. Guide to management action	Procedures	Business need
4. Behaviour referent	Norms/customs and practices	Values/mission
5. Managerial task vis-à-vis labour	Monitoring	Nurturing
6. Key relations	Labour management	Customer
7. Initiatives	Piecemeal	Integrated
8. Speed of decision	Slow	Fast
9. Management role	Transactional	Transformational
10. Communication	Indirect	Direct
11. Prized management skills	Negotiation	Facilitation
12. Selection	Separate, marginal task	Integrated, key task
13. Pay	Job evaluation (fixed grades)	Performance related
14. Conditions	Separately negotiated	Harmonisation
15. Labour management	Collective-bargaining contracts	Individual contracts
16. Job categories and grades	Many	Few
17. Job design	Division of labour	Team work
18. Conflict handling	Reach temporary truce	Manage climate and culture
19. Training and development	Controlled access to courses	Learning companies
20. Focus of attention for interventions	Personnel procedures	Wide-ranging cultural, structural and personnel strategies
21. Respect for employees	Labour is treated as a tool which is expendable and replaceable	People are treated as assets to be used for the benefit of an organisation, its employees and the society as a whole
22. Shared interests	Interests of the organisation are uppermost	Mutuality of interests
23. Evolution	Precedes HRM	Latest in the evolution of the subject
24. Locus of control	External	Internal
25. Organising principles	Mechanistic Top-down Centralised	Organic Bottom-up Decentralised

Another term widely used these days is *HRD*. For many people, HRD and HRM convey the same meaning. This may not be true.

Essentially, HRD encompasses a range of organisational practices that focus on training, learning, development and work place learning; career development and lifelong learning; organisational development; and organisational knowledge and learning. HRD obviously falls under the umbrella of HRM (see [Fig 1.7](#)).

Industrial Relations Management (IRM) is yet another term which adds to

the problem of semantics. ‘Industrial relations’, as the term implies, is merely concerned with employee grievances and their settlement, unionisation, and the like. Obviously, IRM is one wing of HRM.

Talent Management is another form increasingly used now-a-days. The focus in talent management shifts to competencies and skills as the basis for making all employee-related decisions from hiring through retaining. The employees are viewed as “talent” that is hired, groomed and trained to meet the organisation’s needs. Larger firms formulate talent management strategies and execute them to realise set goals. [Chapter 8](#) carries more details on talent management.

In India, the term HRD is more commonly used than HRM. Several organisations have HRD Departments and the Union Ministry concerned with welfare of people is itself called Human Resource Development.

HRM: FUNCTIONS AND OBJECTIVES

Objectives

The primary objective of HRM is to ensure the availability of a competent and willing work force to an organisation. Beyond this, there are other objectives, too. Specifically, HRM objectives are four fold— societal, organisational, functional and personal (see [Fig. 1.3](#)).



Fig. 1.3 Objectives of HRM

Societal Objectives *To be ethically and socially responsible to the needs and challenges of the society while minimising the negative impact of such demands upon the organisation.* The failure of organisations to use their resources for the society's benefit in ethical ways may lead to restrictions. For example, the society may limit HR decisions through laws that enforce reservation in hiring and laws that address discrimination, safety or other such areas of societal concern.

Organisational Objectives *To recognise the role of HRM in bringing about organisational effectiveness.* HRM is not an end in itself. It is only a means to assist the organisation with its primary objectives. Simply stated, the department exists to serve the rest of the organisation.

The **societal objectives** of HRM seek to ensure that the organisation becomes socially responsive while the **organisational objectives** make sure that HRM is not a standalone department, but rather a means to assist the organisation reach its primary objective.

Functional Objectives *To maintain the department's contribution at a level appropriate to the organisation's needs.* Resources are wasted when HRM is either more or less sophisticated to suit the organisation's demands. The department's level of service must be tailored to fit the organisation it serves.

Personal Objectives *To assist employees in achieving their personal goals, at least insofar as these goals enhance the individual's contribution to the organisation.* Personal objectives of employees must be met if workers are to be maintained, retained and motivated. Otherwise, employee performance and satisfaction may decline and employees may leave the organisation.⁸

Functional objectives remind the HRM that it has only functional value and should not become too expensive at the cost of the organisation it serves, while **personal objectives** assist employees in achieving their personal goals.

Functions

In order to realise the objectives stated above, HRM must perform certain functions. These functions have been stated while outlining the scope of HRM. Generally, it may be stated that there is a correlation between the objectives and the functions. In other words, some functions help realise specific objectives. For example, the organisational objective is sought to be met by discharging such functions as HR planning, recruitment and selection, training and development, and performance appraisal. Similarly, the personal objective is sought to be realised through such functions as remuneration, assessment, and the like. [Table 1.4](#) contains the full list of objectives and functions.

Table 1.4 *HRM Objectives and Functions*

<i>HRM Objectives</i>	<i>Supporting Functions</i>
1. Societal Objectives	<ol style="list-style-type: none"> 1. Legal compliance 2. Benefits 3. Union-management relations
2. Organisational Objectives	<ol style="list-style-type: none"> 1. Human resource planning 2. Employee relations 3. Selection 4. Training and development 5. Appraisal 6. Placement 7. Assessment
3. Functional Objectives	<ol style="list-style-type: none"> 1. Appraisal 2. Placement 3. Assessment
4. Personal Objectives	<ol style="list-style-type: none"> 1. Training and development 2. Appraisal 3. Placement 4. Compensation 5. Assessment

Source: William B. Werther, Jr and Keith Davis, *Human Resources and Personnel*

Management, p. 15.

Who will perform these activities in a typical organisation? What is his or her place in the organisational structure? The following section seeks to answer these questions.

ORGANISATION FOR HR DEPARTMENT

Two issues become relevant in a discussion on organisation of an HR department. They are: (i) place of the HR department in the overall set-up, and (ii) composition of the HR department itself.⁹

Status of the HR department in the overall organisational structure depends on size of the firm, nature of business, management-philosophy and global presence (see [Fig 1.4](#)).

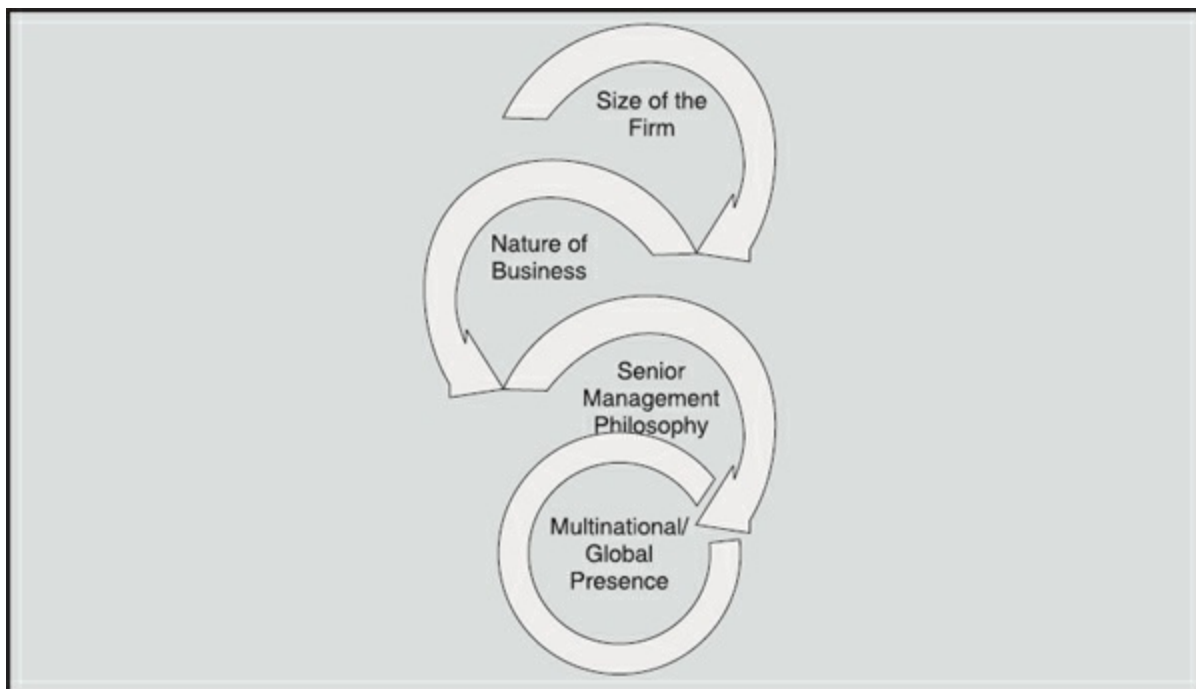


Fig. 1.4 *Factors Influencing HR Team Structure*

Size of business In small start-up organisations where employee strength is around 100, the HR activities are very basic. The functions include recruitment, salary processing, leave management, statutory records keeping, organising team outings and events, and other administrative and

coordinating activities. The role to handle these is often bundled with front-desk (reception) or office administration (see Fig 1.5). The HR functions are largely transactional. A culture of life-necessities binds the employees with the firm.

Mid-sized firms with a head count of 200-500 each will have a structured HR function. Key HR activities like staffing, training, compensating, health and safety and the like are clearly established and responsibilities assigned. Clear policies, procedures and manuals are established, identifying who should do what and how it should be done. Service Level Agreements (SLA's) are defined for HR's deliverables and tracked to ensure that business objectives are not compromised. Ability to attract and retain talent, managing employee dissatisfaction proactively, control on costs and related expenses are typical HR deliverables.

In large organisations with employee strength of 1000 to 3000, HR function is highly matured and organised. HR processes are well documented, defined and implemented meticulously. Sophisticated HR tools are in place and technology is leveraged to ensure that HR is contributing to the goal realisation. The HR organisational structure (see Fig 1.6) is more advanced, defining centres of excellence for each of HR activities.

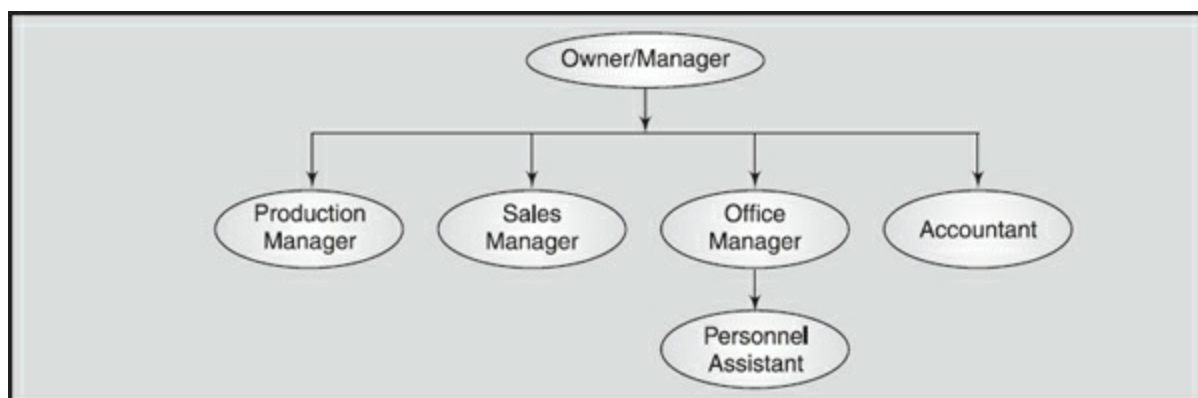


Fig. 1.5 HRM in a Small-scale Unit

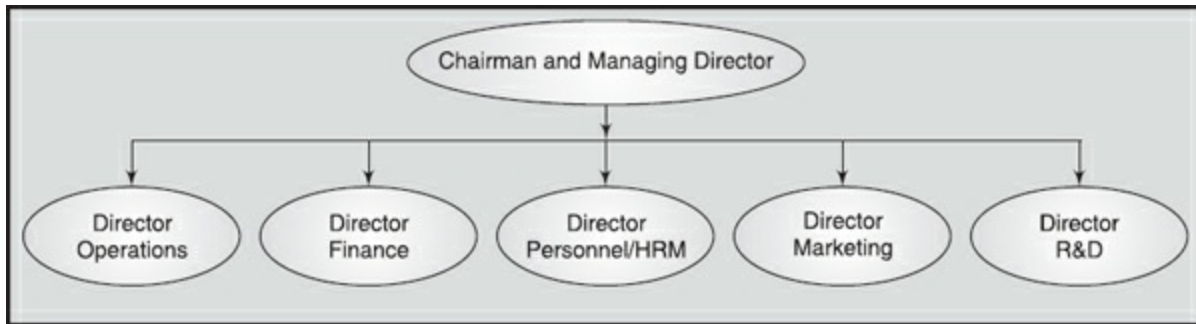


Fig. 1.6 *HRM in a Large-scale Unit*

The multinational organisation is where the HR structure functions at its most matured level with clear alignment to business priorities and strategies. HR functions are matrixes and drive global and local initiatives around work-life balancing programmes, workplace diversity management initiatives, and institutionalised employee engagement activities, culture building actions, telecommuting practices and handling temporary and contract workers, in addition to the standard HR deliverables. HR has a place at the table and is a party to each and every business strategy and decision.

Nature of Business Nature of business largely determines the HR department structure. Structure varies from brick-and-mortar, to knowledge to service industry.

In the industry with the hammering man, people-related functions have travelled from the Hawthorne Experiment days to the contemporary HR functions. Surprisingly, the HR function of today has retained a large part of traditional HR activities. Red flags were hoisted to the factory gates then and are seen today. HR executives were killed then and are murdered now. However, the HR functions are commonly distributed to three categories:

- (i) HR generalists who carry out generic activities like payroll, leave and benefits.
- (ii) HR specialists who assume responsibility for areas like hiring, training and development, compensation, performance assessment and employee relations.
- (iii) HR heads who head either functions across locations or head HR for a divisions within an organisation. These roles carry end-to-end responsibility for either that function or for that division. For example, Head-Training & Development would carry the responsibility for

organisation-wide training and development initiatives. And a Head HR—for a division within a large organisation would be responsible for all HR activities for that particular division.

Knowledge-based organisations witness highly sophisticated HR structures. High dependence on employee knowledge adds to the sophistication. HR professionals in knowledge-based organisations swing from aligning to business priorities towards ensuring employee engagement. HR roles are clearly bifurcated as operational HR (also called HR Shared Services Centre or called HRSSC in short) where transactional activities still prevail and Centres of Excellence (COE) where value added HR activities reside. Matured Human Resource Information System (HRIS) is put in place to ensure automation of the entire HR life cycles. Elaborate HR reports with in-depth analysis are regularly generated and reviewed to make resource-related decisions.

In services sector, HR team is kept lean and simple, and the focus is on transactional people related activities. HR structure is simple. Expectations from the HR function are the timely hiring, bonding, payroll, benefits administration, and the like.

Philosophy of Senior Management The philosophy of founders/senior managers of the organisation defines the nature of HR function. The degree of importance accorded to the HR head, the place allotted the HR executive at the 'table' and the reporting alignments are all dependent on the attitude of people at the top.

Global Presence Organisations with global presence tend to have fully blown and highly elevated HR structures. There is corporate HR department at headquarters and each subsidiary has its own HR team. HR team at the headquarters formulates and institutionalises company-wide HR policies and processes. Such policies help ensure one organisational culture that knits all subsidiaries together. The HR teams at local levels implement the company-wide policies as well as customise practices to meet local business needs. Tata Group is one example that can be cited here. The group has core corporate HR policies and philosophies that are common to all group companies across locations, in addition to individual organisations having own HR teams that support unit-specific requirements (see also [Fig 1.7](#)).

Coming to the composition of the HR department, it may be stated that it depends on the scale of operations and attitude of the top management towards its personnel. However, a typical HR department (see [Fig. 1.7](#)) is headed by a Director, under whom are Manager—Personnel, Manager—Administration, Manager—HRD and Manager—Industrial Relations. The department will grow in size and importance when new demands are placed on it by the top management.

Outsourcing

A trend that is observed nowadays is outsourcing HR activities. Outsourcing (also called subcontracting) is the process by which employers transfer routine or peripheral work to another organisation that specializes in that work and can perform it more efficiently. The activities that are generally outsourced include employee hiring, training and development, payroll preparation, benefits administration, statutory records maintenance and the like. These are the typical transactional activities. The triggers for outsourcing include downsizing, rapid growth or decline of business, globalisation, growing competition and restructuring.

Some executives assume that outsourcing HR activities offers competitive advantage. It is assumed that outsourcing can reduce costs, improve flexibility and permit the hiring of specialised expertise. Outsourcing allows the in-house HR team to focus on value-added activities. Realising the potential benefits, 72% of the Indian companies are outsourcing their HR activities.

Whatever the triggers and justification for subcontracting HR activities, their outsourcing will have significant impact on the organisation of HR department. If outsourcing is carried to its logical end, where all activities are assigned to an outside firm, a company can do without a HR department itself. Where only limited or routine activities are outsourced, the company will have a HR department but not the one shown in [Fig. 1.7](#). The HR department will then be small in size with one HR executive assisted by a few subordinates.

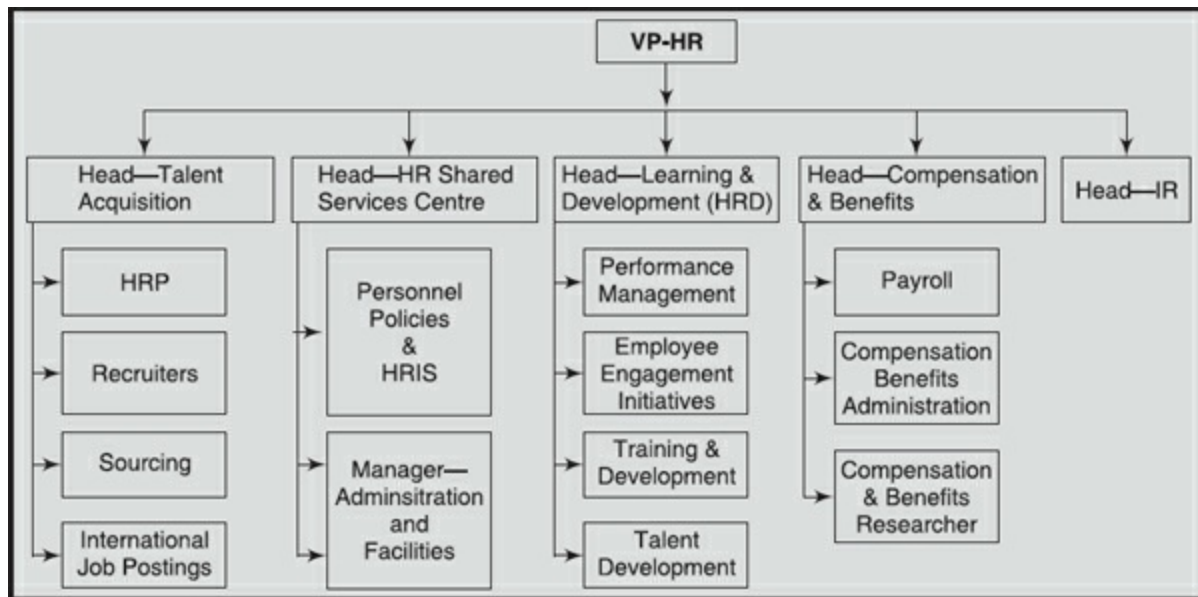


Fig. 1.7 *Composition of HR Department*

Pause and Ponder

Should this happen? Would this happen? Could this happen? How could all HR activities be outsourced? Can a firm function with a HR department organised on perfunctionary basis? Answer these questions.

HRM PARADOXES

Paradoxes abound in HRM. Its decades old existence seems to have not helped the HRM mature into a perfect profession. Compared to finance and marketing, HR function has been disadvantaged and the HR professionals themselves need to be blamed. In finance, there has emerged a clear distinction between professional practices and strategic decision making. Accounting covers the professional practices and strategic decision making falls into the domain of finance. Likewise, advertising and sales make up the professional practices and marketing represents the decision making domain.¹⁰

These distinctions have been well accepted and respected too. But in HRM, what is prevailing is a set of routinised activities, which cobbled together, can be called professional pursuits. The HR function hardly has

decision making role. HR executive sits rarely with strategic management team and is seldom taken into confidence in core decision making.

But in articles, books, seminars, conferences and training sessions, strategic role of HRM is elegantly praised and stressed. Title of the department itself is changed to HRM signifying elevation in the status to the board level. The designation of personnel manager is rechristened as HR director/ executive. All these changes are only cosmetic, high in rhetoric and low in spirit and practice.

There is inconsistency in the growth of the profession itself. It is true that the HR profession has made many technical advances, but in many ways it has changed little. The findings of a survey conducted by Centre for Effective Organisations are telling. Beginning in 1995, HR professionals were asked how much time they spent on strategic pursuits compared to supportive activities. As [Table 1.5](#) shows, the time spent on strategic decision making is improving.

Table 1.5 *How HR Professionals Believe they Spend their Time*

<i>Percentage of time spent on....</i>	<i>5–7 years ago</i>	<i>Current</i>
Maintaining records Collect, track, and maintain data on employee	25.9	13.2
Auditing and controlling Ensure compliance to internal operations, regulations, and legal and union requirements	14.8	13.3
Providing HR services Assist with implementation and administration of HR practices	36.4	32.0
Developing HR systems and practices Design HR programs, policies, and supporting systems	12.6	18.1
Serving as strategic business partner Serve as member of the management team; involved with strategic HR planning, organisational design, and strategic change	9.6	23.5

(Source: Edward E. Lawler III, John W. Boudreau, and Susan Mohrman, *Achieving Strategic Excellence* (Palo Alto, CA: Stanford University Press, 2006)

But when one examines what HR leaders said were their actual activities over the years, the picture is much different. HR leaders in every survey since 1995 have provided virtually the same percentages. There has been very little

change over time, as shown in [Table 1.6](#).

Table 1.6 *How HR Professionals Actually Spent Their Time, 1995-2004*

<i>Percentage of time spent on....</i>	<i>1995</i>	<i>2001</i>	<i>2004</i>
Maintaining records	15.4	14.9	13.4
Auditing and controlling	12.2	11.4	13.4
Providing HR services	31.3	31.3	31.7
Developing HR systems and practices	18.5	19.3	18.2
Serving as strategic business partner	21.9	23.2	23.3

(Source: Edward E. Lawler III, John W. Boudreau, and Susan Mohrman, *Achieving Strategic Excellence* (Palo Alto, CA: Stanford University Press, 2006))

Obviously, today's HR activities are different and more sophisticated than it was in the mid 1990s. HR professionals too are doing different things and doing many things better. There are improved information systems, scorecards, benchmarks, outsourcing contracts, and competency models. Workforce plans can now track the headcount moving between jobs using computerised databases and forecasting algorithms. Selection testing is done through kiosks or online surveys. There are better versions of the same tools that HR has been using for decades, and they have made important decisions in the efficiency and effectiveness of HR function. Yet by their own reports, the tables show that HR professionals focus is still mainly on administrative and service-related goals, not on strategic decisions.¹¹

For too long, the HR executive has been at the receiving end. When attrition was down, credit was not given to the HR executive. But when the same rose high, it became an HR issue, rather than a business one. In contrast, when a division is behind its budget, finance executive is not guillotined but is politely requested to identify and analyse the causes and prepare a roadmap for future action. The recent global slowdown was triggered by finance misadventures and frauds, but finance executives had not been axed. Paradoxically, HR executives are being exited as evidenced by the number of personal profiles e-mailed to recruiting firms every day, cost cutting being touted as justification.

HR profession has become highly vulnerable. Any manager can become an HR head, any of its functions can be outsourced. Nokia, for example, focuses on core areas like mentoring and assimilation and culture building

in-house, the rest of HR activities are being outsourced. An organisation can function with a thin or no HR department, and the tendency of managers themselves playing the HR roles, might lead ultimately to the demise of HR profession itself.

For too long, organisations functioned without HR departments. Maruti Udyog, the premier car manufacturing company for instance, did not have an independent HRM department for nearly two decades. From 1981 (the year of its establishment) till 1999, a non-functional HRM department was restricted to administration and time keeping. It did not have clearly defined functions. It was neither responsible for promotions nor was it accountable for negotiations with the union. A single, nonaffiliated employees' union reported to the production department; it had no qualified and professional HR managers. Managers viewed a position in the HR department as a punishment. It was only after 1999 that the HR department started acting independently.

Supporters of HRM claim that the field has grown from IR to PM to HRM to HCM, claiming that HR manager now plays a strategic role in a firm unlike in the past when it was purely an administrative function. But the term HRM itself is subject to heavy criticism. It has been pointed out that there is a 'brilliant ambiguity' in the term HRM. It means whatever one chooses it to mean. Assuming that the term HRM is accepted, it lacks the capacity to transform or replace deeply rooted models of IR and PM.

Supporters of HRM claim that the HR manager is a change agent and a transformational leader, and his or her function is panacea for all organisational ills and societal evils. Critics retort by alleging that many organisations are driven more by other objectives than HRM; the financial or operations orientations of companies takes precedence over avowed practices. Further, the belief that HRM can transcend national culture has been questioned.

What Charles Dickens wrote in *A Tale of Two Cities*, more than hundred years ago aptly typifies the HR paradoxes. He wrote:

“ It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven we

were all going direct the other way”.

Many times the question that arises is “Do we really need HR”? A quote that was taken from the wall of one HR Director pretty much sums up how the people within the HR Department quite often feel— ‘We the willing are doing the impossible, for the ungrateful. We have done so much for so long, with so little, that we are now qualified to do anything, with nothing’.

In fact in May 2001, an Arthur Andersen survey showed that Human Resources (HR) executives were missing two things that could improve their effectiveness—support from top management and sufficient financial resources. In this survey, it was found that HR executives believe HR and people strategy could significantly improve profitability. But it seems that top company managers are less likely to see a direct link between people and profits.¹²

HRM is not much sought after course in academics. At top IIMs, less than 2 per cent of the students opt for HR subject. Students are averse towards the HR subject as the chances of rising to the top through it are rare. In addition, HRM is considered to be a subject of organisational behaviour that makes it less practical and less attractive. While HR head is expected to play strategic role, rarely a course on strategic HRM is taught anywhere.

The paradoxes, though disturbing need not make the reader despair about HRM. There is a silver lining amidst dark clouds. The HR manager does create an infrastructure in the organisation that affects employees, customers, line manager, and investors. When HR practices align with firm’s strategies, its goals are met and sustained. The HR manager allows functional experts to help sustain organisational results. When he or she functions effectively, the HR department becomes an example of how to bring specialist expertise to business requirements. The HR manager values people and works to create both competitive and compassionate organisations. When HR professionals develop competencies and play appropriate roles, they become partners and players in business. The greatest contribution from HR executives is that they build organisation capabilities. These organisation capabilities generate market value through the intangibles they create. Capabilities that lead to intangible market value include speed, talent, collaboration, accountability, shared mindset, learning and leadership. HR professionals convert intangibles into tangibles by building organisation capabilities. Organisation capabilities

are the deliverables of HRM.¹²

Pause and Ponder

The common practice in organisations is to employ one HR professional for every 100 employees. Is this ratio OK?

It may also be stated that there is a cognate body of prescription, policy and analysis which is directed at the notion of HRM as a perspective that is central to employment relationship. Whether HRM is driven by ideological goals, or any other goals—strategic, operational, or market goals, its language, practices and adoption suggest that it is perhaps the most significant perspective on the employment relationship to emerge in the last fifty years. Its significance lies not so much in the observable practice of its functions, but in the assumptions that it permits practitioners to make. The assumptions are that—(i) it is capable of contributing to, and drawing from the highest levels of managerial policy; (ii) it is driven by both strategic and operational goals; and (iii) it conceives of the organisation as an environment in which managerial discretion is permitted free rein and accepted as major managerial responsibility which is not moderated by external bodies such as trade unions.

HR managers have started speaking the language of business. They seek to justify the economic value of their actions. Cost-benefit analysis is being increasingly applied to all the areas of HR activities and is explained at appropriate places in this book.

The HR job is highly coveted one and so are the HR practices that are becoming highly visible in organisations. As stated earlier, designations of HR professionals and nomenclatures of HR departments have been changed. Executives everywhere are eloquent about the role of human resource in the successful functioning of organisations. In HUL, people management is accorded top priority. Over 50 percent of the top management's time is spent on people issues. Lever has the reputation of developing leaders who after retirement are in great demand all over. 440 of Indian CEOs and heads of global boards today are alumni of HUL. HR heads of several Indian companies are ex-managers of HUL. 80 percent of CII HR committee are ex-

executives of HUL. Thus, HUL is the school of CEOs.

Across the corporate world, as much as 36 percent of boards' time is spent on people related issues as Fig. 1.8 shows. Exhibit 1.1 is an ample testimony about the significance of HRM.

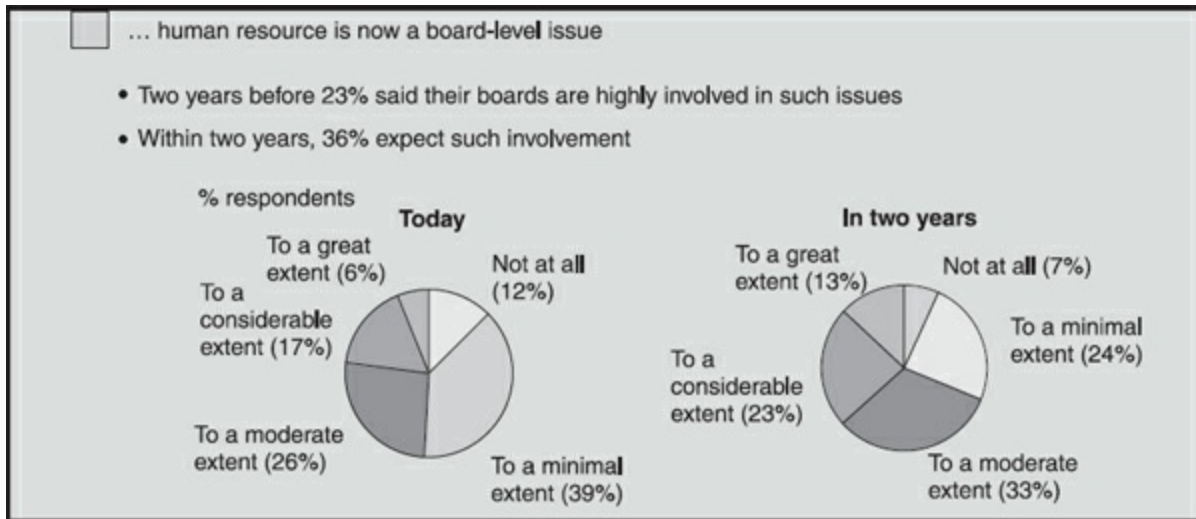


Fig. 1.8 Board Time on People Issues

(Source: Mercer, 2008)

Exhibit 1.1 We Like HR

We like HR. We like HR practices that deal with people, performance, information and work because they create an infrastructure that affects employees, customers, line managers and investors. We like the HR function because it allows functional experts to help sustain organisation results. When the HR function operates well, it becomes an example of how to bring specialist expertise to business requirements. We like HR professionals because, for the most part, they value people and they work to create both competitive and compassionate organisations. When HR professionals develop competencies and play appropriate roles, they become partners and players in the business. We like the intellectual challenges of figuring out how HR practices, functions, and professionals add even greater value. We like the HR professionals because they make intangibles tangible by building organisation capabilities. Organisation capabilities are the deliverables of HR.

We believe that HR professionals should focus more on deliverables than on doables or routine activities. We believe that key deliverables are organisation capabilities and intangibles that define the organisation's identity and personality and that deliver high performance to all stakeholders. We believe that HR leaders can align practices to more effectively execute business strategy. We believe that HR professionals who demonstrate the right competencies and play the right role will be more effective than those who do not. And we believe that with creative thought and discipline, these beliefs will become actions that deliver value. In sum, we believe that this is a great time to be an HR professional.

Source: Excerpted from *The HR Value Proposition* by Dave Ulrich and Wayne Brockbank.

Organisations have started respecting human resource as an important resource and are assigning monetary value to their employees. Business magazines have started writing about best employment practices of reputed companies. Agencies specialising in human resource management also list the best employers as [Table 1.7](#) shows.

Business Today ranked best employers in 2011. The top ten of them are shown in [Table 1.7](#).

Table 1.7 *Best Employers*

Rank	Name of the Company
1	TCS
2	Infosys
3	WIPRO
4	IBM
5	Google India
6	Rcom
7	Microsoft
8	Accenture
9	HCL Tech
10	L & T

(Source: *Business Today*, March 4, 2012)

What is unique about the above ranking is the fact that the economic downturn notwithstanding, the top 10 companies are retaining their employees with a smile on their faces and their morale being high. What is also unique is the absence of veterans such as TCS, HUL, Infosys and Wipro from the hall of fame.

Two things are common to all the best employers: they have built an inventory of people practices that are both unique and tailored for their firms. Besides, they take the trouble to painstakingly create a work environment that gets the best out of their employees, make them feel good about their work and their future in the organisation. The real secrets on why the best employers are so are simply the obvious:

- (i) Effective and committed leadership
- (ii) Astute management of talent
- (iii) Spotting and attracting talent
- (iv) Setting high goals
- (v) Coaching for performance
- (vi) Strong review and reward systems
- (vii) Building skills for the future
- (viii) Building growth into every job

Golden days are ahead for HR. As of now, there are about one million HR professionals around the world. Graduate and postgraduate courses on business management are now focusing on HR. Organisations like Google, Zappo and Baidu are redefining and reinventing how HR is done in exciting ways.

PERSONNEL POLICIES AND PRINCIPLES

Policies

Policies are plans of action. Organisations need to evolve HR policies as they ensure consistency and uniformity in treating people. They help motivate and build loyalty. Policies become benchmarks to compare and

evaluate performance.

A policy is a plan of action. It is a statement of intention committing the management to a general course of action. When the management drafts a policy statement to cover some features of its personnel programmes, the statement may often contain an expression of philosophy and principle as well. Although it is perfectly legitimate for an organisation to include its philosophy, principles and policy in one policy expression, it is desirable for a student of HRM to separate a principle from a policy. The following statement is an expression of a principle or an objective:

It is the intention of the company to provide a safe plant and a healthy working environment.

The statement is too general to be of any use. A policy statement, on the other hand, is more specific and commits the management to a definite course of action. The following is a policy:

Our policy is to institute every practical method for engineering safety into our processes and equipment, to provide protective clothing where necessary, to train employees in safe operating procedures, and to vigorously enforce established safety rules. Our policy is to provide a healthy plant by giving adequate attention to cleanliness, temperature, ventilation, light and sanitation.

A policy does not spell out the detailed procedure by which it has to be implemented. That is the role of a *procedure*. A procedure is in reality a method for carrying out a policy. A policy should be stated in terms broad enough for it to be applicable in varying situations. Lower-level managers who apply a policy must be allowed some discretion in carrying out the policy. The circumstances between two departments or sections vary. Hence a rigid, excessively detailed policy statement might cause injustice, if not granted some latitude.

WHY ADOPT POLICIES?

Organisations should have personnel policies as they ensure the following benefits:

1. The work involved in formulating personnel policies requires that the management give deep thought to the basic needs of both the organisation and the employees. The management must examine its basic convictions as well as give full consideration to the prevailing practices in other organisations.
2. Established policies ensure consistent treatment of all personnel throughout the organisation. Favouritism and discrimination are, thereby, minimised.
3. Continuity of action is assured even though top-management personnel change. The CEO of a company may possess a very sound personnel management philosophy. He/she may carry the policies of the organisation in his/her head, and he/she may apply them in an entirely fair manner. But what happens when he/she retires or resigns? The tenure of office of any manager is finite. But the organisation continues. Policies promote stability.
4. Policies serve as a standard of performance. Actual results can be compared with the policy to determine how well the members of the organisation are living upto the professed intentions.
5. Sound policies help build employee motivation and loyalty. This is especially true where the policies reflect established principles of fair play and justice and where they help people grow within the organisation.
6. Sound policies help resolve intrapersonal, interpersonal and intergroup conflicts (see Exhibit 1.2 for a typical personnel policy).

Exhibit 1.2 Personnel Policy of ABB India

Satisfied customers and motivated employees are of vital importance to ABB's long-term competitiveness. Each employee shall:

- Understand his/her role.
- Have the necessary empowerment.
- Take responsibility.
- Develop his/her competence: knowledge, will and ability.

- Clearly defined objectives for both the individual and the work team shall be the cornerstone of our activities.
- Respect for, and confidence in the individual shall characterise our work environment. This must be safe and stimulating.
- The local unions shall be natural co-operation partners.
- Each manager at ABB shall continually develop his/her management skills and leadership so as to be able to assume full responsibility for the employees.
- Planning discussions shall be held at least once a year with each individual employee.
- The goal of our learning organisation is to achieve a continuous development of competence, internal mobility as well as employee development and to provide career opportunities consistent with abilities.
- Ethics, equal opportunities and an open and honest exchange of thoughts and ideas are the corner-stone of our actions.
- The implementation of the personnel policy is a strategic issue in which we must all participate.

A few specific personnel policies are:

- Policy of hiring people with due respect to factors like reservation, sex, marital status, and the like.
- Policy on terms and conditions of employment—compensation policy and methods, hours of work, overtime, promotion, transfer, lay-off, and the like.
- Policy with regard to medical assistance—sickness benefits, ESI and company medical benefits.
- Policy regarding housing, transport, uniform and allowances.
- Policy regarding training and development—need for, methods of, and frequency of training and development.
- Policy regarding industrial relations—trade-union recognition, collective bargaining, grievance procedure, participative management, and communication with workers.

Formulating Policies What are the sources and content of personnel policies? How to formulate a policy relating to hiring, training, remunerating

or resolving an industrial dispute? There are five principal sources for determining the content and meaning of policies:—**(i)** past practice in the organisation; **(ii)** prevailing practice in rival companies; **(iii)** attitudes and philosophy of founders of the company as also its directors and the top management; **(iv)** attitudes and philosophy of middle and lower management; and **(v)** the knowledge and experience gained from handling countless personnel problems on a day-to-day basis.

Policies must be stable. Stability creates a climate of security and removes uncertainty from the minds of employees. The application of policies must be consistent over a period of time and uniform across departments and among the same category of employees. Yet policies should not be rigid. Flexibility, as pointed above, in interpretation is necessary to meet the changing conditions. Again, a policy must enunciate a principle and not care for minute details. Further, a policy must reflect the goals and values of the organisation. Personnel policy is not an isolated document. It is an integral part of the overall corporate philosophy of the company.

Pause and Ponder

HR policies are often perceived as cumbersome, high sounding, academic and unnecessary. Do you agree with us?

Principles

If policy is a guide for managerial decisions and actions, principle is the fundamental truth established by research, investigation and analysis. Many personnel principles have been established through practice, experience and observation. Principles are universal truths generally applicable to all organisations. Policies, on the other hand, vary from organisation to organisation. Principles guide managers in formulating policies, programmes, procedures, and practices. They also come handy in solving any vexing problem. Some of the personnel principles are:

1. *Principle of individual development* to offer full and equal opportunities to every employee to realise his/her full potential.
2. *Principle of scientific selection* to select the right person for the right

- job.
3. *Principle of free flow of communication* to keep all channels of communication open and encourage upward, downward, horizontal, formal and informal communication.
 4. *Principle of participation* to associate employee representatives at every level of decision making.
 5. *Principle of fair remuneration* to pay fair and equitable wages and salaries commensurate with jobs.
 6. *Principle of incentive* to recognise and reward good performance.
 7. *Principle of dignity of labour* to treat every job and every job holder with dignity and respect.
 8. *Principle of labour management co-operation*—to promote cordial industrial relations.
 9. *Principle of team spirit* to promote co-operation and team spirit among employees.
 10. *Principle of contribution to national prosperity* to provide a higher purpose of work to all employees and to contribute to national prosperity.

SKILLS FOR HR PROFESSIONALS

What qualifications and skills should HR professionals possess to succeed in their profession? HR manager needs to have technical, cognitive and interpersonal skills and processes to accomplish his or her work. He or she needs to be good in communication, be empathetic, have tolerance for ambiguities, be even tempered, be pleasant, confident and be the one who loves people. The individual needs to be competent in legal matters and have didactical instincts. Needless to say, the HR professional needs to be good in basics. In other words, he or she should have comprehensive understanding of HR policies, principles, programmes and practices.

The HR executive needs to be multi-knowledgeable. In addition to the knowledge about the HRM subject, the HR manager should be competent in finance, sales, marketing and operations. No longer HR manager is confined to file-pushing and record keeping. He or she is increasingly playing strategic role. Strategic role demands knowledge about all functional areas of business.

Diverse knowledge is a must for HR managers for another reason: There

are instances of organisations where finance executives become HR directors, and worse still, stores managers are made personnel managers. Why not HR specialists become finance executives or marketing managers? Knowledge about all the functional areas is of immense help to HR professionals.

Every profession mandates academic qualification that the practitioner must possess. A practising medical doctor needs to be at least an M.B.B.S, a practising accountant be a C.A, a lawyer be a graduate in law and a company secretary needs to be an A.C.S. These are the minimum academic qualifications mandated for the practitioners. The minimum academic degrees that should be possessed by practitioners are mandated by the respective professions, which, by themselves are statutory bodies. For example, the Institute of Chartered Accountants has mandated that the practitioner must be a C.A at the minimum. The Medical Council of India has made it compulsory that the practising doctor must be an MBBS at the least.

No such mandatory requirements for an HR professional. This implies that anybody, irrespective of his or her qualifications can become an HR executive. The professional bodies like Indian Institute of Personnel Management (IIPM), HRD Network and Indian Society for Training and Development (ISTD) are only societies and hence lack statutory teeth to mandate academic qualifications for HR practitioners. Obviously, they are silent on this issue. Only exception is the appointment of Labour Welfare Officers in industrial establishments. The Factories Act, 1948 has prescribed a degree in social works as a prerequisite for appointment as a welfare officer.

However, [Figure 1.9](#) brings out the requisites of an HR leader. As the Figure shows, four categories of competencies make an HR manager highly competent: business mastery, personal credibility, change mastery and HR mastery.

LINE MANAGERS

What is the role of line managers in managing HR? There is an apprehension that the line managers are usurping into HR professional's domain. Such apprehension tends to be farfetched. From MD down to the first line supervisors, line managers carry on certain specific human resource activities like:

- Placing right people in right places
- Treat people and organisations as resources that need investment to grow
- Advice on HR choices
- Offer on-the-job training to new hires and new operations for in-house people
- Interpret company policies and procedures.
- Ensuring safety and health to employees
- Act as people managers in small firms

The demarcation between HR professionals and line managers should be clear. All said and done, line managers are the final decision makers and they are more accountable to the effectiveness of the organisation.

HR professionals should not delegate all their tasks to the line managers. They need to evolve new initiatives, convince line managers about their relevance and usefulness, implement them with vigour and evaluate their effectiveness. HR professionals cannot expect the line managers to forget their primary responsibilities and become accountable for people welfare.

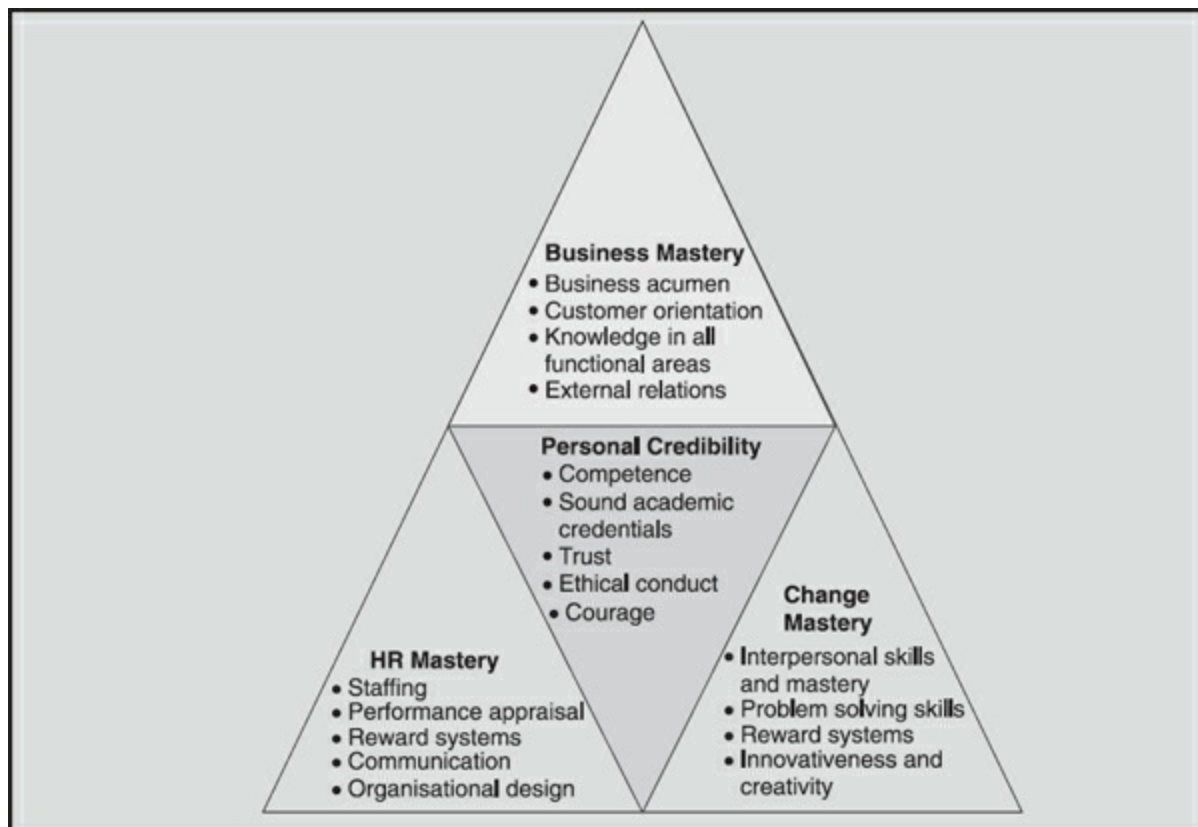


Fig. 1.9 *HR Competency Model*

(Source: Adapted from *Human Resource Management* by Christopher Mabey, *et. al.*, Blackwell Business, p. 31).

HRM MODELS

Till now our discussion centered around the nature of HRM, its function, its policies and principles. It is time that we understand the theoretical perspectives on HRM—its defining features, popularity called models. Five major models have been identified and all these serve four purposes.¹³

1. They provide an analytical framework for studying HRM (for example, situational factors, stakeholders, strategic choice levels, competence).
2. They legitimise certain HRM practices; a key issue here being the distinctiveness of HRM practices: “It is not the presence of selection or training but a distinctive approach to selection or training that matters”.
3. They provide a characterisation of HRM that establishes variables and relationship to be researched.
4. They serve as a heuristic device—something to help us discover and understand the world for explaining the nature and significance of key HR practices.

The five HR models are: (i) The Fombrun, (ii) The Harvard, (iii) The Guest, (iv) The Warwick, and (v) Dave Ulrich.

The fombrun, Tichy and Devanna Model

Being the first model (dates back to 1984), this emphasises just four functions and their interrelatedness. The four functions are: selection, appraisal, development and rewards. These four constituent components of HRM and are expected to contribute to organisational effectiveness as shown in [Fig. 1.10](#).

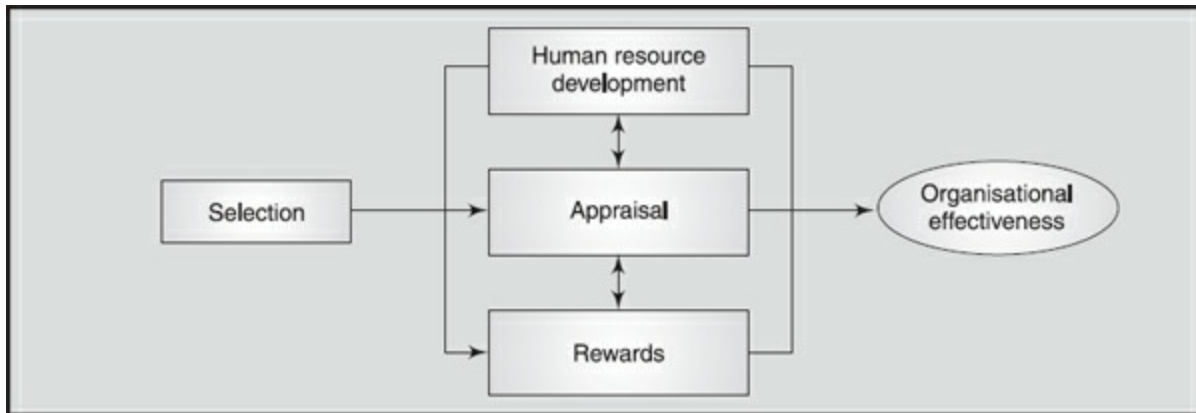


Fig. 1.10 *The Fombrun Model of HRM*

The Fombrun model is incomplete as it focuses on only four functions of HRM and ignores all environmental and contingency factors that impact HR functions. Nevertheless, the model deserves appreciation for being the first and has set stage for other theories to emerge. It is also a simple model that serves as a heuristic framework for explaining the nature and significance of the key HR activities. The model also deserves appreciation for emphasising interrelationship among the four activities and their collective impact on organisational effectiveness.

The Harvard Model

The Harvard model claims to be comprehensive in as much as it seeks to comprise six critical components of HRM. The dimensions included in the model are: stakeholders interests, situational factors, HRM policy choices, HR outcomes, long-term consequences and a feedback loop through which the outputs flow directly into the organisation and the stakeholders (See. [Fig. 1.11](#)).

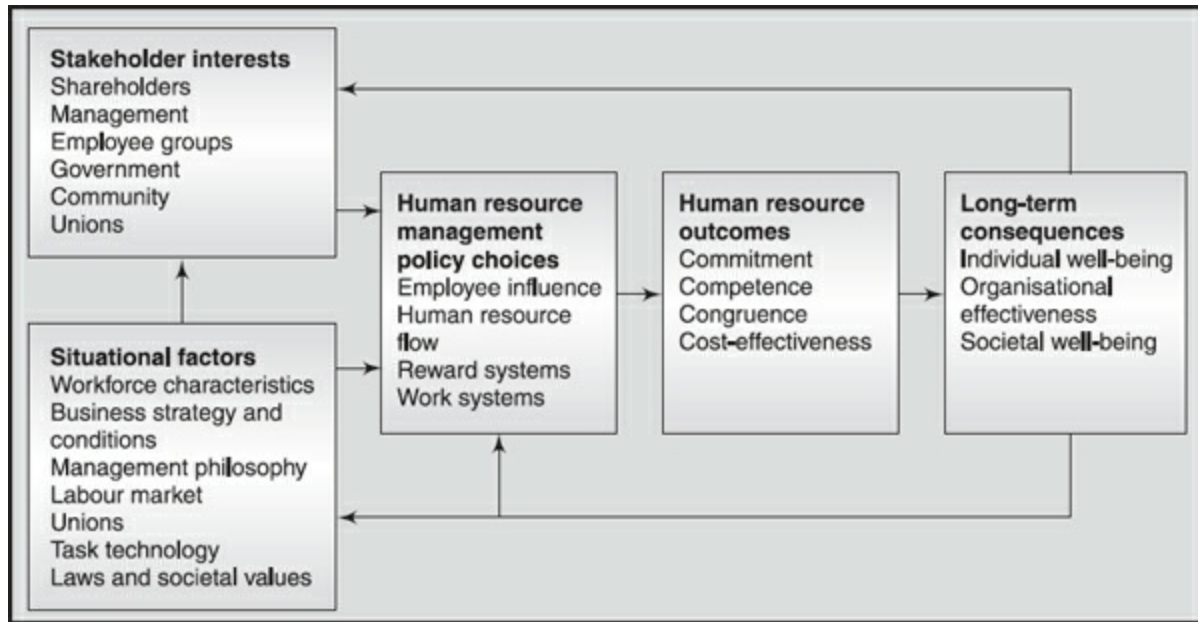


Fig. 1.11 *The Harvard Model of Human Resource Management*

The **stakeholders** interests recognise the importance of ‘trade offs’ between the interests of the owners and those of employees. Trade offs also exists among other interest groups. But this is the challenge of HR manager. He or she needs to balance the interests of all stakeholders.

The **situational factors** influence management’s choice of HR strategy. The contingent factors included in the model include workforce characteristics, management philosophy, labour market, task, technology, and laws and social values. These situational factors do influence HR strategy and their inclusion in the model is a welcome thing.

HRM policy choices emphasise the management’s decisions and actions in terms of HRM can be fully appreciated only if it is recognised that they result from an interaction between constraints and choices. The model depicts management as a real actor, capable of making at least some degree of unique contribution within environmental and organisational parameters and of influencing those parameters themselves overtime.¹⁴

Organisational commitment, employee competence, congruence and cost effectiveness constitute **HRM outcomes**. The assumption here is that employees have talents which are rarely exploited for organisational growth and that they are willing to grow with the organisation if a participative environment is available.

The **long-term consequences** include societal well-being, organisational effectiveness, and individual welfare. There is obvious linkage among the three. Employee welfare leads to organisational effectiveness and efficacy of all organisations contributes to societal well-being.

The **feedback loop** is the sixth component of the Harvard model. As was stated above, situational factors influence HRM policy and choices, and are influenced by long-term consequences. Similarly, stakeholders' interests influence HRM policy choices, and in turn, are impacted by long-term outcomes (See [Fig. 1.11](#)).

the Guest Model

Yet another HRM model was developed by David Guest in 1997 and claims to be much superior to other models. The details will justify the claim. This model claims that the HR manager has specific strategies to begin with, which demand certain practices and when executed, will result in outcomes. These outcomes include behavioural, performance related and financial rewards (See [Fig. 1.12](#)).



Fig. 1.12 *The Guest Model of HRM*

The model emphasises the logical sequence of six components (as shown in [Fig. 1.12](#)): HR strategy, HR practices, HR outcomes, behavioural outcomes, performance results and financial consequences. Looking inversely, financial results depend on employee performance, which in turn is the result of action oriented employee behaviours. Behavioural outcomes are the result of employee commitment, quality and flexibility, which, in turn, are impacted by HR practices. HR practices need to be in tune with HR strategies

which are invariably aligned with organisational strategies (Read [Chapter 3](#) for more details).

The claim of the Guest model that it is superior to others is partly justified in the sense that it clearly maps out the field of HRM and delineates the inputs and outcomes. How HRM can contribute to organisational effectiveness is clearly shown in the model. But the dynamics of people management are so complex that no model (including the Guest model) can capture them comprehensively.

The Warwick Model

This model was developed by two researchers, Hendry and Pettigrew of University of Warwick (hence the name Warwick model). Like other models, the Warwick proposition centres around five elements: (see also [Fig. 1.13](#)):

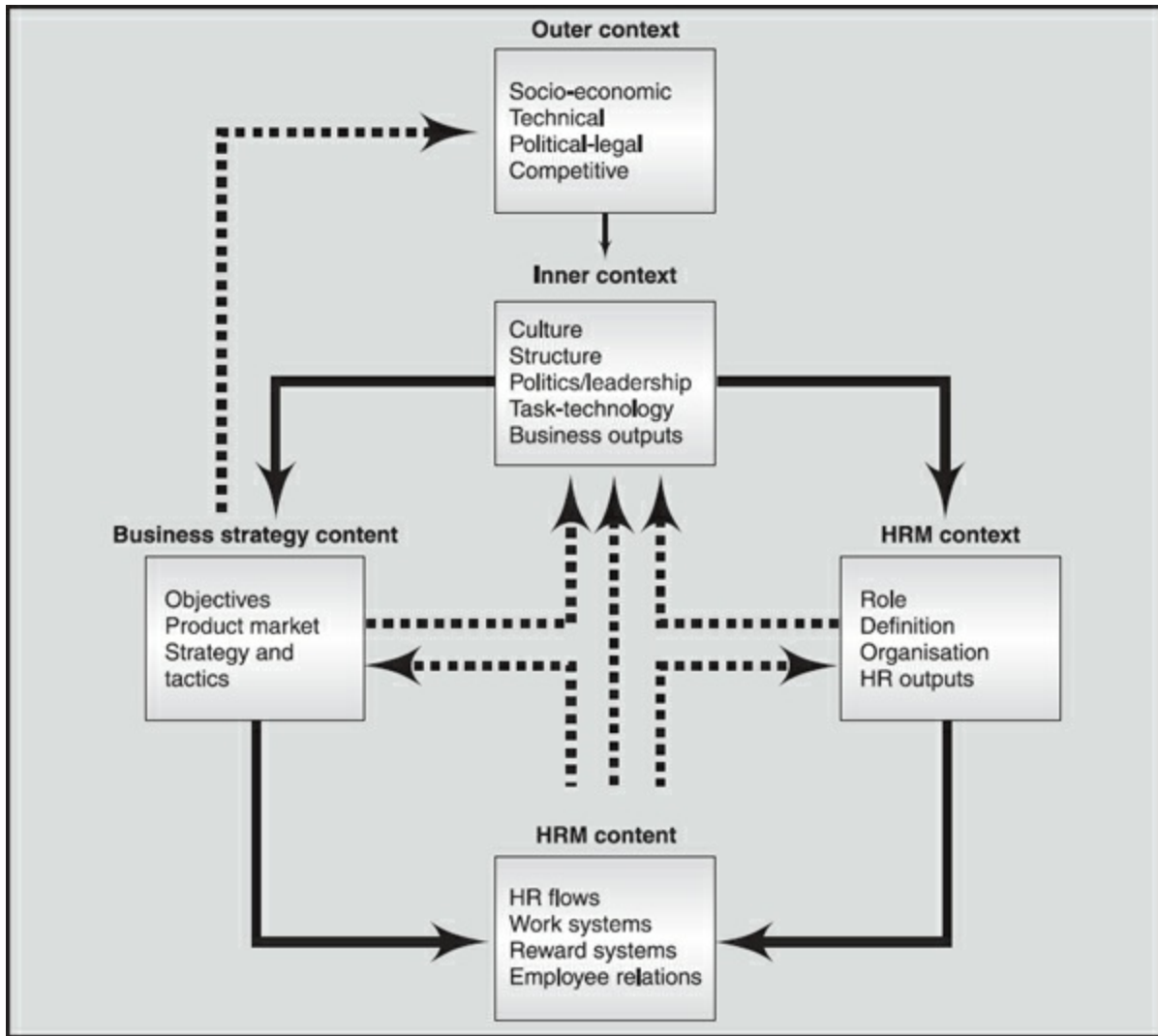


Fig. 1.13 *The Warwick Model of Human Resource Management*

(Source: Figures 1.11 to 1.13 are based on *Human Resource Management* by John Bratton and Jeffrey Gold)

- Outer context (macro environmental forces)
- Inner context (firm specific or micro environmental forces)
- Business strategy content
- HRM context
- HRM content

The Warwick model takes cognisance of business strategy and HR practices (as in the Guest model), the external and internal context (unlike the Guest model), in which these activities take place, and the process by which

such changes take place, including interactions between changes in both context and content. The strength of the model is that it identifies and classifies important environmental influences on HRM. It maps the connection between the external and environmental factors and explores how HRM adapts to changes in the context.¹⁵ Obviously, those organisations achieving an alignment between the external and internal contexts will achieve performance and growth.

Pause and Ponder

Looking at the four models described in this section, what similarities and dissimilarities do you notice among them? What assumptions do they make? What lessons do they carry to practising HR managers and students of HRM?

The Ulrich Model

In his epic book *Human Resource Champions*, Dave Ulrich proposes a contemporary HR model which lifts HR function from mere transactional to transformational role. Being one of the most popular models in the industry today, Ulrich identifies four distinct roles that HR team should deliver- strategic, administration, champion, and change harbinger (see [Fig 1.14](#)).



Fig. 1.14 A Multiple-Role Model for Human Resources Management

Strategic Partner: Being a strategic partner is about the alignment of HR activities and initiatives with the overall business strategy. The HR team

should now answer a fundamental question: How do we create an organisation to accomplish business objectives? The answer implies that all the strategic statements to be converted into specific organisational actions, and implement them relentlessly. HR manager should work with line managers to formulate business strategies, convert them into action plans and execute them.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • Automate routine HR activities • Never loose an opportunity to chat with an employee, be it in the lift, parking lot or even the restroom • Consider each employee as a brand ambassador of the company • Lead by example • Be business-savy • Call by names when you talk to employees 	<ul style="list-style-type: none"> • Quote policies and sermons when an employee comes to you with a concern or an issue • Commoditise employees • Forget to smile • Have different policy for different levels in the organisation • Forget that HR is a service function—all employees are its customers in the organisation

Change Agent: The role of change agent involves initiating three categories of responses to meet business goals. First refers to the *initiative changes*. These focus on implementing new programmes, projects or procedures. Such initiatives (e.g. implementing a new organisational structure, customerservice agenda, quality-improvement effort, or cost reduction programme) occur annually in most organisations. Through strategic planning, initiatives are identified as necessary and are implemented as part of an evolving management improvement process. Second refers to *process changes* which focus on the way in which work gets done in a firm. Companies first identify core processes and then try to improve them through work simplification, value-added assessments, and other reengineering efforts. Finally, the *cultural changes*, occur within an organisation when the fundamental ways of doing business are reconceptualised. The identity of the firm is transformed

both for employees and customers.

As an *administrative expert*, HR manager is responsible for offering HR deliverables at the lowest cost. A HR professional acts at two levels as an expert. First, he or she may help a firm go through the reengineering of *business processes*. As organisations identify and improve core processes, the HR head may actively work on the improvement teams working towards greater simplicity, efficiency and effectiveness. For too long, business reengineering has been driven by technologists working mechanically with little input from HR professionals sensitive to the human issues related to change. Lack of HR inputs many times leads to failure of reengineering initiatives.

Second, HR professional must apply his/her administrative expertise to *HR processes* even if not participating in process reengineering, he or she should demonstrate one's ability to deliver HR services efficiently by reengineering own processes as needed. By doing so, HR professional not only improves his or her firm's infrastructure but earns credibility for participation in subsequent business change efforts.

HR Champion HR professional, who works as an employee champion, focuses on finding the right balance between demands and resources. He or she helps legitimate demands of employees and assists employees to deal with demands by learning to focus and set priorities. The HR professional also finds creative ways to leverage resources so that employees do not feel overwhelmed by what is expected of them. The champion role demands that the HR professional should build trust between him or her and the employees.

As stated earlier, Ulrich model elevates the role of HRM from mere transactional to that of transformational ones. The four roles modelled by Ulrich reflect the new age realities and requirements (see [Table 1.8](#)).

Table 1.8 *Linking Ulrich's Roles to Deliverables*

<i>Metaphor</i>	<i>Role</i>	<i>Activity</i>	<i>Deliverable</i>
Strategic Partner	Management of strategic resources	Aligning HR with business strategy	Executing strategy
Administrative Expert	Management of firm's infrastructure	Re-engineering process	Building an efficient infrastructure
Employee Champion	Management of employee contribution	Listening to employees	Increasing employee commitment and capability
Change Agent	Management of transformation and change	Managing changing environment	Creating a renewed infrastructure

Consider the following realities:

- Globalisation has opened doors for new markets, new products, new mindsets, new competencies, and new ways of thinking about business. HR function needs to create new ways and means for attaining global agility, effectiveness and competitiveness.
- It is imperative on the part of organisations to become customer-centric in order to gain competitiveness. This requires innovation, faster decision-making, affordable price, and effective linkages with vendors and suppliers to build value chain for customers. Employee attitude counts considerably in building the value chain.
- Changing and remaining agile is a business reality. This reality needs to be facilitated, strengthened, and reinforced by the HR team.
- Technology remains the corner stone of business effectiveness. HR team is responsible for redefining work in such a way that the organisation is ahead of the information curve and is leveraging information for business goals.

New age business realities expect the HR team to act as strategic partner, change agent, administration expert and employee champion.

A Model for this Book

We follow the model shown in [Fig. 1.15](#) for the purpose of this book. The HR manager needs to evolve his or her own strategies that should be aligned with firm's strategies. In playing this role, the HR professional works to be a strategic partner, helping ensure the success of business strategies. [Chapter 3](#) in this book is devoted to a discussion on HR strategic management.

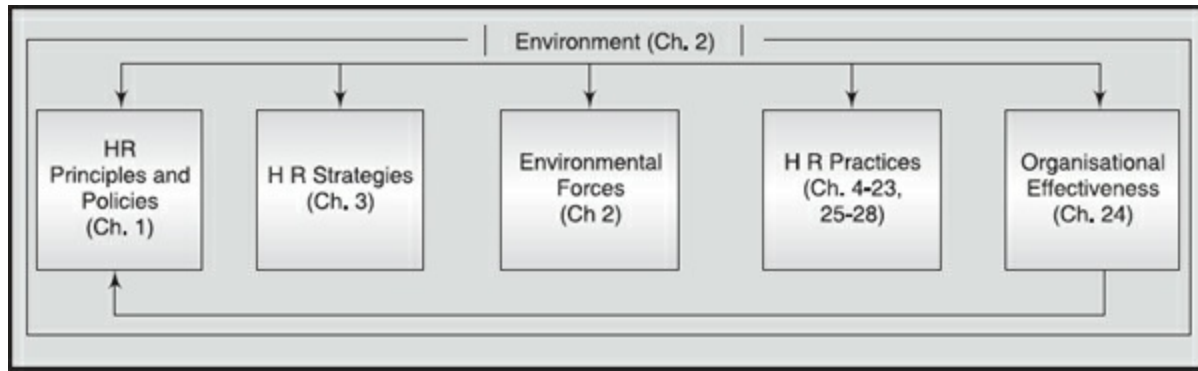


Fig. 1.15 HRM Model

HR strategies should result in certain practices that include:

Human Resource Planning (Ch. 4)

Analysis of Work and Designing Jobs and Job Evaluation (Ch. 5)

Recruiting Talent (Ch. 6)

Selecting Right Talent (Ch. 7)

Training and Development, Career Management and Talent Management (Ch. 8)

Appraising and Managing Performance (Ch. 9)

Employee Engagement and Empowerment (Ch. 10)

Managing Compensation (Ch. 11-14)

Organisational Culture (Ch. 15)

A Safe and Healthy Environment (Ch. 16)

Managing Betlement Work-Employee Welfare (Ch. 17)

Managing Separations and Right Sizing (Ch. 18)

Managing Industrial Relations (Ch. 19-22)

Managing Ethical Issues in Human Resource Management (Ch. 23)

HR Audit and Evaluation (Ch. 24)

Contemporary Challenges in Human Resource Management (Ch. 25)

International Human Resource Management (Ch. 26)

e-Human Resource Management (Ch. 27)

Human Resource Management in Small Scale Units (Ch. 28)

These practices should be based on HR principles and policies (Ch. 1) and should be institutionalised. Institutionalised practices avoid ambiguities, sustain consistencies and promote a healthy environment.

A healthy environment gives a set of motivated employees with requisite

capabilities and the drive to perform (Ch. 15–17). Employees need to be embedded with ethical values (Ch. 23) in order to make them chiseled individuals who are inspired not by petty monetary benefits alone but by a clear conscience, who bear ups and downs in the organisations with forbearance and equality, and who stay put with the organisation.

A firm that has motivated employees backed by capabilities is sure to achieve its cherished goals. Whether or not the organisation is effective is revealed through HR evaluation (Ch. 24). An organisation performing poorly needs to have a relook at its strategies, practices and motivational tools and practices. Finally, the HRM process is subject to the influence of both external and internal factors (Ch. 2).

EVOLUTION OF HRM

As a part of introduction to the subject, it is useful to study the evolution of HRM. HRM, a relatively new term, emerged during the 1970s. Many people continue to refer to the discipline by its older, more traditional titles, such as personnel management or personnel administration.

The trend is changing. The term nowadays used in industry circles is HRM. Coming to the evolution of HRM as a subject, it may be stated that concern for the welfare of workers in the management of business enterprises has been in existence since ages. Kautilya's *Arthashastra* states that there existed a sound base for systematic management of resources as early as the 4th century BC. The government then took an active interest in the operation of public and private sector enterprises and provided systematic procedures for regulating employer-employee relationships.

Elsewhere, human resources in organisations received the managements' attention much earlier. As early as in 1800 BC itself, 'minimum wage rate' and 'incentive wage plan' were included in the Babylonian Code of Hammurabi.

Experts of HRM in our country have tried to chronicle the growth of the subject only since the 1920s. This was the period when state intervention to protect the interests of workers was felt necessary because of the difficult conditions which followed the First World War, and the emergence of trade unions. The Royal Commission (1931) recommended the appointment of labour-welfare officers to deal with the selection of workers and to settle their

grievances. The Factories Act, 1948, made appointment of welfare officers compulsory in industrial establishments employing 500 or more workers each.

In course of time, two professional bodies, the Indian Institute of Personnel Management (IIPM) and the National Institute of Labour Management (NILM), were set up. IIPM had its headquarters at Kolkata and NILM at Mumbai. These two places were the premier centres of traditional industry (jute and cotton respectively) in pre-independent India.

The aftermath of the Second World War and the country's political independence witnessed increased awareness and expectations of workers. During the 1960s, the personnel function began to expand beyond the welfare aspect, with labour welfare, IR and personnel administration integrating into the emerging profession called personnel management (PM). Simultaneously, the massive thrust given to the heavy industry in the context of planned economic development, particularly since the Second Five-Year Plan and the accelerated growth of the public sector in the national economy resulted in a shift in focus towards professionalisation of management.

By the 1970s, a shift in professional values was discernible. It shifted from a concern for welfare to a focus on efficiency. In the 1980s, professionals began to talk about new technologies, HRM challenges and HRD. The two professional bodies, IIPM and NILM, merged in 1980 to form the National Institute of Personnel Management (NIPM).¹⁶

Technology entered (HR) domain in the 1980's, allowing HRM professionals to focus less on administrative work (that had become a burden as a result of all the legislations that had come before and continued to come) and more on strategic issues as noted in the previous paragraph. Thanks to the increasingly sophisticated human resources information and communications systems, HRM was getting a better handle on its resources, and thus, the effectiveness of its programs. With more attention being focused on the human resources in an organisation, the link between HRM and the bottom line was becoming clearer.

In the 1990s, the emphasis shifted to human values and productivity through people. Reflecting this trend, the American Society for Personnel Administration (ASPA) was renamed as the Society for Human Resources Management (SHRM). Thus, beginning in the 1920s, the subject of people

management has grown into a matured profession. The journey continues. The profession might be called HCM in the near future. [Table 1.9](#) shows the evolution of HRM.

The importance of the personnel or HRM function has alternately increased and decreased over the past 90 years. It is clear that there has been an overall trend towards recognising and encouraging the contributions that employees make to the bottom line. Business, government and non-profit organisations continue to transfer themselves because of the change in thinking that is driven by HRM: People matter.

The later 1990s and first few years of the twenty-first century have witnessed an increased importance on changing demographics and increasing shortages of workers with the needed capabilities. Today, HRM is concerned with much more than simple filing, housekeeping, and record keeping. The top HRM professional at most companies today has vice-president or executive vice-president status and is a contributing member of the organisation's executive committee or the executive body composed of key top managers that makes policy decisions and sets corporate strategy.

Table 1.9 *Evolution of HRM in India*

<i>Period</i>	<i>Development Status</i>	<i>Outlook</i>	<i>Emphasis</i>	<i>Status</i>
1920s—1930s	Beginning	Pragmatism of capitalists	Statutory, welfare, paternalism	Clerical
1940s—1960s	Struggling for recognition	Technical, legalistic	Introduction of techniques	Administrative
1970s—1980s	Achieving sophistication	Professional, legalistic, impersonal	Regulatory, conforming, imposition of standards on other functions	Managerial
1990s	Promising	Philosophical	Human values, productivity through people	Executive

Source: C.S. Venkataratnam and B.K. Srivastava, *Personnel Management and Human Resources*, p. 5.

Human Capital Management

The journey of people management is touching yet another milestone. As

stated above, the term HRM is now sought to be replaced by Human Capital Management (HCM), often called talent management.

Human capital is understood as the experience that an individual brings to an organisation in the form of knowledge, skills, abilities, and values that he or she has accumulated over time. Consequently, the employees of an organisation are viewed as an asset or a resource that can be improved through investment in the same way as other assets or resources such as building and equipment. Organisations do not own capital but can rent it from their employees. As a result, human capital is highly precarious and is in constant danger of being lost when an employee exits the organisation.

HRM treats people as an organisational resource. The term 'human resource' implies an available supply that can be drawn on and used to accomplish a task. Resources appear as costs in traditional accounting practices. HCM recognises that people are investors of their personal human capital and this provides the main source of value for an organisation.

HCM demands action by an organisation on the following:¹⁸

1. Focusing on knowledge and insight rather than on metrics and standards.
2. Acknowledging complexity and not trying to understand everything through cause and effect.
3. Using best-fit, not just basic or best practices.
4. Focusing on creating value through intangible capability.
5. Integrating people and business strategy, driving and accelerating the business plan.
6. Managing a large proportion of the people management agenda through strategic programmes.
7. Gaining energy from the outside-in, matching potential capability with investors' and customers' needs.
8. Measuring strategic differentiators that indicate potential transformation.
9. Using informal, longitudinal and focused, strategic, external benchmarking.
10. Focusing on long-term stretch objectives, and learning from their outcomes.
11. Reporting to employees, managers and the Board.

12. HR acting as a strategic partner.

Table 1.10 shows a comparison among PM, HRM and HCM.

Not all organisations are ripe to implement HCM. It works best where: ¹⁹

- The organisation is a people-oriented business;
- The organisation is relatively large;
- The environment is not simple and stable;
- The organisation has investors or stakeholders who are interested in the medium to longer term (or the management is resilient enough to withstand pressure to sacrifice long-term growth for short-term needs);

Table 1.10 *Comparison among HCM, PM and HRM*

<i>Benchmarks</i>	<i>PM</i>	<i>HRM</i>	<i>HCM</i>
Evolutionary	Succeeded IR but preceded HRM. Dates roughly during 1960's	Succeeded PM and ruled roost for a long period. Gained worldwide recognition. Started during 1980s and carried acceptance even today	Represents the latest development but yet to gain wide acceptance in management and academic circles
Emphasis	Predominantly emphasis on mundane activities such as employee hiring, remunerating, training and harmony	Treat human beings as valued assets to be valued, used and preserved	Human resources are not the company's property, are owned by employees but given on rent to companies
Outcomes of people management	Value for money	Added value	Created value
Assumptions about environment, organisations and people management	Cause and effect, simple and stable, people seen as a cost/an expense, behavioural psychology, mbo, financial reward	Dynamic systems, core-competencies, strategy-fit, people seen as assets/resources, hard and soft HRM, cognitive and humanistic psychology, learning organisations, employment value proposition	Complex processes, 'edge of chaos', short-term, strategic capability, people seen as investors, search for meaning
People management activities	Focused on service delivery, not project management	Numerous small and tactical projects, projects often annual events within service delivery	Strategic programmes, mission critical, audacious
Measurement	Efficiency of HR activities, compliance	Effectiveness of HR outputs against business plan	Strategic, differentiators, organisational capability, potential for transformation
Reporting	Regulators	Investors and stakeholders	Board, managers and employees

Source: Jon Ingham, *Strategic Human Capital Management*, Butterworth—Heinemann, 2007, pp. 359-360.

- The organisation is focused on growth through differentiation rather than cost leadership;
- The organisation is managed strategically, with a clear, high level business strategy, ideally through use of a strategy map and business scorecard, and effective leadership;
- Planning is bottom-up as well as top-down;

- The organisation acknowledges complexity and is based on networks and relationships rather than structures and hierarchies;
- Managers take responsibility for people management;
- The culture is relatively sophisticated;
- The organisation uses technology effectively.

JOBS AND CAREERS IN HRM

HR positions in organisations can be divided into three categories—HR specialist, HR manager, and HR head. In addition, there are numerous support positions (e.g., clerical and programming).

HR specialist

The HR specialist jobs are usually the entry-level positions for an HRM career. Included would be such roles as interviewer, compensation analyst, benefits co-ordinator, job analyst, and trainer. In large firms, there may be promotional opportunities within the specialised function. For example, a new specialist may begin as an interviewer, move up to co-ordinating campus recruitment in a region, and progress to supervising all campus recruitment.

Alternatively, an entry level specialist may work in a consulting firm that provides HR services. In this case, the specialist may do a little of everything. For example, in any given day, the specialist might run an orientation programme for new employees, interview applicants, develop information for contract negotiations, or look for information on wage structures in other firms in the area.

Pause and Ponder

As MD of a fast growing company, Srivastav is spending a lot of time on people issues. Should he hire an HR manager?

HR Manager

The HR manager is a generalist who administers and co-ordinates

programmes cutting across functional areas. The HR manager is usually a top-ranking person at a plant or facility and, as such, is expected to know about all areas of HRM. This is because the HR manager has to oversee the implementation of the HR policies at the facility and advise line managers on HR issues.

Yet another role for the HR manager is to head a functional personnel activity at the corporate level. Many large firms are organised into relatively more autonomous divisions. Typically, such firms have functional specialists at the corporate level who translate the firm's corporate strategy into an HR policy and transmit this policy to all the divisions. For example, the corporate headquarters may have a manager of affirmative action engaged to develop a comprehensive plan based on corporate objectives and commitments. The manager would then co-ordinate with the divisional HR managers to make sure that the plans at the local level are consistent with the corporate objectives.²⁰

Head-HR

The top-level HR executive, usually the vice-president of an organisation, has the responsibility of linking the firm's corporate policy and strategy with HRM. The HR head is also expected to feed inputs into the organisational goals, especially if these goals affect or are affected by personnel activities. It is important to consider HR opportunities and limitations in establishing overall organisational directions.

HR Business Partner

HR professionals in the capacity of business partners do not generally go with the decisions of the senior management, instead, engage with the decision makers in serious discussion on how the organisation could evolve/change to realise a set strategy. As business partners, HR professionals should not align with the management, but garner support for appropriate human resources to realise goals. By constantly challenging status quo, HR professionals earn respect from all stakeholders. He or she should focus on the following areas:

Evolve an organisational culture that helps convert a strategy into action.

Learn to diagnose organisational ills, if any, by asking searching questions and generating apt alternative practices.

Identify and prioritise the initiatives and ensure their implementation.

HR shared services Expert

The human resource shared services centre (HRSSC) professional is a process expert and is able to leverage operational knowledge to optimise HR transactional activities. The centre delivers operational HR efficiencies to the needy departments or functions. The centre is generally attached to headquarters and any required services are delivered electronically to any location. Status and size of HRSSC depend on the organisation. The centre operates a helpdesk system with well defined service level agreements (SLAS) ready on hand to answer queries and handle complaints.

As new businesses have been emerging, new jobs in HR are being created. Some of the job titles, now in practice, are high sounding and are highly focused. A sample of new titles is worth recording here. We have, for example, Asst. Manager-Compensation & Benefits (Mastek), HR–MIS Executive (CMS Computers), HR Manager – Talent Management (Sum Total Systems India), IT Recruiter (Shakti Info Solutions (P) Ltd), HR Coordinator (Sun Micro Systems), Staffing leader (Honeywell), Assessment Specialist (WIPRO), Recruitment Head/Manager (Syntel Inc), Executive Vice President – Human Resources (Kotak Mahindra Bank), Relocation Management Services Analyst (Accenture) and Human Resources Business Partner (Microsoft).

Pause and Ponder

HR is not really a specialised function, it can be managed by anyone with an academic degree to his or her name. Do you agree?

WHY STUDY HRM?

Towards the end of this chapter, we pose a pertinent question and answer it too. The catechize is why study HRM ? Response to the question is in the

lines that follow.

As we stated in the beginning of this chapter, taking a look at people is a rewarding experience. It is the people who possess skills, abilities and aptitudes that offer competitive advantage to a firm. It is only human resource that is capable of deciding, implementing and controlling activities. No computer can substitute human brain, no machines can run without human interventions and no organisation has mandate to exist if it cannot serve people's needs. HRM is a study about people in organisations— how they are hired, trained, compensated, motivated and maintained.

A factory is built not by god, but by human beings. It is people who build factories, structure organisations and manage them successfully. How an idea is conceived by an entrepreneur, how building is constructed and machinery installed, how needed inputs are marshalled and put to use, and how goods and services are produced, is a saga which is no less thrilling and exciting than a general leading army to victory in a war, an invention made by a scientist or a remedy discovered to cure AIDS disease. HRM, as stated above, offers a comprehensive picture about the people in organisations.

The rapid growth of globalisation has increased the number and significance of MNCs which in turn increased the mobility of people. Working for MNCs is a challenging task as the last chapter in this book tells. A typical management student is likely to take up a job in an MNC after completing his/ her degree. A prior knowledge about HRM, particularly international HRM, keeps him/her prepared for the challenges lying ahead.

One should stretch beyond formal organisations to appreciate the invisible, but valuable role played by the HRM. By stressing on competencies, commitment, performance, rewards, ethical behaviour and positive attitudes, HR professionals are able to convert average employees into better and to the best citizens. Societies will be well off if all citizens are trained and groomed in organisations known for corporate citizenship. Citizens will become less corrupt and more productive if they can undergo apprenticeship in organisations like TCS, Infosys, WIPRO and the like.

SUMMARY

People lend competitive advantage to a firm.

Human Resource Management (HRM) is a management function that

helps managers plan, recruit, select, train, develop, remunerate and maintain members for an organisation. HRM is the latest nomenclature used to denote personnel management (PM).

HRM has four objectives, namely (i) societal, (ii) organisational, (iii) functional, and (iv) personal.

Two issues arise when one talks about the organisation of HR function— (i) status of the HR department in the overall set-up, and (ii) composition of the department itself. Both depend upon the scale of operations and attitude of top management towards HRM. Outsourcing will have negative impact on HR department.

Four models of HRM seek to provide theoretical framework for the study of HRM.

Several paradoxes exist in the field of HRM. Paradoxes notwithstanding, HRM has definite role to play.

An organisation must have set policies, definite procedures and well-defined principles relating to its personnel. These contribute to the effectiveness, continuity and stability of the organisation.

Ever since its inception in the 4th century BC (much earlier in other countries), the HRM functions have gone a long way and have assumed a professional status today.

HRM may be replaced by HCM in course of time. Several initiatives are required to build human capital. Not all organisations are ripe for HCM.

HRM offers several career opportunities to the aspirants.

KEY TERMS

Competitive advantage

HR models

HR paradoxes

HR policies

HR procedures

Human resource management

Human resource development

HR principles

Human capital management

Industrial relations

REVIEW QUESTIONS

1. Define HRM. Trace its evolution.
2. What is HRM? What are its functions and objectives?
3. Outline the policies and principles of HRM.
4. Explain the HRM models. Which according to you is the most comprehensive?
5. Bring out the paradoxes in HRM.

DISCUSSION QUESTIONS

1. Draw a suitable organisational structure for a business unit with a turnover of (i) ₹50 crore, (ii) ₹200 crore, and (iii) ₹1000 crore. Also, sketch the HRM department for each.
2. “HRM policies and principles contribute to the effectiveness, continuity and stability of the organisation.” Give your viewpoint.
3. “HRM is full of paradoxes. The field is high on rhetoric and low in content.” Comment.
4. Place yourself in the role of an HR manager. How would you reverse the trend observed in the above question?

COMPREHENSIVE CASE

Vybhav is a large 23-year-old Indian MNC with presence in 13 countries and a global workforce of 26,000. As a diversified corporation, Vybhav operates in four distinct industry verticals: telecommunication software technology products, consumer retail, consumer electronics and telecommunication services. The organisation structure evolved over the years, including three formal restructuring exercises in the last 10 years. Till ten years ago, the four business verticals operated as independent units with their own business strategies, and completely decentralised operations with hardly any cross-division interactions. The founders of Vybhav ran the businesses like any other traditional family business and ten years ago decided to hand over the management of the Vybhav corporation to a team of professionals. Thus was born the Vybhav Corporate Function, headquartered out of Mumbai and

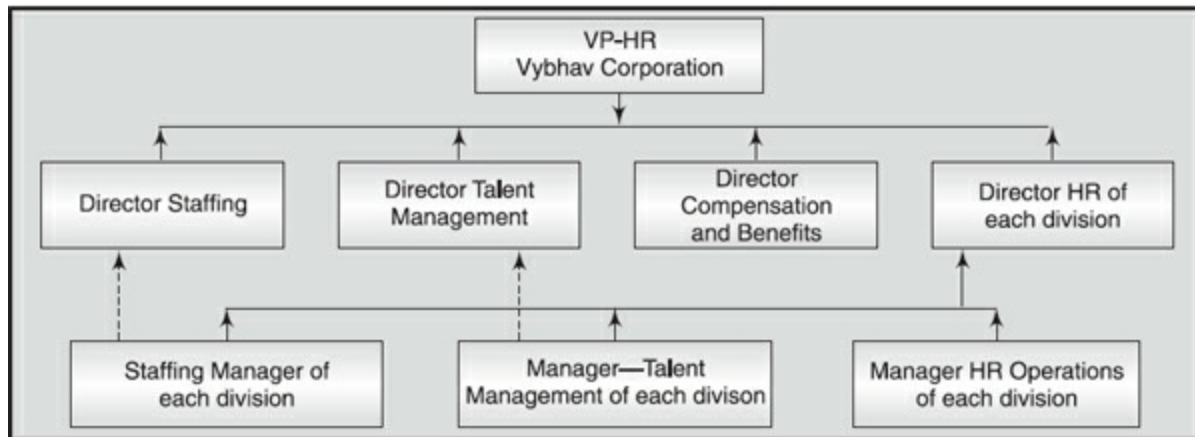
entrusted with driving a common vision-mission across Vybhav Divisions.

One of the first tasks of the new CEO, Ravinder G, was to build the corporate team with skills as diverse as the company's businesses. The agenda he set for himself was to hire his core team of VP's who would partner with him to build the corporate strategy for Vybhav. Ravinder set out two clear objectives for himself for the next six months: (1) To hire and build the corporate team of VP's, and (2) To understand the four business verticals and the unifying strategies that would bind them to a common vision.

Ravinder prioritised filling the VP-HR position first. Having a VP-HR would make it easier for him to hire the rest of the top management team. Three months later, Renny Joseph was hired as the VP-HR. Together they spent time understanding the business, the strategy for future growth and success of Vybhav as a single entity.

For Renny, the HR challenges came in the form of each division having its own HR team with a GM/Director-HR and team sizes of 12 to 20 below them. Each had independent HR philosophy and policies that guided the organisation in line with the prevalent industry practices. The focus for Renny was to first understand each of the businesses and document the social, organisational and functional objectives of the HR teams.

Over a period of 12 months and with deliberate and often mandatory HR team meetings and offsite training and events, Renny was able to get the teams to accept and absorb best practices across divisions and the seed for one Vybhav entity thinking was sown. One of the first challenges for Renny was to handpick the HR corporate team with a good mix of internal and external talent. Having the internal HR talent provided the related knowledge base on existing HR practices and the justification for them. The external talent brought with it the best HR practices in similar MNC conglomerates. The structure that first evolved as version 1.0 of the HR team was as shown in the figure given as follows.



EXERCISE

Break out in groups of two. Each pair needs to identify and adopt an existing company that has a reasonably well structured corporate website. Have a registration process whereby there is no redundancy. Look for recent new articles and write about the company on the net/in the print media, to get an understanding of the company's business, goals and objectives.

Now try and answer the following questions:

1. How is the company structured and how is the HR team in this company structured?
2. Why do you think the HR team is structured this way?
3. Speculate possible challenges that the HR team in this business is confronted with on the talent front.

The faculty assesses the research work to identify the top 8–10 teams. The teams make a presentation to the class.

Closing Case-1 *Enterprise Builds on People*

When most people think of car-rental firms, the names of Hertz and Avis usually come to mind. But in the last few years, Enterprise Rent-A-Car has overtaken both of these industry giants, and today it stands as both the largest and the most profitable business in the car-rental industry. In 2001, for instance, the firm had sales in excess of \$6.3 billion and employed over 50,000 people.

Jack Taylor started Enterprise in St. Louis in 1957. Taylor had a unique

strategy in mind for Enterprise, and that strategy played a key role in the firm's initial success. Most car-rental firms like Hertz and Avis base most of their locations in or near airports, train stations, and other transportation hubs. These firms see their customers as business travellers and people who fly for vacation and then need transportation at the end of their flight. But Enterprise went after a different customer. It sought to rent cars to individuals whose own cars are being repaired or who are taking a driving vacation.

The firm got its start by working with insurance companies. A standard feature in many automobile insurance policies is the provision of a rental car when one's personal car has been in an accident or has been stolen. Firms like Hertz and Avis charge relatively high daily rates because their customers need the convenience of being near an airport and/or they are having their expenses paid by their employer. These rates are often higher than insurance companies are willing to pay, so customers who use these firms end up paying part of the rental bills themselves. In addition, their locations are also often inconvenient for people seeking a replacement car while theirs is in the shop.

But Enterprise located stores in downtown and suburban areas, where local residents actually live. The firm also provides local pickup and delivery service in most areas. It also negotiates exclusive contract arrangements with local insurance agents. They get the agent's referral business while guaranteeing lower rates that are more in line with what insurance covers.

In recent years, Enterprise has started to expand its market base by pursuing a two-pronged growth strategy. First, the firm has started opening airport locations to compete with Hertz and Avis more directly. But their target is still the occasional renter rather than the frequent business traveller. Second, the firm also began to expand into international markets and today has rental offices in the United Kingdom, Ireland, and Germany.

Another key to Enterprise's success has been its human resource strategy. The firm carefully targets a certain kind of individual to hire; its preferred new employee is a college graduate from the **bottom** half of the graduating class, and preferably one who was an athlete or who was otherwise actively involved in campus social activities. The rationale for this unusual academic standard is actually quite simple. Enterprise

managers do not believe that especially high levels of achievements are necessary to perform well in the car-rental industry, but having a college degree nevertheless demonstrates intelligence and motivation. In addition, since interpersonal relations are important to its business, Enterprise wants people who were social directors or high-ranking officers of social organisations such as fraternities or sororities. Athletes are also desirable because of their competitiveness.

Once hired, new employees at Enterprise are often shocked at the performance expectations placed on them by the firm. They generally work long, grueling hours for relatively low pay. And all Enterprise managers are expected to jump in and help wash or vacuum cars when a rental agency gets backed up. All Enterprise managers must wear coordinated dress shirts and ties and can have facial hair only when “medically necessary”. And women must wear skirts no shorter than two inches above their knees or creased pants.

So what are the incentives for working at Enterprise? For one thing, it’s an unfortunate fact of life that college graduates with low grades often struggle to find work. Thus, a job at Enterprise is still better than no job at all. The firm does not hire outsiders—every position is filled by promoting someone already inside the company. Thus, Enterprise employees know that if they work hard and do their best, they may very well succeed in moving higher up the corporate ladder at a growing and successful firm.²¹

Questions

1. Would Enterprise’s approach to human resource management work in other industries?
2. Does Enterprise face any risks from its human resource strategy?
3. Would you want to work for Enterprise? Why or why not?

Closing Case-2 *Conceptualise and Get Sacked*

HSS Ltd. is a leader in high-end textiles having headquarters in Bangalore. The company records a turnover of ₹1,000 cr. plus a year. A year back, HSS set up a unit at Hassan (250 km away from Bangalore) to spin home

textiles. The firm hired Maniyam as GM-HR and asked him to operationalise the Hassan unit.

Maniyam has a vision. Being a firm believer in affirmative actions, he plans to reach out to the rural areas and tap the potentials of teenaged girls with plus two educational background. Having completed their 12th standard, these girls are sitting at homes, idling their time, watching TV serials endlessly and probably dreaming about their marriages. Junior colleges are located in their respective villages and it is easy for these girls to get enrolled in them. But degree colleges are not nearby. The nearest degree college is minimum 10 km and no parents dare send their daughters on such long distances and that too for obtaining degrees, which would not guarantee them jobs but could make searching for suitable boys highly difficult.

These are the girls to whom Maniyam wants to reach out. How to go about hiring 1500 people from a large number who can be hired? And Karnataka is a big state with 27 districts. The GM-HR studies the geography of all the 27 districts and zeroes in on nine of them known for backwardness and industriousness.

Maniyam then thinks of the principals of Junior Colleges in all the nine districts as contact persons to identify potential candidates. This route is sure to ensure desirability and authenticity of the candidates. The girls are raw hands. Except the little educational background, they know nothing else. They need to be trained. Maniyam plans to set up a training centre at Hassan with hostel facilities for new hires. He even hires Anil, an MBA from UK, to head the training centre.

All is set. It is a bright day in October 2006. MD and the newly hired VP-HR came to Hassan from Bangalore. 50 principals from different parts of the nine districts also came on invitation from Maniyam and Anil. Discussions, involving all, go on upto 2 PM. At that time, MD and VP-HR ask Maniyam to meet them at the guest house to discuss some confidential matter.

In this meeting, Maniyam is told that his style of functioning does not jell with the culture of HSS. He gets the shock of his life. He responds on expected lines by submitting his papers.

Back in his room, Maniyam wonders what has gone wrong. Probably, the VP-HR being the same age as he is, is feeling jealous and insecure

since the MD has all appreciation for the concept and the way things are happening. Maniyam does not have regrets. On the contrary he is happy that his concept is being followed though he has been sacked. After all, HSS has already hired 500 girls. With ₹3,000 plus a month each, these girls and their parents now find it easy to find suitable boys.

Questions

1. What made the MD change his mind and go against Maniyam? What role might the VP-HR have played in the episode?
2. If you were Maniyam, what would you do?

REFERENCES

1. Dave Ulrich, *HR Champions*, Harvard Business School Press, 1997, p. 60.
2. Ananda Mahindra in conversation with Thomas A. Stewart and Anand P. Raman, published in *Harvard Business Review*, July – August, 2008, p. 73.
3. Mathew D. Breitetelder and Davisy Wadram Dowling, “Why did we ever go into HR”?, *Harvard Business Review*, July-August 2008, pp. 42-43.
4. *Ibid*, p. 43.
5. Dave Ulrich, *op. cit.*, pp. 151-152.
6. John Bratton and Jeffrey Gold, *Human Resource Management*, p. 15.
7. David A. Decenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, p. 3.
- 7a. David Mankin, *Human Resource Development*, Oxford, 2009, p. 6.
8. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, 1993, p. 11.
9. Dale S. Beach, *Personnel—The Management of People at Work*, Fourth Edition, Macmillan, 1980, p. 40.
10. John Bratton and Jeffrey Gold, *op. cit.*, p. 18.
11. Dave Ulrich and Wayne Brockbank, *HR Value Proposition*, Harvard Business School Press, 2005, p. VIII.
12. <http://www.vacancycentre.com/resources/articles/personnel/6.asp> 23.03.2009
13. Dave Ulrich and Wayne Brockbank, *op. cit.*, p. VII.
14. Ian Beardwell and Ien Holden, *Human Resource Management*, Macmillan, 1995, p. 23.
15. John Bratton and Jeffrey Gold, *op. cit.*, p. 28.
16. Dave Ulrich and Wayne Brockbank, *op. cit.*, p. VII.

17. Ronald R. Simmons, *Effective HRM—Yesterday, Today, and Tomorrow*, Sage, 2007.
- 17a. David Mankin, *op. cit.*, p. 56.
18. John Ingham, *Strategic Human Capital Management*, Butterworth-Heinemann, 2007, pp. 359-360.
19. *Ibid*, pp. 360-361.
20. Cynthia D. Fisher, *et. al.*, *Human Resource Management*, Houghton Mifflin, 1997, p. 32.
21. Angelo S. Denisi and Ricky W. Griffin, *Human Resource Management*, biztantra, pp. 33-34.

Context of Human Resource Management

Learning Objectives

After reading this chapter you should be able to:

- identify the environmental factors that have a bearing on HRM
- describe each environmental factor and its impact on HR functions

Opening Vignettes

DRAMATIS PERSONAE

1. The Relentless Politician

Netaji is a young and ambitious college dropout who has made a name for himself in his state—one of the BIMARU States—in the past 7–8 years through a variety of actions, fair and foul. At the moment he is an ex-MLA, having come pretty close to being made a Minister in the previous government in which his party was a coalition partner. Though he suffered an ignominious defeat in the last Assembly elections, nothing has changed his style of functioning. This style is what he has picked up from his colleagues and comrades in his party as well as what is being generally practised by politicians of all parties at all levels—starting from district and village levels to state administration. This style enables him to ignore all inconvenient or incontrovertible facts so that he can, with a single-minded dedication, pursue his immediate objective whatever it may be. It is his belief that this is the only style which is effective in his state and has permitted him to “do good”

for his constituency and the people.

2. The Insipid Babu

Babu is a 55-year-old IIT post graduate with 30 years of industry-wide experience in hi-tech, sophisticated design and construction of complex engineering infrastructure. For the last 10 years he has been working in a CPSU which has its headquarters at Delhi. He is the regional chief covering an area that accounts for 40% of the total turnover of his company. He controls about 55% of the manpower of the company and has made several proposals in the past to enhance labour productivity in his region by appropriate redeployment of personnel both inside and outside his region. No one has opposed him on any ground of principle or policy, but yet he continues to be saddled with a large underemployed workforce. He has been told that there is an even chance of his being picked up for a Board level post in the next 6–8 months. He has spent over four years in his present job and is looking forward to either the promised promotion and shift to Delhi or a posting to South, a move which has the wholehearted approval of his wife and other family members since they happen to be South Indians.

3. The Suave CEO

This 45-year-old hot-shot from the private sector, with several successful international projects to his credit, was picked up through a competitive and transparent process by the Public Enterprises Selection Board (PESB) two years back. He expects to be confirmed very shortly in his job as CEO—a process which depends substantially on his minister's appreciation of his performance—after which he would have an unquestioned tenure as CEO. He has a doctorate in engineering and a doctorate in management. Most people in the company believe that it was his golden touch and leadership which boosted the company's performance to unusual levels, as he has a knack of sorting out time consuming problems and providing acceptable solutions. He attributes his success largely to the fact that he has a very clear and professionally satisfying equation with his boss, the Minister, whose support is an essential ingredient in the company's prospects for growth and expansion. He has certainly been lucky in that most major decisions which he

initiated proved profitable and those which did not have played little or no role in the overall performance of the company. All time highs in profits, dividends and new ventures have contributed to a general feel-good factor across the company.

The Event

About six months ago the company had recruited 16 Field Engineers through an open selection process advertised nationally. These probationers had been put on various project sites all over the country except in Netaji's state. This exclusion of the state was on account of the emphatic stand by Babu that he did not need any more staff and that he would not deploy probationers on any meaningful jobs.

All probationers were required to go through an internal assessment process before they could be confirmed in service. The offer of appointment given to them had explicitly stated that their continuation in the company was subject to their satisfactory performance in the internal assessment. The assessment had been duly carried out and according to the reports received from the respective assessing authorities, 15 out of the 16 probationers had passed the internal assessment test. Confirmation orders for these 15 officers were being readied in the Head Office by the personnel manager of the company, and the termination notice was likewise on its way to the 16th candidate. This candidate was the brother of Netaji who accosted the CEO in his Delhi office on a Friday evening and demanded that:

- the 16th candidate should be declared to have passed his probation successfully,
- the officer who failed the candidate in the internal assessment should be punished, and
- the candidate should be posted to Netaji's state.

With his tone, body language and general bearing, Netaji impressed the CEO to the extent of extracting a promise that he would look into it and see that no injustice was done to the candidate on account of any mischief on the part of the assessing officer who had failed him. The CEO was, however, careful in not reacting to the other demand that the candidate should be posted to Netaji's state. Before they parted, Netaji made it clear that he was expecting a positive response and action by the next morning. He had

dropped several broad hints that he was quite busy in Delhi, meeting with several VVIPs including the CEO's minister. The CEO was aware of Netaji's proximity to at least some of the VVIPs mentioned.

Later that evening the CEO spoke to the assessing officer who had failed the candidate. This officer was a senior regional chief about a 1000 km away from Netaji's state. From this phone call the CEO learnt that the candidate was pretty poor in technical knowledge, competence and skills, very indisciplined and disorganised at work and unbearable in inter-personal relations. He was frequently dropping Netaji's name and had shown himself to be obnoxious, boorish and unfriendly to everybody. He had gone around declaring, much before the internal assessment tests, that such tests had no meaning for him and that he would get back to his home state as soon as the probation period was over. The assessing officer finally confirmed that he had indeed given a very objective test and assessed the candidate on merits and found him unfit.

After this call, the CEO spoke to Babu and checked with him regarding the current standing of Netaji in the state politics as well as in the areas of concern to the company in view of its fairly well spread operations in the State. Babu reconfirmed that Netaji was indeed a force to reckon with politically and that he could cause disruptions in the company's operations if he set his mind to do so. He could do it indirectly through several organisations and unions who would be too happy to jump at a chance since the company was considered to be cash rich with a visible presence and opportunities galore. In his assessment, Babu concluded, that no work could be extracted from the brother of such a person if he was posted in the state. On the contrary, he feared such a posting would provide one more node to Netaji to operate from. He reaffirmed that there was absolutely no need to add to the strength of field engineers in the state or even in his region. He reminded the CEO that it was on his insistence that probationary field engineers were not posted in his region.

Much later that night, the CEO received a call on his mobile with a message that his minister wanted Netaji's matter to be settled expeditiously and as per rules. It appeared to the CEO that his minister was neither aware nor interested in details of the case. He just wanted the matter not to linger endlessly because there were bigger issues to be sorted out in the State which would perhaps require Netaji's participation in one way or the other.

Finally, before retiring for the day, the CEO called up his personnel manager and asked him to come up next morning with the relevant company rules and to hold up dispatch of the termination letter to the 16th candidate for the time being.

The Follow-up

The CEO received two early morning calls the next day which, being a Saturday, was an official holiday for the company. The first call was from Babu who said that he had sent him an e-mail on the pros and cons of acceding to Netaji's demands. It was his hope, he said, that the final decision in this matter would be taken keeping in view the contents of that communication. The next call was from Netaji who wished to confirm that things were happening as he wanted. The CEO told him to wait for the company's response.

When the CEO opened his mail he found the regional chief's e-mail. The note contained pros and cons of appointing candidate No. 16.

The CEO took a printout of the note and started for his office, to keep his appointment with Netaji.¹

Context of HRM refers to the environment within which HR professionals need to function. Environment may be understood as all those forces which have their bearing on the functioning of the HR department. The forces are— political—legal, economic, technological, cultural, unions, and professional bodies. Then there are strategy and task, leadership, management and organisational culture. Some of these are external to the firm and others are internal (See [Fig. 2.1](#)). Before examining these forces, it is useful to understand the utility of analysing the environment in which HR managers need to work.

Analysis of the environment is useful for the HR manager and his/her team in order to become proactive and not remain reactive to the environment. Reactive strategy serves the purpose when the environment is fairly stable and competition is less severe. Both of these have become things of the past. Today's business environment is characterised by change and intense competition. Proactive steps are vital for any organisation if it has to

survive in such an environment.

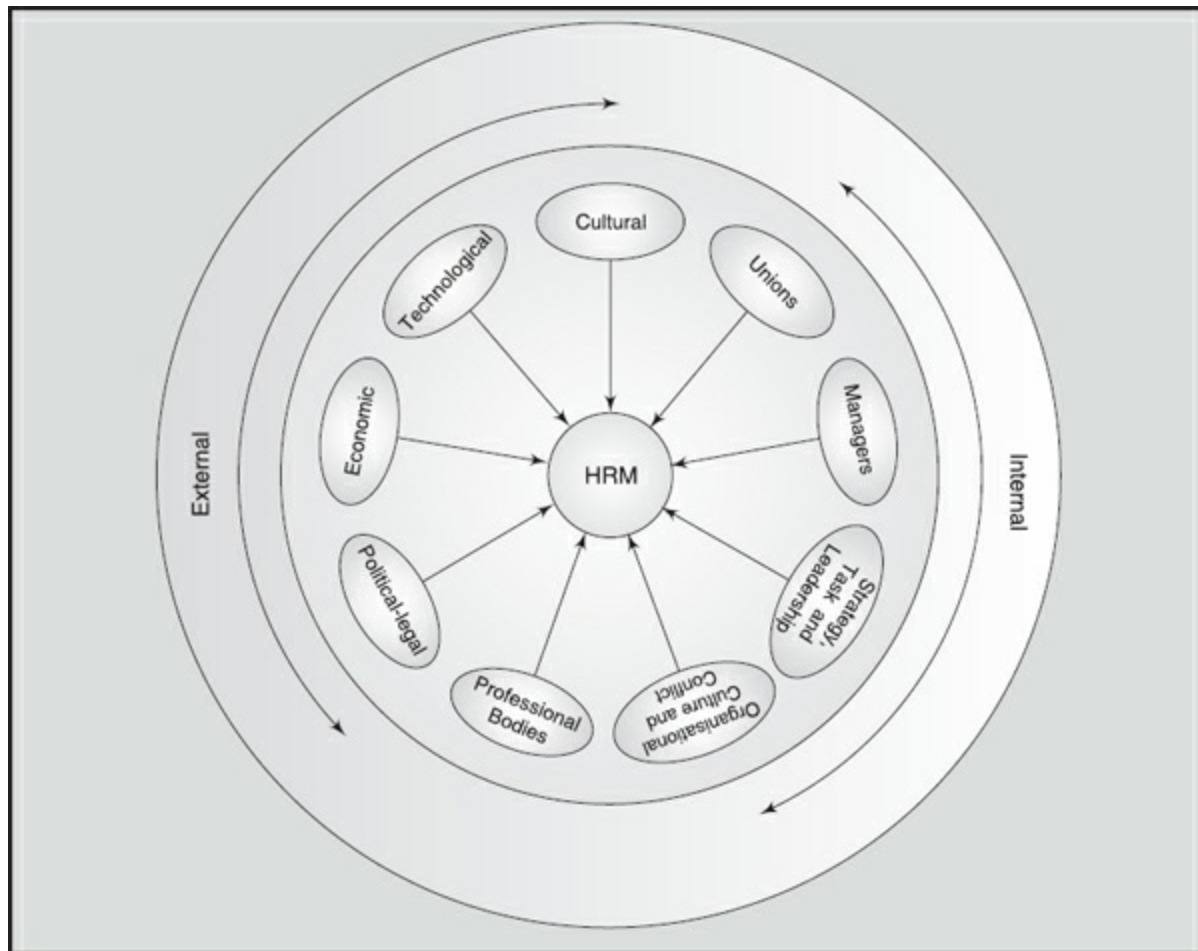


Fig. 2.1 *HRM and its Environment*

Environment of HRM comprises political–legal, economic, technological, cultural (external), and conflict, unions, strategy, and professional bodies (internal). Knowledge about the environment helps the HR manager and his/her team to become proactive.

Pause and Ponder

Take a look at [Fig. 2.1](#). Do you think that the figure reflects all environmental factors? Any factor been left out? Any one (out of those included) is non-contextual? Comment.

EXTERNAL FORCES

As was stated earlier, external forces include political-legal, economic, technological, professional bodies and cultural factors, the influence of which on HRM is considerable. Each of these external forces is examined in detail here.

Political-Legal

The political environment (legal environment is implied) covers the impact of political institutions on the HRM department. In a democratic political setup (as opposed to a totalitarian system), there are three institutions which together constitute the total political environment. They are—**(i)** the legislature, **(ii)** the executive, and **(iii)** the judiciary.

The *legislature*, also called Parliament at the central level and Assembly at the state level, is the law-making body. The plethora of labour acts which are in force are enacted by the legislature. The *executive*, popularly known as the government, is the law-implementing body. The legislature decides and the executive acts. Above these two is the *judiciary* which has the role of a watchdog. The main function of the judiciary is to ensure that both the legislature and the executive work within the confines of the Constitution and in public interest.

The interface between political environment and labour takes place through an array of labour laws. As was pointed above, we have so many enactments relating to labour that we have earned the sobriquet of being the largest labour-legislated country in the world. Some of these relate to terms and conditions of employment, some others relate to working conditions, a few others over payment of wages, and others contain provisions relating to industrial disputes. Then there is the Constitution which is the genesis of all acts. A few articles of the Constitution are worth mentioning here. Article 14 guarantees equality before the law. Article 15 prohibits discrimination on grounds of religion, race, caste, sex or place of birth. Article 16 guarantees equality of opportunity in matter of public employment. Article 23 prohibits forced labour. Article 24 prohibits employment of children in factories, mines and in other hazardous jobs. Article 38(d) guarantees equal pay for equal work both for men and women. Article 38(e) stipulates the health and

strength of workers, for both men and women. It pledges that the tender aged children are not abused and that citizens are not forced by economic necessity to enter vocations not suited to their age or strength. Article 42 provides for just and humane conditions of work, and maternity leave for women. Living wages for workers are guaranteed by Article 43, while Article 43(a) provides for participation of workers in the management of industries. Overriding all these provisions is the protective discrimination clause which stipulates the need for reservation of jobs for weaker sections of the society.

What do all these provisions signify for HRM?

All HR activities are affected in one way or the other by them. To be specific, HR planning, recruitment and selection, placement, training and development, remuneration, employee relations, and separation are conditioned by Constitutional provisions. Constitutional provisions mandate affirmative actions which are desirable. But, often extraconstitutional powers put brakes on the way employees are hired or promoted as the opening case reveals.

Executive Government's role is considerable in HR activities. Where legislature only decides, it is the executive which should implement. As the implementer, government is in close contact with the organisations.

Governments all over the world can create enabling environments for economies to grow and a robust economy generates more jobs. This claim is exemplified by India and China, particularly the former. By opening up of the economy in 1991, the Government of India threw open the gates to FDI, created level playing fields and provided right environment for businesses to grow. The growth of economy in the last two decades is there before us.

Contrary to the popular perception that the Government ceases to intervene once the economy is liberalised, the role of the Government is felt more now than ever before. We do not expect the executive to provide jobs, but play the supporting role. One supportive role relates to the supply of skilled labour. Growing economy needs more skilled labour and in a robust economy there will be always skill-gap. Demand for competent human resource exceeds its supply. It is the executive which needs to fill the skill-gap. The Government of India has initiated several measures and established many institutions to train labour in the country. Most ambitious among the institutions is the National Skill Development Corporation. The Government

has provided seed capital for an industry-led programme to train 150 million workers by 2022, the 75th anniversary of the country's Independence, focusing on the 20 economic sectors in which it expects high growth.

The programme to be overseen by the National Skill Development Corporation (NSDC), will be designed and run by the private sector, which will be free to decide how to spend the money.

Post 2008 recession, there has been high rate of unemployment across the globe, particularly in Europe and America. Young people have been the biggest victims of this crisis as [Table 2.1](#) shows.

Table 2.1 *Youth Unemployment (Aged 15-24)*

	<i>Per cent</i>	
	<i>2007</i>	<i>2010</i>
South Africa	45.5	50.5
Spain	18.2	41.7
Ireland	8.9	27.9
Italy	20.4	27.8
France	19.6	23.3
Britain	14.3	19.5
United States	10.6	18.4
Brazil	21.2	16.1
Germany	11.1	10.1
Japan	7.7	9.3

(Source: Adapted from, *The Economist*, dated Sept 10, 2011)

Large numbers of youth remaining job-less pose social and political problems. No doubt, European countries offer unemployment allowances, but youth aged between 15-24 do not relish the idea of living on doles. The Arab Spring that brought down the Governments of Tunisia and Egypt was triggered in part by the lack of decent work for young people. Terrorism, fundamentalism, kidnapping, drug addiction, rape and murderers occupy spaces available in idle brains of youth. Even in booming China and India, policy makers worry about how to ensure enough decent jobs for young people and graduates.

Bailouts, subsidies and allowances are not the useful remedies.

Governments must play constructive role in accelerating growth by managing macro and micro sectors effectively. Innovation and entrepreneurship are the two areas which need greater thrust from policy makers around the globe.

Economic

Economic environment refers to all those economic forces which have a bearing on the HR function. Economic growth, industrial production, agriculture, population, national and per capita income, money and capital markets, suppliers, competitors, customers, and industrial labour are the components of the economic environment. The last four are highly relevant to HR activities. Another component of economic environment is globalisation. Hence, a brief description of each follows.

Suppliers For the HR department, suppliers are those who provide human resources to an organisation. Employment exchanges, universities, colleges, training institutes, consulting firms, casual-labour contractors, competitors, and the like are the sources that supply human resources. The type of employees the organisation receives depends on the suppliers.

Competitors Competition plays a significant role in some of the HR functions and activities. As the number of organisations competing for human resources increases, so does the importance of the staffing function and its appraisal and compensation activities. If several companies make job offers to one individual, the organisation with more attractive terms and conditions will win. When employees with particular skills are hard to obtain, the organisation may need to groom its own employees through well-managed HR planning programmes co-ordinated with training and development activities.

Customers Customers have their own influence on a company's personnel functions. It needs no mention that customers want high-quality products at reasonable prices. So everybody in the organisation must endeavour to offer products which give satisfaction for the money customers pay. Sales are often affected by product quality which is directly related to the skills and qualifications of the organisation's employees.

Bosch, India has 12 quality principles. The fifth and sixth principles are worth quoting here. They are illustrative of customers' influence on personnel.

The fifth principle—'Our customers are final judges of our quality'.

The sixth principle—'Each and every employee in the company contributes towards achieving our quality goods. It is therefore the responsibility of every employee—from apprentice to the member of the Board—to ensure that their work is of the highest standard. Anyone who identifies quality, but does not have the authority to remedy it himself, must report it immediately to his superior'.

Economic Growth Whether a country is economically developed or not affects the quality of labour. Quality of labour in any country depends to a large extent on education and health available for its citizens. In advanced countries people and governments spend more on education and health; with greater wealth and education better quality labour is assured, which in turn ensures higher productivity. The inverse is likely to happen in low income countries which spend less on education and health. Uneducated citizens with poor health cannot contribute to productivity. Realising the relationship among health, education, quality labour and productivity, development policies tend to focus on these variables simultaneously.

Labour One factor that impacts the HR practices most is labour, also called workforce or human resource. Every activity of HRM is customised to suit labour's requirements.

Across the globe, the number of workers stood at 3.1 billion in 2011 compared to 2.3 billion in 1991. The emerging countries have alone added 900 million to the increase, of which 400 million live in India and China. [Table 2.2](#) gives the biggest employers.

Table 2.2 *Biggest Employers (2010)*

<i>Employers</i>	<i>Millions</i>
US Department of Defence	3.2
Chinese Army	2.3

WalMart	2.1
McDonald's	1.7
China National Petroleum Corp.	1.7
State Grid Corp of China	1.6
National Health Services (England)	1.4
Indian Railways	1.4
China Post Group	0.9

(Source: Adapted from, *The Economist*, Sept 10, 2011)

Pause and Ponder

Recommendations from politicians and corporates can no longer help to secure jobs. This is true both in public sector as well as private sector. Why?

Certain observations about labour in general are worth stating here.

1. More number of people are migrating from agriculture to non-farm occupations. This has resulted in large-scale urbanisation with attendant consequences. Being employed in trade and industries, people are well-off, with increased productivity and better earnings. Decades back, industrial jobs were an option. Moorings of the people were in villages and their soul was in agriculture. Not any more.
2. Jobs have become highly intellectual. An incumbent now needs to be skilled and that too multiskilled. The typical 'Hammering man' with high bran power, who was held in awe, is found nowhere around in the shop floors today. In his place is the man with brain power who commands premium. Soil-scratching, cloth-soiling and face-oiling jobs have disappeared. Factory floors today often seem deserted, where as the office blocks nearby are full of designers, IT professionals, accountants, logistic experts, marketing staff, customer-relations

managers, cooks and cleaners, all of whom in various ways contribute to the factory. What do all these portend? Organisations need to spend vast sums on training employees. There is the constant worry that knowledgeable people tend to look for greener pastures elsewhere. Organisations need to walk the extra mile to retain such employees.

3. There has been a total metamorphosis in the attitude of employees and their leaders. Earlier, the attitudes were anti-management and anti-change and growth. Even trivial issues like cockroaches in *sambar*, weight of the bread being 10 gms less than the standard and the like triggered protests and strikes. Days when a union leader felt proud of the fact that he travelled to Delhi in the same plane as his CEO and also smoked in his presence, have gone by.

Instead, union leaders now talk about TQM, competitiveness, profitability, productivity and the like. Probably, nowhere else the changed attitude of workers was so well orchestrated than the Government of India's sale of sick public sector units. The union leaders of all hues and political parties in tandem supported the Government in its bid to privatise sick units. Privatisation, infact, benefitted employees. Privatised companies did not retrench a single employee.

4. There has been considerable contractisation and temporisation of workforce in the organised sector. Nearly 40 per cent of Maruti's workforce is temporary. Temporary and contract workers are paid less than that of the regulars, are not entitled to any retirement benefits and their jobs are never secured. It becomes cheaper for companies to have contract and temporary workers, but the consequences may prove to be disastrous as it has happened in the Manesar plant of Maruti. Sudden violence in the plant on 18th July 2012 resulted in the death of GM-HR, injury to nearly 100 workers and consequent lockout of the factory. Wage disparities and not so fair treatment make a large section of workforce nurse grievances and the simmering discontent erupts into open once someone ignites the fire.

Attempts to improve the lot of contract and temporary workers have not been effective. For example, Supreme Court delivered more than 50 judgements on contract labour. Conditions have not improved.

5. The economic and social status of today's workers has vastly improved.

Industrial employment is no longer the undesirable alternative left for those driven out from their villages. Improved skill contents of the jobs, matching educational and training inputs and increased emoluments have made industrial employment the first attraction on young job seekers. Industrial employment is now not restricted only to the socially backward castes. The dynamic changes in the industrial sphere have, as the National Commission on labour has observed, brought about a 'social amalgam'. The status of a worker has enhanced as a result of the readjustment in the value system in favour of factory employment which, in turn, the aggregate effect of his/her improved skills, and his/her enlarge pay packet. The stigma attached to factory employment has disappeared.

A new social problem is emerging however. Just as there are income inequalities between rich and poor and between rich and poor countries, there are disparities in earnings of employees. Executives, investment bankers and software engineers – are paid huge salaries, but vast majority of people are either unemployed or underemployed and who are perennially worried about the next meal.

6. There is the *growth of trade unionism*. Industrial labour is organised today, primarily to protect and promote its own economic interests. Industrial workers in the early days, being mostly ignorant and illiterate, were led by outside sympathisers and their organisations had close links with political parties. These legacies have proved to be serious hurdles in the path of building up strong trade unions. Trade unions are multiple in number and weak in strength. It is agreed that strong trade unions are an essential prerequisite for the success of collective bargaining. In the absence of strong trade unions, the government increasingly intervenes in the sphere of IR, thereby leaving the trade unions weak and reducing bilateral relations to a mere formality. There has been in the field of IR in our country, a perennial controversy between the voluntary approach based on collective bargaining and the legal approach, providing for considerable state intervention for want of a collective/single bargaining agent. However, the industrial worker today is better organised than before. With higher levels of education, the workers have become more conscious and vocal regarding their rights. As the leadership is gradually coming from

within, a tendency towards forming independent trade unions is growing.

7. Unions can make their presence felt in a big way. They are likely to make aircraft firms insecure because of concerns about sabotage. Pilots of Government airline in India are holding travelling public to ransom. It was in 1974 that the Indian Railways had paralysed the country when its employees went on a strike (Railways have not seen a major disruption in service since then). Workers and their unions represent only a small fraction in a society. In a population of more than one billion in India, for example, workers number about 459 million, of whom only 10 per cent are employed in the organised sector. Of these only 9.1 per cent are unionised. Though small in numbers, the potentiality of the organised workforce to disrupt public life is considerable. Thus, in India and elsewhere, workers negate the very principle of pluralism which demands that all sections of a society should live in balance and harmony. Huge organisations like railways, coal mines, postal services and banks may appear to be maintaining cordial relations. There is a lull no doubt but under the veneer, storm is brewing, as large number of workers is willing to unionise and wage strikes.

8. Finally, the industrial labour is characterised by increasing *diversity*. Workforce of any factory comprises people from different countries. Within this diversity of national origins, there is an even wider diversity of cultures, religions, languages and dialects, educational attainment, skills, values, ages, races, genders, and other differentiating variables.

Organisations are becoming increasingly cosmopolitan. Days when organisations were manned with Shettys, Reddys, Nairs, Raos, Mehtas or Singhs, are over. A typical organisation is emerging as an amalgam of diverse workforce in terms of gender, race and ethnicity. One can find a Shastri rubbing shoulders with a Khan, both jostling with a Gowda, and all shaking hands with a Singh. Then there are physically handicapped, gays and lesbians, the elderly, and even people who are significantly overweight.

Though they work together, they maintain their distinct identities, diverse cultural moorings and separate lifestyles. HR managers must learn to live with these diverse behaviours. Diversity, if properly managed, can increase creativity and innovation in organisations as well as improve decision making

by providing different perspectives on problems.

More specifically, diversity when built into organisations at different levels, offers the following benefits:²

- Access to a changing market place
- Large scale business transformation
- Superior customer service
- Empowered workforce
- Total quality
- Alliances with suppliers and customers
- Continuous learning

Benefits of managing diversity effectively are being quantified as the following examples demonstrate (read also Exhibit 2.1).

- Xerox plants using diverse work teams are now 30 per cent more productive than conventional plants.
- Procter & Gamble achieves 30–40 per cent higher productivity at its 18 diverse team-based plants than at its non-diverse plants.
- Motorola beat its competition by producing the world's most efficient and high-quality cellular phones which are produced almost exclusively by diverse work teams.
- Research has shown that organisations that proactively recruit, develop, and leverage multinational leaders are in better positions in the global marketplace.

Exhibit 2.1 It is One in all and all in One at Henkel

Henkel stands out as a contrast to the hegemonic attitude of Germans. Henkel AG & Co. KGaA is a Fortune 500 company, headquartered at Dusseldorf, Germany. With a total headcount of more than 50,000, the German MNC has been active in the field of detergents and household cleansers for over 100 years.

80 percent of the employees are non-Germans, hailing from as many as 110 countries. Henkel has operations in 125 countries across the globe.

Henkel India came into being in 1987. Being the first to receive

ISO/14000 certification in India, Henkel has renowned brands like Henko, Pril & Fa, Margo, Neem Tooth Paste, Mr. White, Aramusk Tuhina, Chek, Superchek, Limeshot, Regal and Brisk.

It is one in all and all in one in Henkel. Employees belong to both the genders, different ages, nationalities and religions, but all are treated as one in the company. The company believes in such principles as internationality, family compatibility, women empowerment and talent management. Henkel believes in and swears by diversity.

Women are given preferential treatment in the company. They constitute as much as three percent of the total workforce. Proportion of women in managerial positions has grown from 2.9 percent in 2003 to 25.5 percent in 2007. The company is keen on adding up to this percentage. It is involved in various initiatives such as the 'Generation CEO' project and the creation of global network of women. As of now, such networks are located in Germany and USA.

Teams in Henkel are formed independent of age, nationality, and gender of the employees. The MNC believes in having heterogeneous teams that help pool and utilise different cultures and competencies.

The company has evolved two codes—Code of Conduct and Code of Team Work and Leadership. These codes seek to promote diversity. The company committed itself to diversity by signing the 'Charata der vielfalt' (Diversity Charter) in 2007. The Charter made the representatives of German trade and industry publicly embraces the diversity concept. Federal Chancellor Dr. Angela Merkel is the patron of the 'Charta' initiative.

The German MNC has set up a separate wing called 'Global Diversity and Inclusion' to promote heterogeneity. It has also established a 'Diversity Cockpit' that reveals the mix of internationality, gender and age in their operations worldwide.

In 2008, the company developed and implemented a global diversity and inclusion strategy. While hiring people, Henkel ensures that the final three candidates shortlisted reflected diversity in terms of age, gender and nationality.

The company has exclusive Diversity Managers whose task is to constitute the best teams and to evaluate the diversity activities. The main task of the Diversity Manager is to generate awareness that diversity is an advantage to the company and is an integral part of its social responsibility.

(Source: With inputs from *Human Capital*, April 2009, pp 16–18).

- KFC experienced phenomenal success when it introduced its kosher line of chicken menus in Israel.
- GE Power Systems achieved 13 per cent productivity gains from cross-functional and multicultural teams versus homogenous teams.
- Numerous empirical studies of work teams demonstrate that when tasks are complex and not clearly defined, heterogeneous teams outperform homogeneous teams. ‘Super teams’, those that were diverse in numerous respects and selected because of their differences, outperformed those that were homogeneous.³
- “Unlike other MNCs, diversity for us is a business imperative and not an issue of legal compliance. We want HUL’s management to be representative of our diverse customer base so that they understand the needs of the customer better. If a manager understands the brand she is handling, the learning curve is that much shorter. For instance, in marketing, if the target audience is women, it is an advantage if a woman is in charge of the brand,” says Prem Kawath, HR Manager, HUL.⁴
- A majority of HUL customers are women but till 2000 women constituted only 5% of its management. Alarmed by this fact, the company put in place a plan to aggressively hire more women. It looked at companies like ICICI and IBM, which had a far better representation of women in their workplaces. HUL started several initiatives like a six month fully paid maternity leave as well as a 5-year sabbatical. It also grants maternity leave in case of adoption. The results are beginning to show. Today the number of women in HUL has gone up to 16 per cent.
- At IBM many women now have full time jobs working from home. Male managers at IBM are sensitised not to schedule meetings after 6.30 pm. IBM India now has 26% women in its work force.
- DuPont makes sure that for every job opening there is at least one woman candidate in the short list.
- At Wipro, managing diversity means accommodating people of different backgrounds and work experiences. Wipro has 1500 people of

nationalities as diverse as Portugal, Austria, Sweden and Finland in its work force.⁵

The fact that mismanaging diversity shall result in dysfunctional consequences should not be ignored. When not managed effectively, diversity tends to lead to higher turnover, heightened interpersonal conflict and more difficult communication.

Impact of Globalisation Our economy is gradually getting integrated with the global economy. Globalisation has considerable influence on HR functions. Employee hiring, training, motivation, compensation and retaining are to be guided by the global perspective. By discharging these and other functions effectively and by helping the best-qualified people execute the company's strategy on a global scale, the department can become a source of competitive advantage for the company.

As every advanced nation is increasingly becoming globalised, skills and cumulative learning of its workforce become its competitive assets. All developed countries can design, produce, and distribute goods and services with ease and speed. Every factor of production, other than workforce skills, can be duplicated anywhere in the world. Capital moves freely across national boundaries, seeking the lowest costs. State-of-the-art factories can be erected anywhere. The latest technologies move from computers in one country, upto satellites parked in space, and back down to computers in another nation—all at the speed of electronic impulses. It is all fungible—capital, technology, raw materials, information—all except for one thing, the most critical one, the element that is unique about a nation— its workforce.

A workforce that is knowledgeable and skilled at doing complex things keeps a company competitive and attracts foreign investment.⁶

The benefits between globalisation and workers are mutual. In fact, the relationship forms a virtuous circle—well-trained workers attract MNCs, which invest and offer workers good jobs; the good jobs in turn, generate additional training and experience.

Globalisation has implications on the way HR activities are being organised as [Chapter 26](#) shows.

Technology

J.K. Galbraith defines technology as a systematic application of organised knowledge to practical tasks. During the last 150 years, technology has developed beyond anybody's comprehension. Science and technology (former refers to pure knowledge and the latter to application of knowledge for practical purposes), enabled man to overcome distances; control birth rate; save lives; generate, preserve and distribute energy; discover new materials to substitute existing ones; introduce machines to do the work for humans; substitute mental work with computers; unravel the mysteries of the seas and the space; and provide himself with a lot of leisure and comfort in the process.⁷

How does technology affect HR functions? Skill building in employees is of considerable significance. When technology changes and new technology is being adopted, employees need to be trained in the ways of handling operations and machines. There has been no time in the past where upgradation of technical skills was more important than it is today. Gone are the days when employees use the same skills and equipment to perform their jobs for decades at a time.

For employees who are trained in new skills, opportunities are aplenty. The last decade had thrown open numerous job opportunities for people trained in information technology.

Job holders become highly professional and knowledgeable. An organisation which has adopted the latest technology is flush with engineers, IT professionals, MBA's, college graduates and highly skilled employees.

Though such an organisation can boast of a progressive and modern outlook of its personnel, the problems faced are serious, to say the least. Motivating such employees, for instance, is a difficult job. Such mundane incentives as attractive remuneration, job security and just treatment hardly inspire the enlightened employees to work more or harder. They are, instead, motivated by opportunities which offer challenges, achievement and growth. Further, retaining such employees for long is a difficult job. Being cosmopolitan in their outlook, these professionalised employees are known for organisational rootlessness and job hopping. The company has to make several allowances to discourage rootlessness. Regular attendance and punctuality have to be relaxed; dual promotion ladders have to be established so that distinguished technical people can rise in their ranks; profit sharing to

be provided to give creative persons a financial stake in the ideas they create; participation in professional get-togethers needs to be sponsored; writing of professional articles must be encouraged; foreign jaunts need to be allowed; and ‘moonlighting’ has to be tolerated. Another problem relates to, what Galbraith calls, ‘technostructure’ which is a composition of scientists and technicians in an organisation. The technostructure tries to control the organisation by influencing the management’s decision making. While there may be nothing wrong in making decisions prompted by the technostructure, the problem lies in the social effect that is involved. People constituting the technostructure are experts, no doubt. But they are more action-oriented and are yet to learn social problems arising out of business decisions. The management is, therefore, in a tight position trying to balance the ruffled feelings of technocrats and the social consequences of business decisions.

More specifically, the main use of technology in HRM is an organisation’s human resource information system (HRIS). An HRIS is a computerised information package that provides management with increasing capacity to record, store, manipulate and communicate information widely, with access to many users. Some organisations store their data in a mainframe linked to personal computers; others use a decentralised network system with smaller computers at work stations in various functional areas. (For more details on HRIS, refer to [Chapter 4](#) on Human Resource Planning).

Technological change has resulted in hierarchical distinctions being blurred and more collaborative teams work where managers, technicians and analysts work together on projects. Similarly, technology has created more flexible, dynamic organisation structures that facilitate change and adaptation to variations in the external environment. These alternative structures take the form of unbundled corporations, autonomous subsidiaries or smaller, streamlined units designed to be more responsive to changing customer needs and competitive pressures.⁸

Technology has also facilitated the relocation of work from the office to the home. Telecommuting programmes offer attractive and significant benefits for both employers and employees. They also make it more viable for employees to live farther away from cities and allow employers to broaden their applicant pools.⁹

Likewise, technology also makes it viable for organisations to locate away

from cities in more suburban and even rural areas where rent, wages and other costs of doing business are relatively less.

That technology facilitates employees work from home, has negative side also. A typical workaholic will now have access to work 24 hours a day. There are always individuals who are not good at balancing work and daily life. When people are able to work all the time, some workers will abuse the situation and suffer from burnout.

The Internet has revolutionised one's ability to access technology. Many firms use company-specific 'intranets', to establish home pages that allow employees to read current job postings and even apply for the positions on-line. Equipped with only a PC and a modem, managers can take advantage of on-line services designed especially for HR departments. [Chapter 27](#) in this book deals exclusively with e-HR.

With constant advances in technology and work processes, firms are under intense competitive pressure to implement more efficient means of operations. However, the financial considerations of whether to adopt a new technology must be balanced with a number of HR strategic issues as shown in [Fig. 2.2](#). The box on the left side contains strategic business issues. HR strategic issues are shown in the box on the right side. Obviously, technological initiatives need to be balanced from a holistic perspective that transcends the sole consideration of economic costs.¹⁰

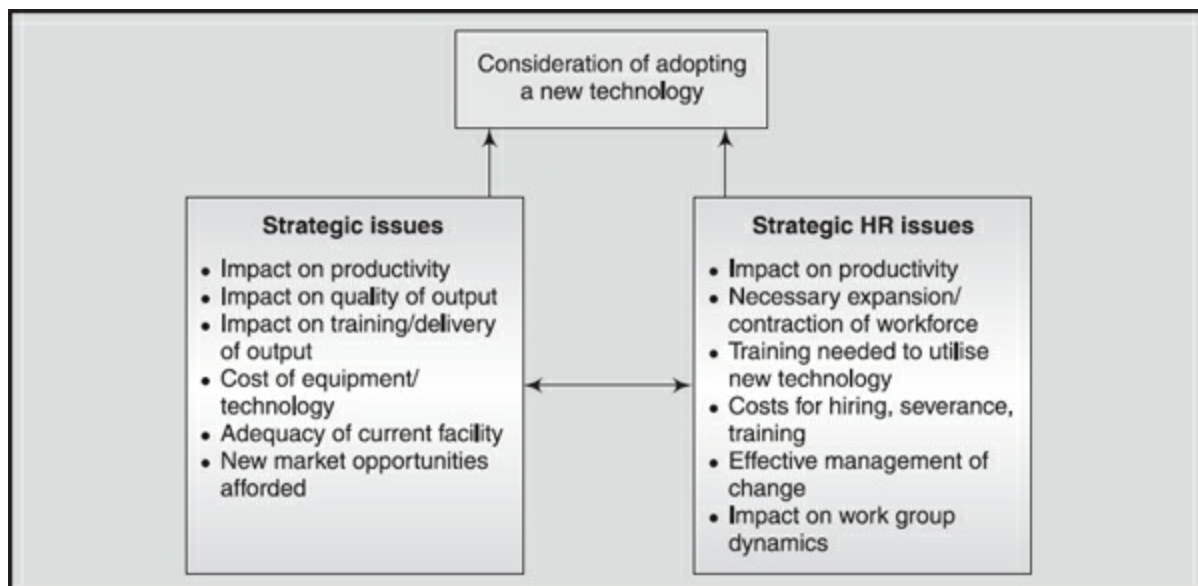


Fig. 2.2 HR Issues for Integrating New Technologies

Source: Jeffrey A. Mello, *Strategic Human Resource Management*, p. 39)

Following are the additional ways of describing the impact of technology on HRM:

- Creating and sharing of knowledge, leading to greater levels of intellectual integration.
- Reduction in the costs of HR services and facilitation of HR practitioners to focus more on strategic and change management concerns

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• Be the ears and eyes of the organisation while scanning the environment• Keep the organisation informed of competitor's information obtained through interactions with recruiters, job seekers, consultants and professional networks• Be key promoter of diversity and constantly look out for ways to promote it• Actively participate in professional forums and networks so that you are updated of contemporary practices.	<ul style="list-style-type: none">• Be seen as the one who always carries negative views and news about others• Forget to know and remember names of clients and customers• Be caught off-ground on technological trends sweeping across your industry• Forget that one size never fits all. Each is unique and is different from others

- Supporting individual and organisational learning
- Supporting innovative business models and participative organisational cultures
- Creation of new forms of community at work and new forms of organisations

HR professionals need a knowledge base about the current technological

possibilities and a general vision about the role that technology might play in their firms. With this knowledge, they will be able to add value to strategic decisions that involve technology.¹³

Pause and Ponder

Technology robs jobs. What are your views on this? How true is it?

Cultural Forces

Culture refers to the complex whole which includes knowledge, belief, art, morals, laws, customs and other capabilities and habits acquired by an individual as a member of a society.

How Does Culture Influence the HR Function? In the **first** place, culture creates the type of people who become members of an organisation. Culture trains people along particular lines, tending to put a personality stamp upon them. Thus, we have Indians, Japanese, Americans, Britishers, Germans and so on. It is not that all people are alike in a particular culture. There are sub-cultures within a culture. For, people have their own idiosyncracies and are influenced by heredity, cultural experiences, subcultural experiences, family experiences and unique personal experiences.¹²

When people with different cultural backgrounds promote, own and manage organisations, they themselves tend to acquire distinct cultures. Thus, the culture of the Tata group of companies is different from that of the enterprises owned and managed by the Birlas. The culture of these groups of companies differs from that prevailing in the new-economy firms.

Secondly, the attitude of workers towards work is the result of their cultural background. In this respect Indians score over others. For Indians, work is not means of living—it is equated with god. A typical machine/computer operator, a bus/truck driver, a rickshaw puller, a shopkeeper or any body who is engaged in some work does not start a machine, drive a bus, pull a rickshaw or open the shop before closing his eyes, for a few seconds, in the worship of god. The occupation one is engaged gives him/her not only livelihood. It gives him/her status in society

and standard of living. No wonder, Indians are committed to work and loyal to organisations. They equate their welfare with the prosperity of the organisations in which they are employed.

Thirdly, time dimension, which influences HRM, has its roots in culture. Time orientation refers to people's orientation—past, present or future. In some societies, people are oriented towards the past. In others, they tend to be more focussed on the present. Still others are futuristic in their outlook. HR professionals in societies that focus on the present, care more for employees on the rolls. Employees are hired and maintained as long as they are useful to the organisation and are dispensed with once they cease to be so. Employee training and development, job security, social security and loyalty to the organisation are unusual. The American society is an example of this. Japan is an example of a futuristic society. The Japanese have long-term future-oriented time horizons. When Japanese firms hire employees, they are retained for a long time, and there is a strong, mutual commitment on both sides. Societies oriented towards the past tend to preserve the acquired heritage. Concepts and actions of the past continue to guide current plans and strategies.

Fourthly, work ethics, achievement needs and effort-reward expectations, which are significant inputs determining individual behaviour, are the results of culture. The word *ethics* is associated with moral principles. In the context of an organisation, ethics implies hard work and commitment to work. A strong work ethics ensures motivated employees whereas the opposite is true when work ethics is weak.

Achievement needs, too, have a behavioural implication. A person with a high need to achieve tends to seek a high degree of personal responsibility, sets realistic goals, takes moderate risks and uses personal performance feedback in satisfying his or her need to achieve.¹³

It is too well-known that a perfect match between *effort* and *reward* will produce better performance from an individual. When the individual perceives that he or she has been treated unfairly, the performance suffers. This phenomenon is the result of culture.

Fifthly, what is ethical and what is unethical behaviour is decided by culture. Discrimination in employment against women is reprehensible in some societies, but the same is an accepted practice in other countries.

Societies which believe in ethical relativism tolerate discriminations. For them, an unethical act is justified when consequences of such behaviour result in greatest good for greatest numbers. Instead, societies which are guided by ethical universalism have well defined norms. An unethical act is so irrespective of the situations.

Acts as the following will be judged as ethical or not depending on whether one is guided by ethical universalism or ethical relativism.

- The HR executive of a Bangalore based software firm has been instructed to exit 112 middle level managers in the next three months, whose performance has been rated 'C' & 'D'. No prior notice to be served, and worse those unfortunate souls should be asked to run around for days to settle their retirement benefits.
- The HR head of poly fibre plant located in Harihar, Karnataka, was advised to underrate the performance of at least 40% of the employees, so that they can be exited. The HR manager picked up newly hired brilliant engineers to reach the target. The hapless youngsters were given marching orders, though their performance was excellent.
- The name of an young man working in a software company based in Bangalore was taken off from the awardees' list in the last minute. Next day morning happens to be the day of celebrations. The crime that the bright software engineer committed was that he did not attend a late night party where the boss was one of the diners.

Sixthly, HR practices like centralised vs. decentralised decision-making, flat or tall structures, reporting relationships, transparency in systems, communication channels, rewards and punishments and the like are impacted by cultures. In high power distance societies, for example, organisational structures tend to be tall, communication is indirect, and distance between boss and subordinates is long.

Finally, culture makes people confine themselves to certain occupations and regions. Workers employed in coffee estates or tea plantations in Malnad region cannot probably work in places like Bangalore. Their food habits, dress sense, language and the physical labour they put in—all seem to have been contrived to make them fit to work in such places. A drive through the Malnad region in the month of July makes you feel sorry for the labour employed in estates. For kilometers, there are no human beings but suddenly you notice a tiny structure in an estate where two or three people live. With

heavy rain and no electricity, it is an eerie environment. But they are not sorry to live there. Their culture has made them adjust to work and stay there comfortably. Similar is the story with miners working in Singareni Coal Mines, or those employed in diamond cutting units at Surat in Gujarat.

While examining the impact of culture on HRM, we have taken macro perspective of values and norms. However, there is the micro perspective which wields equally significant impact on HR activities. We refer to the organisational culture the impact of which will be explained later in this chapter.

Professional Bodies

As was pointed out earlier, the impact of the apex body, National Institute of Personnel Management (NIPM), on HR experts is minimal. The body has not been able to prescribe its accreditation as a prerequisite for HR practitioners. In fact, it has not even prescribed a minimum academic qualification for an HR professional. Its record of contribution to relevant policy making, participation in tripartite fora, and authority to morally bind its members to certain basic professional values is less.¹⁴

Yet, the role of NIPM in supplying academic inputs to HR professionals is not to be ignored. Periodic training programmes, seminars and conferences are organised by NIPM for the benefit of HR experts. NIPM offers post-graduate diploma in personnel management. The diploma is recognised by the Government of India for the purpose of recruitment to superior posts and services under the Central Government, and by the governments of Andhra Pradesh, Karnataka, Kerala, Rajasthan, West Bengal, Goa, Bihar and Tamil Nadu as an accredited qualification for appointment of welfare officers as per the Factories Act, 1948. The NIPM has laid down a code of ethics (see Exhibit 2.2) and the HR practitioners are expected to declare their allegiance to the code.

Exhibit 2.2 Code of Ethics

As a member of the National Institute of Personnel Management, I Declare that I shall:

- Subscribe to the aims and objects of the National Institute of Personnel

- Management and be bound by its Constitution;
- Recognise and accept the dignity of an individual as human being, irrespective of religion, language, caste or creed;
 - Maintain high standard of integrity and behaviour demanded by the profession;
 - Conduct myself as a responsible member of the management team committed to the achievement of the organisational goals;
 - Take keen interest in the establishment of healthy personnel practices and development of the profession;
 - Try to win confidence and gain respect of the employers and employees and make myself available to them to provide formal and informal intervention to resolve industrial conflicts;
 - Endeavour to enhance the good name of my profession in dealing with other professional bodies, government departments, and employers' and employees' organisations;
 - Cooperate in maximising the effectiveness of the profession by exchanging freely information and experience with other members;
 - Not allow any interest other than professional to interfere with my official work;
 - Not interfere with the right of association of the employees;
 - Not disclose any information of a confidential nature that I may acquire in the course of my professional work without obtaining the consent of those concerned and shall not use confidential information for personal gains;
 - Not accept or offer any improper gratification in any form or manner whatsoever in connection with or in the course of my professional work; and
 - Not take or acquiesce in any such action which may bring the Institute and/or the profession into disrepute.

The code is useful inasmuch as it reminds HR people about their ethical obligations towards the employees, organisation, government, profession and society.

Pause and Ponder

Cultural convergence has resulted in tastes, thoughts, beliefs and feelings becoming identical across cultures, just as globalisation has brought out economic integration of nations. Do you think that cultural convergence will wipe out people's identity and cultural moorings?

INTERNAL FORCES

In addition to the external forces, there are factors internal to the organisation which influence HR activities. Unlike the external forces, where HRM has no control, internal factors are within its influence. Prominent internal forces are: **(i)** strategy, **(ii)** task, **(iii)** leadership, **(iv)** unions, **(v)** management, and **(vi)** organisational culture and conflicts.

Strategy, Task and Leadership

A *strategy* indicates the direction in which an organisation moves. As a plan, a strategy takes the organisation into the area of competition in environment and into alignment with the resources of the firm. For example, early success of Infosys was due to high alignment of its strategy, structure, people and management.

Some companies believe that long term success is more important and towards this objective they invest more in human resources—in terms of employee training, safety, security, welfare and harmonious industrial relations.

Task is a work that an employee is expected to do. Several tasks constitute a job. When we describe task here, we keep the job in mind because an employee holds a job and through that he or she discharges tasks associated with it.

Task has implications on employee motivation and satisfaction. Several job characteristics such as skills required, task significance, autonomy and feedback of results have motivational effects. In fact, impact of job on employee motivation is so significant that Herzberg advocated the concept of job enrichment.

Employees derive satisfaction from the jobs they occupy. Jobs give them opportunities to put their talents to use and work for organisational growth.

Often, altruistic deeds and not monetary incentives alone, keep employees satisfied with their jobs.

How do these job factors affect HR decisions? They obviously affect hiring, since employees will be highly motivated and satisfied if their preferences are met. In reality, few jobs match all the preferences. When jobs are difficult the HR manager needs to provide additional incentives (e.g., more pay) because few people prefer such jobs.

It is the *leader* who matters in any functional area of business. HRM is no exception. Leader must orchestrate the distinctive skills, experiences, personalities and motives of employees. He/she also needs to facilitate interactions that occur within work groups. A leader provides direction, encouragement and authority to evoke desired behaviours. A leader chooses right people and motivates them to consistently strive towards making them overreach themselves. Leadership involves catalyzing the learning process among followers, as well as creating the environment that contributes to improved performance. The leader is an important source of knowledge about the tasks, the organisation, and the HRM policies, programmes and goals. The experience and style of a leader will influence which HRM programmes are communicated, implemented and effective.

Unions

Unionisation as an external factor was examined earlier. The same has been included here as an internal environment. This is justified because a firm's personnel activities will be influenced by its own union(s) as well as the unions of other plants.

A trade union may be understood as an association of workers or management formed to protect their own individual interests. The role of a union is too well-known, not needing any elaboration here. All HR activities—recruitment, selection, training, compensation, IR and separation—are carried out in consultation with union leaders. The role of unions becomes pronounced when a new wage agreement needs to be signed. Generally, a wage agreement has a life of three years. After the expiry of one agreement, a new one needs to be reached. It nearly always results in a civil war between the management and the union leaders before reaching a new agreement. Negotiations are spread over months, where tempers are frayed, mouths are

fouled, works are stopped, executives are assaulted (the late N.P. Godrej and Roy J. George of Pricol, for example), buses are burnt, properties are damaged and when differences narrow down, and demands are met it is camaraderie as usual, *a la* the immediate aftermath of heavy rains. The day when both parties sign the agreement is a day for hitting the headlines in major newspapers as well as a day for celebration.

Few organisations are lucky to have one union. Encouraged by ideological rifts, personal ambitions of leaders, craft divisions among workers and often the management's myopia, the organised labour movement has been splitting and there are multiple unions. The Bokaro Steel plant, for example, has 68 trade unions and Calcutta Corporation has about 100 of them.

There are exceptions however. There are organisations which are non-unionised, for example Jindal Aluminium and Khoday Distilleries, both Bangalore-based, others with single union and so on. Hindalco does not have unions as is the case with most new-economy firms such as WIPRO and Infosys.

Which is a recognised union? What is the membership of each union? With whom are we to negotiate? How about collective bargaining? These questions cause real headache to an IR manager.

The sad part of the story is that most unions are affiliated to all India federations, which have their own political linkages. The HR manager, therefore, has an outside force, namely, the politicians to reckon with.

Non-unionised organisations may appear to be the luckiest, but they too have problems. To retain the flexibility of a non-union status, personnel departments implement compensation policies, hours of work and working conditions similar to those found in unionised operations.¹⁵

Personnel policies are determined by the top management's directive where unionisation is discouraged, no matter what the cost is.

It is not that the unions and their leaders are always negative in their approach and activities. There are occasions where they played a very positive and highly constructive role. One such instance is the role of union leaders in privatisation of public sector undertakings. The sale process of government undertakings has been fairly smooth and successful thanks to the cooperation extended by leaders of unions affiliated to CPM, BJP, and other political parties. It is a pleasant experience to read the compliments paid to

union leaders by an authority on disinvestment, in his book. The author went to the extent of acknowledging the participation shown by Mr. Sanjiv Reddy, president of Indian National Trade Union Congress to the disinvestment process.

Pause and Ponder

Unions are no more their former selves. Their memberships have fallen, their relevance has gone to the wind, their clout is dissipating. Why all these?

Organisational Culture and Conflict

Every organisation, as mentioned earlier, has its own culture. Organisational culture is the product of all the organisation's features—its people, its successes, and its failures. Organisational culture reflects the past and shapes the future. It is the job of HR specialists to adjust proactively to the culture of the organisation. For example, objectives can be achieved in several acceptable ways. This idea, called *equifinality*, means there are usually multiple paths to reach objectives. The key to success is picking the path that best fits the organisation's culture.¹⁶

In every organisation, a few core values or beliefs shape its culture. 'Get the best people and set them free' was the spirit of the late J.R.D. Tata and this belief shaped the culture of the Tata conglomerate. L&T is known for its professional approach, while competitive spirit is imbibed by every executive and employee of the Reliance Industries. IBM is known for service, whereas product innovation is the hallmark of GE. Effective HR practitioners identify the core beliefs or values of their organisations and strive to further those values.

There is often conflict between organisational culture and employee's attitudes. Conflict arises because of the following dualities:¹⁷

- Personal goal vs organisational goal
- Personal ethics vs organisational ethics
- Rights vs duties
- Obedience vs self-respect

- Discipline vs autonomy
- Self-confidence vs arrogance
- Actualisation vs aggrandisement
- Authority vs accountability
- Leadership vs followership
- Delegation vs abdication
- Participation vs anarchy
- Feedback vs abuse
- Cleverness vs wisdom
- Grooming vs pampering
- Doing vs becoming
- Material benefit vs spiritual loss
- Change vs stability
- Greed vs renunciation
- Short-term vs long-term

The above are not hypothetical conflicts, they occur daily in organisations. HR departments are expected to develop and enforce policies in these areas.

Management Attitude of the management towards HR functions is a major internal factor. Should the organisation have a HR department? If yes, what should be its status? Should the HR manager be treated on par with other functional heads? Has the management realised the fact that people lend competitive advantage to the organisation? Can people activities be outsourced, instead of maintaining in-house HR department? Answer the questions as these speak about the composition, recognition, status and decision-making power of the HR professionals.

Pause and Ponder

A common belief is that the HR function is responsible for moulding the organisational culture. How far is this belief true?

KNOWING THE ENVIRONMENT

The environment often provides a mass of ambiguous information. What to

make out of the information? What to accept and what to reject? To answer these questions, three related concepts are relevant: **(i)** the *enacted environment*, **(ii)** the *domain* and *domain consensus*, and **(iii)** the *task environment*.¹⁸

Enacted Environment

An organisation seeks to create its own environment out of the external environment. The environment which the organisation creates is called *enactment*. Enactment implies that the organisation creates a relevant environment for itself by aggressively scoping, narrowing and scanning the external environment. In effect, the organisation creates the environment to which it reacts. It does not react to the entire environment.

There is a danger in the enacted environment. An organisation may define its environment so narrowly that it is likely to ignore significant forces that may affect its fortunes. For example, very few organisations monitored the Organisation of Petroleum Exporting Countries (OPEC) in the early 1970s and were taken completely off-guard by the oil embargo and steep price hike of oil during 1973 and 1974. Since then, of course, OPEC actions have been closely monitored. Same is the case with auto-manufacturing companies. GM and other US auto manufacturers initially believed that overseas competition from the Japanese companies would not be a formidable force on a long-term basis and they only casually monitored these competitor's actions. They were more concerned with monitoring the actions of one another. On the other hand, the Japanese auto makers were intent upon studying the American auto makers. In order to get a closer look, many Japanese companies entered joint ventures with their American counterparts. As history tells us, the Japanese had the last laugh.

The positive benefit of an enacted environment is that it makes an organisation to become *proactive* in its approach in dealing with its environment. The organisation takes an active and aggressive role in actually defining its environment. On the other hand, a *reactive* approach implies that the organisation is not aggressive, but merely reacts to its environment. It does not define its environment, but instead allows important factors in the environment to define it.

Domain and Domain Consensus

The *domain* is that part of the environment which the organisation carves out for itself. The organisation delineates its own territory out of the environment.

The delineated territory comprises the range of products offered, population served and services rendered. The organisation focuses its efforts on these three areas while paying less attention to other areas.

As is well-known, an organisation has many stakeholders—owners, employees, customers, government, public, suppliers and lenders. *Domain consensus* is formed when all these stakeholders agree upon the *domain* of the organisation.

When domain consensus is not reached, conflicts can arise regarding parts of the environment which should be monitored. This conflict causes confusion and backbiting, when the company is blindsided by an unexpected occurrence from a poorly monitored sector.

Task Environment

Task environment represents the third concept related to knowing the environment. This significant portion of the domain has the greatest impact on an organisation's goals because it includes all groups that can influence the organisation. Specifically, the task environment specifies the range of products to be offered, the technology to be employed, and the proactive strategies to be used to counter competition. The task environment for Hero Honda, whose market share dwindled from 35 per cent in 1993 to 29 per cent in 1996, has begun to expand its capacity. With new capacities being added through its new plant at Dharuhera at a cost of ₹172 crore, the company is busy in launching new models.

SCANNING THE ENVIRONMENT

Environmental scanning involves general surveillance of the environment to determine trends and projections of factors that will affect the fortunes of the organisation. The scan focuses on the firm's task environment. Elements outside the task environment are not ignored, but are paid less attention.

Environmental scanning focuses on task environment. HR department is in the best position to scan environment (task). HR department obtains environmental information and feeds it to key decision makers.

Scanning is done to prevent information overload for decision makers. It should focus on providing relevant information for planning and decision making.

With regard to HRM, the relevant areas to be scanned for planning and decision-making are the labour market, legal environment, constitutional provisions and technology. This does not mean that other elements, such as globalisation, should be ignored. But it does mean that the four factors identified tend to have a major impact on HR decisions. If a company has overseas operations, these four factors in other countries of operations need to be examined.

Figure 2.3 summarises the concepts of domain, domain consensus, task environment, and enactment. Note the enactment and scanning processes result in a narrow or focusing of the external environment.

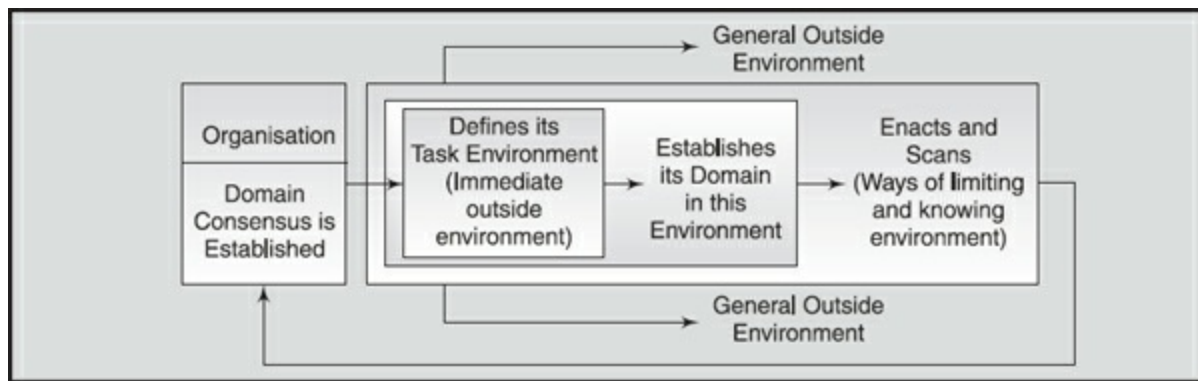


Fig. 2.3 *Organisations Enact and Limit the Environment*

Source: William P. Anthony, et al., *Strategic Human Resource Management*, Dryden Press, 1993, p. 64.

HRM AND ENVIRONMENTAL SCANNING

The HR department is in the best position to scan the environment for human-resources and labour-market issues. HR department obtains

environmental information and feeds it to key decision makers. In fact, the department may play a major role in making the decision. The department also has the responsibility of obtaining internal organisational information for consideration by strategic decision makers.¹⁹ But the role of the HR department is confined to a *boundary spanning* role in that it helps link the organisation to its environment through environmental scanning.

SUMMARY

The environment of HRM comprises both external as well as internal forces which have their impact on the practitioners of the profession. The external environment includes political-legal, economic, technological and cultural factors. The internal environment consists of unions, organisational culture and conflict. The study of the environment enables HR experts to become proactive in their approach to personnel aspects.

KEY TERMS

Achievement needs
Equifinality
HRM environment
Organisational culture
Proactive actions
Social amalgam

REVIEW QUESTIONS

1. What do you understand by HRM environment? Why is the study of HRM environment useful for HR managers?
2. Outline the impact of political-legal, economic, cultural and technological factors on HR function.
3. How do trade unions, organisational culture and conflict, and HR professional bodies influence an HR department?

DISCUSSION QUESTIONS

1. Discuss HRM and its environment with suitable illustrations.
2. Name an organisation with which you are familiar. How is its culture different from the organisational culture discussed in this chapter?
3. Describe how a proactive HR department would cope with the entry of MNCs.
4. What is the purpose of a code of ethics, such as the one suggested by NIPM? Can you suggest any deletion/addition to the code?
5. How can the role of NIPM be made more effective?
6. Going back to the opening case, what would you do if you were the CEO?

CONTINUING CASE

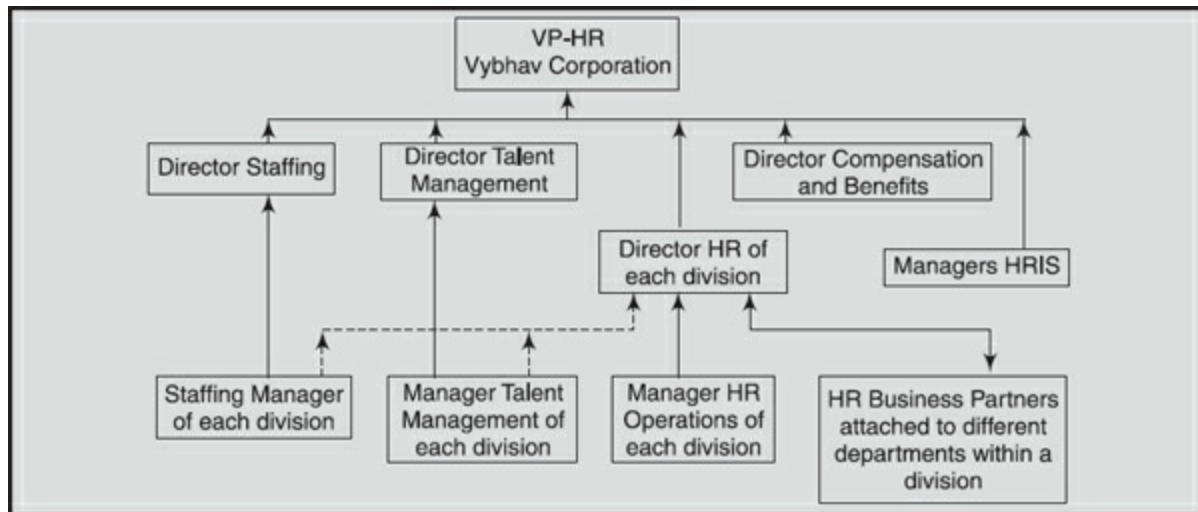
It was five years ago that Corporate HR function of Vybhav was re-structured to its present hierarchy. The HR structure was designed to meet needs of the organisation. There was a need for better HR governance across the various divisions and rationalise the HR spend as well as be able to have single HR vision and mission. The HR structure was rationalised as follows:

The fundamental change to the structure was the change in the matrix reporting. The center of excellence (COE) functions like staffing and talent management rolled up to the COE Directors with hard line functional and dotted line to the HR Directors at an operational level. This change in reporting ensured better alignment with the Vybhav corporate objective of optimising talent management practices across the business units.

A lot of this change was sponsored by the top management team of Vybhav. The benefits of being able to leverage the scale of knowledge from across business units and industries was seen as directly impacting organisational efficiencies through building a high-performance culture and enhanced employee satisfaction. Each COE strategised together and discussed/brainstormed on challenges that were faced by a business unit, and it was the responsibility of each division's COE to go back to the division's HR team and discuss and implement the strategy. This HR structure allowed the teams to build a COE based mission, as bellow which was drafted by the top management team:

- Share information and resources more effectively between the divisions.
- Craft an overall talent strategy for Vybhav Corporation.

- Be able to use a scalable process/method to map competencies and identify skill gaps.
- Create strategic succession plans to develop talent and skills to establish and maintain a high-performance culture.
- Free up resources to focus on high-level talent management strategies.



To improve HR operational efficiencies, Renny decided to invest in a single HRIS that would make HR information consolidated and centrally available in addition to being able to drive the core HR activities like the payroll processing, recruitment, performance management system, competency based career planning and the like.

EXERCISE

Remain in the groups that you formed for the previous chapter. For the company that you identified, collect information on the external and internal HR related challenges it faces. It could be generic industry challenges or specific and related to close competitors. Deliberate within your group to make reasonable assumptions. Refer closely to the text and confine your findings/assumptions to the theory in the chapter.

Fill the following grid and share in the classroom. Invite open discussions for better understanding.

External Forces	Political-Legal	Economic	Technological	Cultural Forces
Internal Forces	Strategic Tasks and Leadership	Unions	Organisational Culture and Conflict	Management

Closing Case

When the English writer George Orwell wrote his dystopian novel *Nineteen Eighty Four*, way back in 1949, he couldn't have seen the coming of an industry called business process outsourcing. His concerns in the novel were deep, dark and geopolitical in nature. Fears of an Orwellian world might have come to an end with the death of communism, but the Indian BPO industry is turning into a mini Orwellian eco-system, with Big Brother lurking everywhere you turn.

At an audit and advisory firm such as KPMG, you would expect to find bean counters and suits. But sleuths? The company's forensic services practice, which offers pre-employment screening, background check and fraud investigation services to a large number of BPOs, has witnessed its revenues skyrocketing in the last two years. Its 60-people team includes five senior former CBI and IB officers. A few months back, KPMG's crack team solved a case where an employee of an Indian BPO was helping a bunch of UK-based fraudsters manipulate bank accounts to the tune of several million dollars. Once the data analytics team spotted unusual credit repair patterns, the investigators put suspected employees on surveillance, tracked their system login history and conducted a series of interviews before zeroing in on the culprit.

According to Deepak Sanwalka, executive director, (forensic advisory services), KPMG, organised crime groups in US and UK target BPO employees to carry out frauds. “Our investigative resources are as good, and sometimes better than those of law enforcement agencies. We are usually a step ahead of the police investigations”, he says. Such forensic teams are a mix of former sleuths and cops who have a good understanding of crime, and auditors and bankers who have the ability to go through the nitty-gritty of numbers. Similarly Pricewaterhouse Coopers (PwC) unearthed a case recently where a departmental head at a BPO was leaking client data to competitors. “We covertly took charge of the computers that were suspect, went to the service providers to provide information about the users, and later ran forensic software on them”, explains Sumit Makhija, associate director, dispute analysis and investigations wing, PwC.

After a series of back-to-back interviews conducted by its team of ex-intelligence officers and bankers, with more than five suspects, the offender, who was passing on proprietary information and corporate plans, was nabbed. Client confidentiality and secrecy of the data related to their customers being paramount, the first brush with Big Brother occurs in the form of pre-employment screening and background and criminal check, as soon as a candidate applies to work at a call centre.

Although it sounds like a logistical nightmare, nearly every candidate who applies for a job with some of the larger BPOs in India has his or her antecedents checked by the companies. “Data security, more than anything else, gives Indian BPOs sleepless nights”, says Sanwalka, KPMG, which has around 30 BPO clients, carries out background checks on nearly 4,000 people every month. That includes verifying the educational qualifications mentioned by the candidates by checking with the concerned universities, residential address verification, and working along with the police to check if the candidate has a criminal record.

Interestingly, this has spawned a new revenue stream for universities, who have begun charging a fee from these agencies for verifying the academic records of their former students. Each verification could cost the BPO firms anything between ₹3,000 and ₹10,000. The checks also require 14 days to a month to execute, “There is an increasing tendency these days to misrepresent personal and career information. Every one in six applications that we check has some kind of false information. Checks

ensure that reputation risks are mitigated”, says Ashish Dehade, MD, First Advantage Corporation India, a global risk mitigation and employment screening firm. “There is a huge fear of data leakage in the West, and India is a very important outsourcing destination. So we need to ensure that clients feel secure doing business with us”, adds Ashu Calapa, head HR, Firstsource, which completely outsources background check to third party agencies such as First Advantage and Authbridge.²²

Questions

1. What environmental factors have contributed to the turning of Indian BPO industry into an Orwellian eco-system?
2. What legal system do you suggest to check fraudulent practices in BPO industry? Do you think that the present judiciary system, as it is now in place, is adequate to check such practices?

REFERENCES

1. Case contributed by Arvind G. Risbud, I.A.S., Formerly Registrar of Bangalore University.
2. Suzanne C. de. Janasz, *et. al.*, *Interpersonal Skills in Organisations*, McGrawHill, 2002, p. 146.
3. *Ibid.*, p. 148.
4. *The Economic Times*, dated, August 15, 2003.
5. _____ Jan. 23, 2007.
6. Wayne F. Cascio, *Managing Human Resources*, McGraw-Hill, 1995, p. 14.
7. David R. Hampton, *Contemporary Management*, McGraw-Hill, 1981, p. 117.
8. Jeffrey A. Mello, *Strategic Human Resource Management*, p. 40.
9. Pradip Baijal, *Disinvestment in India—I Lose and You Gain*, Pearson 2008, p. xiv.
10. Dave Ulrich and Wayne Brockbank, *The HR Value Proposition*, The Harvard Business School Press, p. 27.
11. Jeffrey A. Mello, *op. cit.*, p. 38.
12. Elbert W. Steward and James A. Glynn, *Introduction to Sociology*, p. 53.
13. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, McGraw-Hill, 1994, p. 50.
14. William P. Anthony, *et. al.*, *Strategic Human Resource Management*, Dryden Press, 1993, p. 61.

15. *Ibid.*, p. 51.
16. S.K. Chakraborty, *Managerial Transformation By Values—A Corporate Pilgrimage*, Sage Publications, 1993, p. 23.
17. C.S. Venkata Rathnam and B.K. Srivastava, *op. cit.*, p.7.
18. *Ibid.*, p. 64.
19. *Ibid*, p. 66.
20. T.R. Vivek, “Big Brother is Watching”, *The Economic Times*, Jan 26, 2007.

Integrating HR Strategy with Business Strategy

Learning Objectives

After reading this chapter you should be able to:

- Understand the nature of strategic management
- Describe the strategic management process
- Integrate HR functions with the strategic management process
- Identify typical HR strategies
- Explain the three approaches to HR strategies

Opening Vignettes

The Coca-Cola company is the most successful MNC. With operations in as many as 200 countries and nearly 80 per cent of its revenue coming from foreign operations, Coca-Cola is typically perceived as the quintessential global corporation. This US-based company believes in “thinking global but acting locally”, and this strategy guides the cola giant’s management of cross-border operations. It grants national business the freedom to conduct operations in a manner appropriate to the market. At the same time, the company tries to establish a common mindset that all its employees share.

The corporate HRM function is charged with providing the glue that binds all the divisions (there are 25 operating divisions) into the Coca-Cola family. The corporate HRM achieves this in two main strategies: (i) by propagating a common human resource philosophy within the company, and (ii) by developing a group of internationally minded mid-level executives for future senior management responsibilities.

The corporate HRM group perceives its mission as one developing and providing the underlying philosophy around which local businesses can develop their human resource practices. For example, rather than having a standard salary policy for all its subsidiaries, Coca-Cola has a common salary philosophy – the total compensation package should be competitive with the best companies in the local market. Twice a year, the corporate HRM group also conducts a two-week HRM orientation session for the HR staff from each of its 25 operating divisions. These sessions give an overview of the company's HRM philosophy and talk about how local businesses can translate that philosophy into HR policies. Coca-Cola has found that information sharing is one of the great benefits of bringing HRM professionals together. For example, tools that have been developed in Brazil to deal with specific HRM problem might also be useful in Australia. The sessions provide a medium through which HRM professionals can communicate and learn from each other, which facilitates the rapid transfer of innovative and valuable HRM tools from region to region (Also read the closing case).

* * *

Colgate-Palmolive is a successful company specialising in personal care products. In the early 1980s, the company realised that if it were to be successful in the emerging competitive environment around the world, it would have to develop a more transnational orientation. Its rivals such as P&G, Unilever and Kao were trying to become transnational companies and Colgate needed to follow suit. Being a transnational requires developing an international cadre of executives who are as compatible working in one culture as in another, and who have the ability to rise above their ethnic perspectives.

As a first step towards building such a team, Colgate began recruiting college graduates in 1987 and putting them through an intensive international training programme. The typical recruit holds an MBA from a US university, speaks at least one foreign language, has lived outside the US, and has strong computer skills and business experience. Over one quarter of the participants are foreign nationals.

Unlike most of the US companies, Colgate does not send foreign born trainees to their native countries for their initial jobs. Instead, it is more likely

that a French national will remain in the US, a US national will be sent to Germany and a British national will go to Spain. The foreigners receive the same generous expatriate compensation packages as the Americans do, even if they are assigned to their home countries.

In addition to the management training programme, Colgate has taken a number of other steps to develop its international cadre of managers. In Europe, for example, the company is developing “Euro managers”—managers who have experience of working in several European countries. This is a departure from the established practice of having managers spend most of their working career in their home country.

* * *

When LG staged a come back into the Indian market, it did a strategic thing which stunned everybody. Vice-President Yasho V. Verma, the oldest employee, recalls: “Many people did not understand us because of the madness happening, but there was a method in madness. When I joined in April 1997, we had to launch five branches by May. A lot of things were done in unorthodox ways. Many times employees were hired, but there was no office; the head of the branch was there, but no employee was hired and there was no office. They did not know where to go. They were told to stay at home and they would get their salaries. No one was ready to believe it. But it all happened as we see it today”.

These are typical case where HR function became an integral part of strategic management. The advent of HRM has brought forward the issues of linkages between the employer-employee relationships and wider organisational strategies and corporate policies. This chapter is devoted to a detailed discussion of such linkages.

NATURE OF STRATEGIC HRM

Before describing the nature of strategic human resource management (SHRM), it is useful to understand the meanings of strategy and strategic management.

By strategy, we mean future-oriented plan for interacting with the

competitive environment to achieve organisational goals. Strategy is a framework for managerial decisions. It reflects a firm's awareness of how, when and where it should compete and for what purpose it should compete. The focus is on managing competition. By implication, sans competition firms may not need strategies at all, as was reflected in the business environment in India prior to 1990s. Operating in a highly-protected environment, organisations had no rivals to encounter, no challenges to face, and no problems to worry about. Whatever was produced was grabbed by the markets. Strategies hardly had any relevance during those days.

Strategic management refers to the process of crafting strategies, their implementation and evaluation of their effectiveness. Experts have given their own perspectives about strategic management. But the one we have given here serves our purpose well.

What is to be emphasised is that at the core of the strategic management process is a team comprising the CEO aided by top executives. For example, the core team that formulated and executed the strategic takeover of Corus by Tata Steel consisted of Ratan Tata, the CEO; Muthuraman, M.D., Tata Steel; Arunkumar Gandhi, Head of the M&A cell of the Tata Group; and Kaushik Chatterjee, VP Finance, Tata Steel.

Strategic human resource management (SHRM) refers to the process of developing practices, programmes and policies that help achieve organisational objectives. What is essential is that these programmes, policies and practices need to be aligned with organisational strategies.

Specially, SHRM involves that—

- (i) Human resource management is fully integrated with the strategy and the strategic needs of the firm;
- (ii) Human resource policies cohere both across policy areas and across hierarchies;
- (iii) Human resource architecture of the firm results in its above-average financial performance. HR architecture is composed of the systems, practices, competencies and employee performance behaviours that reflect the development and management of the firm's human resource; and
- (iv) Human resource practices are adjusted, accepted, and used by line managers and employees as part of their daily work.

Pause and Ponder

HR role in strategic management seems to be merely platitudinal but little in practice. Rarely is HR executive consulted in vital decisions, such as mergers or acquisitions. This popular perception, invites you attention towards a reality check. Talk to select HR executives and discover the truth.

It is not that HR manager himself/herself formulates strategies. He or she will be the member of a core team which formulates company strategies and ensures their implementation. To be full-fledged strategic partners with senior management, HR executives should compel and guide serious discussion on how the company should be organised to carry out its strategy. Four roles of HR executives are relevant in this context: *first*, HR should define an organisation's architecture. In other words, it should identify the underlying model of the company's way of doing business. More specifically, the architecture is a judicious mix of structure, systems, rewards, processes, people, styles, skills and shared values. After the architecture is defined it needs to be articulated explicitly. Without such clarity, managers tend to become more myopic about how the company runs.

Second, HR needs to be accountable for conducting an organisational audit. Audit helps identify which components of the architecture should be changed in order to facilitate strategy execution.

Third, the role of HR as a strategic partner is to identify methods for renovating the parts of the organisational architecture that need it. In other words, HR manager should be assigned to take the lead in proposing, creating, and debating best practices that can help implement strategies.

Fourth and finally, HR must take stock of its own work and set clear priorities. At any given time, the HR staff might have several initiatives in its sights, such as pay-for performance, global team work, and action-learning development experiences. But to be truly tied to business outcomes, HR needs to join forces with line managers to continuously assess the impact and importance of each one of these initiatives.

STRATEGIC HRM VERSUS CONVENTIONAL HRM

The nature of strategic HRM becomes clearer when it is contrasted with traditional HRM. As Fig. 3.1 shows, in the traditional approach to HRM, the responsibility of people management programme rests with staff specialists in an organisation. But in strategic HRM, the task of managing people is vested on the managers who interact with people-line managers. In essence, strategic HRM would argue that any individual in a firm who has the responsibility for people is a HRM manager, no matter in which functional area he or she works. Similarly, the focus in conventional HRM is on employee relations, ensuring that employees are motivated and become productive and that the firm is in compliance with the necessary employment laws. In strategic perspective, HRM goes beyond and focuses on partnership with internal and external constituent groups. Likewise, in other dimensions such as role of HRM, initiatives, job design and the like, there is a contrast between conventional HRM and strategic HRM.

	Traditional HRM	Strategic HRM
Responsibility for HRM	Staff specialist	Line managers
Focus	Employee relations	Partnerships with internal and external customers
Role of HR	Transactional, change follower, and respondent	Transformational, change leader, and imitator
Initiatives	Slow, reactive, fragmented,	Fast, proactive, integrated
Time horizon	Short term	Short, medium, long (as necessary)
Control	Bureaucratic-roles, policies, procedures	Organic-flexible, whatever is necessary to succeed
Job design	Tight division of labour, independence, specialisation	Broad, flexible, cross-training, teams
Key investments	Capital, products	People, knowledge
Accountability	Cost centre	Investment centre

Fig 3.1 *Traditional HRM versus Strategic HRM*

STRATEGIC MANAGEMENT PROCESS

Five phases constitute the SHRM process: environmental scanning, identifying sources of competitive advantage, HR strategy formulation, implementing HR strategies, and monitoring and evaluating HR strategies (see Fig 3.2).

Scan the Environment

Analysis of environment provides inputs for decision-making in business, which *ipso facto* includes HR decisions too. Environment comprises internal and external forces which impact the organisation. External factors, as stated in the previous chapter, include political—legal, economic, technological and cultural forces. Internal environment includes business processes, SWOT analysis of the firm, (see Exhibit 3.1), organisational culture, organisational structure, employee morale, industrial relations, unionisation and the like. Analysis of both external and internal factors is not the preserve of a single function, although marketing personnel usually play a key role in developing a strategic view of the organisation. HR practitioners may be particularly involved in collecting, analysing and interpreting inputs emanating from the environment.

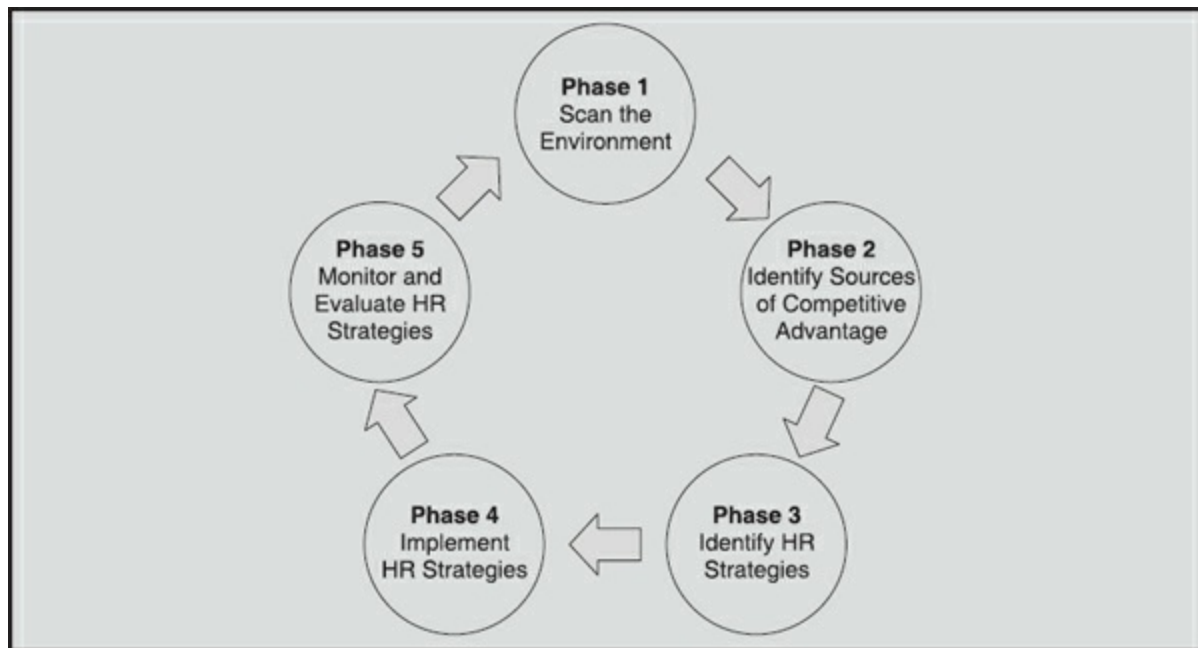


Fig 3.2 Five Phases in SHRM Process

Exhibit 3.1 SWOT of Reva

Strengths

- India's first and only battery operated electric car for city drive, ideal for those looking for second or even a third car, and for those eco-

- conscious citizens who have a strong desire to save blue planet.
- Cheapest among electric operated cars in the world with unbeatable running costs as low as 40 p per km.
 - Slim look, comfortable driving, small turning radius and easy parking —ideal for Bangalore roads, notorious for traffic congestion.
 - Fresh infusion of \$20 million by international venture capital firms. Along with funds, two experienced executives from the funding firms are on the Board of Directors of Reva.
 - Eyeing on global market, already 600 Revas sold in London and looking for markets in other geographic areas in Europe.
 - Plans to expand production capacity, release new models and undertake promotional activities.
 - Developed, in 2005, a prototype of a two-seat roadster called Reva-NXG. Reva-NXG uses sodium nickel chloride batteries instead of the conventional lead acid batteries.

Weaknesses

- Top speed of 60 km per hour and the distance it can travel on a single charge is only 80 km.
- Reva is underpowered when compared to a regular car.
- Reva is overpriced at Rs.2.5 lakhs particularly because Maruti 800 with AC is cheaper.
- Scores low on comforts, interiors, motor and performance. Can carry 2 adults and 2 kids but Maruti 800 can carry 4 adults with kids being stuffed in.
- At intervals of 80 km, Reva needs charging and charging points are not available on all roads. Charging is less convenient (takes 7 hours) than getting your tank filled up in a petrol bunk.
- Initially, time and money were spent on technology and getting the product right. Initial investment of \$25 million mainly went into developing prototypes. No funds were left for publicity and brand building activities.
- In the last four years till end 2005, Reva sold only 1800 numbers against a target of 6000 per annum.
- Solely dependent on electric car unlike major global players like GM, Toyota and Ford.

Opportunities

- Lots of scope in a new world where volts, amps and watts replace bhp, rpm and exhaust times.
- Market is growing. Freedonia group estimates that this segment has grown from a \$650 million market in 1999 to an estimated \$16 billion in 2004 and is expected to reach \$45 billion in 2009. Dwindling oil resources, rising oil prices, increasing congestion and environmental concerns and stricter governmental regulations add to the growing market.
- Tremendous potential for exports and to ramp up production volumes as Reva's competitors' price is 2–3 times higher in Europe and North America.
- Elsewhere several subsidies and concessions have been extended to this segment. In UK, sales and road taxes are exempted so also parking and congestion fees are waived. In the US, \$4000 subsidy is offered per vehicle. Reva did enjoy a Rs.1 lakh subsidy initially but was discontinued later. Reva still enjoys benefits like a lower excise duty of 8 per cent, against 16 per cent applicable to petrol and diesel cars. Governments everywhere are bound to extend more attractive sops to electric car segment boosting demand for the eco-friendly cars.

Threats

- Several big players have already launched or have plans to launch electric cars, posing entry barriers to penetrate overseas markets. Daimler Chrysler has recently launched the electric version of its city car called SMART. The French auto major AXIOM has also launched its version of similar car. GM, Nissan and Mitsubishi have announced that they would be launching electric vehicles.
- Reva's target market—housewives, professionals and college going youth—are not impressed by the car and are vulnerable to be targeted by rivals.
- The launch of Nano by Tata Motors and cheaper version of Alto by Maruti pose serious threat.

(Source: Based on inputs from *Business India*, Dec. 31, 2006, *Business World*, Jan.15, 2007, *Autocar*, Jan., 2007 and Prof. K. Ranganathan of Acharya Institute of Management and Sciences).

In fact, HR department is ideally placed in collecting information about rivals—their direction, their strategies, their strengths and their weaknesses. HR professionals have the resumes sent in by the employees of rival firms in the same industry. Perusal of such documents is of great help in knowing the skills of staff in the competing firms, reasons for their exit, compensation levels, and similar other details. More specifically, HR professionals can provide the following:

“From public information and legitimate recruiting and interviewing activities, you ought to be able to construct organisational charts, staffing levels, and group missions for the various organisational components of each of your major competitors. Your knowledge of how brands are sorted among sales subdivisions and who reports to whom can provide important clues as to competitor’s strategic priorities. You may even know the track record and characteristic behaviours of the rival’s executives”.

Identify Sources of Competitive Advantage

Competitive advantage stems from such diverse sources as quality, price, brand positioning, timely delivery and customer service. These sources of competitive advantage reflect the core capabilities of an organisation. The core capabilities are underpinned by the intellectual capital of the organisation in the form of employee competencies. For instance, innovating new products and services is likely to be underpinned by competencies such as creativity, problem solving, change orientation, and knowledgesharing. The HR strategy focuses on how these competencies can be developed in order to achieve the organisation’s strategic objectives. For example, an organisation which has a business strategy focused on increasing market share through excellence in customer services, seeks HR strategies that enhance skills of salesforce in communication, empathy and problem solving.

Identify HRM Strategies

In all, there are four major HRM strategies which help an organisation build up its employee capabilities (see [Fig 3.3](#)).

Indirect interventions	Devolved informal learning Developing awareness of learning opportunities	Empowered informal learning Creating a learning environment (i.e. a context conducive to social capital)
	Learning as socialisation Delivering formal training, learning and development interventions	Engineering Creating and controlling communities-of-practice and social networks
Direct interventions	Human capital	Social capital

Fig 3.3 HRM Strategy Choices

(Source: David Mankin, *Human Resource Development*, Oxford, 2010, P.90)

Learning as Socialisation This strategy reflects traditional approaches to the development of human capital. Such techniques as highly structured training courses, coaching sessions, and education programmes, where primary responsibility vests with the HR manager, fall under this strategy. The aim of these interventions is to ensure that the employees conform to the values and beliefs of the organisation and have the ability to meet performance targets. These are direct HR interventions the responsibility to which vests with the HR professional.

Devolved Informal Learning These are indirect interventions and are delegated to the line managers and employees and HR manager's role is secondary. These strategies help develop awareness about learning opportunities and career development. Though secondary role, HR manager can be involved in the development of organisational knowledge and learning processes that rely on formal teams, knowledge sharing activities and problem solving projects.

Engineering These HR strategies mainly comprising OD techniques seek to develop social capital. Social capital consists of the knowledge derived from networks of relationships within and outside the organisation. It emerges within the workplace. It is about the development of communities – physical, virtual, co-located, or dispersed. Social capital helps mould employees and persuades them to adopt to organisational aims.

Empowered Informal Learning This HR strategy also helps develop social capital. Primary responsibility for HRM in this quadrant is held by the line managers in partnership with employees. The HR manager can provide support and guidance, but is more concerned with building learning infrastructure for successful devolved informal learning. This infrastructure includes further processes for organisational knowledge and learning such as the design of work areas and the provision of shared spaces (e.g. command areas).

Devolved informal learning and empowered informal learning are both underpinned by workplace learning. This type of learning is important in all types and sizes of organisations as it acts as a prerequisite for organisational change.

Pause and Ponder

When HR activities are closely linked to a key business strategy, it becomes SHRM. True or false, discuss.

Implementing HR Strategies

The fourth phase in SHRM relates to the implementation of HR strategies. HR strategies are implemented through HR policies, plans, and practices. The mix of HR strategic choices as stated above helps execute HR strategies.

Policies are critical in implementation of HR strategies. A policy, as stated in the first chapter, is an expression of intent—an organisation's commitment to HRM. Policy sets tone for others to make decision. Obviously, HR policy must state the purpose of HRM; who is accountable to realise the HR vision and mission; specify how resources will be allocated; and determine success criteria.

Plans must follow policies. Plans specify courses of action along with time-frame to carry out the plans. Plans are formulated at different levels—organisation, unit, department, section, and individual employees. Plans need to be carefully formulated fulfilling such requisites as accuracy, clarity, informative, timeliness and flexibility.

HR practices should follow HR plans. Practices represent a set of

interventions and activities. Interventions can be training courses, coaching sessions and change projects, while activities include offering advice on training needs, analysing questionnaires and giving presentations to management teams. The HR strategy will specify the strategic choice (e.g. learning as socialisation), but it is the plan that sets out the specifics of that choice.

A firm has before it, a number of practice choices (see [Fig 3.4](#)) to produce desired results. As seen in the figure, HR practice choices may be categorised into six types. The figure contains opposite ends of each practice continuum such as promoting from within or hiring from external sources. Clearly, an intermediate choice is also possible for majority of the practices. The challenge is to develop a configuration of HR practice choices that help implement the HR strategy.

It may be stated that strategy implementation is more challenging than its formulation. [Table 3.1](#) brings out the differences between the two. The table needs no elaboration.

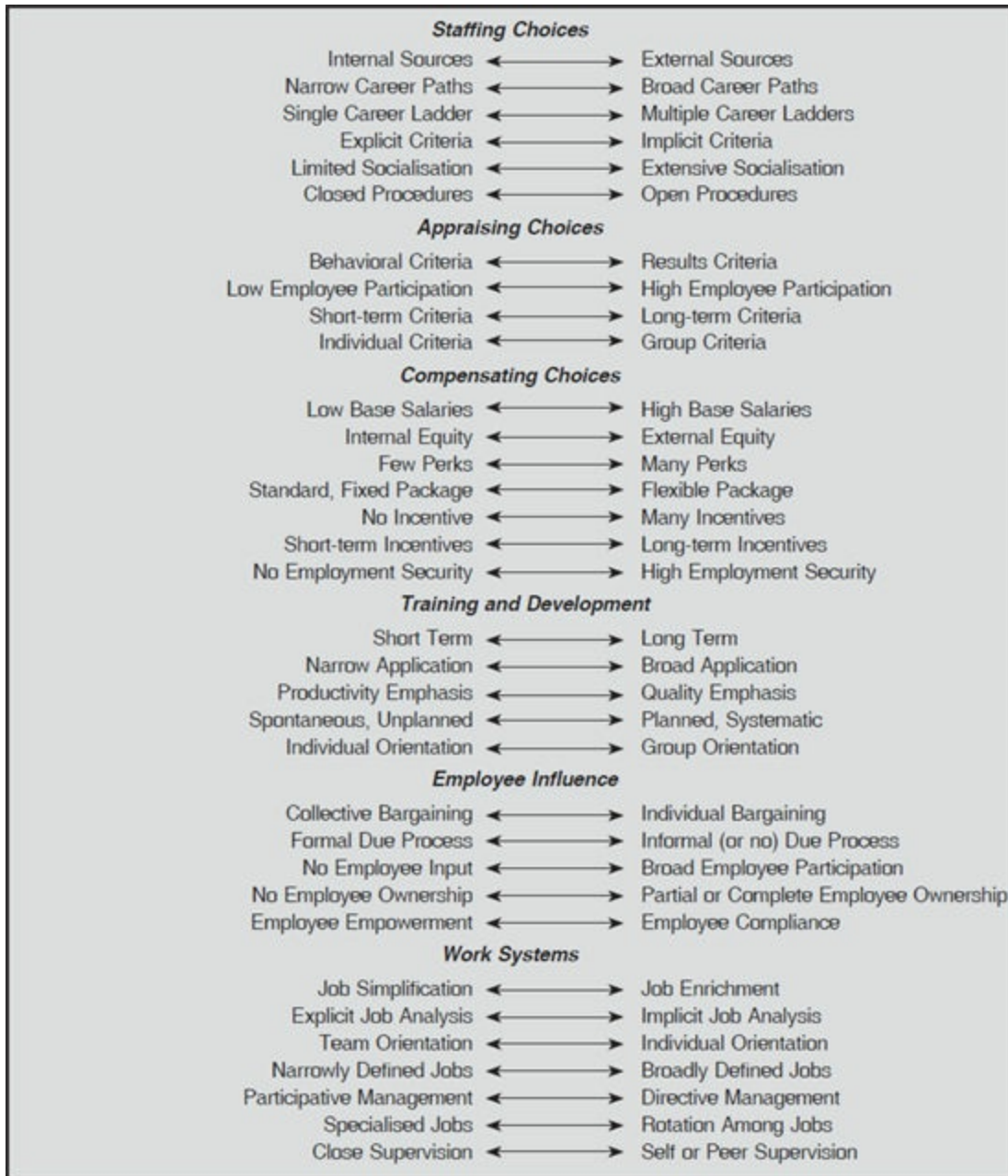


Fig. 3.4 HR Practice Choices Related to Strategic Outcomes

Source: Cynthia D. Fisher, et. al., *op. cit.*, p. 60.

Walk the **Talk**

Do's	Don'ts
•Align every HR initiative with business outcome/objective	• Be friendly, not a 'friend' • Forget to watch out 'for' the

<ul style="list-style-type: none"> • Find a business ‘sponsor’ for each new HR initiative • Be proactive in data analysis to identify early warning signals of things that might go away Find a ‘sounding board’ for sharing new thoughts, findings, hunches or ideas and then take them forward • Gain confidence of top leaders, cooperation from peers and support from subordinates. Strategic HRM management needs collective effort • Be knowledgeable about all functional areas Accept full responsibility for all HR related outcomes 	<p><i>cultural impact of all HR activities</i></p> <ul style="list-style-type: none"> • Compromise on confidentiality of HR information • Gossip • Over commit or underdeliver • Distance yourself from employees down the line in the name of strategic management
--	---

Table 3.1 *Difference between Strategy Formulation and Implementation*

<i>Strategy Formulation</i>	<i>Strategy Implementation</i>
Strategy formulation is positioning forces before the action.	Strategy formulation is positioning forces before the action.
It focuses on effectiveness.	It focuses on efficiency.
It is primarily an intellectual process.	It is primarily an operational process.
It requires good initiative and analytical skills.	It requires special motivation and leadership skills.
It requires co-ordination among a few individuals.	It requires co-ordination among many persons.

Monitor and Evaluation

The final phase in SHRM is monitoring and evaluation of HR strategies. It should be remembered that erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to rectify. Basic activities involved in strategy monitoring and evaluation are:

1. Establishing performance targets, standards and tolerance limits for the objectives, strategies and implementation plans.
2. Measuring the performance in relation to the targets at a given time. If outcomes are outside the limits, inform managers to take action.
3. Analyse deviations from acceptable tolerance limits.
4. Execute modifications where necessary and are feasible.

From strategic HR perspective, evaluation may demand answers to the following questions:

- Are HR professionals present at M&A's planning and implementation?
- Does HR provide an annual report on its ROI?
- Is HR rated by firm's customers?
- Is there an ROI process to evaluate HR initiatives connected to the business strategy?
- Is HR role leveraged in change initiatives such as systems implementations and reorganisations?
- Are line managers made responsible for people's issues?
- Do HR people go beyond and enter such domains as marketing, finance and production?

Obviously, evaluation is a sensitive issue. Too much emphasis on evaluating strategies may be expensive and even counterproductive. No manager wants to be evaluated too closely. Little or no evaluation can create even worse problems.

BENEFITS OF SHRM

The greatest benefit of SHRM is that it elevates the status of HRM in organisations. Decades back, HR managers (Nay, personnel manager or IR manger) was a mere record keeper and file-pusher sitting in the corner of a building. His/her presence was felt when a retired employee was to be sent off and a small function was to be organised in his or her name or when

his/her services were required to troubleshoot whenever there was a strike or a lockout. Not more than that. But, things are changing as reflected in the following observations. First, HR leader is now accorded equal status along with other functional heads, is a member of the core committee to make strategic decisions, earns big compensation, and is given all privileges. This transformation has occurred thanks to the realisation on the part of managements the fact that competitive advantage comes to their organisations from people. Maruti Suzuki and Hindustan Motors are manufacturing cars, essentially using identical technology. The secret behind the meteoric rise of the former is its workforce.

Second, being a strategic partner, HR manager plays key role in making a merger or an acquisition a success. Often merger or takeover fails because there is no cultural integration between employees of both the companies. Mere financial ratios, capital structures and market capitalisations do not guarantee success of a merger or an acquisition. Cultural fusion between the two companies is what is required. HR manager should be actively involved at preliminary, taking over and post—take over stages. This involvement ensures that people's interests are well protected and there is a happy marriage between the acquirer and the acquired.

Third, being part of the strategic management process, HR professionals seek to answer the fundamental question: How to create an organisation to accomplish business objectives? Business objectives may be stated in several ways as financial targets, balanced score cards, visions, intents, missions, aspirations, or goals. Regardless of the objective's form or content, an organisation must be created to make it happen. When HR professionals work as strategic partners they work with line managers to institute and manage a process that creates an organisation to meet business requirements.

How strategic human resource management can help an organisation is best illustrated by Motorola's experience. The MNC was a roller coaster though 1980s, but fortunes changed and Motorola began losing its sheen in 1990s. It was then that the Motorola's HR leadership team set out to create a more powerful strategy. Their goals were to:

- Link HR practices to customer and shareholder requirements
- Help drive business unit strategy while promoting coordination strong enough to have a multiplier effect on Motorola's overall value
- Position Motorola as a more effective competitor

- Make Motorola's cultural capabilities consistent with its desired market place brand identity
- Engage the enthusiasm and support of management and employees

Motorola built a line of sight from investors and customers to its management and employees through more powerful HR practices. Working closely with senior line management, the HR leadership team identified the culture that the increasingly competitive environment demanded. Through this, the HR leadership provided a powerful agenda for integrating staffing, performance management, training and development, structure, and communications with common business focus and direction. This allowed HR to maximise its impact on performance. No doubt, Motorola regained its dominant position on the market.

Fourth, organisations can be categorised into three depending on whether they are first in the market (prospectors), defending the present market share (defenders), or enter once it is created, with an improved product moving to become low cost produce themselves (analysers). Defenders, such as car manufacturers have a high volume, low cost and centralised strategy. Prospectors are flexible and adaptive, such as software companies. Analysers are companies such as low cost airlines which followed Easy Jet with a similar offering. Strategy processes differ among these three types of organisations: Defenders plan first, then act and evaluate; prospectors, act first, then evaluate and finally plan; and analysers evaluate first, then act and finally plan. Strategic HRM customises HR practise to suit the unique requirements of each of these three strategies.

Fifth, the most significant benefit from SHRM relates to the creation of organisational capability by ensuring that the firm has skilled, engaged, committed and motivated employees who can render competitive advantage to it.

Sixth, strategic HRM provides a sense of direction to an organisation in a turbulent environment so that the business needs of the firm and the collective and individual needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes.

BARRIERS TO STRATEGIC HRM

Though strategic HRM looks convincing and essential, several barriers operate in the way of organisations taking to strategic orientation of their HR functions. The *first* barrier relates to the tendency of most organisations adopt a short-term mentality and focus on current performance. This is no surprise since stakeholders, particularly shareholders, expect quick rewards and executives need to live up to these expectations. Employees expect quick rewards based on their performance but management might wait. The *second* barrier relates to the inability of HR leaders to think strategically. They are unable to go beyond their area of operation. Their knowledge about general business functioning, their awareness about technological advancements and their ability to convince colleagues in other department are limited. The *third* barrier is that most senior managers lack appreciation for the value of HR and its ability to contribute to the organisation from a strategic perspective. Many understand only the conventional HR and fail to realise the contributions HR can make as a strategic partner.

The *fourth* barrier is that some functional managers see themselves as HR managers as well and are concerned more with technical aspects of their areas of responsibility than the human aspects. As stated earlier, every line manager is an HR head too. But in reality, the finance controller, for example, fails to see beyond cash inflows and outflows, so also the operations executive who is obsessed with inputs, outputs and the conversion process.

The *fifth* barrier to strategic HR is the problem of quantifying many of the outcomes and benefits of HR programmes. It is believed that many of the outcomes of HR function are abstract-felt, but not seen. In an environment where firms operate under pressure, what attracts everyone's attention is an activity that contributes to the bottom line. Anything else is shelved.

The *sixth* barrier to strategic HR is the fact that human assets are not owned by organisations and, therefore, are perceived as a higher risk investment than capital assets. Particularly, in a highly competitive environment where key executive are poached from rivals, there is a tendency to invest less in employees than in technology and information, which are more proprietary. This mindset and approach prevents organisations from realising the fact that it is the people who invent technology and it is human brains behind revolution in informatics; and it is a competitive advantage to invest in people. How can such firms adopt strategic approach to human

resources?

The *seventh* barrier is that strategic HR may be resisted because of the insensitivity towards change that might arise. Taking a strategic approach to HR may mean making drastic changes in the firm's architecture. Not many executives are prepared to accept such drastic changes.

The *eighth*, barrier to SHRM relates to the concern arising from non-availability of HR professionals to staff themselves in HR departments, consequent to integration of HR function with business strategy. HR managers may be required to spend more time with top executives, travel extensively and organise endless brainstorming sessions to formulate and implement HR strategies. Loss to the HR department becomes gain to the top management.

HR professional should not alienate himself/herself from his/her core functions. He/she needs to spend more time with employees, and subordinates; minimise travelling; avoid invites and temptations; go round the shop floors; inspect washrooms; visit canteen; stroll on the lawns; and be always available to listen to complaints and grievances, not one day, but everyday. A wise HR executive strikes a fair balance between the demands of strategic management, and requirements of own department and workforce.

The *ninth* barrier includes failure to understand the strategic needs of the business, inadequate assessment of the environmental and cultural factors that affect the contents of the strategies and the development of ill-conceived and irrelevant initiatives may be because they are current fads or because there has been an ill-digested analysis of best practices that do not fit the organisation's requirements. These problems are compounded when insufficient attention is paid to practical execution problems, the important role of line managers in implementing strategies, and the need to have established supporting processes for the initiatives (e.g. performance management to support performance-based pay).

The *tenth*, there is enough disconnect between the HR team and the employees. The disconnect should not be allowed to escalate by distancing from employees in the guise of bigger role in strategy management. The disconnect is evident from what people generally talk about HR professionals. Their grouse is on the following lines:

- HR professionals need to develop trust. How else we can value them.
- HR people use big words—change agents, strategists, evangelists. We

need to refer to dictionaries to understand what these concepts convey.

- HR has no people connect. One gets to meet them twice—when we join and when we quit.
- HR is clueless about what we want. It is not in tune with our requirements.
- HR first caters to itself, then thinks about us.
- HR interventions are purposeless, be it birthday greetings or birthday cakes. Fig. 3.5 summarises the barriers to strategic HR.

Finally, employee mindset works against strategic thinking. For example, tendency of long-serving employees to stick to the *status quo*, improper perception of strategic initiatives by employers, particularly in large and diverse organisations, resistance to accept non-routine initiatives, viewing any new initiative as a threat, culture of inertia, and tendency to accept only relevant initiatives.

Pause and Ponder

Whose side is the HR manager? Management? Employees? Public? Family? Reply.

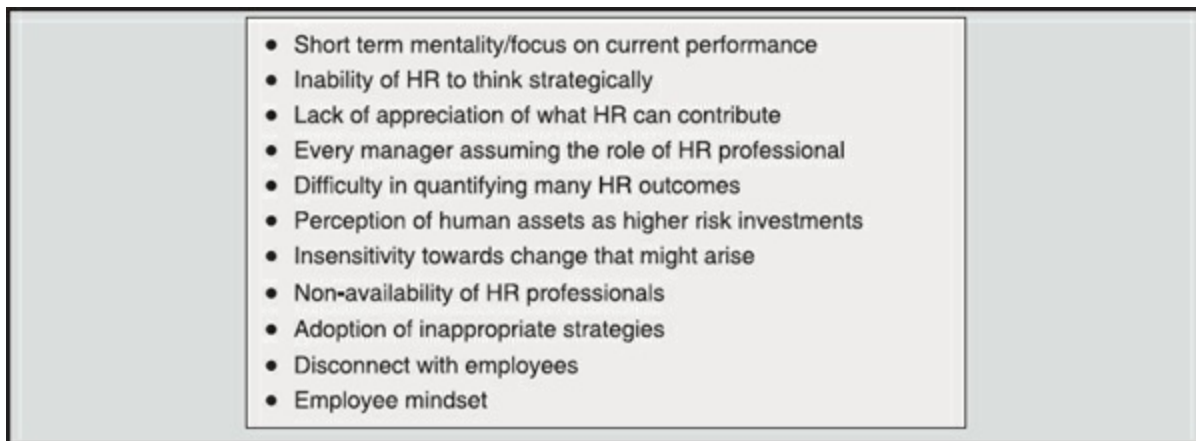


Fig. 3.5 Barriers to Strategic HR

TYPICAL HR STRATEGIES

A theoretical framework for strategic HRM has been given till now. It is

time we take a look at typical HR strategies that are aligned with business plans. Strategies are several and may differ from firm to firm.

Before listing major HR strategies, it is advisable to explain the three approaches to HR strategies: best fit, best practices, and resource based view.

The Best Fit Approach This approach emphasises that HR strategies should be congruent with the context and circumstances of the organisation. Believing in contingency theory, the best fit approach posits that there cannot be 'one-size-fits-all' thinking. Environment keeps changing—political, technological, economic and cultural forces are in a constant flux. Consequently HR strategies should also change.

Best Practices Approach This approach is based on the thinking that one-size-fits-all organisations and in all circumstances. The assumption is that there is a set of best HRM practices that are universal in the sense that they are the best in any situation, and that adopting them will lead to superior organisational performance.

Resource-Based View (RBV) of the Firm Both best fit and best practices approaches have been criticised. The best fit approach has been criticised for its high reliance on the dynamic external forces at the cost of the firm, particularly the unique characteristics and practices that might generate competitive advantage. Alternatively, the best practices approach is being criticised for being overly prescriptive and failing to take cognisance of organisational diversity and changing environmental forces. RBV approach contrasts with both these perspectives by adopting a contingent approach to HR strategies, by focusing on the internal organisational resources of the firm instead of on external context. Under the RBV view, it is the array of firm's resources, including its workforce that gives a firm its uniqueness and which can be a significant source of sustainable competitive advantage. The array of resources include experience, knowledge, judgement, risk taking propensity and wisdom of individuals associated with the firm. For a firm's resources to have the potential to create sustainable competitive advantage, they must be rare, valuable and non-substitutable and unimitable. To discover these resources and capabilities, managers must look inside their organisation and exploit them for the firm's advantage.

While formulating HR strategies all the three perspectives need to be considered. The Best Practices Approach cannot be followed in isolation because one size does not fit all situations. But it conveys one clear lesson—the HR head should have a set of HR practices which are well tested. Commencing from there, refined or new strategies can be evolved. Similarly, the Best Fit Approach cannot be applied in absolute sense. Its advocacy that HR strategies should be formulated keeping external forces in view and such practices are never static, is untenable. Constantly evolving new strategies may result in rootles and chaotic situations. The RBV's advocacy may not be the final word on evolving HR strategies. Its emphasis on only internal dynamics may cost dearly for a firm. Wise HR strategies should emerge blending both internal and external compulsions.

Coming to the typical HR strategies, the following is the list but the list is by no means comprehensive. It needs no emphasis that these strategies only strengthen those already shown in [Fig. 3.3](#).

- HR manger to command a seat for himself/herself in the core committee responsible for evolving strategies.
- Design HR strategies to align with business strategies.
- Participate in the development of the organisation's values, mission, and business planning.
- Participate in decision-making processes, whether the subject relates to finance, operations or marketing.
- Participate in business taskforces (e.g. ISO 9000).
- Programme management of workforce planning, skills assessment, succession planning, diversity, retraining.
- Ensure that the alignment of HR strategies with business strategies is carried to the logical end.
- Foster systems thinking/quality focus.
- Gain expertise in all functional areas which help participate actively in decision-making processes.
- Involve in all the three phases of a merger or acquisition: preparation, merger, and post-merger cultural integration.
- Educate managers to behave in ethically and socially responsible ways. This can be achieved through workshops, courses, conferences and seminars, mentoring programmes and executive coaching.
- Create and sustain new form of organisational structures with cultures

- based on cooperation and collaboration.
- Build global teams that can handle problems of expatriation, diversity and distances.
 - Train local customer service/call centre staff in British or American language and voice skills.
 - Train local, indigenous managers in modern management techniques and behaviours.
 - Enhance the cultural competence of employees.
 - Develop alliances with regional and national learning institutions and promote life long learning orientation among all employees.
 - Promote the role of informal groups and social networks as sources of innovation and problem solving.
 - Improve employee familiarity with technology-based knowledge management systems through the utilisation of new technologies to deliver e-learning programmes around the globe.
 - Ensure that HR strategies are consistent with other functional strategies.
 - Strategy formulation process should remain flexible and readily adaptable to change.

SELECTING STRATEGIES TO ENHANCE PERFORMANCE

HR strategies evolved in isolation are mere lofty statements on paper. To serve their purpose – enhancing organisational performance – they must fit with several other factors. Fit leads to better performance, and lack of it leads to inconsistencies that reduce performance. Fit refers to the compatibility between HR strategies and other dimensions of the organisation. [Figure 3.6](#) depicts the desired compatibility between HR strategies and other dimensions. As the figure shows, the potential of a HR to increase organisational performance increases when:

- There is a better match between the HR strategy and the firm's overall organisational strategies
- There is more HR strategy attuned to the environment in which the firm is operating
- The HR strategy is moulded to unique organisational features more

closely

- There is better HR strategy enabling the firm to capitalise on its distinctive competencies
- More HR strategies are mutually consistent or reinforce one another.

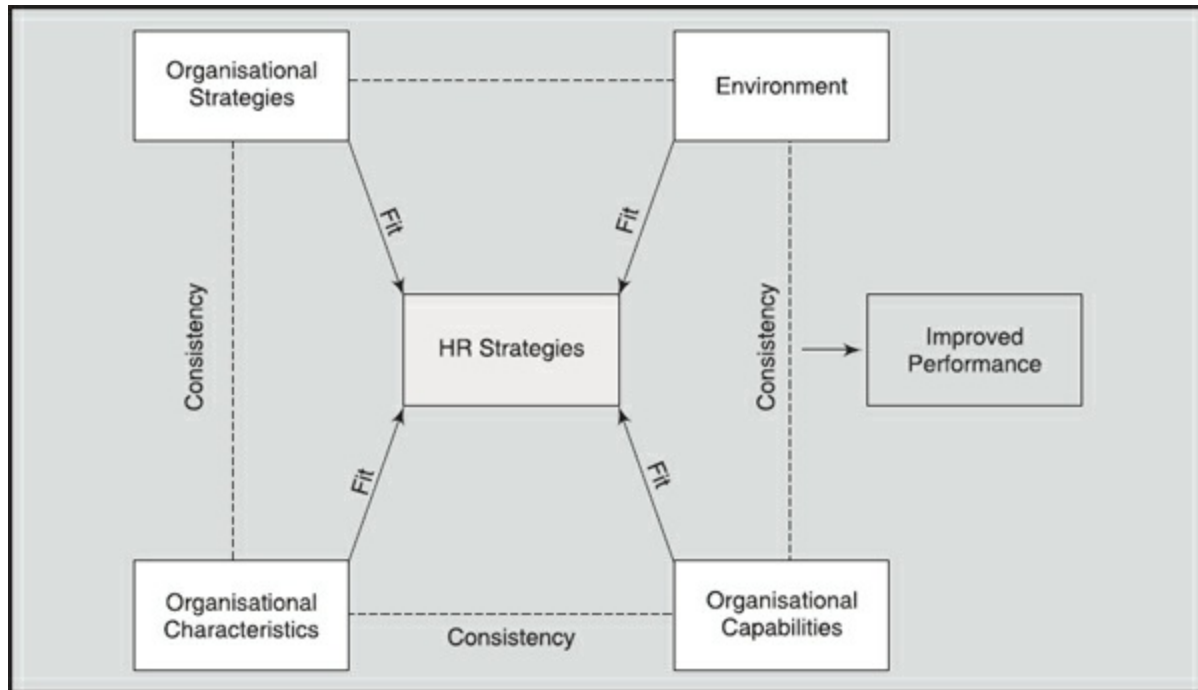


Fig 3.6 *HR Strategy Fit*

(Source: Luis R.Gomez-Mejia, etal, *Human Resource Management*, PHI, 2010, p.29)

Beyond HR Domain

Additionally, HR function can contribute to strategic plans and actions of the firm in the following ways:

Encouragement of Pro-active Rather than Reactive Behaviour

Being pro-active means that the firm has a vision of where it wants to go 10 years hence, and has human resources who help it reach there. Being reactive means confronting problems as they surface. By being reactive, the firm tends to lose sight of the long-term direction. It is people who can make the firm pro-active or allow it to simply rest on past laurels.

Explicit Communication of Goals

Generally, every firm shall have a goal and this must be communicated to all the employees. Everyone should work towards reaching the goal. BHEL had the objective of becoming a leader in its chosen area of heavy electricals. The goal has been spread down the line and according to the CEO, “It is clearly the zeal of people to work, systematic planning and corporate strategising every five years that have made BHEL stand taller.” The role of HR manager in formulating goals and communicating it to all is indeed crucial.

Stimulation of Critical Thinking

Managers often depend on their personal views and experiences to solve problems and make decisions. The assumptions on which they make decisions can lead to success if they are appropriate to the environment in which the firm operates. However, serious problems can arise if the assumptions are no longer valid.

The strategic HRM process can help a firm critically examine its assumptions and determine whether the decisions that follow from those assumptions need modification or need to be held back.

To strategise means to think critically. Analytical thinking helps an individual question established practices, shed shibboleths, search for alternatives and arrive at right courses of action. By being part of strategic management process, HR manager can contribute to the critical thinking process of employees.

Pause and Ponder

At times, SHRM involves questioning decisions of line managers. Is the HR manger right?

Productivity as an HR Based Strategy

The more productive an organisation, the better is its competitive advantage. Perhaps none of the resources used for productivity in organisations are as critical as human resources. Many of the HR functions contribute to

productivity. Pay, appraisal systems, training, selection and job design are HR activities that directly contribute to productivity.

Quality and Service are HR-based Strategies

Besides productivity, other factors which contribute to a firm's competitive advantage are quality and customer service. Quality can come from people, and realising this companies are spending vast sum of money on quality training. Since the early 1980s, companies have recognised the value of W.Edward Deming's theories as a way to improve quality. Deming's 14 principles have served as the foundation for many quality improvement initiatives, first in Japan and later in other parts of the globe.

Delivering excellent customer service is another approach to build competitive advantage. Service begins with product design and includes interaction with customers, so that customers' needs are met. It is the employees who matter in rendering service. As [Fig. 3.7](#) shows, three of the five dimensions of service are HR related.

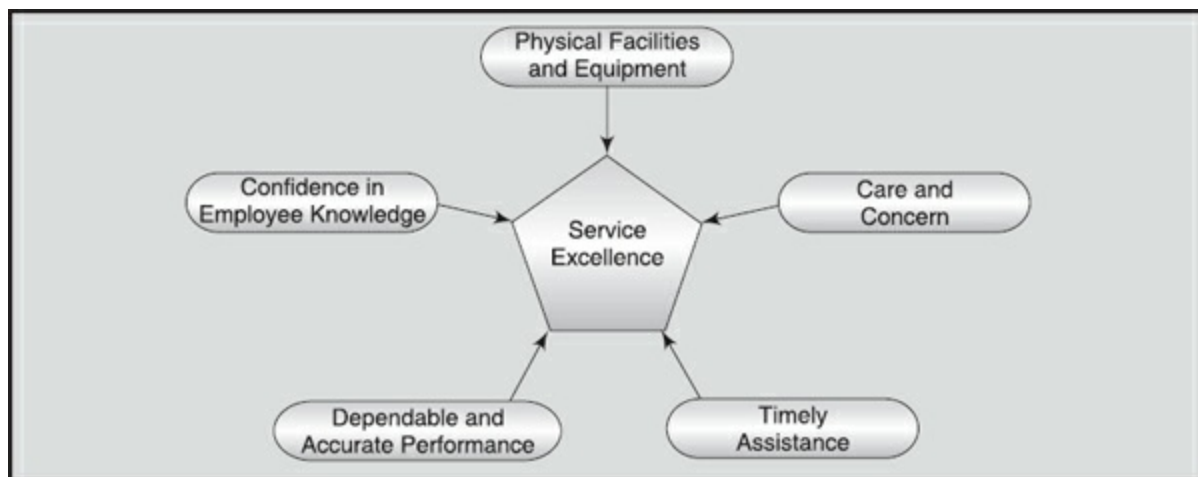


Fig 3.7 *Customer Service Dimensions*

SUMMARY

Strategic human resource management refers to aligning HR practices with business plans. Five phases constitute the SHRM process. The five phases are: scan the environment, identify sources of competitive advantages,

identify HR strategies, implement HR strategies, and monitoring and evaluating effectiveness of the process. SHRM differs from conventional HRM in several ways.

SHRM no doubt offers benefits to the organisation but there are barriers to be encountered. One of the barriers relates to the disconnect between HR management and employees.

There are typical HR strategies which speak about the application of SHRM in real world. These strategies fall into any of the three approaches: Best Fit Approach, Best Practices Approaches and Resource- Based View

SHRM goes beyond HR domain and many proactive roles to make the business strategies realisable and realised.

KEY TERMS

Strategic HRM

Strategic management process

Competitive advantage

Human capital

Social capital

Barriers to SHRM

HR team and employee disconnect

Best-fit-approach

Best practices approach

Resource-based view approach

REVIEW QUESTIONS

1. What is SHRM? How does it differ from conventional HRM?
2. Define SHRM. Bring out its benefits and barriers.
3. Explain the SHRM process.
4. List the typical HR strategies.
5. What do you understand by the Best Fit Approach to SHRM?
6. Explain both Best Practices and RBV approaches to SHRM.

DISCUSSION QUESTIONS

1. Describe an organisation you know well. In what ways did its HR policies and practices contribute to firm's strategic management process?
2. "HR managers should have a seat at the strategic management table, but only when they earn it". Discuss.
3. Why HR managers are getting alienated from grass root employees? How can that be reversed?

COMPREHENSIVE CASE

As detailed in the earlier chapter, the HR strategy for Vybhav was driven through the Corporate HR Team. The Corporate HR Team was entrusted with the responsibility of binding the different divisions of Vybhav through establishing a common HR vision that integrates with the corporate vision-mission statement.

The vision statement of Vybhav reads thus: "To be the preferred telecommunication solutions and services provider in the global community by developing and maintaining the most modern and cost effective telecommunication solutions for our customer".

In order to optimise the HR cost and to provide better business partnership, Renny Joseph and her team of HR Directors took the decision to outsource the payroll processing and other HR operation related activities. This freed up time of the HR team and the COE teams helped focus on supporting the business with a single agenda of building and nurturing talent. Transactional day to day activities on redressing policy and payroll related queries and the cumbersome task of payroll processing were outsourced through a service based contract with appropriate service level agreements, on time and quality of service to be provided.

The HR Business Partners (HRBP) used to spend significant time resolving payroll and HR policy related queries for the teams they supported. The outsourcing vendor set up a 24/7 helpdesk to redress employee queries, in addition to providing email-based support. With the outsourcing of this activity the HRBPs could focus on the core HR mission and objectives as below:

- Share information and resources more effectively between the divisions.
- Craft an overall talent strategy for Vybhav.

- Scale process/method to map competencies and identify skill gaps.
- Create strategic succession plans to develop talent and skill to establish and maintain a high performance culture.
- Free up resources to focus on high-level talent management strategies.

The HR team began to spend more time with the line managers coaching and building a strong foundation for nurturing talent. The newly launched competency framework was championed by the HR team members evangelising it across businesses. Getting the managers to use the competency framework for hiring, recommending career progressions and for promotions took a significant amount of time and effort.

Closing Case *It is Good News Everywhere for Coca Cola*

After fumbling in India for over a decade and losing the top slot to Pepsi, the humbled cola giant is dreaming big again and rejigging its strategy with a fresh zeal and sharper focus.

Why did the Cola giant fumble in the first place? Here are some mistakes and learnings that Coca Cola has undergone in the past:

Globalisation Holds the Key

Coca Cola was among the bluest of blue MNCs to have entered India in the 1990s. It was and still remains among the top five most powerful brands and the largest beverage company in the world. A lot of that MNC arrogance had a rub-off effect in the way it laid out its India strategy. Snapping up the locally popular brands like Thums Up, Limca, Maaza to kill competition, its brandbuilding exercise for the mother-brand was often at the cost of the local ones. It was costly and often didn't work. Thums Up remains a very strong brand in southern states like Andhra Pradesh and in fact in the **Brand Equity Most Trusted Brands** listing, it ranks 34—much higher than Coca Cola's 42nd ranking. As the company redraws its India plans, it promises to be far more rooted to the realities like having more local insights, promoting local drinks like Aam Panna and localised variants like Sprite—Jal Jeera.

Delegate, Empower and Be Patient

Five CEOs in a decade, a high employee turnover of 30%, Coca Cola India was in a chaos as constant churn at the top took its toll. “Every time a new CEO took over, he drew out a new strategy and a fresh game plan to win the market”, recalls a Delhi-based ex-employee. Lack of confidence and patience from the headquarters only made matters worse. “The short-term approach to show quick results was taking its toll,” recalls a Bangalore-based ex-employee who was involved in operations.

Worse, with \$1 billion of investments and having written off \$450 million assets in 2000, penny conscious Coca Cola headquarters began micromanaging issues like hikes. Recalls a senior HR executive who worked in the eastern region: “No hikes above 10% at any level—we got the message from the US headquarter”. Everything was in a flux—not just in people leaving, in roles too changing frequently. There wasn’t much flexibility that the HR department had in managing people.

Slowly, Mr. Singh (CEO, Coca Cola, India) and his team are helping win back the staff confidence here and getting some freedom from the Atlanta headquarters. “When I came, there were complains of low salaries. We undertook a transparent benchmarking study to fix that”, he says. Multiple channels for dialogues have been opened up. Every month now, there is an open house meeting where all employees at the headquarters can air their concerns and issues. “We are trying to bring down the decision-making process”, says Mr. Singh.

Soften that MNC Arrogance

Being the world’s most powerful brand had its flipside. Every time there was a problem, the company pointed a finger elsewhere. “We were in denial mode”, says a senior company executive. “Earlier, we spent more time defending ourselves”, says a candid Mr. Singh. Despite aggressive efforts it realised that in a sensitive business of food and drinks, scientific data matter, but perceptions matter more. “No matter what you did, it (pesticide issue) was a losing proposition”, says a senior ad industry executive. “You could only side-step it to minimise the damage”, he adds. The company too seems to have figured that out. “Let’s focus on solutions instead of debating if we are part of the issue or not”, says Singh. Coca Cola is trying to move beyond the blame game and has learnt to be more

constructive.

Engage Beyond Business

For both Pepsi and Coca Cola the world was small and their attention very focused on each other. Just then CSE, an NGO, expanded and complicated their business playfield in India. Suddenly their MNC tag became a noose as the cola glitz and glamour gave way to pesticide, pollution, and groundwater depletion controversies. Having learnt lessons the hard way, Coca Cola is now opening up multiple channels of dialogue and engagement with the community it is operating in. It is setting up a Coca Cola Foundation that will engage in a variety of developmental work. To help create employable talent, it is setting up Coca Cola Retail University that will train sales staff. It organises rural games with a consortium of Indian farmers in the South. Water conservation and recycling have become its pet projects even as it aspires to become a net zero water user by 2009 in India. “We want to build a sustainable business model in India”, says Singh.

Perhaps, the highs of the past may never return. India and Indians’ fascination for the West and MNC brands like Coca Cola today may have more earthy—rather than heady—appeal. Of course, the brand itself has come down from its pedestal. “Coca Cola was an insignificant product delivered spectacularly”, says an ad industry veteran. The celebrity endorsements, ad campaigns and their cricket-connect made them glitzy and desirable. “Soon, they came to be seen as frivolous without being pleasurable”, he adds, just when “cooler” brands like Google and Nokia overtook it. From such lows, a company can only go up. Coca Cola India is already beginning to. Hopefully, Atlanta’s confidence in India’s growth story will be strong and long-term. And that the global beverage leader—after a slew of bad publicity and poor business track record—has gained a humble confidence to chalk up a successful business in India. For a company with such a difficult past in India, this may yet be early days.

But the management is upbeat. Neville Isdell, chairman and CEO of Coca Cola, said its India arm registered a double-digit growth in the first quarter this year after a series of negative growth. Earlier in Atlanta it announced that India will be the No. 3 market for the company. The

company will invest close to \$250 million in the next three years—and this is just the beginning. Today things are working for the company. For the CEO, it is good news everywhere.

This could well be the third awakening in India for the world's largest beverage company. (Forced out of India in the 1970s, Coca Cola re-entered in 1993 sinking in \$1 billion in over a decade. It began losing its fizz since 2003 when pesticide allegations first surfaced.) But finally, after negative sales growth on the back of public backlash, surging attrition (around 30%) and internal chaos, the company seems to be steadying its feet in the Indian market.

As HR manager, what role do you carve for yourself in making Coca Cola a number one cola company in India?

REFERENCES

1. Schuler, Randal S, "Strategic Human Resource Management – Linking the People With the Strategic Needs of the Business", *Organisational Dynamics*, 1992.
2. Dave Ulrich, "A New Mandate for Human Resources ", *Harvard Business Review*, 2004.
3. Jeffrey A. Mello, *Strategic Human Resource Management*, Thomson, 2003.
4. Charles R. Geer, *Strategic Human Resource Management*, Pearson, 2006.
5. Donald F. Harvey, *Strategic Management and Business Policy*, Merrill Publishing, 1988.
6. Dave Ulrich and Wayne Brockbank, *The HR Value Proposition*, Harvard Business School Press, 2005.
7. Peter Wright, *et. al.*, *Strategic Management—Concepts and Cases*, Prentice Hall, 1996.
8. Garry Dessler, *Human Resource Management*, 2012, p. 96.
9. Arthur A. Thomson and J. Strickland, *Strategic Management*, TMH, 2003.
10. Dave Ulrich, *HR Champions*, Harvard Business Press, 2005.
11. Luis R. Gomez-Mejia, *et. al.*, *Managing Human Resources*, PHI, 2010.
12. David Mankin, *Human Resource Development*, Oxford University Press, 2010.
13. Shaun Tysor, *Essentials of HRM*, Butterworth-Heinemann, 2008.
14. Nick Wilton, *An Introduction to Human Resource Management*, Sage, 2011.
15. *The Economic Times*, dated June 27, 2007.

SECTION 2

List of Chapters

- Chapter 4:** Human Resource Planning
- Chapter 5:** Analysis of Work, Designing Jobs and Job Evaluation
- Chapter 6:** Recruiting Talent
- Chapter 7:** Selecting Right Talent

Human Resource Planning

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature and importance of HR planning.
- The factors affecting personnel planning.
- The employee planning process, delineate different stages in the process and describe each step.
- The prerequisites for successful planning and list the various barriers which render planning ineffective.

Opening Vignettes

HRP? NO, THANK YOU.

This has been the attitude of several organizations, more so in universities. Facts speak louder. It was late 1990s. A reputed South Indian University appointed 218 people on temporary basis as Group 'D' and Group 'C' employees (all in administration, typically called non-teaching). They were initially paid ₹750 per month each, which was later increased to ₹1575 per month. These appointments were made though there was no need for additional staff. Infact, the university already had surplus of theses employees who together have been eating away 22 percent of the annual budget allocations.

33 percent of these temporary staff have already put in more than 10 years of service and the remaining, a couple of years less. The services of 35 percent of them were renewed six monthly with a break of one day each time.

The services of 65 percent of the temporary employees were extended “until further order”. In the past ten plus years, that “further order” never came.

The procedure followed to appoint these 218 was slipshod. You only needed to go to the ViceChancellor with a white paper with the name of the prospective employee being scribbled on it. He or she would be taken in.

The conscience of the authorities is now pricked. They have realised their guilt of violating Equal Remuneration Act and suppressing the human rights. What to do with these 218 temporary staff who have been slogging for years drawing wages which are a pittance?

The university can dismiss services of 35 percent of the temporary staff as there have been breaks in their services. Do you think these people will take such dismissals easily and lightly? Where is the guarantee that some of them will not commit the same act as Khan and Dalvi did (see opening case to the first chapter). Can an educational institution act like business enterprise and hire and fire people?

With regard to the 65 percent of the transient staff, the University cannot possibly terminate their services, as there were no breaks.

Recently, the university made a decision to regularise the services of the provisional employees as and when vacancies arise—vacancies arising on retirement or death of permanent staff. Right now, there are 50 of such vacancies and these would be filled up soon. This would cost the university an extra expenditure of ₹30 lakh per annum. When the remaining are also regularised, the extra drain on the university exchequer would be ₹1.2 crores per annum!

When reminded about human resource planning and about its need, prompt came the reply from an employee who is going to be benefited shortly —“Human Resource Planning? No. Thank You”.

As described in the previous chapter, HR strategy is designed in tune with business strategy. In other words, HR strategy should subserve the interests of the organisation, translating firm’s goals and objectives into a consistent, integrated, and complimentary set of programmes and policies for managing people.

This does not mean that strategic HR is reactive in nature. Though, HR strategy follows business strategy, the former is developed in a proactive

manner, with HR staff attempting to design and develop appropriate HR systems to meet the anticipated conditions under which the business is functioning. The HR executive, as a member of the top level strategic team, should be involved in corporate and business unit strategies, their formulation and execution. HR needs to inform the top management team of the skills and capabilities of the firm's employees and how they might impact strategic plans.¹

The first part of human resource strategy is HRP (The second part of HR strategy—work design—will be covered in the next chapter). All other HR activities such as employee hiring, training and development, remuneration, appraisal and labour relations are derived from HRP. This chapter is devoted for a detailed discussion of the nature of HRP, factors influencing HRP, and HRP process.

NATURE OF HRP

HRP is the process of forecasting a firm's future demand for, and supply of, the right type of people in the right number.

In simple words, HRP is understood as the process of forecasting an organisation's future demand for, and supply of, the right type of people in the right number. It is only after this that the HRM department can initiate the recruitment and selection process. HRP is a sub-system in the total organisational planning. Organisational planning includes managerial activities that set the company's objectives for the future and determines the appropriate means for achieving those objectives.² As an integrated part of strategic management, HRP is variously called strategic manpower planning, or employment planning.

The expression manpower planning was prevalent during the mid-twentieth century, where statistical techniques were used to forecast and plan future employment needs. As an days went by, the scope of HRP widened and the term manpower planning could not capture the widened scope of planning. Hence, the contemporary term HRP. We may assume that HRP and employment planning convey identical meaning. However, employment planning is not found in popular usage.

Evolving Nature of HRP

Overtime, the role of HRP has evolved from that of mere projecting HR needs towards a strategic one. Earlier, HRP was a routine and isolated activity. But now it is aligned with business strategy. Scope of HRP has also widened with the passage of time. From mere projection of HR needs, HRP now is taken as the base for all other HR activities (See also [Fig. 4.1](#)).

Traditional Scope of HRP	Evolving Scope of HRP
Narrow, and reactive	Broad and proactive
Done once in a year	Carried on quarterly basis
Administrative activity carried on in isolation	Strategic activity integrated with business strategy
Co-ordination with local newspapers, agencies and relationships	Strategic alliances with recruiting firms, and targeted university, leveraging internet as a tool
Hire considering current skills and experience	Hire focusing on assessment of individual potential

Fig 4.1 *Evolving Role of HRP*

IMPORTANCE OF HRP

The fact that HRP is integrated with business strategy speaks volumes about the significance of HRP. The following points elaborate the role of HRP in today's organisations.

Personnel Needs Taken care of

Basically, HRP gives the number and type of people required in the coming period. When these numbers are adhered to, organisations will be assured of the right number and the right type of employees. In the absence of HRP, organisations tend to run the risk of shortage or problem of surplus labour force. This was the scenario post-economic reforms in India. Suddenly, organisations realised that they had excess headcount than what was required. For nearly one decade, there were downsizing, restructuring and re-layering of organisations both in public sector and private sector.

Part of Strategic Planning

As pointed out in [Chapter 3](#), HR management must become an integral part of strategic management process. All activities of HRM—planning, hiring, training, remunerating and maintaining—must be merged with strategic management.

HR planning can become part of strategic planning at two ends. At the beginning of strategic planning, HRP provides a set of inputs into the strategic formulation process in terms of deciding whether the types and numbers of people are available to pursue a given strategy. At the end of strategic planning process, HRP is relevant in terms of implementation concerns. Once the strategy is set, executives need to make resource allocation decisions, including those pertaining to structure, processes and human resources.

In most successful companies there is virtually no distinction between strategic planning and HRP; the planning cycles are the same and HR issues are seen as inherent in business management. HR managers are important facilitators of the strategic planning process and are viewed as important contributors to carve the organisation's future.³

creating Highly Talented Personnel

As was mentioned earlier, jobs are becoming highly intellectual and incumbents are getting vastly professionalised. L&T, an engineering giant, has MBAs, engineers and technicians who collectively constitute 70 per cent of the total employee strength of 20,000. The HR manager must use his/her ingenuity to attract and retain qualified and skilled personnel.

Qualified and competent people are known for job hopping, thereby creating frequent shortages in the organisation. Manpower planning helps prevent such shortages. Furthermore, technology changes will often upgrade some jobs and degrade others. Indian Telephone Industries (ITI) had a stronger technology to start with, which later developed into crossbar telephone system. This was later changed to electronic technology. Jobs created and people hired when old technologies were in use became extinct, obsolete and redundant. ITI, being a public sector undertaking, could not retrench its workers, and were subsequently retrained and redeployed to supervise the electronic system now in use. Jobs became highly technical necessitating hiring of engineers who had majored in electronics. So, ITI had

no use of engineers with civil or mechanical engineering as major. Thus, ITI is in a tight spot so far as shop-floor workers are concerned, whose number is more than the demand for them. Even with regard to electronics engineers, the company is not in a comfortable position. With its existing compensation scheme, ITI is not in a position to attract talented people. This situation could have been avoided if ITI had done HRP.*

HRP facilitates succession planning-finding a replacement for a retiring executive. Quick replacement ensures continuity of business. Any delay leads to lobbying, speculation, gossiping, confusion and lowering productivity. Replacement planning generates two questions and HRP answers them:

- Who will replace the outgoing CEO?
- From which pool of talent will the incumbent be selected and how will he/she be groomed?

Pause and Ponder

The HR manager of SSS (Pvt) Ltd., is finding it difficult to retain talent as all the top positions are held by owner's relatives. What can she do?

International Strategies

International expansion strategies depend upon HRP. The department's ability to fill key jobs with foreign nationals and the re-assignment of employees from within or across national borders is a major challenge facing international businesses. With the growing trend towards global operation, the need for HRP will grow, as well as the need to integrate HRP more closely into the organisation's strategic plans. HRP will grow increasingly important as the process of meeting staffing needs from foreign countries and the attendant cultural, language, and developmental considerations grow complex. Without effective HRP and subsequent attention to employee recruitment, selection, placement, development and career planning, the growing competition for foreign executives may lead to expensive and strategically-disruptive turnover among key decision makers.⁴

Foundation for Personnel Functions

As stated earlier, HRP provides essential information for designing and implementing personnel functions, such as recruitment, selection, personnel movement (transfers, promotions, layoffs) and training and development.⁵

HRP document is of great help in preparing job description and job specification and also in employee hiring. The fundamental duty of any HR department is to hire right people for right jobs. The perfect match between job and ability can be ensured when there is clarity about the competencies expected of a hiree. HRP provides this clarity. It provides enough inputs for the training department to design an appropriate training programme. HRP exercise shall be useful to review compensation practices and packages which would help attract and retain talent. Benefits and incentives may also be reviewed in the light of the HRP document. Linking incentives to performance may lead to embarrassing situations. Lured by higher incentives, production department may turnout more output and without matching off-take, leading to stock-piling. Similarly, sales team is earning exceptional incentives but the market share of the company has not improved. Such incentives need to be revised. What needs reconsideration is the mix of fixed and variable components in the total compensation. The prevailing practice is 60:40 (60 per cent fixed and variable is 40 per cent), but the move is to make it 50:50. Decisions on all these issues can be made keeping HRP document as the starting point.

Developing global leaders is yet another contribution from HRP. MNCs like Microsoft, Toyota and IBM have well set policies and procedures to identify potential talent and rotate such people globally so as to enable them to become world class leaders. HRP helps in identifying talent, making a list of vacant global assignments and preparing action plans for rotation.

Pause and Ponder

Paul, the subordinate to James, the production head, is always asking when he is getting promoted, but James feels, Paul is not fit for promotion. What can James do to prevent Paul from pestering?

Increasing Investments in Human Resources

Another compelling reason for HRP is the investment an organisation makes in its human resources. Human assets, as opposed to physical assets, can increase in value. An employee who gradually develops his/her skills and abilities becomes a more valuable resource. Because an organisation makes investments in its personnel either through direct training or job assignments, it is important that employees are used effectively throughout their careers. The rupee value of a trained, flexible, motivated and productive workforce is difficult to determine, although attempts are being made to do so, as in HR accounting (HRA).⁶ An increasing number of executives are acknowledging that the quality of the work force can be responsible for significant differences in short-run and long-run performances.

Pause and Ponder

How is the intellectual capital of your class or organisation? How is it evaluated?

Resistance to Change and Move

There is a growing resistance among employees to change and move. There is also a growing emphasis on self-evaluation and on evaluation of loyalty and dedication to the organisation. All these changes are making it more difficult for the organisation to assume that it can move its employees around anywhere and anytime it wants, thus increasing the importance and necessity of planning ahead.⁷

Unite the Perspectives of Line and Staff Managers

HRP helps unite the perspectives of both line as well as staff managers. Although HRP is initiated and executed by the corporate HR staff, it requires the input and cooperation of all managers within an organisation. No one knows better the needs of a particular unit or department than an individual manager responsible for the area. Communication between HR staff and line managers is essential for the success of HR planning initiatives.⁸

Other Benefits

Following are other potential benefits of HRP: 1. Upper management has a better view of the HR dimensions of business decision; 2. Personnel costs may be less because the management can anticipate imbalances before they become unmanageable and expensive; 3. More time is provided to locate talent; 4. Better opportunities exist to include women and minority groups in future growth plans; 5. Better planning of assignments to develop managers can be done;⁹ and 6. Major and successful demands on local labour markets can be made.

FACTORS AFFECTING HRP

HRP is influenced by several considerations. The more important of them are: **(i)** type and strategy of organisation, **(ii)** organisational growth cycles and planning, **(iii)** environmental uncertainties, **(iv)** time horizons, **(v)** type and quality of forecasting information, **(vi)** nature of jobs being filled, and **(vii)** off-loading the work (see Fig. 4.2).¹⁰

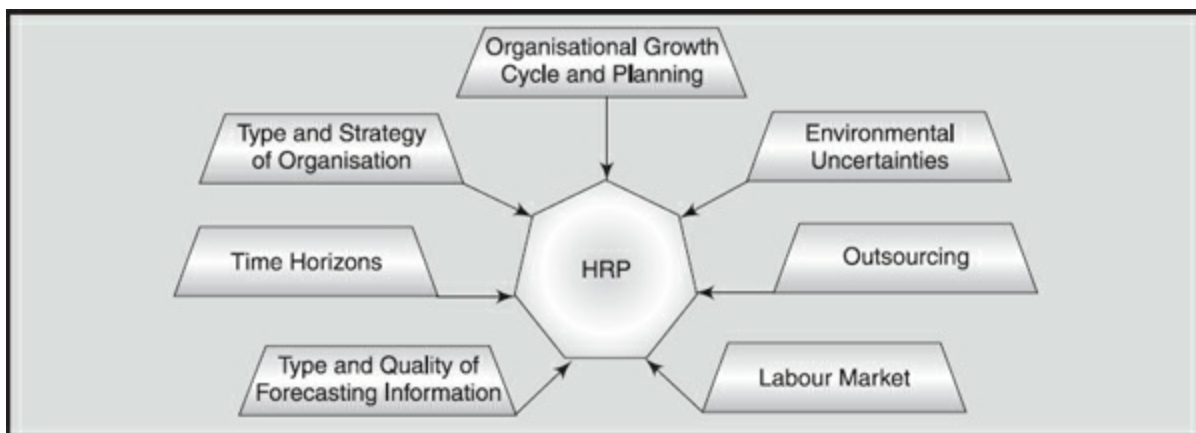


Fig. 4.2 *Factors Affecting HRP*

Type and Strategy of organisation

The type of organisation determines the production process involved and the number of staff retained. In addition, the strategic plan of the organisation defines its HR needs.

The type of organisation is an important consideration because it determines the production processes involved, number and type of staff needed, and the supervisory and managerial personnel required. Manufacturing organisations are more complex in this respect than those that render services.

The strategic plan of the organisation defines the organisation's HR needs. For example, a strategy of organic growth means that additional employees must be hired. Acquisitions or mergers, on the other hand, probably mean that the organisation will need to plan for layoffs, since mergers tend to create, duplicate or overlapping positions that can be handled more efficiently with fewer employees.

Primarily, the organisation decides either to be proactive or reactive in HRP. It can either decide to carefully anticipate the needs and systematically plan them to fill them far in advance, or it can simply react to needs as they arise. Of course, careful planning to fill HR needs better helps ensure that the organisation obtains the right number of HR people with proper skills and competencies when they are needed.

Similarly, the organisation must determine the breadth of the plan. Essentially, the organisation can choose a narrow focus by planning in only one or two HR areas, such as recruitment or selection, or it can choose a broad focus by planning in all areas including training, remuneration and so on.

The organisation must also decide upon the formality of the plan. It can decide to have an informal plan that lies mostly in the minds of the managers and personnel staff. Alternatively, the organisation can have a formalised plan which is clearly spelt out in writing, backed by documentation and data.

Finally, the organisation must make a decision on flexibility—the ability of the HR plan to anticipate and deal with contingencies. No organisation likes high levels of uncertainty. Organisations seek to reduce uncertainty by planning, which includes forecasting and predicting possible future conditions and events. HRP can contain many contingencies, which reflect different scenarios thereby assuring that the plan is flexible and adaptable.

Figure 4.3 summarises these five major choices faced by the organisations in strategic HRP. An organisation will often tend to be to the left or to the right on all continua rather than to the left on some and to the right on other, although there could be exceptions.¹¹ A company could be at one end of the

extreme on some plan characteristics and at the other end on other.

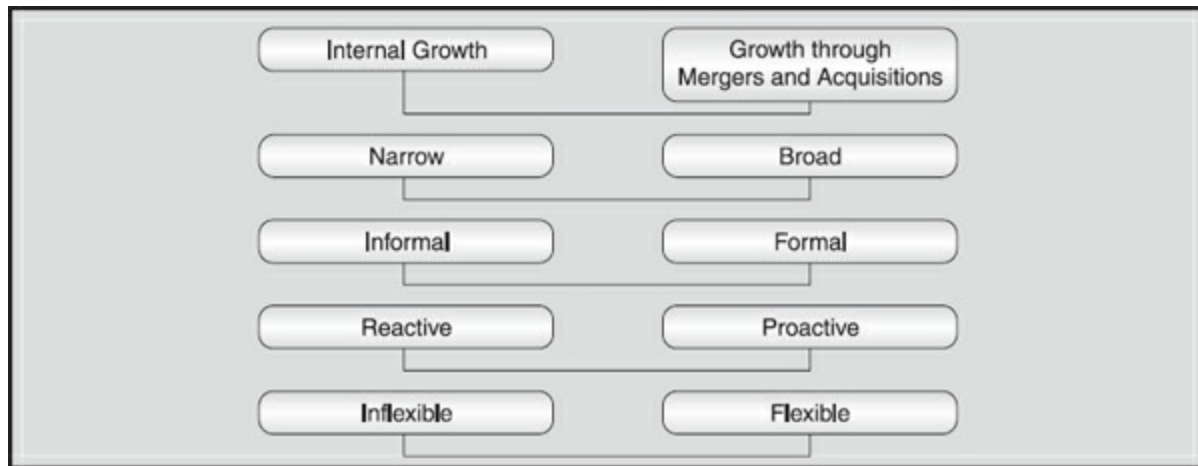


Fig. 4.3 *Continual Strategic Choices in Human Resource Planning*

Source: Adapted from Strategic Human Resource Management by William P. Anthony, et al., p. 181.

Organisational Growth Cycles and Planning

The stage of an organisation's growth can have considerable influence on HRP. Small organisations in the embryonic stage may not have personnel planning.

Need for planning is felt when the organisation enters the growth stage. HR forecasting becomes essential. Internal development of people also begins to receive attention in order to keep up with the growth.

A mature organisation experiences less flexibility and variability. Growth slows down. The workforce becomes old as few younger people are hired. Planning becomes more formalised and less flexible and innovative. Issues like retirement and possible retrenchment dominate planning.

Finally, in the declining stage, HRP takes a different focus. Planning is done for layoff, retrenchment and retirement. Since decisions are often made after serious financial and sales shocks are experienced by the organisation, planning is often reactive in nature.

Pause and Ponder

A five year old firm finally broke even in the fifth year of its existence. For the sixth year business plan, the management wants to double the firm's headcount to meet the business goals. What do you suggest?

Environmental Uncertainties

HR managers rarely have the privilege of operating in a stable and predictable environment. Political, social and economic changes affect all organisations. Personnel planners deal with environmental uncertainties by carefully formulating recruitment, selection, and training and development policies and programmes. Balancing mechanisms are built into the HRM programme through succession planning, promotion channels, layoffs, flexitime, job sharing, retirement, VRS and other personnel related arrangements.¹²

Time Horizon

Yet another major factor affecting personnel planning is the time horizon. On one hand, there are short-term plans spanning six months to one year. On the other hand, there are long-term plans which spread over three to twenty years. The exact time span, however, depends on the degree of uncertainty prevailing in an organisation's environment. Plans for companies operating in an unstable environment, computers for example, must be for a short period.¹³ Plans for others where environment is fairly stable, for example a university plan, may be long-term. In general, the greater the uncertainty, the shorter the plan's time horizon and vice versa. [Table 4.1](#) summarises the degree of uncertainty and the length of the plan period.

Table 4.1 *Degree of Uncertainty and Length of Planning Period*

<i>Short Planning Period— Uncertainty/Instability</i>	<i>Long Planning Period— Certainty/Stability</i>
Many new competitors	Strong competitive position
Rapid changes in social and	Evolutionary, rather than

economic conditions	rapid social, political and technological change
Unstable product/service demand patterns	Stable demand patterns
Small organisational size, poor management practices (crisis management)	Strong management practices.

Source: Elmer H. Burack and Nicholas J. Mathis, *Human Resource Planning—A Pragmatic Approach to Manpower Staffing and Development*, Illinois, Brace-Park Press, 1987, p. 129.

Type and Quality of Information

The information used to forecast personnel needs originates from a multitude of sources. A major issue in personnel planning is the type of information which should be used in making forecasts. [Table 4.2](#) illustrates the type and levels of forecasting information useful to personnel planners.

Closely related to the type of information is the quality of data used. The quality and accuracy of information listed in [Table 4.2](#) depend upon the clarity with which the organisational decision makers have defined their strategy, organisational structure, budgets, production schedules and so forth. In addition, the HR department must maintain well-developed job-analysis information and HR information systems (HRIS) that provide accurate and timely data.¹⁴ Generally speaking, organisations operating in stable environments are in a better position to obtain comprehensive, timely and accurate information because of longer planning horizons, clearer definition of strategy and objectives, and fewer disruptions.

Table 4.2 *Levels of HRP Information*

<i>Strategic Information</i>	<i>General Organisational Information</i>	<i>Specific Information Necessary for HRP</i>
Product mix	Organisational structure	Job analysis
Customer mix	Information flows	Skills inventories
Competitive emphasis	Operating and capital budgets	Management inventories
Geographic limits of market	Functional area objectives	Available training and development programmes
	Production schedules	Recruitment sources
	Distribution channels	Labour market analysis
	Sales territories	Compensation programmes
	Production processes	Constitutional provisions and labour laws
	Level of technology	Retirement plans
	Planning horizons	Turnover data

Source: Leap & Crino, *Personnel/Human Resource Management*, p. 161.

Labour Market

Labour market comprises people with skills and abilities that can be tapped as and when the need arises. Thanks to the mushrooming of educational, professional and technical institutions adequately trained human resource is always available on the market. Nevertheless, shortages do occur. For example, the Confederation of Indian Industry (CII) estimates that by 2015, India will be requiring 30 million additional skilled workers in sectors such as health care, banking and financial services, retail, auto and construction. It is doubtful whether so many skilled workers would be available in the country.

When one talks about labour supply, the following deserve due consideration:

- The size, age, sex and educational composition of the population
- The demand for goods and services in the country
- The nature of production technology
- Employability of the people

Outsourcing

Outsourcing of non-critical activities through subcontracting or ancillarisation determines HRP

Several organisations outsource part of their work to outside parties either in the form of sub-contracting or ancillarisation. Outsourcing is a regular feature both in the public sector as well as in the private sector. Most organisations have surplus labour and they do not want to worsen the problem by hiring more people. Hence, the need for off-loading.

Some organisations are known to carry the concept of off-loading to ridiculous lengths. One of the Bangalore-based public sector undertakings outsources major part of its work, and in the process, the regular employees sit idle. Kickbacks from owners of ancillary units are the cause for such ancillarisation. HRP is rarely required in such circumstances.

Pause and Ponder

Triple X Ltd. decides to outsource majority of its HR activities. What to do with the present HR staff?

THE PLANNING PROCESS

HRP essentially involves forecasting personnel needs, assessing personnel supply and matching demand-supply factors through personnel-related programmes. The planning process is influenced by overall organisational objectives and the environment of business. [Figure 4.4](#) illustrates the planning process.

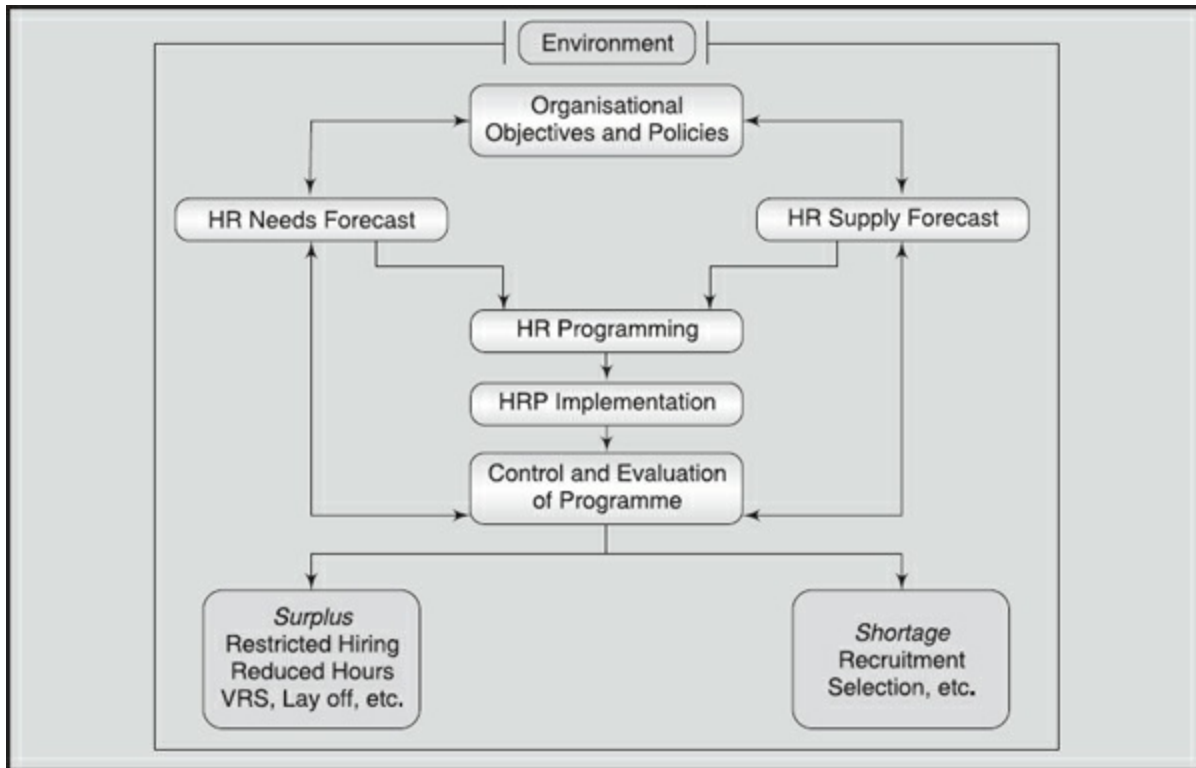


Fig. 4.4 *The HRP Process*

Environmental Scanning

Environmental scanning refers to the systematic monitoring of the external forces influencing the organisation. Managers monitor several forces but the following are pertinent for HRP:

- Economic factors, including general and regional conditions.
- Technological changes, including robotics and automation.
- Demographic changes, including age, composition and literacy.
- Political and legislative issues, including laws and administrative rulings.
- Social concerns, including child care, and educational facilities and priorities.

By scanning the environment for changes that will affect an organisation, managers can anticipate their impact and make adjustments early.

Organisational Objectives and Policies

HR plans need to be based on organisational objectives. In practice, this implies that the objectives of the HR plan must be derived from organisational objectives. Specific requirements in terms of number and characteristics of employees should be derived from the organisational objectives.

As was stated in the previous chapter, organisational objectives are defined by the top management and the role of HRP is to subserve the overall objectives by ensuring availability and utilisation of human resources.

Once the organisational objectives are specified, communicated and understood by all concerned, the HR department must specify its objectives with regard to HR utilisation in the organisation. In developing these objectives, specific policies need to be formulated to address the following questions:¹⁵

1. Are vacancies to be filled by promotions from within or hiring from outside?
2. How do the training and development objectives interface with the HRP objectives?
3. What union constraints are encountered in HRP and what policies are needed to handle these constraints?
4. How to enrich employee's job? Should the routine and boring jobs continue or be eliminated?
5. How to downsize the organisation to make it more competitive?
6. To what extent production and operations be automated and what can be done about those displaced?
7. How to ensure continuous availability of adaptive and flexible workforce?

HR Demand forecast

Demand forecasting is the process of estimating the future quantity and quality of people required. The basis of the forecast must be the annual budget and long-term corporate plan, translated into activity levels for each function and department. In a manufacturing company, the sales budget would be translated into a production plan giving the number and type of products to be produced in each period. From this information, the number of hours to be worked by each skilled category to make the quota for each

period, would be computed.¹⁶ Once the hours are available, determining the quality and quantity of personnel will be the logical step.

Demand forecasting must consider several factors—both external as well as internal. Among the external factors are competition (foreign and domestic), economic climate, laws and regulatory bodies, changes in technology, and social factors. Internal factors include budget constraints, production levels, new products and services, organisational structure, and employee separations. Demand forecasting is common among organisations, though they may not do personnel-supply forecasting.

Demand forecasting is the process of estimating the quantity and quality of people required to meet future needs of the organisation.

There are several good reasons to conduct demand forecasting.¹⁷ It can help: **(i)** quantify the jobs necessary for producing a given number of goods, or offering a given amount of services; **(ii)** determine what staff-mix is desirable in the future; **(iii)** assess appropriate staffing levels in different parts of the organisation so as to avoid unnecessary costs; **(iv)** prevent shortages of people where and when they are needed most; and **(v)** monitor compliance with legal requirements with regard to reservation of jobs.

Forecasting Techniques Forecasting techniques vary from simple to sophisticated ones. Before describing each technique, it may be stated that organisations generally follow more than one technique. The techniques are:

1. Managerial judgement
2. Ratio-trend analysis
3. Regression analysis
4. Work study techniques
5. Delphi technique
6. Flow models
7. Others (See [Fig. 4.5](#))

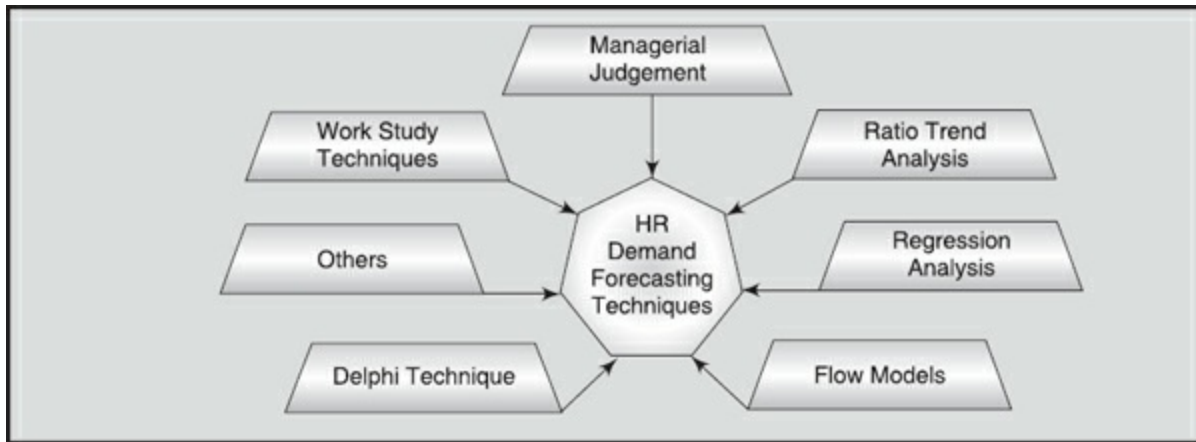


Fig. 4.5 *Techniques of HR Demand Forecasting*

Managerial Judgement This technique is very simple. In this, managers sit together, discuss and arrive at a figure which would be the future demand for labour. The technique may involve a ‘bottom-up’ or a ‘top-down’ approach. In the first, line managers submit their departmental proposals to top managers who arrive at the company forecasts. In the ‘top-down’ approach, top managers prepare company and departmental forecasts. These forecasts are reviewed with departmental heads and agreed upon. Neither of these approaches is accurate—a combination of the two could yield positive results. In the ‘bottom-up’ and ‘top-down’ approaches, departmental heads are provided with broad guidelines. Armed with such guidelines, and in consultation with the HRP section in the HRM department, departmental managers can prepare forecasts for their respective departments. Simultaneously, top HR managers prepare company forecasts. A committee comprising departmental managers and HR managers will review the two sets of forecasts, arrive at unanimity, which is then presented to top managers for their approval. [Table 4.3](#) is a typical forecast prepared using this technique. Needless to say, this technique is used in smaller organisations or in those companies where sufficient data-base is not available.

Table 4.3 *Staff Forecast Form*

Category of Staff.	Year		
<i>Staff Members and Movements</i>	<i>No. of Staff to be Provided</i>	<i>Remarks</i>	
1. Number of staff at 1.1 (excluding known resignations)	75	—	Age groups: Under 25 30 25–34 20 35–44 15 45 and over 10 (dates to be specified)
2. (a) Expected retirements, transfers out and promotions during year	8		
(b) Less expected transfers in, promotions and new appointments already made	3	5	
3. (a) Number of staff required on 1 January, next year	80		Increase in number to be substantiated by O&M report
(b) Less present staff	75	5	
4. Expected staff losses due to normal wastage of existing staff	15	15	Estimated by age groups: Under 25 12 25–34 2 35–44 1 45 and over —
5. Expected losses of staff to be recruited in the period	5	5	Short service staff turnover at 20% of 25 (events 2 + 3 + 4 above)
6. Total staff to be provided during the period		30	5 to be recruited by 1 February, others to be programmed later

Ratio-trend Analysis This is the quickest forecasting technique. The technique involves studying past ratios, say, between the number of workers and sales in an organisation and forecasting future ratios, making some allowance for changes in the organisation or its methods. Table 4.4 shows how an analysis of actual and forecast ratios, between the number of routine proposals to be processed by an insurance company’s underwriting department and the number of underwriters employed could be used to forecast future requirement.¹⁸

Ratio trend analysis involves studying past ratios and forecasting future ratios making some allowances for changes in the organisation or its methods.

Regression Analysis This is similar to ratio-trend analysis in that forecast is based on the relationship between sales volume and employee size. However, regression analysis is more statistically sophisticated. A firm first draws a diagram depicting the relationship between sales and workforce size. It then calculates regression line—a line that cuts right through the center of the points on the diagram. By observing the regression line, one can find out number of employees required at each volume of sales (see also Fig. 4.6).

Table 4.4 Demand Forecast—Inspectors

	Year	No. of Employees		Ratio
		Production	Inspector	Inspector : Production
Actual	-3	1500	150	1 : 10
	-2	1800	180	1 : 10
	Last year	2000	180	1 : 11
Forecast	Next year	2200*	200†	1 : 11
	+2	2500*	210†	1 : 12
	+3	2750	230†	1 : 12

*Calculated by reference to forecast activity levels.
†Calculated by applying forecast ratio to forecast activity levels.

Source: Tables 4.3 and 4.4 are based on *A Handbook of Personnel Management Practices* by Michael Armstrong, pp. 208–209.

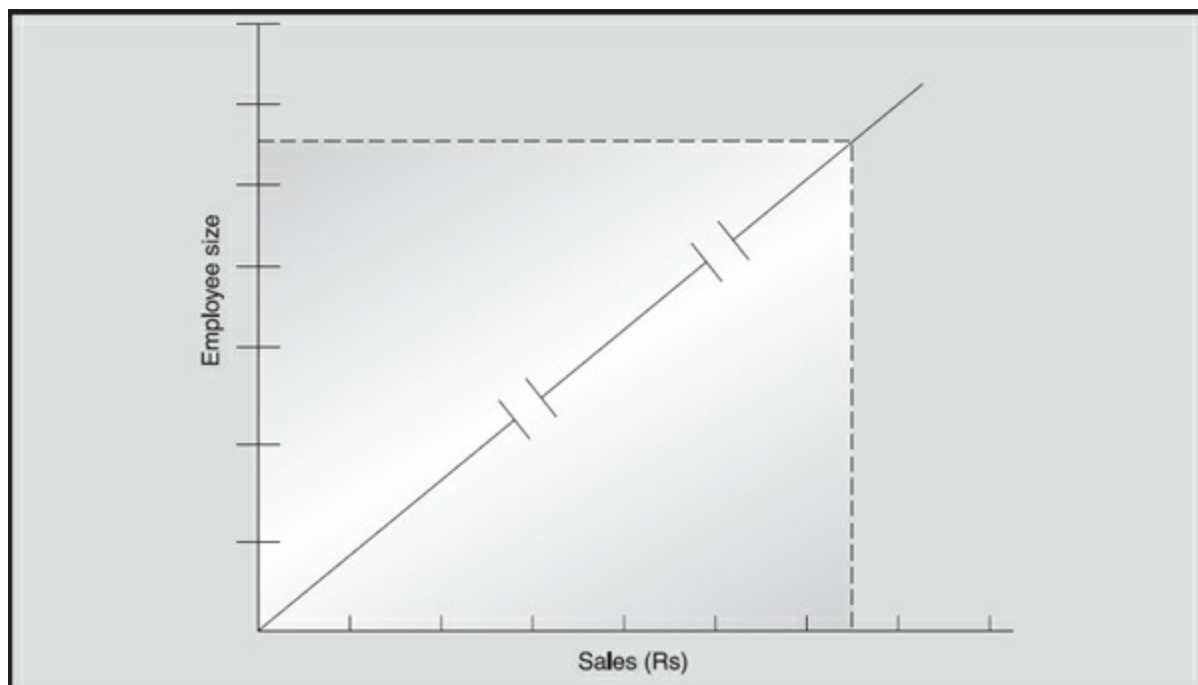


Fig. 4.6 *Regression line Showing Relationship between Sales and Employee Size*

Work-study Techniques Work-study techniques can be used when it is possible to apply work measurement to calculate the length of operations and the amount of labour required. The starting point in a manufacturing company is the production budget, prepared in terms of volumes of saleable products for the company as a whole, or volumes of output for individual departments. The budgets of productive hours are then compiled using standard hours for direct labour. The standard hours per unit of output are then multiplied by the planned volume of units to be produced to give the total number of planned hours for the period. This is then divided by the number of actual working hours for an individual operator to show the number of operators required. Allowance will have to be made for absenteeism and idle time. Following is a highly simplified example of this procedure:¹⁹

1. Planned output for next year	20,000 units
2. Standard hours per unit	5
3. Planned hours for the year	1,00,000
4. Productive hours per man/year (allowing normal overtime, absenteeism and idle time)	20,000 units
5. Number of direct workers required (3/4)	50

Work-study techniques for direct workers can be combined with ratio-trend analysis to forecast for indirect workers, establishing the ratio between the two categories. The same logic can be extended to any other category of employees.

Delphi Technique Named after the ancient Greek Oracle at the city of Delphi, the Delphi technique is a method of forecasting personnel needs. It solicits estimates of personnel needs from a group of experts, usually managers. The HRP experts act as intermediaries, summarise the various responses and report the findings back to the experts. The experts are surveyed again after they receive this feedback. Summaries and surveys are repeated until the experts' opinions begin to agree. The agreement reached is the forecast of the personnel needs. The distinguishing feature of the Delphi technique is the absence of interaction among experts.

Flow Models Flow models are very frequently associated with forecasting personnel needs. The simplest one is called the Markov model. In this technique, the forecasters will:²⁰

1. Determine the time that should be covered. Shorter lengths of time are generally more accurate than longer ones. However, the time horizon depends on the length of the HR plan which, in turn, is determined by the strategic plan of the organisation.
2. Establish categories, also called *states*, to which employees can be assigned. These categories must not overlap and must take into account every possible category to which an individual can be assigned. The number of states can neither be too large nor too small.
3. Count annual movements (also called 'flows') among states for several time periods. These states are defined as *absorbing* (gains or losses to the company) or *non-absorbing* (change in position levels or employment status). Losses include death or disability, absences, resignations and retirements. Gains include hiring, rehiring, transfer and movement by position level.
4. Estimate the probability of transitions from one state to another based on past trends. Demand is a function of replacing those who make a transition.

There are alternatives to the simple Markov model. One, called the semi-Markov, takes into account not just the category but also the *tenure of individuals in each category*. After all, likelihood of movement increases with tenure. Another method is called the *vacancy model*, which predicts probabilities of movement and number of vacancies. While the semi-Markov model helps estimate movement among those whose situations and tenure are similar, the vacancy model produces the best results for an organisation.

Markov analysis is advantageous because it makes sense to decision makers. They can easily understand its underlying assumptions. They are, therefore, likely to accept results. The disadvantages include:

- (i) heavy reliance on past-oriented data, which may not be accurate in periods of turbulent change, and
- (ii) accuracy in forecasts about individuals is sacrificed to achieve accuracy across groups.

Other Forecasting Techniques *New venture analysis* will be useful when

new ventures contemplate employment planning. This technique requires planners to estimate HR needs in line with companies that perform similar operations. For example, a petroleum company that plans to open a coal mine can estimate its future employment needs by determining employment levels of other coal mines.

As in other fields, *mathematical models* are used in human need forecasting too. One such widely used technique is the one given below:²¹

$$E_n = \frac{(Lagg + G_n)^{1/x}}{y}$$

where, E_n is the estimated level of personnel demand in n planning periods (e.g. years).

$Lagg$ is the overall or aggregate level of current business activity in rupees. G_n is the total growth in business activity anticipated through period n in today's rupees.

x is the average productivity improvement anticipated from today through planning period n (e.g. if $x = 1.08$, it means an average productivity improvement of 8 per cent).

y is a conversion figure relating today's overall activity to personnel required (total level of today's business activity divided by the current number of personnel). It reflects the level of business activity per person.

The main purpose of this model is to predict E_n , the level of personnel necessary in n periods. Prior to applying this model, estimates of G_n , x and y must be made. Such estimates may be based on the previous experiences of management, as well as on future strategic choices to which the organisation's decision makers are committed.²²

As was stated earlier, organisations follow more than one technique for forecasting their peoples' needs. L&T, for example, follows 'bottom-up' of management judgement and work-study techniques for demand forecasting. Forecasting process in L&T begins during November of every year. The department heads prepare their personnel estimates (based on details of production budget supplied to them) and submit the estimates to the respective personnel managers (L&T has 11 plants in our country). The personnel heads will review the estimates with the departmental heads and

will send final reports to the Mumbai office where a centralised HR department is located. Estimates are reviewed by the HR department and final figures are made known to those personnel managers who initiate steps to hire the required number of people in the following year. The forecast is made for a quinquennium, but is broken down to yearly requirements.

Pause and Ponder

In today's unpredictable environment, it is difficult to project HR demands beyond a six month time line. Debate.

Use of Demand Forecasting Techniques

Table 4.5 shows the use of demand forecasting techniques by organisations (US). As seen from the table, 70 percent of the companies use supervisor estimates (another name for managerial judgements) and the famous Delphi technique finds its acceptance only among three percent of the sample organisations.

Table 4.5 *Demand Forecasting Techniques*

<i>Techniques</i>	<i>% of companies using technique</i>
Supervisor Estimates	69.7
Succession Planning or Replacement Charts	65.2
Rules of Thumb or Non-statistical Formulas	37.9
Computer Simulation	18.2
Trend Extrapolation	12.1
	9.1

Regression Analysis

Delphi Technique

3.0

(Source: Charles Greer, *Strategic Human Resource Management*, p. 184)

HR Supply Forecast

Personnel demand analysis provides the manager with the means of estimating the number and kind of employees that will be required. The next logical step for the management is to determine whether it will be able to procure the required number of personnel and the sources for such procurement. This information is provided by supply forecasting, also called bench forecasting. Supply forecasting measures the number of people likely to be available from within and outside an organisation, after making allowance for absenteeism, internal movements and promotions, wastage and changes in hours, and other conditions of work.²³

Supply forecast determines whether the HR department will be able to procure the required number of personnel. Specifically, supply forecast measures the number of people likely to be available from within and outside an organisation.

Just as there are valid reasons why companies make demand forecast, there are enough arguments for supply forecast. In fact, fewer organisations estimate HR supplies than demand. Reasons for supply forecast are that it: (i) helps quantify number of people and positions expected to be available in future to help the organisation realise its plans and meet its objectives; (ii) helps clarify likely staff mixes that will exist in the future; (iii) assess existing staffing levels in different parts of the organisation; (iv) prevents shortage of people where and when they are most needed, and (v) monitors expected future compliance with legal requirements of job reservations.

The supply analysis covers:

1. Existing human resources,
2. Internal sources of supply, and

3. External sources of supply.

Present Employees Analysis of *present employees* is greatly facilitated by HR audits. HR audits summarise each employee's skills and abilities. The audits of non-managers are called *skills inventories* and those of the management are called *management inventories*. Whatever name is used, an inventory catalogues each employee's skills and abilities.²⁴ This summary gives planners a comprehensive understanding of the capabilities found in the organisation's workforce.

Skills Inventories Skills inventories consolidate information about non-managers in the organisation. Because the information from skills inventories is used as input for transfer and promotion decisions, they should contain information about each employee's current job. Seven broad categories of information are included in each skills inventory. They are:

1. Personal data—age, sex, marital status.
2. Skills—education, job experience, training.
3. Special qualifications—membership in professional bodies, special achievements.
4. Salary and job history—present and past salary, dates of pay raises, various jobs held.
5. Company data—benefit plan data, retirement information, seniority.
6. Capacity of individual—scores on psychological and other tests, health information.
7. Special preference of individual—geographic location, type of job.

Pause and Ponder

Can you make a comprehensive list of skills a successful individual should possess? Can you break them down on occupation/job-wise?

The popularity of skills inventories has increased with the proliferation of computers. Although traditionally, most of the desired information was available from individual personnel files, compiling was time consuming before computers became readily available. Use of computers for collecting,

storing, maintaining, retrieving and validating HR data is popularly called the human resource information system (HRIS). (Read Exhibit 4.1 for more details.)

Exhibit 4.1 Human Resource Information System

A human resource information system (HRIS) is a systematic procedure for collecting, storing, maintaining, retrieving and validating data needed by an organisation about its human resources. The HRIS is usually a part of the organisation's larger management information system (MIS). The HRIS need not be complex or even computerised. But computerisation has its own advantage of providing more accurate and timely data for decision making.

The areas of application of HRIS are many. Some of them include training management, risk management, turnover analysis, succession planning, flexible-benefits administration, compliance with government and legal requirements, attendance reporting and analysis, HRP, accident reporting and prevention, strategy planning, financial planning and other related areas.

STEPS IN IMPLEMENTING AN HRIS

As with any major change, proper planning is an absolute necessity for successful implementation of an HRIS. The steps outlined below describe the specific procedures involved in successfully developing and implementing an HRIS.

Step 1 *Inception of Idea* The idea for having an HRIS must originate somewhere. The originator of the idea should prepare a preliminary report showing the need for an HRIS and what it can do for the organisations.

Step 2 *Feasibility Study* Feasibility study evaluates the present system and details the benefits of an HRIS. It evaluates the costs and benefits of an HRIS.

Step 3 *Selecting a Project Team* Once the feasibility study has been accepted and the resources allocated, a project team should be selected. The

project team should consist of an HR representative who is knowledgeable about the organisation's HR functions and activities and about the organisation itself and representatives from both management information systems and payroll. As the project progresses, additional clerical people from the HR department will need to be added.

Step 4 *Defining the Requirements* A statement of requirements specifies in detail exactly what the HRIS will do. A large part of the statement of requirements normally deals with the details of the reports that will be produced. Naturally, the statement also describes other specific requirements. This typically includes written descriptions of how users collect and prepare data, obtain approvals, complete forms, retrieve data, and perform other non-technical tasks associated with HRIS use. The key here is to make sure that the mission of the HRIS truly matches management's needs for an HRIS.

Step 5 *Vendor Analysis* This step determines what hardware and software are available that will best meet the organisation's needs for the lowest price. This is a difficult task. The best approach is usually not to ask vendors *if* a particular package can meet the organisation's requirements but *how* it will meet those requirements. The results of this analysis will determine whether to purchase an 'off-the-shelf' package or develop the system internally.

Step 6 *Package Contract Negotiation* After a vendor has been selected, the contract must be negotiated. The contract stipulates the vendor's responsibilities with regard to software, installation, service, maintenance, training, and documentation.

Step 7 *Training* Training usually begins as soon as possible after the contract has been signed. First, the members of the project team are trained to use the HRIS. Towards the end of the implementation, the HR representative will train managers from other departments in how to submit information to the HRIS and how to request information from it.

Step 8 *Tailoring the System* This step involves making changes to the

system to best fit the needs of the organisation. A general rule of thumb is not to modify the vendor's package, because modifications frequently cause problems. An alternative approach is to develop programs that augment the vendor's program rather than altering it.

Step 9 *Collecting the Data* Prior to start-up of the system, data must be collected and entered into the system.

Step 10 *Testing the System* Once the system has been tailored to the organisation's needs and the data entered, a period of testing follows. The purpose of the testing phase is to verify the output of the HRIS and to make sure it is doing what it is supposed to do. All reports should be critically analysed for accuracy.

Step 11 *Starting Up* Start-up begins when all the current actions are put into the system and reports are produced. It is wise to attempt start-up during a lull period so that maximum possible time can be devoted to the HRIS. Even though the system has been tested, some additional errors often surface during start-up.

Step 12 *Running in Parallel* Even after the new HRIS has been tested, it is desirable to run the new system in parallel with the old system for a period of time. This allows for the comparison of outputs of both the system and examination of any inaccuracies.

Step 13 *Maintenance* It normally takes several weeks or even months for the HR people to feel comfortable with the new system. During this stabilisation period, any remaining errors and adjustments should be handled.

Step 14 *Evaluation* After the HRIS has been in place for a reasonable length of time, the system should be evaluated. Is the HRIS right for the organisation and is it being properly used?

Following the above steps when implementing an HRIS will not guarantee success, but it will increase the probability.

Source: Loyal L. Byars and Lesile W. Rue, *Human Resource Management*, McGraw-Hill, pp. 526–527.

A properly designed and updated skills-inventory system permits management to readily identify employees with particular skills in order to satisfy the changing needs of the company.²⁵

HRIS is not just useful in human resource planning. Its uses extend to the whole gamut of HRM as Fig. 4.7 indicates.

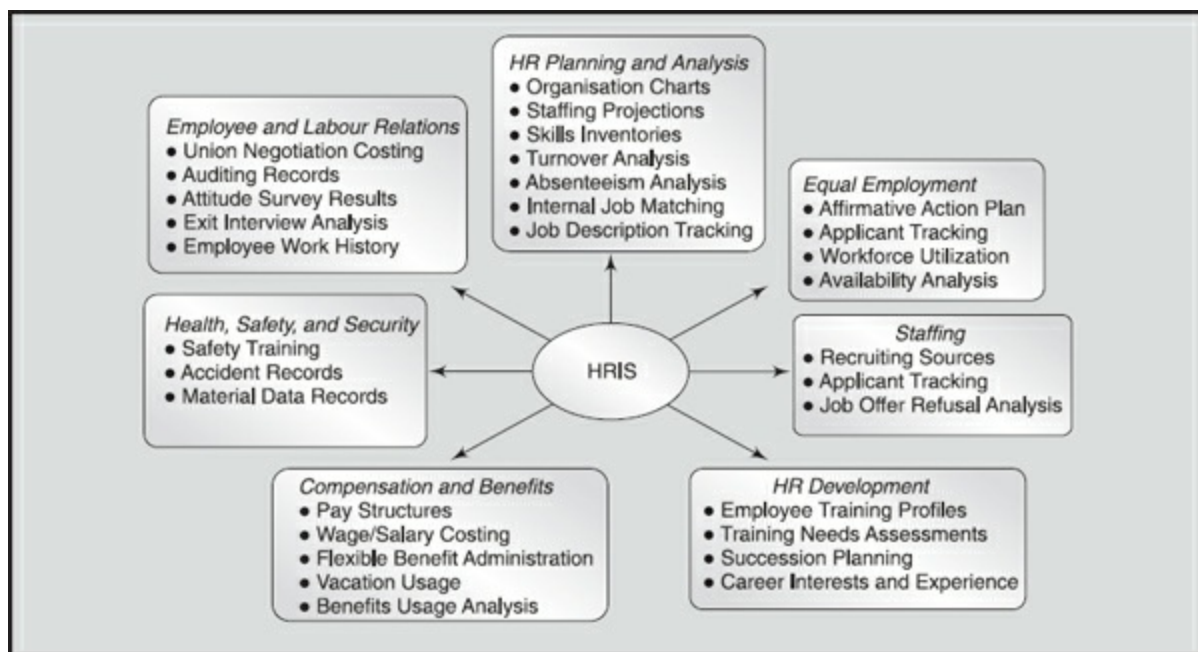


Fig. 4.7 Uses of a Human Resource Information System (HRIS)

Source: Adapted from *Human Resource Management* by Robert L. Mathis and John H. Jackson, p. 57.

Management Inventories These include such data as:

- Work history
- Strengths
- Weaknesses—identification of specific training programmes needed to remove the weaknesses
- Promotion potential
- Career goals
- Personal data²⁶
- Number and types of employees supervised

- Total budget managed
- Previous management duties
- Educational background
- Current job performance
- Field of specialisation
- Job preferences
- Geographic preferences
- Anticipated retirement date
- Personal history including psychological assessments.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Treat HRP as on-going process in today's economic down turn</i> • <i>Carefully analyse each and every business request to increase headcount</i> • <i>Forecast HR demand based on detailed business projections</i> • <i>Once HRP is finalised, it becomes commitment. Take another look at details</i> 	<ul style="list-style-type: none"> • <i>Get carried away by models and techniques of demand forecasting</i> • <i>Assume that every HR need should be filled by hiring externally</i> • <i>Forget that HR process is owned by the management and facilitated by your team</i> • <i>Forget that historical details are only one set of inputs. Current and future trends are critical determinants of resource needs</i>

Inventories of human resources are generally computerised and updated periodically. Updating is done at least once in two years. Before updating, employees are encouraged to report major changes, if any, in their careers—such as acquisition of new skills, completion of university degrees, changed duties, seminars attended, papers published, and the like.

Internal Supply Armed with HR audits, planners can proceed with the analysis of internal supply. The techniques generally used for the purpose are: **(i)** inflows and outflows, **(ii)** turnover rate, **(iii)** conditions of work and

absenteeism, (iv) productivity level, and (v) movement among jobs.

Inflows and Outflows The simplest way to forecast internal supply is the inflows and outflows method. The method is illustrated in [Table 4.6](#).

Table 4.6 Estimation of Internal Supply for a Word Processing Job

Sources of Inflows	No. of People		Sources of Outflows	No. of People
Transfers in	12	→	Resignations	13
Promotions in	10	→	Discharges	2
			Demotions	4
			Retirements	10
			Promotions	13
Total inflows	22		Total Outflows	42
Current Personnel Level → 250 Operators Current personnel level – outflows + inflows = internal supply of word processors $250 - 42 + 22 = 230$ processors				

Source: Leap and Crino, *Personnel/Human Resource Management*, p. 172.

[Table 4.6](#) provides an analysis of gains and losses of personnel for a particular job, that of a word processor, in a hypothetical organisation. The sources of losses and gains are enumerated and projected for a specific time period (e.g. a fiscal year). Total losses (42) are then subtracted from the current personnel level (250) and total gains are added (22) to determine the expected level of personnel at the end of the planning period (230). This figure must, then, be viewed in conjunction with the anticipated demand for word processors, in order to determine whether or not adjustments will be necessary (reconciliation of supply and demand) and to ensure that the supply will equal the demand.

A major concern associated with the approach taken in [Table 4.6](#) is how the determination of the number of losses (transfers, resignations, discharges, promotions and so forth) and gains (promotions and transfers) is made. In certain cases such as transfers, promotions and retirements, it is possible to make very accurate estimate because specific employees might have been earmarked for promotions and transfers or some others might have announced their retirement plans. Estimates of losses due to resignations, discharges, or demotions must be made through individual or group judgements or by examining past turnover ratios. It should be remembered

that resignations (voluntary turnover) are often affected by labour-market conditions, the organisation's promotion policy, and job vacancies within the organisation.²⁷ Therefore, if these factors change, loss ratios based on previous experience may not be reliable indicators of future turnover.

Turnover Rate Turnover rate is the traditional and simple method of forecasting internal supply. Stated mathematically, the turnover rate is:

$$\frac{\text{Number of separations during one year}}{\text{Average number of employees during the year}} \times 100$$

For example, if in a year, 30 out of an average force of 150 skilled fitters of a company left, (20 per cent turnover), and this trend continued, then the company will have to recruit 110 fitters during the following year, in order to increase and hold the labour force at 200 in that year (50 extra fitters, plus 40 to replace the 20 per cent separations of the average 200 fitters employed, plus 20 per cent to replace separations of the 90 recruits).²⁸

Conditions of Work and Absenteeism Changes in conditions of work such as normal weekly working hours, overtime policies, the length and timing of holidays, retirement policy, the policy for employing part-timers and shift systems need to be assessed.

Absenteeism is understood as unauthorised absence from work. Stated differently, it amounts to absenteeism when an employee is scheduled to work but fails to report for duty.

Mathematically, absenteeism is calculated thus:

$$\frac{\text{Number of persons – days lost}}{\text{Average number of persons} \times \text{number of working days}} \times 100$$

Absenteeism obviously reduces the number of employees available for work. If the absenteeism rate is four per cent, only 96 out of 100 people are available for work. The effect of absenteeism on the future supply of labour should be allowed for, and trends in absenteeism should be analysed to trace causes and prescribe remedial actions.

Productivity Level Any change in productivity would affect the number of persons required per unit of output. Increase in productivity will reduce the requirement, and decrease in it would have the opposite effect. Let us assume the average sales per person in a year amounts to ₹500,000. Reviews of changes in productivity levels reveal that sales per person have been increasing at the rate of 10 per cent per year. If the next year's projected sales are ₹500,00,000, there would be no need for 100 sales persons (₹500,00,000 divided by ₹;500,000), but rather for only 91 sales persons since we expect an increase of ₹550,000 in productivity per person.

Movement among Jobs Some jobs are sources of personnel for other jobs. For example, secretaries may be obtained by the promotion of word processors, and branch managers are obtained from a pool of section managers. If, for example, we anticipate a need for five new branch managers seven years from now, more than five potential branch managers should have entered the company this year, assuming that seven years is the average development time.²⁹ Obviously, some will quit before the seven years are up and others may not qualify for promotion.

Pause and Ponder

ABZ Corporation's HR team proposes a HR plan where 50 people are hired at the start of the year and 40 are laid-off at the end of the year. What is your opinion about the proposal?

External Supply In addition to internal supply, the organisation needs to look out for prospective employees from external sources. External sources are important for specific reasons: **(i)** new blood and new experience will be available, **(ii)** organisation needs to replenish lost personnel, and **(iii)** organisational growth and diversification create the needs to use external sources to obtain additional number and type of employees.

Sources of external supply vary from industry to industry, organisation to organisation, and also from one geographical location to another. Some organisations have found that their best source of future employees are colleges and universities, while others achieve excellent results from

consultants, competitors or unsolicited applications.

HR Programming

Once an organisation's personnel demand and supply are forecast, the two must be reconciled or balanced in order that vacancies can be filled by the right employees at the right time. HR programming, the third step in the planning process (see [Fig. 4.4](#)), therefore, assumes greater importance.

HR Plan Implementation

Implementation requires converting an HR plan into action. A series of action programmes are initiated as a part of HR plan implementation. Some such programmes are recruitment; selection and placement; training and development; retraining and redeployment; the retention plan; the redundancy plan; and the succession plan. All these actions will be covered in detail in subsequent chapters. In this context, a brief note of each is given (see also [Fig. 4.8](#)).

Recruitment, Selection and Placement After the job vacancies are known, efforts must be made to identify sources and search for suitable candidates. The selection programme should be professionally designed and, among other considerations, special care must be taken to ensure compliance with the reservation policies of the government.

Usually, companies hire for specific job openings. However, some companies hire a group of qualified individuals (management trainees, for example), not for specific jobs. In these cases, the groups of trainees move through a variety of assignments, over a year or two, and then they are placed on specific jobs. An effort is made to match individual job preferences and qualifications with organisational needs.

Employees are hired when there are job vacancies. However, employers should consider other alternatives to hiring additional full-time employees. For instance, employers might encourage employees nearing retirement age to continue working by building an increment in the pension formula to reward extra years of service more heavily, or they might re-hire retired employees on a part-time basis. If vacancies are caused by high turnover,

employers should attempt to identify the causes of turnover and employ remedial measures. If successful, this course of action would save recruiting and training costs and might substantially improve employees' attitudes.

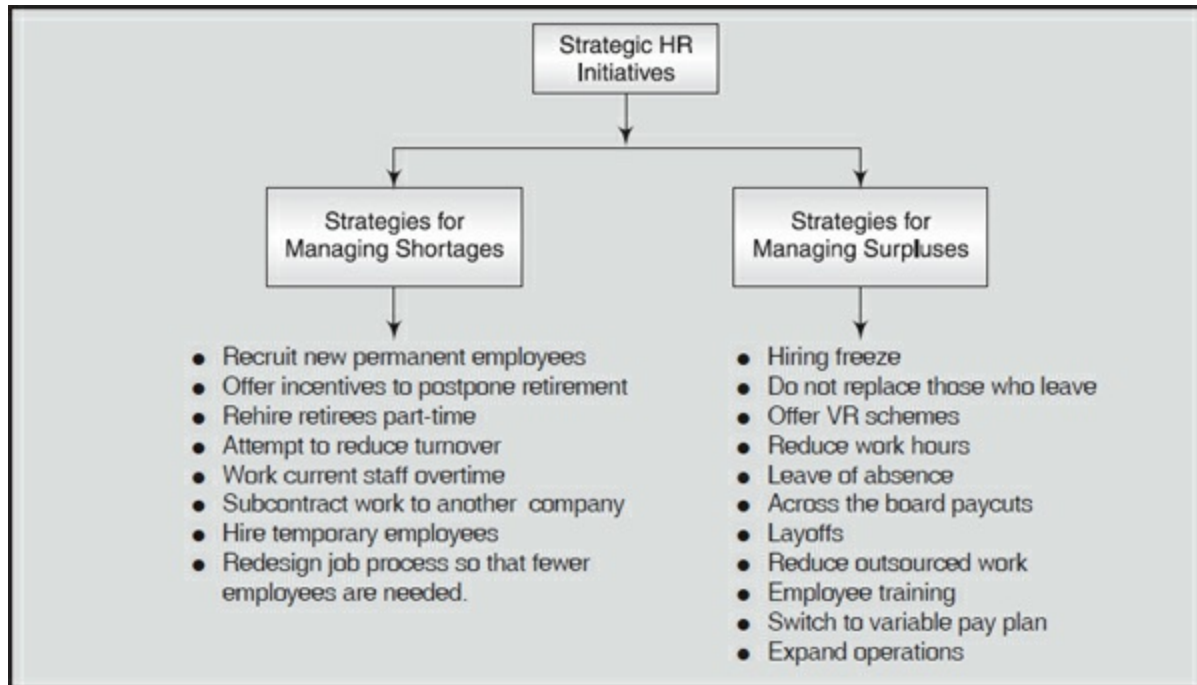


Fig. 4.8 *Strategic HR Initiatives*

Source: Jeffrey A. Mello, *Strategic Human Resource Management*, p. 140

Hiring new employees would be unwise if there is a likelihood of the demand peaking quickly and then return to a lower level. In such situations, employers could institute an overtime scheme rather than hire additional employees. Even if overtime needs to be compensated at higher rates of wages, it may still be more economical than hiring, training, and providing benefits to new employees who are not needed over the long term. Alternatively, employers may choose to subcontract some work to another company during the peak demand or acquire temporary workers from firms specialising in such services. Finally, the entire way the work is done can be analysed and modified for greater efficiency, so that fewer staff are needed. Business Process Reengineering (BPR) helps firms eliminate unnecessary activities and steps, thus eliminating employee requirement.

Training and Development The training and development programme

should cover the number of trainees required; training and development programmes necessary for the existing staff; identification of resource personnel for conducting development programmes; frequency of training and development programmes; and budget allocation for such programmes.

Retraining and Redeployment New skills are to be imparted to existing staff when technology changes. When a product line is discontinued, its employees are to be retrained and redeployed to other departments where they could be gainfully employed.

Retention Plan Retention plan covers actions which would help reduce avoidable separations of employees. Important actions under this head are:³⁰

1. Compensation Plan Increasing pay levels to meet competition, improving pay structures to remove inequities, altering payment systems to reduce excess fluctuations, introducing incentives which would match performances.

2. Performance Appraisal To assess employee performance at least once in a year.

3. Employees Leaving in Search of Green Pastures Providing better career opportunities and ensuring that employees are aware of such schemes.

4. Employees Quitting because of Conflict To encourage conflict but maintain it at a reasonable level; when conflict exceeds safe limits, to take steps to resolve conflict.

5. The Induction Crisis Improving recruitment and selection procedures to ensure that job requirements are specified accurately and that the people who are selected fit the specifications; ensuring that candidates are given a realistic picture of the job, pay and working conditions, developing better induction and initial training programmes.

6. Shortages Improving recruitment, selection and training for the people required; introducing better methods of planning and scheduling work to lessen peak loads.

7. Unstable Recruits Taking more care to avoid recruiting unstable individuals by analysing the characteristics of applicants who are likely to cause instability, and using this analysis to select the right candidates.

Downsizing Plan Where there is surplus workforce, trimming of labour force will be necessary. The trimming or downsizing plan shall indicate:³¹

1. Who is to be made redundant and where and when;
2. Plans for re-development or re-training, where this has not been covered in the re-development plan;
3. Steps to be taken to help redundant employees find new jobs;
4. Policy for declaring redundancies and making redundancy payments; and
5. Programme for consulting with unions or staff associations and informing those affected.

Another method of dealing with surplus labour is to retain all employees but reduce the work hour (thus realise payroll savings), perhaps to a four-day, 32-hour work week. In this way, a company can spread a 20 per cent decrease in demand (and in pay) equitably across the whole workforce, rather than keep 80 per cent of the employees full-time and lay-off 20 per cent of them.

Depending on the nature of the surplus, a firm may be able to transfer or reassign employees to jobs in parts of the organisation that are still experiencing demand. Or if the firm expects the surplus to be short-lived and can afford to keep excess workforce on the payroll, the company can use the slack time to provide cross-training in related jobs to enhance workforce skills and flexibility. Alternatively, the surplus workers can perform equipment maintenance and overhaul or engage themselves in other activities that were postponed when demand was high.

Offering incentives for early retirement is another way of handling surplus labour. Euphemistically called as Voluntary Retirement Scheme (VRS), this method is widely practised as shown in [Table 4.7](#). But HR planners and trainers may be forced to scramble to deal with a sudden short-fall of experienced staff, particularly when VRS is accepted by a large number of employees.

Table 4.7 *Downsizing Plans in Select Firms*

Marching Orders

- **Lehman Brother India:** All **3,000** employees of the Powai office initially retained by Nomura Holdings
- **DSP Merrill Lynch:** **20** employees across levels have been affected. More lay-offs expected before January
- **Jet Airways,** **1900** employees sacked and them reinstated. **32** foreign pilots laid-off. **35** expat pilots' contracts may not be renewed
- **American Express:** **7,000** jobs to be axed worldwide. About **200** employees and senior executives in India to be given pink slips
- **L&T Infotech:** At least **100** employees forced to resign. Number could also be about **5%** of company's strength of **10,000**
- **Citigroup:** **52,000** jobs, axed globally, Citi India lays off **37**, including senior executives
- **Tata Motors:** Could see a total lay-off of about **6,000** temporary workers.
- **HSBC:** Will axe **500** jobs at headquarters in addition to **500** jobs in Asia-Pacific
- **Credit Suisse:** Cuts workforce by **10%**, of which **170** will be in Asia-Pacific
- **Unitech:** Reduces **10%** of its **1700** employees

Source: *The Economic Times*, dated Dec. 7, 2008

Laying-off is another strategy for dealing with surplus staff. This action is detrimental to both employees and employers. For employees, lay-off means joblessness and for employers, it means loss of reputation. Notwithstanding this, several firms are laying off their surplus employees. ([Chapter 18](#) provides more details on these issues).

Managerial Succession Planning Notwithstanding the expansion or contraction of the total workforce in an organisation, the need for good managers is critical and perpetual. More and more organisations are planning for managerial succession and development because they have found that it takes years of systematic grooming to produce effective managers. Methods of succession planning vary. Most successful programmes, however, seem to

include the top management's involvement and commitment, high-level review of the succession plans, formal assessment of the performance and potential of the candidates, and written development plans for the individual candidates. Succession plan should centre on important jobs and should identify correctly the skill requirement of those jobs.

Managerial succession planning includes training programmes and series of job assignments leading to top positions.

Most managerial succession planning systems rely on committees of higher-level managers to identify high-potential candidates, and plan developmental activities for them. Development plans include formal training programmes and a series of job assignments leading to top positions. The plans are formally presented to higher-level managers for review.

A typical succession planning involves the following activities:³²

1. Analysis of the demand for managers and professionals by company level, function, and skill.
2. Audit of existing executives and projection of likely future supply from internal and external sources.
3. Planning of individual career paths based on objective estimates of future needs, and drawing on reliable performance appraisals and assessments of potential.
4. Career counselling undertaken in the context of a realistic understanding of the future needs of the firm, as well as those of the individual.
5. Accelerated promotions, with development targeted against the future needs of the business.
6. Performance-related training and development, to prepare individuals for future roles as well as current responsibilities.
7. Planned strategic recruitment, not only to fill short-term needs but also to provide people for development to meet future needs.
8. The actual activities by which openings are filled.

A succession planning grid as shown in [Fig. 4.9](#) is of great help to HRM.

Pause and Ponder

Can you take inventory of who succeeded whom in the Indian corporate sector? For example Mukesh and Anil succeeded the late Dhirubai Ambani, so also Shibu stepped into the shoes of Gopala Krishnan. Proceed on these lines.

Control and Evaluation

Control and evaluation represents the fifth and the final phase in the HRP process (see Fig. 4.4). The HR plan should include budgets, targets and standards. It should also clarify responsibilities for implementation and control, and establish reporting procedures which will enable achievements to be monitored against the plan. These may simply report on the numbers employed against establishment (identifying both those who are in post and those who are in pipe line) and on the numbers recruited against the recruitment targets.³³ But they should also report employment costs against budget, and trends in wastage and employment ratios.

HUMAN RESOURCE PLANNING AND THE GOVERNMENT

Manpower planning has come to be recognised in India as one of the adjuncts of socio-economic planning since the early years of the planning era. Among the noteworthy steps taken by the Government of India in this direction is the setting up of the Institute of Applied Manpower Research (IAMR). The IAMR was set up in 1962, *inter alia* to conduct empirical research in manpower, to provide advisory and consultancy services to government departments and industry, and to impart training in methods and techniques of manpower planning. Training is now a major activity of the Institute.

REQUISITES FOR SUCCESSFUL HRP

There are at least ten pre-requisites for successful HRP:

1. HRP must be recognised as an integral part of corporate planning. The planner of human resources must therefore, be aware of the corporate objectives.

2. Backing of top management for HRP is absolutely essential.
3. HRP responsibilities should be centralised in order to co-ordinate consultation between different management levels.
4. Personnel records must be complete, up-to-date and readily available.
5. The time horizon of the plan must be long enough to permit any remedial action.
6. The techniques of planning should be those best suited to the data available and the degree of accuracy required.
7. Plans should be prepared by skill levels rather than by aggregates.
8. Data collection, analysis, techniques of planning and the plans themselves need to be constantly revised and improved in the light of experience.
9. The impact of external forces like technological changes, changes in labour market compositions and the like needs to be considered while developing the human resource plan.
10. HRIS should be used as decision support system and should alert managers to problems and opportunities.

<i>Position: VP— Marketing</i>	<i>Current incumbent: Arun S S</i>		<i>Level 1</i>	<i>Updated on: 01-01-12</i>	
Successors	Ravi C	Amala Rao	Sudip Sarkar	Samir Pal	
DOJ	10-03-2001	13-12-2001	05-06-2004	04-11-2009	
Previous Year's Rating	A	A	B	A	
Current Year's Rating	A	B	A	A	
Current Level	L2	L2	L3	L3	
Readiness Assessment					
Ready Now	Yes				
Ready in 2 years			Yes		
Ready in 3-5 years				Yes	
Ready in 5-7 years			Yes		
Development Plan					
Development plan	NA		Sponsor MBA (equivalent) from a Tier 1 institute. Team building and motivating training	Train/Coach on 'Listening/ feedback skills'; Membership in a reputed Club to enhance biz contacts	
Job Rotation Proposed			Assign to MIS team during mid-year	Rotate to Production Team for 1 year + 1 yrs at inventory Mgmt Team	Rotate to Sales team after a year
International Assignment Planned	NA		Explore for short term roles in Singapore, Malaysia, or Thailand offices	Explore for role in UK offices	NA
Coach Assigned	Ramachandran S since 1st May 2011	To be assigned by mid-year	Part of HiPO Program (High Potential development prg)	Need to place on HiPO prg this year	
Other Comments	Has been with the company since 11 yrs and well acquainted with org culture, dynamics as well as market challenges and ability to deliver against odds	Has been with the company for the past 10 years. Needs international exposure to the APAC country markets	Has been with the company for 8.5 years. Needs exposure to Europe region	Been only 2 yrs in the company but displays significant potential for sr management roles. Has good global experience	To identify potential candidate by mid-year

Fig. 4.9 Sample Succession Planning Grid

BARRIERS TO HRP

Planners face significant barriers while formulating an HRP. The major ones are the following:

1. People question the importance of making HR practices future oriented and the role assigned to HR practitioners in formulation of organisational strategies. Their argument is simple—there are people when needed. Offer attractive packages of benefits to them to quit when you find them in surplus. When the task is so simple, why an elaborate and time-consuming planning for human resources? Thus goes the argument. Surprisingly, this perception about HRP is also held by the top management.
2. HR practitioners are perceived as experts in handling personnel matters, but are not experts in managing business. The personnel plan conceived and formulated by the HR practitioners when enmeshed with organisational plan, might make the overall strategic plan itself defective.
3. HR information often is incompatible with the information used in strategy formulation. Strategic planning efforts have long been oriented towards financial forecasting often to the exclusion of other types of information. Financial forecasting takes precedence over HRP.
4. Conflicts may exist between short-term and long-term HR needs. For example, there arises a conflict between the pressure to get the work done on time and long-term needs, such as preparing people for assuming greater responsibilities. Many managers are of the belief that HR needs can be met immediately because skills are available on the market as long as wages and salaries are competitive. These managers fail to recognise that by resorting to hiring or promoting depending on short-term needs alone, long-term issues are neglected.
5. There is conflict between quantitative and qualitative approaches to HRP. Some people view HRP as a number game designed to track the flow of people across the departments. These people take a strictly quantitative approach to planning. Others take a qualitative approach and focus on individual employee concerns such as promotability and career development. Best results would accrue if there is a balance between the quantitative and qualitative approaches.
6. Non-involvement of operating managers renders HRP ineffective. HRP is not strictly an HR department function. Successful planning needs a

co-ordinated effort on the part of operating managers and HR personnel.

Pause and Ponder

MD of Triple A Ltd. says that HRP is a waste since everything is changing fast. How can the HR manager convince the MD about the usefulness of HRP?

SUMMARY

Human Resource Planning (HRP) refers to the estimation of the number and the type of people needed during the ensuing period. HRP is significant as it helps determine future personnel needs; ensures protection to weaker sections; acts as a basis for other personnel functions; helps overcome resistance to change; and so on.

HRP is influenced by several factors, such as the type and strategy of organisation; environmental uncertainties; time horizons; type and quality of information; and type of jobs being filled.

The HRP is a five-step process. The steps are:

1. Defining organisational objectives and policies,
2. Forecast of personnel needs and supplies,
3. HR programming,
4. HRP implementation, and
5. Control and evaluation of programmes.

KEY TERMS

Delphi technique

Downsizing plan

Flow models

Forecasting techniques

HRIS

HRP

Management inventories

Skills inventories
Succession planning
'Top-down' and 'bottom-up' approaches
Turnover rate

REVIEW QUESTIONS

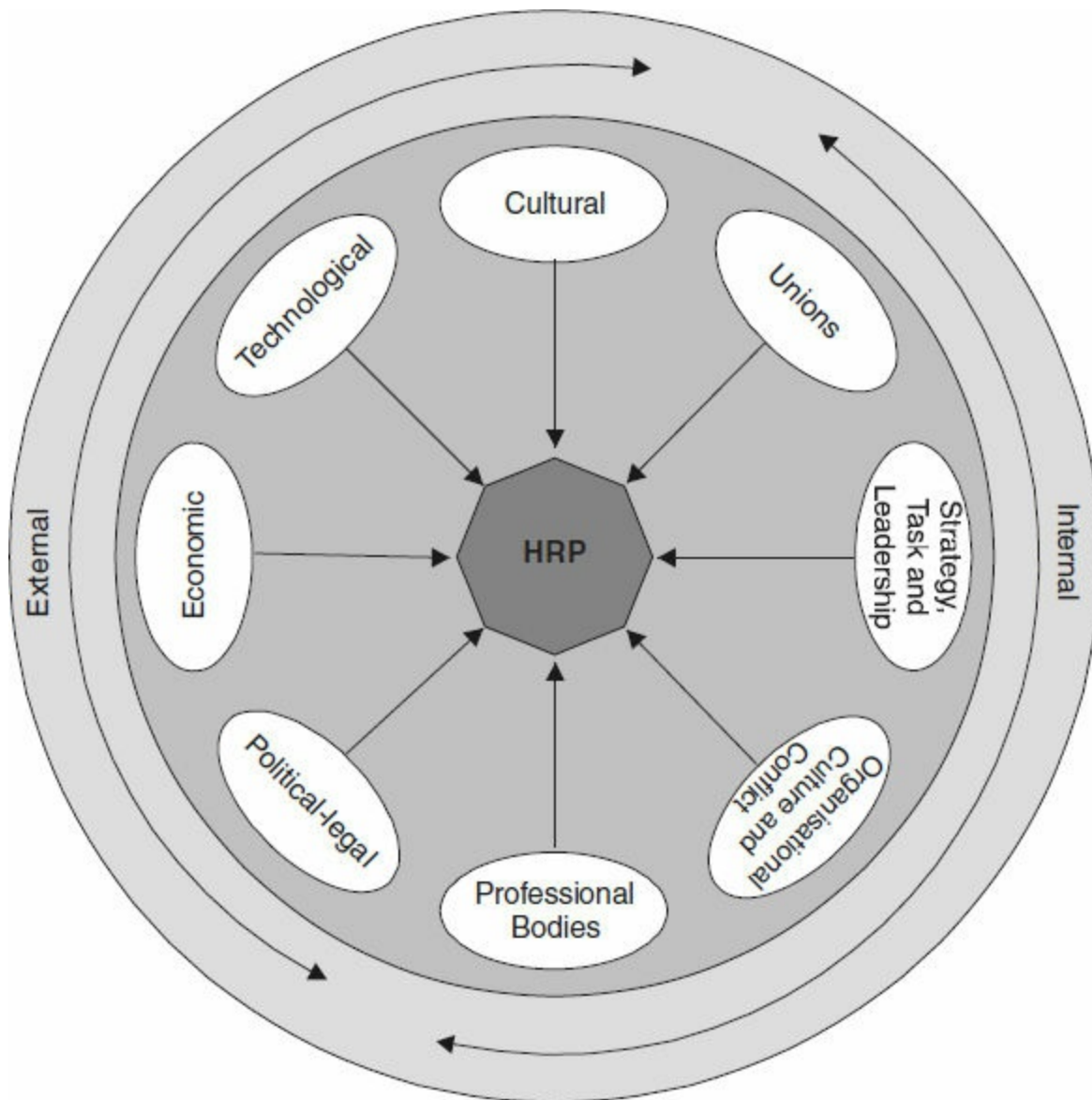
1. What do you understand by HRP? What is its importance?
2. Explain the various steps in the HRP process.
3. How are personnel needs and personnel supplies estimated?
4. Define HRP. Bring out the factors influencing such a plan.
5. Explain the techniques of employee demand forecasting.
6. Explain the barriers to HRP. Bring out the requisites for effective planning.

DISCUSSION QUESTIONS

1. Comment on [Fig. 4.4](#).
2. How can redundancies of labour in public sector units be removed? Discuss.
3. "As organisations become more global, HRP becomes more important and complex". Elucidate.
4. Suppose HR planners estimate that because of several technological innovations your company will need 25 per cent fewer employees in three years. What actions would you take today?
5. How is organisation-wide planning different from HRP? How are they similar?
6. How can organisations develop accurate HR plans when there are so many rapidly changing environmental factors over which managers have little or no control?
7. Why should HR plan be integrated with the overall organisational strategic plan? How can this integration be achieved?
8. Why is it important to use computers and quantitative techniques in HRP?
9. What can an organisation do when shortage of labour is anticipated? When internal supply exceeds demand?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact HRP, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

As in most organisations, HRP at Vybhav is an annual initiative. It formally

begins six months ahead of the start of the new year and is part of an integrated strategic exercise. At the core of the HRP is the business plan. The process could last as long as 8–12 weeks and it culminates with the departmental plans for all verticals and service functions. Each revenue generating business unit at Vybhav does the necessary due diligence of collating market data from global reports published by agencies like KPMG, Forrester, Gartner and other industry and trade associations. Industry, country-specific, and product/market-specific data are also collated. The Central Marketing Team too provides critical current-customer analyses as inputs for the business plan. All the data are made available to the businesses through a common portal. The planning exercise is carried out using a business planning tool called 'BIZY' where each department begins to provide revenue projections and the tool begins to report costs, budgets, and resources that would be required to generate the targeted revenue. As each team provides its data, the resources and goals/targets are likely to change particularly when the teams discuss and exchange notes.

Let us take the example of the IT Division of Vybhav. If there is a sales projection made for this Division of ₹550 million for the coming year, and when this number is updated in BIZY, it gets autoassigned to the seven different product verticals of the Division. When a particular product vertical provides two release versions of the product being launched, one in July and another in January, upon updating the sales revenue from this particular product with the two version release date in BIZY, it reports back the number of units to sell; the marketing budget needed to drive this; the average man-days of quality control required; and technical support for servicing the increased sales projected. BIZY bases all its projections from the analysis of data drawn from the past 10 years of data warehouse in the tool. BIZY's intelligence also comes from base data updated by the Global Corporate Strategy team prior to the launch of the planning exercise. Of particular importance are such details as increasing of trends, country-specific considerations, products planned to be phased out, decision to launch new products and enter new markets.

BIZY allows Ramkumar, who heads the Banking Products Development Division, to review the current team structure, and allocate the headcount increases necessary to reach his ₹20 million mark in the next year. He can choose to add the headcount to the 'Sr. Software Engineer', and 'Architect'

roles as he foresees significant changes in the new versions of the products proposed to be launched. Sarvana, who heads the quality control vertical at the IT Division, decides to allocate 23 new employees uniformly across the teams using the current team structure information that BIZY has provided to him.

The HR module on BIZY allows the HR director for the IT Division, Rohita Verma, to view the teamwise employee headcount projection for each quarter and for each business vertical. BIZY allows Rohita to update the attrition trends projected for the year ahead; the proposed salary increments expected to add to employee cost post the annual review in April; any new benefits/perquisites initiative that is planned and that could be linked to headcount and similar relevant information. What Rohita gets as a report from BIZY is the staffing headcount targets for each quarter and also the staffing budget that emanates. It also highlights the need to hire additional personnel for the HR team if the hiring plan is significantly higher. Another tab on the HR module allows her to view all the associated employee cost by quarter, cost of compensation, benefits cost and cost of rewards/perks to the company that are projected. The training and development tab on the HR module allows Rohita to view the training mandays that were provided for the existing employee base for the current year and what it amounts to if the employee base increases. Rohita can edit the training mandays to show fewer mandays if the intention is to retain the same training budget as the current year despite the increased employee base.

Rohita can generate another report from BIZY that tells her the ratio of the HR to employee base and highlight the need to add the headcount to the HR/staffing team/training resources, so that she can plan the budget for the HR team of the IT Division.

Once all the business verticals do the first level of planning and freeze on the revenue and operational plan for the coming year, BIZY is locked for edits. Gangaraman's Business Planning Division convenes the Business Planning Workshop which usually is a three-day off-site at a remote location to which all of Gangaraman's direct reports and their business managers are invited along with the Finance and the HR Directors of the IT Division. Each leader presents his or her rationale for the projections and this is debated in-depth by all present with the objective of ensuring that the projections are realistic, industry-supported and is in sync with the overall vision and goals of

the IT Division. Changes, if any, are made to the projections. This process normally takes two days, often beginning at 8 AM and ending at 12 in the night and sometimes extending upto the wee hours. Day three is spent on identifying the interdependencies and the impact on cost and human resources to understand the cost structure for the revenue planned and the version 1.0 of the budgeted cost and estimated revenue for the next year are frozen. Rohita would present the increase/decrease in headcount for each team and share the HR budget for the year based on the projections made during the earlier two days of the workshop. This is essentially the HRP for the year ahead.

Subsequent to this extensive exercise, there could be changes and modifications as teams continue to interact and identify cost of resources/market/competitor information that could change plans marginally. These changes are incorporated through specific meetings set up by the concerned teams and closed by BIZY as the final numbers.

EXERCISE

Break out into groups of 5-6. Make five copies of each of the following five topics each written on a slip of paper and folded and placed in a Fish Bowl. Each team picks out a slip and then is given two days to prepare and make a 20-min presentation to the class. One of the first slides in the presentation ought to be the ‘assumptions’ that your team has made with relevance to the case. The faculty picks out the best presenter for each topic.

Topics for the fish Bowl

- Grahak Telecom is a one year old startup, in the mobile phone services business, which did well in the year one and needs to plan for year two of operations. It currently is 25 employee strong, with 18 people in the coding team, two architects, and a four member sales team. It sold to two customers during the year and feedback has been very good. For year two the founder CEO proposes to retain the service offering as is and focus on customer satisfaction as well as target at least five new customers. The company will close year one with a modest revenue of one crore. As a small start-up they do not have the wherewithal/time to

attend to the planning exercise and have hired your team to help them chart out a plan for year two. List all the information you will need to consider. Prepare a HR plan for this company for the next two years.

- V-Shop is a retail company part of a very popular brand and is doing very well in a new city they entered two years ago and plan to start one more retail outlet in another location in the same city. The size of this new unit will be identical to the existing one. The space has been located and leasing agreements signed. The launch date was planned as July 1st and this is now March 23rd. They have outsourced the HR planning activity to your team and provided you with access to interact with the team in the city to come up with a time bound HR Plan for the new outlet for the next two years. If your team is able to identify ways to make the new outlet more profitable than the first one in six months form the launch date, they would sign up a two year contract with you to assist with planning all the future outlets in any other city they venture to.
- TwinTo is a leasing and mortgaging product development company based out of the US and its 13th year of operations decided to come to India and set up its offshore product development centre in Pune. On the day it launched the India operations on 1st June 1999, it had already hired its CEO, HR head, IT head and CFO and the core development team of 15 Java developers and five quality control engineers, one chief architect, one systems administrator and one facilities administrator. Six months from launch date the team was trained and live on to product development and was doing the development for five key product features for the next release of the product. The US based Strategy and Planning team was extremely satisfied with the progress and the quality of the work done in the Indian unit. They now want to build the India unit to move from the current 20% development work happening in India to a 50% model. They also want to close the Quality Assurance center they have in the UK and move the entire quality control work to India in the next six months time. They have hired your team to build the ramp-up plan for the next one and half years. What information will you need? How will you identify the HR requirement for TwinTo India? What is your proposal for the HR team? What external information will you recommend to the US team?

- Neemla is a two-year-old entrepreneurial company set up as an SSI initiative with government funding. Currently is a 20 crore revenue generating venture, per annual books. Employing around 200 contract employees, primarily women, production units are set up in semi-urban/rural towns and villages in one state in the eastern part of the country. Its products are all neem based and range from soaps, liquid soaps, talcum powder, lotions, massage oil, hair oil and antiseptic crème for medicinal purposes. The founder owner Ritesh Rao spent the first two years focusing on setting up the two production units and the marketing network in Orissa and moved to Andhra Pradesh last year. He is now planning to set up a production unit in Andhra Pradesh and establish a marketing network there as well. He has approached your team to help with the HR planning and budget projections for the next two years expecting a 15% growth in revenue year on year.
- Nature-ark is a leading resort and hotel chain locating itself in exclusive and remote locations in the country and has a niche in providing natural and 100% environment friendly facilities and food. All Nature-ark resorts provide dedicated naturopathy clinics that attract premium clients. It positions itself as a premier holiday resort. The set-up costs for these resorts are not as expensive given that there is use of natural resources. Walls are made of bricks from local kilns, electricity from solar energy, 80% of the vegetables are bought from the nearby villages that have been incubated by Nature-ark. All Nature-ark facilities employ 40–50% locals and run its own training center. The Nature-ark Pendulum is a resort located 95 km from Chennai and is five years into its operations and is doing extremely well. Pendulum runs house-full and over-booked for nine months in a year. The manager Rohit Karan has hired your team to help come up with the people plan for the new resort 50 odd kilometres from Bangalore. The size of the resort would be similar and this is based on a business review some other consultants had carried out. It takes an average of four years for any Nature-ark resort to break even and he is keen to break the records and break even in 2-3 years. What all can he do differently?

The *die* was cast. Prem Nath Divan, executive chairman of Vertigo, the country's largest engineering project organisation, decided to switch tracks for a career in academics. Divan was still six years short of the company's retirement age of 65. His premature exit was bound to create a flutter at the Vertigo board. Having joined Vertigo as a management trainee soon after college, he had gradually risen through the hierarchy to take a board position as the marketing director of the firm at 32. He had become the president five years later and the youngest chairman of the company at 45. But, by the time he was 50, the whizkid had acquired a larger than life image of a role model for younger managers and a statesman who symbolised the best and brightest face of Indian management.

On his wife's suggestion that it would be wise to discuss the move with one of his trusted colleagues before making a formal announcement of his intention to seek premature retirement, Divan called on Ramcharan Saxena, a solicitor who has been on the Vertigo board for over a decade. Saxena was surprised at Divan's plan. But he was unfazed. "If that is what you want to do for the rest of your life, we can only wish you well", he told him. "The board will miss you. But the business should go on. We should get down to the task of choosing a successor. The sooner it is done, the better".

"I think the choice is quite obvious", said Divan, "Ranjan Warrior. He is good and ...". Divan was taken aback to see Saxena grimace. "You don't have anything against him, do you?" he asked him. "No, no", said Saxena, "He is good. A financial strategist and a visionary. His conceptual skills have served the company well. But he has always had staff role with no line experience. What we need is someone from operations. Like Richard Crasta".

"Richard knows things inside out alright", said Divan, "But he is just a doer. Not fire in the belly. Vertigo needs someone who understands the value of power and knows how to use it. Like me. Like Ranjan".

"That is just the problem", said Saxena. "Prem, let me tell you something. Ranjan is a man in your own image. Everyone knows that he is your protégé. And protégés are never popular. He has generated a lot of resentment among senior Vertigo executives and there would be a revolt if he were to succeed you. An exodus is something we can't afford to have

on our hands. We should think of someone else in the interest of stability of top management", Divan could not believe what he heard. He had always prided himself on his hands-on style and thought he had his ear to the ground. "How could I lose touch"? he wondered, somewhat shaken.

"When you are the boss, people accept your authority without question", continued Saxena. "In any case, you have been successful at Vertigo and it is difficult to argue with success. But the moment you announce your intention to leave, the aura begins to fade away. And in deciding on your successor, the board will seek your opinion, with due regard to your judgement. The board members must do what in their view is right for the company. Having said that, may I also mention that if there is a showdown in the boardroom, you could always choose to stay on? We would like it. Or we could bring in an outsider".

"I have finalised my career plans and there is no question of staying on beyond six months from now", said Divan. "The board is scheduled to meet next month. Let us shelve the matter till then. In the meantime, I rely on you, Ram, to keep this discussion between the two of us".

"Of course yes", said Saxena.

On his way home, Divan thought about the matter in detail. Bringing an outsider would undo all his life's work at Vertigo. There were considerations like culture and compatibility which were paramount. The chairman had to be an inside man. "Richard lacks stature", Divan said to himself. "Ranjan is the one I have been grooming, but heavens, the flip side of it all had missed me completely. There is no way I can allow a split at the top just before I quit. I must leave on a high note in my own interest. I must find a way out of the imminent mess".

Questions

What should Divan do?³⁴

REFERENCES

1. Jeffery A. Mello, *Strategic Human Resource Management*, Thomson, 2003 p. 134.

2. Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, New York, Macmillan, 1990, p. 156.
3. George Bohlander, *et. al.*, *Managing Human Resources*, Pearson, 2002, p. 124.
4. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 166.
5. Dale S. Beach, *op. cit.*, p. 185.
6. Randall S. Schuler, *Personnel and Human Resource Management*, West Publishing Co., New York, 1981, p. 71.
7. *Ibid.*
8. Jeffery A. Mello, *op. cit.*, p. 136.
9. Mathis and Jackson, *Personnel—Contemporary Perspectives and Applications*, Third Edition, West Publishing Co., New York, 1982, p. 169.
- 9a. William P. Anthony, *Strategic Human Resource Management*, Thomson, New York, 1993, p. 116
10. Terry L. Leap and Michael D. Crino, *op. cit.*, p. 159.
11. William P. Anthony, *et. al.*, *op. cit.*, p. 179.
12. Terry L. Leap and Michael D. Crino, *op. cit.*, p. 159.
13. *Ibid*, p. 160.
14. *Ibid*, p. 161.
15. William P. Anthony, *et. al.*, *op. cit.*, p. 187.
16. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third Edition, 1988, p. 206.
17. William J. Rothwell, *Strategic Human Resource Planning and Management*, Prentice Hall, New Jersey, 1988, p. 173.
18. Michael Armstrong, *op. cit.*, p. 209.
19. *Ibid*, p. 210.
20. William J. Rothwell, *op. cit.*, p. 175.
21. Eelmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resource Systems Approach*. West Publishing, Minnesota, 1977, p. 128.
22. Terry L. Leap and Michael D. Crino, *op. cit.*, p. 166.
23. Michael Armstrong, *op. cit.*, p. 210.
24. William B. Werther and Keith Davis, *op. cit.*, p. 176.
25. R. Wayne Mondy and Robert M. Noe, *Personnel—The Management of Human Resources*, Allyn and Bacon, 1981, p. 109.
26. *Ibid.*, p. 209.
27. Terry Leap and Michael D. Crino, *op. cit.*, pp. 171–172.
28. Michael Armstrong, *op. cit.*, p. 212.
29. Edwin B. Flipppo, *Personnel Management*, Sixth Edition, McGraw-Hill, New York, 1984, p. 154.
30. Michael Armstrong, *op. cit.*, p. 227.
31. *Ibid*, p. 225.

32. "A Broader View of Succession Planning", *Personnel Management*, Sept. 1993.
33. Michael Armstrong, *op. cit.*, p. 227.
34. R. Chandra Sekhar, *The Buck Stops Here*, Macmillan, 1997, pp. 191–192.
-

*ITI has not learnt from experience. When the author went to the Bangalore complex for a discussion on HRP, he was told that there existed no such planning in the organisation.

Analysis of Work, Designing Jobs and Job Evaluation

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of job analysis and describe the process of conducting job analysis.
- The next logical step to job analysis is job design and describe the factors which affect job design.
- The various techniques of job design and explain each of them.
- Job evaluation, its process and methods.

Opening Vignettes

EXTREME JOBS—THE DANGEROUS ALLURE OF THE 70-HOUR WORKWEEK

A financial analyst we'll call Sudhir emigrated five years ago from Mumbai, India. He works at a major commercial bank in New York. Sometime, when he puts in 90 hours a week, is his "light" season. The rest of the year, he works upwards of 120 hours per week—leaving only 48 hours for sleeping, eating, entertaining, and (he smiles) bathing. Sudhir stays late in the office even when he has nothing particularly pressing to do. His get-a-life existence is a hazard of the profession—but worth it: As a 23-year-old with a first job, he is in the top 6% of earners in America.

Higher up the totem pole, Joe (not his real name) has risen through the corporate ranks to become a managing director at a major bank. Joe thought

his workload would become lighter as he moved up, but the opposite has occurred: He now works six or seven days a week, from multiple locations. He keeps an apartment in New York, where he works two days, and is on the road another three or four days. Only on weekends does he see his wife and three children—who live in Connecticut. Even then, he gets calls in the middle of the night on Saturdays and Sundays, and flies out to see clients on a moment's notice. "The first year we were married", Joe's wife recalls, "we had to rearrange my grandmother's funeral so that he wouldn't miss a meeting".

Ming Mei is a managing director and a member of the executive committee at ProLogis, a fast-growing real estate investment trust with extensive operations in Asia. Mei is in charge of expansion in China, where he's built ProLogis's portfolio base from zero to 10 million square feet of properties over the past three years. The demands of his job are immense. Negotiating with Chinese government officials, he routinely packs five cities into six-day business trips. These trips can be grueling-back-to-back meetings spill over into late dinners where key relationships are cultivated and cemented. Despite the pressure and the pace, Mei describes his job in glowing terms: "Building this business in markets where no one has done anything like this before is enormously exciting. And important. We've built distribution centers that are vital for China's growth—they contribute to the overall prospects of the economy".

Jonelle Salter is similarly enthusiastic about her job. An offshore installation manager (OIM) at BP, Jonelle knows what it's like to be in charge of the health and safety of 80 workers on an oil platform in the North Sea. On top of pressures that would face anyone in this job, she has some unique management challenges. As the first black woman to become an OIM at BP, Jonelle has sometimes had to go to extra lengths to establish her authority in this male-dominated environment. But she loves being a pioneer and credits BP for going out on a limb and finding a female mentor (Gro Kielland, a managing director for BP Norway) to help her through the rough patches. Jonelle talks eloquently about the thrill that comes with the challenges of her job. "You train and train, but you still don't know whether you'll come through when an emergency happens-and whether you can conjure up the right kind of leadership", she says. "It's a kind of test. And when you pass, you feel quite wonderful".

Sudhir, Joe, Mei, and Jonelle are succeeding in what we have come to term “extreme jobs”, and they’re not alone.

The Elements of Extremity

How do we define extreme jobs? For the purposes of data analysis, we’ve said that survey respondents have such jobs if they work 60 hours or more per week, are high earners, and hold positions with at least five of these characteristics:

- Unpredictable flow of work
- Fast-paced work under tight deadlines
- Inordinate scope of responsibility that amounts to more than one job
- Work-related events outside regular work hours
- Availability to clients 24/7
- Responsibility for profit and loss
- Responsibility for mentoring and recruiting
- Large amount of travel
- Large number of direct reports
- Physical presence at workplace at least ten hours a day

Across the economy, there are high-earning professionals whose work has become all consuming. The outrageous hours they put into their careers are matched only by the over-the-top rewards they receive.

Do these professionals constitute a new breed? Not entirely. Highly demanding and important jobs have always been around—along with the workaholics who created them where they didn’t need to exist. Yet there is a difference. No longer the pitiable drones and graspers of society, today’s overachieving professionals are recast as road warriors and masters of the universe. They labour longer, take on more responsibility, and earn more extravagantly than ever before—and their numbers are growing.¹

In the previous chapter, we discussed the nature, techniques and significance of HRP. Now, in order to achieve effective HRP, the duties involved and the skills required for performing all the jobs in an organisation have to be taken care of. This knowledge is gained through the analysis of work, popularly called job analysis.

Job analysis was almost non-existent three decades ago. The major thrust behind the job analysis has been the civil rights movement which requires that the factors governing hiring, firing and promoting should be job related.

The only means of establishing this job-related factor has been to identify what the job entails and what an incumbent worker must possess to perform successfully on the job.² Job analysis helps establish this.

NATURE OF JOB ANALYSIS

Before describing the nature of job analysis, it is useful to understand the meaning of job itself. The World Development Report 2013, defines jobs thus “... are labour activities that generate income, monetary or in kind, without violating fundamental rights and principles at work.” Jobs can take the form of wage employment, self-employment, and farming. They can be formal or informal.

“Jobs are the cornerstone of economic and social development. Infact, development happens through jobs. People work their way out of poverty and hardship through better livelihoods. Economies grow as people get better at what they do, as they move from farms to firms, and as more productive jobs are created and less productive ones disappear. Societies flourish as jobs bring together people from different ethnic and social backgrounds and nurture a sense of opportunity. Jobs are thus transformational—they can transform what we earn, what we do, and even who we are.”

Well, such lofty description about jobs is not what is required for us in this context. For our purpose, a job is a bundle of related tasks. Vetting the CV of a job seeker, for example, is a task. The whole lot of tasks relating to recruitment constitutes a job.

A synonym for job is work. Work is understood as physical and mental activity that is carried out at a particular place and time, according to instructions, in return for money.³ Monetary consideration is crucial in determining whether or not an activity is really a work. If the house-wife herself mopps and mows, it is not work, as she is not doing that for money. But, if a servant is appointed and paid money for doing the household chores, it becomes work.

As with work, job also carries monetary consideration though not made

explicit in the meaning given above. The job-incumbent attends to all the allied tasks for wages or salaries. His or her motivation, performance, and loyalty depend on how much he or she is paid at the end of a month.

Job analysis is the process of collecting job related information. Such information helps in the preparation of job description and job specification.

Pause and Ponder

Why do people like jobs but hate work?

Job or work transcends beyond related tasks and the money they carry. Work has two broad perspectives: sociological and psychological. The **psychological** perspective looks at the individual behaviour, a large body of literature covering the discipline of organisational behaviour. More specifically, psychological dimension of work is concerned with managerial problems of learning, attitudes, perception, motivation and job satisfaction. The **sociological** dimension of work is concerned with the broader contextual and structural factors affecting people's experience of work. At the core of the sociological perspective are such managerial issues as leadership, communication, power and politics, division of labour, and group dynamics.⁴

The nature of the work and how managers organise work is a critical element affecting human resource activities. Before discussing design and organisation of work, it is desirable that we know job analysis—its process.

Job analysis refers to the process of collecting information about a job. It involves collection of information that should include knowledge, skill and ability (KSA) the incumbent should possess to discharge a job effectively. Knowledge may be understood as the extent to which the job holder is familiar with his or her job. Skill refers to the specific capability to operate a machine/system. This also includes information about the use of tools, equipment and machinery. Abilities refer to the physical and mental capacities needed to perform tasks not requiring the use of tools, equipment or machinery.

In addition to KSA's, other details about the job may include the place

where the job is completed and performance standards. [Table 5.1](#) brings out greater details about a job.

Table 5.1 *Types of Information to be Collected by Job Analysis*

Work Activities

- Job-oriented activities (description of the work activities performed, expressed in “job” terms, usually indicating what is accomplished, such as galvanising, weaving, cleaning, and so on; sometimes such activity descriptions also indicate how, why and when a worker performs an activity; usually the activities are those involving active human participation, but in certain instances they may characterise machine or system functions).
- Work activities/processes.
- Procedures used.
- Activity records (such as films).
- Personal accountability/responsibility.

Worker-Oriented Activities

- Human behaviours performed in work (such as sensing, decision making, performing physical actions or communicating).
- Elemental motions (such as those used in time and motion studies).
- Personal job demands (human expenditures involved in work, such as energy expenditure).

Machines, Tools, Equipment, and Work Aids Used

- Computers (hardware and software).
- Safety equipment (goggles and groves).
- Office tools (pone, fax, and books).

Job-Related Tangibles and Intangibles

- Materials processed.
- Products made.
- Knowledge dealt with or applied (such as law or chemistry).
- Services rendered (such as laundering or repairing).

Work Performance

- Work measurements (i.e., time taken).
- Work standards.
- Error analysis.

- Other aspects.

Job Context

- Physical working conditions
- Work schedule.
- Organised context.
- Social context.
- Incentives (financial and non-financial).

Personal Requirements

- Job-related knowledge and/or skills (such as education, training, or work experience required).
- Personal attributes (such as aptitudes, physical characteristics, personality, interests required).

(Source: William P. Anthony, et. al., *Human Resource Management—A Strategic Approach*, Thomson, 2008, p. 208)

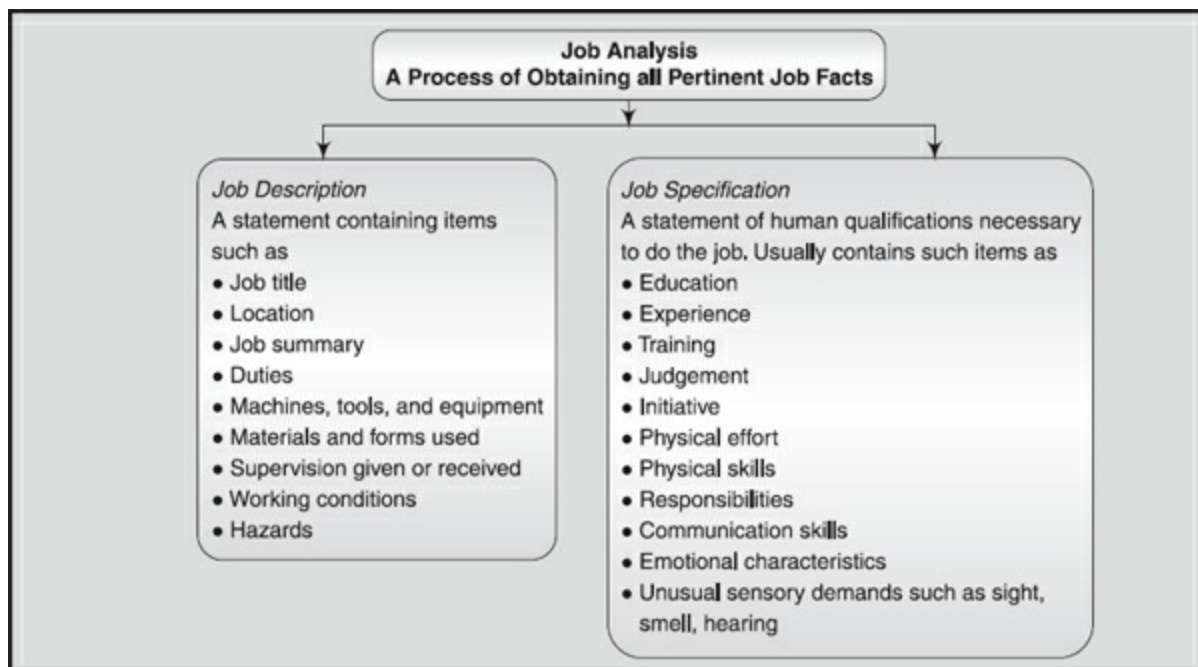


Fig. 5.1 *Job Description and Job Specification*

Source: Dale S. Beach, *Personnel—The Management of People at Work*, p. 166.

The process of job analysis results in two sets of data: (i) Job description, and (ii) Job specification (Fig. 5.1 brings out the distinction between the two

by-products more clearly).

Job description, as shown in Fig. 5.1, indicates what all a job involves—tasks and responsibilities tagged on to a job, job title, duties, machines, tools and equipment, working conditions and hazards form part of job description.

The capabilities that the job-holder should possess form part of job specification. Education, experience, training, judgement, skills, communication skills and the like are a part of job specification.

What is important is that there should be fit between job demands (job description) and abilities required to discharge the tasks (job specification). Any mismatch is likely to result in job dissatisfaction that carries dysfunctional consequences like low productivity, absenteeism and turnover.

JOB ANALYSIS AND COMPETITIVE ADVANTAGE

As will be explained later, job analysis has its impact on all functions of HRM. Job analysis, if properly done, will enhance the effectiveness of all HR activities. Specifically, job analysis benefits an organisation in the following ways:

- Laying the foundation for human resource planning.
- Laying the foundation for employee hiring
- Laying the foundation for training and development.
- Laying the foundation for performance appraisal.
- Laying the foundation for salary and wage fixation.
- Laying the foundation for safety and wealth (All these are explained later in this chapter.)

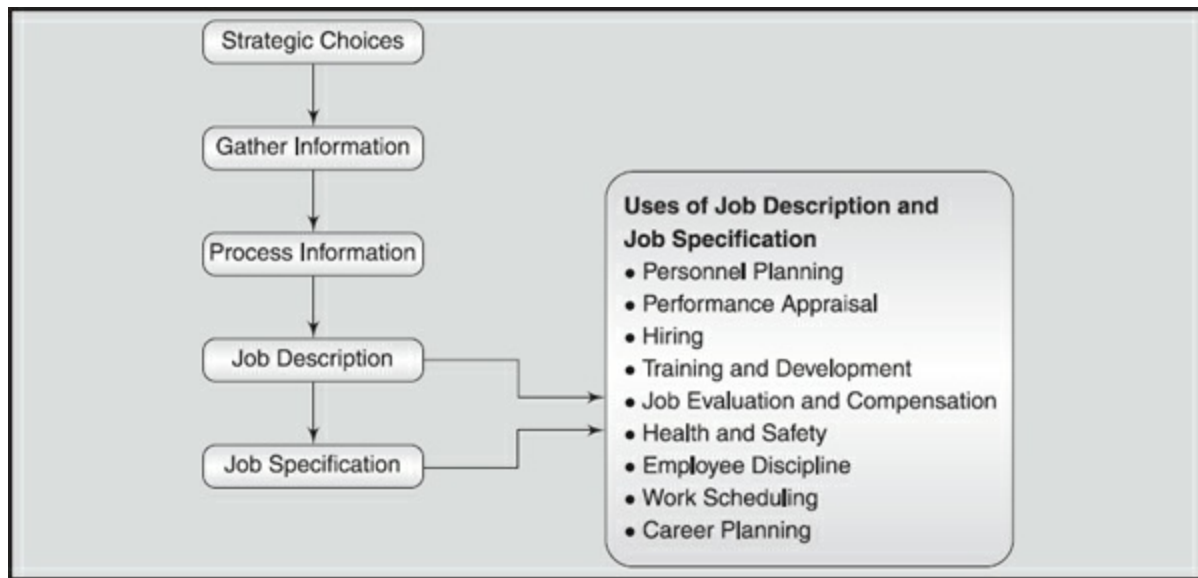


Fig. 5.2 *Process of Job Analysis*

Source: Adapted from *Personnel/Human Resource Management* by Leap and Crino, p. 121.

THE PROCESS OF JOB ANALYSIS

Figure 5.2 illustrates the process of job analysis. The figure also points out the uses of information about jobs. As may be seen from the figure, job analysis is useful for several purposes, such as personnel planning, performance appraisal and the like. Each phase in the process of job analysis is explained in the paragraphs that follow.

strategic Choices

With regard to job analysis, an organisation is required to make at least five choices:

1. The extent of employee involvement in job analysis.
2. The level of details of the analysis.
3. Timing and frequency of analysis.
4. Past-oriented *versus* future-oriented job analysis.
5. Sources of job data.

Employee Involvement As was stated above, job analysis involves

collecting job-related information-duties, responsibilities, skills and knowledge required to perform the jobs. It may be stated that in job analysis, information about a job is collected and not about the incumbent, however, the job holder is consulted. Employees are often asked to supply vital information about the contents of job, given their familiarity with it.

Job analysis involves collection of job related information. The focus is on the job but not on the individual holding the job. However, individuals are consulted.

To what extent employees need to be involved is a debatable point. Too much involvement may result in bias in favour of a job, as the employee is likely to inflate the duties and responsibilities of his jobs, just to make it appear more important than it actually is. On the other hand, if employees are not involved or only minimally involved, they tend to become suspicious about the motives behind the job analysis. Besides, lack of involvement from employees may lead to inaccurate and incomplete information. The extent to which employees are involved depends upon the needs of both the organisation and the employees.

An organisation expects accurate information about the jobs being analysed. However, the organisation may also be concerned about the employees' reactions to having their jobs analysed. In order to prevent employee dissatisfaction, uncertainty and anxiety, firms should communicate the reasons for conducting the job analysis and keep the employees informed about the job-analysis process.

Level of Details The level of analysis may vary from detailed, as in time and motion studies, to broad as in analysing jobs based on general duties. The level of analysis affects the nature of the data collected.

The nature of job being analysed determines the level of detail in job analysis. For example, analysing the number of movements an employee makes and the frequency of job-related movements would be more relevant for a crane operator's job than a HR manager's position. It would be more appropriate and informative to analyse a HR manager's job by describing the various duties and responsibilities the job requires.

The level of details required in job analysis also depends upon the purpose for which job-related details are being collected. For example, if the primary purpose of analysing the job is for a mass input for intensive training programmes or an input for assessing how much the job is worth, the level of details required may be great. However, if the job analysis is being done to add clarification to the rules and responsibilities of job holders, a less-detailed job analysis may be needed.

Pause and Ponder

An usual practice among organisations is to place all jobs into two categories: technical and non-technical. Speak with a few of your friends who work in different companies to validate this statement.

When and How Often Another strategic choice relates to the timing and frequency of conducting job analysis. Job analysis is generally conducted when **(i)** an organisation is newly established and the job analysis is initiated for the first time; **(ii)** a new job is created in an established company; **(iii)** a job is changed significantly due to change in technology, methods, procedures or systems; **(iv)** the organisation is contemplating a new remuneration plan; or **(v)** the employees or managers feel that there exist certain inequities between job demands and the remuneration it carries.

Past-Oriented versus Future-Oriented If an organisation is changing rapidly due to fast growth or technological change, a more future-oriented approach to job analysis may be desired. Traditional job analysis information describes how the job has been done in the past and the manner in which it is being currently done. If necessary, a future orientation can be given to the job analysis and predictions may be made as to how the job will be done in future and the way it should be done. This will allow firms to begin hiring and training people for these jobs prior to the actual change. For example, personal computers began to replace electronic typewriters, thus changing the character of many typist jobs. Many companies anticipated these changes and began retraining their typists before changing over to personal computers.

Source of Job Data Although the most direct source of information about a job is the job holder, a number of other human and non-human sources are available (see [Table 5.2](#)). These sources may provide information which an average job holder cannot, thereby enabling the job analyst to question the job-holder more effectively.

Table 5.2 *Sources of Job Data*

<i>Non-human Sources</i>	<i>Human Sources</i>
Existing job descriptions and specifications	Job analysts
Equipment maintenance records	Job incumbents
Equipment design blueprints	Supervisors
Architectural blueprints of work area	Job experts
Films of employees working	
Training manuals and other job training materials	
Popular literature such as magazines and newspapers	

Source: Cynthia D. Fisher, *et. al*, *Human Resource Management*, Houghton Mifflin, 1997, p. 140.

The first place a job analyst should look for information about a job is in the job-analysis data that already exist. However, the analyst should view this data with caution. For, they may have been developed using inadequate procedures or they may no longer be valid descriptions of the present-day jobs.

In deciding the sources to be used in a given job analysis, the analyst should follow at least two guidelines:

1. For non-human sources, use such sources which are most recent, and
2. Use several sources for information whenever possible.

A job analyst who uses job incumbents and supervisors as a source of information should make sure that these individuals have had an adequate opportunity to perform the job, or observe the job being performed. Care should be taken to interview both males and females if both the sexes perform the job. This is desirable since females tend to have lesser job experience than men. It is also desirable to collect information from both high

and low performers, although the type of information provided by them may not be significantly different. It is particularly important to collect job-related details from groups of individuals with varying levels of experience on the job. This is because the duties performed by individuals with more experience tend to vary substantially from those having a lesser experience.

Pertaining to human sources, the person who provides data is important for at least two reasons. First, since job data are used for several purposes, the information should be collected from reliable sources. Second, when firms find themselves defending their HR practices in courts of law (as in cases of sex, race, or age discrimination suits), judges are particularly interested in the adequacy of the job-analysis information.

The relevance of job analysis is becoming vague more now than even before. Firms are becoming increasingly *de-jobbed*—jobs are becoming more amorphous and more difficult to define.

Organisations are increasingly getting de-jobbed. Jobs are becoming more amorphous and more difficult to define.

De-jobbing is the result of several changes taking place in business today. Firms need to keep pace with a number of revolutionary forces—accelerating product and technological changes, globalised competition, deregulation, political instability, demographic changes, trend towards a service-oriented society, and the arrival of the information age. Forces like these have changed the playing field on which firms compete. This rapid change has dramatically increased threats for firms. They need to be responsive, flexible, and capable of competing in a global market place.

Pause and Ponder

Amazon.com is one company that has de-jobbing practice. Here a worker is switching from job to job in three months' intervals. The .com puts more emphasis on broader worker specifications than on detailed job descriptions. Do you find any other organisation(s) practising de-jobbing?

Flattening organisations, creating empowered teams, re-engineering and

the like are the techniques which make firms highly responsive, flexible and competitive. Firms are slowly moving towards new organisational configurations, ones built around jobs that are broad and that may change every day. People in such situations no longer take their cues from job descriptions or a supervisor's instructions. Signals come from the changing demands of the work. Workers learn to focus their individual efforts and collective resources on such work that needs doing. They change as the needs of the hour change. Managers lose their jobs, not because they are unfit, but because they have no work to do. Exhibit 5.1 describes some practical HR implications.

Exhibit 5.1 Job Analysis, Human Resource, and the De-jobbed Company

Because job descriptions are (deservedly) so well-ingrained in the way most companies operate, it is unlikely that most firms could (or should) do without them, at least for now. As the number of firms which are shifting to HR systems that do not involve job description, the question is—what replaces them?

In the exploration division of one firm—British Petroleum (BP)—the need for a flatter organisation and empowered employees inspired the management to replace job descriptions with matrices listing skills and skill levels. The senior management wanted to shift employees' attention from a job description ("that's not my job" mentality) to one that would motivate the employees to obtain the new skills they needed to accomplish their broader responsibilities. The solution was a skills matrix. Skills matrices were created for various jobs within two classes of employees, those on a management track and those whose aims lay elsewhere (such as those stayed in engineering). For each job or job family (such as the position of a drilling manager), a matrix was prepared. It identified (i) the basic skills needed for that job, and (ii) the minimum level of each skill required for that job or job family.

Such a matrix shifts employees' focus. The emphasis is no longer on a job description which lists specific job duties. Instead, the focus is on developing the new skills needed for the employees' broader, empowered, and often relatively undefined responsibilities.

The skills-matrix approach has prompted other HR changes in BP's exploration division. For example, the matrices provide a constant reminder of the skills that employees must improve, and also the firm's new skill-based pay awards based on skills improvement. Similarly, performance appraisals now focus more on employee skills, and every training programme emphasises developing broad skills like leadership and planning—ones that are applicable across a wide range of responsibilities and jobs.

Broader HR issues are also involved when firms de-job. The de-jobbed company should find people who can work well without the cue system of job descriptions. This puts a premium on hiring people, as the people should be with the skills and values to handle empowered jobs.

There is also a shift from training to education, in other words, from teaching employees the “how” of the job to increasing their insight and understanding regarding its “why”. In a rapidly changing industrial environment, the demands for flexibility and responsiveness mean that it is impossible to hire people who already know everything. Here, continuing education over the course of the employees' organisational career becomes the norm.

Source: Gary Dessler, *Human Resource Management*, Prentice-Hall of India, 1998, p. 111.

information Gathering

This step involves decisions on three issues, viz;

1. What type of data is to be collected?
2. What methods are to be employed for data collection?
3. Who should collect the data?

So far as the type of data to be collected is concerned, it may be stated that all details about the job need to be collected. [Table 5.1](#) (p. 138) brings out the elements to be gathered from a given job. The type of data, however, depends on the end use of the information, as also on the time and budget constraints.

With regard to the *methods* for data collection, there are several of them, but the more prominent of them are—**(i)** observation, **(ii)** interview, **(iii)** questionnaires, **(iv)** checklists, **(v)** technical conference, and **(vi)** diary

methods. These methods will be explained in detail later.

With regard to the *persons* employed to collect data, it may be stated that three types of individuals are used. They are—**(i)** trained job analysts, **(ii)** supervisors, or **(iii)** job incumbents.

Each of these alternatives has its own merits and demerits. Trained analysts, for example, will lend objectivity and standardisation to the data collected but they, implicitly, mean outflow of money. Supervisors and job holders provide information with no extra cost, but the data may not be objective and standardised. [Table 5.3](#) summarises the advantages and limitations of the three alternatives of data collection. It may be stated that the individuals who collect job-related data determine the accuracy, speed and cost of information.

Table 5.3 *Personnel Responsible for Data Collection—Advantages and Limitations*

<i>Persons Collecting Job Analysis Data</i>	<i>Advantages</i>	<i>Limitations</i>
Trained analyst	Objectivity is maximised Consistent reporting of information Expertise in job-analysis method used	Expensive May overlook certain intangible aspects of job because of lack of familiarity
Supervisor	Familiarity with jobs being analysed Fast data collection Intangible aspects of job too are collected	Needs training for effective job analysis Severe time burden imposed Objectivity may be a problem collected
Job holder	Greater familiarity with the job Fast data collection Less expensive	Less standardisation of data Problems with response patterns due to ambiguity in job analysis questionnaire Poor standardisation of data Restrictive job sample (unless other employees in the same job also analyse their jobs)

The selection of a particular method of collecting job-analysis information and of the person(s) to be involved depends on two important factors: **(i)** what is the purpose of job analysis, and **(ii)** what is the status of the current job analysis programme?⁵

With regard to the *purpose* of job analysis, it may be stated that the programme is useful in overall PM/HRM. Specifically, job analysis, as stated

earlier, provides information to develop job descriptions and job specifications, and to conduct job evaluations. These, in turn, are useful in helping managers identify the kinds of individual they should recruit, select, and develop, as well as providing guidance for decisions about training and career development, performance appraisal, and wage and salary administration.

Speaking about the *status* of the job-analysis programme, there are two possibilities. First, a given company may not have such a programme. Two, the firm may have a well-established job-analysis programme. Where the programme is non-existent, the company must appoint a consultant who will select a method for data collection, supervise its administration and analyse the information, and write the job descriptions and specifications.

For organisations with a well-established job-analysis programme, it should be remembered that job-analysis information provides only a snapshot of a particular job. Jobs change over a period of time due to technological innovations, organisational restructuring and changes in products, among other reasons. Thus, well-administered job-analysis programmes provide a built-in system for periodically reassessing jobs. This reassessment may be done, expeditiously, through observations, interviews, or by using a brief questionnaire or checklist. Unlike performing job analysis from scratch, keeping the programme up-to-date is a much less expensive and less time-consuming endeavour.⁶

Information processing

Once the job information has been collected, it needs to be processed, so that it would be useful in various personnel functions. Specifically, job-related data would be useful to prepare job description and job specification (see [Fig. 5.1](#)).

Job Description Job description implies objective listing of the job title, tasks, duties and responsibilities involved in a job. Job specification, on the other hand, involves listing of employee qualifications, skills and abilities. These specifications are needed to do the job satisfactorily. Often, practitioners make no distinction between job description and job specification. The two terms are used interchangeably. Exhibit 5.2 shows a

typical job description of a Senior Officer (Direct Materials, Manufacturing, Planning and Sales).

Exhibit 5.2 Job Description

- | | |
|---|--|
| 1. JOB TITLE | Senior Officer (Direct Materials, Manufacturing, Planning and Sales)
—ABE/VLP |
| 2. RANGE | Nasik—N/WEL |
| 3. DEPARTMENT | Direct Materials, Manufacturing Planning and Sales—ABE/VLP |
| 4. REPORTS TO —(Functionally)
—
(Administratively) | Manager (Materials) N/AVE
Manager (Materials) N/AVE |
- 5. IMMEDIATE LEVEL SUBORDINATES**
- (i) Officer (Purchase and Packing Materials, Vendor Development)
 - (ii) Assistant Officer (Direct Materials Planning)
 - (iii) Assistant Officer (Despatch)
 - (iv) Assistant Store Keeper (Finished Goods)
- 6. OBJECTIVES OF THE JOB** (Summary of the position):
- (i) Planning, following of direct materials, purchased components.
 - (ii) Planning and procurement of all packing materials. Price negotiations, vendor development.
 - (iii) Planning quantity of products/components to be produced as per production programme and release of manufacturing orders.
 - (iv) Inventory control of direct materials, manufactured components and wip (products). Control of critical items and of slow/non-moving items.
 - (v) Maintenance of all Central Excise records and rules.
 - (vi) Planning, scheduling and despatch of finished goods.
 - (vii) Transport contracts, negotiations and transport arrangements.
 - (viii) Proper receipt, storage and issue/packing of finished goods.
- 7. PRINCIPAL DUTIES AND RESPONSIBILITIES**
Manufacturing Planning

- (i) Co-ordination with B/VLP VKH and other personnel from, VEL range for sales programme supplies, production and despatch of urgent items made at Nasik. Translate sales requirements into manufactured components at various stages considering scrap.
- (ii) Decide quantities and due months for manufacturing orders at various stages of production, with due consideration for sales programme and wip limits. Prepare and issue manufacturing of orders to shop through PPC or stores and pre-determined quantity material indents.
- (iii) Control issue of manufacturing orders to meet wip limits. Follow up issued orders to minimise pending orders. Review and modify manufacturing orders according to changes in sales programme.

Materials Planning

- (iv) Prepare short term (4-6 months) materials plans for ABE including materials call-off schedules. Prepare critical items list to B/ABE on a monthly basis.
- (v) Review supplies against material call of schedules and follow up for critical list items.
- (vi) Prepare monthly, weekly and quarterly data regarding material receipts stocks, issued at Nasik for ABE. Provide data for long term (15 months) material planning for imported materials used at Nasik for obtaining import licenses.
- (vii) Plan, indent, release orders for packing materials. Review and modify orders based on sales programme changes.

Inventory Control

- (viii) Control Nasik inventories of direct raw materials by monitoring material inflows, advance/excess deliveries. Review excess/dead stocks periodically and initiate actions for disposal. Identify high wip stocks and assist N/FAF, N/PPC, shop to correct situation.
- (ix) Prepare inventory projections with changes in production levels, product mix, process, capacity or through put times.

Future Plans

- (x) Supervise receipt storage and issue of raw materials and manufactured components at various stages of manufacture. Ensure compliance with norms, e.g. Limit issues to predetermined quantity, indents, etc.

- (xi) Supervise receipt, storage, issue and return of materials to STE through Stores Officers/ Assistant Store Keeper.
 - (xii) Ensure regular operation of scrapyards through highlighting, non-disposal of scrap, ensuring correct removal of scrap disposal.
- Sales*
- (xiii) Plan monthly despatch. Ensure and follow daily despatch schedule. Arrange transport. Check, ensure timely deliveries.
 - (xiv) Ensure proper maintenance and follow Central Excise rules, documentation.
 - (xv) Inventory control by arranging timely despatches.
 - (xvi) Transport contracts and development of new transporters mainly for despatches of finished goods.
 - (xvii) Prepare monthly production statements, yearly quantity reconciliation as per production statements and as per Central Excise records.
 - (xviii) Insurance matters and claims for finished goods.
 - (xix) Ensure smooth functioning of finished goods stores, proper receipt, storage, issue, packing and loading.
 - (xx) Arranging direct export, ensure proper documentation, liaise with VH/BO, VKA for early clearance, for future orders.
- Others*
- (i) Plan and execute periodic stock taking of materials in stores and in shops. Analyse and reconcile inventory differences. Modify/improve systems to ensure minimum discrepancies.
 - (ii) Liaise with external auditors, N/WIR personnel to help generate statutory balance sheet schedules related to materials consumption, stocks and production figures.
 - (iii) Administration of N/ABE/VLP department—leave, overtime, training, disciplinary action, etc.
 - (iv) Co-ordination and follow up with N/FVB, N/FAF and B/EMV development and trial orders for Nozzles and Nozzle holders to ensure completion of orders by due dates.
 - (v) Attending customer urgencies, coordinate with N/FAF—PPC to change schedules if required. Follow up to maintain commitments.

as per due dates.

- (vi) Attending external auditors from Central Excise/CERA.

8. AUTHORITY LIMITS

Decisions taken without prior reference to superiors:

- (i) Buffer stock levels of individual items.
- (ii) Manufacturing orders release in line with sales/production programme.
- (iii) Flow of material.
- (iv) Alternate materials usage in consultation with N/FVB personnel.
- (v) Leave, overtime of ABE/VLP department.
- (vi) Daily despatches, mode of despatch.

Only recommendations made and decisions to be approved by superiors:

- (i) Changes in sales/production programme.
- (ii) Critical material follow up.
- (iii) Increments to personnel in ABE/VLP

Exhibit 5.3 is a typical example of job description and job specification being combined.

Exhibit 5.3 Combination of Job Description and Job Specification

Director—Human Resources

Our client is a large speciality chemicals corporation with a global presence. The organisation has an impressive growth and profitability record. Its corporate mission is to become a key international player in its field and it invites you to join the top management team to accomplish this challenging task.

You would be responsible for:

- Providing leadership to a team of managers in training and development, personnel and industrial relations.
- Providing process and system inputs for enabling the company to achieve the goal of continuous performance improvement across the organisation.
- Influencing the management style and culture for creating an

environment of excellence and in fostering a feeling of ownership among the employees.

- Periodically reviewing and restructuring the organisation as required by changing market scenario and business strategy.

Success in this assignment requires a total business perspective with specialisation in Personnel Management and Organisational Development. You should possess a post graduate qualification in management with a proven track record of achievement in the above areas. The position requires a high degree of initiative, tenacity and strategic influencing skills. The preferred age is around 45 years.

If you are confident of your abilities and enjoy challenge, this could be the opportunity you are looking for. Our client ranks amongst the best paying organisations in India. The position offers ample opportunities for career growth.

Please send your detailed resume through speed post. Your identity will not be disclosed to the client until we have discussed the position with you in detail.

Purposes of Job Analysis

As was stated earlier, job analysis is useful for overall management of all personnel activities. While this is a generalised statement, it is important to specify the uses of job analysis.

Job-related data obtained from a job-analysis programme are useful in HRP, employee hiring, training, job evaluation, compensation, performance appraisal, computerised personnel information systems, and safety and health (see [Fig. 5.3](#)). Each of these applications of job analysis is described in brief here. They will however be explained in greater detail in subsequent chapters.

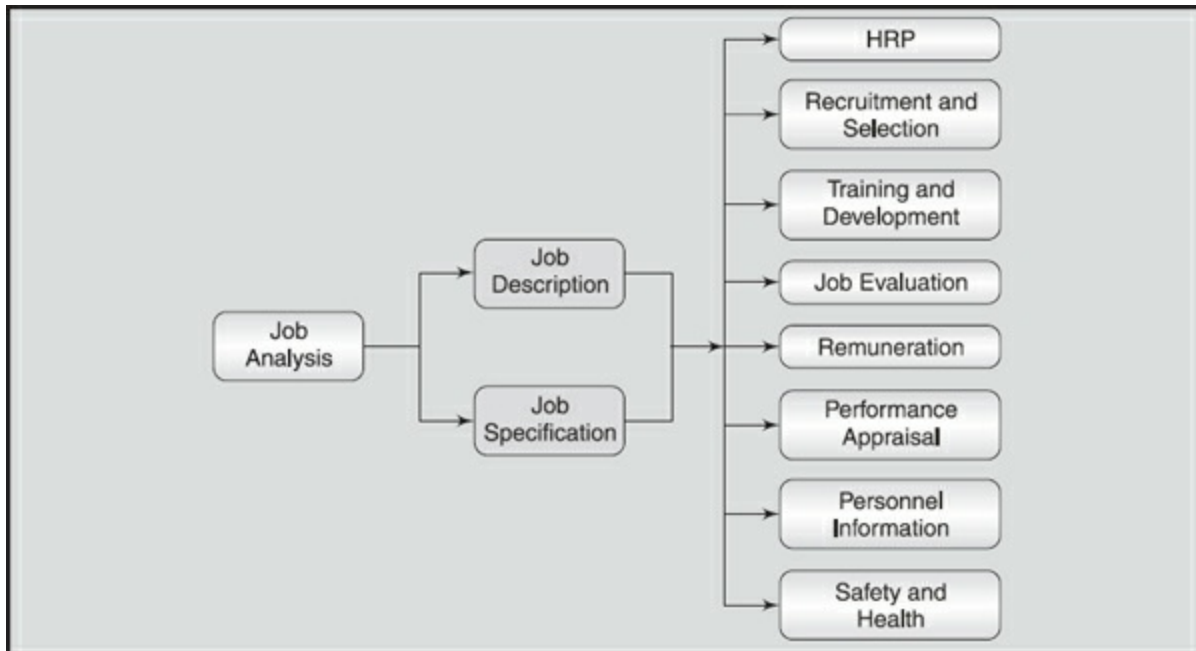


Fig. 5.3 *Uses of Job Analysis*

Human Resource Planning HRP, as pointed out in [Chapter 4](#), determines as to how many and what type of personnel will be needed in the near future. The number and the type of personnel are determined by the jobs which need to be staffed. Job-related information is, therefore, necessary for HRP.

Recruitment and Selection Recruitment needs to be preceded by job analysis. Job analysis helps the HR manager to locate places to obtain employees for openings anticipated in the future. An understanding of the types of the skills needed and types of job that may open in the future, enables managers to have a better continuity and planning in staffing their organisation.

Similarly, selecting a qualified person to fill a job requires knowing clearly the work to be done and the qualifications needed for someone to perform the work satisfactorily. Without a clear and precise understanding of what a job entails, the HR manager cannot effectively select someone to do the job.

The objective of employee hiring is to match the right people with the right jobs. The objective is too difficult to achieve without having adequate job information.

Training and Development Job analysis is useful for an HRD manager inasmuch as it helps him/her know what a given job demands from the incumbent in terms of knowledge and skills. Training and development programmes can be designed depending on the job requirements. Selection of trainees is also facilitated by job analysis.

Job Evaluation Job evaluation involves determination of relative worth of each job for the purpose of establishing wage and salary differentials. Relative worth is determined mainly on the basis of job description and job specification.

Remuneration Job evaluation helps determine wage and salary grades for all jobs. Employees need to be compensated depending on the grades of jobs which they occupy. Remuneration also involves fringe benefits, bonus and other benefits. Clearly, remuneration must be based on the relative worth of each job. Ignoring this basic principle results in inequitable compensation. A perception of inequity is a sure way of demotivating an employee.

Performance Appraisal Performance appraisal involves assessment of the actual performance of an employee against what is expected of him/her. Such assessment is the basis for awarding promotions, effecting transfers, or assessing training needs. Job analysis facilitates performance appraisal inasmuch as it helps fix standards for performance in relation to which actual performance of an employee is compared and assessed.

Personnel Information Organisations generally maintain computerised personnel information systems. Such information system is useful as it helps:

1. Improve administrative efficiency by speeding up the provision of data, by reducing the resources required to carry out routine administration, and by freeing the resources for higher-value activities which are fundamental to the success of the management.
2. Provide decision support—information which gives a factual basis for decisions concerning the planning, acquisition, development, utilisation and remuneration of human resources.⁷

Job analysis is vital for building such information systems.

Safety and Health The process of conducting a detailed job analysis provides an excellent opportunity to uncover and identify hazardous conditions and unhealthy environmental factors (such as heat, noise, fumes, and dust), so that corrective measures can be taken to minimise and avoid the possibility of human injury.⁸

METHODS OF COLLECTING JOB DATA

The methods of collecting job-related data are—(i) observational method, (ii) interviews, (iii) questionnaire, (iv) checklists, (v) technical conferences, and (vi) diary (see Fig. 5.4). A combination of these approaches may be used depending upon the situation and the organisation. A brief description of each method is in order.

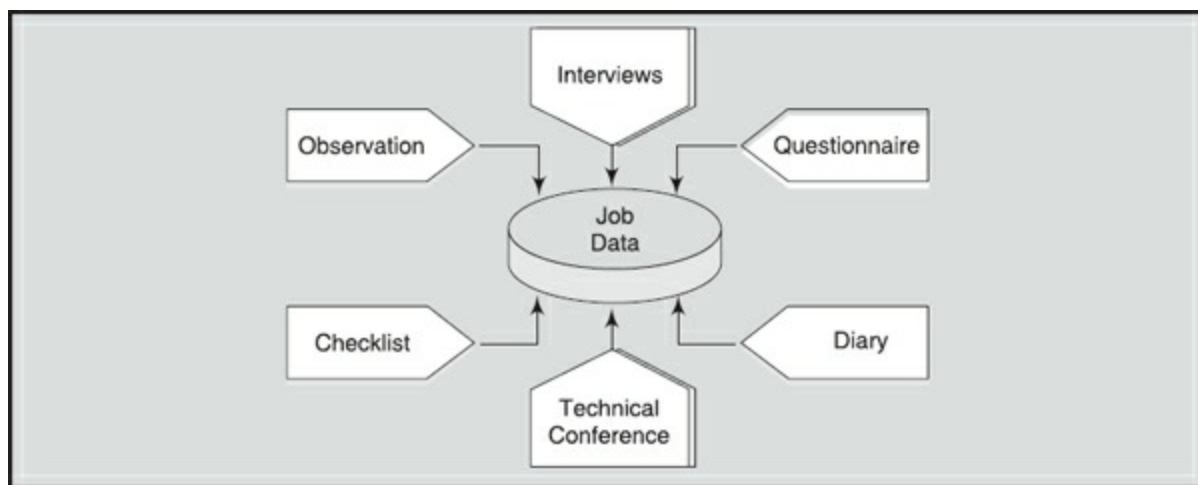


Fig. 5.4 Methods of Collecting Job Data

Pause and Ponder

Apply the six methods of collecting job data to the roles of a professor and a principal. Observe the key differences between the two jobs and ascertain which method is best for each role.

Observation In this method, the job analyst carefully observes the job holder at work and records what he or she does, how he or she does, and how much time is needed for completion of a given task. This method has both positive

as well as negative sides. On the positive side, the method is simple, and the data collected are accurate because of direct observation. On the flip side, it may be told that the method is time consuming and inapplicable to jobs which involve high proportions of unobservable mental activities and those which do not have complete and easily observable job cycles. The analyst needs to be trained to carefully observe and record the competence of a job incumbent. And training means additional cost. Considering all these, the observation method may be used for analysing repetitive, short-cycle, unskilled and semi-skilled jobs. Better results will be available when the observation method is used along with other method(s) of job analysis.

Interview In this, the analyst interviews the job holder and his/her supervisor to elicit information about the job. Usually, a structured interview form is used to record the information. During the interview, the analyst must make judgements about the information to be included and its degree of importance.

The interview method is time consuming. The time problem will be compounded if the interviewer talks with two or more employees doing the same job. Furthermore, professional and managerial jobs are more complicated to analyse and usually require a longer interview.⁹ Then, there is the problem of bias. Bias on the part of the analyst and the job holder may cloud the accuracy and objectivity of the data obtained. The interview method has one positive feature, that is, it involves talking to the job holders who are in a good position to describe what they do, as well as the qualifications needed to perform their duties in a competent manner.

The effectiveness of the interview method depends on the interviewer and on the ability of the job holder to make meaningful responses.

Questionnaire Job holders fill in the given structured questionnaires, which are then approved by their supervisors. The filled-in questionnaires offer enough data on jobs. Standard questionnaires are available or they may be prepared for the purpose by the analysts. Standard or prepared, questionnaires should contain the following basic information:¹⁰

1. The job title of the job holder;
2. The job title of the job holder's manager or supervisor;
3. The job titles and numbers of the staff reporting to the job holder (best

- recorded by means of an organisation chart);
4. A brief description (one or two sentences) of the overall role or purpose of the job; and
 5. A list of the main tasks or duties that the job holder has to carry out; as appropriate, these should specify the resources controlled, the equipment used, the contracts made and the frequency with which the tasks are carried out.

These basic details can be supplemented by questions designed to elicit from the job holder some information about the level of his/her responsibilities and the demand made upon him/her by the job. Such questions are difficult to phrase and answer in a meaningful way. The replies may be too vague or misleading and usually have to be checked with the job holder's supervisor. But they at least give the job holder an opportunity to express his/her feelings about the job and they can provide useful leads for further clarifications. These questions can cover such aspects of the job as:

1. The amount of supervision received and the degree of discretion allowed in making decisions;
2. The typical problems to be solved and the amount of guidance available while solving the problems;
3. The relative difficulty of the tasks to be performed; and
4. The qualifications and skills required to carry out the work.¹¹

The questionnaire method has its own advantages and limitations. The major advantage of the questionnaire method is that information on a large number of jobs can be collected in a relatively short period of time. But some follow-up observations and discussions are necessary to clarify inadequately filled-in questionnaires and interpretation problems. Further, the questionnaire method helps save time and the staff required to carry out the programme. Finally, all the job holders participate in the method unlike in an interview where one or two workers only would participate.

The accuracy of the information obtained through the questionnaire leaves much to be desired. Job analysis work requires specialised knowledge and training. The average employee, although, knows best what his/her duties are, he/she is not trained to identify the essential aspects of his/her work and often cannot express the information in a meaningful and clear fashion.¹² To depend exclusively upon questionnaires as the source of job information is

bound to create some errors in the programme.

Checklists A checklist is similar to a questionnaire, but the response sheet contains fewer subjective judgements and tends to be either-yes-or-no variety. Checklists can cover as many as 100 activities and job holders tick only those tasks that are included in their jobs.¹³ Preparation of a checklist is a challenging job. The specialists who prepare the list must collect all relevant information about the job concerned. Such information can be obtained by asking supervisors, industrial engineers, and others familiar with the work. When a checklist has been prepared for a job, it is sent to the job holder. The job holder is asked to check all listed tasks that he/she performs and indicate the amount of time spent on each task as well as the training and experience required to be proficient in each task. He/she may also be asked to write any additional tasks he/she performs which is not stated in the checklist. The checklist, thus answered, will be the basis for tabulating job-related data.

One advantage of the checklist method is that it is useful in large firms that have a large number of people assigned to one particular job. Also, this technique is amenable to tabulation and recording on electronic data-processing equipment. The technique, however, is costly and, hence, not suitable for small firms.

Technical Conference Method In this method, services of supervisors who possess extensive knowledge about a job are used. It is from these experts that details about the job are obtained. Here, a conference of supervisors is used. The analyst initiates discussion which provides details about jobs. Though a good method of data collection, this method lacks accuracy because the actual job holders are not involved in collecting information.

Diary Method This method requires the job holders to record in detail their activities each day. If done faithfully, this technique is accurate and eliminates errors caused by memory lapses the job holder makes while answering questionnaires and checklists. This method, however, is time consuming because the recording of tasks may have to be spread over a number of days. It also engages considerable time of a production worker. No wonder, the diary method is not used much in practice.

The methods described above are not to be viewed as mutually exclusive.

None of them is universally superior. The best results can be obtained by a combination of these methods.

Quantitative Techniques The methods of collecting job-related data, described above, are used by most employers. But there are occasions where these narrative approaches are not appropriate. For example, where it is desired to assign a quantitative value to each job so that jobs can be compared for pay purposes, a more quantitative approach will be appropriate. The position analysis questionnaire, management position description questionnaire and functional job analysis are the three popular techniques of job analysis.

Position Analysis Questionnaire The Position Analysis Questionnaire (PAQ) is a highly specialised instrument for analysing any job in terms of employee activities. The PAQ contains 194 job elements on which a job is created depending on the degree to which an element (or descriptor) is present. These elements are grouped into six general categories. Exhibit 5.4 describes the categories and given examples of rating scales used to collect information and rate jobs.¹⁴

Exhibit 5.4 Rating Scales used with the PAQ

There is provision for rating each job on each job element. Six types of rating scales are used, as follows:

Letter identification	Type of Rating Scale
U	Extent of Use
I	Importance to the job
T	Amount of Time
P	Possibility of Occurrence
A	Applicability
S	Special Code (used in the case of a few specific job elements)

A specific rating scale is designated to be used with each job element, in particular the scale considered most appropriate to the content of the

element. All but the “A” (Applicability) scale are 6-point scales, with “0” (which is coded as “N”) being used for “Does not apply,” as illustrated below:

Rating	Importance to the Job
N	Does not apply
1	Very minor (Importance)
2	Low
3	Average
4	High
5	Extreme

Source: William P. Anthony, *et. al.*, *Strategic Human Resource Management*, Dryden Press, 1993, p. 223.

The primary advantage of the PAQ is that it can be used to analyse almost every job. Further, this analysis provides a comparison of a specific job with other job classifications, particularly for selection and remuneration purposes. However, the PAQ needs to be completed by trained job analysts rather than incumbents or supervisors, since the language in the questionnaire is difficult and at a fairly high reading level.

Management Position Description Questionnaire The Management Position Description Questionnaire (MPDQ) is a highly structured questionnaire containing 208 items relating to managerial responsibilities, restrictions, demands and other miscellaneous position characteristics.¹⁵ These 208 items are grouped under the 13 categories as shown in [Table 5.4](#).

Table 5.4 *Management Position Description Questionnaire*

1. Product, marketing and financial strategy planning.
2. Co-ordination of other organisational units and personnel.
3. Internal business control.
4. Products and services responsibility.
5. Public and customer relations.
6. Advanced consulting.

7. Autonomy of actions.
8. Approval of financial commitments.
9. Staff service.
10. Supervision.
11. Complexity and stress.
12. Advanced financial responsibility.
13. Broad personnel responsibility.

Source: Lloyd L. Byars and Leasile W. Rue, *op. cit.*, p. 92.

The PAQ and MPDQ yield standardised information about the worker and the job.

Functional Job Analysis Functional Job Analysis (FJA) is a worker-oriented job analytical approach which attempts to describe the whole person on the job. The main features of FJA include the following:¹⁶

1. A fundamental distinction must be made between what has been done and what employees need to do to get the things done. For example, bus crew do not carry passengers, but they drive vehicle and collect fare.
2. Jobs are performed in relation to data, people and things.
3. In relation to things, employees draw on physical resources; in relation to data, employees draw on mental resources; and in relation to people, employees draw on interpersonal resources.
4. All jobs require employees to relate data, people and things to some degree.
5. Although, the behaviour of employees and their tasks can be described in many ways, only a few functions are involved. For example, while interacting with machines, employees feed, tend, operate, and or set up. Although, each of these functions occurs over a wide range of difficulty and content, each essentially draws on a relatively narrow and specific range of similar kinds and degrees of employee characteristics and qualifications.
6. The levels of difficulty required in dealing with data, people and things are hierarchical and can be represented by an ordinal scale.

[Table 5.5](#) defines the levels of difficulty for various jobs with regard to data, people and things. The lower the number associated with the function,

the more difficult the function is. For example, synthesising data (0) is more difficult than compiling data (3). After a job's difficulty has been described using this numerical scheme, the information can be compared to the job elements reported in the Dictionary of Occupation Titles (DOT), which is a standardised data-source describing a wide range of jobs. Once the closest job in the DOT has been located, the accompanying job description can be modified as necessary, to fit the specific job being analysed. Functional job analysis has the advantage of being relatively easy to learn, using a standardised format.

Table 5.5 *Levels of Difficulty for Worker Functions in FJA*

<i>Data</i>	<i>People</i>	<i>Things</i>
0. Synthesising	0. Mentoring	0. Setting up
1. Co-ordinating	1. Negotiating	1. Precision Working
2. Analysing	2. Instructing	2. Operating-controlling
3. Compiling	3. Supervising	3. Driving-operating
4. Computing	4. Diverting	4. Manipulating
5. Copying	5. Persuading	5. Tending
6. Comparing	6. Speaking-signalling	6. Feeding-off bearing
7. Serving	7. Handling	
	8. Taking Instructions-helping	

Source: Lloyd L. Byars and Lesile W. Rue, *op. cit.*, p. 93.

JOB ANALYSIS AND TOTAL QUALITY MANAGEMENT (TQM)

Job analysis seems to be inconsistent with total quality management (TQM) which is a *mantra* of management. TQM, in its essence, implies total commitment to quality. The essential features of TQM are:¹⁷

1. Creation of a common company theme;
2. Creation of customer centric mentality;
3. Improvement becoming part of the job;
4. Each function to reassess its purpose;
5. Improvement becoming a continuous process;
6. Communications to improve; and
7. Bureaucracy to be reduced.

Each of these principles of TQM calls for a new orientation and a broad

perspective on the part of every employee. A data entry operator in an office, for example, can no longer be confined only to typing letters as stipulated by his/her job description. He/she must look beyond his/her job requirement and consider the entire office as his/her area of operation. This logic can be extended to other jobs also. In the TQM dispensation, almost everybody will be required to attend to every task, the ultimate goal being the offer of better quality products or services.

Job analysis, which distinguishes one job from another, seems to be inconsistent with TQM. The job description of a Senior Officer (Direct Materials, Manufacturing Planning and Sales), for example (see Exhibit 5.2), talks about planning, inventory control, sales and others. But the description is silent about quality of incoming materials, rejects, scraps, waste disposal, and the like. The officer must be held responsible for quality and scrap of the incoming materials.

It does not mean that job analysis is losing its relevance. TQM or no TQM, job analysis is useful inasmuch as it stipulates the tasks to be performed by the job holder. What needs to be done to maintain job analysis under TQM is to make a job description contain basic tasks of the job, leaving scope for additional duties.

Job analysis is inconsistent with TQM. TQM expects every employee to do everything, while job analysis prescribes definite duties and responsibilities to each employee.

JOB ANALYSIS AND STRATEGIC HRM

A job analyst needs to be proactive in describing jobs. In other words, an analyst should not only give descriptions of jobs as they exist in an organisation, he or she should also describe jobs that will exist in the future firms. There is a growing realisation of the need to match human resource activities with an organisation's strategic planning. An important part of this task is the job analyst's ability to write job specifications that accurately detail the knowledge and skills that will complement the future strategic initiatives of the company. In future, job descriptions will no longer be snapshots of a static entry called a "job". Instead, strategic job analysis will

have to be capable of capturing both the present and the future.¹⁸

POTENTIAL PROBLEMS WITH JOB ANALYSIS

Certain problems crop up while conducting job analysis. The major ones are described below:

Support from Top Management In most cases, top management support is missing. The top management should make it clear to all employees that their full and honest participation is extremely important for the process. This message is, often, not communicated.

Single Means and Source This relates to the defect in the process of job analysis. There are many proven methods and sources of collecting data. All too often, analysts rely on only one of the methods when a combination of two methods might provide a better data.

No Training or Motivation This also relates to the defect in the job-analysis process. Job holders are a great source of information about the job. But they are not trained or motivated to generate quality data for job analysis. Further, job holders are rarely made aware of the importance of the data, and are never rewarded for providing accurate data.

Activities may be Distorted Where training and preparedness do not exist, job holders tend to submit distorted data, either intentionally or inadvertently. For example, employees are likely to speed up, if they know they are being watched.

REQUISITES FOR JOB ANALYSIS

1. The job analysis should be so designed that derivation of job descriptions and job specifications becomes easy.
2. Managers should communicate all relevant information to employees concerning the job analysis to prevent unnecessary uncertainty and anxiety.
3. When major organisational changes take place, job analysis should be

undertaken.

4. The purpose of job analysis, the extent of employee involvement, the type of information required and the levels of details required should be specified.
5. Seek answers to the following:
 - Do I understand this job?
 - Are all major aspects of the job covered?
 - Why the job exists?
 - What precisely is it expected to achieve?
 - What are the reporting relations of this job?
 - What elements of planning, organising, evaluating and innovating are required?
 - What marks the boundaries of the jobholder's authority and discretion?
 - What are the demanding aspects of the job?
 - What interactions are needed?
 - What specific skills are needed to do the job?
 - Will this description communicate that understanding to others?
 - Can I see the difference between this job and others?
 - Is there an overlap of job purpose/accountabilities with other jobs?
 - Is it concise, to the point and in present tense?
 - Is the information provided specific to the job and not to the person doing the job?

COMPETENCY-BASED JOB ANALYSIS

Job analysis, as has been stated earlier, is the process of collecting job related information. As [Table 5.1](#) shows, job related data include duties, responsibilities, working conditions, use of tools and equipment, and the like. In other words, they are all job-related. In high performance work environments, as noticed in most of the new economy firms, in which organisations need workers to seamlessly move from job to job and exercise self-control, job descriptions based on lists of job-specific duties may actually inhibit (or fail to encourage) the flexible behaviours the companies need.^{18(a)}

Where the focus is on the individual, but not on the job, the process

becomes competency-based job analysis. Job analysis here seeks to collect competencies of employees rather than job duties. Competencies include measurable and observable behavioral competencies that an employee must exhibit to do the job well. Obviously, job descriptions prepared on competency based job analysis will centre around competencies of individuals, no matter which jobs they occupy.

Typical competencies included in the competency-based job analysis include the following:

- Self-control
- Self-development
- Personal organisation
- Positive approach
- Delivering results
- Providing solutions
- Systemic thinking
- Attention to detail
- Creating customer service
- Delivering customer service
- Continuous improvement
- Developing people
- Working with others
- Influencing
- Leading
- Delivering the vision
- Change and creativity

Three reasons justify competency-based rather than duties-based job analysis. First, as stated earlier, high performance work systems may suffer if job descriptions are based on job duties rather than competencies. High performance work systems are designed to encourage employees to work in a self-motivated way, by organising work around teams, by encouraging team members to rotate freely among jobs (each with its own skill set), by pushing more responsibility for things like day-to-day supervision down to the workers, and by organising work around projects or processes in which jobs may blend or overlap. Employees here must be enthusiastic about learning and moving among jobs. Giving some one a job description with a list of specific duties may simply breed a “that-is-not-my-job” attitude, by slotting

workers too narrowly.^{18(b)}

Second, jobs in organisations are changing so rapidly that, even with computer assistance and user-friendly description software, HR professionals cannot keep up with the changes. Instead of seeking to cope with the constantly changing jobs, competency-based analysis focuses on the individuals. Organisations are replacing the notion of “jobs” while considering what “roles” and “competencies” will be required for the 21st Century.

Third, jobs are getting reorganised, TQM programmes are being implemented and value of teams is emphasised in organisations. Companies are now identifying, communicating, and rewarding a variety of broad-based competencies that successful employees must possess. Also called ‘competency modeling’, such usage of competencies in HR practices reflects a firm’s desire to—

- Describe and measure the organisation’s workforce in more general, competency terms;
- Design and implement staffing programmes focused around competencies as a way of increasing staffing flexibility in job assignments; and
- Accept that career planning and development are one’s own responsibility.

JOB DESIGN

The logical sequence to job analysis is job design. Job analysis, as was explained earlier, provides job-related data as well as the skills and knowledge expected of the incumbent to discharge the job. Job design, then, involves conscious efforts to organise tasks, duties, and responsibilities into a unit of work to achieve certain objectives.¹⁹

Thus, job design involves three steps:

1. The specification of individual tasks,
2. The specification of the method(s) of performing each task, and
3. The combination of tasks into specific jobs to be assigned to individuals.

Job design involves conscious efforts to organise tasks, duties and responsibilities into a unit of work to achieve certain objectives. Job design follows job analysis.

Steps 1 and 3 determine the content of the job, while Step 2 indicates precisely how the job shall be performed. While designing a job, requirements of the organisation and individual needs of the job holder must be considered. The key to successful job design lies in balancing the requirements of the organisation and the job holder.

Traditionally, the practice in designing job has been simplifying the tasks to be performed. This usually results in making jobs highly specialised. While specialisation has many advantages, it can result in boredom and even degradation of the job holder (also read Exhibit 5.5).

Exhibit 5.5 Work Specialisation

Early in the last century, Henry Ford became rich and famous by building automobiles on an assembly line. Every Ford worker was assigned a specific, repetitive task. For instance, one person would just put on the right-front wheel and someone else would install the right-front door. By breaking jobs up into small standardised tasks, which could be performed over and over again, Ford was able to produce cars at the rate of one every ten seconds while using employees who had relatively limited skills.

Ford demonstrated that work can be performed more efficiently if employees are allowed to specialise. Today, we use the term, *work specialisation*, or *division of labour* to describe the degree to which tasks in the organisation are subdivided into separate jobs.

The essence of work specialisation is that, rather than an entire job being done by one individual, it is broken down into a number of steps, each step being completed by a separate individual. In essence, individuals specialise in doing a part of an activity rather than the entire activity.

By the late 1940s, most manufacturing jobs in industrialised countries were being done with high work specialisation. The management saw this as a way to make the most efficient use of its employees' skills. In most organisations, some tasks require highly developed skills; others can be

performed by the untrained. If all workers were engaged in each step of, say, an organisation's manufacturing process, all would have to have the skills necessary to perform both—the most demanding and the least demanding jobs. As a result, except when performing the most skilled or highly sophisticated tasks, employees would be working below their skill levels. And since skilled workers are paid more than unskilled workers and their wages tend to reflect their highest level of skill, paying highly skilled workers to do easy tasks represents an inefficient usage of organisational resources.

Managers also looked for other efficiencies that could be achieved through work specialisation. Employee skills at performing a task successfully increase through repetition. Less time is spent in changing tasks, in putting away one's tools and equipment from a prior step in the work process, and in getting ready for another. Equally important, training for specialisation is more efficient from the organisation's perspective. It is easier and less costly to find and train workers to do specific and repetitive tasks. This is especially true of highly sophisticated and complex operations. For example, could Cessna produce one Citation jet a year if one person had to build the entire plane alone? Finally, work specialisation increases efficiency and productivity by encouraging the creation of special inventions and machinery.

For much of the first half of the last century, managers viewed work specialisation as an unending source of increased productivity. And they were probably right. Because specialisation was not widely practised, its introduction almost always generated higher productivity. But by the 1960s, increasing evidence showed that a good thing can be carried too far. The point had been reached in some jobs where the human diseconomies from specialisation—which surface as boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—more than offset the economic advantages.

Source: Stephen P. Robbins, *Organisational Behaviour*, Prentice-Hall of India, 1996, pp. 551–552.

What is needed most is to achieve fit between the job and its holder.

The Job Characteristics Model developed by Richard Hackman and G R

Oldham seeks to bring the job close to the person. [Figure 5.5](#) outlines the Job Characteristics Model. This model suggests that five core job characteristics result in the employee experiencing three favourable psychological states, which in turn lead to positive outcomes. The five core job characteristics are explained as follows:

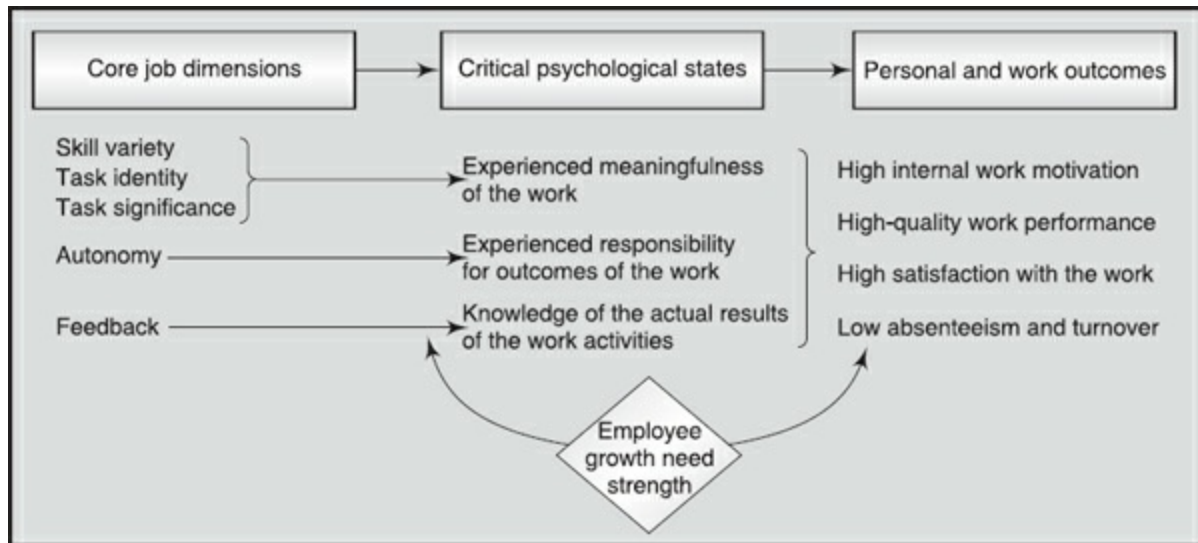


Fig. 5.5 *Job Characteristics Model*

Source: Debra L Nelson, et. al., *Organizational Behaviour*

1. **Skill variety:** The degree to which a job includes difficult activities and involves the use of multiple skills and talents of the employee.
2. **Task identity:** The degree to which the job requires completion of a whole and identifiable piece of work that is done from beginning to end with a tangible outcome.
3. **Task significance:** The degree to which the job has a substantial impact on the lives or work of other people.
4. **Autonomy:** The degree to which the job provides the employee with substantial freedom, independence and discretion in scheduling the work and in determining the procedure to be used in carrying it out.
5. **Feedback:** The degree to which the employee possesses information of the actual results of his or her performance.

Hackman and Oldham's model seeks to integrate the five job characteristics to give an overall Motivating Potential Score (MPS) for each

job's potential for motivating the incumbents.

$$\text{MPS} = \frac{(\text{Skill Variety}) + (\text{Task Identity}) + (\text{Task Significance})}{3} \times (\text{Autonomy}) \times (\text{Feedback})$$

The Job Characteristics Model contains a moderator—*growth need strength*. This moderator explains why jobs theoretically high in MPS will not automatically generate a high level of motivation and satisfaction for all workers. This means that employees with a low growth need are less likely to experience a positive outcome even when their job is enriched.

The job characteristics theory further suggests that core job dimensions stimulate three critical psychological states based on the relationship specified in the model.

The three critical psychological factors are:

1. **Meaningfulness of the work:** The extent to which the employee experiences the job as the one which is meaningful, valuable and worthwhile.
2. **Responsibility for work outcomes:** The extent to which the employee feels accountable for the outcome of the work he or she does.
3. **Knowledge of results:** The extent to which the employee has feedback on his or her performance on the job.

Hailed as highly relevant approach to job design, the Job Characteristics Model has been empirically tested with the results being supportive of the theory.

SIGNIFICANCE OF JOBS DESIGN

The significance of job design need not be overemphasized. The design of jobs has a critical impact on organisations and employee objectives. From the organisation's perspective, the way tasks and responsibilities are grouped can affect productivity and costs. Jobs that are not satisfying or are too demanding are difficult to fill. Boring jobs may lead to a higher turnover. For an employee, motivation and job satisfaction are affected by the match between job factors (content, qualifications and rewards) and personal needs.²⁰ Therefore, thoughtful design of jobs can help both the organisation and its employees achieve their objectives.

It is well-known that jobs are more than a collection of tasks recorded on a job-analysis schedule and summarised in a job description. Jobs are the foundation of organisational productivity and employee satisfaction, or lack thereof. How well jobs are designed will play an increasingly important role in the success, even survival, of any firm during the next millennium. As the number of new workers coming into the labour market slows and the international competition increases, well-designed jobs will become even more important in attracting and retaining a motivated workforce, which is capable of producing high-quality products and services.²¹ (Read also Exhibit 5.6)

Exhibit 5.6 Job Design Around the World

Many contemporary breakthroughs and innovations to job design were developed and pioneered abroad. As far back as 1951, for example, researchers at the London Tavistock Institute conducted important pioneering studies of jobs in the coal-mining industry in England. They examined a wide variety of work arrangements and found the fact that flexibility in the manner in which jobs were performed improved interpersonal relationships among employees could be a critical part of organisational effectiveness. Another research, conducted in textile units in India, focussed on the relationship between people and technology. The findings led managers to better appreciate the importance of both technical systems and social systems in organisations.

But, perhaps, the most ambitious experiment in job design took place in Sweden. In, the early 1970s, Volvo was planning to build a new assembly plant near the town of Kalmar. In designing the new factory, the firm's managers decided to see if they could change the traditional approach to jobs in the automobile industry to offset many of the negative factors associated with traditional assembly-linework. They constructed the entire facility to promote a better job design and a more pleasant work environment for Volvo employees. For example, each worker was assigned a space that felt like a small workshop rather than a large factory. Natural lighting was emphasised, and each bay had a separate lounge and rest facilities for the workers assigned there.

Instead of using a traditional assembly line, the firm installed computer-

guided trolleys that rolled along the floor. The workers moved around the trolleys to perform their tasks rather than standing stationery, while the car moved past them. This gave them the flexibility to move the trolley off the line when a serious problem arose with the car on that particular trolley. Thus, the problem could be attended to without slowing down the entire line.

While construction costs in the factory are about 10 per cent more than a traditional automobile plant, Volvo management believed that improvements in the quality of both work life and products that resulted, compensated for at least some of the additional costs.

Source: Moorhead and Griffin, Organisational Behaviour, p. 176.

On the flip side, it may be stated that poorly designed jobs may lead to lower productivity, employee turnover, absenteeism, complaints, sabotage, unionisation, resignations and other problems.

FACTORS AFFECTING JOB DESIGN

Job design is affected by organisational, environmental, and behavioural factors. A properly designed job will make it productive and satisfying. If a job fails on this count, the fault lies with the job designers who, based on the feedback, must redesign the job (see [Fig. 5.6](#)). We now propose to elaborate the various factors affecting job design. [Figure 5.6](#) probably fails to capture the considerations that motivate Sudhir, Joe, Ming Mei and Jonelle to work on extreme jobs (see Opening Case).

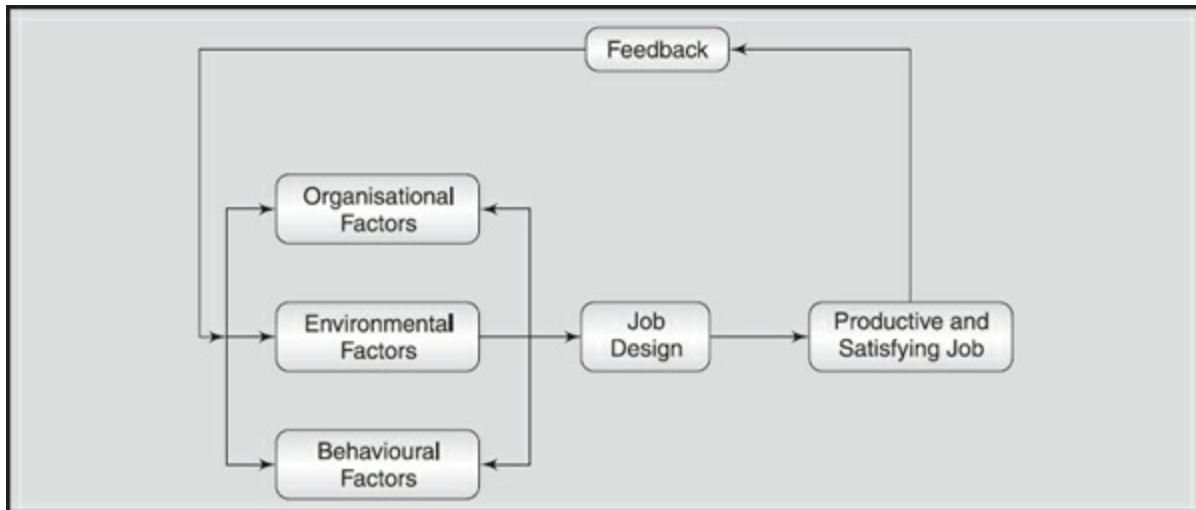


Fig. 5.6 *Factors Affecting Job Design*

Source: Adapted from *Human Resources and Personnel Management* by William B. Werther and Keith Davis, p. 147.

Organisational factors

Organisational factors include characteristics of task, work flow, ergonomics, and work practices.

Characteristics of Task Job design requires the assembly of a number of tasks into a job or a group of jobs. An individual may carry out one main task which consists of a number of interrelated elements or functions. On the other hand, task functions may be split between a team working closely together or strung along an assembly line. In more complex jobs, individuals may carry out a variety of connected tasks, each with a number of functions, or these tasks may be allocated to a group of workers or divided between them. Complexity in a job may be a reflection of the number and variety of tasks to be carried out, or the range and scope of the decisions that have to be made, or the difficulty of predicting the outcome of decisions.

The internal structure of each task consists of three elements: (i) *planning* (deciding the course of action, timing and the resources required), (ii) *executing* (carrying out the plan), and (iii) *controlling* (monitoring performance and taking corrective action when required). A completely integrated job will include all these elements for each of the tasks involved.

The worker (or group of workers) having been given objectives in terms of output, quality and cost targets, decides on how the work is to be done, assembles the resources, performs the work, and monitors output, quality and cost standards. Responsibility in a job is measured by the amount of authority someone has to put to do all these things.²² The ideal job design is to integrate all the three elements.

Work Flow The flow of work in a firm is strongly influenced by the nature of the product or service. The product or service usually suggests the sequence and balance between jobs if the work is to be done efficiently. For example, the frame of a car must be built before the fenders, and the doors can be added later.²³ After the sequence of jobs is determined, the balance between jobs is established.

Ergonomics is concerned with designing and shaping jobs to fit the physical abilities and characteristics of employees. Nature of jobs remains the same but the location of tools, switches and other facilities is changed to make the jobholder feel comfortable.

Ergonomics Ergonomics is concerned with designing and shaping jobs to fit the physical abilities and characteristics of individuals so that they can perform their jobs effectively.²⁴ Ergonomics helps employers to design jobs in such a way that workers' physical abilities and job demands are balanced. Ergonomics does not alter the nature of job tasks but the location of tools, switches and other facilities, keeping in view that the handling the job is the primary consideration.

Essentially, ergonomics comprises four elements: human system, working environment, man-machine interface, and total working system. [Table 5.6](#) contains details of each of the components.

The *human characteristics* include physical aspects as stamina, strength, and body dimensions. They also include psychological attributes like perception, learning and reaction. These features are significant in a wide range of jobs. The *working environment* wields significant effects on worker performance. Typical environmental factors include temperature, humidity, lighting, noise, vibration, ventilation and the like. *Man-machine interface*

includes controls, displays, communicators and automation. Each of these impacts worker comfort and performance considerably. *Total working system* includes factors such as the potential for fatigue and stress. Specific health and safety features are also considered, particularly the effects of operator errors.

Pause and Ponder

A lady employee who is pregnant complains that the chair provided to her is uncomfortable and is causing her back ache. What would you do?

Work Practices Work practices are set ways of performing works. These methods may arise from tradition or the collective wishes of employees. Either way, the HR department’s flexibility to design jobs is limited, especially when such practices are part of a union-management relationship. Failure to consider work practices can have undesirable outcomes.²⁵

Table 5.6 *Ergonomic Approach to the Work Situation*

<i>Human characteristics</i>	<i>Environmental factors</i>
Bodily dimensions	Temperature
Strength	Humidity
Stamina	Lighting
Learning	Noise
Mental and physical limitations	Vibration
Perception	Dust, fumes, etc
Reaction	Ventilation
<i>Man-machine interface</i>	<i>Total working system</i>
Controls	Work rate
Displays	Posture
Communications	Fatigue
Automation	Stress
	Productivity
	Accident and ill health

(Source: Jeremy Stranks, *Health and Safety at Work*, Kogan Press, 2010, p. 143)

Work practices were, till now, determined by time and motion study which determined the standard time needed to complete a given job. The study required repeated observations. The accuracy of the readings depended on the competence of the engineer. Deviations from the normal work-cycle caused distortions in measurement, was biased towards existing work practices with little effort at methods' improvement, and could be carried out only when production was underway.

A new technique has now emerged, which if introduced, could drastically alter the work practices in industrial undertakings. Called Maynard Operating Sequence Technique (MOST), the technique uses a standard formula to list the motion sequences ascribed in index values. There will be resistance from the workers to the introduction of MOST, but the benefits from the technique should help cope with the opposition.

Environmental factors

Environmental elements affect all activities of HRM, and job design is no exception. The external factors that have a bearing on job design are employee abilities and availability, and social and cultural expectations.

Employee Abilities and Availability Efficiency consideration must be balanced against the abilities and availability of the people who are to do the work. When Henry Ford made use of the assembly line, for example, he was aware that most potential workers lacked any automobile-making experience. So jobs were designed simple and required little training. Therefore, considerable thought must be given as to who will actually do the work.²⁶

Social and Cultural Expectations There were days when getting a job was the primary consideration. The worker was prepared to work on any job and under any working conditions. Not any more. Literacy, knowledge and awareness among workers have improved considerably, so also their expectations from jobs. Hence jobs must be designed to meet the

expectations of workers.

Pause and Ponder

List the expectations of each of the following jobs:

- (i) A programmer
- (ii) Receptionist
- (iii) Executive Assistant
- (iv) Sales Rep.

When designing jobs for international operations, uniform designs are almost certain to neglect national and cultural differences. Hours of work, holidays, vacations, rest breaks, religious beliefs, management styles, and worker sophistication and attitudes are just some of the predictable differences that can affect the design of jobs across international borders. Failure to consider these social expectations can create dissatisfaction, low motivation, hard-to-fill job openings and a low quality of work life, especially when foreign nationals are involved in the home country or overseas.²⁷

Behavioural factors

Behavioural factors have to do with human needs and the necessity to satisfy them. Higher-level needs are more significant in this context. Individuals inspired by higher-level needs find jobs challenging and satisfying which are high on the following dimensions:

Feedback Individuals need to receive meaningful feedback about their performance, preferably by evaluating their own performance and defining the feedback. This implies that they need to ideally work on a complete product or on a significant part of it.

Autonomy Autonomy is being responsible for what one does. It is the freedom to control one's responses to the environment. Jobs that give workers authority to make decisions will provide added responsibilities, which tend to increase the employee's sense of recognition and self-esteem.²⁸

The absence of autonomy, on the other hand, can cause employee apathy or poor performance.

Use of Abilities The job must be perceived by individuals as requiring them to use abilities they value in order to perform the job effectively.

Variety Lack of variety may cause boredom. Boredom, in turn, leads to fatigue and fatigue causes mistakes. By injecting variety into jobs, personnel specialists can reduce errors caused by fatigue.²⁹

JOB DESIGN APPROACHES

Five popular approaches to job design are job rotation, job engineering, job enlargement, job enrichment and socio-technical systems. All these are explained in the subsequent paragraphs (see Fig. 5.7). Figure 5.7 has two dimensions—**impact** and **complexity**. The impact dimension, on the vertical axis, is the degree to which a job design approach is linked with factors beyond the immediate job, such as reward systems, performance appraisal methods, leadership, customer needs, organisational design, working conditions, and team composition and norms. The complexity dimension, on the horizontal axis, is the degree to which a job design approach requires: (i) the involvement of individuals with diverse competencies at various organisational levels; and (ii) high level of decision-making competency for successful implementation.

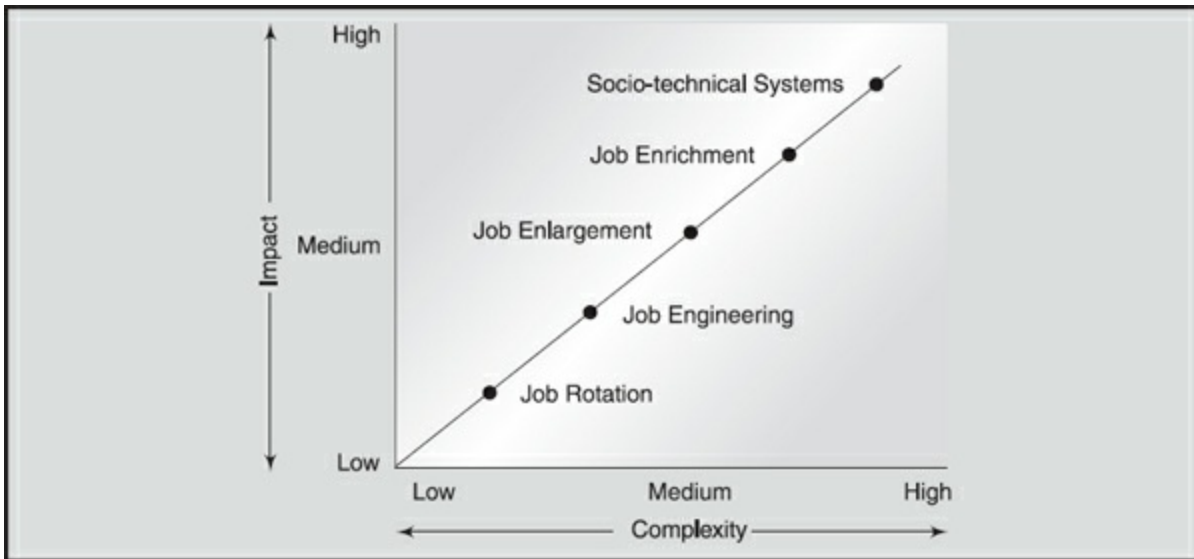


Fig. 5.7 Job Design Approaches

Job Rotation Job rotation refers to moving employees from job to job to add variety and reduce boredom by allowing them to perform a variety of tasks. When an activity is no longer challenging, the employee would be moved to another job at the same level that has similar skill requirements. It reduces boredom and disinterest through diversifying the employee’s activities. Employees with a wider range of skills give the management more flexibility in scheduling work, adapting to changes and filling vacancies. Job rotation also has its drawbacks. Training costs are increased, work is disrupted as rotated employees take time to adjust to a new set-up, and it can demotivate intelligent and ambitious trainees who seek specific responsibilities in their chosen speciality.³⁰ According to Herzberg, job rotation is merely “substituting one zero for another zero”. [Figure 5.8](#) illustrates job rotation more clearly.

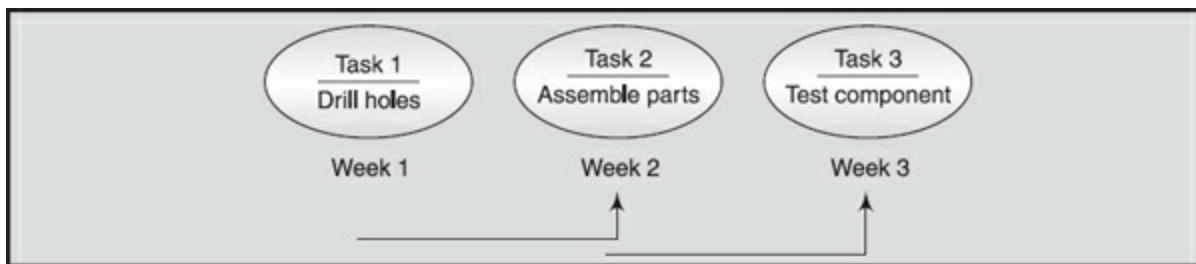


Fig. 5.8 An Example of Job Rotation

(Source: Based on *Human Resource Management* by John Bratton and Jeffrey Gold, p. 122)

Job Engineering Job engineering focuses on the tasks to be performed, methods to be used, workflows among employees, layout of the workplace, performance standards, and interdependencies among people and machines. Experts often examine these job design factors by means of time-and-motion studies, determining the time required to do each task and the movements needed to perform it efficiently.

Jobs rotation involves moving employees from job to job to add variety and reduce boredom.

Specialisation of labour is the hallmark of job engineering. High level of specialisation is intended to (a) allow employees to learn a task rapidly; (b) permit short work cycles so that performance can be almost automatic and involve little or no mental effort; (c) make hiring easier because low-skilled people can be easily trained and paid relatively low wages; and (d) reduce the need for supervision, using simplified jobs and standardisation.

Although job engineering can also create boring jobs, it remains an important job design approach because the resulting cost savings can be measured immediately and easily.

This approach continues to be successfully used, particularly when it is combined with a concern for the social context in which the jobs are performed. Job engineering may be used with success, subject to the following golden rules of work design being ensured:

- The end product/output of the work is clearly defined and fully understood by the employees.
- The steps/tasks to be performed to achieve the required end product/output are clearly defined in the appropriate sequence.
- The employees know and understand where their responsibility starts and finishes in the work process.
- The tools, facilities and information needed to perform the work are readily available and fully understood by the employees.
- There is a process whereby the employees can suggest possible improvements in the work design and exercise initiative in

implementing them.

- The employees are involved in the work design process.

Job Enlargement Job enlargement refers to the expansion of the number of different tasks performed by an employee in a single job. For example, an auto mechanic undergoes job enlargement when he switches from only changing oil to changing oil, greasing and changing transmission fluid. Job enlargement attempts to add somewhat similar tasks to the existing job so that it has more variety and be more interesting (See Fig. 5.9).

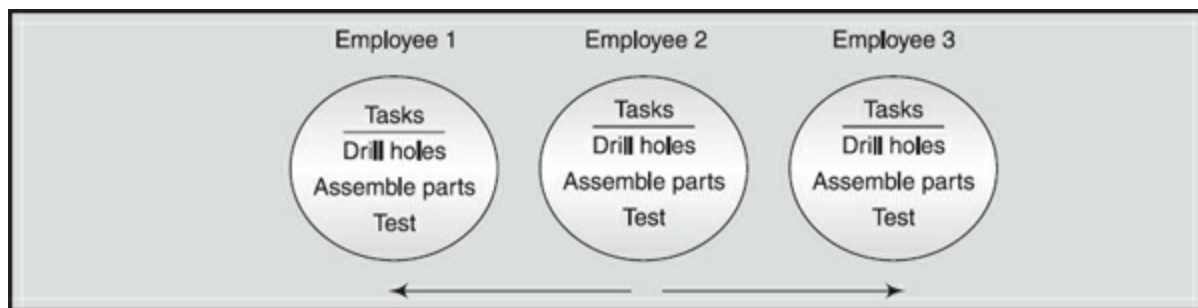


Fig. 5.9 An Example of Job Enlargement

(Source: Based on *Human Resource Management* by John Bratton and Jeffrey Gold, p. 123)

The job enlargement approach to job design has been criticised as well as appreciated.

An enlarged job can motivate an individual for five reasons:

- (a) **Task Variety** Highly fragmented jobs requiring a limited number of unchanging responses tend to be extremely monotonous. Increasing the number of tasks to be performed can reduce the level of boredom.
- (b) **Meaningful Work Modules** Frequently, jobs are enlarged so that one worker completes a whole unit of work, or at least a major portion of it. This tends to increase satisfaction by allowing workers to appreciate their contribution to the entire project or product.
- (c) **Ability Utilisation** Workers derive greater satisfaction from jobs that utilise their physical and mental skills and abilities better. Enlarged jobs tend to fulfill this condition. However, management must be careful not to enlarge jobs too much, because jobs that require more skills and ability than the worker possesses lead to frustration and present

obstacles to task accomplishment. Enlarged jobs with optimal levels of complexity, on the other hand, create tasks that are challenging but attainable.

- (d) **Worker-paced Control** Job enlargement schemes often move a worker from a machine-paced production line to a job in which the worker paces himself/herself. Workers feel less fatigued and are likely to enjoy their work more if they can vary the rhythm and work at their own pace.
- (e) **Performance Feedback** Workers performing narrow jobs with short performance cycles repeat the same set of motions endlessly, without meaningful end point. As a result, it is difficult to count the number of completed performance cycles. Even if they are counted the feedback tends to be meaningless. Enlarged jobs allow for more meaningful feedback and can be particularly motivating if they are linked to evaluation and organisational rewards.

Although the benefits of job enlargement are several, certain disadvantages cannot be ignored. First, training costs tend to rise. Workers may require additional training for their new, enlarged tasks. Besides, if the job enlargement programme involves breaking up of the existing production line of work systems, redesigning a new system, and training employees to adjust to it, the costs can be substantial. Moreover, productivity may fall during the introduction of a new system. Another drawback is that unions often argue for increased pay because of the increased workload. Finally, even after enlargement many jobs may still be routine and boring. Frederick Herzberg was right when he said that job enlargement is simply “adding zero to zero”, meaning that one set of boring tasks (zero) is simply added to another set of boring tasks (zero).

Job Enrichment First coined by Herzberg in his famous research with motivators and maintenance factors, job enrichment has become a popular concept. It simply means adding a few more motivators to a job to make it more rewarding. To be specific, a job is enriched when the nature of the job is exciting, challenging and creative, or gives the job holder more decision-making, planning and controlling powers.³¹ (See Fig. 5.10)

Job enrichment

involves adding more motivators to a job to make it more rewarding.

Job becomes enriched when it gives job-holder more decision-making, planning and controlling powers.

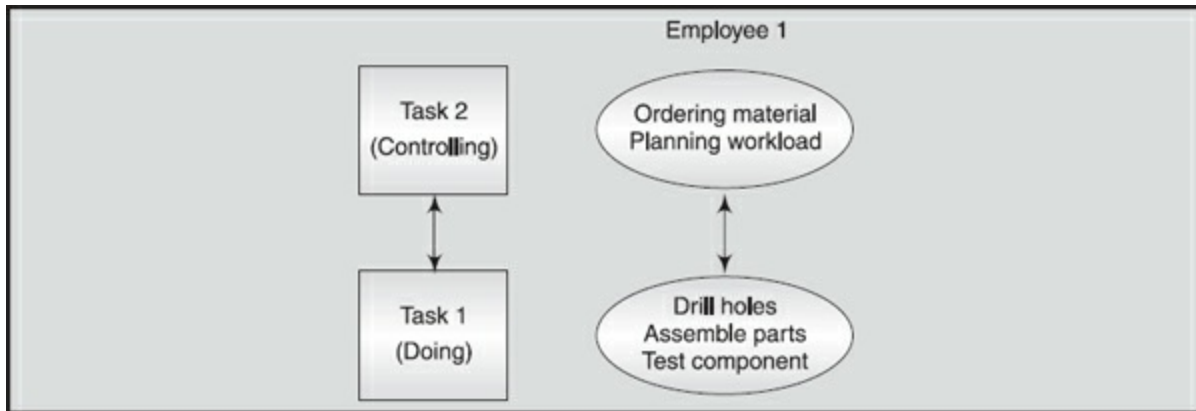


Fig. 5.10 *An Example of Job Enrichment*

(Source: Based on *Human Resource Management* by John Bratton and Jeffrey Gold, p. 123)

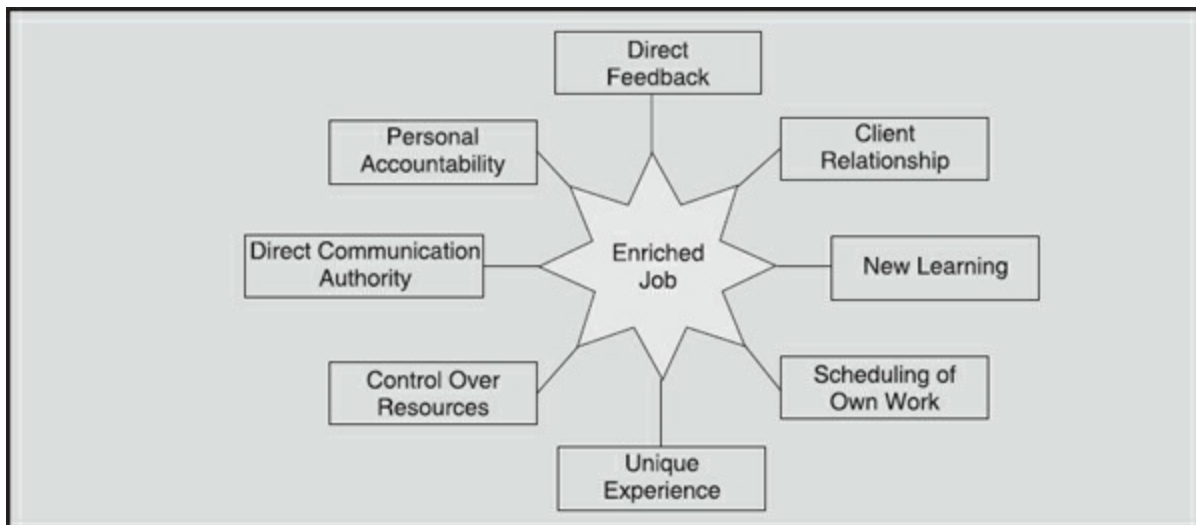


Fig. 5.11 *Characteristics of an Enriched Job*

According to Herzberg, an enriched job has eight characteristics. These features are discussed below and illustrated in [Fig. 5.11](#).

- (a) **Direct Feedback** Employees should be able to get immediate knowledge of the results they are achieving. The evaluation of performance can be built into the job (as in an electronic spellchecker

indicating the presence or absence of errors) or provided by a supervisor.

- (b) **Client Relationship** An employee who serves a client or customer directly has an enriched job. The client can be outside the firm (such as a mechanic dealing with a car owner) or inside (such as a computer operator executing a job for another department).
- (c) **New Learning** An enriched job allows its incumbent to feel that he is growing intellectually. An assistant who clips relevant newspaper articles for his or her boss is, therefore, doing an enriched job.
- (d) **Scheduling Own Work** Freedom to schedule one's own work contributes to enrichment. Deciding when to tackle which assignment is an example of self-scheduling. Employees who perform creative work have more opportunity to schedule their assignments than those who perform routine jobs.
- (e) **Unique Experience** An enriched job has some unique qualities or features, such as a quality controller visiting a supplier.
- (f) **Control Over Resources** One approach to job enrichment is for each employee to have control over his or her resources and expenses. For example, he or she must have the authority to order supplies necessary for completing his job.
- (g) **Direct Communication Authority** An enriched job allows the worker to communicate directly with people who use his or her output, such as a quality assurance manager handling a customer's complaints about quality.
- (h) **Personal Accountability** An enriched job holds the incumbent responsible for the results. He or she receives praise for good work and blame for poor work.

Being a direct outgrowth of Herzberg's two factor theory of motivation, job enrichment is a valuable motivational technique. For example, a lab technician in the health department of a state government experiences frustration after 20 years of working in the same capacity. The only regular work he does, on every working day, is to sign the attendance register at 10 am. The frustration of such employees can be remedied by enriching their jobs.

A few studies conducted in the United States have also demonstrated the

usefulness of job enrichment as a motivator. For example, a study of AT&T's clerical and other telephone company employees showed a positive improvement in job performance and satisfaction after job enrichment. Another study with technicians, engineers and sales representatives also showed similar results.³²

Job enrichment seeks to improve both task efficiency and human satisfaction by building into people's jobs, quite specifically, greater scope for personal achievement and recognition, more challenging and responsible work, and more opportunity for individual advancement and growth.³³ An enriched job will have more responsibility and autonomy (vertical enrichment), more variety of tasks (horizontal enrichment), and more growth opportunities. The employee does more planning and controlling with less supervision but more self-evaluation. In other words, what the supervisor has been doing till now (planning, instructing, controlling and supervising) will now be done by the worker.

Pause and Ponder

'Job enrichment should be offered only to senior top performers.' Do you agree?

As with other techniques of job design, job enrichment has both positive and negative features. On the plus side, it may be stated that job enrichment benefits employees and organisations in terms of increased motivation, performance, satisfaction, job involvement and reduced absenteeism. *Secondly*, as [Fig. 5.12](#) shows, the additional features which go into an enriched job shall meet certain psychological needs of job holders. For example, the more the skill variety, identity, and significance a job has, the more meaning, sense of achievement and variety the employee will experience. Similarly, the more autonomy there is in a task, the greater will be the employee's sense of responsibility, selfcontrol and self-esteem. And the more intrinsic feedback in the task, the more knowledge of results the employee will have. The more the psychological needs of employees are satisfied, greater will be the job outcomes. *Thirdly*, it may be stated that work is an important part of one's life. Work-related issues dominate one's

behaviour wherever he/she is. Job enrichment, which adds status to one's job, is naturally a strong motivating and satisfying factor in his/her life. *Fourthly*, job enrichment efforts help stimulate improvements in other areas of the organisation. Successful changes involving job-enrichment efforts suggest that HR managers can consider both work and workers as variables in developing a more effective organisation.³⁴ This is in sharp contrast to personnel practices of the past where jobs were taken as constraints.

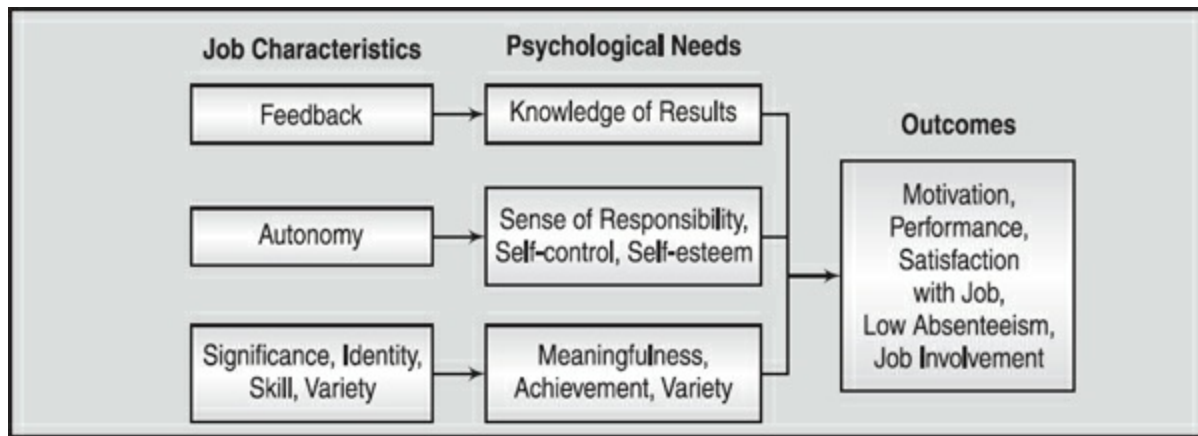


Fig. 5.12 Job Enrichment and its Outcomes

(Source: Adapted from R.J. Hackman and G.R. Oldham, *Work Redesign*, p. 77.)

Walk the **Talk**

Do's	Don'ts
<ul style="list-style-type: none"> • Jobs are designed to meet business needs and not to please individuals • Job designs are only guidelines. Convince employees that they need to stretch beyond when need arises • Designing and redesigning are effective job enrichment mechanisms • Engage experts/consultants 	<ul style="list-style-type: none"> • Overstretch on telecommuting. Employees should come to the organisation. It is the conventional practice and wisdom. • Job design and its associated dimensions are substitutes for good management • Use job rotation as a threat to brow-beat employees • Personal appraisal

when contemplating on competency based approach for the first time. Cost should not come in the way.

- Job as it is at present—no past, no future

- Performance analysis
- Judgemental

Fifth, the concept of *empowerment* is a by-product of job enrichment. Empowering means passing on authority and responsibility. Empowerment occurs when power goes to employees who, then, experience a sense of ownership and control over their jobs.³⁵ Job enrichment demands delegation of accountability and hence the need for empowerment. Titan Watches, Asea Brown Boveri (ABB), Tata Information Systems, GE Plastics India and Philips are empowering their employees with telling effect. *Finally*, Frederick Herzberg's renewed faith in job enrichment testifies to its importance. In his seminal article *One more time: How do you motivate employees* strongly recommends 'vertical job-loading factors' essential for motivating employees. (The article which appeared first in 1968 was re-published in 1987 showing the relevance of job enrichment and Herzberg's commitment to the approach.)

Some Cautions about Job Enrichment Since job enrichment has been so well publicised in recent years as a method of increasing worker motivation, one can easily be misled by its possibilities. Although job enrichment can cause increased employee motivation, there are some other factors that should be considered.

(i) *Job Enrichment is Not a Substitute for Good Management*

Regardless of how enriched jobs might be in an organisation, if other environmental factors in the organisation are not adequate, job enrichment will have little or no effect. Job enrichment is not a substitute for good supervisory practices, wages and company policies.

(ii) '*Enriched*' is a Relative Term As a general rule, job enrichment presupposes that jobs with little responsibility should be improved to provide more responsibility for the incumbent. However, we must remember that describing a job as one with 'little responsibility'

carries an implicit assumption about the person occupying that role. While the job may appear to be boring to the observer, the person actually performing the job may find it quite challenging.

- (iii) ***Enriching Jobs may Create a ‘Snow Ball’ Effect*** Given that organisations have a fixed amount of authority to distribute among the members, enriching one person’s job may mean taking authority away from another (most likely the managers). This not only presents system’s design problems (for example, rewriting job description), but it can also present a practical barrier since labour unions may resist a scheme that eliminates jobs.
- (iv) ***Job Enrichment Assumes that Workers Want More Responsibility*** Clearly if we take the extreme case of a worker who is motivated by lack of responsibility, then job enrichment for this person would be disaster. For workers who, for a variety of reasons, are satisfied with their current level of responsibility, job enrichment may cause more problems than it cures.
- (v) ***Job Enrichment may have Negative Short-run Effects*** For a short time after an increase in job responsibility it is not unusual for organisations to experience a drop in productivity, as workers become accustomed to the work systems. After this initial drop; however, there will be increased productivity.
- (vi) ***Job Enrichment may Become Static*** People become bored in their jobs because their capacity to make decisions is not fully utilised. Even though the job is changed to utilise this capacity, there is ample evidence to suggest that personal capacity is a dynamic and developing attribute. It is likely, therefore, that after a period of time (the exact amount varies from person to person) the worker will outgrow the enriched job. If this occurs, additional enrichment will be required to fully utilise the individual’s increased capacity. If jobs cannot be changed to use this capacity, the workers could be transferred to another job at a higher level of work (promoted).
- (vii) ***Participation can Affect the Enrichment Process*** Herzberg originally recommended that workers should not to be involved in the enrichment process. His logic was that workers are often conditioned to see their jobs in terms of ‘hygiene’ factors and are unable to respond to the job content. No doubt this is a factor that management

must consider in the participation process, but participation can have a positive effect.

- (viii) ***Change is Difficult to Implement*** As is well known, any change is resisted and this applies to job enrichment also. In fact, the job enrichment theory is a paradox. On one hand we have a theory telling us that changing jobs by increasing the level of responsibility will result in increased motivation. On the other hand, our knowledge about changing processes tells us that this type of change is one of the most difficult things to implement in a work situation. The initiation of a job enrichment programme must take this factor into account. In other words, do not expect employees to jump with joy at the announcement of a job enrichment programme.

Socio-technical Systems The socio-technical systems approach focuses on organisations as being made up of people with various competencies (the social systems) who use tools, machines and techniques (the technical system) to create goods or services valued by customers and other stakeholders. Thus, the social and technical systems need to be designed with respect to one another and to the demands of customers, suppliers and other stakeholders in the external environment. Because of their impact, sociotechnical systems are complex and influence the way work is performed throughout the organisation. All firms are socio-technical systems, but they seldom reflect the principles underlying this approach.

Ergonomics Ergonomics is another approach to job design but it is not shown in [Fig. 5.7](#). Ergonomics focuses on minimising the physical demands and risks of work. This approach helps ensure that job demands are consistent with people's physical capabilities to perform them with least risk. Ergonomics has become more relevant now because employees stay in the work-force longer, and jobs are altered to meet their changing physical needs. Its relevance is also felt more now because of the need to accommodate individuals with physical disabilities (eg., impaired hearing or loss of mobility in the limbs) (Ergonomics was already explained in greater detail.)

Pause and Ponder

How do you enrich each of these jobs?

- (i) Sanitation Worker
- (ii) Security Guard
- (iii) Lab Assistant
- (iv) School Teacher
- (v) Receptionist

CONTEMPORARY ISSUES IN JOB DESIGN

A number of contemporary issues in the design of work have emerged in the recent past. The issues include telecommuting, alternative work pattern, technostress, task revision, knowledge work, digitised manufacturing and BPRE. Firms use these approaches to the design of work as ways to manage growing business, while contributing to a better balance of work and family life of employees.

Telecommuting One of the recent changes and potentially the most far-reaching is telecommuting. Two of every three Fortune 500 companies now use telecommuting. It is the use of microcomputers, networks and other communication technology such as fax machines to do work from home, which was traditionally done in the workplace. The employee has no contact with other employees, but is able to communicate with them using electronic means. A variant of telecommuting is the *virtual office*, where employees are in the field selling or serving customers. They will not have seen or be seen by a boss, as is the case with sales-force of HUL. For sales people of HUL, village roadsides are offices. Periodically they keep e-mailing or faxing how many crates of tooth paste or soaps they have sold.

Telecommuting

refers to the use of microcomputers, networks and other communication technology such as fax machines to do work from home, which was traditionally done in the workplace.

Telecommuting is a rapidly growing alternative to the traditional office-

bound work style. Significant benefits are being reported from telecommuting. By supplementing its traditional offices, AT&T for example, has saved \$550 million by eliminating officers no more required, consolidating others and reducing related overhead costs.³⁶

However, there are problems associated with telecommuting. These include the loss of creativity, as employees are not interacting with other employees on a regular basis, the difficulty of developing appraisal systems to appraise teleworkers, and the need to formulate an appropriate technology strategy for allocating the necessary equipment.

Alternative Work Pattern Job sharing is an example of alternative work pattern. It involves two people sharing a full-time job. It can be implemented in several ways:

- Each working a half-day, five days a week.
- Each working two or three full days a week
- Each working every other week
- Each working alternate months or seasons

Companies that use job sharing are primarily in the legal, advertising and financial services sectors.

One advantage of job sharing is that it enables a firm to retain valued employees who, for personal reasons, no longer want to work full-time. The problem of maternity leave can almost be eliminated. It is also suited to the needs of older employees who want to phase into retirement by shortening their working days. Job sharing can also limit lay offs during hard economic times. Absenteeism is much less as employees can avoid the leisure time during the week to attend to their personal needs.

However, job sharing goes against the concept of employer-employee relationship. Traditionally, a single job is held by one employee and it sounds rather strange that one post is shared by two individuals. Assuming it is in place, the employer faces the problem of pro-rating remuneration and administering benefits between two part-time employees.

Technostress Technostress is stress caused by new and advancing technologies in the workplace, mostly by information technology. For example, the widespread use of electronic bulleting boards as a forum for rumours of layoffs may cause feelings of uncertainty and anxiety. However,

the same boards can be an important source of information for workers.

Advanced information technologies enable organisations to monitor employee performance, even when the worker is not aware of such arrangement. These new technologies also allow organisations to tie pay to performance because performance is electronically monitored.

Task Revision A new concept in the design of work is task revision. Task revision is an innovative way to modify an incorrectly specified role or job. Task revision assumes that organisational roles and job expectations may have been correctly or incorrectly defined. Where the role is correctly defined, behaviour of the employee fits the role and performance tends to be high. Performance suffers because of deviant behaviours which result from incorrectly defined jobs. Task revision helps correct such incorrectly defined jobs.³⁷

Knowledge Work The emergence of knowledge work has transformed the ways of designing works. As of now, work is no longer about the mass production of tangible commodities but is concerned with the firm's intangible assets—human brains. The nature of knowledge work is fundamentally different from what we have traditionally associated with the 'machine age' and mass production and marketing. [Table 5.7](#) brings out the distinction between the traditional work and knowledge work.³⁸

The shift from traditional work to knowledge work has led managers to change strategies, patterns of interaction, roles of individuals, HR practices and organisational structures.³⁹ (Also see Exhibit 5.7)

Exhibit 5.7 Now, a Rainbow Coalition of Workers

The rapid economic growth and the emergence of a global services industry in India is having a huge impact on the working population. The colours and contours of their lives are changing at a very rapid pace.

A decade ago, it was easy to classify the industrial workers into blue or white collar workers. These categories were determined on the basis of salary, union membership, working hours, working conditions and the nature of work.

A blue-collar worker had fixed rights of employment, was allowed to be

a union member, paid on an hourly basis, the work was on the shop floor and the work was menial in nature with little need for intellect.

Typically, a white-collar worker had “flexible” rights of employment, meaning he could be sacked easily, had no union membership, was paid on a weekly or usually on a monthly basis, and worked in an office.

Today, these definitions are disintegrating because of the growing complexity of the economy which has added many more layers to the workforce. HR officials call them violet, indigo, yellow and red collar workforce.

The violet-collar workers are closer to the traditional blue-collar workers in that they work in shifts. There are signs of unionism evolving among them. While the work is in an office environment, it is monotonous and does not need high skills or intellect. These are the entry-level of the voice-based BPO workers.

Vikram Bhardwaj of search firm Redileon says: “A direct fallout of the fact that the violet-collar workers do not have unions is that they lack a sense of belonging to the firm. These workers have no bonding with the company, unlike blue-collared unionised workers, for whom the firm is the *raison-d’etre*”.

The indigo-collar workers have moved away from unions, but work on a highly automated shop floor and are highly skilled. They handle automated CNC machines and have control over the flow of inventory and data on the shop floor. They still do a lot of mental work though they get salaries that are better than the blue-collar workers.

Then there are yellow-collar workers. They are highly educated, personality A-type workers, who are in the mid or top rung of the workforce. They sometimes need to work for very long hours and have very little rights when it comes to employment, which means they can be fired anytime. They work during office hours but work often spills over to home and even vacation. They can be identified by their pale yellow complexion as they spend more time under the fluorescent light than under the sun all through their working life. They start for office when it is dark and leave for home when it is late in the evening.

Such sectors as investment banking, fund management, research and development have a higher level of yellow-collar workers. Companies like to recognise and sometimes pamper these workers. They are typically on

fast-track programmes in the company. Milind Jadhav, HR head at Patni Computers says, “A typical profile of these workers is high performers with 5-10 years of experience, who need to be groomed directly by the senior management”.

Finally, there are the red-collar workers. These workers really stand out in most organisations partly because they think they are special. They do not like to be put into categories and normal working etiquette. It is not necessary for these workers to be doing traditional creative work or holding a title like designer. If their work involves a larger portion of ideation, it can be termed creative. In short, they have an attitude.

For instance, the person could be involved in building a user interface for an IT application or a framework for a database or designing icons for a computer. Of course, traditional workers in advertising agencies, production houses, newspapers or other such organisations can certainly claim the red collar even though not all of them would be involved in creative work. Some may be in a managerial job involving taking care of other creative workers.

Red collar workers have the distinction of not having any “fixed” working hours which ironically means they work longer hours than any other group of workers. The long hours at work is sometimes seen by the management as inefficient, very representative of the chaotic or creative way of functioning for these red-collar workers.

In spite of the increased layering of the workforce, corporates are still colour-blind, interestingly, some traditional manufacturing companies in auto and auto-component industries have realised the blurring of the lines between blue and white collar workers. But companies in IT, ITES, BPO, pharmaceutical and even media are still not able to distinguish the colours of their workers.

Lionbridge Technologies is a BPO services company which has a fairly large workforce doing translation and development of visual interfaces. The company employs creative red-collar workers.

Deepak Deshpande, HR head of Lionbridge India, says, “We don’t distinguish much between the IT development guys and creative guys as this might send a wrong message of discrimination among the workforce. But we do compensate high skill workers with special bonus or incentives”.

Monisha Advani of Emmay HR says, “Quite honestly, colour-coding

collars is a welcome initiative as from an HR perspective, it gives an organisation the ability to further customise its policies, procedures and benefits to suit different collars rather than imposing a genetic set on all.” She adds: “This would automatically lead to better retention as a tailor made approach will meet a larger group of employees’ expectations. It would help in comparing and compensating or changing working conditions depending upon the temperament of workers”.

Source: K. Yatish Rajawat, “Now, a Rainbow Coalition of Workers,” *The Economic Times*, dated Oct. 3, 2005

Table 5.7 *The Nature of Traditional Work and Knowledge Work*

	<i>Traditional work</i>	<i>Knowledge work</i>
<i>Locus of work</i>	Around individuals	In groups and projects
<i>Focus of work</i>	Tasks, objectives, performance	Customers, problems, issues
<i>Skill obsolescence</i>	Gradual	Rapid
<i>Skill/knowledge sets</i>	Narrow and often functional	Specialised and deep, but often with diffuse peripheral focuses
<i>Activity/feedback cycles</i>	Primary and of an immediate nature	Lengthy from a business perspective
<i>Performance measures</i>	Task deliverables Little (as planned), but regular and dependable	Process effectiveness Potentially great, but often erratic
<i>Employee's loyalty</i>	To organisation and his or her career systems	To professions, networks and peers
<i>Impact on company success</i>	Many small contributions that support the master plan	A few major contributions of strategic and long-term importance

(Source: John Bratton and Jeffrey Gold, *Human Resource Management* p. 132.

Business Process Re-engineering (BPRE) One major development in organisational design in the recent past is BPRE. The BPRE management declares that organisational structure and the way in which work is structured need to be radically changed so that the re-engineered company can become adaptable and oriented towards continuous change and renewal. [Table 5.8](#) shows how a reengineered firm looks different from the traditional one. For example, market for a reengineered company is global, its competitive advantage is derived from speed and quality, information is its major resource, customer satisfaction is the focal point and control is

decentralised.⁴⁰

Table 5.8 *The Re-engineered Organisation*

<i>Characteristic</i>	<i>Traditional model</i>	<i>Re-engineered model</i>
<i>Market</i>	Domestic	Global
<i>Competitive advantage</i>	Cost	Speed and quality
<i>Resources</i>	Capital	Information
<i>Quality</i>	What is affordable	No compromise
<i>Focal point</i>	Profit	Customer
<i>Structural design</i>	Hierarchical	Flattened
<i>Control</i>	Centralised	De-centralised
<i>Leadership</i>	Autocratic	Shared
<i>Labour</i>	Homogeneous	Culturally diverse
<i>Organization of work</i>	Specialized and individual	Flexible and in teams
<i>Communications</i>	Vertical	Horizontal

(Source: John Bratton and Jeffrey Gold, *Human Resource Management* p.137).

Essentially, BPRE is customer driven and that makes the movement highly acceptable to firms.

Pause and Ponder

Can re-engineered jobs be answers to extreme jobs? Debate.

Digitised Manufacturing Manufacturing will go digital in the days to come. This development signifies yet another industrial revolution. In digital manufacturing numerous technologies will converge: Clever-software, novel materials, dexterous robots, new process (particularly three-dimensional printing) and a whole range of web-based services. The focus of such convergence will be on mass customisation.

The old way of making things involved taking lots of parts and screwing or welding them together. Now a product can be designed on a computer and “printed” on a 3D printer, which creates a solid object by building up successive layers of materials. The digital design can be tweaked with a few mouselicks. The 3D printer can run unattended, and can make many things which are too complex for a traditional factory to handle. In course of time, these machines may be able to make anything, anywhere, not necessarily in industrial establishments. The typical jobs we described till now will hardly

exist in the digital manufacturing era.

JOB EVALUATION

Job evaluation is the process of analysing and assessing the various jobs systematically to ascertain their relative worth in an organisation. Jobs are evaluated on the basis of their content and are placed in the order of their importance. In this way, a job hierarchy is established in the organisation, the purpose being fixation of satisfactory wage differentials among various jobs.

It should be noted that in a job evaluation programme, the jobs are ranked and not the job holders. Job holders are rated through performance appraisal. [Table 5.9](#) brings the difference between job evaluation and performance appraisal to sharp focus.⁴¹ ([Chapter 9](#) deals with performance management in greater detail).

scope of Job Evaluation

In theory, application of job evaluation is universal. In other words, principles of job evaluation are relevant to all jobs and in all organisations. However, in practice, the technique of job evaluation is followed in a few companies and that too for hourly-rated jobs. To our knowledge, out of several plants located in and around Bangalore, only NGEF and the KEC have had their job evaluation conducted. In both, only hourly-rated jobs were covered under the scheme.

In organisations where job evaluation is not followed, wage and salary differentials are established, not on the basis of systematic job ranking, but on such factors as demand for and supply of labour, ability to pay, industrial parity, collective bargaining and the like. Even in such organisations, job evaluation will be useful inasmuch as the technique provides objective pay structure from which modifications can be made.

Table 5.9 *Differences Between Job Evaluation and Performance Appraisal*

<i>Job Evaluation</i>	<i>Performance Appraisal</i>
1. The job is rated, keeping in view such factors as	Employee is rated on the basis of his or her performance.

responsibility, qualification, experience and working conditions required for performance of the job.	
2. A job is rated before the employee is appointed to occupy it.	Evaluation takes place after the employee has been hired and placed on a job.
3. The purpose is to establish satisfactory wage differentials.	The purpose is to effect promotions, offer reward, award punishments, assess training needs, resort to lay-offs and transfers. Compulsory. It is done regularly for all jobs.
4. It is not compulsory. Many organisations carry on without it. Where it is followed, it is mainly for lower level jobs.	
5. Job evaluation committee (comprising internal and external experts) is constituted for the purpose of evaluation.	Appraisal is done by employees themselves, peers, superiors, group of people, or combinations of these.

Pause and Ponder

Why is job evaluation not so pervasive as performance appraisal?

JOB EVALUATION PROCESS

The job-evaluation process starts with defining objectives of evaluation and ends with establishing wage and salary differentials. [Figure 5.13](#) outlines the job-evaluation process.

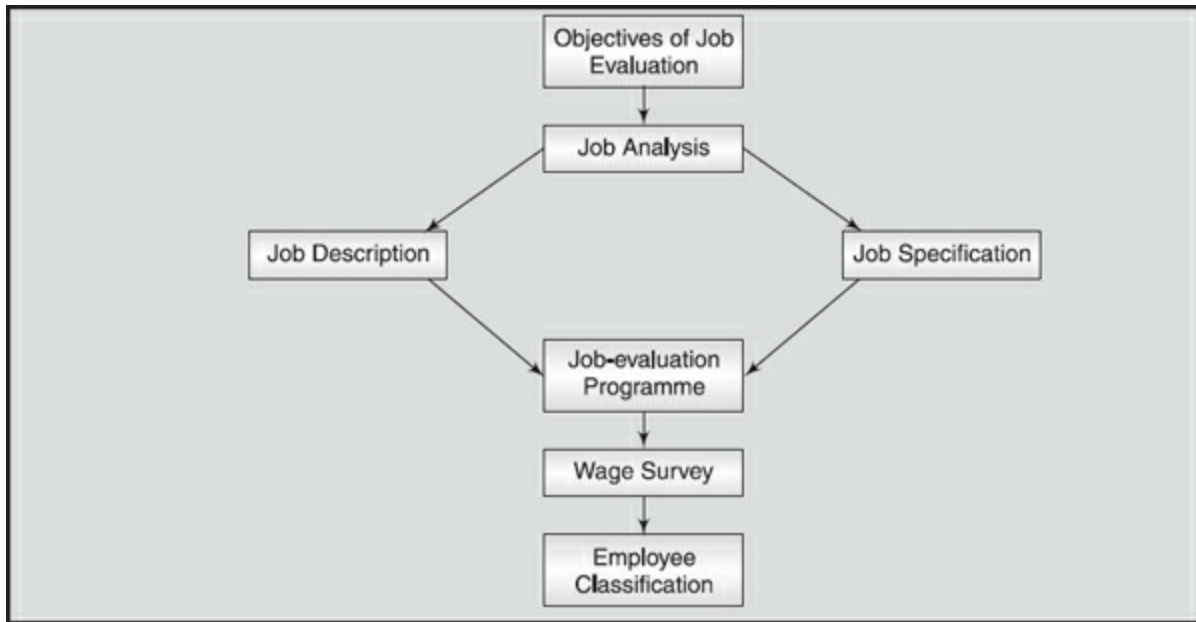


Fig. 5.13 *Job-evaluation Process*

The main objective of job evaluation, as was stated earlier, is to establish satisfactory wage and salary differentials. Job analysis should precede the actual programme of evaluation. Job analysis provides job-related data which would be useful in drafting job description and job specification.

A job-evaluation programme involves answering several questions. The major ones are: **(i)** Which jobs are to be evaluated? **(ii)** Who should evaluate the jobs? **(iii)** What training do the evaluators need? **(iv)** How much time is involved? **(v)** What should be the criteria for evaluation? **(vi)** What methods of evaluation are to be employed?

Which Jobs are to be Evaluated?

In any exercise, where there are more than 30 or 40 jobs to be evaluated, it is necessary to identify and select a sample of benchmark jobs which can be used for comparisons inside and outside the organisations. The benchmark jobs should be so selected to achieve representative sample of each of the main levels of jobs in each of the principal occupations.

The size of the sample depends on the number of different jobs to be covered. It is unlikely to be less than about five per cent of the total number of employees in the organisation and it would be difficult to produce a

balanced sample unless at least 25 per cent of the distinct jobs at each level of the organisation were included. The higher the proportion the better the evaluation, bearing in mind the time required to analyse jobs (seldom less than one man-day for each job).⁴²

Staffing the Evaluation Exercise

Job evaluation, as was pointed out earlier, is done by a committee which consists of heads of various departments, representatives of employee unions and specialist drawn from the National Productivity Council. An HR specialist will be normally the chairman of the committee.

Responsibility for the overall co-ordination of the job-evaluation programme should be in the hands of a senior executive who can then report its progress to the board, and advise it on ensuring wage and salary development.

Training for the Committee

Members of the job-evaluation committee should be trained in its procedure so as to make the programme successful. Training is given through series of meetings in which the following issues are generally discussed and the doubts cleared:⁴³

1. What is job evaluation?
2. Why does this company need job evaluation?
3. How will it work?
4. How does it affect promotion policy?
5. How will the systems be kept up-to-date?
6. Does job evaluation mean that everyone whose job is in the same grade gets the same rate of pay?
7. How does the publication of job grades and salary bands affect confidentiality?
8. How does the system cater to additional or alterations in jobs?
9. What happens if an individual disagrees with his grading?
10. How quickly will appeals on grading be dealt with?
11. How will the company go about grading new jobs created as the result of change or expansion?

Answers should be tailored to suit proposed company practices.

Time factor

Job evaluation should not be conducted in haste. Any rushing through will lead to appeals against the grading of jobs. Eight jobs in a day can be the ideal pace. After this, the quality of evaluation tends to drop, and more time has to be spent later in checking and assessing the validity of the grading. The final review of all the grades allocated to check that no inconsistencies have occurred, should be done meticulously and enough time should be allowed for re-evaluation, if necessary.

Isolating Job-evaluation Criteria

The heart of job evaluation is the determination of the criteria for evaluation. Most job evaluations use responsibility, skill, effort and working conditions as major criteria. Other criteria used are difficulty, time-span of discretion, size of subordinate staff, and degree of creativity needed. It needs no emphasis that job-evaluation criteria vary across jobs.

METHODS of JOB EVALUATION

Job evaluation methods are of two categories—non-analytical and analytical (see Fig. 5.14).

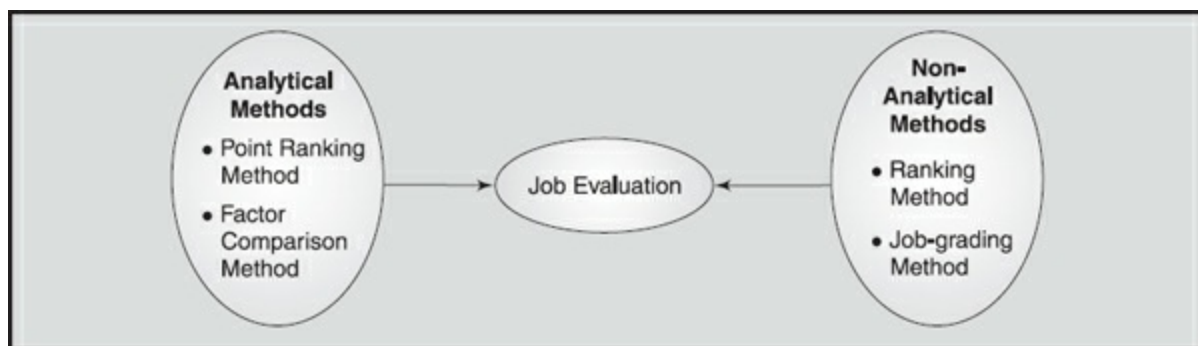


Fig. 5.14 *Methods of Job Evaluation*

Non-analytical Methods

Ranking and job-classification methods come under this category because they make no use of detailed job factors. Each job is treated as a whole in determining its relative ranking.

Ranking Method This is the simplest, the most inexpensive and the most expedient method of evaluation. The evaluation committee assesses the worth of each job on the basis of its title or on its contents, if the latter are available. But the job is not broken down into elements or factors. Each job is compared with others and its place is determined.

The method has several drawbacks. Job evaluation may be subjective as the jobs are not broken into factors. It is hard to measure whole jobs.

Job-grading Method As in the ranking method, the job-grading method (or job-classification method) does not call for a detailed or quantitative analysis of job factors. It is based on the job as a whole. The difference between the two is that in the ranking method, there is no yardstick for evaluation, while in the classification method, there is such an yardstick in the form of job classes or grades. Under the classification method, the number of grades is first decided upon, and the factors corresponding to these grades are then determined. Facts about jobs are collected and are matched with the grades which have been established (*see Exhibit 5.8*).

The essential requirement of the job-grading method is to frame grade descriptions to cover discernible differences in degree of skill, responsibility and other job characteristics. Job grades are arranged in the order of their importance in the form of a schedule. The lowest grade may cover jobs requiring greater physical work under close supervision, but carrying little responsibility. Each succeeding grade reflects a higher level of skill and responsibility, with less and less supervision.

The advantages of the job-classification method include its simplicity and inexpensiveness. Secondly, in organisations where number of jobs is small, this method yields satisfactory results.

The disadvantages of the method are: **(i)** job grade descriptions are vague and are not quantified; **(ii)** difficulty in convincing employees about the inclusion of a job in a particular grade because of vagueness of grade descriptions; and **(iii)** more job classification schedules need to be prepared because the same schedule cannot be used for all types of jobs.

Exhibit 5.8 Job Grading

JOB-CLASSIFICATION SCHEDULE

Level or grade	Definition
1.	Very simple tasks of a largely physical nature.
2.	Simple tasks carried out in accordance with a small number of clearly defined rules, tasks which can be carried out after a short period of training of up to two or three weeks. The work is checked and closely supervised.
3.	Straight-forward tasks, but involving more complicated routines and requiring some knowledge and alertness on the part of the worker because the job is subject to occasional checks.
4.	Tasks calling for independent arrangement of work, the exercise of some initiative, and those which require little supervision. Detailed familiarity with one or more branches of established procedures is required.
5.	Routine work but those involving an individual degree of responsibility for answering non-routine queries and/or exercising some measure of control over a small group of staff.
6.	Non-routine work, involving the co-ordination of several lower-grade functions, possibly some measure of control over a small group of staff. Also, non-routine work involving recognised individual knowledge and some responsibility without follow-up.
7.	Work necessitating responsibility for sections involved in routine tasks and/or where individual tasks are undertaken, calling for a specialist's knowledge.

Analytical Methods

These include the point-ranking method and the factor-comparison method.

Point-Ranking Method The system starts with the selection of job factors, construction of degrees for each factor, and assignment of points to each degree. Different factors are selected for different jobs, with accompanying differences in degrees and points. The National Electrical Manufacturer's Association (NEMA), USA, has given the factors, degrees and points for hourly rated (see Table 5.10) and salaried jobs (see Table 5.11).

(Contd.)

Table 5.10 Factors, Degrees and Points for Hourly Rated Jobs

<i>Factors</i>	<i>I Degree</i>	<i>II Degree</i>	<i>III Degree</i>	<i>IV Degree</i>	<i>V Degree</i>
<i>Skill</i>					
1. Education	14	28	42	56	70
2. Experience	22	44	66	88	110
3. Initiative and ingenuity	14	28	42	56	70
<i>Effort</i>					
4. Physical demand	10	20	30	40	50
5. Mental and/or visual demand	5	10	15	20	25
<i>Responsibility</i>					
6. Responsibility for equipment or process	5	10	15	20	25
7. Responsibility for materials or product	5	10	15	20	25
8. Responsibility for safety of others	5	10	15	20	25
9. Responsibility for work of others	5	10	15	20	25
<i>Job conditions</i>					
10. Working conditions	10	20	30	40	50
11. Hazards	5	10	15	20	25

Table 5.11 NEMA Manual for Salaried Jobs

<i>Factors</i>	<i>I Degree</i>	<i>II Degree</i>	<i>III Degree</i>	<i>IV Degree</i>	<i>V Degree</i>	<i>VI Degree</i>	<i>VII Degree</i>	<i>VIII Degree</i>
1. Education	20	40	60	80	100	120	—	—
2. Experience	25	50	75	100	125	150	175	200
3. Complexity of duties	20	40	60	80	100	—	—	—
4. Monetary responsibility	5	10	20	40	60	—	—	—
5. Contacts	5	10	20	40	60	—	—	—
6. Working conditions	5	10	15	20	25	—	—	—
<i>Add for supervisory jobs only</i>								
7. Type of supervision	5	10	20	40	60	—	—	—
8. Extent of supervision	5	10	20	40	60	—	—	—

The range of score and grades is also predetermined—for example, from 210 to 230 points, the 5th grade; 231 to 251 points, the 6th grade; and so

forth. A given job is placed in a particular grade, depending on the number of points it scores.

The advantages of point system are:

1. A job is split into a number of factors. The worth of each job is determined on the basis of its factors and not by considering the job as a whole.
2. The procedure adopted is systematic and can easily be explained to the employees.
3. The method is simple to understand and easy to administer.

At least two defects are noticed in the point system. *First*, employees may disagree with the points allotted and the factors and their degrees identified. *Second*, serious doubts are expressed about the range of points allotted and matching them with the job grades. For example, a score range of 238 to 249 is grade seven and the next range of 250 to 271 is grade six. A variation of one point makes all the difference.

Factor-Comparison Method The factor-comparison method is yet another approach for job evaluation in the analytical group. Under this method, one begins with the selection of factors, usually five of them—mental requirements, skill requirements, physical exertion, responsibility, and job conditions. These factors are assumed to be constant for all the jobs. Each factor is ranked individually with other jobs. For example, all the jobs may be compared first by the factor ‘mental requirements’. Then the skills factor, physical requirements, responsibility, and working conditions are ranked. Thus, a job may rank near the top in skills but low in physical requirements. Then total point values are then assigned to each factor. The worth of a job is then obtained by adding together all the point values.

An advantage of the factor-comparison method is that jobs of unlike nature—for example, manual, clerical and supervisory—may be evaluated with the same set of factors. But the method is complicated and expensive.

Wage Survey

Now that the job hierarchy has been established with the help of evaluation method(s), it is time to fix wage and salary differentials. Before fixing such differentials, the wage rate must be ascertained. It is here that wage survey

assumes relevance.

The first step in a wage survey is to select key jobs, the duties of which are clearly defined, reasonably stable, and representative of all levels of jobs. Thus, a sample of jobs is created. Secondly, a sample of firms in the labour-market area must be chosen. The labour market for different jobs can vary from local to regional to national in scope. With both samples being selected, the final task is to obtain appropriate wage information, taking care to ensure that the job comparisons being made are valid. Job content, the varying qualities of personnel on these jobs, and the total compensation programme must be carefully analysed, compared, and equated.

Employee Classification

The last phase in the job-evaluation process is to establish employee classification. Employee classification is the process of assigning a job title to every employee in the organisation. For clearly definable jobs, employee classification is easy, for example, cashier in a bank. The cashier's job is to handle cash and not to maintain ledgers.

Where jobs involved are of a family type, employee classification is a difficult task. Examples of job families are typists, clerk-cum-typists, stenographers and secretarial group. A woman employed in an office may do typing, answer the telephone, sort and distribute the mail, compose routine letters for her boss and so on. Will her designation be receptionist or secretary? The decision is of vital concern both to the employee and the employer.

Pitfalls of Job Evaluation

A job evaluation process succeeds job analysis, which in turn results in job descriptions. Job descriptions, make the incumbents focus only on the tasks allotted to them. It means that a computer would lie idle if the data entry operator who works on it remains absent on a day, even if five other employees of the department are present and available. The other criticisms against job evaluation are:

1. It encourages employees to focus on 'how to advance in position' in the organisation at a time when there may be only limited opportunities for

- enhancement as a result of downsizing.
2. It promotes an internal focus instead of a customer-oriented focus.
 3. It is not suitable for a forward-looking organisation that has trimmed multiple job titles into two or three broad jobs.
 4. Elaborate exercises of wage and salary fixation through job evaluation can be dispensed with. Salaries can easily be fixed by adopting going rates, which can easily be ascertained through wage surveys.

ALTERNATIVE TO JOB EVALUATION

In today's environment, firms need to encourage employees to think differently about their jobs and to get their work done in innovative ways. Employees need to be encouraged to make independent decisions and execute them instead of waiting for instructions from supervisors. 'How well an employee makes decisions' should form the basis for job evaluation.

The Decision Bank Method (DBM) propounded by Thomas T. Paterson in the 1970s and further refined and developed by Ernst and Young precisely does this. The basic premise of the DBM is that the value of a job depends on its decision-making requirements. Decision making is a logical and equitable basis for comparing jobs, as all jobs require the incumbents to make decisions to perform their jobs whether they are line or staff, supervisory or non-supervisory, union or non-union.

The DBM differs from the traditional evaluation systems as it focuses on decision-making scope as the primary criterion for determining the relative worth of jobs.

SUMMARY

Job analysis is the process of collecting job-related data. The data, thus collected, will be useful for preparing job description and job specification. Job description lists job title, duties, machines and equipment involved, working conditions surrounding a job, and the like. Job specification lists the human qualities and qualifications necessary to do the job.

Job analysis is a four-step sequential process. The steps involved are—**(i)** select jobs for analysis, **(ii)** gather information, process information, **(iii)** job description, and **(iv)** job specification.

Job analysis is useful for HRP, recruitment and selection, training and development, job evaluation, remuneration, performance appraisal, personnel information, and safety and health programmes.

Coming to the methods of job analysis, we have **(i)** observation method, **(ii)** interview, **(iii)** questionnaire, **(iv)** checklists, **(v)** technical conference, and **(vi)** diary method. A combination of these methods is used depending upon the situation and the organisation.

Job analysis seems to be inconsistent with total quality management (TQM).

A logical sequence to job analysis is job design which is nothing but organisation of tasks, duties, and responsibilities into a unit of work.

Job design affects employee productivity, motivation and satisfaction. Hence, care must be exercised in designing jobs.

Organisational, environmental, and behavioural factors affect job design.

Work simplification, job rotation, job enlargement, job enrichment, autonomous group working, and high-performance work design are the popular techniques of job design.

Job evaluation is the process of ranking jobs to establish salary differentials. There are alternatives to job evaluation.

KEY TERMS

Autonomy

De-Jobbing

Job enlargement

Job enrichment

Ergonomics

High-performance work design

Job analysis

Job design

Job description

Job evaluation

Empowerment

Job rotation

Job specification

Technical conference

TQM
Telecommuting
Technostress

REVIEW QUESTIONS

1. Define job analysis. What are its uses?
2. What do you mean by job analysis? Explain the process of job analysis?
3. Give the meaning and techniques of job design.
4. Bring out the factors affecting job design.
5. From an HR manager's point of view what are the uses of job analysis?
6. Define job evaluation. Bring out its pros and cons.
7. Bring out the methods of job evaluation.

DISCUSSION QUESTIONS

1. Why do you think that job analysis and TQM are inconsistent?
2. Discuss the sources of error that can distort or render job-analysis information inaccurate.
3. What are the differences among job rotation, job enlargement, and job enrichment?
4. An individual hired for a position finds out that the work he was asked to do was not the work he was hired to do. Is it possible? Discuss.
5. "Smaller organisations do not need job analysis for their jobs because most of their employees conduct a myriad of activities, too far-reaching for a standard job analysis." Give your view point.
6. Which approach of job design did H.P. follow? (Read opening case).
7. "Job rotation, job enlargement and job enrichment are simply attempts by managers to avoid individuals at work". Comment.
8. Why is job evaluation confined to large organisations?

CONTINUING CASE

In 1997, Vybhav hired Han Associates (HA) to design and help implement a Competency Framework across its verticals globally. It turned out to be a very comprehensive 22 month project from start to finish. One vertical at a

time, a cross-functional Competency Framework Task Force (CTF) was constituted including one nominee from each of the operational and support teams. The key phases of the competency framework can be summarised as follows:

1. Phase I: CTF formulation and orientation on basic competency fundamentals.
2. Phase II: Data compilation and analysis.
3. Phase III: Job reviews using Focus Group discussion, behavioural events interview (BEI) with job incumbents and their managers and observation.
4. Phase IV: Share draft Competency Framework and review with all stakeholders.
5. Phase V: Final Competency Framework frozen.
6. Review all HR functions like staffing, performance management, compensation, training and development and career planning activities.
7. Communication plan.
8. Review plan for a six month duration.

Shyam Sunder, head of the Retail Division, joined from a leading global retail giant just a year back and was familiar with the philosophy and the multifold benefits of adopting the competency based approach to managing human resources. Given the total support of the senior management, HA started working on the task with a competency mapping exercise for the Retail Division. Quickly, a Retail CFT was put in place by Shyam and his GM. Ramesh Ram, the HR Manager, was involved too. We will walk you through the set of activities that are carried out to map a single role—that of the Sales Assistants—in the retail outlets. HA took Ramesh’s help to set up interviews with—

- A sample of Sales Supervisors (to whom the Sales Assistants Report) to understand the Supervisors’ expectations from the Sales Assistants. What are the responsibilities for a Sales Assistant? What behaviours constitute a successful Sales Assistant different from mediocres? What careers can Sales Assistants expect to grow into? What skills will they need? HA also collects the names of the top performing Sales Assistants across the various outlets.
- A 20 to 25% random sample of Sales Assistants was interviewed to assess their understanding of the roles, skills needed for the job and

- behaviours that make them perform well in the roles.
- HA then met with the listed “Super/top” performers to ascertain what all they did so differently that made them super performers.
 - The BEI was followed up with the observation phase wherein the team from HA watched the Sales Assistants as they go about their job.
 - HA then prepared a draft of the competencies (they can be normally in between five to twelve for a job depending on the complexity of the skills needed) with descriptions. This draft of six competencies was debated in Focus Group discussions with a sample of the Sales Supervisors, Sales Manager, Sales Head, and Centre Head along with the CTF team to screen the competencies as well as their descriptions.
 - The outcome of the Focus Group discussions was:
 - The number of competencies for the Sales Assistant’s job was finalised. There were seven core competencies signed off.
 - Each competency was associated with a set of desirable behaviours that demonstrated the best competency
 - The competencies once frozen are calibrated to enable the assessment of an individual as exhibiting level 1 through level 5 of proficiency. Each of these level descriptions is made up of key behavioural descriptions that demonstrate the competency.
 - There is then a pilot application of the competencies. A sample of Sales Supervisors at different locations is now asked to assess their Sales Assistants using the competency table. They are then interviewed to ascertain the effectiveness of the assessment process. Questions like— Do you think that the competencies are appropriate? Was it easy to assess the Sales Assistants using the instrument? and the like would be used.
 - Based on the feedback, final edits are made to the competency framework for Sales Assistants.

EXERCISE

Break up into pairs. Each team of two needs to identify a particular job in an entity. Preferably you must be able to have access to the individual doing this job. Now research the job incumbent’s roles and responsibilities. Submit an assignment, covering—

- What methods could be adopted to best understand this job?
- Write a job description for the role.
- How would you carry out a job evaluation for the job as an external consultant?
- Discuss and research the web/literature to draw up a set of at least eight competencies required to do this job.
- In your opinion what can be the jobs that this incumbent can aspire to climb up?

Closing Case *Doing the Dirty Work*

Business magazines and newspapers regularly publish articles about the changing nature of work in the United States and about how many jobs are being changed. Indeed, because so much has been made of the shift toward service-sector and professional jobs, many people assumed that the number of unpleasant and undesirable jobs has declined.

In fact, nothing could be further from the truth. Millions of Americans work in gleaming air-conditioned facilities, but many others work in dirty, grimy, and unsafe settings. For example, many jobs in the recycling industry require workers to sort through moving conveyors of trash, pulling out those items that can be recycled. Other relatively unattractive jobs include cleaning hospital restrooms, washing dishes in a restaurant, and handling toxic waste.

Consider the jobs in a chicken-processing facility. Much like a manufacturing assembly line, a chicken processing facility is organised around a moving conveyor system. Workers call it the chain. In reality, it's a steel cable with large clips that carries dead chickens down what might be called a "disassembly line". Standing along this line are dozens of workers who do, in fact, take the birds apart as they pass.

Even the titles of the jobs are unsavory. Among the first set of jobs along the chain is the skinner. Skinners use sharp instruments to cut and pull the skin off the dead chicken. Towards the middle of the line are the gut pullers. These workers reach inside the chicken carcasses and remove the intestines and other organs. At the end of the line are the gizzard cutters, who tackle the more difficult organs attached to the inside of the

chicken's carcass. These organs have to be individually cut and removed for disposal.

The work is obviously distasteful, and the pace of the work is unrelenting. On a good day the chain moves an average of ninety chickens a minute for nine hours. And the workers are essentially held captive by the moving chain. For example, no one can vacate a post to use the bathroom or for other reasons without the permission of the supervisor. In some plants, taking an unauthorised bathroom break can result in suspension without pay. But the noise in a typical chicken-processing plant is so loud that the supervisor can't hear someone calling for relief unless the person happens to be standing close by.

Jobs such as these on the chicken-processing line are actually becoming increasingly common. Fuelled by Americans' growing appetites for lean, easy-to-cook meat, the number of poultry workers has almost doubled since 1980, and today they constitute a work force of around a quarter of a million people. Indeed, the chicken-processing industry has become a major component of the state economies of Georgia, North Carolina, Mississippi, Arkansas, and Alabama.

Besides being unpleasant and dirty, many jobs in a chicken-processing plant are dangerous and unhealthy. Some workers, for example, have to fight the live birds when they are first hung on the chains. These workers are routinely scratched and pecked by the chickens. And the air inside a typical chicken-processing plant is difficult to breathe. Workers are usually supplied with paper masks, but most don't use them because they are hot and confining.

And the work space itself is so tight that the workers often cut themselves—and sometimes their coworkers—with the knives, scissors, and other instruments they use to perform their jobs. Indeed, poultry processing ranks third among industries in the United States for cumulative trauma injuries such as carpet tunnel syndrome. The inevitable chicken feathers, faeces, and blood also contribute to the hazardous and unpleasant work environment.⁴⁴

Questions

1. How relevant are the concepts of competencies to the jobs in a

- chicken-processing plant?
2. How might you try to improve the jobs in a chicken-processing plant?
 3. Are dirty, dangerous, and unpleasant jobs an inevitable part of any economy?

REFERENCES

1. Sylvia Ann Hewlett and Carolyn Buck Luce, "Extreme Jobs: The Dangerous Allures of the 70-Hour Work Week", *Harvard Business Review*, Dec. 2006, pp. 49–51.
2. David A. DeCenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, Third Edition, Prentice-Hall of India, New Delhi, 1989, p. 111.
3. John Bratton and Jeffrey Gold, *Human Resource Management*, Palgrave, Macmillan, 2003, p. 116.
4. William P. Anthony, *et. al.*, *Strategic Human Resource Management*, Thomson, 1993, p. 208.
5. Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, Macmillan, New York, 1990, p. 133.
6. *Ibid.*, p. 134.
7. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third Edition, Kogan Page, London, 1988, p. 316.
8. Dale S. Beach, *Personnel—The Management of People At Work*, Fourth Edition, Macmillan, New York, 1980, p. 169.
9. Mathis and Jackson, *Personnel—Contemporary Perspectives and Applications*, Third Edition, West Publishing Co., New York, 1982, p. 152.
10. David A. DeCenzo and Stephen P. Robbins'. *op. cit.*, p. 100.
11. Michael Armstrong, *op. cit.*, p. 163.
12. *Ibid.*, p. 164.
13. Dale S. Beach, *op. cit.*, p. 172.
14. William P. Anthony, *et. al.*, *op. cit.*, p. 222.
15. Lloyd L. Byars and Leasile W. Rue, *Human Resource Management*, Irwin, 1997, p. 90.
16. *Ibid.*, p. 92.
17. Michael Armstrong, *op. cit.*, p. 164.
18. John M. Ivancevich, *Human Resource Management*, TMH, 2004, p. 176.
- 18a. Gary Dessler, *Human Resource Management*, PHI, 2008, p. 115.
- 18b. *Ibid.*, p. 156.
19. Barry Popplewell and Alan Wildsmith, *Becoming the Best*, Gower, 1988, p. 140.

20. Milkovich and Boudreau, *Personnel—Human Resource Management*, Fifth Edition, Homewood, Irwin, 1990, p. 125.
21. *Ibid.*, p. 125.
22. Michael Armstrong, *op. cit.*, p. 183.
23. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 148.
24. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third Edition, West Publishing, New York, 1989, p. 461.
25. William B. Werther and Keith Davis, *op. cit.*, p. 149.
26. *Ibid*, p. 150.
27. *Ibid.*, p. 150.
28. *Ibid.*, p. 151.
29. *Ibid.*, p. 151.
30. *Ibid.*, p. 155.
31. W. J. Paul and K.B. Robertson, *Job Enrichment and Employee Motivation*, Gower Press, London, 1970.
32. Michael Armstrong, *op. cit.*, p. 185.
33. Mahlon Apgar, “The Alternative Workplace: Charging Where and How People Work”, *Harvard Business Review*, May-June, 1998, p. 121.
34. Debra L. Nekon, *et. al.*, *op. cit.*, p. 487, 35. Elmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resource Systems Approach*, John Wiley & Sons, New York, 1982, p. 287.
36. Richard S. Wellins, *et. al.*, *Empowered Teams*, Jossey-Bass Publishers, San Francisco, 1991, p. 22.
37. *Ibid*, p. 188.
38. William B. Werther and Keith Davis, *op. cit.*, pp 149-150
39. Moorhead and Griffin, *Organisational Behaviour*, 1999, pp, 190–191.
40. John Bratten and Jeffrey Gold, *op. cit.*, p. 132.
41. Aswathappa, *op. cit.*, p. 347.
42. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third Edition, Kogan Page, London, 1988, p. 368.
43. *Ibid.*, p. 369.
44. Angelo S. Denisi and Ricky W. Griffin, *Human Resource Management*, biztantra, 2006, pp. 178–179.

Recruiting Talent

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature, objectives and importance of recruitment
- The factors that affect recruitment
- The recruitment process, delineate different stages in the process and describe each of them
- The distinct philosophies of recruiting and understand implications of each on employee hiring

Opening Vignettes

PROBLEM OF BOOMING B SCHOOLS

The city of Bangalore is agog, not with scorching sun, not with frequent power cuts, not with two- and four-wheelers jostling for space on the overcrowded roads, but with headhunters scouting around for MBAs.

The last two decades witnessed an alarming rise in the number of institutes, schools and colleges offering management education both at the undergraduate as well as post graduate levels. There are about 120 of them offering BBM courses and 100 running MBA programmes. All these need atleast 400 MBAs to be appointed as teaching faculty. Mere MBA is not enough. The candidates must have cleared NET (National Eligibility Test) or should be doctorates.

All the students who join B Schools are not familiar with the English language. They need to be instructed in Hindi or Urdu. MBAs who are also linguists are highly preferable.

Managements are worried. They realise that only good faculty will attract good students. Where to find qualified and eligible MBAs? Most join industries after graduation. Only a few come for teaching and those that venture into it are in great demand. They do not want the demand to slip by. They are in one college today and are found teaching in some other institute tomorrow.

Suddenly, retired executives, ex-servicemen and not-so-successful consultants have found themselves in great demand. With briefcases in hands, these senior citizens go from college to college and are laughing all the way to banks. One retired bank manager confessed that he is able to gross every month ₹18,000 by teaching at half a dozen colleges.

HRP helps determine the number and type of people a firm needs. Job analysis and job design specify the tasks and duties of jobs and the qualifications expected from prospective job holders (see Fig. 6.1). The next logical step is to hire the right number of people of the right type to fill the jobs. Hiring involves two broad groups of activities: (i) recruitment and (ii) selection. Recruitment is discussed in this chapter. The next chapter deals with selection.



Fig. 6.1 *Recruitment and Selection Needs*

Before coming to details of recruitment, it is useful to note that hiring, contrary to popular perception, is an ongoing process and not confined to the formative stages of an organisation. Employees leave the firm in search of greener pastures—some retire and some die in the saddle. More importantly, an enterprise grows, diversifies, takes over other units—all necessitating hiring of new men and women. In fact, the hiring function stops only when the company ceases to exist.

NATURE OF RECRUITMENT

In simple terms, recruitment is understood as the process of searching for and obtaining applicants for jobs, from among whom the right people can be selected. Theoretically, recruitment process is said to end with the receipt of applications, in practice the activity extends to the screening of applications so as to eliminate those who are not qualified for the job.

Recruitment refers to the process of receipt of applications from job-seekers. In reality, the term is used to describe the entire process of employee hiring. There are recruitment boards for railways, banks and other organisations. B schools talk about campus recruitment. In newspapers too, recruitment is frequently used to connote the process of employment. But students of HRM should know that there is difference between the two terms—recruitment and selection. (Meaning of selection is explained in the next chapter).

Recruitment involves attracting and obtaining as many applications as possible from eligible job-seekers.

PURPOSES AND IMPORTANCE

The general purpose of recruitment is to provide a pool of potentially qualified job candidates. Specifically, the purposes are to:

1. Determine the present and future requirements of the firm in conjunction with its personnel-planning and job-analysis activities.
2. Increase the pool of job candidates at minimum cost.
3. Help increase the success rate of the selection process by reducing the number of visibly underqualified or overqualified job applicants.
4. Help reduce the probability that job applicants, once recruited and selected, will leave the organisation only after a short period of time.
5. Meet the organisation's legal and social obligations regarding the composition of its workforce.
6. Begin identifying and preparing potential job applicants who will be appropriate candidates.
7. Increase organisational and individual effectiveness in the short term and long term.
8. Evaluate the effectiveness of various recruiting techniques and sources

for all types of job applicants.¹

Recruitment represents the first contact that a company makes with potential employees. It is through recruitment that many individuals will come to know a company, and eventually decide whether they wish to work for it. A well-planned and well-managed recruiting effort will result in high-quality applicants, whereas, a haphazard and piecemeal effort will result in mediocre ones. High-quality employees cannot be selected when better candidates do not know of job openings, are not interested in working for the company, and do not apply.² The recruitment process should inform qualified individuals about employment opportunities, create a positive image for the company, provide enough information about the jobs so that applicants can make comparisons with their qualifications and interests, and generate enthusiasm among the best candidates so that they will apply for the vacant positions.

Recruitment lends itself as a potential source of competitive advantage to a firm. An effective approach to recruitment can help a company successfully compete for limited human resources. The firm must choose a recruiting approach that produces the best pool of candidates quickly and cost effectively. A recruiting programme helps the firm in at least four ways:

- Attract highly qualified and competent people.
- Ensure that the selected candidates stay longer with the company.
- Make sure that there is match between cost and benefit.
- Help the firm create more culturally diverse workforce.

The negative consequences of a poor recruitment process speaks volumes about its role in a firm.

The failure to generate an adequate number of reasonably qualified applicants can prove costly in several ways. It can greatly complicate the selection process and may result in lowering of selection standards. The poor quality of selection means extra cost on training and supervision. Furthermore, when recruitment fails to meet organisational needs for talent, a typical response is to raise entry-level pay scales. This can distort traditional wage and salary relationships in the company, resulting in unavoidable consequences.³ Thus, the effectiveness of the recruitment process can play a major role in determining the resources that must be expended on other HR activities and their ultimate success.

FACTORS GOVERNING RECRUITMENT

Given its key role and external visibility, recruitment is naturally subject to influence of several factors. These include external as well as internal forces (see [Fig. 6.2](#)).

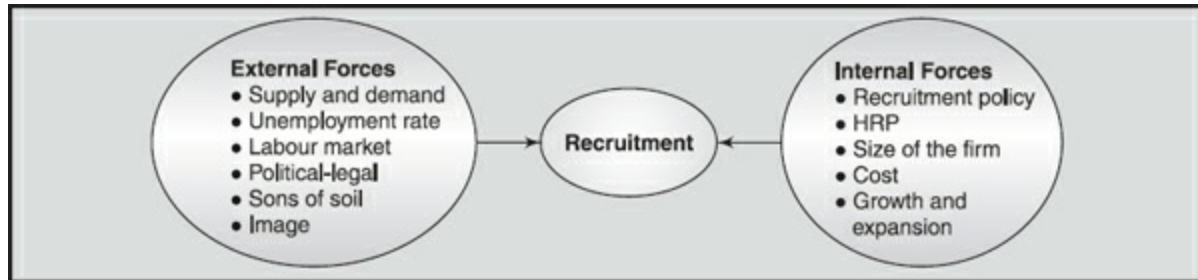


Fig. 6.2 *Factors Influencing Recruitment*

External Factors

Of particular importance is the *supply* and *demand* of specific skills in the labour market. If the demand for a particular skill is high relative to the supply, an extraordinary recruiting effort may be needed. For instance, the demand for programmers and financial analysts is likely to be higher than their supply, as opposed to the demand-supply relationship for non-technical employees.

When the *unemployment rate* in a given area is high, the company's recruitment process may be simpler. The number of unsolicited applicants is usually greater, and the increased size of the labour pool provides better opportunities for attracting qualified applicants. On the other hand, as the unemployment rate drops, recruiting efforts must be increased and new sources explored.

For a long time the issue relating to unemployment haunted everyone in India. Policy makers, politicians, administrators, union leaders and academicians used to harp on the problem frequently. Not any more. One and half decades of liberalisation has resulted in economic prosperity making people forget about unemployment. The issue now is employability and not unemployment. Any individual worth capable of something is sure of securing a job, of course in the private sector. [Table 6.1](#) shows how the figure

of unemployed fell often.

Table 6.1 *Unemployed Work Applicants in India*

Year	Total (Million)
1996	37.43
1997	39.14
1998	40.09
1999	40.37
2000	41.34
2001	41.99
2002	41.17
2003	41.38
2004	40.45
2005	39.34

(Source: *The Economic Times*, dated August 14, 2006)

Labour-market conditions in a local area are of primary importance in recruiting for most nonmanagerial, supervisory and middle-management positions.⁴ However, so far as recruitment for executive and professional positions is concerned, conditions of all India market are important.

Pause and Ponder

Based on what you have read in the press, give an example of the 'sons of the soil' being practised in a recent government recruitment.

Another external factor is *political* and *legal consideration*. Reservation of jobs for SCs, STs, minorities, and other backward classes (OBCs) is a political decision. There is a strong case for giving preference to people hailing from less-advantaged sections of the society. Reservation has been accepted as inevitable by all sections of the society. The Supreme Court also has agreed upon 50 per cent reservation of seats and jobs.

As was stated in [Chapter 2](#), we have Central and State Acts dealing with labour. They cover working conditions, compensation, retirement benefits,

and safety and health of employees in industrial establishments. There are Acts which deal with recruitment and selection. Child Labour (Prohibition and Regulation) Act, 1986, for instance, prohibits employment of children in certain employments, and seeks to regulate their working conditions in certain other employments. Similarly, we have the Employment Exchange (Compulsory Notification of Vacancies) Act, 1959, which mandates that employers (industrial establishments employing 25 workers each and above) must notify the vacant positions to the employment exchanges. The Apprentices Act, 1961, the Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979, the Factories Act, 1948, and the Mines Act, 1952, also deal with recruitment. Above all these, we have the Constitution which prohibits discrimination in matters of employment and also provides for protective discrimination to the less-privileged sections of the society. Preferences to *sons of the soil* is another political factor. Political leaders clamour that preference must be given to the people of their respective states in matters of employment.

The *company's image* also matters in attracting large number of job seekers. Blue chip companies attract large number of applications. Often, it is not the money that is important. It is the perception of the job-seekers about the company that matters in attracting qualified prospective employees.

Internal Factors

The above are some of the external forces influencing the recruitment function of an organisation. In addition to these, there are certain internal forces which deserve consideration while recruiting personnel.

One such internal factor is the *recruiting policy* of the organisation. Most firms have a policy on recruiting internally (from own employees) or externally (from outside the organisation), analogous to the make or buy policy in inventory management. Generally, the policy is to prefer internal sourcing, as own employees know the company well and can recommend candidates who fit the organisation's culture.

Another related policy is to have *temporary and part-time* employees. An organisation hiring temporary and part-time employees is in a less advantageous position in attracting sufficient applications.

In multinational corporations (MNCs), there is the policy relating to the

recruitment of *local citizens*. MNCs operating in our country prefer local citizens as they can understand local languages, customs and business practices better.

Yet, another recruitment policy issue that concerns the degree of flexibility shall be in responding to recruitment demands. These are policy issues raised by contract employees, temps, job sharing and the like. Obviously, creative solutions to recruitment challenges, which involve the organisation in new employment contracts, suggesting for example, flexibility of contract, or flexibility of time or of task, commit the organisation to costs and precedents which continue for years to come.

A major internal factor that can determine the success of the recruiting programme is whether or not the company engages in HRP. In most cases, a company cannot attract prospective employees in sufficient numbers and with required skills overnight. It takes time to examine the alternatives regarding the appropriate sources of recruits and the most productive methods for obtaining them. Once the best alternatives have been identified, recruiting plans may be made.⁵ Effective HRP greatly facilitates the recruiting efforts.

Size is another internal factor having its influence on the recruitment process. An organisation with one hundred thousand employees will find recruiting less problematic than a firm with just one hundred employees.

Cost of recruiting is yet another internal factor that has to be considered. Recruiting costs are calculated per new hire and the figure is considerable nowadays. Recruiters must, therefore, operate within budgets. Careful HRP and forethought by recruiters can minimise recruitment costs. One cost-saving measure, for instance, is recruiting for multiple job openings simultaneously. The best solution is to use proactive personnel practices to reduce employee turnover, thus minimising the need for recruiting. Evaluating the quality, quantity and costs of recruitment helps ensure that it is efficient and cost-effective.⁶

Finally, an organisation registering *growth* and *expansion* will have more recruiting on hand than the one which finds its fortunes declining.

Pause and Ponder

Think of a firm you want to submit job application. Which factors attract you towards the company?

RECRUITMENT PROCESS

As was stated earlier, recruitment refers to the process of identifying and attracting job seekers so as to build a pool of qualified job applicants. The process comprises five interrelated stages, viz.: **(i)** planning, **(ii)** strategy development, **(iii)** searching, **(iv)** screening, and **(v)** evaluation and control (see Fig. 6.3). The ideal recruitment programme is the one that attracts a relatively larger number of qualified applicants who will survive the screening process and accept positions with the organisation, when offered. Recruitment programmes can miss the ideal in many ways: by failing to attract an adequate applicant pool, by under/over selling the firm, or by inadequately screening applicants before they enter the selection process.⁷ Thus, to approach the ideal, individuals responsible for the recruitment process must know how many and what types of employees are needed, where and how to look for individuals with the appropriate qualifications and interests, what inducements to use (or avoid) for various types of applicant groups, how to distinguish applicants who are unqualified from those who have a reasonable chance of success, and how to evaluate their work.

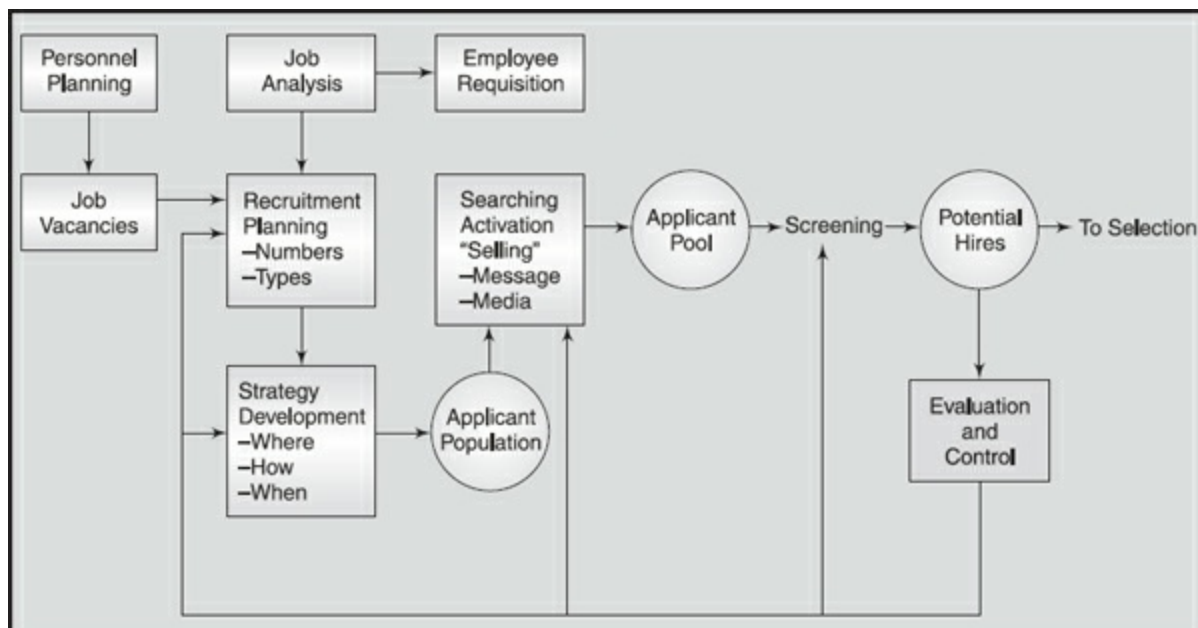


Fig. 6.3 Recruitment Process

Source: Herbert G. Heneman III, et. al., *Personnel/Human Resource Management*, p.

Recruitment Planning

The first stage in the recruitment process is planning. Planning involves the translation of likely job vacancies and information about the nature of these jobs into a set of objectives or targets that specify the **(i)** number, and **(ii)** type of applicants to be contacted.

Number of Contacts Organisations, nearly always, plan to attract more applicants than they will hire. Some of those contacted will be uninterested, unqualified, or both. Each time a recruitment programme is contemplated, one task is to estimate the number of applicants necessary to fill all vacancies with qualified people.⁸

Companies calculate yield ratios (yRs) which express the relationship of applicant inputs to outputs at various decision points. For example, assume that an organisation attempting to recruit sales people ran a series of newspaper advertisements. The advertisement generated resumes from 2000 applicants, of which 200 were judged to be potentially qualified (yR = 10 :1). Of these 200, 40 attended the interview for final selection (yR = 5:1). Of these 40, 30 were actually qualified and offered jobs (yR = 4:3); and of the 30, 20 accepted (yR = 3:2). In this case, the overall yR is 100 : 1. Thus, a requirement of 30 hires, during a specified period, would mean a recruitment target of 3000.⁹ (see [Fig. 6.4](#))

Yield ratios express the relationship of applicant inputs to outputs at various decision points.

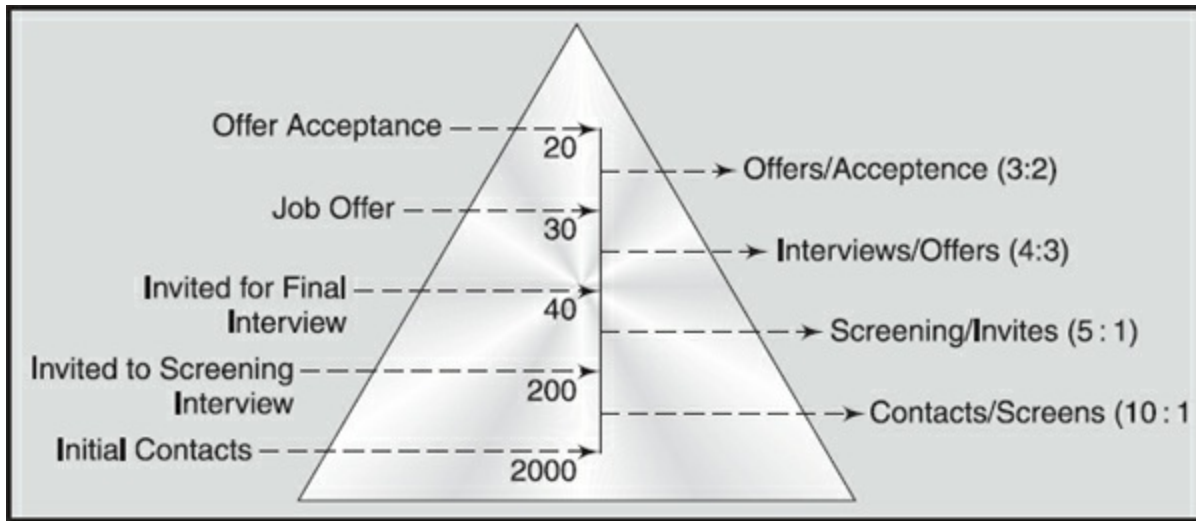


Fig. 6.4 *Recruiting Yield Pyramid*

The yRs must be used with circumspection. No yRs will be available for recruiting employees for the first time, or for recruiting sources or methods that have not yet been tried. Recruiters in such cases have to depend upon their counterparts in other organisations or make their own guesses.

Type of Contacts This refers to the type of people to be informed about job openings. The type of people depends on the tasks and responsibilities involved and the qualifications and experience expected. These details are available through job description and job specification.

Strategy Development

Once it is known how many and what type of recruits are required, serious consideration needs to be given to **(i)** 'make' or 'buy' employees; **(ii)** technological sophistication of recruitment and selection devices;¹⁰ **(iii)** geographic distribution of labour markets comprising job seekers; **(iv)** sources of recruitment; and **(v)** sequencing the activities in the recruitment process.

'Make' or 'Buy' Firms must decide whether to hire less skilled employees and invest on training and education programmes, or they can hire skilled labour and professionals. Essentially, this is the 'make' (hire less skilled workers) or 'buy' (hire skilled workers and professionals) decision.

Organisations which hire skilled labour and professionals shall have to pay more for these employees.

'Buying' employees has the advantage in the sense that the skilled labour and professionals can begin the work immediately and little training may be needed. But the high remuneration that the skilled workers and professionals demand may outweigh the benefits.

Technological Sophistication The second decision in strategy development relates to the methods used in recruitment and selection. This decision is mainly influenced by the available technology. The advent of computers has made it possible for employers to scan national and international applicant qualifications. Although impersonal, computers have given employers and job seekers a wider scope of options in the initial screening stage.

Technological advancement has made it possible for job seekers to gain better access. They have begun sending videotapes about themselves to a number of companies without wasting time and without spending money on travel.

Where to Look In order to reduce costs, firms look into labour markets most likely to offer the required job seekers. Generally, companies look into the national market for managerial and professional employees, regional or local markets for technical employees, and local markets for clerical and blue-collar employees.

The above pattern will be modified by certain factors. One such factor is the location of the firm. A company located in a backward district like Bidar in Karnataka cannot confine itself to the local market for its requirement of managerial personnel. But the same company can depend on the local market, if it were located in Bangalore. Still another consideration is the state of the labour market. Local shortage of blue-collar employees compels companies to conduct regional recruiting campaigns for these employees.

In the final analysis, organisations recruit where experience and circumstances dictate likely success. Recognising this, many adopt an incremental strategy in which initial efforts are concentrated in regional or local labour markets and expanded only if these efforts fail to achieve the desired results.¹¹

How to Look How to look refers to the methods or sources of recruitment. There are several sources and they may be broadly categorised into **(i)** internal, and **(ii)** external. (See [Fig. 6.5](#))

internal Recruitment

Internal recruitment seeks applicants for positions from those who are currently employed. Internal sources include present employees, employee referrals, former employees, and former applicants.

Present Employees Promotions and transfers from among the present employees can be a good source of recruitment. Promotion to higher positions has several advantages. They are¹²—**(i)** it is good public relations; **(ii)** it builds morale; **(iii)** it encourages competent individuals who are ambitious; **(iv)** it improves the probability of a good selection, since information on the individual's performance is readily available; **(v)** it is cheaper than going outside to recruit; **(vi)** those chosen internally are familiar with the organisation; and **(vii)** when carefully planned, promoting from within can also act as a training device for developing middle-level and top-level managers.

However, promotion can be dysfunctional to the firm as the advantage of hiring outsiders who may be better qualified and skilled is denied. Promotion also results in inbreeding which is not good for the organisation.

Promotion, to be effective, requires using job posting, personnel records, and skill banks. *Job posting* means notifying vacant positions by posting notices, circulating publications or announcing at staff meetings and inviting employees to apply. This practice is not followed for senior positions which are generally filled with people hired from outside. *Personnel records* are also useful to effect promotions. Examining personnel records may help discover employees who are doing jobs below their educational qualifications or skill levels.

It may also help to track persons who have the potential for further training or those who have the right background for the vacant positions. Some companies develop *skill banks* that list current employees who have specific skills.¹³

Another way to recruit from present employees is transfer without

promotion. Transfers are often important in providing employees with a broad-based view of the company, necessary for future promotions.

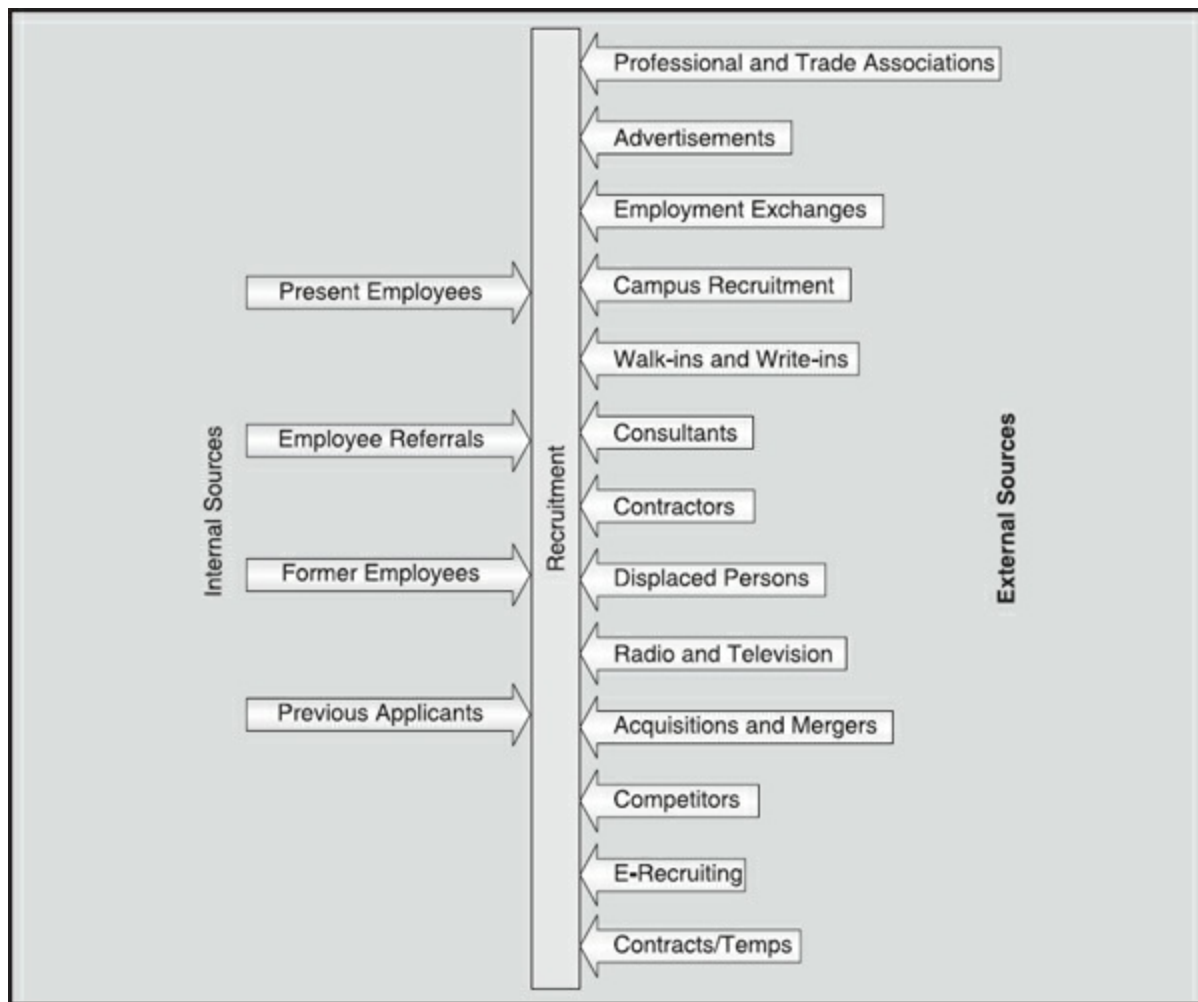


Fig. 6.5 Sources of Recruitment

Employee Referrals This can be a good source of internal recruitment. Employees can develop good prospects for their families and friends by acquainting them with the advantages of a job with the company, furnishing cards of introduction, and even encouraging them to apply.

Some companies even offer “finders fees” in the form of monetary incentives for a successful referral. Microsoft, for example, is presently offering referral incentives to its employees for Internet experts. Infosys in Bangalore has the practice of flashing the news about vacancies on its website and inviting referrals from employees. Employees are paid ₹10,000

to ₹15,000 each as “charges” for every successful hire. Similar practice prevails in Wipro, and other firms. Texas Instruments has a third of its jobs being filled through employee referrals.

Employee referrals can be a good source of recruitment. When employees recommend successful referrals, they (the former) are paid monetary incentives which are called “finders fees”.

When used wisely, referrals can be an effective way of recruiting. Many prospects can be reached at a very low cost, and in an organisation with a large number of employees this approach can provide quite a large pool of potential organisational members. Most employees know from their own experiences about the requirements of the job and what sort of persons the company is looking for. Often employees have friends or acquaintances who meet these requirements.

There are some potential negative factors associated with employee referrals. They include the possibility of inbreeding, manifesting in groups of people quitting one firm and joining another. They carry with them the cultural practices of the previous firm. They form cliques of their own, demand unacceptable privileges and often threaten to quit if demands are not met.

Former Employees Former employees are also an internal source of applicants. Some retired employees may be willing to come back to work on a part-time basis or may recommend someone who would be interested in working for the company. Sometimes, people who have left the company for some reason or the other are willing to come back and work. Individuals who left for other jobs, might be willing to come back for higher emoluments.¹⁴

Upto 10–15% of vacant positions can be filled through such re-hires. Archived data relating to phone numbers, emails are shared by HR people with the recruitment team and contacts are pursued actively. Emails are sent to these individuals and are encouraged to apply. Employees exited on reasons relating to performance and ethical conduct are excluded. Help of professional networks may also be used to establish contacts with former employees.

Quick to hire is the major advantage of hiring former employees. The re-hires are quick to work, as they are familiar with the company's policies and procedures, and will connect soon with peers and customers. MNC's such as IBM and Microsoft are active in re-hiring. The problem with re-hires is their placement and compensation.

Previous Applicants Although not truly an internal source, those who have previously applied for jobs can be contacted by mail, a quick and inexpensive way to fill an unexpected opening.¹⁵ Although 'walk-ins' are likely to be more suitable for filling unskilled and semi-skilled jobs, some professional openings can be filled by applicants to previous jobs.

Evaluation of internal Recruitment

There are three major advantages of internal recruitment. *First*, it is less costly than external recruiting. *Second*, firms typically have a better knowledge of the internal candidates' skills and abilities than the ones acquired through external recruiting. *Third*, an organisational policy of promoting from within can enhance employees' morale, organisational commitment and job satisfaction.

There are disadvantages which need to be mentioned. One theory is that the method simply perpetuates the old concept of doing things—that creative problem solving may be hindered by the lack of new talents. Some companies complain of unit raiding in which divisions compete for the same people. A third possible disadvantage is that politics probably has a greater impact on internal recruiting and selection than does external recruiting.¹⁶ Thus, while more job-related information may be known about internal candidates, personnel decisions involving internal candidates are more likely to be affected by the political agenda of the decision maker.

external recruitment

External sources far outnumber the internal methods. Specifically, sources external to a firm are professional or trade associations, advertisements, employment exchanges, college/university/institute placement services, walk-ins and write-ins, consultants, contractors, displaced persons, radio and

television, acquisitions and mergers, contractors and competitors.

Temps and contract Workers

Contract workers, by their numbers, are almost dwarfing the small number of regular employees. Manesar plant of Maruti has 40 per cent workers on contract basis. Napino (Gurgaon based) has only 48 percent regulars and the rest are contract workers. Rico (also Gurgaon located) has 1275 regulars and 1675 contract workers. These firms are no exception. Trend is same in almost all organisations.

For employer, contract workers are less expensive (wages paid to these employees constitute only half of what are paid to regulars); minimal demands for better wages and benefits; no need to implement mandatory welfare measurements; and freedom to hire and fire. During times of sudden rise in demand, organisations rely on temps (temporary workers) instead of hiring regulars. Bringing in temps is fast as the elaborate exercise of recruitment and selection processes are dispensed with. Managers can keep watching temps to identify potential candidates who can be absorbed on regular basis in course of time.

Also called just-in-time workers, temps are not limited to clerical or maintenance requirements. They include hundreds of engineers, scientists, financial officers and even HR professionals. Just-in-time employees can be hired directly or use an agency for the purpose. Direct hiring is simple-hire the number of workers the organisation needs, and place them on the job. Such workers are separately categorised and the company pays them directly, as it does to all the regular workers. Alternatively, the organisation can seek the services of an agent who keeps employers ready and supplies them on request. The company pays remuneration to the agent who in turn, distributes the same to the employees, of course after keeping his own commission.

e-recruiting

Electronic, also called online recruiting is much sought after source of recruitment made use of by all organizations. Job portals like Naukri, Monster, and Shine enable recruiters to reach out to a large audience. This source is widely used for entry level and mid-level positions.

Employers can electronically screen candidates' soft attributes, direct-potential hires to a special website for online skill assessment, conduct background check over the Internet, interview candidates via video conferencing, and manage the entire process with web-based software. Companies benefit immensely through wide reach, cost savings and speed enhancement. Employees too are benefited in the sense that they can access over a broader array of company postings than was possible earlier.

There are negatives associated with on-line recruiting. For example, broader exposure might result in many unqualified applicants applying for jobs. More resumes need to be reviewed, more e-mails dealt with and specialised applicant tracking software may be needed to handle large number of applications. Another problem is that the recruiters are likely to miss out many competent applicants who lack access to Internet.

Problems notwithstanding, both job givers as well as job seekers find Internet as the most effective source of recruiting and its use in days to come will be all pervasive.

E-recruiting involves screening candidates electronically, directing potential hires to a special website for online skill assessment, conducting background checks over the Internet, interviewing candidates via videoconferencing, and managing the entire process with web-based software.

Professional and Trade Associations Many associations provide placement services for their members. These services may consist of compiling job seekers' lists and providing access to members during regional or national conventions. Further, many associations publish or sponsor trade journals or magazines for their members. These publications often carry classified advertisements from employers interested in recruiting their members. Professional or trade associations are particularly useful for attracting highly educated, experienced or skilled personnel.¹⁷ Another advantage of these sources is that recruiters can zero in on specific job seekers, especially for hard-to-fill technical posts.

Advertisements These constitute a popular method of seeking recruits as

many recruiters prefer advertisements because of their wide reach.

Want ads describe the job and the benefits, identify the employer, and tell those who are interested and how to apply. They are the most familiar form of employment advertising. For highly specialised recruits, advertisements may be placed in professional/business journals.¹⁸ Newspaper is the most common medium. A number of factors influence the response rate to advertisement. There are three important variables—identification of the company, labour-market conditions, and the degree to which specific requirements are included in the advertisement.

Many organisations place what is referred to as a *blind ad*, one in which there is no identification of the firm. Respondents are asked to reply to a post box number or to a consulting firm that is retained by the organisation. Large companies with national reputation will seldom use blind ads to fill lower-level positions. However, when the organisation does not wish to publicise the fact that it is seeking to fill an internal position, or when it seeks to recruit for a position in the place of a person likely to be displaced, a blind ad may be appropriate. This is especially true when the position to be filled is likely to draw an extraordinary number of applications. Using the blind ad relieves the firm from having to respond to any individual who applies. Only those individuals the company wishes to see are notified. Others are ignored as if they were never received.

Although blind ads can assist recruiters in finding qualified applicants, many individuals are reluctant to reply to them. Obviously, there is the fear, usually unjustified, that the advertisement has been placed by his/her present employer. Also, the organisation itself is a key determinant whether the individual is interested. Therefore, potential candidates are often reluctant to apply. Further deterrents are the bad reputation that blind ads have received because of organisations that place advertisements when no positions exist in order to test the supply of workers in the community; test their own popularity among job seekers; to build a backlog of applicants; or to identify those current employees who are likely to fly away.¹⁹

A variation to this source of recruitment is that the advertisements are released by the job-seekers themselves. Such advertisements describe the qualifications, experience, and the areas of interest of the advertisers. It is upto the firms to invite the advertisers for interview. An advertisement of this

type is shown in Exhibit 6.1.

Exhibit 6.1 Moonlighting

Services Offered

UNIQUE multipurpose greeting cards of handmade paper, crafted with exquisite floral designs using natural dried ferns, flowers and foliage available with matching envelopes. Sizes: 6" × 3 5/8", 7" × 4. " (folded) and 7" × 6" (unfolded). Bulk local/export orders solicited. Phone 5582536. EXPORT consultancy available for starting export of any products/services or developing any existing business on retainership basis. Write to: K.M. Vasudevan, Post Box No. 7622, Bangalore—560076.

AN ELECTRONIC technician with very good background is seeking for part-time marketing job of electronic products, interested companies reply to G. Narayan Kumar, No. 2/1 Venkataswamappa Street, Chikkmaulli, Bangalore—560004.

UNDERTAKE any intricate foundry patterns (wood and metal) please contact Darpan Patterns, 6th Cross Vivekananda Road, Hosamane, Shimoga-577201 Ph. 40104 – EREGOWDA.

MANAGER MNC, experienced in teaching MBA, wants to teach marketing on Saturdays/evenings in reputed Management Institute/Colleges. Contact Mac on Phone 5582360 between 8 pm and 9 pm.

EXPERIENCED chemical technologist available on part-time basis for advice on problems of processes, testing and analysis, recoveries of finished products, metals compounds, finishing, Telephone 3348174.

QUALIFIED and experienced information technology professional available for freelance/part-time consultancy for setting up Export Oriented Software Development Technology Units (100% EOU/STP). Contact: No. 1724, 13 Main 31 Cross, Banashankari 11 stage, Bangalore-560 070. Telephone 6625067.

SR managerial position retd. worked various disciplines. Good communication/administrative skills. Proven journalistic capability. Want to keep busy part-time. Remuneration not, objective. Phone 3340664.

Advertisements must be effectively drafted before publishing/releasing

them. An ineffective advertisement will meet the fate aptly described in the following:

“Is your advertising getting results”?

“It sure is! Last week we advertised for a night watchman and the next night we were robbed”.

—Anonymous

Experienced advertisers use a four-point guide called AIDA to construct their advertisements. First, attract *attention*, next develop *interest* in the job, next create *desire* and then instigate *action* on the part of an onlooker.

Most experts are of the opinion that advertisements must contain the following information— **(i)** the job content (primary tasks and responsibilities); **(ii)** a realistic description of working conditions, particularly if they are unusual; **(iii)** the location of the job; **(iv)** the compensation, including the fringe benefits; **(v)** job specifications; **(vi)** growth prospects; and **(vii)** to whom one applies. It may also be remembered that a recruitment advertisement today has to do much, more than announce that a company is looking for personnel. It has to sell the idea that the company and the job are perfect for the candidate. Further, recruitment advertisements can also serve as corporate advertisements, the latter positioned to build the company’s image. Cost-wise too, this arrangement suits companies. A half-page appointment advertisement in *The Times of India*, for example, would cost ₹ 2.25 lakh while a corporate advertisement would cost ₹2.75 lakh.

Pause and Ponder

Have you ever applied for a job in response to an ad? Else speak to someone who has. What has been the experience?

Employment Exchanges Employment exchanges have been set up all over the country in deference to the provisions of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959. The Act applies to all industrial establishments having 25 workers or more each. The Act requires all the industrial establishments to notify the vacancies before they are filled.

The major functions of the exchanges are to increase the pool of possible applicants and to do preliminary screening. Thus, employment exchanges act as a link between the employers and the prospective employees. These offices are particularly useful in recruiting blue-collar, white-collar and technical workers. Table 6.2 shows the employment-exchange data.

As on today, there are 965 exchanges across the country with 46 million people registered seeking jobs. Till now, all these exchanges have found jobs for only 260,000, a success rate of 0.56%.

Employment exchanges were first established to help resettle soldiers returning to civilian life after World War II, and later to find employment for those who were displaced by partition. Over the years, they have lost relevance as several states have set up their own recruitment boards to fill local posts for everything from teachers to public transport drivers, bypassing these exchanges.

A 1996 Supreme Court ruling which allowed the private sector to hire employees from outside employment exchanges was a further blow to these exchanges.

Table 6.2 Number of Employment Exchanges and Related Data

Year	No. of Employ- ment Exchanges	(in thousands)					% of Place- ment to Submi- ssion	% of Place- ment to Vacancies Notified	%Increase in live Register Over Previous Year
		Regist- ration	Place- ment	Vacancies Notified	Submi- ssion Made	Live Register			
1	2	3	4	5	6	7	8	9	10
1994	891	5927.3	204.9	396.4	3723.4	36691.5	5.5	51.7	1.1
1995	895	5858.1	214.9	385.7	3569.9	36742.3	6.0	55.7	0.1
1996	914	5872.4	233.0	423.9	3605.9	37429.6	6.5	55.0	1.9
1997	934	6321.9	275.0	393.0	3767.8	39139.9	7.3	70.0	4.6
1998	945	5851.8	233.3	358.8	3076.6	40089.6	7.6	65.0	2.4
1999	955	5966.0	221.3	328.9	2653.2	40371.4	8.3	67.3	0.7
2000	958	6041.9	177.7	284.5	2322.8	41342.6	7.7	62.5	2.4
2001	938	5552.6	169.2	304.1	1908.8	41995.9	8.9	55.6	1.6
2002	939	5064.0	142.6	220.3	1748.8	41171.2	8.2	64.7	-2.0
2003	945	5462.9	154.9	256.1	1917.3	41388.7	8.1	60.5	0.5

Source: Directorate General of Employment and Training.

Campus Recruitment Colleges, universities, research laboratories,

sportsfields and institutes are fertile ground for recruiters, particularly the institutes. The Indian Institutes of Management (IIMs) and the Indian Institutes of Technology (IITs) are on the top of the list of avenues for recruiters. In fact, in some companies, recruiters are bound to recruit a given number of candidates from these institutes every year. The IIMs are an important source for recruiting management trainees.

Campus recruitment is going global with companies like Hindustan Unilever, Citibank, HCL-HP, L&T, Motorola and Reliance looking for recruits in global markets. Business schools in the US and the UK are a source of potential candidates for them. These candidates are Indians who have gone abroad for higher studies in management. Unlike in the past, these promising boys and girls are willing to return to India and take up assignments here. At least four reasons can be given to explain this trend. *First*, changes in the economic front have thrown open new opportunities in the home country. *Second*, quality of life in India has improved considerably. *Third*, it is becoming highly difficult for foreign students to secure work permits in the US. *Fourth*, sentiment and love for the mother country compel them to return to India.

The campus recruitment is so much sought after by the recruiters that each college, university department or institute will have to have a placement officer to handle recruitment functions.

Campus recruitment is often an expensive process, even if the recruiting process eventually produces job offers and acceptances. Majority of those would leave the firms within the first five years of their employment. Some people attribute this high rate of turnover to the lack of challenge offered by the companies. Problems notwithstanding, campus recruitment is the major source of recruitment for prestigious companies such as HUL, Tatas, L&T and the like.

Walk-ins, Write-ins and Talk-ins The most common and least expensive approach for candidates is direct applications, in which job seekers submit unsolicited application letters or resumes. Direct applications can also provide a pool of potential employees to meet future needs. From employees' viewpoint, walk-ins are preferable as they are free from the hassles associated with other methods of recruitment. While direct applications are particularly effective in filling entry-level and unskilled vacancies, some companies

compile pools of potential employees from direct applications for skilled positions.²⁰ (see Exhibit 6.2 for an illustration of walk-ins and Exhibit 6.3 for their flip side).

Exhibit 6.2 Walk-in Interview

Imagine working for India's largest media Group. With its wide array of brands. Most of them market leaders.

Imagine hob-nobbing with leading advertising and marketing professionals.

Imagine working with over 300 ambitious, enthusiastic and creative colleagues, averaging 24 years in age. A sales-force unarguably the best of its kind in the industry.

Imagine working for a target of over a crore of rupees a day! Phew!

Now, stop imagining. Act. If you are a graduate—creative, articulate and persuasive—with a passion for sales, then, handwrite your bio-data.

People who have responded to our earlier advertisements need not apply again.

WALK-IN ON SATURDAY
SEPTEMBER 24, 2012

Some of India's media marketing whizkids are waiting to meet you.

Between 10 a.m. and 2 p.m. Mind you, they have a sharp eye for talent.

And that is no imagination.

The TIMES OF INDIA
RESPONSE 40/1, S & B
Towers 2nd floor, M.G.
Road Bangalore—560 001

Exhibit 6.3 Walk-in Interview—The Flip Side

Today's newspapers are full of new openings to be tapped in newer ways. Six out of ten are through walk-in-interviews. Though, for many, it could well be a walk-out!

These walk-ins offer interesting moments for an observer. It so happened in one of the offices that several posts were to be filled up through such interviews. It was a virtual stampede as people from different

age-groups thronged the premises. Parents had accompanied their daughters. One of the candidates, a lass, apparently bored, intending on making friends, spoke to an elderly person inquiring whether his daughter had come for the interview. Blushed, with a smile on his face, the person replied that he himself was a candidate! Surely, the young one had the experience of her life.

At another place, the post advertised was for a lecturer in a B school. Naturally, members of the managing committee of the institute were seated along with the subject experts. Minutes before the start of the interview, a person walked in through the entrance meant for insiders, neatly dressed up and carrying a brief case. Everyone thought that he must have been specially invited as one of the members of the selection panel. It took quite some time for them to come to their own and realise that the gentleman was one of the hopefuls aspiring for the job. Obviously, the first round was decisively won by the candidate. Quickly reconciling, one of the members, to put the candidate on the defensive, fired a question to know whether the candidate was fit enough to deliver four lectures a day. Pat came the reply from the candidate that he could do it for 10 hours as he, being an amateur dramatist, had the habit of long hours of rehearsals and acting. Now, it was the turn of the honourable member to have a walk-out!

How are these interviews conducted? It is anybody's guess. The chaos and confusion would be so much that more than the candidates, the people who manage the show are often seen gasping for breath. They do not know how many candidates are to be interviewed and how many positions are to be filled up. The number of candidates could sometimes be varying directly with the temperature outside. Everyone who happens to pass the side would like to try out his/her luck! After all, it is walk-in you see. In the process genuine candidates lose out, and convincingly too!

In one of the interviews for the post of a finance manager, one person who had the required credentials for the job was aghast to find out that the person who was interviewing him was a civil engineer. The management felt that handling finance was like mixing cement with sand.

Tail piece. Do walk in to any number of places, but never try to reveal your knowledge! You would be branded as 'too big'! So keep walking in, at least that's good for your health.

Write-ins are those who send written enquiries. These jobseekers are asked to complete application forms for further processing.

Talk-ins are becoming popular nowadays. Job aspirants are required to meet the recruiter (on an appropriated date) for detailed talks. No application is required to be submitted to the recruiter.

Walk the **Talk**

Do's	Don'ts
<ul style="list-style-type: none"> • Successful recruitment is linked to clear understanding of business needs • Explore if a vacancy can be filled by retraining spare resource • Maintain database of all resumes by skill and experience so that over a period of time pool of resumes is created for recruiting staff • Employee referrals are highly useful. Leverage them to maximum extent • Screen and shortlist applications which meet your requirements 	<ul style="list-style-type: none"> • Never assess the effectiveness of recruitment team by the number of applications received • Use job postings to hire skills • Never compromise and allow an undesirable candidate push through. You are bound to regret • Favour colleges through campus placements and accreditations

Consultants ABC Consultants, Ferguson Associates, Human Resource Consultants, Head Hunters, Batliboi and Co., Analytic Consultancy Bureau, Aims Management Consultants and The Search House are some among the numerous recruiting agencies. These and other agencies in the profession are retained by organisations for recruiting and selecting managerial and executive personnel.

Consultants are useful inasmuch as they have nation-wide contacts and lend professionalism to the hiring process. They also keep prospective employer and the employee anonymous. But, the cost can be a deterrent factor. Most consultants charge fees ranging from 20 to 50 per cent of the

first year salaries of the individuals placed.

Contractors Contractors are used to recruit casual workers. The names of the workers are not entered in the company records and, to this extent, difficulties experienced in maintaining permanent workers are avoided.

Organisations should keep some guidelines (see Exhibit 6.4) while using contract/casual workers.

Exhibit 6.4 Guidelines for using Contract Workers

1. *Do not train temporary employees.* Their staffing agency will handle training.
2. *Do not negotiate the pay rate of contract workers.* The agency should set pay.
3. *Do not coach or counsel a contract worker on his or her job performance.* Agency may be called in and requested to do so.
4. *Do not negotiate a contract worker's vacations or personal time off.* Direct the worker to the agency.
5. *Do not routinely include contract workers in company's employee functions.*
6. *Do not allow contract workers to utilise facilities meant for employees.*
7. *Do not let managers issue company business cards, name plates, or employee badges to contract workers without HR and legal approval.*
8. *Do not let managers discuss harassment or discrimination issues with contract workers.*
9. *Do not discuss job opportunities and the contract workers' suitability for them directly.*
10. *Do not terminate a contract worker directly.* Agency may be contacted to do so.

(Source: Garry Dessler, *Human Resource Management*, 2008, p. 186)

Displaced Persons Siting and implementation of a project in an area would result in displacement of several hundred inhabitants. Rehabilitating the displaced people is a social responsibility of business. Such people are a

source of recruitment, not only for the project which caused the displacement, but also for other companies located elsewhere.

Rehabilitation of displaced persons is mandated by the government, and the World Bank has made it a conditionality for granting assistance to the concerned country.

But the track record of companies in this respect is disappointing. The Visakhapatnam Steel Plant has assured rehabilitation to all the 5,000 displaced persons but took only 1,339 of them into the company's folds. The steel plant is no exception.

Radio and Television Radio and television are used but sparingly, and that too, by government departments only. Companies in the private sector are hesitant to use the media because of high costs and also because they fear that such advertising will make the companies look desperate and damage their image.

Radio and television can be used to reach certain types of job applicants such as skilled workers. Besides, there is nothing inherently desperate about using radio or television. Rather it depends upon what is said and how it is delivered that implies some level of desperation.²¹

Acquisitions and Mergers Another method of staffing firms is a result of the merger or acquisition process. When organisations combine into one, they have to handle a large pool of employees, some of whom may no longer be necessary in the new organisation. Consequently, the new company has, in effect, a pool of qualified job applicants (although they are current employees). As a result of the merger or acquisition, however, new jobs may be created as well. Both new and old jobs may be readily staffed by drawing the best-qualified applicants from this employee pool.

Firms poach on right people in rival companies by offering better terms and lure them away. Poaching has legal implication in as much as the employee needs to obtain clearance from his or her employer before hopping on to another. There is also an ethical issue involved in poaching. Should an employee desert a firm merely because somebody else offers a few thousands more?

In contrast to the other external methods, this one can facilitate the immediate implementation of an organisation's strategic plan. This ready pool may enable a firm to pursue a business plan, such as entering a new product line that would otherwise be unfeasible using standard recruiting methods. The need to displace employees and to integrate a large number of them rather quickly into a new organisation, however, means that the personnel-planning and selection process become more critical than ever.²²

Competitors Rival firms can be a source of recruitment. Popularly called 'poaching' or 'raiding', this method involves identifying the right people in rival companies, offering them better terms and luring them away. For instance, several executives of HMT left to join Titan Watch Company, so also from BEL to BPL. Most glaring is the exodus of pilots from the Indian Airlines to join private air taxi operators. The exodus is more pronounced in the financial sector. For example, the chief of CRISIL joined George Soros, one of the largest firms in the capital market. And three deputy managing directors of SBI resigned to join private companies.

There are legal and ethical issues involved in raiding rival firms for potential candidates. From the legal point of view, an employee is expected to join a new firm only after obtaining a 'no objection certificate' from his/her present employer. Violating this requirement shall bind the employee to pay a few months' salary to his/her present employer as a punishment.

The ethical issue is more significant than the legal one. Should an employee desert the company which has given training and offered him/her a job simply because someone else offers you a few hundred rupees more as compensation? Is money everything in life? Have loyalty and commitment lost their relevance?

Unfortunately, today's young managers are known for rootlessness and job hopping. Loyalty to the organisation is a thing of the past. An MBA of today is known to change jobs and organisations like changing one's clothes. Clearly, this trend needs to be stopped. This is a challenge for the HR manager. The present economic crisis has made the job of HR manager less daunting. Employees are staying put with present jobs (often they are laid-off) as alternatives are not available. But the happenstance of economy staging a come back and employees resorting to job-hopping again cannot be ruled out.

Pause and Ponder

Have you at any time tried Internet recruiting? What has been your experience with it, when compared with conventional route?

Evaluation of External Recruitment External sources of recruitment have both merits and demerits. On the plus side, the following may be cited:

1. The firm will have the benefit of new skills, new talents and new experiences, if people are hired from external sources.
2. The management will be able to fulfil reservation requirements in favour of the disadvantaged sections of the society.
3. Scope for resentment, heartburn and jealousy can be avoided by recruiting from outside.

The demerits are:

1. Better motivation and increased morale associated with promoting own employees are lost to the company.
2. External recruitment is costly.
3. If recruitment and selection processes are not properly carried out, chances of right candidates being rejected (false positive error) and wrong applicants being selected (false negative error) occur. Exhibit 6.5 shows relative merits and demerits of internal recruitment and external recruitment.

Whatever be the source of recruitment, the job seekers must submit application forms seeking employment. These applications shall be supplied by the employer (popularly called *application blanks*) or the applicants may be expected to prepare their own application forms and submit on or before the expiry of the stipulated date.

Application forms serve three useful purposes—**(i)** they are the records of applicants' desire to obtain jobs; **(ii)** they provide the interviewer with profiles of applicants which can be used in the interview, and **(iii)** they are the basic personnel records for applicants who later become employees.

Exhibit 6.2 Internal and External Recruitments: Advantages and Disadvantages

internal Recruitment

Advantages

1. It is less costly.
2. Candidates are already oriented towards company.
3. Organisations have better knowledge about the internal candidates.
4. Enhancement of employee morale and
5. Good performance is rewarded.

Disadvantages

1. It perpetuates the old concept of doing things.
2. It abets raiding.
3. Candidates' current work may be affected.
4. Politics play greater role.
5. Morale problem for those not promoted.

External Recruitment

Advantages

1. Benefits of new skills, new talents and new experiences to organisations.
2. Compliance with reservation policy becomes easy.
3. Scope for resentment, jealousies and heart-burn are avoided.

Disadvantages

1. Better morale and motivation associated with internal recruiting is denied to the company.
2. It is costly.
3. Chances of creeping in false positive and false negative errors.
4. Adjustment of new employees to the organisational culture takes longer time.

When to Look An effective recruiting strategy must determine when to look—decide on the timings of events—besides knowing where and how to look for job applicants (see [Fig. 6.3](#)).

Time lapsed data (TLD) will be highly useful in determining the timings. TLD show the average time that elapses between major decision points in the recruitment process. Continuing with the example quoted earlier, the firm has a task of recruiting 30 salespersons in a given period. Yield ratio (yR)

analysis showed that 3000 potential applicants would have to be contacted during this period. But when should these contacts occur?²³

Suppose an analysis of TLD shows that in the past, it typically had taken 10 days for an advertisement to begin producing resumes, four days for invitations for interviews to be issued, seven days to arrange for interviews, four days for the company to make up its mind, 10 days for the applicants offered jobs to make up their minds, and 21 more days for those accepting offers to report for work. This suggests that vacancies must be advertised two months before they are expected to occur.²⁴

Searching

Once a recruiting plan and strategy are worked out, the search process can begin (see Fig. 6.3). As seen in the figure, search involves two steps—**(i)** source activation, and **(ii)** selling.

Source Activation Typically, sources and search methods are activated by the issuance of an employee requisition (Fig. 6.3). This means that no actual recruiting takes place until line managers have verified that a vacancy does exist or will exist.

If the firm has planned well and done a good job of developing its sources and search methods, activation soon results in a flood of applications and/or resumes.

The applications received must be screened. Those who pass have to be contacted and invited for interview. Unsuccessful applicants must be sent letters of regret.²⁵

Selling A second issue to be addressed in the searching process concerns communications. Here, organisations walk a tightrope. On one hand, they want to do whatever they can to attract desirable applicants. On the other, they must resist the temptation of overselling their virtues.²⁶

In selling the company, both the message and the media deserve attention. Message refers to the employment advertisement. With regard to media, it may be stated that effectiveness of any recruiting message depends on the media. Media are several—some have low credibility, (employment exchanges, for example) while others enjoy high credibility (advertisements

in business magazines, for example). Selection of medium or media needs to be done with a lot of care.

Screening

Screening of applications can be regarded as an integral part of the recruiting process, though many view it as the first step in the selection process. Even the definition on recruitment, we quoted in the beginning of this chapter, excludes screening from its scope. However, we have included screening in recruitment for valid reasons. The selection process will begin after the applications have been scrutinised and shortlisted. Hiring of professors in a university is a typical situation. Applications received in response to advertisements are screened and only eligible applicants are called for an interview. Interview is conducted by a selection committee comprising the Vice-Chancellor, Registrar and subject experts. Here, the recruitment process extends upto screening the applications. The selection process commences only later.

The purpose of screening is to remove from the recruitment process, at an early stage, those applicants who are visibly unqualified for the job. Effective screening can save a great deal of time and money. Care must be exercised, however, to assure that potentially good employees are not lost and that women and minorities receive full and fair consideration and are not rejected without justification. In screening, clear job specifications are invaluable. It is both a good practice and a legal necessity that applicants' qualifications be judged on the basis of their knowledge, skills, abilities and interests required to do the job.

The techniques used to screen applicants vary depending on the candidate sources and recruiting methods used. Interviews and application blanks may be used to screen walk-ins. Campus recruiters and agency representatives use interviews and resumes.²⁷ Reference checks are also useful in screening (Also see Exhibit 6.6).

Exhibit 6.6 No More Lemons

Remember that lemon you hired last month—who wasn't just a waste of time but also left your company poorer by a few lakhs? Not just that, now

he's hopped across to your rival, armed with a few of your hottest business strategies. Well, you wouldn't have made that grave error in judgment had you screened him before taking him on board. You wouldn't have had to do it yourself. You could have outsourced it to a firm like Quest Research India, one of the few background-screening companies with pan-Asia operations. Screening is basically an integrity and honesty check, a measure for fraud prevention.

Bad hires are a big blow to a company's reputation, quality of service, and relation with the client. Considering a significant amount of time and cost is incurred by the management in case of fraud or leakage of information it makes sense to undertake preventive measures like these. Don't however be misled into believing that intensive knowledge-based industries are the lone practitioners of this novel business practice. Manufacturing, financial services, banks and even logistic services are some of the other sectors that prefer to screen their prospective employees. Rough estimates suggest that the organised and unorganised sectors together do about 40,000 checks every month currently. Also the new overseas legislations make it mandatory for Indian companies to verify their employees' credentials and ensure complete safety of data. Measures like these would also eliminate passage of sensitive information through high-profile corporate executives skipping jobs besides restricting entry of undeserving candidates who would not have sailed through, but for the false information.

The screening involves verifying educational qualifications, previous employment stints, and the existence of a criminal record. The service providers do a thorough check of the candidates' whereabouts, permanent address, criminal history, work ability, performance at previous organisations, salary verification, integrity check and the like. It is a judicious mix of intelligent telephone calls and physical movement by the service providers, who often need to travel as far as Andaman and Nicobar Islands for such authentication as there is often an insistence on written verification.

No screening can and does take place without the consent of the individual concerned, which may otherwise amount to prying. The depth of screening depends on the level of seniority; for instance, a CEO will have more baggage to be scanned than a process executive. The charges too,

which could start at ₹3,000, can go up to ₹30,000 depending on the level of investigation required.

Companies that have undergone this process claim that not only has the quality of hire scaled up, there has been a sharp fall in attrition rate and falsification too. Hill and Associates India, a security and risk consultancy, vouches for how the rate of bad hires for one of its IT clients went down from 30 per cent to 18 per cent. It does close to 1,000 checks a month as against Quest Research whose numbers average around 10,000 every month.

Source: Business Today, August 29, 2004, p. 26.

EVALUATION AND CONTROL

Evaluation and control is necessary as considerable costs are incurred in the recruitment process. The costs generally incurred are:²⁸

1. Salaries for recruiters.
2. Management and professional time spent on preparing job description, job specifications, advertisements, agency liaison, and so forth.
3. Cost of advertisements or other recruitment methods, that is, agency fees.
4. Cost of producing supporting literature.
5. Recruitment overheads and administrative expenses.
6. Costs of overtime and outsourcing while the vacancies remain unfilled.
7. Cost of recruiting suitable candidates for the selection process.

Questions should always be asked as to whether the recruitment methods used are valid and whether the recruitment process itself is effective.

Statistical information on the cost of advertisements, time taken for the process, and the suitability of the candidates for consideration in the selection process should be gathered and evaluated. However, exercises seem to be seldom carried out in practice.

Evaluation of Recruitment Process

The recruitment process has the objective of searching for and obtaining

applications from job-seekers in sufficient numbers and quality. Keeping this objective in mind, the evaluation might include:

1. Return rate of applications sent out.
2. Number of suitable candidates for selection.
3. Retention and performance of the candidates selected.
4. Cost of the recruitment process.
5. Time lapsed data.
6. Comments on image projected.

Evaluation of Recruitment Methods

The evaluation of recruitment methods might include:

1. Number of initial enquiries received which resulted in completed application forms.
2. Number of candidates at various stages of the recruitment and selection process, especially those shortlisted.
3. Number of candidates recruited.
4. Number of candidates retained in the organisation after six months.

PHILOSOPHIES OF RECRUITING

The traditional philosophy of recruiting has been to get as many people to apply for a job as possible. A large number of jobseekers waiting in queues would make the final selection difficult, often resulting in wrong selections. Job dissatisfaction and employee turnover are the consequences of this.

A persuasive agreement can be made that matching the needs of the organisation to the needs of the applicants will enhance the effectiveness of the recruitment process. The result will be a workforce which is likely to stay with the firm longer and performs at a higher level of effectiveness. Two approaches are available to bring about this match. They are—**(i)** realistic job preview (RJP), and **(ii)** job compatibility questionnaire (JCQ).

Realistic Job Previews

Realistic job preview (RJP) provides complete job-related information, both positive and negative, to the applicants. The information provided will help

jobseekers to evaluate the compatibility among the jobs and their personal ends before hiring decisions are made. RJPs can result in self-selection process—job applicants can decide whether to attend the interviews and tests for final selection or withdraw themselves in the initial stage. [Figure 6.6](#) contrasts some of the outcomes that can develop from traditional and realistic job previews.

Realistic job preview (RJP) provides complete job-related information (both positive and negative) to the applicants so that they can make right decisions before taking up jobs.

Research on realistic recruiting shows a lower rate of employee turnover in case of employees recruited through RJPs, particularly for more complex jobs and higher levels of job satisfaction and performance, at the initial stages of employment. RJPs are more beneficial for organisations hiring at the entry level, when there are innumerable applicants per position, and under conditions of relatively low unemployment. Otherwise, the approach may increase the cost of recruiting by increasing the average time it takes to fill each job.²⁹

Job compatibility Questionnaire

The Job Compatibility Questionnaire (JCQ) was developed to determine whether an applicant's preferences for work match the characteristics of the job. The JCQ is designed to collect information on all aspects of a job which have a bearing on employee performance, absenteeism, turnover and job satisfaction. The underlying assumption of the JCQ is that the greater the compatibility between an applicant's preferences for a job and the characteristics of the job as perceived by the jobseeker, the greater the probability of employee effectiveness and longer the tenure.

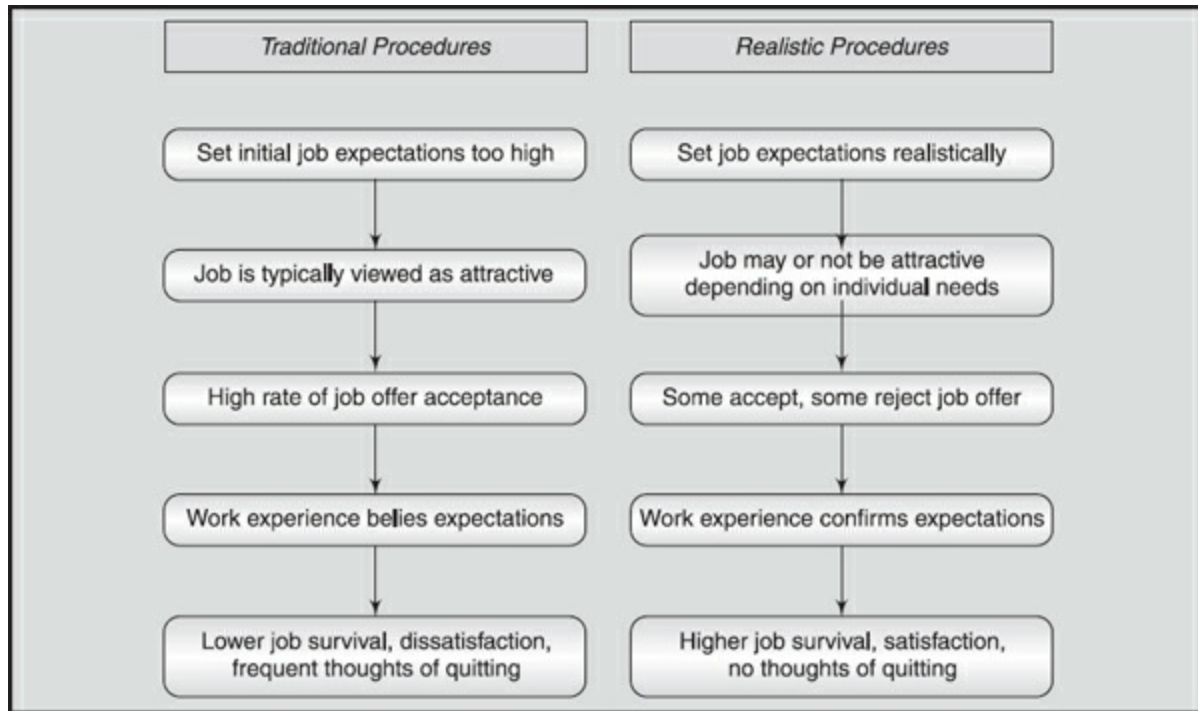


Fig. 6.6 *Typical Consequences of Job Previews*

The JCQ is a 400-item instrument that measures job factors which are related to performance, satisfaction, turnover and absenteeism. Items cover the following job factors: task requirements, physical environment, customer characteristics, peer characteristics, leader characteristics, compensation preferences, task variety, job autonomy, physical demands, and work schedule.

The JCQ is administered to jobseekers who are very familiar with either a specific position to be filled and/or a target job under study. Respondents are asked to indicate the extent to which each JCQ item is descriptive of the job or position under study.

ALTERNATIVES TO RECRUITMENT

Companies search for alternatives to recruitment because of the cost of recruiting. Four such alternatives to recruitment are overtime, employee leasing, outsourcing and temporary employment.³⁰

Overtime When demand for product peaks, firm seeks to make present

employees work overtime, instead of recruiting new hands. Overtime can also provide employees with additional income. But overtime results in fatigue, increased accidents and more absenteeism. These developments and the need to pay double the wages add to the cost.

Employee Leasing Often called “staff outsourcing”, employee leasing involves paying a fee to a leasing company or a consulting firm that handles payroll, employee benefits and routine HR functions for the client company. Leasing is particularly useful to small and medium sized firms that might not be able to maintain regular HR staff.

Temporary Employment One of the effects of downsizing is the use of employees on temporary basis. Historically, temporary employment agencies were seen only as sources of semi-skilled clerical help during peak work periods. Today, “just-in-time” employees can be found staffing all types of jobs in companies, including professional, technical and executive positions.

The benefits of using temporary staff include relatively low labour costs, easy access to experienced labour and flexibility in responding to future changes in the demand for workers. A disadvantage of hiring temporary help is that these individuals do not know the culture or work flow of the firm. This unfamiliarity detracts from their commitment to organisational goals.

Outsourcing Medium and large organisations often make strategic decision to ‘outsource’ the recruitment activity to a third party specialist. Once a position is identified, it is handed over to the specialist who carries out all the recruitment activities which are otherwise done in-house. Given the nature of the activity, often this specialist is housed (seated) in the premises of the company itself. Organisations face the challenge of ensuring that the third party performs the recruitment-related activities effectively. It may be stated that firms like CareerNet provide recruitment outsourcing solutions, that offer expertise in speed, accuracy, flexibility and accountability.

SUMMARY

Recruitment is the process of searching for and obtaining applications so as to build a pool of job seekers from whom the right people for the right jobs

may be selected.

The purpose of recruitment is to build a pool of applicants. Recruitment represents the first contact a company makes with potential employees. Recruitment done well will result in better selection.

Both external as well as internal factors would govern the recruitment process. Demand and supply of specific skills, unemployment rate, labour-market conditions, legal and political considerations, and the company's image are the external factors. Among the internal factors are recruiting policy of the organisation, decision to have temporary and part-time employees, HRP, size of the organisation, cost of recruitment, and growth and expansion phase.

Recruitment is a five-step process. The steps are—**(i)** planning, **(ii)** strategy development, **(iii)** searching, **(iv)** screening, and **(v)** evaluation and control.

The philosophy of attracting as many applicants as possible for given jobs guided recruitment activities in the past. These days the emphasis is on matching the needs of the firm to the needs of the applicants. This would minimise employee turnover and enhance satisfaction. Realistic job preview and job compatibility questionnaire help achieve this.

KEY TERMS

Employee leasing

E-recruiting

External recruitment

JCQ

Job posting

Philosophy of recruitment

TLD

Recruitment

RJP

Internal recruitment

Yield ratios

Skill bank

Job posting

REVIEW QUESTIONS

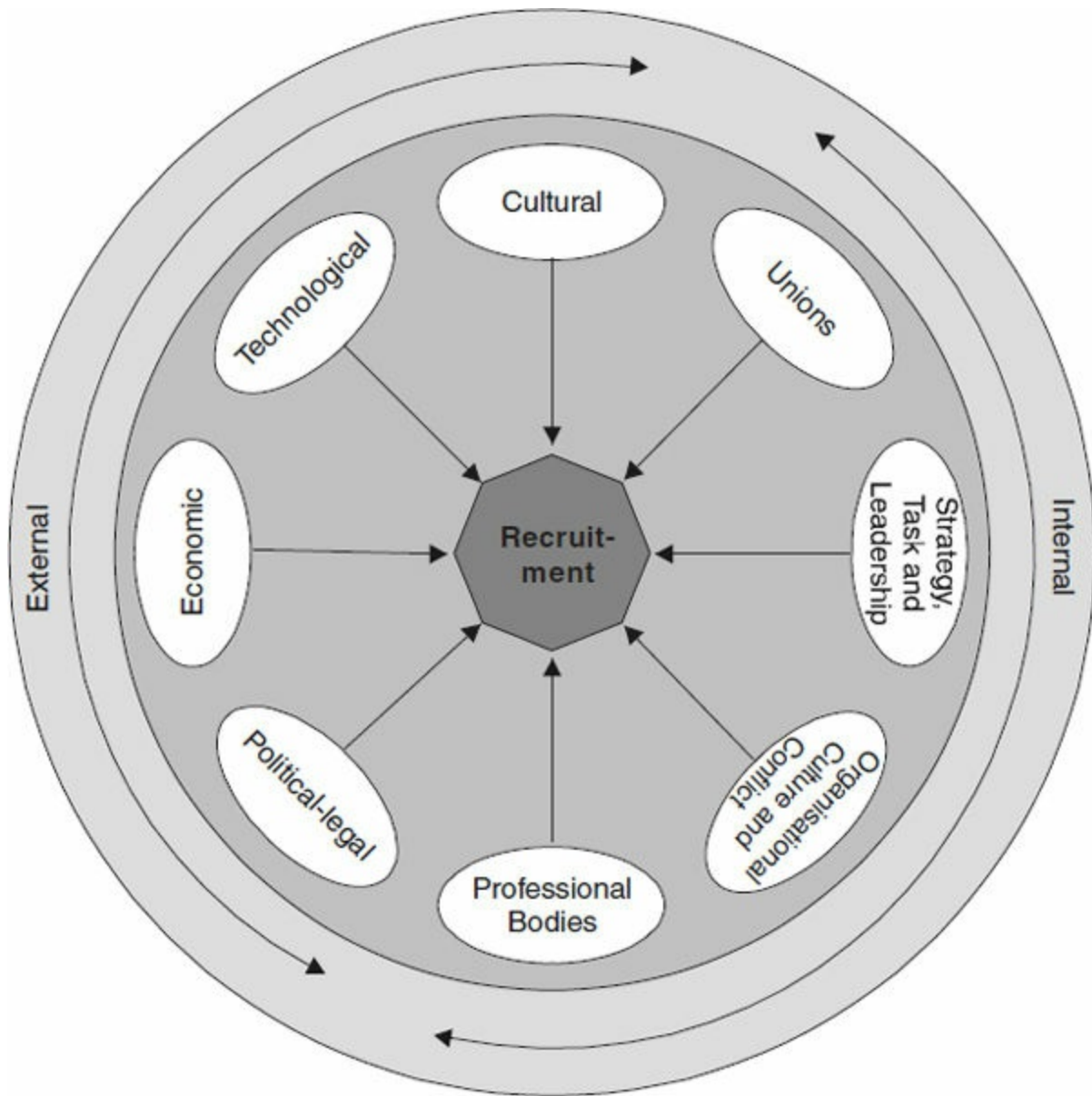
1. Define recruitment. Bring out its purpose and importance.
2. Bring out the factors which influence recruitment.
3. Bring out the internal sources of recruitment.
4. Explain the external sources of recruitment.
5. Explain the recruitment process.
6. What are the philosophies of recruitment?
7. How are yield ratios used in recruitment?

DISCUSSION QUESTIONS

1. Why is it important for organisations to do an effective job of recruiting?
2. Why is it important for recruiters to have a thorough understanding of labour markets and how they work?
3. How can a company determine if its recruitment processes are working effectively?
4. What are the advantages and disadvantages of the various external recruitment sources? How do they compare with the internal sources?
5. Suppose a key employee has just resigned and you are the department manager. After you have sent your request for replacement, how could you help the recruiter to find the best replacement?
6. Write a recruitment ad for a job you have held.
7. Where would you run this ad? Explain.
8. What are your views on having some form of temporary or leased employees instead of having permanent ones?
9. How and why recruitment methods be evaluated?

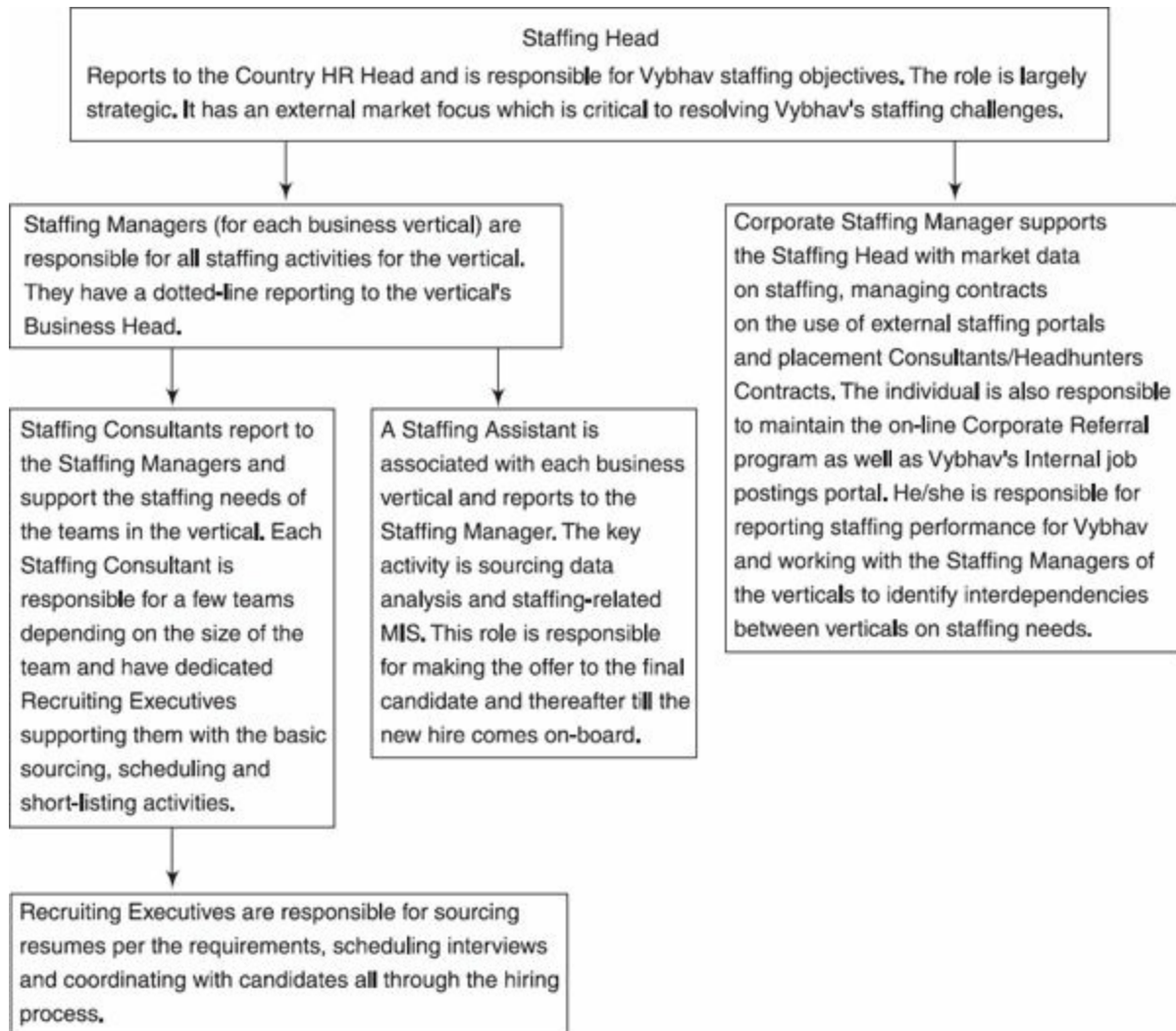
IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact recruitment, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

The staffing team at Vybhav has the following hierarchy:



One of the key initiatives of staffing team at Vybhav is the newly launched on-line tool for Corporate Referral program. Previously each business had its own referral program which took care of its recruitment needs. Over a period of time the need was felt for a single referral program that allows an employee to be able to view open positions across Vybhav business units. And an employee can upload the referral resume of a relative/friend/acquaintance. When an employee opens the referral tool, Vybhav job circle, he/she can view all the open positions. Once the employee identifies a job that he or she wants to make a referral, he or she needs to fill in basic information about the candidate. The template that an employee fills out on Job Circle is as below:

ROLE	DIVISION	LOCATION	
Basic Candidate information:			
Name			
First name	Last name	Initials	
Date of Birth:	Father's Name:		
Current employer:			
I know this candidate as			
<input type="radio"/> A friend	<input type="radio"/> A relative	<input type="radio"/> A casual acquaintance	
I know this candidate			
<input type="radio"/> Personally	<input type="radio"/> Professionally	<input type="radio"/> Just as an acquaintance	
How long have you known this person?			
<input type="radio"/> <one year past well	<input type="radio"/> 1-2 years	<input type="radio"/> > 3 years	<input type="radio"/> not too well
(You may or may not acknowledge this undertaking)			
Undertaking: I vouch for this referral I am making and to the best of my knowledge the candidate is ethical and of high values.			
<input type="radio"/> Acknowledge			

upload the Resume Here

The referral template ensures that the referral is made for a current open position and that the referral template captures the nature of association of the employee with the candidate so that the necessary due diligence can be exercised during short listing and interviewing process.

EXERCISE

Break up into groups of 3-4. Draw from a fish bowl the following exercises to better understand this chapter.

1. Design and present a proposal for the internal job posting portal for the employees of Vybhav Provide a vision statement for the portal that would go on the welcome page of this portal. Detail how the company's competency framework can be leveraged to design the job posting portal. How would an employee in one division apply for a role/job in another vertical?
2. How would recruiting process be different for an internal candidate from that of an external candidate?

3. Design a template for an on-line internal job posting.
4. It is time for renewal of the annual contracts of the Placement Consultants. Help the Corporate Staffing Manager with this task. What would the steps be? Would it be different for each vertical? What analytical data would you recommend for the Staffing Managers of the various units to come prepared to support the signing/not-signing of the contract with consultants?
5. At one point of time there was a proposal for Vybhav to implement an incentive-based compensation for the staffing team. Build a model that could support this. Discuss the advantages and disadvantages of the model you recommend.
6. Design a monthly staffing MIS to track the performance of the staffing team at Vybhav. How would the team's performance be reviewed by the HR head on a monthly/annual basis?
7. There is a proposal to outsource the staffing activities and have a flat staffing team structure at Vybhav. Recommend an organisation structure for the team. How will the staffing function work? How will the outsourced vendor's performance be assessed? Discuss the advantages and disadvantages of this model.

Closing Case *A Tale of Twists and Turns*

Rudely shaken, Vijay came home in the evening. He was not in a mood to talk to his wife. Bolted inside, he sat in his room, lit a cigarette, and brooded over his experience with a company he loved most.

Vijay, an M.Com and an ICWA, joined the finance department of a Bangalore-based electric company (Unit 1), which boasts of an annual turnover of '400 crores. He is smart, intelligent, but conscientious. He introduced several new systems in record-keeping and was responsible for cost reduction in several areas. Being a loner, Vijay developed few friends in and outside the organisation. He also missed promotions four times though he richly deserved them.

G.M. Finance saw to it that Vijay was shifted to Unit 2 where he was posted in purchasing. Though purchasing was not his cup of tea, Vijay went into it whole hog, streamlined the purchasing function, and

introduced new systems, particularly in vendor development. Being honest himself, Vijay ensured that nobody else made money through questionable means.

After two years in purchasing, Vijay was shifted to stores. From finance to purchasing to stores was too much for Vijay to swallow.

He burst out before the unit head, and unable to control his anger, Vijay put in his papers too. The unit head was aghast at this development but did nothing to console Vijay. He forwarded the papers to the V.P. Finance, Unit 1.

The V.P. Finance called in Vijay, heard him for a couple of hours, advised him not to lose heart, assured him that his interests would be taken care of and requested him to resume duties in purchasing in Unit 2. Vijay was also assured that no action would be taken on the papers he had put in.

Six months passed by. Then came the time to effect promotions. The list of promotees was announced and to his dismay, Vijay found that his name was missing. Angered, Vijay met the unit head who coolly told Vijay that he could collect his dues and pack off to his house for good. It was great betrayal for Vijay.

Question

What should Vijay do?

REFERENCES

1. Randall S. Schuler, *et. al*, *Effective Personnel Management*, Third Edition, West Publishing, New York, 1989, p. 106.
2. Rick Stoops, "Recruiting as a Sales Function", *Personnel Journal*, December 1982, p. 890.
3. Herbert G. Heneman III, *et. al*, *Personnel/Human Resource Management*, Third Edition, Irwin, 1986, p. 224.
4. R. Wayne Mandy and Robert M. Noe III, *Personnel.: The Management of Human Resources*, Allyn & Bacon, 1981, p. 130.
- 4a. Shaun Tyson, *Essentials of Human Resource Management*, Butterworth, 2008, p. 147.
5. *Ibid.*, p. 131.
6. William B. Werther and Keith Davis, *op. cit*, p. 203.

7. Herbert G. Heneman, *et. al, op. cit.*, p. 225.
8. *Ibid.*, p. 226.
9. *Ibid.*, p. 227.
10. William P. Anthony, *et. al, Strategic Human Resource Management*, Dryden Press, 1993, p. 271.
11. Herbert G. Heneman, *op. cit*, p. 230.
12. David A. DeCenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, Third Edition, Prentice-Hall of India, New Delhi, 1989, p. 121.
13. Garry Dessler, *Personnel Management*, Fourth Edition, Prentice-Hall International, 1988, p. 122.
14. Robert L. Mathis and John H. Jackson, *Personnel*, Third Edition, West Publishing, 1982, p. 179.
15. *Ibid.*, p. 180.
16. John H. Bernardian and Joyce E.A. Russell, *Human Resource Management—An Experiential Approach*, McGraw-Hill, New York, 1993, p. 179.
17. Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, Macmillan, New York, 1990, p. 190.
18. William B. Werther and Keith Davis, *op. cit*, p. 206.
19. David A. Decenzo and Stephen P. Robbins, *op. cit.*, p. 123.
20. John H. Bernardian and Joyce E.A. Russell, *op. cit.*, p. 123.
21. Randall S. Schuler, *et. al, op. cit.*, p. 121.
22. *Ibid.*, p. 122.
23. Herbert G. Heneman III, *et. al, op. cit*, p. 240.
24. *Ibid.*, p. 240.
25. *Ibid.*, p. 242.
26. *Ibid.*, p. 242.
27. *Ibid.*, p. 248.
28. Ian Beandwell and Len Holden, *Human Resource Management*, Macmillan, 1996, p. 208.
29. John H. Bernardian and Joyce E.A. Russell, *op. cit.*, p. 184.
30. John M. Ivahernich, *Human Resource Management*, Tata McGraw-Hill, 2004, p. 208.

Selecting Right Talent

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of selection and appreciate its role in organisational effectiveness
- The selection process, demarcate the stages and describe each step
- The new methods of selection and understand their implications
- The selection practices in India

Opening Vignettes

STAR PERFORMER TURNED A FRAUDSTER

Anand Shrivatsav was appointed as the Director Transition at Vizon, a multinational BPO based in Bangalore.

Earlier, Anand was referred by another employee Gagan Sharma, the CFO of Vizon. Anand and Gagan are childhood friends. Being an internal referral, the company called Anand for an interview. He came with impressive credentials. He was a BE and an MBA from the US and worked in a few leading multinationals in Delhi for over 14 years.

After a number of interviews, both in India and video interviews with the parent company in the US, Anand was found to be an impressive candidate and Vizon found him to be an exact fit for what they were looking for. Vizon decided to make Anand an offer. The offer was generous in that they gave him a 50% hike over and above what he was currently getting, plus a joining bonus and relocation expenses.

Vizon wanted Anand to join immediately as they had to transit a few

projects into India and wanted him to handle the transition of those projects. However, Anand had to give two months notice to his current employer. Vizon agreed to pay off Anand's notice period so that he could join immediately.

Anand joined Vizon within 10 days and was immediately sent to the US for one month training. In the interim, Anand's family shifted to Bangalore from Delhi. Vizon arranged for accommodation for the family, got his children into Bangalore's best schools and made sure they were well looked after.

Anand excelled in his training and came back to India with a number of excellent ideas. Over the next three months, Anand travelled to the US and Europe to transit four major processes for Vizon into Bangalore. He earned a reputation of being an achiever and someone who could get things done.

On the completion of six months, Anand was confirmed and was given another 15% hike as a confirmation bonus. The CEO of Vizon-India was extremely pleased with Anand's performance and called the senior management team and their wives to his house for dinner and felicitated Anand. Anand's wife had found new friends among the senior managers' wives at Vizon. Anand's kids loved their new school and formed close friendship with other children in the apartment complex, and also had a few Vizon children amongst their group of friends. Things could not be better for Anand and his family.

Over the six months that Anand was in Vizon, the HR department did the routine reference and document check that is required for senior management through a third party company called Adar Screens. Adar is globally renowned for their knowledge and thoroughness in background checks and is hired by leading corporates across the globe to examine the credentials of executives.

During their check, Adar found that the information regarding Anand's MBA was false and that he was not enrolled in the MBA college in which he claimed to have studied in the US.

Adar presented this information to the head of HR at Vizon, who in turn took the details to the CEO of Vizon.

The CEO initially doubted the veracity of Adar's information but when presented with evidence realised that it was true, and that Anand had lied about his educational qualifications.

The CEO was now in a dilemma. Four of Vizon's largest clients had Anand as the key account manager, in addition he had given Anand a position of prominence within the company and on many occasions made it known that Anand was his blue-eyed boy.

On a previous occasion Vizon had discharged a junior employee who provided false information in his application. However, that was used more as an excuse, as the employee was not performing well and Vizon was looking for a way to get rid of him peacefully.

However, in Anand's case he was a top performer and liked by the rest of the team.¹

Next to recruitment, the logical step in the HR process is selection of qualified and competent people. This chapter is devoted to a detailed explanation of selection and its process.

NATURE OF SELECTION

Selection is the process of picking individuals (out of the pool of job applicants) with requisite qualifications and competence to fill jobs in the organisation.

Although, some selection methods can be used within an organisation for promotion or transfer, this chapter focuses on selecting applicants from outside the organisation.

Recruitment and selection are the two crucial steps in the HR process and are often used interchangeably. There is, however, a fine distinction between the two steps. While recruitment refers to the process of identifying and encouraging prospective employees to apply for jobs, selection is concerned with picking the right candidates from a pool of applicants. Recruitment is said to be positive in its approach as it seeks to attract as many candidates as possible. Selection, on the other hand, is negative in its application inasmuch as it seeks to eliminate as many unqualified applicants as possible in order to identify the right candidates.² As stated in the previous chapter, the term recruitment is widely used to refer to the whole process of employee hiring.

Selection is the process of differentiating between applicants in order to

|| identify and hire those with a greater likelihood of success in a job.

SELECTION AS A SOURCE OF COMPETITIVE ADVANTAGE

The role of selection in an organisation's effectiveness is crucial for at least, two reasons. First, *work performance* depends on individuals. The best way to improve performance is to hire people who have the competence and the willingness to work. Arguing from the employee's viewpoint, poor or inappropriate choice can be demoralising to the individual concerned (who finds himself or herself in the wrong job) and de-motivating to the rest of the workforce. Effective selection, therefore, assumes greater relevance.

Second, *cost incurred* in recruiting and hiring personnel speaks volumes about the role of selection. Here is one instance to prove how expensive recruitment has become. Pepsi had gone on a crash recruitment drive. Six people from the company took over the entire Oberoi Business Centre in Mumbai for six days; 3000 applications in response to an advertisement issued earlier were scanned; applicants were asked to respond by fax within 100 hours; finally, the shortlisted persons were flown in and interviewed. Quite an expensive affair by any standard! In the US, it is much more expensive. The cost of searching for and training a top-level executive may run into \$ 2,50,000.

As was pointed out in the previous chapter, consultants charge fees ranging from 20 to 50 per cent of the first year's salary of an employee selected. Assuming a manager is assured of a compensation of ₹2 lakh the retainer's fee works out to be ₹40,000 to ₹1,00,000.

Costs of wrong selection are much greater. [Figure 7.1](#) shows four possible outcomes of a selection decision. Two of these—'true positive' ('high hit') and 'true negative' ('low hit')—are right selection decisions. The other two outcomes represent selection errors. In the 'false positive error', a decision is made to hire an applicant based on predicted success, but failure results. In 'false negative error', an applicant who would have succeeded is rejected based on predictions of failure. In either case, selectors will have erred. They may remember that the selection successes will be written in sand and failures in stone.

Success	False Negative Error	True Positive ('High Hit')
Failure	True Negative ('Low Hit')	False Positive Error
	Failure Predicted	Success Predicted

Fig. 7.1 *Outcomes of the Selection Decision*

Source: Thomas H. Stone, *Understanding Personnel Management*, p. 175.

A company with a false positive error incurs three types of costs. The first type is incurred while the person is employed. This can be the result of production or profit losses, damaged company reputation, accidents due to negligence, absenteeism, and the like. The second type of costs is associated with the training, transfer or terminating the services of the employee. Costs of replacing an employee with a fresh one—costs of hiring, training and replacement—constitute the third type of costs. Generally, the more important the job, the greater the cost of the selection error.

In the case of false negative error, an applicant who would have succeeded is rejected because of predicted failure. Most false negative errors go unnoticed except when the applicant belongs to a reserved category and files a discrimination charge. Costs associated with this type of error are generally difficult to estimate.³

False negative error means rejection of an applicant who would have succeeded. In **false positive error** an applicant is selected expecting success, but failure occurs. **True positive** results when a candidate is hired expecting success and success results. In **true negative**, failure is predicted and it happens.

A careful selection will help a firm avoid costs associated with both false positive error as well as false negative error.

ORGANISATION FOR SELECTION

Until recently, the basic hiring process was performed in a rather unplanned manner in many firms. In some companies, each department screened and hired its own employees. Many managers insisted upon selecting their own people because they were sure no one else could choose employees for them as efficiently as they themselves could. Not any more. Selection is now centralised and is handled by the human resource department. This arrangement is preferable because of the following advantages:⁴

1. It is easier for the applicant because they can send their applications to a single centralised department/agency.
2. It facilitates contact with applicants because issues pertaining to employment can be cleared through one central location.
3. It helps operating managers to concentrate on their operating responsibilities. This is especially helpful during peak hiring periods.
4. It can provide for better selection because hiring is done by specialists trained in staffing techniques.
5. The applicant is better assured of consideration for a greater variety of jobs.
6. Hiring costs may be cut because duplication of effort is minimised.
7. With increased government regulations on the selection process, it is important that people who know about these rules handle a major part of the selection process.

Ideally, a selection process involves mutual decision making. The company decides whether or not to make a job offer and how attractive the offer should be. The candidate decides whether or not the firm and the job offer fit his or her needs and goals. In reality, the selection process is highly one-sided. When the job market is extremely tight, several candidates will be applying for a position, and the firm will use a series of screening devices to hire the candidate it feels is most suitable. When there is a shortage of qualified workers, or when the candidate is a highly qualified executive or professional who is being sought after by several companies, the firm will have to sweeten its offer and come to a quicker decision.

SELECTION PROCESS

Selection is a long process, commencing from the preliminary interview of

the applicants and ending with the contract of employment. [Figure 7.2](#) shows a generalised selection process. In practice, the process differs among organisations and between two different jobs within the same company. Selection procedure for senior managers will be long-drawn and rigorous, but it is simple and short while hiring shop-floor workers.

Environmental Factors Affecting Selection

Selection is influenced by several factors. More prominent among them are supply and demand of specific skills in the labour market, unemployment rate, labour-market conditions, legal and political considerations, company's image, company's policy, HRP, and cost of hiring. The last three constitute the internal environment and the remaining form the external environment of the selection process.

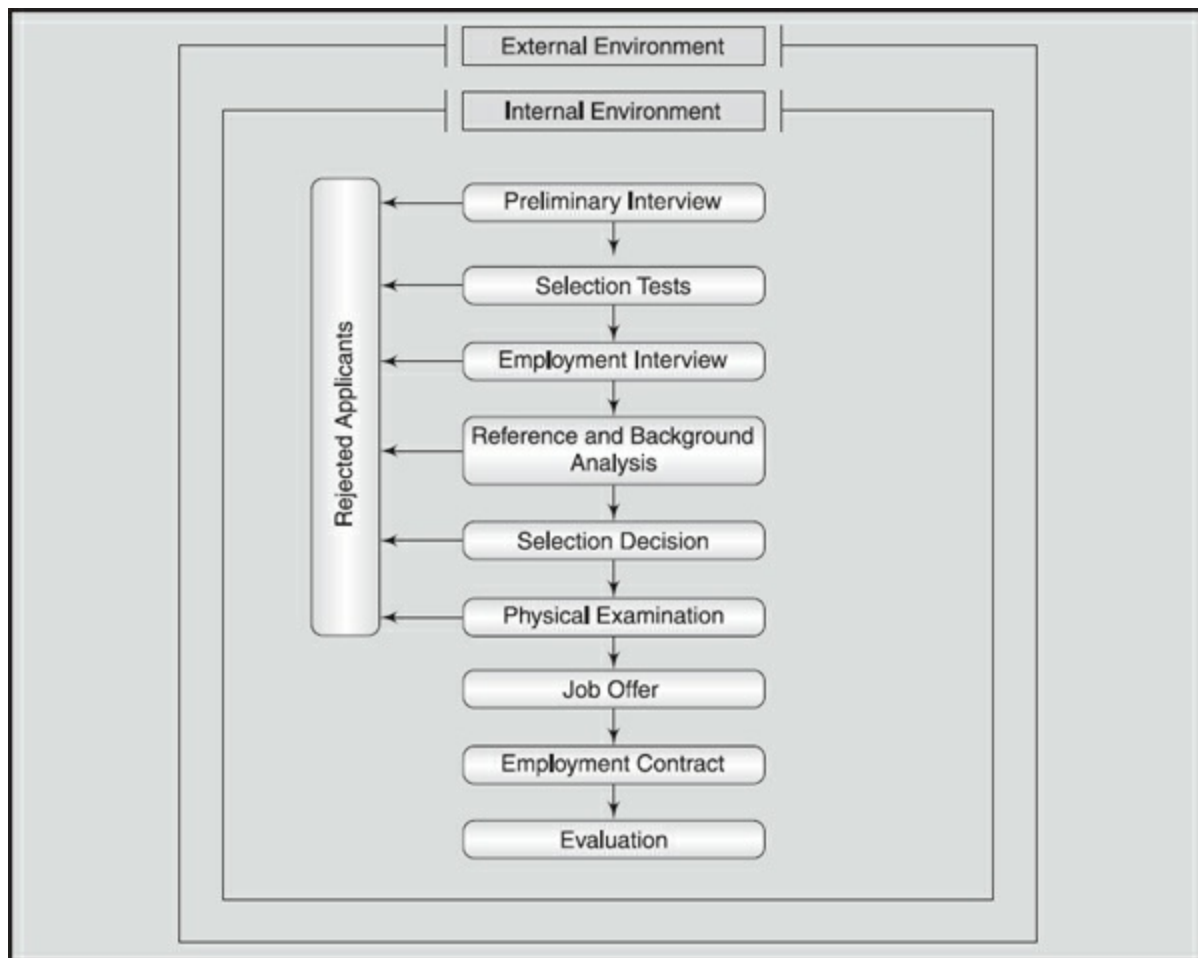


Fig. 7.2 Selection Process

Source: Adapted from *Personnel—The Management of Human Resources* by R. Wayne Mondy and Robert M. Noe III, p. 156.

Preliminary Interview

In the previous chapter, it was stated that the applications received from job seekers would be subject to scrutiny so as to eliminate unqualified applicants. This is usually followed by a preliminary interview the purpose of which is more or less the same as scrutiny of applications, that is, elimination of unqualified applications. Scrutiny enables the HR specialists to eliminate unqualified job seekers based on the information supplied in their application forms. Preliminary interview, on the other hand, helps reject misfits for reasons, which did not appear in the application forms. Besides, preliminary interview, often called ‘courtesy interview’, is a good public relations exercise.

Pause and Ponder

Have you ever applied for an interview? Recall the questions shot at you and your answers to them. Did you like the questions?

Selection Tests

Job seekers who pass the screening and the preliminary interview are called for tests. Different types of tests may be administered, depending on the job and the company. Generally, tests are used to determine the applicant’s ability, aptitude and personality. *Ability tests* (also called achievement tests) assist in determining how well an individual can perform tasks related to the job. An excellent illustration of this is the data entry test given to a prospective employee for a secretarial job. An *aptitude test* helps determine a person’s potential to learn in a given area. An example of such a test is the General Management Aptitude Test (GMAT) which many business students take prior to gaining admission to a graduate business school programme.⁵

Personality tests are given to measure a prospective employee’s motivation to function in a particular working environment.

There are various tests designed to assess a candidate's personality. The Bernsenter Personality Inventory, for example, measures one's self-sufficiency, neurotic tendency, sociability, introversion and extroversion, locus of control, and self-confidence. The Thematic Apperception Test (TAT) assesses an individual's achievement and motivational levels. Other personality tests, such as the California Psychological Inventory (CPI), the Thurstone Temperament Survey (TTS), Minnesota Multiphasic Personality (MMPI), and Guilford-Zimmerman Temperament Survey, have been designed to assess specific personality traits.

Interest tests are used to measure an individual's activity preferences. These tests are particularly useful for students considering many careers or employees deciding upon career changes.

Graphology is a test that seeks to predict success or failure through one's handwriting. It is vastly used in the U.S. but is yet to make its presence felt in India.

Graphology test is designed to analyse the handwriting of an individual. It has been said that an individual's handwriting can suggest the degree of energy, inhibitions and spontaneity, as well disclose the idiosyncracies, and elements of balance and control. For example, big letters and emphasis on capital letters indicate a tendency towards domination and competitiveness. A slant to the right, moderate pressure and good legibility show leadership potential. Employers usually consult graphologists to supplement their usual personnel recruitment procedures (also read Exhibit 7.1). *Polygraph tests* (polygraph is a lie detector) are designed to ensure accuracy of the information given in the applications. Department stores, banks, treasury offices and jewellery shops—that is those highly vulnerable to theft or swindling—may find polygraph tests useful (See also Exhibit 7.2).

Exhibit 7.1 The Graphology Technique

First used by French priest, Jean-Hippolyte Michon, in 1830, graphology as a selection devise is hailed by some and derided by others. Its application to hiring of people is not a settled issue. But it can provide rich insights into all those facts about a candidate that conventional interviews, group

discussions and other tests cannot.

The modern science of graphology owes its origins to the theory of space symbolism, which proposes that a person uses a blank sheet of paper in exactly the same way as he/she uses three dimensional space.

For instance, an individual who uses every inch of the paper will normally explore every nook and corner of a new room he/she finds himself/herself in. Extending the analogy to handwriting, graphologists contend that the way in which an individual's script uses space reflects his/her interactions with others in real space and, thus, provides a clue to his/her personality.

Graphologists look to slant, speed, spacing, pressure, clarity, size, length of upper extensions and size and length of lower loops of script to gauge one's personality.

Graphology as a selection device has its merits as stated below:

- Measures the match between personality and job
- Suggests jobs that suit the candidate best
- Reveals characteristics that other tests cannot
- Gauges personality without candidate's awareness
- Insight can be validated by other measurements

As a selection technique, graphology has its demerits. Some of them are:

- Scepticism about accuracy of findings persist
- Lack of scientific basis discourages the use of this method
- Depends entirely on the analyst's interpretation
- Generalises without considering candidate's background
- Can be misleading if not validated by others tests.

Graphology is widely used in Europe and to a lesser extent in the US. It is conspicuous by its absence from the hiring techniques of corporate India.

Source: Business Today, Jan. 7–21, 1996.

Medical tests reveal physical fitness of a candidate. With the development of technology, medical tests have become diversified. *Drug tests* help measure the presence of illegal or performance-affecting drugs. *Genetic screening* identifies genetic predispositions to specific medical problems. *Medical servicing* helps measure and monitor a candidate's physical

resilience upon exposure to hazardous chemicals (read [Table 7.1](#) for some more tests).

Pause and Ponder

Have one more column to the left of [Table 7.1](#). Against each test, state, in the column, which job is best fit for the application of the test. Give reasons for your listing.

Exhibit 7.2 Polygraph Relies on Trickery and Not Science

Polygraphy tests, nanoanalysis (NA) and brain finger printing (BFP) are based on trickery and not on science. They tend to violate human rights.

The results obtained from polygraph test (lie-detector) are much less credible, since the device measures the body’s reaction to two different questions. The test is extremely biased against the truth.

BFP too tends to violate the sanctity of the mind. NA was borrowed from psychiatric practice and was used by police. NA however has been discontinued all over the world five decades ago.

The revelations made by the accused under the influence of the drugs cannot be considered as reliable recollection of past events. Not only the inveterate criminal psychopath may lie under the influence of drugs but the relatively normal and well adjusted individual may also successfully disguise factual data.

What happened in a lab at Bangalore is revealing. NA was conducted several times in the lab for the same subject until a preferred result was obtained, thus proving its trickery.

Above are some of the findings by the Law Commission of India which is going to submit its report to the Government of India shortly. The Commission, headed by Justice A.R. Lakshmanan recommended that these truth detecting techniques be banned immediately.

(Source: The Hindu, dated May 7, 2009)

Table 7.1 *Interesting Selection Tests*

--	--

Test	Description
WAB	Eliciting candidate's responses to specific questions
BIB	Assessing candidate's responses to the background
TAT	Gauging the need for achievement and power
SLC	Assessing attitude towards importance of safety
Self-report Inventory	Asking for short statements relating to personality
Thomas Profiling	Identifying behavioural requirements for the job
PA Reference Inventory	Behaviour in work place vs general behaviour
Delbin Team Role	Measuring ability to be a team player
Gordon Inventory	Measuring mental and personal profile
Myers-Briggs Indicator	Understanding personality type
Meta Motivation	Assessing personal and management style
David's Battery	Assessing technical dexterity
Guilford-Zimmerman	Gauging extent of temperamental adaptability
Minnesota Multiphase	Identifying traits of aberrant behaviour
Kuder Preference Record	Measuring occupational interests
16 PF	Measuring personality factors
ISA	Measuring verbal and mathematical skills
Wonderlic Personnel	Assessing analytical and verbal skills
Bennet Mechanical	Measuring ability to understand
LGD	Group discussion between sets of candidates
Work Sample	Test of ability to handle functional problems

Source: Adapted from *Business Today*, Jan. 7-21, 1996.

Choosing Tests Tests must be chosen based on the criteria of reliability, validity, objectivity and standardisation.

Reliability refers to standardisation of the procedure of administering and scoring the test results. A person who takes a test one day and makes a certain score should be able to take the same the next day or the next week and make more or less the same score. An individual's intelligence, for example, is generally a stable characteristic. So if we administer an intelligence test, a person who scores 110 in March would score close to 110 if tested in July. Tests which produce wide variations in results serve little purpose in selection.

Validity is a test which helps predict whether a person will be successful in a given job. A test that has been validated can be helpful in differentiating between prospective employees who will be able to perform the job well and those who will not. Naturally, no test will be 100 per cent accurate in predicting job success. A validated test increases possibility of success.⁶

There are three ways of validating a test. The first is *concurrent validity*. This involves determining the factors that are characteristic of successful employees and then using these factors as the yardsticks. *Predictive validity* involves using a selection test during the selection process and then identifying the successful candidates. The characteristics of both successful and less-successful candidates are then identified.⁷ *Synthetic validity* involves taking parts of several similar jobs rather than one complete job to validate the selection test.

Benefits of a validated test are obvious from Fig. 7.3. Individuals who score 40 and above are successful employees. Those who score less than 40 are unsuccessful. As noted from the figure, the test is not absolutely accurate. A small number of workers who score below 40 are good workers. Also, some applicants scoring above 40 are less successful.⁸

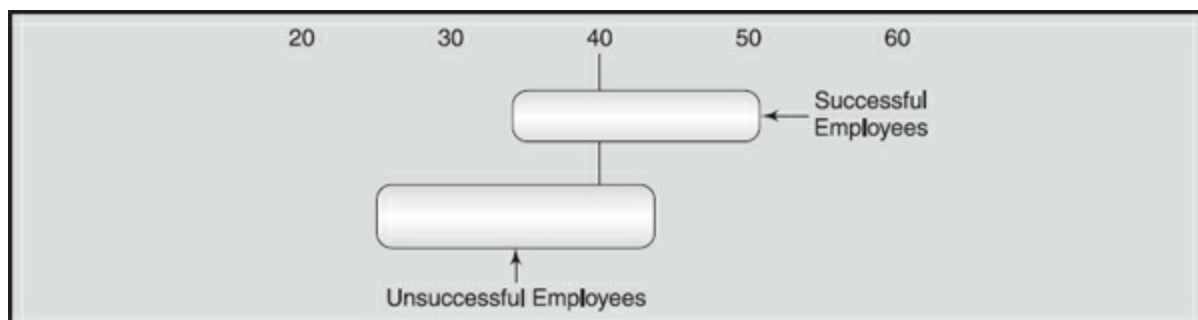


Fig. 7.3 Results of a Validated Test

Source: R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, p. 176.

Hence, test results should serve as only one of several criteria in the selection decision.

When two or more people can interpret the results of the same test and derive the same conclusion(s), the test is said to be *objective*. Otherwise, evaluators' subjective opinions may render the test useless. Subjectivity of this kind nullifies the purpose of objectivity and is the reason why some tests are not valid.⁹

A test that is *standardised* is administered under standard conditions to a large group of persons who are representatives of the individuals for whom it is intended. The purpose of standardisation is to obtain norms or standards, so that a specific test score can be meaningful when compared to other scores in the group. When a test is standardised, it is administered to a large number of people who are performing similar tasks.¹⁰

Pause and Ponder

Have you ever given a written standardised test? What was the outcome? To what extent did it test your strengths and weaknesses?

Employment Interview

The next step in the selection process is employment interview. As seen in [Fig. 7.2](#), an interview is conducted at the beginning and at the end of the selection process. The emphasis here is on the latter.

Interview is a formal, in-depth conversation conducted to evaluate the applicant's acceptability. It is considered to be an excellent selection device. Its popularity stems from its flexibility. Interview can be adapted to unskilled, skilled, managerial and professional employees. It allows a two-way exchange of information, the interviewers learn about the applicant, and the applicant learns about the employer.¹¹

However, interviews do have shortcomings. *Absence of reliability* is one limitation. No two interviewers offer similar scoring after interviewing an applicant. *Lack of validity* is another limitation. This is because, few

departments use standardised questions upon which validation studies can be conducted. Finally, *biases of interviewers* may cloud the objectivity of interviews.

Objectives of Interviews Interview has at least three objectives—**(i)** helps obtain additional information from the applicant; **(ii)** facilitates giving general information to the applicant such as company policies, job, products manufactured and the like; and **(iii)** helps build the company’s image among the applicants.

Types of Interview Interviews can be of different types. The usual types are structured, unstructured, mixed, behavioural and stress-producing. [Table 7.2](#) compares these different types.

Table 7.2 *Types of Interview*

<i>Type</i>	<i>Type of Questions</i>	<i>Usual Applications</i>
<i>Structured</i>	A predetermined checklist of questions, usually asked of all applicants.	Useful for valid results, especially when dealing with large number of applicants.
<i>Unstructured</i>	Few, if any, planned questions. Questions are made up during the interview.	Useful when the interviewer tries to probe personal details of the candidate to analyse why they are not fit for the job.
<i>Mixed</i>	A combination of structured and unstructured questions, which resembles what is usually done in practice.	A realistic approach that yields comparable answers plus indepth insights.
<i>Behavioural</i>	Questions limited to hypothetical situations. Evaluation is based on the solution and approach of the applicant.	Useful to understand applicant’s reasoning and analytical abilities under modest stress.
<i>Stressful</i>	A series of harsh, rapid fire questions intended to upset the applicant.	Useful for stressful jobs, such as handling complaints.

Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, p. 243.

In a *structured* interview, the interviewer uses a preset standardised questions which are put to all the interviewees. This interview is also called ‘guided’ or ‘patterned’ interview. In an *unstructured* interview, also known as ‘unguided’ or ‘unpatterned’ interview, the interview is largely unplanned and the interviewee does most of the talking. Unguided interview is advantageous inasmuch as it leads to a friendly conversation between the interviewer and the interviewee and in the process, the latter reveals more of

his or her desires and problems. But the unpatterned interview lacks uniformity and, worse, this approach may overlook key areas of the applicant's skills or background.

In **structured interview**, the interviewer uses a preset standardised questions which are put to all applicants, while in the **unstructured interview**, rarely questions are put by the interviewers. Interviewee does most of the talking.

In practice, a blend of structured and unstructured questions is used by the interviewer while interviewing the job seekers. This approach is called the *mixed* interview. The structured questions provide a base of information that allows comparisons between candidates. But the unstructured questions make the interview more conventional and permits greater insights into the unique differences between applicants. *Behavioural* interviewing focuses on a problem or a hypothetical situation that the applicant is expected to solve. Often, these are hypothetical situations, and the applicant is asked what she/he would do in the given circumstances. This interview technique has a limited scope. It primarily reveals the applicant's ability to solve the types of problem presented. Validity is more likely if the hypothetical situations match those found on the jobs. When the job involves much stress, *stress* interview attempts to learn how the applicant will respond to the pressure. This technique is more relevant in jobs involving stress, for example, in the police force. Since stressful situations are usually only a part of the job, this technique should be used along with other approaches.

Others The other types of interviews include: one-to-one or panel, telephone, computer and video interviews.

Based on the interaction with the candidate, interview may be one-to-one, sequential or panel (See [Fig 7.4](#))¹².

In the *one-to-one interview* ([Fig 7.4\(a\)](#)), there are only two participants – interviewer and the interviewee. This can be the same as the preliminary interview discussed earlier. The *sequential interview* ([Fig 7.4\(b\)](#)) takes the one-to-one a step further and involves a series of interviews, usually utilising the strength and knowledge base of each interviewer, so that each interviewer can ask questions in relation to his or her subject area of each candidate, or

he/she moves from room to room.

The *panel interview* (Fig 7.4(c)) consists of two or more interviewers and the number may go up to as many as 15. Any panel interview is less intimate and more formal than the one-to-one, but if handled and organised well, it can provide a wealth of information. If not handled carefully, the panel interview can make the candidate feel ill at ease and confused about whose question to answer and whom to address. Interviewers themselves are likely to experience nightmare, not knowing who will ask which question and in what order.

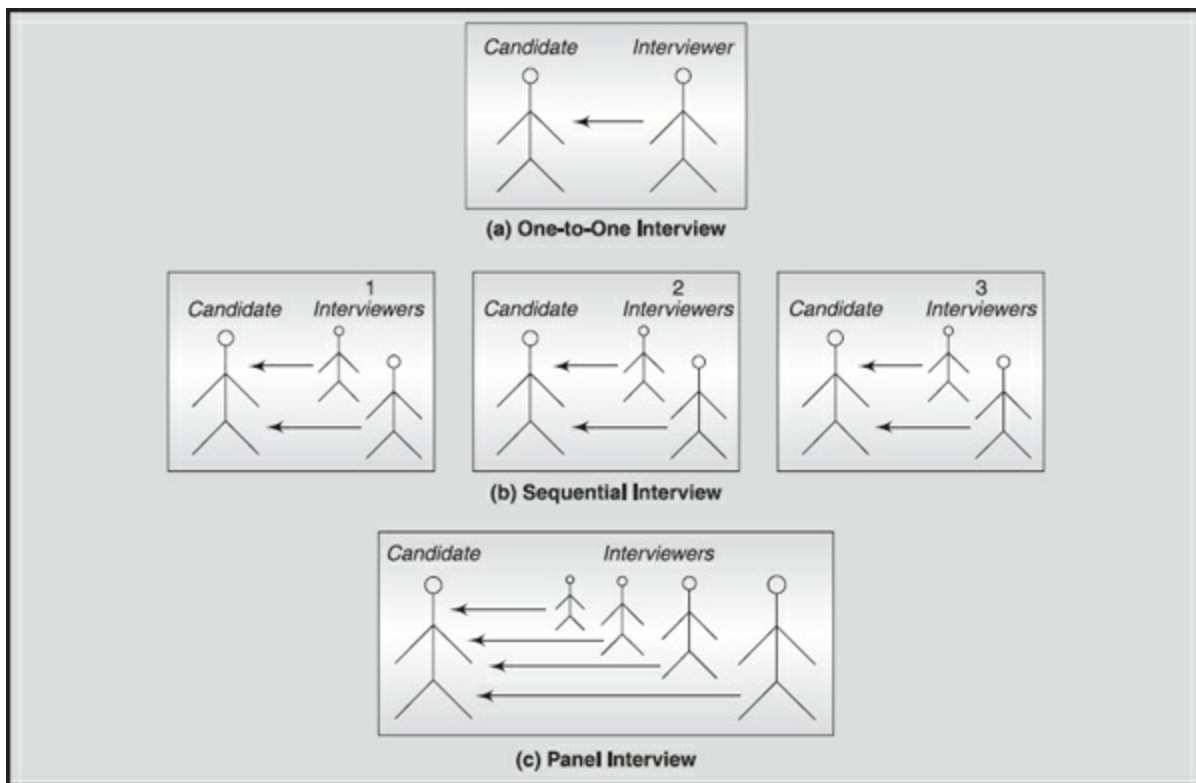


Fig. 7.4 Types of Employment Interviews

Phone Interview is used by some organisations and is considered to be more useful than one-to-one or panel interview to ascertain the suitability of the candidate. Unmindful of one's appearance or handshake, interviewer and interviewee focus on asking and answering questions. Phone interview is less expensive and is less time consuming. It is most commonly used in IT companies while hiring technical employees.

Computer Interview More and more organisations are depending on

computers and Internet to conduct interviews. A typical computer interview requires candidates to answer a series (75 to 100) of multiple choice questions custom-made for the job. These answers are compared with a bench mark score to determine suitability of a candidate. The computer interview can also be used to filter out undesirable applicants who have applied online.

How far phone interviews can assess worth of a job applicant? For which jobs can such interviews be used? Where would they be most effective?

Video Interview Video conference technique is being used increasingly now-a-days to evaluate job applicants. Video interview is flexible, fast and less expensive. Preliminary interview can be conducted through video conferencing and candidates surviving here may be required to undergo face-to-face interview.

Common Interview Problems Regardless of the type, several problems are inherent in interviews. Selection specialists must be aware of these problems and need to be trained to overcome them.

1. Interviewers do not seek applicants' information dimensions needed for successful job performance. Often, they do not have a complete job description or an accurate appraisal of the critical job requirements. In addition, the interviewer often does not know the conditions under which the job is performed.
2. Interviewers may make snap judgements early in the interview. Consequently, they block out further potentially useful information.
3. Interviewers permit one trait or job-related attribute to influence their evaluation of the remaining qualities of an applicant. This process, called the *halo effect*, occurs when an interviewer judges an applicant's entire potential for job performance on the basis of a single characteristic, such as how well the applicant dresses or talks.
4. Interviewers have a tendency to be swayed by negative information about the applicants. as how the applicant.
5. Information from interviews is not integrated or discussed in a systematic manner. If several interviewers share information on an applicant, they may do so in a haphazard manner. They do not identify job-related information or seek to examine any conflicting information. This casual approach may save time and confrontation, but only in the

short run. In the long run, everyone in the company will pay for poor hiring decisions.

6. Interviewers' judgements are often affected by the pressure to favour a candidate or fill the position, hence they lower the standards.
7. Interviewer's judgement regarding an applicant is often affected by the list of available applicants. For example, a good person looks better in contrast to a group of average or below-average applicants.
8. Some other problems are worth recollecting.¹³ They are: There is the problem of different cues used by interviewers. Some interviewers may place more weight on certain attributes than others, or they may combine attributes differently, as they make their overall decisions. For instance, some interviewers may give emphasis to educational experiences while many others give weight-age to work experiences.
9. Sex, race and attitudes similar to those of the interviewer may lead to favourable evaluations.

Halo effect occurs when an interviewer judges an applicant's entire potential for job performance on the basis of a single trait, such as how the applicant dresses or talks.

Pause and Ponder

Did you, at any time, attend any interview? What was your experience, in particular about the type of questions shot at you, attitude of the interviewers and outcome of the interview?

Steps to Overcome Problems Table 7.3 shows the do's and don'ts which interviewers will do well to remember. Practise the first and avoid the latter while interviewing job seekers.

Table 7.3 *Guidelines to Interviewers*¹⁴

<i>Do's</i>	<i>Don'ts</i>
• Plan the interview	• Start the interview unprepared
• Establish an easy and	• Plunge too quickly into demanding

informal relationship	questions
• Encourage the candidate to talk	• Ask leading questions
• Cover the ground as planned	• Jump to conclusions on inadequate evidences
• Probe where necessary	• Pay too much attention to isolated strengths or weaknesses
• Analyse career and interests to reveal strengths, weaknesses, patterns of behaviour	• Allow the candidate to gloss over important facts
• Maintain control over the direction and time taken for the interview	• Talk too much

In addition to the do's and don'ts stated above, a few more tips may be remembered so as to make the interview more objective. One such guideline is the type of questions which the interviewer should ask. [Table 7.4](#) contains typical questions.¹⁵ Other guidelines for an effective interview are—**(i)** always use the structured form, **(ii)** evaluate the interviewee immediately after the interview, **(iii)** focus on traits that are most accurately assessed in the interviews, **(iv)** get the interviewee to talk, and **(v)** respect the reservation policy of the concerned government.

Table 7.4 Interview Questions from the Employer

Openers

- May I see your resume?
- What can I do for you?
- Why are you interested in joining our company?
- What do you think you can do for us?
- What attracts you to us?
- Tell me about your experiences.
- What pay do you have in mind? (Try tactfully to avoid answering this one early in the interview)

Regarding Motivation

- Is your present employer aware of your interest in a job change?
- Why do you want to change your job?
- What caused you to enter your job field?
- Why do you want to change your field of work?
- What would you like to be doing five years from now when you retire?
- What is the ideal job for you?
- If you had complete freedom of choice to be a great success in any job field, which would you choose? Why?

Regarding Education

- Describe your educational qualifications.
- Why did you choose your major?
- What was your class standing?
- What extra-curricular activities did you take part in?
- What honours did you earn?
- What were your average grades?
- Did your grades adequately reflect your full capability? If not, why?
- What courses did you like best/least and why?
- Have you had any special training for this kind of job?

Regarding Experience

- Why should I hire you?
- How do you fit the requirements for this job?
- Who has exercised the greatest influence on you? How?
- What duties performed in the past have you liked best/least and why?
- What are your greatest strengths/limitations for this job?
- What are the strongest limitations you have found in your past supervisors?
- Which supervisor did you like best and why?
- What kind of people appeal most/least to you as work associates?
- How many people have you supervised? What types?
- What are your greatest accomplishments to date?
- What equipment can you work on?
- Why have you changed jobs so frequently?
- Have you ever been fired or asked to resign?
- Describe the biggest crisis in your career.

- What were you doing during the period not covered in your resume?
- Why were you out of work for so long?
- What was the specific nature of your illness during the period of your extended hospitalisation?
- Why did you leave your previous jobs?
- Could I see samples of your work?

Regarding Pay

- What do you require?
- What is the minimum pay you will accept?
- What is your pay record for the last five years?
- Why do you believe you are qualified for so much more?
- We can't pay the salary you ask for. Would you be willing to start lower and work towards that figure?
- What do you expect to be earning five years from now?

Reference and Background checks

Many employers request names, addresses, and telephone numbers or references for the purpose of verifying information and, perhaps, gaining additional background information on an applicant. Although listed on the application form, references are not usually checked until an applicant has successfully reached the fourth stage of a sequential selection process. When the labour market is very tight, firms sometimes hire applicants before checking references.¹⁶

Previous employers, known public figures, university professors, neighbours or friends can act as references. Previous employers are preferable because they are already aware of the applicant's performance. but, the problem with this reference is the tendency on the part of the former employers to over-rate the applicant's performance just to get rid of the person.

Companies normally seek letters of reference or telephone references. The latter is advantageous because of its accuracy and low cost. The telephone reference also has the advantage of soliciting immediate, relatively candid comments, and attitudes can sometimes be inferred from hesitations and inflections in speech.¹⁷

Reference checks cover the following:

- Criminal record checks
- Previous employment check
- Educational record checks
- Credit record checks
- Civil record checks
- Union affiliation checks
- Character reference check
- Neighbourhood reference check

Background checks have become all the more essential because of terrorists working for a BPO and cases of money being defrauded.

Background checks and fraud detection have become easy as there are agencies which specialise in the task. KPMG India, for example, has a 130-strong team to detect frauds. Similarly, PWC has a 12-member team and E&Y has a 40-member team. (Also see Exhibit 7.3)

Exhibit 7.3 IT Boom Spawns Fake ‘Experience’ Providers

The growing demand for experienced staff has spawned a new kind of Indian industry: firms that dole out fake experience certificates.

Investigations by at least two separate employee background verification firms in India have revealed the existence of 150–250 such firms, often masquerading as information technology (IT) companies.

Says auditor and consulting firm KPMG India’s executive director Rohit Mahajan: ‘There are some kind of set-ups that issue fraudulent experience certificates. We have identified almost 150 firms that are fictitious companies ‘.

’During our background verification process for clients over the past one year, we found 250 firms that fake experience letters, salary slips and relieving letters to candidate’, added Abhay Aggarwal, chief executive of Integrity Verification Services Pvt. Ltd, a Mumbai-based firm that conducts pre-employment background verification.

Aggarwal said his firm has found the extent of false information in resumes typically ranges from 23% to 25% and, in most cases, the misinformation is regarding education and past employment.

’Industry-wise, the IT sector is worst hit followed by the logistics and

financial sectors. We have found that one out of every four resumes is exaggerated', he said.

Integrity's list included Instance Software Solutions, Tech Waves Info Solution and Alpha Data in Bangalore and JVS Infotech Pvt. Ltd in Hyderabad. The Integrity list also features Crest Consultancy, a New Delhi based recruitment firm.

(Source: *Mint*, March 7, 2008)

Reference checks serve two important purposes. One purpose is to gain insight about the potential employee from the people who have had previous experience with him or her. This is a good practice considering the fact that between 20 to 25 per cent of job applicants there is at least one fraudster¹⁸ as the opening vignette shows (see also Exhibit 7.4).

Very disturbing details are provided by *The Economic Times* dated Jan 8, 2012. Country-wise inaccurate information providers include 47% in Hong Kong, 35% in Singapore and 11.1% in India. The information falsely provided includes inflated designation 15%, inflated compensation 2%, negative feedback received 10% and other false information 41%. The employees who lie the most include: associates 65%, middle management 21%, first level supervisors 9%, trainees 3%, and senior management 2%.

The second purpose for reference checks is to assess the potential success of a prospect. Who else can give an objective assessment of an individual than his or her previous employer or a person known to him or her?

But one should guard against the following while considering to employ a prospect:

1. The prospect is likely to approach those persons who would speak well about him or her.
2. People may write favourably about the candidate in order to get rid of him or her.
3. People may not divulge the truth about a candidate, lest it might damage or ruin his or her career.

Exhibit 7.4 HR Manager in Soup

"I have landed myself in soup. For no fault of mine, I am placed in a fix.

Do not know how to get over the problem”, says Balu, H R Vice President, Xellent, a Bangalore-based software firm.

He is right. Take a look at the facts.

On a fine morning, two months back, Balu received a message from a Mumbai-based consulting firm (specialising in reference checks) enquiring about veracity of reference given by Dinakar who has recently taken up a job at Esperanto, a Chennai-based software company.

Dinakar, while joining Esperanto, claimed that he had worked earlier with Xellent for two years and his last pay drawn was over ₹25,000 a month. In support of his claim, Dinakar produced service and last pay certificates purported to be issued by Balu. Esperanto referred these documents to the consulting firm, who in turn contacted Balu for a cross-check.

Balu does not remember to have an employee by name Dinakar on the payroll of Xellent. Balu contacted the consulting firm for more details about Dinakar. On being told, Balu phoned up Natarajan, HR manager of Esperanto. Natarajan gave address and contact number of Dinakar.

Balu shot a letter to Dinakar, who replied admitting his guilt. Dinakar made clean breast of himself over phone telling how he accessed Balu’s letterhead through Internet and how he created certificates to get a job in Esperanto.

Dinakar went on sobbing over the phone, pleading that he comes from a poor family in AF, his father is incapacitated, he was forced to lie to get a job and how this job is essential for him to support his ailing father, crestfallen mother and unmarried sister. Dinakar also warned of committing suicide if Balu proceeded with the investigation.

Balu is indeed in an unenviable position. He cannot proceed against Dinakar though the young man is a fraudster. Any further step would drive the youth to end his life. Nor Natarajan is taking action—worst he is not responding to e-mail or phone calls from Balu. His own boss is after him to know what he has done in the case.¹⁹

Selection Decision

After obtaining information through the preceding steps, selection decision—the most critical of all the steps—must be made. The other stages in the

selection process have been used to narrow the number of candidates. The final decision has to be made from the pool of individuals who pass the tests, interviews and reference checks.²⁰

The final decision indeed becomes a daunting task when there are a large number of job-seekers lined up for final selection, as has happened to HR people in Infosys. In 2003, the Bangalore based software giant received one million applications of which only 10,000 were finally hired.

The views of the line manager will be generally considered in the final selection because it is he/ she who is responsible for the performance of the new employee. The HR manager plays a crucial role in the final selection.

Physical Examination

After the selection decision and before the job offer is made, the candidate is required to undergo a physical fitness test. A job offer is, often, contingent upon the candidate being declared fit after the physical examination. The results of the medical fitness test are recorded in a statement and are preserved in the personnel records. There are several objectives behind a physical test. Obviously, one reason for a physical test is to detect if the individual carries any infectious diseases. *Second*, the test assists in determining whether an applicant is physically fit to perform the work. *Third*, the physical examination information may be used to determine if there are certain physical capabilities which differentiate successful and less successful employees.²¹ *Fourth*, medical check-up protects applicants with health defects from undertaking work that could be detrimental to themselves or might otherwise endanger the employer's property, *Finally*, such an examination will protect the employer from workers' compensation claims that are not valid because the injuries or illnesses were present when the employee was hired.²²

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• Have multiple rounds of interview, particularly when the job involved is critical	<ul style="list-style-type: none">• Forget to hire for attitudes• Allow perceptual distortions sway selection process

- Use conceptual and practical tests where jobs involved are skill-oriented
- Meet with interviewers from time to time to ensure that screening has been done properly and right candidates are giving the interview
- Take reference check seriously. Faking certificates and documents are on the rise
- Use different selection tests for different candidates for same jobs

- Forget to sample-test with employees before administering the test on applicants
- Change the interviewers half-way through
- Recommend a candidate for hiring to a hiring manager.

Job Offer

The next step in the selection process is job offer (*see Fig. 7.2*) to those applicants who have crossed all the previous hurdles. Job offer is made through a letter of appointment. Such a letter generally contains a date by which the appointee must report on duty. The appointee must be given reasonable time for reporting. This is particularly necessary when he or she is already in employment, in which case the appointee is required to obtain a relieving certificate from the previous employer. Again, a new job may require movement to another city which means considerable preparation and movement of property.

The company may also want the individual to delay the date of reporting on duty. If the new employee's first job upon joining the company is to go on training, the firm may request that the individual delays joining the company until perhaps a week before such training begins. Naturally, this practice cannot be abused, especially if the individual is unemployed and does not have sufficient finances.²³

Decency demands that the rejected applicants be informed about their non-selection. Their applications may be preserved for future use, if any. It needs no emphasis that the applications of selected candidates must also be

preserved for future references.

contracts of Employment

After the job offers have been made and the candidates accept the offers, certain documents need to be executed by the employers and the candidates. One such document is the *attestation form*. This form contains certain vital details about the candidate which are authenticated and attested by him/ her. Attestation form will be a valid record for future reference.

There is also a need for preparing a *contract of employment*. The basic information that should be included in a written contract of employment will vary according to the level of the job, but the following checklist sets out the typical headings:²⁴

1. Job title.
2. Duties, including a phrase such as “The employee will perform such duties and will be responsible to such a person, as the company may from time to time direct”.
3. Date when continuous employment starts and the basis for calculating service.
4. Rate of pay, allowances, overtime and shift rates, method of payments.
5. Hours of work including lunch break and overtime and shift arrangements.
6. Holiday arrangements:
 - (i) paid holidays per year.
 - (ii) calculation of holiday pay.
 - (iii) qualifying period.
 - (iv) accrual of holidays and holiday pay.
 - (v) details of holiday year.
 - (vi) dates when holidays can be taken.
 - (vii) maximum holiday that can be taken at any one time.
 - (viii) carryover of holiday entitlement.
 - (ix) public holidays.
7. Sickness
 - (i) pay for time lost.

- (ii) duration of sickness payments.
 - (iii) deductions of national insurance benefits.
 - (iv) termination due to continued illness.
 - (v) notification of illness (medical certificate).
8. Length of notice due to and from employee.
 9. Grievance procedure (or reference to it).
 10. Disciplinary procedure (or any reference to it).
 11. Work rules (or any reference to them).
 12. Arrangements for terminating employment.
 13. Arrangements for union membership (if applicable).
 14. Special terms relating to rights to patents and designs, confidential information and restraints on trade after termination of employment.
 15. Employer's right to vary terms of the contract subject to proper notification being given.

Alternatively called employment agreements or simply bonds, contracts of employment serve many useful purposes. Such contracts seek to restrain jobhoppers, to protect knowledge and information that might be vital to a company's healthy bottomline, and to prevent competitors from poaching highly valued employees.

Great care is taken to draft the contract forms. Often, services of law firms (prominent firms in this category include Mulla, Craigie, Blunt and Caroe, Crawford Bailey, or Amarchand Mangaldas Hiralal are engaged to get the forms drafted and finalised.

Most employers insist on agreements being signed by newly hired employees. But high employee turnover sectors such as software, advertising and media are more prone to use such contracts. Wipro has been using the bond scheme with positive results. The software major calls the bond scheme as an "agreement with employees to stay for 15 months". Under the agreement an employee deposits ₹75,000 with a bank. The bank makes a lien to Wipro. In case an employee is unable to pay, the bank gives a loan to the employee. The bond period is for 15 months (covering three months training and 12 months work). At the end of the period the employee gets ₹75,000, a fixed deposit interest for the duration and an additional ₹6,000 as retention bonus. The company has been doing this for the last several months and already has 1,000 people under this scheme. The result: attrition among

campus recruits is down to 3-4 per cent.

The drawback with the contracts is that it is almost impossible to enforce them. A determined employee is bound to leave the firm, contract or no contract. The employee is prepared to pay the penalty for breaching the agreement or the new employer will provide compensation. It is for this reason that several companies have scrapped the contracts altogether. Lintas and Ogilvy and Mather are examples.

Pause and Ponder

Review and pick up 15 items which form part of employment contract. Debate on the rationale behind including them in the agreement.

concluding the Selection process

Contrary to popular perception, the selection process will not end with executing the employment contract. There is another step—a more sensitive one—reassuring those candidates who have not been selected. Such candidates must be told that they were not selected, not because of any serious deficiencies in their personalities, but because their profiles did not match the requirements of the company. They must be told that those who were selected were done purely on relative merit.

Yet another development has taken place—a development that has become a serious concern for HR managers. The issue relates to ‘No Shows’ by selected candidates. These are the individuals who pass through the selection rigour, receive employment offers, but fail to report to duties. Every competent individual sits on multiple job offers, picks up one and disappoints the remaining employers.

‘No Shows’ is the consequence of ever increasing job offers. Too many jobs are chasing too few competent people. The rate of ‘No Shows’ is alarming—ranging from 20 to 50 per cent.

No shows cost money. Most senior level searches take anywhere between four to seven months from getting the mandate to finalising the candidate. The search firms get paid by companies at different stages of selection process. When the candidate backs out, it means starting all over again—time as well as cost overruns for the companies and search firms. It is additional

cost for the companies and for the search firms, it is loss of face, business and trust.

The economic slow down has halted the pace of 'no shows' considerably.

ASSESSMENT CENTRES

One special method of selection increasingly used now-a-days is the assessment centre. An assessment centre is not a physical location but an approach to selecting managers based on measuring and evaluating their ability to perform critical tasks. Assessment centre method is employed to fill managerial positions from within or to hire fresh graduates as management trainees.

An assessment centre may last from two to five days, during which time a group of candidates (usually 6 to 12) takes a series of work sample tests and other selection devices, such as various interviews, tests, exercises and feedback sessions. During the assessment centre schedule, these candidates may undergo experiential exercises, group decision-making tasks, case analyses, individual employment tests, role playing exercises and other methods for assessing their potential skills and abilities.

A panel of line managers drawn from different departments acts as evaluators whose feedback shall be decisive in making selection decision.

BARRIERS TO EFFECTIVE SELECTION

The main objective of selection is to hire people having competence and commitment. This objective is often defeated because of certain barriers. The impediments which check effectiveness of selection are perception, fairness, validity, reliability and pressure.

Perception Our inability to understand others accurately is probably the most fundamental barrier to selecting the right candidate.

Selection demands an individual or a group of people to assess and compare the respective competencies of others, with the aim of choosing the right persons for the jobs. But our views are highly personalised. We all perceive the world differently. Our limited perceptual ability is obviously a stumbling block to the objective and rational selection of people.

Fairness Fairness in selection requires that no individual should be discriminated against on the basis of religion, region, race or gender. But the low numbers of women and other less-privileged sections of the society in middle and senior management positions and open discrimination on the basis of age in job advertisements and in the selection process would suggest that all the efforts to minimise inequity have not been very effective.

Validity Validity, as explained earlier, is a test that helps predict job performance of an incumbent. A test that has been validated can differentiate between the employees who can perform well and those who will not. However, a validated test does not predict job success accurately. It can only increase possibility of success.

Reliability A reliable method is one which will produce consistent results when repeated in similar situations. Like a validated test, a reliable test may fail to predict job performance with precision.

Pressure Pressure is brought on the selectors by politicians, bureaucrats, relatives, friends and peers to select particular candidates. Candidates selected because of compulsions are obviously not the right ones. Appointments to public sector undertakings generally take place under such pressures.

Pause and Ponder

Pressure was a decisive factor in the selection of a candidate in the past. These are the days of market forces and private sector dominance. Do you think that pressure still works? If yes, where and what type?

EVALUATION OF SELECTION PROCESS

As was stated in the beginning of this chapter, selection is a critical step in employee hiring. More than the benefits of effective selection, consequences of wrong hiring are too damaging to be ignored.

Further, any wrong committed at the recruitment stage can be rectified at selection phase, but wrong selection is extremely difficult to set right.

Selection is said to be right when right people are hired for right jobs and at right time. Four criteria have been used by organisations to ensure that selection meets the three 'R^s': Cost to hire, time to hire, audit and quality of hire.

cost per Hire (CPH)

Selection process costs organisations dearly. Cost incurred for hiring purpose includes, among other things, the following:

- Payments made to placement consultants
- Expenses incurred on conduct of tests and interviews
- Cost of any on-campus/institution drives
- Cost of joining bonus and relocation allowances
- Cost of overtime or temporary staff retained during the period when jobs remain vacant
- Any other incidental costs availed by the selection team, weekend/overtime lunch/dinner, transport claims and the like
- To these may be added cost incurred on recruitment (See [Chapter 6](#))

Now, CPH is obtained by dividing the total cost by the number of hires. Organisations closely watch the CPH to monitor the effectiveness of hiring function. Efforts are always made to keep CPH within acceptable limits.

CPH varies from organisation to organisation, deciding factors being skill levels of hires, demand and supply of such skills, number of hires, sourcing strategy, and compensation levels. Change of sourcing strategy and withdrawing joining bonus are common strategies used by organisations to keep CPH within desired norms.

Time to Hire (TTH)

TTH is yet another metric used to assess the effectiveness of employee selection. TTH refers to the lapsed time between notification of vacant position and the new hire joins the organisation. Most companies have a definite TTH target anywhere between 45-90 days. Exact number of days depends on the level of position to be filled up.

Quality of Hire

Hiring is said to be qualitative when the three 'R's' (right candidate, right job and right time) are fulfilled. Hiring process is lengthy, testing, and time-consuming. But no effort should be spared and no compromise should be made in hiring the best talent possible.

Selection programme Audit

Audit must be conducted by people who work independent of the HR department. [Table 7.5](#) contains an outline that highlights the areas and questions to be covered in a systematic evaluation.

Table 7.5 *Audit of the Selection Programme*

I. Analysis of the programme

1. Is the selection programme consistent with the HRM theory and practice?
2. Have well-defined selection policies and procedures been developed?
3. Are the employment policies consistent with the public policy?
4. Do the wage levels, fringe benefits, and level of employee satisfaction within the organisation have a beneficial effect upon the ability to attract and retain good employees?

II. How adequately is the programme and its procedures communicated to all those involved in and affected by it?

III. How well is the programme implemented?

1. Have those, entrusted with carrying out the employment programme, been adequately trained?
2. Does the performance of the programme match the stated goals?
3. Are policy and procedure manuals developed and utilised?

IV. Feedback

1. What image has been created in the minds of university and institute placement officers, and public and private employment agencies by the approach adopted by the company in conducting its hiring programme?
2. Have recently hired employees and rejected applicants been surveyed to gauge the type of treatment they have received in the

selection process?

3. How many persons have rejected the company as a poor place to work because of low wages, a poor reputation and so on?

V. *Analysis of results*

1. How well do those hired perform on the job?
2. What percentage of those who apply are hired?
3. Of those hired, what percentage are discharged during the probationary period? What percentage resigned because the job and employment conditions were misrepresented to them?
4. What portion of employee turnover can be attributed to faulty selection?
5. What contribution does each of the selection tools (*i.e.* tests, interviews, medical examinations, etc.) make to the programme? How well do the predictions from each of the selection tools correlate with job success? Have these selection devices been properly validated?

The foregoing questions can serve as a broad guide for a very thorough and intensive analysis and evaluation of the employment programme.

MAKING SELECTION EFFECTIVE

Since employee selection is a critical function, organisations should do whatever is required to make the activity effective. The following techniques of hiring are worth trying, in addition to implementation of all the principles and procedures we described in this chapter till now.

competency Based Hiring Techniques

The concept of competency framework was explained in [Chapter 1](#). Using the typical frameworks to assess job-seekers is an effective way to hire the right candidates. The job description and the candidate's assessment sheet will help identify competencies required for the role. These include work related, people related and organisation related competencies. Together these traits help prepare the competency framework. The competency framework

shall be the basis for selection team and interviewers to identify questions to be asked, criteria to be considered and hiring to be made.

Training Interviewers

Interview is most commonly used technique to hire people. Role of the interviewer is obviously critical in the staffing process. Organisations invest time and energy in training and supporting interviewers.

Common interview problems and steps to overcome them were explained earlier in this chapter. Here we focus on training the interviewers.

- Training on fundamental interviewing process is a must. This training should include such instructions as: How to start the interview; how to place the candidate at ease; breaking the ice so that the candidate feels relaxed; clarifying about the job to the candidate; providing accurate information about the organisation and career prospects; and closing interview by giving information about the next steps to follow. Following a structured process ensures objectivity, continuity, and fair selection.
- Evaluating knowledge about the candidate is another area which needs attention in training interviewers. The interviewer should discover broad theoretical concepts and specific skills for the role in the candidate. Theoretical concepts help an individual visioneer and skills enable him/her discharge the job effectively.
- Training should enable the interviewer shed any personal biases that might influence assessment of the candidate. Awareness on common biases that influence decision of the selector to reject/shortlist a candidate should find a place in training. Common biases that creep in are the following:
 - *Gender bias* – making decisions based on one's perception of one gender being able to perform better than the other.
 - *Age* – perception about the age of the candidate impacting decision to select or reject him/ her.
 - *Race/ethnicity/caste* – belief where the heredity of the candidate determines selection or rejection
 - *Stereotypes* – perception about the impact of group to which the candidate belongs.

- *Projection* – tendency of the interviewer to judge a candidate by own attribute.
- Active listening is one trait that people generally lack. But the interviewer should possess the art of listening. He or she should strive to understand, comprehend, and gain insight into what is only implied or suggested. A good listener's mind is alert, and this is evident on his/her face.
- Interviewer should also be trained about type of questions he/she should ask while interviewing. (Type of questions and dos and don'ts were stated earlier) What needs emphasis is that the interviewers are the brand ambassadors of the organisation. The type and the way questions are posed leave lasting impression on the candidate. A candidate, who has not been selected, often feels highly pleased if the interview was conducted in a professional way. Selection/rejection may not matter to the candidate. Care should be taken to avoid in-depth questions on the personal life of the candidate.

Assessing Culture Fitment

Hiring satisfying three 'R's' is a huge challenge for organisations. The prevailing trends among companies is to 'hire for the organisation and not for the job alone' (During the pre-reforms days, particularly in government organisations, the practice was to hire for the individual and not for the organisation). Considering this, the selection process should ascertain the culture fit between the candidate and the organisation. Mere skills are not enough. The individual hired should jell with the norms and values of the organisation. A hiree may be highly competent but his/her behaviours clash with the avowed values of the organisations. The company stands for ethical values, but the hiree believes in end results, no matter what the means used are. Such deviant behaviours, particularly from senior executives, cause immense damage to organisations.

Selection Team

The role of selection team is critical in making employee hiring highly effective. The team ensures that the right procedures are in place and the

same are implemented in right spirit. In many companies, the selection team is subordinated to the CEO/MD to ensure that the hiring team is accountable for the three 'R's'. The hiring teams also serve as a 'window' to the talent world and alerts the organisation about the market trends and the best practice that can be absorbed. Hiring team needs to keep track of the movements of in-house employees. They often get to know about any possible takeover before it is made public and tend to exit, citing the same as the reason. The questions they ask while moving-in and moving-out should alert the management about the brand image of the company.

SELECTION IN INDIA

Conditions of labour market largely determine the selection process. As is well-known, we have a strange paradox in our country. There is large-scale unemployment juxtaposed with shortage of skilled labour. 'No vacancy' boards are seen along with 'wanted ...' hung on factory gates everywhere. Unemployment prevails among people who are unemployable—individuals who have acquired university degrees but do not possess any specific skills. Matriculates, B.A's, B.Com's and B.Sc's fall into this category. All the evils associated with selection—corruption, favouritism and influence—are found in hiring these people. Selection is, obviously, not systematic and at times bizarre too, as is evident from the following story.

For decades, at least three or four times every year, the municipal grounds of Kothagudem, the bustling mining town in the heart of Andhra Pradesh, has been a witness to a strange event. At the crack of the dawn, a group of men in their late twenties and thirties would line up for a 100-metre dash. The first few to touch the finishing line would be appointed as casual coal fillers in the underground coal mines of Singareni Coal Co. Ltd, for a specific period of time.

Selection practices in hiring skilled and managerial personnel are fairly well-defined and systematically practised. Particularly in hiring managerial personnel and executives, a lot of professionalism has come in, thanks to the realisation that these individuals are difficult to come by and no effort is too excess to attract them. Specialist agencies are available whose services are

retained for hiring technical and managerial personnel. Narendra Patni, founder chairman of Patni Computer Systems, for example, did not spare any effort, time or money to search and hire a successor to him. After a year's search, Patni has been able to zero in on an Australian expatriate Jeya Kumai, a former CEO of Mphasis to take over as the CEO of Patni Computer Systems. (Patni Computer Systems has now been taken over by iGate) Merit and not favouritism, objectivity and not subjectivity, will be the criteria for such selections.

Selection of managers is assuming unorthodox dimensions nowadays particularly in talent driven business such as financial services, consulting and software services. One trend is to hire as many executives as possible from a competing firm or to catch one who would bring a few more along with him or her. In the recent past, for example, four Infosians joined Phanesh Murthy (ex-Infosian), CEO, iGate. Ravi Ram joined Mphasis because of his familiarity with Jerry Rao. Ravi Ram also brought in another half a dozen executives into Mphasis. This trend of hiring amounts to inbreeding which we mentioned earlier.

Another trend observed is to attract and hire 'stars'. Stars beget stars is the belief. Monetary terms may not be attractive and there is a risk that the business might fail. But the stars join because they like to work with a charismatic leader. Arun Maira became the head of BCG in India because of his admiration for George Stalk (Arun Maira has left BCG and is now a member of Planning Commission, Govt. of India). Ajay Mahajan quit Bank of America and joined a start-up YES Bank because of Rana who is heading the bank. In such cases people are drawn by the reputation and credibility of the charismatic leaders.²⁵

PLACEMENT

After an employee has been hired and oriented, he or she must be placed in his/her right job. Placement is understood as the allocation of people to jobs. It is the assignment or re-assignment of an employee to a new or different job. Placement includes initial assignment of new employees and promotion, transfer, or demotion of present employees.²⁶ In this section, placement of new employees is emphasised. Placement arising out of transfers,

promotions, and demotions will be discussed later in this book.

Placement refers to allocation of people to jobs. It includes initial assignment of new employees, promotion, transfer, or demotion of present employees..

Assignment of a new employee to a job apparently seems to be a simple task. The employer advertises inviting applications from candidates for a specified post. The advertisement contains job description and job specification in detail. When a candidate has been selected, it is logical that he or she is placed in the position that was advertised earlier. But the task is not as simple as it looks. Times are changing. Changes in the work ethics reflecting the demand for meaningful work—**(i)** increased government pressure to hire and promote women and the disadvantaged, and **(ii)** heightened awareness of the fact that firms have many jobs but each individual has only one career. All of these factors are causing organisations and individuals to examine the placement process more closely. We are entering an age when applicants must be considered for several jobs rather than one.²⁷ If an individual fails to meet minimal requirements in one job, he or she will be considered for other available jobs and will probably be offered employment in one of them.

From a managerial perspective, the task is to understand and capitalise on each person's individuality. Since human attributes vary along many relatively independent ability, interest, biographical sketch, and personality dimensions, a person's individuality is best viewed as his or her unique profile of scores on a variety of individual measures. Once we establish this unique profile for each individual, people and jobs can be matched optimally within the constraints set by available jobs and available people. If the number of individuals is large in relation to the available jobs, only the best qualified persons can be selected and placed. On the other hand, when more jobs are available, optimal placement is possible.²⁸ Thus, the number of people and the number of jobs determine the placement process in any company.

placement problems

The difficulty with placement is that we tend to look at the individual but not at the job. Often, the individual does not work independent of others. Whether the employee works independent of others or is dependent depends on the type of jobs. Jobs in this context may be classified into three categories — **(i)** independent, **(ii)** sequential and **(iii)** pooled.

In certain cases, jobs are *independent*, for example, postal service or field sales. Here, non-overlapping routes or territories are allotted to each worker. In such situations, the activities of one worker have little bearing on the activities of other workers. This is the placement in its simplest form, and it is the problem for which solutions have most often been developed.²⁹

In *sequential* jobs, activities of one worker are dependent on the activities of a fellow worker. Assembly lines best exemplify sequential jobs.

Where jobs are *pooled* in nature, there is high interdependence among activities. The final output is the result of contribution of all the workers. It is the team work which matters. Project teams, temporary task forces and assembly teams represent pooled jobs.

Independent jobs do not pose great problems in placement, for each employee needs only to be evaluated relative to the match between his or her capabilities and interests, and those required on the job. The objective is to assign individuals so that **(i)** all jobs are filled by at least minimally qualified persons, and **(ii)** individuals are placed on jobs that will make the best possible use of their talents, given available jobs and HR constraints.³⁰

But independent jobs are becoming rarer and rarer, as most jobs are dependent (sequential or pooled). In order to match individuals with jobs, firms use the assessment-classification model. In this model, details about the employee's skills, interests, past performance (if any), and biographical details are collected. The individual is then placed in a specific subgroup. While placing, care must be taken to match characteristics of the individual with those of the subgroup.

Just as individuals are placed in subgroups, jobs are also categorised into subgroups, each subgroup having identical characteristics. The next step is to match subgroup profiles with job-family profiles to determine the likelihood of success and satisfaction in a particular job family. Once assignment to a job family is made, individuals can be placed in specific jobs within the job family after further counselling and possible assessment. [Figure 7.5](#) shows

the placement with the help of the assessment-classification model.

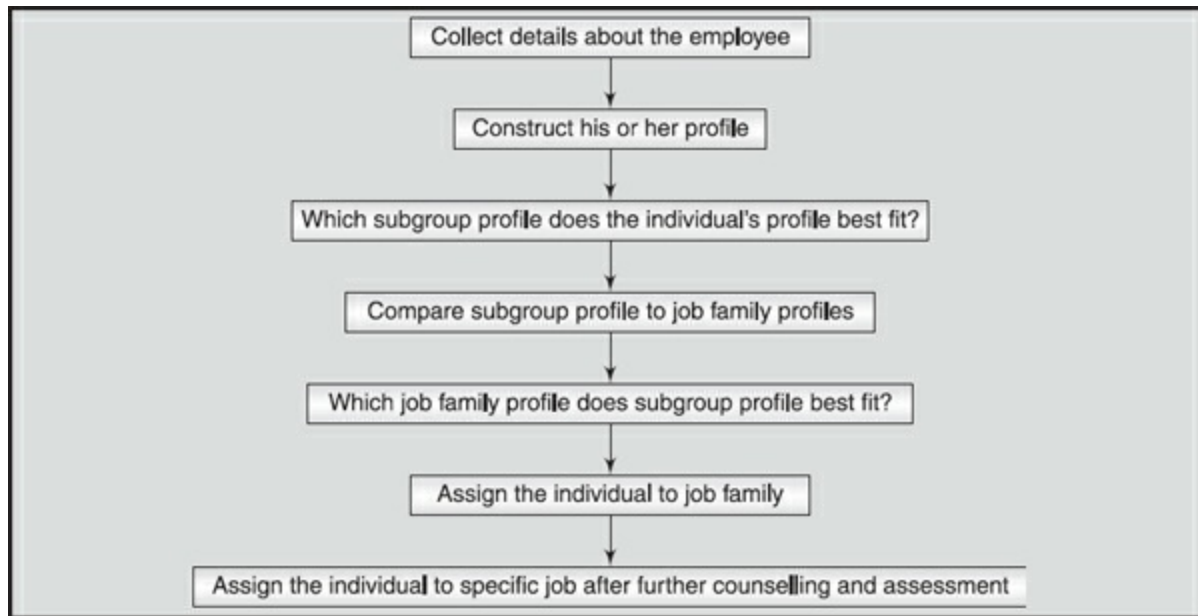


Fig. 7.5 *Assessment-classification Model and Employee Placement*

Source: Wayne F. Cascio and Elios M. Awad, *Human Resources Management*, p. 265.

SUMMARY

Selection refers to the process of picking the right candidates from the pool of applications.

Selection is significant as it has its impact on work performance and employee cost.

Selection is generally done by the HR department often in consultation with the line managers.

Selection is an eight-step process, commencing from preliminary interview and ending with evaluation and control.

In our country, selection of blue-collared and white-collared employees is unsystematic. However, in the case of managerial personnel, the process is fairly systematic.

After an employee is hired, he or she needs to be placed in his or her job.

KEY TERMS

Ability test
Attitude test
Behavioural interview
Employee leasing
False negative error
False positive error
Halo effect
Intelligence test
No shows
Personality test
Placement
Preference test
Participative selection
Selection
Structured interview
Unstructured interview
Validity

REVIEW QUESTIONS

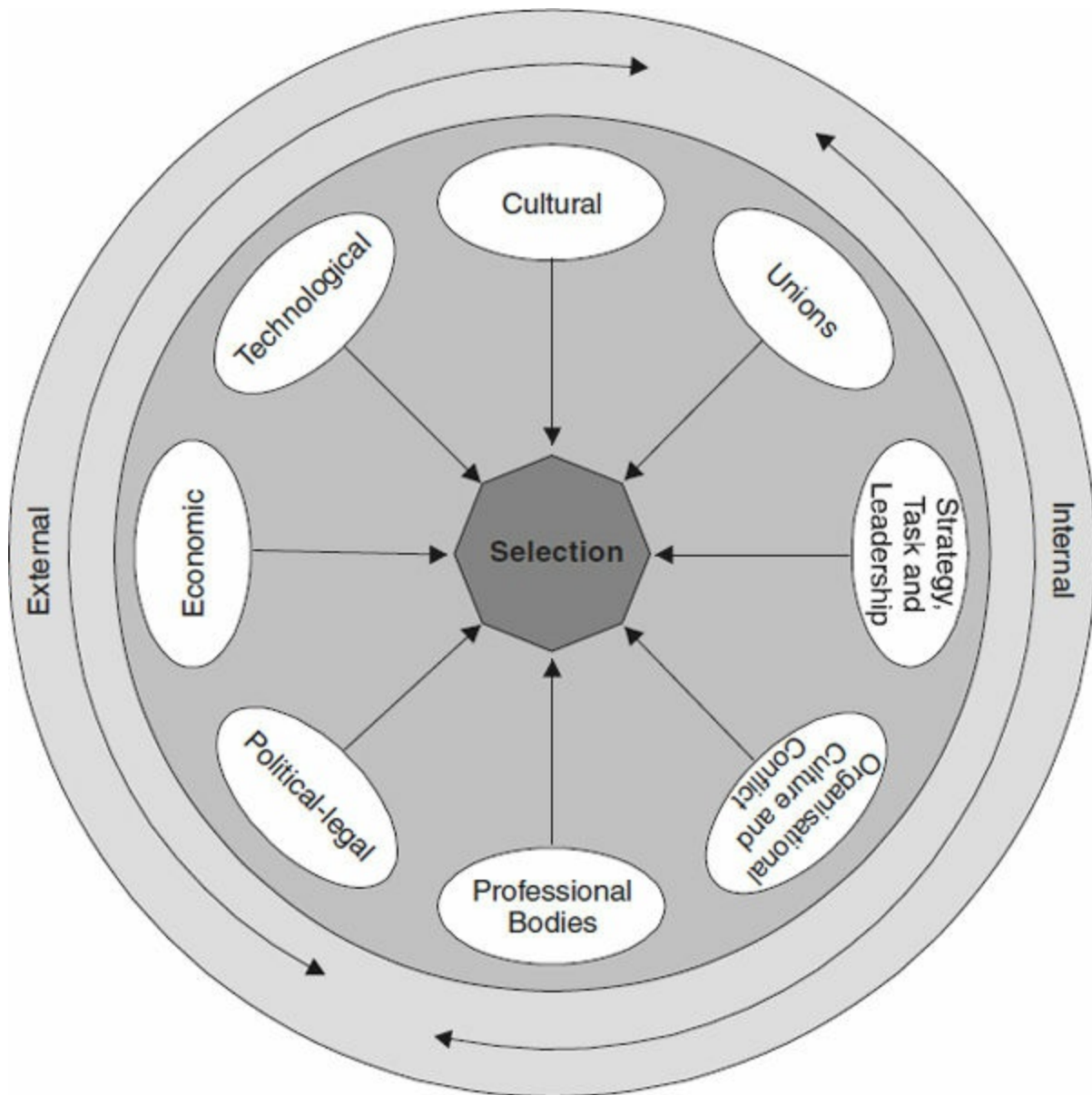
1. What is selection? What is its importance?
2. Define selection. Explain the process of selection.
3. What are the common interview problems? How can they be overcome?
4. Bring out the types and purposes of employment tests?
5. Bring out the various factors which influence the selection process.
6. List the advantages and disadvantages of having a complete medical examination given to all new employees.
7. What is the relationship between selection, recruitment and job analysis?

DISCUSSION QUESTIONS

1. If you were the chairman of your company, what considerations would guide your judgement on the following employment issues:
 - (i) Hiring of relatives of employees?
 - (ii) Promotion from within vs selecting the best from outside?
 - (iii) Hiring physically handicapped persons?
 - (iv) Hiring SCs, STs and candidates belonging to minority communities?
2. Explain, in some detail, how you would go about analysing and evaluating the effectiveness and efficiency of an employee selection programme.
3. Design a process for promoting internal candidates. How does the process differ from the one used for selecting external applicants?
4. How is organisation's strategy linked to recruitment and selection?
5. Are assessment centres a fair and valid way of selecting employees?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact selection, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

The selection process at Vybhav largely follows competency-based approach to hiring. When a job falls vacant or a new role is sanctioned for hiring, the hiring manager provides a Job Description. There is an on-line repository of generic job descriptions for all the roles at Vybhav. The hiring manager picks up the appropriate job descriptions and adds his comment on the role as per the Competency Framework for his team. The manager updates the candidate's details w.r.t experience, qualifications, industry preference and other professional requirements for the role.

The following document is key to commence the selecting set of activities. Without this filled-in document and the appropriate approvals for hiring, the staffing team will not start the process.

	<i>Position</i>
Team Purpose	Monetise online advertising opportunities through the sale of display, search, tools, and add network products
Reporting Relationship	
Role Purpose	
Key Responsibilities/Accountabilities	
Key Interfaces/Relationships	Internal External
Key Measures of Success	
Key Competencies/Knowledge	Business Competencies Critical Nice to Have Leadership
Experiences Required	Must have: Good to have:

The staffing team then picks up the competency checklist that is available in the competency dictionary for the role as identified by the hiring manager. The checklist contains the recommended approach to hiring for the role. It essentially consists of:

- The recommended hiring method, as in online tests, group discussion and interviews/panel interviews.
- Recommends a list of possible interviewers ideally required to interview for this role.
- The behavioural interview questionnaire for the list of competency that the role expects.
- The set of experiences that the candidate should have categorised as ‘must have’ and ‘good to have’.

This document acts as a guiding document for the Staffing Consultant as well

as the Recruiting Executive. Often the Staffing Consultant reviews this with the hiring manager before the hiring process commences, to ensure that the expectations are in-place.

EXERCISE

Break up into pairs. Carry out the following activities. The exercise is a combination of research and role play.

1. As a team, agree on identifying one person from among your contact circle who is working in an organisation.
2. Interview the incumbent to understand thoroughly the job the person does.
3. Fill out the sheet that Vybhav uses.
4. Now identify at least 5—7 key competencies for this job. If it is manager's job, draw out 2-3 separate competencies for leadership as well.
5. Design a behavioural questionnaire to interview for this job, using the competencies document prepared in step 4.
6. In front of the class, carry out the job interview for this role using the information from the job description and the competency questionnaire.

Closing Case *Prejudices In Workplaces: Real or Perceived?*

Manjula Srivastav had been head of marketing for the last four years at Blue Chips, a computer products firm. The company's turnover had increased by two-and-a-half times during the period and its market share in a number of products had also moved up marginally. What was creditable was that all this had happened in an environment in which computer prices had been crashing.

Although she had a talent for striking an instant rapport with people—particularly with the company's dealers—Srivastav often found herself battling against odds, as she perceived it, as far as her relationships with her subordinates and peers in the company were concerned. Srivastav had to fight male prejudice all the way. She found it unfair that she had to prove herself regularly at work and she used to make her displeasure on

that score quite obvious to everyone.

Six months ago, Blue Chips had been taken over by an industrial group which had a diversity of business interests and was, more importantly, flush with funds. The change of ownership had led to a replacement of the managing director, but it had not affected the existing core management team. Anand Prakash, the new managing director, had his priorities clear. “Blue Chips will go international”, he had declared in the first executive committee meeting, “and exports will be our first concern”.

Prakash had also brought in Harish Naik as his executive assistant with special responsibility for exports. Naik had been seconded to Srivastav for five weeks as a part of a familiarisation programme. Much to her surprise, he had been appointed, within two months, as the vice president (exports), with compensation and perks higher than her own. Srivastav had made a formal protest to Prakash who had assured her that he was aware of her good work in the company and that she would have an appropriate role once the restructuring plan he was already working on would be put into effect.

One morning, as she entered the office and switched on her workstation, a message flashed on her screen. It was from Prakash. “Want to see you sometime today regarding restructuring. Will 2.30 be convenient”? It went.

Later at his office, Prakash had come straight to the point. He wanted to create a new post called general manager (public affairs) in the company. “With your excellent background in customer relations and connections with the dealer network, you are the ideal material for the job”, he said, “and I am offering it to you”. Srivastav was quick to react. “There is very little I can contribute in that kind of job”, she said. “I was in fact expecting to be promoted as vice president (home marketing)”. Prakash said that the entire gamut of marketing functions would be looked after by Naik who would have boardroom responsibility for both domestic and export sales. “If you continue in marketing, you will have to be reporting to Naik which I thought may not be fair to you. In any case, we need someone who is strong in marketing to handle public affairs. Let me assure you that the new post I am offering will in no way diminish your importance in the company. You will in fact be reporting to me directly”.

“You are being unfair and you are diminishing my importance in the

company”, reported Srivastav. “You know that I am a hardcore marketing professional and you also know I am the best. Why then am I being deprived of a rightful promotion in marketing? Tell me”, she asked pointedly, “would you have done this to a male colleague”?

“That is a hypothetical question”, said Prakash. “But I can’t think of any other slot for you in the restructuring plan I want to implement except what I am offering”.

“If the reason why you are asking me to handle this fancy public affairs business of yours”, said Srivastav, “is that you can’t think of any other slot for me, then I would have second thoughts about continuing to work for this company”.

“May I reiterate”, said Prakash, “that I value your role and it is precisely because of this that I am delegating to you the work I have been personally handling so far? May I also state that I am upgrading the job not only because it is important but also because it should match your existing stature in the organisation”?

“I need to think about this. I will let you know tomorrow”, said Srivastav and left the office.

What should she do?³¹

REFERENCES

1. Case prepared by Samir Akbar, Theron International, Bangalore.
2. Thomas H. Stone, *Understanding Personnel Management*, CBS College Publishing, 1989, p. 173.
3. *Ibid*, p. 175.
4. Robert L. Mathis and John H. Jackson, *Personnel—Contemporary Perspectives and Applications*, Third Edition, West Publishing, New York, 1982, p. 193.
5. R. Wayne Mondy and Robert M. Noe III, *Personnel—The Management of Human Resources*, Allyn & Bacon, 1981, p. 174.
6. *Ibid*, p. 175.
7. *Ibid.*, p. 175.
8. *Ibid.*, p. 175.
9. *Ibid.*, p. 175.

10. *Ibid*, p. 179.
11. William B. Werther Jr. and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 241.
12. Ian Beardwell and Len Holden, *Human Resource Management*, Macmillan, 1996, p. 233.
13. Edmund R. Gray and Larry R. Smeltzer, *Management—The Competitive Edge*, Macmillan, New York, 1990, p. 436.
14. Michael Armstrong, *A Handbook of Personnel Management Practice*, Third Edition, 1988, p. 254.
15. Garry Dessler, *Personnel Management*, Fourth Edition, Prentice Hall International, 1988, p. 217.
16. Thomas H. Stone, *op. cit.*, p. 205.
17. *Ibid*, p. 206
18. John Bernardin, *Human Resource Management*, TMH, 2004, p. 116.
19. Inputs provided by Glen Brass, Former Director—HRD, SPG Systems, Bangalore.
20. Robert L. Mathis and John H. Jackson, *op. cit.*, Career Development
21. R. Wayne Mondy and Robert M. Noe III, *op. cit.*, p. 182.
22. Michael Armstrong, *op. cit.*, p. 261.
23. Dale S. Beach, *Personnel—The Management of People at Work*, Fourth Edition, Macmillan, New York, 1980, p. 225.
24. *Business India*, March 1-14, 1993.
25. Vikas Kumar, “Call of the Wild”, *The Economic Times*, August 20, 2004.
26. V.S. Mahesh, *Thresholds of Motivation—The Corporation as a Nursery for Human Growth*, Tata McGrawHill, New Delhi, 1993, pp 283.
27. Wayne F. Casico and Elios M. Awad, *Human Resource Management*, Reston Publishing, Reston, Virginia, 1984, p. 263.
28. *Ibid.*, p. 264.
29. *Ibid.*, p. 264.
30. *Ibid.*, p. 264.
31. R. Chandrasekhar, *The Buck Stops Here*, Macmillan, 1997, pp 41–43.

SECTION 3

List of Chapters

- Chapter 8:** Training and Development, Career Management and Talent Management
- Chapter 9:** Appraising and Managing Performance
- Chapter 10:** Employee Engagement and Empowerment

Training and Development, Career Management and Talent Management

Learning Objectives

After reading this chapter you should have a good understanding of

- The nature, need and types of orientation
- The nature and importance of training and development and identify the various inputs that should go into any such programme
- Description of the training process
- Identify impediments to effective training and strategies to make it effective
- The nature of MDPs and their techniques ^
- Identify stakeholders interested in and responsible for career management
- The nature and initiatives for talent management

Opening Vignettes

- FedEx Corporation is yet another company which takes training and development seriously. It spends \$155 million on training each year. The company allocates nearly 1523 man-hours every year on training and development. Each employee spends 4 to 6 weeks a year in compulsory training. There is also voluntary course of 15 days in class rooms. Every employee is also entitled to an additional \$ 2500 as tuition refund. This encourages many employees pursue short-term courses to acquire multi-skills. In addition, the company has a tie up with Skillsoff, an e-mail learning portal which offers nearly 800 short-term online courses to the employees.

FedEx has a clear strategy with respect to training and development.

It believes that training in-house personnel is much more effective and economical than lateral hiring.

- After their run-away success in the booming BPO market in India, desi training companies are now conquering new territories. Well, quite literally. As Indian professionals set a benchmark for emerging markets such as Phillipines, Middle East, Taiwan and many other South East Asian nations, Indian trainers are increasingly being wooed by overseas firms across sectors such as financial services, BPOs, hospitality, and healthcare to replicate the winning mantra that etched India prominently on the global outsourcing map.

Indian trainers are everywhere. Be it imparting communication training for local BPOs in the Philippines or imparting soft skills to hotel staff in south east Asia or people development for Genpact's China centres. Indian training outfits such as Reliance's NIS Sparta, Hero Mindmine, Delhi-based Mind Trainer and Evolve Services are finding themselves as much in vogue as the professionals they trained.

Price is a big advantage as well. Given the ability of Indian trainers to manage scale as well as the cost arbitrage, an Indian trainer may charge only 500 pounds a day compared to 30,000 pounds charged by UK trainers. With a huge talent pool availability in the Indian training industry, foreign clients are now getting attracted towards hiring the trainers to replicate the Indian model.

An important ingredient in the success of these Indian trainers outside of the country has been the experience that they carry along with a considerable cost differentiation that they offer to clients.

Another leading training and development organisation—Hero Mindmind has worked with banks such as Standard Chartered in Singapore, Phillipines and Malaysia.

The most sought after skills today include leadership development, management development, basic selling and customer handling skills. Going forward, the demand for trainers will only grow.

NIS Sparta, for instance, has run sales specialist training for Microsoft dealers across 10 different geographies (outside Australia and US) under the company's dealer certification programme. This included markets of Vietnam, Cambodia and the Phillipines.

- LG Electronics has made it mandatory for its staff to do two modules a

month and each module has a test that has to be cleared. Every three months a summary of all the tests is made and prizes are doled out to encourage people to learn.

- The American Society for Training and Development (ASTD) says new organisations typically deliver 20–30 per cent of training via technology.
 - Cisco uses web-based training as an integral tool to make employees more productive because it is available anytime, anywhere.
 - GE believes in on-the-job-training approach for training its employees. It trains customer service operators on the job so that the benefits of listening, thinking and responding occur on the job. GE's answer centre in Louisville, Kentucky, is open 24 hours a day. It employs 180 telephone representatives, 150 customer service representatives and 30 technicians. It handles two million calls from customers each year. Each representative is trained and is able to handle about 100 calls a day, each one lasting about 3 to 5 minutes. After learning about the firm's products, the representative is trained on the telephone. Communication and telephone skills are observed and critiqued.¹
-

The above vignettes provide us with the glimpse of training scenario prevailing in India and outside.

After employees have been hired and placed, they need to be inducted and trained. This chapter is devoted for a detailed description of orientation and training and development in that order. Towards the end is the explanation on career development and talent management.

ORIENTATION

Orientation, also called on-boarding, is designed to provide new hires with the information they need to function comfortably and efficiency in the organisation. Also called 'boot camps' (a term used to orient fresh hires in the army), induction is a planned introduction of fresher's to their jobs, their peers and the company. Induction is another term used to denote orientation.

Typically, orientation conveys three types of information—**(i)** general information about the daily work routine; **(ii)** a review of the firm's history, founding fathers, objectives, operations and products or services, as well as

how the employee's job contributes to the organisation's needs; and **(iii)** a detailed presentation, perhaps, in a brochure, of the organisation's policies, work rules and employee benefits². **Table 8.1** shows topics covered in orientation programmes.

Table 8.1 *Topics Often Covered in Employee Orientation Programmes*

<i>Organisational Issues</i>	
<ul style="list-style-type: none"> • History of employer • Organisation of employer • Names and titles of key executives • Employee's title and department • Layout of physical facilities 	<ul style="list-style-type: none"> • Probationary period • Product line or services provided • Overview of production process • Company policies and rules • Disciplinary regulations • Employee handbook • Safety procedure and enforcement
<i>Employee Benefits</i>	
<ul style="list-style-type: none"> • Pay scale and pay days • Vacations and holidays • Rest breaks • Training and education benefit • Counselling 	<ul style="list-style-type: none"> • Insurance benefits • Retirement programme • Employer-provided services to employees • Rehabilitation programmes
<i>Introduction</i>	
<ul style="list-style-type: none"> • To supervisor • To trainers 	<ul style="list-style-type: none"> • To co-workers • To employee counsellor
<i>Job Duties</i>	
<ul style="list-style-type: none"> • Job location • Job tasks • Job safety requirements 	<ul style="list-style-type: none"> • Overview of job • Job objectives • Relationship to other jobs

Purpose of Orientation

Firms are known to spend a few weeks or even months on orientation programmes. The idea is to make the new employees feel 'at home' in the new environment. It is a well-known fact that employees feel anxious on

entering an organisation. They worry about how well they will perform on the new jobs. They feel inadequate when they compare themselves with the more experienced employees, and they are concerned about how well they will get along with their co-workers. Effective orientation programmes reduce the anxiety of new employees by providing them information on the job environment and on supervisors, by introducing them to co-workers, and by encouraging them to ask questions.

The ease with which employees adjust to a new job and work environment is, often, a function of the expectations they bring to the job. If expectations are realistic, adjustments will be relatively simple. If, however, expectations are unrealistic or unreasonable, adjustment will be more difficult. In the latter case, orientation can be instrumental in modifying employee expectations.³

In one study of considerable importance, researchers discovered the following about new employees:

1. The first days on the job were anxious and disturbing ones.
2. 'New employees initiation' practices by peers intensified anxiety.
3. Anxiety interfered with the training process.
4. Turnover of newly hired employee was caused primarily by anxiety.
5. The new workers were reluctant to discuss problems with their supervisors.

Employee orientation is aimed at minimising such problems.⁴

Orientation seeks to expose new employees to all areas of the company. This prevents inductees from getting overspecialised. Induction makes new hires become productive to the company quickly.

Finally, a good orientation programme will create a favourable impression of the firm and its work. Just as a favourable first impression of an individual helps to form a good relationship, so a good initial impression of a company, a co-worker, or a supervisor can help a new employee adjust better.⁵ Further, effectiveness of an orientation programme can have a lasting effect on absenteeism and turnover.

First developed in the US during early 1970s, orientation is gaining popularity. Several blue chip companies are orienting their new hires. Prominent user companies are the Taj Group of Hotels, Colgate-Palmolive, Hindustan Unilever and P&G. These are no exceptions.

ORIENTATION PROGRAMME

A firm needs to make four strategic choices before designing its orientation programme. They are—**(i)** formal or informal, **(ii)** individual or collective, **(iii)** serial or disjunctive, and **(iv)** investiture or divestiture⁶ (See Fig. 8.1).

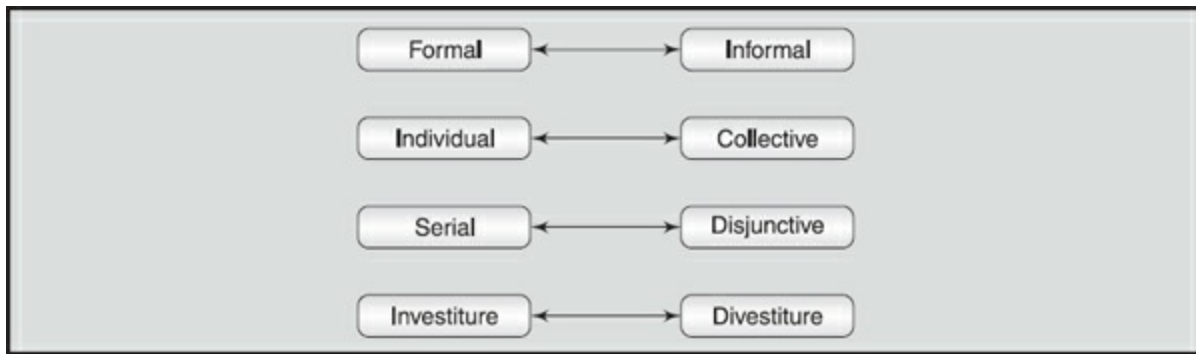


Fig. 8.1 *Strategic Choices of Orientation*

Formal or Informal In informal orientation, new hires are directly put on the jobs and they are expected to acclimatise themselves with the work and the company. In contrast, orientation can be formal too. In formal orientation, the management has a structured programme which is executed when new employees join the firm. (Formal orientation will be explained later in detail.)

The choice between formal and informal orientation will depend on the management's goals. The more formal the programme, the greater the likelihood that the new hire will acquire a known set of standards. That is, the new member is more likely to think and act like an executive, a management trainee, or a management professor. But an informal programme is desirable to maintain individual differences. Innovative ideas to solve organisational problems and healthy questioning of the status quo are likely to be generated by a person who has been inducted informally.

Individual or Collective Another choice to be made by the management is whether the new hires should be inducted individually or in groups. The individual approach is likely to develop far less homogeneous views than collective orientation. Individual orientation is more likely to preserve individual differences and perspectives. Orienting each person separately is an expensive and time-consuming process. It also denies the new hire the

opportunity of sharing anxieties with fellow appointees.

Collective orientation of the new hires solves the problems stated above. Most large firms tend to have the collective orientation approach. But small firms, which have fewer new appointees to socialise, frequently use the individual approach. Individual socialisation is popular even with large firms when they hire executives whose number is small.

Serial or Disjunctive Orientation becomes serial when an experienced employee inducts a new hire. The experienced employee acts as a tutor and model for the new hire. When new hires do not have predecessors available to guide them or to model their behaviour upon, the orientation becomes disjunctive.

Each option has its own advantages and pitfalls. Serial orientation maintains traditions and customs. Consistent use of this strategy will ensure a minimum amount of change within the firm over time. But, maintenance of status quo itself may breed resistance to change. Further, if the experienced employee is frustrated and apathetic towards work and the firm, it is likely that he or she would pass on the same to the new hire.

Disjunctive orientation almost stands on the other side of the spectrum. Such induction is likely to produce more inventive and creative employees because the new hire is not burdened by traditions. But this benefit needs to be weighed against the potential for creating deviants, that is, individuals who fail—due to an inadequate role model—to understand how their job is to be done and how it fits into the grand scheme of the company.

Investiture or Divestiture The final strategic choice relates to the need for maintaining or dismantling of the new hire's identity. Investiture orientation seeks to ratify the usefulness of the characteristics that the person brings to the new job. Most high-level appointments follow this approach, because a person is appointed as an executive on the basis of what he or she can bring to the company. The new hires are given freedom to select their office furnishings and subordinates and to make other decisions that will reflect on their performance.

Investiture orientation seeks to ratify the usefulness of the characteristics that the person brings to the new job. Most high-level appointments follow

|| this approach.

Divestiture orientation, on the other hand, seeks to make minor modifications in the characteristics of the new hire, albeit, he or she was selected based on his or her potential for performance. This is done to seek a better fit between a new member and the firm. This fine-tuning may take the shape of requiring the appointees to sever old friendships, accepting a different way of looking at their jobs, peers, or the organisation's goals. The new hire may even be made to undergo harassment (simulated or mock) at the hands of a senior staff to verify if he or she can be moulded to the requirements of the firm, if required. Divestiture strategies are followed for inducting new hires into military, professional football, police academies, fraternal groups, religious cults, and self-realisation groups. The premise behind divestiture strategies is to dismantle the old mindset of the new member so that instilling a new set of values or norms becomes easy.

|| **Divestiture orientation** seeks to make minor modifications in the characteristics of the new hire, though he or she was selected based on his or her potential for performance.

Orientation programmes range from brief, informal introductions to lengthy, formal programmes. In informal orientation, new employees are instructed to report to the HR department for an explanation of company policies before being referred to the immediate supervisor for an on-the-job briefing on specific work procedures. Informal orientation tends to be brief—lasting one hour or even less.

Formal orientation is elaborate and is spread over a couple of weeks or months (see Fig. 8.2). Most formal programmes consist of three stages—**(i)** a general introduction to the company, often given by the HR department; **(ii)** specific orientation to the department and the job, typically given by the employee's supervisor; and **(iii)** follow-up meeting to verify that the important issues have been addressed and employee questions have been answered.⁷ This follow-up meeting usually takes place between a new employee and his or her supervisor a week or so after the employee has begun working.

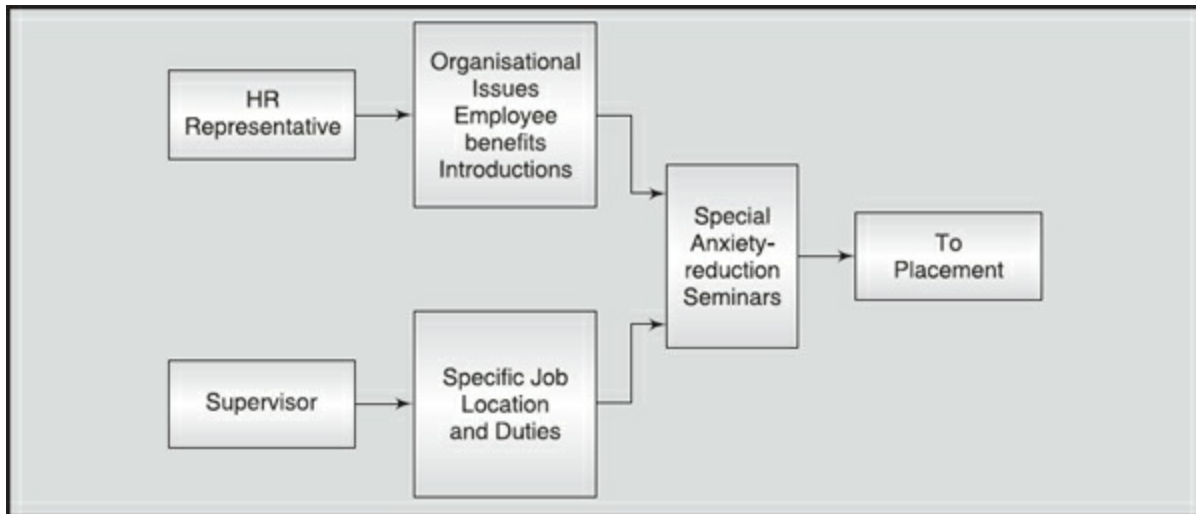


Fig. 8.2 *Formal Orientation Programme*

A formal orientation programme is shared by the HR specialists and the supervisors. The former covers such areas as organisational issues, employee benefits, and introductions, while supervisors outline mainly job duties.

Some companies also provide new employees with special anxiety-reduction seminars. Such seminars may be used to focus on information about the company and the job and allow opportunities for questions and answers. The new employees may be told what to expect in terms of rumours and hazing from old employees.⁸ They may also be told about the chances of succeeding on their jobs.

Exhibit 8.1 carries orientation practices across organisations.

Exhibit 8.1 Inductions Differ Across Firms, but Mix Fun with Learning

HSBC

Number of campus recruits in 2011: 18

Age of recruits: 22-28 years

Duration of induction: One week

Fun Quotient: Games like ‘Two truths and a lie’, ‘Anagram solver’, ‘Human Bingo’ were aimed at getting to know more about the employees, their likes, dislikes and hobbies. Activities like ‘Catch me if you can’ focussed on identifying characteristics of an individual such as observation power.

Citibank

number of campus recruits in 2011: 239

age of recruits: 24 years

Duration of induction: Two weeks

Fun Quotient: Simulation, outbound team building programme, innovation workshops to build behavioural, communication skills and community service activity.

Microsoft

number of campus recruits in 2011: 355

Duration of induction:

- MACH (Microsoft Academy for Campus Hires) is an year-long programme for MBA hires
- LEAP (Leap Engineer Acceleration Program) is a three-week programme for engineers at India development centre

Fun Quotient: Puzzles and trivia, a trip to the MGX (Microsoft Global Exchange) summit in the US.

LG

number of campus recruits in 2011: 122

age of recruits: 23-25 years

Duration of induction: Two months

Fun Quotient: Trekking in Himalayas, outbound team building games (as a part of the campus-to-corporate module)

Yahoo!

number of campus recruits in 2011: 100

age of recruits: 21-23 years

Duration of induction: Two weeks (one week for induction, one week for a boot camp that focuses on technology, product development & processes)

Fun Quotient: The company overview, history, vision and priorities are presented in a long power-point deck. Yahoo! takes new employees through a fun discovery map exercise where they discover aspects of the company in small groups. Discussions, videos and stories help new employees discover what Yahoo stands for and what its priorities are.

Joinees are taken through an elaborately planned set of pranks, in which even the senior leadership participates.

REQUISITES OF AN EFFECTIVE PROGRAMME

Orientation programme, to be effective, must be based on serious consideration to attitudes, behaviours and information that new employees need. Seldom are these observed and it is rare that the system is effective. However, following are some of the requisites of an effective system.

Prepare for New Employees New employees must, initially, feel that they belong to the organisation and are important. Therefore, both the supervisor and the HR unit should be prepared to receive the employee. It is very uncomfortable for a new employee to arrive at work and have a manager say, “Oh!, I didn’t realise you were coming to work today” or “Who are you?” This depersonalisation obviously, does not create an atmosphere of initial acceptance and trust.⁹

In addition, co-workers must also be aware of the arrival of a new worker. This is particularly true when the new employee’s entry is likely to erode the position and status enjoyed by the current employees. In this case, the management must take the present employees into confidence and convince them about the need for hiring the new employee.

Determine Information New Employees Want to Know The overriding question guiding the establishment of an orientation programme is, “What does the new employee need to know now”? Often, new employees receive information on issues, much of which is not immediately required. At the same time, they fail to get vital information needed during the first day of a new job.

The information which must be provided to the new employees is shown in [Table 8.1](#). What is needed is co-ordination between the supervisor and the HR unit. Such co-ordination demonstrates the importance that the management attaches to its orientation programme.

Some firms use an orientation checklist (*see* Exhibit 8.2) to avoid any overlapping of or missing out on information.¹⁰ Such a checklist shall contain

items to be covered by the HR unit and the line manager.

Determine How to Present Information Line managers and HR representatives should determine the most appropriate way to present the orientation information. For example, rather than telling an employee verbally, information on company sick leave and holiday policies may be presented on the first day in a handbook. The manager or the HR representative can review this information a few days later to answer any of the employee's questions.¹¹

Completion of Paperwork All essential paperwork should be completed during orientation so that the employee gets paid accurately and on time. Various tax and insurance forms as well as time cards and other items need to be completed in a timely fashion. There is nothing more agonising for a new employee than to miss the first pay cheque or to be paid improperly because the correct forms were not completed accurately.

Pause and Ponder

You were subject to orientation on the first day of your entry into the school/college. What was your experience? With the knowledge of induction you have now gained after reading this chapter, could you suggest to your Principal/Dean a new programme of orientation?

EVALUATION OF ORIENTATION PROGRAMME

Generally, firms with formal orientation programmes ask employees to complete a questionnaire evaluating the programme.¹² It is desirable that the questionnaire is administered after some length of time, in order to enable the employee to gain some perspective about the work and the company. In the alternative, the HR representative or the supervisor may conduct follow-up interviews to elicit the employee's opinion.

Group discussion sessions can also be held with new employees who have settled comfortably into their jobs.

Whatever the approach, the feedback from the employees enables a firm

to adopt its orientation programme to the specific suggestions of the new employees. In addition, firms should realise that the new employees will receive an orientation that could help them improve their performance. It is certainly in the best interest of the firm to have a well-planned and well-executed programme.

PROBLEMS OF ORIENTATION

An orientation programme can go wrong for a number of reasons. The HR department should try to avoid such errors. Some of them are:

Exhibit 8.2 Orientation Checklist

Name of Employee

Starting Date

Department

HR Department

Prior to Orientation

- Complete Form A and give or mail to new employee
- Complete Form B
- Attach Form B to Orientation
- Checklist-supervisor and give to the supervisor

Employee's First Day

Organization and Personnel Policies and Procedures

- History of XYZ Inc.
- Organization Chart
- Service to Community—Purpose of the Company
- Employee Classifications

Insurance Benefits

- Group Health
- Disability
- Life
- Workmen's Compensation

Other Benefits

- Holidays
- Jury and Election Duty
- Vacation
- Death in the Family
- Health Services
- Professional Discounts
- Appointments

End of Orientation—First Day

- Make Appointment for Second Day
- Introduce Employee to Supervisor

Other Items

- Job Posting
- Job Posting
- Bulletin Board—Location and Use
- Safety
- No Drinking
- Where to get Supplies
- Employee's Records-Updating

At the end of the employee's first two weeks, the supervisor will ask if the employee has any questions on the above items. After all questions have been satisfied, the supervisors will sign and date this form and return it to the HR Department.

Signature

Date

Name of Employee

Starting Date

Department *Position*

Supervisor

Employee's First Day

- Introduction to Co-workers
- Tour of Department
- Tour of Company
- Location of*
- Coat Closet
- Rest Room
- Telephone for Personal Use and
- Rules Concerning it

Working Hours

- Starting and Leaving
- Lunch
- Breaks
- Overtime
- Early Departures
- Time Clock

Pay Policy

- Pay Period
- Deposit System

Other Items

- Parking
- Dress

During Employee's First Two Weeks

Emergencies

- Medical
- Power Failure
- Fire

Employee's Second Day

- Pension Retirement Plan
- Sick Leave
- Personal Leave

- Confidentiality
- Complaints and Concerns
- Termination
- Equal Employment Opportunity

ORIENTATION CONDUCTED BY

1. Supervisor who is entrusted with the job is not trained or is too busy.
2. Employee is overwhelmed with too much information in a short time.
3. Employee is overloaded with forms to complete.
4. Employee is given only menial tasks that discourage job interest and company loyalty.

5. Employee is asked to perform tasks where there are high chances of failure that could needlessly discourage the employee.
6. Employee is pushed into the job with a sketchy orientation under the mistaken belief that ‘trial by fire’ is the best orientation.
7. Employee is forced to fill in the gaps between a broad orientation by the HR department and a narrow orientation at the departmental level.¹³
8. Employee is thrown into action too soon.
9. Employee’s mistakes can damage the company.
10. Employee may develop wrong perceptions because of short periods spent on each job.

TYPICAL ORIENTATION PROGRAMME

A typical orientation programme followed in the Taj Group of Hotels is shown in Exhibit 8.3. The description demonstrates the method and the contents of the orientation programme.

Exhibit 8.3 Orientation at the Taj

The HR team and the auxiliary trainers would receive and seat the new recruits (sometimes as many as a hundred and fifty at a time) in a large banquet, giving each of them a signed welcome letter in the form of a printed brochure, but with the new recruit’s name written by hand and signed personally by the General Manager. Besides giving the history of the Group, its founding values and beliefs, the letter would make the following personal promise to each new recruit:

You have been selected because we believe you have the potential and the desire to meet the high standards of excellence that are a hallmark of the Taj Group. We know you have hopes and aspirations of your own, and surely, expectations from us as well. We consider it our obligation on our part to:

- *treat you fairly and with respect*
- *ensure that your work opportunities are exciting and interesting*
- *provide open, two-way channels of communication*
- *offer suitable recognition for your dedication and excellence of performance.*

*Ours is a growing company, continuously improving and expanding.
We wish to see you grow along with us.*

After they have read the brochure, they would be made to introduce themselves to others, if not in front of the whole group, at least in small clusters, so that each would feel recognised. Then the entire senior management team from the Regional Vice President downwards would join them for an hour. They would individually introduce themselves and extend a personal welcome. As over 70 per cent of them were typically those who had also joined in similar capacities in their youth, they would come through as ideal role models to emulate. This would be followed by an open question-and-answer session, ending with a tea break, when they would have an opportunity to informally mix together. A formal audio-visual programme on the group would follow, and a detailed talk highlighting the future of the corporation as also the place in it for young bright people like the freshers.¹⁴

NATURE OF TRAINING AND DEVELOPMENT

In simple terms, training and development refer to the imparting of specific skills, abilities and knowledge to an employee.

... More clearly, training and development may be understood as any attempt to improve current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge. The need for training and development is determined by the employee's performance deficiency, computed as follows:

Training and development need = Standard performance – Actual performance.¹⁵

We can make a distinction among training, education and development. Such distinction enables us to acquire a better perspective about the meaning of the terms. Training, as was stated earlier, refers to the process of imparting specific skills. Education, on the other hand, is confined to theoretical learning in classrooms. [Table 8.2](#) draws a distinction between training and

education more clearly.

Pause and Ponder

Do you find any similarities or dissimilarities between training and orientation (you have read about orientation in the previous section)? Make a list.

Table 8.2 *Training and Education Differentiated*

<i>Training</i>	<i>Education</i>
Application	Theoretical Orientation
Job Experience	Classroom Learning
Specific Tasks	General Concepts
Narrow Perspective	Broad Perspective

Though training and education differ in nature and orientation, they are complementary. An employee, for example, who undergoes training is presumed to have had some formal education. Furthermore, no training programme is complete without an element of education. In fact, the distinction between training and education is getting increasingly blurred nowadays. As more and more employees are called upon to exercise judgement and to choose alternative solutions to the job problem, training programmes seek to broaden and develop the individual through education. For instance, employees in well-paid jobs and/or employees in the service industry may be required to make independent decisions regarding their work and their relationships with clients.¹⁶ Hence, firms must consider elements of both education and training while planning their training programmes. Though it is useful to know the difference between training and education, it is not emphasised in this chapter. Rather, elements of both education and training are assumed to be a part of the training programme.

Training refers to the process of imparting specific skills. **Development** refers to the learning opportunities designed to help employees grow.

Education is theoretical learning in classrooms.

Development refers to those learning opportunities designed to help employees grow.¹⁷ Development is not primarily skills-oriented. Instead, it provides general knowledge and attitudes which will be helpful to employees in higher positions. Efforts towards development often depend on personal drive and ambition. Development activities, such as those supplied by management developmental programmes, are generally voluntary.

To bring the distinction among training, education and development into sharp focus, it may be stated that training is offered to operatives, whereas developmental programmes are meant for employees in higher positions. Education, however is common to all the employees, their grades notwithstanding.

INPUTS IN TRAINING AND DEVELOPMENT

Any training and development programme must contain inputs which enable the participants to gain skills, learn theoretical concepts and help acquire vision to look into the distant future. In addition to these, there is a need to impart ethical orientation, emphasise on attitudinal changes and stress upon decision-making and problem-solving abilities.

Skills

Training, as was stated earlier, is imparting skills to employees. A worker needs skills to operate machines, and use other equipment with least damage and scrap. This is a *basic* skill without which the operator will not be able to function. There is also the need for *motor* skills. Motor skills (or psychomotor skills, as they are sometimes called) refer to performance of specific physical activities. These skills involve learning to move various parts of one's body in response to certain external and internal stimuli. Common motor skills include walking, riding a bicycle, tying a shoelace, throwing a ball, and driving a car.¹⁸ Motor skills are needed for all employees—from the janitor to the general manager. Employees, particularly supervisors and executives, need *interpersonal* skills popularly known as the

people skills. Interpersonal skills are needed to understand oneself and others better, and act accordingly. Examples of interpersonal skills include listening, persuading, and showing an understanding of others' feelings.

Education

The purpose of education is to teach theoretical concepts and develop a sense of reasoning and judgement. That any training and development programme must contain an element of education is well understood by HR specialists. Any such programme has university professors as resource persons to enlighten participants about theoretical knowledge of the topics proposed to be discussed. In fact, organisations depute or encourage employees to do courses on a part-time basis. Chief Executive Officers (CEOs) are known to attend refresher courses conducted by business schools. Education is more important for managers and executives than for lower-cadre workers.

Development

Another component of a training programme is development which is less skill-oriented but stresses on knowledge. Knowledge about business environment, management principles and techniques, human relations, specific industry analysis and the like is useful for better management of a company.

An organisation expects the following from its managers when they are deputed to attend any training and development programme:¹⁹

1. How do we make our managers self-starters? How do we imbibe them with a sense of commitment and motivation so that they become self-generating?
2. How do we make them subordinate their parochial, functional loyalties to the interests of the organisation as a whole?
3. How do we make them result-oriented? How do we help them see and internalise the difference between activity and results, and between efficiency and effectiveness?
4. How do we make them sensitive to the environment in which they function, both at the workplace and outside?
5. How do we make them aware of themselves—their potential and their

- limitations? How do we help them see themselves as others see them and accept this self-image as a prelude to change?
6. How do we teach them to communicate without filters, to see and feel points of view different from their own?
 7. How do we help them understand power and thereby develop leadership styles which inspire and motivate others?
 8. How do we instil a zest for excellence, a divine discontent, a nagging dissatisfaction with the *status quo*?

Surely, the above must form part of any training and development programme.

Ethics

There is need for imparting greater ethical orientation to a training and development programme. There is no denial of the fact that ethics are largely ignored in businesses. Unethical practices abound in marketing, finance and production functions in an organisation (See Fig. 8.3 for more details). They are less seen and talked about in the personnel function. This does not mean that the HR manager is absolved of the responsibility. If the production, finance or marketing personnel indulge in unethical practices the fault rests on the HR manager. It is his/her duty to enlighten all the employees in the organisation about the need for ethical behaviour.

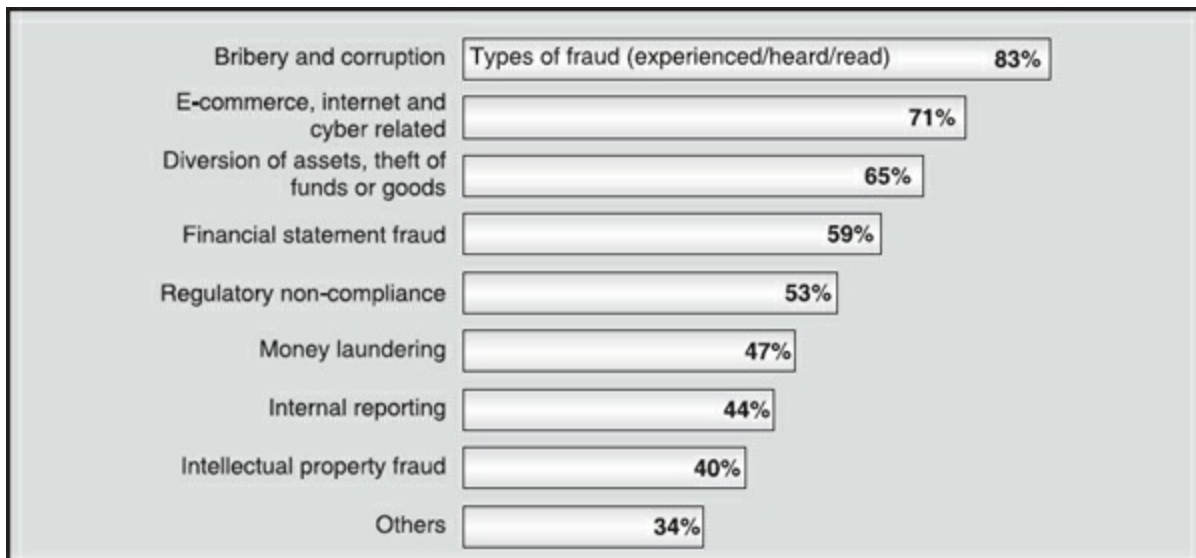


Fig. 8.3 Patterns of Crime

As per KPMG's India Fraud Survey 2012, the most common types of white-collar crimes in India include bribery and corruption, cybercrime and diversion of goods or funds, among others.

Ethical orientation is significant for the following reasons:²⁰

1. Ethics correspond to the basic human needs. All of us want to be ethical in our personal lives and in business dealings, too.
2. Values create credibility with the public. An organisation perceived by the public to be ethically and socially concerned will be honoured and respected even by those who have no intimate knowledge of its actual functioning.
3. Values lend management credibility with employees. They provide a common language for aligning a company's leadership and its people.
4. Values help in better decision making. Ethical attitudes help managements make better decisions which are in the interest of the public, the employees, and in the long term—the company itself.
5. Ethical practices are good even from the profitability point of view. This may sound quixotic, but hard facts reveal the correlation between ethics and profit. The Tata story, as revealed by the *Creation of Wealth*, is a fine example to be remembered here. In addition, a research paper presented in the *California Management Review*, not long ago, shows that over a seven-year period, the corporations which showed the highest concern for ethics also tended to show the highest growth and profits.²¹
6. Finally, ethics are important because government and law cannot always protect the society, but ethics can. Employees' interest is better protected by an ethically-conscious management than a plethora of labour acts. It is too well-known that Tatas implemented several labour-welfare measures long before they were mandated by the government.

Pause and Ponder

Name some companies (apart from Tatas) both Indian as well as foreign that are known for ethical conduct. Recollect interesting anecdotes associated with each of them.

attitudinal Changes

Attitudes represent feelings and beliefs of individuals towards others. Attitudes affect motivation, satisfaction and job commitment. Negative attitudes need to be converted into positive attitudes. Changing negative attitudes is difficult because—**(i)** employees refuse to change, **(ii)** they have prior commitments, and **(iii)** information needed to change attitudes may not be sufficient. Nevertheless, attitudes must be changed so that employees feel committed to the organisation, are motivated for better performance, and derive satisfaction from their jobs and the work environment.

Decision Making and Problem Solving Skills

Decision making and problem solving skills focus on methods and techniques for making organisational decisions and solving work-related problems. Learning related to decision-making and problem-solving skills seeks to improve trainees' abilities to define and structure problems, collect and analyse information, generate alternative solutions and make an optimal decision among alternatives. Training of this type is typically provided to potential managers, supervisors and professionals.²²

Creativity

Creativity is yet another input in a training programme. Creativity refers to the process by which novel, but situationally appropriate, outcomes are brought about. The essence of creativity is the element of freshness, originality, and novelty that is appropriate to the context. If a manager gives dictation standing on his head, there is creativity but the act is hardly appropriate. In other words, to call anything creative, the act should be unique and appropriate to the context. The social and technological changes that organisations face require creative decisions. The best way to face challenges is to make employees creative.

Three techniques are in popular usage to induce creativity in individuals: brainstorming, grid analysis, and lateral thinking. In *brainstorming*, a group of people are encouraged to exchange ideas freely in an atmosphere characterised by little censorship or criticism when presented with a problem.

Group members generate as many alternative solutions as they can. At this point, quality of the ideas is not important, rather sheer number is emphasised. Outlandish ideas are especially encouraged – they may turn out to be creative. Later, all the proposals are refined and evaluated.

In *grid analysis*, ideas or materials of possible relevance to a problem are listed on two sides of a two-dimensional grid. Then each possible combination of ideas is created and examined for its usefulness as a solution. For example, a marketing firm may be interested in promoting alternative uses for its current products. To uncover such novel uses, it may list its products on the horizontal axis, and target customers or rival products on the vertical axis. The resulting combination may suggest new markets for firm's products.

Yet another technique of promoting creativity is *lateral thinking*, first developed by DeBono. This technique is designed to help people escape from habitual mind patterns called vertical thinking. With vertical thinking, each step in the cognitive process follows the previous step in an unbroken sequence. But lateral thinking poses a deliberate and provocative challenge to one's preconceptions. It emphasises thinking in sideways mode and invites restructuring conventional ways of looking at a problem. For example, a problem could be looked at from the angle of solution, and then go backwards to the beginning of the process and look at it afresh. It is not necessary to be correct at each step of tackling a problem; in fact one could go down the wrong alleyway, but there could be weird logic in such a deviation because from this vantage point a better pathway may be visible.

Literacy

Not that the employees are illiterate. When we say literacy training, we infer two things. First, an employee should know corporate language, which by and large is English. One should be proficient in English language, in addition to proficiency in one's own dialect. Second, for an employee in a BPO firm accent neutralisation is essential. He or she should be able to speak English the way it is pronounced in America or in Europe.

Diversity

Diversity refers to the working together of people belonging to different regions, religions, cultures, languages, gender and age groups. Workforce diversity is beneficial to the organisation, as it promotes creativity and adds to its vibrancy. There are basically two types of diversity training:

1. Awareness building, which helps employees appreciate benefits of diversity; and
2. Skill building which helps acquire needed skills to work with others in harmony.

Crisis

Organisational life is not mere targets, performance, promotions, communication, shifts, working hours and the like. They generate crises too. Accidents occur, fire breaks out, girls swoon, boys get burnt out, employees come drunk, violence erupts, executives are manhandled and even killed, oil leaks and chemical spillovers are part of life. An accident that results in the death of a worker can have demoralising effect. Sight of blood on the shop floor can ignite serious trouble to the management. An executive or an employee should have skill to manage the crisis – prevent it from happening and handle it after it occurs. Emergency relief needs to be organised and victims need to be shifted to hospitals. Each crisis needs a different approach to handle. Crisis training needs to focus on all these dimensions.

Teams

Teams are an essential part of new economy firms. A team comprises people with complementary skills committed to common purpose, common performance goals, and an approach for which they hold themselves mutually accountable. Teams are project-specific. They are dissolved after a project is completed. New project leads to formation of new teams. A team implies that its members interact with each other regularly. Such interaction is not possible in a virtual team. Here team members operate from respective homes, face-to-face interaction hardly takes place. Team training should focus on inputs that help each member to work in cohesion with others.

The training and development efforts at HLL are designed to develop the following:

- Helping employees satisfy personal goals through higher level of skills and competencies.
- Facilitating higher contribution at their present jobs and preparing them for the next level of responsibility.
- Developing individuals and teams to meet the total needs of the organisation.

HUL has also packed into their training and development programme the 'Differentiating Competencies' of their parent Unilever. The differentiating competencies are:

Clarity of purpose

Understands totality of a situation and sees clearly what needs to be done and how to achieve it.

Practical creativity

Creates business insights which can be turned into news and realistic plans.

Objective analytical power

Develops accurate, objective assessments of what needs to be done, even in complex and difficult situations.

External orientation

Has a deep understanding of developments in the external world, especially in society, consumers and technology and in developments elsewhere in Unilever. Understands and addresses the needs of the customers inside as well as outside Unilever.

Entrepreneurial drive

Is constantly energised to improve business results in both the short term and long term. Takes initiatives often involving calculated risks and has the tenacity and resilience to ensure achievement.

Leadership of teams

Inspires teams to support business direction, develops team capability and respects cultural differences.

Leadership of individuals

Inspires subordinates, sets high standards of performance, holds subordinates accountable for achieving them. Builds skills and capabilities of subordinates.

Adaptive influential skills

Successfully influences without hierarchical power and maintains positive relationships with colleagues.

Self-confident integrity

Stands up for convictions and values and takes difficult decisions.

Team commitment

Works co-operatively as a member of a team and is committed to the overall team objectives rather than own interests.

Learning from experience

Actively learns from own failures and successes and those of others.

Table 8.3 summarises training inputs for different categories of employees. The inputs do not remain constant. As time goes by, there will be a greater emphasis on certain inputs at the cost of others. Changes are more likely in the development of executives and least in the training of clerical staff.

Table 8.3 *Training Inputs Across Employees*

<i>Inputs</i>	<i>Operatives</i>	<i>Lower-level Managers</i>	<i>Middle-level Managers</i>	<i>Top-level Managers</i>
Specific job skills	Yes	—	—	—
Motor skills	Yes	Yes	Yes	Yes
Interpersonal skills	Yes	Yes	Yes	Yes
Education	—	—	Yes	Yes
Development	—	—	Yes	Yes
Ethics	—	—	Yes	Yes
Attitudinal changes	Yes	Yes	Yes	Yes
Decision-making and problem-solving abilities	—	—	Yes	Yes

TRAINING AND DEVELOPMENT AS SOURCE OF COMPETITIVE ADVANTAGE

Companies derive competitive advantage from training and development. Training and development programmes, as was pointed out earlier, help remove performance deficiencies in employees. This is particularly true when —(i) the deficiency is caused by a lack of ability rather than a lack of

motivation to perform, **(ii)** the individual(s) involved have the aptitude and motivation to learn to do the job better, and **(iii)** supervisors and peers are supportive of the desired behaviours.

There is greater *stability*, *flexibility*, and capacity for *growth* in an organisation. Training contributes to employee stability in at least two ways. Employees become efficient after undergoing training. Efficient employees contribute to the growth of the firm. Growth renders stability to the workforce. Further, trained employees tend to stay with the company. They seldom leave the company. Training makes the employees versatile in operations. All rounders can be transferred to any job. Flexibility is therefore ensured. Growth indicates prosperity, which is reflected in increased profits from year to year. Who else but well-trained employees can contribute to the prosperity of an enterprise?

Training and development offer competitive advantage to a firm by removing performance deficiencies; making employees stay long; minimising accidents, scrap and damage; and meeting future employee needs.

In the knowledge economy, it's no longer enough to put your employees through the occasional training module a few times a year. Companies looking to operate and compete in a global market need to constantly skill and reskill their people, and training is becoming a 24/7/365 affair, cutting across geographies and time restrictions. To deliver this training on this scale and frequency, technology is key—media-rich content, video-on-demand, chat and online self-tutorials have ensured that most of the learning for employees takes place at the place, and time, of their convenience.

Nowhere does training assume greater importance than in the BPO industry. With thousands of fresh graduates handling customer queries, their's an ongoing need to equip them with the necessary soft and specialised skills. Periodic and, often, frequent changes in the global business environment, have put greater pressure on training departments to bring employees up to date on the latest rules and regulations in their clients' industries.

Besides, with BPO companies looking to move up the value chain, people need to be coached in new skills. ‘Traditional training was just about behavioural and technical training’.

Now, it includes cultural and value training, understanding one’s own as well as clients’ organisation, and the industry in which one is working. There is also a need to get people ready for potential jobs that one may want them to take up.

Accidents, scrap and damage to machinery and equipment can be avoided or minimised through training. Even dissatisfaction, complaints, absenteeism, and turnover can be reduced if employees are trained well.

Future needs of employees will be met through training and development programmes. Firms take fresh diploma holders or graduates as apprentices or management trainees. They are absorbed after course completion. Training serves as an effective source of recruitment. Training is an investment in HR with a promise of better returns in future.

A company’s training and development pays dividends to the employee and the company, as shown in Exhibit 8.5. Though no single training programme yields all the benefits presented in the exhibit, the firm which devotes itself to training and development enhances its HR capabilities and strengthens its competitive edge. At the same time, the employee’s personal and career goals are furthered, generally adding to his or her abilities and value to the employer. Ultimately, the objectives of the HR department are also furthered.²³

Training becomes almost essential when mergers or acquisitions take place, as has happened to the ICICI Bank. When Bank of Madura got merged with the best bank of 2003 (ICICI), 2400 employees of the former came in along with 2.6 million customers. ICICI then had only 1600 employees with an average age of 28 years. The average age of the merged bank became 43. Integration became a challenge and training therefore became imperative.

Exhibit 8.5 The Benefits of Employee Training

How Training Benefits the Organisation

- Leads to improved profitability and/or more positive attitudes towards profit orientation
- Improves the job knowledge and skills at all levels of the organisation

- Improves the morale of the workforce
- Helps people identify with organisational goals
- Helps create a better corporate image
- Fosters authenticity, openness and trust
- Improves relationship between boss and subordinate
- Aids in organisational development
- Learns from the trainee
- Helps prepare guidelines for work
- Aids in understanding and carrying out organisational policies.
- Provides information for future needs in all areas of the organisation
- Organisation gets more effective decision-making and problem-solving skills
- Aids in development for promotion from within
- Aids in developing leadership skills, motivation, loyalty, better attitudes, and other aspects that successful workers and managers usually display
- Aids in increasing productivity and/or quality of work
- Helps keep costs down in many areas, e.g. production, personnel, administration, etc.
- Develops a sense of responsibility to the organisation for being competent and knowledgeable
- Improves labour-management relations
- Reduces outside consulting costs by utilising competent internal consultation
- Stimulates preventive management as opposed to putting out fires
- Eliminates suboptimal behaviour (such as hiding tools)
- Creates an appropriate climate for growth, communication
- Aids in improving organisational communication
- Helps employees adjust to change
- Aids in handling conflict, thereby helping to prevent stress and tension.

Benefits to the Individual Which in Turn Ultimately Should Benefit the Organisation

- Helps the individual in making better decisions and effective problem solving
- Through training and development, motivational variables of

recognition, achievement, growth, responsibility and advancement are internalised and operationalised

- Aids in encouraging and achieving self-development and self-confidence
- Helps a person handle stress, tension, frustration and conflict
- Provides information for improving leadership, knowledge, communication skills and attitudes
- Increases job satisfaction and recognition
- Moves a person towards personal goals while improving interactive skills
- Satisfies personal needs of the trainer (and trainee)
- Provides the trainee an avenue for growth and a say in his/her own future
- Develops a sense of growth in learning
- Helps a person develop speaking and listening skills; also writing skills when exercises are required
- Helps eliminate fear in attempting new tasks

Benefits in Personnel and Human Relations, Intragroup and Intergroup Relations and Policy Implementation

- Improves communication between groups and individuals
- Aids in orientation for new employee and those taking new jobs through transfer or promotion
- Provides information on equal opportunity and affirmative action
- Provides information on other government laws and administrative policies
- Improves interpersonal skills.
- Makes organisational policies, rules and regulations viable.
- Improves morale
- Builds cohesiveness in groups
- Provides a good climate for learning, growth, and co-ordination
- Makes the organisation a better place to work and live.

Source: From M.J. Tessin, "Once Again, Why Training?", Training, Feb. 1978, p. 7.

Views of a chief executive on the outcome of management development programmes (MDPs) further reiterates the significance of training. The reflections of a chief executive are:²⁴

1. First of all, MDPs provide considerable intellectual stimulation. This in itself is a good thing because the normal routines of a business career place relatively few demands on the intellect and one of the occupational hazards of being a business executive is cerebral ossification. In that sense the MDPs perform a useful function.
2. Secondly, we acquire a nodding acquaintance with new concepts and new developments in the area of managerial techniques. But this acquaintance is usually peripheral and the response range from a mild curiosity at seeing an old, familiar phenomenon presented in a new light to an airy dismissal of concepts as being purely of academic interest.
3. The third benefit one derives from an MDPs is the embellishment of one's vocabulary—and this is a good thing if the jargon is used circumspectly, and with tact and understanding. Management terminology is basically a convenient shorthand for ideas that would otherwise need elaborate spelling out. Unfortunately, many of us return from MDPs armed with words and phrases which we conveniently use to cloak our vague, half-baked ideas with an air of precision or to air our pet prejudices with a stamp of authority.

Expenditures on training have been rising (see [Table 8.4](#)). More expenditure has been incurred on developing managers than on training workers. Almost 45 per cent of the companies today are incurring 20 per cent more expenditure than they did previously on the training of middle and junior level managers, whereas only 37 per cent are doing the service for the workers.

As of today, corporate budgets on training are staggering. Infosys, for example, has an annual outlay of \$125 million on training and development, while TCS too invests a comparable figure on employee growth. Accenture's global spending on training has been \$546 million per annum.

Table 8.4 *Changes in the Expenditure on Training*

<i>Response</i>	<i>Increased 20% or More</i>		<i>Increased 10% to 20%</i>		<i>Increased 0 to 10%</i>		<i>No Change</i>		<i>Less than Before</i>		<i>Total</i>	
	<i>no.</i>	<i>%</i>	<i>no.</i>	<i>%</i>	<i>no.</i>	<i>%</i>	<i>no.</i>	<i>%</i>	<i>no.</i>	<i>%</i>	<i>no.</i>	<i>%</i>
Top Management	24	38.7	12	19.4	12	19.4	11	17.7	3	4.8	62	100
Senior Management	27	41.5	18	27.7	8	12.3	11	16.9	1	1.5	65	100
Middle Management	29	45.3	18	28.1	7	10.9	9	14.1	1	1.6	64	100
Junior Management	29	44.6	16	24.6	9	13.8	10	15.4	1	1.5	65	100
Supervisors	23	37.1	12	19.4	13	21.0	12	19.4	2	3.2	62	100
Workers	23	37.1	13	20.6	10	15.9	15	23.8	2	3.2	62	100
Office Clerical Staff	12	20.0	10	16.7	13	21.7	22	36.7	3	5.0	60	100
Field Sales Force	19	32.8	14	24.1	13	22.4	9	15.5	3	5.2	58	100

Pause and Ponder

How can an organisation reap the benefits of investing money on training its employees? Discuss with classmates and list out the benefits.

THE TRAINING PROCESS

Figure 8.4 outlines important steps in a typical training process.

Each phase of the process is explained in the sections that follow.

Needs Assessment

Needs assessment diagnoses present problems and future challenges to be met through training and development.²⁵ Organisations spend vast sums of money (usually as a percentage on turnover) on training and development. Before committing such huge resources, organisations would do well to assess the training needs of their employees. Organisations that implement training programmes without conducting needs assessment may be making errors. For example, a needs assessment exercise might reveal that less costly interventions (e.g. selection, compensation package, job redesign) could be used in lieu of training.²⁶

Needs assessment occurs at two levels: group and individual. An individual obviously needs training when his or her performance falls short of expectations. Performance deficiency may be due to KSA deficiency, incongruence between performance and reward, inadequate feedback or system obstacles. Where shortage in skills and abilities is the cause for deficiency, training becomes necessary. Parallel to training, other initiatives

like job aid, practice, change of job, transfer or termination may also be tried (see Fig. 8.5).

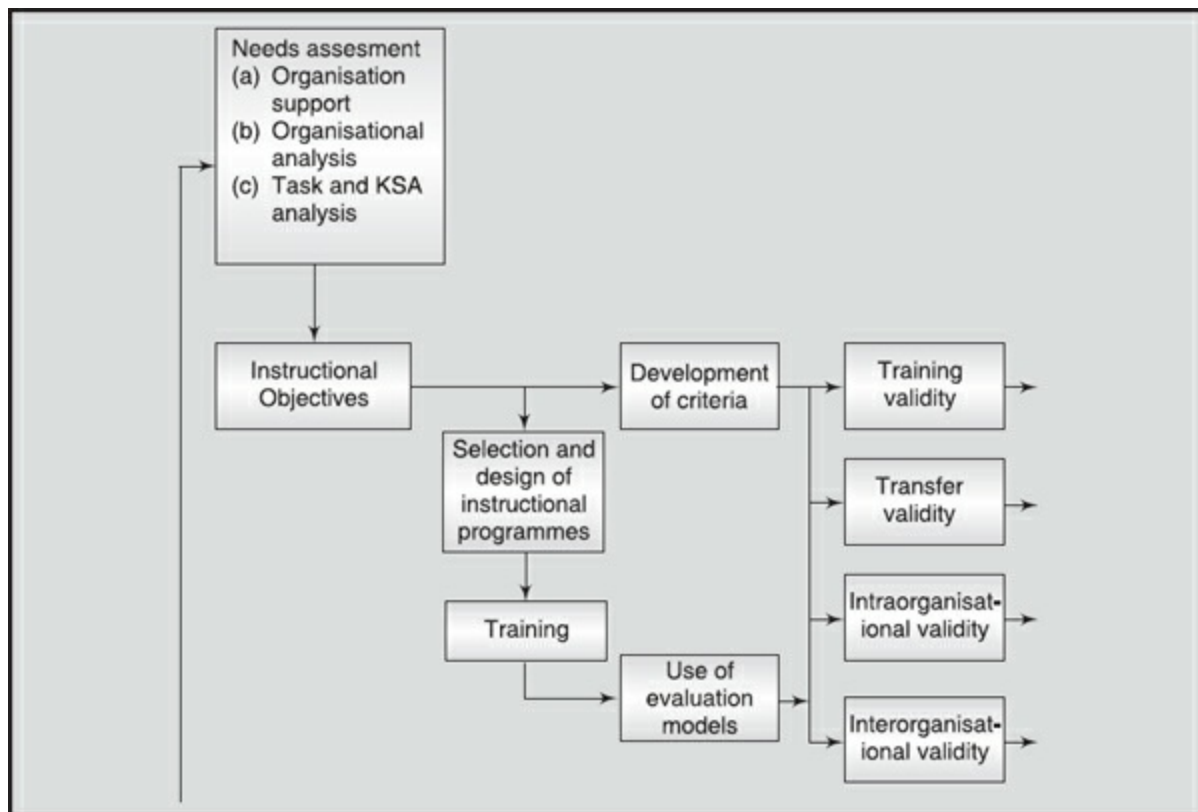


Fig. 8.4 Training Process

Source: Adapted from *Training in Organisations* by Irwin L. Goldstein and J. Kevin Ford, p. 24.

Assessment of training needs must also focus on anticipated skills of an employee. Technology changes fast and new technology demands new skills. It is necessary that the employee be trained to acquire new skills. This will help him/her to progress in his or her career path. Training and development is essential to prepare the employee to handle more challenging tasks. Deputation to a part-time MBA programme is ideal to train and develop such employees.

Individuals may also require new skills because of possible job transfers. Although job transfers are common as organisational personnel demands vary, they do not necessarily require elaborate training efforts. Employees commonly require only an orientation to new facilities and jobs. Recently,

however, economic forces have necessitated significant retraining efforts in order to assure continued employment for many individuals. Jobs have disappeared as technology, foreign competition, and the forces of supply and demand are changing the face of our industry.²⁷

Assessment of training needs occurs at the group level too. Any change in the organisation's strategy necessitates training of groups of employees. For example, when the organisation decides to introduce a new line of products, sales personnel and production workers have to be trained to produce, sell and service the new products. Training can also be used when high scrap or accident rates, low morale and motivation, or other problems are diagnosed.²⁸ Although training is not a cure-all, such undesirable happenings reflect poorly-trained workforce.

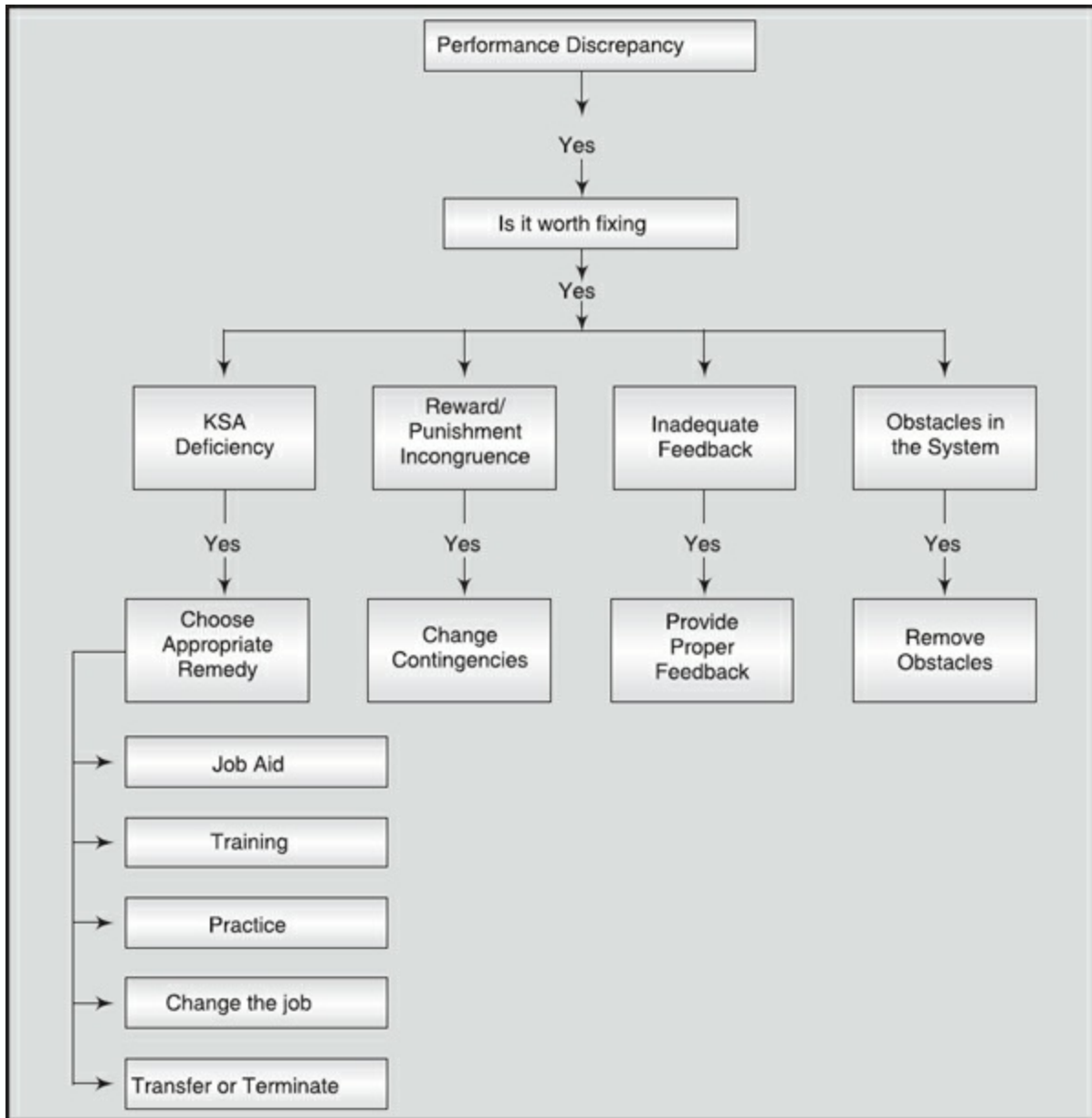


Fig. 8.5 Model of Initiatives when Performance Discrepancy is Identified

Source: Adapted from Michalak, D.F., and E.G. Yager, 1979, *Making the Training Process Work*.

Needs Assessment Methods How are training needs assessed? Several methods are available for the purpose. As shown in [Table 8.5](#), some are useful for organisational-level needs assessment and others for individual needs assessment.

issues in Needs Assessment

Needs assessment, individual or group, should address several issues:

Table 8.5 *Methods Used in Training Needs Assessment*

<i>Group or Organisational Analysis</i>	<i>Individual Analysis</i>
Organisational goals and objectives	Performance appraisal
Personnel/skills inventories	Work sampling
Organisational climate indices	Interviews
Efficiency indices	Questionnaires
Exit interviews	Attitude survey
MBO or work planning systems	Training progress
Quality circles	Rating scales
Customer survey/satisfaction data	
Consideration of current and projected changes	

Organisational Support Needs assessment is likely to make inroads into organisational life. The assessment tends to change patterns of behaviour of employees. When the needs assessment is carefully designed and supported by the firm, disruption is minimised and co-operation is much more likely to occur. Obviously, the analyst needs to take steps to work effectively with all parties and gain the trust and support of the participants in the needs assessment.²⁹

Organisational analysis seeks to examine the goals of the organisation and the trends that are likely to affect these goals.

Organisational Analysis Having obtained organisational support, the next step in the needs assessment is an organisational analysis, which seeks to

examine the goals of the organisation (short-term and long-term), and the trends that are likely to affect these goals. The analyst needs to ask and answer the following questions:

- Is there a sufficient supply of people?
- How does the firm attract, retain and motivate diverse workforce?
- How does the firm compete for individuals with the right skills, knowledge, abilities and attitudes?
- How do employees make the firm competitive, domestically and internationally?
- Which are the target jobs that require training?

These issues enable the analyst identify skill gaps in people, which training seeks to fill.

Task and KSA Analysis In addition to obtaining organisational support and making organisational analysis, it is necessary to assess and identify what tasks are needed on each job and which knowledge, skills and abilities (KSAs) are necessary to perform these tasks. This assessment helps prepare a blueprint that describes the KSAs to be achieved upon completion of the training programme.

Person Analysis This analysis obviously targets individual employees. A very important aspect of person analysis is to determine which necessary KSAs have already been learnt by the prospective trainee so that precious training time is not wasted repeating what has already been acquired. Also, employees who need to undergo training are identified at this stage.

Benefits of Needs Assessment

Training programmes are designed to achieve specific goals that meet felt needs. There is always the temptation to begin training without a thorough analysis of these needs. Should this happen, the training programme becomes inappropriate and its administration turns out to be perfunctory. Specifically, benefits of needs assessment include:

1. Trainers may be informed about the broader needs of the trainees.
2. Trainers are able to pitch their course inputs closer to the specific needs of the trainees.

3. Assessment makes training department more accountable and more clearly linked to other human resource activities, which may make the training programme easier to sell to line managers.
4. Needs assessment compels managers to set aside time from production hours to build skills and improve competency. Planning training hours/days for each individual helps ensure that the training takes place on schedule.

Absence of Training Needs Assessment

The significance of needs assessment can be better understood by looking at the consequences of inadequate or absence of needs assessment. Failure to conduct needs assessment can contribute to:³⁰

- Loss of business
- Constraints on business development
- Higher labour turnover
- Poorer-quality applicants
- Increased overtime working
- Higher rates of pay, overtime premiums and supplements
- Higher recruitment costs, including advertising, time and incentives
- Greater pressure and stress on management and staff to provide cover
- Pressure on job evaluation schemes, grading structures, payment systems and career structures
- Additional retention costs in the form of flexible working time, job-sharing, part-time working, shift-working, etc.
- Need for job redesign and revision of job specifications
- Undermining career paths and structures
- Higher training costs

Deriving instructional Objectives

The next phase in the training process is to identify instructional objectives (see [Fig. 8.4](#)). Needs assessment helps prepare a blueprint that describes the objectives to be achieved by the trainee upon completion of the training programme. Instructional objectives provide the input for designing the training programme as well as for the measures of success (criteria) that

would help assess effectiveness of the training programme.

Below are some sample instructional objectives for a training programme with sales people:³¹

- After training, the employee will be able to smile at all customers even when exhausted or ill, unless the customer is irate.
- After training, the employee will be able to accurately calculate mark down on all sales merchandise (e.g., 30 per cent mark down).

Designing training and Development Programme

Every training and development programme must address certain vital issues —**(i)** who participates in the programme? **(ii)** who are the trainers? **(iii)** what methods and techniques are to be used for training? **(iv)** what should be the level of training? **(v)** what learning principles are needed? **(vi)** where is the programme conducted?³² (see Fig. 8.6).

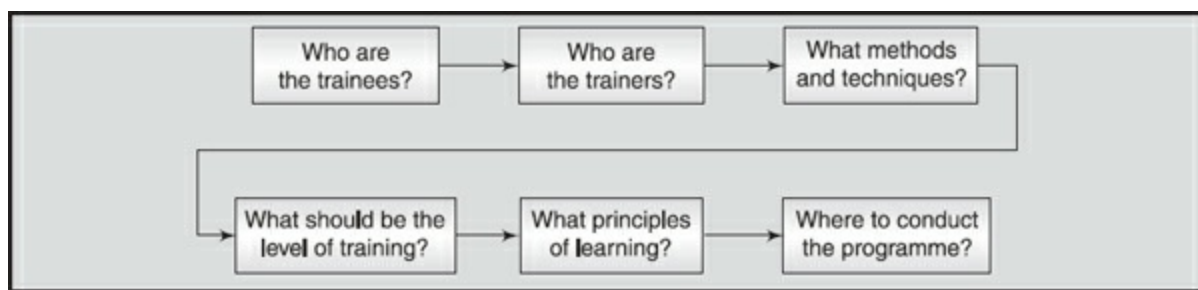


Fig. 8.6 Steps in Designing a Training Programme

Who are the Trainees? Trainees should be selected on the basis of self nomination, recommendations of supervisors or by the HR department itself. Whatever is the basis, it is advisable to have two or more target audiences. For example, rank-and-file employees and their supervisors may effectively learn together about a new work process and their respective roles.³³ Bringing several target audience together can also facilitate group processes such as problem solving and decision-making, elements useful in quality circle projects.

Who are the Trainers? Training and development programmes may be conducted by several people, including the following:

1. Immediate supervisors,
2. Co-workers, as in buddy systems,
3. Members of the HR staff,
4. Specialists in other parts of the company,
5. Outside consultants,
6. Industry associations, and
7. Faculty members at universities.

Who among these are selected to teach, often, depends on where the programme is held and the skill that is being taught. For example, programmes teaching basic skills are usually done by the members of the HR department or specialists in other departments of the company. On the other hand, interpersonal and conceptual skills for managers are taught at universities. Large organisations generally maintain their own training departments whose staff conduct the programmes.³⁴ In addition, many companies arrange basic-skills training for computer literacy.

Methods and Techniques of Training A multitude of methods of training are used to train employees. The most commonly used methods are shown in [Table 8.6](#) that lists the various training methods and presents a summary of the most frequent uses to which these methods are put. As can be seen from [Table 8.6](#), training methods are categorised into two groups—**(i)** on-the-job and **(ii)** off-the-job methods. On-the-job methods refer to methods that are applied in the workplace, while the employee is actually working. Off-the-job methods are used away from workplaces.

Pause and Ponder

“Learning to ride a bicycle”. “Learning to type”. How would the methods and techniques differ between the two tasks?

Table 8.6 *Training Methods and the Activities for Which They are Used*

	<i>Orienting New Employees, Introducing Innovations in Products and Services</i>	<i>Special Skills Training</i>	<i>Safety Education</i>	<i>Creative, Technical, and Professional Education</i>	<i>Sales, Administrative Supervisory and Managerial Education</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>A. On-the-job Methods</i>					
Orientation training	✓	—	—	—	—
Job-instruction training	✓	✓	—	—	—
Apprentice training	✓	✓	—	—	—
Internships and assistantships	—	✓	—	✓	✓
Job rotation	✓	—	—	—	✓
Coaching	—	✓	✓	✓	✓
<i>B. Off-the-Job Methods</i>					
Vestibule	✓	✓	—	—	—
Lecture	✓	✓	✓	✓	✓
Special study	✓	✓	✓	✓	✓
Films	✓	✓	✓	✓	✓
Television	✓	✓	✓	✓	✓
Conference or Discussion	✓	—	✓	✓	✓
Case Study	—	—	—	—	✓
Role Playing	—	—	—	✓	—
Simulation	✓	✓	✓	✓	—
Programmed instruction	✓	✓	✓	✓	—
Laboratory training	—	—	✓	✓	—

Source: Based on *Personnel/Human Resource Management* by Leap and Crino.

On-the-Job Training (OJT) In several firms, OJT is the only method of training available. The most common OJT types of training include orientation, job-instruction, internship, apprenticeship, and coaching and job rotation.

OJT offers several benefits to the organisation. It is relatively inexpensive; trainees produce something while learning; does not result in work disruption; does not require elaborate preparations like selection of place, arranging facilities and drawing trainees; and quick feedback is available to trainers.

However, the above benefits can be realised, if OJT is organised systematically. Systematic OJT involves at least four steps as shown below:

Step 1: Prepare the Learner

1. Put learner at ease.
2. Explain why he or she is being taught.
3. Create interest, find out what the learner already knows about the job.
4. Explain the whole job and relate it to some job the worker already knows.
5. Place the learner as close to the normal working position as possible.
6. Familiarise the worker with equipment, materials, tools and trade terms.

Step 2: Present the Operation

1. Explain quantity and quality improvements.
2. Go through the job at the normal work pace.
3. Go through the job at a slow pace several times, explaining each step. Between operations, explain the difficult parts, or those in which errors are likely to be made.
4. Again go through the job at a slow pace several times; explain the key elements.
5. Have the learner explain the steps as you go through the jobs at a slow pace.

Step 3: Do a Tryout

1. Have the learner go through the job several times, slowly, explaining each step to you. Correct mistakes and, if necessary, do some of the complicated steps the first few times.
2. Run the job at the normal pace.
3. Have the learner do the job, gradually building up skill and speed.
4. As soon as the learner demonstrates ability to do the job, let the work begin, but don't abandon him or her.

Step 4: Follow up

1. Designate to whom the learner should go for help.
2. Gradually decrease supervision, checking work from time to time.
3. Correct faulty work patterns before they become a habit. Show why the learned method is superior.
4. Compliment good work.

(Source: Garry Dessler, *Human Resource Management*, PHI, 2008, p. 301)

At HUL, OJT is used extensively to train its 16000 employees. 70:20:10, is the approach the company follows for training: 70 percent OJT, 20 percent by coaching and mentoring and the remaining through on-line and class room training. Since OJT is the largest component of training, the HR department facilitates career measurement of 16000 employees (including 1500 managers) in a way that offers new and challenging assignments and thereby new learning opportunities.

Off-the-Job Training Off-the-job training, as the name itself suggests, occurs away from workplace. This is often necessary to get people away from the work environment to a place where stress, frustration and bustle of work are eliminated.

A training away from work environment enables trainees to study theoretical information or be exposed to new and innovative ideas. But the problem arises when what is learnt is far away from what is happening in workplaces.

As [Table 8.6](#) shows, off-the-job training includes several types such as lectures, films, TV, role plays, case studies, simulation and programmed instructions.

Training techniques represent the medium of imparting skills and knowledge to employees. Obviously, training techniques are the means employed in the training methods. Among the most commonly used techniques are lectures, films, audio cassettes, case studies, role playing, video-tapes and simulations. [Table 8.7](#) presents the list of training techniques along with their ranking based on effectiveness. The higher the ranking (1 is the highest rank), the more effective the technique is.

At this point it is worthwhile to elaborate on important techniques of training. We explain the following—lectures, audio-visuals, on-the-job training, programmed instruction, computer-aided instruction, simulation, sensitivity training, assessment centre and OBL.

Lectures Lecture is a verbal presentation of information by an instructor to a large audience. The lecturer is presumed to possess a considerable depth of knowledge of the subject at hand. A virtue of this method is that it can be used for very large groups, and hence the cost per trainee is low. This method is mainly used in colleges and universities, though its application is restricted

in training factory employees (see Table 8.7).

Table 8.7 *The Relative Effectiveness of Training Methods*

<i>Training Method</i>	<i>Knowledge Acquisition Rank</i>	<i>Changing Attitudes Rank</i>	<i>Problem Solving Skills Rank</i>	<i>Interpersonal Skills Rank</i>	<i>Participant Acceptance Rank</i>	<i>Knowledge Retention Rank</i>
Case Study	2	4	1	4	2	2
Conference (Discussion)	3	3	4	3	1	5
Lecture	9	8	9	8	8	8
Business Games	6	5	2	5	3	6
Films	4	6	7	6	5	7
Programmed Instruction	1	7	6	7	7	1
Role Playing	7	2	3	2	4	4
Sensitivity Training	8	1	5	1	6	3
Television Lecture	5	9	8	9	9	9

Source: Based on *Personnel/Human Resources Management* by Leap and Crino.

Limitations of the lecture method account for its low popularity. The method violates the principle of learning by practice. It constitutes a one-way communication. There is no feedback from the audience. Continued lecturing is likely to bore the audience. To break the boredom, the lecturer often resorts to anecdotes, jokes and other attention-getters. This activity may eventually overshadow the real purpose of instruction.³⁵ However, the lecture method can be made effective if it is combined with other methods of training.

Audio-Visuals Audio-visuals include television slides, overheads, videotypes and films. These can be used to provide a wide range of realistic examples of job conditions and situations in the condensed period of time. Further, the quality of the presentation can be controlled and will remain equal for all training groups.³⁶ But, audio-visuals constitute a one-way system of communication with no scope for the audience to raise doubts for clarification. Further, there is no flexibility of presentation from audience to audience.

Pause and Ponder

List all the jobs where ‘audio-visuals’ can be used to train employees.

Programmed Instruction (PI) This is a method where training is offered without the intervention of a trainer. Information is provided to the trainee in blocks, either in a book form or through a teaching machine. After reading each block of material, the learner must answer a question about it. Feedback in the form of correct answers is provided after each response. Thus, programmed instruction (PI) involves:

1. Presenting questions, facts, or problems to the learner.
2. Allowing the person to respond.
3. Providing feedback on the accuracy of his or her answers.³⁷
4. If the answers are correct, the learner proceeds to the next block. If not, he or she repeats the same.

The main advantage of PI is that it is self-paced—trainees can progress through the programmes at their own speed.³⁸ Strong motivation is provided to the learner to repeat learning. Material is also structured and self-contained, offering much scope for practice.

The disadvantages are not to be ignored. The scope for learning is less, compared to other methods of training. Cost of preparing books, manuals and machinery is considerably high.

Computer-Assisted Instruction (CAI) This is an extension of the PI method. The speed, memory and data-manipulation capabilities of the computer permit greater utilisation of basic PI concept.³⁹ For example, the learner's response may determine the frequency and difficulty level of the next frame.

CAI is an improved system when compared to the PI method, in at least three respects. *First*, CAI provides for accountability as tests are taken on the computer so that the management can monitor each trainee's progress and needs. *Second*, a CAI training programme can also be modified easily to reflect technological innovations in the equipment for which the employee is being trained. *Third*, this training also tends to be more flexible in that trainees can usually use the computer almost any time they want, and thus get training when they prefer.⁴⁰ Not to be ignored is the fact that feedback from CAI is as rich and colourful as modern electronic games, complete with audio instructions and visual displays. A deterrent with regard to CAI is its high cost, but repeated use may justify the cost.

Simulation A simulator is any kind of equipment or technique that duplicates as nearly as possible the actual conditions encountered on the job.⁴¹ Simulation then, is an attempt to create a realistic decision-making environment for the trainee. Simulations present likely problem situations and decision alternatives to the trainee. For example, activities of an organisation may be simulated and the trainee may be asked to make a decision in support to those activities. The results of those decisions are reported back to the trainee with an explanation of what would have happened had they actually been made in the workplace. The trainee learns from this feedback and improves his/her subsequent simulation and workplace decisions.⁴²

The more widely held simulation exercises are case study, role playing, business games, assessment centre and vestibule training.

Case Study is a written description of an actual situation in business which provokes, in the reader, the need to decide what is going on, what the situation really is or what the problems are, and what can and should be done. Taken from the actual experiences of organisations, these cases represent attempts to describe, as accurately as possible, real problems that managers have faced. Trainees study the cases to determine problems, analyse causes, develop alternative solutions, select the best one, and implement it.⁴³ Case study can provide stimulating discussions among participants, as well as excellent opportunities for individuals to defend their analytical and judgement abilities. It appears to be an ideal method to promote decision-making abilities within the constraints of limited data.

Role Playing generally focuses on emotional (mainly human relations) issues rather than actual ones. The essence of role playing is to create a realistic situation, as in case study, and then have the trainees assume the parts of specific personalities in the situation. For example, a male worker may assume the role of a female supervisor, and the supervisor may assume the role of a male worker. Then, both may be given a typical work situation and asked to respond as they expect others to do.⁴⁴ The consequences is a better understanding among individuals. Role playing helps promote interpersonal relations. Attitude change is another result of role playing. Case study and role playing are used in MDPs.

Vestibule Training utilises equipment which closely resemble the actual ones used on the job. However, training takes place away from the work environment. A special area or a room is set aside from the main production area and is equipped with furnishings similar to those found in the actual production area. The trainee is then permitted to learn under simulated conditions, without disrupting ongoing operations. A primary advantage of vestibule training is that it relieves the employee from the pressure of having to produce while learning. The emphasis is on learning skills required by the job. Of course, the cost of duplicate facilities and a special trainer is an obvious disadvantage.

Business Games These are simulation games similar to the ones described above, the only difference being that they are played on the computers using business intelligence technology. Teams of 5-7 members are teamed up and two or more such batches compete against each other to build a profitable business. Virtual companies are created and assigned to teams who then build the companies right from taking bank loans, paying salaries for employees, and marketing budget. The ultimate objective is to run the most profitable business. Business games are used to train the mid-managers to build business acumen in them.

Assessment Centre (AC) Though AC is mainly used as a selection tool, its use as a training technique is significant. Non-workplace related and almost nerve-breaking situations are simulated and assigned to the teams of 8-10 members. The situations might be like the plane in which they travel crashlands in a desert and they need to survive or need to build a raft across a river. Each team needs to debate and arrive at workable solutions.

Behavioural science experts observe and track the behavioural patterns of each member. Feedback is provided one-to-one and guidelines are offered to what and how improvements can be made. AC is used to train mid and senior managers.

The advantage of simulation is the opportunity to 'create an environment' similar to real situations the managers incur, but without the high costs involved should the actions prove undesirable. The disadvantages are: **(i)** it is difficult to duplicate the pressures and realities of actual decision-making on

the job; and **(ii)** individuals often act differently in real-life situations than they do in acting out a simulated exercise.⁴⁵

Sensitivity Training Sensitivity training uses small numbers of trainees, usually fewer than 12 in a group. They meet with a passive trainer and gain insight into their own and others' behaviour. Meetings have no agenda, are held away from workplaces, and questions deal with the 'here and now' of the group process. Discussions focus on 'why participants behave as they do, how they perceive one another, and the feelings and emotions generated in the interaction process'.⁴⁶

The objectives of sensitivity training are to provide the participants with increased awareness of their own behaviour and how others perceive them—greater sensitivity to the behaviour of others, and increased understanding of group processes. Specific results sought include increased ability to empathise with others, improved listening skills, greater openness, increased tolerance of individual differences and increased conflict-resolution skills. The drawback of this method is that once the training is over, the participants are themselves again and they resort to their old habits.

Sensitivity training can go by a variety of names—laboratory training, encounter groups, or T-groups (training groups). [Table 8.8](#) shows some more techniques of training (see also Exhibit 8.6).

Out Bound Learning (OBL) As the name itself suggests, OBL takes place outside the work place and is commonly used to improve communication, inter-personal and leadership skills. Spread over a period of 1-2 days, OBL involves a series of exercises, games and activities that are built around the theme of training and are carried out in teams. After each exercise/activity, there is a debriefing session led by a facilitator where the group deliberates on learning and how things could have been done differently. Roles played by different individuals in the team are also discussed to understand how they contributed to the team's success.

Exhibit 8.6 Training goes Techno-Savvy

In today's electronic world, the Word Wide Web (www) is all-pervasive. The Internet and intranet are changing the face of training and learning.

Using a PC, a modem and a web browser, it has become possible to learn online.

Web-based courses through distance learning are virtual. An employee can simply connect to the Internet, study the syllabus options available, and enroll for the courses electronically. He or she can then receive all course work online and even take tests and advance to the next level—all from his or her own house.

Global giants like Motorola and Ford Motor are reaping the benefits of virtual learning. Employees of Motorola have access of self-paced computer based training (CBT) material through the firm's Intranet. Motorola offers nearly one hundred online courses, mostly in information technology.

Virtual learning presents its own challenges. The biggest being an infrastructure to connect the entire organisation across the seven seas. Web servers, ISDN lines, laptops, and personal computers are the basic requisites. But these facilities will pay off in the long-run. Firms investing in virtual learning technologies can slash their training budgets by 30 to 50 per cent.

Learning through the web can be very convenient for employees. There are no fixed schedules or limitations of time. One can attend the course at home, in the evening when one is at leisure, or while travelling to work. The learners do not have to depend on the trainer's availability.

It is not just the technical programs: soft skills can also be learnt electronically. One firm used a CDROM manual to impart soft-skills like performance management, coaching, and interviewing skills. The CD-ROM based training was supplemented with shared learning via teleconferencing, where managers discussed key learnings and asked for clarifications. Face to face, role-playing exercises were added for the human touch.

One advantage of computer-based soft-skills training is that it helps maintain anonymity in situations that may be discomforting for trainees. For example, role-playing exercises, may call for sharing personal information with strangers. This can be avoided in a virtual-learning setting, till the time the learner becomes more open and flexible.

It reads like who is who in using virtual learning. Motorola and Ford are only the two. There are others too. IBM, for example, has a virtual

university, IBM Global Campus, to provide its employees continuous skills-driven-learning opportunities via the corporate intranet across the globe.

Federal Express has turned to interactive multimedia for a more effective training system. Employees have the facility to get training via personnel computers during regular working hours at any time convenient to them.

Texas Instrument has been using satellite-based and CBT for a long time. The firm’s satellite broadcast links employees in countries all over the world, including Germany, Italy, France, England, Japan, and India.

Boeing delivers interactive training to its 22,000 managers globally through a communication service that uses the satellite broadcast technology. One application of the service was a short strategic planning skills course for employees in Boeing offices in US, Japan, Australia, and Western Europe. The course participants viewed the workshops on monitors in corporate conference rooms as well as on large-screen video-projection equipment in auditoriums. The online training was supplemented with small-group work with a site facilitator, presentations via satellite from Boeing experts, workbook exercises, and audio interaction with instructors. Boeing reported savings of \$ 9 million in travel costs alone.

OBL activities are generally outsourced. The outsourced package includes venue, equipment for the exercises, trained and certified instructors and facilitators. Also called exponential learning, OBL is organised away from the work place. Learning is made a fun and physically and mentally challenging. Obviously effectiveness of OBL is high.

Table 8.8 *Techniques of Training*

<i>Technique</i>	<i>Description</i>
Ice Breakers	Games to get team members know each other
Leadership Games	Exercises to teach different styles of leadership
Skill Games	Tests to develop analytical skills

Communication Games	Exercises to build bias-free listening and talking
Strategic Planners	Games to test ability to plan ahead
Team-building Games	Exercises requiring collaborative efforts
Role Reversal	Exercise to teach plurality of view
Doubling	Brings out ideas that are not often expressed
Tag Teams	One role played alternately by two participants
Mirroring	Training with an external perspective
Monodrama	Insight into a given interaction
Shifting Physical Positions	Highlighting of communication problems
Structured Role Playing	Role-play with predetermined objectives
Multiple Role Playing	Providing a common focus of discussion
Built-in-Tension	Teaching the importance of resolving matters
Shadowing	Working under a senior to watch and learn
Outward-bound Training	Adventure sports for teams
9 + 1 + 23	Self-assessment by a leader of leadership skills
Lateral Thinking	Thinking randomly to come up with new ideas
Morphological Analysis	Listing of alternative solutions to problems
Gordon Technique	Steering a discussion to crystallise solutions
Attribute Listening	Isolation, selection and evaluation

Cross-cultural Training

of a problem

Programmes to teach specifics of varied cultures.

What Should be the Level of Learning? The next question in designing training and development programme is to decide on the level of learning. As was pointed out earlier, the inputs passed on to trainees in training and development programmes are education, skills, and the like.

In addition, there are three basic *levels* at which these inputs can be taught. At the lowest level, the employee or potential employee must acquire fundamental knowledge. This means developing a basic understanding of a field and becoming acquainted with the language, concepts and relationships involved in it. The goal of the next level is skills development, or acquiring the ability to perform in a particular skill area. The highest level aims at increased operational proficiency. This involves obtaining additional experience and improving skills that have already been developed.⁴⁷ All the inputs of training can be offered at the three levels. How effectively they are learned depends on several principles of learning.

Learning Principles Training and development programmes are more likely to be effective when they incorporate the following principles of learning:

1. Employee motivation,
2. Recognition of individual differences,
3. Practice opportunities,
4. Reinforcement,
5. Knowledge of results (feedback),
6. Goals,⁴⁸
7. Schedules of learning,
8. Meaning of material, and
9. Transfer of learning.

Motivation to learn is the basic requisite to make training and development programmes effective. Motivation comes from an awareness that training fetches some rise in status and pay. Motivation alone is not enough. The individual must have the ability to learn. Ability varies from individual to individual and this difference must be considered while organising training programmes.

Regardless of *individual differences* and whether a trainee is learning a new skill or acquiring knowledge of a given topic, the trainee should be given the opportunity to *practise* what is being taught. Practice is also essential after the individual has been successfully trained.⁴⁹ It is almost impossible to find a professional cricket player who does not practise for several hours a day. Practice can be a form of positive reinforcement.

Pause and Ponder

Suppose you are teaching a batch of 40 students in a class. How easy or difficult it is .to identify individual differences among them? How do you manage them?

Reinforcement may be understood as anything that **(i)** increases the strength of response and **(ii)** tends to induce repetitions of the behaviour that preceded the reinforcement. Distinction may be made between positive reinforcement and negative reinforcement. *Positive reinforcement* strengthens and increases behaviour by the presentation of desirable consequences. The reinforcement (event) consists of a positive experience for the individual. In more general terms, we often say that positive reinforcement consists of rewards for the individual and, when presented, contingent upon behaviour, tends to increase the probability that the behaviour will be repeated. For example, if an employee does something well and is complimented by the boss, the probability that the behaviour will be repeated will be strengthened. In *negative reinforcement*, the individual exhibits the desired behaviour to avoid something unpleasant. An example might be an employee who does something to avoid incurring a reprimand from his or her boss. If an employee who had the habit of coming late to work, assuming this as an unpleasant experience, the employee might begin to come on time to avoid criticism. Thus, the effect of negative reinforcement is avoidance of learning.

Knowledge of results is a necessary condition for learning. Feedback about the performance will enable the learner to know where he or she stands and to initiate corrective action if any deviation from the expected goal has taken place. There are certain tasks for which such feedback is virtually mandatory for learning. A crane operator, for example, would have trouble

learning to manipulate the controls without knowing how the crane responds to control actions.

Goal setting can also accelerate learning, particularly when it is accompanied by knowledge of results. Individuals generally perform better and learn more quickly when they have goals, particularly if the goals are specific and reasonably difficult. Goals that are too difficult or too easy have little motivational value.⁵⁰ Further, goals will have better motivational value if the employee has a scope for participation in the goal-setting process.

Probably one of the most well-established principles of learning is that distributed or spaced learning is superior to continuous learning. This is true for both simple laboratory tasks and for highly complex ones.

Schedules of learning involve **(i)** duration of practice sessions, **(ii)** duration of rest sessions, and **(iii)** positioning of rest pauses. All the three must be carefully planned and executed.

A definite relationship has been established between learning and *meaningfulness* of the subject learnt. The more meaningful the material, the better the learning process.

What is learnt in training must be *transferred* to the job. The traditional approach to transfer has been to maximise the identical elements between the training situation and the actual job. This may be possible for training skills such as maintaining a cash register, but not for teaching leadership or conceptual skills. Often, what is learned in a training session faces resistance back at the job. Techniques for overcoming resistance include creating positive expectations on the part of trainee's supervisor, creating opportunities to implement new behaviour on the job, and ensuring that the behaviour is reinforced when it occurs. Commitment from the top management to the training programme also helps in overcoming resistance to change.

Though, it is desirable that a training and development programme incorporates all these principles, seldom is such a combination effected in practice.

Conduct of Training A final consideration is where the training and development programme is to be conducted. Actually, the decision comes down to the following choices:⁵¹

1. At the job itself.

2. On site but not the job—for example, in a training room in the company.
3. Off the site, such as in a university or college classroom, hotel, a resort, or a conference centre.

Typically, basic skills are taught at the job, and basic grammar skills are taught on the site. Much of interpersonal and conceptual skills are learnt off the site.

Implementation of the Training Programme

Once the training programme has been designed, it needs to be implemented. Implementation is beset with certain problems. In the first place, most managers are action-oriented and frequently say they are too busy to engage in training efforts. *Secondly*, availability of trainers is a problem. In addition to possessing communication skills, the trainers must know the company's philosophy, its objectives, its formal and informal organisations, and the goals of the training programme. Training and development requires a higher degree of creativity than, perhaps, any other personnel speciality.

Scheduling training around the present work is another problem. How to schedule training without disrupting the regular work? There is also the problem of record keeping about the performance of a trainee during his or her training period. This information may be useful to evaluate the progress of the trainee in the company.

Programme implementation involves action on the following lines:

1. Deciding the location and organising training and other facilities.
2. Scheduling the training programme.
3. Conducting the programme.
4. Monitoring the progress of trainees.

Evaluation of the Programme

The last stage in the training and development process is the evaluation of results (see Fig. 8.4). Since huge sums of money are spent on training and development, how far the programme has been useful must be judged/determined. Evaluation helps determine the results of the training and development programme. In practice, however, firms either overlook or lack

facilities for evaluation.

It may be stated that evaluation of orientation (part of training) was explained in the beginning of the chapter. Evaluation of training and development is considered here.

Need for Evaluation The main objective of evaluating the training programmes is to determine if they are accomplishing specific training objectives, that is, correcting performance deficiencies. A second reason for evaluation is to ensure that any changes in trainee capabilities are due to the training programme and not due to any other conditions. Training programmes should be evaluated to determine their cost effectiveness. Evaluation is useful to explain programme failure, should it occur. Finally, credibility of training and development is greatly enhanced when it is proved that the firm has benefited tangibly from it.

Principles of Evaluation Evaluation of the training programme must be based on the following principles:⁵²

1. Evaluation specialist must be clear about the goals and purposes of evaluation.
2. Evaluation must be continuous.
3. Evaluation must be specific.
4. Evaluation must provide the means and focus for trainers to be able to appraise themselves, their practices, and their products.
5. Evaluation must be based on objective methods and standards.
6. Realistic target dates must be set for each phase of the evaluation process. A sense of urgency must be developed, but deadlines that are unreasonably high will result in poor evaluation.

Criteria for Evaluation The last column in [Fig. 8.4](#) contains a number of potential goals.

1. *Training validity*: Did the trainees learn during training?
2. *Transfer validity*: What has been learnt in training, has it been transferred on the job? Has it enhanced performance in the work place?
3. *Intra-organisational validity*: Is performance of the new group of trainees, for which the training programme was developed, consistent with the performance of the original training group?

4. *Inter-organisational validity*: Can a training programme validated in one firm be used successfully in another company?

These questions often result in different evaluation techniques.

Techniques of Evaluation Several techniques of evaluation are being used in firms. It may be stated that the usefulness of the methods is inversely proportional to the ease with which the evaluation can be done.

One approach towards evaluation is to use *experimental and control groups*. Each group is randomly selected, one to receive training (experimental) and the other not to receive training (control). The random selection helps to assure the formation of groups quite similar to each other. Measures are taken of the relevant indicators of success (e.g. words typed per minute, quality pieces produced per hour, wires attached per minute) before and after training for both groups. If the gains demonstrated by the experimental groups are better than those by the control group, the training programme is labelled as successful.⁵³

Another method of training evaluation involves *longitudinal or time-series analysis*. Measurements are taken before the programme begins and are continued during and after the programme is completed. These results are plotted on a graph to determine whether changes have occurred and remain as a result of the training effort.⁵⁴ To further validate that change has occurred as a result of training and not due to some other variable, a control group may be included.

One simple method of evaluation is to send a *questionnaire* to the trainees after the completion of the programme to obtain their opinions about the programme's worth. Their opinions could also be obtained through interviews. A variation of this method is to measure the knowledge and/or skills that employees possess at the commencement and completion of a training. If the measurement reveals that the results after training are satisfactory, then the training may be taken as successful.

In order to conduct a thorough evaluation of a training programme, it is important to assess the costs and benefits associated with the programme. This is a difficult task, but is useful in convincing the management about the usefulness of training.

Some of the costs that should be measured for a training programme include needs assessment costs, salaries of training department staff, purchase

of equipment (computers, videos, handouts), programme development costs, evaluation costs, trainers' costs, rental facilities and trainee wages during the training period.⁵⁵

The benefits to be compared with the cost are rupee payback associated with the improvement in trainees' performance, their behavioural change, and the longevity of the period during which the benefits would last.

Levels of Evaluation

Evaluation of training by using any or all of the above techniques, can take place at four levels: reaction, learning, behaviour, and results (See [Fig. 8.7](#)).

As shown in [Fig. 8.7](#), the four levels of training form a hierarchy, meaning that lower levels are pre-requisites for higher levels. In other words, if one of the lower-level measures is not affected, then those measures that follow it will not be affected as well.⁵⁶

Reaction measures whether the employees appreciated the training and the facilities—it is usually measured by a questionnaire. *Learning* measures whether the employees know more than they did prior to undergoing training. Series of tests help identify learning. *Behaviour* measures what employees do on the job after the training. Behavioural impact is measured through performance appraisal. Evaluation of *results* looks at the overall outcomes of the training and the impact that the training has on productivity, efficiency, quality, customer service or any other dimension. This can be measured by sales figures, production, consumer survey, or any other means that correspond to the firm's performance measures.

Level	Questions Being Asked	Measures
Result	Is the organisation or unit better because of the training?	Accidents Quality Productivity Turnover Morale Costs Profits
Behavior	Are trainees behaving differently on the job after training? Are they using the skills and knowledge they learned in training?	Performance appraisal by superior, peer, client, subordinate
Learning	To what extent do trainees have greater knowledge or skill after the training program than they did before?	Written Tests Performance Tests Graded Simulations
Reaction	Did the trainees like the programme, the trainers, the facilities? Do they think the course was useful? What improvements can they suggest?	Questionnaires

Fig. 8.7 Four Levels of Training Evaluation

Source: Jeffrey A. Mello, *Strategic Human Resource Management*, Thomson, p. 278.

The four level model of evaluation is propounded by Donald Kirkpatrick.

Closed-loop System

Referring to [Fig. 8.4](#), it may be observed that the model suggests that a training programme should be a closed-loop system in which the evaluation process provides for continual modification of the programme. The information may become available at several stages in the evaluation process. For example, an effective monitoring programme might show that the training programme has not been implemented as originally planned. In other instances, different conclusions might be supported by comparing data obtained from the evaluation of training. In addition, even when the training programme achieves its stated objectives, there are always developments that can affect the programme, including the new training techniques or characteristics of trainees. Obviously, the development of training programmes needs to be viewed as a continuously evolving process.

Pause and Ponder

You are requested to fill up a feedback sheet at the end of a meal in a restaurant. How honest is your feedback? Is it a good technique to assess effectiveness?

IMPEDIMENTS TO EFFECTIVE TRAINING

There are many impediments which can make a training programme ineffective. Following are the major hindrances:⁵⁷

Management Commitment is Lacking and Uneven Most companies do not spend money on training. Those that do, tend to concentrate on managers, technicians and professionals. The rank-and-file workers are ignored. This must change, for, as a result of rapid technological change, combined with new approaches to organisational design and production management, workers are required to learn three types of new skills: **(i)** the ability to use technology, **(ii)** the ability to maintain it, and **(iii)** the ability to diagnose system problems. In an increasingly competitive environment, the ability to implement rapid changes in products and technologies is often essential for economic viability.

Aggregate Spending on Training is Inadequate Companies spend minuscule proportions of their revenues on training. Worse still, budget allocation to training is the first item to be cut when a company faces a financial crunch.

Educational Institutions Award Degrees but Graduates Lack Skills This is the reason why business must spend vast sums of money to train workers in basic skills. Organisations also need to train employees in multiple skills. Managers, particularly at the middle level, need to be retrained in team-playing skills, entrepreneurship skills, leadership skills and customer-orientation skills.

Large-scale Poaching of Trained Workers Trained workforce is in great

demand. Unlike Germany, where local business groups pressure companies not to poach on another company's employees, there is no such system in our country. Companies in our country, however, insist on employees to sign 'bonds of tenure' before sending them for training, particularly before deputing them to undergo training in foreign countries. Such bonds are not effective as the employees or the poachers are prepared to pay the stipulated amounts as compensation when the bonds are breached.

No Help to Workers Displaced because of Downsizing Organisations are downsizing and delayering in order to trim their workforces. The government should set apart certain fund from the *National Renewal Fund* for the purpose of retraining and rehabilitating displaced workers.

Employers and B Schools Must Develop Closer Ties B Schools are often seen as not responding to labour-market demands. Business is seen as not communicating its demands to B Schools. This must change. Businessmen must sit with Deans and structure the courses that would serve the purpose of business better.

Organised Labour can Help Organised labour can play a positive role in imparting training to workers. Major trade unions in our country seem to be busy in attending to mundane issues such as bonus, wage revision, settlement of disputes, and the like. They have little time in imparting training to their members.

HOW TO MAKE TRAINING EFFECTIVE?

Action on the following lines needs to be initiated to make training practices effective:

1. Ensure that the management commits itself to allocate major resources and adequate time to training. This is what high-performing organisations do. For example, Xerox Corporation, in the US invests about \$ 300 million annually, or about 2.5 per cent of its revenue on training. Similarly, Hewlett-Packard spends about five per cent of its annual revenue to train its 87,000 workers. GE had plans to spend \$1 billion on leadership training in 2009. Similar amount was spent in

2008. (See also opening vignettes).
2. Ensure that training contributes to competitive strategies of the firm. Different strategies need different HR skills for implementation. Let training help employees at all levels acquire the needed skills.
 3. Ensure that a comprehensive and systematic approach to training exists, and training and retraining are done at all levels on a continuous and ongoing basis.
 4. Make learning one of the fundamental values of the company. Let this philosophy percolate down to all employees in the company.
 5. Ensure that there is proper linkage among organisational, operational and individual training needs.
 6. Create a system to evaluate the effectiveness of training.

Pause and Ponder

A ritual that is being practised by an air hostess is to demonstrate safety precautions before the plane starts moving. How many observe her acrobatics? Do you have any such parallel in commercial enterprises?

GOVERNMENT INITIATIVE

The launch of the National Skill Development Corporation (NSDC) marks a major step forward in an ongoing initiative to build a skilled manpower pool in the country, covering different sectors. The NSDC has been envisaged as a Public-Private Partnership enterprise with a shareholding pattern involving the private sector and the government.

The Finance Ministry and leading industry bodies have contributed to its initial capital.

NSDC has set itself the target of equipping at least 150 million people with the required skills by 2022.

The following high-growth sectors have been identified by NSDC:

1. Automobile/auto components
2. Electronics hardware
3. Textiles and garments
4. Leather and leather goods

5. Chemicals and pharmaceuticals
6. Gem and jewellery
7. Building and construction
8. Food processing
9. Handlooms and handicrafts
10. Building hardware and home furnishings
11. IT or software
12. ITES-BPO
13. Tourism, hospitality and travel
14. Transportation/logistics/warehousing and packaging
15. Organised retail
16. Real estate
17. Media, entertainment, broadcasting, content creation, animation
18. Healthcare
19. Banking/insurance and finance
20. Education/skill development
21. Unorganised sector

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Make business ask for training. It becomes effective</i> • <i>Measure before and after for assessing effectiveness</i> • <i>Train and retrain facilitate internalising new skills and new attitude</i> • <i>Make career planning a responsibility of employee</i> • <i>Talent building is an all inclusive to include all employees</i> 	<ul style="list-style-type: none"> • <i>Organise training to favour an employee or trainer</i> • <i>Take mentoring as a formality</i> • <i>Link behaviour during training to behaviour on-the-job</i> • <i>Assume that training is a cure for all ailments at the workplace</i> • <i>Surprise trainees with a test at the end of training</i>

The target group for skill development comprises individuals entering the workforce for the first time (usually within the age group of 15-59 years),

those employed in the organised sector and those working in the unorganised sector.

MANAGEMENT DEVELOPMENT

The title of this chapter reads as Training and Development and Career and Talent Management. While the discussion till now is centred around training and the next section in this chapter focuses on career and talent management, we propose to discuss development here.

The moment we say development, what strikes most is: Management development. All developmental efforts focus on managers and supervisors to make them better leaders. Likewise, all training methods and techniques focus on lower level employees to make them more productive. It is not that training methods do not help develop managers and supervisors. Some of them do help, as for example case studies, role plays and the like. It may be useful to state the distinction between training and development in this context. Unlike training, development helps broaden an individual's vision and provide a longer term view of the individual's role in the organisation. Obviously, methods of developing managers need to be different from those of training employees.

In the last couple of decades, the importance of management development has grown as organisations seek to compete through people. Organisational change and strategic revitalisation depend on talented leaders, managers and supervisors. Management development is instrumental for giving managers the skills and perspectives they need to be successful.

Management Development Programmes (MDPs)

As in training of employees, there are two methods of developing managers and supervisors: on-the-job and off-the job. All these methods are together called management development programmes (MDPs), or executive development programmes (EDPs) (see [Fig 8.8](#)). In the meanwhile, an MDP is understood as conscious effort to improve managerial effectiveness through a planned and deliberate learning process.

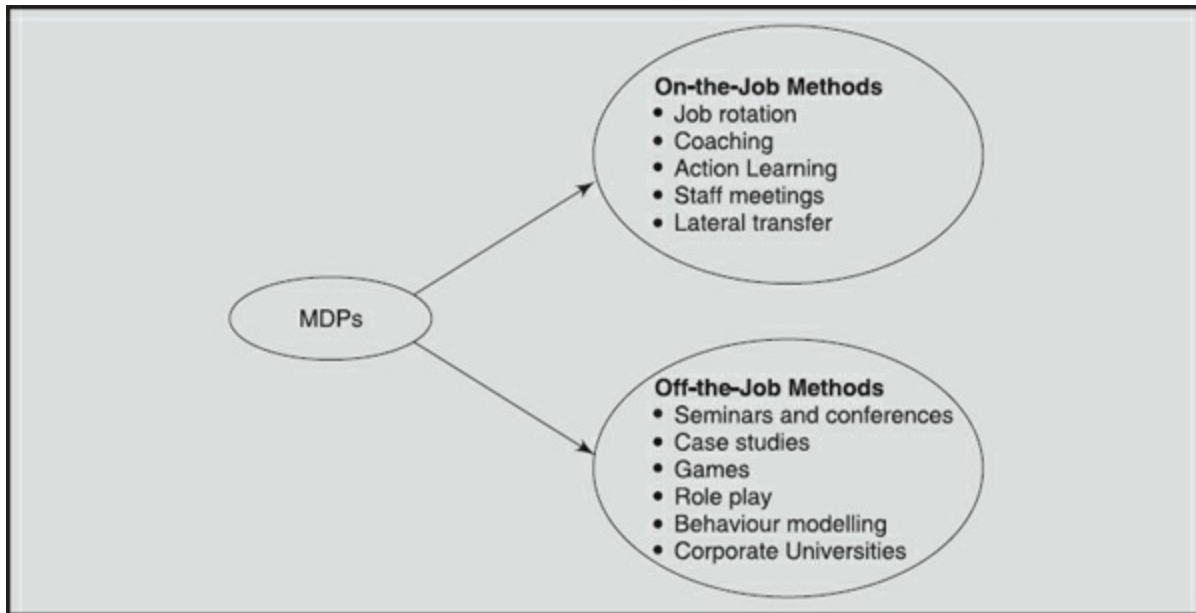


Fig. 8.8 Management Development Programmes

On-the-Job MDPs

Job Rotation Job rotation essentially involves placing employees in a series of jobs and monitoring their performance. During each assignment, the employees perform the tasks that are evaluated and learn first hand the job's challenges and rewards. Because rotational job assignments have the advantage of providing employees with immediate stimulation and networking, they are often used to improve employee performance. In addition, rotational assignments can provide the organisation's high-potential and high performing employees with the front-line experience and networks that become the foundation for leading the organisation in future. Job rotation facilitates multi-skilling and employees with multiskills give management more flexibility in scheduling work, adapting to changes and filling vacancies. It has drawbacks as well. Training costs tend to rise; work is disrupted as rotated employees take time to adjust to new assignments. It can de-motivate intelligent and ambitious trainees who seek specific responsibilities in their chosen speciality.

Job rotation is particularly common with management trainees. Such trainees are fresh from colleges and universities and rotational assignments help them understand basics of business.

Job rotation is mandatory at HUL. A typical manager is moved from one job to another – tea estates, chemicals, consumer goods and dairy products.

Coaching Coaching typically takes place between employees and their immediate line managers with more explicit and short-term purpose of contributing to performance improvements and developing individual skills, often with a focus on remedying employee poor performance. Coaching can also be used as both an OD and learning and development initiative. It is a flexible and adaptive technique of training that is well suited to the changing demands of the organisations. Obviously, it is a popular intervention, particularly for coaching senior managers, popularly called executive coaching.

Executive coaching is organised to help out a star performer who has risen to the top and suddenly finds himself/herself trapped amidst official chores and finds little time to attend to personal things. He or she has no time for introspection. Such individuals need someone to hold up a mirror, make them see clearly what their strengths are and where they are lacking. The most nagging problem with such employees is their inability to balance work with life. In the life of an executive, seven dimensions are visible—family, profession, health, social, financial, spiritual and mental. An executive who can strike a balance among the seven is a successful individual as a person and as an executive. But over-awed by the professional demands, most executives forget other dimensions. Coaching is an effective remedial intervention.

Coaching provides an opportunity for managers who coach to inspire, excite, and develop motivated employees. In addition, individuals who are coached and those who coach have an opportunity to embark on a voyage of self-discovery and fulfilment.

There is a continuum of coaching that ranges from a ‘hands-off’ approach to a highly formalised one. We are referring to the latter approach in this context. A formalised and structured coaching involves nine preparations:

1. Identifying organisational readiness for change
2. Identifying potential coaches
3. Clarifying roles of the coach
4. Developing the right attitudes and behaviours and equipping the coaches with the right skills and knowledge

5. Learning from past experience and sharing the wisdom
6. Devising methods to monitor and review progress.
7. Tasks are carried out in the correct sequence.
8. Back-up material is provided for the learner to take away after the coaching session.
9. The learner is ready and self-motivated to learn from coaching.

Action learning Action learning is yet another on-the-job EDP programme. It involves a group of learners working together in an action learning set, as opposed to a class room situation, to solve real problems in the workplace. A series of meetings are held during which set members (four to five) question and challenge the causes of the problem and potential solutions. An actual work problem is used as a way to learn. Thus, the focus in action learning is:

$$L = P + Q$$

Where L stands for learning, P for programmed leaning and Q for questioning and insight.

Action learning aims at helping managers develop their talents by exposing them to real life problems. They are required to analyse them, formulate recommendations, and then take action. It focuses on the belief that managers learn best by doing rather than being taught.

Action learning typically operates in the following way. A set of managers come together to solve a live problem. They help and learn from each other, but an adviser may sit with them regularly. The project may last for several months, and the group meets frequently, at least once a week. The advisor helps the members learn from one another and clarifies the process of action learning. The members have to manage the project like any other, deciding on objectives, planning resources, initiating action and monitoring progress. But all the time, helped by the advisor, the members are learning about the management processes involved as they actually happen.

Propounded by Reg Revans, action learning is the foundation for currently fashionable concepts such as team working, reengineering and learning organisation. As an EDP, action learning is unique in the sense that it is about teaching a little but learning a lot.

Action learning involves both psychological (e.g. exponential) and

sociological (e.g. situational) theories of learning. It is used by both NGOs and commercial enterprises, the best example of the latter being the Tata Group. The Tata Management Training Centre (TMTTC) at Pune uses action learning to train the group executives.

Staff Meetings Staff meetings facilitate participants to become more familiar with problems and events occurring outside their immediate area by exposing them to the ideas and thinking of other managers.

Lateral Transfer Lateral transfer involves horizontal movement through different departments, along with upward movement in the organisation.

Off-The-Job EDPs

Seminars and Conferences Seminars and conferences facilitate meeting together of groups of people to seek mutual development. Such programmes can be used to communicate ideas, policies or procedures. Issues can be discussed and debated, outcomes notwithstanding.

The most popular programme that is conducted in seminars is the Leadership Grid (see [Fig 8.9](#)). The seminars focus on two dimensions of effective leadership: *concern for people* and *concern for production*. These two dimensions are represented in the grid shown in [Fig 8.9](#). Developed by Blake and Mouton, the leadership grid uses a combination of seminars, discussion and personal reflection and helps managers achieve “9,9” leadership style. By participating in seminars, managers and supervisors learn to identify necessary personal and organisational changes to become more effective in their interpersonal relationships and their work groups.

Case Studies This is the most useful technique of management development. Case study uses a written description of a real (or simulated) decision-making situation in an organisation. Managers are asked to study the case to identify the problems, analyse them for their significance, propose solutions, choose the best solution and implement it. More learning will take place if there is an interaction between the managers and the instructor. The instructor’s role is that of a catalyst and facilitator. An effective instructor is able to involve every participant in problem-solving.

Case study method can be most effective where ⁵⁸

1. Analytic, problem-solving and critical thinking skills are most important.
2. The KSAs are complex and participants need time to master them.
3. Active participation is desired.
4. The process of learning (questioning, interpreting, etc.) is as important as the content.
5. Team problem-solving and interaction are possible.

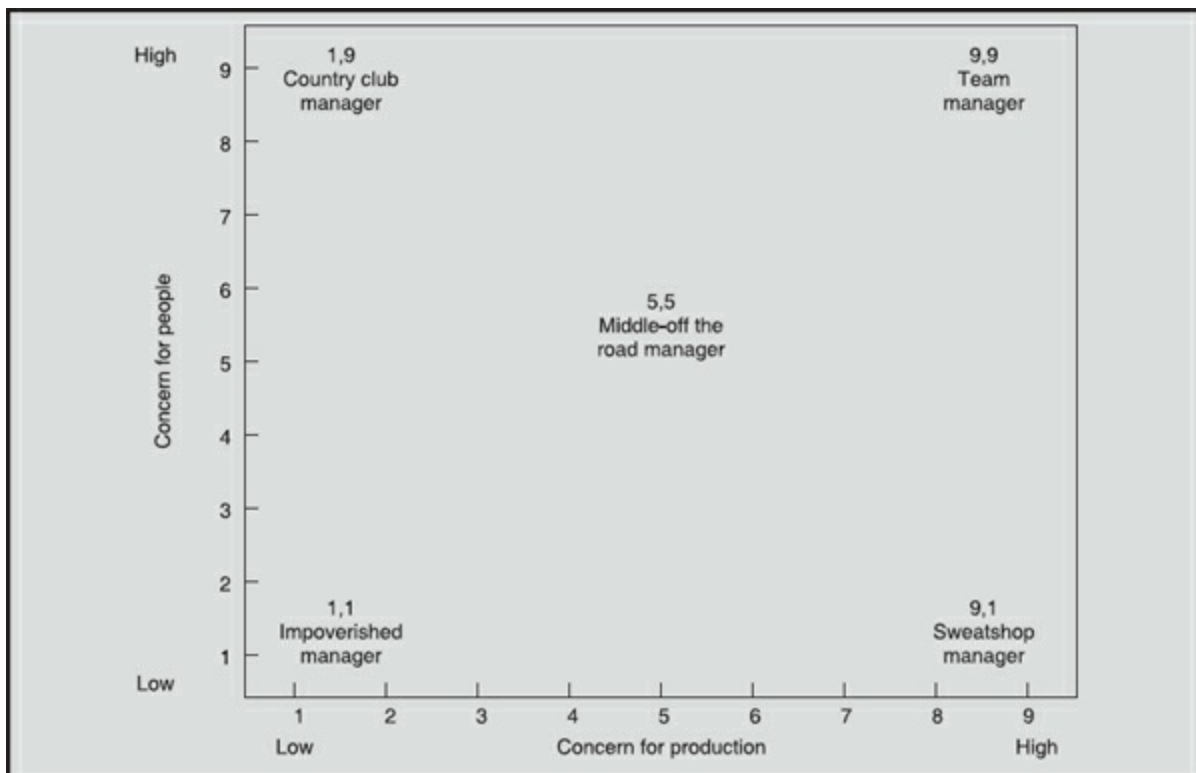


Fig. 8.9 *Managerial Grid*

When using case studies:

- Be clear about learning objectives, and list possible ways to achieve the objectives
- Decide which objectives would be best served by the case method
- Identify available cases that might work, or consider developing own
- Set-up the activity including the case material, the room and the schedule
- Follow the principles of effective group dynamics

- Provide a chance for all learners to take part and try to keep the groups small
- Stop for process checks and be ready to intervene if group dynamics get out of hand
- Allow for different learning styles
- Clarify the trainer's role
- Bridge the gap between theory and practice

Case studies are mainly used in courses for managers and team leaders, based on the belief that managerial competence and understanding can best be achieved through the study and discussion of real life events.

Case studies are often over stretched. An effective analysis of a problem and formulation of appropriate solutions is assumed to make a trainee more competent. But the danger of case studies is that they are perceived by the trainees as irrelevant, even if they are based on facts. Consequently the analysis becomes irrelevant and the situation unrealistic. It is the job of the trainer to avoid such possibilities by ensuring that the managers are not allowed to get away with half-baked comments.

Management Games Business games are becoming highly popular in developing managers and supervisors. These games are simulations, computer based or non-computer based, that attempt to duplicate selected factors in a particular business situation, which the participants manipulate. Business games involve two or more hypothetical organisations competing in a given market. The participants divide into five or six person groups and play roles such as director, vice-president, or marketing manager. They make decisions affecting price levels, production volumes and inventory levels. Often, a computer programme manipulates their decisions, with the results simulating those of an actual business situation. Participants are able to see how their decisions affect other groups or *vice versa*.

Most popular management games include Looking Glass, Simmons Simulator and Financial Services.

Games offer specific benefits as training techniques. There is integration of several interacting decisions, the ability to experiment with decisions, the provision of feedback on decisions, and the requirement that decisions be made with inadequate data, which simulate reality. People learn best by being involved, and the games can gain such participation. The groups usually elect

their own officers and organise themselves. This can develop leadership skills and foster cooperation and teamwork. The criticisms of most games concern their limitation of novelty or reactivity in decision making, the cost of designing and administration, the unreality of some of the models, and the disturbing tendency of many participants to look for the key to winning the game instead of concentrating on making good decision.

Role Playing Many organisations use the role playing technique to train supervisors and managers. In the role playing technique, participants are presented with an organisational situation, assigned a role or character in the situation, and asked to enact the role with one or more other trainees. The role play should offer an opportunity for self-discovery and learning, for example, a management development programme could include a role play situation highlighting an interpersonal conflict between a manager and a subordinate. Management trainees would have an opportunity to role play both the manager and the subordinate role, in order to better understand some of the dynamics of this situation, as well as practise interpersonal skills. The significance of role play is enhanced by conducting a feedback session following the role play, in which the trainer and the trainees review performance of each player. In many organisations role plays are videotaped and preserved.⁵⁹

The success of role playing depends on how convincingly each trainee enacts his or her role. If done well, role playing can help a manager become aware of and be more sensitive to the feelings of others.

Behaviour Modelling Behaviour modelling seeks to improve interpersonal skills among the trainees. The alternative expressions used for this model include *interaction management* or *imitating model*. The key to behaviour modelling is learning through observation or imagination, and is modelled on social learning theory. The famous social learning theory posits that much of learning occurs by observing others. In organisations, employees learn all kinds of behaviours (work related or otherwise), from observing supervisors, managers, union leaders, and co-workers who serve as role models. Role models wield tremendous influence on individual behaviour.

HUL organises 15–18 structured programmes for its new hires. Called the Business Leadership Training (BLT), the management training programme

includes six-week international stint and four-week rural India spell. The training programmes include teaching core values, culture and acceptable behaviours of the company. Similarly, Citibank has Management Associate Programme (MAP). MAP is a two-year intensive programme that trains fresh graduates into effective bankers.

Corporate Universities Organisations often collaborate with universities. Managers are sponsored to undergo a course in universities in general management or in different functional areas. A step ahead is to establish a B-school by themselves on the lines of the International Business School (IBS, Hyderabad). Managers and supervisors are sponsored to undergo courses and improve their academic credentials and enhance learning.

The EDPs, described till now are well tested and validated by empirical data. But they carry one common drawback—they lack vertical alignment with the business strategy. However, EDPs have four strong reasons why they should be used:⁶⁰

- Organisational performance is dependent on the quality of managers and their practices.
- Managers are the life blood of an organisation: they are the interpreters of corporate visions and executors of business strategies.
- Managers act as the gatekeepers of quality and performance improvement including the facilitation of employees' learning and development.
- Managers are the primary conduit used to improve employee motivation and satisfaction.
- Training programmes enable managers to play the above roles more effectively.

CAREER DEVELOPMENT

Before describing the nature of career development, it is useful to differentiate it from training. Career development carries broader canvas, longer time frame and wider scope, whereas training aims at improving performance at the earliest. Training is generally group oriented and duration specific. Career development is individualised and is an ongoing process.

The terms career, career planning, career development and career

management need clarification. **Career** is progress or general course of action of a person in some profession or in an organisation. Elaborating further, career includes the specific jobs that a person performs, the kinds of responsibilities and activities that comprise those jobs, movements and transitions between jobs, and an individual's overall assessment of and feelings of satisfaction with these companies of his or her career.⁶¹

A typical career progresses through five stages:

- (i) Entry to the organisation when the individual can begin the process of self-directed career planning;
- (ii) Progress within particular areas of work;
- (iii) Mid-career when people still hope to secure higher positions, while others have already got;
- (iv) Later careers when people have settled in respective areas and are planning post-retirement life;
- (v) End of career in organisations; rehired, if physically fit and willing, or lead retired life dedicated to social and religious life.⁶²

The meaning of a career given above refers to its conventional approach. The traditional approach focuses on paid work. It also embodies the notion of a 'job for life' or the idea that careers are longitudinal phenomena that take place within single or limited number of organisations. Obviously, the focus is on careers taking place within a bureaucratic context and on continuous vertical adjacent through the organisational hierarchy. In this sense, careers tend to be structured around well-trodden paths or ladders which link a sequence of jobs resulting in the achievement of certain predetermined objectives.

But the contemporary notion of a career is different from the conventional perspective. Career is now understood as the subjective sense where one is going in one's work life. In other words, his/her movements are unpredictable, discontinuous and subjective. [Table 8.9](#) brings out the comparison between the 'old' career and the 'new' career more clearly.

Table 8.9 *The 'old' and 'new' careers compared*

'Old' Career	'New' Career
• Structured	• Unstructured

- | | |
|-------------------------------|------------------------------------|
| • Objective | • Subjective |
| • Continuity | • Discontinuity |
| • Coherence | • Irregularity |
| • Status, power and authority | • Psychological success |
| • Linear | • Cyclical |
| • Security | • Employability |
| • Bureaucracy | • Network |
| • Organisationally-bounded | • Boundary less |
| • Work focussed | • Holistic |
| • Jobs | • Skills, assignments and projects |
| • Predictability | • Unpredictability |
| • Long-term | • Short-term |
| • Future orientation | • Present orientation |

(Source: Nick Wilton, *Human Resource Management*, Sage, 2012, P.343)

It does not imply that the old careers are dead. Employees of today expect orderly career movements, and prefer to stay with the same organisations for at least five years. They believe that rolling stones do not gather anything. An individual prefers to lead a predictable and orderly life. Further discussion here focuses on conventional careers.

Career planning is a process whereby an individual sets career goals and identifies the means to achieve them. Where the organisation intervenes in planning, it becomes **organisational career planning**. In other words, organisational career planning is the planned succession of jobs worked out by a firm to develop its employees.

Another related term is **career development**. Career development refers to a formal approach used by the firm to ensure that people with proper qualifications and experiences are available when needed.

Career management is the process of enabling employees to better understand and develop their skills and interests and use them for the benefit of the organisation and self. Specifically, career management activities include offering career development initiatives, providing realistic career-oriented appraisals and posting open jobs. We focus on development and management of careers in this section, the emphasis being more on development-oriented activities.

Career development benefits both employees as well as organisations, as properly developed employees are better equipped to add value to themselves and to the company.

Every organisation needs to have career development programme and integrate the function with other HR activities. Integrating career development with other HR programmes creates synergies in which all aspects of HR reinforce one another. Integration should not be difficult. For example, in planning careers, employees need organisational information—information that strategic planning, forecasting, succession planning, and skills inventories can provide. Similarly, as they obtain information about themselves and use it in career planning, employees need to know how far they can climb in the ladder of hierarchy within the organisation and how management views their performance.

Roles for Career Development

There are four stakeholders in career development: organisation, manager, employee and HR professional.

Organisation Organisations are expected to play a critical role in employees' career development. They are constantly required to reinvent themselves and are forced to manipulate priorities that change regularly. The result is a leaner organisation with fewer resources, fast-paced work, expanded spans of control, and a new norm at work that demands flexibility and ability to thrive when ambiguity and change are the order of the day. To remain competitive in business and attract top talent, an organisation must provide the systems and structures that support the career development needs at all levels. Framing responses to the questions below will be an important step to addressing the development of systems and structures that support career development needs:

- How can leaders and managers who work in an organisation guarantee that the business strategy will work, the day-to-day tasks are updated and redesigned, and the workforce still remains engaged?
- How do we respond to the constant changes in business today?
- What does a career look like in the organisation today?
- Do the existing systems and processes support career development and succession planning for the next generation?

- How to measure results and does career development process support those results?
- How to establish a foundation for employees to grow in areas that matter across the life continuum of the organisation and the employee?

Specifically, the organisation should develop and publish a formal “Career Ladder” or “Career Path” (See [Table 8.10](#)). Such a ladder provides valuable information regarding the possible directions and career opportunities available in the organisation. It presents the steps in a possible career and a feasible time-frame for climbing the ladder. The path should also specify the qualification needed for succession at each stage and the minimum number of years one should serve on a position before aspiring for the next.

In addition, the employer should wake up, encourage, facilitate and reward an employee in his or her career advancement. We use the words “Wake up” deliberately. For the reason that the tendency among most employees is to slog on given jobs. Such employees need to be enlightened about the challenges and benefits that will bestow on them if they climb up.

Table 8.10 *IT Professional’s Career Ladder*

Software Engineering			
<i>Title Code</i>	<i>Role</i>	<i>Designation</i>	<i>Tenure (indicative)</i>
ES	Manager	Sr. Project Manager	12+ years
E4	Manager	Project Manager	10+ years
E3	Head	Team head/Project head	6-10 years
E2	I/C	Sr. Software Engineer	2-8 years
E1	I/C	Software Engineer	0-4 years
Database Administration			
DB-5	Manager	Chief Database Administrator	10-20 years
DB-4	Head	Sr. Head Database Administrator	8-12 years
DB-3	I/C Head	Head Database Administrator	4-10 years
DB-2	I/C	Sr. Database Administrator	2-6 years
DB-1	I/C	Database Administrator	0-3 years
Network Technicians			
N-6	I/C	Head Network Technician II	6-10 years
N-5	I/C	Head Network Technician I	5-6 years
N-4	I/C	Sr. Network Technician	3-5 years
N-3	I/C	Network Technician III	2-4 years
N-2	I/C	Network Technician II	1-3 years
N-1	I/C	Network Technician I	0-2 years

Manager If the organisation provides the systems and tools for career development, the development- minded manager provides the support and

guidance. Managers must understand that building talent for tomorrow requires commitment to career development today and at every level. Development-minded managers create and implement developmental assignments, encourage risk-taking, set goals, and tap unused resources. They provide a professional safety net so that employees can experiment and learn on the job. They continuously ask themselves some key questions:

- How do I serve as a career advocate for my employees?
- How often do I talk with my employees about their career goals and what matters most to them?
- Do I provide candid and frequent feedback to my employees about what they need to do to grow in their careers?
- Do I link employees to the resources and information they need in support of their careers?
- Do I take career growth plans seriously? What amount of time do I devote to planning?
- Do I provide information to employees about the future of the organisation and look for opportunities for employees?
- Do I stay current and future focused on the above concerns for me and my career as well as the careers of my direct reports?
- What am I reading and discussing with colleagues to ensure the above?

HR Manager Role of HR professionals is felt more in career advancements programmes than in other activities. HR leaders must align with the vision of the organisation by serving as strategic partners who can integrate business-driven solutions around a robust career development programme. This means they must take stock of their existing career development processes to integrate new thinking, ignite new strategies and behaviours, and infuse into the culture of the organisation. They must examine key questions about policies, systems and structures that are designed to support career development in the organisations. The list of questions that follows represents the challenges before HR managers to consider and implement.

Here, are our policies, systems and structures:

- Aligned with development choices?
- Focused on future directions?
- Driving new positive behaviour?
- Creating partnerships that energise and engage while fulfilling valued

services/products?

- Investing in broad talents and determining where those talents can best be utilised internally?
- Growing a new breed of workers who are fulfilled both personally and professionally?
- Ensuring respect and inclusivity across the workplace?
- Providing opportunities for employees at all levels to learn, grow, and develop within the organisation?

Employee Employees cannot remain passive spectators in their own development. All the exercise that takes place in the name of career development is for employees and they should naturally take active interest. To be effective, employees must begin to manage their careers by knowing themselves, knowing what is out there, knowing what others think of them and knowing whom to ask for help. It is up to each individual to identify his/her own knowledge, skills, abilities, interests and values and seek out information about career options. Specifically, individual employee responsibility shall be on the following lines:

- Seek out information about career options
- Make use of development opportunities
- Establish goals and career plans
- Accept that career planning and developments are one's own responsibility.
- Assessing own KSAs and describe current values, skills and interests. Ensure these are used regularly on the job.
- Understand the trends visible in the growth cycle of the organisation. Any change occurring may throw open several opportunities for one's own advancement.

Pause and Ponder

“Career planning and management is the responsibility of the employee himself or herself “. Support or critique this statement.

Career Development initiatives

Organisations devise and implement several initiatives in order to develop their employees' careers. More significant of them are career planning workshops, career counselling, mentoring, sabbaticals, personal development plans, and career workbooks.

Career Planning Workshops Structured workshops are available to guide employees individually through systematic self-assessment of values, interests, abilities, goals and personal development plans. During workshops, employees are made to define and match their specific career objectives with the needs of the company. Generally, these workshops are designed to guide individuals to figure out their strengths and weaknesses, job and career opportunities, and necessary steps for reaching their goals. Suggested steps help organisations initiate appropriate action plans.

Career counselling Career counselling helps employees discuss their career goals in one-to-one counselling sessions. Along with goals, other variables identified are capabilities, interests, and current job activities and performance. While some firms make counselling a part of the periodic performance appraisal, career counselling is usually voluntary. Career counselling may be provided by the HR staff, managers, supervisors, or consultants.

Mentoring Mentoring occurs when a more experienced person (the mentor) guides a less experienced person (the mentee) in acquiring competencies for professional development. Mentorship is interactive and collaborative, with both the mentor and the mentee providing topics for learning. The mentee acquires expertise, applies it on the job, and reports the experience to the mentor. Mentorships vary in terms of their span; some focus on a specific job, and some are on-going covering the mentee's career. Mentoring offers the following benefits:

- Transfer of knowledge from the mentor to the mentee.
- Relationship building, networking, and the creation of social capital.
- Transmission and sustenance of organisational culture.
- Development of new mental models, as the interactions between the two produce new insights about how to better frame various situations.
- Psychological support for both the mentor and the mentee.

Mentoring can be organised formally or can take place informally too. In the former, names of mentor and mentee, time schedules, and frequency are stipulated and are expected to be complied with. At times, formal mentoring can be purpose-specific. Formal mentoring programmes exist in many organisations. These pair a young manager or a new employee with a senior manager, and set up interactions between the two, based on specific goals. These goals can be to introduce new employees to the ways of the organisation, to improve their performance, address their deficiencies, or to share knowledge. While many of the formal mentoring programmes have been successful, it is really the informal connections that stand out. Formal programmes tend to fail because schedules are either put off, meetings are postponed, or clear communication does not exist. Formal programmes rarely begin with a personal connection and forced matches organised by the HR team carry only academic interest.

Informal mentoring springs from personal touch and lasts even after the mentor and the mentee exit. It is a life long phenomenon.

Though informal mentoring works much better, formal programmes do exist in organisations. Formal programmes help create a culture where informal mentoring takes place more easily. They also create accountability for success.

Mentoring exercises in HUL is worth recollecting in this context. Mentoring is the true differentiator in HUL's training programme. In the 50 weeks of training, more than half the programmes are run by HUL's own leaders, who share their experiences with juniors. At any point of time, 300 to 500 managers are being mentored over and above their immediate bosses in a mentoring programme. While the immediate boss is the mentor, every new hire, new promotee, or high potential candidate has an additional mentor. There is reverse mentoring too. Senior executives are mentored by youngsters. While the best mentors are lauded, those who lag are taken off the mentoring programme for a year.

Sabbaticals These are temporary leaves of absence, usually at a reduced amount of pay. Periodic leaves or sabbaticals help employees in terms of refreshing their learning and rejuvenating their energies.

Secondments A secondment involves an employee usually a manager,

spending a period of time working in a different organisation (e.g. supplier or customer). The period needs to be at least one year, a shorter time duration does not help the secondee learn much about his/her job in a different organisation. The role of the HR manager is to ensure that the secondees are properly prepared for the secondment and debriefed at the end; that the secondment is monitored effectively and evaluated at the end. He/she can also act as a facilitator should any problem arise during the secondment.

Personal Development Plans (PDPs) In these, employees write their own personal development plans. Such development plans include development needs and action plans to achieve them. A PDP could be the nucleus of a wider career plan such as setting out alternative long-term strategies, identifying one's long-term needs and setting out a plan of self-development.

Career workbooks These consist of questions and exercises designed to guide individuals to figure out their strengths and weaknesses, job and career opportunities, and necessary steps for reaching their goals. Many workbooks are tailor-made for a particular firm and can be completed in several sessions. Workbooks generally contain organisation's career policy, career options available in the organisation, organisational structure, and job satisfactions along the career ladders.

[Table 8.11](#) contains a few more career development activities.

Table 8.11 *Career Development Activities*

- Performance appraisal for career planning
- Lateral moves/job rotations
- Pre-retirement programmes
- Succession planning
- Clear career paths
- Dual ladder career paths
- Career booklets/pamphlets
- Assessment centres
- Management development programmes
- Orientation programmes
- Diversity management

- Expatriation, inpatriation and repatriation
- Formal education as part of career development
- Retirement preparation programmes
- Peer appraisal
- Upward (subordinate) appraisal

Challenges of Career Development

HR leaders need to be aware of the challenges lying in the way of managing careers of their employees.

First, laissez-faire attitude of the management is one challenge. Management feels that its job is to identify talents and talented individuals rise in their careers on their own. By assuming that the cream will climb up to the top, the organisation can waste the latent potential in the employees by failing to nurture and develop it.

The *second* challenge is the assumption that job rotation or an overseas assignment is itself a developmental experience. No effort is made to provide either the framework to orient the person to what exactly he/she is supposed to learn from the assignment or debriefing to ensure that the desired development has taken place.

The *third* challenge is making promotions or lateral moves that stretch the person to the point of breaking, without proper support and a safety net; and blaming the individual for failing to adapt quickly enough.

The *fourth* problem relates to moving the high potential individual from one role to another too quickly, eliminating the opportunity to learn from experience and mistakes.

Finally some individuals are too ambitious, impatient and greedy. They refuse to understand that rising to the top is an arduous and time consuming process. A management trainee today, assistant manager tomorrow, manager the next day, vice-president the fifth day and CEO subsequently is possible only in movies and not in real life. Problem is that they have talents and this makes them become rolling stones.

Career Management Process

Career management process can be sequenced in five stages: Strategy,

assessment, planning, development and evaluation of initiatives (See [Fig 8.10](#)).

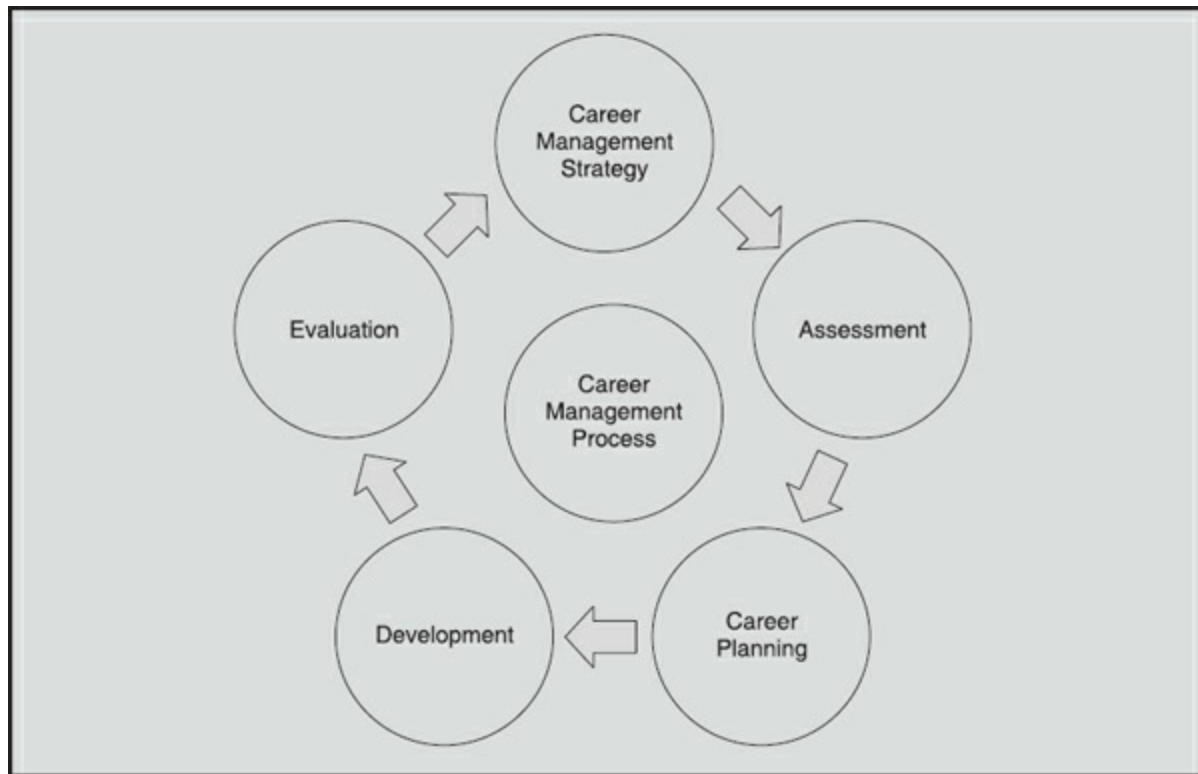


Fig. 8.10 *Career Management Stages*

Career Management Strategy First step in the career management process is the career strategy. A well crafted strategy should cover the following:

- Choice about the model of career development: Supported self-development, corporate career management or career partnership
- Policy of promoting from within or lateral entry from outside.
- Clear paths enabling talented people to climb up the ladder
- Have systems and processes to achieve sharing and development of knowledge
- Choice between one-size-fits-all career development initiatives or flexible approaches
- Choice between career progression based on loyalty and relative security and ‘new deal’ employment based on short-term commitment and development of employability.

Assessment Assessment is the second stage in the career management process. This stage includes activities ranging from self assessment and the one made by the organisation. Either way, the purpose of assessment is to identify employees' strengths and weaknesses. Assessment, also called talent audit, helps an individual choose a career that fits his or her skills and capabilities. Besides, talent audit points out one's weaknesses which need to be consciously overcome.

Planning This phase involves determining the type of careers the employees want, identify career paths they need to choose and steps they should take to realise their career goals. It uses all the information provided by the organisation's assessment of requirements, the assessment of performance and potential and succession plans, and translates it into the form of individual career development programmes.

Development Development phase in the career management involves taking actions to create and increase skills to prepare for future job assignments. The most common development programmes include career counselling, mentoring, coaching, job rotation and educational assistance.

Evaluation Assessment of the effectiveness of development initiatives is necessary, but is fraught with difficulties. Difficulty arises because of varied success perceptions held by stakeholders. For example, the individual employee might measure career success according to a subjective assessment of his or her achievements based on relative reward, hierarchical position or afforded life style. Senior managers are likely to draw on a range of indicators such as the retention of talent, strong flow of internal candidates for vacancies or the perceived impact on the organisational preference. HR professionals might evaluate effectiveness according to the internal consistency with wider systems and practices.

Moreover, the evaluation of career management interventions is difficult because of problems in isolating the impact of specific activities on both the individual progression and on the achievement of organisational objectives. Regardless of these problems, monitoring and evaluation of career development activities is important to ensure that they are meeting the needs of all groups who could potentially benefit, whilst bearing in mind the need

to develop provision to meet changes in organisational context.

Models of Career Management

Three models of career management are distinguished. First is ‘supported self-development’ where employees take primary responsibility for their own career, but there is extensive support provided by the employer, mostly in the form of information and advice. As we stated earlier, this is the laissez- faire approach to career development.

Second is the ‘corporate career management’ model which is organisation-driven. Such an approach is the characteristic of development programmes for senior managers or high potential employees whose career development is more actively planned by the organisation through planned job moves and succession planning. Finally, there is the ‘career partnership’ in which both individual and the organisation take equal responsibility for careers in order to meet the need of both. Supposed to be the best model, career partnership is focused here.

TALENT MANAGEMENT

Employee engagement and talent management are the two metaphors which are doing rounds in HR circles these days. Employee engagement will be explained in [Chapter 10](#). Talent management is covered here.

What is Talent Management?

There are three interpretations of talent management. Before describing the three, it is desirable to state that talent management is yet another high sounding and tautological metaphor which does not convey totally new and different initiatives. Probably, the interpretations justify the assertion. Before discussing the explicates it is desirable to state that the topic talent management came to prominence in the late 1990s when a group of McKinsey consultants coined the term *The War for Talent*.

First interpretation of talent management relates to all HR activities that help build competitiveness of an organisation. From this perspective, talent management is understood to refer to the process of attracting, selecting,

training, developing, and promoting employees in an organisation. This “all things to all people” approach is in a way definition of HRM itself and hence serves no purpose. The second interpretation runs thus: Talent management is the process of attracting, developing, retaining and developing the best people. This interpretation is elitist referring mainly to the creamy layer in the organisation, ignoring the developmental needs of people in general. Success of an organisation does not hinge only on high fliers. Success is a shared phenomenon.

The third interpretation is a broader approach and includes efforts to create a ‘pipeline’ or pool of talented people and ensuring that workforce development is inclusive, accessible and focussed on developing organisational capabilities. Talent management seeks to align people with roles (treating roles as fixed and developing people to fit these jobs) or aligning roles with people (creating and adapting roles to satisfy the aspirations of people). This interpretation is acceptable.⁶³

Imperatives for talent Management

Talent management requires data collection on current internal labour supply, tracking individual performance and progress and providing opportunities for development. More specifically, talent management requires:⁶⁴

- Creating a winning employee value proposition that will make the company attractive to talent.
- Moving beyond recruiting type to build a long-term recruiting strategy.
- Using job experience, coaching and mentoring to cultivate the potential in managers.
- Strengthening the talent pool by investing in A players, developing B players and acting decisively on C players.
- Developing a pervasive mindset – a deep conviction shared by all in the organisation that competitive advantage comes from having better talent at all levels.
- Talent requires individual ability and team work. Hiring talented individuals alone without team work may produce personal records but not organisational long-term successes. Talent without team work is insufficient.
- Technology facilitates talent management processes and connections

among people. Technology changes the way talent work is organised and delivered through information sharing, improving processes, redefinition of work, and social networks.

- Talent activities and their outcomes need to be measured. Outcomes of talent activities can be traced to individual capabilities and organisational competencies.
- Talent will obsolesce faster, posing a challenge and threat to both individuals and organisations.

Talent Management Life Cycle

The talent management life cycle shown in [Fig. 8.11](#) is useful for organisations. While all the phases are self-evident, it may be stated that all the stages need to be managed in an integrated manner. But in many organisations, the talent management cycle is managed within silos: with recruiters, for example, who are disconnected from those responsible for onboarding, training, or performance management. To optimise their investment in talent, organisations need to stop handling each phase in isolation from others. They need to find ways to link their business strategy to talent life cycle. They must then design adaptable processes, capabilities and messages to support the integrated model.

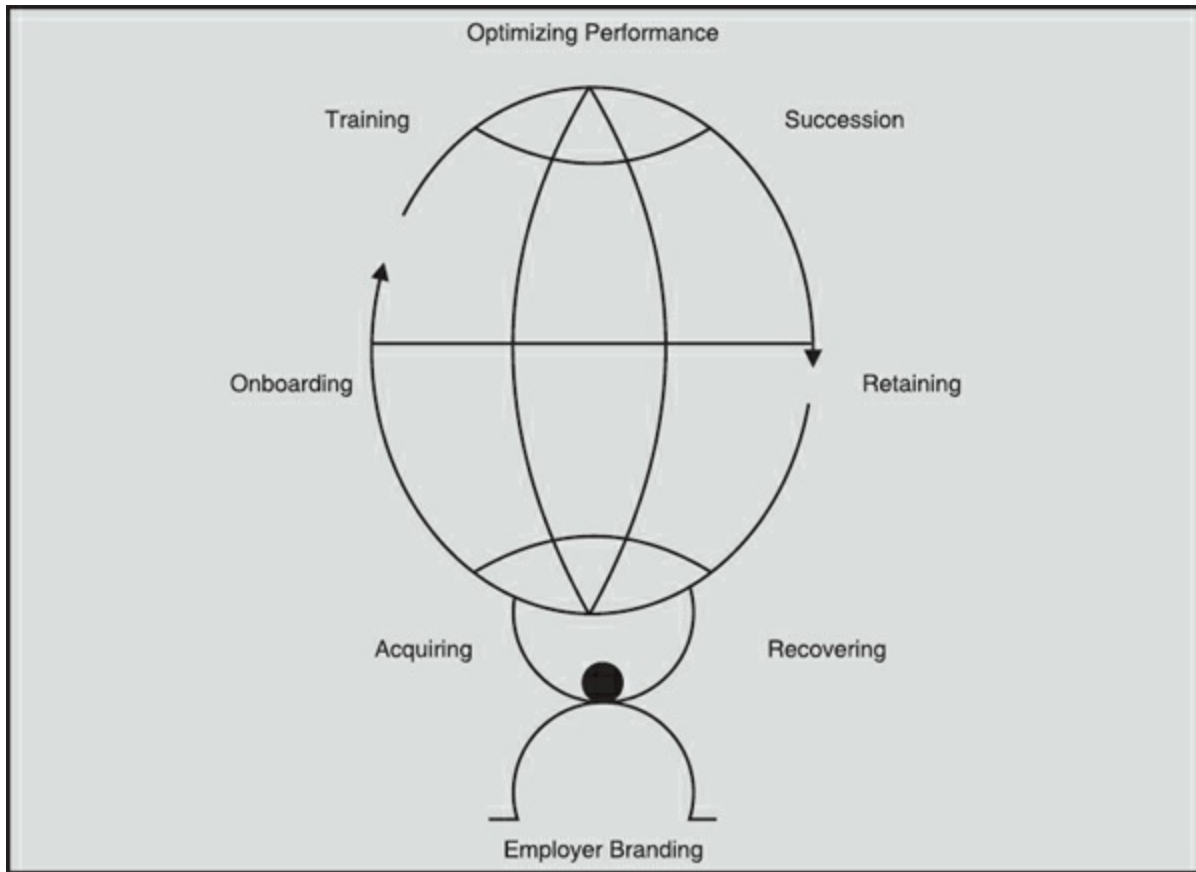


Fig. 8.11 *Talent Management Life Cycle*

(Source: Lance A. Berger and Dorothy R. Berger, *Talent Management Handbook*, TMH, 2011, P. 507)

Pause and Ponder

“Talent management and training and development are tweedledoms and tweedledees”. Comment.

Talent Management initiatives

Quite a few talent management initiatives are in use – some old and some new. When we say old initiatives, by implication we mean that management of talent itself is not a new phenomenon. In a way, talent management is the old wine in a new bottle. In the meanwhile, talent management initiatives are too many. As many as 100 research based best practices exist to retain talent.

The major talent management initiatives include role design, talent

relationship management, performance management, resourcing strategy, learning and development, career management, succession planning, coaching, self-drive and the like.

Role Design Role design should ensure that a role carries enough challenges, autonomy and responsibilities required to create role engagement and commitment. In addition, the role holders need to have opportunities and encouragement to learn and develop in their respective roles. Talent management policies focus on role flexibility-giving employees the chance to develop their roles by making better and extended use of their talents.

Talent Relationship Management This refers to creating a great place to work where people are encouraged to perform, are recognised and are rewarded. They have a voice in decision-making and each role carries opportunities for advancement. Talent management seeks to make people committed to their work and the organisation. Relationship management is the new expression for human relations approach propounded by Elton Mayo, decades back.

Attraction and Retention Policies Attraction policies refer to external sourcing of talent. Company image, its growth potential, compensation and advancement opportunities, attract people and tempt them to apply for jobs in the organisation.

More difficult is retention of talent. Why employees choose to stay with company is a question, the answer for which lies in the following factors:

- Exciting, challenging and meaningful work
- Supportive manager, inspiring boss
- Being recognised, valued, and respected
- Career growth, learning and development
- Flexible work environment
- Fair pay
- Job location
- Working with inspiring co-workers and clients
- Pride in the organisation, mission or product
- Fun, enjoyable work environment
- Attractive benefits

Performance Management Performance management refers to the range of HR activities that enable, encourage, co-ordinate and support employees to achieve their objectives. In addition, it seeks to monitor, measure and reward employees for their performance. Performance management helps build relationships with people, identify talent, plan learning and development activities, and make the most of talent possessed by the organisation. When properly carried out, performance management helps build employee engagement and motivation by providing objective assessment and feedback.

Resourcing Strategy This refers to identifying talent available within the organisation. Once talent is identified all efforts need to be made to retain it. Talent is a rare quality which only lucky individuals possess it and progressive organisations nurture it. HR managers should conduct talent risk analysis, identifying probable exits of talent. Such individuals need to be nurtured, engaged and motivated to stay with the organisation.

Learning and Development Learning and development programmes are highly effective talent management tools. Through these, employees are able to identify talent gaps and acquire the needed skills, knowledge and capabilities.

Career Management This is an important tool for talent management, so important that career management is treated as another name for talent management. (More details on career management were provided in the previous section).

Succession Planning Succession planning refers to formulating contingency plans for the loss of employees holding key positions in the company. Typically characteristic of large organisations, succession or replacement planning focuses on providing long-term development plans for individuals identified as possible successors for senior managerial positions. This requires the identification of high potential individuals early in their careers and providing opportunities and encouragement that prepare them for specific 'Once in a generation' appointments.

Critical in succession planning is the identification of a successor. Identification is arduous, and time consuming as has happened in Tata Group.

After more than a year of searching, Cyrus Mistry has been chosen as successor to Ratan Tata.

Succession planning becomes necessary when top posts fall vacant. Vacancies at the top arise because of unnatural deaths of CEOs, performance-driven departures or early exits when top executives jump at greener pastures. When vacancies arise planning in advance for key transitions becomes critical.

At the surface, succession planning looks routine. Identify somebody and appoint him or her to the vacant spot. But to make it really meaningful, succession planning should be combined with talent review. Talent review means regular cycle of evaluating a company's leaders consistently and systematically. Talent review process serves two purposes: to understand the quality and depth of the leaders and to plan for succession by predicting who will succeed. Talent reviews should provide information necessary to make succession choice and guide how the company invests in potential successors.

Coaching Coaching as an EDP was explained earlier. As a talent development initiative, it provides three benefits to an organisation:

- Provides the opportunity for line managers to share wisdom and knowledge, and to create a culture that values the contribution of each and every employee.
- Managers who coach have the opportunity to inspire, excite and develop employees.
- Individuals who are coached and who coach have the opportunity to embark on a voyage of self-discovery and fulfilment.

Self-driven Probably the most effective talent initiative is the individual himself or herself. It was sheer grit and determination that Ekalavya became the greatest archer. It was the same inspiration that made Columbus and Vasco da Gama discover new continents. It was the same force which made Einstein and his ilk invent new things. It was the same spirit that prompted Henry Ford say: "Why is it that when I want only a pair of hands, I get a hole human body". (Also see Exhibit 8.7).

Exhibit 8.7 Against All Odds

In 1883, a creative engineer named John Roebling was inspired by an idea to build a spectacular bridge connecting New York with Long Island. However, bridge experts throughout the world thought that this was an impossible feat and told Roebling to forget the idea. It just could not be done. It was not practical. It had never been done before.

Roebling could not ignore the vision he had in his mind of this bridge. He thought about it all the time and felt it could be done. He just had to share the dream with someone else. After much discussion and persuasion he managed to convince his son, Washington, an up-coming engineer, that the bridge could be built. Working together for the first time, the father and the son developed concepts of how it could be accomplished and how the obstacles could be overcome. With greater excitement and inspiration, and the headlines of a wild challenge before them they hired their crew and began to build their dream bridge. The project started well, but when it was only a few months underway a tragic accident on the site took the life of John Roebling. Washington was injured and left with a certain amount of brain damage, which resulted in him not being able to walk or talk or even move.

“We told them so”.

“Crazy men and their crazy dreams.”

“It is foolish to chase wild visions.”

Everyone had a negative comment to make and felt that the project should be scrapped since the Roeblings were the only ones who knew how the bridge could be built.

In spite of his handicap, Washington was never discouraged and still had a burning desire to complete the bridge and his mind was still as sharp as ever. He tried to inspire and pass on his enthusiasm to some of his friends, but they were too daunted by the task.

As he lay on his bed in his hospital room, with the sunlight streaming throughout the windows, a gentle breeze blew the flimsy white curtains apart and he was able to see the sky and the tops of the trees outside for just a moment. It seemed that there was a message for him not to give up.

Suddenly an idea hit him. All he could do was to move one finger and he decided to make the best use of it. By moving this, he slowly developed a code of communication with his wife. He touched his wife’s arm with the

finger, indicating to her that he wanted her to call the engineer again. Then he used the same method of tapping her to tell the engineers what to do. It seemed foolish but the project was under way again.

For 13 years, Washington tapped to his instructions with his finger on his wife's arm, until the bridge was finally completed. Today the spectacular Brooklyn Bridge stands in all its glory as a tribute to the triumph of one man's indomitable spirit and his determination not to be defeated by circumstances. It is also a tribute to the engineers and their teamwork, and to their faith in a man who was considered mad by half the world. It stands too as a tangible monument to the love and devotion of his wife, who, for those 13 long years patiently decoded the messages of her husband and told the engineers what to do.

Exhibit 8.8 contains additional highly effective talent management initiatives.

Exhibit 8.8 Other Key Initiatives

1. Assignments to key projects and cross-functional groups, identified for working on certain critical business challenges. These could be within the organisation or could be market/customer challenges.
For example:
 - High-value, high-profile assignments.
 - Specific profitability improvement projects.
 - Giving early responsibility in significant areas of contribution to the business. Early leadership roles and positions of accountable influence.
 - Cross-functional roles to resolve a inter-team/inter-group conflict.
 - Opening up a new business within organisational boundaries.
 - New global roles.
 - Working abroad.
2. Planned job rotation to different roles within the organisation. Often this is done in close consultation of the employee and his or her manager. Key talent who complete more than 2-3 years in a role are encouraged to identify what role and responsibilities they wish to take on next. They are then supported with training and on-the job assignments to equip them to move to the new role over a period of

time.

3. A high rating on potential also implies a 'fast track employee' who normally gets promoted at a faster rate and grows vertically in the role to become his or her manager's successor and grow the business beyond its current stature.
4. Larger organisations establish formal forums for all key talent and run dedicated leadership programmes for them all through the year. With the key objective of grooming them to be capable leaders, they are exposed to world-standard leadership guru's, T-Groups, Learning Circles and other contemporary interventions to hone their leadership skills.
5. Key talents are also sponsored for higher education both at national and international levels and are supported with necessary funds and sabbaticals that enable them to pursue specialised higher education. They are encouraged to complete masters degrees and even doctoral programmes depending on their personal aspirations. However many organisations try and ensure that whatever the employee pursues is of benefit to the organisation in some way.
6. Key talents are enrolled on to formal mentoring programme that enables them to be engaged with senior and seasoned leaders within the organisation who act as mentors and guide the employees by discussing with them and helping them find answers to dilemmas and problems they face at work. Mentoring is not a one-time activity and is a continuous process of developing and growing the individual for future (often unspecified) roles. Mentoring focuses on aspects of potential such the ability to move upward, within (or outside) the organisation; the capacity to seize a situation, in a crisis, especially when superiors are not present; high innovative ability and the capacity to provide new solutions to challenges; high adaptability and an ability to operate successfully in a variety of different cultures; high common sense in dealing with everyday situations; steadiness under pressure; and the consistent ability to deliver (as opposed merely to talking about things).
7. And there are many such initiatives that are used to groom top talent all of which are designed to serve as stepping stones to enable the employee to understand the various aspects of the organisation's

function and grow to occupy larger roles within the organisation. The very fact that the organisation is investing in building their talent and providing them with challenging work opportunities serves as a key motivator.

Old Techniques Certain traditional methods can also be included as part of talent management initiatives. They include suggestion schemes, quality circles, job enrichment, empowered teams, ESOPs, and representation on the board. One may disagree from this inclusion but it is a fact that these techniques are time tested and trusted.

Talent Management Review

A typical talent review is on the following lines. A calibration meeting is organised in which both the manager and his/her team members discuss their talent. Each team member presents the performance and potential (PXP) grid (see Fig 8.12) he or she prepared on direct reports and briefly describes how each person is rated. Other team members contribute their opinions based on their first-hand interactions with that person. The discussion concludes after they have discussed each person, agreed on their final placement, and identified key development steps for them.

		<i>Potential</i>		
		<i>Lowest Potential Rating</i>	<i>Middle Potential Rating</i>	<i>Highest Potential Rating</i>
Performance over time	<i>Highest</i>	A	Y	P
		B	W	Q
		C		
		D		
	<i>Medium</i>	E	L	
		F	M	
		G		
		H		
		I		
		J		
<i>Lowest</i>	X			

Fig 8.12 Performance and Potential Grid

Note: Alphabets represent hypothetical names of employees

(*Source:* Marc Effron and Miriam Ort, *One Page Talent Management*, Harvard Business Press, 2010, P.81)

SUMMARY

Orientation, also called induction, refers to the process of familiarising new hires to the organisation.

Training and development activities are designed, considerable costs notwithstanding, to impart specific skills, abilities and knowledge to employees. Distinction is often made between training and education, and between these two and development. Training refers to imparting specific skills. Education is the process of theoretical learning in classrooms. Development refers to learning opportunities designed to help employees grow and evolve a vision about the future. All the three form a part of training and development—only target groups of employees differ. Training is confined to shop-floor workers and development is meant for executives. Education, of course, is needed for all employees, irrespective of their hierarchy.

Skills, education, development, ethics, attitudinal changes and decision-making skills must go into any programme of training and development.

A programme of training and development is important as it lends stability and flexibility to an organisation, besides contributing to its capacity to grow. Accident, scrap, and damage to machinery and equipment can be avoided or minimised, thanks to the programme. Furthermore, future needs of employees will be taken care by training and development.

Training process involves several steps: **(i)** defining organisational objectives and strategies, **(ii)** assessment of training needs, **(iii)** establishing training goals, **(iv)** devising the training programme, **(v)** implementation of the programme, and **(vi)** evaluation of the results.

Several barriers impede the effectiveness of training and there are ways of removing them.

Career management has several initiatives.

There are several initiatives which help build talent. As part of overall management, talent pool needs periodic review.

KEY TERMS

Training and development
Career management
Talent management
Coaching
Sabbaticals
Orientation/Induction
Brainstorming
Mentoring
Lateral thinking
Creativity
Action learning
Succession planning
PXP grid

REVIEW QUESTIONS

1. Define the term 'training and development'. Bring out the importance of training and development.
2. Explain the various inputs required for a training and development programme.
3. Bring out the steps in the training and development process.
4. How is a training and development programme designed?
5. Write short notes on:
 - (a) Programmed instruction
 - (b) Computer-assisted instruction
 - (c) Case study
 - (d) Sensitivity training.
6. Bring out the need, criteria, and techniques of evaluation of training results.
7. Bring out the barriers to effective training. How do you overcome them?
8. Define the terms career, career planning and career development. Explain the career development initiatives.

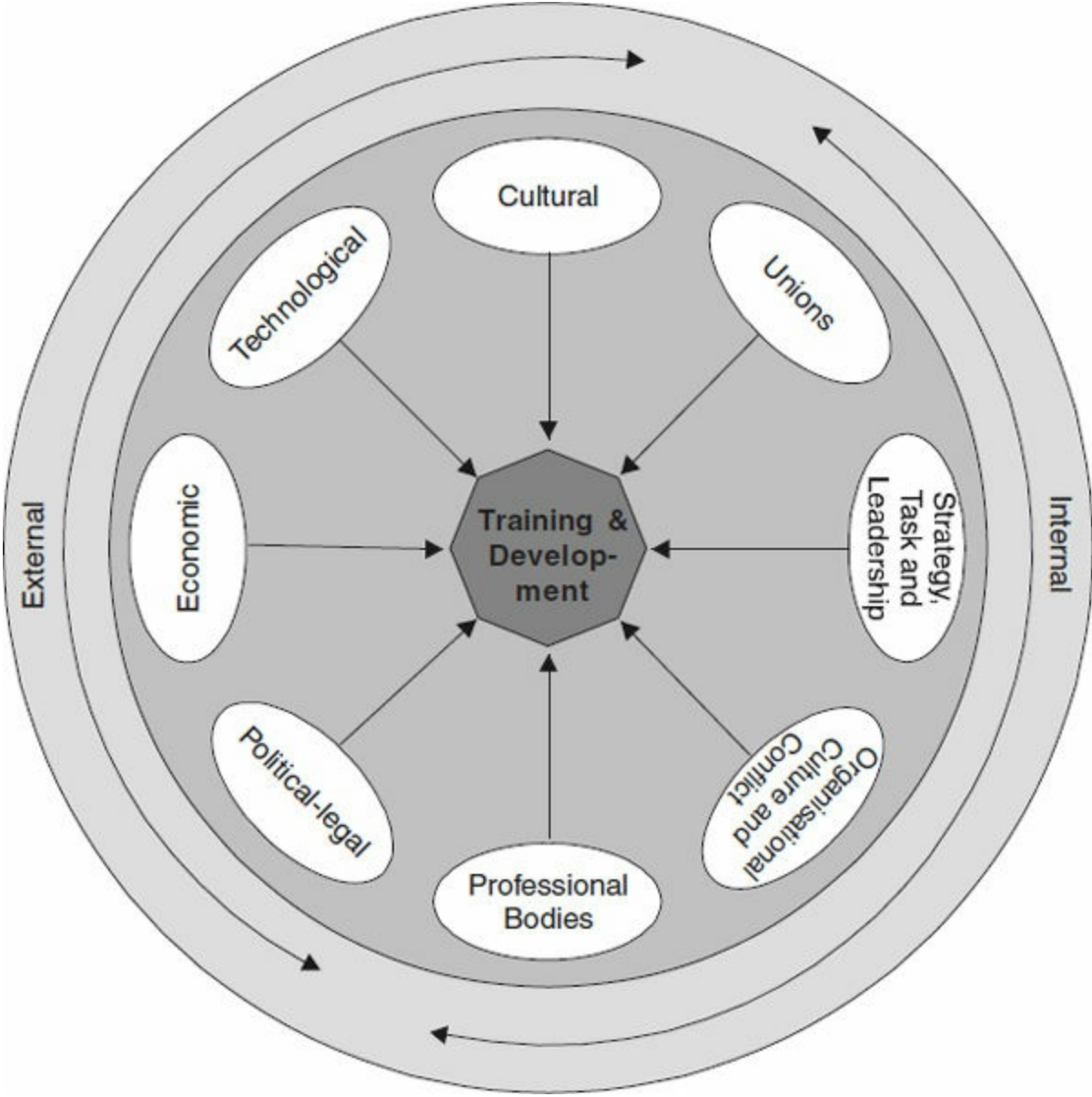
9. What is talent management? Bring out the talent management initiatives.
10. What is orientation? Explain a typical induction programme.

DISCUSSION QUESTIONS

1. As a frontline supervisor, what indicators would you need in order to decide whether a low-performing subordinate was a selection mistake or merely needs training? Can you illustrate this dilemma with an example from your own organisational experience?
2. You have been asked to train employees to use personal computers. What factors would you consider in designing the programme?
3. Why do organisations often overlook or lack proper evaluation of training and development programmes?
4. Training programmes are frequently the first items eliminated when management wants to cut costs. Why is it so?
5. “Management development should down-play job skills and leadership abilities and emphasise the ethical issues in managerial decision making”. Discuss.
6. Which training techniques do you recommend for each of the following occupations? Why?
 - (a) A clerk in an office
 - (b) A welder
 - (c) An assembly-line worker
 - (d) An inexperienced supervisor.
7. “Learning is good for everyone”. Discuss.
8. Suppose you are going to design a training programme for newly hired first-line sales managers. Results from the needs assessment indicate that they will need training on company policies and procedures, handling customer complaints, and motivating sales personnel. What learning principles will you build into the programme? What training methods would you choose? Explain your choices.
9. Why have career management and talent management become relevant these days?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact training & development, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



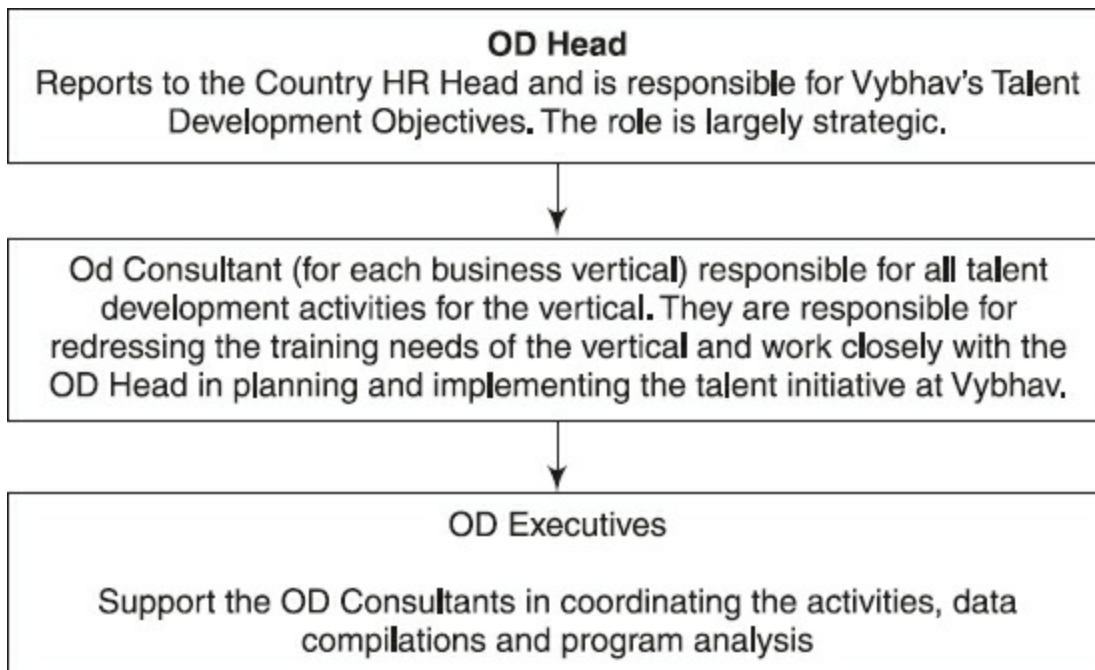
CONTINUING CASE

The OD (Organisational Development) team at Vybhav is entrusted with the charter of growing and nurturing the talent. The structure of the OD team is

simple and is illustrated on next page:

The training and development agenda of Vybhav is largely anchored around On-The-Job mode with a lot of onus of the training development initiative being lead by the people managers. Foremost, there is a very structured buddy system for the first six months of an employee's tenure at Vybhav. The same holds when an employee moves roles. The buddy system along with a suite of standard training programs hosted by external consultants and premier management institutions in the country make for an outsourced model for people development at Vybhav.

A day in the life of OD consultant Shika Jain begins with reviewing the up-coming programs per the training calendar that was drawn up at the beginning of the year after consolidating the training needs for the business unit. There are no more than five training days each month. Shika reviews the enrollment of employees on the on-line registration tool for the program and leaves instructions with her OD Executive, Pramila Rao, to follow up for nominations and other program arrangements.



Shika then spends the next couple of hours with the business leader of the unit, Sanjay Saini, reviewing the Personal Development Plan of each of his leaders. Today they need to finalise the implementation plan for the leaders and arrive at a detailed action plan considering the competency gaps

identified, during the annual review that was completed in March.

Late in the day, Shika is scheduled for a call with Train Plan Inc, an international training company with whom they have signed a two-year contract for doing approximately 30 man-hours of live training sessions. There is a schedule for a two-day project management program next month. The feedback from the previous Project Management Program conducted five months ago had highlighted few areas for improvement, particularly the need for reinforcing with examples. The feedback on Day 2 facilitator was not up to the mark.

Shika also has a meeting scheduled with the HR team. This is a monthly meeting where they together review the succession planning exercise for the unit. Recently the OD team had deployed a new succession planning template with notes. The templates have been in-use for the recent 'Quarterly Talent Review' exercise that was completed last week. Shika would be taking feedback on the template and the process that was provided by the OD team for the unit's Succession's Plan. She would also be sharing the framework proposed for the inter-unit job rotation program. During the last meeting the HR team had provided inputs on how this exercise can be approached and what its objective was. Since then Shika had spent time with the leaders and select key managers to understand their expectations from an internal job rotation program. Shika had presented the proposal to the India OD team. She had also studied about how other businesses go about this. It was agreed that all units would adhere to a central framework while they continue to customise to specific business unit requirements.

EXERCISE

Break up into groups of 4-5. Identify a training need for an educational institution like yours. The training program can be for any employee in the institution, administrative staff, faculty, departmental HODs, or accounting team. Design the program given the framework provided in the case.

- Identify the training objective and write out the agenda for a two-day workshop.
- Lay down the learning principles for the program.
- Draw up the training content and provide a session plan for the duration of the program, outlining the method of training and trainer information.

- What are your recommendations to evaluate and measure the effectiveness of the training programme?

Break into groups and list recommendations to be made to the Vybhav leadership on the following scenarios:

- This year the Vybhav MD Sanchita, and her leadership team decided to hire a batch of management graduates to bring in fresh talent at various levels in the middle management team. How do you think they should go about identifying the jobs they will best fit. In addition, debate if the orientation for them needs to be different from what Vybhav is currently practising.
- This year Vybhav has hired, from the technical college campus, 100 graduate trainees for its various business verticals. Present your recommendations of how the orientation needs to be planned for the graduate trainees.
- Devise a means by which the graduate trainees would be assigned to the business verticals. What rationale will be used to allocate them?

Closing Case-1 *Travails of a Training Manager*

Ashwin Kumar, who had recently joined System, as a training manager, was feeling uneasy at the end of his first meeting with Pesu Shroff, the managing director of the company.

Systems was a ten-year-old unit employing 300 people. It had a turnover of ₹25 crore the previous year. The company traded in several products—both domestic and imported. Nearly 80 per cent of its turnover came from selling electronic component products which were assembled locally from imports of semiknocked-down kits. The landed cost of its imports was about ₹10 crore last year. The products had an assured demand in the country, with smuggled goods from Taiwan and Korea providing whatever little competition there was. The company had been operating in a seller's market for years and, as a result, most of its activities were production oriented rather than market oriented.

Early during the current financial year, the Government of India had announced, as a part of its economic liberalisation strategy, several policy measures which made imports costlier. All imports had to be financed by

exports —there were restrictions on margin money and interest rates for working capital had shot up at one stroke. With little export income in its account, Systems had no choice but to discontinue importing SKD kits.

The company management had three options before it. First, to build up its domestic trading activity rapidly; second, to assemble at least a few of the component products from raw materials sourced locally and third, pursue after-sales service aggressively both to generate revenue in the short run and to establish an enduring client-base for the company's products in the long run.

Invariably, this meant that the survival of Systems depended on how quickly it could train its people—beginning from a handful of sales engineers—to become market-centred and customer-friendly in their approach to business.

“The days of easy revenue money are over for us,” Shroff had told Kumar, who had a formal training in HRD and had been an officer in the training cell of a multinational firm before signing up with Systems. “We have to compete now in the marketplace and sell hard to be able to secure orders. Times are changing. We have to change too. And that is where you come in. It will be your responsibility, as the training manager, to ensure that people here acquire marketing skills,” he said, adding, as a clincher, “Frankly, I have always felt that a salesman is born, not trained. I have had no belief in non-technical training. In fact, I have found no need so far for a training manager at Systems. But I am prepared to do *anything* to get more sales.”

That punching was what had made Kumar uneasy. But he decided to let it pass. Over the next few days, Kumar got busy evolving specific training packages for workers, shop-floor supervisors, administrative staff and senior functional executives and an intensive module for field salesmen. Deciding to start with the salesmen first, he met the sales manager to ask him to depute 10 salesmen for a training session the next day. The sales manager was sceptical and only halfheartedly consented to release people for the two-day training.

The session was a disaster. No one showed any interest in the proceedings. In fact, one of the salesmen came up to him during the coffee break and said, “You see, all this is a waste of time. Take the client for a drink and you get the sale. It is as simple as that. It has worked in the past

and it will work in the future.” Kumar laughed it off but the message had been delivered.

The attendance for the second day session was thin. This lack of interest was again obvious at the session for workers next day. The works manager who had originally agreed to the idea was vague about the absence of so many workers at the training session. “They are sick, I believe,” he said, making no attempts to hide his feeling that to him the whole thing was a big joke.

Kumar had encountered such resistance in the company where he had worked earlier. He also knew that his training capsule was very effective. He was aware that training needs were universal for all companies and so were the training techniques which were also easily transferable from one set of working conditions to another and from one industry to another. He also knew that he had the aptitude and interest to become a professional trainer.

But Kumar began to realise that he had made a few tactical errors in this particular case. He should have perhaps asked Shroff to personally inaugurate the training session to give the whole exercise an air of formality and, more importantly, of authority. He should have perhaps started with the module for senior executives first.

“I must find a way out of this and bring everyone round. There is simply no way I am going to accept failure. Whatever damage there has been must be undone. I must do something,” he said to himself. What should he do? ⁶⁵

Closing Case-2 *Backfired Surmise*

Naik, AGM Materials, is fuming and fretting. He bumped into Kamath, GM Materials, threw the resignation letter on his table, shouted and walked out of the room swiftly.

Naik has reason for his sudden outburst. He has been driven to the wall. Perhaps, details of the story will tell the reasons for Naik’s bile and why he put in his papers, barely four months after he took up his present assignment.

The year was 1995 when Naik quit the prestigious SAIL plant at

Vishakapatnam. As a manager materials, Naik enjoyed powers—he could even place an order for materials worth Rs 25 lakh. He needed nobody's prior approval.

Naik joined a pulp-making plant located at Harihar in Kanataka, as AGM Materials. The plant is a part of the multi-product and multiplant-conglomerate owned by a prestigious business house in India. Obviously, perks, designation and reputation of the conglomerate lured Naik away from the public sector steel monolith.

When he joined the eucalyptus pulp making company, little did Naik realise that he needed prior approval to place an order for materials worth Rs 12 lakh. He had presumed that he had the authority to place an order by himself worth half the amount of what he used to do at the mega steel maker. He placed the order, materials arrived, were received, accepted and used up in the plant.

Trouble started when the bill for Rs 12 lakh came from the vendor. The accounts department withheld payment for the reason that the bill was not endorsed by Kamath. Kamath refused to sign on the bill as his approval was not taken by Naik before placing the order.

Naik felt fumigated and cheated. A brief encounter with Kamath only aggravated the problem. Naik was curtly told that he should have known company rules before venturing. Naik decided to quit.

Questions

1. Does the company have an orientation programme? If yes, how effective is it?
2. If you were Naik what would have you done?

REFERENCES

1. From different sources.
2. Robert L. Mathis and John H. Jackson, *Personnel—Contemporary Perspectives and Applications*, West Publishing, New York, 1982, p. 225.
3. Thomas H. Stone, *Understanding Personnel Management*, The Dryden

- Press, 1982, p. 220.
4. Garry Dessler, *Personnel Management*, Third Edition, Prentice Hall, New York, 1988, p. 234.
 5. Robert L. Mathis and John H. Jackson, *op. cit.*, p. 225.
 6. David Decezo, et al, *Personnel/HRM*, Prentice-Hall of India, 2000, p. 223.
 7. John H. Bernardian and Joyce E.A. Russell, *Human Resources Management—An Experiential Approach*, McGraw-Hill, New York, 1993, p. 317.
 8. Garry Dessler, *op. cit.*, p. 241.
 9. Robert L. Mathis and John H. Jackson, *op. cit.*, p. 227.
 10. *Ibid.*, p. 227.
 11. *Ibid.*, p. 230.
 12. Thomas H. Stone, *op. cit.*, p. 224.
 13. William B. Werther, Jr and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 280.
 14. V.S. Mahesh, *Thresholds of Motivation—The Corporation as a Nursery for Human Growth*, Tata McGraw-Hill, New Delhi, 1993, pp. 175-176.
 15. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third Edition, West Publishing, New York, 1989, p. 385.
 16. Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, Macmillan, New York, 1990, p. 277.
 17. John H. Bernardin and Joyce E.A. Russell, *Human Resources Management—An Experiential Approach*, McGraw-Hill, New York, 1993, p. 297.
 18. Thomas H. Stone, *Understanding Personnel Management*, The Dryden Press, Chicago, 1982, p. 248.
 19. Rohinton D. Aga, *Changing the Mindset—Reflections of a Chief Executive*, Tata McGraw-Hill, New Delhi, 1994, pp. 293–294.
 20. Theophane A. Mathias, *Corporate Ethics* (Ed.), Allied Publishers, New Delhi, 1994, pp. 30–32.
 21. *Ibid*, 17.
 22. Thomas H. Stone, *op. cit.*, p. 249.
 23. William B. Werther and Keith Davis, *Human Resources and Personnel*

- Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 309.
24. Rohinton D. Aga, *op. cit.*, p. 292.
 25. William B. Werther and Keith Davis, *op. cit.*, p. 310.
 26. John H. Bernardin and Joyce E.A. Russell, *op. cit.*, p. 298.
 27. Leap and Crino, *op. cit.*, p. 284.
 28. Werther and Davis, *op. cit.*, p. 311.
 29. Irwin L. Goldsterin and J. Kevin Ford, *Training in Organisations*, Thomson, 2002, p. 25.
 30. Philip Darling, *Training for Profit*, McGraw-Hill, Training Series, 1993, p. 5.
 31. John Bernardin, *op. cit.*, p. 170.
 32. B.R. Virmani and Premila Seth, *Evaluating Management Training and Development*, Vision Books, New Delhi, 1985, p. 68.
 33. Randall S. Schuler, *et. al.*, *op. cit.*, p. 397.
 34. *Ibid*, p. 397.
 35. *Ibid*, p. 398.
 36. Dale S. Beach, *Personnel—The Management of People at Work*, Fourth Edition, Macmillan, 1980, p. 368.
 37. Leap and Crino, *op. cit.*, p. 294.
 38. Garry Dessler, *Personnel Management*, Fourth Edition, Prentice-Hall, 1988, p. 259.
 39. Thomas H. Stone, *op. cit.*, p. 262.
 40. R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, Allyn and Bacon, 1981, p. 237.
 41. Garry Dessler, *op. cit.*, p. 261.
 42. Dale S. Beach, *op. cit.*, p. 372.
 43. Leap and Crino, *op. cit.*, p. 298.
 44. David A. Decenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, Third Edition, Prentice-Hall of India, New Delhi, 1988, p. 260.
 45. William B. Werther and Keith Davis, *op. cit.*, p. 319.
 46. David A. Decenzo and Stephen P. Robbins, *op. cit.*, p. 261.
 47. J.R. Hinrichs, "Personnel Training", *Handbook of Industrial/Organisational Psychology*, Rand McNally, Chicago, 1976, p. 856.
 48. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third

- Edition, West Publishing, New York, 1989, p. 389.
49. *Ibid*, p. 399.
 50. *Ibid*, p. 399.
 51. *Ibid*, p. 400.
 52. *Ibid*, p. 401.
 53. B.R. Virmani and Premila Seth, *op. cit.*, pp. 11-12.
 54. Irwin L. Goldstein and J. Kevin Ford, *op. cit.*, p. 31.
 55. Elmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resource Systems Approach*, New York, John Wiley & Sons, 1982, p. 531.
 56. Jeffrey A. Mello, *Strategic Human Resource Management*, Thomson, 2003, p. 278.
 57. Patrica A. Galagam, “The E-learning Revolution”, *Training and Development*, 2000, p. 24.
 58. George Bohlander, *et. al*, *Managing Human Resources*, Thomson, 2002, p. 247.
 59. Randy L. Desimone, *et. al.*, *Human Resource Development*, 2002, p. 209.
 60. Lane A. Berger and Dorothy B. Berger, *Talent Management Handbook*, TMH, 2011, p. 189.
 61. Armstrong, *Handbook HR Practices*, Kogan Page, 2009, p. 1023.
 62. www.maleclaim.com
 63. Lane A. Berger and Dorothy Berger, *op. cit.*, p.165.
 64. Mare Effon and Miram ORT, *One Page Talent Management*, Harvard Business Press, 2010, p. 26.
 65. R. Chandrasekhar, *The Buck Stops Here*, Macmillan, 1997, pp. 69–71.

Appraising and Managing Performance

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature and objectives of performance appraisal
 - The different stages in the appraisal process and describe each step
 - The Edward Deming's views on performance appraisal
 - Challenges of performance appraisal
 - Legal issues in performance appraisal

Opening Vignettes

MEASURING PERFORMANCE VS. ACTION

Come appraisal time and one of the most debated aspects of completing the fair-and-square appraisal revolves around what is 'measured' and what is 'achieved'. And the fable of the Bees and the Bee Keepers is a very popular paradigm that often gets quoted at such times. It goes thus:

The Story: Once upon a time there were two beekeepers who each had a beehive. The beekeepers worked for a company called Bees, Inc. The company's customers loved its honey and demand for the product was increasing. So Bees, Inc. assigned each beekeeper a goal for increased honey production. The beekeepers had different ideas about how to meet their goal and designed different approaches to improve the performance of their hives.

The first beekeeper established a bee performance management approach that measured the number of flowers each bee visited. At considerable cost to the beekeeper, an extensive measurement system was created to count the flowers each bee visited. He also provided feedback to each bee at mid-

season on his individual performance. He also created special awards for the bees who visited the most number of flowers. However, the bees were never told about the hive's goal to produce more honey so that the company could increase honey sales.

The second beekeeper also established a bee performance management approach but this approach communicated to each bee the goal of the hive for increased honey production. The beekeeper and his bees measured two aspects of their performance: the amount of nectar each bee brought back to the hive and the amount of honey the hive produced. The performance of each bee and the hive's overall performance were charted and posted on the hive's bulletin board for all the bees to see. The beekeeper created a few awards for the bees that gathered the most nectar. But he also established a hive incentive programme that rewarded each bee in the hive based on the hive's overall honey production—the more honey produced, the more recognition each bee would receive.

At the end of the season, the beekeepers evaluated their approaches. The first beekeeper found that his hive had indeed increased the number of flowers visited, but the amount of honey produced by the hive had dropped. The Queen Bee reported that because the bees were so busy trying to visit as many flowers as possible, they limited the amount of nectar they would carry so they could fly faster. Also, since only the top performers would be recognised, the bees felt they were competing against each other for awards. As a result, they would not share valuable information with each other that could have helped improve the performance of all the bees (like the location of the flower-filled fields they'd spotted on the way back to the hive). As the beekeeper handed out the awards to individual bees, unhappy buzzing was heard in the background. After all was said and done, one of the high-performing bees told the beekeeper that if he had known that the real goal was to make more honey, he would have worked totally differently.

The second beekeeper, however, had very different results. Because each bee in his hive was focused on the hive's goal of producing more honey, the bees had concentrated their efforts on gathering more nectar in order to produce more honey than ever before. The bees worked together to determine the highest nectar yielding flowers and to create quicker processes for depositing the nectar they had gathered. They also worked together to help increase the amount of nectar gathered by the poorer performers. The Queen

Bee of this hive reported that the poor performers either improved their performance or transferred to hive No. 1. Because the hive had reached its goal, the beekeeper rewarded each bee his portion of the hive incentive. The keeper was also surprised to hear a loud, happy buzz and a jubilant flapping of wings as he rewarded the individual high-performing bees with special recognition.¹

Should you measure performance or mere activities of employees? Is the one who does silent work but does not show of himself/herself or the one who puts up a show but hardly performs to be recognised and rewarded? This and other related questions are answered in this chapter.

An organisation's goals can be achieved only when people put in their best efforts. How to ascertain whether an employee has shown his or her best performance on a given job? The answer is performance appraisal. Employee assessment is one of the fundamental jobs of HRM, but not an easy one though.

NATURE OF PERFORMANCE APPRAISAL

In simple terms, performance appraisal may be understood as the assessment of an individual's performance in a systematic way, the performance being measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgement, versatility, health, and the like. Assessment should not be confined to past performance alone. Potentials of the employee for future performance must also be assessed.

Performance Appraisal is an objective assessment of an individual's performance against well defined benchmarks.

The other terms used for performance appraisal are: performance rating, employee assessment, employee performance review, personnel appraisal, performance evaluation, employee evaluation and (perhaps, the oldest of the terms used) merit rating. In a formal sense, employee assessment is as old as

the concept of management, and, in an informal sense, it is probably as old as mankind.² Nor performance appraisal is done in isolation. It is linked to job analysis as shown in Fig. 9.1.

Job analysis sets out requirements, which are translated into performance standards, which in turn form the basis for performance appraisal.

Performance management refers to the entire process of appraising performances, giving feedback to the employees, and offering rewards or punishments to them. Over time, views about performance management have changed as Table 9.1 shows. Performance management has now gained strategic importance unlike in the past when it was conceived as a routine administrative function. Whether it is criterion for appraisal, secrecy or rater, there is a paradigm shift.

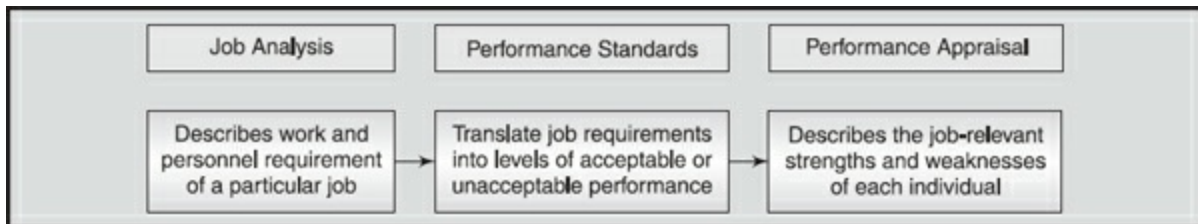


Fig. 9.1 Relationship of Performance Appraisal and Job Analysis

Table 9.1 Paradigm Shift in Performance Management Outlook

<i>From</i>	<i>To</i>
<ul style="list-style-type: none"> • Merit rating • System • Appraisal • Outputs • Top down • Directive • Monolithic • Owned by HR • Routine • Confidential • Actual performance 	<ul style="list-style-type: none"> • Performance management • Process • Joint review • Outputs/inputs • 360° and 720° appraisals • Supportive • Flexible • Owned by users • Strategic importance • Transparent • Including potential for performance

Objectives of Performance Appraisal

Data relating to performance assessment of employees are recorded, archived, and used for several purposes. The main purposes of employee assessment are:

1. To effect promotions based on competence and performance.
2. To confirm the services of probationary employees upon their completing the probationary period satisfactorily.
3. To assess the training and development needs of employees.
4. To decide upon a pay raise where (as in the unorganised sector) regular pay scales have not been fixed.
5. To let the employees know where they stand insofar as their performance is concerned and to assist them with constructive criticism and guidance for the purpose of their development.³
6. To improve communication. Performance appraisal provides a format for dialogue between the superior and the subordinate, and improves understanding of personal goals and concerns. This can also have the effect of increasing the trust between the rater and the ratee.
7. Finally, performance appraisal can be used to determine whether HR programmes such as selection, training, and transfers have been effective or not.

Broadly, performance appraisal serves four objectives—**(i)** developmental uses, **(ii)** administrative uses/decisions, **(iii)** organisational maintenance/objectives, and **(iv)** documentation purposes. [Table 9.2](#) outlines these and specific uses more clearly.

Table 9.2 *Multiple Purposes of Performance Assessment*

<i>General Applications</i>	<i>Specific Purpose</i>
Developmental Uses	Identification of individual needs Performance feedback Determining transfers and job assignments Identification of individual strengths and developmental needs

Administrative Uses/Decisions	Salary Promotion Retention or termination Recognition of individual performance Lay-offs Identification of poor performers
Organisational Maintenance/Objectives	HR planning Determining organisation training needs Evaluation of organisational goal achievement Information for goal identification Evaluation of HR systems Reinforcement of organisational development needs
Documentation	Criteria for validation research Documentation for HR decisions Helping to meet legal requirements

Source: Cynthia D. Fisher, *et. al*, *Human Resource Management*, Houghton Mifflin, 1997, p. 455.

Performance Appraisal and Competitive Advantage

The objectives of performance appraisal, listed above, point out the purposes which such an exercise seeks to meet. What needs emphasis is that performance evaluation contribute to firm's competitive strength. Besides encouraging high levels of performance, the evaluation system helps identify employees with potential, reward performance equitably and determine employee's need for training. Specifically, performance appraisal helps an organisation gain competitive edge in the following ways (see [Fig. 9.2](#)).

Performance appraisal offers competitive advantage to a firm by improving performance, helping make correct decisions, ensuring legal compliance, minimising job dissatisfaction and employee turnover and

ensuring consistency between organisational strategy and behaviour.

Improving Performance An effective appraisal system can contribute to competitive advantage by improving employee job performance in two ways —by directing employee behaviour towards organisational goals, as was done by the second beekeeper (see opening case), and by monitoring that behaviour to ensure that the goals are met.

Making Correct Decisions As stated above, appraisal is a critical input in making decisions on such issues as pay raise, promotion, transfer, training, discharges and completion of probationary periods. Right decision on each of these can contribute to competitive strength of a firm. If promotion, for example, is made on performance, the promotee feels motivated to enhance his or her performance.

Ensuring Legal Compliance Promotions made on factors other than performance might land up a firm in a legal battle, thus diverting its focus on non-productive areas, as it happened to Williamson Magar. Companies can minimise costly performance—related litigation by using appraisal systems that give fair and accurate ratings.

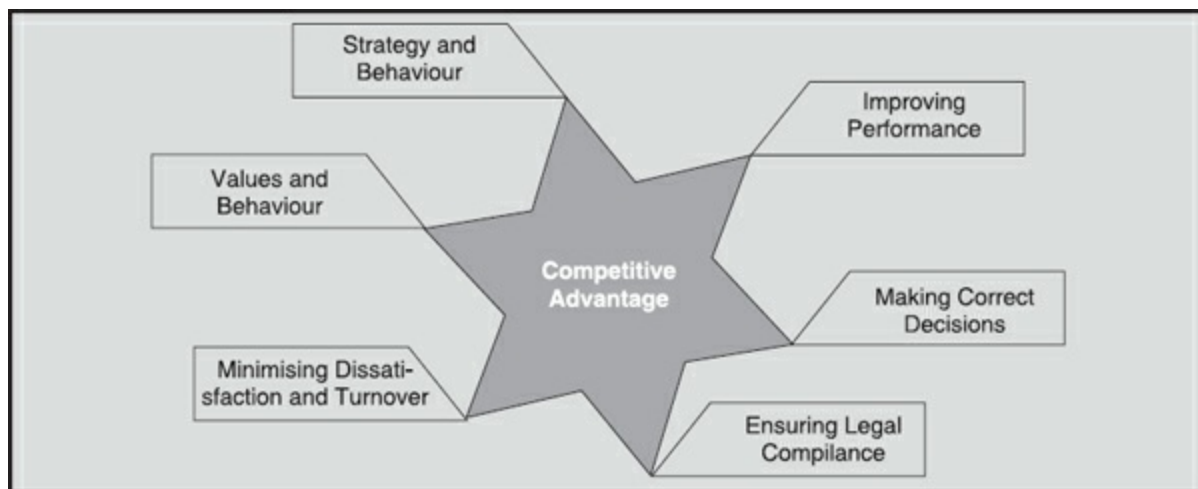


Fig. 9.2 *How Performance Appraisal Can Contribute to Firm's Competitive Advantage*

Minimising Job Dissatisfaction and Turnover Employees tend to become

emotional and frustrated if they perceive that the ratings they get are unfair and inaccurate. Such employees find that the efforts they had put in become futile and obviously get demotivated.

Dissatisfaction in the job sets in and one of the outcomes of job dissatisfaction is increased turnover. Fair and accurate appraisal results in high motivation and increased job satisfaction. An organisation having satisfied and motivated employees will have an edge over its competitors.

Consistency Between Organisational Strategy and Behaviour An organisation needs a strategy consistent with the behaviour of its employees if it were to realise its goals. A truism of organisational life is that people engage themselves in behaviours that they perceive will be rewarded. As employees want to be rewarded, they tend to occupy themselves more with those activities on which the organisation emphasises. For example, if the focus is on service, employees will behave in ways that will help them in gaining rewards associated with service delivery. If the focus is on cost control, employees will seek to control cost and thus be recognised and rewarded. If the focus is on rewarding productivity, employees will strive for productivity. The performance appraisal becomes not only a means of knowing if the employees' behaviour is consistent with the overall strategic focus, but also a way of bringing to the fore any negative consequence of the strategy—behaviour fit. For example, a single point productivity focus may include potential negative consequences such as decreased quality and co-operation. Thus, the performance appraisal system is an important organisational mechanism to elicit feedback on the consistency of the strategy-behaviour link.

Organisational Strategy and Performance Appraisal The performance appraisal system serves many organisational objectives and goals. Besides encouraging high level performance, the evaluation system is useful in identifying employees with potential, rewarding performance equitably, and determining employees' needs for development. These are all the activities that should support the organisation's strategic orientation. Although these activities are clearly instrumental in achieving corporate plans and long-term growth, typical appraisal systems in most organisations have been focused on short-term goals.

From the strategic management point of view, organisations can be grouped into three categories—defenders, prospectors and analysers. Performance appraisal has definite roles in all the three strategies.

Typically, *defenders* have a narrow and relatively stable product-market domain. Because of this narrow focus, these organisations seldom need to make major adjustments in their technology, structure or methods of operations. They devote primary attention to improving the efficiency of their existing operations. Because of the emphasis on building skills within the organisation, successful defenders use performance appraisal for identifying training needs. Performance appraisal is usually more behaviour oriented.

Organisations with a *prospector* strategy continuously search for different product and market opportunities. In addition, these organisations regularly experiment with potential responses to new and emerging environmental trends. Prospectors are often the harbingers of change. Because of the emphasis on skills identification and acquisition of human resources from external sources, as opposed to skills building with the organisation, prospectors often use the performance appraisal as a means of identifying staffing needs. The emphasis is on results. Finally, the focus is on division and corporate performance evaluation as they compare with other companies during the same evaluation period.

Organisations with an *analyser strategy* operate in two types of product-market domains. One domain is stable while the other is changing. In their more innovative areas, managers watch their competitors closely and rapidly adopt the ideas that appear promising. In general, analysers use cost-effective technologies for stable products and project or matrix technologies for new product. Analysers tend to emphasise both skill building and skill acquisition and employ extensive training programmes. Thus, these organisations attempt to identify both training as well as staffing needs. The appraisal systems are considered at the individual, group and divisional levels. Finally, successful analysers have a tendency to examine current performance with past performance within the organisation. Cross-sectional comparisons (comparisons among companies) may also occur.

Whatever the category, a performance appraisal system has strategic importance to a firm in three ways:

1. Feedback mechanism,
2. Consistency between organisational strategy and job behaviour, and

3. Consistency between organisational values and job behaviour.

Principles of PM

Performance appraisal should be based on certain principles as stated below:

- Corporate goals are translated into individual, team, departmental and divisional goals.
- It should not be linked with only financial rewards.
- Performance improvement is an ongoing process and improves over time.
- Consensus and co-operation needed, not control and coercion
- Transparency is needed at every stage.
- Continuous feedback is essential.
- It should cover all employees.
- It is a system and not a piece of work.
- Make it simple and easy. Too many variables and scales should not be used.
- Involvement of all stakeholders in designing formats, policies and procedures is needed.

APPRAISAL PROCESS

Figure 9.3 outlines the performance-appraisal process. Each step in the process is crucial and is arranged logically. The process as shown in Fig. 9.3 is somewhat idealised. Many organisations make every effort to approximate the ideal process, resulting in first-rate appraisal systems. Unfortunately, many others fail to consider one or more of the steps and, therefore, have less-effective appraisal system.⁴

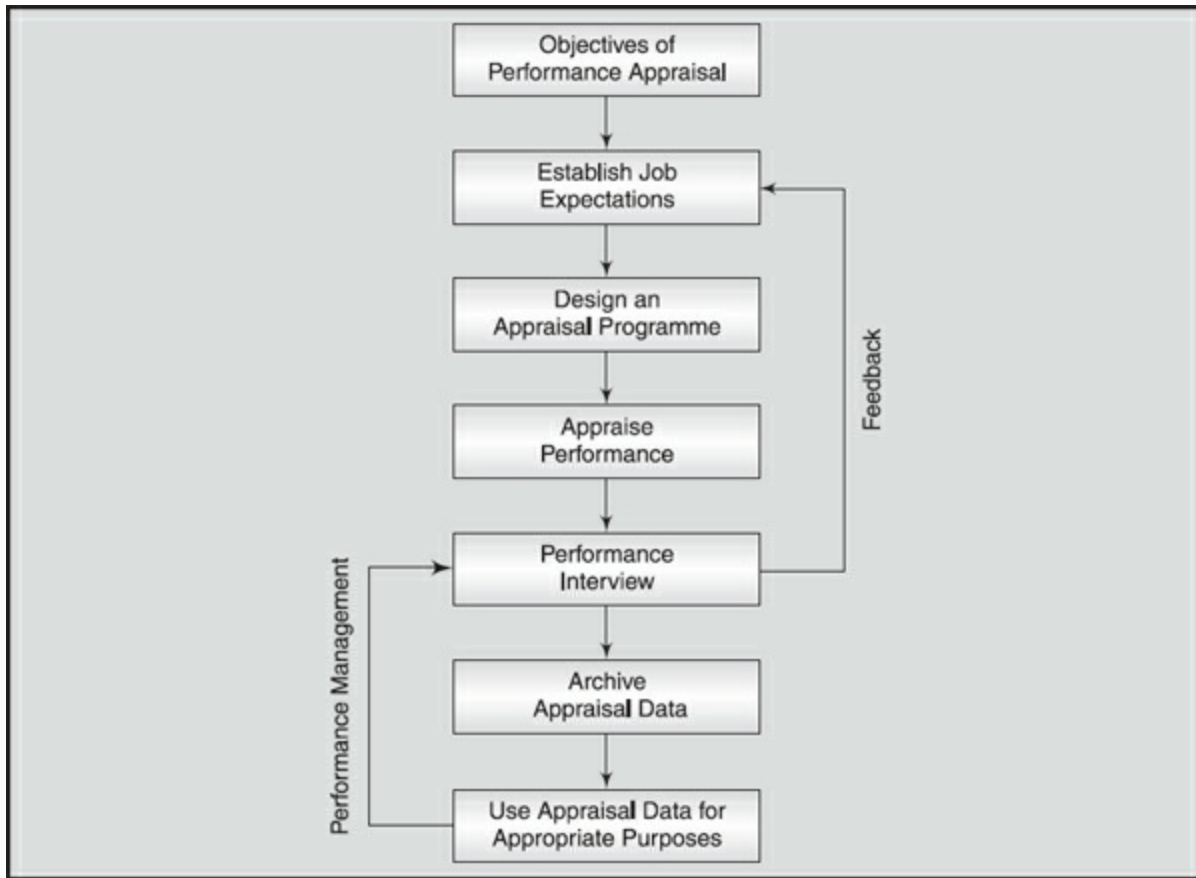


Fig. 9.3 *The Performance Appraisal Process*

Objectives of Appraisal

Objectives of appraisal, as stated above, include effecting promotions and transfers, assessing training needs, awarding pay increases, and the like. Of late, appraisal data have been used to lay off low performers. In the name of Performance Improvement Plan (PIP), WIPRO has shown the door to 1000 employees, IBM to 700, TCS to 500, and HCL to a similar number. In all these, removals are linked to non-performance. Many more are likely to be axed, going by what IT firms are openly admitting. The PIP, according to them, has gone up to 3 per cent of the total workforce, from about 1 per cent in the past. The emphasis in all these is to *correct* the problems. These objectives are appropriate as long as the approach in appraisal is individual. Appraisal, in future, would assume systems orientation. In the systems approach, the objectives of appraisal stretch beyond the traditional ones.

In the systems approach, appraisal aims at *improving* the performance,

instead of merely assessing it. Towards this end, appraisal system seeks to evaluate opportunity factors. Opportunity factors include the physical environment such as noise, ventilation and lightings, available resources such as human and computer assistance; and social processes such as leadership effectiveness. These opportunity variables are more important than individual abilities in determining work performance.⁵

In the systems approach, the emphasis is not on individual assessment and rewards or punishments. But it is on how the work system affects an individual's performance. In order to use a systems approach, managers must learn to appreciate the impact that the system level factors have on individual performance, and subordinates must adjust to the lack of competition among individuals. Thus, if a systems approach is going to be successful, the employee must believe that by working towards shared goals, everyone will benefit.

Not that the role of the individual is undermined. The individual is responsible for a large percentage of his or her work performance. Employees should not be encouraged to seek organisational reasons for their failures. The identification of systems obstacles should be used to facilitate development and motivation, not as an excuse to poor performance. [Table 9.3](#) displays some of the differences between the traditional approach and the systems-oriented one.

Table 9.3 *Performance Appraisal Systems*

	<i>Traditional</i>	<i>Systems</i>
Guiding value	Attribution to individual	Attribution to system
Primary goals	Control, documentation	Development, problem solving
Leadership practices	Directional, evaluative	Facilitative, coaching
Appraisal frequency	Occasional	Frequent
Degree of formality	High	Low
Reward practices	Individual orientation	Group orientation

Source: William P. Anthony, et. al., *Strategic Human Resource Management*, p. 442.

Establish Job Expectations

The second step in the appraisal process is to establish job expectations. This includes informing the employee what is expected of him or her on the job. Normally, a discussion is held with his or her superior to review the major duties contained in the job description. Individuals should not be expected to begin the job until they understand what is expected of them.

Normally, a formal or informal assessment of a new career takes place between the first six to 12 weeks of joining in order to assess fitment to the role. Thereafter, performance assessment begins on a regular basis.

Design Appraisal Programme

Designing an appraisal programme poses several questions which need answers. They are, **(i)** Formal versus informal appraisal; **(ii)** Whose performance is to be assessed? **(iii)** Who are the raters? **(iv)** What problems are encountered? **(v)** How to solve the problems? **(vi)** What should be evaluated? **(vii)** When to evaluate? **(viii)** What methods of appraisal are to be used? (See [Fig. 9.4](#))

Formal vs Informal Appraisal The first step in designing an appraisal programme is to decide whether the appraisal should be formal or informal. Formal appraisals usually occur at specified time periods—once or twice a year. Formal appraisals are most often required by the organisation for the purpose of employee evaluation. Informal performance appraisal can occur whenever the supervisor feels the need for communication. For example, if the employee has been consistently meeting or executing standards, an informal appraisal may be in order to simply recognise this fact. Discussions can take place anywhere in the firm, ranging from the manager's office to the canteen. But care needs to be taken to ensure that the discussion is held in private.⁶

Many organisations encourage a mixture of both formal and informal appraisals. The formal appraisal is most often used as primary evaluation. However, the informal appraisal is very helpful for more performance feedback.⁷ Informal appraisals should not take the place of formal performance evaluation.

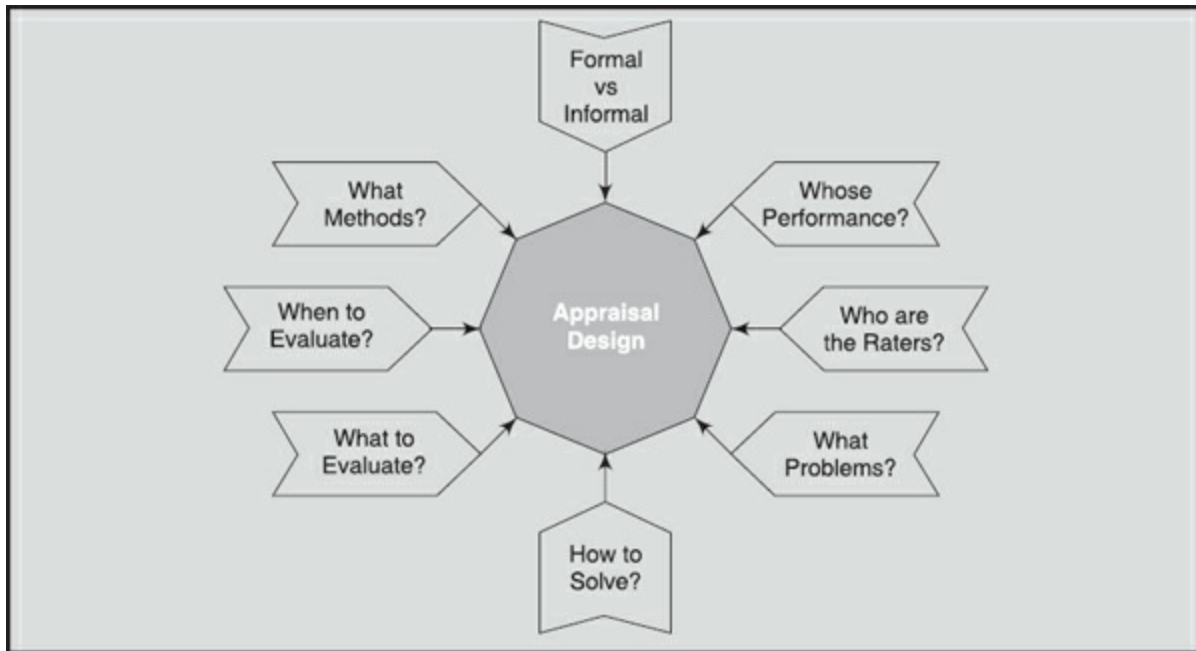


Fig. 9.4 *Issues in Appraisal Design*

Whose Performance Should be Rated? To the question as to whose performance should be rated, the answer is obvious—employees. When we say employees, is it individuals or teams? Specifically, the ratee may be defined as the individual, work group, division, or organisation. It is also possible to define the ratee at multiple levels. For example, under some conditions, it may be desirable to appraise performance both at the work-group level for merit-pay increases and at the individual level to assess training needs.⁸

Two conditions necessitate a group-level appraisal—group cohesiveness and difficulty in identifying individual performance. Group cohesiveness refers to the shared feeling among work-team members. There is co-operation and clear understanding to accomplish tasks which are interdependent. Any attempt to assess individual performance shall undermine group cohesiveness and tend to promote individualistic or even competitive orientation. The difficulty in identifying individual contribution is also important to consider. In some cases, interdependence of tasks is so complete that it is difficult to identify Who has contributed what. There is no other choice but to view that task as a team effort.⁹ But the point to be remembered is that the performance of all employees must be rated. All must become ratees.

Who are the Raters? Raters can be immediate supervisors, specialists from the HR department, subordinates, peers, committees, clients, customers, self-appraisals, or a combination of several.

Immediate supervisor is the most fit candidate to appraise the performance of his or her subordinates. There are three reasons in support of this choice. No one is more familiar with the subordinate's performance than his or her superior. Another reason is that the superior has the responsibility of managing a particular unit. When the task of evaluating a subordinate is given to another person, the superior authority may be undermined seriously. Finally, training and development of subordinates is an important element in every manager's job. Since appraisal programmes are often clearly linked to training and development, the immediate supervisor may be the logical choice to conduct the performance evaluation.¹⁰

Subordinates can assess the performance of their superiors. The use of this choice may be useful in assessing an employee's ability to communicate, delegate work, allocate resources, disseminate information, resolve intra-personal conflict, and deal with employees on a fair basis. But the problem with subordinate evaluation is that the supervisors tend to become more popular, not by effective leadership, but by mere gimmicks.

Peers are in a better position to evaluate certain facts of job performance which the subordinates or supervisors cannot do. Such facts include contribution to workgroup projects, interpersonal effectiveness, communication skills, reliability and initiative.¹¹ Closeness of the working relationship and the amount of personal contacts place peers in a better position to make accurate assessments. Unfortunately, friendship or animosity may result in distortion of evaluation. Further, when reward allocation is based on peer evaluation, serious conflicts among co-workers may develop. Finally, all the peers may join together to rate each other high.

Although *clients* are seldom used for rating employee performance, nothing prevents an organisation from using this source. Clients may be members within the organisation who have direct contact with the ratee and make use of an output (goods or service) this employee provides. Interest, courtesy, dependability and innovativeness are but a few of the qualities for which clients can offer rating information. Clients, external to the organisation, can also offer similar kinds of information.

Where appraisal is made by superiors, peers, and subordinates, it is called the 360-degree system of appraisal. First developed at General Electric, US in 1992, the system has become popular in our country too. GE (India), Reliance Industries, Crompton Greaves, Godrej Soaps, Wipro, Infosys, Thermax and Thomas Cook are using the method with greater benefits. The Arthur Anderson Survey (1997) reveals that 20 per cent of the organisations use the 360-degree method. In the 360-degree method, besides assessing performance, other attributes of the assessee—talents, behavioural quirks, values, ethical standards, tempers and loyalty are evaluated by people who are best placed to do it.

In **360-degree appraisal system**, an employee's performance is rated by superiors, peers, subordinates and clients. First developed and used by GE in 1992, the system is used all over the world now.

Customers Customers may be the right people to assess the performance of an employee. Customer's perception about the organisation is what matters and that perception is determined by the service the employees deliver to the user. Obviously, customer's rating of the employee performance may be more valid than the one provided by others.

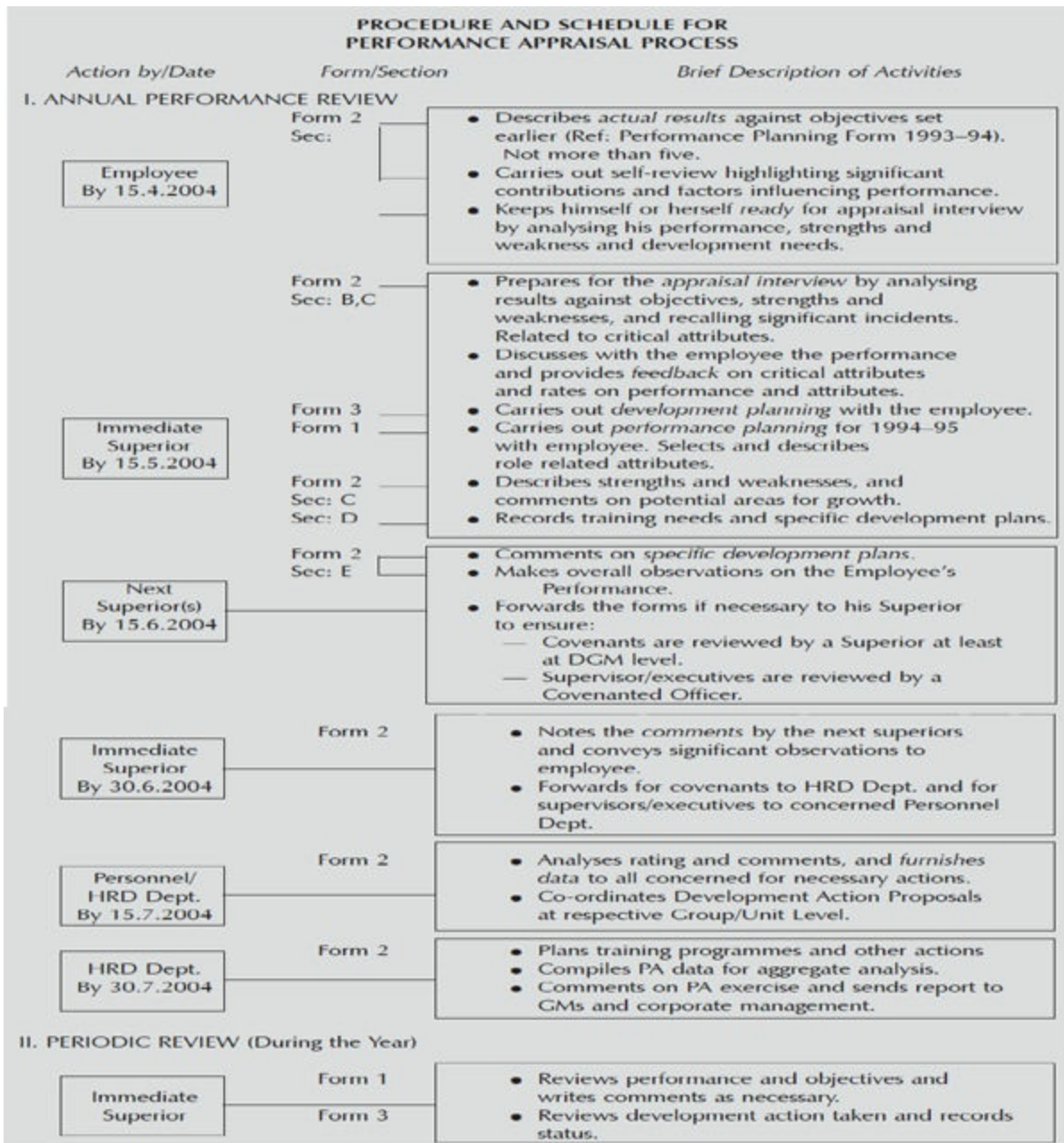
Many employers use *rating committees* to evaluate employees. These committees are often composed of the employee's immediate supervisor and three or four other supervisors Who come in contact with the employee. This choice is welcome when an employee, in the course of his or her job, performs a variety of tasks in different environments. For example, one supervisor may work with the employee when technical aspects of a job are being performed and another supervisor may deal with the same employee in situations where communication skills are crucial. There are several benefits in using multiple raters. *First*, there may be objectivity in rating as more than one rater is involved in the assessment. Furthermore, where there are differences in the raters' ratings, they usually stem from the fact that raters at different levels in the organisation often observe different facets of an employee's performance—the appraisal ought to reflect these differences.¹² The disadvantage of committee rating is that it diminishes the role of the immediate supervisor in the area of training and development.

In *self-appraisal*, the employee himself or herself evaluates his or her own performance. Hewlett-Packard and Texas Instruments ask their employees to prepare their own appraisals. On the positive side, it may be stated that in self-appraisal there is an opportunity to participate in evaluation, particularly if it is combined with goal setting (as in Management By Objectives or MBO) and this should improve the manager's motivation.

Managers are less defensive in self-evaluation than when superiors tell them what they are. Selfappraisal is best suited where executive development is the main purpose of evaluation, as the approach enables managers to clearly assess their areas of differences. Unfortunately, self-appraisals fall short almost by any criterion. They tend to be more lenient compared to other sources of evaluation, even that of peers, Who are more lenient than their superiors.¹³ Self-appraisals are also more likely to be less viable, more biased and less in agreement with the judgement of others.

In practice, a **combination** of raters is followed for employee assessment. For example, evaluation by self may be followed by a superior, the personnel department, or by the HR department (see Exhibit 9.1).

Exhibit 9.1 Different Raters of Performance–L&T Komatsu, Bangalore Works



Source: *Performance Appraisal in L&T*, Bangalore Works.

Pause and Ponder

Who would be the raters, under 360-degree appraisal method, to appraise a waiter at a speciality restaurant?

Whoever may be the rater, two requisites must be fulfilled. *First*, the rater

must be free from bias. *Second*, the rater must have an opportunity to observe the full spectrum of activities and behaviour of the ratee over an extended time period.

Problems of Rating Performance appraisals are subject to a wide variety of inaccuracies and biases referred to as ‘rating errors’. These errors occur in the rater’s observations, judgement, and information processing, and can seriously affect assessment results. The most common rating errors are leniency or severity, central tendency, halo effect, rater effect, primacy and recency effects, perceptual set, performance dimension behaviour, spill over effect, status effect and others (See Fig. 9.5).

Leniency or Severity Leniency or severity on the part of the rater makes the assessment subjective. Subjective assessment defeats the very purpose of performance appraisal. Ratings are lenient for the following reasons:¹⁴

1. The rater may feel that anyone under his or her jurisdiction Who is rated unfavourably will reflect poorly on his or her own worthiness.
2. He or she may feel that anyone Who could have been rated unfavourably has already been discharged from the company.

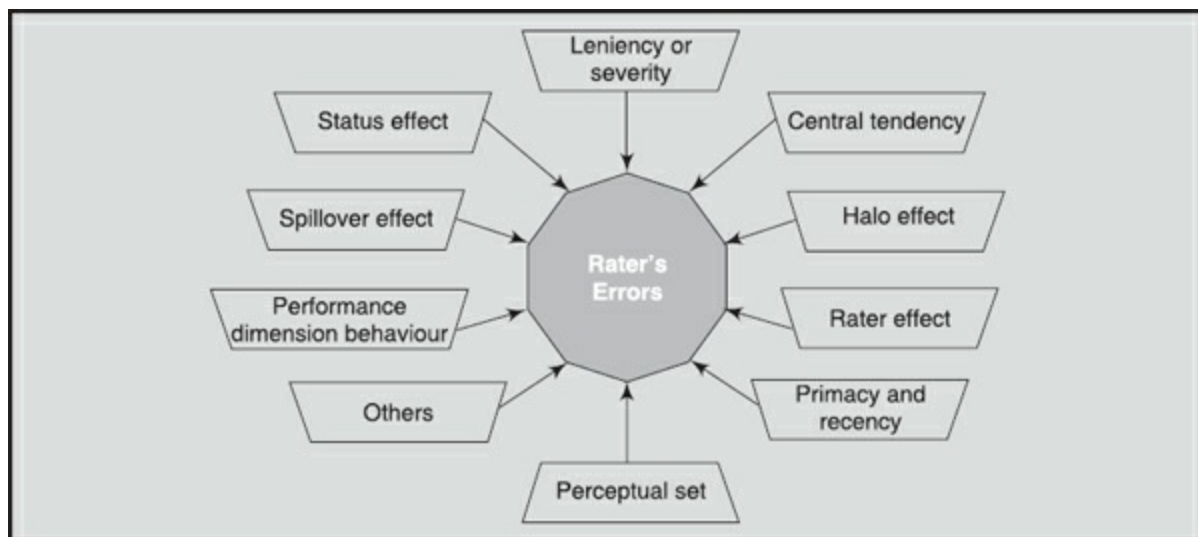


Fig. 9.5 Problems of Rating

3. He or she may feel that a derogatory rating will be revealed to the ratee to the detriment of the relations between the rater and the ratee.

4. He or she may rate leniently in order to win promotions for the subordinates and, therefore, indirectly increase his or her hold over them.
5. He or she may be projecting.
6. He or she may feel it necessary to always approve of others in order to gain approval for himself or herself.
7. He or she may be operating on the premise, “whoever associates with me is meritorious, therefore, I am meritorious”.
8. He or she may rate leniently because there exists, in the culture, a response set to approve rather than disapprove.

Severity refers to being unduly critical of an employee’s performance. Many firms put a cap on the number of employees being rated as outstanding. They ensure that evaluation inflation does not creep into the process of appraisal.

One of the ways of reducing the error of leniency or severity is to require ratings to conform to a forced distribution.

Central Tendency This occurs when employees are incorrectly rated near the average or middle of the scale. The attitude of the rater is to play safe. This safe-playing attitude stems from certain doubts and anxieties which the raters have while assessing the rates. Such doubts and anxieties are:¹⁵

1. “Do I know the man sufficiently well to be able to give a fair assessment of him”?
2. “If I rate him the way I think I should, what will be its influence on his relations with me and on his performance in the future”?
3. “If I rate him the way I think I should, what will be its effect on my relations with the other subordinates?”
4. “If I rate him the way I think I should, what will be its effect on his relationship within the group or subordinates”?
5. “Will I be able to be objective in view of pressures from peers, superiors and trade unions”?
6. “If I rate him the way I think I should, will I be accused to being partial”?
7. “How will my boss view the appraisal I make and how will that influence the way he appraises the man”?
8. “What standards will my peers adopt to appreciate their subordinates? And in view of this, am I likely to affect adversely the future of my

subordinates”?

Naturally, the raters use such expression as ‘satisfactory’ and ‘average’ to describe the performance of the ratees. For example, the principal of a college while giving character certificates to the outgoing students describes the character of each student as ‘satisfactory’. Obviously, it becomes difficult to distinguish between excellent performance and poor performance. In small organisations, it is common to label all employees as average. But in large companies, errors of this type tend to obviate the value of evaluations.

Close to the error of central tendency is the problem of *forced distribution*. Under *forced distribution*, appraisers are required to place a certain percentage of employees into various performance categories. For example, it may be required that 10 per cent of ratings be poor (or excellent). Forced distribution may solve the problem of leniency or severity, but may create other errors in the accuracy of ratings-particularly if most employees are performing above standard.¹⁶ More details on forced distribution later.

Halo Error A halo error takes place when one aspect of an individual’s performance influences the evaluation of the entire performance of the individual, just as the assessment of the performance of a student in his or her examination being influenced by the opening paragraph of every answer. If the introductory paragraph is poorly written, the chances of scoring high marks in that answer are diminished, however good the subsequent portion of the essay may be.

In an organisation, an halo error occurs when an employee who works late constantly might be rated high on productivity and quality of output as well as on motivation. Similarly, an attractive or popular employee might be given a high overall rating. Rating employees separately on each of a number of performance measures and encouraging raters to guard against the halo effect are the two ways to reduce the halo effect.

Pause and Ponder

Were you at any time a beneficiary or victim of halo error? Recollect and write down the details.

Rater Effect This includes favouritism, stereotyping, and hostility. Excessively high or low scores are given only to certain individuals or groups based on the rater's attitude towards the ratee, not on actual outcomes or behaviours. Sex, age, race and friendship biases are examples of this type of error.¹⁷

Primacy and Recency Effects The rater's ratings are heavily influenced either by behaviour exhibited by the ratee during the early stages of the review period (primacy) or by outcomes, or behaviour exhibited by the ratee near the end of the review period (recency).¹⁸ For example, if a salesperson captures an important contract/sale just before the completion of the appraisal, the timing of the incident may inflate his or her standing, even though the overall performance of the sales-person may not have been encouraging. Likewise, a blunder committed just before the appraisal period may diminish chances of securing a favourable rating, even if the overall performance is good.

One way of guarding against such an error is to ask rater to consider the composite performance of the ratee and not to be influenced by one incident or one achievement. The rater must also be aware of the tendency on the part of the ratees to improve odds in their favour or suppress weak points during the rating period.

Perceptual Set This occurs when the rater's assessment is influenced by previously held beliefs. If the supervisor, for example, has a belief that employees hailing from one particular region are intelligent and hard working, his subsequent rating of an employee hailing from that region tends to be favourably high.

Performance Dimension Order two or more dimensions on a performance instrument follow or closely follow each other and both describe or rotate to a similar quality. The rater rates the first dimension accurately and then rates the second dimension similar to the first because of their proximity. If the dimensions had been arranged in a significantly different order, the ratings might have been different.

Spillover Effect This refers to allowing past performance appraisal ratings to

unjustifiably influence current ratings. Past ratings, good or bad, result in similar rating for the current period although the demonstrated behaviour does not deserve the rating, good or bad.

Status Effect It refers to overrating of employees in higher-level job or jobs held in high esteem, and underrating employees in lower-level job or jobs held in low esteem.

Others There are other problems as well. One such is *error of misattribution*. This occurs when a complex problem is addressed by a simplistic solution, which does more harm than good. In today's workplace, managers tend to think in terms of problems and solutions. This may be helpful in approaching a situation but the consequence is the misattribution of problems and solutions.

When the evaluations claim to reach a conclusion regarding a problem even though that "conclusion" is not supported by the facts of the case or is influenced by undue bias, an *error of false conclusion* occurs.

There is the *error of wishful thinking* where a conclusion is drawn, not on the facts of the case but on the expectations and desired objectives of the evaluation process. This can be a powerful error. Actions and conclusions based on the desire to look effective and decisive but in fact putting in place half-baked programmes in order to say "we did something" is committing the *error of the quick fix*. Quick fix tends to make things worse, and consume more time and resource. Real solutions tend to be more efficient and cheaper than quick fixes.^{18(a)}

It is not the rater's errors alone that are barriers to accurate and valid measurement of employee performance. Barriers lie deep within the genetic and acquired makeup of all people concerned with performance appraisal. A wide variety of emotional, psychological, intellectual and physical factors that, at the first glance, may appear to be separate and irrelevant may combine in any number of ways during the appraisal process to completely neutralise or nullify any programme designed to measure employee performance (read also Exhibit 9.2).

Exhibit 9.2

Here is a bizarre case of performance appraisal. A pulp-making unit located at Harihar in Karnataka, hired 40 engineers in 1994, as management trainees. The new hires were fresh from, REC, Suratkal, and other prestigious institutions. Obviously they were toppers in their respective branches and institutions.

The management of the plant adopted a freakish policy with regard to performance appraisal—10 per cent of all the employees were to be rated below average. The management did not want all the employees to be ranked high, notwithstanding their excellent performance.

The axe fell on the trainees. The raters rated all the 40 trainees below average. Humiliated, these 40 put in their papers even before their training period expired.

Solving Rater's Problems The best way to overcome the problems is to provide training to the raters. At Hewlett-Packard, a two-day training course is organised every year to prepare managers to handle appraisals better. Not that training is a 'cure-all' for all the ills of appraisal systems. From a practical point of view, several factors, including the extent to which pay is related to performance ratings, union pressure, turnover rates, time constraints and the need to justify ratings may be more important than training, influencing the ratings they actually give. This means that improving rating systems involves not just training the raters but remedying outside factors such as union pressure. And it means that a rater training, to be effective, should also address real-life problems such as the fact that union representatives will try to influence supervisors to rate everyone high.¹⁹

But training can help improve the appraisal system to the extent of distortion that occurs due to the rater's errors such as halo, leniency, central tendency and bias. In a typical training, raters are shown a video-tape of jobs being performed and are asked to rate the worker. Ratings made by each participant are then placed on a flip chart and the various errors are explained. For example, if a trainee is rated on all criteria (such as quantity and quality) about the same, the trainer might explain that halo error had occurred. If, on the other hand, a trainer rated all video-taped workers very high, this might be explained as a leniency error. Typically, the trainer gives the correct rating and then illustrates the rating errors made.²⁰

In effect, training of raters must help strengthen the factors that tend to improve accuracy of ratings and weaken those that lower the accuracy of the performance measurement.

Factors that help improve accuracy:

1. The rater has observed and is familiar with behaviours to be appraised.
2. The rater has documented behaviours to improve the recall.
3. The rater has a checklist to obtain and review job-related information.
4. The rater is aware of personal biases and is willing to take action to minimise their effect.
5. Rating scores by raters of one group or organisation are summarised and compared with those by other raters.
6. The rater focuses attention on performance-related behaviours over which the rater has better control than in other aspects of evaluation.
7. Higher levels of management are held accountable for reviewing all ratings.
8. The rater's own performance ratings are related to the quality of rating given and the performance of units.
9. Performance factors are properly defined.

Factors that may lower accuracy:

1. The rater rates ratees only when administrative actions are contemplated.
2. The rater tends to inflate ratings when the ratees receive scores and results of appraisals.
3. The rater tends to recall more behaviours known to be of particular interest to higher-level managers, whether or not they are pertinent, when his or her ratings are reviewed by such authorities.
4. The rater is unable to express himself or herself honestly and unambiguously.
5. Appraisal systems, processes and instruments fail to support the rater.
6. The rater is unaware of causes of rating errors.
7. The rater has to rate employees on factors that are poorly defined.²¹
8. Finally, the supervisor/rater must be trained to conduct the appraisal interview. For many raters, this is a difficult task, especially when the appraisal is unfavourable to the ratee. Favourable or unfavourable rating, it is the job of the rater to convince the ratee about the appraisal,

and advise him or her about the future course of action the ratee should take.

What helps most solve problems is the selection of right raters. Right evaluators are those Who should be able to—^{21(a)}

- Accurately describe the object and context of that which is being evaluated
- Conceptualise the purpose and framework of evaluation
- Derive useful evaluation questions, data requirements, and appropriate data sources
- Select the means for collecting and analysing data
- Effectively communicate results and recommendations to the audience
- Managing the evaluation project
- Maintain ethical standards
- Adjust to external factors influencing evaluation
- Evaluate the evaluation

Pause and Ponder

In most family-owned businesses, sons or daughters join fathers' business. In such scenarios, fathers are the bosses and offsprings are the subordinates. How should such bosses rate performance of their subordinates? Which of these errors are likely to occur?

What should be Rated? One of the steps in designing an appraisal programme is to determine the evaluation criteria. It is obvious that the criteria should be related to the job. Seven criteria are generally used. They include: quality, quantity, timeliness, cost effectiveness, need for supervision, interpersonal impact, and community service.

Community service is becoming an important criterion to assess performance. Mind Tree Consulting has a system in place where social activities are considered in assessing performance. Every employee is evaluated on 100 points. While 60 of these come from his/her job performance, 40 points are given to how an employee is performing with respect to CLASS (caring, learning, achieving, sharing, and social

conscience). Employees fill a self-appraisal form and demonstrate through anecdotes and personal experiences how they have acted on some of the values.

These seven criteria relate to past performance and behaviour of an employee. There is also the need for assessing, as was pointed out earlier, the potential of an employee for future performance, particularly when the employee is tipped for assuming greater responsibilities. (Read Exhibit 9.3 for an illustration of assessing potentials).

Exhibit 9.3 Appraisal of Potential at Philips

More and more number of organisations are trying to assess potential of their employees, particularly at the managerial level. Cadbury India, Sandoz, Pfizer, Mafatlal, Philips, National Organic Chemical Industries, Glaxo and P&G are a few of the companies which seek to tap managerial potential.

At Philips a two-by-two matrix is used to assess performance and potential to perform. The vertical axis measures potential while the horizontal, actual performance (see Fig. 9.6). Both are further subdivided into parameters—high and low—resulting in four quadrants of classification.

Low potential-low performance. These employees are categorised as question marks. The company asks such employees to improve their performance levels. Failure to improve performance would result in their planned separation.

High potential-low performance. These are the problem children. In order to help them improve their performance, these employees are shifted to new locations to work and are closely monitored. If performance levels do not improve, these employees are reclassified as question marks and the separation process initiated.

High potential-high performance. These are the star performers. They have to be kept engaged with complex assignments all the time and groomed to take up the top positions. Otherwise, they might leave. *Low potential-high performance.* These are called solid citizens and constitute 70 to 75 per cent

of the total number of employees in any organisation. They have skills but lack the potential to grow beyond their current job-profile. The organisation has to constantly recognise their limitations and take care of their needs.

In order to assess employee potential, Philips has adopted the system that prevails at Philips NV, Holland. The system at Philips NV, uses four broad attributes—conceptual effectiveness, operational effectiveness, interpersonal effectiveness and achievement motivation. Each attribute has a five-point grading scale —excellent, very good, good/adequate, weak and insufficient.

While his final grade is based on what Philips calls shared understanding, the employee is also appraised by the management development review team, which consists of the functional heads with whom the appraisee has close interaction in the normal course of his/her job.

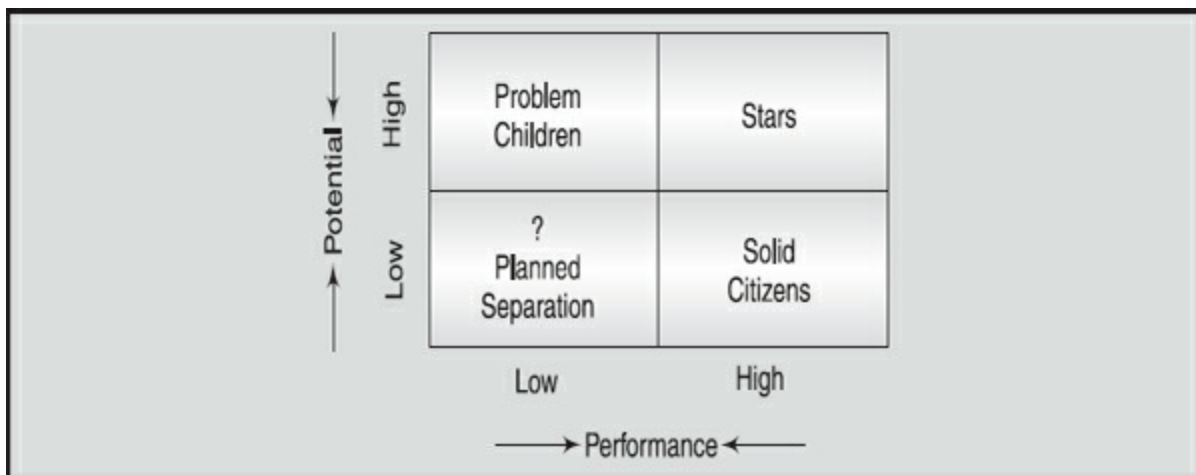


Fig. 9.6 *The Philips Model*

The objective of potential assessment is to spot talent that can be groomed to assume larger roles in the organisation. Generally, potential assessment is limited to senior level managers.

In most organisations potential assessment is an annual feature. The process involves asking leaders to assess the potential of the top performers in their respective teams and rate their capabilities that qualify them for bigger responsibilities. Assessment may be done via a formal template which needs to be filled up for all individuals above a certain level. Potential

assessment is qualitative and is rated on a scale of high, medium or low. Those rated high are aligned to specific talent management initiatives. [Chapter 8](#) contains a comprehensive list of talent management initiatives. Potential assessment record is maintained parallel to performance assessment documents.

Coming to the seven criteria, it may be stated that the first four—quality, quantity, timeliness and cost effectiveness—are objective in nature; and the last three—need for supervision, community service, and interpersonal impact—are subjective. Objective measures are quantifiable and are therefore highly useful in measuring the performance of an employee. But performance of employees should not always be evaluated against quantifiable measures. The performance of the manager of a bank, for example, should not always be evaluated against the amount of deposits mobilised for his or her bank. The effort put in by him/her, the contacts he/she has established, the image about the bank he/she has created in the eyes of public, and relationships he/she has maintained with subordinates speak more reliably about the manager's performance. Here comes the relevance of the subjective criteria. However, as subjective measures are dependent upon human judgements, they are prone to the kinds of errors we noted earlier—leniency or severity, central tendency, halo, and the like. To be useful, subjective

measures must be based on a careful analysis of the behaviours viewed as necessary and important for effective job performance.

Of late, there has been a shift in focus of appraisals. The shift is from performance of the individual to the systems approach. As stated at the beginning of this chapter, in the systems approach the emphasis is on improving one's performance. Work performance of an individual depends on organisational factors in addition to his or her abilities. The focus in the systems approach is, therefore, the entire organisation.

Timing of Evaluation How often should an employee be assessed? The general trend is to evaluate once in three months, or six months, or once in a year. According to a survey conducted in 1997 by Arthur Anderson, 70 per cent of the organisations conduct performance appraisal once a year. Newly hired employees are rated more frequently than the older ones. Frequent assessment is better than phased evaluation. Feedback in the latter is delayed and the advantage of timely remedial measures by the employee is lost.

Frequent evaluation gives constant feedback to the ratee, thus enabling him or her to improve performance if there is any deficiency. The performance of trainees and probationers should be evaluated at the end of respective programmes.

Performance appraisal can be conducted once in three months, six months or once in a year. Majority of the firms, however, conduct appraisal once in a year.

Methods of Appraisal The last question to be addressed in the process of designing an appraisal programme is to determine method(s) of evaluation. Numerous methods have been devised to measure the quantity and quality of employee's job performance. Each of the methods discussed could be effective for some purposes, for some organisations. None should be dismissed or accepted as appropriate except as they relate to the particular needs of the organisation or of a particular type of employees.²³ Broadly, all the approaches to appraisal can be classified into (i) past-oriented methods, and (ii) future-oriented methods. Each group has several techniques as shown in [Fig. 9.7](#).

Past-oriented Methods

Rating Scales This is the simplest and most popular technique for appraising employee performance. The typical rating-scale system consists of several numerical scales, each representing a job-related performance criterion such as dependability, initiative, output, attendance, attitude, co-operation, and the like. Each scale ranges from excellent to poor. The rater checks the appropriate performance level on each criterion, then computes the employee's total numerical score (see Exhibit 9.4). The number of points scored may be linked to salary increases, whereby so many points equal a rise of some percentage.

Nearly every type of job can be evaluated with the rating scale, the only

requirement being that the job-performance criteria should be changed

Rating scales offer the advantages of adaptability, relatively easy use and low cost. Nearly every type of job can be evaluated with the rating scale, the only requirement being that the job-performance criteria should be changed.²⁴ This way, a large number of employees can be evaluated in a short time, and the rater does not need any training to use the scale.

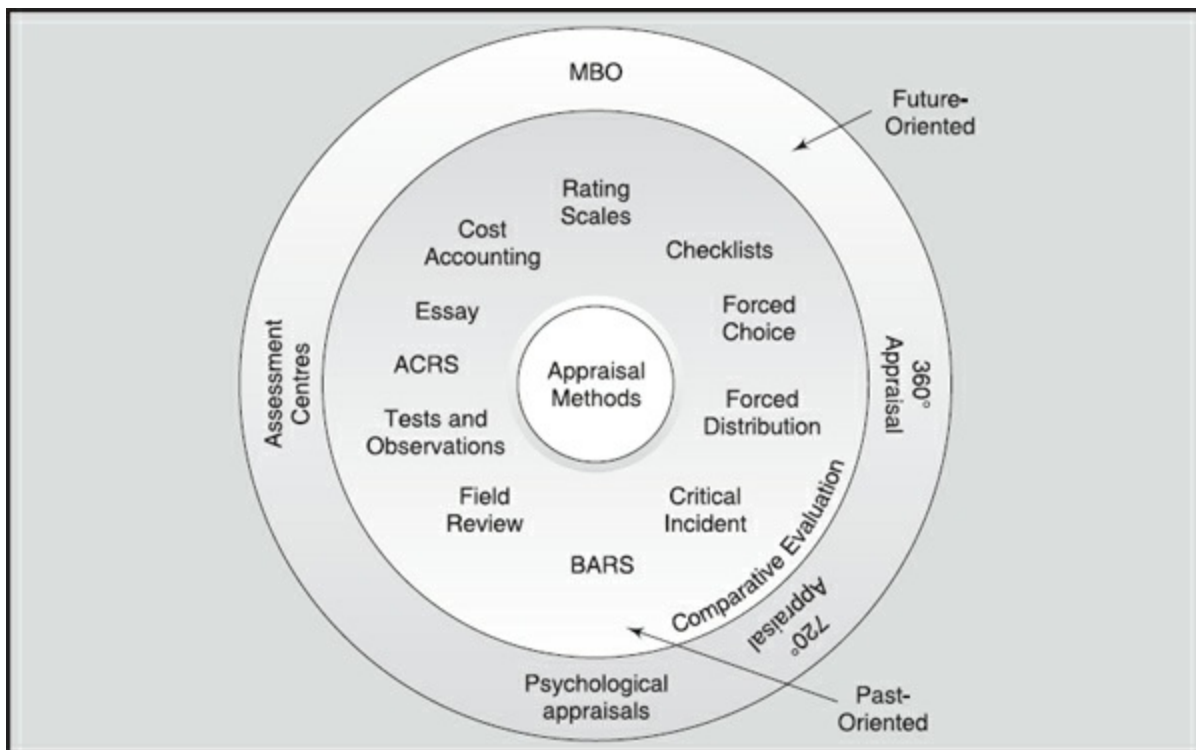


Fig. 9.7 Methods of Performance Appraisal

Exhibit 9.4 Rating Scale

Instructions: For the following performances factors, please indicate on the rating scale your evaluation of the employee named below:

Employee's Name _____						Dept. _____
Rater's Name _____						Date. _____
	<i>Excellent</i>	<i>Good</i>	<i>Acceptable</i>	<i>Fair</i>	<i>Poor</i>	
	5	4	3	2	1	
1. Dependability	—	—	—	—	—	
2. Initiative	—	—	—	—	—	
3. Overall output	—	—	—	—	—	
4. Attendance	—	—	—	—	—	
5. Attitude	—	—	—	—	—	
6. Co-operation	—	—	—	—	—	
— —	—	—	—			
— —	—	—	—			
— —	—	—	—			
— —	—	—	—			
20. Quality of work	—	—	—	—	—	
Total + +	+	+				
Total score						

Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, p. 349.

The disadvantages of this method are several. The rater's biases are likely to influence evaluation, and the biases are particularly pronounced on subjective criteria such as co-operation, attitude and initiative. Furthermore, numerical scoring gives an illusion of precision that is really unfounded.

Checklist Under this method, a checklist of statements on the traits of the employee and his or her job is prepared in two columns—viz., a 'Yes' column and a 'No' column. All that the rater (immediate superior) should do is tick the 'Yes' column if the answer to the statement is positive and in column 'No' if the answer is negative. A typical checklist is given in [Table 9.4](#). After ticking off against each item, the rater forwards the list to the HR department where the actual assessment of the employee takes place. In other words, the rater only does the reporting, while actual evaluation is done by

the HR department. The HR department assigns certain points to each 'Yes' ticked. Depending on the number of 'Yes' the total score is arrived at. When points are allotted to the checklist, the technique becomes a *weighed checklist*. The advantages of a checklist are economy, ease of administration, limited training of rater, and standardisation. The disadvantages include susceptibility to rater's biases (especially the halo effect), use of personality criteria instead of performance criteria, misinterpretation of checklist items, and the use of improper weights by the HR department. Another disadvantage of this approach is that it does not allow the rater to give up relative ratings.

Table 9.4 Checklist for Operators

	Yes	No
1. Is the employee really interested in the job?	—	—
2. Does he or she possess adequate knowledge about the job?	—	—
3. Is his or her attendance satisfactory?	—	—
4. Does he or she maintain his or her equipment in good condition?	—	—
5. Does he or she co-operate with co-workers?	—	—
6. Does he or she keep his/her temper?	—	—
7. Does he or she obey orders?	—	—
8. Does he or she observe safety precautions?	—	—
9. Does he or she complete what he or she commences?	—	—
10. Does he or she evade responsibility?	—	—

Forced Choice Method In this, the rater is given a series of statements about an employee. These statements are arranged in blocks of two or more, and the rater indicates which statement is most or least descriptive of the employee. Typical statements are:

1. Learns fast_____works hard
2. Work is reliable_____performance is a good example for
3. Absents often_____others usually tardy.

As in the checklist method, the rater is simply expected to select the statements that describe the ratee. Actual assessment is done by the HR department.

This approach is known as the forced choice method because the rater is forced to select statements which are readymade. The advantage of this method is the absence of personal bias in rating. The disadvantage is that the statements may not be properly framed—they may not be precisely descriptive of the ratee's traits.²⁵

In the forced choice method the rater is forced to select statements which are readymade.

Forced Distribution Method One of the errors in rating is leniency—clustering a large number of employees around a high point on a rating scale. The forced distribution method seeks to overcome the problem by compelling the rater to distribute the rates on all points on the rating scale.

The method operates under an assumption that the employee performance level conforms to a normal statistical distribution. Generally, it is assumed that employee performance levels conform to a bell-shaped curve. For example, the following distribution might be assumed to exist—excellent 10 per cent, good 20 per cent, average 40 per cent, below average 20 per cent, and unsatisfactory 10 per cent. [Figure 9.8](#) illustrates the distribution.

The forced distribution method operates under an assumption that employee performance level conforms to a normal statistical distribution.

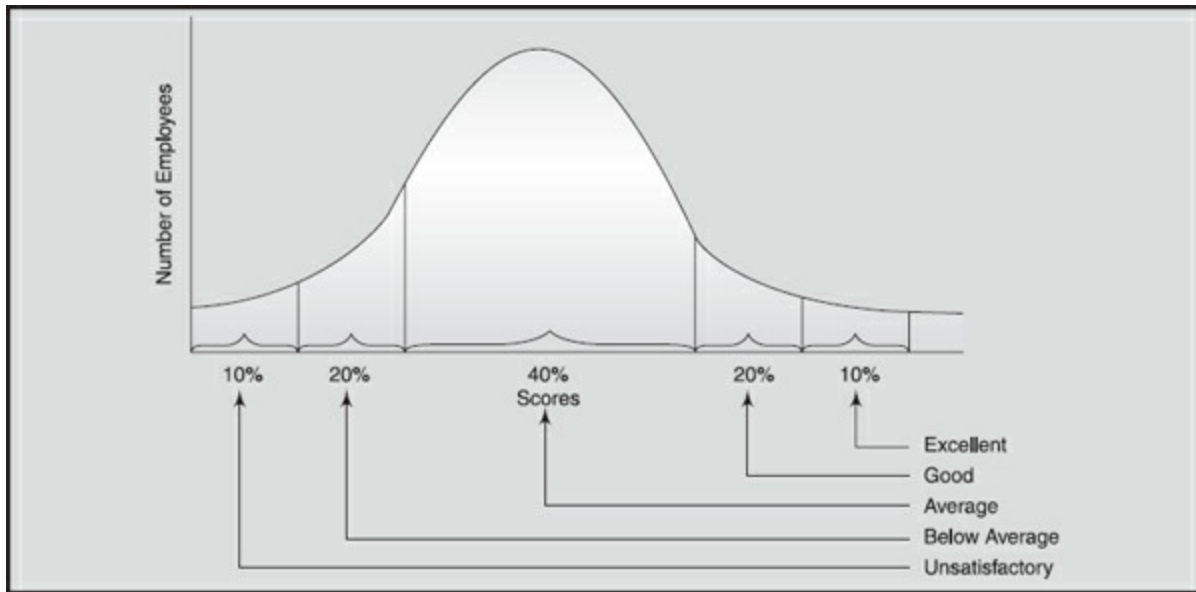


Fig. 9.8 *Forced Distribution on a Bell-shaped Curve*

The major weakness of the forced distribution method lies in the assumption that employee performance levels always conform to a normal (or some other) distribution. In organisations that have done a good job of selecting and retaining only the good performers, the use of forced distribution approach would be unrealistic, as well as possibly destructive to the employee morale.²⁶

The error of central tendency may also occur, as the rater resists from placing an employee in the lowest or in the highest group. Difficulties also arise for the rater to explain to the ratee why he or she has been placed in a particular group. One merit of this approach is that it seeks to eliminate the error of leniency. However, the forced choice method is not acceptable to raters and ratees, especially, in small groups or when group members are all of high ability.

Pause and Ponder

Can you apply the forced distribution method to assess students in a class?
What challenges do you face?

Critical Incidents Method The critical incidents method of employee assessment has generated a lot of interest these days. The approach focuses

on certain critical behaviours of an employee that make all the difference between effective and non-effective performance of a job. Such incidents are recorded by the superiors as and when they occur. Examples of critical incidents of a plant manager are given in [Table 9.5](#).²⁷

Table 9.5 *Examples of Critical Incidents for an Assistant Plant Manager*

<i>Continuing Duties</i>	<i>Targets</i>	<i>Critical Incidents</i>
Schedule production for plant	Full utilisation of personnel and machinery in the plant; order delivered on time	Instituted new production scheduling system; decreased late orders by 10% last month; increased machine utilisation in plant by 20% last month
Supervise procurement of raw materials and inventory control	Minimise inventory costs while keeping adequate supplies on hand	Let inventory storage costs rise 15% last month; over-ordered parts "A" and "B" by 20%; under-ordered part "C" by 30%
Supervise machinery maintenance	No shutdowns due to faulty machinery	Instituted new preventative maintenance system for plant; prevented a machine breakdown by discovering faulty part

One of the advantages of the critical incidents method is that the evaluation is based on actual job behaviour. Further, the approach has descriptions in support of particular ratings of an employee. Giving job-related feedback to the ratee is also easy. It also reduces the recency bias, if raters record incidents throughout the rating period. Finally, this approach can increase the chances that the subordinates will improve because they learn more precisely what is expected of them. The method, however has significant limitations. These include:²⁸

1. Negative incidents are generally more noticeable than positive ones.
2. The recording of incidents is a chore to the supervisor and may be put off and easily forgotten.
3. Overly close supervision may result.
4. Managers may unload a series of complaints about incidents during an annual performance review session. The feedback may be too much at one time and thus appear as a punishment to the ratee. More appropriately, the management should use incidents of poor

performance as opportunities for immediate training and counselling.

Behaviourally Anchored Rating Scales Behaviourally anchored scales, sometimes called behavioural expectation scales, are rating scales whose scale points are determined by statements of effective and ineffective behaviours. They are said to be behaviourally anchored in that the scales represent a range of descriptive statements of behaviour varying from the least to the most effective. A rater must indicate which behaviour on each scale best describes an employee's performance. Behaviourally anchored rating scales (BARS) have the following features:²⁹

1. Areas of performance to be evaluated are identified and defined by the people Who will use the scales.
2. The scales are anchored by descriptions of actual job behaviour that, supervisors agree, represent specific levels of performance. The result is a set of rating scales in which both dimensions and anchors are precisely defined.

BARS are said to be behaviourally anchored as the **scales** represent a range of descriptive statements of behaviour varying from the least to the most effective.

A **rater** is expected to indicate which behaviour on each scale best describes an employee's performance.

3. All dimensions of performance to be evaluated are based on observable behaviours and are relevant to the job being evaluated since BARS are tailor-made for the job.
4. Since the raters Who will actually use the scales are actively involved in the development process, they are more likely to be committed to the final product. [Figure 9.9](#) is an example of BARS.³⁰

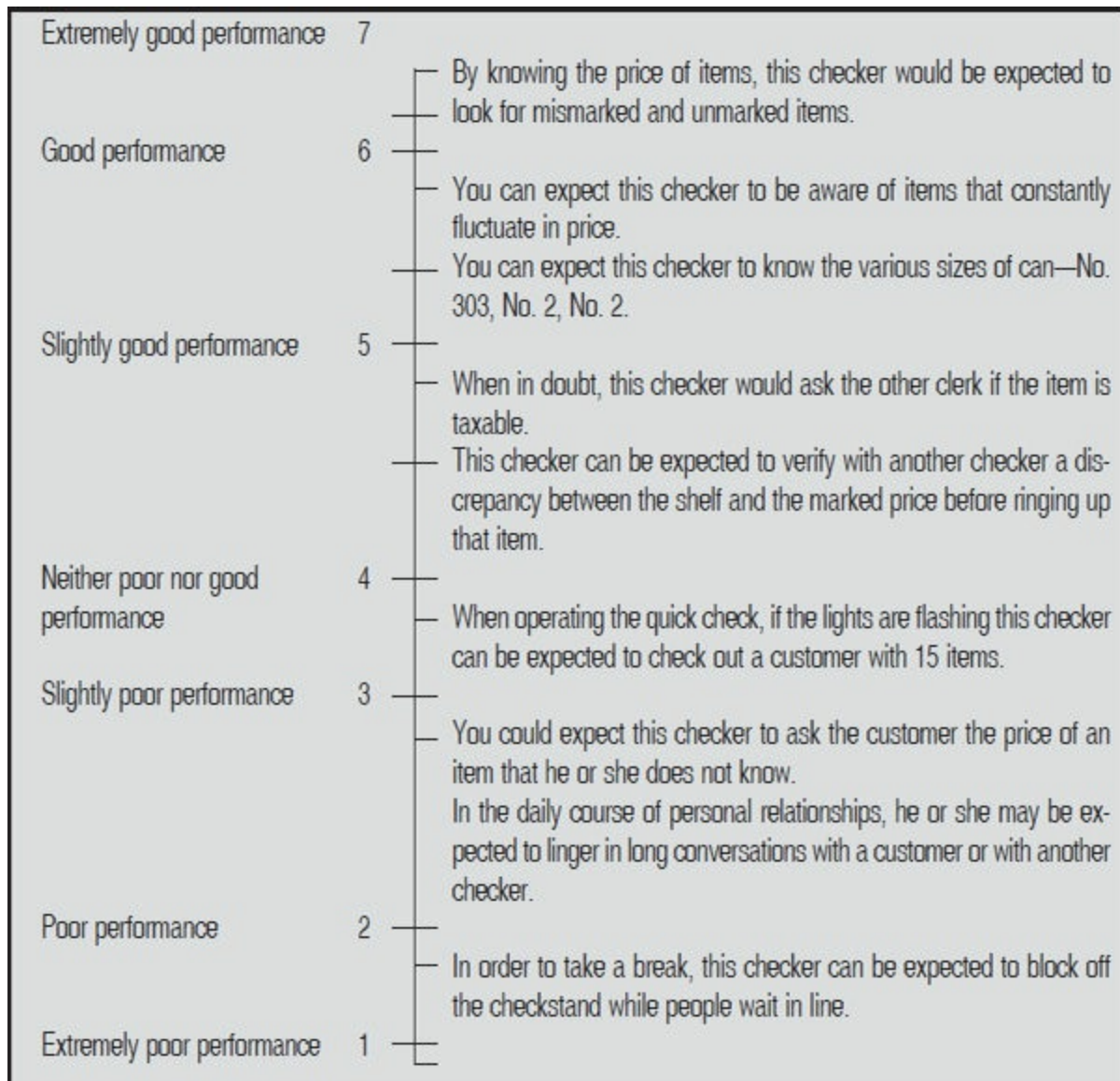


Fig. 9.9 A BARS Scale for the Knowledge and Judgement Dimension of a Grocery Checker's Job

Source: C. Hulin Fogh, and M.R. Blood, "Development of first-level Behavioural Job Criteria". *Journal of Applied Psychology*, 1971, 55 (1), pp. 3–8.

BARS were developed to provide results which subordinates could use to improve performance. Superiors would feel comfortable to give feedback to the rates. Further, BARS help overcome rating errors. Unfortunately, this method too suffers from distortions inherent in most rating techniques.³¹

Field Review Method This is an appraisal by someone outside the assessee's

own department, usually someone from the corporate office or the HR department. The outsider reviews employee records and holds interviews with the ratee and his or her superior. The method is primarily used for making promotional decisions at the managerial level. Field reviews are also useful when comparable information is needed from employees in different units or locations. two disadvantages of this method are:³²

1. An “outsider” is usually not familiar with conditions in an employee’s work environment which may affect the employee’s ability or motivation to perform.
2. An ‘outsider’ review does not have the opportunity to observe employee behaviour of performance over a period of time and in a variety of situations, but only in an artificially structured interview situation which extends over a very short period of time.

The field review method is an appraisal by someone outside the assessee’s own department, usually from corporate office or the HR department.

Raters making field reviews normally receive training on how to conduct the interview and develop their writing skills. Being independent of the work scene, they normally have less bias for or against the ratee than does the immediate supervisor. Even when a supervisor or others concerned supply biased information, the rater may be able to pinpoint areas requiring training and development assistance.³³

Performance Tests and Observations With a limited number of jobs, employee assessment may be based upon a test of knowledge or skills. The test may be of the paper-and-pencil variety or an actual demonstration of skills. The test must be reliable and validated to be useful. Even then, performance tests are apt to measure potential more than actual performance. In order for the test to be job related, observations should be made under circumstances likely to be encountered.³⁴ Practicality may suffer if costs of test development or administration are high.

Confidential Records Confidential records are maintained mostly in government departments, though its application in the industry is not ruled

out. A typical Annual Confidential Report (ACR) shall have 14 items—**(i)** attendance, **(ii)** self-expression (written or oral), **(iii)** ability to work with others, **(iv)** leadership, **(v)** initiative, **(vi)** technical ability (job knowledge), **(vii)** ability to understand new material, **(viii)** ability to reason, **(ix)** originality and resourcefulness, **(x)** areas of work that suits the person best, **(xi)** judgement, **(xii)** integrity, **(xiii)** responsibility and, **(xiv)** and indebtedness and memo served. Twelve of these may be filled on a four-point grade scale (Excellent, Good, Fair and Poor). For integrity, there shall be special instructions from the management. Justification is required for outstanding or poor rating. Overall rating on a five-point scale may be separately given (Outstanding, Very good, Good, Average, Poor), again with justification for rating as outstanding or poor. Recommendations for promotion may be also given. The ACR to contain recommendations and signature of the rater, the head of the department and the CMD.

The confidential reports, as the name itself suggests, are highly secretive. As such they have no relevance now.

Confidential records are maintained mostly in government departments, though its application in the industry is not ruled out.

Essay method is extremely useful in filling information gaps about the employees that often occur in the better structured checklist method.

Essay Method In the essay method, the rater must describe the employee within a number of broad categories, such as **(i)** the rater's overall impression of the employee's performance, **(ii)** the promotability of the employee, **(iii)** the jobs that the employee is now able or qualified to perform, **(iv)** the strengths and weaknesses of the employee, and **(v)** the training and the development assistance required by the employee. Although this method may be used independently, it is most frequently found in combination with others. It is extremely useful in filling information gaps about the employees that often occur in the better structured checklist method.

The strength of the essay method depends on the writing skills and analytical ability of the rater. However, many raters do not have good writing skills. They become confused about what to say, how much they should state

and the depth of the narrative. The essay method can consume much time because the rater must collect the information necessary to develop the essay and then he or she must write it. The essay method also depends on the memory power of the rater.

A problem with this method is that the ratees may be rated on the quality of the appraisals that they give. The quality standard for the appraisal may be unduly influenced by appearance rather than content. Thus, a 'high quality' appraisal may provide little useful information about the performance of the ratee.³⁵

Cost Accounting Method evaluates performance from the monetary returns the employee yields to his/her organisation.

Cost Accounting Method This method evaluates performance from the monetary returns the employee yields to his or her company. A relationship is established between the cost included in keeping the employee and the benefit the firm derives from him or her. Performance of the employee is then evaluated based on the established relationship between the cost and the benefit. Cost accounting method of evaluation has vast potential as increasingly firms are converting their training departments into profit centres. Profit-centre concept demands cost-benefit analysis.

Comparative Evaluation Approaches These are a collection of different methods that compare one worker's performance with that of his/her co-workers. Comparative appraisals are usually conducted by supervisors. As these appraisals can result in a ranking from best to worst, they are useful in deciding merit-pay increases, promotions and organisational rewards.³⁶ The usual comparative forms used in this kind of evaluation are the ranking method and the paired comparison method.

The comparative evaluation approaches compare one worker's performance with his/her co-workers.

Ranking Method In this, the superior ranks his or her subordinates in the

order of their merit, starting from the best to the worst. All that the HR department knows is that A is better than B. The 'how' and 'why' are not questioned, nor answered. no attempt is made to fractionalise what is being appraised into component elements. This method is subject to the halo and recency effects, although rankings by two or more raters can be averaged to help reduce biases. Its advantages include ease of administration and explanation.³⁷

Paired-comparison Method Under this method, the appraiser compares each employee with every other employee, one at a time. For example, there are five employees named A, B, C, D and E. The performance of A is first compared with the performance of B and a decision is made about whose performance is better. Then A is compared with C, D and E in that order. The same procedure is repeated for other employees. The number of comparisons may be calculated with the help of a formula which reads thus:

$$\frac{N(N-1)}{2}$$

where N stands for the number of employees to be compared. If there are 10 employees, the number of comparisons will be $\frac{10(10-1)}{2} = 45$

After the completion of comparison, the results can be tabulated, and a rank is created from the number of times each person is considered to be superior.³⁸

future-oriented Appraisals

Is it not enough if only the past performance is assessed. How an employee can perform in the days to come is equally important. This can be assessed by focussing on employee potential or setting future performance goals. The commonly used future-oriented techniques are MBO, psychological appraisals, assessment centres, 360° appraisal and 720° appraisal.

Management by Objectives It was Peter F. Drucker Who first gave the concept of MBO to the world way back in 1954 when his *The Practice of Management* was first published. The MBO concept, as was conceived by Drucker, reflects a management philosophy which values and utilises employee contributions. Application of MBO in the field of performance appraisal is a recent thinking.

How MBO works can be described in four steps:

1. The *first* step is to establish the goals each subordinate is to attain. In some organisations, superiors and subordinates work together to establish goals. In others, superiors establish goals for subordinates. The goals typically refer to the desired outcome to be achieved. These goals can then be used to evaluate employee performance.
2. The *second* step involves setting the performance standard for the subordinates in a previously arranged time period. As subordinates perform, they know fairly well what there is to do, what has been done, and what remains to be done.
3. In the *third* step, the actual level of goal attainment is compared with the goals agreed upon. The evaluator explores reasons for the goals that were not met and for the goals that were exceeded. This step helps determine possible training needs. It also alerts the superior to conditions in the organisation that may affect a subordinate but over which the subordinate has no control.
4. The *final* step involves establishing new goals and, possibly, new strategies for goals not previously attained. At this point, subordinate and superior involvement in goal-setting may change. Subordinates who successfully reach the established goals may be allowed to participate more in the goal-setting process the next time. The process is repeated.

As with other approaches, MBO too has been criticised. One comment made against the approach is that it is not applicable to all jobs in all organisations. Jobs with little or no flexibility, such as assembly-line work, are not compatible with MBO. An assembly-line worker usually has so little job flexibility that the performance standards and objectives are already determined. The MBO process seems to be most useful with managerial personnel and employees who have a fairly wide range of flexibility and self-control in their jobs.³⁹ Besides, when the results of an MBO system are to be used to allocate organisational rewards, employees may be less likely to establish challenging goals—goals they are confident that they can accomplish. Further, the allocation of merit pay on a semi-annual or annual basis may encourage the setting up of goals with short term horizons to the disadvantage of important long-term goals.

The performance appraisal presently followed in L&T reflects the principles of MBO. Exhibit 9.5 illustrates the method used by the engineering giant.


Psychological Appraisals Large organisations employ full-time industrial psychologists. When psychologists are used for evaluations, they assess an individual's future potential and not past performance. The appraisal normally consists of in-depth interviews, psychological tests, discussions with supervisors and a review of other evaluations. The psychologist then writes an evaluation of the employee's intellectual, emotional, motivational and other-related characteristics that suggest individual potential and may predict future performance. The evaluation by the psychologist may be for a specific job opening for which the person is being considered, or it may be a global assessment of his or her future potential. From these evaluations, placement and development decisions may be made to shape the person's career. Because this approach is slow and costly, it is usually required for bright young members who, others think, may have considerable potential within the organisation. Since the quality of the appraisal depends largely on the skills of the psychologists, some employees object to this type of evaluation, especially if cross-cultural differences exist.⁴⁰

Psychological appraisals focus on future potential and not actual performance. Industrial psychologists are employed for conducting the appraisal.

Assessment Centres Mainly used for executive hiring, assessment centres are now being used for evaluating executive or supervisory potential. An assessment centre is a central location where managers may come together to have their participation in job-related exercises evaluated by trained observers. The principal idea is to evaluate managers over a period of time, say one to three days, by observing (and later evaluating) their behaviour across a series of select exercises or work samples. Assesseees are requested to participate in in-basket exercises, work groups (without leaders), computer simulations, role playing, and other similar activities which require the same attributes for successful performance, as in the actual job. After recording

their observations of ratee behaviours, the raters meet to discuss these observations. The decision regarding the performance of each assessee is based upon this discussion of observations. Self-appraisal and peer evaluation are also thrown in for final rating.

Exhibit 9.5 Larsen & Toubro, Human Resource Development–Performance Appraisal System

CONFIDENTIAL PA FORM: 28	NAME	EMP. PS. NO.	CADRE	GROUP	DEPT.
EXECUTIVES & SUPERVISORS  LARSEN & TOUBRO LIMITED HUMAN RESOURCE DEVELOPMENT—PERFORMANCE APPRAISAL SYSTEM PERFORMANCE ANALYSIS AND REVIEW APRIL 1993 TO MARCH 1994					
		NAME	DATE	SIGNATURE	
EMPLOYEE					
IMMEDIATE SUPERIOR					
NEXT SUPERIOR		1.			
		2.			
PERSONNEL/HRD DEPT.					
A PERFORMANCE REVIEW AGAINST OBJECTIVES			B1 By Immediate Superior		
A1 By Employee			Outstanding	V. Good	Good
AGREED OBJECTIVES & TARGETS (Not more than five)		RESULTS ACHIEVED			
1.					
2.					
3.					
4.					
5.					

PPG:BS:F45:P5

A2 SELF REVIEW (by Employee)							
SIGNIFICANT CONTRIBUTORS (JOB OR PROFESSION RELATED—NOT COVERED ABOVE)							
IMPORTANT FACTORS FACILITATING PERFORMANCE							
IMPORTANT FACTORS HINDERING PERFORMANCE							
B2 PERFORMANCE AGAINST OBJECTIVES (By Immediate Superior)							
<input type="checkbox"/> OUTSTANDING <input type="checkbox"/> V. GOOD <input type="checkbox"/> GOOD <input type="checkbox"/> ADEQUATE <input type="checkbox"/> INADEQUATE							
C Appraisal of Critical Attributes (By Immediate Superior)							
C2 Critical Attributes			Outstanding	V. Good	Good	Adequate	Inadequate
1.	INNOVATIVENESS	Ability to think new and better ways of doing things that result in introduction of new ideas or improvements of the systems and operations.					
2.	INITIATIVE	Ability to determine and initiate actions that result in improved handling of jobs, without waiting to be told.					
3.	INTERPERSONAL & TEAM RELATIONSHIP	Ability to interact effectively with people at all levels to gain their confidence and respect and work in a collaborative and participative manner.					
4.	RESOURCEFULNESS	Ability to muster resources to achieve desired results and devise ways and means of solving problems in difficult situations.					
5.	COMMUNICATION SKILLS	Ability to convey thoughts and feelings clearly both through oral as well as written expressions for better understanding.					
Specific role related attributes (Identified in the beginning of the year)							
6.							
7.							
C2 Areas of Strengths & Improvements (By Immediate Superior)							

C3 Potential Areas of Growth (By Immediate Superior)			
D Recommendations for Training & Development (By Immediate Superior)			
D1 IN-COMPANY TRAINING PROGRAMMES			
Description		Code	
Description		Code	
1.		2.	
D2 OTHER TRAINING PROGRAMMES			
1.		2.	
D3 SPECIFIC DEVELOPMENT PLANS			
Proposed Action (Tick as applicable)		Details of Actions Required	
<input type="checkbox"/>	Job Rotation		
<input type="checkbox"/>	Job Enlargement		
<input type="checkbox"/>	Special Assignment		
<input type="checkbox"/>	Deputation of Other Dept.		
<input type="checkbox"/>	Other (Please Specify)		
E Comments by Next Superior(s)			
E1 On Specific Development Plans Stated Above in D3			
E2 Overall Observations:			
F For Use by Personnel/HRD Co-ordinator			

The characteristics assessed in a typical assessment centre include assertiveness, persuasive ability, communicating ability, planning and organisational ability, self-confidence, resistance to stress, energy level, decision-making, sensitivity to the feelings of others, administrative ability, creativity, and mental alertness. It is a formidable list which is quite difficult to measure accurately over three days, though there would be sizeable number of trained observers and psychologists.

An **assessment centre** is a central location where managers may come together to have their participation in job-related exercises evaluated by trained observers. Mostly used for executive hiring, assessment centres are now being used for evaluating executive or supervisory potential. Assessment centres have many takers as Exhibit 9.6 reveals.

First developed in the US and the UK in 1943, the assessment centre is gaining popularity in our country. Crompton Greaves, Eicher, HUL and Modi Xerox are using the technique with results being highly positive (also see Exhibit 9.6).

Exhibit 9.6 Assessment Centre—Many Takers

- Ranbaxy retained the services of a team of psychologists from the UK-based Kelly & King to take the executives (of Ranbaxy) through an assessment center. 20 star managers went through the exercise.
- Santrupt Misra, Director— Birla Management Corporation had plans for a similar exercise to be held at Gyanodaya, the Aditya Birla learning centre. Misra first used the assessment centre concept four years ago on 150 middle and senior level managers.
- Old timers like Tata have created their own assessment centers, and so have the talent centric companies like WIPRO and Cognizant.
- SHL, a HR consulting firm has worked with over 100 companies conducting close to 1,000 assessment centers.
- Consulting firm ECS (formerly known as Eicher Consulting Services) does a number of assessments in a month for a variety of clients like Tata Steel, ING Vysya and the host of BPO outfits.
- ICICI Bank uses assessment centre as a recruitment and selection tool to find the best talent, while GE India subsidiary GECIS has used it on 20% of its middle managers.⁴¹

The problem with the assessment centres is their cost. Not only are the assesseees away from their jobs while the company pays for their travel and lodging, but the evaluators are often company managers Who are assigned to the assessment centre for short durations. These managers are often

supplemented by psychologists and HR specialists Who run the centre and also make evaluations. Hence this approach is cost-effective only in large organisations.

Assessment-centre staff are often influenced by subjective elements, such as personality of the candidates. Raters tend to evaluate the quality of the individual's social skills rather than the quality of the decisions he/she makes. Assessment-centre ratings seem to be strongly influenced by the participant's interpersonal skills.

The approach also involves real hazards. One of the most obvious is the examination-taking syndrome. Solid performers in day-to-day operations feel suffocated in the simulated environment. Another drawback is its potential adverse effect on those not selected to participate in the exercise.

Employees Who receive a poor report from the centre may react in negative ways. Ideally, a rejected employee would return to his or her former job, satisfied that he or she would not be promoted to a job he or she could not handle. However, a good performer at one level may leave the organisation in order to remove the bad assessment report from his or her work record. Thus, a poor report can demoralise an employee Who was once an asset.⁴²

Other problems include—strong and unhealthy sense of competition among the assessees; difficulty of conducting the test frequently; and the possibility of overemphasising the test performance.

But a well-conducted assessment centre can and does achieve better forecasts of future performance and progress than other methods of appraisal. Also, reliability, content validity, and predictive validity are said to be high in the assessment centres.

The test also makes sure that the wrong people are not hired or promoted. Finally, the assessment-centre test clearly defines the criteria for selection and promotion.

The 360-degree technique is understood as systematic collection of performance data on an individual or group, derived from a number of stakeholders.

360-Degree Feedback As stated earlier, where multiple raters within the organisation are involved in evaluating performance, the technique is called 360-degree appraisal. The 360-degree technique is understood as systematic collection of performance data on an individual or group, derived from a number of stakeholders—the stakeholders being the immediate supervisors, team members, peers, and self.⁴³ In fact, anyone Who has useful information on ‘how an employee does the job’ may be one of the appraisors.

The 360-degree appraisal provides a broader perspective about an employee’s performance. In addition, the technique facilitates greater self-development of the employees. For one’s development, multi-source feedback is highly useful. It enables an employee to compare his or her perceptions about self with perceptions of others. Besides, the 360-degree appraisal provides formalised communication links between an employee and his or her customers. It makes the employee feel much more accountable to his or her internal or external customers. The technique is particularly helpful in assessing soft skills possessed by employees. By design, the 360-degree appraisal is effective in identifying and measuring interpersonal skills, customer satisfaction, and team-building skills.

360-degree is not justified as an appraisal technique, but used as a management development tool too. BPCL, for example, used the technique on their 600 executives—including all directors to assess their competencies, management styles and the work climate they create for the employees. Vacancies at the top are likely to arise shortly and replacements need to be identified from among the 600 assessees. Hence the 360-degree exercise.

However, there are drawbacks associated with the 360-degree feedback. Receiving feedback on performance from multiple sources can be intimidating. It is essential that the organisation create a non-threatening environment by emphasising the positive impact of the technique on an employee’s performance and development. Further, firms that use the technique take a long time on selecting the raters, designing questionnaires, and analysing the data. In addition, multiple raters are less adept at providing a balanced and objective feedback than the supervisors Who are sought to be replaced. Raters can have enormous problems separating honest observations from personal differences and biases. Pitfalls notwithstanding, more and more number of firms are using the 360-degree appraisal technique to assess

the performance and its potential of their employees (also see Exhibit 9.7).

Exhibit 9.7 Feedback on 360-Degree Feedback

The use of 360-degree feedback has grown dramatically in recent years. According to HR consulting firm William M. Mercer, 40 percent of the companies used 360-degree feedback in 1995; by 2000, this figure jumped to 65 percent.

The premise behind 360-degree feedback is logical: The people who work most closely with an employee see that person's behaviour in settings and circumstances that a supervisor may not. And, in theory, the more complete insight into an employee's performance, the more likely he or she will understand what needs to be improved and how.

The theory is very promising. The reality, on the other hand, is another matter.

Watson Wyatt's 2001 HCI report revealed that companies using 360-degree feedback have lower market value. According to the study, companies that use peer review have a market value that is 4.9 percent lower than similarly situated companies that don't use peer review. Likewise, companies that allow employees to evaluate their managers are valued 5.7 per cent lower than similar firms that don't.

Taken together, these practices are associated with a 10.6 per cent decline in shareholder value.

Voices of Doubt

The HCI study is not only an indicator that 360-degree feedback programmes may be failing to match their promise. Researchers and formerly strong advocates of 360-degree feedback have begun to raise questions. Jai Ghorpade, a professor of management at San Diego State University, wrote in the *Academy of Management Executive* that, "while it delivers valuable feedback, the 360-degree concept has serious problems relating to privacy, validity and effectiveness."

Ghorpade also reported that out of more than 600 feedback studies, one-third found improvements in performance, one-third reported decreases in performance and the rest reported no impact at all.

John Sullivan, professor of human resource management at San

Francisco State University, says “there is no data showing that [360-degree feedback] actually improves productivity, increases retention, decreases grievances or is superior to forced ranking and standard performance appraisal systems. It sounds good, but there is no proof it works”.

Roots of the Problem

Why is 360-degree feedback failing to live up to its potential? For starters, giving effective appraisals is a difficult task. Unless every one participating in a 360-degree programme is trained on the art of giving and receiving feedback, the process can lead to uncertainty and conflict among team members.

Another issue is that there may be gap between an organization’s business objectives and what 360-degree feedback programme measures. Typical 360-degree feedback programme assesses competencies that are not directly related to business results or are so broad that they aren’t relevant to the average employee.

The time and cost associated with 360-degree feedback also are stumbling blocks. By trying to capture every nuance of a worker’s performance, many 360-degree feedback programmes have become so complex that they require a much greater investment in time and money than they can return.

Another common problem: Reviewers and those being reviewed fail to follow up after feedback. When there are no consequences for poor performance – which often is the case with 360-degree reviews – performance won’t change.

720-Degree Feedback Assessment is made not only from inside the company but from groups outside the organisation. External assessors include investors, customers, or suppliers. External stakeholders become important because, ultimately, they are the groups Who will determine the future of the organisation.

Appraise the Performance

The next step in the appraisal process is to measure the performance. We

revert to the moral of the story narrated in the beginning of this chapter. The moral taught us that we need to measure the performance and not mere activities. In addition, measurement is necessary as the saying goes: what gets measured gets done.

What needs to be measured is the next question. An assessment should focus on (i) individual traits, (ii) behaviours exhibited by the assessees, (iii) knowledge/skills possessed, and (iv) results achieved.

Individual traits This angle rests on the assumption that certain traits drive performance and such characteristics should be assessed. The traits relevant here are interpersonal relations, communication, planning/organising task, judgement, autonomy, work accuracy, and work quantity. Traits are assessed in all employees across levels.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Appraisal is a process that business must commit itself. HRM is only an enabler</i> • <i>Communicate the appraisal policy of the company to new hire clearly right at the beginning</i> • <i>Educate managers continuously on ways of assessing performance on an on-going basis</i> • <i>Keep watch on slow starters and poor performers</i> • <i>Appraise performance and its potential and not obeisance</i> • <i>Monitor employee satisfaction with appraisal via periodic surveys or focus groups</i> • <i>Allow employees to broadly define their responsibilities on</i> 	<ul style="list-style-type: none"> • <i>Talk about appraisal only when due</i> • <i>Forget to spend time with high performers and appreciate them</i> • <i>Forget to follow up on problem employees, talk to their supervisors, peers and themselves</i> • <i>Depend only on structured format to assess performance</i> • <i>Forget to train raters</i> • <i>Ignore potential relationships between demographic and personality factors and workplace technology usage</i> • <i>Allow technology to intervene between an appraiser and an appraisee</i> • <i>Replace face-to-face discussion with computer generated</i>

projects and teams rather than being “compartmentalised”

- *Continue to use a thorough job analysis rather than selecting generic performance dimensions and criteria that are not relevant*

feedback

Behaviours exhibited This is based on the belief that performance is driven by behaviours exhibited, and such actions need to be measured. Therefore, the first step in developing a behaviour based appraisal process is identifying the actions to be measured, selecting different behaviours for different jobs from a ‘pool’ based on those characteristics considered to be important for the job. This assessment may be applied to supervisors and below.

Knowledge/skills possessed This assessment is appropriate for production workers, clerical staff, and some professionals. It is based on the assumption that certain competencies drive performance and such skills/knowledge should be measured. The assessor should identify the knowledge/skills to be measured and select different knowledge/skills for different jobs from a pool, based on those considered to be important for the job.

Result-based assessment Administrators, managers, most professionals and executives are the targets for this assessment. What matters in any organisation is performance which is equated with results. Results can be qualified for assessment as for example, scale volumes, units produced and meeting quality standards. Non-quantifiable indicators such as product knowledge, customer relations, communication and the like may also be considered. It becomes objective when results are quantified and measured. Where not quantified, measurement becomes subjective. Measures become quantified when standards are set for them and actuals are compared. [Table 9.6](#) contains comparative picture of the four angles to measurement. (also recollect the seven criteria for appraisal stated earlier).

Reasons Why Appraisal Fails

[Table 9.7](#) contains top 10 reasons for the failure of appraisal. A knowledge about the reasons for failure shall help the appraiser to be on guard while

appraising the performance. [Table 9.8](#) contains 10 tips to make appraisal successful.

Table 9.6 *Utility of Different Performance Measurement Systems for Different Objectives*

<i>Programme Objective</i>	<i>Type of Measurement</i>			
	<i>Trait-Based</i>	<i>Behaviour-Based</i>	<i>KN/Skill-Based</i>	<i>Results-Based</i>
Increasing Job Understanding		X	X	XX
Remedial Performance Improvement	X	XX	XX	XX
Career Development/Increasing Competencies	X	X	XX	X
Focusing Employee's Efforts on Specific Tasks	X	XX	X	X
Increasing Output	X	X	X	X
Talent Planning	XX	X	XX	X
Linking Pay and Performance		X	X	XX
Improving Team work	X	XX	X	X

(Source: Lance A. Berger and Dorothy R. Berger, *TM Handbook*, TMH, 2011, P.90)

Table 9.7 *Top 10 Reasons for Appraisal Failure*

1. Appraiser lacks information concerning an employee's actual performance
2. Standards by which to evaluate an employee's performance are unclear
3. Appraiser does not take appraisal seriously
4. Appraiser is not prepared for the appraisal review with the employee
5. Appraiser is not honest/sincere during the evaluation
6. Appraiser lacks appropriate skills
7. Employee does not receive on going performance feedback
8. Insufficient resources are provided to reward performance
9. There is ineffective discussion of employee development
10. Appraiser uses unclear/ambiguous language in the evaluation process

(Source: George Bohlander, et. al, *Managing Human Resources*, Thomson, 2002, p.

Table 9.8 *Ten Tips to Make Appraisal Highly Effective*

1. Top management involvement
2. Criteria for an effective system
3. Have an implementing team
4. Design the forms
5. Build vision, mission and values into the forms
6. Ensure ongoing communication
7. Training all appraisers
8. Orient all appraisees
9. Use the results
10. Monitor and review the programme

Performance Management

Performance appraisal provides feedback about employee job performance. Getting feedback is not enough. Three more activities need to be undertaken to complete the process: performance interview, archiving performance data, and use of appraisal data. These three activities constitute the core of performance management.⁴⁴ When assessment, feedback, archiving and use of data are carried on systematically, the process becomes performance management system (PMS).

[Table 9.9](#) brings out the distinction between appraisal and management to sharp focus.

Table 9.9 *Appraisal and Management*

	<i>Performance</i>	
	<i>Appraisal</i>	<i>Management</i>
<i>Primary focus</i>	Assessing performance as well as potential for performance	Improve employee performance and development
<i>Activities involved</i>	Designing appraisal programmes Build employee data-base	Set of HR activities designed and executed to assess and improve performance
<i>Leadership</i>	Directional, evaluative	Facilitative; coaching
<i>Frequency</i>	Usually yearly once	Often; can be ongoing
<i>Degree of formality</i>	High	Low

Performance Interview Performance interview is another step in the appraisal process (see Fig. 9.3). Once appraisal has been made of employees, the raters should discuss and review the performance with the ratees, so that they will receive feedback about where they stand in the eyes of superiors. Feedback is necessary to effect improvement in performance, specially when it is inadequate. Specifically, performance interview has three goals: **(i)** to change behaviour of employees whose performance does not meet organisational requirements or their own personal goals, **(ii)** to maintain the behaviour of employees Who perform in an acceptable manner, and **(iii)** to recognise superior performance behaviours so that they will be continued.⁴⁵

Raters offer feedback to the ratees through several methods—tell and sell, tell and listen, problem solving and mixed. In *tell and sell*, also called *directive interview*, the interviewer lets assessees know how well they are doing and sells them on the merits of setting specific goals for improvement, if needed. The *tell and listen* interview provides the subordinates with chances to participate and establish a dialogue with their superiors. Its purpose is to communicate the rater’s perceptions about the ratee’s strength and weaknesses and let the subordinates respond to those perceptions. In the *problem-solving* or participative interview, an active and open dialogue is established between the superior and the subordinate. Not only are perceptions shared, but also solutions to problems are presented, discussed, and sought. *Mixed* interview is a combination of tell and sell and problem-solving interviews.⁴⁶

Whatever be the approach followed, the emphasis in the interview should

be on counselling and development and not on criticism, witch-hunting and buck passing. Because of the significance of appraisal interview, every effort must be made to make it effective. Guidelines given in [Table 9.10](#) will help make the interview successful.⁴⁷

Pause and Ponder

In the course of a presentation to the management, the team leader of an MNC made use of 'I' several times, instead of 'We'. This was held against the poor chap, otherwise an excellent performer. What do you say?

Table 9.10 *Guidelines for Effective Appraisal Interview*

- Select a good time
- Minimise interruptions
- Welcome, set at ease
- Start with something positive
- Ask open-ended questions to encourage discussion
- Listen
- Manage eye contact and body language
- Be specific
- Rate behaviour, not personality
- Lay out development plan
- Encourage subordinate participation
- Complete form
- Set mutually agreeable goals for improvement
- End in a positive, encouraging note
- Set time for any follow-up meetings

Archiving Performance Data Organisations need to archive or store the appraisal data so that at any point in future, the information can be retrieved and used. For example, if an employee has been told that he or she was not promoted because of below average performance and he or she would be considered favourably for a jump in status and remuneration provided the performance improves. The HR manager should have those details to convince the employee concerned when he or she joins issue with the

management on matters relating to promotion. Other issues such as pay hike, confirmation of probationary services, affirmative actions and the like deserve reference to the past information. Archiving appraisal data is not just desirable but essential too.

Use of Appraisal Data The final step in the evaluation process is the use of evaluation data. The data and information generated through performance evaluation must be used by the HR department. It may be recollected that the most significant rewards employers offer to employees are:

1. Money to purchase goods and services required not only for current and future survival, but also for the luxuries modern life has to offer.
2. The opportunity to use innate and learned skills and talents in a productive manner that the individual and his or her managers and co-workers recognise as valuable.
3. Opportunities to interact with other people in a favourable working environment.
4. Opportunities to learn, grow, and make full use of their potential.
5. A sense of performance and stability through the continuing existence of the organisation and the job.
6. The opportunity to perform work assignments within an environment that not only protects, but promotes physiological, emotional and psychological health.⁴⁸

In one way or another, data and information outputs of a performance-appraisal programme can critically influence these coveted employer-employee reward opportunities.⁴⁹ Specifically, the data and information will be useful in the following areas of HRM:

1. Remuneration administration
2. Validation of selection programmes
3. Employee training and development programmes
4. Promotion, transfer and lay-off decisions
5. Grievance and discipline programmes
6. HR planning

Pause and Ponder

The appraisal rating of an employee with just 1½ years of service is 'A',

while that of a sincere and committed employee with 15 years of service is 'C'. Is it fair?

EDWARD DEMING ON PERFORMANCE APPRAISAL

Towards the end of this section, it is worthwhile to note Edward Deming's views on performance evaluation. Deming is opposed to employee assessment, because it:

1. Rewards people for manipulating the system rather than improving it,
2. Is often self-defeating,
3. Is inconsistent with team-work,
4. Acts as a substitute for proper management, and
5. Is inherently unfair.

His alternatives to performance appraisal are:

1. Meticulous selection of leaders,
2. Educating workers about their obligations, and improved training and education after selection,
3. Getting leaders To function as colleagues rather than as judges,
4. Subordinate performance to be assessed using statistical data,
5. Three to four hours interview annually, with subordinates aimed at support and encouragement, and
6. Accommodation to lone workers.⁵⁰

CHALLENGES OF PERFORMANCE APPRAISAL

With the increased significance of performance appraisal, challenges confronting the system are mounting. One serious challenge facing the performance appraisal system relates to assessment of self-managed teams. Popularly called *empowered teams*, these self-managed teams create special challenges for performance appraisal—empowered teams perform without supervisors. Historically, if one recalls, it is the supervisor Who assesses the performance of his or her subordinates. Another challenge is that both, individual and team performance, need to be measured. A suitable device needs to be developed to assess the performance of empowered teams because more and more firms use such teams to enhance productivity. [Figure](#)

9.10 contains a typical model of team appraisal.

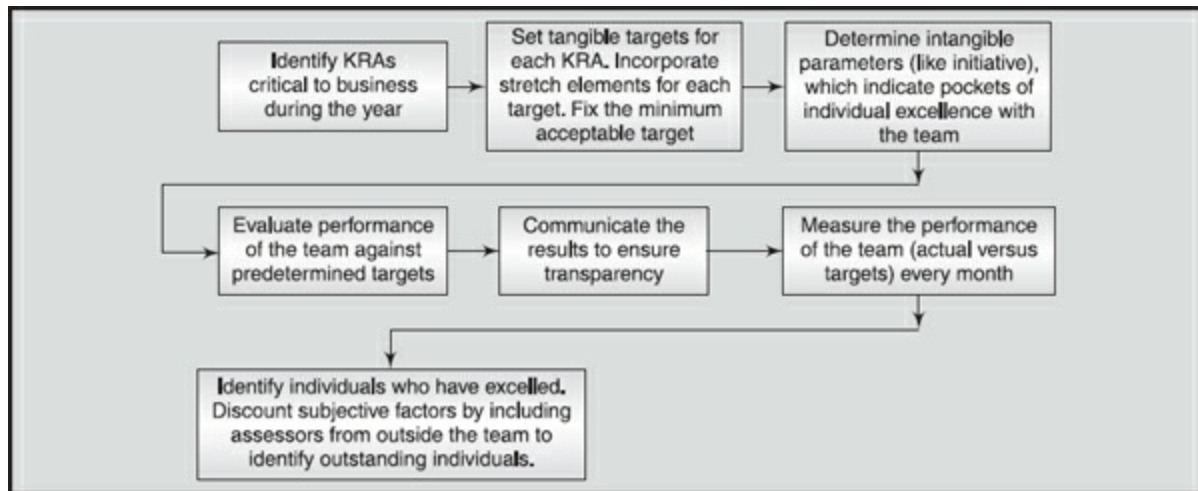


Fig. 9.10 *Appraising Teams*

Another problem relates to the *performance improvement plans (PIPs)*. Performance appraisal reveals employees whose performance is disappointing. Most organisations have a formally instituted policy and guidelines that help HR professionals and managers manage the bottom performers. Such employees are closely monitored and are assigned with clear measurable targets. They are then given constant feedback and are given facilities to meet the targets. In spite of all these, if some are still lagging behind, they need to be exited. It is the normal practice among MNCs, and IT and ITES organisations to exit 5%-10% of employees every year, post-appraisal.

Is PIP justified? Purely in business sense, the answer is positive since interest of the organisation is more important than the lives of few individuals. Further, a poor performer if retained is likely to ruin morale of others and may even make them slack in their performance. Finally, poor performance may be the consequence of faulty hiring. Exiting poor performers provides an opportunity for HR professionals to have another look at the hiring process, identify holes and plug them before the same are repeated.

[Table 9.11](#) contains other challenges of performance appraisal.

Table 9.11 *Challenges of Appraisal*

- Create a culture of excellence that inspires every employee to improve and lend himself or herself to be assessed
- Align organisational objectives to individual aspirations
- Clear growth paths for talented individuals
- Provide new challenges to rejuvenate careers that have reached the plateau stage
- Forge a partnership with people for managing their careers
- Empower employees to make decisions without the fear of failing
- Embed teamwork in all operational processes
- Debureaucratise the organisation structure for ease of flow of information

Legal issues, though infrequent, do pose a challenge to appraisal process. Next section deals with the legal issues.

LEGAL ISSUES ASSOCIATED WITH PERFORMANCE APPRAISAL

Performance appraisal data, as stated earlier, are used to make many important HR decisions (e.g. pay, promotion, training, transfer, and termination). The appraisal system is a common target of legal disputes by employees involving charges of unfairness and bias. An employee may seek the legal recourse to obtain relief from a discriminatory performance appraisal. One such case goes back to 1980s. In 1981, three junior employees of Williamson Magor were promoted superseding 15 of their senior workmen. The basis for promotion, was “recommendations of the departmental heads and other authorities”. The 15 workmen challenged the promotion given to the three workmen in the Supreme Court and the court upheld the contention of the petitioners on the ground that the said recommendations of departmental heads and authorities were arbitrary and could not be the main basis for effecting promotions (*vide* Workmen of Williamson Magor and Co. Ltd vs Williamson Magor and Co. Ltd, 1981).

There are several recommendations to assist employees in conducting fair performance appraisal and avoiding legal suits. Gleaned from case laws, these recommendations are intended to be prescriptive measures that

employers should take to develop fair and legally defensible performance appraisal systems.⁵¹

1. Legally Defensible Appraisal *Procedures*

- All personnel decisions should be based on a formal standardised performance appraisal system.
- Any performance appraisal process should be uniform for all employees within a job group, and decisions based on those performance appraisals should be monitored for differences according to race, sex, national origin, religion, or age of the employees. While obtained differences as a function of any of these variables are not necessarily illegal, an organisation will have more difficulty defending an appraisal system with ratings related to these variables.
- All specific performance standards should be formally communicated to employees.
- All employees should be able to review their appraisal results.
- There should be a formal appeal process for the ratee to rebut rater judgements.
- All raters should be provided with written instructions and training on how to conduct appraisals properly to facilitate systematic, unbiased appraisals.
- All personnel decision-makers should be well-informed of anti-discrimination laws.

They should be made aware of the fine distinctions between legal and illegal activities regarding decisions based on appraisals.

2. Legally Defensible Appraisal *Content*

- Any performance appraisal content should be based on a job analysis.
- Appraisals based on traits should be avoided.
- Objectively verifiable performance data (e.g. sales, productivity, not ratings) should be used whenever possible.
- Constraints on an employee's performance that are beyond the employee's control should be prevented from influencing the appraisal to ensure that the employee has an equal opportunity to achieve any

- given performance level.
- Specific job-related performance dimensions should be used rather than global measures or single overall measures.
 - The performance dimensions should be assigned weights to reflect their relative importance in calculating the composite performance score.

3. Legally Defensible *Documentation of Appraisal Results*

- A thoroughly written record of evidence leading to termination decisions should be maintained (e.g. performance appraisals and performance counselling to advise employees of performance deficit, and to assist poor performers in making needed improvements).
- Written documentation (e.g. specific behavioural examples) for extreme ratings should be required and they must be consistent with the numerical ratings.
- Documentation requirements should be consistent among the raters.

4. Legally Defensible *Raters*

- The raters should be trained in ‘how to use an appraisal system’.
- The raters must have the opportunity to observe the ratee first-hand or to review important ratee performance products.
- Use of more than one rater is desirable in order to lessen the amount of influence of any one rater and to reduce the effects of biases. Peers, subordinates, customers, and clients are possible sources.

SUMMARY

Performance appraisal refers to the assessment of an employee’s actual performance, behaviour on jobs, and his or her potential for future performance. Appraisal has several objectives but the main purposes are to assess training needs, to effect promotions, and to give pay increases.

Appraisal of performance proceeds in a set pattern. The steps involved are—defining appraisal objectives, establishing job expectations, designing the appraisal programme, conducting performance interview, and using appraisal data for different HR activities.

Edward Deming disfavoured performance appraisal. Instead, he stressed on effective leadership for organisational effectiveness.

Appraisal is beset with several challenges.

KEY TERMS

Assessment centres
Behaviourally anchored rating scales (BARS)
Critical incidents
Decision band method
Field review
Job expectations
MBO
Performance appraisal
Raters
Rater's errors
Self-appraisal
Wage survey
360-degree appraisal technique
720-degree appraisal
Performance management
Errors in rating

REVIEW QUESTIONS

1. What is performance appraisal? What are its objectives?
2. Outline the appraisal process.
3. Bring out the methods of appraisal.
4. What are the common rater's problems? How can they be overcome?
5. How do the results of performance appraisal affect other HR activities?

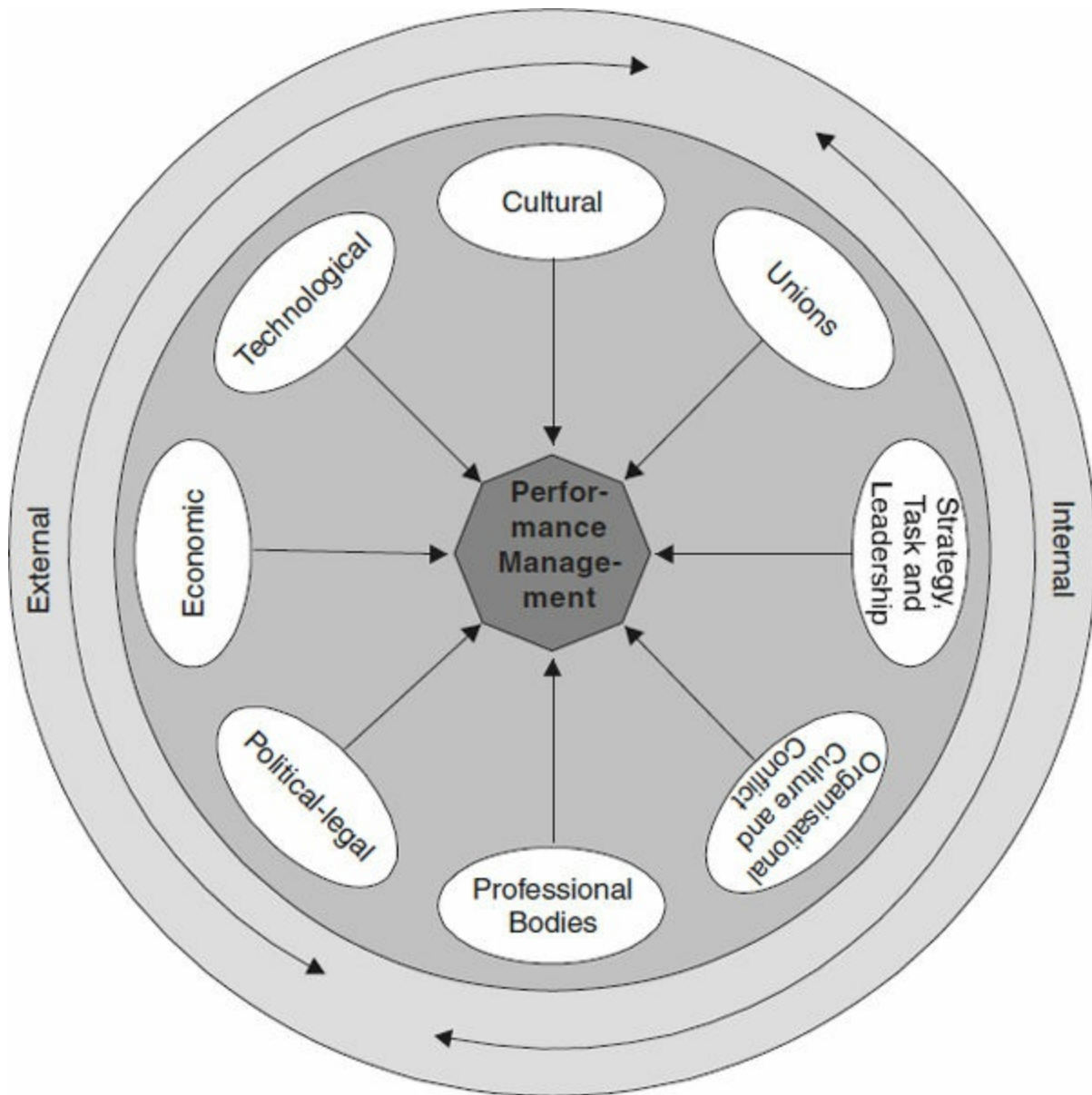
DISCUSSION QUESTIONS

1. If you were to audit an existing performance-appraisal system, what criteria would you use to judge its effectiveness?
2. Why has performance appraisal taken on increased significance in

- recent years?
3. Many managers describe performance appraisal as the responsibility which they like the least. Why is this so? What could be done to improve the perception?
 4. What steps would you take if your performance-appraisal system has a desperate and adverse impact?
 5. Evaluate the 360-degree feedback as a technique of appraisal.
 6. Refer to the opening case. Answer the following questions.
 - (a) Why did the honey produced by the first bee keeper reduce when performance was reviewed at the end of the season? Provide examples (other than the ones used in the case) from the organizational context.
 - (b) Why did the honey produced by the second bee keeper increase significantly when performance was reviewed at the end of the season? Provide examples (other than the ones used in the case) from the organizational context.
 7. do you think that appraisals will convert employees into better employees?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact performance management, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Perf-Perfect is the performance management tool that is used across Vybhav to manage the performance review related activities. Ranga joined the IT division of Vybhav six weeks ago. He receives an email alert from the Perf-Perfect tool asking to complete an on-line training on the tool and its functionality. Ranga gets reminders every two days till such time that he completes the training. Ranga's manager Ashish also receives an email alert reminding the manager to initiate the Key Performance Areas (KPA's) discussion with Ranga. Ranga discusses his KPA's and once Ashish

confirms, uploads the same on the Perf-Perfect tool. Both Ashish and Ranga need to accept the Key Performance Areas (KPA)'s to complete the activity on the tool.

April is the time for annual performance assessment. Ranga gets an email alert which is auto-generated from Perf-Perfect tool, to begin his annual self assessment. There is an end date (15th April) set for him to complete the self review of his KPA and competency assessment, and Ranga continues to get email alerts every three days till he completes the task. Once he has completed his assessment, Ranga's manager Ashish receives the e-mail alert that Ranga has completed his self assessment. Ashish can now access Perf-Perfect to have his assessment of Ranga's KPA's and competencies. Ranga once again gets an e-mail alert that he can view his manager's assessment and can set up time with his manager to have the performance review discussion. In addition to discussing the assessments and gaps in assessments if any, Ranga and Ashish also discuss the development plan for Ranga over the next six months to improve on his work related or his competency gaps. Once the discussion is completed, Ashish uploads the final assessment on the Perf-Perfect tool for Ranga to view and sign off. The assessment process is now complete.

Come October, Ranga and Ashish once again receive e mail alerts that remind them and guide them through the process of mid-year review. As Ashish goes about reviewing the developmental plan identified in April for Ranga , he can view the Train Perfect Tool to see the training programs attended by him in the past six months and the trainer's feedback from the sessions for Ranga.

EXERCISE

Break into groups and use the following scenarios to brainstorm solutions. Use the fish bowl approach to assign the scenarios.

- Design a 360 degree questionnaire for the faculty Who teach at the MBA colleges. do a role play focusing on why a 360 degree assessment would be best for the assessing a faculty. The discussion is between the principal and the college staff at the monthly staff meeting.
- Design a subjective assessment format for assessing the performance of faculty at a post graduate college/institution. Debate its advantages

- through a role play between you (as the consultant) and the principal.
- Write out the script and role play the annual performance review discussion between a research scholar and a senior professor in an educational institution.
 - Draw out a proposal for a consulting firm that plans to set up an Assessment Center for graduate and post graduate level management teaching faculty facilitators. Role play a sales pitch you are making to the head of an educational institution as to why he or she ought to sponsor his or her faculty to attend the five-day program that a consulting firm is proposing.

Closing Case-1 *Mechanist's Indisciplined Behaviour*

Dinesh, a machine operator, worked as a mechanist for Ganesh, the supervisor. Ganesh told Dinesh to pick up some trash that had fallen from Dinesh's work area, and Dinesh replied, "I won't do the janitor's work".

Ganesh replied, "when you drop it, you pick it up". Dinesh became angry and abusive, calling Ganesh a number of names in a loud voice and refusing to pick up the trash. All employees in the department heard Dinesh's comments.

Ganesh had been trying for two weeks to get his employees to pick up trash in order to have cleaner workplace and prevent accidents. He talked to all employees in a weekly departmental meeting and to each employee individually at least once. He stated that he was following the instructions of the general manager. The only objection came from Dinesh.

Dinesh has been with the company for five years, and in this department for six months. Ganesh had spoken to him twice about excessive alcoholism, but otherwise his record was good. He was known to have quick temper.

This outburst by Dinesh hurt Ganesh badly. Ganesh told Dinesh to come to the office and suspended him for one day for insubordination and abusive language to a supervisor. The decision was within company policy, and similar behaviours had been punished in other departments.

After Dinesh left Ganesh's office, Ganesh phoned the HR manager, reported what he had done, and said that he was sending a copy of the

suspension order for Dinesh's file.

Questions

1. How would you rate Dinesh's behaviour? What method of appraisal would you use? Why?
2. do you assess any training needs of employees? If yes, what inputs should be embodied in the training programme?

Closing Case-2

Farmington, Connecticut-based Otis Elevator is the world's largest manufacturer, installer, and servicer of elevators, escalators, moving walkways, and other vertical and horizontal passenger transportation systems. Otis products are offered in more than 200 countries worldwide, and the company employs more than 63,000 people. Among its many installations are the Eiffel Tower, Sydney Opera House, Vatican, CN Tower (Toronto), and Hong Kong Convention Centre.

For years, the company had an ineffective performance management system that was excessively time consuming and inspired little confidence among employees or managers. In revamping its performance management, Otis moved toward a system that provided performance feedback based on critical strategic competencies related to the company's new focus on project teams. For this realignment in To project teams to be successful, managers were required to demonstrate specific competencies in both team leadership and project management, as well as remain accountable for the financial and operating results of projects.

Realising that critical feedback in these areas could not come exclusively from immediate supervisors, Otis had a custom-designed 360 degree feedback system developed that provided managers with feedback from those most directly affected by their performance; their subordinates, peers and customers. The system provides ratings on several critical core competencies and is administered entirely online via the company Internet. The online system is easy to use, employs encryption technology to secure all data, and allows a performance review to be completed in 20 minutes.

The system allows Otis to provide performance feedback in tandem with the organisation's strategic objectives; is far more efficient than the previous paper driven system; and perhaps, most importantly, has restored employee faith in the company's performance feedback system.⁵²

Questions

1. How can 360 degree feedback mechanism help Otis revamp its performance management system?
2. What critical inputs need to be considered while evaluating by customers, peers and bosses?

REFERENCES

1. Sadhna Dash, HR consultant. She can be reached at sadhnadash@yahoo.com
2. Milton L. Rock, *Handbook of Wage and Salary Administration*, p. 53.
3. Aswathappa, K., *Factory Organisation and Management*, Fourth Edition, Himalaya, Bombay, 1990, p. 348.
4. Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, Macmillan, New York, 1990, p. 319.
5. William P. Anthony, *et al.*, *Strategic Human Resource Management*, Thomson, 1993.
6. *Ibid.*, 441.
7. R. Wayne Mondy and Robert M. Noe iii, *Personnel—The Management of Human Resources*, Allyn & Bacon, Boston, 1981, p. 251.
8. John H. Bernardian and Joyce E.A. Russell, *Human Resource Management—An Experiential Approach*, McGraw-Hill, New York, 1993, p. 393.
9. *Ibid.*, p. 393.
10. R. Wayne Mondy and Robert M. Noe III, *op. cit.*, p. 258.
11. Jerry L. Leap and Michel D. Crino, *op. cit.*, p. 330.
12. Garry Dessler, *Personnel Management*, Fourth Edition, Prentice-Hall, New York, 1988, p. 511.
13. John B. Miner and Mary Green Miner, *Personnel and Industrial*

- Relations—A Management Approach*, Fourth Edition, Macmillan, New York, 1985, p. 208.
14. Wayne F. Cascio and Elias M. Awad, *Human Resource Management—An Information Systems Approach*, Resten Publishing, Virginia, 1981, p. 408.
 15. A.A. Niyadi, “Performance Appraisal—An Approach”, *Indian Management*, August 1976.
 16. George Behlander, et al., *Managing Human Resources*, Thomson, 2002, p. 331.
 17. John H. Bernardian and Joyce E.A. Russell, *op. cit.*, p. 389.
 18. *Ibid.*, p. 390.
 - 18a. Ingrid J. Guerra–Lopez, *Performance Evaluation*, Jossy Bass, 2008, p. 245.
 19. Garry Dessler, *Personnel Management*, *op. cit.*, p. 507.
 20. *Ibid.*, p. 507.
 21. Richard I. Henderson, *Performance Appraisal*, Fourth Edition, Prentice-Hall, 1984, p. 40.
 - 21a. Ingrid J. Guerra–Lopez, *Performance Evaluation*, Jossy Bass, 2008, p. 11.
 22. John H. Bernardian and Joyce E.A. Russell, *op. cit.*, p. 383.
 23. Terry L. Leap and Michael D. Crino, p. 333.
 24. *Ibid.*, p. 338.
 25. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993, p. 349.
 26. Terry L. Leap and Michael D. Crino, *op. cit.*, p. 337.
 27. Garry Dessler, *op. cit.*, p. 497.
 28. Elmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resources System Approach*, John Wiley & Sons, New York, 1982, p. 409.
 29. Wayne F. Cascio and Elias M. Awad, *op. cit.*, p. 418.
 30. *Ibid.*, p. 420.
 31. Thomas H. Stone, *Understanding Personnel Management*, The Dryden Press, 1982, p. 294.
 32. Richard I. Henderson, *op. cit.*, p. 170.
 33. William B. Werther and Keith Davis, *op. cit.*, p. 354.
 34. Richard I. Henderson, *op. cit.*, p. 168.

35. William B. Werther and Keith Davis, *op. cit.*, p. 355.
36. Edwin B. Flippo, *Personnel Management*, Sixth Edition, McGraw-Hill, New York, p. 206.
37. *Ibid.*, p. 355.
38. Robert H. Mathis and John H. Jackson, *Personnel—Contemporary Perspectives and Applications*, Third Edition, West Publishing, New York, 1982, p. 304.
39. *Ibid.*, p. 305.
40. William B. Werther and Keith Davis, *op. cit.*, p. 360.
41. *The Economic Times*, dated March 26, 2004.
42. Peter Ward, *360-Degree Feedback*, Jaico, 1999, p. 5.
43. Richard I. Henderson, *op. cit.*, p. 267.
44. Robert L. Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2003, p. 339.
45. Randall S. Schuler, *et al*, *Effective Personnel Management*, Third Edition, West Publishing, p. 364.
46. Richard I. Henderson, *op. cit.*, p. 200.
47. William B. Werther and Keith Davis, *op. cit.*, p. 364.
48. *Ibid.*, p. 200.
49. William P. Anthony, *et al.*, *op cit.*, p. 461.
50. Helga Drummond, *The Quality Movement*, London, Kogan Page, 1992, p. 32.
51. John Bernardian and Joyce E.A. Russell, *op. cit.*, p. 241.
52. Jeffrey A. Mello, *Strategic Human Resource Management*, Thomson, 2003, pp. 297–298.

Employee Engagement and Empowerment

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of employee engagement
- Categories of employees based on engagement
- Drivers of engagement
- Benefits of engagement
- Survey of engagement

Opening Vignette

THEIR BEST FRIEND AT WORK

How one General Services Administration manager inspires respect, loyalty, and even love from her employees—while driving bottom-line results.

If you ask Diane Marinacci what her title is, she'll reach for a business card and read, "Director of the Customer Service Division of the Public Buildings Service, Region Two, of the General Services Administrations." It's an admittedly long title.

Ask Marinacci how her team scores on Gallup's Q employee engagement survey, and she'll think a minute before replying that she isn't exactly sure. But she knows her team scores very high, particularly on the item: "I have a best friend at work".

If you ask why her workgroup has such phenomenally high scores, Marinacci will say that she can't explain, but it has a lot to do with their table – more on that later.

Marinacci may not have top-of-mind answers to some questions, but she

doesn't need them. All she needs to know is that her 10 employees and myriad customers are happy – and they are. What Marinacci doesn't know is that she may be an almost perfect example of a manager who truly engages and inspires employees.

Hiring for talent

The Public Buildings Service builds and manages the buildings that the federal government uses—more than 300 million square feet in all. In essence, it is the government's landlord. The Customer Service Division is of course there for federal workers, but it also deals with Congress and the local citizenry. For instance, if the Social Security Administration decides to close a branch office, the locals are going to be mighty interested in where they are going to get their cheques. So, the Customer Service Division has thousands of clients, internal and external, and lots of work to do, because it's hard work-keeping customers happy with their workspaces.

It takes a special kind of person to work in any kind of customer service, and an extraordinary person to thrive in the Public Buildings Service. The clientele encompasses federal judges to research scientists, and every client has unique needs.

“You need personality to work here,” Marinacci says. “I don't want a tiger, but they have to be able to fight for their clients. I want someone who's easily understandable, can grasp a concept, has a good sense of humour, and is genuinely a nice person.”

It takes a while to find the best person for any job, but it takes even longer for Marinacci. As one of her employees put it, “That interview is just gruelling”.

She doesn't define it as such, but Marinacci “hires for talent”. She looks for innate traits in interviewees, such as humour, niceness, and quick thinking, which they may not even recognise in themselves. Her methodology is laser-precise, though largely unobservable. She asks questions and writes down answers, but mostly she listens to the interviewees, to what they say and what they don't say.

“I worked here, but not in this office, and had heard about Diane's interviews,” says Maureen Lennon, the judiciary regional accounts manager. “They said ‘anything's possible’. You never know what she's going to ask.

Those questions are tough, very tough.”

Marinacci interviews each person at least three times. In the first conversation, she tries to relax job candidates—“They are always nervous wrecks, because that’s the interview mentality” – but she admits they’re still nervous when they leave. She has two of her staff members join her for the first interview, but Marinacci asks the questions. She rotates one of her employees out for the second interview and has the “brand-new body” ask the questions. By the third interview, the potential hire has been exposed to enough of them to relax and allow his or her personality to show—and that’s exactly what Marinacci is looking for.

“I know they’re smart; they’ve all got 4.0 or 3.8 GPAs. But personality – you’ve got to have personality,” Marinacci says. “You know, this is a customer service office.”

Magna Marcano, a regional accounts manger, had worked in a different position at GSA for 12 years before she took Marinacci’s interview. “I was as nervous as if I’d walked in off the street,” Marcano says. “But it shows how well you’ll get along, and you learn something”.

Those few who make it through the interviews and are hired are the best in their business. And they are among the few employees in America who can say, as Marcano does, “Our manager loves us – just loves us. And we love her too”.

A table is more than furniture

Years of Gallup Organisation research and millions of research dollars have revealed what it takes to keep employees engaged in their work. The Q¹² survey items point to the fact that employees need to know that their manager cares about them personally, they need equipment to do their jobs right, and they need to feel their opinions count, among other things.

A few managers can’t provide any of those items, but most can provide some of them, and a select few can provide them all. But it’s the rare manager who has internalised the 12 items on Gallup’s Q¹² employee engagement survey to the extent that Marinacci has. Though she isn’t a “numbers person,” as she will tell you, her numbers say a lot. Within a year, her group’s Q¹² score jumped from Gallup’s 47th percentile to the 75th percentile.

According to Marinacci, that's due to the table. Every morning, the employees of Marinacci's division come to work and meet at a round table. They chat, talk about their caseloads, and ask for advice, offer help, then head to their desks to start the day. Sometimes, they meet at the table during the day, and when there's an office-wide issue to discuss, it happens at the table.

"More work is done at that round table during the day than could ever happen in a cubicle", says Marinacci. "It really, really brings out some kind of team thing with this crew that is incredible. If you saw these guys, you'd be amazed." When the Customer Service Division redesigned its office to accommodate a growing staff, Marinacci didn't care about the colours or furniture or paint, but she wouldn't let go of the table: "I tell my friends, if you're a boss, you need to get a round table."

If you look at the table through a Q¹² lens, it's obvious that the round table is the place to make opinions count, learn expectations, get praise, develop at work, discuss progress, and find opportunities to learn and grow. The table is more than furniture, and any manager can get one. "But you have to use it," Marinacci says.

The materials and equipment they need

Every manager leads differently, and the best, like Marinacci, have a particularly personal style. Nonetheless, all employees need the same 12 things – the items on Gallup's Q¹².

For instance, trying to do without the materials and equipment one needs is frustrating – one starts to wonder about the value of the work itself. Marinacci won't let it happen. Lennon remarks, "Diane always says if we need training or equipment and if it betters us, we can have it. It's been a bad year for funding, but we've gotten everything we've needed."

Marinacci isn't the sort of manager who considers a training course every few years to be sufficient employee development. When Marcano was hired, she was the only one in the office without a college degree. Marcano says, "Diane said she'd help pay for it. But she doesn't pay up front. 'Bring me an A,' she said. And I did. She's an inspiration and the smartest person I know. "Marcano worked, attended college full time, and graduated in the same month her son graduated from high school.

It's important to be recognised for doing good work. It's even better to

know that the manager is genuinely pleased. But it's incredibly rewarding when one's boss is personally proud of one's accomplishments, as Marinacci often is, and she is happy to tell all her employees so.

For example, GSA has a programme called the Advanced Leadership Development programme for exceptional employees who are being groomed for greater responsibility. In 2003, only 50 employees nationwide were accepted into this highly competitive and rigorous programme. Two employees from Marinacci's group applied – and both were accepted. One of them is Lennon, who says, “When I got accepted into that leadership programme, Diane was prouder of me than my mom. That sense of pride she has for you and instils in you is worth more than any monetary reward.” Only an engaged employee would find a manager's nice words more valuable than a nice bonus cheque.

Getting engaged

Gallup's Q¹² works because it measures engagement instead of cataloguing opinions. Thoughts on the break-room vending machine and attitudes toward the sick-leave policy don't affect engagement the way having a best friend at work does. And Q¹² does not ask specific opinions on specific actions – it doesn't ask, for example, whether people prefer monthly or quarterly reviews —because that doesn't matter. A manager who engages employees knows what her people prefer. And though every employee needs the same few things, they need them in different ways.

“I think back in the old days, the old management style was sort of drummed into our heads that you have to treat everybody the same,” Marinacci says. “But in reality, people don't want to be treated the same; people want to be treated the way they like to be treated.”

Marinacci doesn't credit her department's success to herself or her management style. She's sure that it's all because of her people, which is true to a certain extent. Her employees are remarkable – but they're also remarkably engaged. And that, even if Marinacci is unaware of it, is because their manager makes engagement the first function of her job.

Employee engagement and talent management are the two hot topics doing rounds in HR circles these days. Talent management has been covered in [Chapter 8](#) and employee engagement is discussed in this chapter.

NATURE OF EMPLOYEE ENGAGEMENT

An apt understanding of engagement is “an employee is engaged if he or she is willing to go above and beyond what would typically be expected in his or her role”. What is to be emphasised is that the employee must walk that extra mile to put in his or her best performance. (see opening vignette). Engagement is generally associated with satisfaction. But they do not go together. A satisfied employee is not a productive worker so goes the saying. Not enough, a satisfied employee may be highly disengaged also. Satisfaction coupled with commitment, pride in association with the organisation, talk highly about the organisation as the best place to work, and eloquently speak about the products and services constitute engagement (See [Fig. 10.1](#)).

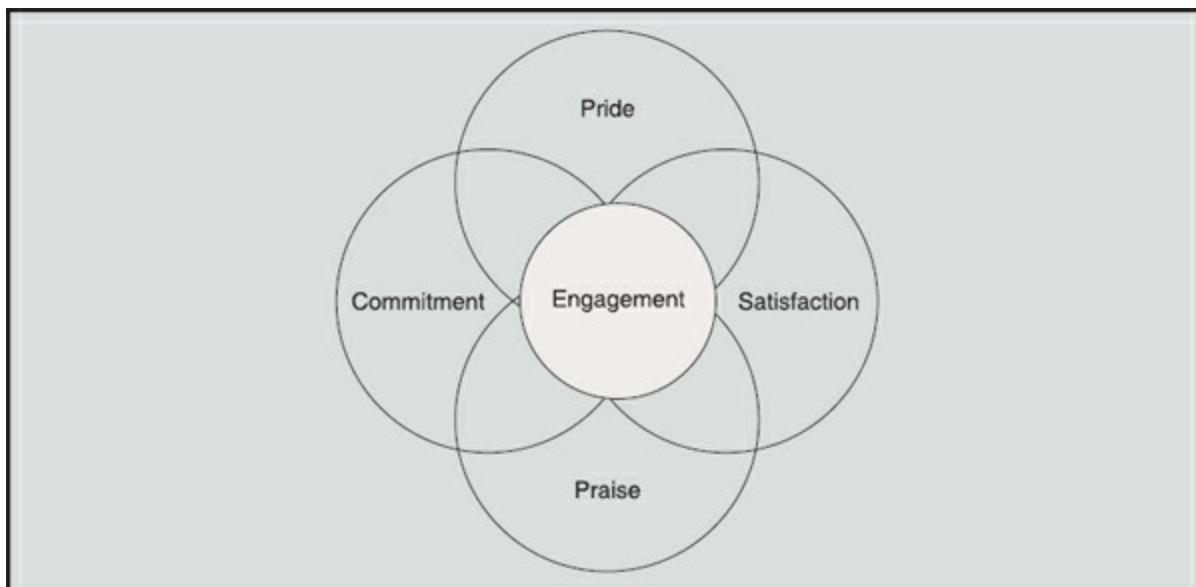


Fig. 10.1 *Four Elements of Engagement*

It should also be understood that all these perceptions need to be related to the organisation and to one’s job. It is possible to feel engaged by the job but not by the organisation, in which case the employee may be making a significant contribution to the organisational performance, but is essentially a ‘free agent’ primed to move to green pastures. Alternatively, it is also possible to feel engaged by the organisation and not the job, in which case the employee only talks eloquently but does not perform equally. Satisfaction, commitment, pride, and advocacy in relation to both the job and the

organisation constitute the essential elements of engagement. Figure 10.2 brings out the attributes of engaged workers.

Emotional attachment involves a strong emotional bond with the organisation. The employee personalises the job and the goals. *Passion* refers to the total commitment—he or she breaths and talks only about the job and the company. *Personal belief* is the confidence that he or she matters for the success of the organisation. The employee *strongly and willingly* recommends his her organisation as the best place to work. *Employee commitment* refers to the time and effort spent on the job. *Work relationships* refer to the cordial and friendly inter-personal relationships one enjoys within the organisation.



Fig. 10.2 *An Engaged Workforce Attributes*

The root for employee engagement is morale. Morale refers to the enthusiasm with which an employee works for the organisation. The term morale is increasingly used in sports. If a team wins a cricket match, morale is said to be the main contributing factor. There is a difference between morale and engagement. Engagement is a person-specific attribute whereas morale refers to a group phenomenon. The term morale, however, is not

widely used in HR circles.

Pause and Ponder

What observable behaviours are exhibited by a college lecturer who is 'engaged'?

TYPES OF ENGAGEMENT

A keen observation of employee behaviour in organisation reveals three categories of employees: engaged, not-engaged and actively disengaged.

Engaged are the employees who work with passion and feel a profound connection to their company. They drive innovation and move the organisation forward. Worldwide only 34 per cent of employees are said to be fully engaged. Country-wise, percentages vary but no country has levels above 50 per cent. Contrary to popular belief, India ranks the highest with 45 per cent. Corresponding figures for other countries include: US 44 per cent, New-Zealand 43 per cent, France and Germany 40 per cent each, UK 33 per cent, and Sweden 34 per cent. Other Asian countries score the lowest, with China at 29 per cent, South Korea at 18 per cent, and Japan 11 per cent.

Not-engaged are essentially "checked out". They are sleepwalking through their workday, clocking time, but not putting in energy or passion into their work.

Actively disengaged These are unhappy and resentful individuals and who express them openly. Everyday these workers undermine what their engaged workers accomplish.

In world-class organisations, the ratio of engaged to actively disengaged employees is 9.57:1. In average organisations the corresponding ratio is 1.83:1.

DRIVERS OF ENGAGEMENT

Several factors contribute to engagement as [Fig. 10.3](#) shows. The figure states that engagement is triggered by six variables:

1. Leadership
2. Structure, roles and capability

3. People system and process
4. Strategy
5. Positive work and culture
6. Values

All these are impacted by environment which together influence engagement. The positive outcomes, then are customer satisfaction, and enhanced performance. Engagement can be optimised when leadership, structure, roles and capability, and people systems and processes are aligned with an appropriate strategy and embedded in a positive work culture.

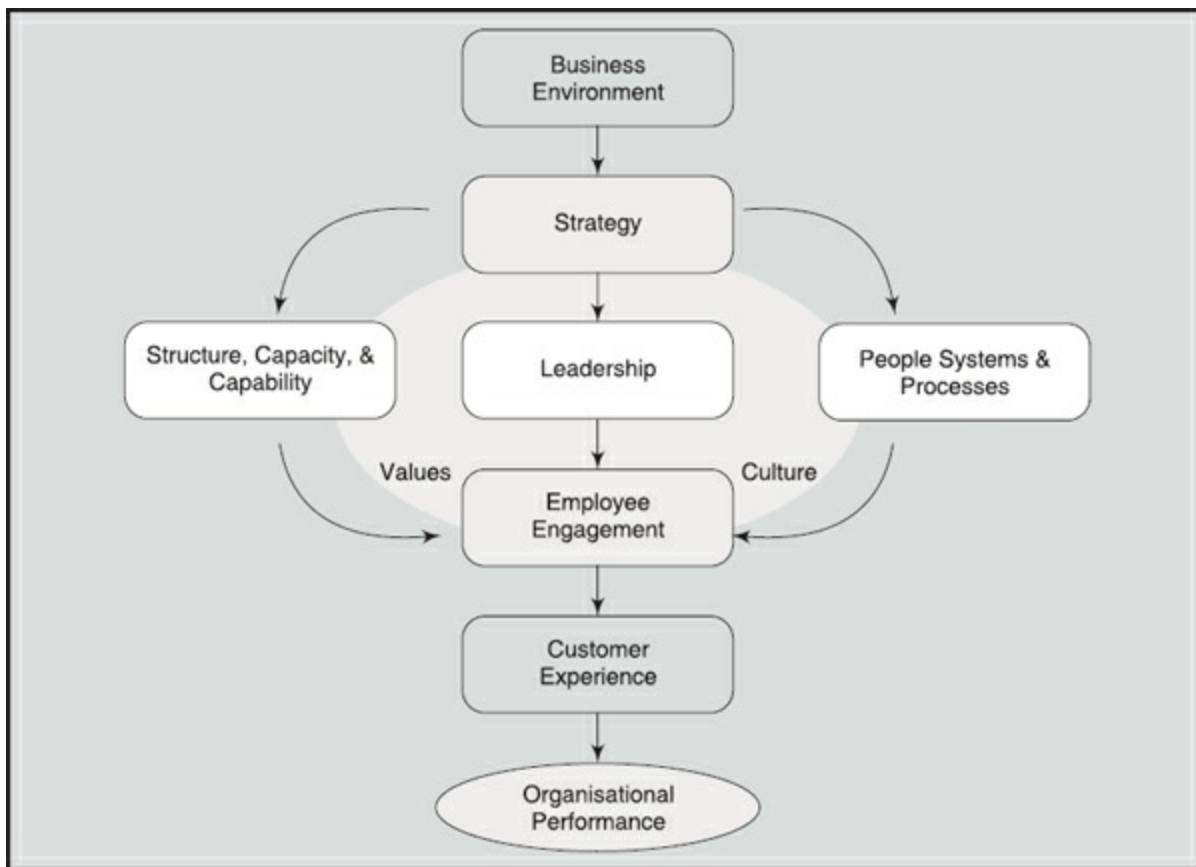


Fig. 10.3 *Organisation Effectiveness Conceptual Model*

(Source: Lance A. Berger and Dorothy R. Berger, *Talent Management Handbook*, TMH, 2011, p. 342)

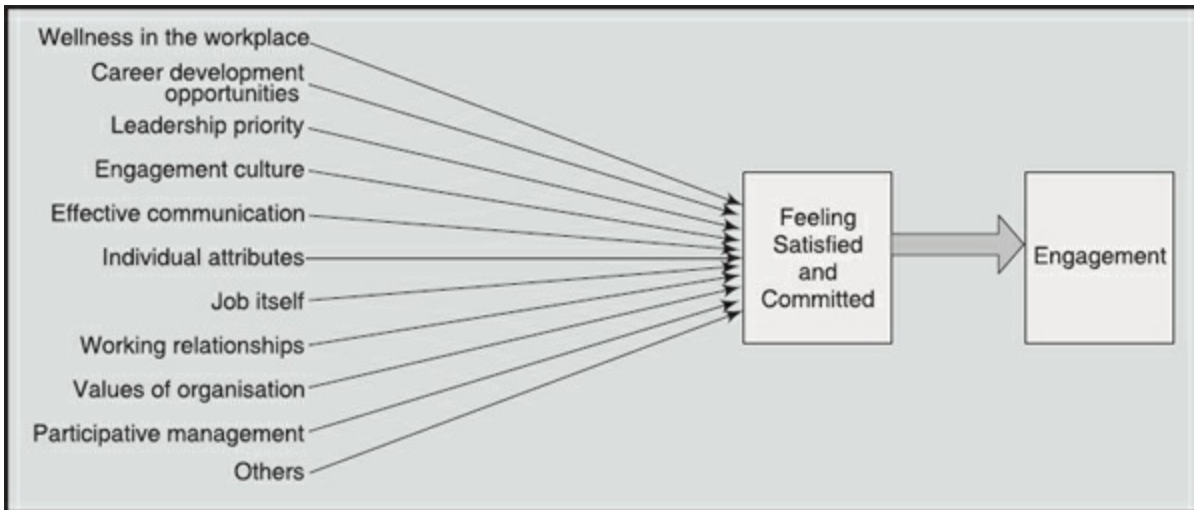


Fig. 10.4 *Drivers of Engagement*

While the six factors stated above represent a broad approach to engagement, more specific drivers of engagement are listed below (see also [Fig. 10.4](#)).

Wellness in the Work Place Well-being of employees is a prime driver for engagement. Well-being is the inter-play among physical well-being (health and energy), social-relational well-being (such as respect, balance and connectedness), and psychological well-being (such as mood and sense of accomplishment (see [Fig. 10.5](#)). Organisations should realise that well-being results in highly engaged employees.

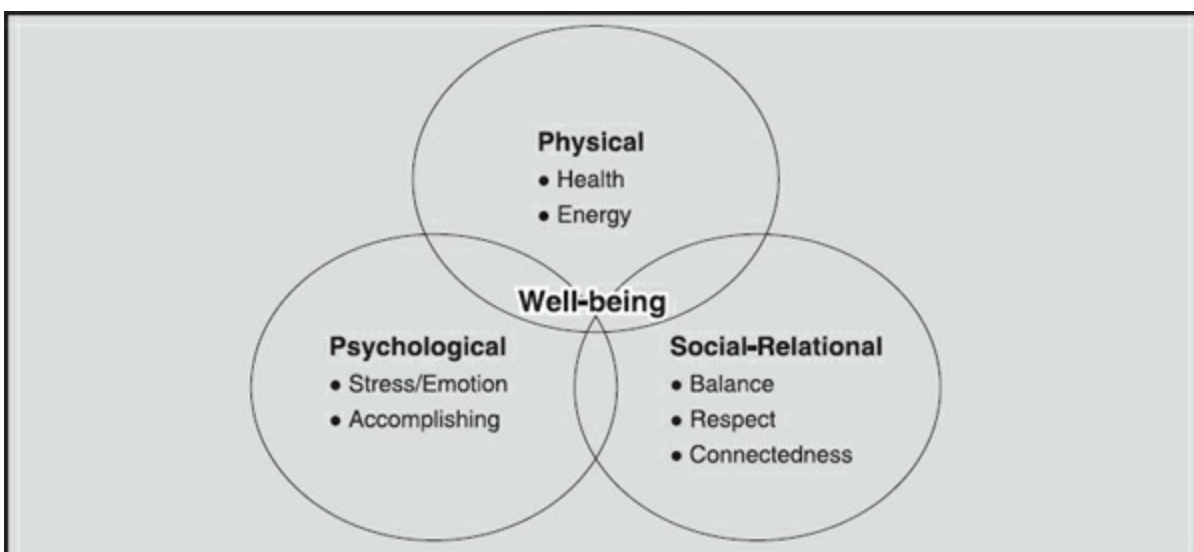


Fig. 10.5 *Critical Dimensions of Employee Well-Being*

(Source: Lance A. Berger and Dorothy R. Berger, *op. cit.*, p. 369)

Pause and Ponder

“An employee who clocks in at the right time everyday and stays in office for the ^designated working hours is a committed employee.” What do you say?

Career Development Opportunities An employee who claims that his or her organisation provides for career advancement, is highly engaged. It is said that employees are six times more likely engaged when such opportunities are provided. At the core of career development are the learning and development facilities which the organisation needs to provide in the right-spirit.

Leadership Priority Leadership can influence employee engagement in many ways. Employees who feel that leaders care for them, walk that extra mile towards achieving goals. Transformational leader (strong vision, effective communication and the like) are great motivators than transactional leaders. More powerful are the charismatic leaders who inspire devout followers by appealing to their emotions and values (see also Exhibit 10.1).

Exhibit 10.1 Leadership Practices that Enable Employees to Perform at Their Best

Survey Results from Highly successful Work Groups

As surveyors of employee attitudes worldwide for over 45 years, we are often asked by top management; what leadership characteristics and behaviours enable employees to do their best? The following three leadership dimensions are derived from collated employee engagement survey responses from high performing, fully engaged work groups describing their leaders. In the final analysis, the best measure of the quality of leadership is probably best determined by the successfully led.

Clear Definition of Leadership

In high performing work groups, the leader is seen by employees as dedicated to the mission of the enterprise at all times. The leader has a clear understanding that the responsibility of leadership is to accomplish goals through people. They distinguish between the *leadership of people* and the *management of things and tasks*. Compelling leaders operate thoughtfully in both modes.

Most importantly, well-led employees expect excellence from their leader. These expectations are best summarised by General Colin Powell's definition of leadership: "*Leadership is the art of routinely accomplishing more than the science of management says is possible*".

The exceptions embedded in this definition stimulate employees to perform at their best. When properly "sold" and reinforced, this definition of leadership creates a unified mindset of "can do" among the led, rather than excuses and attitudinal barriers. The Powell definition of leadership, also binds the leader and the led to a high standard of commitment, both to one another and to the successful outcomes of their collective effort. Mediocrity is not accepted.

Operational philosophy

Learning a good definition of leadership alone does not make a great leader. The great leader also has an overreading operational philosophy omnipresent in his or her mind to guide his or her thoughts, words and actions. Call it a trust and values behaviour template which, over time, will influence followers to want to follow the leader-every day.

According to highly motivated employees, the leadership philosophy that produces extra-ordinarily performance success winds out like this:

The power to lead other people must come from the people you are attempting to lead; otherwise you are a leader in title only – destined to fail. People begin investing power in you when they begin listening to you and following your example. They begin listening to you after you've earned it; through truth telling and establishing trust. They observe your behaviour to see if your actions reflect your words. So, in a nutshell, the challenge of persuading people to accept you as a leader, invest power in you and follow your lead is the foundation of being an effective leader. It's up to you to influence, persuade and inspire others to continuously succeed. You begin

the process by getting people ready to listen to you through truth telling and building up trust. You succeed in the process by living the model of conduct that reflects your leadership philosophy.

Academics often imply that leadership is inclusive that everyone can do it. The reality is great leadership is exclusive. Most people exclude themselves from being great leaders when given the opportunity because they are not willing to accept responsibility for the development and actions of others whom they are paid to lead. Others exclude themselves because they lack the desire or discipline to practise what they preach every day. Still others exclude themselves because they do not have the will to take up a life of service to others and master the competencies necessary to become a great leader.

Leadership Competencies to Master

Great leaders have also developed the right set of leadership skills or competencies that enable them to continuously succeed. While there are hundreds of books and lists about leadership competencies, the proven skill set recognised by the successfully led which produce a dedicated fellowship of consistent high achievers are:

The Deligent Dozen

1. Achieve competence in everything you do.
2. Show honourable character—do the right thing even when it is easier to do something else—stand up for the right thing and don't stand for everything.
3. Instill yourself with personal courage right down to your core—moral, physical, mental and spiritual.
4. Be loyal—up, down, sideways and always.
5. Be confident and enthusiastic, but not boastful or egomaniacal.
6. Be selfless by always looking out for what's best for the other guy and the organisation—great leadership is a life of service to others.
7. Sacrifice what you may personally want if the organisation or your followers will be diminished by your indulgence or if the act will tarnish your credibility.
8. Show empathy—really desire to understand the feelings and fears of your followers.

9. Commit yourself to excellence in personal, individual and team performance. Winston Churchill used to say “I am easily pleased by perfection.”
10. Inspire curiosity in others so they will follow you just to see where you wind up.
11. Grow those around you, through skill training, practice and certification, to become better than you.
12. Actively practise Servant Leadership: “I will do everything I am to support you, train you, make your job better and make you more successful. In return, you must give me, your colleagues and your teammates your best efforts.”

Variations of these twelve leadership competencies are frequently written in our surveys by fully-engaged employees explaining their emotions and dedication to their leader, organisation and job. They credit their leader with making them “winners”. One employee from a high performing work group summarises the long-term result of his leader mastering these dozen competencies “There is not a person in this group that would not do anything for this guy. He has taught us how to succeed in everything we do.”

So there it is, direct from the fully engaged employees’ perspective—three dimensions and twelve competencies. In a nutshell, great leadership is about a way of life, a calling, for those who want to dedicate themselves to the service of growing and unifying others in order to lead them to accomplish great things. Great leaders lead groups that accomplish great things. If one chooses a life of great leadership success, one must consistently apply these three overarching leadership dimensions into everyday work life: *definition*, *operational philosophy* and *competencies*. Once these dimensions are mastered, the employees you lead will routinely accomplish more than the science of management says is possible – and call you a great leader!

Source: <http://www.scarlettsurveys.com/papers-and-studies/white-papers/leadership-practices-that-enable-employees-to-perform-at-their-best>

Though leadership quality is the great employee motivator, in reality for

top leaders engagement seems to be not a priority as shown in Fig. 10.6. Only 38 per cent of senior managers are sincerely interested in employee well-being, 38 per cent communicate openly and honestly, and the scores are low in such other dimensions as consistency between actions and values, and the like.

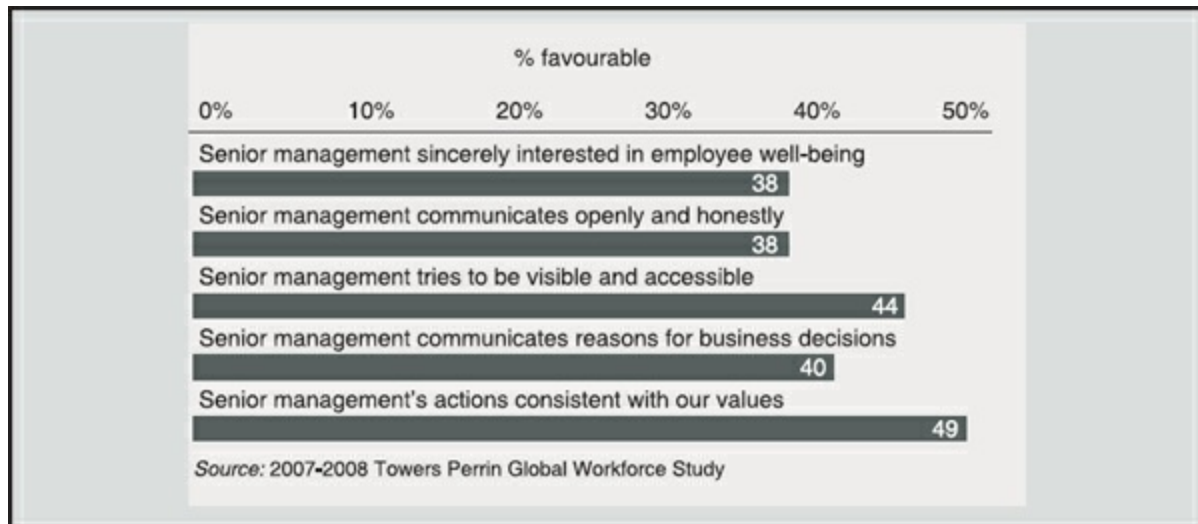


Fig. 10.6 Leadership Score on Engagement

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Your contribution to the organisation depends on how willingly your employees are prepared to walk that extra mile</i> • <i>Engagement may be a new concept attracting lots of attention. But engaged employees are as old as organisations themselves</i> • <i>Make employees feel engaged by the job and by the organisation</i> • <i>Convert actively disengaged</i> 	<ul style="list-style-type: none"> • <i>Treat a satisfied worker as a productive worker</i> • <i>The diligent dozen attributes of leadership are all inclusive</i> • <i>Take employee engagement as a fad</i> • <i>Leave the engagement task to individual employees</i>

into not engaged and into engaged

Engagement Culture Strong culture is a great engagement builder. What has made Taj Hotel Staff lose their lives to save the hotel guests? What made employees of Land Rover in UK to make it profitable? What prompted a CEO of HUL say “I may retire and leave the company but the company cannot be taken away from me”? Answer to these questions is *culture*. Culture has the potential to convert average into good, good into great and great into greatest.

Effective Communication Clear communication top-down and bottom-up should be an engagement priority. Employees prefer to work for successful organisations and to feel that they are contributing to that success. They need to know that their opinions count, be clear about what is expected of them, to understand their organisation’s strategy, and to see how their work is linked to the business plan. Communication is needed for all these.

Individual Personalities Some personality traits place individuals in favourable minds for engagement. Personality traits related to engagement include: Frequency of positive mood (positive affectivity), dedication to getting things done (conscientiousness), shaping work environment to reflect own preferences (proactive personality) and enjoyment of work for the sake of work (automatic personality). Employees with higher levels of each trait are more likely to be engaged in any work environment, independent of any initiative to influence his or her motivation.

The Job Itself The challenges that the job offers on a day-to-day basis and the job’s importance and its impact on the company’s performance determines the individual’s commitment and passion. The professional stimulation that the employee gets from the job is directly proportional to the motivation he/she exhibits on the job. Commitment to put in his/her best efforts, apply diverse thinking to solve problems and innovate are all evidenced by the perception the employee carries about the job. Ensuring that the employee is adequately equipped with all skills and resources to carry out the responsibilities also plays a role. Job impacts employee loyalty and

customer service. An employee who perceives his or her role as meaningless and just a ‘cog in the wheel’ is clearly disengaged and exhibits a passive approach towards organisational goals and customer service. The degree of alignment of employee performance with company performance is another critical element of the job that impacts engagement. The more the employee sees the impact of his or her efforts on the business outcomes, the more is the sense of importance and purpose and more is the effort he/she will put into work.

The World Development Report 2013 views a job beyond its impact on employee engagement. The description of a job by the Report is worth recollecting in this context. It states thus:

“Individuals value jobs for the earnings and the benefits they provide, as well as their contributions to self-esteem and happiness. But some jobs have broader impact on society. Jobs for women can change the way households spend money and invest in education and health of children. Jobs in cities support greater specialisation and the exchange of ideas, making other jobs more productive. Jobs connected to global markets bring home new technological and managerial knowledge. And in turbulent environments, jobs for young men can provide alternatives to violence and help restore peace.”

Working Relationships Quality of interpersonal relationships with superiors, peers, and subordinates matters in employee engagement. An employee cannot walk that extra mile if his or her interpersonal relations are fractured.

Values of the Organisation Vision and mission of the organisation spell out the values cherished and upheld by the management. An organisation that stands for high ethical values is an engagement enhancement drive (Also see Exhibit 10.2).

Exhibit 10.2 Adversary Turned into Opportunity

Ashok Leyland, India’s second largest truck maker hasn’t escaped the effects of the harsh economic environment. That is a fact that hits any visitor to the company’s oldest plant, in Ennore, near Chennai. The buzz associated with peak manufacturing is missing. Machines lie idle.

Production has been cut so that output is in sync with sales, which dropped by nearly a third in 2008-09. In such a situation, conventional wisdom would have decreed that the company lay off workers to cut costs. But Ashok Leyland has kept them on, cutting man-days, but pretty much leaving salaries untouched.

The move defies logic, but the company believes it has done the smart thing. Because what the workers have been doing with their downtime has brought cheer to Ashok Leyland like few other things since October 2008, when it decided to cut production. The workers (or associates, as managers prefer calling them) are the ones who have come up with innovations to improve productivity at the Ennore plant. Ask managers what kind of innovations, and you would get 1,586 answers—that is the number of improvements carried out at the plant over the last six months. Most of the ideas, from simple ones, such as using trolleys to carry loads normally borne by humans, to more complex ones like revamping a production process, are aimed at reducing fatigue and wastage and improving efficiency.

Apart from keeping workers occupied during a lean period, the exercise also promises long-term benefits for Ashok Leyland. One of the improvements, for instance, pertains to a bottleneck in drilling holes for shafts in engine gears. Earlier, five high-speed steel drills were used to bore 8.8 m holes in gear wheels, with a reamer being used to finely drill each hole a further 0.2 mm and finish it. The drills took 18 minutes to complete the process. At peak volume, only 44,000 units could be turned out, whereas the company needed 70,000. One way of solving the problem was to buy new equipment, but that would have cost ₹65 lakh.

The workers found that a single 9 mm carbide drill could perform the job of the other five drills and twice as fast. The process now takes eight minutes, and 75,000 units can be turned out at peak volume. The cost of the component has also fallen by ₹30 thanks to savings on electricity and drill bits, among other things. The annual saving works out to around ₹21 lakh.

Another piece of engineering ingenuity is also delivering significant savings. Workers manning furnaces figured out they could power two furnaces, instead of one earlier, with a single generator. They also found that they needed to use only two cooling towers for three furnaces, instead of three previously. That results in a yearly saving of 423,000 units of

electrical energy, which translates to about ₹20 lakh.

Such operational improvements have also enabled capacity enhancement in some processes at a time when the company has frozen major investments. These innovations, along with efforts to cut inventories by ₹7 crore and reduce defects, are significant from a cost angle, at a time when Ashok Leyland's turnover has fallen sharply and profitability is under severe stress. Turnover stood at ₹4,571 crore in the first nine months of 2008-09; the full-year figure will be well short of the ₹7,729 crore recorded in 2007-08.

It is not as if Ashok Leyland woke up to the idea of improvements only because of the economic crisis. The move to involve workers in seeking process improvements began in mid-2005 through Mission Gemba (which, in Japanese, implies the workplace). The ongoing wave of innovations has used that platform. "Such processes have always been in place", says MS Sundararajan, Deputy GM, Quality Engineering, at the Ennore plant. He pointed out that in 2007, about 1,900 improvements were undertaken. "But now, there is more focus".

When the company decided to cut output six months ago, the team at its Ennore plant was asked to put on their thinking cap more often. The idea paid off-with time on their hands, the workers doubled the rate of improvements. One reason the effort has succeeded so well, says a company spokesperson, is because the approach is not top-down.

(Source: Outlook Business, May 30, 2009, pp 40-41)

Participative Management Participative management, also called employee empowerment, practices such as stock options, board level association and job enrichment will also act as engagement drivers.

Pause and Ponder

Do long service awards nurture employee engagement?

Others Size of organisation, tenure and age of employee impact engagement in no less significant way. Large organisations expend more efforts to engage employees than smaller ones. Employees in the age group of 40 plus care

more for challenging environment and career growth than do older employees who value recognition and reward for their contributions. Gallup Study has found that the longer an employee stays with an organisation, the greater is the likelihood that he or she gets disengaged. Organisations need to constantly innovate and provide opportunities to keep employees constantly engaged. Each employee's work should be connected with the big picture—effectiveness of the organisation. Managers need to demonstrate transparency and fairness in all their people-related activities. Involve employees in decision-making at all levels.

BENEFITS OF ENGAGEMENT

It has been pointed out clearly that there exists an engagement-profitability link. In other words, engagement is said to result in improved financial performance. Gallup's finding proves the positive correlation between engagement and profit. It has pointed out that organisations with top-quartile engagement grow earnings faster than those with below average engagement.

In a study spread over one year and covering 50 global companies, the correlation between engagement and financial performance has been well established (see [Fig. 10.7](#)). As the figure shows, the companies with high employee engagement experienced a 19 per cent increase in operating income and a hike of more than 25 per cent in earnings per share, while those with low engagement levels saw deterioration in these key financial measures. Similar studies over longer time horizons have revealed identical pattern.

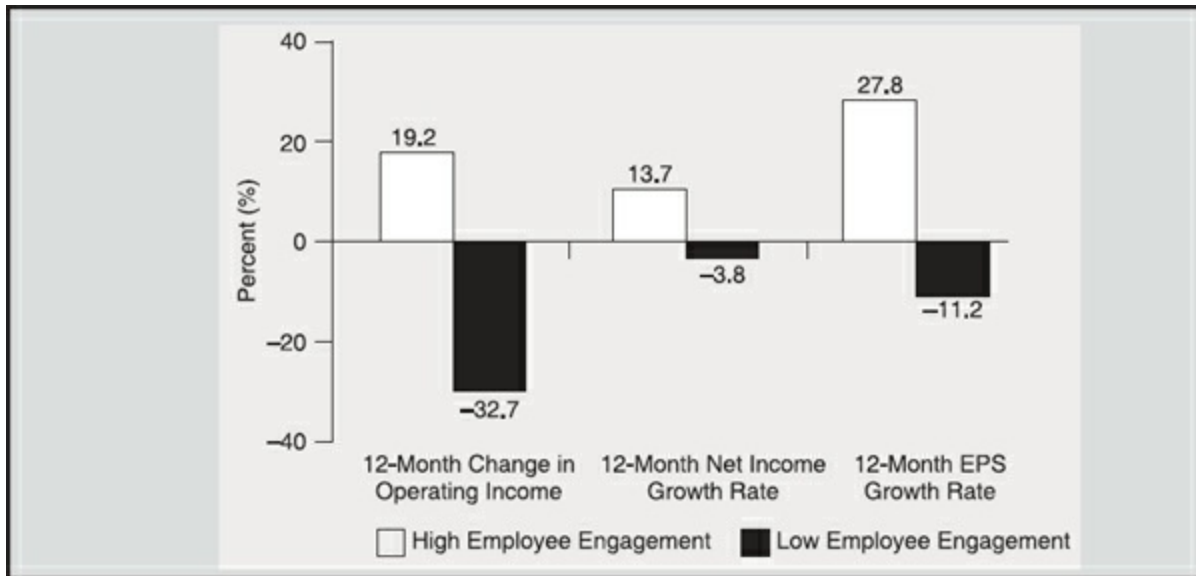


Fig. 10.7 *Engagement and Financial Performance*

(Source: Lance A. Berger and Dorothy R. Berger, *op. cit.*, p. 368)

Three variables—alignment, capabilities, and engagement—matter significantly in determining organisational success. *Alignment* is the extent to which employees are connected to the organisation’s business strategy and goals and the extent to which work units are effectively aligned with one another to deliver high-value products or services to customers. Alignment contributes to the operating and financial performance.

Capabilities are the extent to which the organisation effectively creates talent, information, and resources to grow customer value. Capabilities are the strongest predictor of customer outcomes such as satisfaction and retention.

Engagement is the extent to which employees are willing to go beyond the minimum requirements of their role to provide additional energy or to advocate for their organisation as a great place to work, purchase from, or invest in. Engagement is a strong predictor of employee retention and performance. Collectively, these three factors determine quality, customer loyalty, talent retention, internal-function effectiveness, productivity, goal achievement, operating effectiveness, and financial performance.

MEASUREMENT OF ENGAGEMENT

An organisation needs to assess, once a year, the level of its employee engagement. Such an assessment helps ascertain the ‘employment brand value’ enjoyed with the employees. It also allows the organisation to identify the areas of concern so that remedial measures can be initiated. Assessment may be done in-house or outside consultants may be retained for the purpose.

Though structured formats are available for engagement survey, companies generally use homegrown methods. The most popular standard questionnaire available is the Gallup’s Q¹² (see Exhibit 10.3). Whichever the survey method, questions should cover areas like vision, mission, leadership, performance management, communication, work and productivity processes.

Exhibit 10.3 The Gallup Study

Gallup’s research on employee engagement is perhaps the most ambitious one. Launched in 1997, the Gallup Organisation covered over three million employees in over 300,000 organisations via its framed ‘Q¹²’ questionnaire using a five-point rating scale indicating weak to strong perceptions. The 12 questions are simple and straight:

The Q¹² Index

1. Do you know what is expected of you at work?
2. Do you have the materials and equipment to do your work right?
3. At work, do you have the opportunity to do what you do best every day?
4. In the last seven days, have you received recognition or praise for doing good work?
5. Does your supervisor, or someone at work, seem to care about you as a person?
6. Is there someone at work who encourages your development?
7. At work, do your opinions seem to count?
8. Does the mission/purpose of your company make you feel your job is important?
9. Are your associates (fellow employees) committed to doing quality work?
10. Do you have a best friend at work?
11. In the last six months, has someone at work talked to you about your progress?

12. In the last year, have you had opportunities to learn and grow?

Mere survey does not help. The survey results should result in clear and committed action. Remedial measures should be prioritised, communicated to the employees and be executed. Engagement surveys being annual affairs, managements are advised to keep track of the following on an ongoing basis:

- Level of absenteeism/putting in the stipulated hours of work.
- Attrition overall as well as attrition of key employees
- Participation in meetings
- Projects getting completed on time
- Quality of output/handling of customer issues and problems
- Team members coming up with new ideas
- Teams meeting set targets
- Observing employees at work
- Referrals received and how long they stay with the organisation

EMPOWERMENT

As stated earlier, empowerment – also called participative management – is one of the triggers of employee engagement. Empowerment occurs when employees are involved in decision making process, not in mere job related activities, but at all levels of management. Participative management is synonymous with co-determination – a term popularly used in former East Germany to describe participation.

Several ways of empowerment are in use. At the highest level, there is participation in boards. The others include stock options, staff or works councils, collective bargaining, job enlargement and enrichment, suggestion schemes, quality circles, self-managed teams, TQM, committees and the like.

Empowerment, in addition to making employees stay with the organisation, brings in other benefits like satisfaction and improved performance. Benefits of participation and the ways of achieving it have been covered in detail at different places in the book. For greater detail on empowerment, visit website: www.mhhe.com/aswathappa7e.

SUMMARY

Engagement is a combination of satisfaction, commitment and pride. Based on engagement score, employees can be engaged, not engaged or actively disengaged. Engagement can be driven by several drivers. Engagement offers several benefits to the organisation. Organisations need to conduct periodic surveys about the prevailing engagement. Surveys would identify holes which can be filled up with remedial actions.

KEY TERMS

Engagement

Walking extra mile

Actively disengaged

Wellness in the work place

Engagement culture

Engagement leadership

Gallup's Q¹²

REVIEW QUESTIONS

1. What is employee engagement? What are its benefits to the organisation and its employees?
2. State and explain the drivers of engagement.

DISCUSSION QUESTIONS

1. Is employee engagement only a new metaphor for things already in practice?
2. Do you think that highly engaged employees do not quit at all? Don't you think that highly charged employees are self inspired? Do they care much for the organisation where they are now working?

COMPREHENSIVE CASE

Two years ago, during the annually planning meeting, the management team of Vybhav decided to carry out an Employee Engagement Survey (EES). In

the past, some divisions had carried out in-house employee satisfaction surveys for different reasons. But there had been no formal survey done that was organisationwide after the Vision, Mission, and Strategy workshops had been done. The management team felt that it was time to ascertain the pulse of the organisation and ascertain engagement levels across divisions.

An in-house EES core group was constituted consisting of members from all the divisions representing various departments across locations. It was chaired by Renny the VP HR. A draft presentation was done to the management team sharing the proposed survey instrument (questionnaire), the methodology of carrying out the survey, the final analysis and action planning process. The core group suggested outsourcing the survey data collection analysis process to an external vendor. This would ensure data collecting and analysis by experts and 100% confidentiality. The vendor would provide detailed reports by divisions, by department, by function and even by manager.

The survey instrument used was as below Over 78% of the total population answered the survey. The survey findings and analysis were shared via exclusive presentations to the Management Team. While the team had been apprehensive, the survey report revealed far better results than they had anticipated. This called for a company-wide celebration. With the company's annual day round the corner, the plan was to have a gala get-together at each location and share the findings setting a positive tone to the new initiative.

EMPLOYEE ENGAGEMENT STUDY

Rating scale

1	2	3	4	5	6	7
Strongly disagree	Disagree	Partially disagree	Neither agree/ Disagree	Partially agree	Agree	Strongly agree

Leadership

The vision, mission and goals of our company are clearly known to me
 I feel confident in the way the senior management is leading our company as role models

I am adequately informed about macro level business and organisational performance

I feel secure at my job as I am aware of important business changes that happen around me

There is adequate transparency in our company

I can approach any member of the senior management and voice my views without fear or favour

Considering all aspects, over all Leadership in the company is good

Communication

There is sufficient communication from senior management about the future of our company There is clarity in my mind on a secure future and growth prospect for me All decisions affecting me are made known to me officially I can trust what the company tells me

Two way communication forums are available where the senior management interacts with employees (like Open House, Dialogue with CEO-VPs' Skip Level Meetings, etc.)

Considering all aspects Overall communication in the company is good

Work Environment

Our work culture encourages employees to take initiatives and fosters innovation & creativity

Passion and energy is part of our company's culture

My job role is challenging, and work is interesting

There is no discrimination of any kind in our company

I feel respected as an individual

Managers adequately empower their team members/employees

There are grievance redress mechanisms that are effective

My opinion counts –suggestions are valued in our company

The organisation makes efforts to retain talent

There is good work-life balance in our company

Considering all aspects, overall work environment in the company is good

Quality and Customer Focus

There is adequate focus on process awareness and trainings aimed at customer delight

There is good focus on understanding key needs of the customer and commitment to do our best

There are effective quality assurance checks and balances, prior to important milestones and customer deliverables

Considering all aspects, there is high level of commitment to quality and customer delight in our organisation

Performance Evaluation

The responsibilities given to me are commensurate with my expected capabilities

Performance appraisal is based on predefined goals and objective measurable criteria

I am happy with the way immediate superiors conduct performance appraisal

Performance evaluation feedback given to me is constructive and useful

Considering all aspects, over all performance evaluation culture in the company is objective and effective

Immediate Supervisor

My immediate supervisor appreciates me for my good work

There is clarity about my role & responsibilities

My immediate supervisor supports my efforts to balance my work & personal life

My immediate supervisor ensures that rewards and recognitions are based on performance

My immediate supervisor is competent in providing me solutions whenever I need

My immediate supervisor creates high levels of trust and openness within my team

My immediate supervisor provides adequate mentoring to me in my professional development

Considering all aspects, my immediate supervisor is doing his/her best to help me in my growth

Learning and Development

There are enough opportunities for me to grow in the company

In consultation with my supervisor, I have an individual development plan in

place

Relevant training is identified and implemented at our company, to help me do my job better

There are internal mechanisms for effective knowledge sharing

Considering all aspects, overall learning and development culture in the company is good

HR and Employee Welfare

The health and insurance facilities provided at our company are good

Recreation facilities provided at our company (fun events, annual events, cultural celebrations etc) are good

There are employee-friendly policies that help to address work-life balance

The HR department in our company is committed to employee welfare

The HR department is doing what is required to support transparent HR policies and process

HR department is sensitive and courteous in interactions with me

Considering all aspects, overall HR and employee welfare culture in the company is good.

Qualitative Observations

What are the two aspects that you like about Vybhav? What are the two changes you would like to see at Vybhav? Please keep in mind both individual and organisation growth perspective.

Your function within Vybhav India

Your level of seniority

Location

Number of years you have been with Vybhav Limited

Closing Case *Not a Star Performance—Not a Loss*

Patrick, a call centre team manager, was a “good” employee. He was prompt, did what he was asked and was liked by his subordinates. Ask Patrick how his job was going and he’d say, “Fine, they pay me pretty well.”

Suddenly he resigned, citing no complaints and saying only that a competitor offered him slightly more money.

But Patrick did quit because he was disengaged. He, like millions of other employees, needed to believe his job was important, that he was contributing daily to the company. That his work had meaning.

Former colleagues who talked to him six months later said he was a different person. His work was no different, but he clearly had passion for his job. His explanation? “My team’s hourly sales are 40 per cent higher than before. But it’s more than that. My first day I got ‘induction training’, where they explained the company vision and values. My first week my boss, Stephanie, explained what I need to do to meet the company’s goals and at in sync with its values. She spent time coaching me on my managerial skills, something I needed badly.”

Soon, Patrick received a “most promising newcomer” award. At the company picnic, Stephanie’s boss asked him how he was doing. After six months, Patrick had an in-depth performance review where he and Stephanie candidly discussed his performance and outlined training and career growth option for him.

“I work extra hard when it’s needed because they really care about me.” Patrick told his ex-colleagues. “They even let me leave early twice a week to pick up my kids, which mean a lot. But in the end it really comes down to leadership. My new company doesn’t just have a business model; it has a people model.”

Patrick is not a star performer and his old company suffered little from his loss. But the conditions that led to his departure could be creating serious problems at that company. In fact, they may be hurting short-term profits and long-term company valuation even more than the loss of a dozen star performers.

Here’s why. Patrick is part of the “engine room” of reliable but not outstanding people organisations depend on to get things done. There are thousands of “Patricks” (and “Patricks”) at every large private or public sector organisation. Stars tend to be intrinsically motivated to begin with, plus they end up capturing most of the “prizes” companies offer – the most interesting work, big salary increases, promotions and bonuses. The more difficult challenge for companies is capturing the hearts and minds of good, reliable employees like Patrick who are not stars but who are significantly more productive when engaged.

Research suggests many companies are not succeeding. A huge

percentage of these “engine room” employees are disengaged. Hay Employee Attitude surveys show that less than half of them feel, they do interesting work. Just one-third feel that they can advance, and only about the same percentage feel that better performance will lead to better pay.

Patrick’s new company did not lure him away with a substantially bigger salary. Nor did it use pay as a prime motivator once he arrived. Instead, it offered him a new psychological contract, one that successfully engaged him by letting him know that his contributions mattered. As a result, what mattered most to the company also mattered most to Patrick. The company’s reward: A 40 per cent increase in Patrick’s and his team’s productivity.

Your employees start every day with an extraordinarily amount of energy, but the amount of “discretionary effort” that people apply to their jobs varies tremendously from employee to employee. One study showed that even in relatively simple jobs the difference in discretionary performance between superior and average workers was 19 per cent. In complex jobs such as high-ticket industrial sales, the difference was as great as 120 per cent.

What accounts for the broad gaps between great and average performers? The individual’s degree of motivation and engagement. Hay Group’s work with a professional services firm confirms the link. At 10 of the firm’s regional offices, we measured employee’s current levels of satisfaction using an Engaged Performance diagnostic survey. Professionals in the five “most engaged” offices generated \$238,000 in revenue per consultant. Those in the five “least engaged” offices generated just \$166,000 per consultant. In other words, the offices with “engaged” employees were as much as 43 per cent more productive.

The experience of Genera Dynamics Defense Systems (GDDS) in Pittsfield, Mass, shows how efforts to engage employees can yield results.

In 1997, the company restructured and let go 550 of its 1,600 employees. The move devastated the workforce, and GDDS undertook an initiative to re-engage the hearts and minds of the remaining employees. As a result of these efforts, attrition in software engineering dropped from nearly 20 per cent in 1999 to 2.4 per cent in 2001. Confidence in management shot up and commitment rose. Union grievances, which had cost the company as much as \$10,000 each, dropped from 57 in 1999 to

none in 2001, saving hundreds of thousands of dollars. Best of all, earnings and profit margins doubled.

What lessons can one draw from the above situations?

(Source: Hay Group, Working Paper on Engages Employees and Boost Performance, 2001)

REFERENCES

1. Company Website <http://www.scarlettsurveys.com>
2. Company Website <http://www.gallup.com>

SECTION 4

List of Chapters

- Chapter 11:** Compensation Management
- Chapter 12:** Incentives and Performance-based Pay
- Chapter 13:** Managing Employee Benefits and Services
- Chapter 14:** Compensating Top Brass

Compensation Management

Learning Objectives

After reading this chapter you should have a good understanding of:

- The different components of employee compensation
- The theories on remuneration which are useful to appreciate the relative role of all components of compensation
- The various factors that influence employee compensation
- The wage policy of the Government of India
- The different concepts of wages
- Compensation of special groups

Opening Vignettes

COMPENSATION BOOST

Everyone likes to be paid. Whatever else it does, money still can be turned into items most people want. Of course, the psychological dimensions of the compensation a person receives are important too.

Compensation is frequently directly tied to the labour market. When certain workers are in short supply, offering higher compensation may increase the number of persons hired. When the economy is slower, more people are happy to have a pay cheque.

At the peak of the last hiring boom “pay envy” presented a significant problem. Stock options, performance pay and signing bonuses created ambiguities in pay systems and caused problems. Current employees hired without receiving signing bonuses like those given to new employees were envious. Employees with master’s degrees making less than new IT hires

with no degrees were envious. Some managers who made less than the new hires they supervised were envious too. Employees doing the same job may have had salary differences of \$20,000 or more. New hires were paid top dollar just for agreeing to come to work, while current employees had their experience and loyalty rewarded by getting more work instead of more money.

In one survey, more than 50 per cent workers indicated that they believed they were paid too little, while only 23 per cent expressed satisfaction with their pay. One factor driving the confusion was that wages went up rapidly for those in high demand, but not everyone was in high demand. Also, paying people based on their individual performance often created “winners” and “losers”.

All this attention to compensation meant that even people who did not worry much about the topic before are tuning into it now. Employers often had no choice but to turn to new and different compensation approaches in order to compete for employees. Many HR professionals and managers now admit these approaches have caused problems. Pay envy dampens morale and team-work, causes turnover and creates a “caste system” in the company. One former Apple Vice President recounts how a new hire came in at \$115,000 plus a \$30,000 hiring bonus right out of college, but star performers in the company made about \$80,000 at the time. “If you bring in someone at a big salary and they turn out not to be a good hire it can be catastrophic”, he notes. This example illustrates that life is never fair in a tight labour market, especially when compensation is skewed. Neither is it fair when the economy sliding down.

In years 2001–02, the catered lunches, signing bonuses, free laptops and cell phones, and other generous perks designed to entice and keep many employees during the high times went away. Some workers who liked the amenities willingly gave up such indulgences if it meant their businesses stayed alive and they continued to have pay cheques.

Many forms of creative compensation, tossed in to attract or keep employees during the “boom time”, seemed frivolous in a weakened economy amid stock market uncertainties. “There is now a very clear distinction between ‘nice’ and ‘necessary’ when it comes to perks. We went a little too far,” a partner with a big accounting firm noted. Less number of jobs reduced the need for signing bonuses and other recruiting perks necessary a

few years ago.

All of these changes illustrate that compensation practices must change. But compensation continues to be important, visible and often a concern in HR management.¹

The scenario is no different in India as one can see in this and the following three chapters.

Compensation is the remuneration an employee receives for his or her contribution to the organisation. It occupies an important place in the life of an employee. His or her standard of living, status in the society, motivation, loyalty, and productivity depend upon the remuneration he or she receives. For the employer too, employee compensation is significant because of its contribution to the cost of production. Besides, many battles (in the form of strikes and lockouts) are fought between the employer and the employees on issues relating to wages or bonus. For HRM too, employee compensation is a major function. The HR specialist has a difficult task of fixing wages and wage differentials acceptable to employees and their leaders. Remuneration is another term synonymously used with compensation. We use both the terms interchangeably in this chapter. They carry same meaning to us. Since employee remuneration is such an important subject, considerable space is devoted in books and periodicals for detailed discussion of wage-related and salary-related problems. This book is no exception.

COMPENSATION PHILOSOPHY

Every organisation should have a compensation philosophy of its own that guides administration of monetary and non-monetary benefits. It refers to a set of beliefs and guiding principles and which are consistent with the objectives of the organisation. The compensation philosophy needs to achieve equity, transparency, and consistency in payment of compensation to the employees. It needs to send a clear message to the employees that the organisation does not compromise welfare of employees for the sake of revenue and that the organisation is the best place to work for.

Compensation philosophy is not just stating high sounding principles. It has strategic significance too. As stated above, the philosophy should be

consistent with the overall business plan. In addition, compensation needs to have long-term perspective—how people should be viewed for what they do and what they receive.

Specifically, compensation philosophy should cover the following:

- What are the goals of the organisation's compensation system?
- What constitutes base salary?
- What percentage of compensation should be linked to individual/unit performance?
- What would the benefits programmes include and what is the strategy for benefits management?
- What is the role of performance appraisal in disbursing compensation?
- How to target the positioning of compensation of employees relative to market?
- At what frequency would salaries be reviewed and on what basis would this review happen?
- How will the top management be remunerated, such that the accountability and responsibility for business revenue is appropriately rewarded?
- In what way would the middle-management remuneration be determined to ensure accountability for results?
- What reward and recognition programmes are in place and what does it reward?
- How does compensation help develop employee skills and competencies in order to enhance the human capital of the organisation?
- How does compensation help attract and retain talent?
- How does compensation support other HR initiatives in the areas of resourcing and employee relations?

COMPONENTS OF COMPENSATION

An average employee in the organised sector is entitled to several benefits—both financial as well as non-financial. To be specific, typical remuneration of an employee comprises wage and salary, incentives, fringe benefits, perquisites, and non-monetary benefits.

Wage and Salary

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by an employee. Wages and salaries are subject to annual increments. They differ from employee to employee, and depend upon the nature of job, type of industry, seniority, and merit. Dearness Allowance (DA) forms part of salary/wage.

Incentives

Also called ‘payments by results’, incentives are paid in addition to wages and salaries. Incentives depend upon productivity, sales, profit, or cost reduction efforts.

There are **(i)** individual incentive schemes, and **(ii)** group incentive programmes. Individual incentives are applicable to specific employee performance. Where a given task demands group effort for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis. ([Chapter 12](#) contains more details on incentives)

Allowances

Apart from dearness allowance, other allowances such as House Rent Allowance (HRA), Conveyance Allowance and Leave Travel Allowance (LTA) also form part of compensation.

Claims

A part of monthly salary may be made up by billed claims. These include telephone/mobile allowance, Internet allowance, medical allowance and the like. These are subject to a limit and are generally paid against submission of valid bills.

Gratuity

This is a statutory notional component appearing in the salary break-up, but is paid only at the time of employee’s exit after serving more than five years.

Gratuity is governed by the Payment of Gratuity Act, 1922.

Taxes

These, like death, are unavoidable. Taxes are levied as per the prevailing laws. It is the duty of the employer to deduct taxes from an employee's salary and remit the same to the tax departments. [Table 11.1](#) contains tax implications.

Table 11.1 *Tax Implications*

<i>Component</i>	<i>Taxable Income</i>
Basic	Fully taxable
House rent allowance	Fully taxable
Supplementary allowance	Fully taxable
Conveyance	Partially exempt
Lunch coupons	Fully exempt
Medical reimbursement	Partially exempt
Leave travel allowance	Partially exempt
Company's contribution towards PF	Partially exempt
Telephone reimbursement	Fully exempt
Car reimbursement	Fully exempt
Annual bonus	Fully taxable
Medic contribution	Fully exempt
Gratuity	Partially exempt

Pause and Ponder

Which is a bigger dissatisfaction: a low paying but challenging job, or a high paying but routine one?

Fringe Benefits

These include such employee benefits as provident fund, gratuity, medical

care, hospitalisation, accident relief, health and group insurance, canteen, uniform, recreation and the like. ([Chapter 13](#) carries more details on benefits and services)

Perquisites

These are allowed to executives and include company car, club membership, paid holidays, furnished house, stock option schemes and the like. Perquisites are offered to retain competent executives.

A summary of the tax treatment of some common perquisites is shown in [Table 11.2](#).

Table 11.2 *Some Common Perquisites and Taxes*

<i>Perquisites</i>	<i>Tax implication</i>
Rent-free accommodation	Taxable
Telephone at residence	Exempt
Motor car for personal use	Exempt
Club membership	Exempt
Refreshments during working hours	Exempt
Subsidised lunch/dinner	Exempt
Training expenses	Exempt
Holiday home facility	Exempt
Awards/presents/rewards	Exempt
Expenses on credit cards	Exempt

Non-monetary Benefits

These include challenging job responsibilities, recognition of merit, growth prospects, competent supervision, comfortable working conditions, job sharing, and flexitime.

[Figure 11.1](#) illustrates the various components of employee remuneration.

As Chapters 11, 12, 13 and 14 reveal, only financial benefits are covered in this section. Non-financial elements of remuneration will be covered at appropriate places in this book.

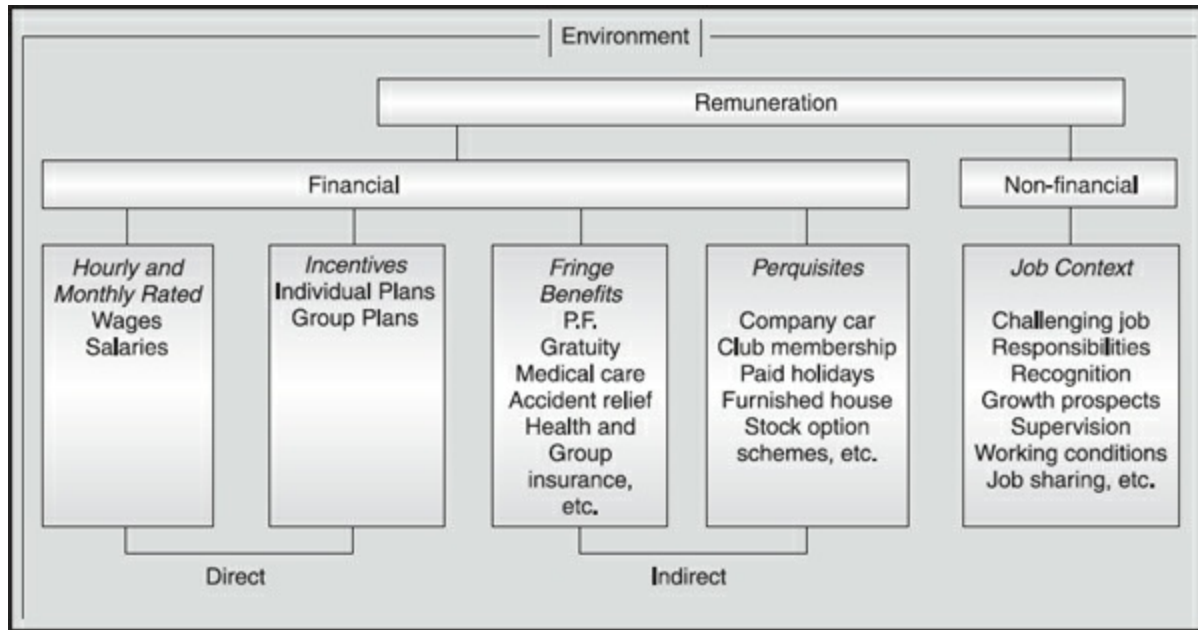


Fig. 11.1 *Components of Employee Remuneration*

THEORIES OF COMPENSATION

In order to understand which components of remuneration are more effective, we need to understand the conceptual framework or theories of employee remuneration. Three such theories are—reinforcement and expectancy theories, equity theory and agency theory.

Reinforcement and Expectancy Theories

The reinforcement theory postulates that a behaviour which has a rewarding experience is likely to be repeated. The implication for remuneration is that high employee performance followed by a monetary reward will make future employee performance more likely. By the same token, a high performance not followed by a reward will make its recurrence unlikely in future. The theory emphasises the importance of a person actually experiencing the reward.

Like the reinforcement theory, Vroom's expectancy theory focuses on the link between rewards and behaviour. Motivation, according to the theory, is the product of valence, instrumentality and expectancy. Remunerating systems differ according to their impact on these motivational components. Generally speaking, pay systems differ most in their impact on instrumentality—the perceived link between behaviour and pay. Valence of pay outcomes remains the same under different pay systems. Expectancy perceptions often have more to do with job design and training than pay systems.

Equity Theory

Adam's equity theory posits that an employee who perceives inequity in his or her rewards seeks to restore equity. The theory emphasises equity in pay structure of employees remuneration.

Employees' perceptions of how they are being treated by their firm is of prime importance to them. The dictum 'a fair day work for fair day pay' denotes a sense of equity felt by employees. When employees perceive inequity, it can result in lower productivity, higher absenteeism or increase in turnover.

The remuneration system needs to meet three types of equity: internal, external and individual. These perceptions of equity directly impact motivation, commitment and performance on the job as illustrated in [Fig. 11.2](#). It may be kept in mind that the assessment of equity is based on employee's perception and the employee understanding may be based on incomplete or inaccurate information. Internal Equity involves the perceived fairness of pay differentials among different jobs within an organisation. Employees should feel that the pay differentials among jobs are fair, given the corresponding differences in job responsibilities.

External Equity involves employees' perception of the fairness of their remuneration relative to those outside the organisation. What competitors pay to similar jobs will have its impact on employee motivation, commitment and performance.

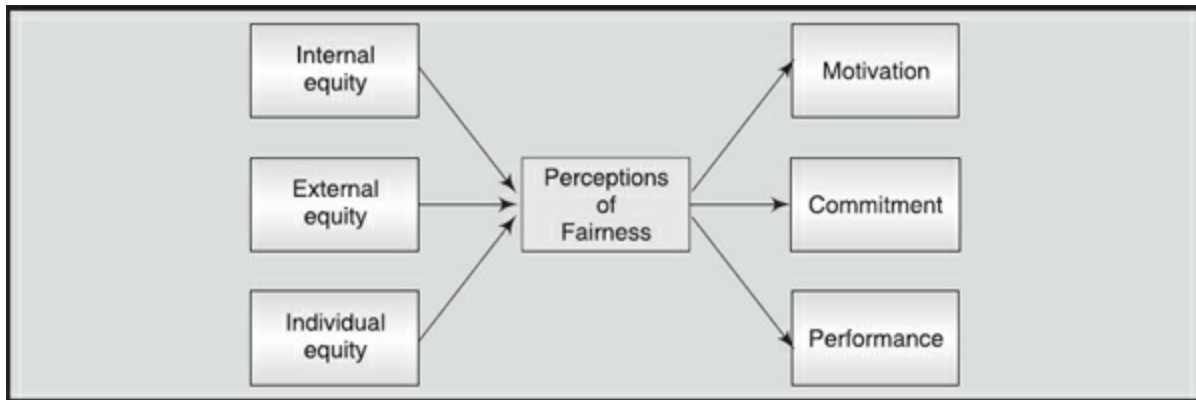


Fig. 11.2 *Dimensions of Equity*

Source: Jeffery A. Mello, *Strategic Human Resource Management*, p. 330.

Individual Equity considers employee perception of pay differentials among individuals who hold identical jobs in the same organisation.^{1a} Seniority contributes to differences in remuneration received by two individuals in the same cadre. A professor in a university with more number of years of service behind him or her tends to receive higher salary than his or her junior who has become professor just now.

Pause and Ponder

Between the two who is happy: a person who works for a reputed large MNC with average salary; or one who works for a small local firm that is into cutting edge research and technology?

Agency Theory

The agency theory focuses on the divergent interests and goals of the organisation's stakeholders and the way that employee remuneration can be used to align these interests and goals. Employers and employees are the two stakeholders of a business unit, the former assuming the role of principals and the latter the role of agents. The remuneration payable to employees is the agency cost. It is natural that the employees expect high agency costs while the employers seek to minimise it. The agency theory says that the principal must choose a contracting scheme that helps align the interest of the agents with the principal's own interests. These contracts can be classified as either

behaviour-oriented (e.g. merit pay) or outcome-oriented (e.g. stock option schemes, profit sharing, and commissions).

Employers and employees are the two main stakeholders in an organisation. Employers assume the role of principals and employees play the role of agents. Wages paid to the employees are considered as agency cost.

At the first sight, outcome-oriented contracts seem to be the obvious solution. As profits go up, rewards also increase. Remuneration falls when profits go down.

IMPORTANCE OF AN IDEAL COMPENSATION SYSTEM

Before discussing other details of remuneration, it is useful to bring out the importance of an ideal compensation system.

An effective system of remuneration is highly significant because several problems relating to personnel centre around one element, namely, remuneration. Many employees, for example, absent themselves from work often because they feel they are not paid enough. They look for new and better prospects because the present emoluments may not be attractive enough to stay on. They agitate, pelt stones, use foul language, resort to graffiti, turn violent and fall sick because the remuneration paid to them may not be adequate (see [Fig. 11.3](#)).

Talks on job satisfaction, loyalty, organisation before self, altruism, and the like, may be all right for boardroom discussions, and for delivering lectures in classrooms. The talk may also be relevant in a country like Japan, where people are inspired by a fanatical devotion to work. But in our country, an average worker cares only for money. Such being the reality, remuneration must fulfil the expectations and aspirations of employees and exploit their energies for the benefit of organisation.

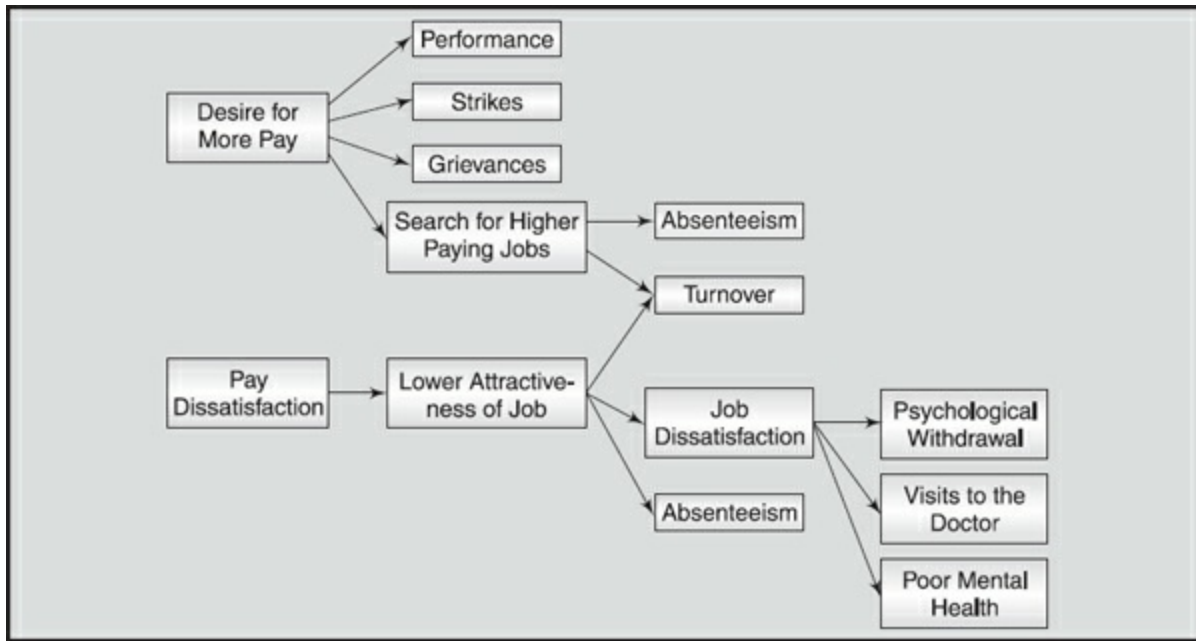


Fig. 11.3 *Consequences of Pay Dissatisfaction*

Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, p. 412.

Pause and Ponder

Do you think people work mainly for pay? Ascertain views of your classmates. Presentations and discussions can follow in the class.

Attractive compensation enables an organisation to attract, retain and motivate competent people. Fresh MBAs and brilliant engineers flock around WIPRO, Infosys, Hindustan Unilever, Motorola, Google, ANZ Grindlays and Reliance because of their attractive remuneration packages.

Retaining competent individuals for long is more difficult than attracting fresh ones. An employee's longevity of service in a particular organisation depends more on non-financial benefits, but the role of financial benefits cannot be ruled out, particularly at the lower levels of hierarchy. Loyalty towards an organisation also depends on his or her perceptions about remuneration. It is common knowledge that an employee feels satisfied or dissatisfied with his or her remuneration—not so much by the total amount he or she receives, but by comparing his or her benefits with those enjoyed by

others. Comparison provides a feeling of equity or inequity. There is a sense of equity when the employee's remuneration is equal or more than the remuneration received by others in the same category of jobs. If the remuneration is lower, the employee feels he or she is inequitably treated. An employee sticks to an organisation when he or she is paid equitably. The organisation's pay structure must, therefore, be equitable and consistent.

Employees get motivated to perform better when their past performance is rewarded adequately (see Fig. 11.4). Employees set expectations about rewards and compensation to be received, if certain levels of performance are achieved. These expectations determine goals or levels of performance for the future. Employees achieving the desired level of performance expect a certain level of compensation. At some point, the management evaluates and rewards the employee's performance. Examples of such rewards include merit-pay increases, promotions, and non-financial rewards such as recognition and increased status. Employees consider the relationship between their performance and rewards related to that performance, and then the fairness of the relationship. The final step in the process will have the employee setting new goals and expectations, based on past experiences within the organisation.²

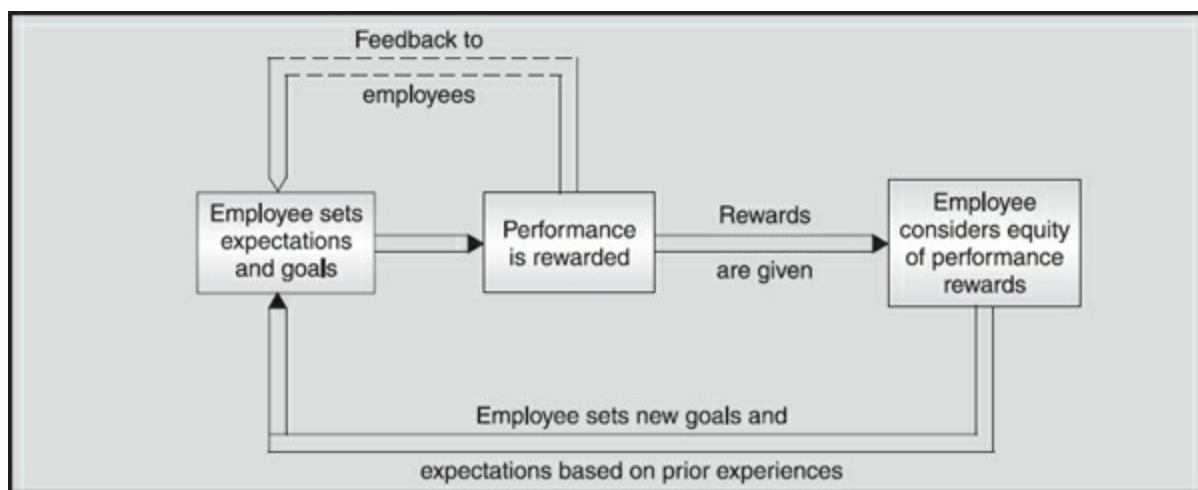


Fig. 11.4 Motivation and Performance Model

Source: Michael R. Carrell, et al., *Personnel/Human Resource Management*, p. 391.

If employees see that hardwork and superior performance are recognised

and rewarded by the organisation, they will expect such relationships to continue in the future. Therefore, they will set higher levels of performance for themselves, expecting higher levels of rewards. Of course, if employees see little relationship between performance and rewards, then they may set minimum goals in order to retain their jobs, but will not see the need to excel in their positions.³

Compensation is the only HR activity which has its impact on all other functions regarding personnel. Take job evaluation, for example. It is job evaluation which establishes satisfactory wage and salary differentials. As was stated above, competent people are attracted towards an organisation if its remuneration is attractive. Recruitment and selection are dependent upon wages and salaries offered to prospective employees. There is a close relationship between performance appraisal and remuneration. This is particularly true in cases where ‘payment by results’ schemes exist. Incentive payments depend on the employee performance which needs to be carefully assessed. It needs no particular emphasis that union-management relations largely depend upon employee remuneration. Industrial conflicts between employees and employers take place on remuneration-related issues (see [Table 11.3](#)). There are other benefits of an effective compensation system. Such a system, for example, helps the organisation obtain and retain employees at a reasonable cost. In the absence of a rational payment system, employees are likely to be overpaid or underpaid. There are a number of labour acts which need to be complied with by an organisation. Non-compliance of any provision makes the organisation guilty and punishable. A properly designed wage and salary system helps the company avoid such possibilities.

Table 11.3 *Percentage of Remuneration Related Issues to Total Disputes*

<i>Year</i>	<i>Disputes Relating to Wages, Allowances and Bonus</i>	<i>Total Disputes</i>	<i>Percentage of Remuneration Related Issues to Total Disputes</i>
1985	506	1755	28.83
1986	633	1892	33.45
1987	619	1799	34.40
1988	590	1745	33.81
1989	533	1786	29.84
1990	514	1825	28.16

Source: Labour Bureau, Indian Labour Year Books.

Finally, the primary goal of a wage policy in any country should be the promotion of economic development. If economic development has been meagre and all-round development is stunted, one of the reasons might well be the failure of the wage policy to contribute adequately to the process of economic development.

FACTORS INFLUENCING EMPLOYEE COMPENSATION

A number of factors influence the compensation payable to employees. They can be categorised into (i) external, and (ii) internal factors (see Fig. 11.5).

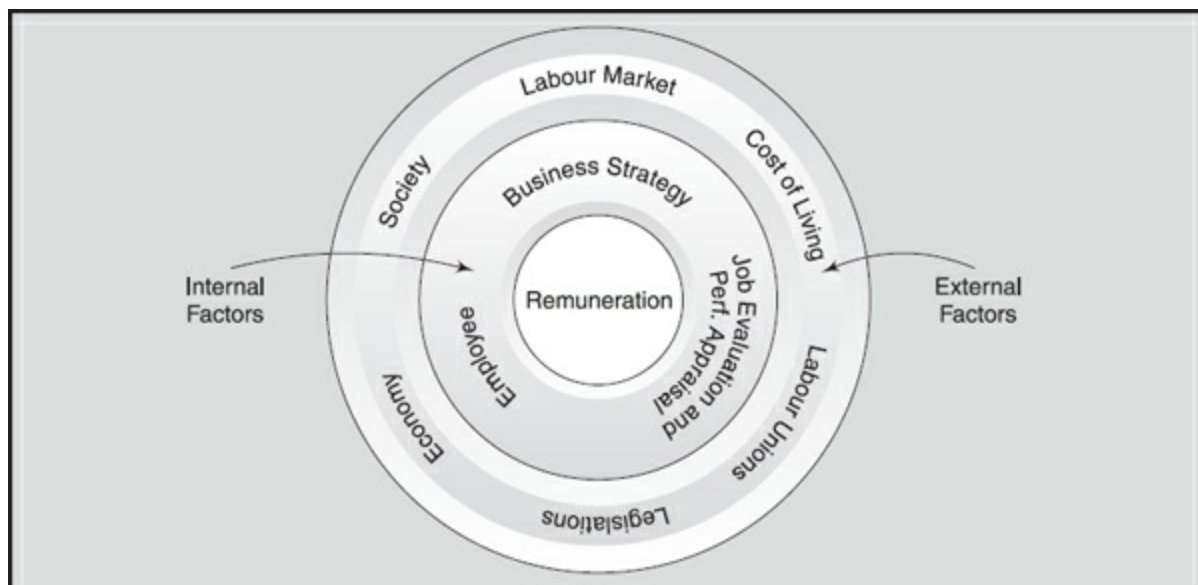


Fig. 11.5 Influencing Factors of Remuneration

External Factors

Factors external to an organisation are labour market, cost of living, labour unions, government legislations, the society, and the economy.

Labour Market Demand for and supply of labour influence wage and salary fixation. A low wage may be fixed when the supply of labour exceeds the demand for it. A higher wage will have to be paid when the demand exceeds supply, as in the case of skilled labour. A paradoxical situation is prevailing

in our country—excessive unemployment is being juxtaposed with shortage of labour. While unskilled labour is available in plenty, there is a shortage of technicians, computer specialists and professional managers. High remuneration to skilled labour is necessary to attract and retain it. But exploitation of unskilled labour, like, for instance, paying niggardly wages because it is available in plenty, is unjustifiable. The Minimum Wages Act, 1948, is precisely meant to prevent this kind of exploitation.⁴

Going rate of pay is another labour-related factor influencing employee compensation. Going rates are those that are paid by different units of an industry in a locality and by comparable units of the same industry located elsewhere. This is the only way of fixing salary and wage in the initial stages of plant operations. Subsequently, a comparison of going rates would be highly useful in resolving wage-related disputes.

Productivity of labour also influences wage fixation. Productivity can arise due to increased effort of the worker, or as a result of the factors beyond the control of the worker such as improved technology, sophisticated machines and equipment, better management, and the like. Greater effort of the worker is rewarded through piece-rate or other forms of incentive payments. This form of productivity, due to individual effort, cannot form a criterion of general wage payments.

Productivity arising from advanced technology and more-efficient methods of production will influence wage fixation. While productivity can be measured in terms of any one of the several factors such as capital equipment, materials, fuel and labour, what matters most is labour productivity. It is the relationship between the input of labour measured in man-hours and the output of the entire economy, or of a particular industry or plant measured in terms of money or in physical terms. It may be stated that productivity has only subordinate role in wage fixation.⁵ It can, at best, help determine fair wages.

Productivity linked wages may help utilise human resources better. This is particularly relevant to our country where productivity is low (see [Table 11.4](#)).

Table 11.4 *World Labour Productivity*

	1995	2000	2005
Singapore	38,888	42,888	47,975
Malaysia	18,473	19,254	22,112
Thailand	11,871	11,984	13,915
Indonesia	8,205	7,588	9,022
Philippines	6,195	6,952	7,271
Japan	38,741	40,725	44,361
S. Korea	26,624	31,826	36,729
China	4,987	5,804	9,486
India	4,263	5,189	6,587

Source: ILO.

However, the argument that productivity would increase if it is linked to compensation is hardly acceptable to labour and labour organisations.

Cost of Living Next in importance to labour market is the cost of living. This criterion matters during periods of rising prices, and is forgotten when prices are stable or falling. The justification for cost of living as a criterion for wage fixation is that the real wages of workers should not be allowed to be whittled down by price increases. A rise in the cost of living is sought to be compensated by payment of dearness allowance, basic pay to remain undisturbed. Many companies include an escalatory clause in their wage agreements in terms of which dearness allowance increases or decreases depending upon the movement of consumer price index (CPI).

Labour Unions The presence or absence of labour organisations often determine the quantum of wages paid to employees. Employers in non-unionised factories enjoy the freedom to fix wages and salaries as they please. Because of large-scale unemployment, these employers hire workers at little or even less than legal minimum wages. An individual non-unionised company may be willing to pay more to its employees if only to discourage them from forming one, but will buckle under the combined pressure from the other non-unionised organisations. The employees of strongly unionised companies too, have no freedom in wage and, salary fixation. They are forced to yield to the pressure of labour representatives in determining and revising pay scales. Labour Laws We have a plethora of labour laws at the central as well as at the state levels. Some of the central laws which have a bearing on employee remuneration are the Payment of Wages Act, 1936; the Minimum

Wages Act, 1948; the Payment of Bonus Act, 1965; Equal Remuneration Act, 1976; and the Payment of Gratuity Act, 1972. The Payment of Wages Act was passed to regulate payment of wages to certain classes of persons employed in the industry. It also seeks to protect workers against irregularities in payment of wages and unauthorised deductions by the employers. In addition, the Act ensures payment of wages in a particular form and at regular intervals. The Minimum Wages Act enables the central and the state governments to fix minimum rates of wages payable to employees in sweated industries. The Payment of Bonus Act provides for payment of a specified rate of bonus to employees in certain establishments. The Gratuity Act provides for payment of gratuity to employees after they attain superannuation. The Equal Remuneration Act provides for payment of equal remuneration to men and women workers for same or similar work. The Act stipulated stringent punishments for contravention of its provisions.

In addition to legal enactments, there are wage boards, tribunals and fair wages committees which aim at providing a decent standard of living to workers. In fact, ours is the only democratic country in the world which has attempted wage regulation on so large a scale through state-sponsored agencies.

With regard to managerial remuneration, there is the Companies Act, 1956, which puts a cap on salary and perquisites of managers. Sections 198 and 309 of the Act contain provisions relating to managerial remuneration.

Society Compensation paid to employees is reflected in the prices fixed by an organisation for its goods and services. For this reason, the consuming public is interested in remuneration decisions.

Remuneration paid to employees has social implications too. The Supreme Court has been keeping social and ethical considerations in adjudicating wage and salary disputes.

The Supreme Court, from its very inception, has had to adjudicate industrial disputes—particularly disputes relating to wages and allied problems of financial concern to the worker—an ethical and social outlook liberally interpreting the spirit of the Constitution. In *Standard Vacuum Refixing vs Its*

Workmen (1961), the apex court observed:

“It is well-known that the problem of wage structure with which industrial adjudication is concerned in a modern democratic state involves, in the ultimate analysis, to some extent ethical and social considerations. The advent of the doctrine of a welfare state is based on notions of progressive social philosophy which has rendered the old doctrine of Laissez Faire obsolete.”

Though the financial position of the employer and the state of the national economy have their say in the matter of wage fixation, the requirements of a workman living in a civilised and progressive society also came to be recognised. Hence, according to the Supreme Court, the social philosophy of the period provides the background for decisions on industrial disputes relating to the wage structure.⁶

The Economy The last external factor that has its impact on wage and salary fixation is the state of the economy. While it is possible for some organisations to thrive in a recession, there is no question that the economy affects remuneration decisions. For example, a depressed economy will probably increase the labour supply. This, in turn, should serve to lower the going wage rate.

In most cases, the cost of living will rise in an expanding economy. Since the cost of living is commonly used as a pay standard, the economy's health exerts a major impact upon pay decisions. Labour unions, the government, and the society are all less likely to press for pay increases in a depressed economy.⁷

Internal Factors

Among the internal factors which have an impact on pay structure are the company's strategy, job evaluation, performance appraisal, and the worker himself or herself.

Business Strategy The overall strategy which a company pursues should determine the compensation to its employees. Where the strategy of the

enterprise is to achieve rapid growth, remuneration should be higher than what competitors pay. Where the strategy is to maintain and protect current earnings, because of the declining fortunes of the company, remuneration level needs to be average or even below average. For more on this see the next section of this chapter.

Job Evaluation and Performance Appraisal Job evaluation helps establish satisfactory wage differentials among jobs. Performance appraisal helps award pay increases to employees who show improved performance.

Pause and Ponder

How far luck does influence pay? Have you come across any individual who has been lucky enough to be paid more than he or she deserves?

The Employee Several employee-related factors interact to determine his or her compensation. These include performance, seniority, experience, potential, and even sheer luck.

Performance is always rewarded with a pay increase. Rewarding performance motivates the employee to do better. Managements prefer performance to effect pay increases but unions view *seniority* as the most objective criterion for pay *increases*. *Experience* makes an employee gain valuable insights and should therefore be rewarded. *Potential* is useless if it is never realised. Yet, organisations do pay some individuals based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience. Some people have *luck* to be at the right place at the right time.

COMPENSATION PLANS AND BUSINESS STRATEGY

Compensation plans, like any other HR activity, must become an input to formulating a business strategy. But in most companies, this integration rarely occurs. The general practice is to pay what competitors pay or to adhere to the “corporate policy”. The actual compensation plan should not be strictly a matter of what is being paid in the market place. Instead, wage and salary plans must derive from an assessment of what *must be paid* to attract

and retain the right people, what the organisation *can afford*, and what will be *required* to meet the organisation's strategic goals.⁸ Table 11.5 illustrates how different salary and wage strategies can be applied to firms that differ in **(i)** their business strategies, and **(ii)** their market position and maturity.

Remuneration strategy must gel with corporate strategy. If corporate strategy is to invest to grow, remuneration strategy should be so designed to stimulate entrepreneurship. If business strategy is just to manage earnings, remuneration strategy should reward management skills. Finally, remuneration strategy should stress on cost control, if corporate strategy is to reinvest elsewhere.

In companies that are growing rapidly, business strategy tends to be focused on investing to grow. To be consistent with this business strategy, the remuneration strategy should stimulate an enterprising and entrepreneurial style of management. For this purpose, the company should emphasise high cash payments with above-average incentives. In 'mature' companies, its business strategy is oriented primarily towards managing earnings and protecting markets. A remuneration strategy must have a blend of average cash payments, moderate incentives and standard benefits and should aim at rewarding management skills. In an 'aging' company, the most appropriate strategy is to harness earnings and reinvest them elsewhere. Remuneration strategy should therefore aim at control of costs. To improve such a strategy, standard benefits are combined with below-average cash payments, and modest incentives are tied directly to control costs.

Thus, companies do the following, viewing compensation from a strategic perspective:⁹

1. They recognise compensation as a pivotal control and incentive mechanism that can be used flexibly by the management to attain business objectives.
2. They make the pay system an integral part of strategy formulation.
3. They integrate pay considerations into strategic decision-making processes, such as those that involve planning and control.
4. They view the company's performance as the ultimate criterion of the success of the strategic pay decisions and operational compensation

programmes.

Table 11.5 *Linkage of Remuneration Strategy to Business Strategy*

<i>Business Strategy</i>	<i>Market Position and Maturity</i>	<i>Compensation Strategy</i>	<i>Blend of Compensation</i>
Invest to grow	Merging or growth rapidly	Stimulate entrepreneurialism	High cash with above average incentive for individual performance. Modest benefits.
Manage earnings—protect markets	Normal growth to maturity	Reward management skills	Average cash with moderate incentives on individual, unit, or corporate performance. Standard benefits.
Harvest earnings—reinvest elsewhere	No real growth or decline	Stress on cost control	Below-average cash with small incentive tied to cost control. Standard benefits.

Source: Wayne F. Cascio, *Managing Human Resources*, McGraw-Hill, p. 352.

DEVisING A COMPENSATION PLAN

Any compensation plan must be understandable, workable and acceptable. The compensation scheme must have two components—a base rate and the scope for increasing the base rate. The remuneration plan must be determined keeping in mind the requisites and the components.

The persons responsible for determining a remuneration plan are advised to employ sequential steps (see [Fig. 11.6](#)) described as follows.



Fig. 11.6 Remuneration Model

Job Descriptions Job descriptions are crucial in designing pay systems, for, they help to identify important job characteristics. They also help determine, define and weigh *compensable factors* (factors for which an organisation is willing to pay—skill, experience, effort and working environment).

Job Evaluation The next step in pay fixation is to establish relative worth of jobs by employing job evaluation. As explained in [Chapter 5](#), a number of techniques is available to evaluate jobs. For example, in the point-ranking method of job evaluation, each job is analysed and defined in terms of the compensable factors an organisation has agreed to adopt. Points are assigned to each degree of a compensable factor, such as responsibility.

Job Hierarchy The points assigned to all compensable factors are aggregated. The total points scored will help establish the hierarchy of job worth, starting from the highest point total to the lowest point total.

Pay Surveys Job hierarchy being established, the next step is to establish pay differentials. Before fixing wage and salary differentials, prevailing wage and salary rates in the labour market need to be ascertained. Hence the relevance of pay surveys.

One way of collecting pay details is to conduct a survey. This requires that a sample of key jobs and a sample of companies need to be selected. Questionnaires could be mailed to select companies, requesting them to furnish pay details relating to key jobs. Information can also be collected over the telephone.

There are also other sources of collecting pay details. Labour departments of the government, trade unions, and professional bodies, and consulting firms (see Exhibit 11.1) provide copious amount of information about the prevailing wage and salary rates.

Exhibit 11.1 India Compensation Report 2012-2013

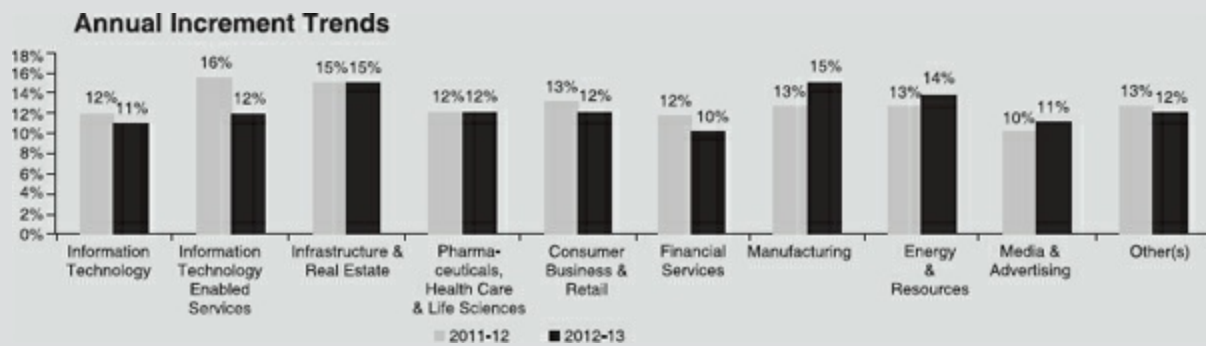
The Deloitte Touch Tohmatsu India (P) Ltd, is a reputed firm specialising in salary/compensation survey among other things. For 2012-2013, the firm collected data from 142 organisations spread over manufacturing, IT,

infrastructure, financial services, pharmaceuticals, media and advertising and other sectors.

Findings of the survey reveal interesting details. For example:

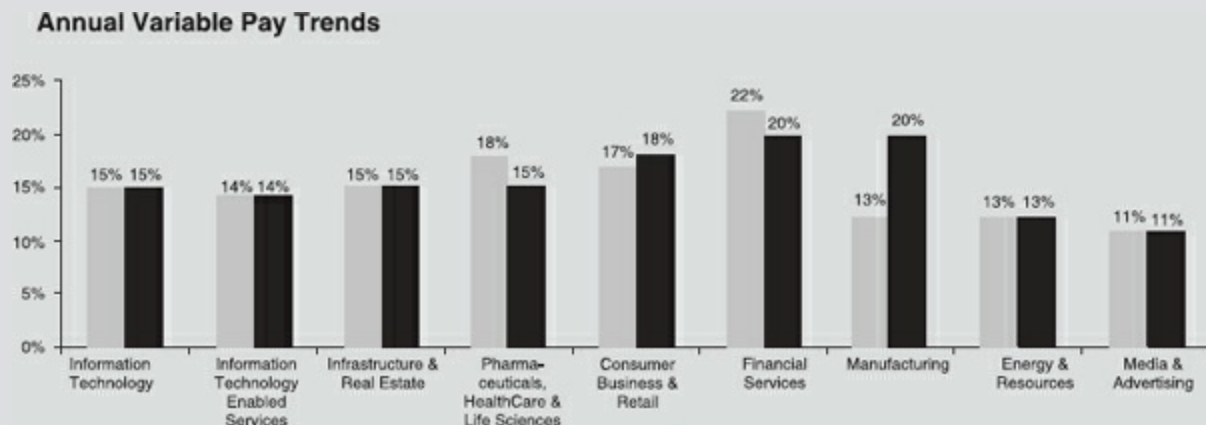
- Overall Indian salary increase across sectors is 12%
- Manufacturing, infrastructure and real estate have reported highest increases for 2012-2013, at 15%
- Financial services sector has been most conservative rise of only 10%
- Manufacturing, energy and resources have registered a marginal increase over 2011-2012.
- ITeS has seen the steepest drop in compensation protection, despite the attrition challenge faced by the industry.

Figure given below gives further details:



Another interesting trend observed by Deloitte is the extent of variable pay in the total compensation. It is observed that variable across all industries stands at 16% of the total pay. In the US performance— linked pay touches almost 60% of the total remuneration.

The following figure shows variable pay trends across industries.



Variable pay has almost remained the same or reduced as compared to last year. Exception however is the manufacturing sector where variable pay has shot up significantly. IT, ITeS, energy, infrastructure and media are paying the same variable pay in 2012 as they did in 2011. In the financial sector, preference is more towards fixed pay structure.

Job evaluation helps establish job hierarchy. Through surveys, the rate for key jobs in the labour market is also known. The next logical step is to determine pay structures.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Pay top performers more than 'also rans'.</i> • <i>Have salary bands that help you and the managers make the right compensation decisions</i> • <i>Be prepared to pay premium compensation for a premium skill/competency</i> • <i>Map salary review to industry norms, else you run the risk of attrition</i> • <i>Salary touches employee's hearts more than anything else. Concepts like engagement, empowerment, human capital, and social capital are high sounding words</i> 	<ul style="list-style-type: none"> • <i>Encourage employees to quote another employee's salary-keep details private</i> • <i>Reward a below average/poor performer with a salary hike</i> • <i>Spend too much on perks, aim more on cash-in-hands</i> • <i>Forget to maintain balance between fixed and variable components</i> • <i>Forget that social comparison occurs in matters relating to compensation</i>

Pause and Ponder

A pay survey report reveals that a mid-sized company is underpaying its employees. However, there is no real threat of any attrition. What should the management do?

Pricing Jobs In pricing jobs, the job evaluation worth is matched with the labour-market worth. Two activities need to be performed: **(i)** establishing the appropriate pay level for each job, and **(ii)** grouping the different pay levels into pay grades.

Pay Levels In order to set a pay level, the points assigned and the survey wage rates are combined through the use of a graph called *scattergram*. As Fig. 11.7 shows, the vertical axis represents pay rates. The horizontal axis is used for points. The total points and the wage rates for each key job are plotted to obtain the scattergram. Thus, each dot in Fig. 11.7 represents the intersection of the point value and the market-determined wage rate for a particular key job. For example, key job A in the figure is worth 500 points and is paid ₹60 per hour. Similarly, key job B earns 700 points and has a prevailing rate of ₹70 per hour.

The dots that represent key jobs can be used to draw a wage-trend line as, close to as many points as possible, employing a statistical technique called *least squares method of regression*.¹⁰ This method relates point values to wage rates in the labour market. If the employer wants to lead or lag behind the market rate by a given percentage, the wage-trend line can be moved up or down by the same percentage.

Determining Pay Grades A pay grade comprises jobs of approximately equal difficulty or importance. Where point-ranking method of job evaluation is used, the grade consists of jobs falling within a range of points. It is convenient to organise jobs into groups, also called *job classes*, so that there are limited number of wage rates. Where individual jobs are retained, an organisation will have hundreds of remuneration rates. The existence of hundreds of separate wage rates would be meaningless as differences between jobs might be just a few rupees.

Where grouping of jobs is done, the wage-curve line is to be replaced with a series of ascending dashes, as shown in Fig. 11.8. Thus, all jobs in the same class will receive the same wage rate. A job valued at 105 points, for example, receives the same pay as a job with 145 points (Exhibit 11.2 gives more details about pay grades).

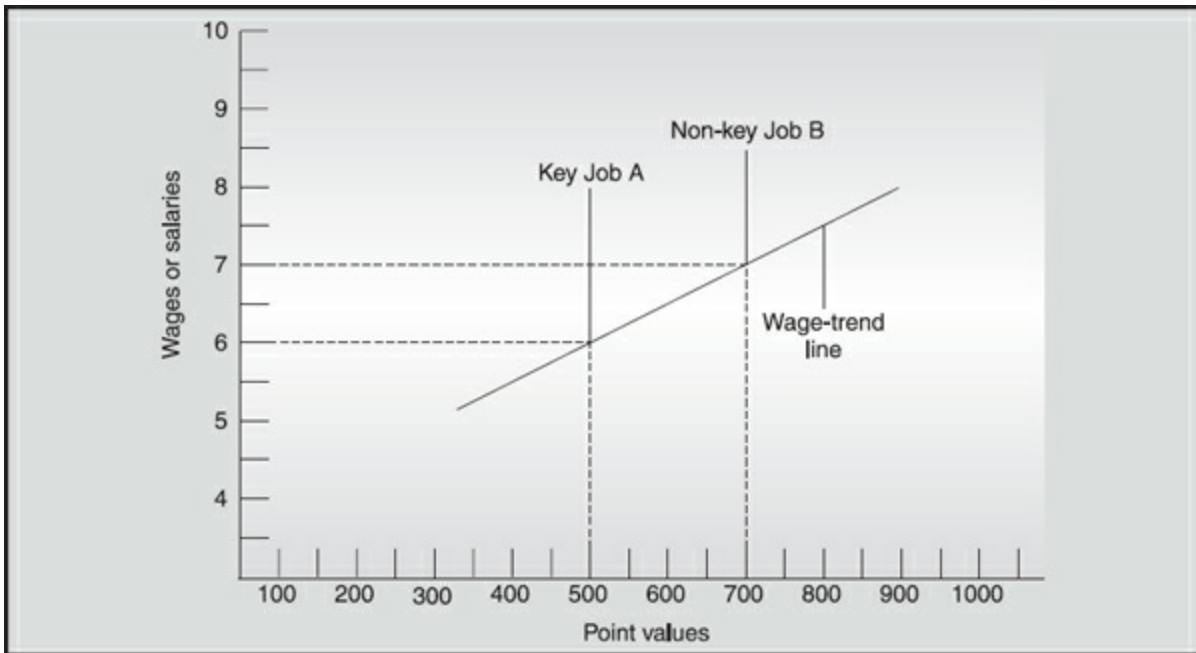


Fig. 11.7 *The Development of a Wage-trend Line*

Source: William Werther and Keith Davis, *Human Resources and Personnel Management*, p. 393.

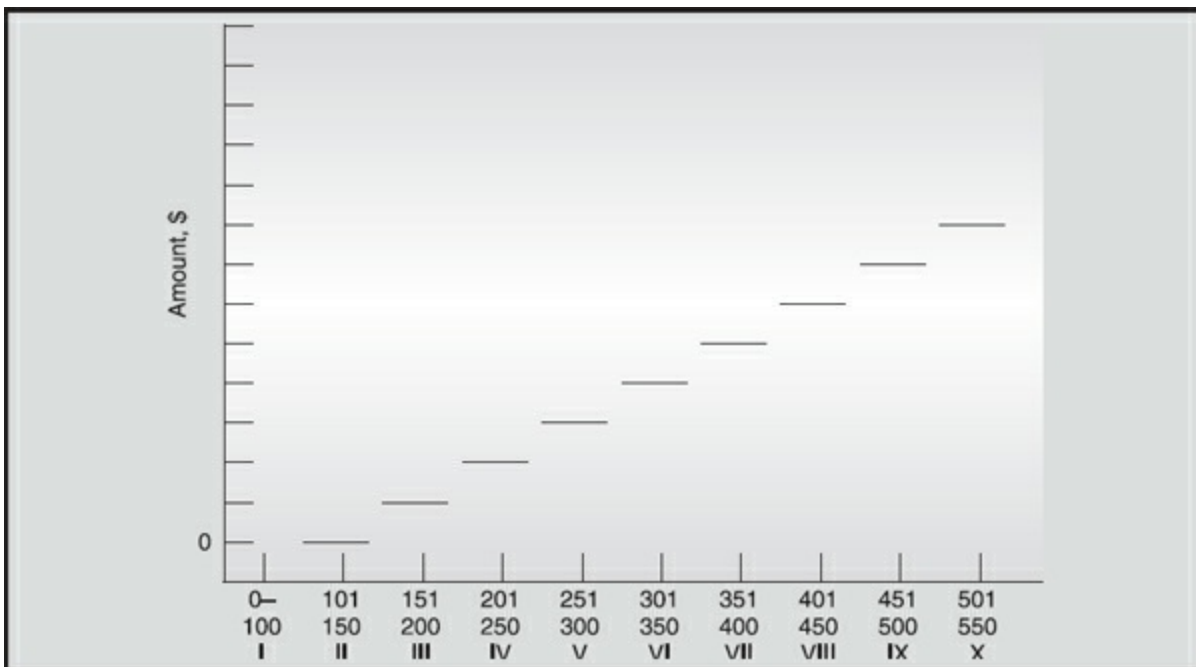


Fig. 11.8 *The Impact of Job Classes on the Wage-trend Line*

Source: William Werther and Keith Davis, *Human Resources and Personnel*

Exhibit 11.2 Broadbanding

The trend for employers today is to reduce their salary grades and ranges from ten or more down to three to five, a process called broadbanding. Broadbanding means collapsing salary grades and ranges into just a few wide levels or “bands”, each of which then contains a relatively wide range of jobs and salary levels. Thus, instead of having, say, ten salary grades each of which contains a salary range of, say, \$ 15,000, the firm might collapse the ten grades into three broadbands, each with a set of jobs such that the difference between the lowest-paid and the highest-paid jobs might be \$ 40,000 or more. One survey found that almost one-third of the 3,400 employers responding said that they had adopted a broadbanding approach or were considering doing so.

Broadbanding’s basic advantage is that it injects greater flexibility into employee compensation. Broadbanding is especially sensible where firms flatten their hierarchies and organise around self-managing teams. The new, broad salary bands can include both supervisors and subordinates and can also facilitate moving employees slightly up or down along the pay scale without accompanying promotional raises or emotional pay cuts. For example, the employee who needs to spend time in a lower-level job to develop a certain skill set can receive higher-than-usual pay for the work, a circumstance considered impossible under traditional pay systems.

Broadbanding also facilitates the sorts of less-specialised, boundaryless jobs and organisations being embraced by many firms like General Electric. Less specialisation and more participation in cross-departmental processes generally mean enlarged duties or capabilities and more possibilities for alternative career tracks., broader, more inclusive salary bands facilitate this. One expert argues that traditional quantitative evaluation plans actually reward unadaptability. The argument here is that being slotted into a job that is highly routine, as defined by a compensable factor such as “know-how” is unlikely to encourage job incumbents to think independently or be flexible. Instead, the tendency may be for workers to concentrate on the specific, routine jobs to which they are assigned and for which they are rewarded.

General Electric and Toyota are two employers who have broadbanded their pay scales. At Toyota, there are only three plant job classifications—Division I includes all production members; Division II includes all general maintenance team members; and Division III includes all tie and dye members. Similarly, General Electric, huge as it is, was able to restructure its entire pay plan into just five broad compensation bands.

Source: Gary Dessler, Human Resource Management, Prentice-Hall, 1998, pp. 438–439.

Salary Band

Figure 11.9 contains typical salary band.

As we see in Fig. 11.9, there is a minimum and maximum that define the extremes and the 50th percentile is computed as the mid-point. This is unique to each organisation. This salary grid is prepared by the HR team and is confidentially maintained in the HR department and is selectively made available to senior management (for their respective teams). It serves as a guide for the HR department while making offers for new hires for a role in the organisation. The hiring managers along with the staffing manager make an informed decision on what to offer for the selected candidate based on this information. In other words, the selected candidate is benchmarked against the similar employees for the position he/she is being considered for and appropriately compensated.

Salary bands/grids help organisations ensure internal compensation parity and limit salaries related discrepancies. As a principle, organisations treat salary information confidential and do not share with anyone other than his/her manager. However, the reality is that compensation is often a hot topic at the coffee-table amongst close associates at workplace. Therefore, a key responsibility of the HR team is to ensure ways and means by which salaries can be structured in line with roles and responsibilities and as far as possible are fair and equitable.

Level	Positions	Min	Mid (50th percentile)	Max
L0	Trainee	1,20,000	1,40,000	2,10,000
L1 (A)	Software Engineer, Software Tester, Tech Support-1 & 2, Quality Engineer, etc..	1,50,000	2,80,000	4,00,000
L1 (B)	Sr. Software Engineer, Sr. Software Tester, Sr. Tech Support – 1 & 2, Sr. Quality Engineer, etc...	2,50,000	3,30,000	5,85,000
L2 (C)	Principal Engineer, Principal Support Analyst, Principal Quality Engineer etc.	3,22,000	5,50,000	7,22,000
L3 (A)	Team Lead	6,12,000	7,20,000	8,55,000
L3 (B)	Project Lead	6,50,000	8,10,000	9,24,000
L4 (A)	Associate Manager, Architect,...	8,15,000	9,90,000.	10,10,000
L4 (B)	Manager	11,25,000	18,25,000	22,10,000
L4 (C)	Sr. Manager	18,25,000	23,50,000	27,00,000

Figure 11.9 Salary Band ((Figs. in Rupees)

In designing compensation bands, benchmarking compensation with the industry plays a critical role. The ability of an organisation to hire and retain the desired talent is strongly influenced by how it positions itself in relation to the industry there by ensuring external parity. Participating in compensation surveys provides the organisation with comprehensive data on base salaries, allowance categories, incentive plans and the benefit programmes in practice amongst peer group companies. Usually organisations use the help of third party resources to obtain this information. An organisation can purchase a ready ‘off-the-shelf’ survey report for the peer group from consulting organisations like Hewitt, Watson & Wyatt, and Mercer. For example, a company starting up a new unit in a new city or country can obtain compensation levels prevailing in that area via such surveys. Alternatively, an organisation can enroll in an annual survey hosted by such organisation. For example, smaller and mid-sized companies can obtain significant cost advantage by participating in such standard surveys as and when they feel the need to benchmark their compensation levels with the peer group. Larger organisations, however, prefer to carry out dedicated surveys specifying for all aspects of the peer group.

The standard steps followed are as given below:

- Identifying the scope of the survey to ascertain the various components of compensation that needs to be surveyed.

- Identifying the correct benchmarking peer-group companies.
- Providing the correct internal compensation data for the survey.
- Mapping correctly the industry data with internal data, in relation to positions, job descriptions and salary bands.
- Ascertaining where the company is versus the market and benchmarking where it wants to be versus the market and why.

CHALLENGES OF COMPENSATION

People who administer wage and salary face challenges which often necessitate adjustments to a remuneration plan. The more important of the challenges are skill-based pay, salary reviews, pay secrecy, comparable worth, employee participation, elitism or egalitarianism, below market or above market rates, and marketing versus non-marketing rewards (see Fig. 11.10).

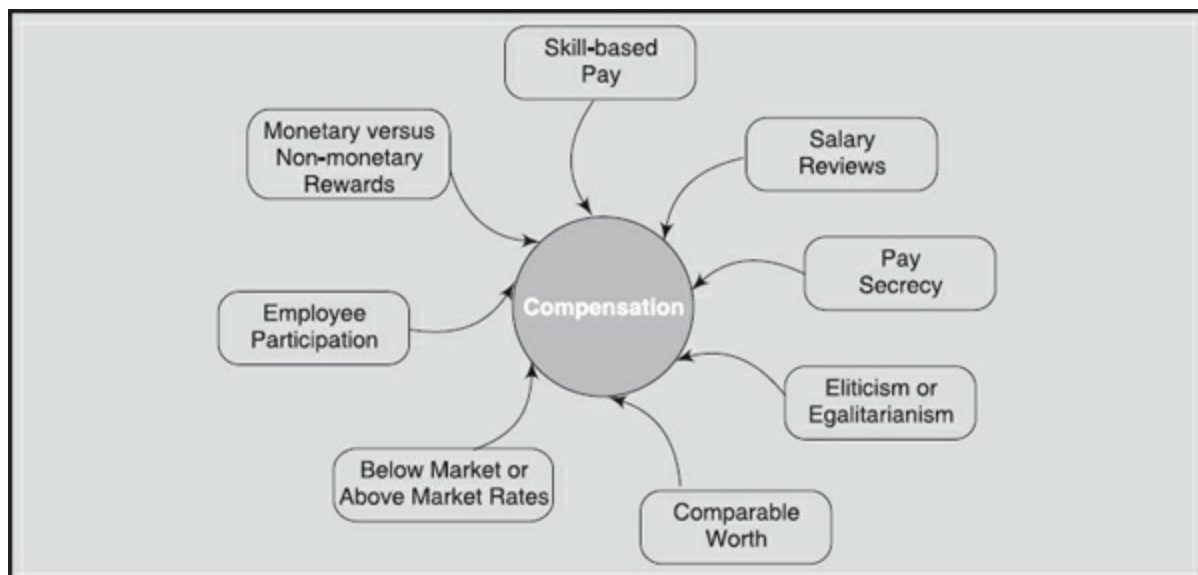


Fig. 11.10 *Challenges of Compensation*

Skill-based Pay The discussion on Fig. 11.6 centered around job-based pay. In the traditional job-based pay, employees are paid on the basis of job they do. In the skill-based system, workers are paid on the basis of number of jobs they are capable of doing, or on the depth of their knowledge. The purpose of this system is to motivate employees to acquire additional skills so that they

become more useful to the organisation. [Table 11.6](#) compares skill-based pay with job-based remuneration.

Table 11.6 *Skill-based Pay and Job-based Pay Compared*

<i>Factors</i>	<i>Job-based</i>	<i>Skill-based</i>
Pay structure	Based on job performance	Based on ability to perform
Employer's focus	Job carries wage; Employee linked to job	Employee carries wage; Employee linked to skill
Employee focus	Job promotion to earn greater pay	Skill acquisition to earn greater pay
Procedures required	Assess job content; Value jobs	Assess skills; Value skill
Advantages	Pay based on value of work performed	Flexibility; Reduced workforce
Disadvantages	Potential personnel bureaucracy; Inflexibility.	Potential personnel bureaucracies; Cost control

Source: Raymond A. Stone, *Human Resource Management*, John Wiley & Sons, p. 324.

Skill-based pay systems work well when the following conditions exist:¹¹

1. A supportive HRM philosophy underpins all employment activities. Such a philosophy is characterised by mutual trust and the conviction that employees have the ability and motivation to perform well.
2. Other programmes such as profit sharing, participative management, empowerment, and job enrichment complement the skill-based pay system.
3. Technology and organisational structure change frequently.
4. There are opportunities to learn new skills.
5. Employee turnover is relatively high.
6. Workers value teamwork and opportunity to participate.

Pay Reviews Pay, once determined, should not remain constant. It must be reviewed and changed often, but how often becomes a relevant question. Pay

reviews may be made on predetermined dates, anniversary dates or there could be flexible reviews. In the *fixed-date reviews*, wages and salaries of all employees are reviewed and raised on a specified date each year. In the *anniversary-date review*, salaries may be reviewed at twelvemonth intervals from the date of the employee's anniversary date of hire. Using variable timing ensures *flexibility*. In addition, high-performing employees, who are low on their salary ranges, can be rewarded more frequently.

In the **skill-based pay system**, an employee is paid on the basis of number of jobs he or she is capable of doing, or on the depth of his or her knowledge. In the traditional system, an employee is paid on the basis of job held.

In organised industrial establishments, pay review takes place once in three years. Managements enter wage and salary agreements with labour unions and the agreements will be valid for three years. Pay negotiations will take place on the expiry of the three-year period and new records are signed after conclusion of the talks.

In government departments, pay revisions take place once in ten or fifteen years. Revisions will depend on the recommendations of the Pay Commission.

Pay Secrecy The process by which a remuneration plan is designed and administered is critical for any organisation. One challenge facing HRM concerns the availability of information about remuneration to employees. The tendency among most firms is to maintain pay secrecy as this would help avoid pay comparisons likely to be made by employees.

'Just how much and what types of information about pay should be provided to employees' is a question that troubles HR managers. This is a difficult question to answer. Much has been written about the effects of pay secrecy on employee behaviours and attitudes.

Firms in the organised sector and public sector enterprises disclose full information about wages and salaries. Similarly, most union contracts spell out wages and grades of pay. As stated earlier, most firms, particularly family-controlled organisations tilt towards maintaining pay secrecy.

The goals of achieving equity and employee satisfaction would seem to call for telling employees about pay policies and levels. For merit pay systems to have a motivating effect, an employee needs to know how efforts translate into rewards. Information about maximum and the average raises should be made available each year. Each employee should be told 'what the mid point is' for his or her job, as well as the pay range. In addition, the organisation should explain how it arrived at the pay structure. Allowing employees to see 'where their jobs are located in the wage structure' should not create significant problems for an employer that has a well-designed job evaluation plan.¹²

Comparable Worth One of the popular principles in employee remuneration is equal pay for equal work. Infact, this principle has been the inspiration behind the enactment of the Equal Remuneration Act. Under the Act, male and female nurses are to be paid the same if their merit and seniority match, but a female nurse and a male electrician could be paid different rates.

The **principle of comparable worth** implies that if both a nurse and an electrician receive the same number of points under job evaluation, they need to be paid the same remuneration.

Beyond the concept of equal wages for equal work, is the idea of *comparable worth* which implies that if both a nurse and an electrician receive the same number of points under a point-ranking method of job evaluation, they have to be paid the same, subject, of course, to seniority and merit differences.

Any bias in the job-evaluation process is sure to render comparable worth unworkable. Bias is bound to occur in job evaluations because of the tendency to assign higher number of points for jobs traditionally held by women.

Employee Participation When employees are involved in designing a remuneration plan, they exhibit little resistance in accepting it. Such a plan is much more likely to be a successful motivator than the one imposed by the management.

It is appropriate to involve employees in many phases of a reward system. For example, a wide variety of employees should serve in job evaluation committees. If a point-ranking method is adopted, it is reasonable to involve employees in identifying the compensable factors to be used and the weight to be assigned to each factor. Employees are also likely to have a good insight in identifying competitor firms that should be included in a wage survey.

There are several mechanisms for employee involvement. At the broadest level the employees can be surveyed to learn about their preferences. Employee task forces can help integrate these preferences into a system. Such groups are usually an excellent way to involve employees in any decision associated with a reward system.

The decision to involve employees in designing or administering a remuneration plan should not be made in haste. Employee participation is unlikely to work well unless the organisation has already established an overall philosophy of participative management, as well as a reasonable climate of organisational trust. Participation takes considerable time—if time and trust are limited, a more traditional, a top-down approach might be more appropriate.¹³

Eliticism versus Egalitarianism Firms become egalitarian when they place most of their employees under the same remuneration plan. The plan becomes elitist when the organisations establish different remuneration schemes. In some firms only the CEO is eligible for stock options. In others, even the lowest paid workers are offered stock options. In some other companies only one category of employees is offered incentive schemes but in others all employees are covered by pay-for-performance schemes.

Egalitarianism gives organisations more flexibility to deploy employees in different areas without having to change their pay levels. It can also reduce barriers between people who need to work together. Egalitarian remuneration systems are found mainly in highly competitive environments where companies frequently take business risks and try to expand their market share by continually investing in new technologies, ventures and products.

Elitist remuneration systems are prevalent among older, well-established firms with mature products, a relatively stable market share and limited competition. Elitist pay structures tend to result in a more stable work-force

because employees make more money only by moving up through the company.¹⁴

Below Market versus Above Market Remuneration Remuneration involving decision relating to below market or above market pay structure has two implications. *First*, a firm's ability to attract talent from others depends on employee's pay relative to alternative employment opportunities. *Second*, the choice has an important cost component. Decision to above going rate obviously adds to the cost. However in general, above market pay policies are more prevalent among larger companies in less competitive industries, such as utilities and among companies that have been performing well and have the ability to pay more. In addition, companies desirous of growing fast in a tight labour market need to pay above market rates. Unionised firms also need to pay higher rates.

Firms paying below market rates tend to be small and disorganised. Garment units, beedi rolling and incense-sticks rolling firms pay wages that do not come anywhere near current rates.

Monetary versus Non-monetary Rewards The issue relating to monetary and non-monetary rewards has primarily tax implications. Many non-monetary rewards such as medical benefits and housing are fully or partially exempted from taxes. Employees and even employers prefer non-monetary benefits than monetary rewards. There are other implications of non-monetary benefits that are explained in detail in [Chapter 13](#).

Wage Policy in India

Wage policy refers to all systematic efforts of the government in relation to national wage and salary system. It includes orders, legislations, and so on to regulate the levels or structures of wages and salaries with a view to achieving economic and social objectives of the government. Specifically, the objectives of wage policy are:

1. To obtain for the workers a just share of the fruits of economic development.
2. To set minimum wages for workers whose bargaining position is weak.
3. To bring about a more efficient allocation and utilisation of human

resources through wage and salary differentials.

4. To abolish malpractices and abuses in wage and salary payments.

The first step towards the evolution of a wage policy was the enactment of the Payment of Wages Act, 1936. The main objective of the Act is to prohibit any delay or withholding of wages legitimately due to the employees. The next step was the passing of the Industrial Disputes Act, 1947, authorising all the state governments to set up industrial tribunals which would look into disputes relating to remuneration. Another notable development that led to the evolution of wage policy was the enactment of the Minimum Wages Act, 1948. The purpose of the Act is the fixation of minimum rates of wages to workers in sweated industries such as woollen, carpet making, flour mills, tobacco manufacturing, oil mills, plantations, quarrying, mica, agriculture, and the like. The Act was amended several times to make it applicable to more and more industries. Then came the Equal Remuneration Act, 1976, which prohibits discrimination in matters relating to remuneration on the basis of religion, region or sex.

The Constitution of India committed the government to evolve a wage policy. Successive five-year plans have also devoted necessary attention to the need for a wage policy. Following the recommendations of the First and Second Plans, the Government of India constituted wage boards for important industries in the country. A wage board is a tripartite body comprising representations from the government, owners, and employees. Technically speaking, a wage board can only make recommendations, and wage policies are normally implemented through persuasion.

In spite of legislations, tribunals, and boards, disparities in wages and salaries still persist. Some of the disparities are:

1. Employees of MNCs are paid much more than their counterparts in host countries for identical work.
2. Different industries have different wage and salary structures resulting in disparities in remuneration for identical work.
3. Wide gaps exist between wages and salaries of employees in the organised sector and of those in the unorganised sector, the latter earning much less than the former.
4. Differences exist between earnings of employees in the government sector and those in the private sector.
5. Within the government sector, salary differences exist among

employees of different departments.

The disparities are glaring. If an illiterate supervisor in a leather processing unit can earn ₹12,000 plus per month and a half-yearly bonus, how much can a lecturer earn? ₹10,000 and no bonus? If an auto driver can earn ₹15,000 per month, how much should a temporary lecturer in a college earn? ₹28,000 per month? And remain temporary forever. A sweeper in L&T is an income tax assessee but a BE or an MBBS degree holder works for ₹8000 per month in a small-scale unit or ₹12,000 in a private nursing home, respectively.

There are clerks in Mumbai who get nearly twice as much as a labour tribunal judge—the man who arbitrates everyone's wages and salaries. And a head clerk in the LIC gets, at the maximum of his grade, more than half of the salary of a high court judge, not less.

In order to correct such disparities, the Government of India appointed a Committee headed by Mr Bhootalingam in 1979. The brief given to the Committee was to suggest rational and integrated wage policy covering all sectors of the economy. Soon after the Committee submitted its report, there was hue and cry raised against the recommendations. It was criticised as anti-labour and impracticable. The report was promptly and predictably shot down.

Economic reforms, liberalisation and globalisation have made wage policies almost irrelevant.

CONCEPTS OF WAGES

While evolving wage policy, three concepts of wages, namely, **(i)** minimum wages, **(ii)** fair wages, and **(iii)** living wages are generally considered. These are broadly based on the needs of the workers, capacity of the employee to pay, and the general economic conditions prevailing in a country.

Minimum Wage

Minimum wage is the one which provides not merely for bare *sustenance* of life, but also for the preservation of the efficiency of the worker. For this purpose, the minimum wage must also provide for some measure of education, medical requirements and amenities. Minimum wage may be tied

by an agreement between the management and the workers, but is usually determined through legislation. This is more so in the unorganised sector where labour is unionised. In the fixation of minimum wages, besides the needs of workers, other factors like ability of the concern to pay, nature of the jobs, and so on, are also considered.

Minimum wage providing for sustenance of life plus for preservation of the efficiency of worker.

Fair Wage

Fair wage is understood in two ways. In a narrow sense, wage is fair if it is equal to the rate prevailing in the same trade and in the neighbourhood for similar work. In a wider sense, it will be fair if it is equal to the predominant rate for similar work throughout the country and for trades in general. Irrespective of the way in which fair wage is understood, it can be fixed only by comparison with an accepted standard wage. Such a standard can be determined with reference to those industries where labour is well organised and has been able to bargain well with the employers.

Fair wage Equal to the rate prevailing in the same trade and in the neighbourhood, or equal to the predominant rate for similar work throughout the country.

Living Wage

Living wage is a step higher than fair wage. Living wage may be described as one which should enable the wage earner to provide for himself/herself and his/ her family not only the bare essentials of life like food, clothing and shelter, but a measure of frugal comfort including education for children; protection against ill health; requirements of essential social needs; and/or measure of insurance against the more important misfortunes including old age. A living wage must be fixed considering the general economic conditions of the country. The concept of living wage, therefore, varies from country to country. In the more advanced countries, living wage itself forms

the basis for the minimum wage.

Living wage Higher than fair wage Provides for bare essentials plus frugal comforts.

In India, minimum wage is determined mainly for sweated industries under the provisions of the Minimum Wages Act, 1948. Fair wage is fixed for other industries considering prevailing rates of wages, productivity of labour, capacity of the employer to pay, level of national income and other related factors.

Tribunals, awards and wage boards play major role in fair wage fixation. Many people are of the opinion that living wage is a luxury for a developing country like India and can therefore be deferred.

COMPENSATING SPECIAL GROUPS

Special groups such as professionals, teams, contract employees, expatriates, and executives pose unique challenges to HR managers so far as their remuneration is concerned. The following section throws light on these unique groups.

Team-based Pay Teams have come to stay in organisations, particularly in new economy firms. In Infosys, for example, there are as many as 1800 teams and the strength of each team varies from five to 100 depending on the size of the project. Teams are projects based.

A team is a combination of people with complimentary skills who are committed to a common purpose, common performance goals, and an approach they hold themselves mutually accountable.¹⁵ Teams are empowered to plan, control and improve their work processes; set their own goals and inspect their own work; prepare their own budget and procure any materials they need; hire and train employees they require; and take responsibility for outcomes.

How to remunerate teams? The ideal method is to pay base wage to each member in addition to payment for the performance of the entire team.

Remunerating Professionals Professionals include core strategy groups, knowledge management executives, scientists and economists. Their pay initially is for the knowledge they bring to the organisation. Overtime, their knowledge becomes obsolete and what to do with these professionals is a challenge to HR managers. One way is to absorb them into managerial positions and remunerate them accordingly. But many of the professionals are good as that but not as managers.

The alternative solution is to create a separate pay structure for professionals. Such a pay structure should provide for a rapid increase in pay for roughly five to seven years, and then a more gradual rise as technical obsolescence erodes their value.¹⁶

Contract Employees Contract employees are engaged by employment agencies. These agencies provide manpower when required by a company. The company pays the agency which in turn is responsible for paying to the contract employees. Obviously, contract employees are not on the pay roll of the company.

Contract employees receive less than conventional employees and are not entitled for any statutory or retirement benefits. It is disheartening to observe the wide disparity existing between a conventional employee and a contract employee. It is time that specific regulation is made to protect interests of contract employees.

Expatriates and Executives Remuneration of executives and expatriate is a big challenge to the HR managers. As compensating these two unique groups involves several complexities, [Chapters 14](#) and [26](#) respectively are devoted exclusively to discuss these problems.

SUMMARY

Employee remuneration has different connotations for different people. For an employee, it means status and standard of living; for the employer it adds to the cost; and to the HRM administration of remuneration is an important activity.

Remuneration comprises both financial as well as non-financial benefits. Only financial benefits are considered in this chapter.

External and internal factors have an impact on an employee's pay

package. Factors external to an organisation include labour market, going rate, cost of living, labour unions, labour laws, society and the economy. Internal environment, on the other hand, internal factors include the company's ability to pay, job evaluation and performance appraisal, and the worker himself/herself.

The common practice followed for wage and salary determination is to fix the rate per unit of time (per day, per month or per annum) and calculate the total wages by multiplying the number of units of time with the rate per unit of time.

The wage policy in our country is governed by several legislative provisions and constitutional requirements. The other issue covered in the chapter is wage concepts.

KEY TERMS

Ability to pay

Cost of living

Compensable factors

Comparable worth

Compensation philosophy

Egalitarian remuneration

Employee compensation

Fringe benefits

Fair wages

Going rate

Incentives

Job classes

Living wage

Minimum wage

Pay reviews

Pay surveys

Productivity

Salary band

Skill based pay

Wage policy

REVIEW QUESTIONS

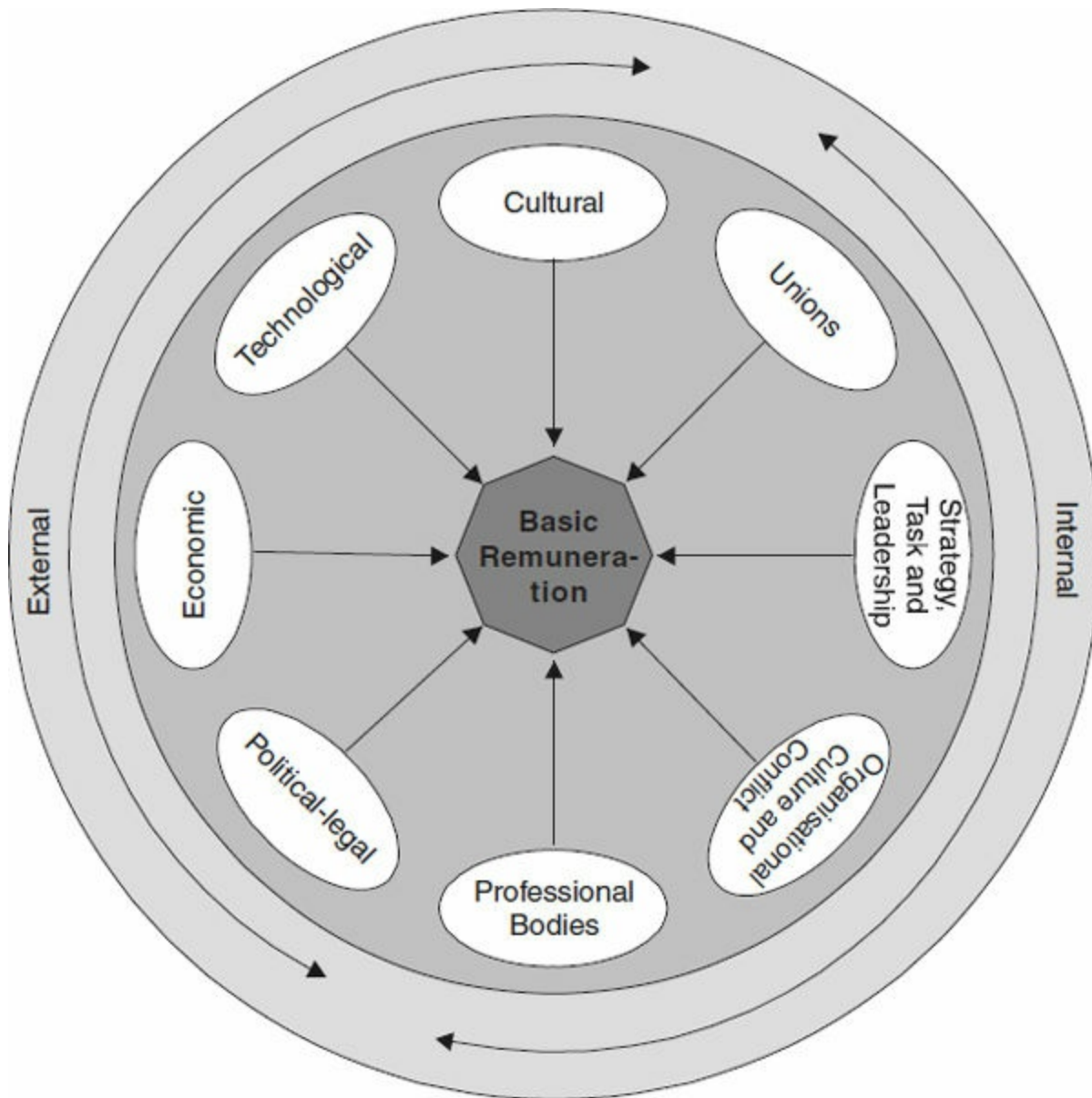
1. What do you understand by employee compensation? What is its significance?
2. Bring out the components of employee compensation.
3. Outline the external as well as internal environments of employee compensation.
4. Bring out the procedure for fixing salary for monthly rated employees.
5. What is salary compensation philosophy? What does it contain?

DISCUSSION QUESTIONS

1. Should central and state governments be able to legislate minimum wages rather than adopting a *laissez-faire* attitude that would allow employers operating on a slim profit margin to pay only what they could afford? Discuss.
2. Experts argue that companies need to focus on strategy formulation, implementation, competition and the like and not waste their time and energy on matters relating to wages and salaries. Give your view point.
3. Suppose you manage a small business with 30 employees. You discover that some employees are motivated by money, while others are motivated by security. For those who want more money you provide merit pay increases in which their income is determined by their productivity. The other employees have a fair salary. What problems might arise?
4. Is money the prime trigger of employee performance?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact basic remuneration, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

The compensation philosophy at Vybhav evolved over a period of four years. Prior to that, each unit followed its own industry specific compensation practices. This was grounded in the belief that the size, the nature of work and 'stage in the life cycle' of the business unit (BU) impacted the compensation philosophy and therefore the need to customise. Four years ago, Vybhav's top management decided to adopt a more centralised management approach to better manage its talent and build a unified corporate culture that would help it sustain its competitive advantage. In

simple words, the top management team felt the need to define ‘what you pay for and why’. One of the first initiatives of the Corporate HR Team was to enlist a vendor to help with a common compensation philosophy. Hann Associates (HA) emerged as the preferred vendor for the activity.

HA spent the first two weeks studying and collating the compensation guidelines used by each of the businesses and the rationale for adopting the practices. HA also circulated a questionnaire among the top management team to collect information from these key stake-holders on the non-negotiables that *must* be part of the compensation plan for Vybhav and how it proposes to pay. In its first presentation to the top management, HA provided a matrix of the existing compensation and benefits practices across each of the BU’s, calling out the key differences and similarities as they exist. This was followed with an analysis of the questionnaire that captured the expectations of the top management team. A round-table discussion lasting over five hours followed the presentation made by HA, and the outcome was finalisation of Vybhav’s compensation philosophy that would guide compensation and benefits practices across the businesses. It is a statement about the value proposition the business offers to its employees and the general principles that will guide the development of pay strategies and rewards programs. A well-crafted compensation philosophy will provide Vybhav with a road-map supporting the company mission statement and help implement short and long-term business strategies. Find below an excerpt from the final compensation philosophy document for Vybhav subsidiaries:

At Vybhav in order to achieve our vision of being an employer of choice, the compensation philosophy that guides remuneration for its employees is as follows:

- At Vybhav we believe in a performance-based culture and remain committed to this through wellstructured compensation and rewards and recognition programs.
- The total compensation structures for all employees of Vybhav would be uniform and would consist of the following components:
 - Basic salary
 - House rent allowance
 - Car allowance
 - Medical allowance
 - Special allowance

- Incentive pay for performance
- The compensation positioning of all Vybahav's BUs are uniformly pegged in all markets and geographies at the 70th percentile to ensure that we are leading the market at paying our top performers.
- All jobs at Vybahav are mapped to nine grades/levels which are common across Vybahav. The compensation ranges for a particular level in the organisation are defined with a 'Minimum, median and maximum' amount. These ranges are reviewed once in two years.
- At Vybahav we value team work. All variable compensation is paid on team and organisational performance-based incentive plans.
- Individual performance is differentiated through BU and team specific rewards and recognition programs are instituted.
- In order to ensure that we are competitively paying with respect to the market in which we compete for talent, Vybahav provides for annual merit based pay reviews. This is linked to individual performance assessment and therefore is part of the annual performance assessment cycle.
- Each BU would establish performance objectives in connection with the annual and long-term incentive plans to ensure consistency with the Vybahav's financial and strategic plans and objectives. The general guideline across Vybahav's BUs is that the variable component is higher for teams that are sales target driven.
- There is a Compensation Committee composed of a minimum of three Directors and led by the Corporate Compensation and Benefits (C&B) Director which will meet at least twice a year to review the compensation strategy for Vybahav and its subsidiaries.
- The Committee would review and approve corporate goals and objectives relevant to the organisation compensation, evaluate each business unit's performance in light of these goals and objectives and determine and approve the compensation reviews based upon this evaluation.
- The Committee would regularly report to the Board of Directors on activities and all compensation matters which should appropriately be brought to the Board's attention.

EXERCISE

Break out into teams of five members. Carry out the exercise given below and then discuss and present the findings to the larger class:

1. As in the earlier exercise, agree on identifying one person from among your contact circle who is working in an organisation. You may identify the same person as you did for the previous exercise.
2. Interview the incumbent to understand the compensation structure/components, rhythm of payout of salary, incentive plan if any and rhythm of payout, and other general questions around salaries and benefits that he/she receives/avails.
3. Now discuss in a group the possible philosophy statement for this company. If required, the 'interviewee' may want to keep the name of the organisation confidential. This is purely for academic purpose only.
4. Present to the group your findings covering as many aspects from the text as possible.

Closing Case *Determining Pay Raise*

The Scientific Equipment Manufacturing company is a small manufacturing unit located in Peenya, Bangalore. The company is non-unionised and manufactures analytical equipment for hospital laboratories.

Approximately one year ago, the manager of the Component Assembly Department established three production goals for the department. The goals were: **(i)** reduce raw material storage costs by 10 per cent; **(ii)** reduce variable labour costs (i.e. overtime) by 12 per cent; and **(iii)** decrease the number of quality rejects by 15 per cent. The manager told the six unit supervisors that the degree to which each supervisor met or exceeded these goals would be one of the major inputs for their merit-pay increases for the year. In previous years, merit increases were based on seniority and an informal evaluation by the department manager.

The six supervisors worked on separate but similar production lines. A profile of each supervisor is as follows:

Amitha Aged 28, single; three years with the company after receiving her

degree from the Bangalore University. Has a job offer from another company for a similar job that provides a substantial pay increase over her present salary. The Scientific Equipment does not want to lose Amitha because her overall performance has been excellent.

Shindhe Aged 32, married with three children; three years with the company, high school education. One of the most stable and steady supervisors. However, he supervises a group of workers who are known to be unfriendly and uncooperative with him and other employees.

Anandan Aged 34, married with four children; high school equivalent learning; one year with the company. Came to Karnataka six years ago from Tamil Nadu. A steady worker, well-liked by his co-workers, but has difficulty in learning the local language. He has, therefore, problems of communication within his group and with others.

Hemalatha Aged 29, divorcee with three children; two years with the company; high school education. Since her divorce one year ago, her performance has begun to improve. Prior to that, her performance was very erratic, with frequent absences. She is the sole support for her three children.

Eshwar Murthy Aged 27, single; two years with the company, college graduate. One of the best-liked employees at Scientific Equipment. However, he has shown a lack of initiative and ambition on the job. Appears to be preoccupied with his social life, particularly around his recently purchased house.

Cheriyen Aged 24, married with no children; one year with the company after graduating from a local college. First full-time job since graduation from college. He is liked by all employees and has exhibited a high level of enthusiasm for his work.

Exhibit 11.3, presents summary of the performance of the six supervisors' during the past year. The data include the current annual salary, the performance level on the three goals, and an overall evaluation by the department manager.

Exhibit 11.3

Supervisor	Current Salary (₹)	Storage Costs (10%)	Goal Labour Costs (12%)	Attainment Quality Rejects (15%)	Effort	Manager's Cooperativeness	Evaluation Ability to Work Independently	Knowledge of Job
Cherian	23,000	12%	12%	17%	Excellent	Excellent	Good	Good
Amitha	24,000	12%	13%	16%	Excellent	Excellent	Excellent	Excellent
Shindhe	24,000	6%	2%	3%	Good	Excellent	Good	Good
Anandan	22,000	4%	4%	12%	Excellent	Good	Fair	Fair
Hemalatha	23,000	11%	10%	10%	Fair	Fair	Fair	Good
Eshwar Murthy	24,000	8%	10%	3%	Fair	Fair	Fair	Fair

The new budget for the upcoming year has allocated a total of ₹ 1,40,000 for supervisory salaries in the Component Assembly Department, ₹40,000, increase from last year. The management has indicated that salary increases should range from five per cent to 12 per cent of the supervisors' current salaries and should be tied, as closely as possible, to their performance.

In making the merit-pay increase decisions, the following points should be considered:

1. The decisions will likely set a precedent for future salary and merit increases.
2. Salary increases should not be excessive, but should be representative of the supervisor's performance during the past year. It is hoped that the supervisors develop a clear perception that performance will lead to monetary rewards and that this will serve to motivate them to even better performance.
3. The decisions should be concerned with equity, that is, they ought to be consistent and comparable with each other.
4. The company does not want to lose these experienced supervisors to other Arms. The management of this company not only wants the supervisors to be satisfied with their salary increases, but also to further develop the feeling that Scientific Equipment Manufacturing is a good company for advancement, growth, and career development.

Instructions for the exercise

1. Each person in the class should individually determine the Rupee

amount and percentage increase in salary for each of the six supervisors. Individual decisions should be justified by a rationale or decision rule.

2. After each individual has reached a decision, the group will convene and make the same decision as noted in (1) above.
3. After each group has reached a decision, a spokesperson for each group will present the following information to the full class:
 - (a) The group's decision concerning merit pay increase for each supervisor (rupee and percentage).
 - (b) The high, low, and average individual decisions in the group.
 - (c) A rationale for the group's decision.

REFERENCES

1. Robert L. Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2003, p. 371.
- 1a. Jeffery A. Mello, *Strategic Human Resource Management*, Thomson, 2003, p. 335.
2. Michel R. Currell, *et. al.*, *Personnel/Human Resource Management*, Fourth Edition, Maxwell, Macmillan, New York, 1992, p. 391.
3. *Ibid.*, p. 39 1.
4. K.N. Subramanian, *Wages in India*, Tata McGraw-Hill, New Delhi, 1979, p. 8.
5. *Ibid.*, p. 161.
6. *Ibid.*, p. 159.
7. R. Wayne Mondy and Robert M. Noe III, *Personnel—The Management of Human Resources*, Allyn and Bacon, Boston, 1981, p. 290.
8. Wayne F. Cascio, *Managing Human Resources*, McGraw-Hill, 1995, p. 351.
9. *Ibid.*, p. 352.
10. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, McGraw- Hill, 1996, p. 393.
11. Wayne F. Cascio, *op. cit.*, p. 364.
12. Cynthia D. Fisher, *et. al.*, *op. cit.*, p. 537.
13. *Ibid.*, p. 538.
14. Luis R. Gomez—Mejia, *et. al.*, *Managing Human Resources*, PHI, 2003, p. 331.
15. Aswathappa K, *Organisational Behaviour*, Himalaya Publishing House, Mumbai, 2012, p. 348.
16. Milkovich and Newman, *Compensation*, p. 505.

Incentives and Performance-based Pay

Learning Objectives

After reading this chapter you should have a good understanding of the:

- Nature, importance and drawbacks of incentive payments
- Various pre-requisites for an efficient system
- Types of incentive schemes and describe them
- Application of incentive schemes in Indian industries
- Steps involved in installing an incentive plan

Opening Vignette

INCENTIVES AND ERRORS

As the incentive schemes described later in this chapter indicate, incentive payments are based on efficiency of employees, efficiency itself being determined by comparing actual performance with standard performance. But in medical transcription, efficiency is determined on the number of errors—not committed of course!

Medical transcription falls under BPO industry and involves conversion of voice file into a document file as a soft copy. The typical medical transcription operates through well defined phases sequenced logically. An US based medical doctor speaks into the dictaphone all about his patient's medical history, prescriptions, observations, diagnosis, course of treatment and the schedule of the patient's visits to the clinic. This voice file is transmitted through dedicated telecommunication lines to the medical

transcriber in India. The medical transcriber logs on to his or her computer and starts transcribing. The completed document file is sent back to the doctor in the US. The medical transcription requires the services of transcribers, proofers, trainers, team leaders, quality coordinators and project heads. All these employees are put on incentives, in addition to their basic salaries and allowances.

A Bangalore based medical transcription firm has implemented incentive schemes (resembling somewhat the Emerson's efficiency plan) for its employees. Of particular interest is the scheme designed and made applicable to the team leaders. A team leader is entitled for three types of incentives as shown below:

(a) Productivity/Quality Incentive

This incentive is based on the total lines transcribed by the team during the month and also depends on error rates as shown in the following table:

<i>Errors/1000 Lines</i>	<i>Incentive Amount</i>
0–5	0.20/line produced by the team
6–15	0.14/line produced by the team
16–25	0.09/line produced by the team
26–35	0.06/line produced by the team
36–45	0.03/line produced by the team
46–55	0.01/line produced by the team
>55	(–)0.03/line produced by the team*

*The effect of negative incentive will not be carried over to the base salary

(b) Turnaround Time (TAT) Incentive

₹2,500 if TAT of the primary account is at or less than 4% (as decided by concerned authorities in production from time to time) out of turn.

(c) Lines Direct to Client Incentive

₹0.05 will be paid per line produced by the team that goes directly to the client during the month.

Note: The maximum incentive per month is limited to ₹18,000 (for a team of 18 or less number of members). For teams exceeding 18 members, an incremental amount calculated on prorata basis for every additional member in the team would be the limit.

Team Bonus

Along with the team leader, team is also entitled to bonus calculated as follows:

- (a) Bonus of ₹2,000 if the team achieves 25 or less than 25 errors per 1,000 lines in a month.
 - (b) Bonus of ₹4,000 if the team achieves 20 or less than 20 errors per 1,000 lines in the month.
-

Besides wages and salaries, employees are paid incentives depending upon their performance. Incentive payments are quite substantial and are paid as regularly as wages and salaries. They are universal. Incentives are paid in all sectors—manufacturing, services sector or medical transcription as the opening case shows. This chapter is devoted to a detailed discussion on the nature, significance and types of incentives.

NATURE OF INCENTIVE PAYMENTS

Incentives are monetary benefits paid to workmen in recognition of their outstanding performance. Popularly called variable pay, incentives are defined as “variable rewards granted according to variations in the achievement of specific results.”¹ The International Labour Organisation refers to incentives as ‘payment by results’. But it is appropriate to call them ‘incentive systems of payment’ emphasising the point of motivation, that is, the imparting of incentives to workers for higher production and productivity.² However, both these terms are used in this chapter. Unlike

wages and salaries which are relatively fixed, incentives generally vary from individual to individual, and from period to period for the same individual.

Incentives are variable rewards granted to employees according to variations in their performance. The other name for incentives is 'payment by results'. But the word 'incentive' is most appropriate because of its motivational content.

Importance

The primary advantage of incentives is the inducement and motivation of workers for higher efficiency and greater output. It may not be difficult to get people for fixed wages and salaries. But with fixed remuneration, it is difficult to motivate workers to show better performance. Fixed remuneration removes fear of insecurity in the minds of employees. A feeling of secured income fails to evoke positive response. Positive response will surely come when incentives are included as a part of the total remuneration.

Earnings of employees would be enhanced due to incentives. There are instances where incentive earnings exceed two to three times the time-rated wages or salaries. Increased earnings would enable the employees to improve their standard of living. Employees of Infosys became richer by ₹100 crore when they received bonus on the occasion of the company celebrating \$1 billion in revenues in April 2004.

There will be reduction in the total as well as unit cost of production, through incentives. Productivity would increase resulting in greater number of units produced for given inputs. This would bring down the total and unit cost of production.

Production capacity is also likely to increase. The Bangalore-based Rail Wheel Factory, for example, has now a production capacity of 77,000 wheels and 48,000 axles as against the initial capacity of 56,800 wheels and 23,000 axles. The higher capacity has been achieved as a result of implementation of the recommendations for the adoption of a group-incentive scheme carried out by the Rail India Technical and Economic Services.

The other advantages of incentive payments are reduced supervision, better utilisation of equipment, reduced scrap, reduced lost time, reduced

absenteeism and turnover, and increased output. Furthermore, systems of payment by results would, if accompanied by improved organisation and work measurement, enable firms to estimate labour costs more accurately than under the system of payment by time. This would facilitate the application of cost-control techniques like standard costing and budgetary control.³

Apart from the benefits cited above, incentive packages are a very attractive proposition for managements because they do not affect employer's contribution to the provident fund and other employee retirement benefits.

Disadvantages

On the other hand, systems of payment by results may have disadvantages. There is a tendency for the quality of products to deteriorate unless steps are taken to ensure maintenance of quality through checking and inspection. This involves added expenses. In some cases, it may not be possible or may be too expensive to maintain quality fully, and the benefit, gained in the form of increased output and lower cost may be offset to a considerable degree by deterioration in the quality of the products.⁴

Difficulties may arise over the introduction of new machines or methods. Workers may oppose such introduction for fear that new piece or bonus rates set, when the job is restudied at intervals of time, may yield lower earnings; or when new machines or methods are introduced; they may slacken their rate of work in order to avoid rising output to a level which would make a restudy of the job necessary. Costs may not, therefore, be lowered to the extent that would be necessary if the workers were on time-based work. Most trade unions agree that cuts in piece or bonus rates are justifiable in such circumstances. But individual workers may not share this view, and output and the level of costs may be affected accordingly.

Workers tend, moreover, to regard their highest earnings as normal and may, therefore, press for a considerably higher minimum wage when they are paid by results than when they are paid by the hour. Payment by results may, therefore, lead to higher labour costs in certain industries such as paper-making and coal mining where workers experience, for reasons beyond their control, good and bad runs. Their earnings on the days they have good runs are apt to be regarded by them as normal earnings.⁵

Besides, there is evidence that some workers paid by results have disregarded safety regulations in order to achieve high output, thus, increasing the danger of accidents. Some workers tend to overwork during the normal working day and sometimes keep on working in their lunch hour. These practices would affect their health.

Another disadvantage is that jealousies may arise among workers because some are able to earn more than others. In the case of group-incentive schemes, the workers who are fast in their work may be dissatisfied with those who are slow. Where heavy work is involved, older workers are likely to be criticised for being too slow.

One of the greatest difficulties with the incentive systems is in the setting of piece or bonus rates. Rate fixing involves delicate problems of judgement in which there is always a risk of error. If rates are set too low, workers are bound to be dissatisfied and will be under pressure to work very hard. If rates are set too high, workers may slacken their efforts at times so that their employers may not have cause to ask for a revision of rates because the earnings are too high. Workers sometimes decide approximately how much they feel they wish to earn and are, therefore, not interested in working for that part of the day which remains after they have earned the amount they want.⁶

Difficulty also arises in determining the standard performance. Many organisations follow a safe route to fix the standards—which is usually the average of past years' performance. Past performance may not be the ideal basis for fixing production norms.

Since preparing incentive schemes is such a complex business, managements usually outwit their employees. For instance, the period over which incentives are payable is an important factor in determining how much a worker earns. At Bharat Gears, for example, an incentive is payable on the average of three month's production. This gives the company the opportunity to recover the production lost as a result of late deliveries of raw materials, technical breakdowns, and so forth. Even if the workers produce, for a certain period, in excess of the norm, they may not be eligible for incentive pay.⁷

The argument that incentives lead to higher earnings for workers has its flip side too. Workers of Premier Automobiles' plant at Kurla, Mumbai, prove this point. Between 1978 and 1991, incentive payments accounted for

60 per cent of a worker's gross income. In 1991, a daily-rate worker whose basic wage, DA and allowances amounted to ₹3500 was earning an additional ₹3000 as incentive payment. On one occasion, a daily-rate worker's wages reached ₹9000. Since the incentive was calculated as a percentage of basic wage, the monthly-rated workers were doing even better. Their average gross income was ₹9000 while some estimates put the figure at ₹10,500. Since the high-incentive earnings remained constant for a long period, incentive pay was treated as guaranteed pay by workers who pegged their consumption levels to much higher levels. They made long-term investments in housing and consumer durables, and even availed of loans amounting to a few lakhs from HDFC and other such co-operative societies.

Incentive payments make the employees indulge in conspicuous consumption.

But in recent years, as stocks piled up and production came to a virtual stop, the workers lost their entire incentive payment. Worse for some, after deductions for loans, take home pay was considerably less than the guaranteed wage of ₹4000 to 5000. A reliable source within the company estimated that about 10 per cent of the workmen take home no pay at all. The workers, as a result, remain an extremely disgusted lot, but there is little anyone can do about it.⁸

There is an ethical dimension to incentive payments as well. It is unjust to pay extra to the employees when they are already paid their usual wages and salaries. If an employee is paid for eight hours a day, he or she is expected to show better performance for the day. To show increased production, extra payments are not necessary. There are also instances where incentives lead to corruption. Supervisors and workmen join hands, false production figures are recorded and wrong time bookings are made in order to enable employees earn enhanced incentives. The booty is later shared with the supervisors who colluded with the employees in the fraud.

The state owned airline Air India has been paying incentives for several years now. The sad part of the story is that the incentive scheme has neither been approved by Air India board nor by government.

Incentive payments are linked to employees' performance. A standard

performance is set for employees. The actual performance is then compared with the standard, and depending upon the degree of efficiency, incentives are fixed. Unfortunately, these standards themselves become ceilings on productivity of employees. Workers would be happy to attain a performance near the standards, and may not strive to cross them.

One of the arguments for incentives is that they motivate employees for higher performance. This argument seems to be untenable going by Herzberg's theory of motivation. According to Herzberg, money is a hygiene factor which, when provided, will help remove dissatisfaction. For motivation to take place, other motivators like opportunities for achievement and challenging job, must be provided in addition to adequate financial rewards. For whatever the reason, Air India discontinued its performance-linked incentives from July 2012.

Potential pitfalls like the ones stated above do not mean that incentive schemes should not be implemented. Rather, they suggest that such plans are more effective when implemented as a part of a comprehensive management programme aimed at maximising output by tapping the potential and commitment of employees.

Pause and Ponder

A company that pays its employees variable pay of 30% is more profitable than a company that pays only 5% of variable pay. Comment.

PREREQUISITES FOR AN EFFECTIVE INCENTIVE SYSTEM

All things considered, it may be concluded that in many industries or undertakings and for a large group of operations, well-designed systems of payment by results shall yield advantages to all concerned. Many of these advantages will be realised provided sufficient safeguards are provided. Such prerequisites are:

1. The co-operation of workers in the implementation of an incentive scheme is essential because the employees somehow devise, if they do not like a scheme, ingenious ways of evading or sabotaging the plan, often with the tacit connivance of the foreman or supervisor.⁹ Workers'

co-operation may be secured through proper discussion with their representatives.

In particular, workers' co-operation is necessary in:

- (i) the methods followed in measuring the results or output upon which payment is based;
- (ii) the methods followed in setting wage rates for different classes of work; and
- (iii) appropriate safeguards concerning earnings, job security and settlement of disputes over piece-work rates and allotted time.

To prove that the schemes were often introduced without workers' cooperation and consequently met with failure, we quote the following:

'... the practice adopted by several industrial establishments in the Mumbai region in regard to the preparation of an incentive scheme is to hire an industrial consultant and to make him work in the establishment under the cloak of secrecy, until a scheme has been finally prepared. It is only after several months that the workers of the establishment and their unions begin to suspect that some scheme is under preparation. Trade union leaders, who are not employees currently, are not even allowed to watch how standards have been evolved. Naturally, the workers reject out-of-hand, a scheme prepared so surreptitiously'.¹⁰

2. The scheme must be based on scientific work measurement. The standards set must be realistic and must motivate workers to put in better performance. Workers must be provided with necessary tools, equipment and materials so as to enable them reach their standards.
3. Indirect workers, such as supervisors, foremen, charge hands, helpers, crane operators, canteen staff, store keepers, and clerical staff should also be covered by incentive schemes.
4. There should be management commitment to the cost and time necessary to administer incentive schemes properly, and these must be carefully assessed before embarking on an incentive programme. There are many situations in which the potential gains are just not worth the

cost and effort involved. It also means a commitment in terms of integrity to the spirit as well as the letter of the programme—having the courage to abide by it when the payout deteriorates and the honour to own up when results are not forthcoming.¹¹

5. There is greater need for planning. Many incentive schemes, started hurriedly, planned carelessly, and implemented indifferently have failed and have created more problems for the organisation than they have tried to solve. This was what happened to the three big plants of Hindustan Steel (now SAIL), where an incentive scheme was introduced during 1960s. Though the initial objective of raising the output of steel was achieved, problems arose regarding production of sophisticated items and improvement of the quality of products. The scheme did not function satisfactorily from the point of view of maintenance of plant and equipment, which, in turn, affected output. The performance of ancillary units like repair shops, was unsatisfactory because the incentives in these shops were based on the overall steel production and not the units' own performance. Thus, the need for careful preparation for the installation of an incentive scheme.
6. The other safeguards are:
 - (i) The incentive scheme should be appropriate to the type of work carried out and the workers employed.
 - (ii) The reward should be clearly and closely linked to the efforts of the individual or group.
 - (iii) Individuals or groups should be able to calculate the reward they get at each of the levels of output they are capable of achieving.
 - (iv) Individuals or groups should have a reasonable amount of control over their efforts and therefore their rewards.
 - (v) The scheme should operate by means of a well-defined and easily understood formula.
 - (vi) The scheme should be properly installed and maintained.
 - (vii) Provisions should be made for controlling the amounts paid, to ensure that they are proportionate to effort.
 - (viii) Provisions should be made for amending rates in defined circumstances.¹²
 - (ix) Create incentives for performance and disincentives for non-

performance.

- (x) Set and review specific objectives for each employee periodically.

SCOPE OF INCENTIVE SCHEMES

Although the incentive payments have a universal appeal, their application is confined to certain important industries. Stated differently, payment-by-results schemes are difficult to apply in:

1. Industries in which measurement of individual or group output is rendered difficult or impossible either by technical consideration or by psychological circumstances which might be prejudicial to output;
2. Industries in which the control of quality is necessary and is particularly difficult, or in the case of certain classes of workers, where high quality and precision of work is of prime importance; and
3. Industries in which the work is dangerous and it is particularly difficult to ensure the observance of adequate safety precautions.

Barring the above three categories, incentive schemes can be applied to all industries. Specifically, they are being successfully employed in the textile and metallurgical industries, the metal trades, mining, and many branches of clothing, leather and rubber industries. Incentive schemes have also been successfully applied in certain countries, and in certain circumstances in the building industry and in chemical and other industries.

Generally speaking, systems of payment by results can be most successfully employed in the large companies which can afford to employ administrative and engineering staff needed to ensure an efficient organisation of production, quality and measurement of work. However, such systems frequently yield appreciable results in smaller undertakings which may, in case of need, take recourse to the services of experts for the design of incentive schemes.¹³

It is often argued that incentive schemes are more desirable in labour-intensive manufacturing processes. Their application in fully automated plants is doubted. It may be stated that the schemes of payment by results have their role in mechanised enterprises too. But the justification comes for the wrong reasons. It would be easy for an operator to damage a CNC

machine or for a programmer to plant virus in the computer if incentive earnings are denied to him or her. It is mainly to prevent such damages that incentive schemes are recommended in fully automated plants.

As a rule, incentives must not be introduced in a newly set-up unit. Workers must be content with time-rated earnings, at least during the first four to five years. This time period is necessary for the unit to carve a niche for itself in the market. This being achieved, it would be easy for the unit to sell the increased output brought in by incentives. Furthermore, as was noted earlier, incentives are likely to affect the quality of output. Any defect in quality would seriously affect fortunes of the newly set-up unit, particularly in its formative years.

Pause and Ponder

Why college and university professors and administrative staff are not brought under incentive schemes? Make a case of their inclusion.

TYPES OF INCENTIVE SCHEMES

Incentives schemes are many and varied. The International Labour Organisation (ILO) classifies all the schemes of payment by results into four categories. They are (see [Fig. 12.1](#)):

1. Schemes where the workers' earnings vary in the same proportion as output.
2. Schemes where earnings vary less proportionately than output.
3. Schemes where earnings vary proportionately more than output.
4. Schemes where earnings differ at different levels of output.

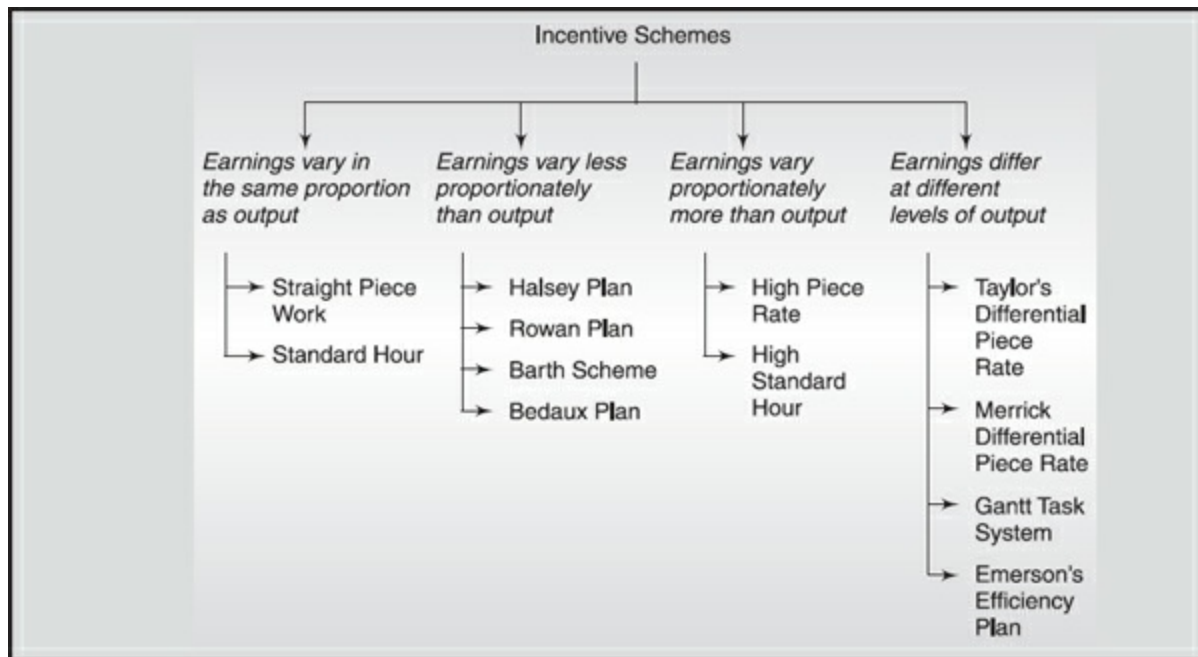


Fig. 12.1 *Types of Incentives*

Incomes Varying in Proportion to Output The chief characteristic of the schemes where incomes vary in proportion to output is that any gains or losses resulting directly from a worker's output accrue to him or her (leaving to the employer any gains or losses in overhead costs per unit of output). In contrast, when the worker is paid by the hour, day or month, all gains or losses resulting from changes in his or her output accrue to the employer.

The success of this type of incentive requires that the measurement of standard and individual outputs must be extremely accurate. Inaccuracy in these matters gives rise to inequities and may finally lead to the failure of the schemes due to worker dissatisfaction.

The straight piece-work and the standard hour systems are the two popular incentive schemes which come under the first category. *Straight piece-work* method is the simplest, oldest and the most commonly used method. Here, the rate per unit of output is fixed, and the total earnings of a worker are arrived at by multiplying the total output (measured in terms of units) by the rate per unit.

Obviously, earnings of the worker directly depend upon his or her performance. For example, if the rate per unit is 10 paise and the total output of an employee is 100 units, his or her earnings will be $100 \times 0.10 = ₹10.00$.

Extending the logic of the piece-rate system, a worker has to go without wages if he or she fails to turn out the required goods. For this reason, the system is modified in one respect—the worker's time-rate is guaranteed. The time-rate is usually at a level which will yield earnings below the expected average earnings on piece-work in average conditions. It is designed to protect the worker against unduly low earnings due to causes beyond his or her control.

In the *standard hour* system (also called 100 per cent gains-sharing), standard time in terms of hours is fixed for completion of a job. The rate per hour is then determined. A worker is paid for a standard time at his or her time-rate if he or she completes the job in the standard time or less. He or she is paid the same wages if he or she takes more than the standard time, unless he or she is guaranteed time wages. If time wages are guaranteed, he or she gets paid on the basis of the time taken multiplied by the time-rate.

The following examples illustrate the method:

Standard time	= 10 hrs
Rate per hour	= Re 1

Case (i)

Time taken	= 8 hrs
Earnings	= $10 \times 1 = ₹10.00$

Case (ii)

Time taken	= 12 hrs
------------	----------

- (a) Earnings if time wages are not guaranteed
= $10 \times 1 = ₹10$
- (b) Earnings if time wages are guaranteed
= $12 \times 1 = ₹12$

Earnings Varying Proportionately Less than Output Four allied but different systems come in this group, namely, Halsey, Rowan, Barth, and Bedaux. The common feature of all these is that *time* is used as the measure of output and bonus is paid on the time saved, that is, the difference between

the standard time-set for the job and the time actually taken. These schemes are called 'gain-sharing schemes' as both the employer as well as the employee share the gains resulting from the saved time. The worker may be paid for half (or any other fraction) of the saved time, the employer getting the balance.¹⁴

These systems are often applied in cases where it is not possible to set standards or to measure the worker's output accurately. Under some of these schemes, it is possible for a worker to earn more for certain levels of output than he or she would, under piece-work, when production difficulties are encountered. If no such difficulties are confronted and the worker is able to increase his or her output substantially, he or she receives progressively for such output than he or she would if he or she were working on a straight piece-work.¹⁵

Under the *Halsey system*, standard time is fixed for the completion of a job and the rate per hour is then determined. If the worker takes the standard time or more to complete the job, he or she gets paid at the time rate. In other words, time wages are guaranteed even if the output of the worker is below standard. Where the work is done in less than the standard time, he or she gets paid for the actual time, at the time-rate plus a bonus which is calculated "at" or "as" a specified percentage of the saved time. The percentage varies from 30–70 per cent. The usual share is 50 per cent, the remaining going to the employer.

In **Halsey Plan**, bonus paid to a worker is equal to 50 per cent of time saved multiplied by rate per hour.

The following examples illustrate the scheme:

Standard time	= 10 hrs
Rate per hour	= Re 1

Case (i)

Time taken	= 10 hrs
Earnings	= 10 × 1 = ₹10.00

Case (ii)

Time taken	= 12 hrs
Earnings	= $12 \times 1 = ₹12.00$

Case (iii)

Time taken	= 8 hrs
Earnings:	
Time wages	= $8 \times 1 = ₹8.00$
Bonus	= $1/2 \times 2 \times 1 = ₹1.00$
	₹9.00

Under the *Rowan System* too, standard time and rate per hour are fixed. If the time taken to complete the job is equal to or exceeds the standard time, the employee is paid for the time taken at the rate per hour. If the time taken is less than the standard time, the employee is entitled to bonus, in addition to the time wages. The bonus takes the form of a percentage of the worker's time-rate. This percentage is equal to the proportion of the saved time, to the standard time.

In **Rowan Plan**, bonus paid to the employee is equal to the proportion of the time saved to the standard time.

Rowan system operates on the following lines:

Standard time	= 10 hrs
Rate per hour	= ₹ 1

Case (i)

Time taken	= 10 hrs
Earnings	= $10 \times 1 = ₹10.00$

Case (ii)

$$\begin{aligned} \text{Time taken} &= 12 \text{ hrs} \\ \text{Earnings} &= 12 \times 1 = \\ &\text{₹12.000} \end{aligned}$$

Case (iii)

$$\begin{aligned} \text{Time taken} &= 8 \text{ hrs} \\ \text{Earnings} &= 8 \times 1 = \text{₹8.00} \\ \text{Bonus} &= \frac{2}{10} \times 8 = \text{₹1.60} \\ &\hline &\text{₹9.60} \end{aligned}$$

Unlike the Halsey and the Rowan systems, the *Barth Variable Sharing system* does not guarantee the time-rate. The worker's pay is ascertained by multiplying the standard hour by the number of hours actually taken to do the job, taking the square root of the product and multiplying it by the worker's hourly rate.

For example:

$$\begin{aligned} \text{Standard time} &= 10 \text{ hrs} \\ \text{Rate per hour} &= \text{₹} 1 \end{aligned}$$

Case (i)

$$\begin{aligned} \text{Time taken} &= 12 \text{ hrs} \\ \text{Earnings} &= \sqrt{12 \times 10} \\ &= 10.95 \times 1 = \text{₹10.95} \end{aligned}$$

Case (ii)

$$\begin{aligned} \text{Time taken} &= 10 \text{ hrs} \\ \text{Earnings} &= \sqrt{10 \times 10} \\ &= 10 \times 1 = \text{₹10.00} \end{aligned}$$

Case (iii)

$$\begin{aligned} \text{Time taken} &= 8 \text{ hrs} \\ \text{Earnings} &= \sqrt{8 \times 10} \\ &= 8.94 \times 1 = ₹8.94 \end{aligned}$$

Under the *Bedaux* scheme, the standard time for a job is determined. Each minute of the allowed time is called a point or B. Thus, there are 60 Bs in one hour. Each job has a standard number of Bs. The rate per hour is also determined. The worker receives, in addition to his or her hourly rate, a bonus which under the original plan is equal to 75 per cent of the number of points earned, in excess of 60 per hour, multiplied by one-sixtieth of the worker's hourly rate. If a worker does not reach his or her standard, he or she is paid at the time-rate.

Under the **Bedaux scheme**, standard time for a job is fixed. Each minute of the standard time is called a point or B. Each job has a standard number of Bs. The worker receives bonus which is equal to 75 per cent of the number of points earned, in excess of 60 per hour, multiplied by one sixtieth of the worker's hourly rate.

An example to illustrate the Bedaux system is as follows:

$$\begin{aligned} \text{Standard time} &= 10 \text{ hrs} \\ \text{Rate per hour} &= ₹ 1 \end{aligned}$$

Case (i)

$$\begin{aligned} \text{Actual time} &= 12 \text{ hrs} \\ \text{Earnings} &= 12 \times 1 = ₹12.00 \end{aligned}$$

Case (ii)

$$\begin{aligned} \text{Actual time} &= 8 \text{ hrs} \\ \text{Earnings: Time wages} &= 8 \times 1 = ₹8.00 \end{aligned}$$

Bonus:

Standard Bs	= 10 × 60	= 600
Actual Bs	= 8 × 60	= 480
Bs saved		= 120
Bonus	$\frac{75}{100} \times \frac{120 \times 1}{60}$	= 1.50
Total earnings	= 8 + 1.50	= ₹9.50

Earnings Varying Proportionately More than Output This category includes two methods **(i) the high piece rate and (ii) the high standard hour** system. Under the former, the earnings of the worker are in proportion to his or her output, as in straight piece-work, but the increment in earnings for each unit of output above the standard is greater. For example, for each one per cent increase in output above the standard, there may be a 4/3 times increase in earnings as compared to one per cent increase in earnings under the straight piece-rate system. The higher rates start applying after the standards have been reached. Similar logic applies to the high standard hour system.

The main feature of these two schemes is that since direct labour costs per unit increase for levels of output above the standard, the worker also shares the earnings in overhead costs which result from an increased output. The amount of this share depends on the size of the increments in earnings which are payable at different levels of output. If these increments were large enough and increased progressively with output, the workers obviously could obtain all the savings in overhead costs. This is not, of course, the case where the increment in, earnings remains the same for each successive increase in output.¹⁶

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • Keep variable component in salaries of all employees. It is a powerful motivator • Variable payments must be objective and time-bound 	<ul style="list-style-type: none"> • Reward the wrong outcomes. For example, rewarding number of flowers the honey bee visits than honey collected • All group incentive schemes are

- Review incentive schemes once in 2 to 3 years to ensure they are relevant and reward the right outcomes
- Involve employees in designing and implementing incentives
- Be knowledgeable about the fundamental schemes of incentives. They are the foundation for all variables that are in place today

highly effective-group rewards work well along with individual rewards

- Forget to ensure transparency in incentive calculation
- Over rely on incentives. Incentives carry uncertainty. Fixed component should not be compromised

Earnings Differing at Different Levels of Output This group includes several schemes. These systems can be best explained by describing how earnings vary from minimum to maximum at different levels of output. Earnings for one part of the range may vary proportionately less than output and for another part proportionately more, or more usually in the same proportion as the output.¹⁷

The Taylor's Differential Piece-Rate system, the Merrick Differential Piece Rate system, the Gantt Task system, the Emerson's Efficiency system and the Accelerating Premium system fall under the category where earnings differ at different levels of output.

Under the *Taylor's Differential Piece-Rate system* (developed by F.W. Taylor in 1880) there is a low rate for output below the standard, and a higher piece-rate for output above the standard with a large bonus of 50 per cent of the time-rate when the standard output is attained.

In the **Taylor's Differential Piece Rate System**, an efficient worker (whose output exceeds standard output) is paid 120 per cent of the piece rate.

An inefficient worker (whose output falls short of standard) is paid only 80 per cent of the piece rate.

To illustrate the Taylor's piece rate system, we take the following:

Standard output = 100 units

Rate per unit = 10 paise

Differentials to be applied:

120 per cent of piece-rate at or above the standard

80 per cent of piece-rate when below the standard

Case (i)

Output = 120 units

Earnings = $120 \times \frac{120}{100} \times 0.10 = ₹14.40$

Case (ii)

Output = 90 units

Earnings = $90 \times \frac{80}{100} \times 0.10 = ₹7.20$

The Merrick Differential Piece-Rate system is a modification of the Taylor system, with three instead of two rates. One large step is broken into two, so as to encourage new and average workers. Straight piece-rates are paid upto 83 per cent of the standard output, at which a bonus of 10 per cent of the time-rate is payable, with a further 10 per cent bonus on reaching the standard output. For outputs above the standard, high piece-rates are paid.

Under the **Merrick Differential Piece-Rate**, straight piece rate is paid to the worker upto 83 per cent of the standard output, at which a bonus of 10 per cent of the time-rate is payable, with a further 10 per cent bonus on reaching the standard output.

The Merrick system can be illustrated as follows:

Standard output = 100 units

Piece-rate = 10 paise

Case (i)

$$\begin{aligned}\text{Output} &= 80 \text{ units} \\ \text{Efficiency} &= \frac{80}{100} \times 100 = 80\% \\ \text{Earnings:}\end{aligned}$$

As the efficiency is less than 83 per cent, only the base piece-rate applies:

$$80 \times 0.10 = ₹8.00$$

Case (ii)

$$\begin{aligned}\text{Output} &= 90 \text{ units} \\ \text{Efficiency} &= \frac{90}{100} \times 100 = 90\% \\ \text{Earnings:}\end{aligned}$$

Earnings:

As the efficiency is more than 83 per cent but less than 100 per cent, 110 per cent of the base piece-rate applies:

$$90 \times \frac{110}{100} \times 0.10 = ₹9.90$$

Case (iii)

$$\begin{aligned}\text{Output} &= 110 \text{ units} \\ \text{Efficiency} &= \frac{110}{100} \times 100 = 110\% \\ \text{Earnings:}\end{aligned}$$

As the efficiency exceeds 100 per cent, 120 per cent of the base piece-rate applies:

$$110 \times \frac{120}{100} \times 0.10 = ₹13.20$$

Under the *Gantt Task system*, the worker is guaranteed his or her time-rate for output below the standard. On reaching the standard output or task, which is set at a high level, the worker is entitled to a bonus of 20 per cent of the

time wages. For outputs above the task, high piece-rates are paid.

The Gantt Task system operates as follows:

Rate per hour	= ₹0.50
High piece-rate	= ₹0.10
Standard output	= 80 units
Time taken	= 8 hrs

Case (i)

Output	= 70 units
--------	------------

As the output is less than the standard only time wages are paid to the worker.

Earnings	= 8 × 0.50 =
	₹4.00

Case (ii)

Output	= 80 units
--------	------------

Earnings

As the output is equal to the standard, the worker is entitled to time wages plus 20 per cent of time wages as bonus.

Time wages	= 8 × 0.50 = ₹4.00
Bonus	= $\frac{20}{100} \times 4 = ₹0.80$
Total earnings	= ₹4.80

Case (iii)

Output earnings:	= 110 units
------------------	-------------

As the output is more than the standard, the worker is entitled to a high piece-rate.

$$110 \times 0.10 = ₹11.00$$

Under the *Emerson's Plan*, a standard time is set for each job, and the efficiency of each worker is determined by dividing the time taken by the standard time. Up to 67 per cent of efficiency, the worker is paid by time-rate. Thereafter, a graduated bonus, which amounts to a 20 per cent bonus at 100 per cent efficiency is paid to the worker. Thereafter, an additional bonus of 1 per cent is added for each additional 1 per cent efficiency.

The following example illustrates the method:

$$\begin{array}{l} \text{Standard output in 10 hrs} = 100 \text{ units.} \\ \text{Rate per hour} = ₹ 1 \end{array}$$

Case (i)

$$\begin{array}{l} \text{Output in 10 hrs} = 50 \text{ units} \\ \text{Earnings:} \\ \text{Efficiency} = 50 \text{ per cent} \end{array}$$

As the efficiency is below 67 per cent the worker is entitled to time wages only.

$$10 \times 1 = ₹ 10.00$$

Case (ii)

$$\begin{array}{l} \text{Output in 10 hrs} = 100 \text{ units} \\ \text{Efficiency} = 100 \text{ per cent} \end{array}$$

In **Emerson's Plan**, upto 67 per cent of efficiency, only time rate is paid to the worker. Beyond this, a graduated bonus of 20 per cent at 100 per cent efficiency is paid. Thereafter, an additional bonus of 1 per cent, for each additional 1 per cent efficiency is added.

The worker is entitled to time wages plus 20 per cent of time wages as bonus.

Time wages	= 10 × 1	= ₹10.00
Bonus	= $\frac{20}{100} \times 10$	= ₹2.00
Earnings:		= ₹12.00

Case (iii)

Output in 10 hrs	= 130 units
Efficiency	= 130 per cent

At the rate of 20 per cent at 100 per cent efficiency and one per cent increase for every one per cent increase in efficiency, the worker is eligible for 50 per cent of the time wage as bonus.

Time wages	= 10 × 1	= ₹10.00
Bonus	= $\frac{50}{100} \times 10$	= ₹ 2.00
		= ₹15.00

Under the *Accelerated Premium system*, the earnings of workers increase with output, the rate of increase itself rising progressively with the output. The worker receives a strong incentive to increase his or her output in order to get increased earnings. But the accelerated premium systems are complicated and are difficult to understand and implement.

GROUP INCENTIVE PLANS

The discussion till now has covered incentive schemes for individual direct workers. A fundamental assumption common to all individual schemes is that the output of each worker can be accurately measured. But in some cases, for example, in the grinding and welding works in the electrical industry, the operations are performed by the group as a whole, and the contribution of each worker in the group cannot be accurately measured. In such cases, the group-incentive scheme is followed. Group incentives are as common as individual plans in industrial establishments.

Any individual scheme which has already been discussed may be applied to a group of workers. But the most common is the piece-work system. The

total earnings of a group are first determined in accordance with the incentive method which is followed, and the earnings are then distributed among the members of the group on some equitable basis. If the group consists of members with equal skills, the earnings are divided equally among them. When the members are of unequal skill, the earnings of the group may be divided among the members in proportion to their individual time-rates, or according to specified percentages, or in some cases among only a certain number of members of the group.

Some of the advantages of group incentives are:

1. Better co-operation among workers,
2. Less supervision,
3. Reduced incidence of absenteeism,
4. Reduced clerical work, and
5. Shorter training time.

The disadvantages are:

1. An efficient worker may be penalised for the inefficiency of the other members in the group,
2. The incentive may not be strong enough to serve its purpose, and
3. Rivalry among the members of the group defeats the very purpose of team work and co-operation.

Pause and Ponder

Which works out more profitable? Individual incentives or group incentives?

INCENTIVES FOR INDIRECT WORKERS

Indirect workers such as crane operators, helpers, charge hands, canteen staff, security staff, employees in purchasing, sales and accounts, and maintenance staff also deserve incentives at par with direct workers. Incentives should be paid to such workers either on the ground that they contribute to the increased production which the direct workers may achieve or on the ground that their work has increased because of increased production, or both. Such payments are desirable to avoid dissatisfaction and dissension among the workers in a plant, or even strikes, which may result if indirect workers are paid at time-

rates while direct workers receive substantial bonus.

The payment of bonus to indirect workers poses a serious problem because the output of many of them cannot be accurately measured. For example, it is extremely difficult to measure the output of maintenance staff, security personnel, or canteen employees, though it is possible to assess the performance of inspectors, sweepers and packers.

But whether the output of indirect staff can be measured or not, a single system of bonus payment is made applicable to all of them. In some cases, the bonus is calculated according to some agreed percentage on the output of the plant or of a department. In others, the bonus is a specified percentage of the incentives of all or some of the direct workers. Many managements, however, prefer to apply a merit-rating system to indirect workers, which rewards these workers for other qualities, in addition to their output.¹⁸

INCENTIVE SCHEMES IN INDIAN INDUSTRIES

Introduced in 1946, incentive payments have become highly popular in our industries. They are as common as monthly wages and salaries. But the schemes in operation defy any generalisation because no two plants follow an identical scheme. The schemes differ from industry to industry, and from plant to plant within an industry. Some of the incentive schemes described by the ILO are followed here, but not in their original form. They have been modified to suit the local requirements. This is necessary because the implementation of incentive schemes, in their original form, necessitates work measurement and standardisation of operations which, in many cases, are not possible in our industries. Thus, the features of incentive payments are:

1. Though incentives are as old as industries themselves, it was only in 1946 that they were introduced in our country. Even to this day, the incentive schemes are in their infancy.
2. In most industrial establishments, the introduction of incentive schemes has not been preceded by work studies, consultations with workers' representatives and rationalisation of wage structure through job evaluation.
3. Incentive schemes differ from industry to industry and from plant to

- plant within an industry.
4. Most incentive schemes in operation fall under one or the other of the four classes mentioned by the ILO. But the schemes are fine-tuned to suit the requirements of the organisation.
 5. The schemes in public sector plants have an extremely varied coverage, some applying only to day-rated employees while others are being made applicable right upto the top management.
 6. Inflation has reduced the motivational effect of incentives. Hence, incentives have to be substantial if workers are to be motivated for higher efficiency and greater output.
 7. In many cases, incentives seem to have achieved their objectives, that is increased productivity and enhanced earnings.

Exhibit 12.1 shows the implementation of incentives at Siemens (India).

Exhibit 12.1 Incentives at Siemens (India)

At Siemens, the incentive scheme is exclusively used for shopfloor workers. Every month, the company awards two bonuses to its workers based on performance (introduced in 1964) and productivity (since 1991) criteria. Both the schemes are index-based assessing and rewarding groups rather than individuals.

The company has set a ceiling of 130 per cent for the performance bonus and 120 per cent for the productivity bonus. But no employee is eligible for a bonus if his or her performance and productivity are less than 60 and 75 per cent of the target. Typically, a worker can earn between five and ten per cent of his or her salary as bonus every month.

On the basis of the index, the performance of each group of workers is calculated. For instance, at the 8 per cent level, the worker will be paid, according to the predetermined rates, as per his or her grade. In order to calculate the indices, Siemens uses ratios between standard manhours (SMH) and actual manhours (AMH).

The performance index is equal to the summation of SMH divided by the summation of AMH – (idle time + learning). Similarly, the productivity index is equal to the summation of SMH divided by the summation of AMH – learning.

In these equations, learning refers to the time taken by a person on a

new job to pick up skill. Hence, learning is discounted from AMH. The factor discounted decreases over time as per the learning curve determined by the company.

In order to minimise variations in bonus from one month to another, Siemens calculates incentives on the basis of a two-month weighted average scheme. Thus, the bonus for January will be the weighted average of those of December and January.

Source: Adapted from Business Today, Jan. 7–21, 1996.

INSTALLING AN INCENTIVE SCHEME

Installing a scheme of payment by results must proceed on the following lines:

1. Define the objectives of the payment system and, if necessary, challenge the assumptions held about the purpose of the system and how it should operate.
2. Collect facts about the existing system—the pay structure, the types of payment schemes in use, the number of people paid under each arrangement, the levels of earnings in different occupations, and the make-up of earnings, including overtime payment.
3. Analyse the circumstances in which the payment system operates.
4. Compare the existing or proposed arrangement against the criteria for evaluating systems listed above.
5. Analyse the effectiveness of the pay structure and payment systems by:
 - (i) Comparing the results achieved with the objectives of the system under such headings as ability to attract and retain staff, effect of productivity, effect on management-employee relationships.
 - (ii) Identifying particular problem areas where the system is producing anomalies in pay or earnings between occupations or units, where the requirements of the equal-pay legislation are not met or where rates of pay are not competitive with local going rates.
6. Consider conducting an attitude survey to obtain the views of workers, rate fixers and supervisors about the present system and the changes

need to be made.

7. Consult as required with unions and employees on the present arrangements and what needs to be done about them.
8. Conduct pay surveys as required to establish local market rates.
9. Conduct job evaluation studies as required in consultation with unions to establish correct relativities and to provide the basic data for designing a logical pay structure.
10. Develop pilot tests and install any revised or new individual, group or measured day-work payment systems that may be required, in consultation with unions.
11. Revise the pay structure as necessary in the light of the actions taken in Steps 8 and 10 and in consultation with the unions or employee representatives. In a unionised concern, revisions in the pay structure would, of course, have to be negotiated with the unions.
12. Ensure that information is available which will enable the effectiveness of a revised pay system or structure to be monitored.¹⁹

We wish to conclude this chapter by quoting the experience of the Bangalore operations of the Binny Mills. Here is a mill, where incentive schemes were in operation for a long time. All the evils—wrong rate fixation, collusion between supervisors and employees, defective standards, and lethargy—were associated with the schemes. The schemes invariably benefited the employees and the supervisors, and the loser was always the mill. Insiders admit that the incentive schemes were the major contributing factor for the downfall of the once prestigious mill in our country. Realisation came to the management, though very late. In 1992, the management scrapped the system.

Review of the operation of the incentive schemes, at least once in 10 years is necessary, if any company or mill were not to repeat the Binny experience. It should be remembered that the incentive payments have the potential to make or mar an organisation.

SUMMARY

Employees are paid incentives in addition to wages and salaries. Incentives are linked to performance. This leads to better motivation among employees.

Reduced cost, reduced supervision, reduced scrap and the like are the other benefits of incentives. There are problems, nevertheless. Quality of the products is likely to decline. Introduction of an incentive scheme is difficult, too. Jealousies creep in among workers. Problems associated with incentive schemes may be overcome and the plans may be made to serve their purpose, provided several safeguards are taken. Consultation and co-operation of workers are only examples of such pre-requisites.

ILO classifies incentive schemes into four categories: **(i)** schemes in which earnings vary in proportion to output, **(ii)** schemes where earnings vary proportionately less than output, **(iii)** schemes where earnings vary proportionately more than output, and **(iv)** schemes where earnings differ at different levels of output.

There are incentive schemes for direct workers who work in batches, as well as for indirect workers.

Incentive schemes are highly popular in Indian industries. Schemes that are in operation fall into the classification made by the ILO, but the schemes are fine-tuned to meet individual organisational requirements.

Installation of incentive schemes involves 12 steps. The schemes need to be reviewed every 10 years.

KEY TERMS

Accelerated Premium systems

Barth Variable Sharing Plan

Bedaux scheme

Emerson's Plan

Gantt Task system

Halsey plan

Incentive systems

Merrick Differential plan

Payment by Results

Piece-rate

Piece work

Rowan plan

Standard Hour

REVIEW QUESTIONS

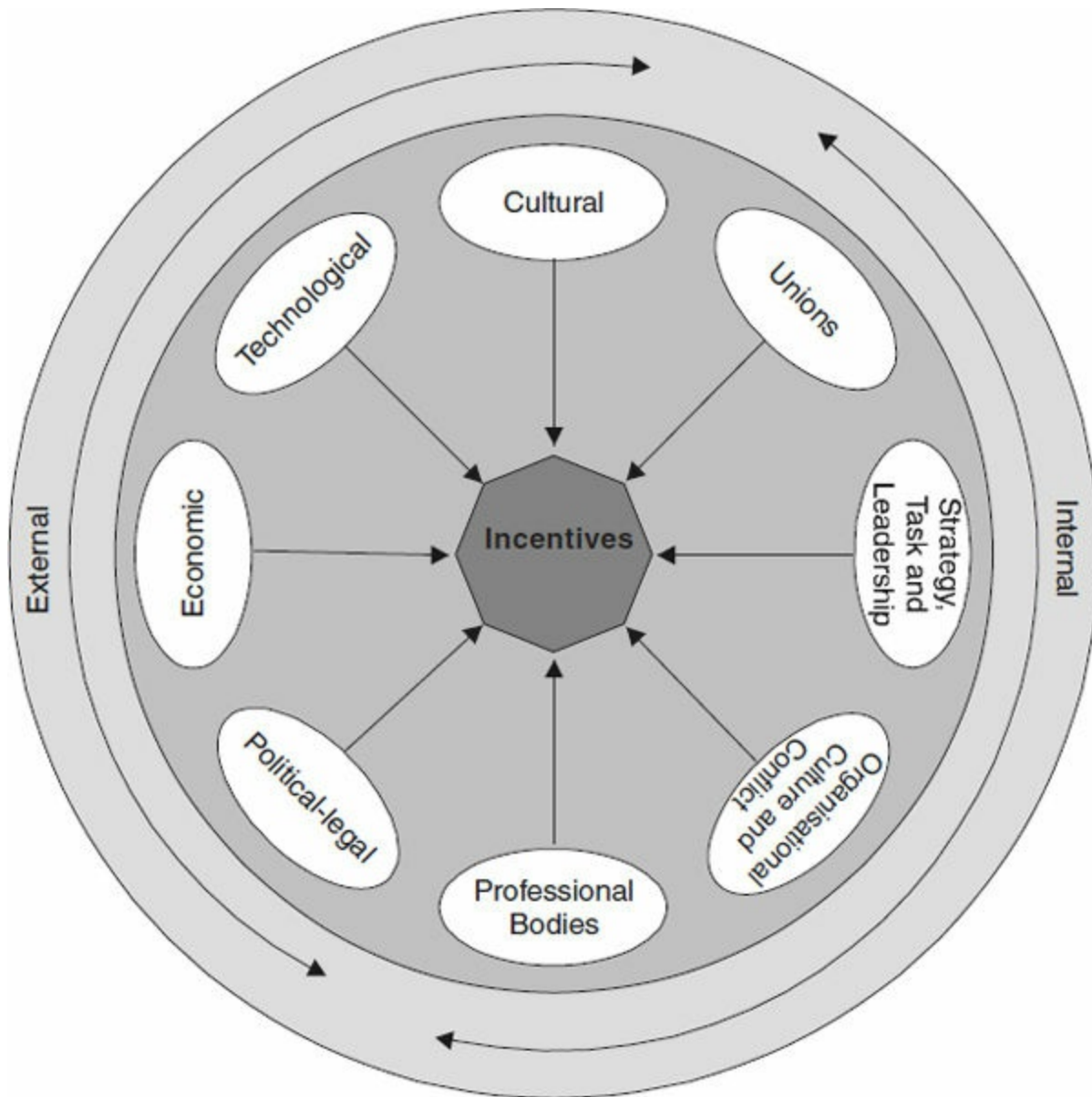
1. Define 'incentives'. Bring out their advantages and limitations.
2. Bring out the prerequisites for the success of incentive payments.
3. Explain the different types of incentive systems.
4. Bring out the steps in the introduction of incentive payments.
5. Bring out the salient features of the incentive schemes followed in Indian industries.

DISCUSSION QUESTIONS

1. Bring out the linkage between incentive and productivity.
2. Debate on the assertion "If selection and placement decisions are done effectively, individual performance should not vary a great deal, therefore, an incentive system is not necessary".
3. Do you believe that an employee's behaviour is always influenced by the rewards expected? Discuss.

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact incentives, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Vybhav has a different variable compensation for each of its four business units. The nature of business determines the percentage of variable pay as shown below:

<i>IT Services</i>	<i>Retailing</i>	<i>Consumer Electronics</i>	<i>Telecom Services</i>
*60 % – 10% Individual Incentives	*Team based incentives	*Team based incentives	*Team based incentives
*60% – 30% For client facing teams (executing work directly for the client both off-shore and on site)	*40% – 10% individual incentives for senior management roles only	* 30% – 10% variable individual incentives *50% for senior management roles	30%–20%individual incentives
*20% – 10% for support teams like HR, finance, IT Help Desk, marketing and presales.	*20% – 10% for support teams like HR, finance IT Help Desk, marketing and presales	*20% – 10% for support teams like HR, finance IT Help Desk, marketing and presales	*20% – 10% for support team like HR, IT Help Desk, finance, marketing and presales

All team-based incentives and individual incentives for senior managers are paid annually and all individual based incentives are paid quarterly. The actual payout happens in the payroll of the month preceding the quarter/year end. As part of the annual KRA setting exercise which happens in the first month of the fiscal year, the team as well as individual targets/results are frozen and signed off in the Perf-Perfect tool. All incentive payouts are closely linked to the KRA's that were set out at the beginning of the year. At mid-year appraisal reviews the KRAs that can be reviewed by the manager along with inputs from the skip-level manager and changes made to KRA's, if any. KRAs could be revised upwards to increase targets based on performance in the first half of the year or revised downward to reduce targets due to market/economic trends. Performance on KRA's in the Perf-Perfect tool is the only criterion for incentive payouts.

For team based incentives, there is a separate set of division and team results that form the basis for incentive payout—multiple key metrics like revenue numbers for the division, customer satisfaction scores, quality and cost efficiency metrics. The criteria for team based incentives have a similar framework across divisions, which act like a unifying force across Vybhav divisions and speak to its vision and values. All team-based incentive metrics are revised by Vybhav leadership team at the beginning of the year before it is signed off as final. Any changes are once again placed for review of the leadership team before it can be changed.

Questions

1. Comment on the variable pay package of Vybhav.
2. Discuss in groups of five, what could be the components for team-based pay for the
 - (a) Consumer Electronics Division of Vybhav
 - (b) Retail Division of Vybhav
 - (c) Telecom Services Division of Vybhav.

Closing Case *On Pegging Pay to Performance*

“As you are aware, the Government of India has removed the capping on salaries of directors and has left the matter of their compensation to be decided by shareholders. This is indeed a welcome step,” said Samuel Menezes, president, Abhayankar, Ltd., opening the meeting of the managing committee convened to discuss the elements of the company’s new pay plan for middle managers.

Abhayankar was an engineering firm with a turnover of ₹600 crore last year and an employee strength of 1,800. Two years ago, as a sequel to liberalisation at the macroeconomic level, the company had restructured its operations from functional teams to product teams. The change had helped speed up transactional times and reduce systemic inefficiencies, leading to a healthy drive towards performance.

“I think it is only logical that performance should hereafter be linked to pay,” continued Menezes. “A scheme in which over 40 per cent of salary will be related to annual profits has been evolved for executives above the vice-president’s level and it will be implemented after getting shareholders’ approval. As far as the shopfloor staff is concerned, a system of incentive-linked monthly productivity bonus has been in place for years and it serves the purpose of rewarding good work at the assembly line. In any case, a bulk of its salary will have to continue to be governed by good old values like hierarchy, rank, seniority and attendance. But it is the middle management which poses a real dilemma. How does one evaluate its performance? More importantly, how can one ensure that managers are not shortchanged but get what they truly deserve?”

“Our vice-president (HRD), Ravi Narayanan, has now a plan ready in this regard. He has had personal discussions with all the 125 middle

managers individually over the last few weeks and the plan is based on their feedback. If there are no major disagreements on the plan, we can put it into effect from next month. Ravi, may I now ask you to take the floor and make your presentation?”

The lights in the conference room dimmed and the screen on the podium lit up. “The plan I am going to unfold,” said Narayanan, pointing to the data that surfaced on the screen, “is designed to enhance team-work and provide incentives for constant improvement and excellence among middle-level managers. Briefly, the pay will be split into two components. The first consists of 75 per cent of the original salary and will be determined, as before, by factors of internal equity comprising what Sam referred to as good old values. It will be a fixed component.”

“The second component of 25 per cent,” he went on, “will be flexible. It will depend on the ability of each product team as a whole to show a minimum of 5 per cent improvement in five areas every month—product quality, cost control, speed of delivery, financial performance of the division to which the product belongs and, finally, compliance with safety and environmental norms. The five areas will have a rating of 30, 25, 20, 15, and 10 per cent respectively.

“This, gentlemen, is the broad premise. The rest is a matter of detail which will be worked out after some finetuning. Any questions?”

As the lights reappeared, Gautam Ghosh, vice-president (R&D), said, “I don’t like it. And I will tell you why. Teamwork as a criterion is okay but it also has its pitfalls. The people I take on and develop are good at what they do. Their research skills are individualistic. Why should their pay depend on the performance of other members of the product team? The new pay plan makes them team players first and scientists next. It does not seem right.”

“That is a good one, Gautam,” said Narayanan. “Any other questions? I think I will take them all together.”

“I have no problems with the scheme and I think it is fine. But just for the sake of argument, let me take Gautam’s point further without meaning to pick holes in the plan,” said Avinash Sarin, vice-president (sales). “Look at my despatch division. My people there have reduced the shipping time from four hours to one over the last six months. But what have they got? Nothing. Why? Because the other members of the team are not measuring

up.”

“I think that is a situation which is bound to prevail until everyone falls in line,” intervened Vipul Desai, vice-president (finance). “There would always be temporary problems in implementing anything new. The question is whether our long-term objective is right. To the extent that we are trying to promote teamwork, I think we are on the right track. However, I wish to raise a point. There are many external factors which impinge on both individual and collective performance. For instance, the cost of a raw material may suddenly go up in the market affecting product profitability. Why should the concerned product team be penalised for something beyond its control?”

“I have an observation to make too, Ravi,” said Menezes, “You would recall the survey conducted by a business fortnightly on ‘The ten companies Indian managers fancy most as a working place’. Abhayankar got top billings there. We have been the trendsetters in executive compensation in Indian industry. We have been paying the best. Will your plan ensure that it remains that way?”

As he took the floor again, the dominant thought in Narayanan’s mind was that if his plan were to be put into place, Abhayankar would set another new trend in executive compensation.

But how should he see it through?²⁰

REFERENCES

1. Milton L. Rock, *Handbook of Wages and Salary Administration*, p. 74.
2. K.N. Subramanian, *Wages in India*, Tata McGraw-Hill, New Delhi, 1979, p. 194.
3. *Ibid.*, p. 419.
4. ILO, *Payment By Results*, Oxford & IBH, New Delhi, 1951, p. 151.
5. *Ibid.*, p. 151.
6. *Ibid.*, p. 152.
7. *Business India*, May 10–23, 1993.
8. *Ibid.*
9. Siddhartha Ganguli, “Money as Motivator: The Case for a Loose Incentive Scheme”, *Indian Management*, December 1977.
10. K.N. Subramanian, *op. cit.*, p. 424.
11. Milton L. Rock, *op. cit.*, p. 75.
12. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third

- Edition, Kogan Page, London, 1988, p. 410.
13. ILO, *op. cit.*, pp. 179–180.
 14. K.N. Subramanian, *op. cit.*, p. 423.
 15. ILO, *op. cit.*, p. 9.
 16. *Ibid.*, p. 16.
 17. *Ibid.*, p. 19.
 18. *Ibid.*, p. 26.
 19. Michael Armstrong, *op. cit.*, pp. 419–420.
 20. R. Chandrasekhar, *The Buck Stops Here*, Macmillan, 1997, pp 24–26.

Managing Employee Benefits and Services

Learning Objectives

After reading this chapter you should have a good understanding of the:

- Nature of employee benefits and appreciate their role in attracting and retaining competent people
- Different fringe benefits provided to employees and describe the more significant of them
- Principles of fringe benefits
- Different steps in administration of benefits and services
- Future of fringe benefits

Opening Case

BENEFITS ARE GREAT BUT THEY ARE ALL BUSINESS

The above statement applies to Google, an incredible organisation by every standard. Being a decade plus old company, the US based tech firm has no parallels in growth, reach, impact, wealth creation, revenue, employee care, best place to work for and many more. Founded in 1998 by two PhD scholars, Google is synonymous with search engine. Google has its presence in India too.

Google takes great care while hiring people. The company has fancy for puzzles and the prospective hires are subject to series of puzzles tests. Those who survive will find entry. There is a flourishing entrepreneurial environment in the company. Employees are allowed to bring their pets and

kids to the office. They are encouraged to be creative and innovative all the time.

During a telephone interview, Gopi Kallayil, senior product marketing manager for Google, lists which of the company's much publicised employee benefits he takes advantage of.

"Let me pull this up because there are so many," he says. When his computer produces a list a moment later, Kallayil makes his way down the screen and continues: "The free gourmet food, because that's daily necessity. Breakfast, lunch and dinner I eat at Google. The next one is the fitness centre, the 24-hour gym with weights and there are yoga classes."

There is a pause before he adds that he also enjoys the speaker series, the in-house doctor, the nutritionist, the dry cleaners and the massage service. He has not used the personal trainer, the swimming pool and the spa –at least not yet, anyway. Nor has he commuted to and from the office on the high-tech, wi-fi equipped, bio-diesel shuttle bus that Google provides for employees, but that is only because he lives nearby and can drive without worrying about a long commute.

Is Google's generosity purely altruistic? Of course not, this is not to say that any nefarious motives are at work, either. To be sure, Google is a company that calls its offices a "campus" and has created a "collegiate" atmosphere where employees dress casually and can have fun, but make no mistake: All these perks – some quirky, some traditional – show that Google means business, according to management experts from Wharton and elsewhere. The company wants to achieve several goals: Attract the best knowledge workers it can in the intensely competitive environment for high achievers; help them work long hours by feeding them gourmet meals on-site and handling other time-consuming personal chores; show that they are valued; and have them remain Googlers, as employees are known, for many years.

There may be a potential downside to all this largesse: Some employees may come to feel uncomfortable at the company if they see the perks as impingement by their work lives on their personal lives, according to a Wharton researcher. For the most part, however, what Google and other firms are doing makes eminent sense for both the companies and the people they employ.

Steven E. Gross, global leader of the broad-based rewards consulting

business at Mercer Human Resource Consulting, says that Google, with its vast array of benefits, is trying to differentiate itself from other companies that want to hire people with the same talents. These companies too have been expanding their employee benefits in recent years. “It’s all about the employment brand,” Gross says.

“There’s a great demand for technical-professional types – the folks Google is going after” Gross adds. “What you see happening with knowledge-workers is the creation of a different type of employment experience. Google and others are saying, ‘Come to work for us, work very hard, and we’ll try to help you with your daily activities. ‘Transportation is one. And having services available on campus is another. There’s also an integration of work and no-work activities. Family life and work are blurring for many professionals.”

Google – which has close to 10,700 full-time employees, although not all are based in its headquarters – is the best place to work in America, according to *Fortune* magazine. A big reason for that No.1 status is the broad array of amenities it offers to employees. It has a reputation for doing the unusual.

Gross, the Mercer HR expert says the broad array of benefits offered by Google and other firms may exert pressure on less-generous organisations to increase their benefits. But whether employees at companies that have fewer perks actually feel less appreciated by their own management will depend on circumstances.

What Google and other firms are doing “raises the ante for everybody”, notes Gross. “But, it means employees have to look at the whole value proposition where they work: ‘Look at what I’m given and what is the value to me?’ Some people would argue that working at Google is more exciting, but Google employees are working incredible hours. And at the end of the day, you have to ask, ‘Is that a good deal? What are they offering, and how does it compare to what I’m getting?’ Having childcare service doesn’t have value for you if you don’t have a child. The value proposition is very personal. What motivates me is different from what motivates you. We each take our own mosaic of those variables, and how we value them determines our value proposition.

Gross also points out that perks alone, no matter how beloved, are insufficient in themselves to retain employees over time. Employees are not going to stay if they’re not paid reasonably, he says. “Perks are only part of

the package. You can attract people but this isn't enough to retain them".

Source: Perk Place: The Benefits Offered by Google and Others may be Grand, but they're All Business: Knowledge@Wharton (<http://knowledge.wharton.upenn.edu/article.cfm?articleid-1690>)

Employee compensation (financial) comprises both direct as well as indirect elements. Chapters 11 and 12 dealt with direct compensation. This chapter is devoted to a discussion of the indirect benefits. Perquisites will be covered as a part of executive compensation (see Chapter 14).

NATURE OF BENEFITS AND SERVICES

Employee benefits and services include any benefits that the employee receives in addition to direct remuneration.

Benefits and services, however, are indirect compensation because they are usually extended as a condition of employment and are not directly related to performance.¹

Employee benefits and services are alternatively known as fringes, service programmes, employee benefits or hidden payroll.

The word fringe is not appreciated by management practitioners on the ground that nowadays benefits and services constitute substantial labour cost for any organisation. They are no longer mere fringe costs or fringe items. They are important to managements, employees and unions alike.

Employee benefits and services include any benefits that the employee receives in addition to direct remuneration. The synonyms used are fringes, service programmes, employee benefits and hidden payroll.

Similarly, the terms benefits and services are often used interchangeably by some writers. But some maintain distinction between the two. For these people, the term *benefit* applies to those items for which a direct monetary value to the individual employee can be ascertained, as in the case of pension, medical insurance, or holiday pay. The word *service* applies to such items as a company newspaper, company purchasing service, for which a direct

money value for the individual employee cannot be readily established.² However, we have used the two terms interchangeably in the chapter. We also have no objection against the use of the term *fringes*.

WHY BENEFITS AND SERVICES?

Nearly every organisation in our country provides benefits and services to its employees. These fringes continue to grow in their importance. Several reasons account for this trend.

They represent increased earnings to employees. In fact, employees prefer indirect remuneration to direct pay. Any increase in direct pay only adds to one's taxable income. But most benefits are not taxed and hence are advantageous to employees. Furthermore, there are economic reasons why benefits are preferred by employees. Health and life insurance can generally be purchased by the employer at group rates, which are typically lower than those the employees would have to pay individually.

Employers, too, prefer indirect remuneration to direct pay. Increase in benefits distort salary structures less and are often more easy to explain to shareholders as the social responsibility of the company. Besides, they often involve complex financial arrangements and underwritings so that their true cost may not be discernible by employees or unions.³

More than salary structures and financial arrangements, there is a need to attract and retain competent personnel. An employee joins and stays with an organisation which guarantees attractive fringe benefits. Besides, vacations along with holidays and rest breaks help employees mitigate fatigue and enhance productivity during the hours actually employees work. Similarly, retirement, health-care and disability benefits may allow workers to be more productive by freeing them of concerns about medical and retirement costs. So, it is quite accurate to state that indirect remuneration may:

1. Mitigate fatigue,
2. Discourage labour unrest,
3. Satisfy employee objectives,
4. Aid recruitment,
5. Reduce turnover, and
6. Minimise overtime costs.⁴

Fringe benefits help build up a good corporate image. Schemes like housing, educational institutions, and recreational activities bring benefits to the society at large. In the case of some, the benefits are direct. For a religious programme or a sports event or a company school, the company draws its clientele not only from the employees but also from surrounding communities. In others, such as housing, there are indirect gains in terms of reduced pressure on the limited living accommodation and release of public funds for additional housing programmes. All these have wider dimensions than immediate gains to the employees.⁵

Thus, an organisation, with the introduction of fringes, seeks to enhance employee morale, remain cost-effective, and introduce changes without much resistance.

Benefits as Incentives

Do benefits motivate employees? Frederick Herzberg groups benefits along with other factors such as working conditions into the ‘hygiene’ area—they are needed, and the human appetite for them is limitless. Yet, they do not motivate people to perform better. In Maslow’s need structure, benefits may affect the various aspects of ‘security’ (e.g. individual ‘needs to cover hospital costs, retirement, support when unemployed, or life insurance money for the family’s protection in case of death) but little else. In fact, if one views the major dimensions of job satisfaction, such as satisfaction with the supervisor, coworkers, the job itself, pay and work environment, the benefit is seen as entering little of this and, therefore, may have little effect on the employee.⁶

Fringe benefits may fail in their motivational effect as they are not tied to employee performance but to organisational membership. In addition, most employees perceive benefits and services provided by an organisation as a part of their larger social responsibility actions.

The arguments about motivational effect of benefits and services apart, fringe benefits have come to stay and hence they need proper administration by HR experts.

Demerits of fringe benefits should not be ignored. Fringe benefits, for example, could result in unhealthy competition among employees—work may interfere with the personal likes of employees. They may fail to work if

monetary incentives are inadequate, and could demotivate employees if implementation is not transparent.

TYPES OF EMPLOYEE BENEFITS AND SERVICES

Employee benefits and services include a motley crowd of fringes starting from accident compensation plans to paid holidays. To hold that a benefit is a fringe, three criteria need to be fulfilled:⁷

1. It should be computable in terms of money.
2. The amount of benefit is not generally predetermined.
3. No contract, indicating when the sum is payable, should exist.

Going by the three criteria, many items are included in the category of fringes. [Table 13.1](#) contains the list of fringes. It may be stated that the list is only suggestive.

Table 13.1 *Examples of Fringes*

1. *Legally required payments:*
 - (i) Old age, survivors, disability, and health insurance (commonly known as social security)
 - (ii) Worker's compensation
 - (iii) Unemployment compensation
2. *Contingent and deferred benefits*
 - (i) Pension plans
 - (ii) Group life insurance
 - (iii) Group health insurance
 - (a) Medical expenses (hospitalisation and surgical)
 - (b) Disability income (short-term and long-term)
 - (iv) Guaranteed annual wage
 - (v) Prepaid legal plans
 - (vi) Military leave and pay
 - (vii) Jury duty and bereavement paid leave
 - (viii) Maternity leave

- (ix) Child care leave
 - (x) Sick leave
 - (xi) Dental benefits
 - (xii) Tuition aid benefits
 - (xiii) Suggestion awards
 - (xiv) Service awards
 - (xv) Severance pay
3. *Payments for time not worked*
- (i) Vacations
 - (ii) Holidays
4. *Other benefits*
- (i) Travel allowances
 - (ii) Company car and subsidies
 - (iii) Moving expenses
 - (iv) Uniform and tool expenses
 - (v) Employee meal allowances
 - (vi) Discounts on employer's goods and services
 - (vii) Child care facilities.

Source: Terry L. Leap and Michael D. Crino, *Personnel/Human Resource Management*, Macmillan, p. 438.

Figure 13.1 illustrates contemporary benefits made available to employees.

The employee benefits are custom made to meet specific country requirements as Exhibit 13.1 indicates.

Exhibit 13.1 Global Benefits: Similarities and Differences

Even before its recent merger with BP, Amoco was already a major multinational firm with operations in dozens of countries. One of the more challenging issues that Amoco's human resource executives have long had to confront, therefore, has been juggling the legal, cultural and social forces dictating and reinforcing the needs for different benefits programmes.

For example, in the United States, Amoco offers insurance, vacation and sick leave, alternative work schedules, childcare centers, employee assistance programmes, and referral services. Indeed, its array of benefits is strong enough for Amoco to be the only oil company on *Working Mother's* list of the best companies for working mothers.

In Egypt, however, Amoco offers some different benefits. Among the more prominent is a one-time Haj pilgrimage allowance (the Haj is the required pilgrimage to Mecca that every Muslim male is required to make once during his life) and two annual subsidized trips to Egyptian resorts. In the Netherlands, the emphasis is on flexibility—Parents can take up to three months of unpaid leave after their child is born, and all employees can opt for part-time employment any time they want, for as long as a year at a time.

Amoco's U.K. employees get much the same benefits as their U.S. counterparts, but they also get five bereavement days per year following the death of a family member and two days a year if they need to move out of their personal residence. In Norway, fathers of newborns get five days of paid leave. In addition, Amoco employees in Norway get perhaps the most unusual benefit of all. Because the country has an especially high marginal tax rate, employees are often looking for benefits that companies can provide tax-free. Those who work for Amoco, therefore, get seven free magazine subscriptions a year—the most allowed under Norwegian law!

Source: Angelo S. Denisi and Ricky W. Griffin, *Human Resource Management*, p. 413.

Pause and Ponder

Can you add some more fringes to the list given in [Fig 13.1](#)? Conduct a study covering reputed firms and find out unique benefits and services, if any, provided by them.

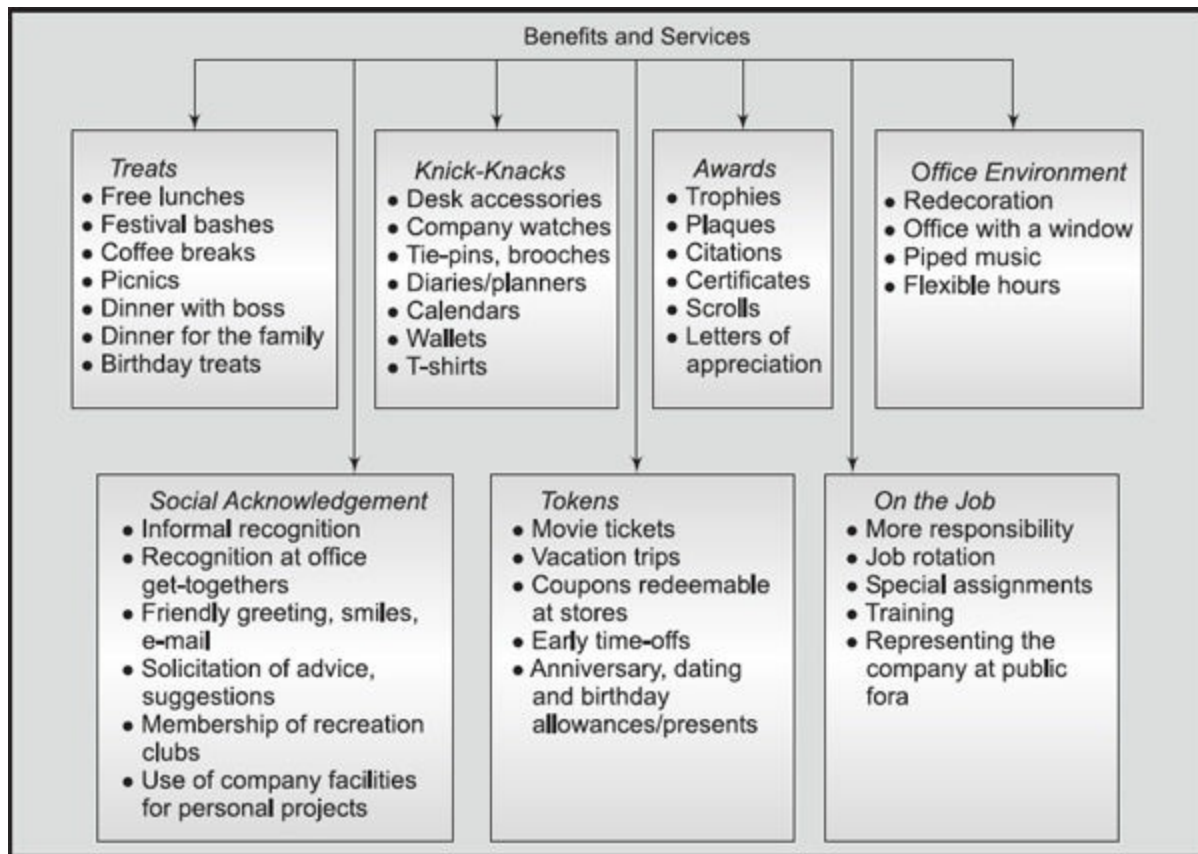


Fig. 13.1 *Types of Non-monetary Rewards*

In addition to the benefits, employees are entitled to certain services which generally include reimbursement of education expenses, free counselling, charitable contributions, child care, child adoption, subsidised food, gym, social and recreation facilities, transport arrangement, parking space, relocation expenses, loans, housing, employee assistance programmes, and the like.

PRINCIPLES OF FRINGES

The following principles must govern the administration of fringe benefits:⁸

1. Benefits and services need to be provided to the employees on the basis of a genuine interest in the protection and promotion of their well-being. The managements should not feel that the fringes are thrust upon them. Nor should the managements feel that they are providing the benefits as a matter of charity.

2. The benefit need to satisfy a real need. Employees resist or are indifferent to any benefit which is not liked by them.
3. The benefits need to be cost-effective.
4. The benefits need to be as broad-based as possible.
5. Administration of the benefits need to be preceded by sound planning.
6. The wishes of employees as expressed by their union representatives and the bargaining power of the union need to be considered.
7. Employees need to be educated to make use of the benefits.

SIGNIFICANT BENEFIT AND SERVICE PROGRAMMES

As [Table 13.1](#) shows, some organisations provide an amazing range of benefits. The discussion below, however, focuses on major benefits to which organisations contribute a substantial amount of service.

Social Security Social security seeks to cover certain risks to which a person is exposed. Those risks are such that an individual of small means cannot provide for them by his or her own ability. The idea behind social security measures is that a citizen who has contributed to the country's economy should be given protection against certain hazards.

Social security is a constitutional obligation. The Directive Principle of State policy obligates the state to make effective provision for relief in case of unemployment, old age, sickness and disablement. Government enacted a series of legislations to provide social security. Workmen's Compensation Act, Maternity Benefit Act, ESI, Employee Provident Fund Act, Factories Act, Payment of Wages Act, Minimum Wages Act, Payment of Gratuity Act and the Payment of Bonus Act are the measures initiated to ensure social security to workers ([Chapter 20](#) covers these legislations in detail.)

Workers' Compensation Workers sustaining physical injuries while on work should be paid adequate compensation. Workers' compensation laws provide that employees will be paid a disability benefit based on a certain percentage of their wages. Disability may be permanent but partial, permanent but total, temporary but partial, or temporary but total. Disabilities may result from injuries or accidents, as well as from occupational diseases such as radiation, or black lung. In addition to the disability benefits, provision is made for payment of medical and hospitalisation expenses up to certain limits. Compensation is also paid to the survivors of the deceased employee.

The Workers' Compensation Act, 1923 seeks to regulate payment of compensation to the victims.

Unemployment Insurance This benefit is payable to employees who are involuntarily unemployed. The benefit is paid for the unemployment period. This is a major social security scheme. An employee covered by the ESI Act and who loses his or her job, is entitled for three months salary as unemployment insurance. Retrenched workers are entitled to such insurance under the "Rajiv Gandhi Shramik Kalyan Yojana."

Unemployment insurance is paid subject to certain requisites. First, the affected people should be available and actively seeking employment. Second, they should have worked for a minimum number of months. Finally, they must have left their job involuntarily. Likewise a person may be disqualified for benefits, if he or she exits voluntarily, refuses a job offer, self-employed or discharged from job because of gross misconduct.

Pension Plans Pension plans are highly popular among employees. These are financial programmes that provide income to retirees. Pension is based on the reward philosophy in which an employee who stayed with an organisation till retirement should be monetarily compensated.

Pension plans are of two categories: Contributory and non-contributory. In a contributory plan, both the employer as well as employees contribute to a pension plan. In a non-contributory plan only the employer makes such contribution. Keeping the pension amount as the basis, pension plan may be defined-benefit plan or defined contributory plan. Under a defined-benefit plan, the amount an employee is to receive on retirement is specified in advance. The specified amount is determined by employee's years of service, average earnings during a specified period of time, and age at the time of retirement. A defined contribution plan does not specify the employee's pension. The pension amount depends on the contributions made by the employer and the employee towards the pension fund. It is the defined contribution plan which is largely followed in organisations.

Insurance Group life insurance policies are highly popular employee benefits. Group life insurance provides death benefits to beneficiaries and may also provide accidental death and dismemberment benefits. In the alternative, the lump sum amount is paid to the beneficiary at the time of his or her retirement, if the person survives. Premium is either paid by the employer or contributed by management and employee.

There is the *long-time care insurance* benefit provided by some employers. This is designed to pay for nursing home and other medical related expenses during old age. This benefit is advantageous in as much as the employee covered by this is paid the amount without expecting him or her obtain any physical fitness test.

Payment for Time Not Worked Companies provide payment for time not worked, both on- and off-the-job. On-the-job free time includes lunch breaks, rest periods, coffee breaks, warm-up times, and the like. Off-the-job time includes vacations, sick leave, public holidays, and personal or casual leaves. These benefits are also called supplementary pay benefits.

Severance Pay Severance pay is provided as a one-time separation payment when an employee is terminated. The severance pay has its own rationale. First, it is a moral duty of the employer to provide relief to an employee whose service is abruptly terminated. Second, severance pay mitigates the chances of employee nursing grievance and entertaining thought of litigation. Third, severance pay is a PR exercise also.

Severance pay becomes payable when an employees is exited because of poor performance or downsizing. When employee quits on his or her own, severance pay is not paid.

Pause and Ponder

A company—mid sized but profitable—pays high salaries but offers only mandated benefits and services. Would you joint it?

Employee Services

In addition to benefits listed above, organisation provides a variety of services to employees, prominent of them are explained below.

Employee Assistance Programmes (EAPs) An EAP typically provides diagnosis, counselling and referral for advice or treatment when necessary, particularly when a sufferer is a drug addict, passing through emotional difficulties or has serious financial or family problems. EAPs are becoming increasingly popular as they help bring the affected employee back to normal status.

Child and Elder Care Child care is one issue which is generally handled

by the employees themselves. But organisations are proactive and provide the child care facility. More organisations are setting up company-sponsored and subsidised day care facilities. Such facilities shall help in attracting and retaining people. Other benefits include reduced absenteeism, increased focus on work, improved engagement, and favourable publicity.

Elder care, particularly in India, is a major concern for any individual. It tends to affect his or her performance. The problem is going to assume serious proportions as life-span of people is increasing and more and more young people are getting into paid jobs. True, privately maintained old-age-homes are available, but parents expect personal care which is not available in such hired facilities. Lack of elder care is affecting organisations in more than one way. It is said that to take care of an older relative, 64% of employees availed sick leave, 33% decreased work hours, 22% took leave of absence, 20% converted their full time jobs to part-time, 16% quit their jobs and 13% retired early. Organisations are filling this gap. Schering-Plough, a pharmaceutical firm, uses 800 telephone lines for elder care, while IBM has a national telephone network of more than 200 community based referral agencies.

Legal Services Companies provide legal service to the needy employees. Legal services are of two types: access and comprehensive plans. Access plans provide free telephone, document review and reimbursement of legal expenses involving more complex issues. Comprehensive plans cover other services such as representation in divorce cases, real estate transactions, civil and criminal trials. *Others* Organisations are discovering newer ways of rewarding their employees⁹ (see Fig. 13.1). Xerox, for example, has instituted an Annual Achievement Award, which recognises employee contribution to customer satisfaction, profits, process improvement, or team-spirit improvement through a citation and a cheque of ₹500 to every team member. In addition, Xerox has an Exceptional Performance Award—with nominations from team, factory and national-level managers—which offers a prize of ₹3000 per head and a plaque. Moreover, the national winners qualify for the Xerox President's Award which honours a unique contribution to sustained high performance by an individual or a team.

At Colgate-Palmolive, there is a three-level scheme called *you can make a difference* to encourage innovative ideas and entrepreneurial actions from

employees. Awarded every quarter at the local level and every year at the national level, the top two then compete for global recognition.

Club membership is highly popular. NIIT, for example, has set up a *Managing Director's Quality Club* (MDQC) and more recently, a *President's Club*. Typically, nominations come from all the regions, covering 2200 NIIT employees, and are based on an employee's contribution and performance.

Among the nominations, 15 to 18 are shortlisted by the MD himself. Those shortlisted are expected to work closely with the MD on his total quality programme. It is considered an honour for the shortlisted employees.

On the other hand, the members of the President's Club are noted on the basis of speed and innovation. Once again, the 18 winners work closely with NIIT's president to enrich the organisation. Similarly, Xerox has instituted an *Honours Club*, which recognises outstanding performance. So far, 350 employees from the company have bagged their honours, an all-expenses-paid holiday abroad.

Walk the **Talk**

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Keep your benefits plan aligned to market and industry – specific norms</i> • <i>Offer flexible benefits though it is tough to manage them</i> • <i>Socialise new benefits policies with select group of employees to elicit feedback and make improvements</i> • <i>Find 'employee champions' who can be part of communication campaign for new/changed benefits plans</i> 	<ul style="list-style-type: none"> • <i>Forget the fact employees prefer cash and not non-monetary benefits</i> • <i>Forget to track the 'utilisation' of benefit plans to assess their effectiveness</i> • <i>Forget to link benefits to merit performance</i> • <i>Forget to work to the budget. Benefits can be very expensive not managed well</i>

Club membership is available for even non-members but who have stayed with the organisation. For instance, NIIT has an *Old Timers Club* for employees who have been with the company for five years, and a *Real Old*

Timers ' Club for those who have completed 10 years. Members of both the clubs receive special recognition along with plaques.

In addition, NIIT has introduced paternity leave for men employees, with the added options of flexi-time employment and an additional ₹200 conveyance allowance for new parents. The new year day has been designated as 'Granny Gratitude Day' and is a compulsory holiday for all.

Colgate-Palmolive, Xerox and NIIT conduct annual painting contests for their respective employees' children. NIIT uses the award-winning painting for its calendar. So is the practice with the Bangalore based Mindtree.

ADMINISTRATION OF BENEFITS AND SERVICES

Organisations fumble while administering employee benefits and services. Yielding to the pressure of unions, employees, demand or in deference to social response trends, companies have added newer benefits and services to the list, which is already lengthy. Organisations have seldom established objectives, systematic plans, and standards to determine the appropriateness of the programmes.¹⁰ This patchwork of benefits and services has caused several problems.

Problems in Administration

The main problem in indirect remuneration is the lack of employee participation. Once a fringe benefit programme is designed by the company, employees have little discretion. For example, the same pension usually is granted to all workers. Younger employees see pensions as distant and largely irrelevant. Older female workers feel that maternity benefits are not needed. The uniformity of benefits fails to recognise a workforce diversity. Admittedly, uniformity leads to administrative and actuarial economies, but when employees receive benefits they neither want nor need, these economies are questionable.¹¹

Managers, too, have little interest in the benefits programmes and trade unions are almost hostile to the schemes. Managers are not even aware of the company's policy towards benefits and their contribution to the quality of corporate life. Trade unions entertain a feeling of alienation as the benefits are likely to erode their base.

Since employees have little choice in their benefit packages, most workers are unaware of all the benefits to which they are entitled. This lack of knowledge often causes employees to request for more benefits to meet their needs. For example, older workers may want improved retirement plans, while younger workers seek improved insurance coverage for dependents. The result is often a proliferation of benefits and increased employer costs. And perhaps even worse, employee confusion can lead to complaints and dissatisfaction about their fringe benefit packages, particularly when employees do not have to contribute financially.¹²

These problems can be avoided if the following lines are taken while administering indirect remuneration. The steps are (see [Fig. 13.2](#)):

1. Benefits strategy
2. Establishing benefits objectives,
3. Assessing environmental factors,
4. Assessing competitiveness: How should our benefits compare to our competitors,
5. Communicating benefits information,
6. Controlling benefits costs and evaluation.

Benefits Strategy

Organisations need to have a strategy towards benefits and services. Such a strategy should address three issues: (i) need (ii) range, (iii) flexibility

Need Whether benefits and services are needed is a superfluous question, as they have come to stay and the organisations are introducing innovative schemes to attract and retain people. But the cost incurred by organisations on benefits and services is raising, giving scope to doubt their usefulness. It is too evident that benefits outweigh costs and hence benefits and services would continue.

Range Range refers to the package of benefits an organisation can offer. How many fringes a company should offer depends on competitors, and workforce characteristics. As far as the competitors are concerned, the questions relevant are: who are the rivals and what benefits and services do they offer? An organisation needs to offer more than the competitors, if it were to attract

talent. Workforce characteristics determine what range of fringes a company should offer. For example, if the workforce comprises people who have stayed with the company for long, retirement plans need to be introduced. If majority of them are parents with children, child care facilities are a priority. If workers are unionised, there will be demand not only for more benefits but also for a guaranteed retirement plan.

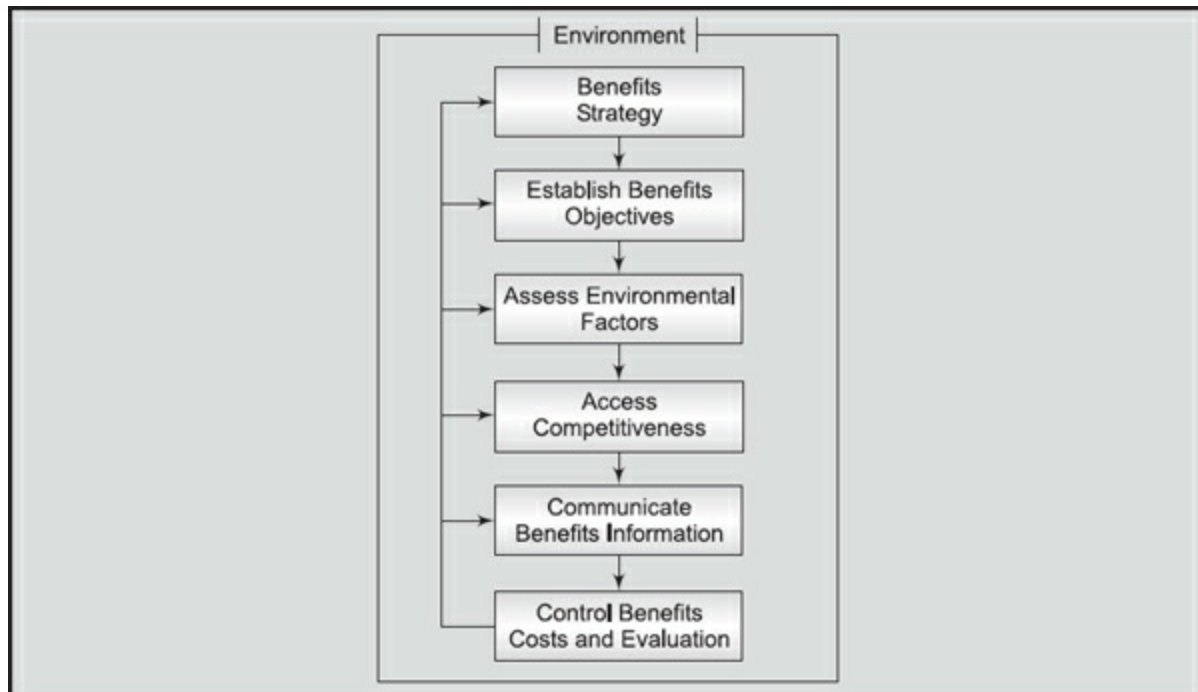


Fig. 13.2 Administration of Fringe Benefits

Flexibility This refers to the degree of freedom beneficiaries have to tailor benefits package to their personal needs. Some companies carry standardised packages in which case, employees have little freedom to choose. But standardised packages are becoming irrelevant as workforce demographics are changing. More women are entering organisations and dual-career marriages are becoming a reality. Benefits programme needs to be tailor-made to suit such diverse workforce.

Establishing Benefit OBJECTIVES

It is essential for the management to establish objectives for its benefit programmes. In establishing objectives, the management may consider

several factors. One such consideration is employee preference for benefits. Personnel/HR outcomes—attendance, length of service, and performance—should also receive due attention in the objective-setting process.¹³

Typically, benefits accomplish four objectives: **(i)** fostering external competitiveness, **(ii)** increasing cost effectiveness, **(iii)** meeting individual employee' needs and preferences, and **(iv)** complying with legal compulsions.¹⁴ Whatever the objectives, they must reflect the organisation's ability to pay.

Assessing Environment

External as well as internal factors influence a company's indirect remuneration programme. Among the external factors are included such aspects as government policies and regulations, unions, and economic factors. The major government policies which influence employee benefits and services are wage regulations, tax policies, and specific benefit laws. In addition to government policies, unions are a dominant force to improve benefits and services. When labour unions and the management sit for a wage negotiation, benefits and services figure prominently in their discussion and the settlement reached invariably covers indirect remuneration to the advantage of the employees. Economic factors influence benefit decisions in conflicting ways. Struggling to achieve competitive prices for their products and services, managers look to reduce, or at least curtail, increases in labour costs. As indirect remuneration constitutes a major chunk of labour costs, benefits and services receive top priority in the cost-reduction drive.

On the other hand, competition in the labour market to attract and retain productive employees, creates pressure to match the benefits offered by others.¹⁵

Organisational strategies and objectives, employee preferences and demographics constitute the internal environment of employee benefits and services. A large, well-established employer in a growing or mature industry, for example, may offer a relatively better benefits package. But a smaller, newly formed, emerging company may find that the high fixed costs attached to many benefits, particularly pensions, entail too great a financial burden. Instead, such organisations emphasise incentive pay or profit sharing, where costs vary with company's profitability and de-emphasise insurance or other

fixed-cost benefits.¹⁶

The preferences and demographics of a particular employee in an organisation also affect indirect remuneration. Most employee benefits are tax free, and hence are likely to appeal to employees with higher incomes. A vast majority of workers may not be attracted by such tax-free benefits. For them, fewer tax advantages exist, or these employees may have more immediate needs which can be met only by cash benefits. Similarly, employees having college-going children or marriageable daughters have different benefit preferences than those who are newly hired with working spouses and children who have not reached the school-going age.

Assessing Competitiveness

More often than not, organisations offer benefits to match or outstrip those offered by competitors. How to ascertain the competitors' benefit packages? These are assessed through market surveys conducted by professional associations and consultants. These surveys provide data on the various benefits offered, their coverage, eligibility and costs. The data allow employers to assess the competitiveness of their benefits and costs, with those offered by others.¹⁷

Pause and Ponder

A large MNC finds that the gymnasium allowance is used by only 18 to 20% of the eligible employees. Should this benefit be withdrawn?

Communicating the Benefits

Benefits programmes need to be communicated to employees through booklets, brochures, slide presentations, and regular employee meetings. An effective technique is to use employee calendars which communicate the total remuneration components. Each month of the calendar shows a company employee receiving a benefit. For example, one month may feature a photo of an employee building a new home, made possible through the company's savings plan. Another month may feature the usefulness of the company's medical plan.¹⁸

Communication helps remove ignorance of employees (and of employers too) about indirect remuneration. Further, employers might be able to increase the productivity and the advantages of good employee benefits by making employees aware of what the company does for them, that does not appear on their payslips.

Evaluation and Control

One way of assessing the usefulness of fringes is to ascertain how far the advantages claimed in favour of indirect monetary schemes have really benefited the employees. The questions relevant in this context are: **(i)** Have the earnings of employees improved? **(ii)** Have the benefits been able to attract and retain competent people? **(iii)** Has the morale of employees gone up? **(iv)** Have industrial relations improved? The answers to these and other related questions help HR managers assess the effectiveness of fringe benefits and also to redefine benefit objectives. Cost of benefits is a reliable indicator of the effectiveness.

Effect on Costs Cost of fringe benefits is a reliable test of their effectiveness. Employee benefit costs can be computed on the following lines:

1. Total cost of benefits annually for all employees.
2. Cost per employee per year.
3. Percentage to annual payroll.
4. Cost per employee per hour.

The data thus found may be examined in the following manner:¹⁹

1. Examine the internal cost to the company of all benefits and services by pay roll classification, by profit centre.
2. Compare the company's costs for benefits with external norms. For example, compare its costs, average costs to averages by industry, and so on, for the package as a whole and for each benefit.
3. Prepare a report for the decision-maker, contrasting Steps 1 and 2, and highlighting major variances.
4. Analyse the costs of the programme to employees. Determine what each employee is paying for benefits, totally and by benefit.
5. Compare the data in Step 4 with external survey data.
6. Analyse how satisfied the individual is with the employer's programme

as compared to the competitor's programme.

Cost-benefit analysis is a reliable tool to evaluate the effectiveness of benefits programme.

Periodic action on the above lines would not only control benefit costs but would also ensure usefulness of fringe benefits.

THE FUTURE OF FRINGE BENEFITS

Current benefit packages have evolved over the years from plans that addressed the basic needs of the workers and provided minimum benefits to the individuals. Today, we see a much more complex pattern of plans with enhanced flexibility, tailored to meet the needs of individuals and costing public sector and private sector organisations dearly in terms of rupees. Employees in general are more educated, more sophisticated and more demanding of remuneration including fringe benefit. Employers are, therefore, required to devise newer benefit plans to attract and retain competent personnel, keeping a watch on the benefits costs.

Certain guidelines to make benefit programmes more effective are given here.

GUIDELINES TO MAKE BENEFIT PROGRAMMES MORE EFFECTIVE

1. Fringe benefit programmes should be looked at as a worthwhile corporate instrument in HRM.
2. Future policy planning in this area will have to keep in view some fresh reference points. Nonunionisation and skills shortage are no more relevant for policy considerations.
3. Any meaningful package of benefits must reflect some perspective planing. Inflexibility brings stagnation.
4. Separate programmes directly beneficial to workers from those that are directed towards community welfare. Clubbing them together adds to their cost. This may not be liked by workers.

5. It is advisable not to have a facility rather than neglecting it in its administration.
6. Poor internal communication hurts the programme in at least three ways: **(i)** more money is spent for officers' welfare; **(ii)** excess money spent on corporate image building at the cost of more bonus; **(iii)** priority to officers' children in admissions to schools. Therefore, make the internal communication system effective.
7. Devise new ways to involve workers and their representatives at all levels of planning and implementation.

EVER RISING

Benefits and Services are ever increasing. According to Employee Benefits Accounting and Risk Study Towers Watson, benefits such as gratuity, pension and provident fund amounted to ₹2 billion across 91 companies in 2010. The figure shot upto ₹2.9 billion in 2011. Public sector banks account for a major share in the figure. Older the organisation (any sector) more will be its liability towards benefits. Among all the benefits, major heads include pension and gratuity. When markets are shrinking and profits are falling, companies find it difficult to sustain the burden.

SUMMARY

Fringes refer to all those monetary benefits that the employees receive in addition to direct remuneration. Fringe benefits are popular because they enhance employee earnings, help attract and retain competent personnel, reduce fatigue, minimise overtime costs and discourage labour unrest.

Employee benefits are legion. Irrespective of the types of remuneration, fringe benefits need to be administered satisfying certain principles. Genuine commitment, matching an employee's felt need, costeffectiveness and sound planning are some such principles.

Administration of fringe benefits must proceed step by step, the steps being: **(i)** establishing benefit objectives; **(ii)** assessing environmental factors, **(iii)** making the benefits competitive; **(iv)** communicating benefits to employees; and **(v)** evaluation and control.

The future of fringe benefits is clear—there will be more and more

demand for them and the employers must be prepared to meet the growing demand.

KEY TERMS

Compensation benefits

Indirect remuneration

Pension plans

EAPs

Fringe benefits

Insurance benefits

Benefits strategy

REVIEW QUESTIONS

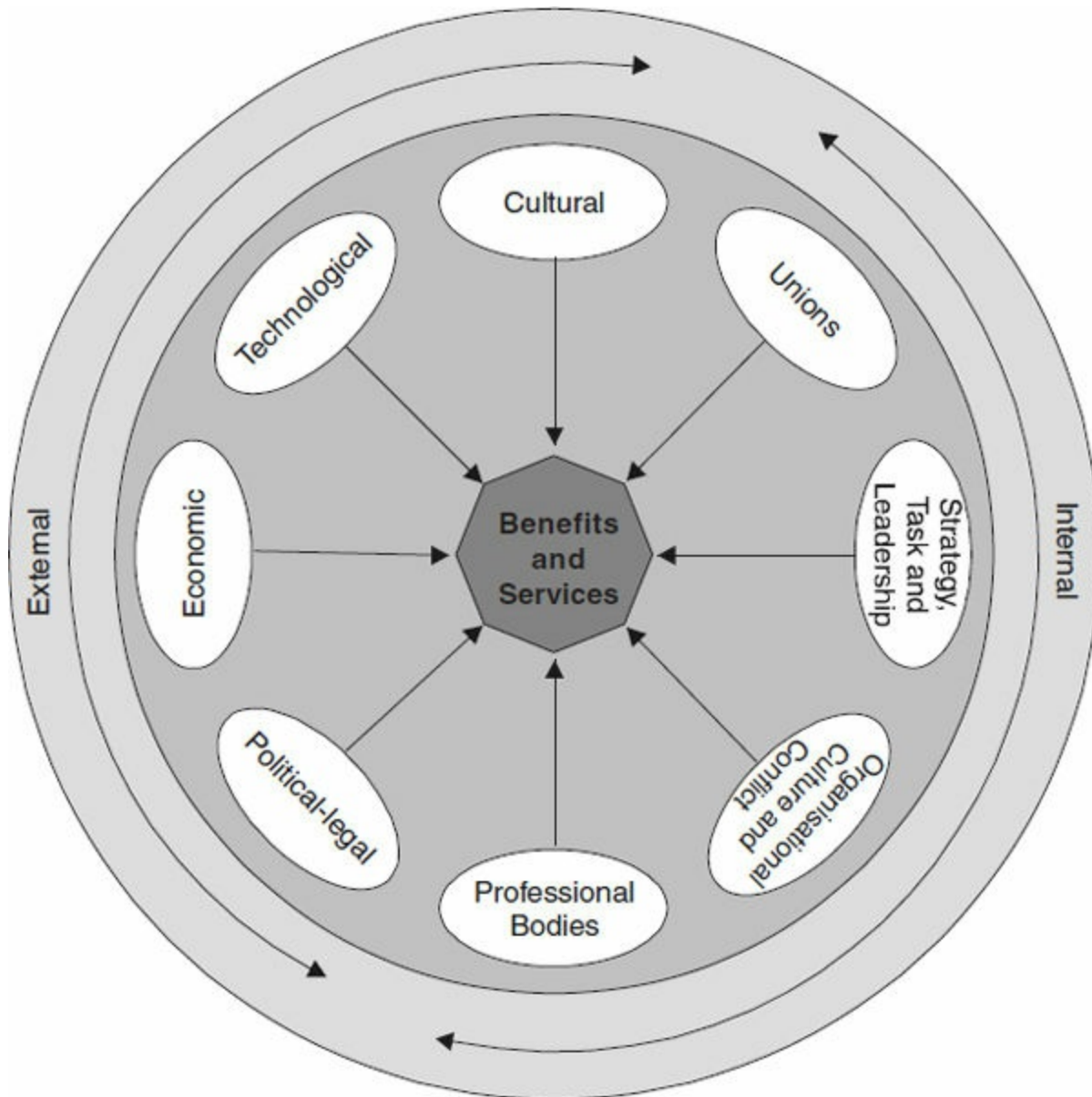
1. Define fringe benefits. Bring out their importance.
2. Bring out the various employee benefits and services. Describe each in brief
3. Outline the principles of fringe benefits.
4. Explain the various steps in the benefits administration.

DISCUSSION QUESTIONS

1. If you were establishing your own business, which benefits would you be legally required to pay and which would you choose to offer?
2. Should employers provide child care? Care for the elderly? Why?
3. A growing number of employees are reluctant to accept overseas assignments. Why do they refuse? What benefits and services would you offer to them to accept such transfers?
4. If you are asked to create employee awareness about the fringe benefits, what actions would you take without changing the way your company provides such benefits? What additional steps would you take if your company changes the entire benefits programme?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact benefits and services, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Vybhav uses inputs from the annual compensation and benefits benchmarking survey (C&B Survey) in which it participates in July every year. This is an independent survey that Vybhav partners with Hann Associates to study and report about the patterns of payment and packages of competing

companies in the same industry. Vybhav's top management reviews the list of competing firms and names of firms are either deleted or added to the list.

Here again Vybhav ensures that all business units offer a uniform suite of benefits for all employees. The findings from the C&B survey are studied closely by the Corporate C&B team to assess the need to incorporate new benefits as well as review the utility of existing benefits to match the market benchmarks identified from the survey. As in the case of compensation benchmarking of 70th percentile, Vybhav benchmarks itself at the 85th percentile on the benefits packages. This is congruent to its employee-centric vision and mission philosophy.

Last year Vybhav, as part of its healthcare focus for its employees, instated an Employee Health Care Policy.

The policy provided for the following additional benefits:

- Medical insurance coverage which priorly provided for insurance of its employee+spouse+2 children (dependent) at ₹4,00,000 pa, upgraded the insurance policy to cover two dependent parents for a sum insured of 7,50,000 pa.
- The executive medical checkup was formalised with a tie up with five multi-specialty hospitals with presence in all the metros and major cities. Previously, the employee would walk into any hospital or diagnostic center and pay for the checkup and then have it reimbursed. This was upgraded to a cashless hospital tie-up model where an employee could log into the Vybhav Samachar portal and place a request with the benefit team that he/she would like to undergo a medical checkup and complete the day long set of diagnostics and consultations.
- The benefits team instituted the 'Annual Health Awareness Week', wherein there would be medical practitioners and consultants doing hour long awareness sessions on various health related areas like First Aid, Stress Management, Ergonomics and Healthy Living. These sessions were held across locations. During the week, there would be on-site consultation available with General Physicians, Cardiologists, Physiotherapists and Psychiatrists as well.
- The Leave Policy was reviewed to include 'Special Leave'. Special leave allows employees to apply for leave for a duration of 1–3 months, to take care of situations of treatment of prolonged illness/ severe family health issues.

- Another key initiative was the introduction of a new ‘Employee Fitness Allowance Policy’. This policy allowed employees to enroll at a Health Club or a gymnasium and have the enrollment fees reimbursed. It also included fitness sports activities like badminton, tennis, yoga and other weight management programs.
- In addition to the above, the gymnasiums at all campuses of Vybhav were upgraded to significantly improve the facilities. All gyms now have a regular visiting ‘fitness coach’ available for fixed hours of the day, everyday of the week. This facility was very much appreciated by the employees and there was a surge in the number of employees availing this facility.
- This year the desk-top calendar that was gifted to the employees carried a health focus. The pictures on the pages of the calendar included:
 - Recommended sitting postures while at work
 - De-stressing tips
 - Eating healthy food tips
 - Self-grooming tips

Through these initiatives, Vybhav conveyed its commitment to employee health and well-being, that normally employees tend to take for granted and harm themselves.

EXERCISE

Continue to work in the same group as you did for the earlier exercises.

As shared by the interviewee, attempt to list all the benefits that are provided to employees in the company. Review the information relating to the following:

1. What kinds of benefits are offered?
2. Why would an employer be providing for this?
3. For each of the benefits, share the ‘advantages and disadvantages’ for the employee as well as the employer. Create a table to share the impact.
4. Discuss and research the ‘Fringe Benefits Tax’ (FBT) as per statute and explore how this impacts the way the benefits are costed.
5. How are the benefits of this organisation different from that of the other teams that have presented?

Closing Case *More Benefits Please*

“You HR people seem to have no other work”, shouted Praveen, the Managing Director of Apex Financial Services. “You keep coming with great ideas on how to spend money. Where is the money? Now get me the hard facts on why we should change our benefits plan?” continued Praveen. He has reasons to lose his cool.

Chetan, the HR manager, felt it was time to review the benefits and hence he mooted the idea before his boss.

Chetan did not expect Praveen to be so intemperate, but he was a bit comforted when Chetan was asked to get back with facts to justify revision of benefits.

Back in his office, Chetan called in Maya, his deputy, for help.

Questions

1. Assume you are a part of the HR team assigned by Chetan and Maya to survey the present range of benefits offered by Apex Financial Services:
 - (i) Design the questionnaire to survey:
 - (a) Employee perception of the company’s present benefits programme,
 - (b) The ranking employees give to existing or alternative benefits, and
 - (c) Any changes employees want to be introduced to the present programme.
 - (ii) Conduct a survey among the employees.
 - (iii) Using Maslow’s hierarchy of needs, analyse the employee ranking of benefits.
2. Prepare a report for Chetan and Maya on your findings.

REFERENCES

1. William B. Werther and Keith Davis, *Human Resources and Personnel*

- Management*, McGraw- Hill, 1993, p. 465.
2. Dale S. Beach, *Personnel—The Management of People At Work*, Fourth Edition, Macmillan, p. 661.
 3. Elmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resource System Approach*, John Wiley & Sons, New York, 1982, p. 268.
 4. William B. Werther and Keith Davis, *op. cit.*, p. 466.
 5. C.P. Thakur, *Corporate Strategy on Fringe Benefits*, Spectrum, Delhi, 1985, p. 3.
 6. Elmer H. Burack and Robert D. Smith, *op. cit.*, p. 267.
 7. Cited in *Factory Organisation and Management* by Aswathappa K., Fourth Edition, Himalaya, Bombay, p. 311.
 8. William B. Werther and Keith Davis, *op. cit.*, p. 486.
 9. *Business Today*, Fourth Anniversary Issue, January 7–21, 1996.
 10. William B. Werther, et al, *op. cit.*, p. 486.
 11. *Ibid.*, p. 486.
 12. Hermann, *et. al.*, *Personnel/Human Resource Management*, Third Edition, Irwin, Homewood, Illinois, 1986, p. 516.
 13. Milkovich and Boudreau, *Personnel/Human Resource Management*, Fifth Edition, Richard D. Irwin, 1990, p. 798.
 14. *Ibid.*, p. 795.
 15. *Ibid.*, p. 796.
 16. *Ibid.*, p. 801.
 17. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third Edition, West Publishing, St. Paul, 1989, p. 367.
 18. Milkovich and Boudreau, *op. cit.*, p. 802.
 19. C.P. Thakur, *op. cit.*, pp. 138–142.

Compensating Top Brass

Learning Objectives

After reading this chapter you should have a good understanding of:

- The components of executive remuneration and describe them
- The unique features of executive remuneration
- Arguments for and against payment of higher remuneration to executives
- The issues raised in paying more to managerial personnel

Opening Vignette

UNDER THE WRAPS

The number of high net worth individuals (HNWIS) in India is growing at a faster pace than anywhere in the world. According to the 2004 World Wealth Report, published by Capgemini and Merrill Lynch, the increase in India was 22 per cent, against 12 per cent in China and 14 per cent in the US. (HNWIS are defined as people with financial assets of at least \$1 million, excluding real estate.) There were roughly 61,000 HNWIS in India at the end of 2003.

Many of the big earners are in companies, partnerships, brokerages and private firms that don't need to declare their numbers. Finding out details about them is very difficult.

Indians, unlike Americans, do not wear their pay cheques on their sleeves. It is not in their culture to do so. Besides, Indians always have to worry about harassment by the taxmen, a particularly rapacious breed that winks at evaders while hounding the honest citizens.

The place where one can really find highly-paid executives is the finance sector. Perched right on top are the heads of foreign banks. US banks are

known to be the most liberal paymasters. Citigroup India CEO Sanjay Nayar gets a package between ₹4 crore and ₹4.5 crore. Head of the consumer bank division, Sarvesh Swaroop is close on his heels with ₹3 crore.

Vishwavir Ahuja, managing director and CEO of Bank of America, earns ₹2.5–3 crore. This is primarily because a major consideration while fixing compensation for a foreign bank head is how important the region is for the bank's global business. In the case of Bank of America, its Indian operations are a minor part. Standard Chartered Grindlays, on the other hand, is an Asian bank with a vast Indian presence. It pays its CEO Chris Low ₹4–4.5 crore. Niall Booker of HSBC is in the same league.

European banks are more conservative. The Dutch banks are the most frugal of the lot. Gunit Chadha of Deutsche Bank makes ₹2 crore (up from ₹52.8 lakh without perks and benefits at IDBI Bank) and Romesh Sobti, executive V-P and country representative of ABN Amro receives ₹2–2.5 cr.

Indian banks such as HDFC and ICICI pay much less. Aditya Puri of HDFC Bank gets ₹69 lakh and K.V. Kamath of ICICI receives ₹1.15 crore. The really down-market are the public sector banks. State Bank of India Chairman A.K. Purwar earned ₹5 lakh in 2003–04. PSU banks give perks that are rarely quantified at real value.

It also pays to be in investment banking. The Vice-Presidents and Senior Vice-Presidents of the top investment banks receive base salaries of ₹30–50 lakh. At the top, the base salaries are much more and the bonuses could run into crores. Citigroup investment banking MD, Brian Brown has a package of ₹3.5 crore. DSP Merrill Lynch pays the highest, followed by IM Morgan and Kotak Mahindra. Rajiv Gupta, who heads the M & A division at DSP, earns around ₹1.5 crore, whereas Ajay Sondhi, the Vice-Chairman of Kotak Mahindra, who heads the investment banking division earns a base salary of ₹1 crore and a bonus of around ₹50–75 lakh in an average year.

Private equity is another happy hunting ground for the big earners. The top rung in firms like Warburg Pincus, General Atlantic and Chris Capital can receive anywhere between \$700,000 and \$800,000. But a large part of their salary is derived from the carry, an amount calculated on the performance of the fund. "When a fund closes, if it gives back say ₹10 crore on ₹10 crore, then the private equity guys get to keep ₹2 crore," says a headhunter. Pulak Prasad and Rajesh Khanna of Warburg Pincus, which has around \$1 billion invested in India, are right there on top.

Brokerage services are also in the money during good times. The top paymasters are DSP Merrill Lynch, JM Morgan Stanley and HSBC. Close behind them are Enam and SSKI. With variable pay the final package could vary between a few lakhs and a few crores.

Away from finance, the management consultancies pay their top people anywhere between \$300,000 and \$500,000. The difference with investment bankers is that their base salary is much higher—some 80 per cent. In India, McKinsey and Boston Consulting Group are considered the most prestigious and highest-paying firms. At McKinsey, the first seven years is on Indian salaries. After that, if you make it as a director, the figure goes up close to international norms—₹5 crore.

Accenture, Pricewaterhouse Coopers, KPMG and Deloitte are next in line. But, overall, compensation in Indian arms of most consultancy outfits is far behind Hong Kong or Singapore.

Advertising is another area where there is cornucopia at the top. Anil Kapoor of FCB Ulka, Prem Mehta of Lowe and Mike Khanna of JW Thompson make ₹1–1.5 crore. These figures do not include stock options.

Apart from these three bigwigs of advertising, the industry also has 40–50 people who fall in the ₹50 lakh–₹1 crore bracket. This includes Piyush Pandey, Ishaan Raina, Ashok Kurien and Nishi Suri. Creative heads of advertising firms earn more than their client-servicing counterparts.

At FMCG multinationals, there is a lot of hype, but emoluments aren't apparently that hot. The heads of Coke and Pepsi—Sanjiv Gupta and Rajiv Bakshi respectively—don't make much more than ₹1.5 crore each, though Coke is a better paymaster than its rival in India.

In the entertainment realm, Kunal Das Gupta, CEO of Sony Television, makes about ₹1.5 crore and Peter Mukerjea at Star is somewhat higher at ₹1.5–1.75 crore. The rumour about television journalists—particularly anchors—being very well paid is largely a myth. Some people do get a lot of money, but that's for other services rendered to the promoters.

Among nascent sectors, business process outsourcing (BPO), insurance and telecom are emerging as attractive employers. At companies like GE, WNS and Dell, the people heading the BPO departments have packages of more than ₹1 crore.

The heads of the top insurance firms such as Birla Sunlife, ICICI Prudential and Tata AIG are paid in the ₹50–70 lakh bracket. Of course, there

are exceptions like Anuroop Singh heading Max New York Life, Shikha Sharma from ICICI and Sunil Mehta from AIG, who earn in crores.

Telecom too has become a high-paying sector. In the past two years, both Bharti and Reliance Infocomm have hired large numbers in the ₹50 lakh plus range. Hutch and BPL are not far behind, though Hutch pays more. Hutch head Asim Ghosh gets ₹2.5 crore. Just below them, the circle heads at Hutch receive ₹65 lakh as compared to ₹35 lakh at BPL. And if the circle is large, as in Mumbai and Delhi, then the head at Hutch receives ₹80 lakh.¹

As the economy shifts gear every few years and the talent market goes through fundamental changes, the executive compensation landscape also takes on new contours. Such a tectonic shift is happening now. With the economy growing at a rapid 9 per cent, with forecasts of continued buoyancy, there is a shortage of talent to service the expanding market. Further, with India being the focus of the world, capital and talent are flowing to the country like never before. Beyond these two key factors, there are a host of other issues which are ensuring that companies are rolling out the red carpet to attract and retain the best of the best employees.

At a surface level, these changes are being reflected in the compensation patterns. Consider the number of senior managers in India Inc. who earn ₹1 crore and above have sharply increased. Till recently, the *crorepatis* used to be largely CEOs of multinationals and family business. Today, this club has enlarged to a rung below the CEOs to include senior executives from unlisted companies, including the big international firms, management consultancies and foreign banks, investment bankers and unlisted retail billionaires. Some estimates also suggest that the top salaries in hot sectors like retail and management consulting today would be a cool ₹4 to ₹6 crore per annum. The other big trend is that now there are several *crorepati* earners in a single company. Groups like Reliance, Bharti, Hero Honda and L&T boast this billing. Finally, family business heads like Mukesh Ambani, Brijmohan Lall Munjal of the Hero Group and a few others continue to command top dollars.

However, beyond these, there are far deeper changes that are happening in corporate India. According to Hewitt's salary increase study for Asia Pacific in 2005-06, Indian salaries as a whole grew faster than other countries in the Asia Pacific. The highest increase in the region was in India where salaries zoomed across the board by 13.9 per cent in 2005.²

Executive compensation has assumed considerable importance in recent years. Salaries and perks paid to highest decision-makers in organisations are skyrocketing, and this sudden spurt in managerial remuneration is the result of economic deregulation and the consequent entry of MNCs into the country. This chapter is devoted to a detailed discussion of three aspects—**(i)** What and how much are the executives paid? **(ii)** Why are they paid hefty remuneration? **(iii)** What issues are involved in payment of high remuneration?

COMPONENTS OF COMPENSATION

For the purpose of remuneration, an executive is considered to be an individual who is in a management position at the highest levels. Specifically, this category includes presidents, vice-presidents, managing directors and general managers. Their remuneration generally comprises five elements.

They are:

1. Salary
2. Bonus
3. Commission
4. Long-term incentives
5. Perquisites (perks)
6. Others (See [Fig. 14.1](#))

Salary

Salary is the first component of executive compensation. Salary is supposed to be determined through job evaluation and serves as the basis for other types of benefits. But job evaluation may be only a partial solution because executives must be paid for their capabilities—for what they can do—rather than for job demands. This is the reason why norms of wage and salary fixation are generally not observed while fixing salaries for executives.

Salary as a component of total remuneration is not significant as it is subject to deductions at source and is also capped by government regulations. In order to make good the cuts and ceilings, executives are offered hefty

incentives and attractive perks (See [Table 14.1](#)).

Bonus

Bonus plays an important role in today's competitive executive payment programmes. This type of incentive is usually short-term (annual) and is based on performance. For this reason, the definition of performance is crucial.

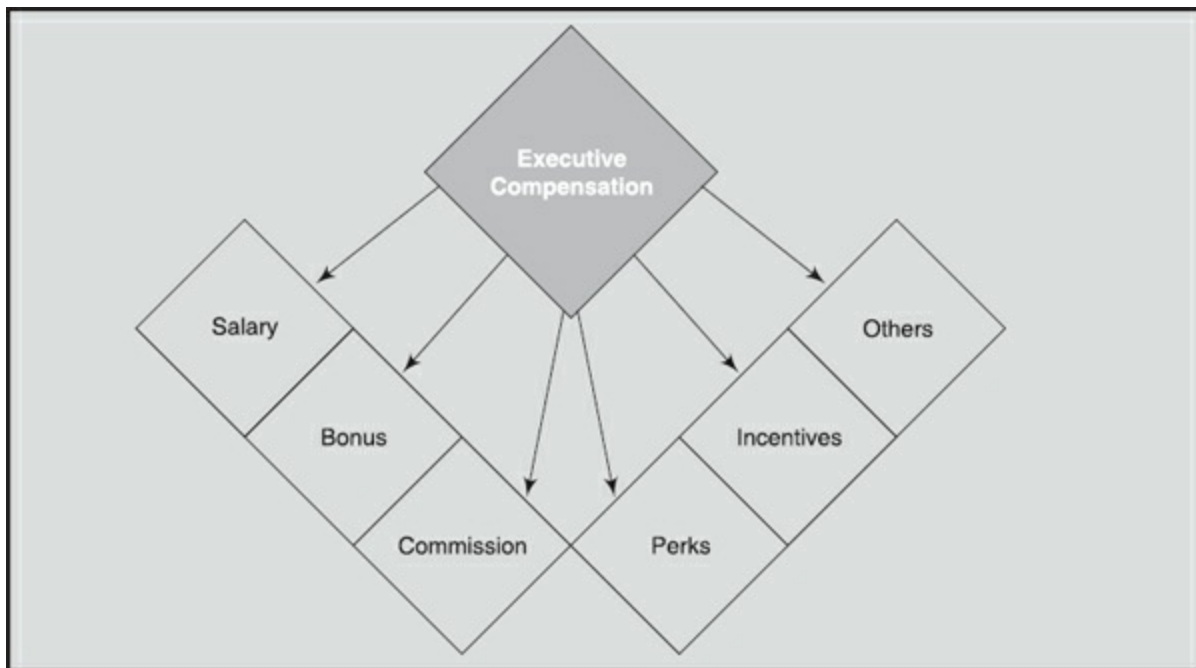


Fig. 14.1 *Components of Executive Remuneration*

Table 14.1 *Role of Salary and Commission in Total Remuneration*

<i>Company</i>	<i>Salary</i>	<i>Commission</i>	<i>Perks</i>	<i>HRA/PF</i>	<i>Total</i>
RIL	0.60	23.44	0.48	—	24.52
Tata Steel	0.62	1.20	0.37	—	2.20
L&T	0.60	2.42	0.15	0.81	3.98
Tata Motors	0.32	1.10	0.18	0.87	1.69
Bharti Airtel	5.17	7.50	—	—	12.67
ICICI	0.98	0.52	0.70	0.26	2.47

(Source: *Business Today*, July 1, 2007)

There are almost as many bonus systems as there are companies using this form of executive remuneration. In some systems, the annual bonus is tied by the formulae to the share price or the return on investment. Other bonus plans are based on the subjective judgement of the board of directors and the chief executive officer. More complex systems establish certain targets, for example, a 10 per cent increase in corporate earnings from the previous year, and then a bonus pool after the target is attained. The bonus is then distributed, either in accordance with a preset formula or on the basis of subjective judgements. Executives deserve bonus because they have much more opportunity to influence organisational success than non-managerial staff.

Pause and Ponder

Bonus component is as high as 45% of total compensation of executives. Offer your views.

Commission

Some companies pay commission to their executives and going by the figures, commission constitutes a major share in executive remuneration. But the Companies Act puts a ceiling on the amount of commission payable to executives.

The CMD of Raymond received a total remuneration of ₹1.98 crore in 2003, of which commission was of ₹1.4 crore—70.54 per cent. At Crompton Greaves two non-executive directors received commission of ₹32.85 lakh each in the same year. Kumar Mangalam Birla of the Aditya Group received a commission of ₹1.02 crore. At Lupin, Chairman Desh Bandu Gupta took home a commission of ₹1.31 crore during the fiscal 2003–04. At Rolta, CMD Kamal Singh had received a handsome commission of ₹4 crore (See also [Table 14.1](#)).

Commission is paid to executives as a percentage on profits. Commission is common in private sector.

Long-term Incentives

If bonus constitutes a short-term benefit, stock options are long-term benefits offered to decision makers. Companies allow executives to purchase their shares at fixed prices. Stock options are valuable as long as the price of share keeps increasing. The share price crashes when the company starts incurring loss, and executives stand to lose in the process.

Stock options are attractive to shareholders too. *First*, an option is not a bonus. Executives must use their own resources to exercise their right to purchase the stock. *Second*, the executives are assuming the same risk as all other shareholders, namely, that the price could move in either direction. Options are a form of profit sharing that links the executive's financial success to that of the shareholders. *Finally*, stock options are one of the few ways to offer large rewards to executives without the embarrassment of "millions of dollars of obvious money changing hands."³ Nevertheless, the risk factor in this type of incentive may be too great for it to be attractive to executives (see Exhibit 14.1).

Pause and Ponder

A Bangalore based software company was the first to introduce ESOPs in India. Can you name the company? Can you also ascertain the number of companies in India offering ESOPs? Try.

Exhibit 14.1 ESOP-Again!

It was 2000. Stockmarkets were booming and so were the Employee Stock Option Plans (ESOP). Many ordinary Indians became rich overnight. Bharti Televentures, for instance, created 160 millionaires. It was during this time that the driver of N.R. Narayana Murthy, Chief of Infosys was worth ₹4 crore. Several employees of TCS became millionaires with the shares they got from the company.

However, around 2001, ESOP started losing their sheen. Now with the Indian stock market once again in fine fettle, ESOP are worming their way into the limelight. ESOP are generating debates in annual general body

meetings too. In July 2004, shareholders of ACC raised the issue of ESOP in its general body meeting. The contentious issue was that the employees of ACC were becoming richer (through ESOP) than shareholders who were required to be content with only dividend.

ESOP in India are being regulated by the Securities Exchange Board of India (SEBI). The first guidelines were issued by SEBI in 1999. The latest norms were circulated in July 2004. The amended guidelines, among others, were:

- Redefine market price as the latest available closing price, on the stock exchange(s), prior to the date of the meeting of the company board in which options are granted or shares are issued.
- Specify that if the shares are listed on more than one stock exchange, the exchange on which there is highest trading volume on the said date be considered.
- Stipulate that the company appoint a registered merchant banker for implementation of the ESOP/ESPS till the stage of framing the ESOP/ESPS and obtaining in-principle approval from the stock exchange(s).
- Require that in case these schemes are administered through a trust, the accounts of the company be prepared as if the company itself is administering the ESOP/ESPS.

There are several variations in ESOP—employee stock option scheme (ESOS), employee share purchase scheme (ESPS), stock appreciation rights (SARS) and sweat equity.

- **ESOS** Under SEBI regulation, an ESOS involves granting an employee the option to acquire the shares of a company at a predetermined (exercise) price. An option is a right and not an obligation. The exercise price may be at prevailing market rates, at a discount, or at a premium. There is usually a short vesting period, which may be a single period or a series of periods. For example, an employee may be granted 300 options such that all the options are vested at the end of three years, or such that lots of 100 options are vested at intervals of one year each. Companies sometimes provide employees loans to purchase the shares and often there is a lock-in period.
- **ESPS** In an ESPS, these shares are directly allotted to an employee at

the time of a public issue. The allotment of shares may be at the prevailing market price or at a discounted price.

- **SARS** Under an SARS, a certain number of shares are allotted to the employee. After the vesting period, the employee is free to exercise his option, and if the value of the shares has appreciated he is given shares or cash worth this appreciated value. If he is allotted shares equivalent to the appreciated value, he can sell them after a lock-in period. The advantage of SARS is that it is a cashless transaction for the employee.
- **Sweat equity** Sweat equity refers to equity shares issued by a company to employees or directors at a discount, or for a consideration other than cash. The essential difference between sweat equity and a share purchase scheme, like the one TCS is offering, is that sweat equity is given for providing knowhow or some sort of value-addition, whereas the share purchase scheme is a scheme to reward or retain an employee. Moreover, sweat equity can also be issued to promoters, which an ESPS does not allow.

Having originated in the US in 1960s, ESOP has travelled a long way. Several blue chip companies, particularly dot com and software firms, allow their employees to buy shares.

Source: Business India, September 12, 2004.

ESOPs have lost their sheen. The companies which championed the cause of stock options have reverted back to cash incentives. Organisations still opting for stocks are few and far between as [Table 14.2](#) shows. Global economic recession has hit stock markets. With share prices crashing by the day, no more are the ESOPs attractive to employees.

Perquisites

Perks constitute a major source of income for executives. In addition to the normally allowed perks like provident fund, gratuity and the like, executives enjoy special parking, plush office, vacation travel, membership in clubs and well-furnished houses. Perks take care of all possible needs. Executives are rarely required to spend money from their pockets. Their holidays, servants,

telephone bills and even electricity and gas bills are taken care of by their companies. A manager in Kolkata tried to reimburse himself for his father's funeral expenses by debiting the amount to packaging and despatch.⁴

Table 14.2 *Companies Who Have Offered ESOPs in 2008*

<i>Company</i>	<i>Issue Date (in 2008)</i>	<i>No. of Securities</i>	<i>Issue Amount (₹ Cr)</i>
SBI	May 22	34,09,846	3.4
Centrum Capital	May 17	4,09,686	30.72
CBoP	Feb 28	3,36,17,453	3.36
	May 02	4,14,48,200	4.14
Yes Bank	Jan 25	9,74,400	0.97
	Feb 29	1,15,350	0.11
	Apr 29	3,02,500	0.3
	Jun 24	6,39,200	0.63
Caim India	Mar 07	7,92,240	0.79
	May 07	5,25,000	0.52
	May 27	17,13,078	1.71
Jindal Steel	Jun 16	6,91,343	0.06
Ranbaxy	Jan 10	82,830	0.04
	Apr 9	84,211	0.04
	Jul 10	8,31,918	0.41
Balrampur Chini	Jan 31	38,300	0.28
	March	9,750	0.07
	Jun 10	10,850	0.08

Source: www.telearaphindia.com/1080825/isp/business/storv_9739170.jsp

Typically, perks to executives include the following.^{4a} But the list is not exhaustive.

- A company provided car
- Accessible, no cost parking
- Limousine service, the chauffeur may also serve as a bodyguard
- Kidnapping and ransom protection
- Counselling service, including financial and legal services
- Professional meetings and conferences
- Spouse travel
- Use of company plane and yacht
- Home entertainment allowance
- Special living accommodations away from home
- Club memberships
- Special dining privileges

- Season tickets to entertainment events
- Special relocation expenses
- Use of company credit cards
- Medical expense reimbursement; coverage for all medical costs
- Reimbursement for children’s college expenses
- No- and low-interest loans.

Pause and Ponder

Tax implications have made perks less attractive. What do you say?

Others

There are two more components of executive compensation as well. One is pension and the second is termination benefits. Some companies have *pension scheme* in place, either specially designed for executives or open to a wide range of employees. In the US, a certain part of the compensation is often deferred until the executive reaches retirement age.

Many companies provide *termination benefits* for executives, either as a lump sum or in the form of continued payment of compensation after the expiry of a contract. The termination clauses may preclude payment if the termination of the contract is caused by the executive, in the event of unilateral termination of contract, or as the result of a serious fault of the executive.^{4b}

How do these components make up the total executive compensation? The practice varies across the globe as [Table 14.3](#) shows.

Table 14.3 Break Up of CEO Incomes Across Globe

	<i>Fixed pay</i>	<i>Annual incentives</i>	<i>Long-term Incentives</i>
India	46%	23%	31%
Latin America	60%	20%	20%
Asia	45%	25%	30%
Europe	35%	30%	35%
N. America	15%–20%		65%

Source: *Business Today*, Nov–12, 2012)

Latin American countries have the highest fixed component and highest incentives contribute to the total compensation of N. American executives. In India, fixed component constitutes 46% and the rest is made up by variable pay.

EXTENT OF PAY

Theoretically, remuneration of managerial personnel is supposed to be guided by job descriptions, job evaluations, salary grades with ranges of pay in each grade, and salary surveys. But in practice, the norms seem to have been thrown to winds and exorbitant amounts are paid to decision makers in organisations.

Table 14.4 gives details about the top 10 executives' remuneration in 2012. Naveen Jindal tops the list followed by Kalanithi Maran, Kaveri Maran and others. (Also see Table 14.5.)

Table 14.4 Fattest Pay Packages (Fiscal 2012)

<i>Executive</i>	<i>Organisation</i>	<i>(₹ Crore)</i>
1. Naveen Jindal	CMD, Jindal Steel & Power	73.40
2. Kalanithi Maran	SUN TV	57.01
3. Kaveri Maran	SUN TV	57.01
4. Pawan Munjal	Hero Motor Corp.	34.47
5. Brijmohan Lall Munjal	Hero Motor Corp.	34.44
6. Rajha PRR	Madras Cements	29.34
7. Shinzo Nakanishi	Maruti Suzuki	28.14
8. Raghupathy BG	BGR Energy	25.98
9. Carl-Peter Forster	Tata Motors	23.97
10. Murali K.Divi	Divi Labs	23.15

Table 14.5 Compensation of Satyam's Independent Directors

<i>Directors</i>	<i>(₹ Lakhs)</i>
G Krishna Palepu (since 2003)	3,19,23,300
Vinod K Dham (since 2003)	52,85,000
Mangalam Srinivasan (since 1991)	55,00,000
R. Ramamohan Rao (since 2005)	35,38,696

V S Raju (since 2007)	12,63,333
T R Prasad (since 2007)	12,53,333

It presents an awesome picture if one takes a look at executive remuneration elsewhere. Bill Gates of US is about to receive a first ever dividend of \$75 billion—over a four year period, averaging about ₹10,000 crore per year. With this payout, the Microsoft chief will be richer by \$8 billion.

However, certain broad generalisations can be made with respect to executive compensation in Indian industries:

1. Norms of wage and salary fixation such as job description, job evaluation, grades of pay and wage parities are generally ignored. What an executive receives, depends on employer's ability and employee's bargaining strength.
2. Salaries and perks of executives are subject to annual reviews and hikes, unlike the remuneration of employees which is reviewed once in three years.
3. As the ABC Consultants' study reveals, executives are offered 'composite' salaries instead of 'menu' salaries. The latter refers to a package of items, numbering nearly hundred, from which the CEO is asked to choose.
4. There is a tendency to link salaries to performance. HCL, Titan and many others are reported to link salaries to performance.
5. Holidaying abroad is gaining increasing acceptance. In a year, a typical executive works 10 months on his/her job, holidays one month abroad with his family, and attends training classes in the remaining one month.
6. For executives posted abroad, relatively higher salaries are paid during their foreign assignments. Once they are back in India, the same executives are paid less to maintain parity with those working in the home office. Ranbaxy reportedly follows this practice.
7. Competition among companies to attract competent personnel is resulting in a virtual hijacking of managerial personnel. Pepsi did it and took away quite a few executives from HUL and Nestle. Kelloggs and Coke did the same to Pepsi. Executives in the public sector stand

nowhere in comparison to their counterparts in the private sector in respect of salaries and perks. There has, therefore, been an exodus of executives from government-owned organisations to private sector enterprises. SAIL alone has lost 50 of its top brass to Mukand, Essar and TISCO. Several of BEL executives quit and joined BPL. SBI, too, lost quite a few of its general managers in favour of financial services in the private sector.

8. Several executives have become millionaires as the opening vignette tells.
9. Executives are denied the privilege of having unionised strength. They cannot demand for higher salaries and perks, hoist red flags on factory gates, shout slogans, pelt stones, and burn buses. It is the workers who resort to all these and if they succeed in their efforts, executives too benefit. Put in another way, executives often prompt workers to go on a strike.
10. A study by management consulting firm Hay Group titled the 'Top Executive Compensation Report 2012-2013,' with insights from 158 organisations, reveals that the average CEO in corporate India earns three times what others in the top brass take home. Till a couple of years ago, the multiplier was barely 1.5 times.
11. Secrecy is maintained in respect of executive remuneration. What A receives is not made known to B and what B gets, C cannot know. Secrecy is maintained because no two executives in the private sector, in the same grade, receive the same pay. Remuneration depends upon such factors as competence, length of service and loyalty to the founders.
12. With regard to components of compensation, Indian CEOs differ from their US counterparts. In the US, the fixed component of CEO compensation hovers around 20%, while 15-20% comes from annual incentives and 60-65% from long-term incentives such as stock options. Indian CEO packages have large cash components, since perquisite tax has eaten into the attractiveness of non-monetary benefits. (See [Table 14.3](#))
13. One glaring derisory relates to the absence of sync between growth in the economy and compensation of executives. It is too well known that the economy has been passing through a difficult phase—low growth

and inflation. But salaries of the top ten executives have risen by 12 percent over the last year.

14. Organisation-specific data reveal yet another absurdity. Take Jindal Steel and Power, for example. The group's flagship's net profit declined by 44 per cent over the previous year but Naveen Jindal's compensation shot up by 9 per cent. Similarly, media baron Kalanithi Maran and his wife Kaveri Kalanithi took home ₹57 cr each though SUN TV, the flagship company of the SUN group, witnessed a fall in profit by 9.76 per cent.
15. Another paradox relates to the inconsistency between the concern of the policy makers and the government on the one hand and the high salaries paid to executives on the other. Government and the policy makers are devising and implementing initiatives to reach out to the bottom of the pyramid in the county. Here are corporate executives who seem to be having their own pay structures and life-styles.
16. A study on covering executive compensation for 2011–12 conducted by the Hay Group reveals that the CEOs in the county are drawing average salaries in excess of ₹2 crore a year and managers and one rung lower are clearing at least one crore and the trend continues to move upwards. The total number of CEOs, MDs and other functional heads across sectors and organisations touches a whopping 351952 and the compensation paid to all these runs into seven trillions of rupees every year.
17. Executives of central public sector enterprises have received hefty pay package with effect from Jan 1, 2007. As shown in [Table 14.6](#), compensation of the board and below board level executives had it never so good.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • Link executive compensation to long-term health of the organisation • Keep the variable component high in total compensation 	<ul style="list-style-type: none"> • Forget to keep executive compensation as a closely guarded secret • Disclose on need-to-know basis • Forget to compensate

- Keep perks to the minimum-cash is preferred and also is better ethically managed

adequately. Damage from disgruntled executives will be immense

Table 14.6 Revised Scales of Pay of Board and Below Board Level Executive in CPSEs

1	2	3
Grade	Existing (₹)	Revised (₹)
E0	6,550-200-11,350	12,600-32,500
E1	8,600-250-14,600	16,400-40,500
E2	10,750-300-16,750	20,600-46,500
E3	13,000-350-18,250	24,900-50,500
E4	14,500-350-18,700	29,100-54,500
E5	16,000-400-20,800	32,900-58,000
E6	17,500-400-22,300	36,600-62,000
E7	18,500-450-23,900	43,200-66,500
E8	20,500-500-26,500	51,300-73,000
E9	23,750-600-28,550	62,000-80,000
Grade	Existing	Revised
Director (D)	18,500-450-23,900	43,200-66,000
CMD (D)	20,500-500-25,000	51,300-73,000
Director (C)	20,500-500-25,000	51,300-73,000
CMD (C)	25,750-650-30,950	75,000-90,000
Director (B)	22,500-600-27,300	65,000-75,000
CMD (B)	22,500-600-27,300	75,000-90,000
Director (A)	25,750-650-30,950	75,000-1,00,000
CMD (A)	27,750-750-31,500	80,000-1,25,000

What is the most positive feature of the revised pay package of these executives is the introduction of pay-for-performance element. The pay for performance is directly linked to the profits of central government undertakings and performance of the executives. The performance linked pay is tied as a percentage on basic pay as shown in [Table 14.7](#).

As expected, the performance related pay is subject to the following conditions:

- Each undertaking is required to enter an MOU with its parent Ministry/Department and the MOU rating will form the basis for determining performance related pay. All undertakings are required to formulate ESOPs and 10% to 25% of the performance linked pay will be paid in ESOPs.

- Each undertaking is required to keep a robust and transparent performance management system. All undertakings shall adopt Bell Curve Approach in grading the executives so that not more than 10% to 15% of them are rated ‘Outstanding’ and only 10% of the executives shall be slotted as ‘below par’.

Table 14.7 *Performance-related Pay*

Grade	Percentage of Basic Pay
E-0 to E-1	40
E-2 to E-3	40
E-4 to E-5	50
E-6 to E-7	60
E-8 to E-9	70
Director (C&D)	100
Director (A&B)	150
CMD (C&D)	150
CMD (A & B)	200

- Each undertaking shall have a remuneration committee which shall decide the annual bonus and variable pay for distribution across the executives.

JUSTIFICATION FOR PAYING MORE

One reason is that the executives have intrinsic worth and hence command hefty premiums. Managerial personnel matter much in organisations. Organisations are often positioned after great personalities. The legendary Lee Iacocca of Chrysler is a well-known example. Nearer home, TISCO was synonymous with Russy Mody and Escorts with H.P. Nanda. Bajaj Auto depends on Rahul Bajaj and Wipro on Azim Premji. Positioning organisations after individuals is more visible in service organisations, as for example, Subhash Chandra of Zee Telefilms. Iacocca, Premji, Bajaj, and their ilk are colossuses excelling in technical ingenuity, financial wizardry,

marketing brilliance and sheer charisma. Organisations have grown into veritable empires under their stewardships. Such growth has benefited all stakeholders, particularly the shareholders. It is everybody's knowledge that some of them who had invested a few thousands of their savings in equities of Wipro, Infosys, Reliance, HUL or TCS, have become millionaires, thanks to increased market capitalisation. Obviously, the executives who have made the organisations successful deserve high salary sweepstakes.

High remuneration to executives is justified because—

- (i) they matter much in organisations
- (ii) they are in short supply,
- (iii) retaining them is difficult
- (iv) they need to be motivated
- (v) if executives elsewhere are paid more, why not Indian executives

Second, this category of people is always in short supply. Our country boasts of having a huge army of scientists and technicians, but it is short of competent managers. As against the shortage, the demand for executives is overgrowing. A study reveals that in 2000 alone, India required 20,000 new managers across various sectors of the industry. In addition, we will require 7000 additional specialised managers for computer software and around 3000 finance and money managers. Added to this is the demand for our managers across borders. Our young breed of MBAs and software specialists are much sought after in Singapore, Hongkong, the US and all over. It is a problem of demand outstripping supply. Economics tells us, that other things being equal, price shall be high when demand exceeds supply. One must pay heavily if one has to attract talented and competent individuals. Obviously, one should pay more to talented executives.

Third, retaining high-calibre personnel is more difficult than attracting them. The management must throw norms of wage and salary administration to winds, and pay the executives well. Their remuneration must be reviewed annually and frequent salary hikes should be made. Otherwise, there will be a flight of people and there are always opponents to hijack them.

Fourth, having succeeded in retaining them, the managers must be

motivated for better performance. There might be several theories on motivation but coming to their essence, it is money and more money which motivates employees, and executives are no exception.

Motivated executives are in an advantageous position to inspire others in organisations. A leader who is crest-fallen can hardly activate followers to action.

Fifth, salaries and benefits enjoyed by executives across the globe are beyond anybody's comprehension. Why same logic is not applicable to Indian executives? The highest paid executive in 2006 was Mukesh Ambani with \$ 5.55 million. His counterpart in the US, Terry S. Semel, grossed \$ 230.55 million in the same year.

MNCs pay attractive remuneration to their executives, be they home-country or host-country nationals. The Indian chiefs of Pepsi and Coke, for example, are paid identical scales like their counterparts in the US or elsewhere. If executives of Pepsi and Coke in India get paid so well, why not their equivalents in Indian businesses? We talk of globalising trade, technology, and managerial practices, why not executive salaries? Why not salaries of all employees?

Sixth, 'The Third Wave' that is sweeping across the world compels disproportionately high remuneration to be paid to knowledgeable personnel. According to Alvin Toffler, the First Wave wafted with the rise and dominance of agriculture in several parts of the world, a period that lasted from 8000 bc to ad 1650–1750.

The rise of industrial societies signalled the beginning of the Second Wave, which reached a peak in the mid-1950s, according to Toffler. The Third Wave, presently being witnessed, is exemplified by the dominance of high-tech, knowledge-based, information-tied and service-oriented businesses. These organisations need the services of individuals who have good brain power. Not for nothing, business strategists, accountants, computer programmers, news editors, and doctors are paid high salaries and benefits.

Seventh, expectations of people, in general, have gone up, thanks to the electronic media. An average middle-income family of father, mother, son and daughter needs many more things than what their forefathers could even dream of. A range of white goods, once considered a luxury, has now become a necessity. Each family member needs a separate wardrobe, bank balance,

electronic gadgets, vehicle and a host of other items. Each of these costs dearly. If this is the life style of a middle income family, how about an executive? Surely, he or she has to lead a life which fits his or her status and job.

Eighth, an executive's salary and perks are not the same as the wages of the worker. To the worker, the wage is a means to a living. For the executive, financial reward may be a symbol of social prestige and social/class position. The executive who drives himself or herself to success in his or her role is creating the means by which certain community goals can be achieved. The financial reward is also a symbol of the executive role itself, its power, its dignity and its freedom. In this connection, it is not the absolute amount of financial reward that is important as a generalised goal, but the superiority of executive remuneration relative to all other roles in the plant.⁵

Finally, there is a compelling reason why executives must be paid more. It is to eliminate or, at least, minimise corruption. An executive of a state enterprise swindled around ₹25 lakh by charging electricity bill of the company's canteen to the company's account. But, the canteen is sub-contracted and one of the terms is that the electricity bill is to be borne by the canteen contractor himself. One of the directors of the same company siphoned off a crore of rupees through a fraud in imports. The workers of the company took the law into their hands—they caught the director, beat him black and blue, and made a bonfire of his car, all inside the plant. The once famous Karnataka Soaps and Detergents (KS & DL) was till recently, reduced to near bankruptcy, due to embezzling by the top-level officers.

The best way of satisfying human greed in the present context is to pay well. Does the avarice catch only executives? No, it is a universal weakness. But workers have lesser access to vital documents, have no contacts with outside parties and are unable to connive with security personnel. Assuming that the workers too resort to shortcuts, the damage caused to the organisation is less severe.

RELEVANT ISSUES IN EXECUTIVE COMPENSATION

Several issues crop up in the context of remuneration provided to the highest decision-makers in organisations. The first question relates to the worth of an

executive. Is the chief executive of a blue chip worth ₹13.51 crore per annum? ₹3 lakh per day? ₹37,500 per working hour? Surely, there are many number of employees in an organisation whose competency is no less significant but their remuneration is in no way near to that of a managing director or a general manager. Take the case of Banwarilal Choukse, a matriculate turner in BHEL, who gets only a worker's pay scale. Choukse's contribution to BHEL is no less significant—he has offered 117 suggestions to improve productivity, safety, quality and foreign-exchange earnings.⁶

Assuming that an executive is worth that much, the success of an organisation does not depend only on one individual (though failure does). The healthy bottomline of an organisation is the result of combined efforts of technicians, scientists, financial wizards, marketing experts, HR specialists, canteen staff, sweepers, drivers and a host of others. If it were not so, TISCO should not have survived after the exit of Russi Mody, SAIL after V. Krishnamurthy and HUL after T. Thomas. Obviously, the CEOs alone should not be given all the credit for healthy bottomlines.

If there is one individual who really deserves applause and handsome rewards, it is the founder of the organisation. In the initial stages, this gentleman sheds his blood for the organisation. When banks refuse to sanction additional loans, he pledges family assets to raise money for buying raw materials and paying salaries to employees. He spends sleepless nights devising strategies to market his products, to tackle labour militancy and to satisfy government agencies. It is a struggle and a challenge all the way till the unit starts doing well. He then needs a deputy to assist in managing the business. The executive demands 100 times more than what the founder had been drawing all along. Such demands naturally defy logic.

Yet another issue relates to the gap between the pay drawn by an executive and the wages paid to a worker. While the CEO of a software firm gets paid ₹37,500 per hour, a worker gets ₹25 per hour—a difference of more than 1500 times.

Elsewhere also, the gap between executive pay and pay of average employees is wide. Chief executives earn, on average, between 71 and 183 times more than the average employee (See [Table 14.8](#)). The highest paid CEOs are in the US, where average pay exceeds \$10 million per year, or about 183 times the wage of the average American worker. While CEOs in

Hong Kong (China) and South Africa are paid much less than their US counterparts, their compensation still represents 160 and 140 times the wage of the average worker in these countries. Even average executives earn between 43 and 112 times as much as average employees.

Huge disparities in incomes are often dysfunctional. Disparities in pay increase the probability of top executives getting alienated from front-line employees. It creates a psychological distance and also a life-style disparity. That is why executives at various levels sometimes tend to feel out of touch and uncomfortable while dealing with front-line employees.

One of the popular arguments in favour of hefty pay scales to executives is their motivation. They should be paid more to put in better performance. Looking at the flip side, money ceases to be the motivator beyond a certain point. One must have a house, vehicle, bank deposits, insurance policies and good education for children. And money induces an individual to acquire and enjoy these. Beyond this, money becomes irrelevant and often makes people extravagant and wasteful. Children are the worst affected by this kind of affluence. Then there is the constant fear of raids by tax authorities. Surplus money therefore results in needless tension.

Table 14.8 *Executive Pay, 2007*

	<i>CEO</i>		<i>Average executive</i>	
	<i>Pay in US\$ (annual average in millions)</i>	<i>Pay as a ratio of average employee wages</i>	<i>Pay in US\$ (annual average in millions)</i>	<i>Pay as a ratio of average employee wages</i>
Australia	6.0	135	2.4	53
Germany	6.8	148	3.8	82
Hong Kong	2.7	160	1.1	63
Netherlands	3.6	71	2.2	43
South Africa	1.4	104	0.9	71
United States	10.3	183	6.3	112

(Source: World of Work 2008, ICO, p. 17)

Assuming that money motivates, these high-flying executives hardly stick to one organisation. A few thousands more offered by a rival company will induce them to put in their papers. Majority of managerial personnel are known for organisational rootlessness; gratitude and loyalty are words of the

past.

Considerations in pricing executive compensation are unique. While several quantifiable factors influence compensation of lower level employees, non-quantifiable considerations such as problem solving, judgement and the like are the factors which impact executive remuneration. Similarly, variable pay—pay for performance—is a major component in executive compensation.

Finally, there is the question of equity. When hundreds of people are languishing in the unorganised sector, it may be unethical to pay huge salaries and perks to select élites in the society. The hapless employees work hard for eight to ten hours a day but get paid a paltry sum of ₹4000 to ₹3000 per month each. Added to this is the endless uncertainty of tenure. A lecturer with a doctoral degree slogs in a college for a mere ₹8000 per month and stays eternally ‘temporary’ on his or her job. An MBA demands an entry level pay of ₹60 lakh per annum whereas the professor who trains the MBAs takes 25 years of continuous service to earn a monthly salary of ₹50,000.

REMEDIALS

Action on the following lines may partly answer the issues raised with regard to high managerial remuneration:

1. Income beyond a certain limit must be subject to higher taxation.
Statutory guidelines governing executive remuneration are now liberal. Payment beyond specified limits needs the prior approval of the government. And the government does not generally deny approval.
2. Executives, on their own, must take up more and more socially responsive actions such as adopting and uplifting villages, sustaining ecology, caring for the hungry and the homeless, supporting a cause, sponsoring cultural programmes, contributing to education, and the like. Such actions will make the business and its executives more acceptable to the society.
3. Conscious efforts must be made to increase the supply of managers and technicians. There is, therefore, greater need for starting more colleges and institutes to train young MBAs, BEs and other technicians.
4. Participative management needs to be encouraged. Employees must be offered stock option schemes and be encouraged to become owners of

the undertakings for which they serve as workers, clerks, and supervisors.

5. Pegging executive pay to his or her performance may prove to be useful. Executive fortunes should be linked to long-term health of the organisation. Preventing executives from off-loading company shares until several years after they are granted will make them think long-term. Organisations are making use of financial metrics such as revenue growth, earnings per share, net income and the like to reward executives as [Fig 14.2](#) shows.
6. The concept of corporate governance is highly helpful in resolving the issues. The Kumaraman-galam Birla Committee on Corporate Governance recommends the formation of a 'remuneration committee' which will determine, on behalf of shareholders, the remuneration to be provided to executives. With this, a sense of equity will prevail in executive remuneration. Following the recommendation of the Kumaramangalam Birla Committee, only some companies have constituted remuneration committees. Such companies are Asian Paints, Lupin, Bajaj and Rico Auto. As pointed out by the N R Narayana Murthy panel on corporate governance, most companies have been tardy on the issue of setting up remuneration committees. There are also other safeguards like the Board of Directors and AGMs which need to okay salary increases of chief executives.
7. Job evaluation can be a part solution to the issue. Despite questions about the rationality behind executive pay, job evaluation can still be used. As with non-managerial jobs, any method of job evaluation can be used and grades can be established among executive jobs. Salary range for each grade can then be assigned.

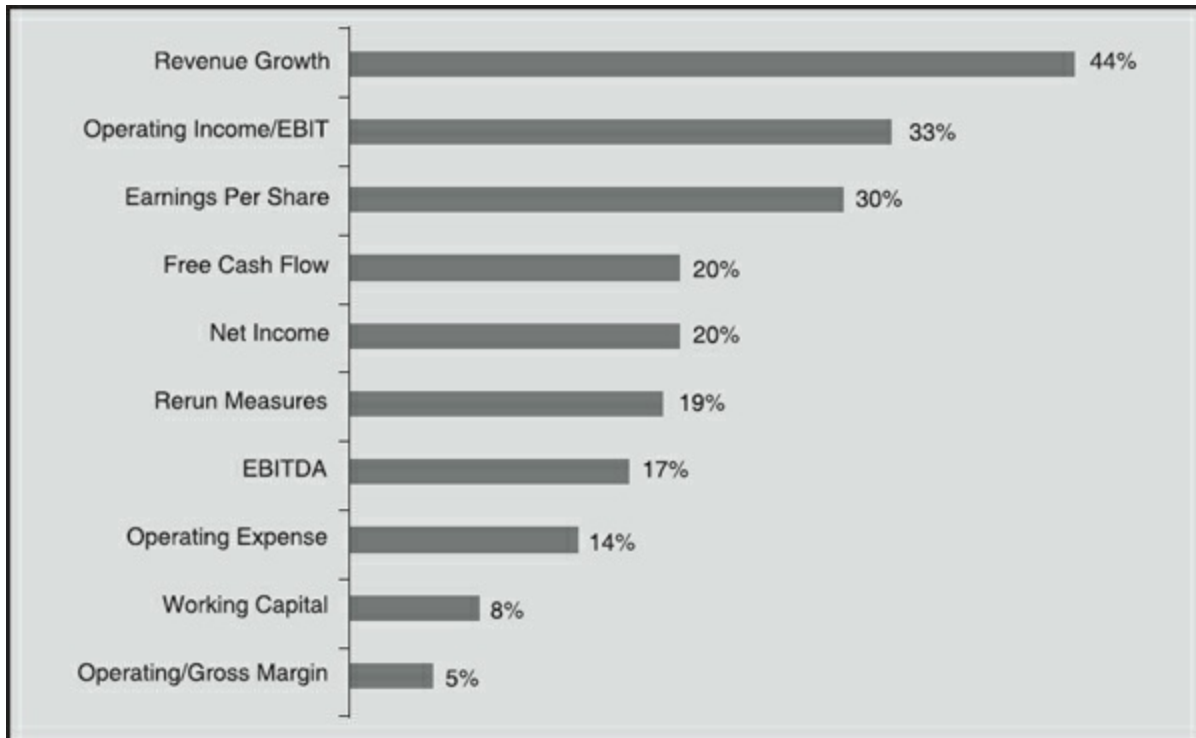


Fig 14.2 *Executive Compensation-linking Pay to Performance*

(Source: AON Hewitt, *Executive Compensation Trends*, 2012)

8. In the days to come, boards and management will focus on the following areas to enhance executive performance:
 - Formalising, documenting, and refining their total pay philosophy
 - Enhancing corporate governance practices
 - Aligning pay-for-performance and shareholder interests
 - Efficiently managing share pools
 - Actively communicating with shareholders
9. It is not that corporate heads in India should replicate the practice of Switzerland, but certainly a matter to be considered seriously. Recently, Swiss voters passed a referendum to force companies listed in that country to give shareholders an annual binding say on executive pay and board appointments. They also barred severance packages and “golden hellos” for board members. (The severance pay offered to the CEO, Novartis, amounted to a whopping \$76 mn. It was a different matter that the CEO refused to accept). Violators face upto three years in jail. Swiss businesses complain that ban on golden hellos would

make it hard to recruit talent.

SUMMARY

Executive compensation comprises salaries, bonus, commission stock options and perks. Perks generally outstrip other elements in the package of remuneration.

Executive remuneration differs from wages and salaries paid to other employees. A major chunk of the salaries of managerial personnel is taken away by taxes. Executives are denied the privilege of enjoying unionised strength, though they stand to gain when workers go on strike and succeed. Secrecy is maintained in respect of salaries and perks paid to executives.

Certain generalisations can be made in respect of executive remuneration in our country. First, norms of wage and salary administration are observed only in part; salaries and perks are subject to annual reviews; 'composite' salaries are gaining acceptability; salaries are sought to be linked to performance; rat race exists among rival firms to attract talented individuals; and there is large-scale migration of senior managers from public sector units to those in the private sector.

There are several reasons why executives are paid more. They are worth lakhs of rupees in terms of talent and brain power. They need to be attracted, retained and motivated, and their greed must be satisfied so that they can adopt honest business practices.

Certain social and ethical issues are relevant in this context. First, high remuneration seems to be merely a hype disregarding individual intrinsic worth. Second, executives alone are not responsible for an organisation's healthy bottomline. Third, there must be some parity between salaries of an executive and wages of a worker. Finally, higher salaries and perks do not guarantee motivation.

More and more socially responsive actions, stiffer income taxation, increasing supply of managers and technicians and encouraging employees to become owners of enterprises are the answers to the issues raised.

KEY TERMS

Composite salaries

Menu salaries
Performance-linked salaries
Stock option
Executive compensation
Perks
Sign-on bonus

REVIEW QUESTIONS

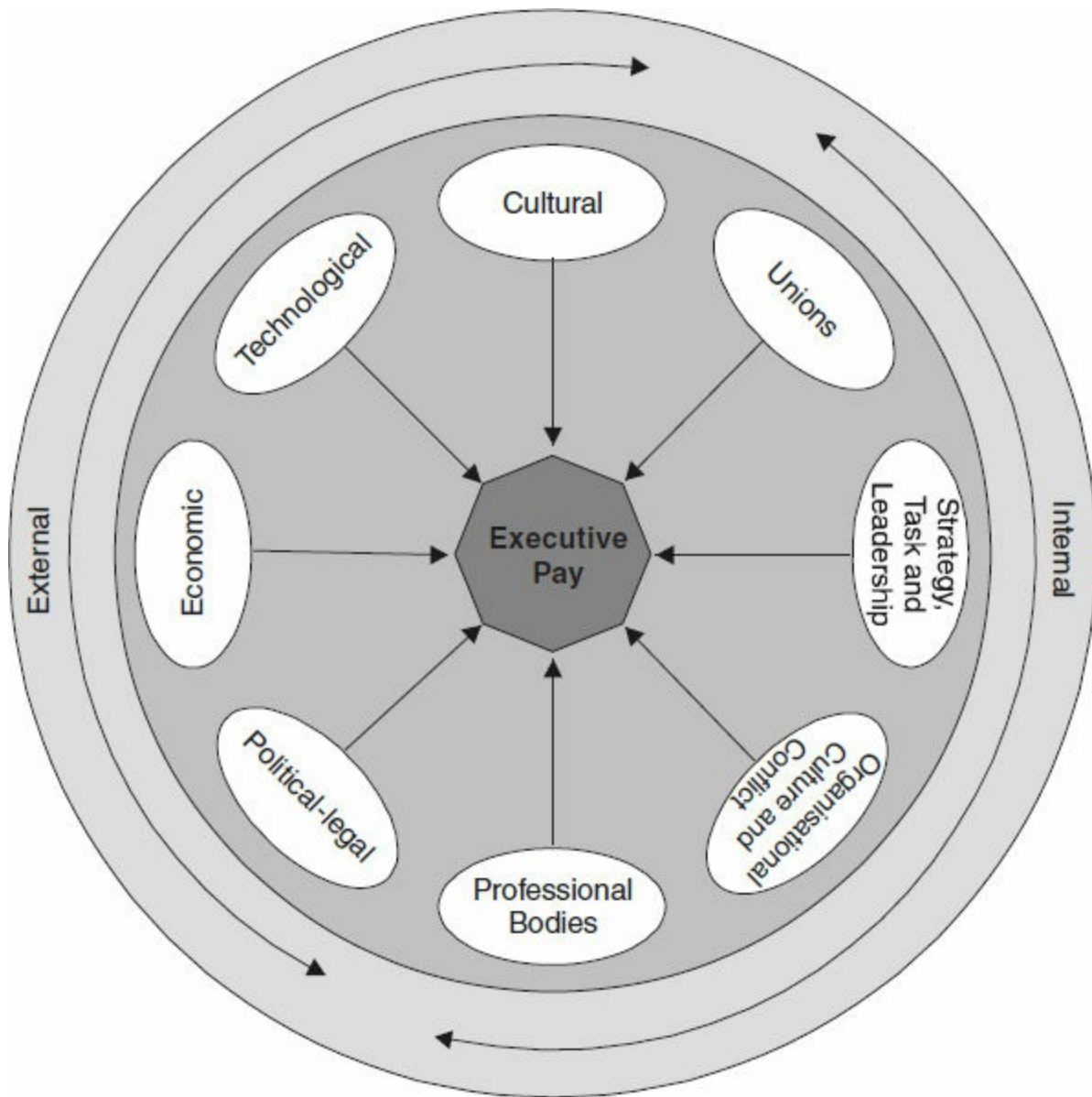
1. Justify the high remuneration paid to executives.
2. Bring out the differences between executive remuneration and wages of workers.
3. Describe the components of executive remuneration.
4. Bring out the ethical and social issues connected with executive remuneration.

DISCUSSION QUESTIONS

1. Do you think that Indian executives are overpaid? Discuss.
2. What action can the government take when companies violate statutory guidelines relating to executive remuneration?
3. What is the role of a HR manager in administering remuneration to executives?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact executive pay, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



COINTINUING CASE

The compensation philosophy of Vybhav provides for clear guidelines for senior managers' remuneration. The industry norms that guide senior management compensation for all employees at Grades 12 and above are part of the Senior Management Compensation Programme (SMCP) at Vybhav. One of the key activities of the Compensation Committee (CC) is to review and monitor the SMCP. The CC has a separate charter (see below) that is in writing and which guides the governance of the SMCP and reporting to the Vybhav's board.

The Charter empowers the CC on the following lines:

- I. To ensure that Vybhav attracts and retains the best talent available for senior positions that directly contribute to the organisation's performance while ensuring that it is benchmarked to industry pay practices for senior roles and responsibilities.
- II. To make recommendations to the Board about the compensation for employees in Grades 12 and above who are part of the SMCP.
- III. Review the key business performance determinants that impact the variable compensation within the SMCP during the year.
- IV. To review and report to the Board, when it meets at financial year end, the Business Performance Linked Stock Options (BPL Stocks) as part of the SMCP. The CC is entrusted with ensuring compliance to local country laws that govern such stock grants.
- V. Review the payments of (a) annual base salary, (b) annual bonus, including specific goals and amounts, (c) equity compensation, (d) severance payments and any other benefits.
- VI. The responsibility of the CC includes reviewing and recommending to the board the corporate goals and objectives relevant to compensation payable per the SMCP. It also includes review of the awards given to the SMCP participants, and the criteria used to reward, tax and other governance related to its payout.
- VII. Report to the Board the clear linkages between SMCP and the short-term and long-term business strategy for Vybhav.

Over the years Vybhav's top management has often discussed the attention in the media around compensation for senior management positions including that of the CEO. Every year the Chairman of Vybhav reports to the Board of Directors the correlation between the take-home salaries of the senior management and the performance of the division/Vybhav, to communicate the parity between the two.

REFERENCES

1. *Business India*, August 2–15, 2004, pp. 50–51.
2. *Indian Management*, Nov. 2006.
3. Cynthia D. Fisher, *et. al.*, *Human Resource Management*, Houghton

Mifflin, Boston, 1990, p. 530.

4. *India Today*, December 1–15, 1978.

4a. Henderson, *Compensation Management in a Knowledge Based World*, pp. 510–511.

4b. *World of Work 2008*, ICO, p. 15.

5. *Business World*, November 30 to December 13, 1994.

6. *The Economic Times*, February 17, 1995.

SECTION 5

List of Chapters

Chapter 15: Organisational Culture

Chapter 16: A Safe and Healthy Environment

Chapter 17: Managing Betterment Work-Employee Welfare

Chapter 18: Managing Separations and Right Sizing

Organisational Culture

Learning Objectives

After reading this chapter you should have a good understanding of:

- Nature of organisational culture
- Different cultural dimensions
- Ways of creating and sustaining culture
- Cultural artefacts
- Effects of culture

Opening Vignettes

EPITOME OF CULTURE

The corporate culture of Proctor & Gamble (P&G) provides a good example. It reflects what management theorist Daniel Denison calls the firm's legendary emphasis on "thoroughness, market-testing, and ethical behaviour," values that are transmitted to new employees through the firm's recruitment, socialisation, and internal promotion processes. To foster its values, P&G also reportedly combines internal competition and promotion from within in a process which results in a sort of tournament that determines the victors or leaders of the firm.

P&G has a strong corporate culture in that its underlying values exert a powerful influence on all its employees. Basic elements of its culture can be traced back to the firm's founders William Procter and James Gamble. They founded P&G in Cincinnati in 1837 with the mission of producing household products that were technically superior to the competitors, quickly consumed, and an integral part of their customers' lifestyle. The founders' intention was

to “foster growth in an orderly manner, to reflect the standards set by the founder, and to plan and prepare for the future.”

In addition to an emphasis on thoroughness, market testing, and ethical behaviour, several other underlying values constitute the P&G’s culture. One is a system in which, according to one expert, “individual identity is always minimised and sometimes lost”. A new recruit soon learns to say “we” instead of “I”. One P&G manager was quoted as saying, “Everyone at P&G is like a hand in bucket of water—when the hand is removed, the water closes in and there is no trace.”

The founders’ emphasis on orderly growth also manifests itself in “tremendous conformity”. As one manager described it, “conform and you succeed; question and you are gone.” In turn, this conformity results in precisely the thoroughness and methodical approach desired by the company’s founders. Its result, according to one past chairman, is a “consistency of principles and policy that gives us direction, thoroughness, and self-discipline.”

Emphasis on research is also a part and parcel of P&G’s culture. Research is an integral part of P&G’s thoroughness, as well as a product of its aim of “removing personal judgment from the equation” by testing and continually retesting all of its products. P&G’s aim is to produce products that consistently win in consumer blind tests.

The emphasis on written rather than oral communication is another manifestation of the firm’s stress on the value of thoroughness. All significant events are preserved in writing and all records can be recreated at any point. Managers are taught to condense their comments to fit a one-page format. New P&G recruits reportedly “tell horror stories” about their first memos being ripped to shreds by the boss.

Secrecy is a final element of P&G culture. As far back as the late 1800s, the firm had tried to stop giving detailed financial reports to its stockholders. As recently as the late 1980s, reports confirm that financial information was still very closely held and that P&G “maintains a mistrust of outsiders who are overly curious about P&G. New employees are instructed not to talk about the company to outsiders.

As is usually the case, P&G’s culture reflects and is sustained by concrete management practices. Graduates are recruited and placed in highly competitive situations, and those who cannot learn the ropes are quickly

weeded out, with the remainder enjoying the benefits of promotion from within. As a result, no one reaches middle management without five to ten years of very close scrutiny and training. This, in turn, creates what one researcher called “a homogeneous leadership group with an enormous amount of common experience and strong set of shared assumptions”.

Other management practices contribute to creating and sustaining P&G’s culture. New recruits may assume major responsibility for projects almost immediately, but the authority for big decisions is made far-up the chain of command, usually by committees of managers. Nearly everything must be approved through the memo process. Stories abound that reinforce this system; one regards the decision on the colour of the Folger’s coffee lid, supposedly made by the CEO after four years of extensive market testing. The internal competitive system is fostered by the brand management system at P&G. Brands compete for internal resources, have their own advertising and marketing, and act as independent centres. The extensive use of memos, the continual rechecking of each other’s work, and the rigid time-line for promotions also contribute to (and reflect) P&G’s strong corporate culture.

Organisations are increasingly focusing attention on creating, fostering and sustaining organisational culture, also called corporate culture. It is not P&G (see opening vignette) alone – all successful companies – IBM, HP, Apple, Coca Cola, Pepsi, L & T, Tata’s, WIPRO, Cognizant or Infosys— have one underlining factor behind their success, and that is culture, a la-behind every successful man there is a woman. The culture of an organisation is unique and the culture of one company differs from others. From the moment you step into the premises, culture can be evidenced in every aspect of the organisation culling out its distinct value system.

Culture wields considerable impact on employee attention, retention, performance, and satisfaction. The value system is manifested through the dress employees wear, the language they speak, murals on the walls, their building aesthetics and a host of other artefacts. It is, therefore, natural to discuss the nature and other dimensions of culture in a book on HRM. Hence, this chapter.

NATURE OF CULTURE

By culture, we mean the complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities and habits acquired by an individual in a society. Two terms are key to culture: History and shared phenomenon. With regard to the first, it may be stated that cultural mores of a society are trans-generational. The second term implies that the cultural ethos are shared among the members of a society. In other words, culture is not one person-specific. Organisational culture may be understood as the philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes, and norms that knit an organisation together and are shared by its employees.

Organisational members tend to internalise cultural practices and like to indoctrinate newcomers into such moves. Some of these practices are so thoroughly internalised that no one questions them—they are taken for granted, in other words, they get institutionalised.

Besides institutionalisation, deification or glorification is another process that tends to occur in strongly developed organisational cultures. Heroes emerge, especially among the founding fathers of the organisation, whose sacrifices, valorous deeds, and ingenuity in the difficult initial years of the organisation or during later crises periods are embellished into stories and sagas. The organisation itself may come to be regarded as precious in itself, as a source of pride, and in some sense, unique. Organisational members begin to feel a strong bond with it that transcends material returns given by the organisation, and they begin to identify with it. The organisation turns into a sort of clan.

ORGANISATIONAL VISION, MISSION, VALUES AND STRATEGIES

As the organisation evolves and matures, the impact of vision, mission, and strategies on its culture is significant. Most organisations have clearly defined vision—the overriding goals and objectives of the company; mission—the ways and means of realising the vision; and strategies—the decisive courses of action chartered by the top management. The above statements are not static—they change in tune with the changing environment. A detailed description of each is in order.

Vision

A vision is a broad explanation of why the organisation exists and where it is trying to lead. It provides the point of reference on the horizon – a beacon of light. The vision seeks to answer the following questions:

- What does the organisation stand for?
- Where does it go from here?
- What values do the organisation commit itself to?

The vision gives the organisation a sense of purpose and a set of values that unite employees in a common destiny. The most effective vision is the one that inspires, and this inspiration often takes the form of asking for the best, or the greatest. It may be the best service, the most rugged product, or the greatest sense of achievement, but must be inspirational.

Mission

Mission translates vision into reality. If the vision statement answers the question “where do we go from here?” The mission answers the question “How do we reach there?” The mission statement typically gives the organisation its own identity, business emphasis, and path for development. It incorporates four elements:

- Customer needs, or what is being satisfied
- Customer group, or who is being satisfied
- The company’s activities, technologies, and competencies, or how the firm goes about creating and delivering value to customers and satisfying their needs.
- The company’s concern for survival, its philosophy, its self-concept and its concern for public image.

Mission statements are highly personalised and unique to the organisation for which they are stated. Obviously, it varies from firm to firm, often within the industry. Mission statement of Tata Motors cannot be the same as that of Toyota Kirloskar.

Values

Values represent specific behaviours that stem from vision and mission.

People attribute their behaviours to stated values. If core value of an organisation, for example, is ‘customer delight’, the culture that develops is the one that positive customer feed back is rewarded and the employees strive to delight the customers at all cost. Negative feedback from a customer is viewed seriously and coercive action is initiated immediately. Likewise, if core value of an organisation is ethical conduct, the culture that emerges is that it rewards honest behaviour, punishing unethical conduct on the part of an employee. If creativity is the core value, lateral thinking on the part of an employee finds a mention in his or her appraisal. Hence values shape and guide organisational culture.

Strategies

Strategies formulated and implemented are culture impacting. Strategies are formulated for the business as a whole and for each unit of the organisation. Each level strategy influences culture in a unique way. If the business strategy is to internationalise operations, the outcome is global culture. The policies and processes reflect multicultural. If the unit level strategy is to operate in a niche market, a culture that encourages innovation evolves.

The HR professional’s task is clear. He/she should actively participate, nay anchor, the formulation of vision, mission, values and strategies of his/her organisation. It is not enough if they are drafted well, printed in the company brochures, embellished on the walls at the entrance and archived. They should be followed religiously by all, modified from time to time and kept alive. Google is an example to be remembered here. The HR management system plays a critical role in keeping the value proposition well tuned and relevant for each generation of employees by embedding vision and mission into daily work life. The HR head of Google is reported to have said thus: “If you talk to anybody at Google and ask them what the mission is they will say, ‘To organise the world’s information and make it universally accessible and useful.’ It is rare to find a place where everyone knows the mission and then actually believes it.

Pause and Ponder

Research and identify atleast 5 mission statements and find the common

thread.

CULTURAL DIMENSIONS

We identify five dimensions of corporate culture: levels of culture, mechanistic and organic cultures, authoritarian and participative cultures, dominant and sub-cultures, and strong and weak cultures.

Levels of Culture

Three levels of culture are distinct: common assumptions, shared values and observable values (see Fig. 15.1).

At the surface is the *observable culture*. This manifests through symbols such as physical design, dress code, logos, gadgets, and murals. It also includes unique stories, ceremonies, and rituals that make up the history of the success of the organisation.

The second level includes *shared values*. Shared values are applicable to all organisational members and no deviation is tolerated. Common uniform and shared canteen represent shared culture. Corporate vision and mission are shared and binding on all.

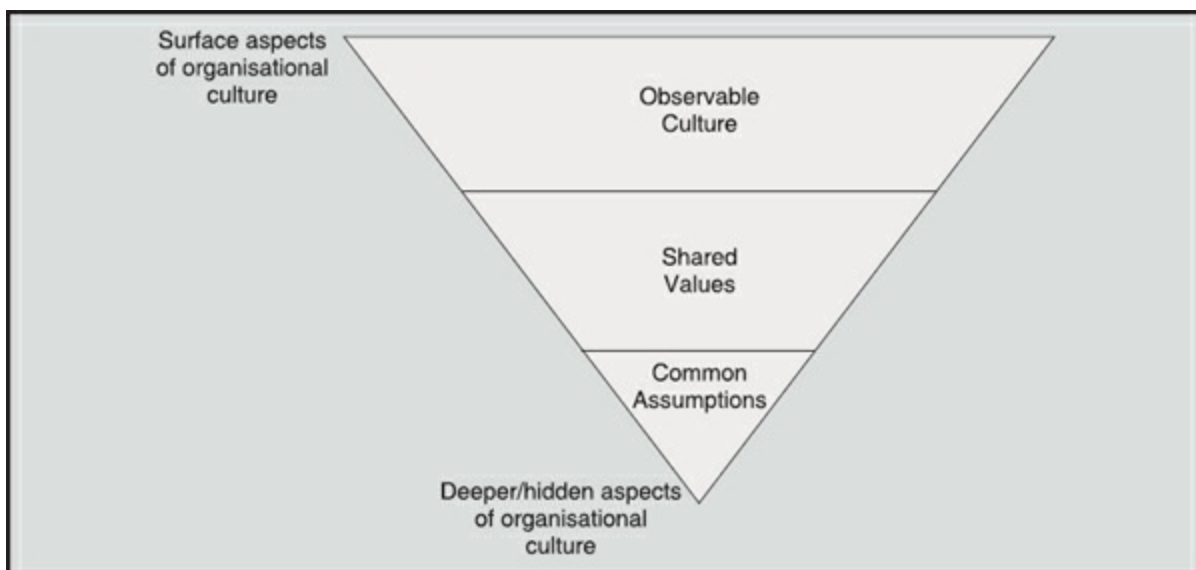


Fig. 15.1 *Three Levels of Culture*

(Source: Jack Wood, et al., *Organisational Behaviour*, p. 438)

Common assumptions stand at the deepest level of culture. These are taken-for-granted truths that organisational members share as a result of their joint experience. It is extremely difficult to isolate these patterns, but doing so helps explain why culture invades every aspect of organisational life. The common assumptions may surface in an organisational crisis, like for example, the way a senior executive, guilty of sexual harassment, is handled or an employee caught indulging in an unethical act is dealt with. How employees stand united to thwart a hostile takeover bid and the way employees volunteer for pay cuts to steer the organisation from financial crisis are also instances of the common assumptions.

Mechanistic and organic Cultures

The *mechanistic* organisational culture exhibits the values of bureaucracy and feudalism. Organisational work is conceived as a system of narrow specialism and people think of their careers mainly within these specialism. Authority tends to flow down from the top down to the lower levels and communication follows through prescribed channels. Employees tend to become typical 'organisational men' content with job security, happy with status quo and feel blessed with structured pay scales. Change is resisted and innovators are isolated and ridiculed.

Contrast is the *organic* culture. Formal hierarchies of authority, departmental boundaries, formal rules and regulations, and prescribed channels of communication are frowned upon. There is great deal of emphasis on task accomplishment, team work, and free-flow of communication—formal and informal. In problem situations, the persons with expertise may wield far more influence than the formal boss. There is widespread understanding within the staff, of the problems, threats and opportunities the organisation is facing and there is willingness and preparedness to take appropriate roles to solve the problems. The culture stresses flexibility, consultation, change and innovation. Most new economy organisations represent organic culture while Government organisations carry mechanistic culture.

Authoritarian and Participative Cultures

In the *authoritarian* culture, power is concentrated on the boss and obedience to orders and discipline are stressed. Boss is always right, and any disobedience is punished to set an example to others. Authoritarian culture is continuation of mechanistic culture explained above.

The *participative* culture is premised on the notion that people are more committed to the decisions that are collectively made than to those which are imposed on them. Further, group problem-solving leads to better decisions, because several new ideas and information are exchanged during discussions. Participative cultures tend to emerge where most organisational members are professionals and see themselves as equals.

Dominant and Sub-cultures

Large organisations tend to have *dominant* cultures. The values, beliefs and norms evolved by the large organisations are binding and shared by all employees. Dominant culture is a product of what is called national culture. National culture operates within the political boundaries of a nation-state. Business of an organisation is usually conducted in the language of the national culture.

Sub-cultures are found in departments, divisions and geographical areas, and reflect the common problems or experiences of employees who reside in these areas. A sub-culture could consist of the core values of the dominant culture as well as values unique to the department to which it relates. There could be differences and clashes among sub-cultures and between a sub-culture and the dominant culture as shown in Exhibit 15.1.

Exhibit 15.1 Culture Clashes

Here are two clashes between corporate culture and subunit culture:

- The marketing department of SmithklineBeechem in India has, for many years, hired only the toppers from the best business schools in the country. Consequently, they have a very competent and result-oriented team capable of ideation, conceptualisation, and planning of superb market-entry packages. Unfortunately, the R&D and

production departments, more rigorously controlled by the head office, had not developed the same values in their hiring processes.

Obviously, the knowledge gap between these two departments had become so unbridgeable that SmithklineBeechem in India ended up with a greater number of new products failures than the market average.

- It was the late 1980s and HP was putting up its operations in India and at Bangalore. The building was ready and at the main entrance was a cubicle with some railings installed inside. The chief of the Asia Pacific region, who was incidentally the person in charge of the Indian operations, was curious to know why the cubicle and railings were put up at the entrance of the plant. When confronted, he was politely told that the cubicle was meant for security staff and railings were meant for frisking employees when they were leaving the plant after completing their shifts. Frisking was to be carried out in order to detect any smuggling of valuable components, he was told. The chief, a Singaporean by nationality, was aghast at these answers. For him, frisking of employees was something new, never practised in HP operations anywhere in the world. Everywhere, HP stood by its credo- "Respect and Trust People". Here, you are expected to respect and trust people and at the same time frisk employees, suspecting them to be thieves. He felt particularly saddened when he was told that frisking was to be done only for one section of employees.

Now the time came to letter the wall in the main hall with HP credo- "Respect and Trust People". The chief put his feet down, "You will not letter the wall with the credo unless you pull out the railings. You will not frisk anyone over here" shouted the chief. Finally, he had his say and way. The railings were dismantled and the credo appeared on the wall.

Strong, Weak and unhealthy Cultures

Distinction is often made between strong and weak cultures. In a *strong* culture, the core values of the organisation are widely shared and eagerly embraced by all members and are deeply committed to them. It is the strong culture that made eleven employees of Taj Hotel in Mumbai loses their lives

to save hotel guests. Similar gallantry was displayed at the Taj properties in Maldives at the time of tsunami in Dec. 2004. Employees of ICICI too demonstrated strong culture when they assimilated members of Bank of Madura into their fold. The merger in 2003 between Bank of Madura and ICICI was a marriage between unequals. Bank of Madura appeared bigger with 2.6 million customers and 2400 employees. ICICI had a head count only 1600. The average age of ICICI's employees was 28 and it rose to 43 post merger. It goes to the credit of ICICI that it managed culture fusion successfully. It also goes to the credit of the HR team of ICICI for managing the fusion.

A strong culture will have significant impact on employee performance, manifested through heightened morale, positive attitudes, commitment and increased cohesiveness. This is so because there is an understanding among members about what the organisation stands for. There is also perfect compliance which is more effective than the one sought to be imposed through codes, manuals, rules, procedures and policies. Strong culture tends to promote organisational effectiveness. Structures get flattened, teams are introduced, bureaucracy is shattered, employees are empowered,—all because of strong culture.

Strong culture has dysfunctional consequences too. It tends to lead to groupthink, collective blind spots, and resistance to change and innovation. Strong culture tends to discourage diversity as it would not accommodate diverse behaviours and strengths that people of different backgrounds can bring to the organisation.

A *weak* culture is characterised by the presence of several sub-cultures, sharing of few values and compliance norms, and existence of few sacred traditions. In weak-cultured organisations, there is little cohesion across organisation—top executives do not repeatedly exhibit any business philosophy or exhibit commitment to specific values or extol the use of particularly operating practices. Because of the lack of shared values, organisational members carry no deeply felt sense of identity. Lack of identity makes employees reluctant to look at the big picture. They fail to perceive the company as a pleasant place to work and their work as ambition-fulfilling-activity.

Pause and Ponder

Based on media reports and your own perceptions gathered from friends and relatives, list names of 3 companies each with 'strong' and 'weak' cultures.

There are organisations which have *unhealthy* cultures. One unhealthy trait is a politicised internal environment that allows influential managers to operate autonomous 'fiefdoms' and resist needed change. In politically dominated cultures, many issues get resolved on the basis of turf, vocal support or opposition by powerful executives, personal lobbying by a key executive, and coalitions among individuals or departments with vested interests in particular outcome. What is best for the organisation plays second fiddle to personal aggrandizement.

Another feature of unhealthy cultures is that of promoting managers who are good at staying within their budgets, exerting close supervisory control over their units, and handling administrative detail as opposed to managers who understand vision, strategies, and culture-building and who are good leaders, motivators, and decision makers. While the former are adept at internal organisational manicuring, they may lack the entrepreneurial skills an organisation needs among its senior executives to introduce new ideas, reallocate resources, build new competitive abilities, and fashion new culture.

Unhealthy culture is also characterised by an aversion to looking outside the organisation for superior practices and approaches. Sometimes, an organisation enjoys undisputed leadership in the industry and its managers become inbred and arrogant. It believes that it has all the answers or can develop them on its own. Insular thinking and inward-looking solutions often precede a decline in performance. Several well-known organisations such as Bank of America, Citicorp, Ford, and Xerox had unhealthy cultures during the late 1970s and early 1980s.

Finally, employees in such organisations tend to adopt destructive practices. The Kerala based Dhanlaxmi Bank is typical in this context. Union leaders of the bank shot off letters to all its depositors asking them not to keep their money with the bank any longer as it could collapse. Some depositors withdrew about ₹1000 crore plunging the bank into liquidity

crisis.

HOW IS CULTURE CREATED?

Basically, an organisational culture forms in response to two major challenges: (1) external adaptation and survival, and (2) internal integration.

External adaptation and Survival have to do with how the organisation will find a niche in and cope with its constantly changing external environment. External adaptation and survival involve addressing the following issues:

- *Mission and Strategy*: Identifying the primary purpose of the organisation, and selecting strategies to pursue this mission
- *Goals*: Setting specific targets to achieve.
- *Means*: Determining how to pursue the goals, including selecting an organisational structure, and reward system.
- *Measurement*: Establishing criteria to determine how well individuals and teams are accomplishing their goals.

Internal integration has to do with the establishment and maintenance of effective working relationships among the members of an organisation. Internal integration involves addressing the following issues:

- *Language and concepts*: Identifying methods of communication and developing a shared meaning for important concepts.
- *Group and team boundaries*: Establishing criteria for membership in groups and teams.
- *Power and statuses*: Determining rules for acquiring, maintaining, and losing power and status.
- *Reward and punishment*: Developing systems for encouraging desirable behaviours and discouraging undesirable behaviours.

An organisational culture emerges when members share knowledge and assumptions as they discover or develop ways of coping with issues of external adaptation and internal integration.

Having understood the challenges that evoke organisational culture, it is necessary to state the sources from where corporate cultures emerge. Organisational culture generally comes from critical incidents, leaders, property rights, organisational structure, organisational ethics and characteristics of employees (see [Fig. 15.2](#)).

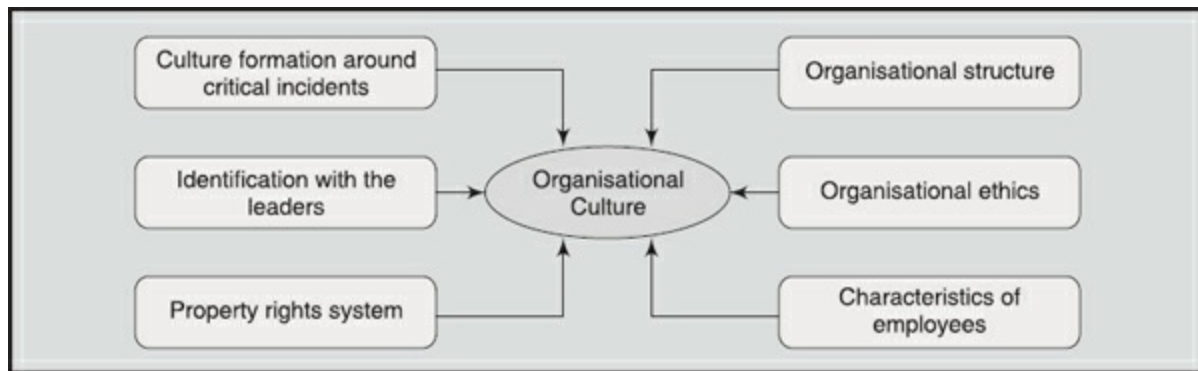


Fig. 15.2 *Where Does an Organisational Culture Come From?*

Culture Formation around Critical Incidents Norms and beliefs arise around the way members respond to critical incidents. Something emotionally charged or anxiety producing event may happen, such as an attack by a member on the leader, because everyone witnesses it and because tension is high when the attack occurs, the immediate next set of behaviours tend to create a norm.

Identification with Leaders A second mechanism of culture creation is the modelling by leader figures that permits group members to identify with them and internalise their values and assumptions. When groups or organisations first form, there are usually dominant figures or “founders” who help establish the early culture. They have a vision or mission of what the organisation should be. They are unconstrained by previous customs or ideologies. The small size that typically characterises any new organisation further facilitates the founders imposing their vision on all organisational members. Because the founders have the original idea, they also typically have biases on how to get the idea fulfilled. The organisation’s culture results from the interaction between (1) the founders’ biases and assumptions, and (2) what the original members who the founders initially employ learn subsequently from their own experiences.

The late J.R.D, typifies this type of culture creation. His supportive-consultative role, his belief on professionalism and assumption that only honesty and fair dealing will pay have made the vast Tata empire what it is today.

Property Rights Corporate culture, particularly its values, stems from how the organisation distributes its property rights – the right the organisation gives to its members to receive and use organisational resources. Property rights define the rights and responsibilities of each stakeholder group and cause the development of different norms, values and attitudes towards the organisation. [Table 15.1](#) identifies some of the property rights commonly given to the managers and to the workforce.

Table 15.1 *Common Property Rights Given to Shareholders, Managers and Employees*

<i>Shareholder's Rights</i>	<i>Managers Rights</i>	<i>Employees' Rights</i>
Dividends	Stock options	No unjustifiable lay-offs
Capital appreciation	Attractive compensation	Adequate compensation
Bonus shares	Control over organisational resources	Participation in decision-making
Company image	Decision-making power	Pension and benefits Stock options

Shareholders have the strongest property rights of all stakeholder groups because they own the resources of the organisation and share in its profits. They expect regular dividends, capital appreciation, bonus shares and good corporate image. Next come, the managers who are entitled for attractive stock options and compensation. They command resources of the organisation and are responsible for decision-making. Managers are vested with strong property rights because it is they who make or mar organisations.

Employees too have property rights in the form of secured jobs, adequate compensation, pension and benefits and in some cases stock options (for example, a former canteen boy at Infosys who used to serve tea, now runs the cafeteria and holds enough company stock to be counted as millionaire). It is the equitable distribution of property rights that earned the Tata Group the unique culture that it has today. The courage exhibit by the employees of Tata's at Maldives and Mumbai is attributed to three initiatives: the inward programmes that recognise employees on a real-time basis; a hiring system that appoints for character and not for grades; and training programmes that do not just mentor employees but also empower them to make decisions.

The distribution of property rights has direct effect on the employee behaviour and performance. It also determines the culture that emerges in the

organisations. Where property distribution is fair, stakeholders cultivate bondage to the organisation and develop strong culture.

organisational Structure Organisational structure is the formal system of tasks and authority relationships that an organisation establishes to control its activities. The structure goes beyond this, it influences organisational culture.

Mechanistic structures have many levels of authority. In mechanistic structures, people have relatively little personal autonomy and desirable behaviour includes being cautious, “boss is always right” attitude, and respecting traditions. Obviously, a mechanistic structure is likely to give rise to a culture in which predictability and stability are desired end results. Organic structures have few levels of authority. In organic structures, people have more freedom to choose and control their own activities, and desirable behaviours include being creative or courageous and risk taking. Thus, an organic structure is likely to give rise to a culture in which innovation and flexibility are the desired end states.

organisational Ethics Organisational ethics refer to the moral values, beliefs and rules that establish the appropriate way for organisational stakeholders to deal with one another and within the organisation’s environment. Organisational ethics outline the right and wrong ways to behave in a situation.

Bribery and corruption are the major issues when one is talking about ethics. Bribery is a deliberate attempt to pursue someone (usually in position of power and authority) to act improperly in favour of the briber by offering money or gifts or any other material gain. Bribery has been at the root of corruption. Corruption then is the abuse of public office for private gain. Bribery and corruption are discouraged by an ethically strong organisation, such as Tata’s.

Characteristics of People within the Organisation The ultimate source of organisational culture is the people who make up the organisation. Organisations are not just bricks and mortar but are composed of people and it is they who contribute to cultures. People differ in their personalities, values, and ethics. Naturally, organisations which hire and retain people tend to develop distinctly different cultures. People may be attracted to an

organisation whose values match theirs, similarly, an organisation selects people who share its values. Overtime, people who do not fit in quit. The consequence is that people inside the organisation become more and more similar, the values of the organisation become more and more parochial, and the culture becomes more and more distinct from that of similar organisations.

CULTURE ARTEFACTS

Organisational culture having emerged manifests itself through stories, rituals, ceremonies, language, symbols and statements of principles. All these exhibits together constitute the culture artefacts, also called observable aspects of culture.

Stories Stories about past corporate incidents serve as powerful social prescriptions of the way thing should (or should not) be done. As they are told and retold, stories give meaning and identity to organisation members and are especially helpful in orienting new employees. The strength of stories lies in the fact that the listeners are left to draw their own conclusions.

The following themes generally appear in stories across different types of organisation:

Stories about the CEO: These stories may reflect whether the CEO is 'human', how he or she reacts to mistakes (see Exhibit 15.2 for one such story of a founder).

Stories about getting fired: Events leading to employee firing are recounted.

Stories about how the company deals with employees who have to relocate: These stories relate to the company's action towards employees who have to move-whether the company is sympathetic or not.

Exhibit 15.2 Chung Ju Yung and His Hyundai

Hyundai is a \$45 bn-a-year business empire made up of more than 40 companies in fields ranging from ships to semiconductors, motor vehicle to computers, engineering to robots, and petrochemicals to department stores. The Hyundai group is a disciplined militaristic organisation. The man who

made it this way is Chung Ju Yung.

Chung was born in 1915, one of the seven from an impoverished peasant farm family. Following World War II, Chung set up an auto repair business. He called it “Hyundai” which means modern in Korean. From this small beginning, the giant empire began. Throughout the company’s growth, Chung’s style shaped its culture. Family loyalty and authoritarianism reign.

At the height of his powers, Chung was a fearsome figure. There are rumours that a stretcher used to be a fixture in Hyundai’s executive boardroom because Chung would sometimes punch out underlings who would not listen to him or do what he wanted.

Hyundai may represent an extreme in feudal obedience, but it evolved into what Chung’s executive’s call the “Hyundai Spirit”. A manual given to new recruits states, “The hard work of the creator (Chung) and that of the pioneer have helped us open the way for expansion, sophistication and internationalisation of the industrial society of our country”. In Hyundai lore and literature, Chung is quoted nearly as much as the Chinese, two decades ago, invoked Mao Zedong.

“Everything at Hyundai is run on a fairly military basis”, says a U.S. consultant. “They have an armoury in the yard. The employees who are not educated all know what they have to do if war breaks out”.

If you want to understand Hyundai fierce, competitive style, its feudal obedience, or its disciplined, militaristic nature, you do not need to go any further than looking at its founder, Chung Ju Yung.

Stories about how the company deals with crisis situations: As revealed by the experience of Brij Mohan Khaitan, the tea baron, crisis is no news to him. He survived a bomb attack in London, riots of pre-independence Calcutta and the Naxalite movement. But the crisis from ULFA and Bodo militants in Assam was too much for Khaitan. On March 18, 1992 one of his executives, Subhir Roy, and his driver were abducted by BSF – another militant organisation in Assam. Roy and his driver were released after 20 days of captivity. Khaitan’s apparently bought peace from the militants. Today, the gardens are guarded night and day by Khaitan’s private army. Two thousand armed guards, forty per garden, patrol its perimeters

constantly. No manager is allowed to go outside the garden without some protection. He built a school in Assam investing ₹22 crores to provide good education to children. His protective attitude towards his executives has earned him their unflinching loyalty.

Stories whether lower level employees can rise to the top: Often, these stories describe a person who started out at the bottom and eventually became the CEO.

To be effective as cultural tools, stories must be credible. One cannot tell stories about flat structures and then have parking space reserved for managers. Stories not backed by the reality, can lead to cynicism and mistrust. Credible stories prescribe norms for employee behaviour.

Pause and Ponder

Visit web sites of a few organisations you have heard about and look for stories that convey their cultures.

Rituals Rituals are everyday organisational practices that are repeated routinely. They help dramatise the organisation's culture. They also help achieve the desired behaviours from employees and build commonality of culture. Examples include dress of organisational members, how visitors are welcomed, how fellow employees are greeted, how often senior executives visit subordinates, how much time employees take for lunch and the like.

Ceremonies Ceremonies are more formal artefacts than rituals. Elaborate sets of activities that are enacted time and again on important occasions are known as organisational ceremonies. These occasions provide opportunities to reward and recognise employees whose behaviour is congruent with values of the company. Ceremonies send a message that individuals who both espouse and exhibit corporate values are heroes to be admired. Examples of ceremonies include celebrating launch of a new product or newly-won contract, publicly rewarding employees and the like.

Languages The language of the workplace speaks highly about the organisation's culture. Many organisations and units within organisations use

language as a way to identify members of a culture or sub-culture. By learning this language, members attest to their acceptance of the culture and in doing so help preserve it.

Organisations, over time, develop unique terms to describe equipment, offices, key personnel, suppliers, customers, or products that relate to its business. New employees are frequently overwhelmed with acronyms and jargon that, after six months on the job, have become fully part of their language. Once assimilated, this terminology acts as a common denominator that unites members of a given culture or sub-culture.

It is not that each organisation and its sub-units have their own language; often each profession develops its own language as shown in Exhibit 15.3.

Exhibit 15.3 Acronyms in Ad Business

OPS Review	Operations Status Review
MMB	Monday Morning Blues
Require it Yesterday	Deadline is Critical
MQ, JQ, SQ, DQ.	March Quarter, June Quarter, September Quarter and December Quarter
Is Boss Happening?	Has your Boss Come?
Trigger/Button	The creative Idea—Breakthrough
Promo	Promotion
TDS	Third Day Sweets—A New Recruit Has To Give Sweets to all on his 3rd day at Work
Back Side's on Fire'	There is Chaos Happening
Aps	Advertising Positioning Statement
Vo	Voice Over is an AD
Pronto!	Now, Quickly
Cool	Everything is Fine
Shut Them Down	Rejected Them
Account	Client
Googly	Tricky Situation
Gyan	Jargoistic Information on a Given Topic
Kudig's Time	Time to Have a Beer

Structures and Symbols The size, shape, location and age of buildings might reveal organisation's culture. British Airways has changed its corporate culture by changing its headquarters' building. The old multi-storey headquarters near London's Heathrow Airport reinforced hierarchical and bureaucratic values that the airline wanted to cast off. The new headquarters is designed with a central village square and work units spreading out of it. Executives are located with their units, not cloistered on a separate executive floor.

Walk the **Talk**

Do's	Don'ts
<ul style="list-style-type: none"> • Initiate culture building process, where none exists • Constitute committees—one each for one area of culture. Get support from management and cooperation from peers • Organise English language courses for all the employees. Develop own distinct jargon and make employees familiar with it. • Learn cultures of competing firms, particularly that of an organisation that has been taken over • Become a multicultural yourself. • Have patience. Culture building is a slow and painful exercise 	<ul style="list-style-type: none"> • Allow culture to become unhealthy, xenophobic, and clannish • Forget to institutionalise culture after it is created • Close mind to new things and cultures of rival firms • Forget the fact that damaging culture is easy than creating it

Inside a building, there is a treasure trove of physical artefacts. Desks, chairs, cafeteria food and wall hangings, dress attire are just a few of the

things that might convey cultural meaning.

Statement of Principles Yet another artefact of corporate culture is the direct statement of principles. Some organisations have explicitly written principles for all to see. Some other companies make explicit the moral aspects of their culture by publishing codes of ethics – specific statements of a company’s ethical values. Statement of the type enables the newly hired employees to understand the culture of their organisation.

SUSTAINING CULTURE

Having created the culture, organisation should sustain it for a long time. It is in sustaining the culture that the role of HR manager is felt more than in other areas. Several strategies are available for him or her for the purpose as [Fig 15.3](#) shows. One of the responsibilities of the HRM professional is to work in collaboration with the strategic leaders of the organisation to reinforce the firm’s characteristics that reward and encourage desirable cultural behaviours. As the organisation evolves through various stages of its life cycle, the philosophies and thought leadership of the founder/owner (if still alive) or the top management manifest through the processes and practices.



Fig 15.3 *Strategies for Sustaining Culture*

We describe a few strategies of sustaining organisational culture.

Selecting and Socialising Employees The main purpose of hiring process is to hire right people for right jobs. When, for a given job, two or more candidates with identical skills and abilities are available, final selection is

influenced by how well a candidate fits into the organisation. By identifying candidates who can jell with the organisational culture, selection helps sustain culture considerably.

Job applicants too look at an organisation from its culture perspective before seeking entry into it. In fact, more than pay and perquisites an organisation offers, it is the cultural artefacts which often attract or detract job seekers.

Along with selecting people with compatible values, companies maintain strong culture through the effective socialisation of new employees. Socialisation refers to the process by which individuals learn the values, expected behaviours, and social knowledge necessary to assume their roles in the organisation.

Socialisation can be conceptualised as a process made up of three stages: Pre-arrival, encounter and metamorphosis. The first stage encompasses all the learning that occurs before a new member joins the organisation. In the second stage, the new employee sees what the organisation is really like and confronts the likelihood that expectation and reality diverge. In the third stage, the relatively long lasting changes take place. The new employee masters the skills required for his or her new roles, and makes the adjustment to his or her work group's values and norms.

Actions of Leaders and Founders We have already stated the role of leaders in creating organisational culture. We reiterate that the founders and leaders play a significant role in sustaining organisational culture. Founders are visionaries whose energetic style provides a powerful role model for others to follow. The founder's cultural imprint often remains with the organisation for decades. For example, the culture at Microsoft calls for working exceptionally long hours, because that is what the cofounder Bill Gates has always done.

In spite of the founder's effect, subsequent leaders can break the organisation away from the founder's values if they apply the transformational leadership. Transformational leaders strengthen organisational culture by communicating and enacting their vision of the future. Cultural values are pertinently reinforced when leaders behave in ways that are consistent with the vision.

Leaders need to pay attention at every people related activity. For

example, what is emphasised and measured has significant impact on organisation's culture. Criteria used to assess success is one critical area. Are the criteria tangible and help objective assessment or do the executives get carried away by posturing loyalty and seasoned whistle blowing? Yet another critical area is promotion. Do factors like longevity and loyalty to the boss, as opposed to the organisation, take precedence over merit? What kind of retention measures are made use of? Is the organisational culture people-centric or process-centric?

The way the organisation reacts to crises speaks volumes about its values and norms. Crises reveal a company's core values. Reactions to crises are highly visible and speak louder than mere words. Knee-jerk reactions, platitudes, and timely tear shedding expose the true colour of the management. When a management pays ₹4.5 crore to union leaders overnight to buy peace, the true intentions of the leaders show themselves. Crises, though unwelcome, offer excellent opportunities to reinforce missing culture or change it for the better. Look at the way employees of Tata Motors unanimously decided to bail out the company when it was in trouble. Or employees of HP who voluntarily offered cut in their salaries to save the company. Or CEO of Citigroup who decided to take salary of one rupee till the organisation turns around. And Bill Gates and Azim Premji never had car parking spaces reserved for them. Instances as these motivate employees to reinforce and strengthen prevailing culture.

Exhibit 15.4 shows how the management of IBM responded to the crisis the MNC once faced.

Exhibit 15.4 Our Values at Work on Being an IBMer

We have been spending a great deal of time thinking, debating and determining the fundamentals of this company. It has been important to do so. When IBMers have been crystal clear and united about our strategies and purpose, it is amazing what we have been able to create and accomplish. When we have been uncertain, conflicted or hesitant, we have squandered opportunities and even made blunders that would have sunk smaller companies.

It may not surprise you, then, that last year we examined IBM's core values for the first time since the company's founding. In this time of great

change, we needed to affirm IBM's reason for being what sets the company apart and what should drive our actions as individual IBMers.

Importantly, we needed to find a way to engage everyone in the company and get them to speak up on these important issues. Given the realities of a smart, global, independent-minded, 21st-century workforce like ours, I do not believe something as vital and personal as values could be dictated from the top.

So, for 72 hours last summer, we invited all 319,000 IBMers around the world to engage in an open "values jam" on our global intranet. IBMers by the tens of thousands weighed in. They were thoughtful and passionate about the company they want to be a part of. They were also brutally honest. Some of what they wrote was painful to read, because they pointed out all the bureaucratic and dysfunctional things that get in the way of serving clients, working as a team or implementing new ideas. But, we were resolute in keeping the dialogue free-flowing and candid. And I do not think what resulted – broad, enthusiastic, grass-roots consensus—could have been obtained in any other way.

In the end, IBMers determined that our actions will be driven by these values:

- Dedication to every client's success
- Innovation that matters, for our company and for the world
- Trust and personal responsibility in all relationships

I must tell you; this process has been very meaningful to me. We look back to keep in touch with what IBM has always been about – and always will be about – in a very concrete way. And I feel that I have been handed something every CEO craves for: a mandate, for exactly the right kinds of transformation, from an entire workforce.

Where will this lead? It is a work in progress, and many of the implications remain undiscovered. What I can tell you is that we are rolling up our sleeves to bring IBM's values to life in our policies, procedures and daily operations.

I have already touched on a number of things relating to clients and investors, but our values of trust and personal responsibility are being managed just as seriously—from changes in how we measure and reward performance, to how we equip and support IBMers community

volunteerism.

Our values underpin our relationships with investors, as well. In late February, the board of directors approved sweeping changes in executive compensation. They include innovative programmes that ensure investors first receive meaningful returns—a 10 percent increase in the stock price – before IBM’s top 300 executives can realise a penny of profit from their stock option grants. Putting that into perspective, IBM’s market value would have to increase by \$17 billion before executives saw any benefit from this year’s option awards. In addition, these executives will be able to acquire market-priced stock options only if they first invest their own money in IBM stock. We believe these programmes are unprecedented, certainly in our industry and perhaps in business.

Clearly, leading by values is very different from some kinds of leadership demonstrated in the past by business. It is empowering, and I think that is much healthier. Rather than burden our people with excessive controls, we trust them to make decisions and to act based on values—values they themselves shaped.

To me, it’s also just common sense. In today’s world, where everyone is so interconnected and interdependent, it is simply essential that we work for each other’s success. If we’re going to solve the biggest, thorniest and most widespread problems in business and society, we have to innovate in ways that truly matter. And we have to do all this by taking personal responsibility for all of our relationships – with client, colleagues, partners, investors and the public at large. This is IBM’s mission as an enterprise, and a goal towards which we hope to work with many others, in our industry and beyond.

Samuel J. Palmisano

Chairman, President and Chief Executive Officer

Leaders should become role models for others in the organisations. His/her high integrity, transparency, walk the talk attitude, and belief in inclusive growth will set a tone for a culture if does not exist, and sustain the prevailing culture for a long time to come.

Culturally Consistent Rewards Reward systems strengthen corporate culture when they are consistent with cultural values. Aggressive cultures might offer more performance-based individual incentives, whereas paternalistic cultures would more likely offer employee assistance programmes, medical insurance, and other benefits that support employee well-being.

Managing the Cultural Network Organisational culture is learned. So an effective network of cultural transmission is necessary to strengthen the firm in underlying values and beliefs. The cultural network exists through the organisational grapevine. It is also supported through frequent opportunities for interaction so that employees can share stories and re-enact rituals. HR managers must tap into the cultural network, sharing their own stories and creating new ceremonies and other opportunities to demonstrate shared meaning. Company magazines and other media can also strengthen organisational culture by communicating values and beliefs more effectively.

Maintaining a Stable Workforce An organisation's culture is embedded in the minds of its employees. Organisational stories are rarely written down; rituals and celebrations do not usually exist in manuals; and organisational metaphors are not found in corporate directories. Thus, organisations depend on a stable workforce to communicate and reinforce the dominant beliefs and values. Organisation's culture can literally disintegrate during periods of high turnover and downsizing because the 'corporate memory' leaves along with these employees. Organisational culture also weakens during periods of rapid expansion or mergers because it takes time for incoming employees to learn about and accept the dominant corporate values and beliefs. For this reason, some organisations keep their culture intact by moderating employee growth and checking turnover ratios.

Pause and Ponder

How does the culture of an organisation that hires creamy layer for most positions differ from that of an organisation that hires people from the bottom of the pyramid as trainees and grooms them up in hierarchy?

EFFECTS OF CULTURE

Cultural effects may be both functional as well as dysfunctional. Talking about the latter, it may be stated that culture leads to groupthink, diversity, clannishness, and anti-mergers and acquisitions.

As was mentioned earlier, culture makes an organisation a *clan*. The clan firm in an industry possesses a few potentially disabling weaknesses. A clan always tends to develop xenophobia, a fear of outsiders.

Another problem from well-knit culture relates to the management of *diversity*. Strong cultures put considerable pressure on employees to conform. But modern organisations are known for diversity of workforce. Workforce diversity is being accepted and even encouraged. Obviously, there develops conflict between the need for conformity and the advantage of having employees with diverse behaviours and strengths.

Culture acts as a barrier to *mergers* and *acquisitions*. Historically, financial matters were alone considered to decide which company should acquire which company or which unit would merge with which firm. In recent years, cultural compatibility has become the primary concern. While a favourable financial statement of product line may be the initial attraction of an acquisition company, whether the acquisition actually works seems to have more to do with how well the culture of the two organisations match with each other. Where there is a mismatch, acquisitions are likely to fail, as happened to the takeover of Poysha Industries Ltd. by Tinsplate Co. of India Ltd. The latter acquired the former in 1991, but the big-brother attitude of the acquirer was too much for the acquired and the marriage broke down in 1994.

Culture tends to lead to *groupthink*. Groupthink refers to a condition in which all members of a group tend to think alike. Members share a strong motivation to achieve consensus. In groupthink, members tend to limit their list of possible solutions at a few, and spend less time in considering alternative solutions. They follow the leader.

Following are the characteristics of groupthink:

- There is an illusion that the group is invulnerable and cannot make major errors in judgement.
- Information that is contradictory to the dominant group view tends to be ignored, discounted or minimised.

- Group members are pressured to conform to the majority view, although the pressure might be relatively subtle.
- The pressure to conform discourages minority viewpoint from being brought before the group. Consequently, there appears to be unanimity in the group, even if this is not really the case.
- There is an illusion of morality. Because the group views itself as representing something just and moral, members assume that any judgement that the group reaches will be just and moral as well (Also see Exhibit 15.5).

Exhibit 15.5 Abilene Paradox

Groupthink has a parallel in Abilene paradox. This is a management story in which a group of people agree to a course of action that is counter to individual preference. The concept is attributed to Jurry B. Harvey, a management expert, and has since been very well captured in a film of the same name. It shows how people agree to do strange things when they suppress their own voices and simply go along with what everyone else is saying.

The story begins one hot afternoon in Coleman, Texas, as a family is playing a game of dominoes. The father-in-law casually suggests that the family go to Abilene, a good 53 miles away, for dinner. The group concurs passively. The car ride is hell. The food and service in the restaurant in Abilene is bad. On the way back, no one speaks to each other. After they return, emotions erupt. Every one points finger at everyone else and disowns the idea of going to Abilene. Finally, when all fingers point to the father-in-law, he shrugs off responsibility by saying he never really wanted to go—he was simply testing the waters.

(Source: Subroto Bagchi, *The Professional*, Penguin, 2009, pp. 138-139.)

Speaking about the benefits of culture, the following emerge:

- Effective control
- Promotion of innovation
- Strategy formulation and innovation
- Strong commitment from employees

- Performance and satisfaction

Effective Control Culture serves as a control mechanism that shapes behaviours of employees. As strong culture seeps through the organisation, people register do's (e.g., perform effectively and keep a firm grip on quality) and don'ts (e.g., engage in poor team work or be disrespected by employees.) When employees do not act in accordance with the beliefs and values of the culture, managers and colleagues are likely to intervene and initiate corrective actions.

Promotion of Innovation Innovation and creativity are emerging issues in the domain of organisational culture. Organisational culture contributed to creativity and innovation by development of norms that support such a process.

Strategy Formulation and Implementations Organisational culture has considerable influence on strategy formulation and implementation, particularly on the latter. Culture provides inputs to the company to adopt a particular strategy. Motorola's culture, for example, is built around high investment in R&D, quality, and customer care. This culture has bolstered the strategy of the company, providing the impetus for the development of new products, e.g. light weight cellular telephones and wristwatch pagers which were hailed as major technological breakthroughs.

Culture energises people in the company to do their jobs in a strategy-supportive manner and help execute strategies. A culture, where frugality and thrift are values and are strongly shared by organisational members, is conducive to successful execution of a low-cost leadership strategy. Similarly, a culture where creativity, embracing change, and challenging the status quo are pervasive themes, is very conducive to successful implementation of a product innovation and technological leadership strategy. A culture built around such principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility, is very conducive to successful execution of a strategy of delivering superior customer service.

What happens when there is a conflict between culture and strategy? Conflict between culture and strategy sends mixed signals to organisational

members and forces a choice which is not desirable. Should employees be loyal to the culture and resist actions to pursue the strategy? Or should they go along with the strategy and engage in behaviours that will erode certain valued aspects of the culture? Such conflict weakens commitment of both. To avoid such a possibility, it is advisable to change the culture to fit the strategy. IBM did this when its bureaucratic and mainframe culture clashed with the shift to a PC-dominated world and the emergence of the internet economy.

Strong Commitment from employees Culture provides a sense of identity to members and increases their commitment to the organisation as told in the opening vignette. When employees internalise the values of the company, they find their work intrinsically rewarding and identify with their fellow workers. Motivation is enhanced, and morale boosts.

Commitment is said to go through three phases—compliance, identification and internalisation. With regards to compliance, people conform in order to obtain some material benefit. When they reach the identification stage, the demands of culture are accepted in order to maintain good relationships with colleagues. In the final phase-internalisation-people find that the adoption of the cultural values of the organisation produces intrinsic satisfaction because these values are in line with their personal values. In many ways, this is an ideal state as far as the acceptance of organisational values is concerned, and, if widespread, is indicative of a strong culture.

Performance and Satisfaction Culture has significant impact on performance. Comparative studies of Japanese and American management methods suggest that the relative success of Japanese companies in the 1980s could be partly explained by their strong organisational cultures emphasising employee participation, open communication, security, and equality.

Culture has a performance-enhancement quality for at least four reasons. First, as stated above, strategy implementation is made easy through culture. Second, strong culture is characterised by goal alignment; that is all employees share common goal. Third, strong culture creates a high level of motivation because of the values shared by the members. Finally, strong culture provides control mechanism without the oppressive effects of

bureaucracy.

That culture contributes to performance needs a rider. Under stable conditions, culture can contribute to enhanced organisation performance. However, if the environment is changing, culture can become a liability.

There is correlation between organisational culture and employee satisfaction. But individual needs of employees may moderate the relationship between culture and satisfaction. In general, satisfaction will be the highest when there is congruence between individual needs and culture. For instance, an organisation whose culture would be characterised as low in structure, having loose supervision, and rewarding employees for higher achievement is more likely to have more satisfied employees if those employees have a high achievement need and prefer autonomy. Thus, job satisfaction often varies according to the employees' perception of the culture.

CHANGING ORGANISATIONAL CULTURE

Culture of an organisation needs to be changed, particularly when it is weak or unhealthy and impedes any strategy implementation. Culture change is not an easy task; it is as tough as its creation. But destroying culture is an easy task. Before describing the change strategies, it is desirable that the HR professional is aware of the difficulties in changing the culture.

It may be stated that those advocating culture generally focus on more superficial elements, such as norms and artefacts. These elements are easier to change than the deeper elements of values and basic assumptions. We focus on the difficulties faced in changing the deeper elements of culture.

Deeper elements of organisational culture represent assumptions about organisational life which members do not question and have difficulty in envisioning anything else. Besides, members do not want to change their cultural assumptions. The culture provides a strong defence against external uncertainties and threats. It represents past solutions to difficult problems. Members also have vested interests in maintaining the status quo. They may have developed personal stakes, pride, and power in the culture and may strongly resist attempts to change. Further, cultures that provide organisations with a competitive advantage may be difficult to replicate, thus making it difficult for less successful organisations to change their cultures to

approximate the more successful ones.

Age-old practices of doing business seldom die. Business culture of a certain community in India is characterised by paying and receiving graft, manipulation of political and bureaucratic authority, and efficient tax dodges. It is extremely difficult to change such a culture.

Finally, any change in culture demands change in the configuration of organisational members, the property rights system, and organisational structure. To change its culture, an organisation needs to redesign its structure, and revive the property rights it uses to motivate and reward employees. The organisation might also need to change its people, especially its top management team. All these are easier said than done.

Notwithstanding the difficulties, change in culture becomes necessary in the following circumstances:

- culture of an organisation does not fit a changing environment,
- if the industry is extremely competitive and changes rapidly,
- If the company is mediocre or worse,
- If the organisation is about to become a very large one, or
- If the company is smaller and growing rapidly.

Organisations facing these conditions need to change their cultures to adapt to the situations or to operate at higher levels of effectiveness.

Guidelines for Changing The following practical advice can serve as guidelines for cultural change:

- (i) *Formulate a clear strategic vision.* Effective culture change should start with a clear vision of the organisation's new strategy and of the shared values and behaviours required to make it work. This vision provides the purpose and direction for change in culture. It serves as a yardstick for defining the organisation's existing culture and for deciding whether proposed changes are consistent with the core values of the organisation.
- (ii) *Display top management commitment.* Culture change must be managed from the top of the organisation. Chief executives should be strongly committed to the new values and need to create constant pressures for change. They must have the staying power to see the changes through.
- (iii) *Model culture change at the highest levels.* Senior executives should

communicate the new culture through their own actions. Their behaviours need to reflect the kinds of values and actions being sought.

- (iv) *Restructure the organisation to support the new culture.* Culture change needs supporting modifications in organisational structure, HR systems, control mechanisms, and leadership styles. These changes can help orient peoples' behaviours to the new culture.
- (v) *Select and socialise newcomers and terminate deviants.* Changing organisational membership is necessary to change corporate culture. People need to be selected and terminated in terms of their consequence with the new culture. This is especially important in key leadership positions, where people's actions can significantly promote or hinder new values, beliefs, and actions.
- (vi) *Develop ethical and legal sensitivity.* Culture change can ignite tensions between organisational and individual interests, resulting in ethical and legal problems for individual members. Promoting performers, demoting laggards, and terminating deviants lead to ethical and legal problems. Guidelines for minimising such tensions would be: setting realistic values for culture change and not promising what the organisation cannot deliver; providing mechanisms for member dissent and diversity, such as internal reviews procedures and educating managers about the legal and ethical pitfalls inherent in culture change and helping them develop guidelines for resolving such issues.
- (vii) The following deserve serious consideration. ***Don't oversimplify culture.*** It is an organisational necessity and trying to change norms and values without getting at the underlying culture will be a wasted task. ***Don't label culture as an outcome of an organisation's vision, mission and values.*** It could well be the other way around where culture affects and influences the organisation's basic mission and goals. ***Don't assume that a single individual/leader can manipulate culture*** just because he/she has control over many resources of the organisation. Culture is a synergy of the organisation's members. It could even control the leader rather than being controlled by him or her. ***There is no such thing as a "correct" culture.*** Nor is a strong culture better than a weak one. The best culture-fit is when the prevailing culture supports the organisation's achievements of strategic goals and objectives. ***Don't assume that all the aspects of an***

organisation culture are important. There are many elements that constitute organisational culture and they differ in intensity and intent. Leaders and the top management can choose the element of culture that they want to focus on and ‘institute it’ with due attention and action.

Exhibit 15.6 highlights the experience of Cummins Engines in changing its culture.

Exhibit 15.6 Cummins Engine

Cummins is the world’s leading independent manufacturer of diesel engines and equipment. It is based in Columbus, Indiana, a small city in a rural area; from there, Cummins conducts business with partners and customers all over the globe. Founded in 1919, Cummins has been one of America’s most progressive manufacturing companies for more than 80 years; one CEO described it as an “improbable company”. Throughout its history, Cummins has managed complicated stakeholder relations with customers, some of whom are also jealous and vigorous competitors. It has developed extensive and innovative programmes of corporate philanthropy and has made an enduring commitment to team-based work practices. These features, seemingly at odds with the self-discipline required for survival in such a highly cyclical and ferociously competitive industry, have helped the company survive and prosper.

Cummins’ strategy has been both remarkably consistent and quite adaptable throughout its history. The company has consistently sought to develop, build, and sell the best diesel engines in the world. To create its engines, it invested heavily in the advancement of diesel technology. To produce its engines, it pioneered creative workplace designs and innovative work practices that emphasised the importance of the knowledge and attitude of the workforce in maintaining manufacturing quality. To sell its engines, Cummins built creative marketing and distribution channels, both at home and abroad. Incentives and commitment have been intimately linked throughout its history.

Cummins’ organisational structure has necessarily adapted to changing times and circumstances. After operating essentially as a family business for decades, the company recognised the need to expand and professionalise its management during the rapid post-war expansion. By the

early 1960s, Cummins was recruiting new MBA's for management careers.

The company's geographic reach expanded during this same period. Although the company's headquarters have remained in southern Indiana, plants were opened at other locations in the United States (Jamestown, New York, and Rocky Mount, North Carolina) and other countries. In all locations where it exercises complete control, the company has invested in local communities and in the development of people and workplace practices that make its facilities and products world-class.

Cummins' was an early entrant into diesel engine production and marketing on a global scale, and pursued international operations in creative and innovative ways. The company's first international manufacturing operation was established in Scotland, followed by the establishment of "beachheads" in Europe and India. The beachhead strategy involved selecting a desirable location and exporting engines to other countries in the region. Cummins also created joint ventures and alliances with other companies long before these concepts were fashionable, and worked with them to build successful businesses. By the late 1990s, international sales from major markets in Europe, Asia, and Latin America comprised more than 40 per cent of Cummins' total revenues.

The culture of Cummins derived from the beliefs and attitudes of its leading executives, particularly J. Irwin Miller and Henry Schacht. Miller held deep religious convictions, and Cummins recognised the interests of multiple stakeholders—particularly employees and the local community—at an early date. The company has also played a leadership role in the development of corporate philanthropy in United States for many decades. Throughout its history, Cummins' culture has blended a spirit of progressive humanitarianism with bottom-line thinking that has emphasised clear objectives and accountability for results. The language of "stakeholders," "doing the right thing" and "ethical standards" has never been foreign at Cummins. Leaders at every level of the company have understood that such ideas were the sources of strength and creativity that would enable the company to face the future with confidence.

Despite its long history of stakeholder-oriented policies and practices, Cummins has been challenged in recent times to rethink and realign its relations with certain stakeholders. The company has faced ownership and

governance challenges from hostile shareholders, conflicts with government agencies and advocacy organisation about the environmental impact of its diesel technology, and the need to rethink relations with its global business partners. Cummins' experience underscores the continuous and evolving character of genuine stakeholder management. Stakeholder relationships are never static and the job of managing them is never finished.

SUMMARY

Culture refers to beliefs, norms, values, and thoughts that bind an organisation together. Strong culture renders competitive advantage to an organisation.

Levels of culture, mechanistic and organic cultures, authoritarian and participative cultures, dominant, strong and unhealthy cultures, sub-cultures are the different dimensions of culture.

Organisational culture can be created through different ways. Culture is reflected through different artefacts.

Culture that is created needs to be sustained for a long-time to come. There are ways of sustaining culture of an organisation.

Culture has impact on employee performance and satisfaction. Culture is not static. It keeps changing; in fact, it should be changed, if it is unhealthy. Changing culture is not easy, but there are ways of doing it by consistent strive of top and middle management in the organisation.

KEY TERMS

Organisational culture

Vision

Mission

Values

Mechanistic culture

Organic culture

Authoritarian culture

Culture change

Participative culture
Dominant culture
Sub-culture
Unhealthy culture
Property rights
Cultural Artifacts
Abilene paradox

REVIEW QUESTIONS

1. Define organisational culture. Bring out different dimensions of corporate culture.
2. State and explain the sources of culture.
3. What are cultural artefacts? Explain each one.
4. How is culture created/sustained?
5. What are the difficulties to change culture? How to overcome them?

DISCUSSION QUESTIONS

1. Do academic institutions have different cultures? If yes, how do they differ from those of commercial enterprises?
2. Have you worked for an organisation whose culture is in need for a change? If so, what were the problems? What could be your solutions?
3. Name a company with a distinct culture. What do you think are its values? Has the culture contributed to improved performance?
4. Which of the following organisations ripe for organisational culture? Why?
 - A start-up time
 - A small scale unit
 - A 50-year old with head count of 5000
 - A 30-year old educational institution with a proven track record

CONTINUING CASE

One of the biggest challenges that Corporate HR faced during the early days was related to understanding the various subcultures that existed at Vybhav's

divisions and to build a single new culture across its units. Each of the divisions had its distinct culture strongly influenced by its top/senior management team and the industry-specific norms and standards. Soon, Renny learnt that these subcultures allowed the divisions to think in silos and consider themselves as independent units. There were commonalities on account of the single founder property rights and the common cultural artefacts like stories related to the origin and growth of the company and the common rituals and ceremonies typically performed annually like the Company Foundation Day celebration, and Diwali celebration across all business divisions. The subcultures were clearly unique to the unit and stronger than the organisational culture. Soon, Ravinder and Renny figured out that the lack of a common Vision, Mission statements and a common published Organisation Strategy were the key factors that impeded the perpetuation of a common and strong organisational culture.

Given the many challenges that the corporate HR team was already straddled with and the need for clear long-term business goals and strategy, the Board approved outsourcing of the Vision, Mission and Strategy formulation exercise to an external consultant as proposed by the senior management team. After due process of vendor evaluation, PNV Consultants (PNVCon) were identified as the preferred partner to lead Vybhav on this initiative. The very first activity that PNVCon did was to do an intensive 3-day 'organisational diagnosis' off-site workshop which included the top two levels of the management team of each division in addition to the senior members of the corporate team. This became the Phase I of the Vision, Mission and Strategy formulation exercise.

During Phase I the focus of the team was to (1) understand and list various cultural artefacts that existed at each division level, (2) identify the common aspects of culture that were accepted across units and finally (3) agree on draft proposal of the organisation's possible Vision, Mission and Strategy statements as common guideline. The last day of the phase I workshop required the senior management team to make a presentation to the Board on their proposal. The way forward for this exercise was discussed along with the Board to do team level workshops across all the units covering the 25000+ employees under Phase II of Vision, Mission and Strategy formulation exercise. The objective of this was to ensure that each employee at Vybhav had the opportunity to contribute to creating the company's Vision

and Mission and provide inputs to what the long-term strategy of the organisation should be.

Phase II was actively led by the HR teams at the division level with the support of the PNVCon representatives. The draft statements for Vision, Mission and Strategy were presented to groups of 50 employees and open feedback solicited on what could be changed, added or deleted. Carried out over a period of a month these workshops attempted to cover all the employees across the divisions and departments of Vybhav. The feedback was collated by the HR teams and presented as key inputs to the senior management team of the division in the Phase II culmination workshop.

Phase III was the final formulation workshop once again covering the Phase I participants where each Division Head made his/her presentation of their proposal and then worked together during the 5 day and night residential offsite workshop to create the final version of the Vision and Mission Statements and the organisational and divisional strategies that would be the blue-print for the next few years.

The Corporate Communication's team took up the next steps by creating the communication strategy through multiple communication methods to formalise the statements and share across all employees globally in a unified manner. A formal announcement was timed and made during the Annual Day celebration, and this time, to build the sense of a single organisation, all managers and above levels across the divisions were invited to the key event held at a large 5-star hotel at Mumbai. The Board members along with the corporate and top management presented the finalised Vision, Mission and Strategy Statements, with which the seeds were sown for a 'unified global organisation'.

Closing Case *Cultural Change at Chrysler (1994)*

Many companies have turned themselves around, converting imminent bankruptcy into prosperity. Some did it through financial gimmickry, but the ones who have become stars did it by changing their own culture.

Few remember that companies like British Air or Volvo once had a poor reputation. That's a credit to their drastic changes in customer (and employee) satisfaction, quality, and profits.

The underlying causes of many companies' problems are not in the structure, CEO, or staff; they are in the social structure and culture. Because people working in different cultures act and perform differently, changing the culture can allow everyone to perform more effectively and constructively. This applies to colleges and schools as much as it applies to businesses.

In the early 1990s, Chrysler had terrible customer service and press relations, with a history of innovation, but a present of outdated products. Its market share was falling, and its fixed costs and losses were high. Bob Lutz, the then president, wanted Chrysler to become the technology and quality leader in cars and trucks—a clear, globally applicable vision. A programme of cultural change, Customer One, was built around it.

It is also worth noting that quite a bit of the change in culture came from AMC, a much smaller company acquired from Renault. AMC executives and engineers brought the “do more with less,” cross functional methods they had at the unfortunate smaller automaker. These ideas and values were to play a major role in Chrysler's revival; two vehicles designed largely by AMC people with AMC methods were the 1993 Dodge Ram and 1995 Dodge Neon, both runaway successes (though the Neon would be handicapped by executive-ordered “cost saving” moves).

The results were impressive: overhead was cut by \$4.2 billion in less than four years, the stock price has quadrupled, and the company reversed its slide into bankruptcy and became profitable. A completely new and competitive line of cars or trucks have appeared each year since. New engines produce more fuel economy and power as new cars provide more comfort, performance, and space. They did this with the same people, but working in different ways.

It is important to note now, with hindsight, that the problem with this cultural change programme—which afflicts far too many cultural changes—is that it can easily be sabotaged by new management. Chrysler's many gains were lost when the company was acquired by Daimler Benz, forming Daimler Chrysler and instigating years of poor morale and financial performance. Still, this proves the importance of culture even more – for that is the main thing that changed in 1998.

Involvement of People

When Chrysler was entering its final “golden age,” in four years, 4,600 ideas were solicited from suppliers; 60% were used, saving over \$235 million. Customers were also called in during “virtually every stage” of the development of new models, to provide suggestions (rather than just ratings of what they liked). One designer was sent to photograph the interiors of about 200 pickups, to see where cups, maps, etc. were being stored, so they could tailor the interior of the new trucks to the needs of the drivers. Chrysler has also been listening to customers who write to the company; the designers even respond to some letters by phone.

Rather than have a small number of people control new products, Jeep/Truck product manager, Jeff Trimmer, said planners were “speaking out for customer wants and needs in the initial stages... and working along with each of the various functional groups.. The role becomes more advisory. “Everyone who would be involved participated to “harness the best ideas and creativity.”

Even the assembly line workers were included; with the new Ram trucks, they were working with engineers six months before production started. Mechanics were consulted early, to help prepare the cars and trucks for real-life maintenance.

Product teams followed vehicles through their development to identify systems and process issues. “Today, we feel we have a lot more facts, and more of a groundswell of information that comes from groups of people who know exactly what we’re trying to do,” reported Robert Johnson of Dodge Trucks.

Agreeing on Objectives

One change which helps to keep projects pure in setting down objectives clearly at the beginning. Core objectives were agreed on at the beginning by all parties; because “Every body agrees up front and we stick to the plan, “(Bernard Roberson,, Jeep/Truck team), there were no last-minute changes in focus, which can result in expensive disasters (such as the Corvair, Vega , and Fiero). Since everyone was involved in setting goals, they took responsibility for living up to them.

Learning

Changes in the way cars were made began with help form AMC, which

had operated with a far smaller staff than most automakers. Bob Lutz and former AMC engineering chief, Francois Castaing, reorganised their departments into AMC-style teams.

Since then, Chrysler changed its teams by learning from its achievements and mistakes.”We do a ‘what went right, what went wrong’ analysis at various points, and we transmit this information to the other platforms.” said James Sorenson of the Jeep/Truck Team.

Pilot vehicles in the new Ram programme—which would triple Chrysler’s market share despite a price premium—were ready 13 months ahead of time. The number of improvements made increased dramatically each year as learning spread.

Emphasis of Quality

Most people like building a quality product. It’s natural to want one’s labours to produce something of quality and beauty. That might be one reason why workers tend to support quality efforts, if they see them as being sincere.

Chrysler’s steps to improve quality started with calling in customers, suppliers, mechanics, and assembly line workers early in the design process. They continued by surveying all customers and basing dealer incentives on quality and support. The dealership rating process was improved at various points. Complaints were followed through, and negative surveys were returned to dealers for resolution (however, many dealers do not follow through on this valuable feedback). In the end, the *Five Star Process* was implemented because other dealer quality efforts had failed; cultural change is very challenging when you’re dealing with a large number of geographically dispersed, independently owned companies.

The strategy did not call for quality to be the number one objective from day one; first, the company had to overcome its reputation, newly gained, for lack of product innovation. The Viper, Intrepid, Ram, and Neon did this quite well. The first vehicle to have quality as its primary design goal was the 1996 Grand Cherokee. This theme has carried forward to present; the clearest example is the 2000 Neon, where nearly every change was aimed at increasing reliability and perceived quality. It is still worth noting that even the original 1995 Neon was a far higher quality car than

its predecessors, if you take away three poor decisions: using lower-cost exhaust couplings, lower-cost head gaskets, and in-house-designed frameless windows. The first two decisions were reportedly made directly by Bob Eaton, overruling quality-minded engineers. Without the head gasket and window problems, the Neon would probably have a far greater reputation for quality—and far greater sales. Even with them, and the warranty work they caused, they still were profitable.

The best examples of the quality emphasis are probably the Chrysler PT Cruiser and Jeep Liberty; both have consistently appeared at or near the top of the quality charts, beating many Japanese competitors.

Pitfalls

Cultural change is neither easy nor fool proof. It can take time – at least one year, more likely between three and six years—and it takes effort and vigilance. A great deal of patience and long term support is needed.

Communication may be key, as small successes are used to support larger efforts. Sometimes, it is necessary to start changing small parts of organisation first, later expanding efforts. Chrysler did this by starting with their engineering teams and moving onto other areas.

The proponents of change must carefully model the behaviour they want to see in others. If they do not send a consistent message and keep that message clear and dominant over time, cultural change may be seen as just another fad.

Frequently, change becomes harder when the organisation starts to turn around. At Chrysler, the pace of change dropped off dramatically when profits started to appear regularly, and Bob Eaton began to fatten middle management again, adding layers between line workers and decision makers. Complacency is an ever-present danger when changes start to take effect.

The example of Chrysler also shows that cultural change, though powerful, is always subject to the whims of senior leaders. In the late 1990s, Chrysler CEO, Robert Eaton, chose to sell the company to Daimler-Benz (at an immense personal profit). Strong leaders dropped away or were asked to resign, and Chrysler reverted to “old-style” behaviour: massive, simple cost-cutting, lack of clear and honest communication, and concentrating on short-term fixes rather than more constructive long-term

investments.

There is a great deal of literature on cultural change, but successful efforts generally involve the services of an experienced consultant to provide some guidance and unbiased feedback. As the Chrysler example shows, vigilance by the senior leaders and process owners is also required over the long term.

Applying Cultural Changes to Your Organisation

Cultural changes take time, and the process may be bumpy. Some people get used to it quickly, and other people take more time. Cultural changes may take a long time in a larger business. At Chrysler, they started with engineering, moved on to customer service, down to the dealers, and so on. This made for some strange experiences for those who dealt with the company during the transitional times. Certainly, many in the press wondered why Chrysler, in the midst of heavy losses, was spending billions on new buildings and research. Their answer did not come until years later, when Chrysler regained its billions and a few extra as well.

Rensis Likert suggested that major changes could take two or three years before the results showed. The lag time may be shorter, if your commitment to the programme is deep and shows clearly; if your vision of what your business should look like is clear; and if all of your actions are consistent with this vision. For example, at advertising giant, Ogilvy & Mather, posters and cards are issued to each employee with clear, colloquial statements on “how we do business” (signed by David Ogilvy). At Chrysler, the pace of change was slowed by structural problems (e.g. dealerships are independently owned) and by the jaded viewpoints of many industry insiders. Another problem has been the onset of complacency, as winning products, record profits, and high sales erased the “emergency” atmosphere that contributed to the speed of change.

While simple cost-cutting may show faster results, the profits don't stay for long. The cost-cutting programmes of Roger Smith and Richard Stempel resulted in the biggest losses in GM's history, while the cultural change programmes of Chrysler stopped the company's losses and increased its market share for the first time in years. Chrysler's own cost-cutting after the takeover resulted in problems getting new products developed and produced, and do not appear to have helped profits, since

sales also fell. You can't make a tree grow larger by cutting the roots.

Cultural changes must often be spearheaded by one or two people with strong ideas. This may be the head of the business, a consultant, or a designated executive or team. The best results seem to be achieved when there is a firm commitment from the top, which is communicated directly to each and every person in the business.

The accessibility of top people is a powerful incentive for workers to feel that they are part of the company. Often, if workers know, they can walk into the president's or owner's office and be greeted with their attention and respect, they will work much harder to make that vision a reality. This one step may help to save a great deal of money as workers may feel more free to bring in suggestions, and the executive may be more likely to try it out... sometimes with quite surprising results.... (3 M's successful Scotch tape and Post-IT notes were the result of worker suggestions).

Before planning a cultural change, it may help to study companies with successful cultures, such as 3M, Ben & Jerry's, Wal-Mart, or Chrysler, to find out how they became and stay successful, deal with failures and successes, and keep their fingers on their customers' and employees' pulses. *In search of Excellence* describes a number of companies with successful cultures (though some have declined, which, if nothing else, shows the need for vigilance). Many consultants, such as Rensis Likert, Warner Burke, David Nadler, and Chris Argyris, have also written about their experiences.

The power of cultural change is strong—strong enough to turn an aging dinosaur into a state-of-the-art profit-maker. It may do wonders in your business or institution, as well.

Source: <http://www.toolpack.com/culture.html>

Questions

1. What lessons does the HR professional learn from this case?
2. Correlate the concepts explained in this chapter with the Chrysler case
3. Having built its own distinct culture why did Chrysler allow it to slide?

REFERENCES

1. Gary Dessler, *Managing Organisations*, The Dryden Press, 1995.
2. Raleph H. Kilman, *et. al.*, “Issues in understanding and changing culture”, *California Management Review*, 1986.
3. Pradip N. Khardwalla, *Organisational Design for Excellence*, TMH, 1992.
4. Eugene Mckenne, *Business Psychology and Organisational Behaviour*, Psychology Press, 2000.
5. Gareth R. Jones, *Organisational Theory*, Pearson, 1993.
6. Debra L. Nelson and James Campbell Quick, *Organisation Behaviour – Foundations, Realities and Challenges*, Thomson, 2003.
7. William Ouchi, *Theory Z*, Addison Wesley, 1981.
8. Pradip Chanda, *The Second Coming*, TMH, 2003.
9. Thomas G. Cummings, *et. al.*, *Organisational Development and Change*, Thomson, 2002.
10. J. Burrey, *Organisational Culture: Can it be a Source of Sustained Competitive Advantage*, *Academy of Management Review*, 1986.
11. Pradip N. Khardawalla, *Corporate Creativity*, TMH, 2000.
12. Jerald Greenberg and Robert A. Baron, *Behaviour in Organisations*, PHI.

A Safe and Healthy Environment

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of safety, the types of accident, and significance of safety
- A safety programme and the different elements that should make the programme
- The dangers to employee health and several options of fighting the enemies

Opening Vignettes

(A) Prize for 2 Survivors of Bhopal Gas Tragedy

Twenty years after a gas leak from a Union Carbide plant, which spewed methyl isocyanate into the atmosphere and killed 20,000 people in Bhopal, two survivors have won an environmental prize for fighting to hold the company and its parent, Dow Chemical Co., accountable for its actions.

Rashida Bee and Champa Devi Shukla were named winners of the Goldman Environmental Prize, which recognises grassroots environmental activists. The two women shared a \$125,000 (about ₹50 lakhs) award. They said they would use it to establish an award in India to recognise individuals who fight corporate crime.

Bee and Shukla, who lived within miles of the Union Carbide plant in Bhopal, were recognised for organising a global hunger strike to help sustain international awareness of the lingering effects of the disaster, and for fighting to get Dow to pay for the medical care of the survivors and their children as well as the environmental clean up.

Union Carbide became a wholly owned subsidiary of Dow Chemical in 1999, 15 years after the gas leak. “The whole world wept, but then people forgot about Bhopal”, Bee said.

Both of them suffer multiple health problems including headaches, shortness of breath, burning sensation, insomnia and bone pain.

Bee recalled the winter night 20 years ago when she woke to the sound of her nephew coughing and was surrounded by a toxic cloud. “All of us started coughing”, she said. “It was as though our lungs were on fire. We started running and I had to pry my eyes open to see. I saw mothers running, leaving their children behind, people coughing up blood and excrement running down their legs”.

Bee and Shukla said the community continues to see elevated rates of cancer and anaemia. Women show high concentrations of toxins in their breast milk. “You can imagine the health of people who begin life with poisoned milk”, said Bee.

The two women said their efforts helped persuade the Indian Government to pursue criminal charges against the former Union Carbide Chairman, Warren Anderson, who now leads a life in retirement in New York State.¹

(B) Dark Day

November 19, 1997 should go down in the history of corporate India as a dark day. On this fateful day, a 31-year-old executive jumped to death from the seventh floor of a high rise building in Mumbai. His body was shattered to pieces, leaving his wife wrecked, daughter orphaned and parents, for whom the deceased was the only child, shocked with disbelief. Work-related stress consumed one more brilliant young man.

Sridhar Reddy, an M.Tech and an MBA (XLRI), was a topper all through and a successful executive in a prestigious group of companies. He was heading the Western region and for the company his region was most crucial, with more than 50 per cent of the total revenue and profit being contributed by him and his team.

From 1994, sales started dipping and the slide continued during the next three years. Reddy could not be blamed for the fall in sales. Though he struggled hard, cheap imports hit the market and caused the downward slide.

However, Srivastav, the MD, thought otherwise. For him, Reddy was the

man to be blamed and repeatedly an accusing finger was pointed at the young man in every meeting. “You fellow, you allowed this to happen”, “Prestige and survival of the company are at stake”, “You did all this” were the usual blurbs in every encounter. All India Marketing Manager Xavier’s intervention did not help. In fact, Xavier was accused of siding with Reddy.

Reddy took Srivastav’s words personally. He lost his peace of mind, sleep, balance and confidence. Day by day Reddy started sinking and became a psychic case. He even visited a psychiatrist. Reddy began to absent himself from office frequently.

This was the time when Srivastav and Xavier desired to go to Mumbai and talk to Reddy and pacify him. On the fateful day, Srivastav flew from Patna to Mumbai and Xavier from Bangalore to Mumbai.

The news that Srivastav was arriving at Mumbai was too much for Reddy to bear. He came to office and did the most tragic thing—ended his life. What happened subsequently was even more tragic. The management did not recognise Reddy’s wife. Xavier fought and got her a job—not in the same firm, but in another company in the same group. Disgusted, Xavier too quit the company.

(C) Yet Another Victim

One more precious life was lost, not by hanging or by jumping from a height, but by cold blooded murder. A promising youth newly married, long way to go, many things to realise suddenly fell a victim to a lustful barbarian. Prathibha S. Murthy (24 years) was working in the BPO unit of HP. The fateful day was December 13, 2005. At around 2 AM on that day, cab came to her house at Kumaraswamy Layout, Bangalore. As was the routine, Prathibha got into the cab unsuspecting, expecting that she would be ferried to her office on Hosur Road. She was taken, not to her office, but to a remote place in the newly developed Anjanapura BDA Layout. There she was raped and murdered by the driver of the cab—Shiva Kumar (22 years). The culprit admitted to the police that he slit the throat of Prathibha with sexual motive. He tried this with two other girls earlier but without success. But Prathibha Murthy sadly became a victim.

(D) Saga of Killings

Mukesh Chaganbhai, 34, is dying. There's sand in his lungs from years of cutting and polishing the agate stones that go into everything from junk jewellery to landscaped gardens. Silicosis struck him and wife Sheetal, 30, a year ago.

The couple have four children. The two youngest ones, aged seven and five, have been sent to stay with Sheetal's parents. With the disease eating away at his lungs, Chaganbhai's stick-like figure is wracked by coughing fits, breathlessness and fever.

Chaganbhai said he cut and polished stones for 17 years, partly because he needed to pay off a loan of ₹10,000 taken by his father, he was still repaying that until the silicosis struck. Chaganbhai's parents and elder brother have already died from the disease. So have the five workers that Chaganbhai employed.

The children are his biggest worry—he doesn't know who will provide for them when he dies.

The people of Shakarpur, close to the Gujarati trading town of Khambhat on the Arabian Sea, have for generations been polishing agate rocks, known for their colourful streaks and the ability to take on a smooth finish.

The finish is achieved by a process of dry grinding that throws up fine dust particles. Years of inhaling this dust causes the silicosis that kills the polishers.

Since 2005, the disease has killed 109 people in this village, the highest incidence reported in the state, according to People's Training Research Centre (PTRC), a non-profit group, which provides medical aid to patients and supports a day-care centre for children of agate workers here. The workers have no social security cover nor do families get any compensation if the breadwinner dies. Nationwide, silicosis has been documented in medical surveys since the 1940s when cases were recorded at the Kolar Gold Fields. A 1991 survey carried out by the Indian Council of Medical Research (ICMR) estimated that more than three million people, mostly coal, manganese and zinc miners, were found to be having the disease.

The disease was also found among workers at quarry sites and slate and glass units. A report by the Ahmedabad-based National Institute of Occupational Health (NIOH), under ICMR, said at least 10 million people in India are at risk from silicosis.

Yet, these afflicted workers remain largely invisible in the records of the

labour ministry.

SAFETY

“Every twenty seconds of every working minute of every hour throughout the world, someone dies as a result of an industrial accident”. This was how the seriousness of industrial accidents was described by the Director-General of the British Council, in his message of good wishes to the Seventh National Conference on Industrial Safety and Health organised by the National Safety Council, India. Exhibit 16.1 gives the major accidents in our country. The vignettes quoted above also demonstrate the good and bad about life in business establishments.

Exhibit 16.1 Major Accidents

- *Bhopal, December 1984* In the world’s worst chemical disaster, a methylisocyanate gas leak from the Union Carbide plant in the city killed over 4000 people. Thousands suffered irreversible health damage.
- *Delhi, December 1985* An oleum gas leak from the Sriram Foods and Fertilisers plant in Delhi severely affected workers and those living in the neighbourhood.
- *Rourkela, December 1985* Blast furnace accident in Rourkela Steel Plant, 18 workers affected.
- *Durgapur, June 1987* Chlorine leak at Durgapur Chemicals Factory created panic all around. Long distance trains were halted. Over 100 were affected.
- *Bombay November 1988* Fire at the Bharat Petroleum Refinery at Mahul, North-East Bombay, killed 32.
- *Ramagundam, September 1989* Major gas leak at Fertilisers Corporation of India unit at Ramagundam, killed 7.
- *Nagothane, November 1990* Explosion at the Indian Petrochemicals, Nagothane Complex, 35 persons killed, over 50 suffered 70 per cent burns.
- *Bombay, July 1991* Accident in a Hindustan Organic Chemicals unit

- near Bombay kills 7 workers.
- *Gwalior, December 1991* Blast at the dyeing department of GRASIM unit at Gwalior, 14 killed and 22 severely injured.
 - *Panipat, August 1992* Ammonia leak at the National Fertilisers plant, Panipat, killed 11, many injured.
 - *Kahalgaon, October 1992* Boiler explosion in the National Thermal Power Corporation (NTPC), 11 killed and several injured.²
 - *Ahmedabad, August 3, 2003* Over 30 persons were killed and several injured in an explosion in an old three storeyed building that housed an industrial unit to manufacture equipment for a diamond cutting and polishing industry.
 - *Bhadravati, Karnataka, August 1, 2003* Eight employees of VISL, including two officers, died on the spot and nine others were injured when a powerful explosion occurred in a converter in the steel-making section (SMS) of the plant.
 - *Mumbai, August 11, 2003* 23 employees of ONGC were killed in a helicopter crash in the offshore Heera Panna Oilfield's Neelam area.
 - *Kolkota, November 6, 2003* 19 people were burnt alive when a mob of nearly 400, mostly tea garden workers, set ablaze house of a trade union leader in the Dalgaon tea estate in north Bengal's Jalpaiguri District.³
 - *Lucknow, November 19, 2005* Shanmugham Manjunath, an officer of IOC, was murdered after he threatened to seal a petrol pump for selling adulterated fuel.
 - *Bangalore, May 28, 2009* Two people were killed and more than eight injured when a fire broke out at an agarbatti factory.
 - *Shivakasi, September 5, 2012* 38 people were charred to death in cracker explosion.

Thousands of employees throughout the world lose their fingers, eyes, limbs, and their lives, everyday. Much blood flows in the sewers of industrial establishments. The perils inherent in industrial work have made the life of the worker very cheap.

Pause and Ponder

Read the stories narrated at the beginning of this chapter. Why is this happening? Who is responsible? Why should innocent people lose their lives for the deeds of someone else? What can be done to prevent recurrence of such instances?

Why do these accidents occur? How can they be prevented? What should be the action plan of an organisation? These and other issues are the prime concerns of employee safety.

What is Safety?

Before discussing other issues relating to safety, it is useful to understand the nature of safety. Safety, in simple terms, means freedom from the occurrence or risk of injury or loss. Industrial safety or employee safety refers to the protection of workers from the danger of industrial accidents. An accident, then, is an unplanned and uncontrolled event in which an action or reaction of an object, a substance, a person, or a radiation results in personal injury.⁴

Safety refers to the absence of accidents. Stated differently, safety refers to the protection of workers from the danger of accidents.

TYPES OF ACCIDENTS

Accidents are of different types. They may be classified as major and minor ones, depending upon the severity of the injury. An accident which ends in a death, or which results in a prolonged disability to the injured is a major one. A scratch or a cut which does not seriously disable him/her is a minor accident, but an accident nevertheless. A mere incision or a deep scratch, say, on the leg or the shoulder, may or may not immediately disable the worker, but he or she may develop disability later. Again, a wound which may disable one worker may not disable another who receives a similar injury.

An accident may be internal or external. If a worker falls, or an object falls on him or her, it is possible he or she may show no external signs of injury, but he or she may have fractured a bone or strained a muscle or nerve—which is an internal injury. A worker may be disabled by an injury for an

hour, half a day, a day, a week, a month, or a few months. If he or she recovers from such a disability, his or her disability is temporary. If the injury is such that he or she will never recover fully, his or her disability is permanent.

Again, a disability may be partial or total. Accidents may be fatal or nonfatal. Figure 16.1 shows the various types of accidents.

Another related term is *incident*. An incident is a form of accident that may not necessarily result in injury to people. Typical incidents include a minor fire, flooding of a warehouse, defect in engine resulting in the recall of vehicles and the like. Incidents dent image of the company. Substantial costs need to be incurred in restoring public confidence in the firm.

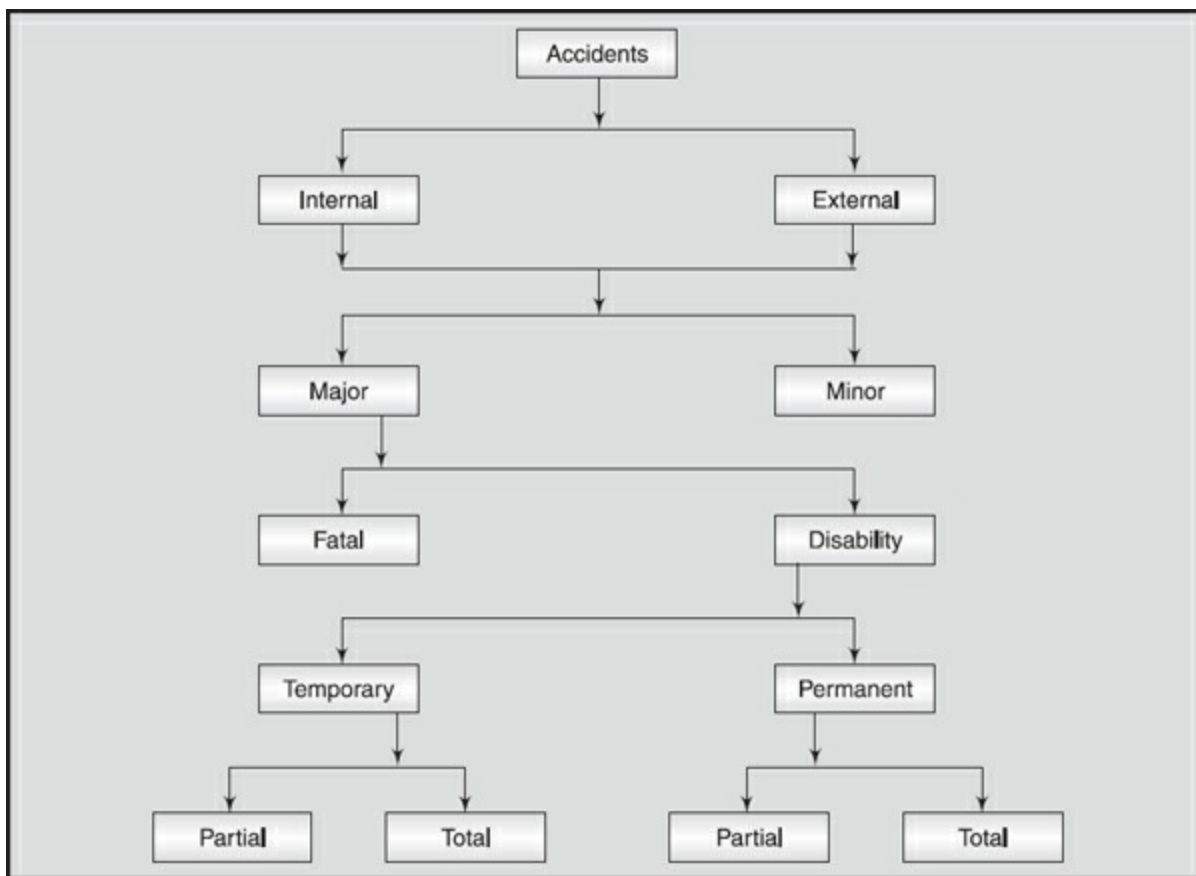


Fig. 16.1 Types of Accidents

NEED FOR SAFETY

Eliminate the causes for accidents and industrial safety is ensured. Why

safety?

An accident-free plant enjoys certain benefits. Major ones are substantial savings in costs, increased productivity, and meeting legal and moral requirements. No surprise, that ILO observes April 28 every year as World Day for Safety and Health at work.

Cost Saving Two types of costs are incurred by the management when an accident occurs. There are the direct costs, in the form of compensation payable to the dependents of the victim if the accident is fatal, and medical expenses incurred in treating the patient if the accident is non-fatal. The management, however, is not liable to meet the direct costs if the victim is insured under the ESI scheme. When the victim is uninsured, compensation and medical expenses are the responsibility of the management. There is the cost of risk management, which the management must bear.

More serious than the direct costs are the indirect or hidden costs which the management cannot avoid. In fact, the indirect costs are three to four times higher than the direct costs. Hidden costs include loss on account of down-time of operators, slowed-up production rate of other workers, materials spoiled and labour for cleaning, and damages to equipment.

When an injured worker returns (if he/she is lucky to do so), he/she may operate at less than his/her normal efficiency for sometime. Co-workers, too, may become emotionally upset for some time and consequently turnout fewer and inferior goods. Finally, customers may be lost because of the non-execution of orders on time (see also [Fig. 16.2](#) for a typical calculation of cost of an accident).

A safety plant, by avoiding accidents, eliminates these direct and indirect costs.

Increased Productivity Safety plants are efficient plants. To a large extent, safety promotes productivity. Employees in safe plants can devote more time to improving the quality and quantity of their output and spend less time worrying about their safety and well-being.

Moral Safety is important on humane grounds too. Managers must undertake accident prevention measures to minimise the pain and suffering the injured worker and his/her family is often exposed to as a result of the accident. An

employee is a worker in the factory and the bread-winner for his/her family. The happiness of his/her family depends upon the health and well-being of the worker. It is no secret that the dependents of a worker look forward to his/her reaching home safe everyday. Imagine their agony when they receive the news that the hands, legs, eyes, hands or the life itself of their bread-winner has been in jeopardy. True, a fatal or non-fatal injury entitles his/her dependents or him to monetary compensation, as per the Workmen's Compensation Act, 1923. But is monetary compensation a substitute for the person?

Providing safety to the employees has moral dimension, in addition to being a legal requirement. An employer has no right to cause accident to an employee which might incapacitate him or her or kill the person. Monetary compensation does not bring the person back as a healthy individual.

Legal There are legal reasons too for undertaking safety measures. There are laws covering occupational health and safety, and penalties for non-compliance have become quite severe. The responsibility extends to the safety and health of the surrounding community, too. The Supreme Court held:

An enterprise which is engaged in a hazardous or inherently dangerous industry which poses a potential threat to the health and safety of the persons working in the factory and industry in the surrounding areas, owes an absolute and non-delegable duty to the community to ensure that no harm results to anyone on account of the hazardous or inherently dangerous nature. This implies unlimited liability.

1. <i>Cost of wages paid for the time spent by uninjured work people:</i>	£
(a) assisting the injured person, or out of curiosity, sympathy and so on, or	
(b) who were unable to continue work because they relied on his aid or output	
In category (a) 6 employees lost on an average 20 minutes	15.96
In category (b) 3 workers lost on an average 60 minutes	24.00
2. <i>Cost of material or equipment damage:</i>	
In this instance the casing of a 5 hp electric motor was cracked beyond repair and replaced by a new motor	530.00
Installation cost	130.00
3. <i>Cost of injured worker's time lost:</i>	
Treatment for abrasion on leg. 2 hours lost at £7.59 per hour	15.18
4. <i>Supervisor's time spent assisting, investigating, reporting assigning work, training or instructing a replacement and making other necessary adjustments:</i>	
One and a half hours at £12.95	19.43
5. <i>Wage cost of decreased output by injured worker after return to work:</i>	
4 days at 2 hours/day light work	74.00
6. <i>Medical cost to the company:</i>	
(A reduction in accidents does not necessarily mean lower expenses for running the works' medical centre)	38.00
7. <i>Cost of time spent by administration staff and specialists on investigations or in the processing of compensation questions. HM Factory Inspector reports, insurance company and Department of Health and Social Security correspondence and so on:</i>	
Low in this case	66.00
TOTAL	912.57
<i>Additional Charges</i>	
Other cost elements not applicable to this accident but which must be considered in others include:	
Overtime necessary to make up for lost production.	
Cost of learning period of a replacement worker.	
A wage cost for the time spent by supervisors or others in training the new worker.	
Miscellaneous costs (includes the less typical costs, the validity of which will need to be clearly shown with respect to each accident):	
— renting equipment	
— loss of profit on orders cancelled or loss if the accident causes a net long-term reduction in sales	
— cost of engaging new employees (if this is significant)	
— cost of excess spoilage of work by new employees (if above normal)	
— attendance at court hearings in contested cases.	
Costs such as these are present in nearly every accident.	

Source: John Bratton and Jeffrey Gold, *Human Resource Management*, Palgrave-MacMillan, p. 154.

Fig. 16.2 *Cost of an Accident*

The civil law establishes the extent of damages or compensation. In the criminal law, sentences are prescribed under the pollution control laws. There is no legal ceiling on the extent of liability.

Finally, financial losses which accompany accidents can be avoided if the

plant is accident free. Financial losses can be considerable as revealed in [Table 16.1](#).

Table 16.1 *Accidents—Estimated Loss*

<i>Date of Occurrence</i>	<i>Name of the Organisation</i>	<i>Estimated Loss (₹ in crore)</i>
29-01-87	Madras Ref., Manali	4.85
11-11-87	HPL Refinery, Vizag	3.40
09-01-88	JK Synthetics	6.92
20-09-88	Monica Electronics	3.86
05-05-88	Zenith Chem., Tarapur	4.00
30-08-88	IOC, Mathura	4.63
07-09-88	IEL, Gornia	5.00
09-11-88	BPCL	9.00
02-02-89	IPCL, Baroda	41.82
09-02-89	IAAI, Bombay	43.00
23-02-89	Voltas, Warora	5.00
08-01-95 to 02-03-95	ONGC, Pasarlapudi well blowout	41.44

Source: *The Economic Times*, March 10, 1995.

SAFETY PROGRAMME

Safety programme deals with the prevention of accidents and with minimising the resulting loss and damage to persons and property. Five basic principles must govern the safety programme of an organisation. The five principles are:⁵

1. Industrial accidents result from a multiplicity of factors. But these have to be traced to their root causes, which are usually faults in the management system arising from poor leadership from the top, inadequate supervision, insufficient attention to the design of safety into the system, an unsystematic approach to the identification, analysis and elimination of hazards, and poor training facilities.
2. The most important function of safety programmes is to identify potential hazards, provide effective safety facilities and equipment and to take prompt remedial action. This is possible only if there are:
 - Comprehensive and effective systems for reporting all accidents causing damage or injury;
 - Adequate accident records and statistics;

- Systematic procedures for carrying out safety checks, inspections and investigations;
 - Methods of ensuring that safety equipment is maintained and used; and
 - Proper means available for persuading managers, supervisors and workers to pay more attention to safety matters.
3. The safety policies of the organisation should be determined by the top management and it must be continuously involved in monitoring safety performance and in ensuring that corrective action is taken when necessary.
 4. The management and the supervision must be made fully accountable for safety performance in the working areas they control.
 5. All employees should be given thorough training in safe methods of work and they should receive continuing education and guidance on eliminating safety hazards and prevention of accidents.

A safety programme generally contains six elements, namely (see also Fig. 16.3):

1. Making strategic choices.
2. Development of policies, procedures and training systems.
3. Organisation for safety.
4. Analysis of the causes and occurrence of accidents.
5. Implementation of the programme.
6. Evaluation of the effectiveness of the programme.

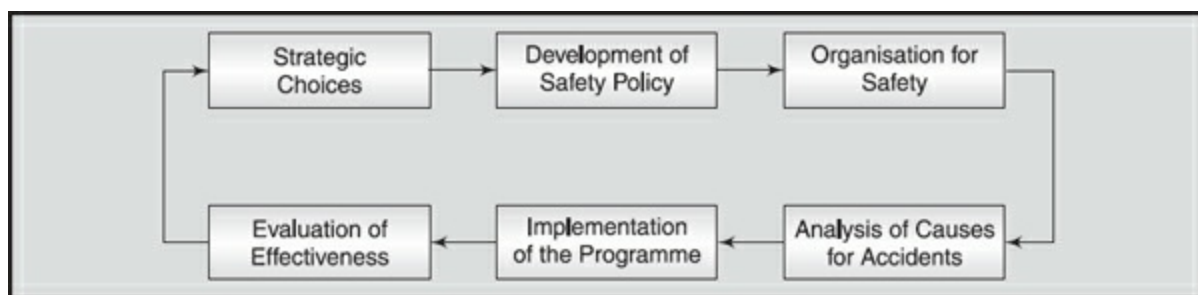


Fig. 16.3 *Safety Process*

Strategic Choices

The *first* step in a safety programme is for managements to make decisions

regarding safety of their workers. Many of the decisions made are based on strategic choices available to the organisation. Some of these strategic choices are:⁶

1. Managers must determine *the level of protection* the organisation will provide for employees. Some companies, for financial or liability reasons, prefer a minimum level of protection, while other organisations choose a maximum level of protection.
2. Managers can decide whether a safety programme will be *formal or informal*. Formal programmes will have written regulations and are carefully monitored. Informal regulations are enforced through peer pressure or good training.
3. Managers can also be *proactive or reactive* in developing procedures or plans with respect to employee safety. Proactive managers seek to improve the safety of employees prior to a need to do so, while reactive managers fix safety problems after they occur.
4. Managers can decide to use the *safety of workers as a marketing tool* for the organisation. This type of strategy would involve publicising what the company has done to promote safety and how safe the plant is to work with.

The four strategic choices listed above will also apply to issues relating to health of workers.

Safety Policy

The *second* step in evolving a safety programme is to have a safety policy. A policy specifies the company's goals and designates the responsibilities and authority for their achievement. It may also provide caveats and sanctions for failing to fulfil them. There are differences in the form and content of corporate policies. Their style, however, is not as important as the clarity with which they identify functional responsibilities and authority.

Safety policy specifies the firm's goals and designates the responsibilities and authority for their achievement. It may also contain caveats and sanctions for failing to fulfill them.

Specifically, a safety policy must contain a declaration of the organisation's intent and the means by which the intent is to be realised. As a part of the intent, the statement should emphasise four fundamental points:⁷ **(i)** the safety of employees and the public; **(ii)** safety will take precedence over expediency; **(iii)** every effort will be made to involve all managers, supervisors and employees in the development and implementation of safety procedures; and **(iv)** safety legislation will be complied with, in the spirit as well as the letter of the law.

The means to realise the intent part of a policy refers to the organisation for safety.

Organisation for Safety

The *third* step in evolving a safety programme is to constitute an organisation for safety. Companies constitute safety committees which are, composed of employees from across the organisation. Typically, safety committees serve in advisory capacities and are responsible for such tasks as reviewing safety procedures, making recommendations for eliminating specific safety and health hazards, investigating accidents, fielding safety-related complaints from employees and monitoring statutory compliance. SAIL has an exclusive safety organisation at Ranchi.

Many companies employ safety specialists to design and handle the day-to-day activities of the safety programme. Responsibility of employee safety devolves upon the HR department whose task is to co-ordinate the activities of all those concerned with safety.

The top management cannot absolve itself of the responsibility of ensuring employee safety. In fact, the managing director of the company is held responsible for an accident and is punishable with fine, imprisonment or both.

Risk management is becoming very common these days. A typical modern corporation carries a portfolio of risks. They include risks associated with industrial safety, process technology, hazard insurance, materials management and environment degradation. The simplest way of safeguarding oneself is insurance. But insurance to cover all risks may not be available or will be expensive, if available. Industrial risk management is the answer to the problem. The job of risk management is to assess all risks for frequency,

probability and severity, and to take necessary steps to avoid or reduce the impact of potential losses, besides monitoring the results.

The trend nowadays is to constitute a separate department for risk management. Essar, for example, has a 22-member department which is called the Department of Environment, Risk and Insurance Management. The team comprises experts in insurance and risk management, chemicals, electronics, mechanical and electrical engineering, and environmental science.

Consortium approach is spreading to safety, too. In Mumbai, a handful of companies have taken the initiative in setting up a mutual aid programme. They have written a ready reckoner called the Mutual Aid Response Group (MARG). In the event of a hazard, expertise is pooled in by the companies to ward off or control the hazard.

Whatever the arrangement, the organisation needs to analyse causes for accidents, measure the accident rates and have remedial measures on hand.

Causes, Extent and Remedies for Accidents Causes for accidents are many and various. Broadly speaking, these causes may be classified into two groups—human failure and machine failure. Human failure leads to an accident when the employee ignores safety precautions and commits an unsafe act. Majority of accidents occur because of human failure. Machine failure refers to faulty mechanical or physical conditions leading to accidents. [Table 16.2](#) outlines causes of accidents.⁸

Table 16.2 *Causes of Industrial Accidents*

<i>Unsafe Acts of Persons</i>	<i>Unsafe Mechanical or Physical Conditions</i>
1. Operating without clearance, failure to heed warning.	1. Inadequately guarded, guards of improper height, strength, mesh, etc.
2. Operating or working at an unsafe speed.	2. Unguarded, absence of required guards.
3. Making safety devices inoperative.	3. Defective, rough, sharp, slippery, decayed, cracked, etc.
4. Using unsafe equipment, or using equipment unsafely.	4. Unsafely designed machines, tools, etc.
5. Unsafe loading, placing, mixing, combining, etc.	5. Unsafely arranged, poor housekeeping, congestion, blocked exits, etc.
6. Taking an unsafe position or posture.	6. Inadequately lighted, sources of glare, etc.
7. Working on moving or dangerous equipment.	7. Inadequately ventilated, impure oil source, etc.
8. Distracting, teasing, abusing, startling, etc.	8. Unsafely clothed, no goggles, glares or masks, high heels, etc.
9. Failure to use safe attire or personal protective devices.	9. Unsafe processes, mechanical, chemical, electrical, nuclear, etc.

↓

2% are unpreventable
98% are preventable

There are a few more causes which [Table 16.2](#) has failed to reveal. They are:

1. Lack of adequate inspection adds to the problem of industrial accidents. We have the Factories Act, the Boilers Act, the Indian Explosives Act, the Indian Electricity Act, the Pesticides Act, the Water (Prevention and Control of Pollution) Act, the Air (Prevention and Control of Pollution) Act, and the Environment Protection Act ([Table 16.3](#)). All these contain elaborate provisions to ensure employee and public safety, and also punishment for non-compliance. Things usually go wrong in the implementation of the laws.

Here comes the need for stringent inspection which is not forthcoming. Partly, the problem lies with the inadequate strength of inspectors. [Table 16.4](#) shows the number of factories to be inspected by each inspector. Consequently, we have glass-making units at Faridabad and Mandya Sugar Mill at Mandya (Karnataka), to mention only a few. These are almost veritable death traps.

2. One of the ironies is that those who should be screaming the loudest at the woeful lack of occupational safety at the workplace—trade union representatives—are ambivalent on the issue. The perception is that

there is a trade-off between safety and jobs. In Indian circumstances, jobs get priority with the management while employee representatives prefer to lay down the disaster prevention aspects. Typically, when there is an accident, there is much sound and fury on behalf of the labour union for compensation. But soon enough, that subsides and business proceeds as usual till the next accident.

3. Most workers in our country believe that getting into an accident is the result of one's *karma*— a worker is injured because it was pre-ordained that he/she should be injured. The injury is a deserved effect of a cause whose roots lie in the previous birth. Maybe, the worker had injured someone, cut off someone's limbs or stabbed someone in his/her past life. In compensation and requital, he/she is made to suffer and is paid back in the same coin.⁹ This belief, together with the feeling that death is certain and no one can prevent it, often makes the worker ignore safety measures.

Table 16.3 *Many Acts, Little Action*

India's 25 laws relating to health, safety and environment.

- The Factories Act, 1948 (amended in 1987 and 2001).
- The Mines Act, 1952.
- The Oilfields (Regulation and Development) Act, 1948.
- The Dock Workers (Safety, Health and Welfare) Act, 1986.
- The Indian Boilers Act, 1923 (amended in 1986).
- The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996.
- The Dangerous Machines (Regulation) Act, 1983.
- The Motor Transport Workers Act, 1961 (amended in 1986).
- The Plantation Labour Act, 1951 (amended in 1982).
- The Beedi & Cigar Workers (Conditions of Employment) Act, 1966 (amended in 1993).
- The Shops and Commercial Establishments Acts enacted by respective state governments.
- The Explosives Act, 1884 (amended in 1983).
- The Petroleum Act, 1934.

- The Inflammable Substances Act, 1952.
- The Environment Protection Act, 1986 (amended in 1991).
- The Water (Prevention and Control of Pollution) Act, 1974 (amended in 1988).
- The Water (Prevention and Control of Pollution) Cess Act, 1977 (amended in 2003).
- The Air (Prevention and Control of Pollution) Act, 1981 (amended in 1987).
- The Public Liability Insurance Act, 1991 (amended in 1992).
- The Motor Vehicles Act, 1988 (amended in 2001).
- The Atomic Energy Act, 1962 (amended in 1987).
- The Insecticides Act, 1968 (amended in 2000).
- The Electricity Act, 2003 (replaced The Indian Electricity Act, 1910).
- The Disaster Management Act, 2005.
- The Energy Conservation Act, 2001.

4. Cracker manufacturing units, in the unorganised sector, are veritable death-traps. For example, in fire-works producing unit in Sivakasi, 32 people were roasted alive due to air explosion which took place on 19th September 1982. The explosions occur every year with sickening regularity in Sivakasi, which is called the 'Japan of India', claiming precious lives, mostly of women and children. Haphazard production, total disregard to elementary safety precautions, increasing reliance on child labour (about 45,000 children are engaged in the cracker-manufacturing industry), official's apathy and indifference are some of the factors causing avoidable deaths.
5. The private sector is guilty of negligence on the safety front. At times even elementary precautions are not adopted. Official reports on fires, that broke out in April 1983 at a cotton-ginning factory owned by the Kotharis at Adoni, Andhra Pradesh; and at Fabine Textiles in Bhiwandi, Maharashtra, in March 1997 note that the fire was mainly aggravated by the absence of adequate water-supply facilities in the former case and by the lack of fire-fighting equipment such as hydrants or sprinklers in the latter. And in petrochemical complexes, where mega-disasters can occur, private companies at times scrimp on safety devices to cut costs.

Table 16.4 Inadequate Inspection

<i>State</i>	<i>Number of Inspectors</i>	<i>Factories per Inspector</i>
Andhra Pradesh	92	233
Assam	1.2	212
Bihar	46	1038
Gujarat	103	144
Haryana	15	355
Himachal Pradesh	1	529
Jammu & Kashmir	4	180
Karnataka	38	315
Kerala	65	186
Madhya Pradesh	50	156
Maharashtra	130	184
Manipur	1	357
Orissa	24	94
Punjab	33	304
Rajasthan	40	232
Tamil Nadu	131	100
Tripura	4	175
Uttar Pradesh	48	135
West Bengal	62	138
Chandigarh	1	284
Delhi	22	208
Goa	3	140
Pondicherry	5	171
All India: Number of Inspectors 903,		Number of Factories 6004.

Abrol of the Delhi Science Forum observes that Indian plants are not designed with enough back-up safety systems. Others in the industry point to corruption in the factories' inspectorate, the government arm that is supposed to check on safety at the factory level. A manufacturer confesses that he bribed a boiler inspector with ₹5000 after the inspector said that the boiler's tube outlet for steam should have been stamped "boiler quality tested". The newly set-up plant could not go on stream because the boiler had not been certified by the factories inspectorate.¹⁰

6. In the name of the nature of industry, workers are crushed to death.

Child labour in diamond cutting industry is common. Workers are often locked from outside to prevent them from smuggling out diamonds.

The latter custom killed 127 workers as they stampeded against bolted doors when the January quake struck polishing units in Ahmedabad.

Because of their arduous calling, most workers, including children, end up with failed eyesight early in life.

On 28th May, fire broke out at Ravi Ragh Industries in Bangalore, killing two people and injuring more than eight. What is more tragic is the inability of the workers trapped inside to escape when the fire broke out. The door of the building where the workers were rolling incense sticks was locked from outside as regular practice. The factory is located amidst narrow lanes, and the building is dusty with virtually no ventilation. Death traps like Ravi Ragh Industries are not rare.

7. Companies exploit mines (coal mines, particularly) and once the deposits are exhausted, they are abandoned. The ash lying around the mines causes enormous pollution to human beings, cattle and flowers and fauna. Diseases like TB, cancer and loss of eyesight are very common. Who will fill the mines? Who will protect the hapless victims living around the open mines?
8. As companies globalise, and projects—especially, large ones involving greater complexities— increase, new risks emerge. Technological advancement has brought in threats of obsolescence, which itself is a big risk.
9. The boom in manufacturing in the Asian region, including India, has not been accompanied by an increase in focus on workplace safety. Manufacturing and mining processes are moving from industrialised countries to developing countries to feed the hunger for goods and commodities. Within India, many of these operations are carried out in the informal sector where workers do not have any protection.
10. Labour falls in the concurrent list in the Constitution. Central Government enacts laws but the implementation is in the hands of respective State governments. The absence of a single safety law and changing regulations from state to state pose compliance problems.
11. Factories usually contain more workers than can be accommodated. Chemicals are not stored well away from work areas and workers are rarely informed about the hazardous nature of these substances.

Factory lapses have earned India the dubious distinction of having the highest number of industrial accidents per 100,000 workers. In 2005, about 11 deaths occurred per 100,000 workers in India compared with two in the US and 0.01 in Japan.

12. The presence of factory inspectors who are responsible for administering factory regulations is not felt much. For one thing, they

are overburdened with the number of factories to be inspected by them (See Table 16.4). In addition, state governments have not filled up vacancies for a long time. Where officers are appointed, their offices are starved of basic amenities such as telephones, stationery, and vehicles to carry out inspections.

13. Demand for iron has been yet another cause for accidents. Fed by export demand, about 30,000 iron-laden trucks make the journey from mines in Western Orissa to ports, hundreds of kilometers away, providing a ready-made alibi for employers. Accidents occur, workers die, but they are reported as road accidents.
14. Human error is one of the major causes for unsafe acts. Human error manifests in several ways. First is *inadequate information*. This relates to ignorance of the production processes in which workers are involved and consequences of their action. Second is the *lack of understanding*. This arises as a result of a failure to communicate accurately and fully the stages of a process that an item has been through. Consequently, people make presumptions that certain actions have been taken when this is not the case. Third, *lapses of attention*. An individual's intentions and objectives are correct and a proper course is selected, but a slip occurs in performing it. This may be due to competing demands for attention. Fourth, *mistaken actions*. This is a classic situation of doing the wrong thing under the impression that it is right. Fifth, *mistaken priorities*. This occurs when an organisation's objectives and priorities are not clearly understood by workers. For example, when cost saving becomes an objective and a priority, safety precautions may be compromised. Sixth, *willfulness*. No employee indulges in an unsafe act willfully. However, there is only a thin dividing line between mistaken priorities and willfulness. Managers need to be alert to the influences that persuade individuals to resort to short cuts lured by the perceived benefits outweighing the risks or the belief that they had done it in the past and got away also.

Pause and Ponder

Causes for accidents are mostly situation-specific. Visit the site of an accident, talk to the affected people and onlookers, and list out the causes

for the accident.

Accident Rates Accidents are described in terms of frequency, severity and incidence. Organisations generally maintain frequency, severity and incidence records.

Mathematical formulae are used to calculate accident rates. Thus, for calculating the *incidence* rate the formula is:

$$\text{Incidence rate} = \frac{\text{Number of recordable injuries} \times 1 \text{ million}}{\text{Number of employee exposure hours}}$$

Suppose an organisation had 10 recorded injuries and 500 employees. To get the number of exposure hours, it would multiply the number of employees by 40 hours and 50 work weeks, that is $500 \times 40 \times 50 = 1$ million. In this case, the incidence rate would be 10, that is, there were 10 recorded injuries for every 100 employees.¹¹

The *severity rate* reflects the hours actually lost due to injury. It recognises that not all injuries are equal. As was mentioned earlier, injuries may be fatal or non-fatal, total or partial, and permanent or temporary. Specific hours may be charged against an organisation for each category of injuries. The formula for calculating the severity rate is:

$$\text{Severity rate} = \frac{\text{Total hours charged} \times 1 \text{ million}}{\text{Number of employee hours worked}}$$

Alternatively, severity rate can be calculated thus:

$$\text{Severity rate} = \frac{\text{Total number of days lost}}{\text{Total number of man hours worked}}$$

Obviously, an organisation with the same number of injuries as another but with more deaths would have a higher severity rate. The problem with severity rate is allotting hours for each injury. Allotment, at the most, can be arbitrary. Hence, severity rate is not generally calculated.

The *frequency rate* is similar to the incidence rate except that it reflects the number of injuries per million hours worked rather than per year:¹²

$$\text{Frequency rate} = \frac{\text{Number of disabling injuries} \times 1 \text{ million}}{\text{Number of employee hours worked}}$$

Alternatively, frequency rate may be calculated as follows:

$$\text{Frequency rate} = \frac{\text{Total number of accidents}}{\text{Total number of man hours worked}} \times 100,000$$

Extent of Accidents Table 16.1 lists major industrial accidents that took place in our country in the past decade. Some more details are worth mentioning in this context. It is estimated that 14 lakh workers in India, five or seven times more than in Japan, the UK, and the US, are exposed to accidents. The problem is much more severe because there are thousands of unregistered industrial units, most of them small and tiny, which pose a major threat to the workers and the community. Figure 16.4 and Tables 16.5 and 16.6 show the number of casualties. Obviously, accident rates are relatively high in our country.

Remedies The methods and devices for the prevention of accidents are now available in plenty. Experiences and the relentless war waged by independent organisations like the Safety Council, and the stringent rules framed by the government have all resulted in the development of new methods and devices for the prevention of accidents. If an accident occurs now, it is not because of the lack of safety facilities, but because of the indifferent attitude of the management, carelessness of the workers and predilections of enforcing agencies.

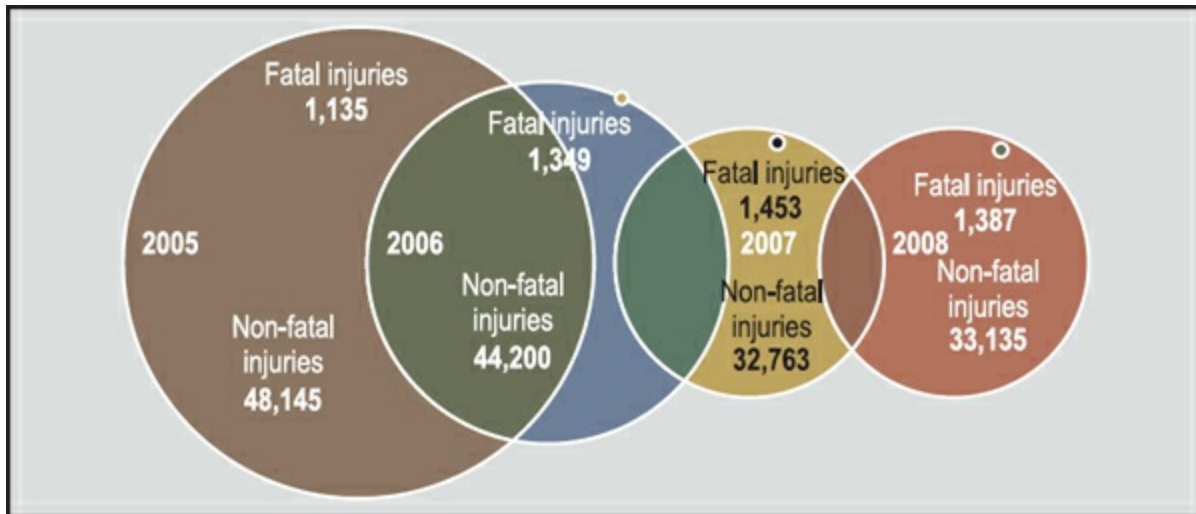


Fig. 16.4 *Total Accidents*

Before discussing safety measures in detail, it is useful to consider what has come to be known as the axioms of industrial accidents. These principles enable the management to understand the causes and consequences of accidents and to introduce suitable safety devices. The principles are:¹³

1. The occurrence of an injury invariably results from a complete sequence of factors, the last one of these being the accident itself. The accident is caused or permitted directly by an unsafe act of an employee and/or a mechanical or physical hazard.
2. The unsafe acts of employees are responsible for a majority of accidents.
3. The employee who suffers a disability/injury caused by an unsafe act has had an average of over 300 narrow escapes from serious injury that might have resulted from the very same unsafe act. Likewise, employees are exposed to mechanical hazards hundreds of times before they suffer an injury.
4. The occurrence of an accident that results in an injury is largely preventable.
5. Four basic methods are available for the prevention of accidents—engineering revision, persuasion and appeal, personal adjustment and discipline.
6. The methods most valued in accident prevention are analogous to the methods required for the control of quality, cost and quantity of

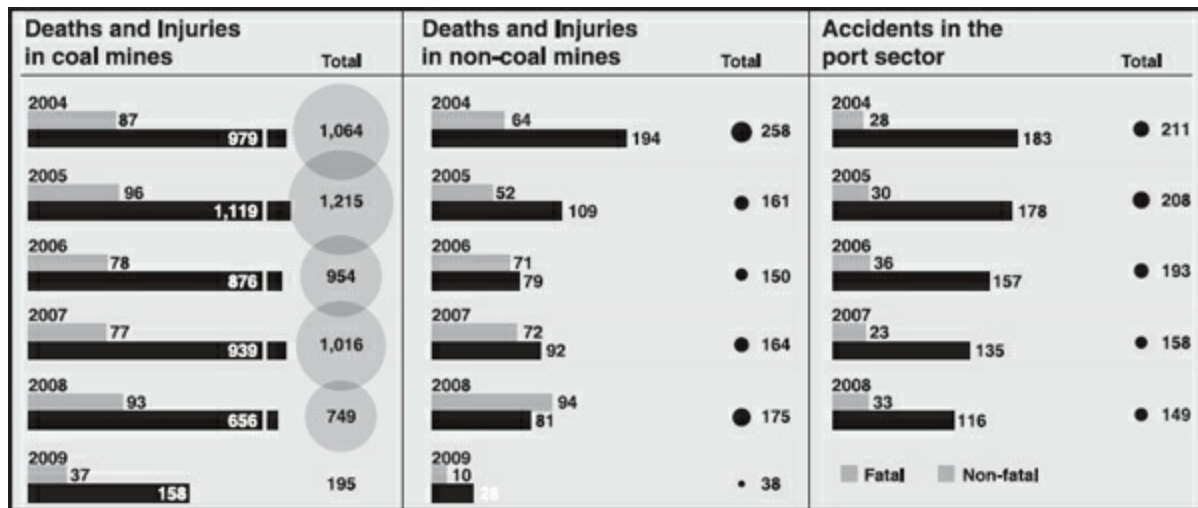
- production.
7. The supervisor or the foreman is the key person in industrial accident prevention. His/her application of the art of supervision to the control of worker performance is a factor which exerts the greatest influence in successful accident prevention.
 8. The humanitarian incentive for preventing accidental injury is supplemented by a realisation of two powerful economic factors, namely:
 - (i) A safe establishment is efficient productively, and an unsafe establishment is inefficient.
 - (ii) The direct employer costs of industrial injuries for compensation and for medical treatment are but one-fourth of the total which the employer must bear.
 9. Safety should be driven internally, not externally.
 10. Do not count on common sense for safety improvement.
 11. Safety incentive programs should focus on processes rather than outcomes.
 12. Behavior is dictated by activators and motivated by consequences.
 13. When people feel empowered, their safe behavior spreads to other situations.

Table 16.5 *Year-wise accidents of major states*

		<i>State-wise Accidents</i>			
		<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Delhi</i>	Fatal	17	14	17	5
	Non-Fatal	33	50	35	37
<i>Bihar</i>	Fatal	4	6	11	6
	Non-Fatal	130	108	28	48
<i>Haryana</i>	Fatal	38	71	101	74
	Non-Fatal	234	186	114	112
<i>UP</i>	Fatal	78	118	78	81
	Non-Fatal	193	235	182	141
<i>Punjab</i>	Fatal	56	48	35	45
	Non-Fatal	148	139	136	144
<i>Kerala</i>	Fatal	18	13	22	15
	Non-Fatal	377	577	172	158
<i>Orissa</i>	Fatal	37	74	81	81
	Non-Fatal	534	479	468	437
<i>Rajasthan</i>	Fatal	52	61	60	45
	Non-Fatal	1274	1129	1145	997
<i>Karnataka</i>	Fatal	34	64	107	91
	Non-Fatal	1259	1371	1225	1052
<i>Tamil Nadu</i>	Fatal	57	48	60	67
	Non-Fatal	1545	1198	1089	1252
<i>Andhra Pradesh</i>	Fatal	134	176	157	163
	Non-Fatal	1626	1334	1622	1411
<i>Madhya Pradesh</i>	Fatal	36	35	52	40
	Non-Fatal	1281	2099	1590	1419
<i>Gujarat</i>	Fatal	200	184	222	195
	Non-Fatal	5574	4843	3151	2725
<i>Maharashtra</i>	Fatal	173	175	197	218
	Non-Fatal	4137	4223	3351	3088
<i>W.Bengal</i>	Fatal	64	75	68	86
	Non-Fatal	28288	24761	17096	18615

As Fig. 16.4 shows, the number of fatal accidents peaked in 2007, whereas the number of non-fatal accidents was the highest in 2005. Table 16.5 reveals that the highly industrialized states like Gujarat, Maharashtra, Tamil Nadu, Karnataka, Haryana and West Bengal are also carriers of high fatal and non-fatal accidents (See also Table 16.6).

Table 16.6 Deaths and Injuries across Sectors



Source: Fig. 16.4, and Table 16.5 and Table 16.6 are excerpted from *Mint*, Oct. 5, 2009

These axioms give us an idea of various safety measures to be implemented by the management. However, we discuss here certain important safety measures. The measures are applicable to all industrial establishments, irrespective of their size and age.

Training in Safety Systematic training of industrial employees is necessary if they are to do their jobs efficiently and safely. This is an inescapable requirement, regardless of how carefully employees are selected or how much aptitude and experience they may have for the jobs to which they are assigned. Training practices in the industry will be found to vary widely with respect to method, content, quality, quantity, and source of instruction. The differences are influenced, strongly by the size of the company, the types of jobs performed, and the awareness of the management regarding the importance of training.

It is not enough if workers are trained on the methods of avoiding accidents. They must be trained on the ways of minimising damage, should an accident occur. For example, high-voltage line repairers must be given thorough indoctrination in correct work methods before they are permitted to undertake more hazardous phases of their work. Additionally, the employees must be given instructions in first-aid procedures, including specialised

techniques for resuscitation, using prescribed methods that can be applied while the victim is still at the top of a high-voltage line pole. A similar problem might occur in a chemical plant. Employees may be working with compounds that, if accidentally released or spilled in large volumes, would cause severe injury upon contact with the skin or body tissues.¹⁴ In such situations, a common safety device is the installation of emergency showers that provide a deluge of water to thoroughly flush the dangerous compound off the skin of a victim. Training for such workers requires, therefore, not only what to do and what not to do in performing the job properly, but also thorough instructions on the use of special devices and procedures, in the event an emergency occurs.

Training may be given by the foreman or supervisor responsible for the job. However, nowadays, the management is finding it worthwhile to use specialists in training to supplement the work of the supervisor, as in the case of job analysis and injury prevention. Training specialists do not necessarily do the job for which the supervisor is responsible. The function of the specialist is to set up the procedure so that the training can be imparted by qualified persons in the plant or, individual departments. The specialist will prepare the instructional manuals and other details for conducting the training programme, and supervise the activity.

The National Organic Chemical Industries (NOCIL) has unique training programmes on safety. The company has a risk management team comprising medical officers, nursing and pathological staff and safety officers—all numbering 16. The team's agenda includes safety, health and environment protection. NOCIL's training programmes consist of mandatory training programmes like mock safety drills (every week) and evacuation drills (at least once in a year). In addition, the company has organised a modular approach to step up safety measures.

There is the departmental module in which all departments at the plant are in an integrated safety programme. A regular duty system enables every department to participate. This team is led by the particular department head assisted by a fire marshall, an operations expert, four engineers (mechanical, electrical, inspection and instrumentation) and a product transport specialist to take accountability of in-transit cargo.

The second module extends itself beyond the plant. NOCIL's sales and

marketing teams at Mumbai, Kolkata, Delhi and Chennai have been geared to take charge in the event of any perilous occurrence. About 50 sales persons have been trained to respond to any mishap.¹⁵

At Burroughs Wellcome India seminars, training programmes and workshops are a regular feature. In fact, these programmes have yielded good results to the company.

Physical and Mechanical Conditions Safety measures should be kept in mind while planning a layout and constructing a building. Workers must be provided with safe tools and equipment to work with. All machinery must be fenced, and mechanically and physically unsafe conditions should be eliminated.

No new machine should be installed without being sufficiently guarded and fenced. The practice of supply of safety accessories by the manufacturers on request at an extra cost must be discontinued. Machines must be designed, manufactured, priced, and supplied with necessary built-in safety measures. The safest way would be to install machines—as in industrially advanced countries—which would automatically stop working as soon as the worker's hand crosses the danger zone.

Protective equipment of good quality and proper size, goggles, gloves, ear muffs, safety belts and shoes, helmets, and so forth, should, be supplied to workers, who must be educated to wear them while on duty.

Aisles and passages should be free to permit easy movement of workers and materials. Proper storage facilities should be provided for materials and work-in-progress so as to prevent collision and stumbling, and to facilitate escape in emergencies.

There is a need for periodic inspection to ensure safety of workers and machines. Defective tools and equipment must be discarded. Safe electrical wiring adds to the safety of a plant.

In this context, it is useful to recollect the provisions of the Factories Act, 1948 relating to safety. Sections 21 to 41 of the Act deal with safety. The safety provisions are absolute and obligatory and the occupier of every factory is bound to follow them (*see* Exhibit 16.2 for the provisions).

Exhibit 16.2 Provisions of the Factories Act, 1948

The provisions are:

S.21 Dangerous part of every machinery must be securely fenced. S.22 stipulates that the machinery in motion must be examined by a trained adult male worker. The section further provides that any young person or a woman should not handle a machine which is in motion. S.23 states that young persons should not be allowed to work on dangerous machines. S.24 says that every factory must provide suitable striking gear. There should also be a locking device to prevent accidental starting of transmission machinery. According to S.25, no traversing part to be allowed to run within a distance of 45 centimetres from any fixed structure.

S.26 requires that casting should be done in such a way as to prevent danger.

S.27 stipulates that women and children should be prohibited from going near cotton openers. According to S.28, hoists and lifts should be in good condition and should be examined once in every six months. Similarly, lifting machines, chains, ropes and lifting tackles must be in good construction and should be examined once in every 12 months (S.29).

S.30 requires that notice of maximum safe working speed of grindstone or abrasive wheel, etc. to be kept near the machine.

S.31 stipulates that safe working pressure should not be exceeded.

S.32 requires that in every factory all floors, steps, stairs, passages and gangways shall be of sound construction and be properly maintained. Similarly, pits, sumps, and openings in floors must be covered or fenced (S.33).

According to S.34, no person shall be employed in any factory to lift or carry excess weight so as to cause his/her physical injury.

S.35 mandates provision of goggles or screen to protect persons working on machines which might cause damage to his/her eyesight.

S.36 prohibits entry of any worker into any chamber, tank, pit or pipe where any gas or fume is present.

S.37 mandates that measures be taken to prevent explosion on ignition at gas or fume. Similarly, measures must be taken to prevent outbreak of fire and its spread (S.38).

If it appears to the factory inspector that any building, part of a building or machinery is dangerous to human life he/she may ask for details about

them or insist on suitable tests to determine their safety (S.39). Where unsafe condition is reported, the inspector may serve a notice on the occupier to initiate suitable measures to restore safety (S.40).

Where a factory employs 1000 or more workers, there must be a qualified safety officer(s) appointed to ensure compliance of all the safety provisions (S.41).

Role of Management and Unions The problem of safety must begin with the management. The management should believe in, and have a commitment to safety and safety rules. The mere constitution of a safety committee, or the appointment of a safety officer serves no great purpose. Nor is it enough merely to show concerns for safety after an emergency. The management must view safety as an integral part of the management process. Strong trade unions can force unwilling managers to undertake safety measures.

Employee Involvement The safety programme in any industrial establishment is directed towards employees. Obviously, their involvement ensures effective implementation of programme. More specifically, employee involvement is necessary for two reasons. First, involvement binds them to participate in the safety programme. Second, employees understand reasons for accidents better and can offer effective suggestions to avoid them.

Once involvement is assured, management can provide a checklist (see Exhibit 16.3) to the employees which reminds them about the ways to keep oneself safe.

Exhibit 16.3 Employee Safety Responsibilities Checklist

- Know what constitutes a safety hazards.
- Be constantly on the lookout for safety hazards.
- Know and use safe work procedures.
- Avoid unsafe acts.
- Keep the work area clean and uncluttered.
- Report accidents, injuries, illnesses, exposures to hazardous substances and near misses immediately.
- Report acts and conditions that don't seem right even if you are not sure if they are hazards.

- Cooperate with internal inspections and job hazard analyses.
- Follow company safety rules.
- Look for ways to make the job safer.
- Participate actively in safety training.
- Treat safety as one of your most important job responsibilities.

(Source: Garry Dessler, *op. cit.*, p. 658)

Safety Posters and Film Shows Safety posters with poignant illustrations and penetrating slogans may be put up on the walls near workplaces. The National Safety Council has published a series of such slogans as, “Provide Guards—Avoid Tragedies”, “Overconfidence leads to accidents”, “No grip—No safe”, “Speed thrills, but kills” and so on.

Films on how accidents occur, on the consequences of injuries, and the need for safety may be screened for the benefit of the workers—like the films on road safety which the traffic police show for the benefit of the public. Film shows are more effective than posters because of their tremendous audio-visual impact. It is regrettable that such films have to be imported. Foreign films may fail to carry home the message to the workers because they are produced in foreign languages and in foreign situations and locales. It is time that films are produced in regional languages covering local events, and are exhibited for the benefit of our workers.

Safety Week and Awards A safety week is observed from the 1st to 7th of every March. Workers are given badges with green triangles printed on them and are asked to wear them while on work. Film shows are also arranged during the week.

Safety awards are presented by the National Safety Council every year to industrial establishments which show accident-free operations. BHEL has been the recipient of the highest number of such awards.

Stringent action against non-compliant organisations may also help in improving safety. Gammon India Ltd., for example, was banned for two years from taking government projects after half a dozen of its workers died in an accident in South Delhi.

Database Data relating to accidents are not properly maintained and are not

periodically updated.

The government has contradictory data on industrial accidents, reflecting the lack of precise information needed to take policy decisions. Typical are the gaps in figures presented by two labour and employment ministry organizations. Data compiled by the Directorate General, Factory Advice Service and Labour Institute (DGFASLI) seem to indicate that industrial injuries are falling. Information provided by the Employees State Insurance Corporation, on the other hand, provides compelling evidence that accident claims made by companies for insured workers is rising. Experts say these numbers are, in any case, grossly under-reported as the data cover less than 10% of India's total workforce.

Safety Culture

An organisation needs to build a safety culture. The following need to figure in such a culture:

- Commitment from the top management to safe and healthy environment
- Acceptance of responsibility for any unsafe act or unhealthy practice from the top down to the last line of authority
- A conviction that high safety standards are achievable through proper management
- Realisation that safety is a long-term strategy which requires sustained efforts and interest
- Health and safety to be treated as corporate goal and properly resourced
- Rewarding right compliance and behaviors that ensure safety
- A commitment to high expectations and conveying a sense of optimism about what is possible supported by adequate codes of practice and safety standards.

What India needs is a single national agency to monitor workplace standards and increasing inspection. Data relating to injuries need to be properly maintained.

Implementing the Policy

The *fifth* step in a safety programme is the implementation of the safety policy. For implementation, the programme must cover.¹⁶

- Procedures for reporting accidents, hazards, fire precautions, first aid.
- Arrangements for instructing workers about safe working methods and

for training employees in safety matters.

- Good housekeeping requirements covering storage facilities, adequate space for machinery and plant, and the provision of gangways.
- Special rules for work done at a height, in confined spaces, on certain electrical equipment or unguarded machinery.
- The maintenance of equipment and the provision of proper inspection and testing arrangements.
- General rules on safe working habits.
- Special rules for internal transport drivers.
- Arrangement for checking new machinery and materials.
- Safety inspections.
- The provision of personal protective equipment, and rules as to its use.
- Suggestions on safety matters.

Till recently, environmental protection and public safety were ignored by companies. With cases like Bhopal, and the oleum gas leak from the Shriram Foods and Fertilisers factory in Delhi, public liability and environment protection are becoming important. Guidelines relating to these must become part of a policy statement.

Programme Evaluation

Several methods exist and have been proposed for gauging the effectiveness of safety programmes. Broadly, they can be classified as systemic or organic.

Organic Measures Organic methods attempt to evaluate how well the safety programme is designed and fulfilled. Of interest, in this case, is the merit of programme's elements and their level of implementation.

Organic measures seek to answer several questions. For example:

1. Is the programme effective in changing unsafe behaviour?
2. Have safety attitudes been improved?
3. Have injury-producing physical conditions been corrected?
4. Are regulatory provisions relating to safety complied with?

These are some of the issues which organic safety performance measures are concerned with.

Three techniques are used to measure organic safety effectiveness, namely **(i)** safety inspection, **(ii)** safety audit, and **(iii)** comparison.¹⁷

Assessment of the effectiveness of safety programmes is made through two broad categories of measures: organic and systemic. Organic methods attempt to evaluate how well the safety programme is designed and fulfilled. Systemic measures, on the other hand, are concerned with the outcome.

Safety Inspection In this, inspectors are given specifics to follow. These may include programme elements such as formation of safety committees, how often they meet, as well as more customary items covering compliance with regulations. After inspection, a report of the findings is made to the management concerned. Inspection varies in intensity and scope, but the procedures and objectives remain the same. Inspection is universal in its application, too.

Safety Audit Audit is an in-depth analysis of facilities, management and employee, attitude towards safety, managerial effectiveness in maintaining safety, and quality of the safety planning as well as the operation's conformity with safety regulations. In the latter case, the level of compliance is considered as an indicator of operating effectiveness, because audit is not simply concerned with whether regulations are followed to the letter.¹⁸ Overall performance in controlling the operation's safety is the audit's quest, rather than simply determining existing safety oversights. Audit is comparable to inspection, but differs ordinarily in intensity with which the examination is conducted.

Comparison This is the third method of evaluating the company's safety efforts. The purpose here is to compare the experience of a plant or industry with that of another which is comparable. It is well-known that some operations have consistently better frequency (or severity) rates, often in spite of inherently high operating hazards. The question then is whether the operation is doing better than its counterparts, and over how long a span it has been improving or sliding.

Systemic Measures The concern in systemic measures is with the effects of the programme, that is, the achievement of the aim(s). The programme is

designed to serve¹⁹ reduction in the rate of accidents, cost saving, and the like.

The most common methods of quantifying safety performance are the incidence ratio, severity ratio and frequency ratio. Another method is to ascertain accident cost figures and use the data in formulating a safety policy as well as evaluating departmental efficiency with respect to safety performance.

More important is the overall effectiveness of the management itself. Simple evidence of managerial support appears to assist safety achievement only fleetingly. It appears that for safety to be optimised, the management must be generally effective in persuading the fulfilment of all responsibilities that are related to the mission of the organisation. The motivation for safety, therefore, is dependent on the management's overall leadership qualities. The requirement is no different from that needed for optimising group efforts generally.²⁰ This need is inherent in the concept of management hierarchies.

Pause and Ponder

In these days of robotisation, digitised manufacturing, and depersonalisation of work places, how far is safety an issue? Think over!

ISO SAFETY STANDARDS

ISO quality standards for safety include:

- Compliance with fire exits and extinguishers at the requisite places with appropriate posters and instructions for emergency use
- Doing periodic Fire Drills to ensure employee readiness for such exigencies and adherence to set procedures to ensure maximum safety
- Railings/bannisters for all staircases
- Ensuring safety and security of contractual staff who provide services to the organisation
- Security of office around the clock
- Ensuring employee safety when in the premises

Today a number of organisations sport the ISO certification as an important accreditation to woo customers and clients. While the norms

specified by ISO standards pertain more to product, process and services, there is a focus on most of the aspects related to safety practices to ensure a safe workplace.

HEALTH

The well-being of the employee in an industrial establishment is affected by accidents and by ill health-physical as well as mental. In this section, we shall discuss the need for healthy workers and health services to be provided by the management to ensure the continuing good health of their employees.

We propose to examine employee health from the following angles-physical health, mental health, noise control, stress management, AIDS, alcoholism, drug abuse, and violence in work place.

CII awards companies on the basis of their wellness programmes. L&T, ITC Bhadrachalam, Tata Steel, HDFC Bank, Birla Cement, Apollo Hospitals are some of the recipients of the awards.

Physical Health

The health of employees results in reduced productivity, high unsafe acts, and increased absenteeism. A healthy worker, on the other hand, produces results opposite to these. In other words, healthy employees are more productive, more safety conscious, and are more regular to work. The worker who is healthy is always cheerful, confident looking, and is an invaluable asset to the organisation.

But the physical health of an employee can be adversely affected by several causes as shown in [Table 16.7](#) (also see Exhibit 16.4).

Table 16.7 *Health Hazards*

<i>Health Hazards</i>	<i>Causes</i>
Lung cancer	Coke oven emissions, asbestos, active or passive cigarette smoke
White lung disease	Asbestos
Black lung disease	Coal dust

Brown lung disease	Cotton dust
Leukemia	Benzene, radiation
Cancer of other organs	Asbestos, radiation, vinyl chloride, coke oven emissions
Sterility/reproductive problems	Radiation
Deteriorating eye-sight	Chemical fumes, office equipment
Hearing impairment	High noise levels

Exhibit 16.4 The Global Eco-warrior Comes Calling

The Rainbow Warrior, belonging to the environmental group Greenpeace, sailed into Mumbai's Ferry Wharf on Wednesday to launch Greenpeace India's campaign for corporate responsibility. The ship brings with it a crew of 15 from 10 countries. The Chief Mate, Moritz Kuhlenbaumer, said their immediate focus was on the ship-breaking yard at Alang, Gujarat. An estimated 40,000 workers from Bihar, Orissa, West Bengal and Uttar Pradesh break hundreds of end-of-life vessels—ships that are not seaworthy—at the yard under extremely hazardous conditions.

"The point we are trying to make,"Kuhlenbaumer said, "is that big companies should clean up ships before they send them to Alang. Companies make huge profits from these ships and then sell them off to ship-breakers. We are not opposing the ship-breaking industry in Alang. We understand that people need to make a living, but European companies should take the responsibility to ensure that their ships are free of toxic substances before they are sent here".

On an average, it takes three months to break down a ship. Over 95 per cent of the value of these ships lies in the steel recovered from them as scrap. Some 600 to 700 vessels are brought every year to Asian ship-breaking yards such as Alan. In the process of recovering scrap, the workers, who wear no protective gear, are exposed to hazardous materials such as asbestos. These substances also pollute the soil and the sea as mineral oil and other compounds in the ship's bilge are released in the process.

The medical officer onboard the Rainbow Warrior, Lesley Simkiss,

from New Zealand, says that the effects of exposure to asbestos are not immediate. Fine particles lodge themselves in the lining of the lung, leading to asbestosis and also cancer. Many workers will probably not even be aware that their respiratory problems are caused by such exposure.

If these ships were broken up in Europe, says Kuhlenbaumer, the process would cost companies a hundred times more just in wages. This is apart from the precautions they would have to take to ensure that they do not expose workers to hazards or pollute the surroundings. Yet, these companies have no compunction about sending these ships to Asia.

As part of its campaign, Greenpeace plans to warn workers at Alang about these hazards by pasting notices on the ships. "The message to the ship-breakers is that European owners put them in danger by sending ships with toxic substances on board," said Kuhlenbaumer.

In addition, the group plans to collect evidence about European companies that do not conform to international regulations that ban toxic dumping and will present this to the International Maritime Organisation, which is scheduled to meet by the end of the year.

This Rainbow Warrior is not the original ship that became famous in the 1980s for its campaigns, particularly against nuclear testing. During a campaign in New Zealand against the French nuclear tests at Moruroa Atoll, the ship sank after French agents planted bombs on it on July 10, 1985. Four years later, Greenpeace acquired the Grampian Fame, a 32-year-old oil-rig standby vessel, refitted it and christened it the Rainbow Warrior on the fourth anniversary of the bombing of the original ship.

The last time it docked in Mumbai was in December 1999 as part of the Greenpeace Toxic Free Asia tour.²¹

A realisation of the advantages which flow from a healthy workforce has impelled many managements to provide health services to their employees, which vary from the simple provision of first-aid equipment to complete medical care. Many progressive organisations maintain well-equipped dispensaries with full-time or part-time doctors and full-time compounders/nurses. Unlike his/her counterpart of yesteryears, who would take every precaution to protect his horses against diseases but felt that the health of the human worker was his own business, the manager of today is

fully aware of the advantages of having a healthy workforce.

The protection of the health of the workers is a legal requirement too. Sections 11 to 20 of the Factories Act, 1948 deal with the health of workers (see Exhibit 16.5).

Exhibit 16.5 Provisions of the Act

- Factory to be kept clean and free from effluvia and dirt (S.11).
- Arrangements to be made for disposal of wastes and effluents (S.12).
- Adequate ventilation and temperature to be provided (S.13).
- Measures to be taken for prevention of inhalation or accumulation of dust and fumes (S.14).
- Standards for artificial humidification to be fixed (S.15).
- Overcrowding related injuries to health of workers to be avoided. 9.9/14.2 cubic metres of space must be provided for each worker (S.16).
- Sufficient and suitable lighting must be provided in every part of the factory (S.17).
- Glazed windows to be kept clean. Measures need to be taken for prevention of glare and formation of shadows (S.17).
- Suitable points for wholesome drinking water must be provided. Drinking points to be legibly marked and located away from urinals. Water needs to be cooled if the number of workers is 250 or more (S.18).
- Latrines and urinals to be separately provided for male and female workers. They should be well lighted and ventilated (S.19).
- Sufficient number of spittoons must be provided. Whoever spits outside the spittoons shall be punishable (S.20).

Health Services A typical organisation renders the following health services to its employees. It may be stated that these services, at best, offer first-aid treatment to the victims. For any major ailment, employees are advised to go to ESI or authorised clinics/nursing homes.

1. Pre-hiring medical check-up for all employees.
2. Periodical physical, check-up of all employees. Regular medical check-up of executives to detect early signs of tension, ulcers, diabetes and the

- like.
3. First-aid treatment following an accident. Training in first-aid to all employees.
 4. Treatment of minor complaints, such as cold, cough, fever and headaches.
 5. Rehabilitation and job placement of seriously injured workers who have been cured but suffer from some disability.
 6. Control of occupational health hazards.
 7. Provision of healthy sanitary facilities, such as supply of potable water, disposal of waste and effluents; provision of healthy food; elimination of insects and rodents; provision of personal services; good housekeeping and the like.
 8. Special examination of eyes, teeth and ears, when needed.
 9. Co-operation with family physicians, local hospitals, clinics, as well as with specialists.
 10. Special care of employees working in painting, welding and foundry sections where the risk to their health is greater.
 11. Maternity and child welfare, including family planning.
 12. Adequate ventilation, good lighting, tree planting and good residential quarters.

Mental Health

In recent years, mental health of employees, particularly that of executives, has engaged the attention of employers. Three reasons may be given for this development. First, mental breakdowns are common in modern days because of pressures and tensions. Second, mental disturbances of various types result in reduced productivity and lower profits for the organisation. Third, mental illness takes its toll through alcoholism, high employee turnover, and poor human relationships.

A mental health service is generally rendered in the following ways:

1. Psychiatric counselling,
2. Co-operation and consultation with outside psychiatrists and specialists.
3. Education of company personnel in the nature and the importance of mental health.
4. Development and maintenance of an effective human relations

programme.

Disclosure problem

When an employee has serious health problem, should he or she disclose the same to the management? The issue has both positive and negative sides. On the positive side, it may be stated that the disclosure keeps your conscience clean, management may help you overcome the ill health, and you are free from tension. Consequences of disclosure may cost the employee his or her promotion and there are chances that the attitude of the boss changes for bad when he comes to know that his subordinate is pregnant. Exhibit 16.6 gives guidelines to solve the problem of disclosure.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• Ensure safety regulations and requirements are met• Organise workshops to educate employees on different aspects of safety• Publicise and share company's performance on safety and health• Provide for medical check-ups sponsored by the company. Such programmes to include general health check-up, eye camp and heart camp	<ul style="list-style-type: none">• Compromise on hygiene at the work place. Go over board, if required• Have policies that are no longer practised• Have safety policy only for the sake of it

Exhibit 16.6 Speak Up or Not and How to Go About It

Do you Have to?

- You are not required to disclose an illness-chronic or otherwise. Health is a personal issue.
- If it doesn't affect your capacity to work, there's no need to divulge

the nature of your condition.

- It's an ethical decision to be taken individually.

Why?

- Most ethical codes suggest that the employee should come clean at hiring stage itself or whenever they find out. By divulging an illness, you are establishing respect and confidentiality.
- You come across as responsible – towards your condition, company & your job responsibilities.
- It takes away the stress of hiding your illness.
- If you require some medical help at the work-place, it's better a few close work friends and your supervisor are aware of your condition.
- Now, it might backfire at the time of the interview, but then, it saves you the trouble of working for an "insensitive" employer.

How?

- Get to the point. Have a chat with your supervisor first and the point you will want to convey is "This is the situation, and this is what I need".
- Keep it simple. Don't give too many details.
- Be clinical. Don't get emotional.
- Be strong. Others will treat your illness the way you do.
- Be discreet. If you are not ready to disclose, be secretive. Don't keep medical appointments on your work calendar or send or receive e-mails about illness on your work account. And have a credible excuse ready for taking off days.

The Step-by-step Guide to Disclosure

1. Weigh the benefits and risks of disclosure.
2. Decide who will do the talking—you or your therapist/physician (in some conditions, the doctor can explain the ailment better).
3. If it's you, prepare a script. It helps.
4. Decide if you will use general or specific terms. Do you want to name your exact diagnosis or say something vaguely like a neurological problem instead of bi-polar disorder?
5. Set up an interview with the employer.
6. Describe your disability and if it affects your work, mention how.
7. Negotiate the terms of employment.
8. Mention your strong points and what you brought to the job.

9. Negotiate accommodation/changes that you will need to carry on.
10. If needed, describe some behaviours/symptoms that people should watch out for in case you need help at work.

(Source: *The Economic Times*, March 25-31, 2012)

Noise Control

An age-old problem, and not effectively tackled till now, is the noise in industrial establishments. Noise made its appearance in organisations when humans started working on metal. As civilisation advanced, human being discovered more and more ways of having machines to do his/her work, and each new machine added to the problem. For quite a number of years, noise was endured by all. But, in the recent past, the increasing use of machines of great speed is telling upon the health of the workers.

Long exposure to excessive noise impairs the hearing of employees. The level and duration of noise and the exposure that is likely to cause deafness varies from person to person. It is agreed that long exposure (10 years) to noise in excess of the prescribed limits makes one deaf. (Table 16.8 gives permissible levels.) But in most industrial operations, noise levels exceed the agreed norm as shown in Table 16.9.

Noise can only be minimised but cannot be totally eliminated. Constant exposure to noise not only impairs hearing ability, it has adverse effects on general health of the employees.

Table 16.8 *Permissible Exposure*

<i>Total Time (continuous or a number of short-term exposures) per day, in Hours</i>	<i>Sound Pressure Level in (dBA)</i>
8	90
6	92
4	95
3	97
2	100

11/2	102
1	105
3/4	107
1/2	110
1/4	115

'Noise-induced hearing loss' has been included as a notifiable disease under the Factories Act, 1948. It is also compensable under the Workmen's Compensation Act, 1923.

But hearing loss is not the only effect of noise. Constant exposure to high noise levels can cause hormonal imbalances, changes in blood circulation, dizziness, increase in respiratory rate, heartburn, sleep disturbances and fatigue. Outwardly, workers may seem accustomed to the noise. But the body suffers till it succumbs to persistent onslaughts.

Table 16.9 *Industrial Noise Levels*

<i>Industry/Operation</i>	<i>Sound Pressure Level (dBA)</i>
Detonator manufacturing and testing	94–140
Pharmaceutical	94–128
Foundry in motor manufacturing plant	104–120
Heavy engineering	94–124
Synthetic fibre manufacturing unit	90–117.5
Electronics	87–122
Hydel power plant	92–106
Road transport workshop	90–124
Cotton textile mill	92–105
Fertiliser plant	104–118

Source: Environmental Engineering Division, Central Labour Institute, Mumbai.

Control Methods It is impossible to eliminate noise from industrial establishments. It is there as long as machinery is used in manufacturing operations. However, noise control can help minimise harmful effects on employees. Noise control can be achieved **(i)** at the source, **(ii)** through enclosures, **(iii)** by absorption, or **(iv)** by ear protection.

Controlling noise at its *origin* is the best method of reducing its harmful effects. But it is difficult to plan for this control, because identical machines may require different methods since production problems and economic considerations are often different. However, noise can be controlled at its source by quietening the noise-producing elements by repairing or redesigning the machines; mounting machines to reduce vibration; or substituting noise-producing elements with quieter ones.

Considerable reduction in the level of noise may be achieved by providing enclosures for machines with specially made covers or housing them in separate rooms. But a small opening is enough to produce heavy leakage of noise. Care should, therefore, be taken to make the *enclosure* as fool proof as possible. Where machines cannot be enclosed, places which need quieter surroundings may themselves be enclosed, for example a works office. Similarly, a machine transmitting vibration on a large-scale may be isolated from the rest of the operations.

The harmful effects of noise may be reduced by *absorbing* it. Ceilings and walls may be constructed with acoustic materials to absorb sound. Empty space around the high noise-producing machine may be provided to absorb the noise. High ceilings dissipate noise considerably.

Where noise is excessive and other methods of noise control are likely to be ineffective, employees working close to the source of noise may be given *ear protection* to prevent any impairment of their hearing capacity. They may be provided with muffs, helmets, cotton and soft rubber, to be worn by them while on work. They should be educated to wear the protection equipment, because the tendency with most workers is to ignore.

Stress refers to an individual's response to a disturbing factor in the environment and the consequence of such reaction. Stress is mostly understood to be negative. But it has positive dimension also. Where stress brings out something better from an individual, it is called eustress.

Work Stress

Stress is an essential part of work life. Certain businesses are more exposed to stress than others. A recent study by ASSOCHAM revealed that construction, shipping, banks, trading houses, electronic and print media, courier companies, small units, retail outlets, card franchise companies and government hospitals carry higher stress potential. Of course, BPO, call centres and IT companies top the chart of stress prone businesses.

Stress is an individual's response to a disturbing factor in the environment and the consequence of such reaction. Stress obviously involves interaction of the person and the environment. To quote a definition: Stress is an adaptive response to an external situation that results in physical, psychological and/or behavioural deviations for organisational participants.²² The physical or psychological demands from the environment that cause stress are called *stressors*. They create stress or the potential for stress when an individual perceives them as representing a demand that may exceed that person's ability to respond.

Stress can manifest itself in both a positive and a negative way. Stress is said to be positive when the situation offers an opportunity for one to gain something. *Eustress* is the term used to describe positive stress. Eustress is often viewed as a motivator since in its absence the individual lacks that 'edge' necessary for peak performance. It is negative when stress is associated with heart-disease, alcoholism, drug abuse, marital breakdown, absenteeism, child abuse and a host of other social, physical, organisational and emotional problems.

Stress is associated with *constraints* and *demands*. The former prevents an individual from doing what he or she desires. The latter refers to the loss of something desired. Aspiring to own a new Honda City and not be able to mobilize the necessary finance is a *constraint*. Desiring to attend a social function but unable to do so because of pressing official work amounts to a *demand*.

Constraints and demands can lead to potential stress. When they are coupled with uncertainty of the outcome and importance regarding the outcome, potential stress becomes actual stress. Stress is high when there is uncertainty of outcome and the outcome is significant.

What is Not Stress? To make the meaning of stress more clear, it is useful to state what does not constitute stress. Each of the following does not amount to stress:

Stress is not simple anxiety or nervous tension: These symptoms do not constitute stress. People exhibiting these behaviours may not be under any stress. Similarly, individuals who are under stress may not exhibit anxiety or nervous tension.

Stress need not always be damaging: People frequently experience stress without any strain at all. Daily activities of life may be stressful, but not always harmful.

Stress is not always due to overwork: Stressed-out individuals are not always those who are overworked. Stress may also result from having too little to do.

Stress cannot be avoided: It is necessary to realise that stress is an inevitable part of life and that it cannot be avoided. What can, however, be avoided are the negative reactions to stress.

The body has a limited capacity to respond: Stress is the body's biological response mechanism. The body has only limited capacity to respond to stressors. The workplace makes a variety of demands on people and too much stress over too long a period of time exhaust the ability to cope with the stressors, as is evident from the second preview case to this chapter.

The Stress Experience Not all individuals experience stress with the same intensity. Some people over-react to stressors and get highly stressed. Others have the stamina, endurance and composure to cope with any stressors. How an individual experiences stress depends on: **(i)** the person's perception of the situation, **(ii)** the person's past experience, **(iii)** the presence or absence of social support, and **(iv)** individual differences with regard to stress reactions.²³ (See [Fig. 16.5](#))

Pause and Ponder

Recollect a day when you were stressed. What led to that situation? What were the consequences? How did you cope with that? What lessons have you learnt from that incident? What learning can you pass on to others in similar league?

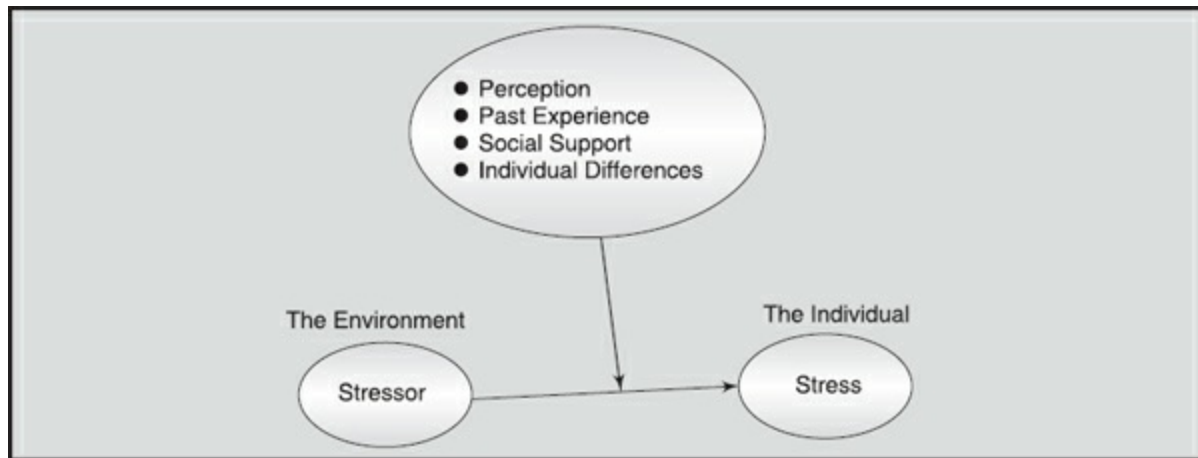


Fig. 16.5 *The Relationship between Stressors and Stress*

Source: Don Hellriegel, et. al., Organizational Behaviour, p. 193.

Perception Perception refers to a psychological process whereby a person selects and organises stimuli into a concept of reality. Employees' perception of a situation can influence whether or not they experience stress. A simple transfer from one place to another may be perceived by one employee as an opportunity to see new places and learn new things. The same transfer may be understood by another employee as extremely threatening and indicating unhappiness of the management with his/her performance.

Past Experience Whether a person experiences stress or not depends on his/her past experience with a similar stressor. Writing anonymous letters against the boss or giving leads to the press and getting false stories published against the boss are common among disgruntled employees. Over a period of time, the boss will get used to such allegations, though initially he/she undergoes stress.

The relationship between experience and stress is also based on reinforcement. Positive reinforcement or previous success in a similar situation can reduce the level of stress that a person experiences under certain circumstances; punishment or past failure under similar conditions can increase stress under the same circumstances.²⁴

Social Support The presence or absence of other people influences how

individuals in the workplace experience stress and respond to stressors. The presence of co-workers may increase an individual's confidence, allowing the person to cope more effectively with stress. For example, working alongside someone who performs confidently and competently in a stressful situation may help an employee behave in a similar way. Conversely, the presence of fellow workers may irritate some people or make them anxious, reducing their ability to cope with stress.

Individual Differences Individual differences in motivation, attitudes, personality and abilities also influence whether employees experience work stress and if they do, how they respond to it. What one person considers a major source of stress, another may hardly notice. Personality characteristics, in particular, may explain some differences in the way employees experience and respond to stress. Type A individuals, for example, tend to experience more stress than Type B personalities.

A moderator is a variable that causes the relationship between stress and its outcomes to be stronger for some people and weaker for others.

Work Stress Model [Figure 16.6](#) contains a typical model of occupational stress. As illustrated in the figure, stressors lead to stress, which in turn lead to a variety of consequences. The model also contains several variables that help moderate the stressor—stress—outcome relationship. A moderator is a variable that causes the relationship between stress and its outcomes to be stronger for some people and weaker for others.²⁵

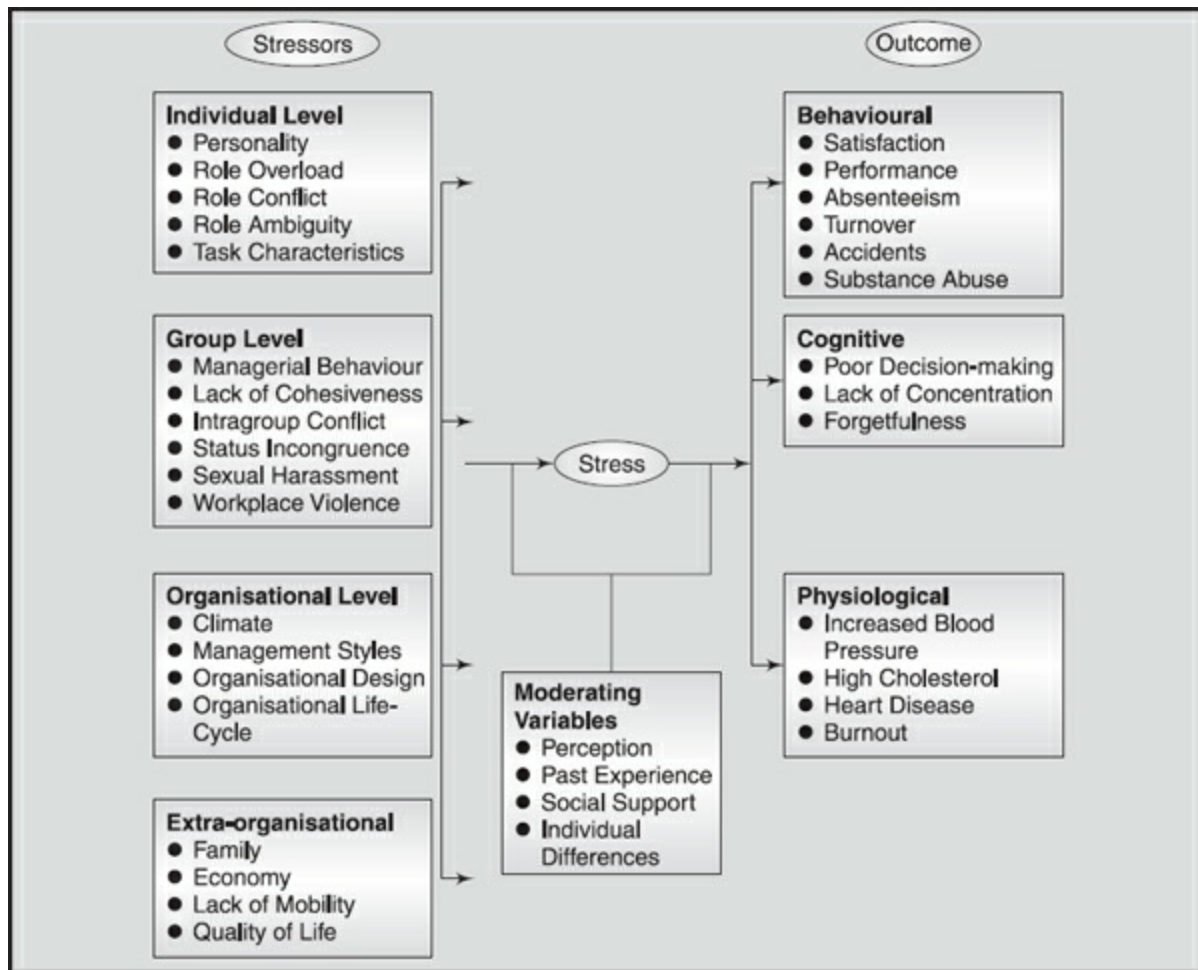


Fig. 16.6 A Model of Occupational Stress

(Source: Adapted from Robert Krietner, et al, *Organisational Behaviour*, p. 530)

Stressors—Source of Stress Stressors originate at the individual, group, organisational and extraorganisational levels (See Fig. 16.6).

Individual-level Stressors These relate directly to a person’s personality and job responsibilities. Experts estimate that each year more than 10 million workers develop computer-related vision problems that require a trip to an optometrist. Forty per cent of these people use special glasses while working on video display terminals.

The most common individual-level stressors are type of personality, role overload, role conflict role ambiguity and task characteristics.

Personality Type In respect of personality, two concepts—Type A

personality and Type B personality—are relevant in this context.

Type 'A' personalities are in a hurry, impatient and fast in whatever they do. These individuals are stress-prone.

Type 'B' are patient, not in a hurry, and relaxed. These personalities are less stress-prone.

The **Type A personality** is stress-prone and is associated with the following behavioural patterns :

- Always moves, walks and eats rapidly.
- Feels impatient with the pace of things, hurries others, dislikes waiting.
- Does several things at a time.
- Feels guilty when relaxing.
- Tries to schedule more and more in less and less time.
- Uses nervous gestures such as clenched fist and banging the hand on the table.
- Does not have time to enjoy life.

The **Type B personality**, on the other hand, is less stress-prone. Following are the typical characteristics of Type-B personality:

- Is not concerned about time.
- Is patient.
- Does not brag.
- Plays for fun, not to win.
- Relaxes without feeling guilty.
- Has no pressing deadlines.
- Is mild-mannered.
- Is never in a hurry.

Role Overload Too much work causes stress to an employee. The story of Reddy, stated in the opening case, is illustrative of work overload causing stress. Excess workload has become the norm these days as more and more organisations have reduced their work-force and restructured work, leaving the remaining employees with more tasks and fewer resources of time to complete them.

Role Conflict Role conflict occurs where people face competing demands.

There are two types of role conflict in organisations.

Interrole conflict occurs when an employee has two roles that are in conflict with each other. Interrole conflict is common in matrix organisations where subordinates will be shared by matrix bosses. *Personal* conflict occurs when personal values clash with organisational goals. For example, offering bribe to corner an order may help the organisation, but such a practice may conflict with the ethical value of the executive as an individual.

Role Ambiguity Role ambiguity exists when employees are uncertain about their responsibilities, functions, performance expectations and levels of authority. This tends to occur when people enter new situations, such as joining the organisation or taking foreign assignment, because they are uncertain about tasks and social expectations.

Task Characteristics are also individual-level stressors. Tasks are more stressful when they involve decision-making, monitoring equipment or exchanging information with others. Traffic congestion is a major stressor for sales people and bus drivers. And as traffic intensity increases in the future, so will stress levels.

As we go into the future, a 24-hour work model will bring new challenges. An increasing number of professionals will be required to work during night shifts. Adjustment of the body clock to the new routine, health risks and stress-related hazards will be serious issues the HR experts need to face in the coming years. Night shifts result in gastrointestinal disorders and abnormal heart rhythms. There can be chronic gynaecological problems for women (women are now allowed to work overnights). Mental symptoms can be so severe that a stressed nightshift worker can almost be unmanageable. The night shift workers will be more vulnerable to stress because of sleeping patterns, emotional problems and family commitments while juggling a varying work timetable, sometimes with little social support.

HR profession, till now considered as a soft area, is becoming a stressful zone. High expectations of better people management, deadlines, competition, human capital build up, retention, lay off without tears, economic meltdown, cost cutting, aligning HR function with corporate goals, and the like are taking a heavy toll on HR executives.

Group-level Stressors Group level stressors are caused by group dynamics and managerial behaviour. Managers create stress for employees by: **(i)** exhibiting inconsistent behaviours, **(ii)** failing to provide support, **(iii)** showing lack of concern, **(iv)** providing inadequate direction, **(v)** creating a high productivity environment, and **(vi)** focusing on negatives while ignoring good performance.²⁶

Sexual harassment is yet another group-level stressor. Sexual harassment refers to unwelcome conduct of a sexual nature that affects the job-related performance of an employee adversely. One example of sexual harassment is the male supervisor threatening to fire a female employee if she fails to accept his sexual advances.

Another serious interpersonal stressor is the rising wave of physical violence and aggression in the workplace. It is estimated that more than 1,000 employees are murdered at work each year in the US. Workplace violence includes assaults, rape and threats of using a weapon.²⁷

Organisational Stressors Organisational stressors affect a large number of employees. *Organisational climate* is a prime example. A high pressure environment that places chronic work demands on employees fuels the stress response. In contrast, participative management can reduce organisational-level stressors. Poor lighting, loud noise, improper placement of furniture and a dirty and smelly environment create stress. Managers should monitor these and eliminate them at the earliest.

Organisational structure defines the level of differentiation, the degree of rules and regulations and where decisions are made. Excessive rules and lack of participation in decisions that affect an employee are examples of structural variables that might be potential stressors.

Organisational leadership represents the managerial style of the organisation's senior executives. Some chief executive officers create a culture characterized by tension, fear and anxiety. They establish unrealistic pressures to perform in the short run, impose excessively tight controls and routinely fire employees who fail to measure up to expectations.

Long hours and high pressure of work cause stress considerably. The youth in India spend more hours in office compared to their counterparts elsewhere as [Table 16.10](#) shows. Theoretically, companies have systems in place—office timings, alternate Saturdays off—but nothing works in

practice. Bigger jobs, fatter pay packets, and skyhigh ambitions are driving the youth to lifestyle diseases like infertility, obesity, cardiovascular problems, diabetes, alcoholism and hypertension. With businesses operating across multiple time zones, working hours have got stretched and workers are feeling pressured to cope with.

Table 16.10 *Number of Hours Spent in the Office Annually by Employees*

City	No. of Hours
Mumbai	2205
New Delhi	2121
Shanghai	1969
Tokyo	1954
New York	1869
London	1782

Source: The Economic Times, Feb. 10, 2007

Organisational life cycle Organisations, like human beings, pass through a life cycle. The life cycle of an organisation comprises eight stages: **(i)** birth, **(ii)** growth, **(iii)** policy, **(iv)** procedure, **(v)** theory, **(vi)** religion, **(vii)** ritual, and **(viii)** last rites. In this cycle, the organisation is born and then has its growth. Policies are developed to guide decisions and these are carried out through procedures. These procedures are refined and made more efficient using theories about efficiency. In time, organisations may develop characteristics of a religion, it may worship the way it does things. Performance is by ritual; things are done by habit without questioning. The death and last rites of the organisation will ordinarily follow. Each stage of the life cycle poses its own challenges and problems. While the early stages are exciting, the latter ones create anxiety and tension.

Extraorganisational Stressors Extraorganisational stresses are those caused by factors outside the organisation. For instance, conflicts associated with one's career and family life are stressful.

Home life certainly impacts one's attitudes and performance. Death of a

spouse, injury to one's child, war, failure in school or at work, an unplanned pregnancy and similar other events in life can be stressful. Socio-economic status represents a combination of: **(i)** economic status, as measured by income, **(ii)** social status assessed by educational level, and **(iii)** work status, as indexed by occupation. These stressors are likely to become more pronounced in the future.

Outcomes Behavioural scientists are of the opinion that stress has behavioural, cognitive and physiological consequences. Research has proved that stress produces harmful physiological outcomes. Research is now in progress to co-relate stress with work-related behaviours and cognitive outcomes. These studies indicate that stress is negatively related to job satisfaction, organisational commitment and performance, and positively related to turnover.²⁸ (Also see Exhibit 16.7)

Exhibit 16.7 Hypertension Threat for Workforce

Due to globalisation and a stressful working environment hypertension threatens to wallop the workforce in India, according to a study made jointly by ASSOCHAM and PWC. As many as 65 million were affected by hypertension in 2008 and by 2015, the number is likely to quantum leap to 200 million.

India is losing its potentially productive years due to increasing heart diseases, strokes and diabetes in the age group of 35–60, one of the highest in the world, the study pointed out.

In the absence of proper facilities to mitigate propensities leading to tension and high blood pressure, chronic diseases accounted for 53 percent of deaths in the country and this is expected to go up to 60 percent by 2015 and 66 percent by 2020. According to the report, four million deaths in 1990 were due to chronic diseases and the same is likely to touch seven million by 2015.

This rise in deaths would only add to the national losses, which in monetary terms are pegged at \$ 90 million between 2005 and 2008. The report estimated that it is likely to jump to \$160 million during 2009 and 2015.

Adding to the problem is the consumption of tobacco in India. Being the

second largest consumer in the world, the country accounted for the highest number of oral cancer patients.

Pointing out that the country's total expenditure on health care is just about three percent of the GDP as against the world average of nine percent, the report called for greater participation of the private sector to save millions of lives.

Burnout Burnout is a troublesome outcome of stress. It is desirable to examine burnout in detail. Burnout is a state of mind resulting from prolonged exposure to intense emotional stress. It manifests through emotional exhaustion and a combination of negative attitudes. [Table 16.11](#) draws distinction between stress and burnout.

Table 16.11 *Stress Vs. Burnout*

<i>Stress</i>	<i>Burnout</i>
The person feels fatigued	The individual encounters chronic exhaustion.
The person is anxious	The individual is hypertensive.
The person is dissatisfied with his or her job	The individual is bored and cynical about the work.
The person's job commitment has dropped off	The individual's job commitment is virtually nil; he/she is mentally detached from the organisation.
The person feels moody	The individual feels impatient, irritable and unwilling to talk to others.
The person feels guilty	The individual encounters mental depression.
The person is having difficulty in concentrating; he/she tends to forget things	The individual does not seem to know where he/she is; forgetfulness is becoming more frequent.
The person undergoes	The individual begins to voice

physiological changes such as increased blood pressure and heartbeat psychosomatic complaints.

Source: Richard M. Hodgetts, *Organisational Behaviour*, p. 345.

Burnout occurs due to prolonged exposure to stress and that too in phases as shown in Fig. 16.7. The three key phases of burnout are emotional exhaustion, depersonalisation and feeling a lack of personal accomplishment. Emotional exhaustion, as shown in Fig. 16.7 is due to a combination of personal, job and organisational stressors. People who expect a lot from themselves and the organisations in which they work tend to create more internal stress which leads to emotional exhaustion. Similarly, emotional exhaustion is fuelled by having too much work to do, by role conflict and by the type of interpersonal interactions encountered at work. Frequent, intense face-to-face interaction that are emotionally charged are associated with higher levels of emotional exhaustion.

Stress, when prolonged, results in burnout. A **burntout person** is hypertensive, encounters chronic exhaustion, faces mental depression, and is cynical about everything.

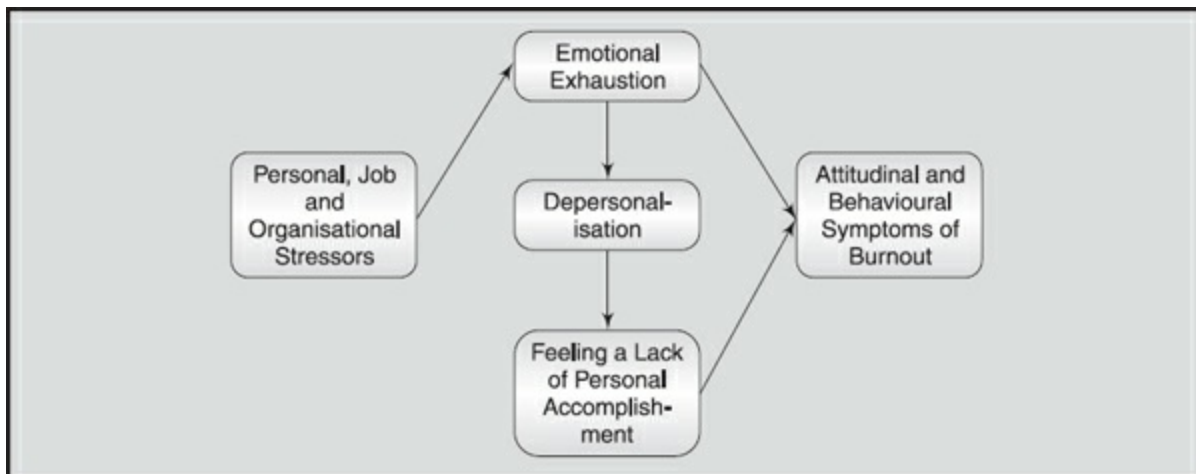


Fig. 16.7 A Model of Burnout

Over time, emotional exhaustion leads to depersonalisation, which is the state

of psychologically withdrawing from one’s job. This finally results in a feeling of being unappreciated, ineffective, or inadequate. The additive effect of these three phases is a host of negative attitudinal and behavioural outcomes.²⁹

Stress Management Stress reduction strategies may be categorised as: (i) individual strategies, and (ii) organisational strategies.

Individual Strategies The first step in managing stress is to understand that the individual is exposed to stressors. We cannot manage stress unless we know what causes stress and how these causes are affecting us psychologically, physiologically and organisationally. Table 16.12 contains a series of stress indicators. If the employee has any of these signs of stress, he/she needs to adopt coping strategies immediately.

Table 16.12 Signs of Stress

<i>Physical signs</i>	<i>Emotional signs</i>	<i>Mental signs</i>	<i>Relational signs</i>	<i>Spiritual signs</i>	<i>Behavioural signs</i>
Appetite changes	Bad temper	Lacking humour	Isolation	A feeling of emptiness	Pacing
Headaches	Anxiety	Dull senses	Defensive	Apathy	Sweating
Fatigue	Nightmares	Lethargy	Intolerance	Inability to forgive	Substance abuse
Insomnia	Irritability	Boredom	Resentment	Cynicism	Nail biting
Indigestion	Depression	Indecisiveness	Loneliness	Loss of direction	Slumped posture
Cold	Frustration	Forgetfulness	Nagging	Doubt	Restlessness
Weight change	Over sensitivity	Poor concentration	Lower sex drive	Need to prove self	Risk aversion
Teeth grinding	Mood swings	Personality changes	Aggression	Negative outlook	Eating disorders
Tension	Fearfulness	Stuck in past	Abuse	Gloom	Headaches

Source: Suzanne C. de Junasz, et. al., *Interpersonal Skills in Organisations*, p. 72.

Individual strategies to cope with stress include muscle relaxation, biofeedback, meditation, cognitive restructuring and time management.

Muscle Relaxation This involves slow and deep breathing, a conscious effort to relieve muscle tension and an altered state of unconsciousness. The

technique is inexpensive and may require a trained professional to implement initially.

Biofeedback A biofeedback machine is used to train people to detect and control stress-related symptoms such as tense muscles and increased blood pressure. The machine translates unconscious bodily signs into a recognisable cue (flashing light or beeper). Muscle relaxation and meditative techniques are then used to alleviate the underlying stress.³⁰

Meditation Several meditation techniques are used with positive results and a majority of them are derivatives of eastern philosophies. Included in this category are Zen Meditation or Sumran. Perhaps the most widely practised technique everywhere is transcendental meditation (TM) as taught by Maharishi Mahesh Yogi. TM practised for 20 minutes twice daily helps reduce stress significantly.

Cognitive Restructuring Cognitive restructuring involves two steps. First, irrational or maladaptive thought processes that create stress are identified. One such thought is entertaining a premonition that something evil is going to befall on you. The second step consists of replacing these irrational thoughts with more rational or reasonable ones. The fear of evil befalling can be overcome by reasoning and rationalising events and their consequences. Cognitive restructuring would alleviate stress by encouraging a person to adopt a more reasonable belief about the outcomes associated with events.

Humour: Humour can be a powerful stress buster. One should learn the ways of laughing away any adverse situation. After all, human beings are lesser mortals and tend to commit mistakes. Mistakes should not cause collapse of the individual. (Also see Exhibit 16.8).

Stress Diary Keeping a diary helps immensely to identify stressors. The diary can contain the following details:

- At a regular interval, every hour for example, routine stress can be recorded particularly—
 - The time
 - The amount of stress that one feels (on a scale of 1-10)
 - How happy the person feels

- How efficiently the person is working
- When stressful events occur-
 - What the event was?
 - When and where did it occur?
 - What factors made the event stressful?
 - How stressful was the event?
 - How did the person handle it?
 - Did the person tackle the cause of the symptom?
 - Did the person deal with the stress correctly?

Weekly review of the diary should be of great help to the individual.

Exhibit 16.8 Humor as a Stress Remedy

Humour is a wonderful stress-reducer. Experts say a good laugh relaxes tense muscles, speeds more oxygen into your system and lowers your blood pressure. Tune into your favourite program or comedy shows on television. Read a funny book. Attend comedy shows. Call a friend and chuckle for a few minutes. Share funny episodes with your spouse that can relieve stress as well as improve communication. It even helps to force a laugh once in a while. You'll find your stress melting away almost instantly.

Dr. Lee Berk and fellow researcher Dr. Stanley Tan at Loma Linda University School of Medicine have produced carefully controlled studies showing that the experience of laughter stimulates the immune system, offsetting the immunosuppressive effects of stress (as said in the article "Humor Therapy" published on www.holisticoline.com).

Humor is used to facilitate communication and avoid conflict. It gives us a different perspective on our problems. If we can make the situation lighter, it no longer feels threatening to us. With such an attitude of detachment, we feel a sense of self-protection and control in our environment. Bill Cosby says, "If you can laugh at it, you can survive it".

It is sometimes difficult to force a laugh in tense situations. But that is precisely when you need it most. One trick for finding humor in the worst of situations is to blow things absolutely, ridiculously out of proportion. When your scenario reaches the point of absurdity, you begin to smile. The situation is put in perspective and you can calm down.

Remember humor about sex or gender, ethnicity, politics, humor or joking

about tragedy or disease-related symptoms are considered humor exclusion zones.

Time Management Most of us are poor in time management. The result is feelings of work overload, skipped schedules and attendant tension. The truth is, if one can manage time effectively, he/she can accomplish twice as much as the person who is poorly organised. Some basic principles in time management are : **(i)** preparing daily a list of activities to be attended to, **(ii)** prioritising activities by importance and urgency, **(iii)** scheduling activities according to the priorities set, and **(iv)** handling the most demanding parts of a job when one is alert and productive. (Also read Exhibit 16.9.)

Exhibit 16.9 Taking Time to Manage Time

One of the major causes of stress for managers comes from time pressures. No matter how fast some managers work and how much time they put in, they are still unable to get all their work done. One of the most effective ways of dealing with this problem is the use of time management technique. Today many organisations are training their managers how to get more done in less time. Some of the most helpful guidelines for effective time management are:

1. Make out a 'to do' list that identifies everything that must be done during the day. This helps keep track of work progress.
2. Delegate as much minor work as possible to subordinates.
3. Determine when you do the best work—morning or afternoon and schedule the most difficult assignments for this time period.
4. Set time aside, preferably at least one hour, during the day when visitors or other interruptions are not permitted.
5. Have the secretary screen all incoming calls in order to turn away those that are minor or do not require your personal attention.
6. Eat lunch in the office one or two days a week in order to save time and give yourself the opportunity to catch up on paperwork.
7. Discourage drop-in visitors by turning your desk so that you do not have eye contact with the door or hallway.
8. Read standing up. The average person reads faster and more accurately when in a less comfortable position.

9. Make telephone calls between 4.30 and 5.00 pm. People tend to keep these conversations brief so that they can go home.
10. Do not feel guilty about those things that have not been accomplished today. Put them on the top of the 'to do' list for tomorrow.

Organisational Strategies Besides individuals practising coping strategies, organisations too have been developing and implementing stress-reduction strategies. Some of these programmes focus on a specific issue or problem, such as alcohol or drug abuse, career counselling, job allocation, or burnout. Still other programmes may target a specific group within the organisation, for example, training in relaxation skills.

Organisational coping strategies help reduce the harmful effects of stress in three ways: **(i)** identify and then modify or eliminate work stressors, **(ii)** help employees modify their perception and understanding of work stress, and **(iii)** help employees cope more effectively with the consequences of stress.³¹ (see [Fig. 16.8](#))

Organisational strategies aimed at eliminating stress often include—

- Improvements in the physical work environment;
- Job redesign to eliminate stressors;
- Changes in workload and deadlines;
- Structural reorganisation;

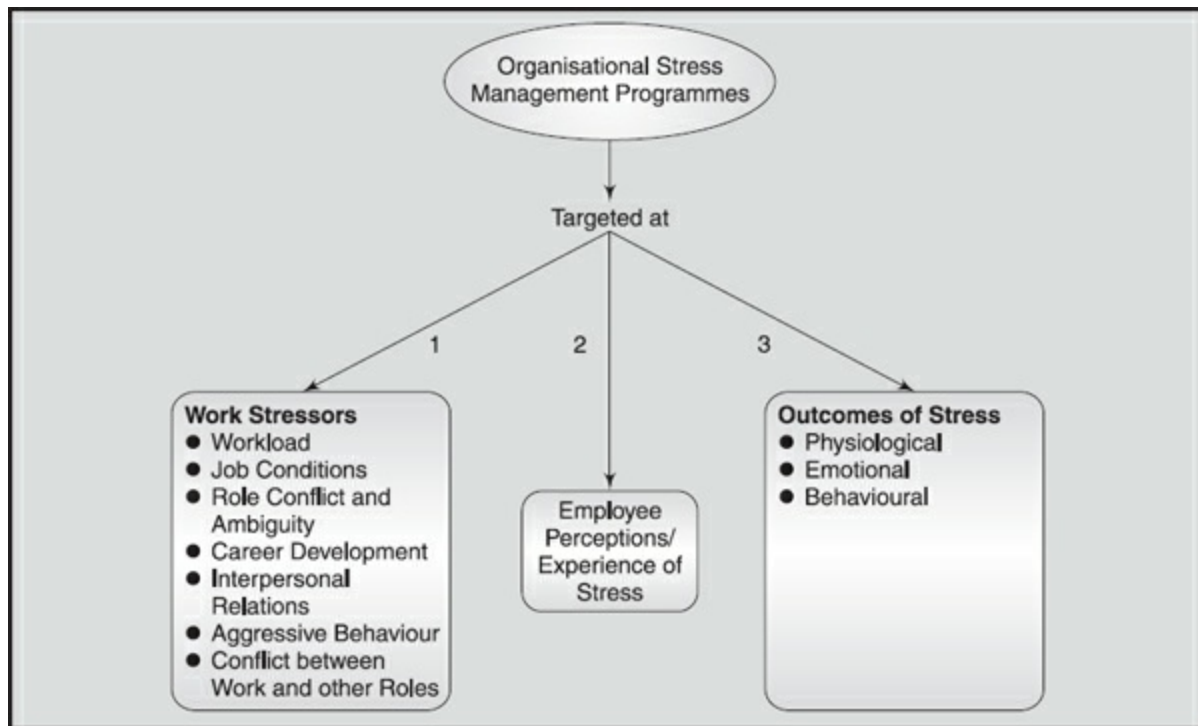


Fig. 16.8 *Targets of Organisational Stress Management Programmes*

Source: Don Hellriegel, *et. al.*, *op. cit.*, p. 212.

- Changes in work schedules, more flexible hours and sabbaticals;
- Management by objectives or other goal-setting programmes;
- Greater levels of employee participation, particularly in planning changes that affect them; and
- Workshops dealing with role clarity and role analysis.³²

Programmes that promote role clarity and role analysis are of vital importance in removing or reducing role ambiguity and role conflict—the two main sources of stress. While diagnosing stressors in the work place, HR experts should be aware of the fact that uncertainty and perceived lack of control heighten stress. Jobs involving high uncertainty over the outcomes, accompanied by low controlability add to stress. Thus, involvement of employees in organisational change, efforts that will affect them, work redesign that reduces uncertainty, increased control over the pace of work and improved clarity and understanding of roles, all should help reduce work stress.

Programmes of stress management targeted at perceptions and experience

of stress and outcomes of stress (see Fig. 16.8 arrows 2 and 3) include:³³

- team building;
- behaviour modification;
- career counselling and other employee assistance programmes;
- workshops on time management;
- workshops on burnout to help employee understand its nature and symptoms;
- training in relaxation techniques; and
- physical fitness programmes.

Employee assistance programmes and fitness programmes are being increasingly used by firms these days.

Employee Assistance Programmes Originally conceived as alcohol abuse programmes, most current employee assistance programmes (EAPs) are designed to deal with a wide range of stress-related problems, both work and non-work related. EAPs tend to be based on medical approach to treatment and involve the following:³⁴

- *Diagnosis:* Employees with a problem ask for help. EAP staff attempt to diagnose the problem.
- *Treatment:* Counselling or supportive therapy is provided. If in-house EAP staff are unable to help, the employee may be referred to appropriate professionals.
- *Screening:* Periodic examination of employees in highly stressful jobs is provided to detect early indicators of problems.
- *Prevention:* Education and persuasion are used to convince employees at high risk that something must be done to assist them in effectively coping with stress.

EAPs may be internal company-run programmes or outsourced. Irrespective of the arrangement, crucial to the success of any EAP is trust. Employees must trust that **(i)** the programme can and will provide real help, **(ii)** confidentiality will be maintained, and **(iii)** use of the programme carries no negative implications for job security or future advancement.³⁵ If employees do not trust the programme or company management, they will not participate.

Fitness Programmes Fitness programmes, often called Health Promotion

Programmes, focus on the employees' overall physical and mental health. Simply stated, any activity an organisation engages in that is designed to identify and assist in preventing or correcting specific health problems, health hazards, or negative health habits fall under fitness programmes. This includes not only disease identification, but lifestyle modification too. Among the most prevalent examples of such programmes are those emphasising hypertension identification and control, smoking cessation, physical fitness and exercise, nutrition and diet control, and work and personal stress management.

Companies also provide gyms, free gourmet food, tennis courts, golf courts, swimming pools, lounges, libraries and the like.

Companies in India are aware of the problem posed by stress and how to cope with it. Some leading companies have unique interventions. TCS has been running a variety of clubs—Theatre Club, Bibliophile Club, Adventure and Trekking Club, Fitness Club, Sanctuary Club, Music Club and Community Services Club. These clubs provide much needed break to the employees. 90 Indians and 30 Koreans (employees of LG India recently went to Himalayas in four batches for a six day trek. Infosys focuses on increasing self-awareness and providing employees with guidance on how to cope with stress thorough a series of workshops by experts.

Stress and Performance As stated earlier, stress is negatively related to performance. In other words, higher the stress, lower the performance. Earlier it was believed that moderate levels of stress would energise employees and enhance their performance. This belief is not held to be true now. The assumption valid now is that performance will be disrupted even by relatively low levels of stress. There are valid reasons in support of this assumption. First, even relatively mild stress distracts an employee. Individuals experiencing stress tend to focus on the unpleasant feelings and emotions rather than on the task at hand and as a result their performance suffers. Second, prolonged or repeated exposure even to mild levels of stress may have harmful effects on health and this may interfere with effective performance. Finally, research indicates that as arousal increases task performance may at first rise, but at some point begins to fall. The precise location of this *inflection point* (the point at which the direction of the

function reverses) seems to depend on the complexity of the task being performed. The greater the complexity, the lower the levels of arousal at which a downturn in performance occurs.

Stress is negatively related to performance.

Higher the risk, lower the performance. At the initial stage, stress may improve performance, but at some point it begins to fall. This point is called inflection point.

There are exceptions to the general rule that stress interferes with performance. Some individuals, for example, are at their best in times of stress. They rise to the occasion and turn in exceptional performance at times. This may result from the fact that they are truly experts in the tasks being performed, making their inflection points very high. People who are exceptionally skilled at a task may cognitively appraise a potentially stressful situation as a challenge rather than a threat. And, as we noted earlier, by not cognitively appraising a situation as a threat, stress reactions are unlikely to occur. Thus, whether stress can disrupt or enhance performance depends on several different factors (for example, complexity of the task being performed, personal characteristics of the individuals involved and their previous experience with the task).

Pause and Ponder

Which of the following stressed you most? Why?

- Examinations
- Job interviews
- Appraisal time
- Choosing life partner

Acquired Immune Deficiency Syndrome (AIDS)

The year 1983 goes down in history as the darkest year for it was in this year that scientists discovered a baffling disease called AIDS, also named ‘Gray Plague’ that has taken a heavy toll of human lives. Across the globe, 2.3

million people died in 1997 because of the dreadful disease. At the beginning of 1998, more than 30 million people, about 0.5 per cent of the earth's population, have been infected with HIV—the AIDS-causing virus.

The African continent is worst hit. In Zimbabwe and Botswana, for example, a quarter of the adult population is infected. Unless there is an unforeseen breakthrough in treatment, all those infected will die from AIDS. As a result, the life expectancy of the average Zimbabwean, having risen steadily until 1990, when it was 56, is likely to fall to only 49 by the end of the century. That of a Botswana will fall steeply.

The virus is also spreading into areas that were previously AIDS free. In some of the former communist countries of Europe, rates of HIV infection have risen several hundred-fold over the past three years. In China, where HIV was until recently confined to the south-west and the coast, every province has now registered people with the virus.

India also has fallen into the vortex. More than five million people have already become victims and the scourge is spreading across the country. Globally, India is second only to South Africa in terms of the overall number of people affected.

The first case of HIV infection in India was diagnosed among commercial sex workers in Chennai, Tamil Nadu in 1986. Soon after, a number of screening centres were established throughout the country. Initially, the focus was on screening foreigners, especially foreign students. Gradually, the focus moved on to screening blood banks. By early 1987, efforts were made up to set up a national network of HIV screening centres in major urban areas.

A National AIDS Control Programme was launched in 1987 covering surveillance, screening blood and blood products and health education. In 1992 the National AIDS Control Organisation (NACO) was established. NACO carries out India's National AIDS Programme, which includes the formulation of policy, prevention and control programmes. The same year that NACO was established, the Government launched a strategic plan for HIV/AIDS prevention under the National AIDS Control Project. The Project established the administrative and technical basis for programme management and also set up State AIDS bodies in 25 states and seven union territories. The Project was able to make a number of important improvements in HIV prevention such as improving blood safety.

Educating people about HIV/AIDS and prevention is complicated as India

has many major languages and hundreds of different dialects. Hence although some HIV/AIDS prevention and education can be carried out at the national level, many of the efforts are implemented at the state and local levels.

NACO provides funds to state AIDS control societies for targeted interventions, blood safety, youth campaigns, VCT, care and support and social mobilisation. NACO sponsored prevention efforts have included concerts, TV spots with a popular Indian film-star, radio drama, radio programme and organising a voluntary blood donation day. School AIDS education programme in India includes, training teachers and peer educator among students, role-playing, debates and discussions. The programme has worked towards youth to raise awareness levels, help young people to resist peer pressure and develop a safe and responsible life-style.

In 2001, the government adopted the National AIDS Prevention and Control Policy. However, it is still debatable as to whether there is sufficient commitment to combating the epidemic at the government level. Many Indians in positions of power refuse to accept that their country faces a grave threat from the epidemic. And as the epidemic spreads, the battle against AIDS is mired by a lack of consensus on the extent of the pandemic, the “right strategy” to combat it, and how to deal frankly with sexuality.

An active government should become more proactive and take measures to control the epidemic (Exhibit 16.10 shows what an effective government can do).

Exhibit 16.10 Senegal’s Success Story

One of the most successful anti-AIDS campaigns waged outside the West has been in Senegal.

Senegal reacted swiftly to the appearance of AIDS, starting its counter-attack in 1986, before the disease could get a grip. The country is predominantly Islamic and residually Catholic, so the government sought to counter potential opposition from religious leaders to the sometimes sexually explicit messages that an anti-AIDS campaign must often broadcast, by seeking their support from the beginning. (It was generally given). Sex education in schools was made universal. The “social marketing” of condoms (i.e. their sale at heavily discounted prices) became widespread. People at particular risk of contracting and transmitting the

disease, such as prostitutes and their clients, were made the focus of attention. And the government drove the message home among the group of young, sexually active men over whose lives it had almost complete authority—the army.

A recent survey suggest that the campaign has, indeed, changed the behaviour of Senegal's youth. It has not done so, however, by imposing monogamy on them. According to the survey, 43 per cent of men between 15 and 24 said that they had casual sex in the previous year. So did 15 per cent of women in that age group. But more than 60 per cent of women and 40 per cent of men claimed they had used a condom in their casual encounters—a claim backed up by the fact that condom sales have risen from 8,00,000 to 7 million a year over the past decade. Presumably, as a result, Senegal's rate of HIV infection has remained below 2 per cent, compared with around 13 per cent in nearby Coted'Ivoire.

Credit should go to central government undertakings, particularly HMT and BHEL, for initiating measures to prevent AIDS. Teams of doctors from in-house Occupational Health Services visit plants and give lectures to employees on AIDS prevention. Lectures are held once or twice every year.

ASHA Foundation (Action Service Hope for AIDS) is a Bangalore-based voluntary organisation which is rendering yeoman service in creating awareness of AIDS infection and counselling to HIV-positive persons, their families and the community. There are similar organisations in other cities too.

What is needed most for the employers is to educate workers about AIDS. The following guidelines need to be followed to make the educational programme effective:

1. Employees must be made to understand how AIDS is contacted.
Understanding about the ways on contacting AIDS will ensure that the activities do not occur at the workplace.
2. Presentations to employees must be handled by professionals, preferably from experts. This is necessary as the message presented is going to include sexual references which, if not handled properly, are likely to have a negative impact on employees.
3. All employees must attend the sessions.

AIDS is likely to cause considerable confusion and disruption in the workforce. When employees realise that they are working with an infected worker, they demand that the hapless employee should be dismissed. If the management discharges the employee, the law is violated, particularly in the US where individuals who have AIDS are protected by federal, state and local laws. This protection generally comes in the form of protection against discrimination and is based on the fact the virus cannot be spread by casual contact.

Organisations are hard hit by additional costs—direct and indirect—when their employees contract the disease. Direct costs are in the form of increased medical burden. Indirect costs result from loss of productivity when employees refuse to work with an AIDS-infected worker.

Much of the problem relating to AIDS stems from ignorance of people about the disease. They believe that the disease is highly infectious and there is no remedy for the victims. It is the responsibility of the government, and business and non-governmental organisations to create better awareness about the disease in the minds of the people.

Alcoholism, Smoking and Drug Abuse

Alcoholism is a serious and widespread disease. It does not strike any particular group—alcoholism can strike employees from the janitor to the general manager.

The effects of alcoholism on the worker and on the work are serious. Both the quality and quantity of work decline sharply. A form of “on-the-job absenteeism” occurs as efficiency declines. An alcoholic worker is more unlikely to observe safety precautions while on the job or off the job. Morale of the other workers is likely to suffer as they are required to do the work of their alcoholic peer.

Organisations employ three techniques to tackle alcoholism in workplaces. First is disciplining alcoholics. Where disciplining fails, the alcoholic is discharged. Second is in-house counselling by the HR department, the company doctor or by immediate supervisor. Finally, companies use outside agencies, psychiatrists and clinics to deal with the problem of alcoholism.

Drug abuse is a recent phenomenon and is a serious one. Drug usage

usually falls into one of three categories: Marijuana abuse, prescription drug abuse and hard-drug abuse. Drug abuse is more evident among young employees and is found across all job levels. Employees who are drug addicts are often much more difficult to detect than alcoholics—liquor is easy to smell but not drugs. Besides, it is easy for an addict to pop a pill at lunch or on a break, undetected.

Drug abuse affects job performance. The problem of a drug addict indicates his or her on-the-job behaviour. He or she:

- Is late 3 times as often as fellow employees,
- Requests early dismissal or time off during work 2.2 times as, often,
- Has 2.5 times as many absences of 8 days or more,
- Uses 3 times the normal level of sick benefits,
- Is 5 times as likely to file a worker compensation claim,
- Is involved in accidents 3.6 times as often as other employees, and
- Is one-third less productive than fellow workers.

As a result of the increased use of drugs in the workplace, more and more companies have begun to use some form of drug testing for both job applicants and existing employees. For example, the percentage of Fortune 500 companies routinely using urine analysis on job seekers and employees to detect drug use grew from five per cent in 1983 to almost 33 per cent in 1987.

Drug testing is risky. An employer can be exposed to substantial liability for defamation for making a false accusation of drug use. The following guidelines can help avoid the risk:

1. Testing only applicants/employees whose jobs are considered safety specific or critical.
2. Using only valid measures of drug use.
3. Obtaining valid consent of the applicant or employee and then provide the examinee with the results of the tests.
4. Maintaining strict confidentiality of test results.

Organisations can use the same techniques (recommended to cure alcoholism) to the problem of drug abuse also.

Smoking claims millions of precious human lives across the globe each year. It has been estimated that out of the 600,000 deaths in the UK alone every year, 100,000 are caused by tobacco. The estimated cost associated with smoking in the work place is said to be approximately US \$825 per

employee per year. Fig. 16.9 shows employers' costs associated with workplace smoking—money that goes up in smoke.

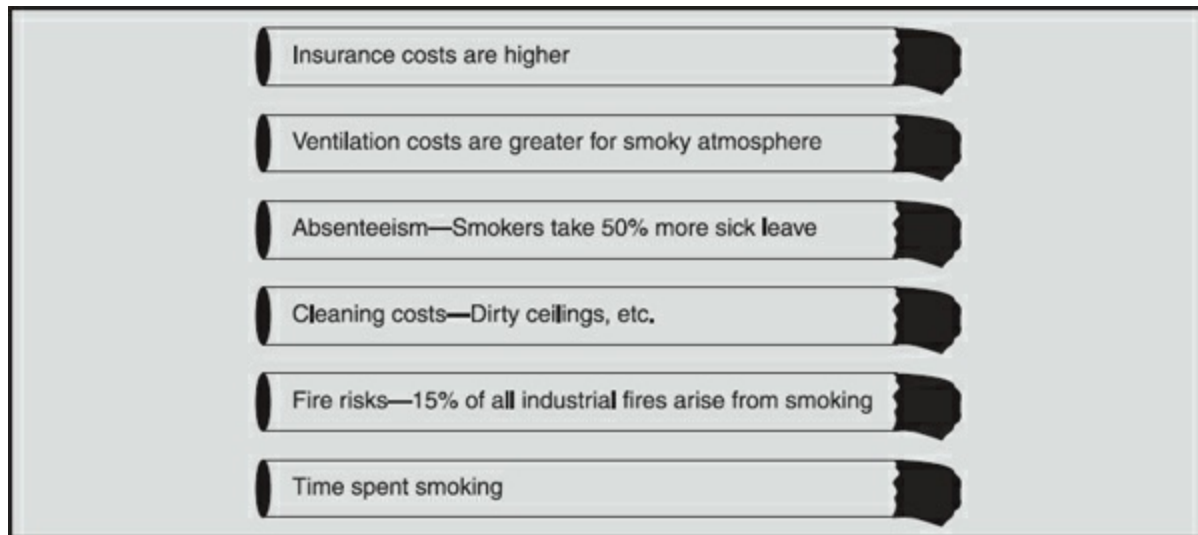


Fig. 16.9 *Smoking-related Costs*

Source: John Bratton and Jeffrey Gold, op cit, p. 172.

In the past, employers had restricted employees' smoking in order to reduce risks from fire or to comply with hygiene standards. As of now, organisations are exhibiting genuine concern and are initiating steps to check smoking at workplaces. Many of them have adopted no smoking policies and are spreading awareness among employees to give up smoking. Some employers offer smoking cessation workshops as part of health promotion efforts. HR professionals should know that anti-smoking initiatives are bound to receive resistance from smokers. Obviously, consultation with employees and their unions is helpful in breaking the resistance and make workplace 'smoke free.' (Also see Exhibit 16.11)

Exhibit 16.11 **Futile Attempt to Curb Smoking**

Since 1988, World No Tobacco Day is held every May 31 on the initiative of the World Health Organization. EU analysts estimate that on that day the number of smokers in the Old World declines by 10 to 15 per cent. However, Western Europe is probably the only region to show such a tough stance on smoking, while the rest of the world either ignores this problem

altogether or declares openly that it will not break the habit.

Although World No Tobacco Day aims to focus public attention on the fact that smoking is a major health hazard, the WHO and other agencies have accomplished little in this sphere.

RIA Novosti advises its readers to go out on May 31 and to see how many smokers are there. Anyone who comes to Russia or any other former Soviet republic will be in for a big surprise. Those going to China or India will be horrified and will realise that World No Tobacco Day is something far-fetched.

The WHO has selected “Tobacco Health Warnings” as the theme for the upcoming World No Tobacco Day. Tobacco health warnings containing both pictures and words appear on packs of cigarettes and are among the strongest defences against the global epidemic of tobacco. Although only a dozen countries have adopted such verbal and pictorial warnings to date, the WHO wants to spread them to the rest of the world.

Tobacco health warnings are probably the only way to influence incorrigible smokers, as well as tobacco and cigarette manufacturers, national governments, ministries of finance and tax agencies.

The WHO lacks the leverage to increase tobacco excise tax and to reduce budgetary proceeds. Such measures are just about the only way to conduct successful anti-smoking campaigns. However, smokers are often unable to quit of their own accord. Moreover, tobacco and cigarette companies will never stop manufacturing their products containing nicotine, a narcotic and psychotropic substance, unless forced to do so.

It appears that tobacco health warnings are a sign of despair. Although this will now be the twenty-first World No Tobacco Day, the ranks of smokers continue to swell. The WHO estimates that global tobacco consumption has soared by 20 per cent since 2003, primarily in Africa and Asia, which have been targeted by transnational tobacco companies over the last nine years.

China leads the global smoking spree. Right now, 350 million Chinese citizens, or about 33 per cent of the country’s population, are smokers. Imagine seven countries the size of France, whose entire population, including men, women, children and infants, simultaneously inhales tobacco smoke.

China, which accounts for 30 per cent of the world’s smokers, is

followed by India with 13 per cent, or 238 million smokers. Indonesia, Russia and the United States account for 5–6 per cent and have surged ahead of Japan, Brazil, Bangladesh, Germany and Turkey. Two-thirds of the world's smokers live in the above countries.

Although Russia has the world's fourth largest smoker population, smokers account for 40 per cent of Russians (men account for 65 per cent and women, 20 per cent), exceeding the share of Chinese smokers. Russia ranks third in terms of tobacco production after China and the United States, where 24.5 per cent of the population are smokers.

In 1985, Russia produced 201 billion cigarettes, expanding production to 414 billion in 2006 and outpacing Japan. However, China and the United States have 1.3 billion and 300 million populations, respectively, while the 140 million Russians have to content themselves with low-quality cigarettes.

Russia makes the cheapest cigarettes in the industrial world. A pack that costs \$8 in the United States or Canada is sold for a dollar in Russia, while filterless cigarettes, the notorious Russian papirosy, cost less than 30 cents a pack. About 400,000 Russians annually die from smoking-related diseases, as contrasted with 100,000 deaths in road accidents nationwide.

In April 2008, Russia signed the WHO Framework Convention on Tobacco Control involving 172 U.N. member-states by that time. The Federation Council, the upper house of parliament, has submitted a bill stipulating a smoking ban in all public places. Considering the huge army of Russian smokers and an invisible, albeit extremely powerful tobacco lobby, the State Duma, the lower house of parliament, is unlikely to pass it anytime soon.

All EU countries, except members of the former communist bloc, have already banned smoking in offices, restaurants, bars, cafes and government agencies. The ban will eventually cover all new EU members.

Those who love fresh air should go to the landlocked Kingdom of Bhutan in South Asia. In 2005, Bhutan completely banned smoking and tobacco imports. Smoking is completely prohibited in Bhutan. However, Cameroon, Chad and the Central African Republic encourage smoking anywhere.

Contrary to a widespread opinion, the U.S. government has not declared a federal ban on smoking in public places. Only 25 states have banned

smoking on the local level. In 12 more states, adults are allowed to smoke in bars, municipal councils have banned smoking in 13 remaining states, no federal smoking ban is envisaged there.

The WHO estimates that at least five million will die from tobacco-related causes throughout 2009 worldwide, and that this figure will reach 8–10 million by 2020, unless smokers’ ranks are reduced. Smoking may claim a billion lives in the 21st century.

(Source: *The Hindu*, 31st May, 2009).

Violence in the Work Place

Violence in the work place, once an exception to daily work life, has become common these days. It is said that in the US, an average of 20 workers are murdered and 18,000 workers are assaulted each week. A study, covering 79 Indian firms, found that 71.1 of the executives use foul language, 21% resort to some physical action and 8.1 suffer nervous breakdown. Those who are at high risk are taxi drivers, police officers, retail workers, cashiers at petrol pumps, and people who work alone or at night. Violent incidents include fist fights, shooting, stabbing and sexual assaults ([Table 16.13](#)).

Pause and Ponder

Violent incidents at work place include fist fights, shooting, stabbing and sexual assaults. Taxi drivers, police officers, retail workers, and night-shift employees are exposed to such risks.

Table 16.13 *Workplace Violence—Levels*

A. Moderately Injurious	B. Highly Injurious
Property damage, vandalism	Physical attacks and assaults
Sabotage	Psychological trauma
Pushing, fist fights	Anger-related accidents
Major violations of company policy	Rape

Frequent arguments with customers, co-workers or supervisors

Theft

Arson

Murder

Source: Bernardin, *et. al., op. cit.*, p. 419.

Violence disrupts productivity, causes untold damage to those exposed, and costs employers millions of rupees. Obviously, organisations should initiate measures to protect employees and physical resources. It is important that companies concentrate on avoiding violence rather than simply dealing with it after it occurs.

Pause and Ponder

Did you ever have a brawl with a colleague/superior/elders at home? What made you do so?

The following will help companies avoid falling victims of violence:

1. Hiring with caution. Pre-hire drug testing, detailed questions about previous employment, and criminal record checks can go a long way towards avoiding violence-prone individuals.
2. Develop a plan for preventing violence and for dealing with it when it occurs. Reporting requirements for both violence and threats of violence should be an integral part of the plan. The plan should also be drawn by employee participation and professionals who are experts in areas of violence assessment, counselling and law enforcement.
3. Establish a crisis-management team with the authority to decide and act quickly. This group will evaluate problems, select intervention techniques, and co-ordinate follow-up activities.
4. Train supervisors and managers in how to recognise aggressive behaviour, identify the warning signs of violence, and resolve conflicts. Orient all employees towards assuring a violence free work environment.
5. Provide specific employee-assistance programs designed to help

- employees with personal problems.
6. Workplace violence can be prevented by employing security measures.

SUMMARY

Thousands of employees die everyday in factories due to accidents. Accidents are partial or total, temporary or permanent. An accident-free plant can save on cost, increase productivity, discharge moral commitment towards workers and comply with legal provisions.

The safety programme of a typical organisation comprises six steps—making strategic choice; development of a safety policy; organisation for safety; analysis of the causes, extent and consequences of accidents; implementation of the programme; and evaluation of the safety performance.

Health is wealth for employees as well as for managers. Realising this, employers provide a large number of health services to their employees. Health protection is a legal requirement too.

Employee health has several dimensions: physical health, mental health, noise control, job stress, alcoholism, AIDS, drug abuse and violence at work place.

KEY TERMS

AIDS

Cost saving

Frequency rate

Industrial accidents

Industrial safety

Incident rate

ISO safety standards

Job stress

Mental health

Organic measures

Physical health

Risk management

Safety audit

Safety programme

Safety organisation
Safety policy
Safety axioms
Systemic measures
Safety culture
Disclosure

REVIEW QUESTIONS

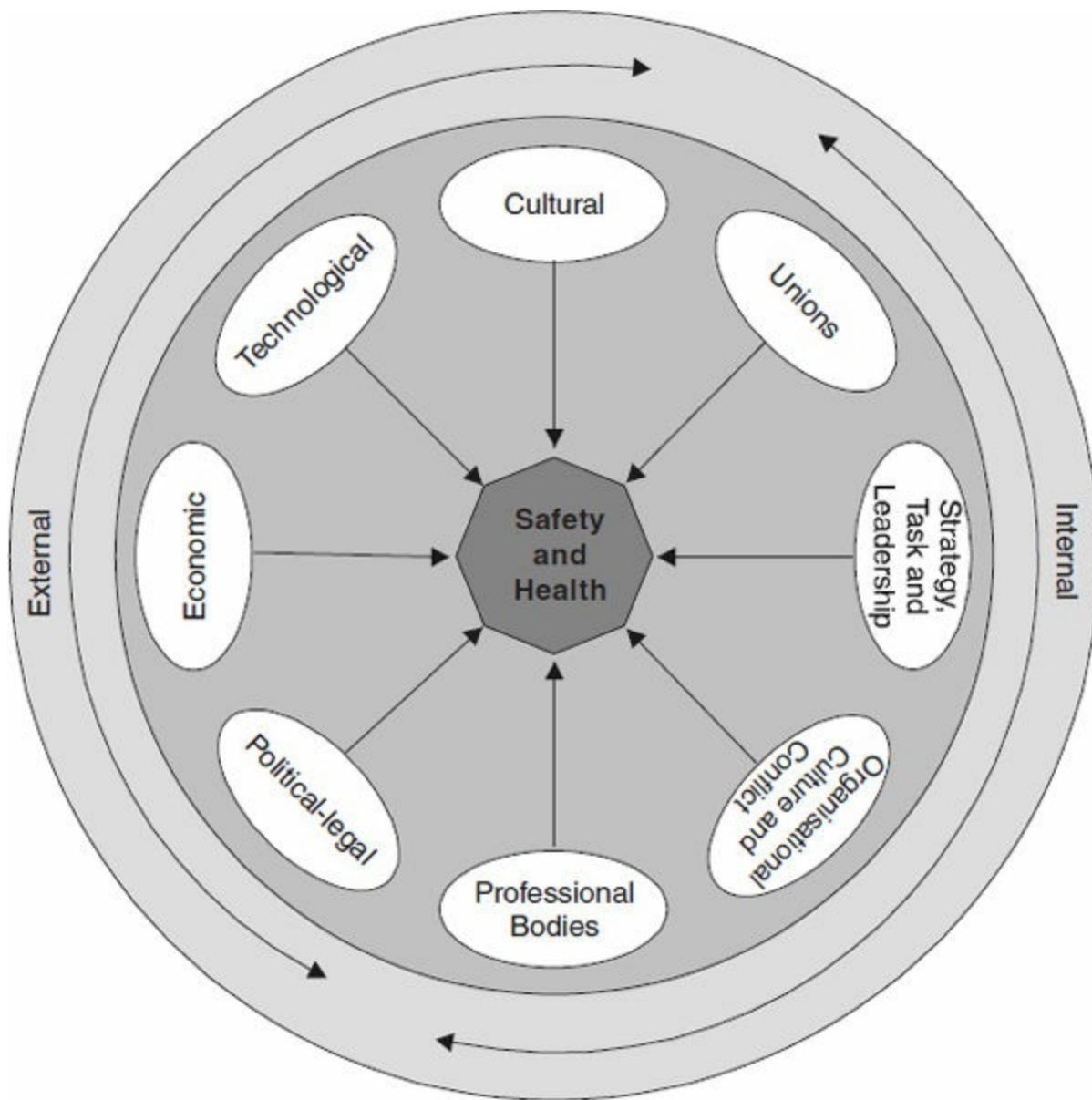
1. What is employee safety? How is safety disrupted? Explain.
2. Outline the causes for industrial accidents. How can they be avoided?
3. Explain the steps in a safety programme.
4. How is safety performance assessed?
5. Describe the need for and ways of ensuring employee health.
6. Why is work stress caused? How can it be minimised?

DISCUSSION QUESTIONS

1. “The problem of industrial accidents is no less severe in our country”. Elucidate.
2. If you were a Chief Executive appointing a safety director, what would you tell him should be his objectives? What would be the order of importance?
3. What, according to you, are the reasons why safety has often not been managed as effectively as some other business functions? What may be done about this?
4. Outline the role of HR specialist in providing a safe and healthy environment for employees.
5. “Employees with poor safety records often have poor written safety policies”. Agree or disagree? Discuss.

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact safety and health, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

It was five years ago that Vybhav incorporated a formal policy around flexi-work to ensure a better work-life balance for its employees. The key concern was the need to provide an opportunity for employees to be able to come in and work in such a way that they could manage their personal limitations without impacting work. This was particularly a challenge for women employees as well as employees who were dual working couples. Being a pro-employee focused organisation, the management of Vybhav felt the need

to come up with guidelines to support such employees with a genuine need for flexi-work timings to manage personal commitments. The guidelines around work-life-balance provided for the following:

The flexi-work guideline allowed an employee to ensure that the employee clocked a minimum of 40 hours of work each week. The time-in and time-out needed to be decided and agreed with the manager keeping in view that the work was in no way impacted because of such an initiative. The payroll teams including the support HR partner for the team were informed of the same so they were aware of.

The ‘work from home’ guideline allowed an employee to call in as working from home with due approval from the employer. Generally, the permitted limit was three days a month and in exceptional cases could be more depending on the situation.

Three year ago, Vybhav also initiated a company crèche facility at its four key locations. At each location, sufficient space was set aside in its building to accommodate crèche for employees’ children below 5 years of age.

The creche’s services were outsourced while Vybhav took care of the infrastructural facilities for setting up of crèches. The initiative was highly appreciated by the employees.

The employee availing this facility had to pay crèche fees on a per-child basis and Vybhav reimbursed 50% of the fees as a policy. Vybhav had also entered a contract with the provider of crèche facilities to additionally take care of hygiene, cleanliness, safety and other child-friendly measures to ensure well-being of the employees’ children. Mothers with babies less than three years were allowed to drop in and visit their babies at least three times during an eight hour working day.

Closing Case *A Case of Burnout*

When Mahesh joined XYZ Bank (private sector) in 1985, he had one clear goal—to prove his mettle. He did prove himself and has been promoted five times since his entry into the bank. Compared to others, his progress has been the fastest. Currently, his job demands that Mahesh should work 10 hours a day with practically no holidays. At least two day in a week, Mahesh is required to travel.

Peers and subordinates at the bank have appreciation for Mahesh. They don't grudge the ascension achieved by Mahesh, though there are some who wish they too had been promoted as well.

The post of General Manager fell vacant. One should work as GM for a couple of years if he were to climb up to the top of the ladder. Mahesh applied for the post along with others in the bank. The Chairman assured Mahesh that the post would be his.

A sudden development took place which almost wrecked Mahesh's chances. The bank has the practice of subjecting all its executives to medical check-up once in a year. The medical reports go straight to the Chairman who would initiate remedials where necessary. Though Mahesh was only 35, he too, was required to undergo the test.

The Chairman of the bank received a copy of Mahesh's physical examination results, along with a note from the doctor. The note explained that Mahesh was seriously overworked, and recommended that he be given an immediate four-week vacation. The doctor also recommended that Mahesh's workload must be reduced and he must take to physical exercise every day. The note warned that if Mahesh did not care for advice, he would be in for heart trouble in another six months.

After reading the doctor's note, the Chairman sat back in his chair, and started brooding over. Three issues were uppermost in his mind—(i) How would Mahesh take this news? (ii) How many others do have similar fitness problems? (iii) Since the environment in the bank helps create the problem, what could he do to alleviate it? The idea of holding a stress-management programme flashed in his mind and suddenly he instructed his secretary to set up a meeting with the doctor and some key staff members, at the earliest.

Questions

1. If the news is broken to Mahesh, how would he react?
2. If you were giving advice to the Chairman on this matter, what would you recommend?

REFERENCES

1. *The Hindu*, April 20, 2004.
2. *The Economic Times*, November 8, 1992.
3. *The Hindu*, of respective dates.
4. H.W. Heinrich, *Industrial Accidents Prevention*, McGraw-Hill, 1959, p. 16.
5. Adapted from the *Handbook of Personnel Management Practices*, by Michael Armstrong, Kogan Page, 1988, p. 277–78.
6. William P. Anthony, *Strategic Human Resource Management*, Thomson, 1993, p. 513.
7. Michael Armstrong, *op. cit.*, p. 280.
8. H.W. Heinrich, *op. cit.*, p. 20.
9. M.V. Moorthy, *Principles of Labour Welfare*, Gupta Brothers, 1968, p. 148
10. *India Today*, January 31, 1985.
11. Randall S. Schuler, *Personnel and Human Resource Management*, West Publishing, 1981, p. 446.
12. H.W. Heinrich, *op. cit.*, pp. 13-14.
13. John V. Grimaldi and Rollin H. Simonds, *Safety Management*, Richard D. Irwin, 1991, p. 478.
14. *Ibid*, p. 488
15. *The Economic Times*, March 10, 1995.
16. Michael Armstrong, *op. cit.*, p. 281.
17. John V Grimaldi and Rollin H. Simonds, *op. cit.*, p. 244.
18. *Ibid*, p. 249.
19. *Ibid*, p. 250.
20. *The Hindu*, November 6, 2003.
21. *Ibid*.
22. Fred Luthans, *Organisational Behaviour*, McGraw-Hill, 1998, p. 330.
23. Don Hellriegel, *et. al.*, *Organisational Behaviour*, South Western, 2001, p. 193.
24. *Ibid*.
25. Robert Krietner and Angelo Kinicki, *Organisational Behaviour*, Irwin-McGraw Hill, 1998, p. 529.
26. *Ibid*, p. 531.
27. Steven McShane and Mary Ann Von Glinow, *Organisational Behaviour*, TMH, 2000, p. 140.

28. *Ibid*, p. 536.
29. *Ibid*, p. 547.
30. Ivancevich, *et. al.*, “Worksite Stress Management Interventions”, *American Psychology*, 1990, p. 252.
31. Don Hellriegel, *et. al.*, *op. cit.*, p. 211.
32. *Ibid*, p. 212.
33. Ivancevich and Matteson, *Organisational Behaviour and Management*, McGraw-Hill, 1999, p. 279.
34. *Ibid*, p. 280.
35. Jerald Greenberg and Robert A. Baron, *Behaviour in Organisations*, PHI, 1999, p. 258.
36. Jeremy Stranks, *Health and Safety at Work*, Kogan Page, 2010.

Managing Betterment Work— Employee Welfare

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of employee welfare and its merits and demerits
- The types of welfare schemes
- The approaches to labour welfare
- The different steps in administration of the welfare schemes

Opening Vignette

In a small jute factory, there was no rest shed. An open space within the compound was available. In summer, when it was very hot, the workers offered to build thatched rest shed for themselves. Unnecessary delays due to red tape and vacillation came in the way of building the shed. Later, the management felt that they should augment their water resources by digging a well where the shed had been proposed. A well was dug but rocky layers disappointed the management. To date, this well is a yawning protest of the neglect of the principle of timeliness, giving employees an opportunity to ridicule the management. The jute mill employees humorously but contemptuously described this work as the management's "welfare" work.¹

There is the story of a big Jain employer who firmly held the belief that the provision of welfare facilities for workers was outside the duties of the management. Whatever he did provide was under government compulsion and supervision. However, it so happened that his children died as soon as they were born. Later his own health also suffered. He felt that as a

compensation or even as an investment in *punyam*, he should liberally contribute to the crèche in the factory (as well as to other child welfare institutions), and also to medical services for his workers. Consequently, in this particular factory, there came to exist an excellent crèche and a well organised dispensary.²

Though the above vignette dates back to the early 20th century, the status in factories, particularly in the unorganised sector, continues to be the same and even worse today. A look at the power looms, beedi and incense sticks rolling units in Bangalore reminds one of pre-Taylor days.

Most welfare activities (described later in this chapter) are considered to be mundane. Obviously, not many authors provide space in their books for a discussion on this topic. But we are of the opinion that what are considered to be temporal benefits elsewhere are being neglected in our country particularly in the unorganised sector. We are also of the opinion that the teachers and students should be enlightened about the concept of employee welfare and how welfare measures are implemented or neglected. Hence, the present chapter.

After employees have been hired, trained and remunerated, they need to be retained and maintained to serve the organisation better. Welfare facilities are designed to take care of the well-being of the employees—they do not generally result in any monetary benefit to the employees. Nor are these facilities provided by employers alone. Governmental and non-governmental agencies, and trade unions too, contribute towards employee welfare. The welfare facilities together contribute to better work environment.

NATURE OF WELFARE

Welfare means faring or doing well. It is a comprehensive term, and refers to the physical, mental, moral and emotional well-being of an individual. Further, the term *welfare* is a relative concept, relative in time and space. It, therefore, varies from time to time, from region to region and from country to country.

Labour welfare, also referred to as betterment work for employees, relates to taking care of the well-being of workers by employers, trade unions, and

governmental and non-governmental agencies.

ILO at its Asian Regional Conference, defined labour welfare as a term which is *understood to include such services, facilities and amenities as may be established in or in the vicinity of undertakings to enable the persons employed in them to perform their work in healthy, congenial surroundings and to provide them with amenities conducive to good health and high morale.*³

Labour welfare has two aspects—negative and positive. On the negative side, labour welfare is concerned with counteracting the baneful effects of the large-scale industrial systems of production—especially capitalistic, so far as India is concerned—on the personal/family, and social life of the worker. On its positive side, it deals with the provision of opportunities for the worker and his/her family for a good life as understood in its most comprehensive sense.⁴

MERITS AND DEMERITS OF WELFARE MEASURES

Labour welfare is justified for several reasons. It is desirable to recollect the services of a typical worker in this context. His/her labour helps dig and haul coal from the depths of the earth—to fetch and refine oil, to build dams and reservoirs, to lay pipes, canals, railway lines and roads. His/her labour creates and transmits power, and, through various phases of manufacturing, patterns raw materials into finished products of necessity as well as of luxury.

The industrial worker is indeed a soldier safeguarding the social and economic factors of the industrial economy, and his/her actions and interactions within the industrial framework will have a great impact and influence on industrial development.

The social and economic aspects of the life of a worker have a direct influence on the overall development of the nation. There is every need to take extra care of the worker—to provide both statutory and non-statutory facilities to him/her.

Another argument in favour of employee welfare is that the facilities help motivate and retain employees. Most welfare facilities are hygiene factors which, according to Herzberg, create dissatisfaction if not provided. Remove dissatisfaction, place an employee in a favourable mood, provide satisfiers,

and then motivation will take place. Welfare facilities, besides removing dissatisfaction, help develop loyalty in workers towards the organisation.

Welfare may help minimise social evils, such as alcoholism, gambling, prostitution, drug addiction, and the like. A worker is likely to fall a victim to any of these if he/she is dissatisfied or frustrated. Welfare facilities tend to make the worker happy, cheerful and confident looking.

A further argument in favour of welfare is that a reputation for showing concern helps improve the local image of the company as a good employer and thus assists in recruitment. Welfare may not directly increase productivity, but it may add to general feelings of satisfaction with the company and cut down labour turnover.⁵

The story about Kolar Gold Fields (KGF) in Karnataka told in Exhibit 17.1 strongly advocates employee welfare.

Exhibit 17.1 From Dust to Dust

For well over a decade, successive governments have been trying to shut down the Bharath Gold Mines Ltd (BGML). Oddly, this has happened in a situation where per worker productivity has risen. Where the veins of gold have not quite run out. Where large seams remain unexplored. Where the workers are perhaps the lowest paid for any public sector unit in the country. Where a single region has produced a precious metal worth ₹ 45,000 crore over the years. Where the legislative assembly of Karnataka passed a unanimous resolution appealing to the Centre not to close down the mines, but to try and revive them.

The battles are still on, though the Union Government declared that the loss-making mines would simply cease to exist by the end of May 2001. Many insist the losses were management- and government-inflicted: some say consciously inflicted. At any rate, the losses of ₹300 crore are far less than that of other units in the country where there has been no talk of closure.

The mines of the KGF have always functioned in a system of high exploitation—earlier under the old British owners in the former Mysore State, subsequently under the Indian state.

“My father worked here for 6 *annas* and 36 *paise* a day”, says A. Kasi. A miner who retired as a foreman at the Edgar Shafts in 1989, Kasi says,

“almost all the men in my family worked in the mines. My father dug tunnels after coming here in 1927. Our people were from north Arcot in Tamil Nadu. Some earned as little as 25 *paise* a day. Those who worked on the machines got 13 *annas*. They lived in those eight-foot by eight-foot hovels that you have seen. At times 3 to 4 families stayed in one ‘house’. It was only in 1948 that the idea of one family to one house was accepted. That was after a strike in 1946 led by Communist leaders of the All India Trade Union Congress (AITUC) like Vasan and Govindam. Six miners died when the British masters resorted to firing in that strike”.

The pay was wretched and work conditions worse. Surveys from the 1930s show that 48 out of 50 families studied were deeply in debt. The debt of each family was, on an average, over six times its monthly income.

John Taylor and Sons was the entity that exploited the mines from the 1880s to 1956. The British company needed to see that miners from Tamil Nadu did not ‘escape’. The Tamils saw their work here as temporary. Even if they did not always return home, they felt they had a right to do so. However, John Taylor’s mines demanded their dirt-cheap labour.

“The older generations had to wear a metal band saying ‘John Taylor and Sons’ on the left hand,” says S.M. Irchappan. A miner who worked here from 1949 till he retired in 1988, he says “it was very tight. It had a mine name and number on it. Anyone trying to ‘run away’, switching mines or the like, used to be caught and identified by the band. The workers hated the practice but it was forced on them. “In the early days”, says Kasi, “we were not given petromax lamps. Not even later when they came in vogue. We had to make do with candles and carbon lights. The company did nothing for us that would cost them a *paisa*”.

Not even in the field of education. Both Kasi and Irchappan dropped out when they were in standard four. Even today, decades after freedom, the needs of officers’ children are met but not those of the workers. The English-medium schools officers’ children went up to the SSLC level. The workers’ children stopped at middle school.

“There were whole generations of miners in the old days who never saw the sun”, says veteran trade unionist K. Savaridoss of the Central Industrial Trade Union (CITU). “The work day was 12 hours till 1946. Most men were contract workers using candles and hand drills. They went in before dawn and came out after dusk. There was no electricity for much of the

mine's existence. Not for the workers, anyway”.

Odd, since Kolar was the first part of old Mysore to get electricity. And that was very early, around 1902. “That is true”, says Savaridoss, “but the safety was not a priority. Power was taken to the mines, but only for the main places and for hoisting the workers up and down. Not for their personal needs”.

Hundreds of miners died in rockbursts in the 1920s and 1930s. Quite a few were buried alive. Many succumbed to diseases and the unsafe conditions. Mine floods and other accidents claimed still more lives.

“Till April 1972, an unskilled worker got ₹1.25 to 1.50 a day”, says CITU's Savaridoss. “This was up from 25 *paise* in the 1930s and 50 *paise* in the 1940s.”

M.C. Adishesan laboured 40 years as a miner in the KGF. “And my period was entirely in the post-Independence period”, he points out. He worked from 1955 to 1995. “I earned a *coolie* rate of ₹1.25 a day when I began. Annual increments” he laughs “were five *paise*” (for the lowest category of workers, increments were just ₹10 a year till the 1980s). In 1995, he was 2,600 feet below when a rockburst struck. “It was in the Nandydroog mine. Some 60 tons of ore collapsed on us”.

Adishesan lived but was seriously debilitated. He still cannot move his neck properly. He has not received a single *paisa* in compensation. And like many here, gets no pension.

What about medical treatment for the injury? He laughs, “It was free but meaningless. There is nothing worthwhile in our hospital here”.

In his 40th working year, he had a basic pay of ₹1,350 taking home less than ₹4,000. “Those workers covered by pension agreements—those joining after 1982—will get around ₹300 a month”, he says. “If they and the mine last 30 years, they could get ₹500 a month as pension at best.” Most will get nothing.

In the mines, the pay slips speak. Many show around 25 years of work and a basic pay of ₹1,340. “After 30 years”, says Edison, a general foreman officer at the Golconda mine, “you could make ₹4,250 and lose ₹1,720 of that in deductions. This makes it the only PSU where you can work 40 years and take home less than ₹4,000 each month”.

These are the people who produced ₹45,000 crore worth of gold for others. There has been no wage revision at all here for over 10 years—in a

decade when prices shot up as never before.

Arguments against labour welfare are obvious. Welfare implies ‘do-gooding’. The personnel management fraternity have spent many years trying to shake off their association with what they, and others, like to think of as, at best peripheral and redundant welfare activities. Welfare is provided by the respective state governments. Why should industrial, commercial or public sector organisations duplicate what is already there? The private affairs of employees and their off-the-job interests should not be the concern of their employers. It is selfish to maintain large playing fields and erect huge sports pavilions if they are going to be used by a minute proportion of staff for a very limited period of time—the space and facilities could be better used by the community. The argument that the provision of welfare services increases the loyalty and motivation of employees has long been exploded. If welfare services are used at all, they are taken for granted.⁶ Gratitude is not a prime motivating factor. In fact, gratitude is a thing of the past—remembered for a short time and forgotten soon after.

TYPES OF WELFARE ACTIVITIES

The meaning of labour welfare may be made more clear by listing the activities and facilities which are referred to as welfare measures.

A comprehensive list of welfare activities is given by Moorthy in his monumental work on labour welfare. He divides welfare measures into two broad groups, namely:⁷

1. Welfare measures inside the work place; and
2. Welfare measures outside the work place.

Each group includes several activities.

Pause and Ponder

Select 3 firms from public sector and 3 from private sector. Talk to their HR managers and ascertain the welfare facilities they respectively provide in their companies.

I. Welfare Measures Inside the Work Place

(i) Conditions of the Work Environment

- (a) Neighbourhood safety and cleanliness; attention to approaches.
- (b) Housekeeping; upkeep of premises—compound wall, lawns, gardens, and so forth, egress and ingress, passages and doors; white-washing of walls and floor maintenance.
- (c) Workshop (room) sanitation and cleanliness; temperature, humidity, ventilation, lighting, elimination of dust, smoke, fumes, gases.
- (d) Control of effluents.
- (e) Convenience and comfort during work, that is, operatives' posture, seating arrangements.
- (f) Distribution of work hours and provision for rest hours, meal times and breaks.
- (g) Workmen's safety measures, that is, maintenance of machines and tools, fencing of machines, providing guards, helmets, aprons, goggles, and first-aid equipment.
- (h) Supply of necessary beverages, and pills and tablets, that is, salt tablets, milk, soda.
- (i) Notice boards; posters, pictures, slogans; information or communication.

(ii) Conveniences

- (a) Rest rooms, wash basins, bathrooms, provision for spittoons; waste disposal.
- (b) Provision of drinking water; water coolers.
- (c) Canteen services: full meal, mobile canteen.
- (d) Management of workers' cloak rooms, rest rooms, reading room and library.

(iii) Workers' Health Services Factory health centre; dispensary, ambulance, emergency aid, medical examination for workers; health education, health research; family planning services (Also see Exhibit 17.2).

Anyone who doubts the depth of ITC Welcomgroups's involvement in the welfare of its employees has to just meet Omprakash, a steward at its Bukhara restaurant in New Delhi. Omprakash, who has worked with the hotel chain for the last 30 years, has a 22-year-old son whose kidneys no longer function. The boy has to undergo dialysis, an expensive procedure, every week. When the company's top management heard of his predicament, it immediately took care of all his medical expenses. And Omprakash, who was working in another F&B unit at the time, was transferred to Bukhara and given flexible working hours so that he could spend more time with his family. Now, he has finally found a kidney donor for his son and the company has promised to take care of all his expenses.

(Source: Outlook, April 18, 2009)

(iv) Women and Child Welfare Antenatal and postnatal care, maternity aid, crèche and child care; women's general education; separate services for women workers, that is, lunch rooms, toilets, rest rooms, women's recreation (indoor); family planning services.

(v) Workers' Recreation Indoor games; strenuous games to be avoided during intervals of work.

(vi) Employment Follow-up Progress of the operative in his/her work; his/her adjustment problems with regard to machines and workload, supervisors and colleagues; industrial counselling.

(vii) Economic Services Co-operatives, loans, financial grants; thrift and saving schemes; budget knowledge, unemployment insurance, health insurance, employment bureau, profit-sharing and bonus schemes; transport services; provident fund, gratuity and pension; rewards and incentives; workmen's compensation for injury; family assistance in times of need.

(viii) Labour-Management Participation

- (a) Formation and working of various committees, that is, works committee, safety committee, canteen committee; consultation in welfare area, in production area, in the area of administration, in the

area of public relations.

(b) Workmen's arbitration council.

(c) Research bureau.

(ix) Workers' Education Reading room, library, circulating library; visual education; literary classes, adult education, social education; daily news review; factory news bulletin; cooperation with workers in education services.

II. Welfare Measures outside the Work Place

- (i) Housing: bachelors' quarters; family residences according to types and rooms.
- (ii) Water, sanitation, waste disposal.
- (iii) Roads, lighting, parks, recreation, playgrounds.
- (iv) Schools: nursery, primary, secondary and high school.
- (v) Markets, co-operatives, consumer and credit societies.
- (vi) Bank.
- (vii) Transport.
- (viii) Communication: post, telegraph and telephone.
- (ix) Health and medical services: dispensary, emergency ward, out-patient and in-patient care, family visiting; family planning.
- (x) Recreation: games; clubs; craft centres; cultural programmes, that is, music clubs; interest and hobby circles; festival celebrations; study circles; reading room and library; open air theatre; swimming pool; athletics, gymnasia.
- (xi) Watch and ward; security.
- (xii) Community leadership development: council of elders; committee of representatives; administration of community services and problems; child, youth and women's clubs.

Welfare facilities may also be categorised as **(a)** intra-mural and **(b)** extra-mural.

Intra-mural facilities

Intra-mural activities consist of facilities provided within the factories and include medical facilities, compensation for accidents, provision of crèches and canteens, supply of drinking water, washing and bathing facilities, provision of safety measures, activities relating to improving conditions of employment, and the like.

Extra-mural facilities

Extra-mural activities cover the services and facilities provided outside the factory such as housing accommodation, indoor and outdoor recreational facilities, amusement and sports, educational facilities for adults and children, and the like.

It may be stated that the welfare activities may be provided by the employer, the government, nongovernmental organisations and the trade unions. While, what employers provide will be stated later, the activities undertaken by other agencies are mentioned here.

Welfare facilities by the Government

With a view to making it mandatory for employers, to provide certain welfare facilities for their employees, the Government of India has enacted several laws from time to time. These laws are the Factories Act, 1948; the Mines Act, 1952; the Plantation Labour Act, 1951; the Bidi and Cigar Workers (Conditions of Employment) Act, 1966; and the Contract Labour (Regulation and Abolition) Act, 1970. Another significant step taken by the central government has been to constitute welfare funds for the benefit of the employees. These funds have been established in coal, mica, iron-ore, limestone, and dolomite mines. The welfare activities covered by these funds include housing, medical, educational and recreational facilities for employees and their dependents.

Welfare activities by the trade unions

Labour unions have contributed their share for the betterment of the employees. Mention may be made here of the Textile Labour Association of Ahmedabad and the Railwaymen's Union and the Mazdoor Sabha of Kanpur,

which have rendered invaluable services in the field of labour welfare. The welfare activities of the Textile Labour Association, Ahmedabad, are worth noting. The Association runs:

1. Twenty-five cultural and social centres.
2. Schools for workers' children, reading rooms, libraries, gymnasia.
3. Dispensaries and maternity homes.
4. A co-operative bank, with which a number of housing societies, consumers' societies and credit societies are affiliated.
5. Office offering legal help to members.
6. Training programmes in the principles and practices of trade unionism.
7. A bi-weekly, the *Mazdoor Sandesh*.

Welfare Work by Voluntary Agencies

Many voluntary social-service agencies have been doing useful labour-welfare work. Mention may be made of the Bombay Social Service League, the Seva Sadan Society, the Maternity and Infant Welfare Association, the YMCA, the Depressed Classes Mission Society and the Women's Institute of Bengal. The welfare activities of these organisations cover night schools, libraries and lectures, promotion of public health, and organisation of recreation and sports for the working class.

Statutory and Non-statutory

Welfare activities may also be classified into **(i)** statutory and **(ii)** non-statutory provisions.

(i) Statutory Provisions

These are mandated by the Factories Act, 1948; The Mines Act, 1952; The Plantation Labour Act, 1951, and some other Acts. (Read Exhibit 17.3 for detailed statutory welfare measures). Of all these, the Factories Act is more significant and hence is covered in detail here.

The Factories Act The Act was first conceived in 1881 when a legislation was enacted to protect children and to provide health and safety measures. Later, hours of work were sought to be regulated and were, therefore,

incorporated in the Act in 1911. The Act was amended and enlarged in 1934 following the recommendations of the Royal Commission of Labour. A more comprehensive legislation to regulate working conditions replaced the Act in 1948.

Exhibit 17.3 The Factories Act, 1948

The welfare amenities provided under the Act are given below:

- (a) Washing facilities (S. 42)
- (b) Facilities for storing and dry clothing (S. 43)
- (c) Sitting facilities for occasional rest for workers who are obliged to work standing (S. 44)
- (d) First-aid boxes or cupboards—one for every 150 workers and ambulance facilities, if there are more than 500 workers (S. 45)
- (e) Canteens if employing more than 250 workers (S. 46)
- (f) Shelters, rest rooms and lunch rooms, if employing over 150 workers (S. 47)
- (g) Crèche, if employing more than 30 women (S. 48)
- (h) Welfare officer, if employing 500 or more workers (S. 49)

THE MINES ACT, 1952 AND THE MINES RULES

The main obligations of the mine owners regarding health and welfare of their workers are as follows:

- (a) Maintenance of crèches where 50 women workers are employed
- (b) Provision of shelters for taking food and rest if 150 or more persons are employed
- (c) Provision of a canteen in mines employing 250 or more workers
- (d) Maintenance of first-aid boxes, and first-aid rooms in mines employing more than 150 workers
- (e) Provision in coal mines of (i) pit head baths equipped with shower baths; (ii) sanitary latrines and (iii) lockers, separately for men and women workers
- (f) Appointment of a Welfare Officer in mines employing more than 500 or more persons to look after the matters relating to the welfare of the workers

THE PLANTATIONS LABOUR ACT, 1951

The following welfare measures are to be provided to the plantation workers:

- (a) Canteens in plantations employing 150 or more workers (S. 11)
- (b) Crèches in plantations employing 50 or more women workers (S. 12)
- (c) Recreational facilities for the workers and their children (S. 13)
- (d) Educational facilities in the estate for the children of workers, where there are 25 workers' children between the age of 6 and 12 (S. 14)
- (e) Housing facilities for every worker and his/her family residing in the plantation. The standard and specification of the accommodation, procedure for allotment and rent chargeable from workers, are to be prescribed in the Rules by the state governments (S. 15 and 16)
- (f) The state government may make rules requiring every plantation employer to provide the workers with such number and type of umbrellas, blankets, raincoats or other like amenities for the protection of workers from rain or cold as may be prescribed (S. 17)
- (g) Appointment of a Welfare officer in plantations employing 300 or more workers (S. 18)

The exact standards of these facilities have been prescribed under the Rules framed by the state governments.

THE MOTOR TRANSPORT WORKERS ACT, 1961

The Motor Transport Undertakings are required to provide certain welfare and health measures given as follows:

- (a) Canteens of prescribed standard, if employing 100 or more workers (S. 8)
- (b) Clean, ventilated, well-lighted and comfortable restrooms at every place wherein motor transport workers are required to halt at night (S. 9)
- (c) Uniforms, raincoats to drivers, conductors and line checking staff for protection against rain and cold. A prescribed amount of washing allowance is to be given to the above-mentioned categories of staff (S. 10)
- (d) Medical facilities are to be provided to the motor transport workers at the operating centres and at the stations as may be prescribed by the

state government (S. 11)

- (e) First-aid facilities equipped with the prescribed contents are to be provided in every transport vehicle (S. 12)

THE CONTRACT LABOUR (REGULATION AND ABOLITION) ACT, 1970

The following welfare and health measures are to be provided to the contract workers by the contractor:

- (i) A canteen in every establishment employing 100 or more workers (S. 16)
- (ii) Rest rooms or other suitable alternative accommodation where the contract labour is required to halt at night in connection with the work of an establishment (S. 17)
- (iii) Provision for a sufficient supply of wholesome drinking water, sufficient number of latrines and toilets of prescribed types and washing facilities (S. 18)
- (iv) Provision for first-aid boxes equipped with the prescribed contents (S. 19)

The Act imposes liability on the principal employer to provide the above amenities to the contract labour employed in his other establishment, if the contractor fails to do so.

THE MERCHANT SHIPPING ACT, 1958

Provisions in the Act relating to health and welfare cover:

- (i) Crew accommodation
- (ii) Supply of sufficient drinking water
- (iii) Supply of medicines, medical stores, and provision of surgical and medical advice
- (iv) Maintenance of proper weights and measures on board, and grant of relief to distressed seamen aboard a ship.
- (v) Every foreign-going ship carrying more than the prescribed number of persons, including the crew, is required to have on board, as part of her complement, a qualified medical officer
- (vi) Appointment of a Seamen's Welfare Officer at such ports in or outside India as the government may consider necessary

- (vii) Establishment of hostels, clubs, canteens, and libraries
- (viii) Provision of medical treatment and hospital
- (ix) Provision of educational facilities

The governments have been authorized to frame rules, *inter alia*, for the levy of fees. Payable by owners of ships at prescribed rates for the purpose of providing amenities to seamen and for taking other measures for their welfare.

DOCK WORKERS (SAFETY, HEALTH AND WELFARE) SCHEME, 1961

A comprehensive Dock Workers (Safety, Health and Welfare) Scheme, 1961 has been framed for all major ports and is administered by the Chief Advisor, Factories (Factory Advice Service and Labour Institutes). It is framed under the Dock Workers (Regulation of Employment) Act, 1948. Amenities provided in the port premises include provision of (i) toilets; (ii) drinking water; (iii) washing facilities; (iv) bathing facilities; (v) canteens; (vi) rest shelters; (vii) call stands; (viii) first-aid arrangements.

Other welfare measures provided are (i) housing; (ii) schools; (iii) educational facilities; (iv) grant of scholarships; (v) libraries; (vi) sports and recreation; (vii) fair price shops; and (viii) co-operative societies. Cost of amenities, welfare and health measures and recreation facilities for registered workers shall be met from a separate fund called the Dock Workers Welfare Fund Which shall be maintained by the Board. Contributions to this Fund shall be made by all registered employers at such a rate as may be determined by the Board. The Board shall frame rules for contributions for the maintenance and operation of the Fund. Different ports have been fixed.

INTER-STATE MIGRANT WORKMEN (REGULATION OF EMPLOYMENT AND CONDITIONS OF SERVICE) ACT, 1979

Section 16 of the Act stipulates that every contractor employing inter-state migrant workmen in connection with the work of an establishment to which this Act applies will have to provide the following facilities:

- (a) To ensure regular payment of wages to such workmen (at least minimum wages have to be paid as fixed under the Minimum Wages Act, 1948)

- (b) To ensure equal pay for equal work irrespective of sex
- (c) To ensure suitable conditions of work to such workmen having regard to the fact that they are required to work in a state different from their own state
- (d) To provide and maintain suitable residential accommodation to such workers working during the period of their employment
- (e) To provide the prescribed medical facilities to the workmen, free of charges
- (f) To provide such protective clothing to the workmen as may be prescribed
- (g) In case of fatal accident or serious bodily injury to any such workman, to report to the specified authorities of both the states and also the next of kin of the workman.

With regard to labour welfare, the Act contains provisions for:

1. Appointment of a labour welfare officer; and
2. Welfare of workers.

Labour Welfare Officer Schedule 49 of the Act provides that in every factory wherein 500 or more workers are ordinarily employed, the employer shall appoint at least one welfare officer. The officer is expected to act as an advisor, counsellor, mediator and liaisoning officer between the management and the labour. Specifically, his/her duties include the following:

1. Supervision of (i) safety, health and welfare programmes like housing, recreation, and sanitation services, (ii) working of joint committees; (iii) grant of leave with wages; and (iv) redressal of workers' grievances.
2. Counselling workers in (i) personal and family problems; (ii) adjustment to their work environment; and (iii) understanding their rights and privileges.
3. Advising management in matters of (i) formulating welfare policies; (ii) apprenticeship training programmes; (iii) complying with statutory obligations to workers; (iv) developing fringe benefits; and (v) workers' education.
4. Liaisoning with workers so that they may (i) appreciate the need for harmonious industrial relations in the plant; (ii) resolve disputes, if any; (iii) understand the limitations under which they operate; and (iv)

interpret company policies correctly.

5. Liaisoning with the management so as to appraise the latter about workers' viewpoints on organisational matters.

Welfare Provisions Chapter V of the Act provides for welfare facilities. Specifically, the Act provides for adequately screened washing facilities for the use of male and female workers; for drying of wet clothes, resting places, first-aid boxes or cupboards (at the rate of one for every 150 workers is more than 150; and crèche facilities for the use of children if their number exceeds 30.)

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• Maintaining best-in-class physical environment is an excellent motivator; employees take pride and encourage friends to join the company• Make 'betterment' a co-opted initiative. Employees to be made responsible to share ideas, and communicate concerns• Encourage forums that promote employee well-being at the workplace and organise events	<ul style="list-style-type: none">• Forget to publicise welfare initiatives via e-mails, posters and in-house magazines• Say 'yes' and then not follow-through with any initiative

The Act also stipulates that no adult worker should be allowed to work for more than 48 hours a week. Daily working hours should not exceed nine and the total number of hours spent in a factory are not to be more than 10 1/2 hours per day inclusive of rest pauses. Rest interval of half an hour should be provided between five hours of work. Weekly, one day should be declared as a holiday. Workers who put in more than nine hours a day or 48 hours a week should be paid overtime wages and allowances. Shifts should be arranged in such a way that they do not overlap. No worker should be employed twice on any day.

Women workers are not to be employed during night or between 7 p.m. and 6 a.m. (though exceptions can be made). No child below 14 years of age is to be employed in any factory.

Welfare Funds In order to provide welfare facilities to the workers employed in mica, iron-ore, manganese ore, chrome ore and *beedi* rolling, welfare funds have been established to supplement the efforts of employers and state governments under respective enactments. The funds have been credited by levy of less on production, consumption or export of minerals, and in the case of *beedi* rolling, on the number of sticks rolled. The funds are used to provide medical facilities, housing, drinking water, schooling, recreation, and so forth.

(ii) Non-statutory Benefits

Non-statutory benefits, also called voluntary benefits, include loans for house building, education of children, leave travel concession, fair price shops, loans for purchasing personal conveyance and a host of other facilities.

APPROACHES TO LABOUR WELFARE

The various approaches to labour welfare reflect the attitudes and beliefs of the agencies which are engaged in welfare activities. Welfare facilities may be provided on religious, philanthropic or some other grounds. Moreover, the different approaches to labour welfare reflect the evolution of the concept of welfare. In bygone days, the government of the land had to compel the owner of an industrial establishment to provide such basic amenities as canteens, rest rooms, drinking water, good working conditions, and so forth, for their employees. Such compulsion was necessary because the employer believed in exploiting labour and treating it in an unfair manner. But times have changed, and the concept of welfare, too, has undergone changes. Many progressive managements today provide welfare facilities, voluntarily and with enlightened willingness and enthusiasm. In fact, welfare facilities are not restricted to the workers alone. They have now been extended to the society in general. In other words, labour welfare has been extended to include social welfare. Tata Steel at Jamshedpur, for example, spends ₹10 crore each year

on social welfare. Brooke Bond has set up a free animal welfare clinic at Gevrai, Aurangabad, under the direct charge of a qualified veterinary doctor. Jindal Aluminium, Bangalore, maintains the famous Naturopathy and Yogic Sciences Centre and a public school for the benefit of the public. The Jindal Scholarship Trust has been set up, under which deserving students are given scholarships. The Hindustan Machine Tools has a big playground and a community hall, which are let out for competitions and functions.

Approaches to employee welfare refer to the beliefs and attitudes held by agencies which provide welfare facilities. Some agencies provide welfare facilities inspired by religious faith, others as a philanthropic duty and the like.

A study of the approaches to labour welfare is desirable for the management, the workers and the general reader. For the general reader, a study of approaches is essential because his/her knowledge of the subject is incomplete without a knowledge of these approaches, and a knowledge of approaches enables the manager and the worker to have a better perspective on welfare work.

The approaches and their brief descriptions are (see [Fig. 17.1](#)):

1. The policing theory of labour welfare.
2. The religion theory of labour welfare.
3. The philanthropic theory of labour welfare.
4. The paternalistic theory of labour welfare.
5. The placating theory of labour welfare.
6. The public relations theory of labour welfare.
7. The functional theory of labour welfare.
8. The social theory of labour welfare.

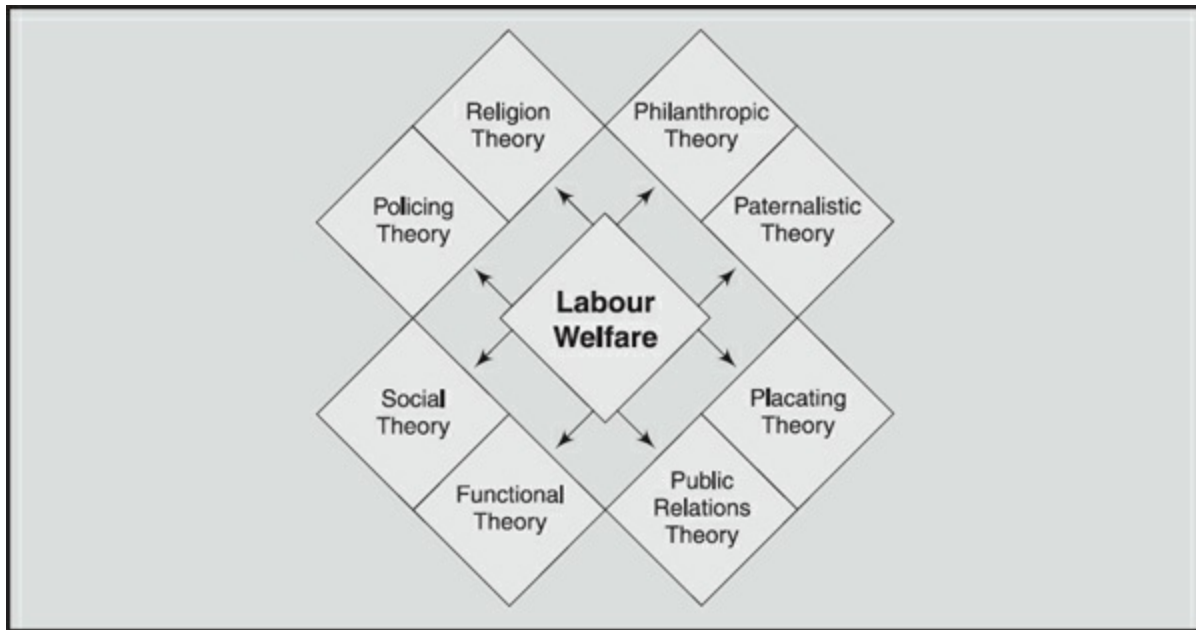


Fig 17.1 *Approaches to Labour Welfare*

Policing Theory

According to this view, the factory and other industrial workplaces provide ample opportunities for owners and managers of capital to exploit workers in an unfair manner. This could be done by making the labour work for long hours, by paying workers low wages, by keeping the workplaces in an unhygienic condition, by neglecting safety and health provisions, and by ignoring the provision of elementary human amenities, such as drinking water, latrines, rest rooms and canteens. Clearly, a welfare state cannot remain a passive spectator of this limitless exploitation. It enacts legislation under which managements are compelled to provide basic amenities to the workers. In short, the state assumes the role of a policeman, and compels the managers of industrial establishments to provide welfare facilities, and punishes the non-complier. This is the policing theory of labour welfare.⁸

Religion Theory

The religion theory has two connotations, namely, the investment and atonement aspects. The investment aspect of the religion theory implies that the fruits of today's deeds will be reaped tomorrow. Any action, good or bad,

is therefore treated as an investment. Inspired by this belief, some employers plan and organise canteens and crèches. The atonement aspect of the religion theory implies that the present disabilities of a person are the result of the sins committed by him/her previously. He/she should undertake to do good deeds now to atone or compensate for his/her sins. There is the story of a big Jain employer who firmly held the belief that the provision of welfare facilities for workers was outside the duties of the management. Whatever he did provide was under government compulsion and supervision. It so happened, however, that the children born to him died as soon as they were born. Later, his own health suffered. He felt that, as a compensation, or expiration or even as an investment in a good deed *punyam*, he should liberally contribute to the crèche in the factory (as well as to other child-welfare institutions), and also to medical services for his workers. Consequently, in this particular factory, there came to exist an excellent crèche and a well-organised dispensary.⁹

Philanthropic Theory

Philanthropy means affection for mankind. The philanthropic theory of labour welfare refers to the provision of good working conditions, crèches and canteens out of pity on the part of the employers who want to remove the disabilities of the workers. Robert Owen of England was a philanthropic employer, who worked for the welfare of his workers. The philanthropic theory is more common in social welfare. Student hostels, drinking water facilities, the rehabilitation of crippled persons, donations to religious and educational institutions, and so forth are examples of philanthropic deeds.

Paternalistic Theory

According to the paternalistic theory, also called the trusteeship theory of labour welfare, the industrialist or the employer holds the total industrial estate, properties and the profits accruing from them, in trust. The property which he/she can use or abuse as he/she likes is not entirely his/her own. He/she holds it for his/her use, no doubt, but also for the benefit of his/her workers, if not for the whole society. For several reasons, such as low wages, lack of education, and so forth the workers are at present unable to take care of themselves. They are, therefore, like minors, and the employers should

provide for their well-being out of funds in their control. The trusteeship is not actual and legal, but it is moral and, therefore, not less real.

Placating Theory

This theory is based on the assumption that appeasement pays when the workers are organised and are militant. Peace can be bought by welfare measures. Workers are like children who are intelligent, but not fully so. As crying children are pacified by sweets, workers should be pleased by welfare works.

Public Relations Theory

According to this theory, welfare activities are provided to create a good impression in the minds of the workers and the public, particularly the latter. Clean and safe working conditions, a good canteen, crèche and other amenities, make a good impression on the workers, visitors and the public. Some employers proudly take their visitors round the plant to show how well they have organised their welfare activities.

Functional Theory

Also known as the efficiency theory of labour welfare, the functional theory implies that welfare facilities are provided to make the workers more efficient. If workers are fed properly, clothed adequately and treated kindly, and if the conditions of their work are congenial, they will work efficiently. Welfare work is a means of securing, preserving and increasing the efficiency of labour.¹⁰

Social Theory

The social obligation of an industrial establishment has been assuming great significance these days. The social theory implies that a factory is morally bound to improve the conditions of the society in addition to improving the condition of its employees. Labour welfare, as mentioned earlier, is gradually becoming social welfare.

Pause and Ponder

Today's corporate sector is going gung-ho in providing betterment facilities for the employees. Which of the above theories is motivating the companies to do so?

ADMINISTRATION OF WELFARE FACILITIES

Administration of welfare involves decisions on **(i)** welfare policy, **(ii)** organisation of welfare, and **(iii)** assessment of effectiveness. [Figure 17.2](#) outlines the steps in employee welfare.

Welfare Policy

The first step in welfare administration is to have a clearly defined policy towards it. The policy must cover willingness of the management, objectives sought to be achieved, range of facilities to be provided, and the timing of the facilities.

The question of *unwillingness* has only academic interest because, every employer is compelled to provide welfare either by a statute, or a precedence already established by rivals, or out of genuine interest towards employee welfare.

Objective of welfare must be to enhance efficiency of employees and not merely to comply with the provisions of the Factories Act, 1948; the Mines Act, 1952; the Plantations Labour Act, 1951; the Motor Transport Workers Act, 1961; the Contract Labour (Regulation and Abolition) Act, 1970; and the Merchant Shipping Act, 1958.

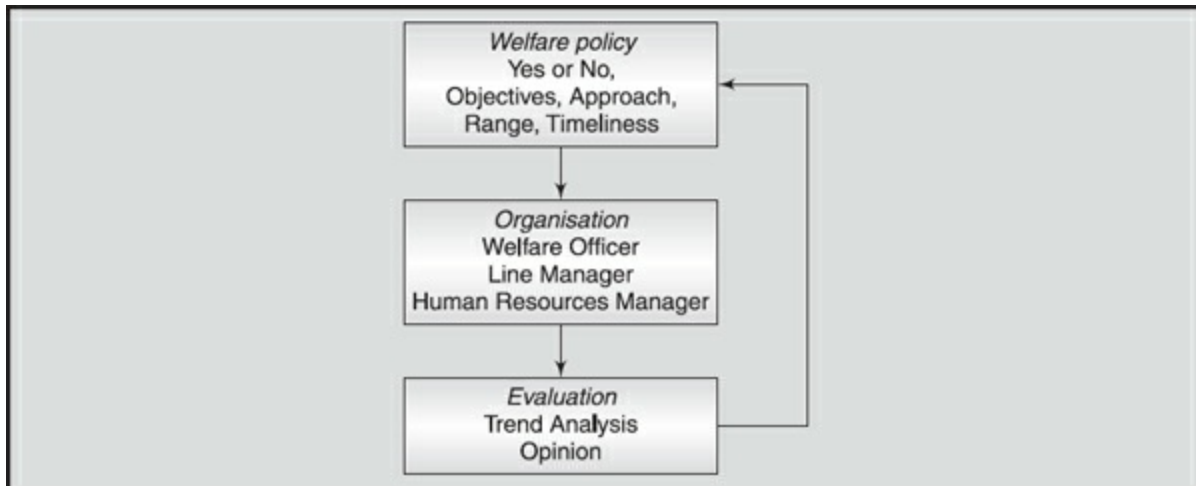


Fig. 17.2 Administration of Welfare Facilities

Which of the eight *approaches* (discussed earlier) must guide the welfare programme? Surely, the approaches are guided by the objectives of welfare activities. Since the main objective is to enhance efficiency of employees, the functional theory of labour welfare must be the management's approach to employee welfare. However, the social theory should not be forgotten.

The *range* of welfare has two dimensions—type of facilities and coverage of employees. With regard to coverage, it may be stated that the facilities must be extended to employees at all levels in the organisation.

Coming to the type of facilities, there are, as was stated earlier, two broad categories: (i) facilities inside the workplace, and (ii) facilities outside the workplace. Some of these are to be provided compulsorily and others out of genuine concern for employee welfare. It is necessary that the employees must go beyond the statutory requirement and offer facilities that would contribute to employee loyalty, motivation and efficiency.

Happily, organisations have realised the importance of welfare. They are discovering innovative schemes and extending benefits to the employees.

Indian Telephone Industries (ITI), Bangalore, had a comprehensive welfare manual running into 68 pages of printed lines. The facilities provided to the employees in all the units of ITI were, divided into two broad categories as shown in Exhibit 17.4.

Pause and Ponder

We cite the example of ITI, Bangalore, as a model for employee welfare. But a visit to the plant makes you feel sad. The entire place wears a deserted look. It makes you think whether the present mess owes to the excess welfarism of the management. Is the thinking wrong? Right?

Morarjee Mills, Mumbai, has a tradition of employee welfare. The company was the first to start a mill hand's co-operative society way back in 1965 itself. As early as 1876, the mill was running a school for the children of mill hands. The housing needs of every employee in Reliance, Hazira, are, taken care of by, the management. Now, the company is going a step further. Four kilometres from the 700-acre petrochemicals complex, Reliance is setting up a township project which will comprise 2000 houses. Estimated to cost around ₹35 crore, the township will include—a school, playgrounds, shopping, recreational facilities, clubs, and the like. L&T Komatsu, Bangalore, has a unique scheme. The first Monday of every month is called the *Family Day*. The employees' families are invited to visit the plant and have lunch in the canteen. Company transport is used to bring the families to the plant and to take them back to their respective homes.

Welfare activities must be provided when there is a need for them and when the *time* is opportune.

Organisation for Welfare

In most organisations, welfare is the responsibility of *Welfare Officers*. The Factories Act, 1948 mandates that every industrial establishment must appoint a welfare officer if the number of employees is 500 or more. (The number increases depending upon the number of employees.) Welfare officers are educated and trained in the field and are, therefore, in a better position to manage welfare well. But the problem with these officers is that they are more concerned with compliance of statutory provisions than with the genuine well-being of workers. Legal provisions invariably stipulate that certain minimum facilities should be provided to employees in industrial establishments. The minimum facilities are inadequate to protect the welfare of workers. Welfare officers, too, often fail to enforce compliance of even the minimum requirements.

Exhibit 17.4 Welfare Facilities at ITI, Bangalore

(A) CARE

(i) Medical Facilities

1. Medical facilities for employees covered under ESI scheme.
2. Medical facilities for personnel at Bangalore under AMA scheme.
3. Employees free treatment—(EFT scheme)—Bangalore.
4. Medical reimbursement at out station/reference to outside hospital.
5. Ayurvedic/Unani/Homeopathic system of medicines.
6. Medical facilities to ROS personnel and their families not covered under ESI scheme.
7. Medical facilities for personnel at Palakkad unit.
8. Medical facilities for personnel at Naini unit.
9. Medical facilities for personnel at RB unit.
10. Medical facilities for personnel at Mankapur unit.

(ii) Township administration

(iii) Welfare funds

(iv) Educational scheme

(v) Welfare association and clubs

(vi) Other welfare measures

1. Non-officers, canteen
2. Officers, canteen
3. Transport
4. Crèches
5. Uniforms
6. Compulsory medical examination
7. Issue of stainless-steel tumbler to employees (Bangalore)
8. Family-welfare planning
9. Provision of vitaminised milk to employees engaged in hazardous operations
10. Safety

(B) TERMINAL BENEFITS

(vii) Employees' Provident Fund

(viii) Gratuity scheme

- (ix) Group insurance scheme
- (x) Death and superannuation relief

It is argued that the prime responsibility for welfare should rest with *line managers* as they are in a vantage position to understand the problems of employees. Even this arrangement may not be desirable because employees are reluctant to share their personal problems with bosses, in case the latter gets prejudiced against their (former) interests. In which case line managers are no better than welfare officers.

The obvious alternative is the *HR manager* who knows how help can be provided and is capable of exercising counselling skills. But the HR manager is required to attend to other personnel activities as well. Welfare is one area which demands undivided attention. Consequently, an ideal organisational arrangement is to have a welfare officer to implement welfare activities. Policy decisions and directions shall be provided by the HR manager.

Technology is playing its role in employee welfare. Most organisations have intranet portals that allow them to efficiently communicate with all employees anywhere in the world. Such portals contain email ids and other more sophisticated helpdesk tools that can capture employee concerns with reference to welfare facilities and HR policies. Issues can be raised directly by the employee on-line and the HR department resolves them quickly.

Assessment of Effectiveness

Effectiveness of welfare must be assessed periodically. Feedback, thus obtained, must act as the basis for initiating remedial actions where desired results have not been obtained.

Assessment of the effectiveness of welfare is rather difficult because well-being of employees is abstract and is not possible to quantify. However, two methods of assessment may be mentioned in this context. They are—**(i)** trend analysis, and **(ii)** opinion survey.

Trend Analysis As was stated earlier, welfare is sought to be justified because of its impact on efficiency, turnover, and social evils. HR experts must assess the impact of each of these, before and after a particular welfare activity is being introduced. If post-implementation shows a substantial

improvement, the welfare is worth continuing. The scheme deserves to be discontinued if there is no improvement or if there is a fall in any of the areas.

Opinion Survey The most effective assessment technique is to conduct a survey and elicit opinion of employees on the welfare schemes. Employees may be requested to express their views on the usefulness or futility of a particular welfare scheme. Views thus obtained will help continue or discontinue the activity.

We conclude this chapter by highlighting the unique welfare facilities provided by best Indian employers to work for (2009). [Table 17.1](#) contains such practices.

Table 17.1 *Welfare Par Excellence*

<i>Name of the Company</i>	<i>Head Count</i>	<i>Location</i>	<i>Welfare Practices</i>
● RMSI	1457	Noida	<ul style="list-style-type: none"> — Open door policy — Rewards for out of box efforts. — Strong work ethos — Knowledge sharing work environment — Won "HR Excellence Award" for workplace environment, from CII
● Intel Technology India	2541	Bangalore	<ul style="list-style-type: none"> — Sense of egalitarianism — Flexibility and freedom to do what feels good — Business update meetings every quarter with all employees — Emphasis on family, extra-curricular activities and volunteerism — Large yellow boxes everywhere. These boxes contain oxygen and any employee experiencing breathing problem can use it.
● Federal Express Corporation	511	Mumbai	<ul style="list-style-type: none"> — There is a CEO (Chief Entertainment Officer) — Birthdays are celebrated in the office — Emphasis on People-Service-Profit — Every employee is entitled to an education stipend of \$ 3000 a year
● Google India	1462	Bangalore	<ul style="list-style-type: none"> — Colourful furniture and game boards making the workplace a funny environment — Employees are empowered — High entrepreneurial fervour — 360° appraisal system
● Qual Comm.	984	Mumbai	<ul style="list-style-type: none"> — Vacation or leave donation. Coworkers donate their own vacation time to employees in distress. — Encouragement for entrepreneurship
● Marriott Hotels India	2566	Mumbai	<ul style="list-style-type: none"> — Every employee is known as an associate — Annual training budget of \$ 750 per employee, per year. — 14 major training camps per year. — Six holidays per month — On-line Associate Opinion Survey, every year, to know if employees are happy with their bosses and their work life balance — Associate Appreciation Week party where the senior management doles out food and entertainment to the staff

• Net App India	894	Bangalore	— Joining day anniversary celebration where an associate gets a chance to stay in the hotel with family as guests.
• NTPC	24705	Delhi	— Employees play video or cricket during their normal working hours
			— Best living conditions
			— Full-fledged townships surrounding 27 stations. Another 7-8 townships are in progress.
			— Maintains in-house Power Management Institute to cater to internal needs
			— Employees are deputed to go abroad every year to best B-Schools to get exposure

(Source: “India’s Best Companies to Work for 2009”, *The Economic Times*, June 11, 2009)

SUMMARY

Labour welfare refers to taking care of the well-being of workers by employers, trade unions, and governmental and non-governmental agencies. Recognising the unique place of the worker in the society and doing good for him/her retaining and motivating employees, minimising social evils, and building up the local reputation of the company are the arguments in favour of employee welfare.

Arguments against welfare are that the provision of welfare is the responsibility of the state and welfare is often taken for granted and, hence, fails to motivate employees.

Welfare facilities may be confined to the workplace or may be provided outside the workplace. Similarly, they may be intra-mural or extra-mural.

Several approaches to the study of welfare are available. They range from the policing theory to the social theory.

Administrations of welfare involves three steps:

1. Defining a welfare policy,
2. Organisation for welfare, and
3. Assessment of the effectiveness of welfare.

KEY TERMS

Employee welfare
Extra-mural
Intra-mural
Non-statutory provisions
Statutory provisions
Trend analysis
Welfare policy
Welfare officer

REVIEW QUESTIONS

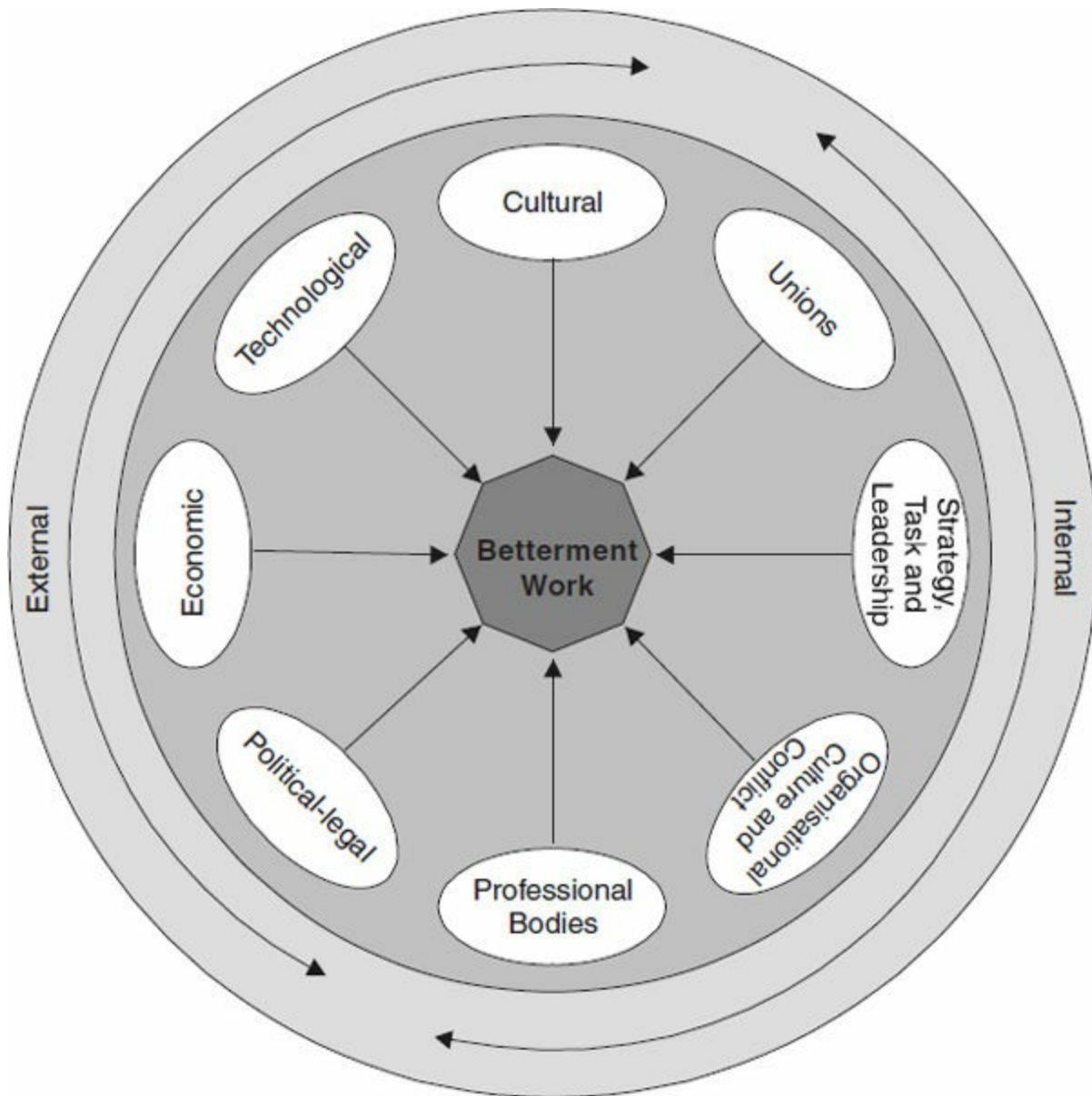
1. Define the term 'labour welfare'. Bring out the arguments for and against welfare.
2. Bring out the various types of welfare.
3. How is welfare administered in a typical organisation?
4. Describe how the effectiveness of welfare is assessed.
5. Bring out the various approaches to the study of welfare.

DISCUSSION QUESTIONS

1. What types of facilities do you expect from your college/university?
2. Establish a correlation between welfare and productivity.

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact betterment work, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Vybhav has formalised a system for employee satisfaction survey that is carried out once in every two years. The entire exercise is contracted to Hann Associates (HA), a premier HR consulting firm. HA supports the survey with technology as well as analysis of the findings and provides detailed reports generated for each manager at Vybhav.

Every alternative year during the last two weeks of January, employees receive e-mail alerts to log into the survey tool called 'Voices' to complete a 55 questions on-line form, that collects feedback on every facet of the

employees' work-life balance, the way the organization conducts its business and on the organisation itself. All questions are rated on a seven point scale and then clustered as

1-2-3-4 5-6-7
(Favourable) (Neutral) (Unfavourable)

The survey ends on 31st January. HA then analyses the data to provide detailed Voices scores on two key measures:

- I. Leadership Excellence Metric (LEM)
- II. Organisation Excellence Metric (OEM)

The reports are generated in the first week of April. The LEM is an important metric that directly maps to manager and skip-level manager's leadership capabilities. The OEM is a metric that reports organisation culture value items with reference to business goals. It is a measure of the employees' perception of the organisation's capabilities to meet its business objectives.

Any Voices scores of less than 75% are identified as action areas for improvement. Each people manager worked with the HR partner to identify five top scores and bottom five scores to focus for the next 22 months before the next Voices survey. They work with the HR partners designated to the team to build focused action plan and work closely with the team members in action planning and implementation, to bring about an improvement in the low score areas/to retain high scores in the strength areas.

REFERENCES

1. Moorthy, M.V, *Principles of Labour Welfare*, Gupta Brothers, 1968, p. 40.
2. Report of the Royal Commission on Labour, 1931, p. 261.
3. Report of the ILO, Asian Regional Conference, 1950, p. 3.
4. M.V Moorthy, *Principle of Labour Welfare*, Gupta Brothers, Visakhapatnam, 1968, p. 10.
5. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third Edition, Kogan, London, 1988, p. 299.
6. *Ibid.*, p. 298.

7. Moorthy, *op. cit*, p. 10.
8. *Ibid.*, P. 29
9. *Ibid.*, P. 40
10. *Ibid.*, P. 39

Managing Separations and Right Sizing

Learning Objectives

After reading this chapter you should have a good understanding of:

- Types of separations and how to manage them
- Nature, causes and principles of transfers
- Nature, purposes and principles of promotion
- Nature of conflict and ways of resolving it
- Managing discipline and B-players

Opening Vignette

PROWLING FOR LABOUR

With a stalled economy, a depressed technology sector, and the continuing economic fallout resulting from the terrorist attacks on September 11, 2001, U.S. companies need all the help they can get. To lower expenses, managers are turning more often to firing employees (also called terminating, downsizing, rightsizing, or getting the pink slip).

A quick review of recent business headlines conveys a bleak picture for workers: “American Airlines Cuts 7,000 Jobs,” “United Slashes 9,000 Jobs in Bid for Solvency”, “IBM Laid Off 15,600 in Second Quarter”. Indeed, almost 1.5 million workers were laid off in 2002 and these layoffs came on top of 1.96 million terminations in 2001. While layoffs slowed in 2003, few companies seemed eager to begin replacing jobs they had eliminated. Industries such as telecommunications and auto production were especially hard hit, with lower-paid workers suffering the most. Surveys also indicated

that many firms planned to make additional layoffs, and few planned to increase hiring dramatically.

The job cuts, coupled with higher productivity and better use of automation, have made U.S. firms more efficient. But at what price? The remaining workers, who must learn new tasks and work harder to replace their laid-off colleagues, are prone to stress. Hamilton Beazley, a management consultant, calls such additional duties ghost work. He describes ghost work as challenging for employees, saying, “It can be totally demoralising and can cripple the individual as well as the organisation”.

Not surprisingly, most workers are not pleased with having to pick up the slack for laid-off coworkers. Some workers refer to ghost work as speed up because each remaining worker has to work harder, or stretch out because they have to put in longer hours. Land Windham, a labour spokesperson, says, “They call it productivity”, referring to management.

Given the shaky job market today, however, most workers are willing to endure the stress and discouragement of ghost work. Computer maker Dell laid off 6,000 of its 40,000 workers in 2001, allowing the firm to cut personal computer (PC) prices and increase sales and profits. A long time employee says, “A lot of us are unhappy, but what are we going to do—go somewhere else”? The danger for employers is that, if the job market improves, many disgruntled workers may do just that.¹

The problem is not peculiar only to America. It is an issue in elsewhere too. Employees will be leaving the organisation for several reasons. Facing sliding market and loss of market share, management resorts to cut the size of employees—euphemistically called rightsizing. It is the HR professional who needs to manage these issues with care. This chapter provides a framework that would help the HR manager manage the issues relating to separations and rightsizing more effectively. Towards the end, we propose to discuss conflict and employee discipline.

SEPARATIONS

Separation occurs when an employee leaves the organisation. Why do separations occur? Reasons for employee separations may be voluntary or involuntary. In the former, initiation for separation is taken by the employee

himself or herself. Where the employer initiates to separate an employee, it becomes involuntary separation. In the latter the employee entertains the feeling of injustice and seeks legal protection to undo it. [Figure 18.1](#) shows both voluntary and involuntary separations.

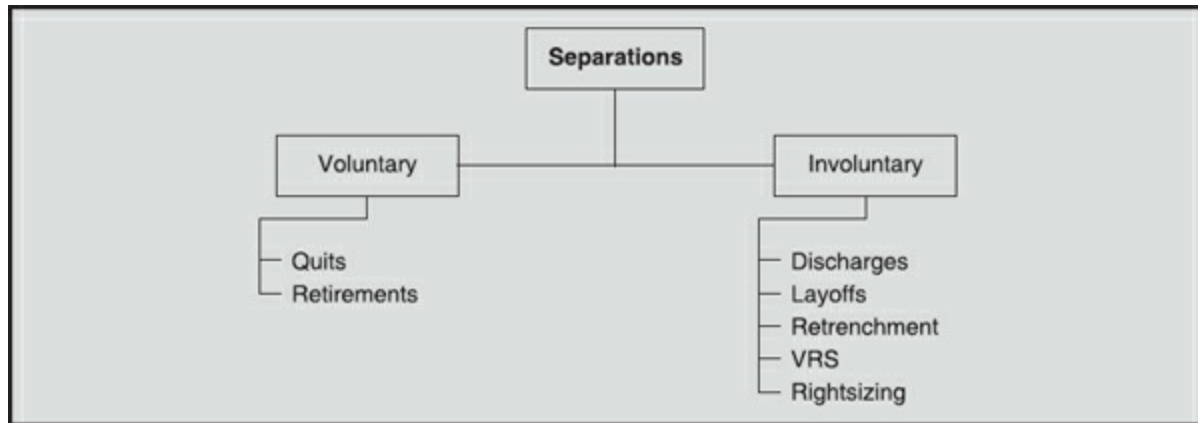


Fig. 18.1 *Causes for Separations*

Voluntary Separations

As stated above, voluntary separations occur when the employee decides to terminate his or her relationship with the organisation. Quits and retirements are the most manifestations of voluntary separations.

Quits An employee decides to quit (also called resign) when his or her level of dissatisfaction with the present job is high or a more attractive alternative job is awaiting the individual. The reasons for dissatisfaction may be because of the job itself or because of job extrinsic factors such as supervision, company policy, compensation, advancement opportunities, health, spouse relocation and the like.

During economic boom, jobs are available in plenty. Competent people will get multiple offers at any given time. Some of them stay with the organisation in the name of loyalty or some other commitment. Majority accept the more attractive offers and prefer to leave the company.

Organisations often encourage quits through cash incentives. Popularly called voluntary retirement schemes (VRS), these separations are resorted to when organisation are experiencing losses. They resort to cost saving to save the bottomline and believe that the best way of cutting down the cost is

through reducing the wage and salary bill. As VRSs are induced by the managements, we prefer to discuss them under involuntary separations category.

Retirements Retirements occur when employees reach the end of their careers. The age for an employee's superannuation differs. In some States it is 58 years and in Central Government it is 60. Many governments have raised the limit to 60 and 62 respectively as there is shortage of skilled people to fill up the vacant jobs.

Retirement differs from quits. When the employee superannuates and leave the organisation, he or she carries several benefits with himself or herself. Such a privilege is denied to the employee who quits. Second, retirement occurs at the end of an employee's career but the quit can take place at any time. Third, superannuation shall not leave any soured relationship behind the retiree but a quit is likely to result in hurt feelings with the employer.

Pause and Ponder

Which separations—voluntary or involuntary—lead to high attrition rates?

Involuntary Separations

Employers resort to terminate employment contract with employees for atleast three reasons: (i) organisation is passing through lean period and is unable to maintain the existing labour, (ii) initial faulty hiring resulting in mismatch between job and employee fit, and (iii) employee exhibits deviant behaviour vitiating the environment around.

Discharges, layoffs, VRS and rightsizing are the common methods of employer sponsored separations.

Discharges A discharge takes place when the employer discovers that it is no more desirable to keep an employee any longer. Discharge, also called termination, should be avoided as far as possible. Any termination is a reflection on the company's HR system. In addition, termination is expensive as the firm must seek replacement, hire and train the new hire. Finally, a

discharged individual is likely to badmouth about the company. Obviously, discharge needs to be viewed as a last resort.

Layoffs A layoff is a temporary separation of the employee at the instance of the employer. Section 2 (kkk) of the Industrial Disputes Act, 1947, defines lay-off as the failure, refusal or inability of an employer to give employment to a worker whose name is present on the rolls but who has not been retrenched. A lay-off may be for a definite period on the expiry of which the employee will be recalled by the employer for duty. It may extend to any length of time, with the result the employer is unable to estimate when he or she can recall his or her employees.

A lay-off may be occasioned by one of the following reasons:

1. Shortage of coal, power or raw materials.
2. Accumulation of stocks.
3. Breakdown of machinery.
4. Economic recession.
5. For any other reason.

As the employees are laid off at the instance of the employer, they have to be paid compensation for the period they are laid off. Section 25 of the Industrial Disputes Act, 1947, makes it mandatory on the part of the employer to pay compensation for all the days of the lay-off. The compensation must be equal to half the normal wages the employee would have earned if he or she had not been laid off.

When a part of a section or department is laid off, the management shall define the basis for laying off individuals. The basis for the lay-off may be merit or seniority. If merit is the basis, employees with unsatisfactory performance are laid off first. Performance appraisal is essential for the purpose of establishing who is efficient and who is below expectations. Competence as the basis for lay-off is not possible in unionised companies because of the outright resistance offered by union leaders. In such companies, seniority determines who should be laid off first. It goes without saying that the employees with the shortest period of service to their credit are first laid off and the older employees are retained as long as conditions permit.

Similarly, the basis for recalling the employees as soon as the lay-off is lifted needs to be made clear. After the lay-off, the management seeks to

return to normal production as quickly as possible. Naturally, key employees must be the first to be recalled. The seniority system usually specifies that those who were laid off last will be called back first. Presumably, the more senior workers will have held the more important positions. This correlation is not always a perfect one however, and the management may seek to recall junior employees whose skills are essential for the resumption of production.²

Dismissal or Discharge Where the termination of employment is initiated by the employer, it is known as dismissal or discharge, which is a drastic step and should be taken after careful thought. A dismissal needs to be supported by just and sufficient reasons.

The following reasons lead to the dismissal of an employee:

1. Excessive absenteeism.
2. Serious misconduct.
3. False statement of qualification at the time of employment.
4. Theft of company's property.

Dismissal shall be the last step and may be resorted to after all the efforts in salvaging the employee have failed.

Retrenchment Retrenchment, too, results in the separation of an employee from his/her employer. It refers to the termination of the services of employees because of the replacement of labour by machines or the closure of a department due to continuing lack of demand for the products manufactured in that particular department of the organisation. If the plant itself is closed, as was once done by the proprietors of the Binny Mills, Chennai, the management and employees have to leave for good.

Retrenchment, like lay-off, entitles the employees to compensation which, in terms of Section 25(f) of the Industrial Disputes Act, 1947, is equivalent to fifteen days' average pay for every completed year of continuous service.

However, retrenchment differs from lay-off in that, in the latter, the employee continues to be in the employment of the organisation and is sure to be recalled after the end of the period of lay-off. But in retrenchment the employee is sent home for good, and his or her connections with the company are severed immediately.

Retrenchment differs from dismissal as well. An employee is dismissed because of his or her own fault. Retrenchment, on the other hand, is forced on

both the employer and his employees. Moreover, retrenchment involves the termination of the services of several employees. But dismissal generally involves the termination of the services of one or two employees.

Voluntary Retirement Scheme Voluntary retirement scheme (VRS) is yet another type of separation. Beginning in the early 1980s, companies both in public and private sectors, have been sending home surplus labour for good, not strictly by retrenchment, but by a novel scheme called the VRS, euphemistically called the Golden Hand Shake plan. Handsome compensations are paid to those workers who opt to leave. For example, in Hindustan Unilever, the VRS consisted of:

- A lumpsum payment equal to 2.25 times the July 1992 salary multiplied by the remaining years of service (subsequently reduced to 15 years of service).
- Pension equal to 70 per cent of the July 1992 salary payable till the age of 60 (the company's retirement age).
- Prizes such as computers, trucks, houses, and so forth (99 in all) to be decided on the basis of a lucky draw.

Managements prefer to pay hefty sums and reduce staff strength than retaining surplus labour and continuing to pay them idle wages. Further, VRS is perceived as a painless and time-saving method of trimming staff strength, easing out unproductive older workers and other deadwood. Unions, too, cannot object as the schemes are voluntary.

VRS also results in separation of employee from employer. VRS is resorted to where organisations have surplus labour. Firms will be required to pay wages for idle time if VRS is not invoked to trim the surplus labour-force.

The response to VRS has been a mixed one. The scheme received good response from some companies, the erstwhile GKW, Bangalore, being one such. The company trimmed its staff strength from 1500 to 500. Hindustan Ciba Geigy's VRS, too was a resounding success. At its Bhandup factory, the entire workforce of 909 workers opted for the scheme, allowing the company to wind up the loss-making unit. Similarly, 19 per cent of the workforce of Glaxo India or little over 460 workers accepted the company's VRS during October 1994—about 660 workers were eligible for the VRS.

TISCO had earmarked ₹100 crore for its VRS during 1997. The company

had decided to cut its staff to 55,000 from the existing 68,000 in five years to improve efficiency. It is stated that the steel major has managed to reduce its staff strength to 68,000 from 75,000 in the last four years by way of golden handshake.

Siemens India had announced a VRS in 1997 for its entire workforce, including senior employees. Siemens hoped to shed 1,400 employees, a massive 20 per cent in its 7,100 strong workforce. The offer was open to all employees who had put in at least 10 years of service and had reached 40 years of age. Those accepting VRS would be eligible for a single packet amounting to 30 per cent of their last drawn salary, depending on their years of service left till retirement, multiplied by the number of years left till retirement. The company expects the value addition per employee would go up by 20 to 30 per cent.

The scheme was a total failure in HUL, attractive compensation plan notwithstanding. At the Sewri factory, the management wanted to send away 500 workers but only nine opted for the scheme.

The response from the 73,000 strong nationwide workforce of BHEL to the VRS was lukewarm. Only 1200 employees opted out till 1991 (the scheme was introduced in 1988) when it was withdrawn after spending ₹12 crore. [Table 18.1](#) gives the number of workers who left under VRS from the National Textile Corporation (NTC). The scheme was not successful in NTC, considering its total workforce and the labour productivity (also read Exhibit 18.1).

Table 18.1 *VRS in NTC*

State	Number of Workers Retired under VRS			Total (Upto April 1995)
	1992-93	1993-94	1994-95	
Andhra Pradesh	735	260	62	1,057
Karnataka	558	347	166	1,071
Mahe	38	—	—	38
Delhi	324	196	85	605
Punjab	189	44	3	236
Rajasthan	710	291	163	1,164
Gujarat	5,318	1,229	628	7,175
Maharashtra	6,551	3,077	1,328	10,901
Madhya Pradesh	3,396	740	137	4,281
Tamilnadu	83	41	127	251
Pondicherry	60	—	38	98
Uttar Pradesh	4,021	1,292	590	5,903
West Bengal	2,013	165	321	2,499
Assam	47	—	6	53
Bihar	335	6	39	380
Orissa	—	—	4	4
Total	24,378	7,641	3,647	35,716

Exhibit 17.1 VRS at SAIL

Sail is probably the most successful company in implementing the VRS. It shed over 18,000 workers between 1986 and 1987. What steps did the steel major take?

Step 1 Set minimum age limits for eligibility at any level. Age limits set were as follows:

Level	Pay Scale ₹	Minimum Age (Yrs)
Junior secretarial staff	1,425 to 3,000	43
Unskilled labour	2,100 to 3,339	40
Skilled labour	2,390 to 4,429	43
Junior management	4,000 to 9,600	46
Middle senior management	7,500 to 13,500	50

Step 2 Zero in on workers and managers whose services could be dispensed with. Line managers were empowered to identify VRS candidates.

Step 3 Win over the unions. The company secured the co-operation of unions by convincing them that the alternative to VRS was closure of the plants.

Step 4 Work out an attractive compensation plan. SAIL built an excellent package that was grabbed by the VRS candidates.

Step Motivating the line managers was that last step: SAIL made the

5 personnel managers fan out across the country, convincing the managers that a reduced workforce meant higher productivity.

The experience of organisations from VRS has not been pleasant. Organisations have lost competent people while incompetent employees have not opted for the golden hand shake scheme. VR schemes, popular in 1990s, are no more in practice row.

Pause and Ponder

Now that VRS is not talked of much. Does it mean to say that all firms are rightsized? Comment.

Rightsizing

Rightsizing may be understood as changes in core work processes. Common rightsizing practices include sabbaticals, telework, part-time work, paycuts, reduced work-weeks and the like. Focus in rightsizing is cost saving not necessarily through employee exits.

But downsizing focuses straight on reduction in workforce through job cuts and voluntary retirement schemes. A record of sort was created by GE when it downsized its headcount by 104000 out of the total workforce size of 402000 during 1980s.

Downsizing is not an involuntary separation method by itself. Infact, to downsize employee strength firms need to adopt other methods. But because of its off repeated focus in corporate circles (a couples of years ago), we choose to discuss rightsizing as an involuntary method of separation.

Downsizing is triggered by atleast three factors: (i) the company's bottom line is threatened, (ii) technological advancement renders people redundant, and (iii) organisational restructuring.

Downsizing, though claimed as a desirable corporate strategy, creates more problems than it can solve. One of the biggest problems is employee morale. Downsizing creates not a ripple but a tidalwave throughout the organisation. The surviving employees experience trauma—they have lost

identity, colleagues, security, power and control. Moreover, the economic benefits expected by the organisation often fail to materialise. As a proof of this, the study conducted by the American Management Association during 1990s is worth recollecting. About half of the responding firms reported an increase in operating profits a year or more after downsizing. Only 34 per cent achieved increased productivity and over 30 per cent experienced decreased productivity. A staggering 86 per cent experienced diminished employee morale. Only 61 per cent achieved cost reduction.

Downsizing has its ripple effect on family and children. Children perceive a great fall and spouse experiences utter helplessness, particularly when the discharged employee was the main prop for the family.

Downsizing should be handled carefully because of its negative impact. [Figure 18.2](#) comprises guidelines for effective handling of downsizing.

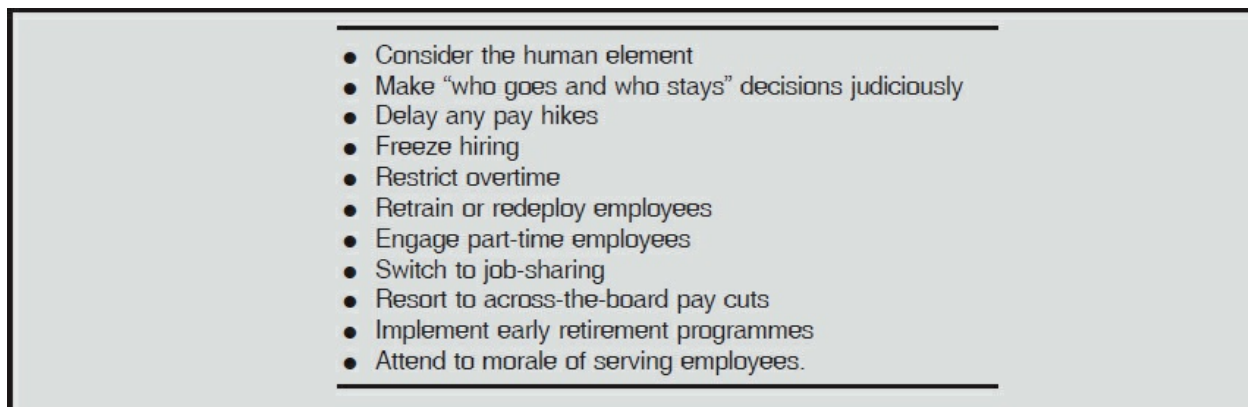


Fig 18.2 *Guidelines to Manage Downsizing*

Managing Separations

Separations of whatever the type, may be functional or dysfunctional. On the functional side, organisations become trimmer and leaner, there is saving in the wage and salary bill, and new entrants, hired to fill the vacant jobs bring new ideas and experience along with them. Employee turnover can also help infuse greater diversity in the workforce.

On the negative side, turnover as stated earlier, disrupts employee morale and instead of causing to the reduction in cost, may add to the cost. Costs of turnover include retirement costs and hiring and training costs. One technology company calculated its separations cost to average \$200,000 per

employee. Merck and Company, the US Pharmaceutical giant, has estimated that its separations costs are between 150 per cent and 250 per cent of the employee's annual salary. Sears Roebuck estimated that separations among its staff amounted to \$110 million which constituted 17 per cent of its operating income.³

It is precisely for these reasons particularly for their dysfunctional consequences, turnover should be managed with circumspection. Good news is that both voluntary and involuntary separations can be managed strategically to allow the organisation to maximise the benefits of turnover and minimise the cost incurred in the process. Figure 18.3 presents a Performance-Replaceability Strategy Matrix.⁴ This model seeks to help manage turnover with less pain and more pleasure.

		REPLACEABILITY	
		Difficult	Easy
Performance	High	High performers—difficult to replace Highly Dysfunctional Turnover Retain/invest in employee: 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 backup	Average performers—easy to replace Dysfunctional Turnover if Replacement Costs are High Retain/provide performance incentives
	Low	Poor performers—difficult to replace Functional Turnover Improve performance or terminate: develop backup	Poor performers—easy to replace Functional Turnover Improve performance or terminate

(Source: Jeffrey A. Mello, *op. cit.*, p. 378)

Fig. 18.3 *The Performance-Replaceability Strategy Matrix*

As stated earlier, turnover can be beneficial (functional) or problematic (dysfunctional). Whether turnover is beneficial or problematic depends on two factors: employee's performance and the ease with which he or she can be replaced, otherwise called replaceability.

In Fig. 18.3, based on the two variables, viz., performance and replaceability, six cells are being constructed. Each cell is then classified as resulting in beneficial or problematic turnover, and appropriate strategies for managing employees who fit into each of the cells are offered.⁵ Obviously,

more dysfunctional the turnover, the greater the attention that will be required by management to retain the employees. Retention strategies for such employees might involve additional career development opportunities, incentives linked to high performance, are custom made to meet the needs of the employees. Backups should also be developed by the organisation for any employee who is difficult to replace. Similarly, where the employee performance is low and it is easy to replace him or her, the individual can be terminated. In fact, such turnover is functional to the organisation.

Ideally, the strategy for managing turnover involves retaining high performers through innovative reward schemes while engaging in human resource planning to ensure that as few employees as possible occupy positions that will make them difficult to replace.

Exit Interviews

Separation of whatever type results in the exit of employees from organisations. It is advisable for the HR leader to elicit views of the people who are exiting, particularly those who are resigning from their jobs. Exit interviews are conducted to know why employees are quitting, and what circumstances compelled them to do so. They are generally conducted just prior to employee leaving.

Exit interviews serve useful purposes. They give feedback about employees' experiences on the jobs. The feedback thus obtained shall help strengthen retention strategies. In addition, interview with the leavers may help retain a competent individual who could otherwise have resigned from his or her job. If an employee can be retained, this is the best time to do so. Besides, exit interview is an effective public relations exercise. Those who leave, as well as those who stay, shall feel good about the organisation.

There are also negatives associated with exit interviews. The assumption made about a leaver is that he or she is candid and objective in giving the feedback. But reality may be different. The fact that an employee is exiting from the organisation makes him or her 'forget and forgive' and speaks only good about his or her job and the organisation. Such an attitude is likely to cloud the objectivity and veracity of the feedback. Defensiveness on the part of the organisation can hamper the implementation of the interview process itself.

Drawbacks, notwithstanding, exit interviews are conducted and some companies that come to one's mind include Coca-Cola, Dabur India and ST Micro-Electronics.

What is most essential is to have a structured set of questions that can be used to conduct exit interviews. Typical questions relevant for exit interview include:

- Why are you leaving the present job?
- What circumstances triggered your departure?
- What circumstances could have prevented your departure?
- What did you like most about your job?
- What did you like least about your job?
- What did you think about your supervisor?
- How did you feel about the employee benefits provided by the company?
- Would you recommend the company to a friend as a good organisation to work for?
- What is your perception about the management and organisation?
- What would make this a better place to work?

HORIZONTAL MOVEMENT OF EMPLOYEES

Horizontal or lateral movement of employees is common in organisations. Popularly called transfers, such movement of employees takes place for valid reasons. Nevertheless, HR manager needs to handle transfers with caution.

A transfer involves a change in the jobs (accompanied by a change in the place of the job) of an employee without a change in responsibilities or remuneration.⁶

Reasons for Transfers The reasons for transfers vary from organisation to organisation, and from individual to individual within an organisation. Broadly speaking, the following are the reasons for transfers:

1. There is a shortage of employees in one department or plant because of a heavy demand which necessitates an increase in the number of shifts or expansion of production capacity. In another department or plant of the same organisation, employees may be surplus because of slackened demand for the products manufactured by that department. If the

demand is undisturbed, increased mechanisation may render some employees redundant. Workers are transferred from the surplus department to another department or plant where there is a shortage of staff.

2. Removal of the incompatibilities between the worker and his or her boss and between one worker and another worker.
3. Correction of faulty initial placement of an employee.
4. A change has taken place in the interests and capacities of an individual, necessitating his or her transfer to a different job.
5. Over a period of time, the productivity of an employee may decline because of the monotony of his or her job. To break this monotony, the employee is transferred.
6. The climate may be unsatisfactory for an employee's health. He or she may request a transfer to a different place where his or her health will not be affected by its climate.
7. Family related issues cause transfers, specially among female employees. When they get married, the females want to join their spouses, and this fact necessitates transfers or resignations.

Principles of Transfers

The HR managers must frame a policy on transfers and apply it to all the transfers instead of treating each case on its own merits. Such a policy must be based on the following principles:

1. The frequency of transfers and the minimum period between transfers need to be decided upon and made known to all the employees. Defence personnel and government employees, for example, are subjected to transfer once in three years. The employees in these establishments know when they are due for a transfer and are prepared for it.
2. The authority which would handle transfers is to be decided upon. The usual practice is that transfers in each department are handled by the person in charge of that department. The best course is to centralise the authority handling transfers, and make the HR professional responsible for them.
3. The criteria for entertaining transfers need to be laid down and strictly adhered to.

4. The area of the organisation over which transfers can be made needs to be defined.
5. The effect of the transfer on the pay and seniority of the transferred employee may be clearly evaluated.
6. Transfers should be clearly defined as permanent or temporary.
7. The performance of the employee needs to be assessed before transferring him or her to a different job. Similarly, the job itself must be properly described. Job description and employee assessment enable the management to know whether the individual fits the new job or whether he or she needs training before taking up the new assignment.
8. The interests of the organisation are not be forgotten in framing a policy of transfers.

Types of Transfer Broadly speaking, transfers may be classified into three types:

1. Those designed to enhance training and development.
2. Those making possible adjustment to varying volumes of work within the firm.
3. Those designed to remedy the problem of poor placement.

Specifically, transfers may be production, replacement, versatility, shift and remedial.

(i) Production Transfers As mentioned earlier, a shortage or surplus of the labour force is common in different departments in a plant or several plants in an organisation. Surplus employees in a department have to be laid off, unless they are transferred to another department. Transfers effected to avoid such imminent lay-offs are called production transfers.

(ii) Replacement Transfers Replacement transfers, too, are intended to avoid imminent lay-offs, particularly, of senior employees. A junior employee may be replaced by a senior employee to avoid laying off the latter. A replacement transfer programme is used when all the operations are declining, and is designed to retain long-service employees as long as possible.

(iii) Versatility Transfers Versatility transfers are effected to make employees versatile and competent in more than one skill. Clerical employees

in banks, for example, are transferred from one section to another over a period of time so that they may acquire the necessary skills to attend to the various activities of the bank. Versatile operations are valuable assets during rush periods and periods when work is dull. Versatile transfers may be used as a preparation for production or replacement transfers.

(iv) Shift Transfers Generally speaking, industrial establishments operate more than one shift. Transfers between shifts are common, such transfers being made mostly on a rotation basis. Transfers may also be effected on special requests from employees. Some request a transfer to the second shift or the night shift in order to avail the free time during the day to take up part time jobs, although this is not permitted by law.

(v) Remedial Transfers Remedial transfers are effected at the request of employees and are, therefore, called personal transfers. Remedial transfers take place because the initial placement of an employee may have been faulty or the worker may not get along with his or her supervisor or with other workers in the department. He or she may be getting too old to continue in his or her regular job, or the type of job or working conditions may not be well-adapted to his or her present health or accident record. If the job is repetitive, the worker may stagnate and would benefit by transfer to a different kind of work.

UPWARD MOVEMENT OF EMPLOYEES

Like transfers, upward management of employees (called promotion) too is common in organisations.

Promotion means an improvement in pay, prestige, position and responsibilities of an employee within his/her organisation. A mere shifting of an employee to a different job which has better working hours, better location and more pleasant working conditions does not amount to promotion. The new job is a promotion for the employee only when it carries increased responsibilities and enhanced pay.

Issues relating to employee promotion often figure in the negotiations between employers and union leaders. But promotional matters rarely lead to a major confrontation between them.*

Purposes of Promotion

The purposes of promotion may be outlined as follows:

1. To motivate employees to achieve better performance.
2. To attract and retain the services of qualified and competent people.
3. To recognise and reward the efficiency of an employee.
4. To increase the effectiveness of the employee and of the organisation.
5. To fill up higher vacancies from within the organisation.
6. To build loyalty, morale and a sense of belongingness in the employee.
7. To impress upon others that opportunities are available to them too in the organisation, if they perform well.⁷

A promotion represents the ultimate accomplishment for some employees. Many achieve it through hard work and good performance. A few follow short cuts to achieve the desired goal. Instead of trying to deserve a promotion through better performance, they believe in staying close to the boss. Cynics may say that the easy way of climbing up the ladder of hierarchy is to belong to the community of the boss, marry into his/her family, or at least come from the same region as he/she does.

For some employees, a promotion is not worth trying for. In fact, some refuse to be promoted on the ground that, once promoted, they lose the benefits of overtime and profit-sharing bonus, and become liable to transfer. Besides, there are three main classes of persons to whom a promotion is likely to be, in effect, a psychological disadvantage. First, people who have already achieved a modest rise in status and income, and achieved it painfully, may often feel that it is better to settle for what they already have, than to struggle further. Second, there are some people who cannot easily tolerate the alienation that promotion often produces with former peers who suddenly turn into subordinates. Third, there are those who may wish for a promotion, if it could be had on the same terms as everyone else who gets it, but consider it so unlikely to occur or so difficult to handle if it did occur on terms that he/she does not fancy for.⁸

Principles of Promotion

Promotion is a double-edged weapon. If handled carefully, it contributes to employee satisfaction and motivation. If mishandled, it leads to

discontentment, frustration, skepticism and bickering among the employees, and culminates in a high rate of turnover. It is the responsibility of the HR manager to lay down a sound promotional policy and ensure its implementation. The policy of promotion should be clear on the following matter:

- (i) The HRM must make it clear whether to fill up higher positions by internal promotions or recruit people from outside. Generally speaking, top positions in an organisation are filled through external recruitment. The lower positions, however, are filled up by promotions from within.
- (ii) When it has been decided to fill up higher positions with promotions, a further decision on determining the basis of promotion should be made by the HRM. The basis of promotion may be seniority or merit or both.

If seniority is the basis for promotion, an employee with the longest period of service will get promoted, irrespective of whether he or she is competent to occupy a higher post or not. This is the practice followed in unionised industrial establishments, government-owned undertakings and educational institutions. A promotion on the basis of seniority has merits and demerits.

The merits are:

1. It is easy to administer.
2. There is less scope for subjectivity or arbitrariness in fixing seniority.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • Pay attention to the formalities in the exit process – employee remembers how courteous and comfortable the exit was • Ensure dismissals and other performance/behavior linked discharges are professionally managed and well documented 	<ul style="list-style-type: none"> • Make false or misplaced commitments to under performers. Make it clear from the beginning that inability to meet targets results in termination. • Think downsizing is only the remedy for corporate

- Exit interview data must be analysed every six months and shared with line managers to initiate corrective actions
- Ensure a clear and transparent promotion policy and guidelines to avoid employee dissatisfaction and demotivation

- misfortunes
- Be complacent that discipline is a common problem every organisation faces.

3. Labour unions welcome seniority-based promotions.
4. Seniority and experience go hand in hand and, therefore, it is right and proper to make promotions on this basis.
5. Subordinates are more willing to work under an older boss who has given many years of service to the company.
6. Loyalty is rewarded.

The demerits are:

1. Seniority is no indication of competence.
2. In spite of judicial pronouncement, there is no single criterion for fixing the seniority of an employee.
3. Young and competent people get frustrated and might leave the organisation.

If competence is the basis for promotion, an employee whose performance is the best, as revealed by performance appraisal, is promoted. He or she beats all the others by his or her merit and is rewarded, just as an athlete is rewarded when he or she touches the tape first in a 100 metre dash. Such a promotion has its own charm because it is won by hard work and dedication.

The merits of promotion by competence are:

1. Efficiency is encouraged, recognised and rewarded.
2. Competent people are retained because better prospects are open to them.
3. Productivity increases.

The disadvantages of promotion by merit are:

1. Discontentment among senior employees.

2. Scope for favouritism.
3. Loyalty and length of service are not rewarded.
4. Opposition from union leaders.

Hence it is obvious that seniority and merit as the bases of promotion have their own merits and demerits. Of the two, competence is the better basis because it rewards those who deserve it, unlike seniority which results in the promotion of a senior employee whose only qualification, often, is that he or she joined the organisation earlier than the others.

In non-unionised companies, promotions are made on the basis of merit because the managements of such companies are free from union pressures. Even in unionised organisations, merit is the basis for the promotion of non-productive employees. Seniority for promotion should be considered only when there are more than one aspirant of equal merit.

- (iii) Another point to be made clear about the policy of promotion is whether to promote employees against vacancies or non-vacancies. In many organisations, employees are promoted on a nonvacancy basis after they complete a minimum period of service. Such promotions are time-bound and not based on vacancies or merit. Time-bound promotions were first made for the day-rated employees of the BEL, Bangalore. The practice was later followed by all the other government undertakings in the city.

The other practice is to link promotions to vacancies. In many establishments, the administrative staff are promoted against vacancies. Sometimes, these vacancies are created to avoid frustration among the aspirants for promotion.

- (iv) Frequent promotions are inadvisable from the point of view of the employer and the employees. To the employer, frequent promotions mean a higher wage and salary bill, and a temporary instability in the organisation. Frequent changes in the assignments of individuals make them stagnate in their jobs and their responses to change get stilted and the initiative that they take to keep themselves abreast of new developments diminishes over the years. In addition, the supervisors begin to depend on the old timers to carry on the tasks repeated over the years, and any change in their job assignments is

resisted not merely by the individuals but also often by the supervisors.⁹ It is, therefore, necessary to limit promotions to desirable levels.

- (v) A promotion should be preceded by a job analysis, and performance appraisal. A job analysis is essential to know what the job demands from its incumbent. Employee assessment, on the other hand, enables the management to know whether the employee in question can match the requirements of the job.
- (vi) The promotion policy should be discussed with labour unions, and their acceptance should be obtained in the form of an agreement. Unlike in the past, promotions are no longer the prerogative of the management. To make a promotion scheme successful, the workers' acceptance and co-operation are as necessary as the intention of the management.
- (vii) When promotions are made on the basis of competence, openings for promotion should be displayed prominently at several places to enable interested people to apply.

WORKPLACE CONFLICT

The very mention of 'conflict' envisions fights, riots, or even wars. In fact, on virtually every day of every year one can find dozens of armed combat situations and terrorist attacks somewhere in the world. But these extreme situations present only in the most overt and violent expressions of conflict. During a typical workday, managers encounter more subtle and non-violent types of opposition such as arguments, criticisms and dissatisfactions. It is in this sense that we understand conflict here.

Behavioural scientists opine that a certain amount of conflict is welcome as it is likely to enhance performance. This may sound strange, but true since conflict makes managers and workers rethink, innovate and vibrant. But when conflict is not handled before it escalates, consequences will be highly dysfunctional such as high absenteeism, reduced performance, spoilt morale, go-slow tactics, sabotages, strikes and lockouts (See [Fig. 18.4](#)).

Causes for Conflict Why does conflict occur in organisations? There are individual and interindividual factors which cause conflict in organisations.

Individual related causes include human frailties, attitudes and personality orientation. Personality of an individual reflects collectivism or individualism. Collectivist personality is characterised by consensus, accommodative, cooperative and adjustable. Individuals with collectivism are good at inter-personal relations. Individualistic approach reflects in reserved and withdrawn syndromes. Obviously, such individuals are not favourably disposed to interpersonal relations.

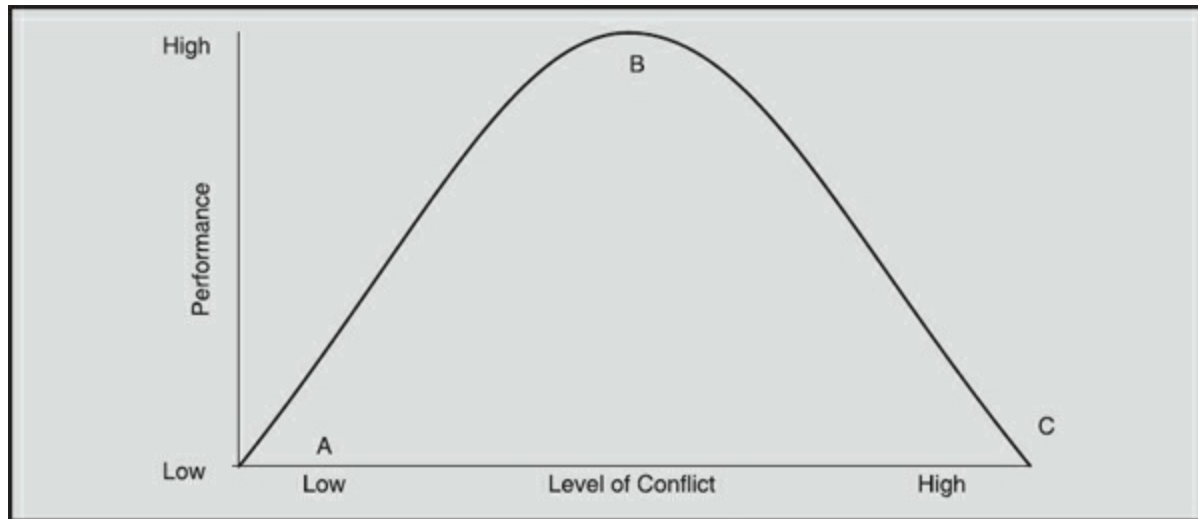


Fig. 18.4 *Relationship between Conflict and Performance*

Attitude of an individual may be positive or negative. An employee with positive attitude is committed, friendly, helpful and does not get disturbed or tensed up with minor lapses and mistakes here and there. An individual with negative attitude finds faults with every body and every thing in the organisation, magnifies small lapses, suspicious and distrustful. He or she carries high potential for conflict. Human frailties include egoism, jealousy, anti-management outlook, and fault-finding in others. Obviously, these frailties carry high potential for conflict.

Inter-personal conflict arises when a manager breaches an organisational norm while promoting, effecting pay hike or appraisal. Ineligible employees get all the benefits at the cost of more deserving ones.

Resolving Conflict What are the ways of resolving conflict? Before describing conflict resolution strategies, it is necessary to understand that there are two views about conflict – old and contemporary. Conventionally,

conflict was held to be inappropriate, the fact that an individual was given a job should make him or her feel grateful to the organisation. He or she has no reason to entertain conflict and even if it arises, it should be nipped in the bud by using coercive means. Contemporary view takes conflict as inevitable, nay healthy, particularly when it is moderate. When it stretches, immediate moderation steps need to be initiated to resolve the conflict.

One strategy to resolve conflict is to have clearly drafted norms for all people related functions and implement them in letter and in spirit. Organisational redesign focussing on superordinate goals, enhancing budget allocations, clear communication and transparency are the other conflict resolution strategies.

Which strategy to resolve conflict is followed depends on the managerial approach. If the executives are guided by the unitary approach, they tend to become authoritarian and all decisions flow top-down. If the guiding principle is pluralistic, managers adopt participative approach. Decisions and actions are consensual. Pluralistic approach gives lasting results to the managers.

DISCIPLINE

Discipline refers to the adherence to the rules of the organisation. Acts of indiscipline include, absenteeism, underperformance, sabotage, theft, drunken behaviour, smoking on the shop floor, misbehaving with supervisors, inappropriate use of company property and the like. Acts of misconduct may be minor or serious as [Table 18.2](#) shows.

Pause and Ponder

Ms X clocked in 30 minutes late in the morning. Late coming resulted in a minor brawl with her boss. Should this act be treated as a conflict or an indiscipline?

Table 18.2 *Categories of Employee Misconduct*

<i>Minor Violations</i>	<i>Serious Violations</i>

Absenteeism	Drug use at work
Dress code violation	Theft
Smoking rule violation	Dishonesty
Incompetence	Physical assault on a supervisor
Safety rule violation	Sabotage of company operations
Sleeping on the job	
Tardiness	

(Source: Luis R.Gomez-Mejia, et al, *Managing Human Resources*, PHI, 2010 p.456)

Handling Misconducts Management should initiate disciplinary action to correct deviant behaviour and put the errant employees on the right path. Disciplinary actions are not correctional only in their purpose. They provide an opportunity to the managers to take a relook at the company rules and identify any norm that is not clear or lends itself to be misrepresented. When holes are identified, they can be plugged by amending or redrafting the rules.

Every organisation should have a well crafted procedure to deal with misconducts of employees. Such a procedure should contain certain keys as shown in Exhibit 18.2.

Exhibit 17.1 Keys to Handle Disciplinary Issues in the Workplace

- *Establish the facts of each case.*
 - Verify the facts, plan the meeting or interview and decide whether further action is necessary
- *Inform the employee of the problem*
 - Notice of the allegation should be provided formally in writing, setting out the exact reasons for the meeting, the supporting evidence and informing the employees of their right to be accompanied by an appropriate representative
- *Hold a meeting with the employee to discuss the problem*
 - Reasonable notice of the meeting should be given to the employee (although matters should be dealt with as soon as practicable)
 - The manager should be accompanied by another manager to take notes and help conduct the interview

- *Allow the employee to be accompanied at the meeting*
 - An employee is entitled to be accompanied by a work colleague or trade union official of his or her own choice to help present his or her case (but not to answer questions on his or her behalf)
- *Decide on appropriate action*
 - Decisions should take account of mitigating circumstances
 - Decisions should be confirmed in writing and a full explanation be given of the reasons for the decision
- *Provide employees with an opportunity to appeal*
 - Employees should be made aware of their right to appeal when informed of the decision
 - Appeals are often made to more senior managers

(Source: Nick Wilton, *Human Resource Management*, Sage, 2011, p. 379)

The above procedure is called the *progressive discipline* in which an errant employee is punished at each stage, hoping his or her misconduct is corrected. Punishment becomes more severe if the misconduct persists longer. Formalities become more detailed when the punishment is more. In other words, if dismissal is warranted, formal notices, replies, right of appeal and opportunity to be heard should precede before he or she is exited.

Discipline procedure is legalised too. We have, for example, the Industrial Employment (Standing Orders) Act, 1946 where misconducts are specified and corrective procedures are listed. Then there are service rules which govern the employees in banks and Government. Exclusively for Government employees a new and comprehensive Civil Services Performance and Accountability Act is in the offing (see also closing cases 2 and 3).

Principles for Handling Discipline

Procedure for managing deviant behaviours has been described above. While invoking the procedure, the following four principles may be kept in mind:

1. Every one has motivational energy. Although many problem employees display a marked lack of drive and commitment in their jobs, these qualities are usually alive and well in other areas of their lives;

2. The energy which the problem employees possess is often blocked into the workplace. The blockage may occur because of new and sudden stresses at home or may accumulate incrementally over the years, the product of frustrated dreamers or broken promises at work;
3. Removing blockage of energy requires people participation. To motivate an employee to work towards organisational goals, it is necessary to find his or her locus of energy and leverage it. Instead of pushing solution on people with the force of argument, the HR manager should extract solution out of them;
4. Beyond a certain point, there is no need to show mercy to problem people.

The following action plan may help the managers to tackle problem employees:

- (i) Try to reach out to the problem employee even if it appears capitulation on the part of the manager. This is necessary in the interest of the organisation. Failing, think of the next.
- (ii) Change the place of work. Probably new supervisor, new place and new peers may change the problem employee. Failing this, think of the next.
- (iii) Issue verbal threats – threats of severe action. Severity of actions contemplated to vary from workers to managers. Higher the hierarchy, graver is the severity. Failing, think of the next.
- (iv) Translate threats into action. If problem employees are workers, suspension may work. If the problem employees are manager, exit them (See also closing case 1).

B-PLAYERS

Just as there are problem employees, there are individuals who are committed and motivated, but who often go unnoticed, unrecognised, and unrewarded, particularly in large organisations. Files move, work goes on, activities and functions continue to take place in organisations because of such employees.

Such unsung and unheard of heroes and heroines are found in all organisations. Popularly called *B-players*, they are parallel to the best

supporting actors and actresses in bollywood. The B-players possess unique characteristics as shown in [Table 18.3](#).

Table 18.3 *Profile of B-Players*

- They are not stars. Neither are they laggards. They do their jobs competently, steer the course, and define the organisation's values and culture.
- They receive least attention from the top management, since they are un-ambitious and unexciting.
- They make up five per cent of a company's bell curve.
- The B-player is the wheel in an organisational machine that never squeaks and hence never gets any lubricant.
- They maintain perfect work life balance.
- They differ from stars (A-players) not in intelligence, but in drive and attitude.
- They stick on with an organisation, because they value the comraderie and security of a known team. But they do leave, when things are mismanaged.
- They are solid-citizens, the juggernauts who give stability to organisations.

Pause and Ponder

Should there be career paths for B-player or be allowed to continue to play the roles of unheard and unsung heroes and heroines?

Like problem employees, B-players too need to be managed carefully. HR professionals are taking notice of B-players and have unique policies to manage them. Coca-Cola India, for example, regularly does an analysis based on performance feedback, dividing employees into five levels - high potentials, promotable, matches, mismatches, and non-performers. The matches form Coke's majority B group. The company has career paths for all B-players. HUL has created a special category for the top employees within

the B category. Popularly called the sustainable high performers (SHPS), these individuals get the same increments as the top 15 per cent of high potentials.

SUMMARY

HR managers face additional responsibilities as they are required to handle separations caused by employers often and by employees too often. Where employees themselves sever relationships with the organisations, such withdrawals are called voluntary. Separations become involuntary when employees terminate services of their employees.

Quits and retirements are at the instance of employees. Terminations, layoffs, retrenchments, VRS and rightsizing are caused by employers. All these separations, particularly, the rightsizing, need to be handled with caution by the HR manager.

Transfers and promotions should be based on certain principles. The principles along with causes for transfers are outlined in the chapter.

Additionally, HR professionals need to manage conflict, discipline and B-players.

KEY TERMS

Separations

Voluntary separations

Involuntary separations

Discharges

Layoffs

Quits

Transfers

Promotions

VRS

Discipline

Conflict

B-players

REVIEW QUESTIONS

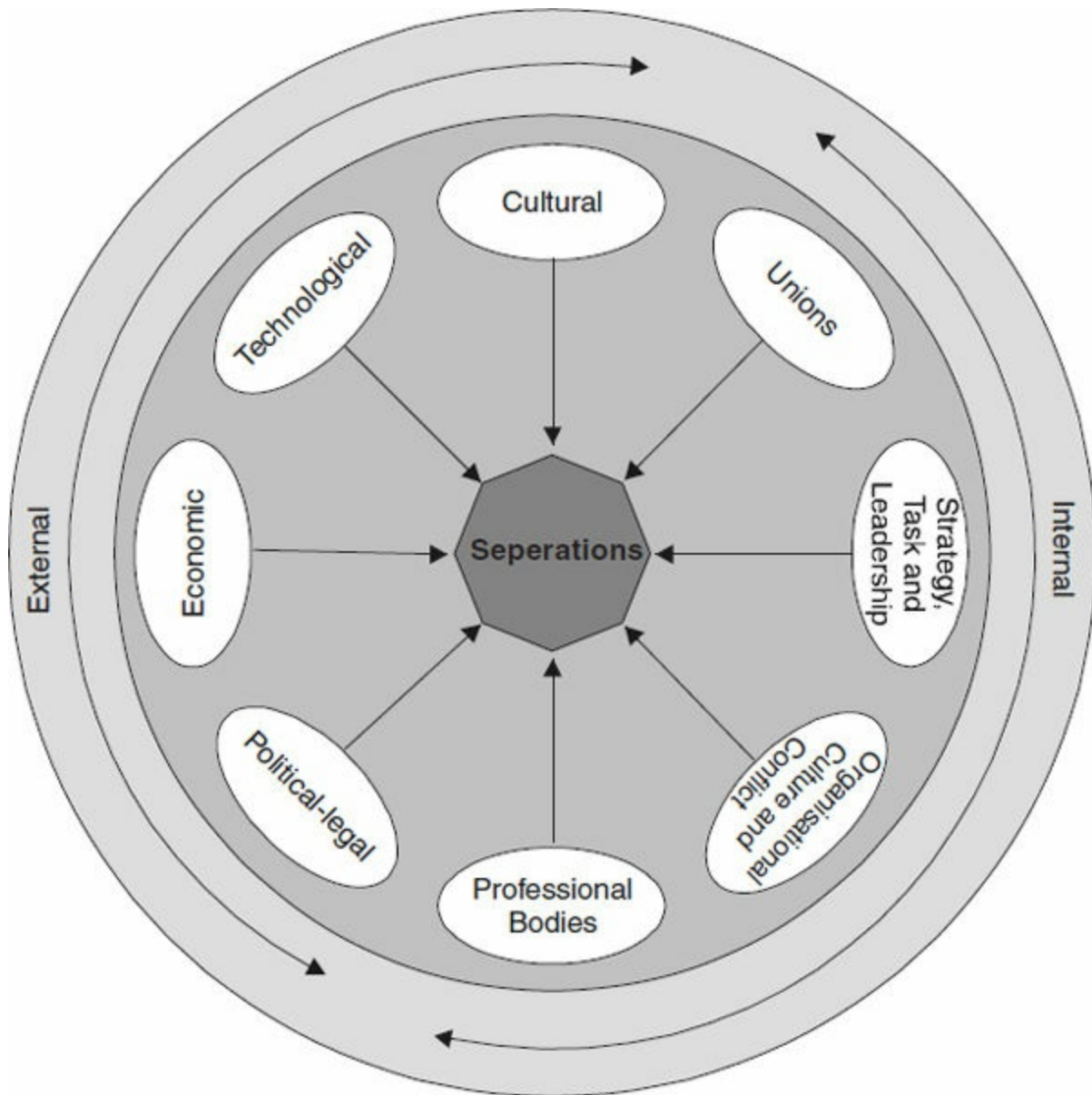
1. What do you understand by separations? Explain the different types of separations.
2. What are transfers? What are the types of transfers?
3. Bring out the principles of transfers.
4. What do you understand by the term promotion? Bring out bases for promotion.
5. What is conflict? Why does it arise? How to resolve it?

DISCUSSION QUESTIONS

1. “Rightsizing is not a ripple but a tidal wave.” Elaborate.
2. Bring out the effectiveness of VRS in trimming an organisation’s employee strength.
3. Why has VRS evoked mixed response everywhere?
4. Does conflict arise mainly from problem employees?
5. Does the procedure for handling indiscipline apply to all sectors or it is manufacturing sector-specific?

IMPACT ASSESSMENT EXERCISE

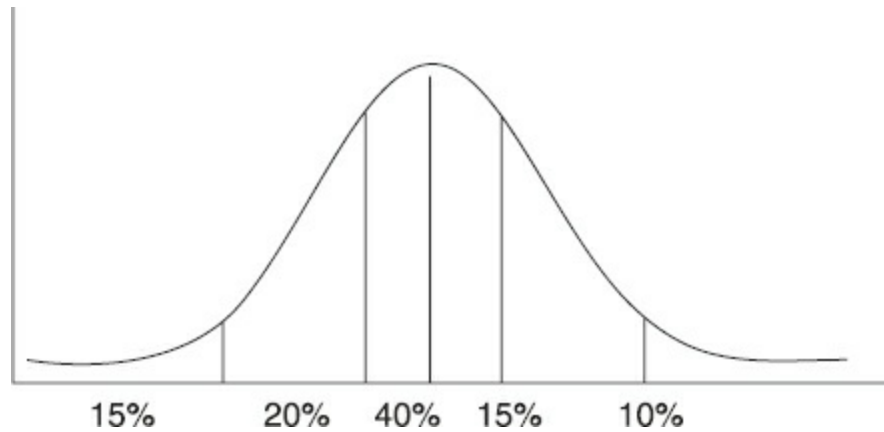
From the figure given below, identify the forces (external and internal) that impact separations, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

At Vybhav, as part of the performance-driven culture, the bottom ten per cent of the workforce across all divisions are closely monitored for poor performance and eventually separated if performance did not improve.

As part of the annual performance assessment exercise, each team is required to slot all the team members in the performance bell curve as shown in figure given below.



Employees positioned at the bottom 10 per cent are placed on Focused Performance Plan (FPP). A three page template detailing the key performance deliverables over the next 90 days is filled out and previous incidents of unmet performance deadlines are attached as well. The HR manager and the employee together contract to meet the deadlines and set weekly review dates for measuring progress and discuss corrective actions, if any. At the end of 60 days, there is a formal review between the HR manager and the impacted employee on the next steps.

- I. The employee could show significant improvement and is in step with agreed deadlines, whereby the next 30 days deadlines are reviewed.
- II. The employee could fall short of the agreed deadlines and might be given a notice period of the next 30 days.
- III. The employee could be terminated after 30 days, if progress does not improve.

The FPP process ensures that poor performance is managed as objectivity and transparently as possible and in a manner that is fair to the employee. The role of HR executive in the FPP process is to coach and support the manager on setting clear and reasonable deadlines and in adopting a developmental approach to help the employee successfully complete the FPP. The FPP process enables the employee to reach out to HR in case the employee feels he or she has been harassed. The HR manager in such cases reviews the case closely and spends time with the manager as well as the employee and then escalate to the next level manager with due support of facts for necessary intervention.

Closing Case-1 *Problem Employees*

Let's look at a couple of situations that will surely resonate with most managers. First, consider the problem facing Annette. She is a senior designer at a large publishing and graphic design business, with dotted-line responsibility for Colin, a project team member. Always something of a maverick, Colin nonetheless has a good work history. But the team is feeling the heat because the company restructured it to reduce cost and speed turnaround times. And Colin's behaviour is becoming increasingly problematic, or so Annette and Dave the project manager and Colin's other boss, see it. Colin seems to be shirking work, and when he does complete assignments, he doesn't report back to his bosses. To Annette, Colin's behaviour doesn't reflect his inherent disregard for rules and procedures; it also signifies a reluctance to take on further assignments. After discussing the situation with Dave, Annette decides that she will be the one to talk to Colin because she has the better relationship with him.

Annette's strategy is to motivate Colin by appealing to his sense of responsibility to the project team. When she meets with him and tries to get him to accept this line of reasoning, Colin agrees to do what Annette wants. But she doesn't get the feeling that her argument has made any impact. In her opinion, Colin is in his comfort zone: He supports the other team-members, even helps them solving their problems, but he does so at the expense of fulfilling his own responsibilities. Annette wonders whether Colin has become a misfit in the new structure and will have to leave. Perhaps she should give him a formal warning or transfer to a less demanding job, in effect demoting him.

Here is another case. Paolo works in Eastern Europe as a country manager for an international property developer. George, a chartered accountant with an MBA is a direct report whose job is to sell plots of land and develop strategic alliances with local companies. George is fairly new to this position, having previously worked in a back office role overseeing customer accounts. Although George is pleasant and enthusiastic, his performance is subpar and shows no signs of improvement. In fact, George has yet sold a single parcel of land. In his dealing with potential patrons, the garrulous George acts as though his bonhomie is all he needs to cut a

deal. And the deals he does manage to make turn out to be ill considered and costly.

Because of these issues, Paolo meets with George several times to try to get him to change his ways. George responds with encouraging smiles, plausible excuses, and a commitment to Paolo that things will change, but nothing does. In the final analysis, Paolo decides, George is slippery and lazy. Despite promises, George refuses to adopt a different negotiating style, and he obviously isn't prepared to do the detailed research to appraise a deal. Exasperated, Paolo decides to issue George an ultimatum; "improve your game or get out". But firing George would be an expensive option; people with his background and skills are difficult to find in this part of the world.

Poor Paolo. He can almost smell the failure likely to result from a confrontation. He will continue to get reassurances from George, but he will never get George to change his ways and be accountable for his performance. Poor Annette. If only she could convince Colin to improve his attitude, she could hold on to a potentially valuable team-member. But no matter how reasonable Annette's argument is, will she be able to get Colin to behave differently?

Closing Case-1 *Lakshmi Manufacturing Company*

Lakshmi Manufacturing Company is a registered factory employing 600 people. It produces spare parts for cars and scooters. Its security staff at the gate are very rigid in checking people/vehicles going out of the works to prevent any theft of the company's material.

On June 20, 1995, Ramesh, a material chaser in the services department, went to the stores department to draw 10 new GEC electric switches (15 amps each) for some urgent breakdown job. Ramesh drew the material at about 11.00 a.m. and kept the same in this hand bag and put it on his cycle handle. Thereafter, he came to the Co-operative Credit Society office to enquire about his loan application. He suddenly remembered at 11.30 a.m. his urgent work at the post office (which is situated just outside the works gate), and decided to write and post an urgent letter and thereafter go to his department which is situated at a distance of about one

km from the stores department. The distance between the stores department and the works gate is about 50 meters. Ramesh works in general shift, i.e. from 7.00 a.m. to 11.30 a.m. and from 12.30 p.m. to 4.00 p.m. The lunch break is from 11.30 a.m. to 12.30 p.m. and during this period; workers are allowed to go out of the works. Ramesh, like many others arranged with a person to get his tiffin-carrier from home to his department every day at 11.45 a.m. on payment of a nominal amount every month. On June 20 also, his tiffin-carrier had come with his lunch as usual.

At 11.35 a.m., there was a telephone call to Mahesh Kumar, Manager-Service Department, from the security inspector, Ramanand, that one Ramesh (T No. 321) has been caught red-handed at the works gate while trying to go out of the works with 10 new GEC electric switches belonging to the company. The two security staff who detected the attempted theft were Ramadhin and Trilochan. The materials were kept in a bag hanging from the cycle handle of Ramesh.

After the incident, a preliminary enquiry was held, when Ramesh confessed in writing that by mistake he was carrying the switches as he intended to come back to his department after his urgent work at the post office. As per procedure for drawing materials in the services department, on the basis of a written instruction in the Log Book from the supervisor, material chaser is supposed to prepare the material requisition after entering the details himself in the Materials Requisition Register. After getting the requisition signed by the supervisor and the departmental head, he is supposed to go to the stores department to draw the material. If the materials are heavy, he has to arrange for a transport. For small items like switch, fuse, etc. he himself carries the same to the department. Thereafter, he is supposed to hand over the material to the supervisor and obtain his signature in the Materials Requisition Register.

On checking up the entries in the Log Book as well as in the Materials Requisition Register after the incident, it was found that Ramesh had correctly entered ten pieces GEC electric switches (15 amps each). As per Standing Order No.17 (iii) of the Company's Certified Standing Orders, "Theft, fraud or dishonesty in connection with company's business or property" is a misconduct warranting dismissal as per Standing Order No. 18. The rules also provide that the manager can issue a charge-sheet and also punish with dismissal any employee of his department who is alleged

to have committed an act of misconduct.⁹

Questions

- (a) Advise the Manager, Services Department on the steps required to be taken in this case.
- (b) Assuming that a domestic enquiry is to be held, suggest various steps of enquiry, in detail.
- (c) Suggest what positive measures are to be taken by the company for maintaining and promoting sound industrial discipline.

Closing Case-3 *Rise and Fall*

Jagannath (Jaggu to his friends) is an over ambitious young man. For him ends justify means.

With a diploma in engineering. Jaggu joined, in 1977, a Bangalore-based company as a Technical Assistant. He got himself enrolled as a student in an evening college and obtained his degree in engineering in 1982. Recognising his improved qualification, Jaggu was promoted as Engineer-Sales in 1984.

Jaggu excelled himself in the new role and became the blue-eyed boy of the management. Promotions came to him in quick succession. He was made Manager-Sales in 1986 and Senior Manager-Marketing in 1988.

Jaggu did not forget his academic pursuits. After being promoted as Engineer-Sales, he joined an MBA (part-time) programme. After completing MBA, Jaggu became a Ph.D. scholar and obtained his doctoral degree in 1989.

Functioning as Senior Manager-Marketing, Jaggu eyed on things beyond his jurisdiction. He started complaining against Suresh—the Section Head and Prahalad the Unit Chief (both production) with Ravi, the EVP (Executive-Vice President). The complaints included delay in executing orders, poor quality and customer rejections. Most of the complaints were concocted.

Ravi was convinced and requested Jaggu to head the production section so that things could be straightened up there. Jaggu became the Section head and Suresh was shifted to sales.

Jaggu started spreading his wings. He prevailed upon Ravi and got sales and quality under his control, in addition to production. Suresh, an equal in status, was now subordinated to Jaggu. Success had gone to Jaggu's head. He had everything going in his favour—position, power, money, and qualification. He divided workers and used them as pawns. He ignored Prahalad and established direct link with Ravi. Unable to bear the humiliation, Prahalad quit the company. Jaggu was promoted as General Manager. He became a megalomaniac.

Things had to end at some point. It happened in Jaggu's life too. There were complaints against him. He had inducted his brother-in-law, Ganesh, as an engineer. Ganesh was by nature corrupt. He stole copper worth ₹5 lakh and was suspended. Jaggu tried to defend Ganesh but failed in his effort. Corruption charges were also levelled against Jaggu who was reported to have made nearly ₹20 lakh for himself.

On the new-year day of 1993, Jaggu was reverted to his old position—sales. Suresh was promoted and was asked to head production. Roles got reversed. Suresh became boss to Jaggu.

Unable to swallow the insult, Jaggu put in his papers.

From 1977 to 1993, Jaggu's career graph had a steep rise and a sudden fall. Whether there would be another hump in the curve is a big question.

Questions

1. Bring out the principles of promotion that were employed in promoting Jaggu.
2. What would you do if you were (i) Suresh, (ii) Prahalad or (iii) Ravi?
3. Bring out the ethical issues involved in Jaggu's behaviour.

REFERENCES

1. Angelo S. DeNisi and Ricky W. Griffin, *Human Resource Management*, biztantra, 2006, p. 248.
2. Strauss and Sayles, *Personnel—The Human Problems of Management*, PHI, New Delhi, 1982, p. 401.
3. Jeffrey A. Mello, *Strategic Human Resource Management*, Thomson, 2003, p. 377.

4. *Ibid.*
 5. *Ibid.*, p. 378.
 6. Edwin B. Flippo, *Personnel Management*, McGraw-Hill, 1984, p. 239.
 7. Aswathappa, K., *Factory Organisation and Management*, Himalaya Publishing House, Bombay, 1990, p. 334.
 8. *Ibid.*, p. 335.
 9. A. M. Sharma, *Industrial Relations*, Himalaya Publishing House, Mumbai, 2012.
-

*Out of several industrial establishments located in and around Bangalore, only the employees of the Indian Telephone Industries (ITI) struck work for four days in 1979 on promotion issue. The erstwhile Remco (presently BHEL, Electronics Division) employees also stopped work for one day on the same issue.

SECTION 6

List of Chapters

Chapter 19: Industrial Relations

Chapter 20: Labour Laws

Chapter 21: Trade Unions

Chapter 22: Resolving Disputes

Industrial Relations

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of industrial relations and the need for peaceful employer and employee relations
- The different approaches to industrial relations
- The stakes of each of the parties in industrial relations
- A proactive strategy to industrial relations

Opening Vignettes

SUSPENSION, DISTRUST, FIRE-FIGHTING

Typical of this difference in perception were the observations of two prominent activists of long standing—one a rayon worker and the other a pulp plant operator—at the end of the customary evening in the union office by the roadside. After an animated discussion lasting several hours, during which the small group dissected every little act of management and gave free vent to its feelings, it was finally time to wind up for the day. The pulp operator who was heading for the night shift complained about the boredom of his routine: ‘I can sit down, relax and take some rest, but can’t doze. My luck is so rotten that the process which works perfectly when I am around would develop a snag if take a wink. The management won’t go beyond a memo, but how would I face 2,000 workers? Everyone would comment that in spite of 25 years in the pulp plant I allowed an entire batch to be ruined. I take a book with me to keep awake. For a man who has to sit up all night,

can't they give a decent cup of tea? What we get after hours of wait is such a tepid and tasteless brew '.

Canteen food was everyone's favourite grouse, especially because no one could understand why a blue chip company raking in money could not give better food to its employees. For the rayon worker assessing the new management at the end of the day, however, there were more compelling issues than canteen tea. He was quite sure that management would stop at nothing to push through higher speeds. One of his colleagues had been suspended pending enquiry for the alleged theft of a tray of expensive spinnerets from the laboratory. To him and to his fellow workers in the rayon plant this was clear evidence of diabolic methods which showed the new management up as increasingly similar to the old. Argued the rayon worker. "They haven't been able to prove a thing against him. How can anyone steal a hundred spinnerets without the connivance of security? You see his file, and you would know what an unblemished record he has. We didn't suspect anything until the personnel manager began hinting that the charges would be dropped if we agreed to higher speeds. We consulted an oracle who told us what exactly happened. The management have themselves hidden the tray to put the blame on us and apply pressure that is how desperate they are on spinning speeds.¹

If there is one issue on which managers spend sleepless nights, it is competition. Competition is heating up day by day and captains of industry are devising new strategies to face it. The surest way of facing the competition is to improve productivity. Productivity itself can best be improved through peaceful industrial relations. Reliance's sprawling Hazira petrochemicals complex was in the news for its high productivity. This was the result of the better relations that the managers enjoyed with their employees. The management also concluded a new wage agreement later with the workers' representatives within two hours! On May 19, 2004, Tata Steel completed 75 years of industrial harmony and this fact has contributed to the competitive edge of the steel maker.

Events of this type seem to be exceptions and do not constitute a trend. The prevailing mood in general seems to be of suspicion, distrust, fire fighting, strikes, lock-out and closure of the units as the opening vignette

shows. For instance, at the Hosur plant of Titan, workers went on a strike in 1996 following the dismissal of a female apprentice, who the management felt had a performance below standard. Situation became violent and lock-out was the result. The impasse ended only after the workers extracted an assurance from the management that the dismissed employee would be given a job elsewhere. Maruti has witnessed strikes in 1986, 1988, 1996, 1999, 2011 and 2012 ranging from one to 85 days.

The 2500 workers of the Bangalore based Bosch factory are now on strike. The grouse of the union leaders is that the management has introduced time and motion study based productivity norms without consulting labour.

Industrial relations (IR) has traditionally been a *fire-fighting* function in our country. The IR man comes into full play only after the crisis erupts. This is so much the case that some IR men are actually known to have stoked the fire to reinforce their own relevance to the organisation. "... the MD of a large corporation remarking that his personnel manager was so much of a fire-fighter that he felt uneasy when there was no fight",^{1(a)} so goes the perception about IR.

Thus, the scenario relating to IR is a mixed one. Sparks between enlightened managers and motivated workforce co-exist with large-scale violence leading to destruction and closures.

But the scenario must change. Unionisation, job security, protective legislation and other shibboleths are losing their relevance. The catch words now relevant are productivity, competitiveness, downsizing, job-hopping and union-free plants.

NATURE OF IR

Essentially, IR is concerned with the relationship between management and workers and the role of regulatory mechanism in resolving any industrial dispute.

*"More specially, IR is concerned with the systems, rules and procedures used by unions and employers to determine the reward for effort and other conditions of employment, to protect the interests of the employed and their employers, and to regulate the ways in which employers treat their employees"*²

IR is concerned with the relationship between management and workers and the role of regulatory mechanism in resolving any industrial dispute.

Specifically, IR covers the following areas:

1. Collective bargaining.
2. Role of management, unions, and government.
3. Machinery for resolution of industrial disputes.
4. Individual grievance and disciplinary policy and practice.
5. Labour legislation.
6. Industrial relations training.

Another related term is ‘employee relations’ or ‘human relations’. This term is more comprehensive and includes all those aspects of HRM where employees are dealt with collectively. Human relations includes, in addition to IR, such aspects as participative management, employee welfare, employee development, employee remuneration, employee safety and health, and the like. We have covered all these activities in the previous sections of this book. The present section deals purely with IR activities. We, therefore, prefer the term ‘industrial relations’ to ‘employee or human relations’.

IMPORTANCE OF PEACEFUL IR

As was pointed out in the beginning of this chapter, IR is key for increased productivity in industrial establishments. For example, at the Alwar plant of Eicher Tractor, productivity went up from 32 per cent between 1994 and 1996 to 38 per cent in 1997. The production of engine cylinders shot up from 29,390 (in 1995–96) to 32,501 (in 1996–97). This increase was possible because of peaceful IR.

On the flip side are the painful stories of firms that became history because of labour militancy. B&C Mills, Tamil Nadu, once a household name in the country was wound up, also several textile mills at Davanagere in Karnataka. Reason—militancy of labour. Vijay Mallya had to sell Best & Crompton unable to carry on in the wake of intransigence on the part of labour. The company, which had undergone a total revamp under a new owner from Indonesia, is just a shadow of its past. (Also see Exhibit 19.1)

Exhibit 17.1 Sad Day, Saddest Incident

It was August 3, 1972, a mob of 600 workers led by an office bearer of the union barged into the chamber of GM, dragged him out at 1:30 PM, beat him black and blue till the poor man died. Eight others, mainly supervisors were seriously injured. The mayhem continued for the next half-an-hour. By 2 PM came police, opened fire killing two workers and the SI was badly injured. Management declared a lock-out. The office bearer and four other workers were sentenced for life. After two months, lock-out was lifted, new wage agreement was signed (highly in favour of the workers) and work was resumed. But the enterprise did not regain its past glory, was sold to a Mumbai based group of companies and finally was wound up.

The enterprise was Davenagere Cotton Textile Mill (DCM), the GM who got killed was B.P. Setty and the union leader behind the gory happening was Omkarappa who was a CPI activist, an employee of DCM.

The trouble started with the initiation of new wage revision for 2000 employees way back in 1969. Negotiations went on for years with both sides sticking to respective stands. B.P. Setty was an expert in textiles and had seen how mills worked in other countries. He was keen on modernising DCM and also introducing productivity linked incentive schemes. Both were rejected by the union. A strike broke out, lasted for 4-5 days. The union was brewing vengeance and B.P. Setty was the point man.

On the fateful day, at 1:30 PM, Omkarappa manhandled a supervisor on the shopfloor and on disciplinary grounds, he was placed under suspension by the GM. Suspension led to lightning strike and slogan shouting and rioting took place demanding revokation of the suspension. Police help was sought and before the help came, everything was over.

One may dismiss the above event as a thing of the past. But, similar happenings took place in the beginning of the 21st century too. Roy George, HR head at Pricol and Lalit Kumar Chaudhary, HR professional at Graziano Danmission were killed in the respective factory premises recently.

Both an union leader and an executive were killed in group clashes that broke out in a ceramics factory located in Puducherry on January 28, 2012.

Most tragic is the death of Avinash Kumar Dev, GM-HR, at Manesar

Plant of Maruti in July 2012. Militant workers broke his limbs, immobilised him and set him on fire. The hapless man was burnt alive.

IR has moral dimensions, too. It is unethical on the part of any management to take advantage of the helplessness of workers and exploit them. Unemployment compels workers—particularly illiterate and unskilled—to accept jobs, inhuman working conditions and niggardly wages, notwithstanding.

IR assumes relevance in this context. One of its objectives is to protect workers' interests and to improve their economic conditions.

IR seeks to protect the rights of managers too. Managers expect workers to observe codes of discipline, not to join illegal strikes, not to indulge in damage to company's property, not to assault supervisors or peers, and not to come inebriated to the workplace. Where a worker's behaviour deviates from expected lines, it is the management's prerogative to take action.

There is a set procedure for handling any act of indiscipline or indiscretion on the part of an employee and if the management satisfies the procedure, it is justified in taking action or even removing the employee from service.

Little do all of us realise that it is the people who create problems everywhere and it is only they who can find solutions too. If there is a problem from employees, there is a solution also. Viewing every problem seriously and resorting to manipulative style of IR which emphasise the need to keep labour in check by floating stooge unions, buying up union leaders, and striking clandestine deals with powerful politicians do no good to managers or to the organisations they represent. The field of IR needs a new look, a look which is free from suspicion, prejudice and ill will towards workers.

Pause and Ponder

IR as a subject was neglected in academic circles for a long time. No university and no institute had a course on the subject till recently. It was only after the Manesar plant of Maruti incident that XLRI introduced a course on IR in its MBA programme. This attitude of reactive intervention should change. Your comments.

APPROACHES TO IR

The scenario of IR is perceived differently by different people. For some, IR is related to class conflict, others perceive it in terms of mutual co-operation and still others understand it in terms of competing interests of various groups. HR managers are expected to understand these varying approaches because they provide the theoretical underpinnings for much of the role of HRM.³

The four popular approaches to IR are unitary approach, pluralistic approach, Marxist approach and human relations approach (see Fig. 19.1).

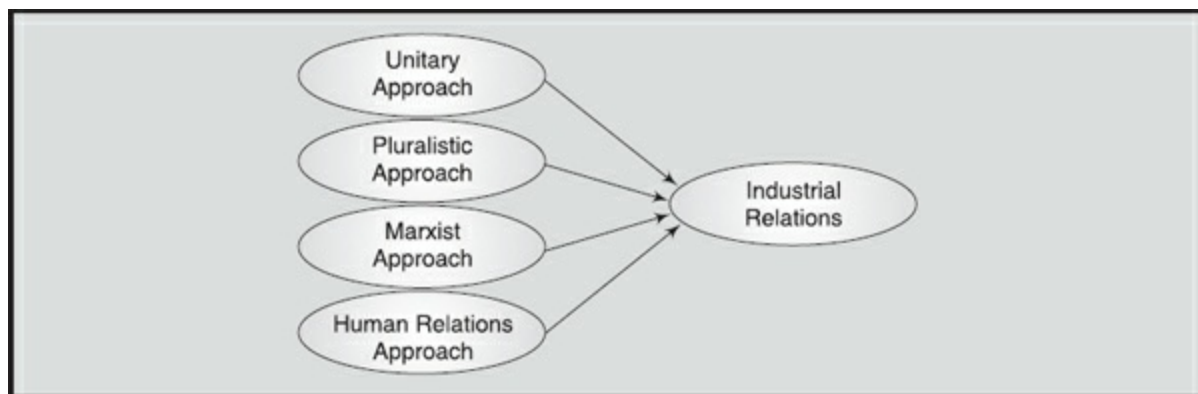


Fig 19.1 Approaches to IR

Unitary Approach

Under unitary approach, IR is grounded in mutual co-operation, individual treatment, team-work and shared goals. Work place conflict is seen as a temporary aberration, resulting from poor management, from employees who do not mix well with the organisation's culture. Unions co-operate with the management and the management's right to manage is accepted because there is no 'we-they' feeling. The underlying assumption is that everyone benefits when the focus is on common interest and promotion of harmony.⁴ Conflict in the form of strikes is not only regarded as unnecessary but destructive (see Exhibit 19.2).

Exhibit 19.2 Goodbye to Strikes and Lockouts

It is goodbye to strikes and an end to bitter negotiations at the Alwar factory of Eicher Tractors. The employees' union has given up its right to negotiate its wages, voluntarily. The management is now free to fix annual remuneration for workers. In return, workers can look forward to a fair treatment from the management.

Workers' productivity, as was stated above, has gone up considerably. Not just productivity, the work culture has undergone a metamorphosis. The workers are highly motivated and they who needed supervisors to meet targets do it without them. There is fair treatment, mutual trust, transparency and open communication.

The environment of the workplace is so pleasant that the union leaders have to work to earn their salaries, so uncommon in industries.

Source: Based on The Economic Times, 20th March, 1998.

Advocates of the unitary approach emphasise on a reactive IR strategy. They seek direct negotiations with employees. Participation of government, tribunals and unions are not sought or are seen as being necessary for achieving harmonious employee relations.

The unitary approach is being criticised as a tool for seducing employees away from unionism and socialism. It is also criticised as manipulative and exploitative.

Pluralistic Approach

The pluralistic approach totally departs from the unitary approach. This approach perceives:

1. Organisations as coalitions of competing interests, where the management's role is to mediate amongst the different interest groups.
2. Trade unions as legitimate representatives of employee interests.
3. Stability in IR as the product of concessions and compromises between management and unions.⁵

Legitimacy of the management's authority is not automatically accepted. Conflict between the management and workers is understood as inevitable and, in fact, is viewed as conducive for innovation and growth. Employees

join unions to protect their interests and influence decision-making by the management. Unions thus balance the power between the management and employees. In the pluralistic approach, therefore, a strong union is not only desirable but necessary. Similarly, society's interests are protected by state intervention through legislation and industrial tribunals which provide orderly process for regulation and resolution of conflict.

The theories on pluralism were evolved in the mid-sixties and early seventies when England witnessed a resurgence of industrial conflicts. However, the recent theories of pluralism emanated from British scholars, and in particular from Flanders and Fox. According to pluralists, industrial conflict is inevitable and it needs to be contained within the social mechanism of collective bargaining, conciliation and arbitration.

Marxist Approach

Marxists, like the pluralists, regard conflict between employers and employees as inevitable. However, pluralists believe that the conflict is inevitable in all organisations. Marxists see it as a product of the capitalist society. As Marx himself put it, "the mode of production in material life determines the general character of social, political and spiritual process of life."

Adversarial relations in the workplace are simply one aspect of class conflict. The Marxist approach thus focuses on the type of society in which an organisation functions. Conflict arises not just because of competing interests within the organisation, but because of the division within society between those who own or manage the means of production and those who have only their labour to offer. Industrial conflict is thus seen as being synonymous with political and social unrest. The application of Marxian theory as it relates to industrial relations derives indirectly from later Marxist scholars rather than directly from Marx himself.

For marxists, industrial conflict has wider meaning. For them conflict arises not because of rift between management and workers, but because of the division in the society between those who own resources and those who have only labour to offer. Industrial conflict is equated with political and social unrest.

Trade unions are seen both as labour reaction to exploitation by capital, as well as a weapon to bring about a revolutionary social change. Concerns with wage-related disputes are secondary. Trade unions focus on improving the position of workers within the capitalist system and not to overthrow. For the Marxists, all strikes are political.

Besides, Marxists regard state intervention via legislation and the creation of industrial tribunals as supporting management's interest rather than ensuring a balance between the competing groups. This view is in contrast to the belief of the pluralists who argue that state intervention is necessary to protect the overall interests of society. To Marxists, the pluralist approach is supportive of capitalism, the unitary approach is anathema. Consequently, enterprise bargaining, employee participation, cooperative work culture, and the like which help usher in cordial IR are not acceptable to Marxists.⁶ Such initiatives are regarded as nothing more than sophisticated management techniques designed to reinforce management control and the continuation of the capitalist system.

The Human Relations Approach

The human relations theory was propounded by the human relations school founded by Elton Mayo. The approach offers a coherent view of industrial conflict and harmony. The human relations approach highlights certain policies and techniques to improve harmony, morale, job satisfaction and productivity. The theory stresses the role of small groups to remove irritants in labour management relations. Elton Mayo and his team were humanists and believed in the positive nature of employees. They believed that given human initiatives from managements, workers would respond positively and conflicts would have no place. But excessive stress on positive nature of workers was not appreciated by Marxists and Pluralists.

Pause and Ponder

Which of these approaches to IR is more relevant now? Why?

PARTIES TO IR

The major parties to IR are the employees, employee representatives, employers, associations of employers, HR function, ILO, government, and courts and tribunals (see Fig. 19.2).

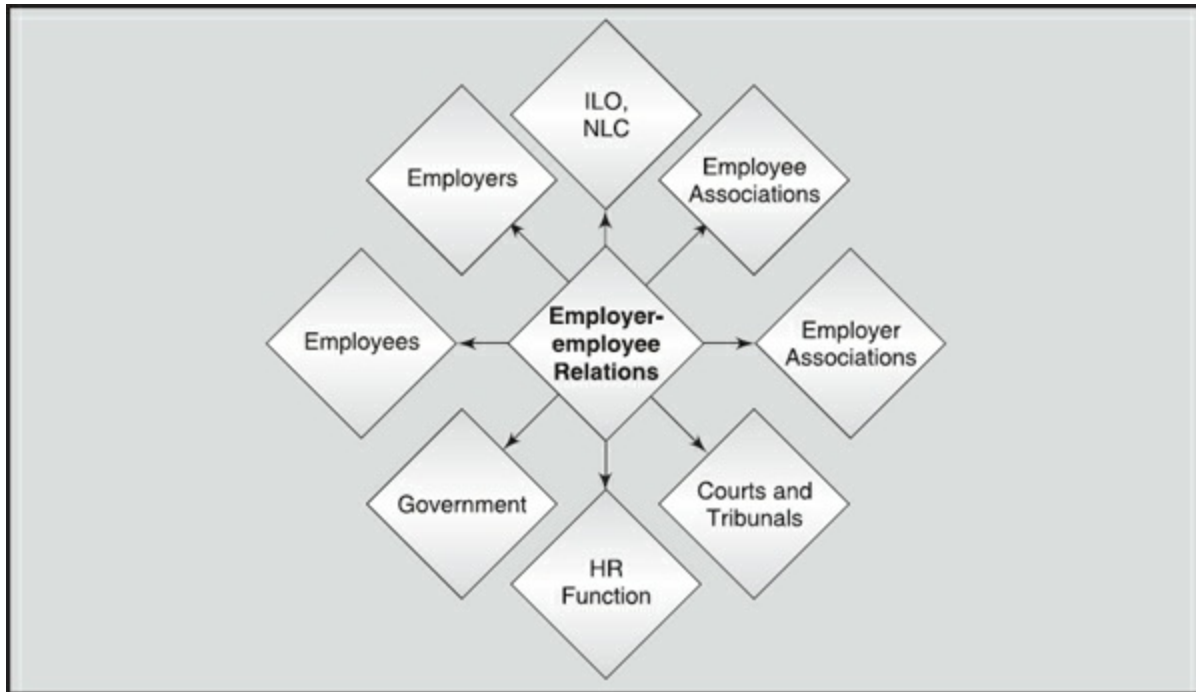


Fig. 19.2 *Parties to IR*

Employees

There are about 28.1 million employees working in the organised sector and 365.1 million in the unorganised sector in our country. It is, therefore, useful to make certain observations about Indian workers. (See [Tables 19.1](#) and [19.2](#) for more details.)

Table 19.1 *Number of Employees*

<i>Year</i>	<i>Employees in the organised sector (million)</i>	<i>Employees in the unorganised sector (million)</i>	<i>Total (million)</i>
1983	24.0	278.7	302.7
1988	25.7	296.3	322.0
1991	26.7	315.2	341.9
1994	27.4	344.7	372.1
2000	28.1	365.1	393.2

(Source: National Sample Survey Organisation and Directorate General of Employment and Training, Ministry of Labour, Government of India.)

Table 19.2 *Sector-wise Share of Employment*

	<i>1983 (%)</i>	<i>2000 (%)</i>
Primary	69.0	60.4
Secondary	13.8	16.8
Tertiary	17.2	22.8

(Source: Government of India, 2001)

1. Commitment to Industry Labour is committed to industrial setting, thus contributing to stable workforce. True, the worker might have his or her moorings in villages. But it is unlikely that he or she would go back to his or her village. He or she is settled in the industrial city, his or her children are put in schools in the city, and except himself or herself, no one else in his or her family has any nostalgic feelings to the village. Besides the present generation of young workers is mostly born and brought up in urban areas and has accepted industrial employment as a way of life.

2. Protective Legislation From time to time, the government has enacted a variety of labour acts. Perhaps, ours is the only country in the world which has so many acts to protect workers' interests. Thanks to the enormous protective legislation, wages, benefits, and working conditions, safety and health of workers have improved considerably.

3. Status of the Worker The economic and social status of today's workers has vastly improved. Industrial employment is no longer the undesirable alternative left for those driven out from villages. Improved skill contents of the jobs and increased emoluments have made industrial employment the first

attraction among young job aspirants. Industrial employment is not restricted now to the socially low castes. The dynamic changes in the industrial sphere have, as the National Commission on Labour has observed, brought about a 'social amalgam'. The status of the industrial worker of today is enhanced as a result of the re-adjustment in the value system in favour of industrial employment, which is, in turn, the aggregate effect of his or her improved skills and his or her enlarged pay packet. The stigma once attached to factory life has disappeared.

4. Employment Pattern Another feature noticed in the industrial labour is the change that has come about in the employment pattern owing to changes in industrial activity, which has tremendously expanded and diversified, and has undergone a technical transformation. In the early days, unskilled work predominated in industrial employment, so long as traditional industries like textiles and mining were in the forefront. In the process of expansion and diversification, new avenues of industrial enterprises in engineering, chemicals, pharmaceuticals, and so forth assumed importance and changed the composition of industrial employment.

The improved technology of these new industries created new jobs with greater skill content, raising the minimum standard of education required. Industrial employment, in spite of being blue-collared in nature, is no more looked down upon as an inferior mode of earning a living. The employment pattern has further changed in the service industries and electronics wherein the employment has become more and more white-collared and sophisticated.

Now the employees perceive industrial relations in terms of the opportunity to:⁷

1. Improve their conditions of employment,
2. Voice any grievances,
3. Exchange views and ideas with management, and
4. Share in decision making.

The tendency of managers is to blame the workers whenever a dispute occurs. While it is true that workers are a party to a conflict, but to hold them responsible for stoking the fire may not be correct. The role of managers in igniting a conflict to serve their selfish interests cannot be overlooked as Exhibit 19.3 shows.

Exhibit 19.3 Breaking a Strike

Managers complained against agitating workers to their patrons, and asked them to counsel the erring men. Loyal workers were brought from a sister concern thirty miles away under the pretext of visiting the plant and were inducted into the work-force. They counselled their friends and kinsmen among agitating workers to return to work and recruited additional hands from the surrounding villages to break the strike. The confidential documents of the company point to scores of workers having been recruited in this fashion, and to management's optimism about the beneficial impact of this strategy.

* * *

To deal with the situation, the company hired the services of a consultant reputed for his skill in bribing trade unionists and breaking strikes.⁸

Trade Unions

Unions have a crucial role to play in IR. Unions have broad objectives which are:⁹

1. To redress the bargaining advantage of the individual worker *vis-à-vis* the individual employer, by substituting joint or collective action for individual action,
2. To secure improved terms and conditions of employment for their members and the maximum degree of security to enjoy these terms and conditions,
3. To obtain improved status for the worker in his or her work, and
4. To increase the extent to which unions can exercise democratic control over decisions that affect their interests by power sharing at the national, corporate and plant levels.

The union power is exerted primarily at two levels—at the industry level, to establish joint regulation on basic wages and hours with an employer's association or its equivalent; and at the plant level, where the shop stewards' organisations exercise joint control over some aspects of the organisation of the work and localised terms and conditions of employment.¹⁰ Unions are a

party to national, local and plant level agreements which govern their actions to a greater or lesser extent, depending on their power, and on local circumstances (read [Chapter 21](#) for more details on unions).

Employers

Employers too, are directly involved in any dispute between them and the employees. Employers are endowed with certain inalienable rights *vis-à-vis* labour. The management has the right to hire and fire any worker, notwithstanding union restrictions. It is not just firing a worker here or there, but the management's ability to control the economic destiny of the workers that matters.¹¹ The management has the right to relocate, close, merge, takeover or sell a particular plant—these actions affect workers' interests. The management has another powerful weapon—introducing or threatening to use technological change. Technological change can displace labour or annihilate skills.

Armed with these rights, the management resorts to several tactics to break a strike, some of them even unethical. The management is known to adopt dubious means to forego a strike, call off a strike, or tone down union demands. The management often breaks a powerful union, sets one faction against another, and favours the more satisfied and the less militant workers. Loyal workers from sister concerns are brought in, on the pretext of a factory visit, and are induced into the plant and advised to break the strike.

Managements have deep pockets and enormous clout. They employ several tactics to break a strike. For example, managements may

- set one faction against another
- gain loyalty of the employees

Another tactic employed by the management is to gain the loyalty of employees. The aim of this tactic is to convince the worker that the management has his or her interests at heart and can provide him or her with much the same benefits as the union. In part, this tactic is a revival of the 'Welfare Capitalism' of the 1920s. High wages, pension plans, profit-sharing plans, programmes of stock ownership by workers—all these schemes have

been revived, though often in modernised form,¹² and with considerable effect if the resistance of the new industries to unionisation can be taken as an evidence.

Employee loyalty is sought to be gained through another method, a positive one. The management seeks to find out the sources of dissatisfaction and eliminates those irritants. Workers are encouraged to form informal small groups, psycho-therapy is conducted on a plant-wide scale, and interactions between the management and the employees and among the employees are structured and practised.

A militant but incorruptible union is co-opted in routine functions of the organisation. For instance, the union may be used as a channel of information to the employees. It may be used for meeting certain production problems. In some plants, the management has even brought union leaders into the process of decision making.

In general, managers tend to see employee relations in terms of the following activities:¹³

1. Creating and maintaining employee motivation.
2. Obtaining commitment from the workforce.
3. Establishing mutually beneficial channels of communication throughout the organisation.
4. Achieving high levels of efficiency.
5. Negotiating terms and conditions of employment with employee representatives.
6. Sharing decision making with employees.
7. Engaging in a power structure with trade unions.

Employers' Associations

Employers' associations operate at local, industry and all India levels. The Confederation of Indian Industries (CII) is a powerful body at the national level which is doing an admirable job in protecting and promoting the legitimate interests of owners of industries.

The major objectives of employers' associations include:¹⁴

1. Representing employers in collective bargaining.
2. Developing machinery for the avoidance of disputes.
3. Providing information on employee relations and to give advice.

4. Representing members on national issues.

The specific objectives of CII are:

1. Identifying and strengthening industry role in the economic development of the country.
2. Acting as a catalyst in bringing about growth and development of the Indian industry.
3. Reinforcing industry's commitment to society.
4. Working towards globalisation of Indian industry and its integration into world economy.
5. Providing up-to-date information and data to industry and government.
6. Creating awareness and support industry efforts on quality, environment and consumer protection.
7. Identifying and addressing special needs of the small-scale sector.
8. Promoting co-operation with counterpart organisations.

The other major all India employer's associations are ASSOCHAM, FICCI, AIMO, WASME, FASSI, NASSCOM, AIOE, and FIEO.

Role of Government

In a sense, government intervention in IR is as old as the industry itself. However, till the 19th century, governments everywhere followed the *laissez faire* policy—they left IR to the managers and workers who were required to solve the problems themselves. Towards the end of the 19th century, the attitude of the governments changed, and intervention became a reality. The state, as of today, regulates the relationship between the management and the labour and seeks to protect the interests of both the groups. The government has set up wage boards, labour courts, tribunals and enacted laws to lay down norms to enforce their compliance.

The role of the employers, employees and government—keeps changing in significance and relevance as shown in [Fig. 19.3](#).

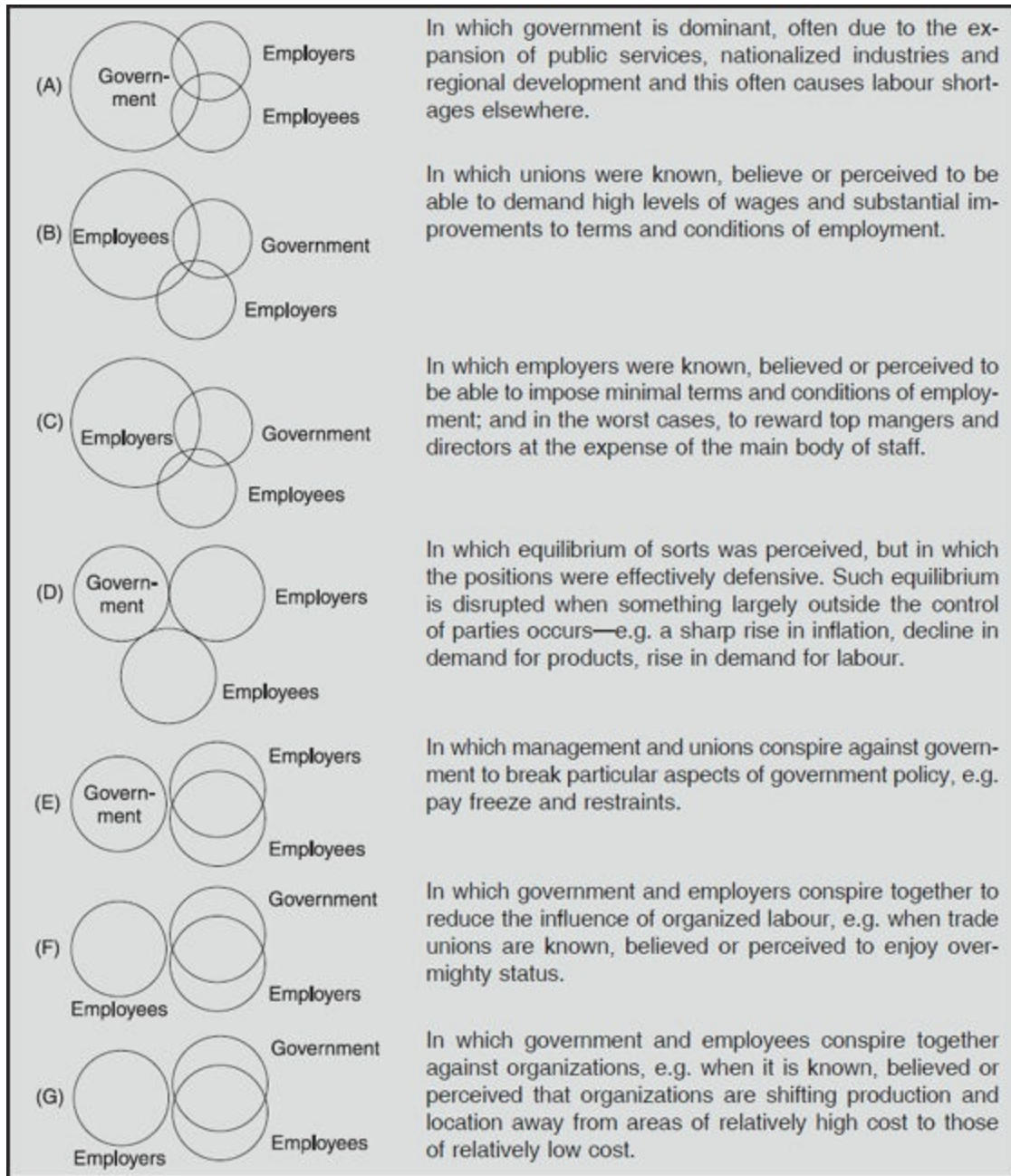


Fig. 19.3 *Shifting Importance of Parties*

(Source: Richard Pettinger, *The Future of Industrial Relations*, Continnum, 2000, p. 21)

Judiciary and Employee Relations

The powers of the judiciary are of a dual type:

1. The authority of the courts to settle legal disputes;

2. Judicial review—the authority of the courts to rule on the constitutionality of a legislation.

As far as the second is concerned, the judiciary gets activated with the legislator passing laws repugnant to the Constitution and when the government implements the enactment approved by the legislature in a manner opposed to the provisions of the legislation. In other words, the courts of justice protect the citizens from unlawful acts passed by the legislature and arbitrary acts done by the executive.

Judicial intervention in resolving industrial disputes is significant because—

- (i) Judicial errors do occur
- (ii) Possibility of wrong assessment of penalty.
- (iii) Conflicting judgements are pronounced
- (iv) Lot of confusion in terms.

It is the power of the judiciary to settle legal disputes, referred to them, that affect IR considerably. The judicial pronouncements will have a far reaching impact because (i) judicial errors do occur, though infrequent, (ii) possibility of wrong assessment of penalty, “Judges notoriously vary in the severity of punishment inflicted”¹⁵, (iii) judges are known for pronouncing conflicting verdicts on the same or similar disputes, and (iv) confusion in terms.

The role of the judiciary in IR has not been always positive.

The result is that indiscipline in the industry has spread like wildfire and sapped the national GDP and productivity. The classic case is the textile industry which has been wrecked by indiscipline.¹⁶ The conflagration is continuing to engulf various industries one by one.

HR Function

Among all the stakeholders, it is the HR team which has major interest in harmonious industrial relations. Reasons are obvious. First, it is the HR professional who is accountable for industrial harmony.

IR is his or her function as was pointed out in the first chapter. Having

said this, it may be stated that the HR manager is at the forefront in any confrontation arising out of a conflict. Often, policy decisions are made by the top management and the HR professionals are expected to simply implement them. Yet, they need to face the brunt, as evidenced by the recent brutal killings of HR professionals.

It is a paradox that when things are going good, credit is not given to the HR team but fingers are pointed out at them in times of crises.

Second, as stated in the Ulrich Model of HRM, an HR professional needs to play the role of a strategic partner, a change agent, an administration expert and an employee champion. These roles are nobler and have direct bearing on organisational effectiveness. He or she needs to be relieved from bread and butter issues like wages, union recognition, canteen and reinstatement and facilitated to focus on the much bigger responsibilities.

Third, HR team like its counterparts in finance, operations or marketing is equally concerned about the performance of the organisation. Performance, to a large extent, depends on the harmonious relations existing between the management and the employees. Everyone from MD down to the last person should be concerned about industrial harmony, and the onus largely depends on the HR team.

Pause and Ponder

If HR leader is responsible for peaceful IR, why were Avinash Kumar Dev, Roy George and Lalit Kumar Choudhry killed? Did they fail to discharge their duties as HR professionals? Find the reasons.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Peaceful relations is as much a job of every supervisor as the HR head</i> • <i>Adopt proactive approach. Waiting for the fire to ignite is a wrong approach</i> • <i>Trust and transparency ensure</i> 	<ul style="list-style-type: none"> • <i>Ignore IR as of no relevance</i> • <i>Allow incidents that happened at Maruti and Pricol to reoccur</i> • <i>Behave like a big boss when talking to employees or their leaders</i>

peace in industrial establishments

- *Keep government, laws and judiciary at a safe distance. IR is a family related issue affecting you and the employees only*

ILO and NLC

The International Labour Organisation (ILO) was set up in 1919 with the purpose of adopting international standards to cope with the problem of labour. It works towards the promotion of social justice and internationally recognised human and labour rights.

The ILO has undertaken the task of creating international minimum standards of labour in the form of conventions and recommendations which constitute the International Labour Code. The Code covers a wide range of subjects including wages, hours of work, holidays, minimum wage, maternity protection, medical examination, industrial safety and health, social security, industrial relations, employment of women and the like. Till now, ILO has adopted 185 Conventions and 193 Recommendations. These are characterised by universality, flexibility, viability and adaptability.

ILO's standards with regard to industrial relations include:

- Right of Association (Agriculture)(1921)
- Freedom of Association and Protection of the Right to Organise (1948)
- Right to Organise and Collective Bargaining (1949)
- Rural Workers' Organisations (1975)
- Tripartite Consultations (1975)
- Collective Bargaining (1981)

Of all these, India has ratified Right of Association, Rural Workers Organisation and Tripartite Consultations. These requirements have been incorporated in the Trade Unions Act, Minimum Wages Act, Employees State Insurance Act and Industrial Disputes Act.

The Indian Labour Commission (ILC) emphasises that industrial harmony broadly depends on the individual worker and his/her attitude to work; the

conditions that relate to work; the management and its attitude to workers; and the norms that a society sets before itself, its commitment to excellence and conscientiousness, and its sense of fair play and justice to its constituents.

ILC's major recommendations to ensure industrial harmony include:

- The Industrial Disputes Act, The Trade Unions Act, The Industrial Employment (Standing Orders) Act, Sales Promotion Employees Act and State level legislations on the subject to be consolidated into a single law which may be called "The Labour Management Relations Law"
- Terms like 'strikes', 'work stoppages', 'go slow', and 'work to rule' must be regarded as misconduct under Standing Orders and provisions relating to unfair labour practice.
- Union, once recognised, should be valid for a period of four years to be co-terminous with the period of settlement.
- Any establishment having two or more workers should have Standing Orders or Regulations.
- Every establishment shall establish a grievance redressal committee consisting of equal number of workers and employer representatives.
- Unviable enterprises may be closed, but adequate compensation to be paid to the affected workers.
- Prior permission is not necessary in respect of lay-off and retrenchment in an establishment of any employment size. Workers will however be entitled to two months notice or notice pay in lieu of notice, in case of retrenchment.
- The system of legal aid to workers and trade unions from Public Fund be worked out to ensure that workers and their organisations are not unduly handicapped as a result of their inability to hire legal counsel.
- Strike should be called only by the recognised negotiating agent and that too only after it had conducted a strike ballot among all the workers, of whom at least 15% of support the strike.

IR STRATEGY

It is necessary to have a clear-cut strategy for IR, although the management of IR is essentially a knee-jerk reaction to events and problems and is, therefore, far removed from the world of strategic thinking and planning. Since employer-employee relations are usually presumed to be satisfactory

until they get out of hand, managers, rarely, feel the need to act before the trouble breaks out.¹⁷

But the reactive strategy cannot continue for long. Growing competition, difficult economic environment, rising labour costs, and low productivity compel business leaders to think and plan proactive strategies towards IR.

Where organisations have proactive strategies, the goal should be to ensure that corporate objectives can be achieved by gaining the maximum amount of co-operation from employees and by minimising the amount of industrial unrest.¹⁸

Pause and Ponder

How do you align IR strategy with corporate strategy? Is it necessary?

Factors Affecting Employee Relations Strategy

Two sets of factors, internal as well as external, influence an IR strategy. The internal factors are:¹⁹

1. The attitudes of management to employees and unions.
2. The attitudes of employees to management.
3. The attitudes of employees to unions.
4. The inevitability of the differences of opinion between management and unions.
5. The extent to which the management can or wants to exercise absolute authority to enforce decisions affecting the interests of employees.
6. The present and likely future strength of the unions.
7. The extent to which there is one dominating union or the existence of multiple unions leading to inter-union rivalry.
8. The extent to which effective and agreed procedures for discussing and resolving grievances or handling disputes exist within the company.
9. The effectiveness of managers and supervisors in dealing with problems and disputes related to IR.
10. The prosperity of the company, the degree to which it is expanding, stagnating or running down and the extent to which technological changes are likely to affect employment conditions and opportunities.

The external factors affecting IR strategy are:²⁰

1. The militancy of the unions—nationally or locally.
2. The effectiveness of the union and its officials and the extent to which the officials can and do control the activities of supervisors within the company.
3. The authority and effectiveness of the employers' association.
4. The extent to which bargaining is carried out at national, local or plant level.
5. The effectiveness of any national or local procedure agreements that may exist.
6. The employment and pay situation—nationally and locally.
7. The legal framework within which IR exists.

IR Decisions

A proactive IR strategy programme must cover the following decisions:

1. *Communication* How best can we convey our philosophy to employees?
2. *Relationships* How well can we improve our relationships with employees and unions?
3. *Competence* How to improve competence of managers and supervisors in dealing with IR matters?
4. *Discipline and conflict* How shall we deal with it?

Communication The core of an IR programme is the personnel manual. The manual sets out the rules and policies within which managers and employees must operate. The manual tells how the management awards recognition to the union and offers facilities, how it recognises the officer's association, how to handle a grievance, code of discipline in the industry and the like.

The manual needs frequent updating, must be publicised to all employees, and all supervisors must be familiar with it. HAL, Bangalore, has a well-drafted personnel manual running into 94 pages of printed matter. The manual covers, in addition to aspects of employee relations, other topics like welfare, medical facilities, and gratuity rules. All employees and supervisors are fairly familiar with the contents of the manual.

Relationships Relationships with employees may be improved through joint consultations. Relationships with unions or staff associations may be developed through collective bargaining and other IR procedures or by improving the operation of existing procedures.

Competence Managers and supervisors need to develop competence in handling IR. Such competence may be developed by training managers and supervisors in IR. Suffice it is to say that a training programme must be conducted after assessing the training needs of the managers and supervisors. Each training programme must have specific objectives and the contents must help the trainees realise the goals.

Negotiating skills must form a part of the training offered to managers. Negotiating skills are best acquired by experience, but it is dangerous to allow inexperienced managers to meddle with negotiations.

Training in negotiating skills is most effective if it is through case analysis. A case study based on an actual problem of the company may be assigned to the managers who will be required to analyse the case and offer remedies.

Training should not be confined to managers and supervisors alone. Union leaders and employees also must be associated with the programme, as they are as much a party to a conflict as managers or supervisors.

Discipline and Conflict If both employees as well as employers adhere to well laid out norms, disputes will not occur. Where a conflict occurs, the management must resolve it. There are set procedures to resolve disputes.

SUMMARY

Industrial relations (IR) is concerned with the relationship between the management and workers and the role of regulatory mechanism in resolving any dispute. IR is significant as it has an impact on productivity and has ethical dimensions.

Employers, employees, their respective associations, government and judiciary are the parties which have stakes in IR.

Employees perceive IR as a method to improve their conditions of employment, to voice any grievances, to exchange views and ideas with

management, and to share in decision making.

Trade unions look to IR in order to secure improved terms and conditions of employment and to

obtain improved status for the workers in their work.

Employers have economic power in their hands and use it to affect worker's destiny. They understand IR as a means to motivate workers and to sustain their commitment to work.

The role of employers' associations is relevant inasmuch as they represent employers in collective

bargaining and develop machinery for avoidance or settlement of disputes.

The government seeks to protect the interests of both employers as well as employees. Towards this end, it has constituted wage boards, labour courts, tribunals, and enacted a series of labour acts.

The judiciary is relevant as it has the authority to settle any dispute and to review any legislation, particularly when it is against the Constitutional provisions.

Managers have been adopting reactive strategies towards IR. In the changed scenario, there is a need for proactive strategy. A proactive strategy involves decision on communication of company philosophy, developing relationships with employees and unions; developing competence of managers and supervisors; and ways of dealing with a conflict as and when it occurs.

KEY TERMS

Employee relations

Employer associations

Human relations

Industrial relations

IR strategy

Judicial review

Personnel manual

REVIEW QUESTIONS

1. Define the term 'Industrial Relations'. Bring out its importance.

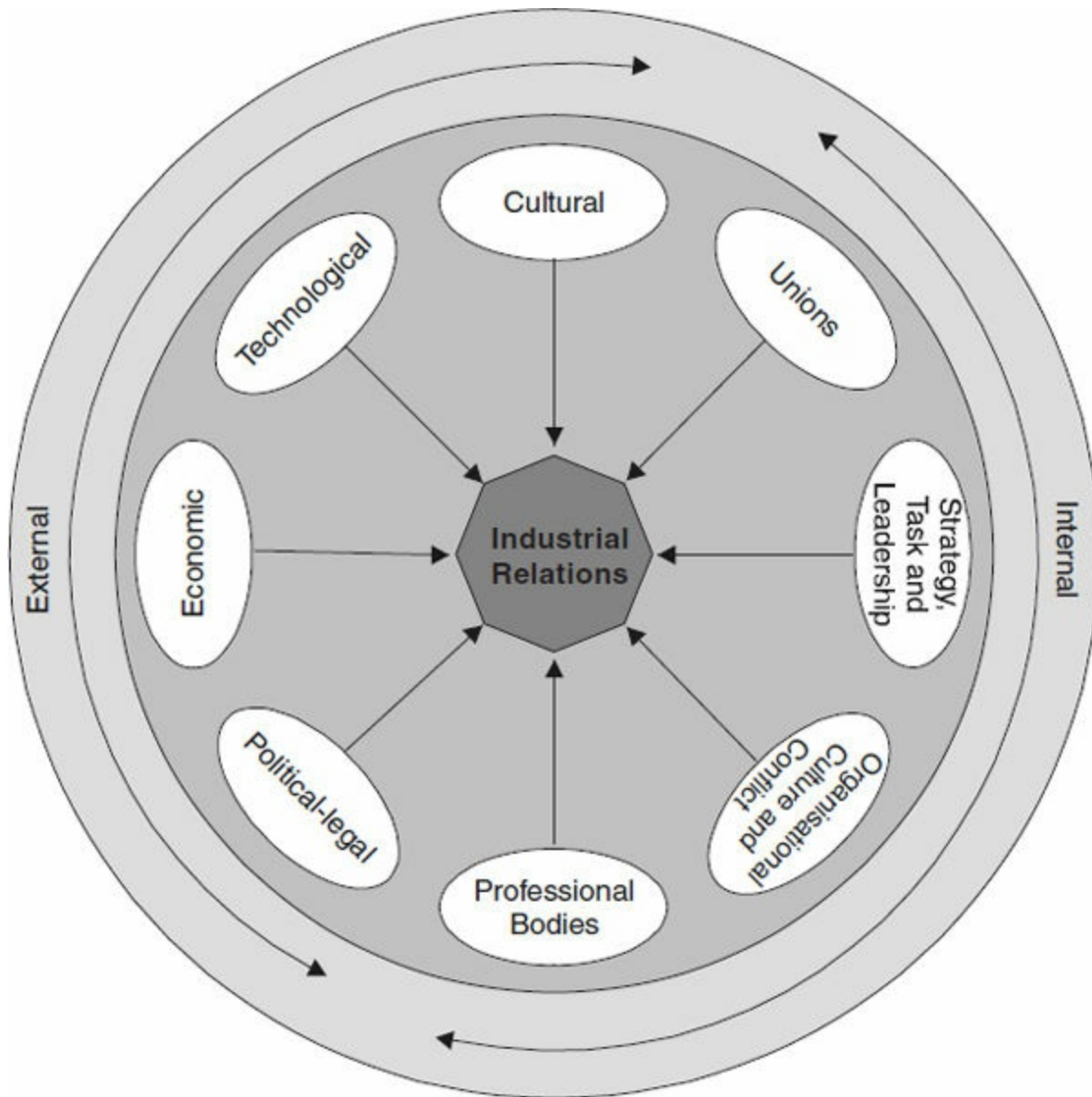
2. Bring out the parties and their roles in IR.
3. Describe an IR strategy.
4. Explain the different approaches to IR.

DISCUSSION QUESTIONS

1. “The role of judiciary in IR has been regressive.” Give your viewpoint.
2. “The management has economic power which it uses to affect the life of a worker.” Discuss.

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact industrial relations, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

It was June 18, 2009. Renny Joseph planned a visit to telecommunications division of Vybhav. It was three in the afternoon. Renny was getting down from her car at the entrance to the factory. Sneha, the programmer, came running to Renny and started yelling; “I have been suspended today from work for a minor offence. Yesterday night my 3-year old son was running high temperature and I was required to attend to him the whole night. I didn’t have a wink of sleep. Today, after lunch I dozed off just for a few minutes and I am penalized. I have been with Vybhav for the past five years. My

record has been blemishless. This is not the treatment I deserved”.

Renny felt disturbed. She is proud of the fact that Vybhav has been an employee-friendly company. Ditto Renny. She believes in pluralistic approach to industrial relations. She believes in having a union and is wedded to industrial democracy

While returning from telecommunications division, Renny mulled over several alternatives for Vybhav.

Closing Case *A Worried CEO*

Sudarshan, the Managing Director of M. Feeds, a Bangalore-based company, is a worried man. All his efforts to regain the lost market and to wipe out red in the company's balance sheet have proved futile. Sitting alone in his chamber, lighting up cigarette after cigarette and sipping cups of coffee, Sudarshan started recollecting events of 1987 which wrecked the fortunes of a once successful company.

Subbu and his team got defeated in the union election held in the beginning of 1987. Rivals, Gowda and his team, got elected with comfortable majority. The winning team had a leaning towards CITU, which was known for its militancy. The attitudes and actions of Gowda and his team were not to the liking of the management, particularly Setty, the Factory Manager.

The management was waiting for a way out to deal with the new team of unionists. Not reconciled to the loss of power, Subbu and his cronies started a cultural association with an apparent objective of promoting *Kannada*, the local language. Setty welcomed the formation of the association and, in fact, even encouraged its activities. The management too gave financial support to the cultural outfit.

Emboldened by the encouragement given, Subbu and his team demanded that the management should negotiate with them about all matters relating to employee welfare. This proposal was not acceptable to the management which turned it down. But Setty began hobnobbing with Subbu often to the consternation of the leaders of the recognised union.

One day Gowda and Subbu had a heated exchange of words which resulted in physical bout inside the plant. Sridhar, HRD Manager, placed

the duo under suspension on grounds of indiscipline.

Enquiry was conducted in which Subbu was acquitted. But Gowda refused to appear before the enquiry officer. Having been acquitted, Subbu demanded reinstatement, which the management readily agreed. Subbu, with triumph writ large on his face, came to factory but the team led by Gowda protested by calling a strike.

The management assured Gowda that he too would be reinstated provided he was acquitted by the enquiry officer. Gowda was in no mood to listen to the management nor was he prepared to face the enquiry. Subbu demanded reinstatement which Gowda protested. The stalemate continued and the strike lasted three months.

Work resumed after prolonged talks. But the scars remained. Setty got a sack and Sridhar left and joined an Indo-French company. M. Feeds lost its customers and the efforts (setting up, for the first time, a marketing department) to regain their patronage did not succeed. The bottom line became red and it grew thicker as years went by.

Question

1. What should Sudarshan do?

REFERENCES

1. E.A. Ramaswamy, *The Rayon Spinners*, Oxford University Press, 1994, p. 136.
- 1a. E.A. Ramaswamy, "From IR to HRD", *Business India*, April 21–May 4, 1986.
2. Michael Armstrong, *A Handbook of Personnel Management Practices*, Third Edition, Kogan Page, London, 1988, p. 557.
3. Raymond J. Stone, *Human Resource Management*, John Wiley & Sons, 1995, p. 415.
4. *Ibid.*
5. *Ibid.*, p. 417.
6. *Ibid.*, p. 419.
7. G.A. Cole, *Personnel Management—Theory and Practice*, Third Edition, DD Publications, London, 1993, p. 447.
8. E.A. Ramaswamy, *op. cit.*, p. 32.
9. Michael Armstrong, *op. cit.*, p. 561.
10. *Ibid.*, p. 562.

11. Eugene V Schneider, *Industrial Sociology*, Tata McGraw-Hill, 1983, p. 335.
12. *Ibid.*, p. 337.
13. G.A. Cole, *op. cit.*, p. 446.
14. *Ibid.*, p. 448.
15. Harold J. Laski, *A Grammar of Politics*, p. 301.
16. S.C. Jain, *Productivity and Discipline*, Allied, New Delhi, 1988, p. 7.
17. E.A. Ramaswamy, *op. cit*, p.1.
18. Michael Armstrong, *op. cit*, p. 567.
19. *Ibid*, p. 567.
20. A M Sarma, *Industrial Relations*, Himalaya Publishing House, Mumbai, 2012.

Labour Laws

Learning Objectives

After reading this chapter, you should have a good understanding of:

- The need for labour laws
- Principles of labour laws
- Constitutional provisions necessitating labour laws
- The essence of major labour laws
- Point out the arguments against law reforms
- State arguments for reforming labour laws

Opening Vignette

FIRE FIGHTING ALL THE WAY

The Bangalore based New Government Electrical Factory (NGEF), a state government undertaking, epitomises the typical industrial relations scenario prevailing in 1970s and 1980s. Being a state government enterprise implies that no one is accountable for whatever happens. Government appears to be the owner, but really not. It is the public who are the real owners. When we say public, it is everybody, but in effect nobody. Management of NGEF is expected to be reporting to the Government, but when the owner is everybody but no body, accountability is meaningless. Employees are accountable to none, neither to the management, nor to the government.

Approach of both management and workers is plain negative. Management is of the opinion that the workers are anti-everything-management, organisation, economy and the nation. Workers are of the view that the managers are corrupt, discriminatory, pompous, squanderous and

inefficient. The prevailing atmosphere was full of distrust, acrimonious and gripped by waiting for an opportunity syndrome. Opportunities did come in droves but too are worth recollecting here.

The year was 1984 and the August 15th of the year fell on a Sunday, which meant that the employees had lost one holiday. Union leaders took up the issue and pleaded with the management to declare an alternate day as a holiday. As expected, the management shook its head. Series of meetings went on (who cares for the loss of man-hours) with no solution in sight. The matter was referred to conciliation which in its own wisdom sided with the union. Not content with the verdict of the conciliator, management took the case to labour court which upheld the decision given by the conciliator. Finally, the management made an appeal to the High Court of Karnataka which ruled in favour of the management. The High court very pertinently observed that the three important national holidays must be observed on the same days and no question of postponing or giving alternate day holidays.

Fast forward, the year was 1986. This time, the issue related to bonus payment. Employees demand was for 20 per cent bonus, as against the mandatory limit of 8.3 per cent. As expected, management did not agree and the matter was referred to conciliation which recommended 12.5 per cent. Not acceptable to workers. Work was struck for three days. Everyday, workers would come to the factory, enter the premises and squat near the entrance, shouting slogans against everybody, except themselves. It was the third day evening. It turned out to be an ugly scene. Irate workers picked up the secretarial staff of M.D and manhandled them. Sensing mere trouble, management declared lockout. After four days, lockout was lifted, bonus was agreed at 15 per cent and things became normal.

The scenario, as the above, was normal in almost all industrial establishments during pre-economic reforms.

Post-economic reforms, the subject of labour laws was almost forgotten. Rarely was any course in any university had labour laws as a paper. Rarer still was any management development programmes or conferences were organised to deliberate on the subject. We too did not include a chapter on labour laws in the previous editions of *Human Resource Management*. But the developments in the labour field in the recent past have brought the subject back to lime light. HR executives of industrial organisations have

been lynched, strikes have been organised and lock-outs declared. A large section of employees is casualised and temporised paying half of what the regular workers are paid.

Additionally, investors and industry executives have been persistently demanding for a review of the existing labour laws so that they would become less rigid. A time has, therefore, come to have a relook at the subject.

NATURE OF LABOUR LAWS

Labour laws refer to a body of laws which deal with employment and non-employment, wages, working conditions, industrial relations, social security and labour welfare of employees working in commercial and industrial establishments.

NEED FOR LABOUR LAWS

The need for a labour law, or any law for that matter is felt when a section of society is denied a constitutionally permitted privilege or any individual or individuals are rudely exploited. Providing drinking water, a trivial and laughable facility now, was mandated by the Factories Act 1948, since it was not provided by the employers those days. To be more specific, need for labour laws arises for the following reasons:

- The bargaining power of employees is weak as they are not economically strong and secured. Employers wield enormous power because of their deep pockets and enormous clout. It is an unequal battle resulting in big fish eating small fish. Small fish needs protection from protective legislation.
- Labour is exposed to physical risk and health hazards. Workers working in huge construction works, mines and quarries are exposed to severe accidents which snatch their lives. Health of employees, particularly those working in chemical factories, nuclear facilities, tanneries and foundries is subject to deterioration. Protective legislations are needed to protect employees from accidents and health hazards.
- With the best of safeguards and preventive measures, accidents do take

place resulting in disability—partial or permanent or even death of the workers who are exposed. Health hazards cannot be totally eliminated. We have heard reports about BP oil spill near Mexico and nuclear disaster in Japan affecting workers and people staying in the surrounding areas. The affected employees or their families should be adequately compensated. Compensation will not bring back the worker killed in an accident, but his/her dependents should not be deprived of decent livelihood. We need separate legislations to guarantee relief to the victims or their families.

- Forming an association of their own is a privilege constitutionally guaranteed to them. ILO has made right to unionise as one of its labour standards. Through unions, employees seek to gain bargaining strength, free themselves from fear of insecurity. Regrettably, employees are discouraged and even threatened to desist from such a move. Denial of right to form union and granting recognition has been the main cause for industrial strife witnessed in the recent past. A separate Act—The Trade Unions Act—came into being to enable employees to form union of their own.
- Industrial disputes resulting in strikes and lockouts do no good to the employers, employees, economy and society. But they do arise—may be sparked by employers or caused by employees. Reasons may be arbitrary or justified. Either way, disputes need to be resolved at the earliest. There is the need for a legislation which defines the concept of disputes and prescribes ways of resolving it. Hence, the Industrial Disputes Act, 1947.
- Women continue to be exploited, notwithstanding constitutional safeguards and legislative provisions. Discrimination is meted against women in job assignments and expatriation and glass ceiling are created against them. Sexual harassment continues to haunt women. Women are the worst affected not only in business establishments, but in civil wars, displacements, migrations and urbanisation. So too are children. True, child labour is abolished in India and elsewhere. Simultaneously, it is also true that children continue to be withdrawn from schools and are put on petty works like cleaning plates and glasses in hotels, rolling *beedis* and incense sticks and making pencils. Law is needed to minimise such abuses.

PRINCIPLES OF LABOUR LEGISLATION

Industrial laws are based on certain principles such as justice, equality, uniformity, and economy.

Social Justice

Social justice refers to equitable distribution of property rights among employees, managers and workers. (Read [Chapter 15](#) for more details on fair distributions of property rights). No one should be paid more than what is due and none should be denied of his or her due share out of profits and benefits. No social justice is served when an employee in a small scale unit always worries about where the next meal comes from, when at the same time owners/managers lead five-star life style. No social justice is served when a contract worker draws around ₹7000 per month and constantly worries about his/her stay on the job, when his/her counterpart who is a regular employee clears around ₹20,000 per month and is guaranteed job security.

Social Equity

This principle stipulates that the legal provisions provided now shall not remain as they are forever. Circumstances change, and newer social norms emerge necessitating revision or amendment to the prevailing legislations. Extra-marital affairs were considered a taboo decades back, but live in-relationships are permitted now. The Industrial Disputes Act, 1967 did not contain provision for setting up a grievance redressal committee in a business enterprise. A felt need has arisen subsequently for such a committee and an amendment has been made to the main Act in 2010. Now, every industrial establishment with 20 or more workers shall constitute a grievance redressal committee.

Several legislations in other areas of business have been repealed or thoroughly recast. For example, Capital Issues Control Act has been repealed and MRTP and FERA have been recast. There is a demand for changing labour laws too in order to make them investor-friendly but it has not yet been acceptable to the policy makers.

Principle of uniformity

This refers to the universality of labour laws. Any crime against labour, any sort of exploitation or any denial of benefits due to the workers is bad in law, irrespective of the country. Sexual harassment is bad punishable under law no matter to which country the perpetrator belongs; abuse of child labour is a felony punishable irrespective of the country in which such a fault has been committed; and taking away limbs or life of a worker is a crime inviting severe punishment, regardless of the nationality of the employer.

ILO has played a catalyst role in bringing universality to labour laws. The apex labour body has also established standards for labour practices binding on all member countries, including India.

National Economy

This principle implies that the interests of the national economy should not be compromised for the sake of protecting labour. Mandating bonus payment to all employees, making exit of an undesirable employee extremely difficult, or too many inspectors harassing owners/managers causes more harm to the economy than doing any good to the labour.

Fundamental Rights

Fundamental Rights guarantee equality before law and prohibit discrimination on any basis. They also guarantee right to form association and right to practise any profession which is in public interest. Of particular significance is abolition of child labour. No child below the age of 14 years should be employed to work in any commercial or industrial establishment. Fundamental Rights are justiciable; any deprived party can approach court for redressal.

Directive Principles of state Policy

Unlike the Fundamental Rights, Directive Principles are not justiciable, yet are the guiding principles which the Government ought to follow both in framing laws and in enforcing them. The Directive Principles relevant to labour include:

- Equal pay for equal work
- Protection of child and adult labour
- Living wages for workers
- Participation of labour in management
- Provision for just and humane conditions of work and maternity relief.

It is indeed praiseworthy that both the legislature and executive have succeeded in enacting and implementing labour laws as provided by the Directive Principles of State Policy.

THE LAWS

India has a large number of labour legislations (roughly 150 both at the central and the state levels), earning the country the dubious distinction of being the highest labour legislated country in the world. All the prevailing laws can be categorised into those relating to:

- Conditions of work
- Wages, welfare, forced labour
- Trade unions
- Children and women
- Social insurance
- Industrial harmony

A few major laws are explained in this context.

UNION LEGISLATION

Trade unions in our country are governed by the Trade Unions Act, 1926. The main objective of the Act is to provide for the registration of trade unions and to give registered trade unions a legal status, and immunity to their office-bearers and members from civil and criminal liability in respect of legitimate trade union activities.

The Act was passed on March 25, 1926 and was brought into force on June 1, 1927. The Act extends to the whole of India. Like any other legislation, the Trade Unions Act, 1926, too, was amended several times, the latest (proposed) being 1993.

Provisions of the Act

In pursuit of the primary objective, the Act contains 33 sections. The provisions can be broadly divided into eight sections, namely (see [Fig. 20.1](#)),

1. Definitions (S.2)
2. Registration of unions (S.3 to 12)
3. Duties and liabilities of registered unions (S.13 to 16)
4. Rights and liabilities of registered unions (S.17 to 21)
5. Amalgamation and dissolution of unions (S.24 to 27)
6. Submission of returns (S.28)
7. Penalties and fines (S.31 to 33)
8. Power to make regulations (S.29 to 30)

The Act is a central legislation, but is administered by state governments. Not that the central government has no role to play. It handles all unions which are not confined to one state. It also has the power to amend the Act.

Proposed changes

Based on the Ramanujam Committee recommendations, the Government has approved the following amendments to the Trade Unions Act, 1926:

1. The law now permits an association of seven employees in an establishment to form a union. It is proposed that a union should have 10 per cent or 100 workers, whichever is less, to register. The government also proposes to register a union with seven members, if a unit has 70 workers, to protect the interests of workers in a small unit. The government's logic is to allow workers freedom, but reduce the number of unions.

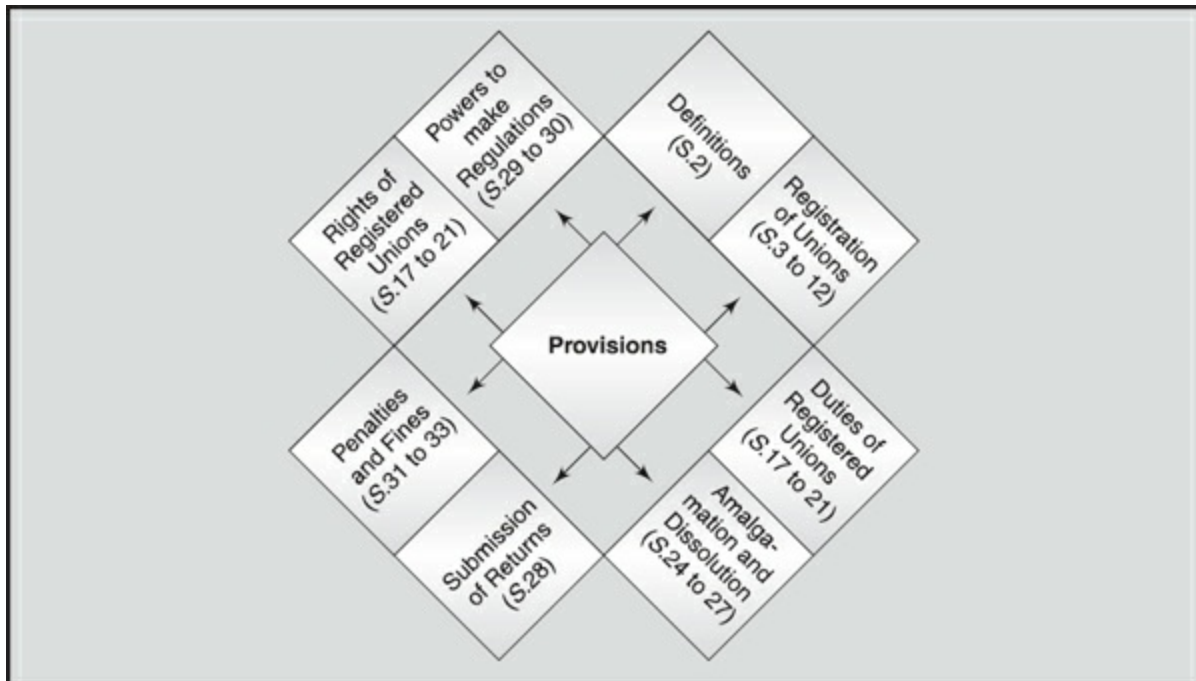


Fig. 20.1 *Provisions of the Trade Unions Act, 1926*

2. To bring about discipline in unions, the government has decided to make it mandatory to hold elections of office bearers and members of the executive committee once in every three years or earlier if the members so desire.
3. At present, outsiders are permitted to the extent of 50 per cent of the strength of office bearers in a union. The government proposes to bring this down to one-third or two, whichever is less. The committee was of the view that if workers wanted to choose their leader from outside, the law should not come in their way. By attempting to reduce the number of outsiders, no substantial benefit will accrue. Even if outsiders are totally eliminated, there is no guarantee that inside leadership will not be subject to remote control by outsiders. Still the Committee recommended that the number of outsiders be restricted to one-third.
4. The government proposes to hike the membership fee from 25 *paise* to ₹ 1 per month.

THE INDUSTRIAL DISPUTES ACT, 1947

This is an Act to make provision for the investigation and settlement of

industrial disputes and for certain other purposes. The Act is not just reactive in its approach. It seeks to prevent strikes in the first place and when they occur, reasons to be found out and corrective action to be initiated to resolve disputes. The Act provides elaborate machinery for settling disputes. The machinery comprises both internal as well as external agencies. Internal agencies include works committee and grievance redressal committee. External machinery comprises conciliation officers, boards of conciliation, labour courts and industrial and national tribunals.

Employer's unfettered freedom to lay-off and retrench workers and to close the plant has been curtailed. The employer is required to obtain prior permission for any of these actions from specified authorities. The Act prohibits strikes and lockouts in utilities. In any other establishment, employers and employees are prohibited from striking work when the process of dispute settlement is on and when a settlement or an award is in operation.

The Act specifies what are called 'unfair labour practices' and prohibits employers and employees from indulging in them. With 40 sections, the Act is comprehensive legislation covering all dimensions of industrial disputes. It has been amended from time to time, the latest being the one made in 2010.

Provisions of the Act centre on the following heads:

- Definitions of various concepts (Sec. 2)
- Authorities or agencies under the Act (Sec. 3 to 7)
- Reference of disputes (Sec. 16)
- Power and procedures of authorities (Sec. 11)
- Settlements and awards (Sec. 16 to 17)
- Strikes and lockouts (Sec. 22 to 23)
- Layoffs, retrenchments and closures (Sec. 25 A to 25 S and 25-FF)
- Unfair labour practices (Sec. 25-T and 25-U)
- Penalties (Sec. 26-31)

THE PAYMENT OF WAGES ACT, 1936

The Act seeks to regulate payment of wages to employees. Receiving remuneration for the work done is a right enjoined upon workers. In reality, wages are not paid in time and regularly and often they are subject to unauthorised deductions. The Act protects those whose wages are ₹6500 per month or less. This limit was raised in 2005 from ₹1600 to ₹6500 per

month.

As will be stated in [Chapter 22](#), several crores of rupees are due to employees across the country covering all sectors and all wage limits. The dues are multiplying and at the same time employees are put to severe hardships. The Payment of Wages Act should be made applicable to all categories, all sectors and all levels of employees.

The Act contains 26 sections and covers the following areas:

- Definitions of concepts (Sec. 2)
- Rules for payment of wages (Sec. 3 to 6)
- Deductions from wages (Sec. 7 to 13)
- Maintenance of registers and records (Sec. 134)
- Enforcement of the Act (Sec. 14 to 17)
- Penalties and offences (Sec. 20 and 21)
- Miscellaneous (Sec. 22-26)

Employer's obligations

The essence of the Act is spelt out as below:

- Payment of wages
- Fix wage period which should not exceed one month
- Pay wages on 7th or before any month where the number of employees is less than 1000 and on 10th or before where the head count is more than 1000
- Pay wages in currency which is in circulation
- Not to make unauthorised deductions

THE FACTORIES ACT, 1948

The Factories Act is a social welfare legislation containing 119-odd sections. The Act seeks to ensure better working conditions to employees working in industrial establishments.

Specifically, the Act aims at the following:

- Health, safety and welfare of employees
- Working hours of adults, and annual leave with wages
- Employment of women and young persons.

Most of the provisions of the Act, as stated earlier, appear to be laughable

by today's norms but it is a fact that they were non-existent during the early days of 20th century and before. Far one goes into the past, more inhuman were the working conditions of workmen. With the passage of time, working environment has been made more comfortable in majority of organisations. In software firms, factories are homes away from homes, in fact more comfortable than homes. Not that today's industrial establishments are free from hazards. Hazards continue to exist but of different nature. The Act may be amended to delete some of the old provisions to bring in the new perilous conditions that exist in factories of today.

The Act was amended in 1954, 1967 and in 1987. All the 119 and odd sections cover the following areas;

- Definitions of relevant concepts (Sec. 2)
- Licensing and registration of factories (Sec. 6 to 7)
- Inspecting staff (Sec. 8 to 10)
- Working hours of adults (Sec. 51 to 66)
- Employment of young persons (Sec. 67 to 77)
- Employment of women (provisions relating to adult males apply to women also with specific mention about crèches, working hours, hazardous operations and the like)
- Annual leave with wages (Sec. 78 to 84)
- Penalties and procedures (Sec. 92 to 106)

THE EMPLOYEES' COMPENSATION ACT, 1923

This Act seeks to provide social security to workers. Compensation needs to be paid to employees and their families in case of industrial accidents and certain occupational diseases arising while working in factories. The Act has specified scales of compensation for death, and disablement. It covers workers employed in certain specified hazardous occupations and excludes those covered under the Employees State Insurance Act, 1948.

The Act comprises 36 sections and the latest amendment made was in 2010. All the 36 Sections cover the following areas relating to accidents and compensation:

- Definitions (Sec. 2)
- Employees' compensation (Sec. 3 to 7)

- Distribution of compensation (Sec. 8-9)
- Appeals (Sec. 30)
- Rules (Sec. 32 to 36)

OTHER LAWS

The other labour laws are as follows:

The Employees State Insurance Act, 1948

This is a social security legislation that seeks to provide certain benefits to employees in case of sickness, maternity and other disabilities.

The Payment of Gratuity Act, 1972

Again a social security legislation, this Act recognises the principle that an employee, working for a long time, is entitled to claim a certain amount as retirement benefit.

The maternity Benefit Act, 1961

This Act seeks to regulate employment of women before and after child birth and to provide for maternity and other benefits.

The minimum wages Act, 1948

The Minimum Wages Act seeks to provide for statutory fixation of minimum wages in certain unorganised industries where sweated labour is most prevalent. The Act seeks to prevent exploitation of labour in sweated industries.

The Payment of bonus Act, 1965

This is also social justice legislation. The objective of the Act is to provide for the payment of bonus to employees in specified establishments.

The contract Labour (Regulation and Abolition) Act, 1970

The Act seeks to regulate working conditions of contract labour. First, contract labour is not to be engaged, but where it is inevitable, its working conditions are sought to be regulated, so as to ensure payment of wages and provision of essential amenities.

The Equal Remuneration Act, 1976

The object of the Act is to provide for the payment of equal remuneration for equal work to men and women employees and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and other related matters. It may be recalled that the Directive Principles of State Policy enjoin on the State to place two sexes on equal footing so far as work and remuneration are concerned. Hence the Equal Remuneration Act, 1976.

The other laws are shown in [Table 20.1](#).

Table 20.1 *Labour Laws*

<i>Sl. No.</i>	<i>Names of the Acts</i>
A. Labour laws enacted by the Central Government, where it has the sole responsibility for enforcement	
1.	The Employees' State Insurance Act, 1948
2.	The Employees' Provident Fund and Miscellaneous Provisions Act, 1952
3.	The Dock Workers (Safety, Health and Welfare) Act, 1986
4.	The Mines Act, 1952
5.	The Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare (Cess) Act, 1976
6.	The Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Fund Act, 1976
7.	The Mica Mines Labour Welfare Fund Act, 1946
8.	The Beedi Workers Welfare (Cess) Act, 1981
9.	The Limestone and Dolomite Mines Labour Welfare Fund Act, 1972
10.	The Cine Workers Welfare (Cess) Act, 1981

11. The Beedi Workers Welfare Fund Act, 1976
12. The Cine Workers Welfare Fund Act, 1981

B. Labour laws enacted by Central Government and enforced by both Central and State Governments

13. The Child Labour (Prohibition and Regulation) Act, 1986
14. The Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996.
15. The Industrial Employment (Standing Orders) Act, 1946
16. The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
17. The Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988
18. The Cine Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
19. The Building and other Construction Workers Cess Act, 1996
20. The Apprentices Act, 1961

C. Labour laws enacted by Central Government and enforced by State Governments

21. The Employers' Liability Act, 1938
22. The Motor Transport Workers Act, 1961
23. The Personal Injuries (Compensation Insurance) Act, 1963
24. The Personal Injuries (Emergency Provisions) Act, 1962
25. The Plantation Labour Act, 1951
26. The Sales Promotion Employees (Conditions of Service) Act, 1976
27. The Weekly Holidays Act, 1942
28. The Working Journalists and other Newspapers Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
29. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
30. The Children (Pledging of Labour) Act, 1938

31. The Bonded Labour System (Abolition) Act, 1976
32. The Beedi and Cigar Workers (Conditions of Employment) Act, 1996

D. There are also Labour laws enacted and enforced by the various State Governments which apply to respective States

LABOUR LAW REFORMS

Till now we have reviewed, in brief, major central laws. There are also laws enacted and enforced by respective states. All put together, as stated above, we have the highest number of labour laws in the world. Whereas China has only three labour laws and the workers there are no less contended.

Arguments Against Reforms

There are arguments for and against labour reforms. The reasons against reforms are a few in numbers, but not to be ignored.

1. It is pointed out that companies in India are unable to gain competitive advantage because of rigid labour laws. Owners/managers of business establishments are disadvantaged as they are unable to fire under-performers and close unviable units. Foreign investors are hesitant to come to India and the economy is not becoming vibrant because of the multiple and inflexible labour laws.

As the National Labour Commission rightly pointed out, labour or labour laws alone are not the main hindrance to foreign investors. There are other factors, such as political stability, infrastructure, skilled labour and demand conditions that attract or deter FDI. It may not be correct to argue that all those are available in abundance and it is only labour which is dragging the economy down.

2. Contrary to popular perception, labour laws are not impeding economic growth. Indian economy is increasingly getting integrated into the world economy; unprofitable government enterprises have been privatised; large scale rightsizing, casualisation and temporisation of labour are taking place; employees have been exited in the name of voluntary retirement plans; women and child labour continue to be exploited; profits of organisations have been rising; compensation of

executives has been sky rocketing; Indian companies are acquiring foreign businesses; all under the very nose of so called rigid labour laws.

3. During the last three decades, balance of power has unduly shifted to management. Among all the constituents of pluralism, management has been gaining upper hand, often weakening the position of labour. A statement issued by an executive hits headings in media, but the same from union leader is ridiculed and ignored. As it is labour is on the receiving end. Their main stay unions— have become irrelevant, strikes are few and far between and anyone talking about red flags is laughed at. It is undesirable to further weaken the status of labour by repealing some and liberalising other labour laws.

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Unionisation is a right enjoined on workers. This needs to be accepted and respected</i> • Instead of viewing labour laws as a headache, make them irrelevant by being proactive and labour-friendly 	<ul style="list-style-type: none"> • Take labour laws as irrelevant and out of sync with globalisation and marketisation • Follow Machieviallan principle divide workers, weaken them and fish in troubled waters • Adopt anti-union attitude

4. People argue that with increasing globalisation of economy, transnational framework of laws has developed to regulate business transactions. Often called the new *lex mercatoria* its sources include contracts, commercial custom, arbitration awards, and international treaties and conventions, which have gradually coalesced into a body of legal principles, rules, processes and institutions. This transnational legal system has leached into national legal systems. All these transnational sources of business laws have counterparts in the labour field and something similar to *lex mercatoria* should happen in labour law. Argument is convincing, but the fact is that labour is country-specific and this has been accepted all over. Universalisation of labour laws is not acceptable, though labour welfare may be incorporated in country-specific labour laws.

Arguments for Reforms

There are cogent reasons that justify labour law reforms. The major ones are explained here.

1. There is job-creation angle to pro-reforms argument. It has been pointed out that stronger proworker policies will protect jobs and ensure higher employment. But facts tell a contrary story. States which have carried out labour reforms—Haryana, Himachal Pradesh and Gujarat—have less unemployment rate than those perceived to follow pro-labour policies such as Kerala and West Bengal. Flexible labour states have been able to take advantage of the export opportunities, and the per capita household income has risen much faster. States with rigid labour laws have made local entrepreneurs prefer casual or contract workers. More rigid and inflexible labour law states have seen increased informal employment.
2. Not only entrepreneurs prefer informal employment, firms tend to remain small if labour laws are rigid. As per the Industrial Disputes Act, a firm needs to obtain government permission to lay-off workers if its strength is 100 or more. This partly explains the reason why firms tend to remain small. 87 per cent of employment in Indian manufacturing is in firms with fewer than 10 employees, compared with only 5 per cent in China. Small firms cannot achieve scales or exploit the latest technology and so suffer from lower productivity than if they were scaled up, employed more people and were much bigger companies.
3. India has by far the most restrictive employment protection laws, scoring much worse than China and Brazil as well as rich countries (see [Fig. 20.2](#)). Such laws no doubt ensure job security, but they breed complacency, defiance, low productivity and indiscipline.

Compared to other developing countries, India fares much better in protecting and promoting interests of its labour. Take Mexico, for example. The labour code that came into force in 1970 allows a pregnant woman to be sacked. The concept of probationary period is also not known to the labour over there.

Bonded Labour

Index of employment-protection legislation for collective dismissals 2006,
0—least restrictive, 6—most restrictive

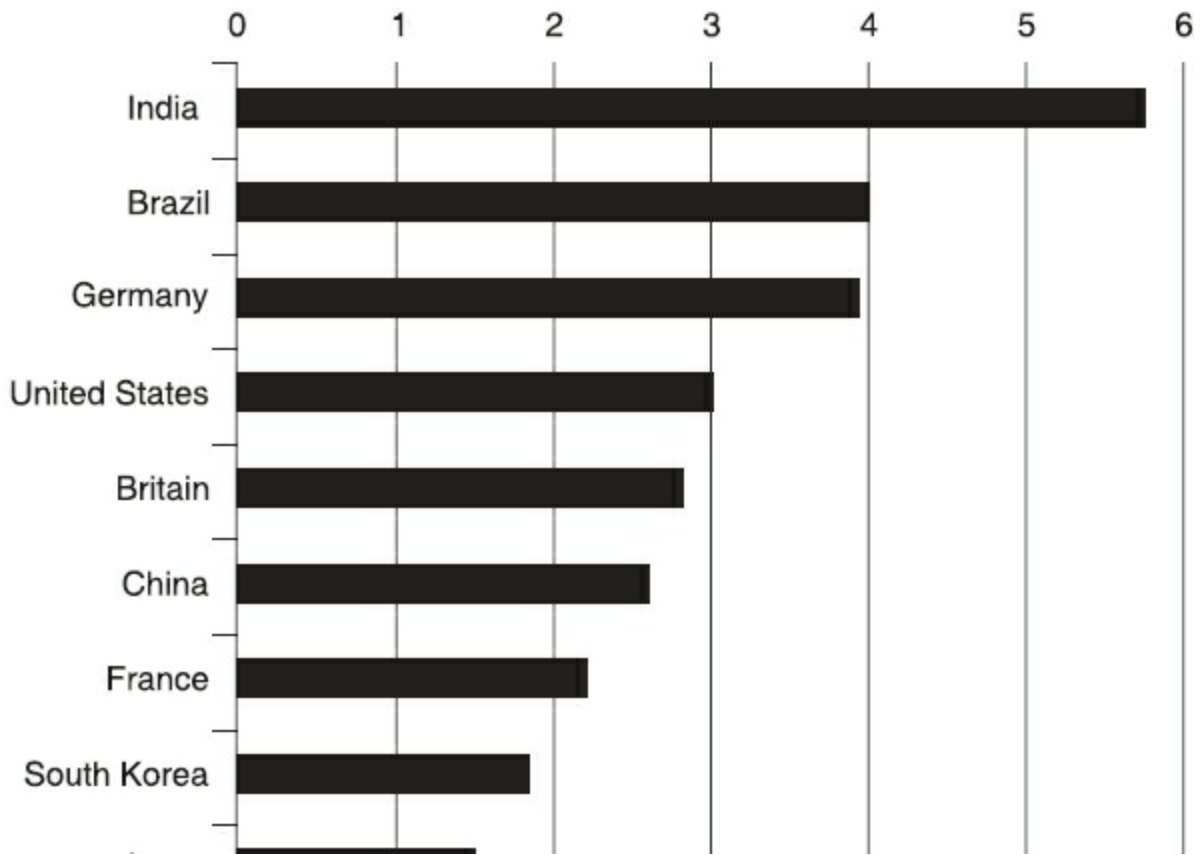


Fig. 20.2 *Restricted Trend of Employment Protection*

(Source: *The Economist*, Oct. 11, 2007)

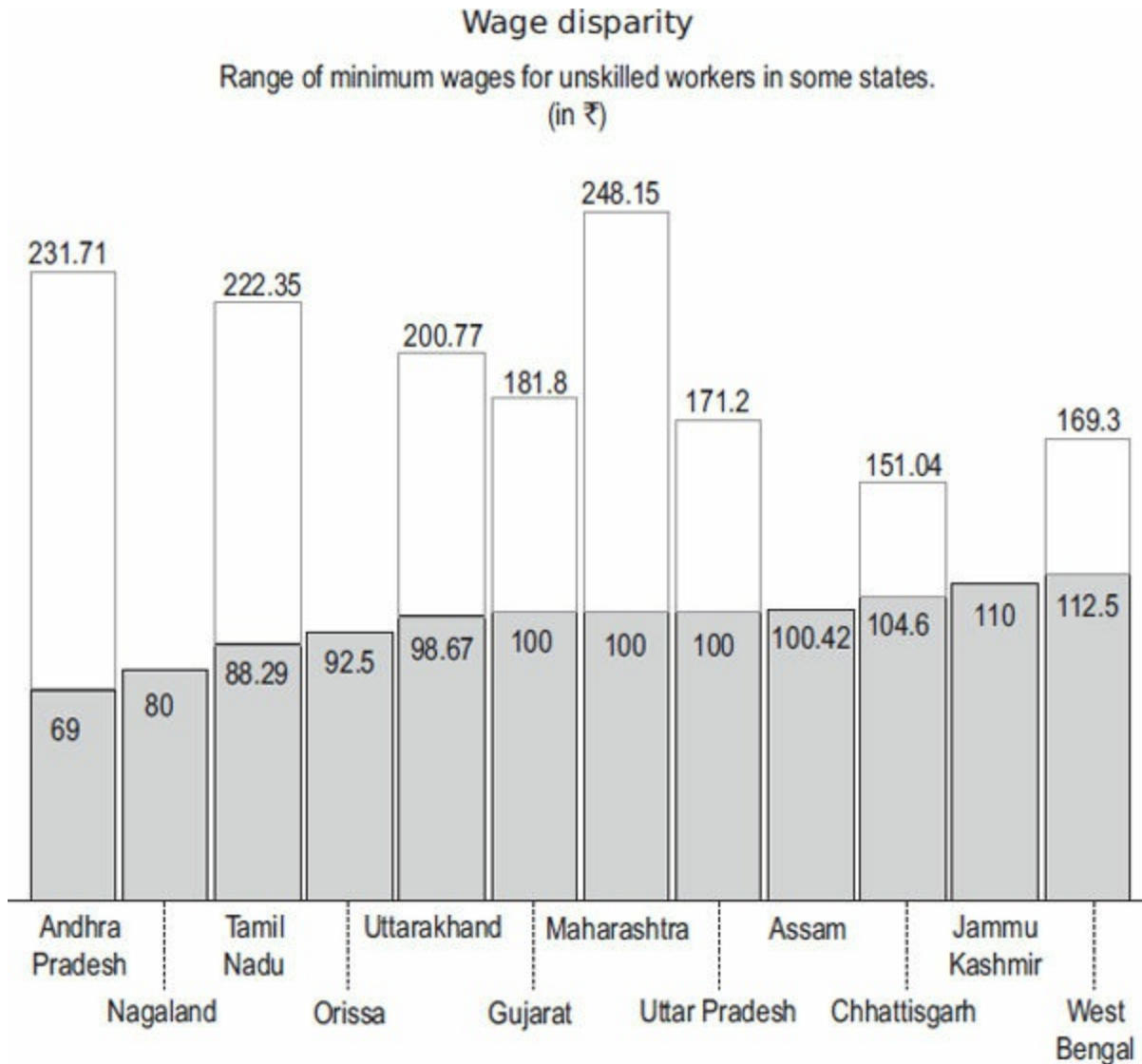
4. Assuming that the present laws need no review, the fact remains that there are multiple and parallel legislations. Multiplicity has created confusion and complexity. Certain concepts are defined in one sense in one law and the same is understood differently in another Act. The word factory means different things to different legislations.

Parallelity is another bane of labour laws. There are three separate Acts regulating cine workers and two covering workers working in iron mines.

Granting that all the legislations have role to play in making lives of workers comfortable, provisions of many acts look laughable. Take the Industrial Employment (Standing Orders) Act, 1946. As per the Act,

software and IT enabled service companies are required to file, get them certified and also display these conditions prominently on a sign board to be hung near the main entrance through which workers would stream in. This reference to sign board in the Act, in this age of electronic bulletin boards, social networking and group email, is not the only sign of anachronism with the Act. The maximum fine that an employer who acts in contravention of the finally certified standing orders is liable to is ₹100 plus ₹25 for every day of non-compliance, amounting to a whopping ₹14,225 in the first year.

Yet another anomaly relates to the matrix system of implementation of certain labour laws. Part 'B' in [Table 20.1](#) contains list of legislations which are implemented by the Central Government and respective State Governments. There are also acts mandated by the centre but implementation is left to states. Dual bosses lead to uncertainty, anxiety and often confusion. An example which needs a mention is the Minimum Wage Act. Each state has its own minimum wage rate as [Fig. 20.3](#) shows. To prevent such an anomaly, the Central Government has a plan to make ₹115 per day minimum wage mandatory in all the states.



(Source: Labour Ministry)

Fig. 20.3 Wage Disparity

Then there are implementers—inspectors who inspect industrial establishments under the provisions of different Acts. About 15 to 20 inspectors visit organisations periodically. Their approach is one of overlordism and harassment rather than protecting welfare of employees.

5. Assuming we need rigid labour laws, the way they have benefitted employees in the organised sector invites serious criticism. Formal sector employees constitute only seven percent of the total 400 million

workforces in the country. Obviously, 93 per cent of the employees are in the informal sector to whom job security, good working conditions, welfare facilities, compensation benefits and retirement benefits are alien. The all India or firm-specific unions hardly take up the issues faced by the unorganised labour.

6. Labour laws, implementers, judiciary, government and all other bodies are not necessary, if managements of organisations become little more proactive in their approach towards labour. Decades back, Tata had no labour laws to comply with and no inspectors to fear. Yet, in its existence of eight decades, employees of Tata Steel never struck work. Here was a mouth-watering experience. Employees of the steel giant refused the move to nationalise the plant. Down south, we have the TVS group which is called the Tata's of South India.

It is also essential that the HR professionals become humane in the first instance. We have too much of HRM but no humanness in it. Stop using high sounding terms like indices, metrics, paradigm shifts, competitive advantage, human capital, competency mapping, employee engagement and talent management. Stop making eloquent speeches in conferences and seminars held in star hotels. Learn to empathise, go to shop floor and spend time with workers and visit homes and talk to families in times of distress. Your factory is an extended family and your employees are your own people. What you do at home, extend the same to the factory.

Initiatives with good intention from management and HR teams will sure evoke equally and even more enthusiastic response from employees. Labour laws and their reforms become irrelevant.

SUMMARY

Though labour laws as a subject had ceded its importance post reforms period, it has now resumed relevance owing to certain developments.

Labour laws are based on the principles of social justice, social equity, universality and economic growth.

Constitution of India is the guiding spirit behind enactment of labour laws.

Both Fundamental Rights and Directive Principles of State Policy enjoin upon the legislature and government to enact and enforce laws that protect

employee welfare.

India has 150 plus labour legislations, the highest in the world. There is duplicity and overlapping among provisions of various laws.

There are arguments advanced against law reforms and against reforms too.

KEY TERMS

Labour Laws

Constitution of India

Bargaining power

Child labour

Social justice

Social security

Social equity

Fundamental Rights

Directive Principles of State Policy

National Labour Commission

Restrictive employment protection laws

REVIEW QUESTIONS

1. What do you understand by labour laws? State and explain the principles of such laws
2. Bring out the Articles in the Constitution that have relevance for labour laws.
3. Bring out the arguments for and against labour law reforms.

DISCUSSION QUESTIONS

1. What do you understand by the reactive and the proactive strategies for industrial relations? Which of these strategies invites labour laws? Why?
2. Do you think that the rigid labour laws help achieve social justice and social equity? If yes, how?
3. Arguments mentioned in the book apart, do you have any other reasons

for supporting or opposing labour law reforms?

CONTINUING CASE

In keeping with the Supreme Court order dated 13-08-1997, an order was passed laying down the norms and guidelines to be followed by the employers for tackling the incidents of sexual harassment of women at workplace and other institutions. The guidelines issued by the Supreme Court included setting up of a Complaints Redressal Forum in all work places and amendment of the disciplinary/conduct rules governing employees by incorporating the norms and guidelines. Renny discovered that there was no such forum that had been set up in any of the units of Vybhav. While there were no specific reported incidents of workplace harassment, off and on there would be a corridor conversation that the HR team members would share in the meetings of team member animosity and certain individuals who were more assertive than desirable.

Renny decided to take this up by quoting the Supreme Court's ruling and put together a small team of 3 members including 2 business heads and a HR representative to formulate a Workplace Harassment Policy and Guidelines. The team was to survey the industry practices and then meet with a sample of employees across units and then propose the policy and guidelines.

Six weeks later, the team was ready with its proposals and made a presentation to the management team on the new policy. Feedback was solicited and incorporated. The draft policy was then presented to a random group of employees at each division and further feedback obtained and incorporated after due deliberation.

The final version of the policy that was launched at Vybhav, was as follows:

POLICY ON WORKPLACE HARASSMENT OF EMPLOYEES

VYBHAV Corp.

1.0 POLICY

- 1.1 Vybhav Corporation is an equal employment opportunity company and is committed to creating a healthy working environment that enables employees to work without fear of prejudice, gender bias and any form

of harassment. The company strongly believes that all employees of the company have the right to be treated with respect and dignity.

Harassment at the work place or other than work place involving an employee is a grave offence and is, therefore, punishable.

1.2 The Supreme Court has also directed companies to lay down guidelines and a forum for redressal of grievances related to sexual harassment.

2.0 SCOPE

2.1 This Policy includes all employees (permanent as well as contractual) of the company and is deemed to be incorporated in the service conditions of all employees and comes into effect immediately.

2.2 Sexual harassment would mean and include any of the following:

- (i) unwelcome sexual advances, requests or demand for sexual favours, either explicitly or implicitly, in return for employment, promotion, examination or evaluation of a person towards any company activity;
- (ii) unwelcome sexual advances involving verbal, non-verbal, or physical conduct such as sexually coloured remarks, jokes, letters, phone calls, e-mail, gestures, showing of pornography, lurid stares, physical contact or molestation, stalking, sounds, display of pictures, signs, verbal or non-verbal communication which offends the individual's sensibilities and affect her/his performance;
- (iii) eve teasing, innuendos and taunts, physical confinement against one's will and likely to intrude upon one's privacy;
- (iv) act or conduct by a person in authority which creates the environment at workplace hostile or intimidating to a person belonging to the other sex;
- (v) conduct of such an act at work place or outside in relation to an Employee of TPC, or vice versa during the course of employment; and
- (vi) any unwelcome gesture by an employee having sexual overtones.

2.3 "Employee" means any person on the rolls of the company including those on deputation, contract, temporary, part time or working as consultants.

3.0 WORKPLACE HARASSMENT COMMITTEE

3.1 A committee has been constituted by the management to consider and redress complaints of any kind of workplace harassment. The chairman and members of the committee are as follows:

Committee

1. Ms. Prabha K—Coordinator
2. Mr. Ajay Kumar—Member
3. Ms. Meera Sequira—Member
4. Mr. Ravi Kanth—Member
5. Ms. Rupa Gopi—Honorary Member (President of Mahila Sabha)

3.2 A quorum of 3 members is required to be present for the proceedings of all meetings. The quorum must include the chairperson, and at least two members, one of whom must be a woman.

4.0 REDRESSAL PROCESS

- 4.1 Any employee who feels that he/she is being harassed directly or indirectly may submit a complaint of the alleged incident to any member of the committee in writing or orally within 30 days of occurrence of the incident.
- 4.2 The committee will maintain a register to record the complaint received by it and keep the contents confidential, if it is so desired, except to use the same for discreet investigation.
- 4.3 The committee will hold a meeting with the complainant within five days of the receipt of the complaint, but not later than a week in any case.
- 4.4 At the first meeting, the committee members shall hear the complainant and record her/his allegations. The complainant can also submit any corroborative material with a documentary proof, oral or written material, etc., to substantiate his/her complaint. If the complainant does not wish to depose personally due to embarrassment of narration of event, a female member for female employees involved and a male member for male employees, involved to meet and record the statement.
- 4.5 Thereafter, the person against whom complaint is made may be called for a deposition before the committee and an opportunity will be given to him / her to give an explanation, whereafter, an “Enquiry” must be conducted and concluded.

4.6 In case the complaint is found to be false, the complainant must, if deemed fit, be liable for appropriate disciplinary action by the management.

5.0 ENQUIRY PROCESS

- 5.1 The committee must immediately proceed with the enquiry and communicate the same to the complainant and person against whom complaint is made.
- 5.2 The committee must prepare and hand over the allegation statement to the person against whom complaint is made and give him/her an opportunity to submit a written explanation if she/he so desires within 7 days of receipt of the same.
- 5.3 The complainant must be provided with a copy of the written explanation submitted by the person against whom complaint is made.
- 5.4 If the complainant or the person against whom complaint is made desires any witness/es to be called, they must communicate in writing to the committee the names of witness/es whom they propose to call.
- 5.5 If the complainant desires to tender any documents by way of evidence before the committee, she/ he must supply original copies of such documents. Similarly, if the person against whom complaint is made desires to tender any documents in evidence before the committee he/she must supply original copies of such documents. Both must affix his/her signature on the respective documents to certify these to be original copies.
- 5.6 The committee must call upon all witnesses mentioned by both the parties.
- 5.7 The committee must provide every reasonable opportunity to the complainant and to the person against whom complaint is made, for putting forward and defending their respective case.
- 5.8 The committee must complete the “Enquiry” within reasonable period but not beyond three months and communicate its findings and its recommendations for action to the VP-HR. The report of the committee must be treated as an enquiry report on the basis of which an erring employee can be awarded appropriate punishment straightaway.
- 5.9 The VP-HR will direct appropriate action in accordance with the

recommendation proposed by the committee.

5.10 The committee must be governed by such rules as may be framed by the Supreme Court orders or any other legislation enacted later on.

6.0 OTHER POINTS TO BE CONSIDERED

6.1 The committee to make recommend to the VP-HR action which may include transfer or any of the other appropriate disciplinary action.

6.2 The management must provide all necessary assistance for the purpose of ensuring full, effective and speedy implementation of this policy.

6.3 Where sexual harassment occurs as a result of an act or omission by any third party or outsider, TPC must take all steps necessary and reasonable to assist the affected person in terms of support and preventive action.

6.4 The committee analyses and put up report on all complaints of this nature at the end of the year for submission to VP-HR.

6.5 In case the committee finds the degree of offence coverable under the Indian Penal Code, then this fact must be mentioned in its report and appropriate action must be initiated by the management, for making a police complaint

Closing Case *Crisis Blown Over*

November 30, 1997 goes down in the history of a Bangalore-based electrical company as the day nobody wanting it to recur but everyone recollecting it with a sense of pride.

It was a festive day for all the 700-plus employees. Festoons were strung all over, banners were put up; banana trunks and leaves adorned the factory gate, instead of the usual red flags; and loud speakers were blaring kannada film songs. It was the day the employees chose to celebrate Kannada Rajyothsava, annual feature of all Karnataka-based organisations. The function was to start at 4 p.m. and everybody was eagerly waiting for the big event to take place.

But the event, budgeted at ₹1,00,000, did not take place. At around 2 p.m., there was a ghastly accident in the machine shop. Murthy was caught in the vertical turret lathe and was wounded fatally. His end came in the ambulance on the way to hospital.

The management sought union help, and the union leaders did respond with a positive attitude. They did not want to fish in troubled waters.

Series of meetings were held between the union leaders and the management. The discussions centered around two major issues – (i) restoring normalcy, and (ii) determining the amount of compensation to be paid to the dependants of Murthy.

Luckily for the management, the accident took place on a Saturday. The next day was a weekly holiday and this helped the tension to diffuse to a large extent. The funeral of the deceased took place on Sunday without any hitch. The management hoped that things would be normal on Monday morning.

But the hope was belied. The workers refused to resume work. Again the management approached the union for help. Union leaders advised the workers to resume work in all departments except in the machine shop, and the suggestion was accepted by all.

Two weeks went by, nobody entered the machine shop, though work in other places resumed. Union leaders came with a new idea to the management – to perform a *pooja* to ward off any evil that had befallen on the lathe. The management accepted the idea and *homa* was performed in the machine shop for about five hours commencing early in the morning. This helped to some extent. The workers started operations on all other machines in the machine shop except on the fateful lathe. It took two full months and a lot of persuasions from the union leaders for the workers to switch on the lathe.

The crisis was blown over, thanks to the responsible role played by the union leaders and their fellow workers. Neither the management nor the workers wish that such an incident should recur.

As the wages of the deceased grossed ₹6,500 per month, Murthy was not covered under the ESI Act, Management had to pay compensation. Age and experience of the victim were taken into account to arrive at ₹1,87,000 which was the amount to be payable to the wife of the deceased. To this was added ₹2,50,000 at the intervention of the union leaders. In addition, the widow was paid a gratuity and a monthly pension of ₹4,300. And nobody's wages were cut for the days not worked.

Murthy's death witnessed an unusual behaviour on the part of the workers and their leaders, and a magnanimous gesture from the

management. It is a pride moment in the life of the factory.
Do you need labour laws? If yes, what type?

REFERENCES

1. P.R.N. Sinha, et al, *Industrial Relations, Trade Unions, and Labour Legislations*, Pearson, 2011
2. Ishwar C. Dhingra, *Indian Economy*, Sultan Chand & Sons, 2007.
3. N.D. Kapoor, *Handbook of Industrial Law*, Sultan Chand & Sons, 2011.
4. A.M. Sarma, *Industrial Relations*, HPH, 2012.
5. *The Economist*, Oct. 11, 2007.
6. John D.R.Craig and S.Michael Lynk (ed), *Globalisation and the Future of Labour Law*, Cambridge University Press, 2006.

Trade Unions

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of trade unions and describe the reasons for employees' joining unions
- The evolution of the trade union movement in India
- The recent trends in the trade union movement in India
- The strategies which help plants remain union-free
- Managing unions

Opening Vignette

CORPORATE SPURS

Trouble at the truck manufacturer's Pune plant had started brewing even before Ratan Tata entered the scene. It gradually developed into one of the bloodiest strikes in recent history. On April 7, 1988, the day Tata was appointed Telco's deputy chairman, everything appeared normal. By December 1988, when he formally took over the chairmanship from the fragile 82-year-old Sumant Moolgaokar (1906–1989), the tension was palpable.

Nonetheless, few expected the situation to snowball as it did. Most people had their eyes on Russi Mody, wondering how he would react to Ratan's stepping up the ladder leading to JRD's throne. Nobody anticipated that an assault on Ratan's position would come not from an autocratic Tata executive but an unknown trade union leader.

His name was Krishnan Pushparajan Nair, better known as Rajan Nair.

The son of a trade union leader and the eldest in a family of eight, Nair worked in Philips before joining Telco as a machine miller in November 1976. Six years later he became the general secretary of the Telco Kamgar Sangathana (TKS). Though a Keralite, Nair was fluent in Marathi and was described as a ‘first rate demagogue with a penchant for drama’. In March 1988, he was suspended for allegedly threatening to murder a security guard and a few months later he was sacked.

The day Nair was sacked, he left Telco vowing “to bring the Telco management down to its knees”. He tried his best to keep to his word. The unresolved wage agreement became his rallying point with the management. Nair insisted on Tata’s recognition of his status as the workers’ leader as a starting point for any negotiation. The management’s view was that a dismissed worker with a criminal record could not be accepted as the leader, and while it was willing to talk with other members of the TKS on Telco rolls, Nair had no *locus standi*. At the time, there were 8,525 blue-collar workers at the Pune plant and two major unions. From November 1988, antagonism between workers and management worsened. Rumours of a lock-out fuelled the tension. Tata was not new to tackling labour problems, having warded off a sticky situation in his Nelco days. But this was hardly the sort of welcome he needed in Telco. As a strong believer in the principles of transparency and fairness, he was willing to negotiate, but Nair’s ego had the better of him and he thought he could put it across to the new, amiable looking chairman of the company. He was mistaken. Behind the soft exterior of Tata was a determination toughened by many years of hard experience in the corporate world.

Matters reached a flashpoint on January 31, 1989. Tata’s visit to the Pune plant was greeted on the shop floor with a strike. On the same day, the local authorities took Nair into preventive custody. On hearing this, the second shift workers hijacked buses which were supposed to take them to the plant at Pimpri (just outside Pune), and diverted them to the city where they besieged the district court. Nair was released. Tata says that he was unaware of what was happening in the city as he was huddled in a meeting at the plant with Powar, one of Nair’s closest aides, and others. “Nair chose to make out that he was arrested because I said so, but I didn’t get him arrested. It happened totally independently. If there was an issue of getting him arrested, I wouldn’t be meeting his people. But that was the last time I met with them because

when they went out they misrepresented the meeting”.

All through the summer and monsoon, the situation inched inexorably towards a strike despite mediation attempts by then Maharashtra’s Chief Minister Sharad Pawar and others. Nair was not interested in parleying for peace. On March 15, Nair’s men selected about 22 managerial personnel and rival unionists and assaulted and stabbed them. Asked about this, Nair said “the provocation was from the management because the previous day one of the TKS members was slapped on the shop floor”.

This was as much as Tata could take. From then on his resolve hardened and he refused to give in to any intimidatory tactics of Nair and his men. Meanwhile, Ratan launched measures to build bridges between the management and the workforce. Telco had been contributing silently to the development of the Pimpri-Chinchwad belt. Now, at the time of its worst industrial crisis, it needed the support of the local community to correct its image of an exploitative corporation which Rajan Nair’s campaign had sought to project. Telco shed its conservative image for the first time and utilised the media to create a public opinion; the managers initiated a one-to-one contact with the workforce to convince them of the management’s intentions and slowly the tide began to turn.

On September 19, in a shrewd move to woo away support from Nair, the management signed a three year retrospective agreement with TKS’s rival, the Telco Employees Union (TEU), offering a wage hike of ₹585 and a lumpsum arrears of ₹7,000. There was a stick attached to the tempting carrot. Tata wrote to every Telco employee in the Pimpri and Chinchwad units warning that “the company would have to reconsider its plans for further investments in Pune if the trend of labour unrest continued”. The management claimed that 1,570 workers had accepted the offer and more were expected to follow. Seriously worried, Nair mulled over his options.

Two days later, Nair announced that he and his supporters would go on an indefinite fast at the Shaniwarwada fort. With red bandanas tied round their foreheads, about 3,000 workers trooped into the fort to begin their fast. Significantly, the initials RNP (for Rajan Nair Panel) and not TKS were printed on the bandannas. Clearly this was not just a management-union issue, but one involving a personal agenda. A one-day bandh was organised in the Pimpri-Chinchwad area as a display of strength and to convey the impression of Nair’s growing influence in the region. From Bombay, Datta

Samant rushed to Pune to express his support.

By the third day, workers were fainting from hunger. At the end of a week, there was a real fear that a fatality could trigger off uncontrollable violence. Pawar stepped up the pressure on both sides to break the deadlock and meet. They agreed.

On the morning of Wednesday, September 27, Tata flew into Bombay from USA. Nair had arrived from Pune the previous evening. A tripartite meeting between Tata, Nair and Pawar was arranged for the afternoon at Varsha, the chief minister's official residence. Before that, Samant led a morcha to Bombay House while Nair held rallies and press conferences. These vitiated the already charged atmosphere. In an obvious bid to slight Tata, Nair and his team deliberately arrived very late. Scheduled for 4 pm, the meeting finally began at 5.30 pm. It proved to be inconclusive. Nair was unwilling to concede ground.

Meanwhile, Pawar was becoming increasingly worried about the strike's political repercussions. The Pimpri-Chinchwad area was a crucial vote bank, home of over 2,000 industrial units with an annual turnover of ₹35 billion and nearly a quarter million workers. Opportunistic politicians of every hue had jumped onto Nair's bandwagon. The Janata Dal leader, Sambhajirao Kakade, was backing Nair. George Fernandes and Madhu Dandavate, socialist leaders, were in constant touch with the strikers. And in the shadow of the Lok Sabha elections scheduled for November 24, Pawar was getting flak from Delhi politicians and Pune industrialists for the state government's kid-glove treatment of Nair. Moreover, Telco was the largest company in the region and any prolonged dispute would have a tremendous economic fallout. He had to do something.

Under cover of darkness, at 2.30 am on September 29, the State Reserve and Pune city police launched Operation Crackdown. Eighty buses stopped outside the Shaniwarwada fort's quadrangle. Pouring out of the buses, the police cordoned off the fort, stormed inside and rounded up the workers.

The evacuation went on in batches until 4 pm. While the workers were taken to police stations in Pune, a separate vehicle took Nair and his lieutenants to the nearby Ratnagiri jail where they were charged with attempting to commit suicide and defying prohibitory orders. Nair was released on bail the next day but it was clear to everybody that the strike had

been effectively smashed.¹

Cases of the type described above have become almost extinct. But recollection of the trade union scenario prevailing then throws light on what attitudes unionists in general had and how managements reacted to them.

Employee associations constitute one of the stakeholders in IR. These associations are popularly known as trade unions. Trade unions are not confined to mere striking and negotiating on behalf of workers. Their role is much wider.

Unions, for example, may make their presence felt in recruitment and selection. They may also decide who is to be hired and under what conditions. Unions can also play an important role in deciding who is to be promoted, given a new job assignment, sent for training, terminated or laid off. Many programmes which contribute to QWL and productivity are undertaken by the management in consultation with and with the co-operation of the unions. Unions decide wage and salary structure and negotiate revisions once in three or five years. Major unions have political affiliations too. And the role of unions in IR is too well-known. It is, therefore, essential that we discuss the nature of unions, why employees join unions, present status of unions, their trends and other related aspects.

NATURE OF TRADE UNIONS

Trade unions are voluntary organisations of workers or employers formed to promote and protect their interests through collective action. The Trade Unions Act, 1926 defines a trade union as a combination, whether temporary or permanent, formed **(i)** primarily for the purpose of regulating the relation between **(a)** workmen and employers or **(b)** between workmen and workmen, or **(c)** between employers and employers, or **(ii)** for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more trade unions.

An analysis of the above definition reveals that a trade union must be:

1. A combination of workers or employers,
2. Such a combination could be permanent or temporary,
3. Could include federation of two or more unions, and

4. To regulate relations among workmen, between workmen and employers or among employers themselves.

Trade unions are voluntary organisations of employees or employers formed to promote and protect their interests through collective action. Though the terms employees and employers are used, when we say trade unions they generally refer to employees.

The reasons for unionisation described above give incidentally the avowed functions of a trade union. It should be noted that the unions exist not to fight for mundane facilities, organise strikes and cause violence at shop floors always. The aim of a trade union is to redress the imbalance of power between employer and employee and this only justifies their existence. Trade unions provide workers with a “collective voice” to make their wishes known to management and thus bring actual and desired conditions closer together. This applies not only to terms of employment such as pay, working hours and holidays, but also to the way in which individuals are treated in such areas as redressal of grievances, discipline, redundancy and even decision-making on issues related to labour. Trade unions also exist to let the management know that there will be an alternative view on key issues affecting employees.

The National Labour Commission has stated the following as functions of unions:

- Secure fair wages for workers
- Safeguard job security and improve conditions of service.
- Enlarge opportunities for promotion and training.
- Improve working and living conditions
- Facilitate educational, cultural and recreation activities
- Facilitate introduction of new technology
- Promote worker productivity and maintain quality of output
- Promote individual and collective welfare

STRATEGIC CHOICES BEFORE MANAGERS

Managers have to make several strategic choices regarding the role of unions in the organisation. The most important choices are as follows:

1. Managers must decide whether the organisation should remain union-free or allow unionisation.
2. If managers decide that the company should remain union-free, they must take steps to keep unions away from the organisation.
3. If unionisation should be allowed, managers must decide what type of union-management relationship they want. Once determined, they must take appropriate steps to make this type of relationship a reality.
4. The management must also choose the type of tactic to use while negotiating a new wage settlement.

WHY DO EMPLOYEES JOIN UNIONS?

Earlier, workers used to join unions to protect themselves against exploitation by the management, or by force. Hire and fire policies, inhuman working conditions, niggardly wage payments and long hours of work were common in the past, and workers joined unions to seek protection against such practices. Not that these practices are extinct now. They are still practised in the unorganised sector. Workers in the unorganised sector continue to suffer and do not join unions because none exists. The discussion here applies to the employees in the organised sector. The organised sector is, incidentally, highly unionised and consequently, exploitation of the kind witnessed in the past does not, by and large, exist these days.

Plants get unionised for three reasons—dissatisfaction, lack of power and union instrumentality. Dissatisfied employees seek union membership to improve work situation. Employees believe unionisation fetch them power. Power, in turn, is believed to remove dissatisfaction. Employees take unions as instruments to remove dissatisfaction.

Several union leaders in the past were goons who were forcing unwilling workers to join unions. Refusal to join led to use of muscle power. With a general increase in literacy, awareness and economic status on the part of the workers, violence is becoming irrelevant. Consequently employees joining unions under coercion are not witnessed nowadays.

Three reasons account for unionisation in any plant. They are—

dissatisfaction, lack of power, and union instrumentality.

Dissatisfaction

When an individual takes a job, certain conditions of employment (security, wages, hours of work, and type of work) are specified in the *employment contract*. A *psychological contract* also exists between employer and employee, consisting of the unspecified expectations of the employee about reasonable working conditions, requirements of the work itself, the level of effort that should be expended on the job, and the nature of authority the employer should have in directing the employee's work. These expectations are related to the employee's desire to satisfy certain personal preferences in the workplace. The degree to which the organisation fulfils these preferences determines the employee's level of satisfaction. Dissatisfaction with either the employment contract or the psychological contract will prompt employees to attempt to improve the work situation, often through unionisation.²

Thus, if the management wants to make unionisation less attractive to employees, it must consider making work conditions more satisfying. The management and the HR department often contribute to the level of work dissatisfaction by doing the following:³

1. Giving unrealistic job previews that create expectations which cannot be fulfilled.
2. Designing jobs that fail to use the skills, knowledge, and abilities of employees, and also fail to satisfy their personalities, interests and preferences.
3. Practising poor day-to-day management and supervisory practices, including unfair treatment and one-way downward communication.
4. Failing to tell employees that the management would prefer to cooperate without unions and that the organisation is committed to treating employees with respect.

Lack of Power

Unionisation may not be the first recourse a dissatisfied employee will take. *First*, the employee seeks to remove the dissatisfaction by his or her own

effort. How far the employee shall succeed in removing dissatisfaction depends on the essentiality and exclusivity of the job. *Essentiality* refers to the importance of the job holder and *exclusivity* implies the ease with which the employee can be replaced. Power of the employee to remove dissatisfaction is high when his or her position in the organisation is extremely important and it is difficult to replace him or her. His or her power is less when the employee's services are not indispensable and it is easy to find a substitute too. In the latter case, the employee seeks other means, including unionisation, to influence the management.

In considering whether collective action is appropriate, employees are also likely to consider whether a union could obtain the aspects of the work environment not provided by the employer and to weigh those benefits against the costs of unionisation. In other words, the employees would determine union instrumentality.⁴

Union Instrumentality

Employees perceive unions as being instrumental in removing their dissatisfaction. The more the employees believe that a union can obtain positive work aspects, the more instrumental the union is for the employees. The employees then weigh the value of the benefit to be obtained, through unionisation, against its costs such as the lengthy organising campaign and the bad feelings among supervisors, managers, and other employees who may not relish unionisation. Finally, the employees weigh the costs and benefits against the likelihood of a union being able to obtain the benefits—the perceived union instrumentality. When the benefits exceed the costs and union instrumentality is high, employees will be more willing to unionise.⁵

Figure 21.1 summarises the reasons for deciding to join a union. In general, the expectation that work will satisfy personal preferences induces satisfaction or dissatisfaction with work. As the level of dissatisfaction increases, individual workers seek to change their work situation. If they fail, and if the positive consequences of unionisation seem to outweigh the negative ones, individual workers will be inclined to join the union.

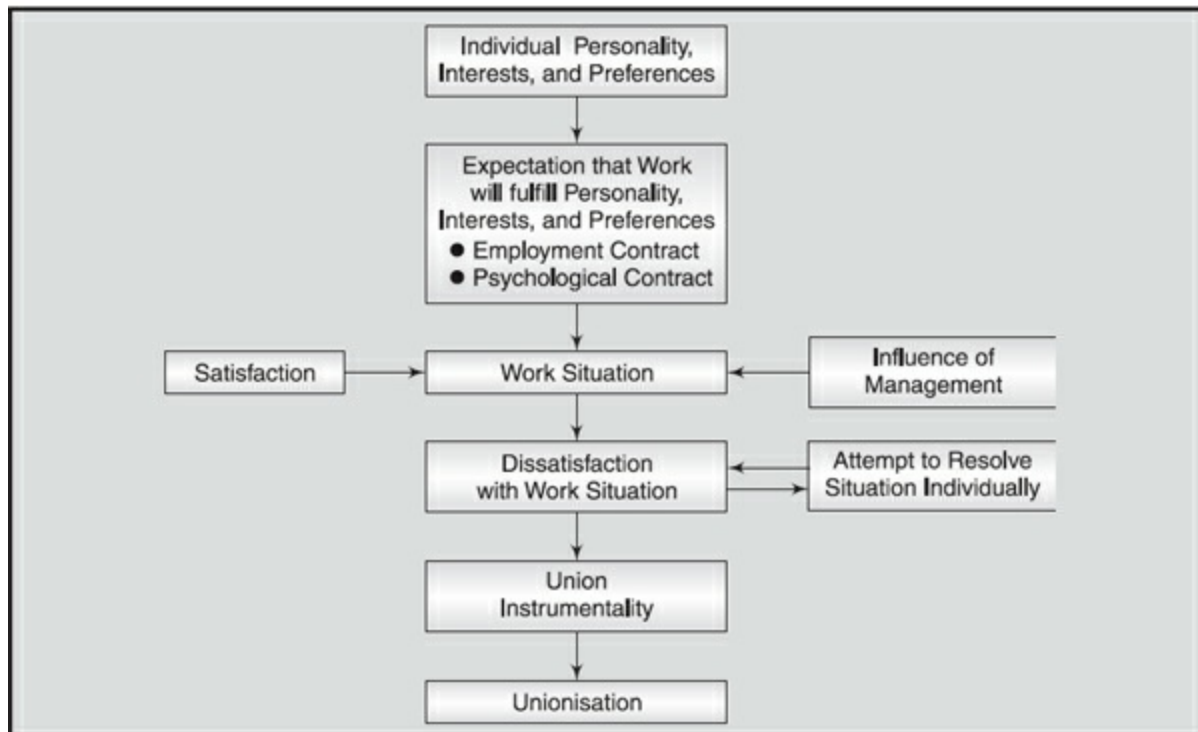


Fig. 21.1 *Factors Leading to Unionisation*

Source: Randall S. Schuler, et. al., *Effective Personnel Management*, p. 562.

STRATEGIC CHOICES BEFORE UNIONS

Just as employers are expected to make strategic choices, unions too should choose among alternative strategies. The major alternatives available before the unions are—bread and butter versus political objectives; adversarial versus cooperative role; and traditional labour services versus new services.

Bread and Butter versus Political Objectives

Unions differ in their objectives, but few classes of goals are prominent. First is the bread and butter issue—an economic issue, that includes wage rate, life and health insurance, and job security. Political objectives include support to political parties and active participation in political activities.

Unions engaged themselves actively in political activities during the freedom movement. The trend continued even after Independence. Major central trade unions were affiliated to political parties (see [Table 21.1](#)).

Table 21.1 *Membership and Other Details of Central Trade Unions as of Today*

<i>Trade Union</i>	<i>No. of Affiliates</i>	<i>Membership (in million)</i>	<i>Political Affiliation</i>	<i>Year of Establishment</i>
Indian National Trade Union Congress (INTUC)	4,428	3.8	Congress	1947
All India Trade Union Congress (AITUC)	2,996	3.3	CPI	1920
United Trade Union Congress (UTUC)	413	0.79	RSP	–
Hind Mazdoor Sabha (HMS)	1,248	3.2	–	1948
United Trade Union Centre (UTUC)	231	0.84	SUCI	1948
Centre of Indian Trade Unions (CITU)	3,011	2.6	CPI (M)	1970
Trade Unions Co-ordination Centre	198	0.51	–	–
Bharatiya Mazdoor Sangh (BMS)	2,871	6.0	BJP	1955
National Front of Indian Trade Unions (NFITU)	132	0.76	–	–
National Labour Organisation (NLO)	356	0.66	–	–
Indian Federation of Free Trade Unions (IFFTU)	26	0.50	–	–
Indian Confederation of Labour (ICL)	23	0.80	–	–
Hind Mazdoor Kisan Panchayat (HMKP)	81	1.56	–	–

There has been a perceptible change in attitudes towards political involvement since the early 60s. Depoliticisation is the trend now.

Bread and butter issues are dominant as objectives of unions, but not fighting for wage revision, bonus payment or job security. The demands of unions now include empowerment, participation, productivity, competitive advantage and the like.

Each of the 11 central trade union organisations (CTUs) has its own strategy but mostly constructive. The right wing Bharatiya Mazdoor Sangh (BMS), the biggest of all with more than six million membership, has the agenda of ensuring some stability in the tenure of contract workers. The Indian National Trade Union Congress (INTUC), with a membership of nearly four million, has taken up the cause of unorganised sector workers, as well as demanding a national minimum wage instead of different wages set

by state governments. Another agenda of INTUC is the expansion of the pension scheme for organised sector employees up to ₹7000 per month. All the CTUs have taken up the cause of workers in the unorganised sector.

Adversarial versus Co-operative Role

In the past, the role of unions was adversarial in nature. Unions perceived their role as challenging management rather than co-operating with the management. The adversarial role is gradually being replaced by co-operative role. Recollect the incident when CITU once called for a strike to protest against the entry of MNCs, and Eicher's Parwanu workers not only defied the whip but requested all employees to get ready to face the impending competition. What happened at Eicher's plant is not an isolated incident, it reflects, on the other hand, the prevailing trend at the industrial front.

Traditional Issues versus New Services

As will be seen later, unions are gradually losing their ground. In order to regain their base, they should give up old issues and focus on new services. Relevance of unions in future depends on their ability to cope with structural, economic and social changes; and their ability to accommodate changes in social attitudes without compromising their collective character.

UNION TACTICS

Unions use certain tactics to deal with managements.

One of the major instruments of force that unions employ is the *organising drive*, which is nothing but forming a union where none exists. It is true that the organising drive is more often thought of as an aim of union organisation rather than as a union tactic. But it may also be thought of as a tactic because (i) the mere threat of its use may bring the management to terms, (ii) a successful drive may likewise bring the management to terms, and (iii) an organising drive may be part of a larger campaign against an entire industry.⁶

The organiser tries to capitalise on employee dissatisfaction and promises workers that their dissatisfaction would be removed if they join a union. The

appeal to their economic interests, and to deep-lying resentments may arouse or crystallise anti-management sentiments which last long after the organising drive itself is over and the union has become a routine part of plant life.

Unions employ several tactics to deal with managements. Unionising, strike, invoking political, patronage, and blackmailing are the most common tactics used by unions.

By far the most important union tactic is *strike*. A strike is a concerted and temporary suspension of functions, designed to exert pressure upon others in the same unit. There are several reasons for the supremacy of strike as a weapon. The strike directly suspends production; cuts out the creation of profit; cuts off the employer from his market; sources of materials may be lost; and fixed charges such as interest, taxes, and salaries for officials continue to be incurred during the strike period.⁷ Finally, the very existence of the company may be threatened by a prolonged strike.

Pause and Ponder

Can you suggest an alternative to strike for workers?

Caution is necessary before calling for a strike. By its very nature, a strike is a test of strength, and if it succeeds in wrecking damage on the management, it does so only at the expense of the workers. Furthermore, strike is a weapon which can easily fail and which has often failed in the past, leaving strikers destitute and without jobs.

Unions often invoke *political patronage* to beat the management.

There are compelling reasons for unions to be political. With the government assuming the role of an arbiter in IR, the question before labour and the management often is not how to influence each other, but how to mount pressure on the government which is going to determine their fate.⁸ Several unions owe their recognition and patronage to political parties and it is not surprising that employee organisations look to them for direction and sustenance.

Finally, unions often *blackmail* the management at a critical point of time to get their demands met (read Exhibit 21.1 for an illustration and the opening case to this chapter).

Exhibit 21.1 Sheer Blackmail

The year was 1975 and it was February, one month before the Bangalore-based electric company closed its annual accounts. The company executed a prestigious foreign order worth ₹50 lakh and the transformer was ready for shipment. But the huge transformer could not be lifted out of the premises as the workers, indirectly backed by their union, refused to touch it. They had scores to settle with the management.

Workers in the dispatching section had demanded extra incentives based on the number of shipments but the management did not concede, nor the union could take up the issue as it would displease workers in other departments.

The management was in a dilemma. Four issues bothered them most:

1. Time was running out for dispatching the product. If the transformer was not shipped in February the order would be subject to cancellation.
2. The order was worth a fortune and the company could not afford to lose it.
3. Cancellation of the order would send wrong signals in the international market. No buyer would place an order in future.
4. The truck operator (hired from outside) would charge ₹3,000 per day of waiting in the premises.

The management caved in. Demands of the workers in the dispatching section were met. All of them got extra remuneration, not as incentives, but as annual performance awards. It was a win-lose situation for the management.

Walk the Talk

Do's	Don'ts
• <i>Union leaders have changed significantly. They talk about</i>	• <i>Set rival unions and split workers</i>

*quality, globalisation,
competition and the like*

- *Encourage unionisation and extend recognition when formed*
- *Unions are an inevitable part of organisational life*

• *Appease union leaders to buy peace*

- *Be gleeful at the declining trend of unions*
- *Consider yourself lucky if your firm is union-free*

TRADE UNION MOVEMENT IN INDIA

Trade union movement in our country has a century-long history. The first quarter of the last century saw the birth of the trade union movement, but the seeds of the movement were sown much earlier. In the twenties, soon after the First World War, working class in our country realised the effectiveness of strike as a means of obtaining concessions, higher wages and better working conditions. Many strikes were declared consequently and most of them were successful. This success led to the formation of several unions. The All India Trade Union Congress (AITUC) was set up in 1920 with the objectives of representing workers' interests, to co-ordinate the activities of all labour organisations in the country, and to spread the message about the need for union movement. Hundreds of unions came into being in big and small industries. Their number, as well as membership, increased considerably.

A landmark in the history of labour movement was the enactment of the Trade Unions Act, 1926. The Act gave a legal status to the registered trade unions and conferred on them and their members a measure of immunity from civil suits and criminal prosecution. Registration of unions gave them respectability before employers and the general public.

Towards the end of 1920s, there was a split in the union movement, the split being caused by the leaders' ideological differences. The AITUC was captured by the communists. The moderates formed a new organisation, called the All India Trade Unions Federation. Ideological differences and splits had their effect on strikes too. Majority of the strikes failed.

Unlike 1920s, the 1930s were not favourable to the trade union movement. The prosecution of the communists involved in the Meerut conspiracy case and the failure of the Bombay textile strike of 1929 brought a

lull in trade union activities. Economic depression of the period also added to the dull phase of union movement. Retrenchments and strikes were common, the latter being mostly ineffective. There were further splits in the movement, but just before the Second World War some unity was achieved.

The unity was shattered during the Second World War because of ideological differences and mounting cost of living. Industrial unrest increased and the government banned strikes and lockouts invoking the Defence of India Rules. Luckily, workers realised the need for an organised movement to secure relief. This realisation led to an increase in the number of unions.

The aftermath of Independence was not good for unions. The hopes of workers to secure better facilities and wages from the national government were not realised. There was large-scale unrest and strikes and lockouts multiplied. The disunity in the trade union ranks was aggravated by the starting of three central labour organisations, namely, the Indian National Trade Union Congress (INTUC) in 1947; the Hind Mazdoor Sabha (HMS) in 1948, and the United Trade Union Congress (UTUC) in 1949.

As years went by, more unions and central organisations came into being. The movement became deeply entrenched.

As of today, there are more than 66,000 registered unions and most of them are affiliated to one or the other central trade union. Only 9% of the employees in the organised sector are unionised as against 30% in Italy and 29% in UK. [Table 21.1](#) gives details about the central trade unions, their affiliates, political affiliations, dates of establishment and memberships claimed.

TRENDS IN TRADE UNION MOVEMENT

1. A major trend witnessed these days is the change in the attitude of unions towards management, industry, government and the economy.
 - (i) Unions are becoming increasingly matured, responsive and realistic in their thinking and action. Gone are the days of cat-call strikes, *bandhs*, *gheraoes* and violence.
 - (ii) Unions are reconciled to economic reforms. Their accent is on opposing the adverse impact of reforms and not the reforms *per*

se.

(iii) Discussion among trade union circles nowadays is on issues like productivity, total quality management, technology, competition, MNCs, exports and the like. Major unions like that of the telecom employees, for example, are on line with the corporation plans of development. They are now talking about issues like gearing up for competition and inculcating a customer friendly approach.

2. Depoliticisation of unions is another trend witnessed these days. It is too well-known, that the federations of the unions are affiliated to one political party or the other (refer to [Table 21.1](#)). No surprise then, that the prominent national leaders in post-independent India were incidentally popular union leaders. Being affiliated to one or the other political party, the unions were more engrossed in toeing the lines of their political bosses than protecting workers' interests. Unions have realised the futility of such affiliations and are now insulating themselves against political influence. Many leading companies such as Philips, Voltas, Siemens, Hindustan Unilever, Blue Star, Pfizer, Tomco, Hoechst, and the like have unions but are not affected by political parties. The trend towards depoliticisation started in the 1960s and received further boost in the post-liberalisation era.

Days when unions were affiliated with political parties are gone by. As on today there is depoliticisation of unions.

The experience of politically free unions is pleasant, reinforcing the belief that farther the unions are from politics, more advantageous it is for them. Look at the achievements of the unions which have no affiliations:

(i) The Philips Employees' union successfully stalled the entry of the Tatas into the company. When the Philips management allegedly offered the Tatas a part of their rights-cum-preferential issue at an unusually low premium, the union demanded that it should be allowed to examine the agreement and successfully moved the Bombay High Court in settling the issue.

- (ii) The internal union at the ailing Kamani Industries successfully took over the company and is now running it as a workers' co-operative.
 - (iii) Independent unions obtained a high-court order scrapping the ceiling on house rent allowance fixed by the Maharashtra government.
3. "Nature abhors vacuum", so goes the saying. Unions seem to relish affiliations. They are now formed on the basis of religion and caste. This is indicative of the sociopolitical realities after the *mandalisation* of the polity and heightened sectarian consciousness after the demolition of the disputed structure at Ayodhya.⁹
4. Workers' associations in our country are highly fragmented and the consequence has been the multiplicity of unions. Multiplicity is caused by ideological rifts, personal ambitions of leaders, craft divisions among workers, and the management's own myopia. The number of unions in some organisations is truly mind-boggling. The Bokaro Steel Plant has 68 of them; the Kolkata Corporation has the unique distinction of having about 100 unions; and the Singareni Collieries has 36 unions. The Collieries is gripped by labour problems almost everyday, where the trouble is started by one union or the other. SAIL has 240 unions and the Delhi Transport Corporation has 50. Air India has 14 recognised and several unrecognised unions for its 31000 employees.

The multiplicity of unions weakens the bargaining strength of employees. The management's position is no better. For example, the management of the Kolkata-based Dolphin Laboratories which had raised money in the capital market in May 1994, to start a second manufacturing base in Gujarat, was forced, two months later, to shift completely from West Bengal because of intra-union rivalry over the duration of wage agreement.

The futility of multiple unions is being realised by the government and the workers. The government proposes to amend the Trade Unions Act, 1926 to prescribe minimum strength for the formation of a union as 100 or 10 per cent of the total staff, whichever is less.

Union leaders too are conscious about the need for single union

plants. Of late, unions have presented a common front on issues like industrial sickness. At the 31st session of the Indian Labour Conference held in 1995, unions of varying hues and affinities demanded better utilisation of the fund and felt that the amount should not be used merely for financing voluntary retirement schemes.

5. One of the defects of the trade union movement in our country has been the phenomenon of outside leadership. Individuals who were not connected with a factory would assume the leadership mantle of the union. A Bangalore-based electric company is an example to be quoted in this context. For a long time, a communist leader was the president of the workers' union, but he was neither a worker nor a supervisor in the company. In course of time, the workers decided against the practice, and in the election held the working president and his coterie were defeated, and insiders became the office bearers of the union.

Pause and Ponder

Debate on the merits and demerits of outsiders becoming union leaders.

Partly, the fault for outside leadership lies with the Trade Unions Act, 1926, itself. The Act permitted outside participation to the extent of 50 per cent of the strength of the office bearers in a union. The government proposes to bring this down to one-third or two, whichever is less.

6. The clout of the central trade unions, which peaked during the post nationalisation years, has started waning. For example, the membership of the INTUC, which claimed to have enjoyed a strength of 54.35 lakh in 1989, had slipped to 54.05 lakh in 1993, a fall by 30,000. Same is the fate of the CITU.

One of the reasons for this trend is the gradual realisation on the part of the workers, who are young and well-educated, that independent unions are more advantageous than all India federations.

Thus, the trade unions are at the cross-roads. Their membership is declining, their political support is waning, public sympathy is receding, their relevance itself is at stake and instances of the like

shown in Exhibit 21.2 are fortunately few and far between.

The trend, particularly that of declining membership of unions, is universal. Fewer than 11 per cent of America's private sector workers, for example, are unionised, a percentage that has been falling for four decades. French and Australian union membership too, fell in the 1980s. In Japan, union membership has declined steadily since the 1970s. Unions have held up better in Scandinavia, but young people join only half as often as their parents. In all the OECD countries, service business accounts for a growing share of workforce. Except in government units, unions have largely failed in the private sector.

**Exhibit 21.2 Illegal Strike and Violence at ITC Ltd, Tiruvottiyur:
November 13, 2001**

1. The following workmen were chargesheeted on 17/11/2001 and after due processes of enquiry have been found guilty of misconduct under Factory Standing Orders. They were dismissed from service as follows:

wef 22/12/2001:

A. Joseph Kennedy
K. Paramasivam
K. Ambrose
M. Ramakrishnan
P. Karunanithi
A. Mohammed Ansari

wef 28/12/2001:

M.S. Murthy
R.J. Jude Adaikalaraj
U. Alexander
B.G. Chandrasekaran
S. Satish Kumar
R. Chandrasekhar
S. Balasundaram
Movin Thomas
V. Devanand
K. ArulJothi

C.P. Bharathi
B. Noor Mohammed
G. Dinagar
R. Veeramani
C. Karikalan
P. Joseph,
A. Sagayadoss

Anybody who deals with the above persons will be doing so at his own risk and the Company is not in anyway responsible for the same.

2. The following workmen have been sent letters on 27/11/01, 8/12/01 and 22/12/01 but have not replied or shown cause as to why action should not be taken:

T. Santhanam
D. Dhanasekhar,
Justin A.Vedavaraj
S. Elumalai (7058)
C. Sakthivel
K. Krishnamoorthy
V. Premanandan
K. Saravanan
A. Sagayaraj
S. Govindaraj
D.Rajasekaran
S. Anand Kumar
R. Rajkumar
H. Maria Susai Anto
R. Senthil Kumar
K. Vasantha Krishnan
A. ArunSundar
A. Edward Raj
M.N. Rajendran
C. Hemant Kumar
D.G. Robinson
C.M. Damodaran
G. Vijayakumar,
R. Sethuraman

V. Nambirajan
P. Suresh Babu
T. Jaisankar
P. Rajan
M. Yoganathan
N. Satish Kumar

They are advised to respond immediately in writing and not later than close of hours on 31/12/2001, failing which it will be assumed that they have nothing to say in their defence.

SYNOPSIS

- Instigated and led by office bearers of the Union, workmen of our Tiruvottiyur factory illegally struck work from about 14:15 hrs on 13/11/2001. They unleashed violence, abused, threatened and assaulted 15 managers and resorted to sabotage damaging company property, machinery and vehicles of managers. Glass panes, computers and control panels of sophisticated machinery have been smashed; cars overturned and car windscreens broken. Workmen also broke fire protection equipment, surveillance systems and cut off communication lines and power supply plunging the factory into darkness. The damage is estimated at ₹8.3 crore and has seriously jeopardised operations.
- This Union illegally and unjustifiably struck work from 15/3/2001 to 16/5/2001 and has again illegally struck work from 13/11/2001 onwards (and till date) even whilst there is a reference by the Government to a Tribunal for adjudication. Further the Union instigated workmen to resort to a prolonged and pernicious go-slow from May 2001 till Nov. 2001 despite signing a settlement on 16/5/2001 agreeing to restore normalcy and discipline. The Union has struck work repeatedly and instigated workmen to indulge in indiscipline and to flout the Factory Standing Orders.
- This Union has resisted all attempts at resolution through collective bargaining and has intimidated and prevented managers from carrying out their duties and seeking adherence to quality, cost and delivery schedules in a competitive context.
- As of date, workmen continue to be on illegal strike and have not

reported for work from 13/11/2001 onwards. Nobody has reported for work or enquired at the factory gate about his attendance or indicated his willingness to work in a disciplined manner and abide by the Factory Standing Orders/Memoranda of Settlement.

**Works Manager
ITC Ltd, Tiruvottiyur
29.12.2001**

Managements, on the other hand, are on the offensive. They are able to force unions to accept terms and conditions and sign on the dotted lines across negotiating tables. Workers, officers and managers are mercilessly terminated from service in the name of restructuring, downsizing and similar other tactics.

Unions must come out with innovative ideas to regain their lost ground. To avoid self-decline, unions need to think harder about what they are good at and how to serve their services. This will mean moving beyond the collective wage bargaining that was once their main purpose. This shift is essential since non-pay concerns predominate the emerging workforce, a large portion of which comprises knowledge-based women workers who work part time or are based at home.

One way out for the unions is to extend unionism to non-traditional groups such as white-collar and professional workers and those who are languishing in the unorganised sector. INTUC, BMS and AITUC, for example, are enrolling agricultural workforce into their fold.

Another way for the unions is to focus on services to their members. The relevance of trade unions, in future, depends on:

1. Their ability to surmount structural, economic and social changes, and
 2. Their ability to accommodate changes in social attitudes without totally compromising their collectivist character.
7. Faced with the problem of declining membership and the fear of losing their relevance, trade unions are taking initiatives to fight unitedly. Many unions, including those affiliated to Left parties, have joined

together to fight for such causes as disinvestments, closure and modernisation. The merger between AICTU and HMS is on the cards. Union after union, in their respective annual conventions, is calling for united movement.

8. Professionalisation of trade union movement is yet another trend witnessed these days. To counter criticisms and to fight organised forces of employers, trade unions, through various institutions such as Ambedkar Institute of Labour Studies, Maniber Kara Institute and National Labour Institute, are trying to upgrade the leadership quality, personnel as well as the services rendered. Topics like IT, strategic planning, diversity, networking, OD techniques, productivity and the like now form inputs in training programmes organised for union leaders.
9. Unions are going global. What happened at Tata Steel may be one event, but it is likely to set a pattern. 81,000 odd Tata Steel workers across continents are seeking to join hands in solidarity through a transnational employee union. What Karl Marx said—'workers of the world unite' – is coming true. The transnational union of Tata Steel will have 41,000 non-Indian workers. The move is facilitated by the International Metal Workers Federation (IMF). The transitional union seeks to help in more transparent information sharing and improved bargaining powers between management and employees. Employees of other Indian MNC's are likely to follow the Tata Steel example.

As stated in [Chapter 22](#), number of strikes and mandays lost have come down recently, particularly after the economic reforms were initiated during 1990s. Militant trade unionism which held its sway on industries during 1980s receded during the early and latter part of 1990s. But militancy is staging a come back now. On September 22, 2008, when the CEO of the Greater Noida-based Graziano Transmissions India, the Indian unit of the Italian auto component manufacturing company, was clubbed to death by a group of 200 factory workers who were sacked by the management for their alleged acts of indiscipline and misconduct, the tragic incident demonstrated that militant trade unionism is alive in India. In recent months, companies such as MRF Tyres in Tamil Nadu, Nestle in Uttarakhand, Honda Motor Cycles in Haryana, Omax Auto at Gurgaon, Toyoka Kirloskar at Bangalore, Apollo Tyres in Gujarat, Tata Motors in Jamshedpur, Bosch in Jaipur, Apollo

in Kerala, and Skoda factory in Maharashtra have been struck by strikes. Exhibit 21.3 gives more details about the recent strikes.

Exhibit 21.3 Recent Strikes in India

2009/10

- Hyundai faced four strikes in one year due to employees demand for recognition of the rebel union.

2009

- Bharat Electronics employees strike work over pay issue.
- Workers' strike at TNPT, Paradip and Cochin Port.
- MRF Tyres: Labour management differences over a wage agreement signed by the management with a rival union. Police arrest 3000 workers and family members. Lock-out at the Arkonam factory.
- Nestle, Pantnagar: Some 650 workers go on strike after the management sacks two workers on charge of indiscipline and insubordination.
- M&M, Nasik: An 18-day 'tools down' strike after union president is suspended for manhandling a security staff and indiscipline.
- Officials of state-run oil companies go on strike, demanding better pay.

2010

- Employees of Bosch factory near Hosur intimidate and threaten the management, leading to a lock-out
- Nokia suspends 68 employees. Employees strike work for three days.

2012

- Violence at Manesar plant of Maruti, killing GM-HR and injuring 100 workers. Lockout declared.

MANAGING UNIONS

Managing unions will be examined from two angles: Unionised and union-free plants.

Unionised Organisations

Contrary to popular perception, unionisation benefits an organisation in several ways. Before listing the benefits, it may be stated that both management and union work in harmony in true spirit of industrial democracy, but believing that differences and disputes do exist. With goodwill on both the sides, disputes are settled mutually without recourse to undesirable action. Benefits from unions include:

- Management can approach union directly to resolve such issues as grievances, discipline and safety and health. In the absence of union, management will be compelled to adopt alternative approaches which may be costly and even difficult to operate.
- Cooperation from unions for such moves as reorganisation, disinvestment, quality enhancement plans and productivity improvement strategies.
- Improved communication and enforcement of norms, codes of conducts and discipline.
- Volunteering to pay cuts, cost savings and other measures during recessionary periods.
- Demonstration of democratic spirit, pro-labour attitude and openness on the part of management.

Following deserve due consideration while managing unionised organisations:

- Develop positive attitude towards unions. Demand from employees for formation and recognition of union needs to be conceded as is being done by NOKIA. Maruti initiated and encouraged unionisation at its Gurgaon plant, but adopted a different approach at its Manesar operations.

Pause and Ponder

Why has Maruti changed its approach?

- Realise that union leaders are partners in the progress of organisation. Suspecting and stereotyping union leaders as anti-management and anti-growth lead to distrust which, in turn, leads to developing rigid stands on such issues as compensation, promotion and hiring.

- Preferential treatment to union leaders does no good in the long-run. Union leaders are employees first and employee representatives later. An incident like penalising a worker for an offence and exonerating a leader with oral apology for similar wrong smacks of discriminatory treatment.
- Every HR policy and practice needs to be designed in consultation with union leaders and their views often to influence decisions. Promotions, job assignments and shift allotments are given on sonority, but not on merit basis. Lay offs are governed by last-in-first-out principle. Work rules, and wage patterns are highly structured and are governed by the wage agreement between the management and the union.
- Disputes do arise between the employer and the employees, notwithstanding best of intentions, policies, and practices. Management should rely on bilateral negotiations to resolve the issue and never should involve external leadership. Days were when there were professional trade union leaders who were not employees anywhere, but were controlling unions of several organisations. They were also connected with one political party of another. Personal interests of these leaders were overshadowing the welfare of employees. Such leaders are now becoming rare and irrelevant.

Managing Non-Unionised Plants

In general, managements prefer to remain union-free for the following reasons:

- Loss of control over any HR activity. Staffing, appraisal, compensation or promotions need to be done in consultation and with the unions. There is erosion of managerial authority.
- Constant demand for higher remuneration, bonus and other benefits pushes up the cost of production.
- Loss of freedom to reward performance and punish non-performance.
- Lack of freedom to adapt quickly to changing demands

Organisations adopt several strategies to remain union-free. The most frequently used are the following:

- Appeasing employees all the time to keep them away from union activists

- Genuine interest in employee welfare and reaching out to them in times of grievances
- Transparency in handling any people related activity such as promotion, shift allotment, foreign assignment and work assignment
- Direct communication with the employees
- Healthy and safe working environment
- Clear career paths and opportunities for career advancement
- Making the organisation ethically and socially conscious
- Identifying, encouraging and rewarding talent
- Industry comparable remuneration and other non-monetary benefits
- No arbitrary layoffs, dismissals and replacements

In addition, two HR practices render unions irrelevant: individualisation of employment contract, and demise of union representation.

These days managers seek to establish employment relationship with employees unilaterally rather than through bilateral-union-management negotiation-processes. Particularly, performance related rewards individualise the employment relationship because it isolates employment and personalises issues such as design and evaluation of work. Besides, by reducing the role of unions in pay determination, performance appraisal severs the link between increased rewards and collective action. Individual performance-related pay and pay-for-knowledge are the paradigm individualistic HRM techniques that symbolise attempts by management to move towards an ‘individually oriented’ rather than union-oriented organisational culture.

Second, the relevance of unions is challenged by other HR practices. HR professionals call for the ‘socialisation of the workforce.’ Work-based learning programmes that strengthen support for corporate culture and ‘socialise’ workers to accept the hegemony of managerial authority can undermine work place unions. Training programmes too are also designed to change workers’ attitudes towards promanagement. All attempts are made to enhance employee competencies. Emphasis is laid on merit and not on seniority while promoting an employee. Where merit is the criterion, one plays into the internal labour market forces undermining union influence. The HRM practice of communicating directly to the workforce information on quality and business practices can weaken the authority of union leaders. What business magazines write about ‘best employers to work for’ and ‘best HR practices’ aim at weakening union strength. Furthermore, team based

work regimes (inventions by HRM), can also undermine collective union consciousness. Team practices try to engender a new corporate culture in which workers' identity with the symbols and values that managers communicate directly to them, in which deviant behaviour is managed by the workers themselves and in which relevance or usefulness of unions is not felt at all.¹⁰

Pause and Ponder

Star performers like Wipro and Infosys are doing without unions. Have they lost anything? Do you suggest that their employees should unionise?

PERSONNEL RESEARCH

The purpose of personnel or HR research is to identify HR problems at an early date, so that remedial action may be taken before the problem gets magnified. Ignored problems stoke fire and unionisation is thought of as a remedy to extinguish the fire.

A wide range of topics are covered in the personnel research. Typical of such items are:

- Wage surveys
- Effectiveness of various recruitment sources
- Test validation
- Effectiveness of training efforts
- Supervisor's effectiveness survey
- Recent labour settlements
- Recent labour settlements negotiated by the union
- Job analysis
- Job satisfaction survey
- Survey of employee needs
- Performance appraisal validation
- Attitude survey towards reward system
- Areas of high accident frequency¹¹
- Turnover analysis
- Customer complaints survey

The topics suggest the scope of personnel research. Survey on any of these topics reveals worker unrest, which is the root cause for unionisation.

SUMMARY

Trade unions are voluntary organisations of employees or employers formed to promote and protect their interests through collective action. Contrary to popular perception, unions are not meant only to organise strikes. Their presence is felt in all HR activities of an organisation. Unions have political affiliations.

Employees join unions because of job dissatisfaction and they perceive that the unions can remove such dissatisfaction.

The trade union movement in our country was started during the first quarter of the 20th century. Six significant trends can be observed in the trade union movement. They are—(i) changing attitude of employees towards government, economy, industry and management; (ii) unions are gradually disassociating themselves from political parties; (iii) unions are now formed on the basis of religion and caste; (iv) consolidation instead of fragmentation of unions; (v) no more outside leadership; and (vi) decreasing popularity of all India union bodies.

Most managers prefer their plants to remain union-free. To this end, they adopt strategies and techniques. There are ways of managing unions.

KEY TERMS

Depoliticisation

Employers' associations

Employment contract

Multiplicity of unions

Personnel research

Political affiliations

Psychological contract

Trade unions

Unionisation

Union-free plants

Union instrumentality

REVIEW QUESTIONS

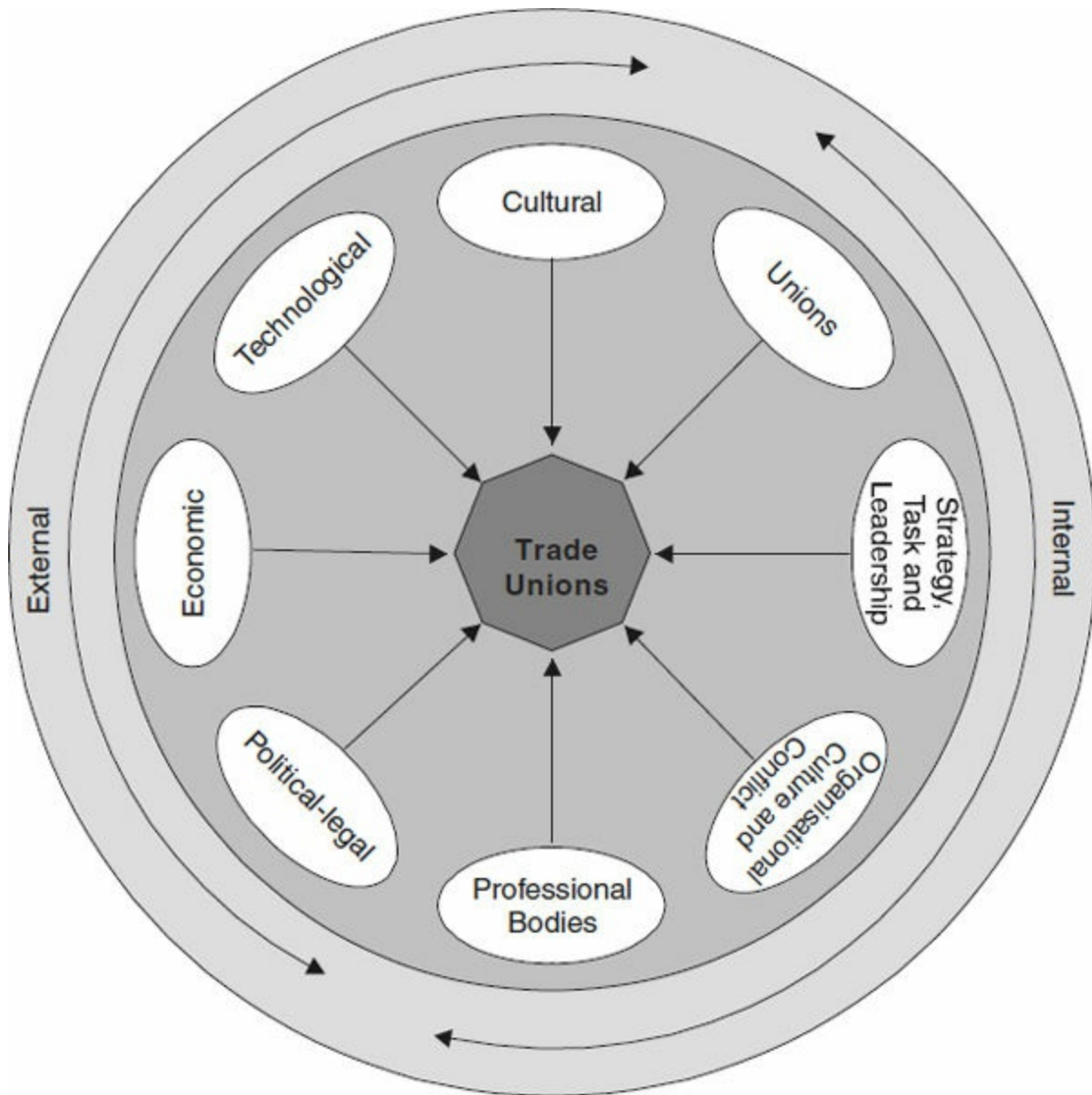
1. Define a trade union. Why do employees join unions?
2. Bring out the tactics adopted by unions to influence the management.
3. Explain the strategies and techniques adopted by the management to keep their plants union-free.

DISCUSSION QUESTIONS

1. What impact do unions have on employers and employees?
2. Should companies be allowed to hire workers based on their attitudes towards unions?
3. Identify and discuss the factors that make unionisation attractive to employees. Are these factors different today than they were fifty years ago?
4. What lessons can you draw from the opening case of this chapter?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact trade unions, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Vybhav is known for its pro-people approach, policies and practices. With regard to formation of union at Vybhav, the management has open mind and, in fact, is positive towards its formation. Renny Joseph, in particular, is keen on having a union duly registered and active.

Renny heard several stories about unions in other organisations. She knows that unions are formed more to settle scores based on regional, religion, political and personal reasons. She also knows about the duality of union leaders. Outwardly, union leaders speak eloquently for workers, and of

course against management. But the same leaders have no hesitation in accepting travel and hospitality arrangements extended by the managements.

She knows further how the union leaders conduct themselves in organisations. They behave like lords, have amnesty from all compliances and enjoy privileges like free canteen food. From the day of assuming office, till the next election to the office bearers of the union, these leaders never touch tools, never open a ledger and never use pen or pencil. Finally, Renny knows that excepting a few, majority of the unions are anti-management and anti-growth.

Yet, Renny is keen on having a union for all divisions of Vybhav. She knows the benefits of having a responsible union. Besides, having a progressive outlook herself, she is genuinely interested in having a union. But majority of the employees are not interested. A study by Voice Survey showed that out of a total workforce of 26,000, only 2500 showed some inclination towards unionisation. But for registration of union the minimum required number is 8600plus, i.e, one-third of the total headcount of Vybhav.

Renny is in a dilemma.

Closing Case “*Whose Side are you on, Anyway?*”

It was past 4 pm and Purushottam Kshirsagar was still at his shopfloor office. The small but elegant office was a perk he was entitled to after he had been nominated to the board of Horizon Industries (P) Ltd., as workman-director six months ago. His shift generally ended at 3 pm and he would be home by late evening. But that day, he still had long hours ahead of him.

Kshirsagar had been with Horizon for over twenty years. Starting off as a substitute mill-hand in the paint shop at one of the company’s manufacturing facilities, he had been made permanent on the job five years later. He had no formal education. He felt this was a handicap, but he made up for it with a willingness to learn and a certain enthusiasm on the job. He was soon marked by the works manager as someone to watch out for. Simultaneously, Kshirsagar also came to the attention of the president of the Horizon Employees’ Union who drafted him into union activities.

Even while he got promoted twice during the period to become the head

colour mixer last year, Kshirsagar had gradually moved up the union hierarchy and had been thrice elected secretary of the union.

Labour-management relations at Horizon were not always cordial. This was largely because the company had not been recording a consistently good performance. There were frequent cuts in production every year because of go-slows and strikes by workmen—most of them related to wage hikes and bonus payments.

With a view to ensuring a better understanding on the part of labour, the problems of company management, the Horizon board, led by chairman and managing director Avinash Chaturvedi, began to toy with the idea of taking on a workman on the board. What started off as a hesitant move snowballed, after a series of brainstorming sessions with executives and meetings with the union leaders, into a situation in which Kshirsagar found himself catapulted to the Horizon board as workman-director.

It was an untested ground for the company. But the novelty of it all excited both the management and the labour force. The board members—all functional heads went out of their way to make Kshirsagar comfortable and the latter also responded quite well. He got used to the ambience of the boardroom and the sense of power it conveyed. Significantly, he was soon at home with the perspectives of top management and began to see each issue from both sides.

It was smooth going until the union presented a week before the monthly board meeting, its charter of demands, one of which was a 30 per cent across-the-board hike in wages. The matter was taken up at the board meeting as part of a special agenda.

“Look at what your people are asking for”, said Chaturvedi, addressing Kshirsagar with a sarcasm that no one in the board missed. “You know the precarious finances of the company. How could you be a party to a demand that simply can’t be met? You better explain to them how ridiculous the demands are”, he said.

“I don’t think they can all be dismissed as ridiculous”, said Kshirsagar. “And the board can surely consider the alternatives. We owe at least that much to the union”. But Chaturvedi adjourned the meeting in a huff, mentioning, once again to Kshirsagar that he should “advise the union properly”.

When Kshirsagar told the executive committee members of the union

that the board was simply not prepared to even consider the demands, he immediately sensed the hostility in the room. “You are a sell out”, one of them said. “Who do you really represent—us or them?” asked another.

“Here comes the crunch”, thought Kshirsagar. And however hard he tried to explain, he felt he was talking to a wall.

A victim of divided loyalties, he himself was unable to understand whose side he was on. Perhaps the best course would be to resign from the board. Perhaps he should resign both from the board and the union. Or may be resign from Horizon itself and seek a job elsewhere. But, he felt, sitting in his office a little later, “none of it could solve the problem”.¹²

Question

1. What should he do?

REFERENCES

1. Gita Piramal, *Business Maharajas*, Viking, 1996, pp. 380–384.
2. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third Edition, West Publishing, New York, 1989, p. 560.
3. *Ibid.*, p. 560.
4. *Ibid.*, p. 561.
5. *Ibid.*, p. 561.
6. Eugene V. Schneider, *Industrial Sociology*, Tata McGraw-Hill, New Delhi, 1983, p. 314.
7. *Ibid.*, p. 318.
8. E.A. Ramaswamy, “Trade Union and Politics”, *Business India*, October 7–20, 1985.
9. *The Economic Times*, April 9, 1995.
10. John Bratton and Jeffrey Gold, *Human Resource Management*, Palgrave Macmillan, 2003, p. 413.
11. David Decenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, Third Edition, Prentice-Hall of India, New Delhi, 1988, p. 582.
12. R. Chandrasekhar, *The Buck Stops Here*, Macmillan, pp. 75–76.

Resolving Disputes

Learning Objectives

After reading this chapter, you should have a good understanding of:

- The nature of industrial disputes and causes for industrial strife
- The different methods of settling disputes

Opening Vignettes

EMPLOYEES' FUTURE BLEAK AS SUN SETS ON KIOCL

Few industrial or mining ventures have been launched in the State of Karnataka with such fanfare as the Kudremukh iron ore project. The sun has set on a project which only three decades ago had been hailed as a sunshine mining venture. It was a publicity blitz the project received in the mid-1970s which would have been the envy of some of the major information technology players today.

The project was launched under much publicity hype and the focus those days was on its Indo-Iranian joint venture aspect. The Shah's regime of Iran had committed financial assistance of '500 crores for the project which would supply iron ore concentrates to that country. Till then raw iron ore was being exported to Japan and other countries. That the concentrates would be carried by slurry to the Mangalore Port was another novelty. The concentrates were to be shipped to the Iranian port of Abbgas in the Strait of Hormuz. The Metallurgical and Engineering Consultants were associated with the project.

The project was a star crossed one from almost the beginning. The overthrow of the Shah of Iran and the rise of Ayatollah Khomeini spelt doom for the project. The Government of India had to look for alternative sources

of investment and buyers for iron ore concentrates.

However, it was not the environmentalists or the people of Chikmagalur district who were the first to draw attention to the harm the mining project would cause to the environment. Years before they came to interest themselves with protection of the ecology, a Director of Mines and Geology, Annaiah, had sounded caution about the project and questioned the claims being made about it.

The Kudremukh iron ore project is, perhaps, the third one to be closed down in the State. The first being Kemmangundi which was supplying ore to the Visvesvaraya Iron and Steel Ltd. (earlier Mysore Iron and Steel Ltd.) at Bhadravati. The other major mining project to be closed down is the fabled Kolar Gold Fields (called Bharat Gold Mines Ltd.) in recent decades.

Though the Kudremukh Iron Ore Company Ltd. (KIOCL) took up afforestation programme in the Western Ghats, it was not enough to convince the Supreme Court which ordered an end to mining.

The questions being raised now relate to the future of the employees of the mining company who have lost their jobs and the vast and modern infrastructure and the township built by it. A fear is also being expressed that the vacuum created by the closure of the mines would encourage increased naxalite activities in the region, where the extremists have already dug in.

The New Year has begun on a cruel note for the Kudremukh employees and the company. For them the environmentalists are an anathema.¹

For nearly two decades post economic reforms period, disputes were almost non-existent. In a city like Bangalore, processions with red flags, sloganeering, traffic disruption, strikes, lockouts, pen-down strikes and go-slow tactics which were seen almost daily are not witnessed now. Trends are same in other cities. But suddenly since two years, industrial unrest is surfacing, of course mainly in the manufacturing sector. New economy firms like information technology, BPO and software are almost free from labour trouble. Manufacturing sector employs only 11 per cent of the total workforce, but the sector and its employees are seen as a bellwether for the economy as a whole.

Industrial disputes manifest in the form of violence in the shopfloors, strikes, *bundhs* and lockouts. The consequences of disputes are loss of

production, loss of market, loss of profit, and even closure of the plant as stated in the opening vignette. A strike at Maruti cost the company a production loss of 83,000 cars and a revenue loss of \$ 500 million.

NATURE OF DISPUTES

According to the Industrial Disputes Act, 1947, industrial disputes mean between employees and any dispute or difference between employers and employees, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or terms of employment or with the conditions of labour of any person (S 2(K)).

The definition is too broad and includes conflicts even among employers under the term 'dispute'. In practice, disputes mainly relate to the strife between employees and between employers and their employees.

Academically speaking, **industrial dispute** refers to any conflict between employees and employers, between employers and employers and between employees and employees. But in reality, dispute is understood as the conflict between employees and employers.

CAUSES OF DISPUTES

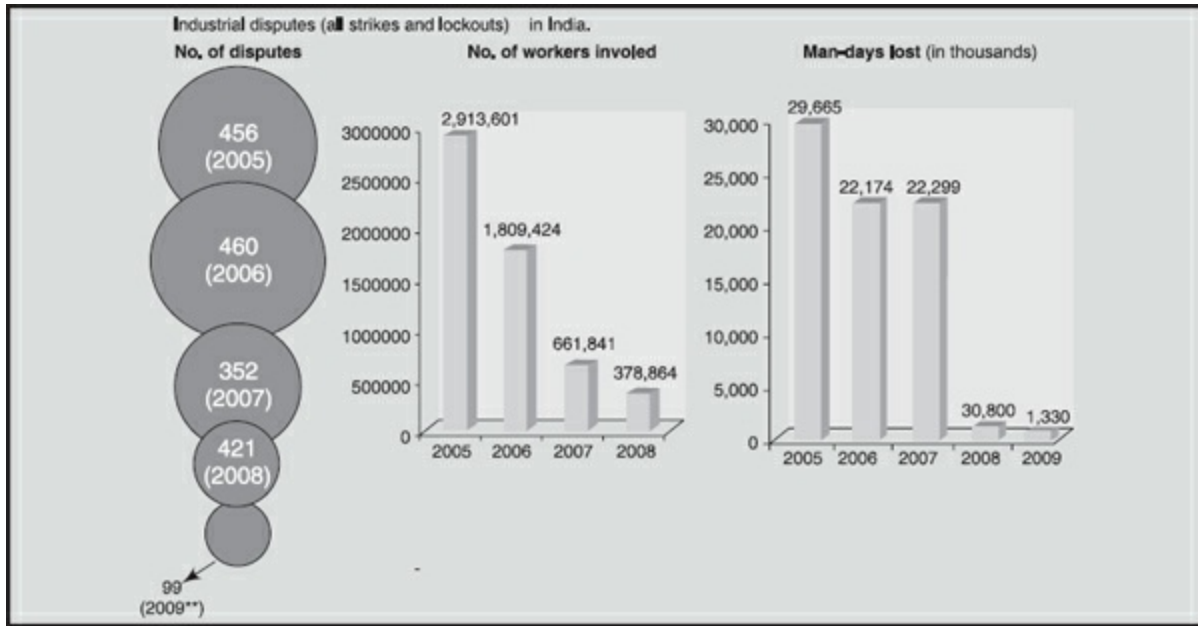
The causes of industrial disputes are many and varied. The major ones relate to wages, union rivalry, political interference, unfair labour practices, multiplicity of labour laws, contract workers, technology, economic slowdown, and others. [Table 22.1](#) gives details about the number of disputes and the loss of man-days.

Wage Demands

By far, the most important cause for disputes relates to wages. The demand for wages has never been fully met because of inflation and high cost of living. High inflation results in increased cost of living resulting in never-ending demands from unions.

It has been analysed that wage payments as a percentage of net value created by commercial enterprises, have dropped from 30.3 per cent to 11.6 per cent over 30 years, as profits have increased from 23.4 per cent of the net value to 56.2 per cent, suggesting that productivity has risen, but wages have not gone up in proportion with rise in profits.

Table 22.1 Factory Problems



What is worse is that wages legitimately due to the workers have not been paid regularly. It is stated that the Indian corporate sector owed at least ‘711 crore in unpaid wages. This does not include off-roll workers. The hapless workers do not approach labour courts for justice, since justice rarely comes. In 2011, labour courts had a backlog of 13,527 cases which rose to 13,642 in 2012.

Managements and unions will have a wage agreement generally valid for three years. Each new agreement is preceded by a prolonged battle between managements and unions, often resulting in strikes and lockouts. Agreement reached in one company will inspire unions in other plants in the locality, and make them pitch tents demanding similar rise in wages.

Closely related to wages are bonus, incentives, and other allowances. Of all these, wages have been a major issue of contention that leads to disputes.

Temp and Contract Labour

Many organisations have hired contract labour or have workers on temporary (temp) basis. Nokia, for example, has 50% contract labour and Ford 75%. Roughly, 40 to 70% of employees in the organised sector are either temps or on contract basis. It works out quite economical for employers to have these employees because of low wages and absence of other statutory benefits, otherwise available to regular employees.

What is more relevant in this context is the wage disparities that exist between a regular employee and his counterpart who is a temp or the one on contract. For similar work, the former is paid ₹20,000 a month, but the latter gets paid around ₹6000. Work schedules for contract workers are bone-breaking, job insecurity is taunting them eternally, and harassment of labour contractor is too severe. A typical contract worker, in a way, has matrix bosses—the company which hires and the labour contractor who is the real employer.

The Contract Labour Act, 1970 stipulates that no contract labour can be appointed for a permanent work. But except Andhra Pradesh, no other state has defined which is a permanent work and which is not. About 50 judgements on contract labour by Supreme Court and equal number of orders by various state governments have not improved the plight of the contract workers.

Disparities in remuneration, step motherly treatment, and social disconnect make a large percentage of employees vulnerable and potential source of unrest.

Political Interference

Major trade unions are affiliated to political parties. Political affiliation is not peculiar to our country alone. Even a cursory assessment of labour movements around the world would show that trade unions are, by their very nature, political, and that politicisation of labour is the rule rather than the exception. This is so much the case that Flanders, an acknowledged British expert on IR, remarked:

Everywhere trade unions have been compelled to engage in political action to obtain enough freedom from legal restraint to exercise their main

industrial functions. Freedom of association, the right to strike and to picket, the prevention of undue influence in their internal affairs, are familiar objectives which have demanded the use of political methods. Unions have also fought for legislation that would assist them in collective bargaining and the like. Much more could be said about this, but these indications should suffice to show that, as a minimum, trade unions must be involved in politics in order to establish and maintain the legal and economic conditions in which they can flourish ... It makes the term 'non-political union', taken literally, a non-essential description, there is no such animal.²

What happens when unions get politicised? In the *first place*, distant ideological issues divide and fragment unions on party lines. When unions multiply, inter-union rivalry erupts and the consequences are too obvious. *Second*, inspired by their political ideologies, certain unions refuse to sign an agreement even if it is favourable to all the workers and thus these perpetual dissenters manage to keep the issue alive. The communist led CITU is an example to be quoted.

The CITU follows a pristine model of trade unionism drawn from the theory of class conflict... The communists love to fight, but hate to win. Victory for them appears to be defeat... The general secretary of CITU had an answer to the accusation that they never signed a settlement: 'When we start discussions, we know what is a fair settlement. Others may be willing to accept unfair terms, but we cannot. We are also opposed to long-term settlements. Many settlements here are for four years. Anything can happen during this time. The cost of living could triple. Our position is that no settlement should be for more than three years' ... In point of fact, the communists had managed to maintain their lily-white image by refusing to sign any settlement for fifteen long years.³

Third, every political party somehow engineers strikes, *gheraos* and *bandhs* to demonstrate its political strength. Invariably, the political party which is in power favours a union which is affiliated to it, and the result is endless disputes.

Technology

Technology, which has revolutionised the production process and which resulted in enhanced skills, increased productivity and higher earnings for

employees, has itself become a cause for unrest. Fear of new technology, skill gap and resistance to change are some points relevant in this context. More to the list of points is the harrowing experience of a typical worker operating high tech machines as in Maruti. The automobile major has state-of-the-art technology that can turn out one car in every 48 seconds. This is simply marvellous. But the conditions of a worker are worth describing.

Maruti workers must sign 'Standing Orders' that, among 100 other conditions, bar them from slowing down work, singing, gossiping, spreading rumours and making derogatory statements against the company and the management. The work record is examined during yearly appraisals.

Mistakes multiply as the speed of the line increases, work intensity spikes and workers spend less time on each car. But the management feels that productivity is independent of work intensity. One gets the impression that eight hours of intense physical work is seen as the *ceteris paribus* of the assembly line. Given these eight man hours of work, productivity is determined by algorithms that plot variables like the pattern in which different car models are made, the length of line, and the number of workstations. The speed of a line is a design issue. A worker works for eight hours every day. The line is designed so that the worker can safely fix a part, rest and resume work on the next car in the allotted time. For a worker, line acceleration can be a harrowing experience.

Trade Unions

A trade union which is one of the stakeholders in maintaining industrial peace is itself a party to disputes. The Constitution of India guarantees a right to form unions in industrial establishments. But management of an organisation refuses to recognise workers' union sparking protests, strikes and even violence, as was witnessed in Maruti. Maruti is no exception. Most MNCs do the same, except Nokia which encouraged unionisation of its employees and even recognised the union. Management's role in denying union recognition is seen in an indirect way. In most of the organisations, the small number of regular employees is overshadowed by the presence of a large number of temps and contract labour. Temps and contract labour cannot become members of unions. Regular employees whose number is small, find it highly difficult to form an union.

At the other end of the spectrum is the presence of multiple unions resulting in rivalry among them. If one union agrees to a wage settlement, another union will oppose it. Consequence is never-ending disputes, as has been happening at Singarori Collieries. The company had 445 strikes 1990-91 resulting in a loss of production of 3.12 mn tonnes and 34.19 lakh man-days. The main reason is union rivalry.

Multiplicity of unions poses peculiar problems to management. One such problem relates to the authenticity of memberships. Unions put up respective numbers of members in such a way that when added together the figure exceeds the total number of employees in the organisation. Another problem relates to the selection of a bargaining agent in the collective bargaining process. Large scale violence is yet another problem from union-rivalry (See Exhibit 22.1).

Exhibit 22.1 Union Rivalry and Violence

The Bangalore-based leader in automobile components has an experience which no rival should have. Upto 1978 the company had only one union headed by MSK, a veteran Communist leader and an outsider to the plant. But 1978 changed the IR scenario. In an election held, MSK's team was trounced by a group comprising all employees of the plant. The winning team however was headed by S, who was an outsider.

The management did not take kindly to union led by S. It started supporting another team headed by MDN who was also an outsider and who enjoyed the support of the then Chief Minister of Karnataka. MDN and his supporters, abetted by the police and the management, resorted to large-scale violence and the supporters of S were severely beaten inside the plant. S, who had 3/4th of the employees behind him, gave a call and the employees struck work. The strike lasted six months.

The general elections to state assembly were held in Karnataka in 1980 and there was a change in the state leadership. MDN too lost his clout. The new Chief Minister encouraged his own crony FMK who claimed himself to be a labour leader.

The management looked forward to FMK to browbeat S. It recognised the union led by FMK (who, like MDN, was an outsider) and the union was an affiliate of INTUC.

This led to another strike lasting three months. Management signed an agreement with the union led by FMK though S continued to enjoy majority support from employees.

Angered at the settlement reached, S took up the case to the High Court of Karnataka. Violence had its toll again. The management's advocate was assaulted and the HRD manager too was man-handled and was stripped naked inside the plant. There were stabbings too.

Continuous struggle and solidarity of the workers had the last laugh. The management was forced to recognise S as the union leader. FMK lost his clout among the workers. This followed the loss of power by the Chief Minister who had supported FMK.

Both the management and S let the bygones be bygones. The company has been enjoying cordial IR till today.

Unfair Labour Practices

Majority of disputes are management inspired. The following points⁴ justify the assertion:

1. The management is generally not willing to talk over any disputes with the employees or the representatives, or refer it to 'arbitration' even when trade unions want it so, and this enrages the workers.
2. A management's unwillingness to recognise a particular trade union and the dilatory tactics to which it resorts while verifying the representative character of any trade union have been a source of industrial strife.
3. Even when representative trade unions have been recognised by employers, they do not, in a number of cases, delegate enough authority to their officials to negotiate with their workers, even though the representatives of labour are willing to commit themselves to a particular settlement.
4. When, during negotiations for the settlement of a dispute, the representatives of employers unnecessarily and unjustifiably take the side of the management, tensions are created, which often lead to strikes, go-slows or lockouts.
5. The management's insistence that it alone is responsible for

recruitment, promotion, transfer, merit awards, and so forth and that it need not consult employees in regard to any of these matters generally annoys workers, who become uncooperative and unhelpful, and often resort to strikes.

6. The services and benefits offered by the management to its employees promote harmonious employer-worker relations. But a large number of managements have not taken any steps to provide these benefits and services for their workers.

The Industrial Disputes Act, 1947, is more specific about the unfair labour practices. According to the Act, the following constitute unfair labour practices:

1. To interfere with, restrain from or coerce workmen in the exercise of their right to organise, form, join or assist a trade union or to engage in concerted activities for the purposes of collective bargaining or other mutual aid or protection, that is to say,
 - (i) threatening workmen with discharge or dismissal if they join a trade union;
 - (ii) threatening a lockout or closure, if a trade union is organised; and
 - (iii) granting wage increases to workmen at crucial periods of the trade union organisation, with a view to undermine the efforts of the trade union at organisation.
2. To dominate, interfere with or contribute support, financial or otherwise, to any trade union, that is to say,
 - (i) an employer taking an active interest in organising a trade union of his or her workmen; and
 - (ii) an employer showing partiality or granting favour to one of several trade unions attempting to organise his or her workmen or to its members, where such a trade union is not a recognised trade union.
3. To establish employer-sponsored trade unions of workmen.
4. To encourage or discourage membership in any trade union by discriminating against any workman, that is to say,
 - (i) discharging or punishing a workman, because he or she urged other workmen to join or organise a trade union,

- (ii) discharging or dismissing a workman for taking part in any strike (not being a strike which is deemed to be an illegal strike under this Act);
- (iii) changing seniority rating of workmen because of their trade union activities;
- (iv) refusing to promote workmen to higher posts on account of their trade union activities;
- (v) giving unmerited promotions to certain workmen with a view to creating discord amongst the workmen or to undermine the strength of their trade union; and
- (vi) discharging office-bearers or active members of the trade union on account of their trade union activities.

5. To discharge or dismiss workmen

- (i) by way of victimisation;
- (ii) not in good faith, but in the arbitrary exercise of the employer's rights;
- (iii) by falsely implicating a workman in a criminal case on false evidence or on concocted evidence;
- (iv) for patently false reasons;
- (v) on untrue or trumped up allegations of absence without leave;
- (vi) in utter disregard of the principles of natural justice in the conduct of domestic enquiry or with undue haste; and
- (vii) for misconduct of a minor or technical character, without having any regard to the nature of the particular misconduct or the past record or service of the workman, thereby leading to a disproportionate punishment.

6. To abolish work of a regular nature being done by workmen, and to give such work to contractors as a measure of breaking a strike.

7. To transfer a workman *mala fide* from one place to another, under the guise of following management policy.

8. To insist upon individual workmen, who are on a legal strike, to sign a good conduct bond as a precondition to allowing them to resume work. (But if the workman who is on strike has also indulged in violence and sabotage, the employer may insist for a good conduct bond.*)

9. To show favouritism or partiality to one set of workers regardless of

merit.

10. To employ workman as '*badlis*', casuals or temporaries and to continue them as such for years, with the objective of depriving them of the status and privileges of permanent workmen.
11. To discharge or discriminate against any workman for filing charges or testifying against an employer in any enquiry or proceeding relating to any industrial dispute.
12. To recruit workmen during a strike which is not an illegal strike.
13. Failure to implement award, settlement or agreement.
14. To indulge in acts of force or violence.
15. To refuse to bargain collectively, in good faith with the recognised trade unions.
16. Proposing or continuing a lockout deemed to be illegal under this Act.

Pause and Ponder

Do we need HR managers to manage people functions? Can't line managers themselves manage HR functions?

Multiplicity of Labour Laws

Labour laws in our country, as in several other countries, have been enacted to create conditions for the protection of labour from unfair employment practices and to provide a legal framework within which IR is to be regulated.

Labour legislation is regarded as the most dynamic institution. From a simple restraint on child labour in 1881, labour legislation in our country has become an important agency of the State for the regulation of working and living conditions of workers, as indicated by the rising number and variety of labour acts. This rapid development of labour legislation is an integral part of the modern social organisation.

There are more than 150 Acts, both Central and State, earning our country the dubious distinction of being one of the few highly labour legislated countries in the world. What has been the outcome of all these?

Surely, the result has been endless confusion, industrial strife, loss of production and exploitation of labour by the management and of the

management by the labour (Read also Exhibit 22.2 and [Chapter 20](#)).

Exhibit 22.2 The Confusion in Labour Laws

A study by a Delhi-based think tank underlines the diversity of labour laws and regulations in the states. Can India ever have a uniform approach to labour law? The prospects of this ever happening seem extremely dim, as the study on labour laws in the states argues. Titled ‘Competitive Labour Policies and Labour Laws in Indian States’, the report by C.S. Venkataratnam was commissioned by the Delhi-based LARGE (Legal Adjustments and Reforms for Globalising the Economy), a venture dedicated to overhauling laws and regulations.

The report underscores the sheer diversity of rules in the states. Consider the following. The states are allowed to set up labour courts. Some states have raised the upper age limit for labour court members from 65 to 67, and decreased the length of the prior judicial experience required for such appointments from five years to three or two years. Or consider the notice period that employers are required to provide state governments if they want to alter working conditions. The Industrial Disputes Act requires 21 days’ advance notice, but Andhra Pradesh and West Bengal have doubled the length of the notice period that employers are required to provide to 42 days.

It does not help either. At the state level, the bureaucracy interprets regulations differently. In Maharashtra, for example, the minimum wages law is not applicable to the electronics industry. But labour inspectors in some districts sometimes classify electronics units as engineering enterprises, which are covered by the minimum wages law.

VARYING WAGES

State	Daily wages in ₹ (April 1996)	
	Minimum	Maximum
Andhra	11.00	41.35
Assam	32.80	38.20
Bihar	23.00	39.70
Gujarat	15.00	48.00

Maharashtra	8.00	70.46
Haryana	51.57	52.00

Lending a further dimension to this picture of confusion is the IR position in the states. In West Bengal, trade unions affiliated to political parties are widespread, Maharashtra has several independent enterprise-level unions. In Bangalore, several firms that operate in the new high-technology industries have no unions at all. And Gujarat has seen the rise of the so-called footpath unionism—briefless lawyers mobilise seven employees in an organisation, register a union, pursue their individual grievances in court, and pocket a sizeable share of any compensation that workers obtain.

What is more, minimum wages vary widely across different states. The Minimum Wages Act of 1948 was enacted by the Centre, but the states are responsible for setting up tripartite minimum wage advisory bodies—and they unilaterally declare minimum wage increases in the pursuit of populism. The outcome is predictable. In Maharashtra alone, minimum wages for unskilled workers vary from \$8 to \$70 (see the Table above). The report, therefore, calls for a thorough review of the Centre-State relations in the sphere of labour laws and labour administration. However, it warns that changes in labour laws alone won't be sufficient—the attitudes of the labour bureaucracy and the judiciary have to be harmonised, too.

What is strange is that in developed countries of the Western world, labour legislation followed the emergence of industrialisation and in response to a demand for economic and social betterment of the workers. In India, the emergence of labour laws preceded industrial growth. As a result, the persons who were benefited by such laws represent only a small percentage of the total workforce. We neither experienced an industrial revolution, in the true sense of the term, leading to the gradual emergence of a welfare state, nor a socialist revolution which binds the public sector with a sense of performance. Yet we have evolved the most advanced industrial jurisprudence in the world.⁵

Judiciary has not played a positive role either. During the last decade and a half, in the name of 'directive principles', 'social justice' and 'activist law making', the judiciary, instead of having a balanced and reasoned

consideration of opposing interests, has given a volley of confusing statements, thereby undermining discipline. It has gone to the extent of saying that even an “illegal strike is justified”. By those whose horizons are limited, trifles are easily confused with technicalities. The result is that indiscipline in industry has spread like wildfire and sapped the national production and productivity. The classic case is that of the textile industry which has been wrecked by indiscipline. The conflagration is continuing to engulf various industries one by one.⁶

The role of judiciary in resolving disputes has been regressive. By giving conflicting statements, (for example, declaring an illegal strike as justified) judiciary has aggravated indiscipline among workers.

In order to revamp the judiciary, the Government of India set up a Second National Commission on labour on October 15, 1999. The Commission was required to look into the following:

- To suggest rationalisation of existing laws relating to labour in the organised sector.
- To suggest an umbrella legislation for ensuring a minimum level of protection to the workers in the unorganised sector.
- In developing the framework for its recommendations, the Commission was to take into consideration the minimum level of labour protection and welfare measures, and the basic institutional framework for ensuring the same.

The Commission submitted its report on June 29, 2002. It recommended the following:

- No prior permission necessary for lay-off, retrenchment;
- No need for any wage board;
- Five holidays and 10 restricted ones a year;
- No contract labour for core production services;
- A trade union with at least 66 per cent membership to be single negotiating agent;
- Setting up a grievance redressal committee for organisations employing 20 or more persons;
- Creation of a high-power National Social Security Authority, preferably

- under the Prime Minister's chairmanship;
- Evolving a policy framework and enactment of law for unorganised sector workers to ensure generation and protection of jobs.

Others

The global economic meltdown is a major concern leading to disputes. Three companies in India have declared lock out at their units in Nov. 2008. The companies are MRF Ltd., Apollo Tyres Ltd, and Bosch Ltd, The reason cited is the fall in demand. In August of the same year labour unrest was reported at the Aurangabad based Skoda Auto India (P) Ltd. Less said the better about the IT companies. Hundreds of employees are either laid off or benched indefinitely. Scenario is not bad as of now. Indian economy is on the growth phase and the worst is placed behind.

As was stated earlier, IR managers themselves stoke the fire and then try to extinguish it—all to justify their own existence in organisations.

The intellectual background of IR managers may have much to do with the way the function has evolved. Predominantly, they have been trained in either social work or law, and sometimes in both. Social work as a discipline is strongly oriented towards welfare, which is not the best intellectual equipment for a man who has to face the fire and brimstone of trade unionism. Law trains the manager in methods of punishing the errant, not of motivating the average.

Neither discipline teaches the pupil to regard trade unionism as anything more than a necessary evil, nor IR itself has developed as an academic discipline, and there is just one university in this country which has a separate department for that subject. Sociology, political science and economics, which have far greater relevance, have never been major inputs.⁷

Some other causes are rampant industrial sickness resulting in lay-offs, retrenchment and other separations, reinstatement of dismissed workers, and poor working conditions inside the plants.

DISPUTES MANIFESTATION

Disputes, not resolved for long time, lead to dissatisfaction which manifests in formal and informals ways. Manifestation can be at the

individual employee or at group or organisation level (see [Fig 22.1](#)).

SETTLEMENT OF DISPUTES

Whatever may be the cause of industrial disputes, the consequences are harmful to all stakeholders—management, employees, economy, and the society. For management, disputes result in loss of production, revenue, profit and even sickness of the plant.

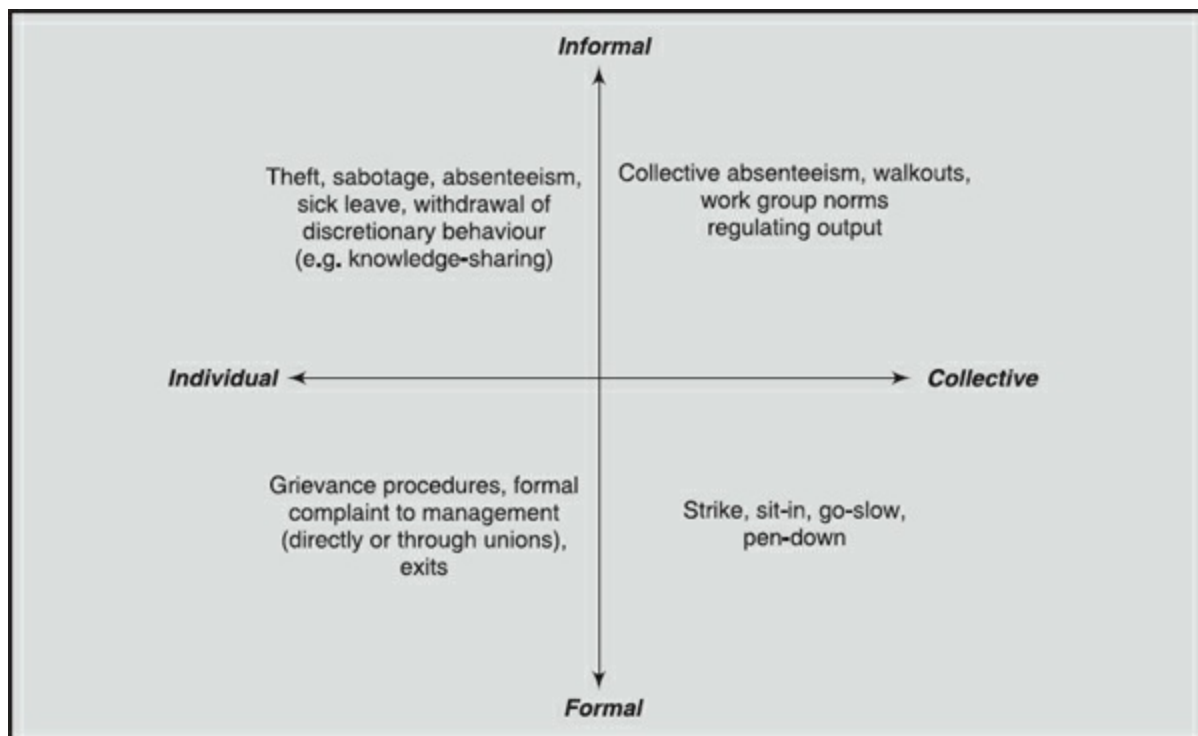


Fig 22.1 *Expression of Employee Dissatisfaction*

(Source: Nick Wilton, *Human Resource Management*, Sage, 2011, p. 370)

Employees would be hard hit as the disputes may lead to lockouts and consequent loss of wages and even jobs. Industrial establishments are pillars of the economy and the economy is bound to collapse if industries are torn by industrial strife. The cumulative effect of all these is felt by society.

A dispute, therefore, needs to be settled as early as possible.

Various methods are available for resolving disputes. More important of them are (see [Fig. 22.2](#)):

1. Collective bargaining
2. Code of discipline
3. Grievance procedure
4. Arbitration
5. Conciliation
6. Adjudication
7. Consultative machinery

Pause and Ponder

Which of these seven disputes-resolving methods, do you think, is the ideal one? Why?

Collective Bargaining

Collective bargaining is probably the most effective method of resolving industrial disputes. It occurs when representatives of a labour union meet management representatives to determine employees' wages and benefits, to create or revise work rules, and to resolve disputes or violations of the labour contract.⁸

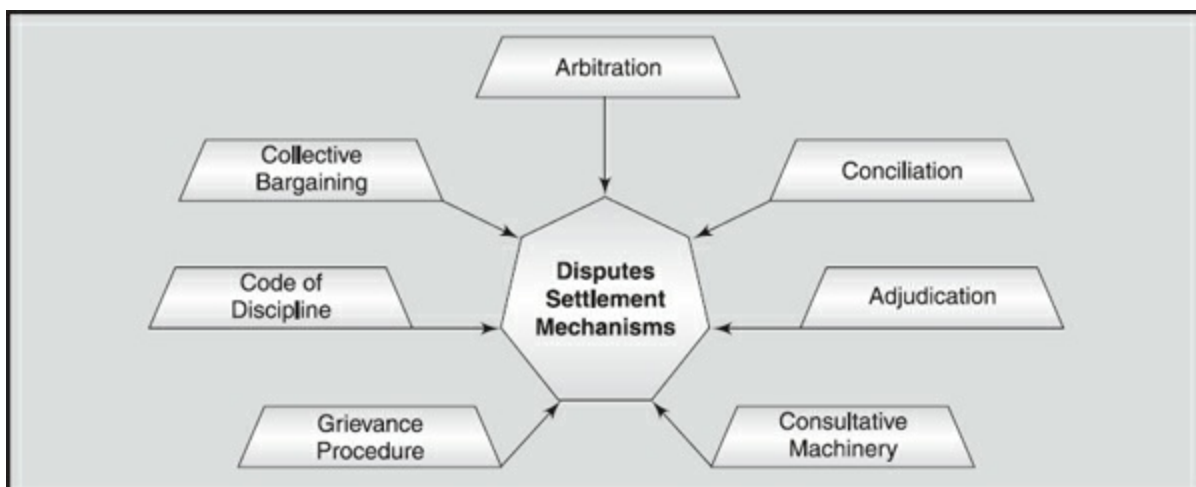


Fig. 22.2 Disputes Settlement Mechanisms

Collective bargaining takes place when representatives of a labour union

meet management representatives to determine employees' wages and benefits and to solve other issues. Collective bargaining is the most effective method of resolving industrial disputes

The bargaining is collective in the sense that the chosen representative representative of the employees (i.e. the union) acts as a bargaining agent for all the employees in carrying out negotiations and dealings with the management. The process may also be considered collective in the case of the corporation in which the paid professional managers represent the interests of the stockholders and the board of directors in bargaining with the union leaders. On the employer side, it is also collective in those common situations in which the companies have joined together in an employer association for purposes of bargaining with a union.⁹

It may be stated that the term collective bargaining was first coined by Sidney and Beatrice in their book *Industrial Society* in 1897.

Approaches to Collective Bargaining Collective bargaining has been viewed from three perspectives:

1. As a process of social change,
2. As a peace treaty between the conflicting parties, and
3. As a system of industrial jurisprudence.

Process of Social Change Collective bargaining is understood as a technique of bringing about a change in the balance of power between employers and employees. It helps the inferior social class or group exert pressure on the powerful group for a bigger share in social, economic and political power, as well as for better welfare, security and liberty to individual members. This is the real spirit behind collective bargaining, though in its narrow sense, perceived as a tool for resolving industrial disputes.

Peace Treaty Collective bargaining is understood as a peace treaty in a continual conflict. But the peace is temporary as neither side is completely satisfied with the results. Each party would like to break the treaty at the earliest opportunity and come forward with new list of demands, including previously unsatisfied ones.

Industrial Jurisprudence Collective bargaining creates a system of industrial jurisprudence—a method of introducing civil rights into the industry requiring that the management deals with the labour by rules rather than by arbitrary decisions. It is this role of collective bargaining which helps resolve industrial disputes.

Collective bargaining benefits both employees as well as employers. This means that the basic interests of the management are protected and also the rights of the employees. The two sides have a responsibility towards each other. For example, unions should not expect the management to concede on issues which would ultimately impair the company's ability to stay in business. Likewise, the management must recognise the rights of employees to form unions and to argue for improved wages and working conditions.

Collective bargaining infuses democratic principles into the industrial world. Workers participate in decisions that affect their work and work life. Thus, collective bargaining may be viewed as a form of participative management.

Importance of Collective Bargaining In summary, collective bargaining offers the following benefits to both employers as well as employees:

1. It helps increase economic strength of both the parties at the same time protecting their interests.
2. It helps establish uniform conditions of employment with a view to avoid occurrence of industrial disputes.
3. It helps resolve disputes when they occur.
4. It lays down rules and norms for dealing with labour.
5. It helps usher in democratic principles into the industrial world.

Strategic Choices When faced with a collective-bargaining situation, managers are required to make many strategic choices. The more important of them are:¹⁰

1. Managers must decide when to open the negotiations. Sometimes it is advisable to open the talks long before the wage agreement expires if a strike will cripple the business. At other times, it may be advantageous to start negotiations after the agreement expires. Managers must interpret the situation appropriately and make the decision.
2. Managers must examine the possibility of a strike and decide on the

ways of handling it, should it occur. For example, managers must examine the necessity of building up inventory and ensuring that distributors have adequate stocks of goods.

3. It is also important for managers to understand which issues to raise first and which to wait for. If the management knows that a particular issue will cause a problem, perhaps it would be advantageous to defer the discussion until progress is being made in the negotiation process.
4. Managers must decide upon the individuals who would represent their side at the negotiating table.
5. Finally, managers need to decide how closely they will follow the agreement, once it is signed.

Collective Bargaining Process Collective bargaining has two facets: **(i)** negotiating the work conditions that become the collective agreement (contract) describing employer-employee relationship on the job; and **(ii)** interpreting and enforcing the collective agreement (contract administration) and resolving any conflict arising out of it. Both these aspects are discussed here, though, contextually, the second is more relevant.

The process of collective bargaining involves six major steps (Also see [Fig. 22.3](#)):

1. Preparing for negotiations
2. Identifying bargaining issues
3. Negotiation
4. Reaching the agreement
5. Ratifying the agreement
6. Administration of the agreement.

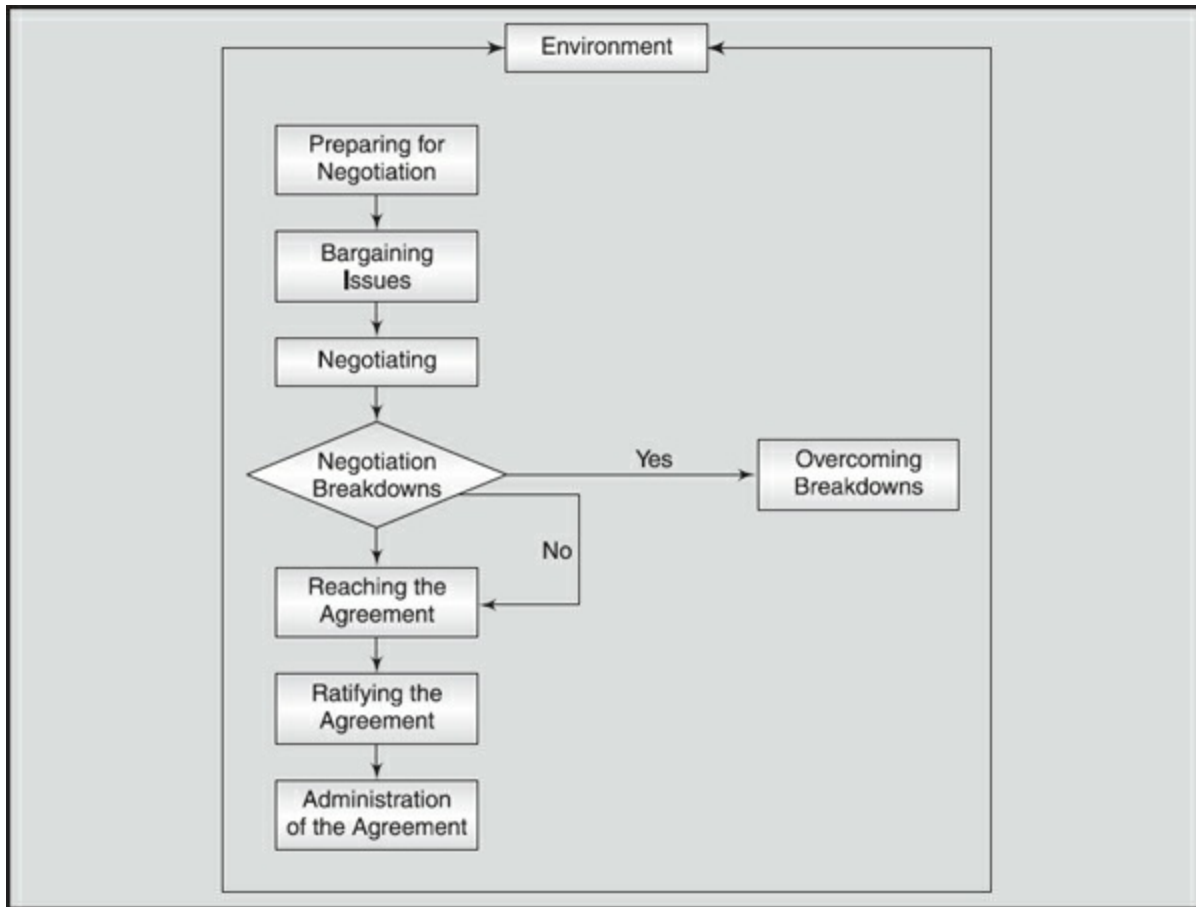


Fig. 22.3 The *Collective Bargaining Process*

Source: Adapted from R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, p. 407.

As seen in Fig. 22.3, the environment influences the collective-bargaining process. One environmental factor is the type of bargaining structure that exists between the union and the company. The four major types of structures are:¹¹

(i) one company dealing with a single union, (ii) several companies dealing with a single union, (iii) several unions dealing with a single company, and (iv) several companies dealing with several unions. The bargaining process is simple and easy if the structure is of the first variety and becomes complicated and difficult in the remaining.

Another environmental factor influencing a collective-bargaining process is the type of unionmanagement relationship which exists. The relationship may be marked by adversity or co-operation. Co-operative spirit facilitates

collective bargaining, whereas non-cooperative spirit impedes the process.

Preparing for Negotiations Careful advance preparations by employers and employees are necessary because of the complexity of the issue and the broad range of topics to be discussed during negotiations. Effective bargaining means presenting an orderly and factual case to each side. Today, this requires much more skill and sophistication than it did in earlier days, when shouting, and expression of strong emotions in smoke filled rooms were frequently the keys to getting one's proposals accepted.¹² From the management side the negotiators are required to:¹³

1. Prepare specific proposals for changes in the contract language,
2. Determine the general size of the economic package the company proposes to offer,
3. Prepare statistical displays and supportive data for use in negotiations, and
4. Prepare a bargaining book for company negotiations, a compilation of information on issues that will be discussed, giving an analysis of the effect of each case, its use in other companies, and other facts.

From the employees' side, the union should collect information in at least three areas:¹⁴

1. The financial position of the company and its ability to pay.
2. The attitude of the management towards various issues, as reflected in past negotiations or inferred from negotiations in similar companies.
3. The attitudes and desires of the employees.

The other arrangements to be made are selecting the negotiators from both sides and identifying a suitable site for negotiation.

Identifying Bargaining Issues The major issues discussed in collective bargaining fall under the following four categories:

1. *Wage-Related Issues* These include such topics as how basic wage rates are determined, cost of living adjustments, wage differentials, overtime rates, wage adjustments and the like.
2. *Supplementary Economic Benefits* These include such issues as pension plans, paid vacations, paid holidays, health insurance plans, retrenchment pay, unemployment pension, and the like.
3. *Institutional Issues* These consist of the rights and duties of employers,

employees, unions, employees' stock ownership schemes, and QWL programmes.

4. *Administrative Issues* These include such issues as seniority, employee discipline and discharge procedures, employee health and safety, technological changes, work rules, job security, training, and the like.

While the last two categories contain important issues, the wage and benefit issues are the ones which receive the greatest amount of attention at the bargaining table.¹⁵

The memorandum of settlement reached by a Bangalore-based electrical company and its employees' association, which became operative from 1st July 1994, covered the following:

1. *Revision of wage structure of daily rated and monthly rated employees fitment*
2. *Dearness Allowance*
3. *House Rent Allowance*
4. *Weightage*
5. *Washing Allowance*
6. *Education Allowance*
7. *Transport*
8. *Leave Travel Assistance*
25. *Privilege Leave*
9. *Provident Fund*
10. *Retirement Benefit*
11. *Shift Timings and Shift Allowance*
12. *Hazards Allowance*
29. *Recognition of Kannada Hitha*
13. *Uniforms, Shoes and Stitching Charges Rakshana Samithi*
14. *Festival Advance*
15. *Medical Reimbursement*
16. *Pension Scheme*
17. *Housing Loan*
18. *Promotion Policy*
19. *Vehicle Loan*
20. *Attendance Bonus*
21. *Service Award*
22. *Profit Sharing Bonus*
23. *Employment to next of kin of deceased and Retired Employees*

24. *National and Festival Holidays*
25. *Privilege Leave*
26. *Accommodation for Employees Association*
27. *First Aid Facility*
28. *Family Planning Benefit*
29. *Recognition of Kannada Hitha Rakshana Samithi*
30. *Settlement Period*
31. *All Other Prevailing Practices to continue*
32. *Retrospective Effect from 1-7-94*

Negotiating Preparations having been made and issues being identified, the next logical step in the collective-bargaining process is negotiation. The negotiating phase begins with each side presenting its initial demands. The negotiation goes on for days until the final agreement is reached. But before the agreement is reached, it is a battle of wits, playing on words, and threats of strikes and lockouts. It is a big relief to everybody when the agreement is finally signed by the management representatives and the union.

The success of negotiation depends on skills and abilities of the negotiators. Exhibit 22.3 contains guidelines for negotiations.

At times, negotiations may break down even though both the labour and the management may sincerely want to arrive at an amicable settlement. In order to get negotiations moving again, there are several measures that may be used:

1. Through third party intervention such as arbitration, and adjudication,
2. Unions tactics like strikes and boycotts, and
3. Management strategies such as lockouts, splitting the union, bribing union leaders, and using political influence.

Settlement and Contract Agreement After an initial agreement has been made, the two sides usually return to their respective constituencies to determine whether what they have informally agreed upon is acceptable. A particularly crucial stage is ratification. In this stage, the union-negotiating team explains and puts the agreement to the union members for a vote. If voted, this agreement is formalised into a contract. It is important that the contract must be clear and precise. Any ambiguity leads to grievances or other problems.

Administration of the Agreement Signing the agreement is not the end of collective bargaining, rather it is the beginning of the process. The agreement must be implemented according to the letter and spirit of the provisions of the agreement. But in day-to-day stress of the work environment, strict adherence to the provisions may not always be easy. Moreover, it may be difficult to draft a flawless agreement, notwithstanding the exacting efforts of the most experienced negotiators and lawyers specialised in IR. Flaws are allowed to continue till the expiry of the agreement period. Faulty implementation or violation of any provision leads to disputes.

Exhibit 22.3 Guidelines for Negotiations

The “Dos” of Negotiations:

1. Do seek more (or offer less) than you plan to receive (or give).
2. Do negotiate in private, not through the media.
3. Do let both sides win. Otherwise the other side may retaliate.
4. Do start with easy issues.
5. Do remember that negotiations are seldom over when the agreement is concluded. Eventually the contract will be renegotiated.
6. Do resolve deadlocks by stressing past progress, another point, or counter proposals.
7. Do enlist the support of the Federal Mediation and conciliation service if a strike seems likely.

The “Don’ts” of Negotiations:

1. Do not make your best offer first; that is so uncommon that the other side will expect more.
2. Do not seek unwanted changes; you may get them.
3. Do not say “no” absolutely, unless your organisation will back you up absolutely.
4. Do not violate a confidence.
5. Do not settle too quickly. Union members may think a quick settlement is not a good one.
6. Do not let the other side bypass your team and go directly to the top management.
7. Do not let the top management actually participate in face-to-face

negotiations. They are often inexperienced and poorly informed.

Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, New York, McGraw-Hill, 1993, p. 574.

The management is primarily responsible for implementing the agreement, which must be communicated to all affected levels. This could include meetings or training sessions not only to point out significant features, but also to provide a clause-by-clause analysis. Supervisors, in particular, need to know their responsibilities and what to do when disagreements arise. Additionally, managers can be encouraged to notify the top management of any contract provisions that are causing problems so that they can be considered when preparing for the next round of negotiations.¹⁶

The HR manager plays crucial role in the day-to-day administration of the contract. He or she advises on matters of discipline and works to resolve grievances arising out of the agreement. In addition, he or she works, with the line management to establish good working relationship with all employees affected by the terms and conditions of the agreement.

Collective Bargaining as a Method of Settlement of Disputes Till now, collective bargaining has been taken as a means of arriving at an agreement. Its role in settling disputes deserves a mention in this context.

Collective bargaining creates, as stated earlier, a system of industrial jurisprudence. It establishes rules which the management is bound to implement. Specifically, collective bargaining is:

- A rule-making or legislative process, in the sense that it formulates the terms and conditions under which labour and management will cooperate and work together over a certain stated period,
- An executive process; both management (foreman and supervisory officials) and trade union officials share the responsibility of enforcing the rules.
- A judicial process, for in every collective agreement there is a grievance procedure to settle any dispute concerning the application of the agreement. Where the agreement does not specifically cover the disputes, it may be settled according to the unwritten norms of shop practices. The decisions in these cases act as precedents in a manner

similar to the common laws and interpretation of the legislation by the court.

After a dispute has erupted, collective bargaining acts as a peace treaty between the two warring groups. The treaty is invariably a compromise, but helps resolve the conflict nevertheless.

Status of Collective Bargaining Table 22.2 shows the status of collective bargaining in our country. The number of agreements signed between employers and employees dropped from 959 in 1988 to 787 in 1991. So far as the issues are concerned, personnel matters have been predominant in all bargains.

Code of Discipline

The code of discipline defines duties and responsibilities of employers and workers. The objectives of the code are:

1. To ensure that employers and employees recognise each other's rights and obligations;
2. To promote constructive co-operation between the parties concerned at all levels;

Table 22.2 *Status of Collective Bargaining*

Year	No. of Agreements	Issues		
		Monitory	Health and Welfare	Personnel
1988	959	225	74	620
1989	961	164	44	733
1990	886	243	104	766
1991	787	205	108	670

Source: *Financial Express*, July 3, 1993.

3. To secure settlement of disputes and grievances by negotiation, conciliation, and voluntary arbitration;
4. To eliminate all forms of coercion, intimidation, and violence in IR;
5. To avoid work stoppages;
6. To facilitate the free growth of trade unions; and
7. To maintain discipline in industry.

The Third Five Year Plan document notes that the code lays down specific obligations for the management and the worker with the objective of promoting constructive co-operation between their representatives at all levels, avoiding stoppages as well as litigation, securing settlement of grievances by mutual negotiation, conciliation and voluntary arbitration, facilitating the growth of trade unions and eliminating all forms of coercion and violence in IR.

Just as there are codes of ethics, there are codes of discipline. A code of discipline defines duties and responsibilities of employers and employees.

The code of discipline evolved by the Ministry of Labour and Employment is given below.

Code of Discipline in Industry as Evolved by the Ministry of Labour and Employment The code does not have any legal sanction. But the following moral sanctions are behind it:

1. The central employers' and workers' organisations shall take the following steps against their constituent units when they are guilty of breach of the code:

- 1. To maintain discipline in industry: (both in Public and Private Sectors)** There has to be (i) a just recognition by employers and workers of the rights and responsibilities of either party, as defined by the laws and agreements (including bipartite and tripartite agreement arrived at all levels from time to time); and (ii) a proper and willing discharge by either party of its obligations consequent on such recognition.

The Central and State Governments, on their part, will arrange to examine and set right any shortcomings in the machinery they constitute for the administration of labour laws.

2. To ensure better discipline in industry:

(a) *Management and Union agree:*

- (i) that no unilateral action should be taken in connection with any industrial matter and that disputes should be settled at appropriate level;
- (ii) that the existing machinery for settlement of disputes should be utilised with the utmost expedition;
- (iii) that there should be no strike or lockout without notice;
- (iv) that affirming their faith in democratic principles, they bind themselves to settle all future differences, disputes and grievances by mutual negotiations, conciliation and voluntary arbitration; provided that the provision regarding voluntary arbitration as aforesaid shall not apply to cases involving security consideration;
- (v) that neither party will have recourse to (a) coercion; (b) intimidation; (c) victimisation; or (d) go-slow;
- (vi) that they will avoid (a) litigation; (b) sitdown and stay in strikes; and (c) lockouts;
- (vii) that they will promote constructive co-operation between their representatives at all levels

and as between workers themselves and abide by the spirit of agreements mutually entered into;

- (viii) that they will establish, upon a mutually agreed basis, a grievance procedure which will ensure a speedy and full investigation leading to settlement;
- (ix) that they will abide by various stages in the grievance procedure and take up no arbitrary action which would by-pass this procedure and;
- (x) that they will educate the management personnel and workers regarding their obligations to each other.

(b) Management agrees:

- (i) not to increase work-loads unless agreed upon or settled otherwise;
- (ii) not to support or encourage any unfair labour practice such as (a) interference with the right of employees to enroll or continue as union members; (b) discrimination, restraint or coercion against any employee because of recognised activity of trade unions; and (c) victimisation of any employee and abuse of authority in any form;
- (iii) to take prompt action for (a) settlement of grievances; and (b) implementation of settlements, awards, decisions and orders;

- (iv) to display in conspicuous places in the undertaking the provisions of this Code in the local language;
- (v) to distinguish between action justifying immediate discharge and those where discharge must be preceded by a warning, reprimand, suspension or some other form of disciplinary action and to arrange all such disciplinary action should be subject to an appeal through normal grievance procedure;
- (vi) to take appropriate disciplinary action against its officers and members in cases where enquiries reveal that they were responsible to precipitate action by workers leading to indiscipline; and to recognise the union in accordance with the criteria (Appendix) evolved at the 16th Session of the Indian Labour Conference held in May 1958.

(c) *Unions agree:*

- (i) not to engage in any form of physical duress;
- (ii) not to permit demonstrations which are not peaceful and not permit rowdyism in demonstration;
- (iii) that their members will not engage or cause other employees to engage in any union activity during working hours, unless as

provided for by law, agreement or practice;

- (iv) to discourage unfair labour practices such as (a) negligence of duty; (b) careless operation; (c) damage to property; (d) interference with or disturbance to normal work; and (e) insubordination;
- (v) to take prompt action to implement awards, agreements, settlements and decisions;
- (vi) to display in conspicuous places in the union offices, the provisions of this Code in the local language; and
- (vii) to express disapproval and to take appropriate action against office-bearers and members for indulging in action against the spirit of this Code.

- (i) to ask the unit to explain the infringement of any provision of the code;
- (ii) to give notice to the unit to set right the infringement within a specific period;
- (iii) to warn, and in case of infringement of a more serious nature, to censure the unit concerned for its actions persisting in the infringement;
- (iv) to disaffiliate the unit from its membership in case of persistent violation of the code; and
- (v) not to give countenance, in any manner, to non-members who do not observe the code.

2. Grave, wilful and persistent breaches of the code by any party should be

widely publicised.

3. Failure to observe the code would entail de-recognition, normally for a period of one year. This period may be increased or decreased by the concerned implementing committee.
4. A dispute may not ordinarily be referred for adjudication if there is a strike or lock-out without proper notice or any breach of the code as determined by an implementation machinery unless such strike or lockout, as the case may be, is called off.

According to the National Commission on Labour, the code has had only limited success and was obviously not the answer to the IR problems. The code began to rust and the parties were more eager to take it off. They developed an attitude of indifference. As regards the future of the code, the Commission was in favour of giving a legal form to its important provisions regarding recognition of unions, grievance procedure, unfair labour practices and the like. With the removal of these provisions from the code in order to give them a statutory shape, the code will have no useful function to perform.¹⁷

Grievance Procedure

Grievance procedure is another method of resolving disputes. All labour agreements contain some form of grievance procedure. And if the procedure is followed strictly, any dispute can easily be resolved.

In the meanwhile, a grievance may be understood as an employee's dissatisfaction or feeling of personal injustice relating to his or her employment relationship.¹⁸ A grievance is generally well-defined in a collective-bargaining agreement. It is usually restricted to violations of the terms and conditions of employment. Other conditions which may give rise to a grievance are:

1. A violation of law,
2. A violation of the intent of the parties as stipulated during contract negotiations,
3. A violation of company rules,
4. A change in working conditions or past company practices, and
5. A violation of health and/or safety standards.

When an employee believes that the labour agreement has been violated,

he or she files a grievance. The grievance needs to be resolved according to a set procedure.

Grievance procedures generally establish the following:

1. How the grievance will be initiated?
2. The number of steps in the process.
3. Who will represent each party?
4. The specified number of working days within which the grievance must be taken to the next step in the hearing.

Do's	Don'ts
<ul style="list-style-type: none"> • <i>Resolve any dispute at the earliest. Effect of strife is not confined to the four walls of a factory. It is widespread. Remember release of Salman Rushde's magnum opus—Midnight Children—was postponed because of strike.</i> 	<ul style="list-style-type: none"> • Believe that dispute resolves itself • Always go by rule-book to resolve a dispute. Out of routine initiative helps a lot
<ul style="list-style-type: none"> • <i>Disputes are as common as cold. They are not unique only to manufacturing organisations</i> 	

A typical grievance procedure followed in a Bangalore-based public sector unit is as follows (also see [Fig. 22.4](#)):

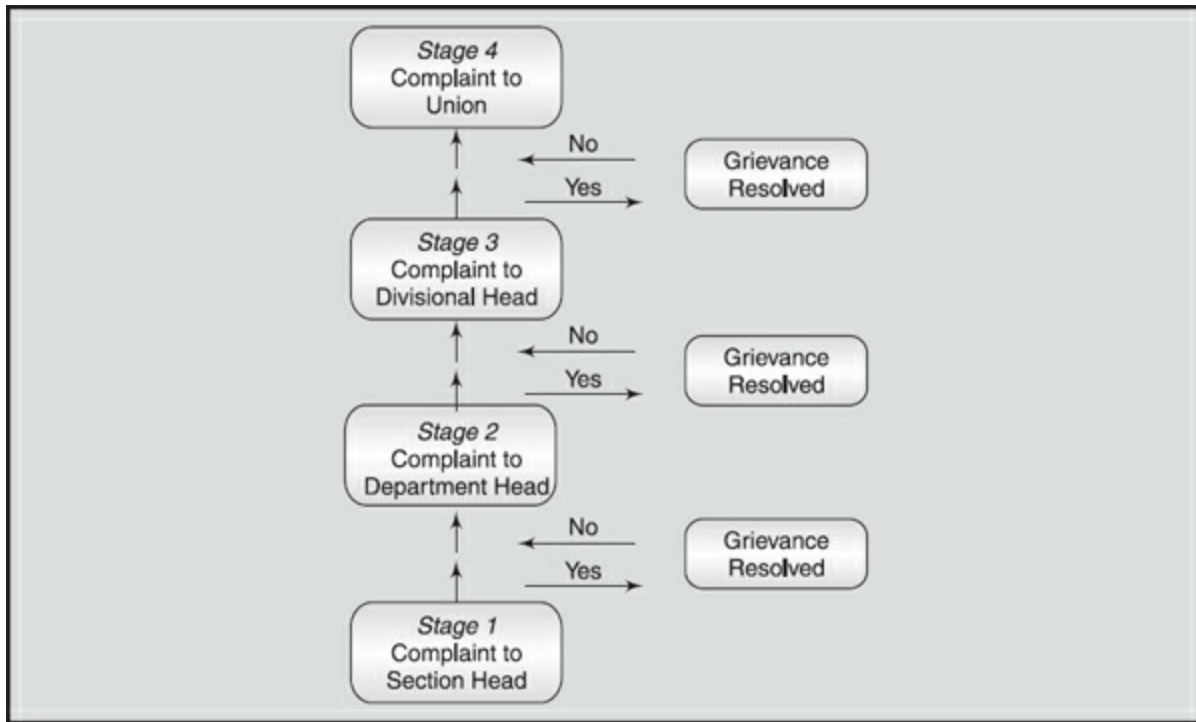


Fig. 22.4 Grievance Procedure

1. **First Stage:**

The aggrieved employee shall, first submit his grievance in writing to his 'Sectional Head' (nominated by the management from time to time for this purpose) in the prescribed form. The sectional head should study the grievance carefully with the least possible delay and the aggrieved employee should be given an opportunity to present his case in person if he requests for the same. If the employee so desires, he may take the assistance of a co-worker or a union representative. A written reply shall be given to the employee before the end of the fifth working day, if reply is not given before the end of the fifth working day, the concerned officer should record reasons for the delay which should be communicated to the aggrieved employee.

2. **Second Stage:**

In case the said employee is not satisfied with the reply of the sectional head, or if the Sectional Head fails to give a reply within the stipulated time as in First stage above, he shall be free to register his grievance in writing in the prescribed form with his Departmental Head (nominated by the management from time to time for this purpose). Departmental head

shall, after careful study, give an opportunity to the concerned person to present his case before him, if the employee expresses a desire to be heard in person. The employee may be permitted to take the assistance of a co-employee or a Union representative of his choice at the time of personal hearing. The head of the department should study the grievance and the points brought out by the employee in the personal hearing and give a reply at the end of the fifth working day from the day of receipt of such complaint.

3. Third Stage:

If the employee is not satisfied with the decision of the departmental head or if the latter fails to give any decision within the stipulated period, the employee will be entitled to lodge an appeal to the Divisional Head or any other officer nominated by the management for this purpose. This officer should also follow the same procedure as prescribed in Stages I and II and a reply should be given before the end of the tenth working day. If the employee so desires, he may be permitted to take the assistance of a co-employee of his choice or an office bearer or Executive Committee member of the Union at the time of personal hearing.

If the aggrieved employee is not satisfied with the decision of the divisional head, he can refer the case to THE EMPLOYEES' UNION within 10 days. The Union may discuss the subject if they deem fit, in the periodical management-union meetings which will be held within one month from the day, such reference is made by the Union to the management.

4. General:

- (i) *If the employee intends to take his case from one stage to another, he shall do so before the expiry of five days at Stages I and II and 10 days at the Stage III. If the employee is not on duty for any reason for any period that period will not be reckoned for calculating the period.*
- (ii) (ii) If the employee has to leave the department during working hours on call from any officer with reference to the grievance, prior permission of his immediate superior shall necessarily be obtained.
- (iii) Officers handling grievances at Stages 1 and II shall associate the concerned Personnel Officer of the Division during discussions on the grievance of the employees. The officer at Stage III shall associate Deputy Personnel Manager in the discussions and settlements.
- (iv) Acknowledgement for receipt of grievances including complaint

should be given to the employee at every stage.

- (v) The decision given in Stages I, II and III in favour of an aggrieved employee will generally be implemented by the management.

5. *Schedule and Procedure for Grievance Handling—Guidance to Officers*

- (i) Try to avoid problems in your department before they cause grievances.
- (ii) Be a good listener. Even though you feel that the aggrieved worker is wrong, listen patiently to his complaint. Find out what really is the basis of his dissatisfaction. Show interest in his problem.
- (iii) Use a positive, friendly approach. Avoid either aggressiveness or a defensive attitude.
- (iv) Have patience, pounding the table and shouting does not settle anything.
- (v) Avoid personal consideration. What counts is not who is right, but what is right.
- (vi) Remember that you and the employee will have to work together, to settle other issues in future.
- (vii) Do not get upset or resort to threats. If you and the employee do not come to an agreement, there are further steps to settle the issue.
- (viii) Appeal to the management's interest. It is in their interest also, to have grievances settled satisfactorily and to keep the morale high.
- (ix) Settle each grievance on its merit. Do not give up one grievance case in order to get a favourable decision in another.
- (x) Remember that the management too has its rights, that both the workers and the management must live upto the terms of agreement.
- (xi) Keep the aggrieved worker constantly informed as to what is being done about his grievance.
- (xii) Permit the employee to correct his mistake without loss of face or dignity. Present the facts and give the employee time to consider your arguments. An objective decision shall be taken on the facts and circumstances of the case within the framework of rules and regulations of the company.
- (xiii) After a decision has been reached on a grievance by the management and the concerned employee, ensure that the decision is carried out expeditiously.

There may be variations in the procedures followed for resolving employee grievances. Variations may result from such factors as organisational or decision-making structures or size of the plant or the company. Larger organisations do tend to have more formal procedures involving a succession of steps. Some general principles which should guide any procedure are:

1. Grievance must be addressed promptly.
2. Procedures and forms airing grievances must be easy to utilise and well-understood by employees and their supervisors.
3. Ego clashes should not be allowed to impede the resolution of disputes.
4. Occurrence of similar grievances must be avoided.

Arbitration

Arbitration is a procedure in which a neutral third party studies the bargaining situation, listens to both the parties and gathers information, and then makes recommendations that are binding on the parties.¹⁹ Arbitration is effective as a means of resolving disputes because it is:

1. Established by the parties themselves and the decision is acceptable to them, and
2. Relatively expeditious when compared to courts or tribunals. Delays are cut down and settlements are speeded up.

Arbitration has achieved a certain degree of success in resolving disputes between the labour and the management. However, it is not without its weaknesses. Some weaknesses are:

1. Arbitration is expensive. The expenditure needs to be shared by the labour and the management.
2. Judgement becomes arbitrary if there is a mistake in selecting the arbitrator.
3. Too much arbitration is not a sign of healthy IR.

The labour union generally takes initiative to go for arbitration. When the union so decides, it notifies the management. At this point, the union and the company must select an arbitrator. When considering potential arbitrators, both the management and the labour will study their previous decisions in an attempt to detect any biases. Neither party wants to select an arbitrator who might be unfavourable to its position.

Arbitration is another method of resolving industrial disputes. It refers to a procedure in which a neutral third party studies the dispute, listens to both the parties and collects information, and makes recommendations which are binding on both the parties.

After the arbitrator has been selected and he or she has agreed to serve, a time and place for hearing will be determined. The issue to be resolved will be presented to the arbitrator in a document that summarises the question or questions to be decided, and any contract restrictions that prohibit the arbitrator from making an award that would change the terms of the existing contract.

Each side presents its case at the hearing. Arbitration is an adversary proceeding, so a case may be lost because of poor preparation and presentation. The arbitrator may conduct the hearing much like a court-room proceeding. Witnesses, cross-examination, transcripts, and legal counsel may all be used. The parties may also submit or be asked by the arbitrators to submit formal written statements. After the hearing, the arbitrator studies the materials submitted and the testimony given, and reaches a decision within 30 to 60 days. The decision is usually accompanied by a written opinion giving the reasons supporting the decision.

Arbitration and the Industrial Disputes Act, 1947 Section 10-A provides that where any industrial dispute exists or is apprehended, and the employer and the workmen agree to refer the dispute to arbitration, they may do so by a written agreement. They can, however, do so at any time before the dispute has been referred to a labour court or industrial tribunal or national tribunal.

The arbitrator shall investigate the dispute and submit the report to the appropriate government.

Where a dispute has been referred for arbitration, the appropriate government may prohibit the continuance of any strike or lockout which may be in existence at the time of the reference.

Conciliation

Conciliation is a process by which representatives of workers and employers

are brought together before a third party with a view to persuading them to arrive at an agreement by mutual discussion between them. The third party may be one individual or a group of people. The alternative name for the third party is mediators.

The Industrial Disputes Act, 1947 provides for the appointment of conciliators. Section 4 of the Act states that the appropriate government shall appoint such number of persons as it thinks fit as conciliation officers. The main duty of a conciliation officer shall be to mediate in and promote the settlement of industrial disputes. The other duties are:

1. To hold conciliatory proceedings;
2. To investigate the dispute;
3. To send a report and memorandum of settlement to the appropriate government; and
4. To send a full report to the appropriate government setting forth the steps taken, in case no settlement is arrived at.

The conciliation officer shall submit his or her report within 14 days from the date of commencement of the conciliation proceedings. The Act prohibits a strike or a lockout when the conciliation proceedings are in progress.

It may be stated that the conciliator has no power to force a settlement, but can work with the parties separately to determine their respective positions, explains a position more fully to the opposition, points out bases for agreement that may not have been apparent previously, helps in the search for solutions, and generally facilitates the reach of an agreement.

In effect, mediators act as communications catalyst, and their effectiveness depends on their impartiality and on their capacity to win the trust of both parties.²⁰

Adjudication

When the parties to a dispute fail to resolve their conflict through other methods, do they resort to adjudication? **Adjudication** means a mandatory settlement of an industrial dispute by a labour court or a tribunal.

Adjudication means a mandatory settlement of an industrial dispute by a labour court or a tribunal. Generally, the government refers a dispute for

adjudication depending on the failure of conciliation proceedings. Section 10 of the Industrial Disputes Act, 1947, provides for reference of a dispute to labour court or tribunal. The Act also lays down rules regarding the composition and powers of labour courts and tribunals.

Disputes are generally referred to adjudication on the recommendation of the conciliation officer who had dealt with them earlier. However, the government has discretionary powers to accept or reject recommendations of the conciliation officer. It is obvious that once a dispute is referred for adjudication, the verdict of a labour court or tribunal is binding on both the parties.

The system of adjudication is the most significant instrument of resolving disputes. But, it has been criticised because of the delay involved in resolving conflicts. Continued dependence on adjudication deprives the trade unions of their right to recognise and consolidate their strength.

Consultative Machinery

Towards the end, it is essential to refer to the consultative machinery set by the government to resolve conflicts. The main function of consultative machinery is to bring the parties together for mutual settlement of differences in a spirit of co-operation and goodwill. A consultative machinery operates at the plant, industry, state and the national levels. At the plant level, there are works committees and joint management councils. Being essentially bipartite in character, works committees are constituted as per the provisions of the Industrial Disputes Act, 1947, and joint management councils are set up following the trust laid down in the Industrial Policy Resolution, 1956. At the industry level, there are wage boards and industrial committees.

Labour advisory boards operate at the state level and at the all India level there are the Indian Labour Commission (ILC) and the Standing Labour Committee (SLC). The bodies operating at the state and national levels are tripartite in character, representing government, labour and management. Important legislative proposals are discussed and recommended by the ILC and SLC.

Pause and Ponder

There is a dispute between the Dean of a B-School and its Director on disciplining an errant student. Which method do you suggest to resolve the dispute between the Dean and the Director? Why?

SUMMARY

Industrial disputes essentially refer to differences or conflicts between employers and employees. Disputes arise because of wage demands, union rivalry, political interference, unfair labour practices, labour laws and others.

The number of disputes is ever increasing and the consequences will be harmful to the owners of industries, workers, economy and the nation. Hence, disputes need to be resolved soon.

Settlement machinery comprises collective bargaining, code of discipline, grievance procedure, arbitration, conciliation, adjudication, and consultative machinery

In collective bargaining, representatives of both management as well as employees meet, discuss, and arrive at mutually agreeable benefits. It is a delicate but effective method of resolving disputes and hence, needs to be planned and managed carefully.

Code of discipline defines duties and responsibilities of employers and employees. If these norms are strictly followed, scope for disputes shall be minimised. The Ministry of Labour has evolved a code of discipline for Indian industries.

A grievance occurs when the provision of any law is violated, or terms and conditions of employment are flouted by management. The aggrieved worker can seek redressal through a set procedure. If the grievance is not settled, recourse to arbitration is taken.

In arbitration, a third party intervenes and whatever recommendation, the party makes, is binding on the warring groups. While the arbitrator has power to enforce his or her decision, a conciliator cannot do so. The role of a conciliator, also called the mediator, is to bring the two feuding factions together, make them discuss the issue and enable them to arrive at a solution.

Adjudication is a mandatory settlement of a dispute by a labour court or tribunal. It is the conciliator who recommends reference to adjudication.

Consultative machinery refers to bipartite and tripartite bodies operating at

the plant, industry, state and the national levels. The purpose of these bodies is to bring the parties together for mutual settlement of disputes.

KEY TERMS

Adjudication

Arbitration

Bargaining issues

Code of discipline

Collective bargaining

Conciliation

Consultative machinery

Grievance procedure

Industrial disputes

Labour agreement

Unfair labour practices

REVIEW QUESTIONS

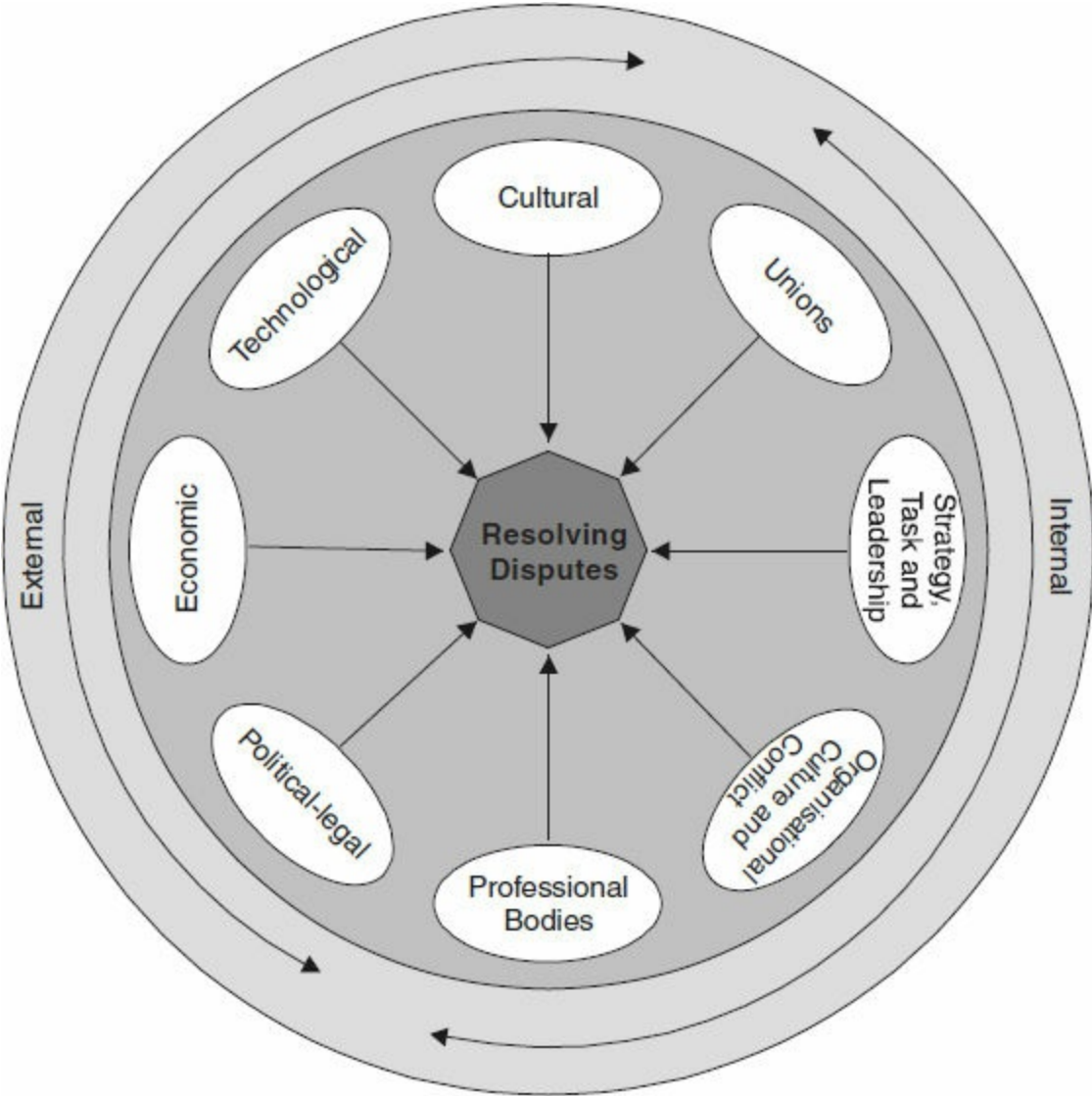
1. What is an industrial dispute? What are the causes for disputes?
2. Bring out the nature of collective bargaining. What is its role in resolving disputes?
3. What is arbitration? How does it help resolve industrial conflict?
4. What is grievance procedure? Bring out its merits and demerits.

DISCUSSION QUESTIONS

1. Describe and comment on:
 - (a) Code of discipline
 - (b) Unfair labour practices
2. Describe the major collective bargaining issues of today. What do you foresee as the major issues of the future? Elaborate.
3. How does arbitration differ from grievance procedure? Bring out the respective roles in resolving disputes.

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact resolving disputes, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

The Supreme Court's judgment in 1997 in the Visobha case has made it mandatory for every organisation to constitute a Workplace Harassment Committee (WHC), also called Sexual Harassment Committee. In today's

organisations, majority of the disputes revolve around harassment of women at workplaces. At Vybhav too there is a Workplace Harassment Committee constituted ahead of other companies. There is a Sexual Harassment Policy in place which can be accessed through HR policies intranet site. There is zero tolerance towards harassment (sexual or otherwise) at Vybhav, and this policy applies to all employees whether permanent, contractual, or outsourced staff.

An employee faced with harassment at or outside the workplace, is required to submit her or his complaint (preferably handwritten) to the WHC. The WHC will then carry out independent investigation and offer a redressal to the victim within 12 working days from the date of complaint. Findings by the WHC (particularly when the complaint is valid) are submitted by the members to higher management, together with the action that might be taken against the accused. Action varies from a simple reprimand to termination, depending upon the severity of the case. The WHC may also recommend legal course of action on a case to case basis.

Each division of Vybhav has its own WHC. The HR team identifies a group of employees (comprising female and male) from key teams within the division. Senior managers are not involved in the committees. The WHC will have an external female representing an NGO. It is the responsibility of the committee to investigate into the complaints, initiate disciplinary action against the accused, and ensure that harassed employees are not further victimised. The members of the WHC shoulder the additional responsibility of evangelising the policy and sensitise all employees, about the harassment of women and consequences of such torment.

So far at Vybhav, there have been a total of 13 cases that were brought to the notice of WHC during the past seven years. Of these, 10 were valid complaints. Among these 10, services of four were terminated and in the remaining six cases, warning letters were issued and letters of good-conduct were obtained from them. Two of these six resigned subsequently.

As part of the Voices Survey, feedback is sought from all employees on how safe and unbiased they find the work place. The scores on these questions are closely monitored by the HR executives to identify teams with low scores. For such low score teams, workshops are organised to sensitise employees about workplace harassment and remedials available.

Closing Case-1 *Protest Over Job Losses*

Bitter it may taste, shrill it may sound, and sleepless nights it may cause, but it is true. In a major shake up, Airbus—the European aircraft manufacturer—has thrown a big shock to its employees. Before coming to the details of the shock, a peep into the company’s resume.

Name: Airbus

Created: 1970

President, CEO: Louis Gallois

Employees: 57,000

Turnover (2006): 26 bn (Euro)

Total aircraft sold(Feb. 2007): 7187

Delivered: 4598

Headquarters: Toulouse (France)

Facilities: 16

Rival: Boeing

Airbus announced on February 27, 2007, that it would shed 10,000 jobs across four European countries and sell six of its units. On the same day the hapless workers did what was expected of them—downed tools and staged protests. The protesting workers at Airbus’s factory at Meaulte, northern France, were seen picketing outside the factory gate after holding up production a day earlier. To be fair to Airbus, its management entered talks with unions before the job loss and sale was formally announced. But the talks did not mollify the agitated workers.

Job shedding and hiring of units are a part of Power8 restructuring plan unleashed by Airbus to save itself from increasing loss of its ground to the arch rival, Boeing Co.

Airbus’s Power8 strategy was first mooted in October 2006, but sparked a split between France and Germany over the distribution of job losses, and the placement of future ones. Later, the two countries agreed to share both job losses and new technology.

The Power8 plan, if finalised, would mean a 9 per cent reduction to Airbus’s 55,000 employee strength.

Questions

1. Why should Power8 focus on shedding jobs to save on cost? Are there no alternative strategies?
2. Will the proposed shedding of jobs and sale of six units help Airbus survive the intense competition from Boeing?

REFERENCES

1. *The Hindu*, Jan. 2, 2006.
2. Cited in E.A. Ramaswamy, "Trade Union and Politics", *Business India*, October 7–20, 1985.
3. E.A. Ramaswamy, *The Rayon Spinners*, Oxford University Press, New Delhi, 1994, p. 57.
4. L.S. Kudchedkar, *Aspects of Personnel Management and Industrial Relations*, 1979, p. 105.
5. S.C. Jain, *Productivity and Discipline*, New Delhi, Allied, 1988, p. 24.
6. *Ibid*, p. VII.
7. E.A. Ramaswamy, "From IR to HRD", *Business India*, April 21–May 4, 1986.
8. H. John Bernardin and Joyce E.A. Russell, *Human Resource Management*, McGraw-Hill, New York, 1993, p. 596.
9. Dale S. Beach, *Personnel—The Management of People at Work*, Fourth Edition, Macmillan, New York, 1980, p. 96.
10. William P. Anthony, *et. al.*, *Strategic Human Resource Management*, Thomson, 1993, p. 620.
11. R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, Allyn and Bacon, 1981, p. 406.
12. H. John Bernardin and Joyce E.A. Russell, *op. cit.*, p. 597.
13. Randall S. Schuler, *et. al.*, *Effective Personnel Management*, Third Edition, West Publishing, New York, 1989, p. 589.
14. *Ibid*, p. 589.
15. H. John Bernardin and Joyce E.A. Russell, *op. cit.*, p. 602.
16. R. Wayne Mondy and Robert M. Noe III, *op. cit.*, p. 426.
17. A.M. Sarma, *Industrial Relations—Conceptual and Legal Framework*, Second Edition, Himalaya, Bombay, 1989, p. 66.
18. R. Wayne Mondy and Robert M. Noe III, *op. cit.*, p. 445.
19. Randall S. Schuler, *et. al.*, *op. cit.*, p. 599.
20. John B. Miner and Mary Green Miner, *Personnel and Industrial Relations*, Fourth Edition, Macmillan, New York, 1985, p. 556.

* In a strike at Maruti Udyog, in early 2001, the management managed to get

“undertakings of good behaviour” from its employees. The strike was triggered by a demand for hike in incentive payment.

The management offered ₹30,000 but the union insisted on ₹42,000. Management had the last laugh. Not only had the management got undertakings of good behaviour, it terminated the services of 59 employees and also did not pay salary to 3,000 striking workers for three months.

SECTION 7

List of Chapters

Chapter 23: Managing Ethical Issues in Human Resource Management

Chapter 24: HR Audit and Evaluation

Chapter 25: Contemporary Challenges in Human Resource Management

Chapter 26: International Human Resource Management

Chapter 27: e-Human Resource Management

Chapter 28: Human Resource Management in Small Scale Units

Managing Ethical Issues in Human Resource Management

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature, need and sources of business ethics
- The importance of ethics
- Ethical misconduct in personnel function
- How to manage ethics
- Ethical decision making

Opening Vignettes

QUESTION OF ETHICS

- A Japanese company's recent attempt to lay off one of its workers provides an example of the ethical issues of such an action in another culture. Japanese companies have traditionally offered lifetime employment and have set the example for employment security practices throughout the world. However, many Japanese companies have bloated work force, and lifetime employment has somewhat eroded, even though layoffs are opposed by Japanese culture and restricted by law. As a result some companies have attempted to get some of their lower-performing employees to quit.

Sega Enterprises Ltd., the producer of video games, wanted to lay off Toshiyuki Sakai, one of its employees in Tokyo. Sega proceeded to inform Sakai that his performance was substandard and offered him a

severance package. He refused to quit and rejected the package. The following account of the company's treatment of Sakai after he turned down the company's severance offer raises some important ethical concerns.

Three days later, Sega told Sakai to take home all personal belongings, turn in all company property and report to an office dubbed the "Pasona Room", after the English word personnel. He arrived to find the room empty, except for a desk, three chairs, a bare locker and a telephone that couldn't make outside calls. Sakai was given no work to perform and allowed no diversions. He was being laid off, Japanese style, "I'm not going to be able to hold out for a day of this", Sakai recalls thinking. Months later, however, he was still clocking 40 hours a week there. Sakai had written orders to stay in the room every day from precisely 8.30 am to 5.15 pm. In late April, Sega announced a plan to cut its work force by one-quarter. By June, 750 employees had accepted severance packages. Sakai claims that Sega used the Pasona Room to frighten others into taking its buyout offers. "Everyone's afraid they might be the next to be thrown into solitary confinement", he says.¹

- In International business, both physical resources and capital cross national borders freely whereas labour is heavily restricted. In fact, it is very difficult in many countries to get a permit allowing you to be gainfully employed in that country. Thus, while companies are free to set up production in markets where labour is cheap, labour cannot move to markets where wages are higher.²
- MNCs often relocate factories from industrialised nations with high labour costs to such low-wage countries as China, India, Mexico and the nations of Central America. These MNCs are charged of exploiting child labour, forcing women to work 75 hours a week and destroying family units.³
- Chung Mong-Koo, head of Hyundai Motors, the sixth largest car maker in the world, has been sentenced to three years in jail on charges of embezzlement and breach of trust, in an unusually harsh punishment for a business executive in South Korea. The idea behind the punishment is to eradicate illegal and anti-market practices and help build a robust S. Korean economy.

Though the above vignettes bring out ethical issues in international business, domestic business is not free from them. The HR manager of domestic business faces ethical dilemmas while managing people, as he/she needs to provide ethical leadership to his/her firm even on areas not connected with employee management. This chapter is devoted to a detailed discussion on the nature of ethics and the manner in which ethical issues relate to HR situations.

NATURE OF ETHICS

Ethics refers to a system of moral principles—a sense of right and wrong, and goodness and badness of actions and the motives and consequences of these actions. As applied to business firms, ethics is the study of good and evil, right and wrong, and just and unjust actions of businesspeople.⁴

Business ethics does not differ from generally accepted norms of good or bad practices. If dishonesty is considered to be unethical and immoral in the society, then any business person who is dishonest with his or her employees, customers, shareholders or competitors is an unethical and immoral person. If protecting others from any harm is considered to be ethical, then a company which recalls a defective or harmful product from the market is an ethical company. To be considered ethical, businesspersons must draw their ideas about ‘what is desirable behaviour’ from the same sources as anybody else would draw. Businesspersons should not try to evolve their own principles to justify ‘what is right and what is wrong’. Employees and employers may be tempted to apply special or weaker ethical rules to business situations. But the society does not condone such exceptions. People who are in business are bound by the same ethical principles that apply to others.⁵

Two theories are pertinent when one talks about the nature of ethics. The *theory of moral unity* essentially advocates the principle that business actions should be judged by the general ethical standards of the society. There exists only one set of ethical standards which applies to business and non-business situations.

Opposite to this is the *theory of amorality*, which argues that a business can be amoral, and actions of businesspeople need not be guided by general

ethical standards. Managers may act selfishly because the market mechanism distills their actions into benefits to shareholders and the society at large. Adam Smith argued that, “the invisible hand of the market assures that by pursuing his own interest (a merchant) frequently promotes that of the society more effectively than when he really intends to promote it”. In this way, capitalism provides moral justifications to the pursuit of profit through a behaviour which is not purposefully ethical.⁶

Ethics refers to the study of good and evil, right and wrong, and just and unjust actions of business people. Business ethics is the same as the generally accepted norms of good or bad practices. If dishonesty is immoral in society, then any business person practising a dishonest act is treated as indulging in unethical actions.

However, the theory of amorality is not acceptable to anybody. Every one agrees that business actions should be subject to the same ethical standards as are applicable to the society in general.

SOURCES OF BUSINESS ETHICS

HR managers in every society are influenced by three repositories of ethical values—religion, culture, and law (see [Fig 23.1](#)). These repositories contain unique systems of values that exert varying degrees of control over managers. A common thread—*idea of reciprocity or mutual help*—runs through all the value systems. This idea reflects the central purpose of all ethics, which is to bind the vast majority of individuals in the society into a co-operative whole. Ethical values constitute a mechanism that controls behaviour in HR situations and in other walks of life. Ethics-driven restraints are more effective than restrictive controls such as police, law suits, or economic incentives. Ethical values channellise the individual energies into pursuits that are benign to others and beneficial to the society.

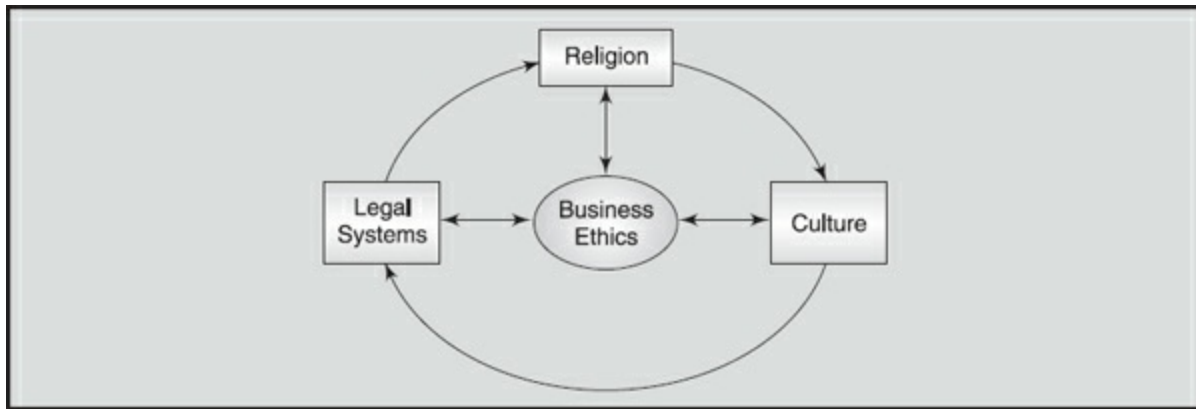


Fig 23.1 Sources of Ethics

Religion

One of the oldest sources of ethical inspiration is religion. More than 1,00,000 different religions exist across the globe. Despite doctrinal differences, the major religions converge on the belief that ethics is an expression of divine will that reveals the nature of right and wrong in business and other walks of life. The world's great religions are also in agreement on the fundamental principles, which are similar to the building blocks of a secular ethical doctrine. The *principle of reciprocity* towards one's fellow human beings is found in all major religions such as Hinduism, Buddhism, Christianity, Islam, Judaism, and Confucianism. The great religions preach the necessity for an orderly social system and emphasise social responsibility with an objective to contribute to the general welfare. Built upon such verities are many other rules of conduct.⁷

Cultural Experience

Culture refers to a set of values, rules and standards transmitted among generations and are aimed at modelling behaviours so that they fall within acceptable limits. These rules and standards always play an important part in determining values, because individuals anchor their conduct in the culture of the group in which they belong. Civilisation itself is a cumulative cultural experience in which people have passed through three distinct phases of moral codification. These phases correspond to the changes in economic and social arrangements.

Culture determines what is ethical and what is not. Cultural norms play important role in determining values because individuals anchor their conduct in the culture of the group in which they belong.

For hundreds of generations, during the *hunting and gathering stage* of human development, ethics was adapted to conditions in which our ancestors had to be ready to fight, face brutal foes, and suffer the hostile forces of nature. Under such circumstances, a premium was placed on pugnacity, appetite, greed, and sexual readiness, since it was often the strongest who survived. Brute force and violence were thus accepted norms of trade ethics in this early phase of civilisation.

Civilisation passed into an *agricultural stage* approximately 10,000 years ago, beginning at a time when industriousness was more important than ferocity, temperance paid greater dividends than violence, monogamy became the prevailing sexual custom and peace came to be valued over wars, which destroyed crops and animals. These new values were codified into ethical systems which guide the managers even today.

Two centuries ago, the society entered an *industrial stage* of cultural experience and ethical systems, which once again began evolving to reflect the changing physical, cultural, institutional, and intellectual environment. Large factories and corporations, growth of population, capitalist and socialist economic doctrines, and technology have all replaced the ethical standards of the agrarian stage. Industrialism has not created any distinct ethics, but it has created tensions with old ethical systems based on the values of agricultural societies. It has done this by changing values related to 'what is good and what is bad.' For example, the copious production of material goods from factories has encouraged materialism and consumption at the expense of older virtues such as moderation. Managers run an industrial enterprise on the cutting edge of cultural experience. The tensions that their actions create make businesses ethically more complex. For instance, the widespread use of computers for data storage and communication have raised security-related issues.⁸

The Legal System

Laws are rules of conduct, approved by legislatures, that guide human behaviour in any society. They codify ethical expectations and change as new evils emerge. But laws cannot cover all ethical expectations of the society. Law is reactive—new statute and enforcement always lag behind the opportunity for corporate expediency.

Whatever ethics the law codifies, it is binding on businesses. The society expects businesses to abide by the law. Obeying the law is presumed to be ethical behaviour.

Although the society expects businesses to be law abiding, seldom do the businesses adhere to the rules. Law breaking in business is common. Taxes are evaded, hundreds of employees die because of occupational diseases, many perish because of industrial accidents, and millions others receive disabling injuries on the job. The blame for these death and injuries had to be shared by careless employees and employers who fail to adhere to occupational health and safety laws.

Consumers suffer because of poor-quality and high-priced products supplied by businessmen. Businesses that degrade the environment by disregarding environment protection laws cause misery to the society.

MYTHS ABOUT ETHICS

Five myths about ethics prevail in literature on the subject. Some advocate its relevance in business education whereas others argue that “business ethics” is an oxymoron, or a contradiction in terms. The five myths are presented in [Fig. 23.2](#) and are explained in next paragraphs in this section.⁹



Fig. 23.2 Five Myths of Business Ethics

Myth 1: Ethics is Personal and Confined to Self An individual has a right to decide what is right and what is wrong—ethical or unethical acts are laid down by the culture of the society in which he or she is a part. The Constitution of India too recognises and confers rights on Indian citizens to make choices and behave.

But the individual's choice of right and wrong is not absolute. The right is constrained by public interest. An individual cannot murder another merely because he or she believes it is the right act. A woman, similarly, cannot practise prostitution simply because she is of the belief that the act is not immoral. Public interest limits the individual's decision.

Extending to public life, freedom of the individuals to decide on ethically or the opposite of it is constrained by the demands of the organisation. Individuals are integral parts of organisational cultures, which have norms, values, rules of conduct, and standards to govern what is acceptable and unacceptable. To say that individuals have absolute rights independent of the organisation is to deny the impact of the latter on the attitudes and perceptions of the employees.

Organisational ethics are the summation of the moral beliefs of individual employees. In other words, commissions and omissions of employees become the onus of the organisation. Organisations do not commit crimes, individuals do.

Myth 2: Business and Ethics Do not Jell 'Honesty is the best policy—but

not in business' is the accepted notion now-a-days. Businesses operate in a free and competitive market striving hard to earn profit. Management of a business firm is based on scientific and not on religious or ethical principles.

The above argument, though relevant decades back is not acceptable now. Business cannot operate in vacuum. It is an integral part of society and society's principles, norms and values apply to business also. If business people act amorally, result would be chaos. Employees would openly steal from employers; employers would recklessly fire employees at will; contractors breach agreements; and the like.

Myth 3: Ethics in Business is Relative The third and the most popular myth about business ethics is that it is relative. Right or wrong is in the eyes of the beholder. In other words, what is right or what is wrong is determined by what a culture or society says is right or wrong. What is right in one place may be wrong in another, because the only criterion for distinguishing right from wrong—and so the only ethical standard for judging an action—is the moral system of the society in which the act occurs, or the situation in which it has taken place.

Permissive sex is a taboo in Indian society but is acceptable elsewhere. Abortion is condemned as immoral in Catholic Ireland but is practised as a morally neutral form of birth control in Japan. According to the ethical relativists, permissive sex and abortion are unethical at some places but are permissible in some other societies. Likewise, polygamy, pedophilia, stealing, slavery, infanticide, and cannibalism have all been tolerated or even encouraged by the moral system of one society or another. What Adolph Hitler did in Germany was acceptable to his followers and therefore, it was ethical.

The relativist ethos are not acceptable to international business. How can contractual obligations across the countries be enforced, if some societies renege on their agreements as such acts are permissible in their societies? How can labour move across borders if travel by sea or air is not acceptable to some as was the belief held by Indians during the early years of the 20th century? How could interactions, communications, transactions, and negotiations be completed if relativism is carried to its logical extreme—where no one could argue or disagree with any one about moral issues, since each person's values would be right and true for him or her.

Myth 4: Good Business Means Good Ethics The argument here is that executives and firms that maintain a good corporate image, have equitable dealings with customers and employees, and earn profits by legitimate, legal means are defacto ethical. Such firms need not be concerned explicitly with ethics in the workplace.

The assertion that good business is good ethics may not be correct. Corporations are like machines which pursue profit-making goals single mindedly, of course strictly following manuals, policies, systems, and codes of conduct. An organisation pursuing profit making cannot be expected to display such moral characteristics as honesty, considerateness, and sympathy. No correlation exists between “goodness” and material success.

Myth 5: Information and Computing are Amoral This myth holds the view that information and computing are only amoral. They are neither moral or immoral—they are in a questionable area of ethics. On the positive side, information and computing have productive and positive dimensions, such as empowerment and enlightenment through the ubiquitous exposure to information, increased efficiency, and quick access to online global committees. On the flip side, information and computing lend themselves as a form of control, power and manipulation.¹⁰ In addition, open access to information results in such evils as questionable use of data bases, violation of privacy, children exposed to pornography and stalking, consumers targeted for fraudulent advertising and selling practices, and pirating of intellectual property. These gray areas have ethical implications. Information and computing are no doubt a boon but one should be aware of the dark side.

Why discussion on myths in this context? The purpose is to enable the HR manager obtain right perspective about ethics.

WHY IS ETHICS IMPoRTANT ?

Ethics is important to business in general, and HR in particular, for several reasons as stated below:

1. Ethics corresponds to basic human needs. It is man’s basic nature that he desires to be ethical, not only in his private life but also in his business affairs where, being a manager, he knows that his decisions may affect the lives of thousands of employees. Moreover, most people

want to be a part of an organisation which they can respect and be proud of, because they perceive its purpose and activities to be honest and beneficial to the society. Most HR managers would like to respond to this need of their employees, and they (managers) themselves feel an equal need to be genuinely proud of the company they are directing. These basic ethical needs compel the organisations to be ethically oriented.

2. Values create credibility with the public (also see Exhibit 23.1). A company perceived by the public to be ethically and socially responsive will be honoured and respected even by those who have no intimate knowledge of its actual working. There will be an instinctive prejudice in favour of its products, since people believe that the company offers value for money. Its public issues will attract an immediate response.
3. Values give the management credibility with its employees. Values are supposed to be a common language to bring the leadership and its people together. Organisational ethics, when perceived by employees as genuine, create common goals, values, and language. The HR management can have credibility with its employees simply because it has credibility with the public. Neither a sound business strategy, nor a generous compensation policy and fringe benefits can win employee credibility, but perceived moral and social uprightness can.
4. Values help better decision making. Another point of great importance is that an ethical attitude helps the management make better decisions, that is, decisions which are in the interest of the public, their employees, and the company's own long-term good, even though the decision making is slower. This is so because respect for ethics will force a management to take various aspects—economic, social and ethical—in making decisions.
5. Ethics and profit go together. A company which is inspired by ethical conduct is also profitable. Value-driven companies are most likely to be successful in the long run, though in the short run, they may lose money.

Tata group is one example to demonstrate the fact that profit and ethics go together. In its 100 plus years of existence, Tata group has functioned under British rule, licensee-raj system and now under free economy. The group contains business verticals touching everybody's

life and all walks of life. Fortunes of the group have been on the rise all the time.

Johnson & Johnson has seen 40 years of double digit growth and 60 years of higher returns to its shareholders. It is too well known that J & J is known for its ethical values.

6. Law cannot protect the society, ethics can. Ethics is important because the government, law and lawyers cannot do everything to protect the society. Technology develops faster than the government can regulate. People in an industry know the dangers in a particular technology better than the regulatory agencies. Further, the government cannot always regulate all activities which are harmful to the society. Where law fails, ethics can succeed. An ethically-oriented management takes measures to prevent pollution and protect workers' health even before being mandated by the law. An ethically sound HR manager, who can reach out to agitated employees, will quell a trouble more effectively than the police.

ARE BUSINESS PERSONS ETHICAL?

Honesty is the best policy no doubt. But will it apply to business also? Answer seems to be negative. Transparency International, a Berlin based organisation, has rated (2008) the extent of corruption in different countries on a scale of 10 to 1, with 10 being the best—the least corrupt country and 1 being worst—most corrupt country. The organisation has rated 102 countries on the degree of corruption as perceived by risk analysts, academia and corporate executives. [Table 23.1](#) brings out the least and the most corrupt countries.

Table 23.1 *The Least and the Most Corrupt Countries (2011)*

<i>Clean Countries</i>			<i>Corrupt Countries</i>		
<i>Rank</i>	<i>Country</i>	<i>Score</i>	<i>Rank</i>	<i>Country</i>	<i>Score</i>
1	New Zealand	9.5	172	Venezuela	1.9
2	Denmark	9.4	175	Haiti	1.8
2	Finland	9.4	175	Iraq	1.8
4	Sweden	9.3	177	Sudan	1.6
5	Singapore	9.2	177	Turkmenistan	1.6
6	Norway	9.0	177	Uzbekistan	1.6
7	Netherlands	8.9	180	Mynmar	1.5
8	Australia	8.8	182	N. Korea	1.0
8	Switzerland	8.8	182	Somalia	—
10	Canada	8.7			
	95		India	3.1	

If the whole country is perceived to be corrupt, businesses and business executives in such a country cannot be an exception.

As [Table 23.1](#) shows India is considered to be one of the most corrupt countries in the world. But corruption is not peculiar to any country, it is universal. The Transparency International states that there is no region or country in the world immune to corruption. Vast majority of the 183 countries score below five on a scale of 0 (highly corrupt) to 10 (very clean).

A study called *Early Working Signals of Corporate Frauds* conducted in 2007 by the Institute of Chartered Accountants of India and India Forensic Consultancy Services revealed that as many as 1200 companies listed on India's stock exchanges have massaged financial statements to beat market expectations. Such improper accounting includes deferring revenue, inflating expenses and avoiding taxes.

Exhibit 23.1 Image of TISCO

... adds "Laloo Prasad Yadav is my friend, and right in the beginning I made it clear what friendship stood for. I said to him: 'You have your rules and we have ours. We will do everything by your rules. We will not ask you to give a sales tax benefit here, or some short cut there. In return, don't ask us for any underhand thing and break our value system.' And to his credit, he has never made an indecent proposal. He asked us to clean up Patna, which we do as our social responsibility. He wanted a college to be built in Samastipur. We did that since we encourage education. He asked us to build a Tata ward for children in Patna hospital, which was in a very

pitiable condition and we did that. Now we are doing a hospital in Hazaribagh. Laloo told somebody: ‘Going for anything illegal to the Tatas is like going to an Udupi restaurant and asking for a *tandoori* chicken’. Sometimes people come to Jamshedpur with expectations and then find in a week or longer that the Tatas won’t give money and they give up. If I find any of our officers has done underhand things, then I sack him instantly,” says Irani. No wonder Irani has earned the sobriquet from some leading politicians of Jharkhand—”the prime minister of Jharkhand”. When we enquired as to the truth of these assertions from a prominent businessman in Jamshedpur, who is not “burdened” by any code of conduct, he said: “Of course, it is true. That is why TISCO takes three months to get something done from the government in matters which take me three telephone calls.”

Source: *Business India*, July 23 to August 5, 2001, pp. 59-60.

Table 23.2 shows the sectors most corruptible in India. Financial services, real estate, IT and ITeS top the list of corrupt sectors. Media and entertainment, pharmaceuticals, and energy are shown as least corruptible.

Pause and Ponder

Who are most corrupt and most honest—lawyers, teachers, politicians, business executives, or realtors? Substantiate your answer.

Table 23.2 *Most Vulnerable Sectors for Corruption*

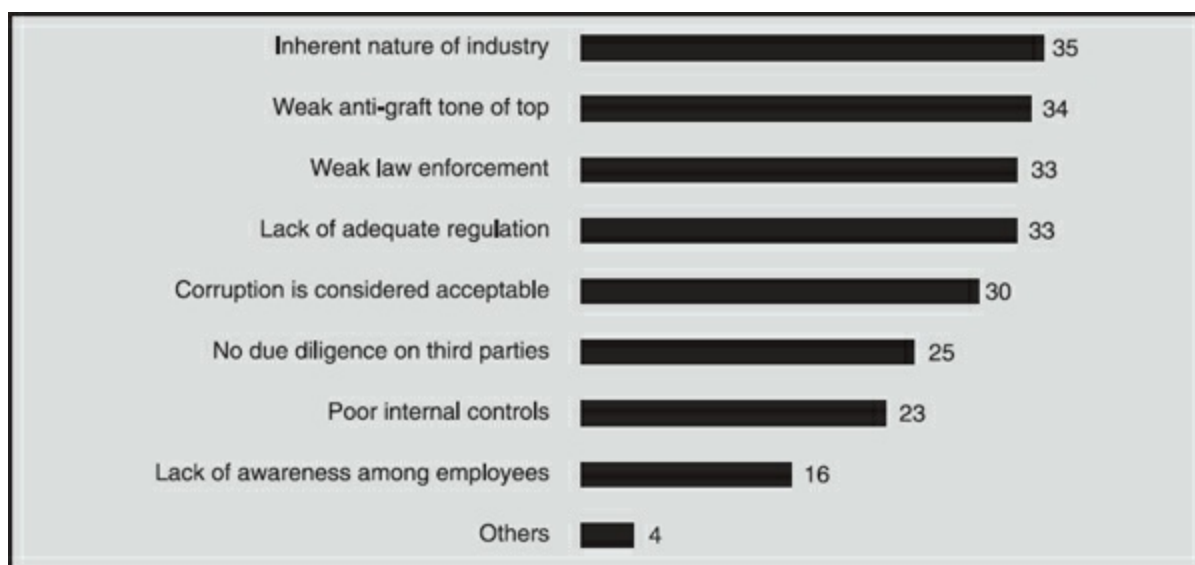
Financial Services and Private Equity	19%
Real Estate and Infrastructure	18%
IT/ITES	16%
Telecom	9%
Media and Entertainment	7%
Retail and Consumer Products	8%

Pharmaceuticals	8%
Auto and Auto Ancillaries	7%
Energy, Oil and Natural Gas	7%
Others	1%

(Source: E&Y 10th Global Fraud Survey, 2008)

Table 23.3 contains most common reasons behind unethical practices

Table 23.3 *Reasons for Graft*



(Note: Numbers represent percentages of respondents. Total exceeds 100 as respondents chose multiple options)

(Source: *Business Today*, dated March 18, 2012)

Unethical practices are not unique to modern times. They were found in ancient culture too. Manu and other law givers validated certain unfair practices such as charging differential rates of interest to different borrowers.

Unethical practices were found even in our ancient culture. Not only rates of interest were exorbitant (60 per cent, 120 per cent and 240 per cent) but

were charged differently to different castes. *Manu* and some other law givers laid down a sliding scale of interest for unsecured loans, according to the class of debtors—Brahmins 24 per cent, Kshatriyas 36 per cent, Vaisyas 48 per cent, and Sudras 60 per cent per year.¹¹

Debtors were imprisoned or enslaved by creditors until they paid off their debts. There were instances of debtors committing suicide who were unable to bear the harassment by creditors. We read stories about the atrocities committed by *Sresti* or *Setty*, the trader in his village. These stories may be mere tales, but they would have been inspired by real situations which existed centuries ago.

ETHICAL DILEMMAS

Several ethical dilemmas confront an HR manager. The ethical dilemmas arise from three sources— face-to-face ethics, corporate policy ethics, and functional-area ethics.¹²

face-to-face Ethics

These arise mainly because there is a human element in most business transactions. For example, a purchasing agent of a company develops personal relationship with the sales representative who sells/ supplies to the company. They may address one another on first name basis, have lunch together, and talk often on the phone. A company's best customers may be well-known to people in the production department as it helps to ensure that the company's products fit the customer needs.

Because business is composed of these human transactions, it should not be surprising that face-to-face ethical dilemmas arise often.

It is likely that the quality assurance man overlooks a minor defect and approves a lot delivered by a supplier because of the personal relationship that the two enjoy. It is also not unlikely that a supervisor over-rates the performance of an employee because of the similar relationship that exists between the two.

Corporate-policy Ethics

Companies are often faced with ethical dilemmas that affect their operations across all departments and divisions. Following conflicting situations are typical:

1. Your R&D department has modernised one of your products. It is not really '*new and improved*'. But you know printing these statements on the package and using it in advertisement will increase its sales. What would you do?
2. You are interviewing a former product manager who just left a competitor's company. You are thinking of hiring him. He would be more than happy to tell you the competitor's plans for the coming years. What would you do?
3. You have a chance to win a big account that will mean a lot to you and your company assistant recommends sending a colour television set to his home. What would you do?
4. You produce an anti-dandruff shampoo that is effective with one application. The purchasing agent hinted that he would be influenced by a gift. Your assistant says that the product would turn over faster if the instructions on the label recommended two applications. What would you do?
5. You work for a cigarette company and till now you have not been convinced that smoking cigarettes causes cancer. A recent report has come across your desk that clearly establishes the connection between smoking and cancer. What would you do?

Another issue relates to the consequences of employment contraction in labour intensive basic industries because of the improved methods of production. Modern technology has replaced older methods of production which has in turn resulted in hundreds being rendered jobless. The issue therefore is—global economic competitiveness or local social-psychological stability?

The ethical burden of deciding corporate policy matters normally rests upon a company's HR management. The HR managers and directors are responsible for making policies and implementing them too. The ethical content of their policies can have enormous impact throughout the company. It can set an ethical tone and send right signals to all employees as well as external stakeholders.¹³

functional-area Ethics

Functional areas of a business are likely to confront ethical issues. Accounting is a critical function of any business. Accounting statements reveal to the manager and owners the financial soundness of a company. Managers, investors, regulating agencies, tax collectors, and trade unions rely on accounting data to make decisions. Honesty, integrity and accuracy are absolute requirements of the accounting functions. Professional accounting organisations have evolved generally accepted accounting standards (GAAPs) whose purpose is to establish uniform standards for reporting accounting data. When they are followed, these standards ensure a high level of honest and ethical accounting disclosures. Rarely are they followed in factories.

Ethical dilemmas crop up in purchasing departments where strong pressures are felt to obtain the lowest possible prices from suppliers and where suppliers too feel a similar need to bag lucrative contracts. Bribes, kickbacks, and discriminatory pricing are temptations to both the parties.

Marketing is another area of ethical issue. Pricing, promotions, advertising, product information, relation between the ad agencies and their clients, and marketing research have potential areas of ethical dilemmas.

Then there is the area of today's sophisticated communication technology which is grossly abused or misused to realise one's ambitions.

HR ethical issues are aplenty as the next section shows.

Ethical issues arise in all functional areas of business. Financial statements are expected to present true and fair picture about the business, but they do not do so. Marketing lends itself to several ethical issues. Pricing, promotions, advertising and product information are the areas of unethical practices.

HR ETHICAL ISSUES

Ethical issues abound in HR activities. Areas of ethical misconduct in the personnel function include employment, remuneration and benefits, labour relations, health and safety and others. (see [Fig. 23.3](#))

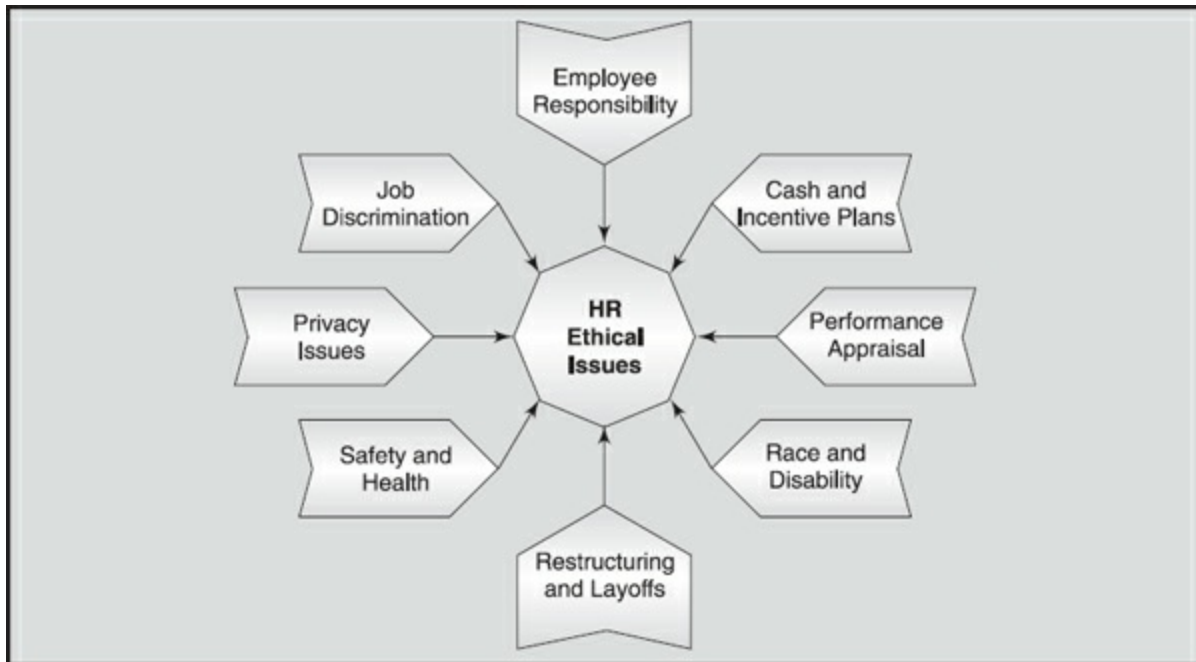


Fig. 23.3 *HR Ethical Issues*

Cash and Incentive Plans

These include base salaries, annual incentive plans, long-term incentive plans and executive perquisites.

Base Salaries The HR function is often presumed to justify a higher level of base salaries, or a higher percentage increase than what competitive practice calls for. In some cases, pressure is exerted to re-evaluate the position to a higher grade for the purpose of justifying a larger-than-normal increase.

Annual Incentive Plans The HR manager is often forced to design and administer top-management incentive plans, at higher rates than what the individuals deserve. A common rationale presented to the HR executive for bending the rules is the fear of losing the outstanding executives, if higher incentives are not paid.

Long-term Incentive Plans Just as with annual incentive plan, many HR leaders have the responsibility of designing and administering the firm's long-term incentive plans, but in consultation with the CEO and an external consultant. Ethical issues arise when the HR leader is put to pressure to

favour top management interests over those of other employees and investors.

Executive Perquisites Executive perquisites make the ethical stand of the HR professional difficult because their cost is often out-of-proportion to the value added. The responsibility of administering these programs falls on the HR persons who must live with the excesses that often are practised.¹⁴ Excesses often sound bizarre, as for example, the transport of a CEO's pet German shepherd as the sole passenger, carried on the manifest has "G. Shepherd". Another story relates to a Bangalore-based, loss-making public sector undertaking, whose CEO spent ₹20 lakh to get a swimming pool built at his residence.

Performance Appraisal

Performance appraisal lends itself to ethical issues. Assessment of an individual's performance is based on observation and judgement. HR managers are expected to observe the performance (or understand the potentials) in order to judge its effectiveness. Yet, some HR managers assign performance rating based on unrelated factors (for example, the employee is not loyal to the rator, or the ratee belongs to a different caste or religion).

Ethics should be the cornerstone of performance evaluation, and the overall objective of high ethical performance reviews should be to provide an honest assessment of the performance and mutually develop a plan to improve the ratee's effectiveness.

Race, Gender, Age and Disability

The practice of treatment of employees according to their race, ethnic origin, sex, or disability have largely been stopped. A framework of laws and regulations has evolved that has significantly improved workplace behaviour. The threat of litigation and the attendant costs have spurred employers to introduce several programmes designed to train managers and supervisors to avoid discriminatory practices. No enterprise today would dare to publicly state that it denies minorities, women, and the disabled opportunities for employment, remuneration, and growth prospects different from those given to others.

In this environment the role of HR function is to:¹⁵

1. Monitor the principles and norms of the enterprise to ensure that they reflect the values of the society as expressed in its laws.
2. Monitor the selection, reward, development, and appraisal systems to ensure that they are consistent with the principles and norms.
3. Vigorously pursue violations and, when necessary, vigorously work to defend the enterprise against unfounded allegations.
4. Protect women against workplace harassment which is on the rise as Exhibit 23.2 shows.

Exhibit 23.2 Sexual Harassment Cases Plague UN

The United Nations, which aspires to protect human rights around the world, is struggling to deal with an embarrassing string of sexual-harassment complaints within its own ranks.

Many UN workers who have made or faced accusations of sexual harassment say the current system for handling complaints is arbitrary, unfair and mired in bureaucracy. One employee's complaint that she was sexually harassed for years by her supervisor in Gaza, for example, was investigated by one of her boss's colleagues, who cleared him.

Cases can take years to adjudicate. Accusers have no access to investigative reports. Several women who complained of harassment say their contracts weren't renewed, and the men they accused retired or resigned, putting them out of reach of the UN justice system.

U.N. Secretary General Ban Ki-moon has acknowledged that the system is troubled. "I fully share your concerns regarding sexual harassment and sex discrimination", he wrote in February to Equality Now, a women's rights group that had complained to him. "This scourge remains a high priority issue for me".

On July 1, 2009, the UN plans to make changes to its internal justice system for handling all employee disputes, including harassment complaints.

It is impossible to know whether sexual harassment is a bigger problem at the UN, whose global staff numbers about 60,000, than at other large multinational organisations. Officials in the secretary general's office say they don't know how many sexual harassment cases are field at the world

body because each UN entity tracks cases separately, and confidentially. The secretariat, the UN's main administrative body, says it handles between five and eight cases a year. But those figures include only cases referred to its human-resources department for possible disciplinary action, not complaints that have been dismissed.

A spokesman for the United Nations Children's Fund, or UNICEF, said it has handled 15 complaints since 2004. Five alleged perpetrators in those cases have been dismissed, and two others were issued lifetime employment bans from UNICEF because they resigned during investigations. Disciplinary proceedings are being initiated against another accused staffer.

In one important respect, the UN handles such problems differently than other large organisations. Many UN lifts immunity, its own justice system is the only one workers can turn to.

One sexual harassment case was reported by Archana Pandey in 2006. In October 2006, Archana Pandey, an assistant communications officer UNICEF, in New Delhi, accused Cecilio Adorna, then UNICEF's top officer in India, of sexual harassment. She alleged he threatened not to renew her contract, which was due to expire at year end, if she didn't grant his sexual favours, according to UN records and Ms. Pandey, in an interview. She said she suffered an emotional breakdown and had to take sick leave. Mr. Adorna denied all the allegations. That December, Ms. Pandey's UNICEF contract wasn't renewed.

(Source: *Mint*, May 22, 2009, p. 20)

A demanding ethical challenge arises when there is pressure to protect the firm or an individual at the expense of someone else during an investigation. Exhibit 23.3 contains typical questions posed to a victim during an investigation of a sexual-harassment case at workplace.

Exhibit 23.3 Harassment at Work

“Do you know what sexual harassment is? It means physical contact and making advances; a demand or request for sexual favours; sexually coloured remarks; showing pornography; other unwelcome physical, verbal

or non-verbal contact/gesture of sexual nature. Now that you know, start describing your experience in each category".

"How many people have raped you in the office? How many people have hugged and kissed you? How many people have touched the sensitive organs of your body? If these have not happened, then how do you say you have been sexually harassed"?

"Your complaint is imaginary. It is impossible that a man in such a high position would stoop to such a level as to touch you".

"Are you not ashamed of making complaint of sexual harassment? Have you looked at yourself in the mirror? Do you think you are young and beautiful? Do you expect people to believe that you have been sexually harassed"?

"Why do you prefer these complaints? As a woman you must learn to adjust and not complain. No other woman around you is complaining, so why are you doing it? You are reacting and being hyper-sensitive. It is better for your career to withdraw this complaint".

Source: The Hindu, March 4, 2001

Job Discrimination

Job discrimination refers to making adverse decisions against employees or job applicants based on their membership in a certain group. Three tests decide whether a decision is discriminatory or not:

- (i) Decision is based on the group membership and not on individual merit,
- (ii) Decision is the result of prejudice, or false stereotype, and
- (iii) Decision somehow harms those it is aimed at.

The most common discriminatory practices having ethical implications are at least four. First, individuals can intentionally discriminate out of personal prejudice or on the basis of stereotypes. For instance, request from women to work in production department may be rejected on the basis that they do not understand machines. Second, organisations can also discriminate. For example, a company has a policy not to place women in supervisory positions because "men in the company do not want to receive

orders from females”.

Third, discrimination on grounds of sex or race that violates people’s basic moral rights and mocks the ideal of human moral equality. Finally, workplace harassment, particularly of women, is a workplace discrimination.

Coming to the first three categories of practices, the question that crops up is—how are discriminatory practices unethical? Discrimination is unethical because it violates a person’s basic moral rights. Kantian theory, for example, holds that human beings should be treated as ends and never used merely as means. Thus Kantian principle implies that each individual has a moral right to be treated as a free person equal to any other person, and that all individuals have a correlative moral duty to treat each individual as a free and equal person.

How to correct discrimination? Experts have suggested series of corrective interventions, popularly called affirmative actions. Affirmative actions include hiring people purely on job-related considerations giving due representation to reserved categories, equal pay for equal work, offering job promotions on the basis of performance and treating all employees fairly. Some of the affirmative actions are mandatory also. Hiring a minimum number of people belonging to disadvantaged sections, for example, is a legal requirement, so also equal pay for equal work.

The role of HR manager in ensuring that affirmative actions are in place is better understood in the implication than making it explicit.

Privacy Issues

Privacy refers to protecting a person’s private life from intrusive and unwarranted actions. The employee believes that his or her religious, political, and social beliefs as well as personal life-style, are private matters and should be safeguarded from being snooped or analysed. Exceptions are permitted grudgingly only when job involvement is clearly involved. For example, it may not be inappropriate to intrude into an employee’s private matters if it is suspected that he or she discusses with a competitor, through e-mail messages, the specifications of a newly developed product not yet launched into the market.

At least five areas pose ethical dilemmas to employers pertaining to privacy of employees or job applicants. (See [Fig. 23.4](#)) The *first* relates to

information technology. A firm's need for information particularly about employees while-on-work may be at odds with the employees' privacy. There are regulations prohibiting third-party interception of e-mails without prior authorisation, but interception by insiders is not covered by any law, and no absolute privacy exists in a computer-based system. Employees are viewed on close-circuit TV, phones are tapped, and computer files are read without his or her knowledge or consent. Such intrusions do breach the privacy of employees and constitute an ethical dilemma for the HR practitioner.

Another ethical conflict relates to AIDS testing. AIDS has become a major public health problem. Emerging first among homosexual males and drug users, the AIDS epidemic now affects all segments of the world population.

For the HR manager the disease raises two issues. Whether a new hire be subject to AIDS test? What treatment should be meted out to an employee who is affected with the disease? Opponents of AIDS testing argue that new hires should not be tested for the presence of HIV because it would be an invasion of privacy. They also argue that the available tests are frequently inaccurate and the tests do not reveal whether a person having AIDS antibodies will ever develop the disease. With regards to the issue, firms do not discriminate against the HIV positives. In 1990, the American Federal Government, for example, passed the strongest anti-AIDS discrimination legislation. More than 30 states in the country have laws that bar job discrimination against people with AIDS. It is generally understood that since AIDS cannot be contracted by casual and normal workplace contacts, employees with the illness should not be segregated from others, nor should they be restricted in performing jobs for which they are qualified.

Privacy refers to protecting a person's private life from intrusive actions. Such intrusive actions include AIDS testing, whistle blowing, drug testing and genetic testing.

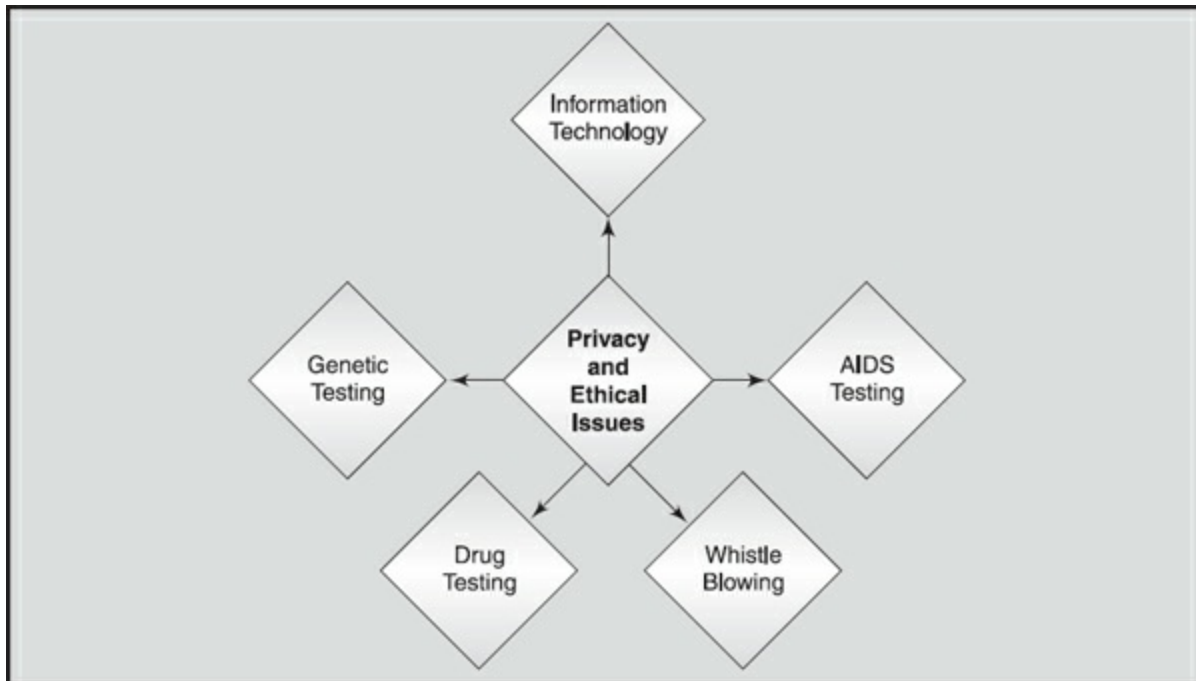


Fig. 23.4 *Privacy and Ethical Issues*

The *third* area of ethical concern for the HR manager relates to whistle-blowing. Like the blowing of a whistle by a referee to indicate violations of the rules on a playing field, whistle-blowing in a business setting refers to disclosure by former or current organisation members of any illegal, immoral, or illegitimate practices involving their employers. Employees either make organisational misconduct public or inform it to top-level officials of the company.

Whistle-blowing has both defenders and opponents. Those defending whistle-blowing point to the crores of worth of fraudulent activities detected. Opponents of whistle-blowing however cite the hundreds of unsubstantiated cases, often used by disgruntled workers seeking to blackmail employers.

How is whistle-blowing an ethical issue? Generally, employees are not expected to speak against their own employers because there is public interest in allowing firms to operate without harassment from insiders. Company information is generally considered to be proprietary and private. If employees, based on their personal points of view, are freely allowed to expose issues to the public, the company may be thrown into turmoil and be unable to operate efficiently. On the other hand, there may be situations in which the society's interests override those of the company. So an employee

may feel it obligatory to blow the whistle. The following sequence of actions morally justify whistle-blowing:¹⁶

1. An unreported act that would be serious and would cause considerable harm to the people.
2. Once such an act has been identified, the employee has reported the act to his or her immediate supervisor and has made the moral concern known.
3. If the immediate supervisor does nothing, the employee tries other internal pathways for reporting the problem.

Only after each of these conditions has been met, should the whistle-blower go public.

The *fourth* area of ethical concern relates to drug testing. Whether an employer tests its employees for drug usage requires a delicate balance between the right of the employer to protect its interests and the right of the employee to be free from wrongful intrusions into his/her personal affairs. As a rule, employer has a right to drug test if drug usage impacts employees' job performance. Otherwise, employer has no basis for testing.¹⁷ [Table 23.4](#) summarises the debate over employee drug testing.

How does drug testing assume an ethical dimension? If the information obtained from drug testing is relevant to the job, subjecting an employee to such a test assumes legitimacy and becomes an accepted component of employer—employee relationship. Where information obtained from drug testing is irrelevant to the job, it amounts to invading an employee's personal life. Such information may also be held against the employee concerned.

The *fifth* dilemma stems from genetic testing. This testing is an attempt to use the science of genetics to understand the links between one's inherited characteristics and certain illnesses. Genetic testing can occur in two different forms: genetic screening and genetic monitoring. *Genetic screening* is used to identify persons who are susceptible to certain genetically based illness. The goal of screening is to single out individuals or groups of people who have certain genetic traits. *Genetic monitoring*, on the other hand, is used to identify substances that are capable of causing damage to the genetic make up of people. The goal of monitoring is to single out not people but harmful substances.¹⁸

Genetic testing makes sense for businesses. Fewer disabled workers

means reduction in costs caused by illness, absenteeism, health insurance, worker's compensation and turnover.

Table 23.4 *Pros and Cons of Employee Drug Testing*

Arguments Favouring Employee Drug Testing

- Improves employee productivity
- Promotes safety in the workplace
- Decreases employee theft and absenteeism
- Reduces health and insurance costs

Arguments Opposing Employee Drug Testing

- Invades an employee's privacy
- Violates an employee's right to due process
- May be unrelated to job performance
- May be used as a method of employee discrimination
- Lowers employee morale
- Conflicts with company values of honesty and trust
- May yield unreliable test results
- Ignores effects of prescription drugs, alcohol and over-the-counter drugs
- Drug use is an insignificant problem for some companies

Source: William G. Frederick, *et. al.*, *Business and Society*, McGraw-Hill, 1992, p. 326.

Genetic testing has ethical dimension in as much as it can be held against job seekers or discriminate against some employees. In addition, it gives way to social stigmatisation of people with genetic defects. When screening uncovers a genetic abnormality, the individual tends to feel morally defective, cursed or damned.¹⁹ For instance, individuals in our society inflicted with leucoderma are being stigmatised though vitiligo is considered to be not a harmful disease. For a long time, such people were not permitted to enter restaurants. Even today a boy with white patches on his skin will not get a girl in marriage and a girl with such blots finds it almost impossible to make a boy accept her in marriage.

Genetic testing can become an ethical issue if the result of such a test is held against an employee's interest. In addition, the social stigmatisation it gives adds to the ethical issue.

Safety and Health

Chapter 16 dealt with the issues relating to safety and health in greater details. Suffice it is to state that much of industrial work is hazardous. This is because of the extensive use of high-speed and noisy machinery, production processes requiring high temperature, an increasing reliance on chemical compounds, and the nature of such works as construction, underground and under-water tunnelling, drilling and mining. Accidents, injuries, and illnesses are likely to occur under these circumstances.

Over the past decade, new categories of accident and illness have emerged, including the fast-growing job-safety problem of office injuries. Stress from the rising productivity pressure and escalating job demands can cause cumulative trauma and disorder, such as the wrist pain which is sometimes experienced by super-market checkers, meat cutters, or keyboard operators. The number of health problems attributed to the use of video display terminal and computer keyboards and to tasks requiring repetitive motion have increased by ten folds in the last decade.

Modern business establishments are obviously full of hazards to safety and health. At the same time there is controversy surrounding the issues relating to safety and health. It may be asserted that nobody, including an employer, has a right to cause injury to the physique of another or damage his/ her health. This assertion stems from the fact that health and safety are the two things that are highly valued. If anything can be said to be intrinsically good, it is health and safety. Except in the most extreme circumstances, life is better than death, health is better than illness and body integrity is better than injury. Besides this intrinsic value, health and safety also have significant instrumental value. In other words, they are very useful for acquiring other things of value. Whatever one desires, being healthy and safe will improve one's chances for satisfying that desire.²⁰ Thus, safety and health have both *intrinsic* as well as *instrumental* value.

What are the ethical issues involved in safety and health? One issue

relates to the risk assessment. Second issue relates to the role of government.

Assessment of risk apparently looks like a technical job that can be best handled by scientists and technicians. But here to make judgements on the magnitude or seriousness of the harm is involved. Take the case of the Bhopal gas tragedy, the worst ever industrial disaster occurred in Bhopal on the night of December 3, 1984 with the leakage of 40 tonnes of methyl isocyanate and other lethal gases, killing 4,000 people on the day of disaster. This figure swelled to 20,000 over the years. Several lakhs of people including unborn children suffered from multiple injuries. The Union Carbide paid \$470 million as compensation. The money was not disbursed immediately because of legal disputes. It was deposited with the Reserve Bank of India. After a prolonged 20 years legal battle, the Supreme Court directed the Government of India to disburse the money (which came to ₹ 1,503 crore with interest) to the gas victims. How was the compensation of \$470 million determined? Does the compensation paid to the victims match the sufferings of people?

The second ethical issue relates to the role of government in safety and health. It needs no emphasis that people have rights that protect them from others who would enslave them or otherwise use them for their own purposes. Workers have an inalienable right to earn their living free from ravages of job caused death, disease and injury. Philosophers have offered strong defences of the right to be free of the infliction of cancer on the job. Behind this contention lies the idea that people need rights to protect them from unreasonable health hazards at places where they earn their living. If the market does not satisfy this right to safety on the job, then the government must intervene in order to protect it.²¹

Safety and health have both intrinsic as well as instrumental value. What is intrinsically good is one's health and safety. Except in the most extreme circumstances, life is better than death, health is better than illness and body integrity is better than injury. Safety and health have high instrumental value. They are useful for acquiring other things of value.

Restructuring and Layoffs

Restructuring activities in the past several years, and the lay-offs that have resulted, cannot be considered unethical as such. Restructuring and consequent lay-offs have become relevant because of poor management, but incompetence does not become unethical.

However, there are ethical implications in the process by which termination decisions are made and actions taken. For example, if restructuring requires closing of a plant, the process by which that plant is chosen, how the news will be communicated, and the time-frame for completing the lay-offs are ethically important. If conducted in an atmosphere of fairness and equity and with the dignity of the affected individuals in mind, the action is ethical.

To start with, alternatives to lay-off may be tried before terminating services of employees. Following are the most straightforward choices:²²

- Proportionally reducing work hours to spread the pain of reduced employment costs across the entire work-force.
- Reducing wages for all employees (possibly weighted to so that the highest paid take larger pay cuts) to reduce the wage bill.
- Taking work previously outsourced (such as maintenance or subcontracting) back into the organisation.
- Building inventory when demand is slack.
- Freezing hiring to avoid making overstaffing worse.
- Having people do other things, such as defer maintenance and repair, training courses and similar activities for which they were too busy when business was better.
- Refraining from hiring to meet peak demand, which makes reductions in employment almost inevitable when demand falls.
- Encouraging people to develop new products, services, or markets so that their skills can still be used by the firm.
- Putting production or staff people into sales to build demand.

Employee Responsibilities

Earlier we pointed the rights of employees. Corresponding to the rights are the responsibilities which employees owe to their employers. Responsibilities set ethical limits on their behaviour and rights establish limits of the ethical behaviour of others.

Employees owe responsibilities to themselves and their own moral integrity, to their families, to their profession, to the law and to society at large. Obviously, employees face many cases of conflicting responsibilities in the workplace, as for instance, responsibility to one's employer versus obligation to public safety, or responsibility to one's profession or to the employer. Conflict also arises when the responsibility to self or family clashes with the responsibility towards employer. There are established principles which help the employee resolve such conflicts. For example, public safety should override the interests of employer, and responsibility to one's profession is more sacred than loyalty to the employer. The issue relating to self versus employer is nothing but work-life balancing, an issue that is assuming increasing importance these days. We propose to throw more light on this issue in [Chapter 25](#).

MANAGING ETHICS

In the past, it was assumed in most firms that ethics was a matter of individual conscience. But the scenario has changed. Today, many businesses are using managerial techniques that are designed to encourage ethical behaviour. Some of the managerial interventions to ensure ethical conduct are worth stating in this context. (Also see [Table 23.5](#))

Table 23.5 *Means to Promote Ethical Conduct*

	<i>India</i>	<i>Asia Pacific</i>	<i>Global</i>
Ethics/Code of Conduct	72	73	64
Pre-employment Screening	54	37	50
Public Source Information	32	25	33
Whistleblowing System	28	18	28
Fraud Training	24	25	29
Others	23	20	27

Note: Figures indicate percentage responses from sample firms who have implemented the systems.

Source: Survey by Price Waterhouse Coopers, 2003.

Top Management

It is the CEO who should take the initiative in ensuring ethical standards in his or her organisation. The words of J.R.D. Tata are worth recollecting in this context. “ *has also worked against our growth. What would have happened if our philosophy was like that of some other companies, which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth*”²

In addition, the top management must avoid adopting business strategies, schedules and reward systems that place unreasonable pressure on employees.

Top management should send right signals reiterating the need to observe ethical practices. German engineering giant Siemens AG, for example, has agreed to pay a record \$80 million fine to US authorities to settle a bribery investigation under the Foreign Corrupt Practices Act. In 2007, Maruti withdrew 28500 vehicles as a minor defect was noticed in greasing of shaft in engines.

A Factories Inspector once demanded ₹6,000 in return of not insisting on a compliance. But the management of Wipro, instead, invested ₹14 million in complying with the requirement and solving the problem on a permanent basis. In another case, Wipro operated a highly power intensive factory with self-generated power for almost two years-incurring double the normal electricity cost because the Chief of the electricity board demanded rupees one lakh to supply electricity . After two years, when the Chief of the board changed, Wipro got the required electricity overnight since the company’s proposal complied with all requirements and the new Chief was an honest person.

J&J has an interesting anecdote to tell. It was Tylenol case of 1982. Seven people were dead in Chicago after consuming extra-strength Tylenol capsules (J&J’s most profitable product at the time with a market share of 37%). An unknown suspect had tampered with the product by replacing the drug with deadly levels of cyanide. Even though J&J was not responsible for the deaths, Tylenol was recalled from the entire country which amounted to 31 million bottles and a loss of more than \$100 million in revenue (See also Exhibit 23.4).

Exhibit 23.4 If A can Do It, Why Not B?

The same question can be turned towards ethics in corporate world. The question then would read: If Siemens can be ethical, why not other companies?

Siemens AG is a German based \$73 billion MNC strong in engineering, software, electrical and services. The 160-year-old MNC has 400,000 employees working in 190 countries. Siemens is probably the first MNC to fight corruption and succeed in it and has almost become a benchmark and subject for a case study in fighting bribery and corruption.

Siemens was not a holy cow and till recently, the MNC indulged in unethical practices. Between 2003 and 2008, the engineering giant made 4283 illegal payments totalling \$1.4 billion to 332 projects. Thereafter, Siemens paid \$1.6 billion in fines and fees to US and German Governments, ever made by a company. Its worldwide web of corruption touched Bangladesh, China, Israel, Russia, Venezuela, and Vietnam.

The court filings made by the US DOJ and the Securities and Exchange Commission (SEC) are stark in their revelations on Siemens' brazen ways. Bribery mechanisms included direct payments to consultants, creation of secret cash desks and bank accounts, a system of bearer cheques and slush funds, drawing of sham supplier agreements and resale transactions and receivables manipulation.

The company, actually, had a strong moral mien in its formative years. But World War II and its aftermath changed its fortunes for the worse. The Marshall Plan for the reconstruction of Europe tilted the scales heavily in favour of American companies. Faced with stiff competition, Siemens gradually slipped into deploying unfair means to stay afloat, bag business and protect jobs.

As the years passed, the company got deeper into the corruption quagmire and 'Nutzliche Aufwendungen', or NA-meaning 'useful expenditure', a companywide euphemism for bribes-came into vogue.

After the corruption scandals mauled its reputation, Siemens is in the throes of a remarkable clean-up initiative that is going beyond signing codes of conduct, posturing and good intent.

What Did Siemens Do?

The company has put in place an array of anti-corruption processes, checks and balances and training, not witnessed anywhere till now. First in the series is the Internal Control Remediation (ICR) process involving as many as 103 control tools to fight graft in its HQ and all subsidiaries. Around 200,000 employees have undergone extensive training on compliance. Compliance component is included in the bonuses payable to executives.

In addition to major compliance, deep business restructuring was undertaken. Siemens has reorganised its 13 business units under four verticals: energy, healthcare, industry, and infrastructure. It has sector CEO for each and all are members of the board. This has resulted in greater clarity on reporting lines, with sector CEOs reporting to the company CEO. This arrangement has been replicated in all the subsidiaries. So, in India, a sector CEO will report to the CEO of Siemens India and also report to sector CEO globally. This has added a layer, but it also makes sure that the limits of authority are clear. In the earlier system, heads of verticals ran virtual fiefdoms.

The engineering major has introduced a unique system of screening a firm or an individual before selecting as a business partner. Called the 'business partner compliance tool', the system is an elaborate online instrument that virtually strips a potential partner down to brass tacks probing the candidate under clearly defined risk categories. Earlier, such business partner selections were random.

When the clean-up process was set in motion in 2007, the chairman of the board, CEO and several board members exited the company. Many seniors from Siemens India too faced the brunt and the sack. A message that "Siemens stands for clean business – every where, everyday, and all the time" was sent round all the subsidiaries. Support was extended to all those who did right things, discipline or removal were meted out to those who did not.

Bidding system was streamlined making it more transparent. Project executives now swear by a tool called the LOA (limits of approvals). This deals with risks at all levels: legal, operational and compliance. And as one progresses through the tool, answers to structured questions are sought. There are structured approvals to be obtained before a bid is finally made to a customer. Earlier, a set of people sat around a table and thrashed out a bid. Those days are gone.

This wasn't easy. The World Bank, in 2009, prevented Siemens from bidding for its funded projects. It also asked it to spend \$100 million on anti-corruption awareness initiatives, as penance, worldwide. Siemens India consequently, had to pull out of the Mumbai railway electrification project. For years, especially when the internal clean-up was on and tools were still in development, every bid made by the Indian arm was vetted in Germany.

Now Siemens refrains from bidding where it's impossible to secure a contract through fair means. Even in routine income, sales tax or excise issue, it refuses to grease palms, with the result that the number of court cases against the company saw a spike in 2009.

An initiative specific to India is significant, especially when numerous controversies around tax avoidance, havens and black money abound. The 'high risk payment policy' identifies which payments fall under the ambit of high risk and what controls are required. Payments to individuals and vendors made in tax havens or countries with poor rating on the Transparency International index are doubly scrutinised.

Since the cleanup began, orders received by Siemens have grown every year, barring 2007-2009.

While big-ticket measures are being strengthened, efforts to go down to the bottom rungs of bribery prevention are also on: gifts and hospitality, for instance. Value limits have been defined for every level of the management. This was one area where the company ran amok.

Siemens is looking outwards for creating a 'cartel of the good' – a collective effort to curb graft. In a competitive market one or two good companies doing good work are likely to be isolated if others are bribing their way to bag contracts. The integrity pact is a global Transparency International (TI) tool to curb corruption in public procurement.

Constant infusion of ethical values down the line has been carried out day in and day out. Batches of Siemens managers, CEO downwards, are spending time at the Panchagani campus of the global NGO, the Initiatives of Change, headed by Rajmohan Gandhi.

Siemens has done it and is satisfied with the positive outcomes. Why no others too?

(Source: The Economic Times, dated April 19, 2012)

Code of Ethics

Code of ethics has become popular. These codes vary from book-length formulations to succinct statements in one or two pages and express a general philosophy for managing conflicts. Nearly 95 per cent of the Fortune 500 companies have codes, and a trend is visible in the corporate sector in India also. Read Exhibit 23.5 for a typical code of conduct.

Exhibit 23.5 Code of Conduct in Tata

For the Company

- To supply goods and services of the highest quality standards to ensure total satisfaction of customers.
- To engage only in activities beneficial to the national interest of the country they operate in.
- To be fully transparent in accounting and financial reporting standards
- To fully strive for the establishment and support of a competitive open-market economy and to abhor unfair trade practices.
- To neither give nor take any

For the Employees

- Conduct themselves professionally with honesty, integrity, as well as high moral and ethical standards. To be fair and transparent and to be seen so by third parties.
- Not derive any benefit from any information about the company or group which constitutes inside information.
- Report to the management any actual or possible violation of the code or an event that the employee becomes aware of, that could affect the business or reputation of the employee's company or any other company belonging to the Tata group.
- Permits employees to pursue an active role in civic or political affairs as long as it does not affect the business or interests of the company or the group.

illegal payment, gift, donation, or comparable benefit to obtain business or favours.

- To comply with all regulations regarding preservation of the environment. —
 - To be a good corporate citizen and to actively assist in the improvement of the life of the community with the objective of making it self-reliant. These social activities are regarded as an integral part of their business plans and not optional. —
 - To co-operate and share physical, human, and management resources with other companies belonging to the Tata group so long as this does not adversely affects its business interests and shareholder value. —
-

Industry associations too have evolved codes of conduct of their own. For example, the Council for Fair Business Practices (CFBP), established in 1916, by leading private sector industrialists in western India, adopted a code of fair business practices.

The code constitutes a primary-level, self-regulating character for enlightened citizenship amongst business entities. The CFBP has initiated a set of prizes and awards called 'Jamnalal Bajaj Uchit Vyavahar Puraskar' (or Jamnalal Bajaj Prize for Fair Business Practices) to promote exemplary application of the above norms. The CFBP president claimed that sustained pressure from his council had resulted in the creation of the Advertising Standards Council of India (ASCI) and in the promulgation of the Consumer Protection Act (CPA), 1986.

The Federation of Indian Chambers of Commerce and Industry (FICCI, which also includes the MNCs) has recently issued a declaration on Norms of Business Ethics consisting of ten points. The Punjab, Haryana and Delhi Chambers of Commerce have also lately formulated Codes of Ethics.

Whoever evolves the code, its purpose is to provide guidance to managers and employees when they face an ethical dilemma. The most effective codes are those drawn up with the co-operation and widespread participation of employees. An internal enforcement mechanism, including penalties for violating the code, adds teeth to the code.

Ethics Committees

Many companies have ethics committees to advise on ethical issues. Such a committee can be a highlevel one comprising the board of directors, chaired by the CEO of the company.

The committees field questions from employees, help the company in establishing policies in new or uncertain areas, advise the board of directors on ethical issues, and oversee the enforcement of the code of ethics.

Ethics Hot Lines

In some companies, when employees are troubled about some ethical issue but may be reluctant to raise it with their immediate supervisor, they can call on the company's 'ethics hot line'. A member of the ethics committee receives the confidential call and then quickly investigates the situation. Elaborate steps are taken to protect the identity of the caller, so as to encourage more employees to report any such deviant behaviour. This technique is advantageous in as much as the matter is settled internally, which is better for a company than to have a situation where disgruntled employees take their ethical complaints to the media.²⁴

Whistle Blowing

When an employee thinks that his/her firm is resorting to some act that is unethical or harmful to public, he/she "blows the whistle" by reporting alleged organisational misconduct to the public or to top executives. Whistle

blowing refrains the firm from indulging in unethical and harmful practices. (See [Table 23.6](#)).

Table 23.6 *Whistleblowing in Action*

<i>Sl. No.</i>	<i>Name of the Organisation</i>	<i>Whistle blower</i>	<i>Consequences</i>
1	Enron	Sherron Watkins	Liquidation of the company
2	Kellogg India	Senior Executive (Name not known)	Sacking of two senior executives who were promoted for excellent performance a few months before.
3	Director FBI, US	Coleen Rowley	Attack on the World Trade Centre, US
4	World.Com	Cynthia Cooper	Company gone bust
5	Xerox	Name not known	CFO made to pay \$5.5 million in fines and banned by the SEC from practising accountancy. Accounting system streamlined
6	Heinz India, Johnson and Johnson, Bayer India	Installed whistle blowing systems	No incident is reported
7	LG India	Names not known but 10–12 cases have been reported to head	Not known
8	Brown & Williamson Tobacco Corporation (1996)	Jeffrey Wignad	Threats against family, loss of income, divorce, and threat of litigation for breach of confidentiality

Whistle-blowing is considered to highly effective in detecting frauds. Out of all frauds detected, nearly 30 percent surface because of the anonymous whistle-blowing mechanism. It has the potential to detect frauds which have gone unnoticed for two-three years.

In order to make whistle-blowing more effective, financial incentives are given to the informants. Income Tax and Customs Departments do reward the whistle-blowers financially, the extent being 10 to 30 per cent of what has been collected from the defaulters.

Whistle blowing has its flip side. In most cases, the whistle blower faces grave harms (even physical elimination as it happened to Dubey, an engineer with Highway Transport Authority. He was murdered as he shot a letter to the Prime Minister highlighting an alleged irregularity), ranging from lost jobs and careers to lost friendships and resentment among co-workers. Whistle blowing also jeopardises the well-being of the firm, disrupting its

work and in some cases resulting in lost contracts and lost jobs and even closure as has happened to Enron. It also involves one or more individuals asserting that their judgments are superior to those made by many other professionals and managers, sometimes without the full information available to others. As one critic of such an act has put it, “The whistleblower hopes to stop the game; but since he is neither referee nor coach and since he blows the whistle on his own team, his act is seen as a violation of loyalty”.

Table 23.7 shows the effectiveness of whistle blowing to check corruption.

Table 23.7 *Effectiveness of Whistleblowing to Check Corruption*

	<i>(% of companies using whistleblowing effectively)</i>
North America	77%
Australia and Newzeland	58%
Latin America	50%
West Asia, India, Africa	37%
Central and Eastern Europe	23%
East Asia (Except Japan)	15%
Japan	6%

(Source: E&Y, 10th Global Fraud Survey, 2008)

Surprisingly, whistle-blowing, a confidential matter, is also outsourced. KPMG India specialises as whistle-blowing service provider. The consulting firm has opened Ethics Helpline to provide the service. The rationale claimed for third party service is objectivity and complete reporting.

Organisations need to protect whistleblowers as their incomes, jobs, and even lives are at stake. It is not mere protecting them form physical threat, whistleblowers need to be reassured and encouraged to blow whistles when frauds are detected. Companies generally evolve policies towards whistleblowing. Tata Motors has one such policy as shown in Exhibit 23.6.

Murugappan group has an effective policy in place since March 2006. As per the policy, an aggrieved worker can approach the Ombudsman through a letter, e-mail, or call. Ombudsman shall report the matter to the board. Three such cases have been resolved at the board level since March, 2006.

The Securities Exchange Board of India (SEBI) mandates a whistleblowing mechanism in Clause 49 of the listing agreement. The provision has been in place since 2003, but has been ineffective. The Public Interest Disclosure Bill, 2010 has created awareness about whistleblowing and the need to protect whistle blowers.

Exhibit 23.6 Tata Motors Whistleblower Policy

Tata Motors has designed and implemented a just and transparent Tata Code of Conduct (TCoC)... that lays down the principles and standards governing the actions of the company and its employees. Tata's workforce can report concerns...actual or potential violation of the Code or any event that could affect the business or reputation of the company or any group company under the Whistleblower Policy.

The whistleblower is only supposed to report reliable, factual information to the Ethics Counselor or the Chairman of the Audit Committee and cannot be part of investigation or decision making. The policy also ensures that genuine whistleblowers are given complete protection from any kind of unfair treatment and any abuse of this protection is warranted for disciplinary action. This term is not applicable for false or bogus allegations made by a whistleblower knowing it to be false or bogus. Whistleblowers who make 3 or more false/baseless protected disclosures are disqualified from reporting further under this policy.

Protected disclosures can be reported in writing or even typed in English, Hindi or in the regional language of the place of employment of the whistleblower. These disclosures can be reported orally ... by leaving a voice mail on the toll free line of the Company or on a specific telephone number which is then transcribed.

Investigation procedure involves thorough scrutiny of all protected disclosures by the Ethics Counsellor/ Chairman of the Audit Committee. Main investigators can involve other investigators for investigating. The

investigation is usually over within 45 days of the receipt of the protected disclosure.

The identity of both the subject and the whistleblower is kept confidential as far as possible in view of legitimate needs of law and investigation. The subject is informed of the allegations at the beginning of the investigation and given opportunities for providing inputs during the investigation. Also, the subject has a right to consult with people of his/her choice, other than the investigators and/or the whistleblower. Subjects can any time take help of counsel at their own cost to represent them in the investigation proceedings. However, if the allegations against the subject are not sustainable, then company may reimburse such costs. The subject is informed of the outcome of the investigation...and if allegations are not sustained, the subject is consulted on whether public disclosure of the investigation results would be in the best interest of the subject and the Company.

Investigators conduct a process towards fact finding and analysis. All investigators need to be independent and unbiased both in fact and as perceived. Investigations start after a preliminary review by the Chairman of the Audit Committee or the Ethics Counsellor, which establishes that the alleged act constitutes an improper or unethical activity or conduct, and the allegation is supported by information specific enough to be investigated. In case where the allegation is not supported by specific information, but if the matter is worthy of management review then an informal investigation can take place.

Once it is concluded that an improper or unethical act has been committed, the Ethics Counsellor/ Chairman of the Audit Committee puts forward the matter in front of the management and recommends for taking disciplinary or corrective action.

The Ethics Counsellor submits regular reports to the Chairman of the Audit Committee about all protected disclosures with the results of investigations, if any. Also, all written/documentated protected disclosures with their results are retained by the Company for a minimum period of seven years.

The Policy is amended in whole or in part, any time without giving any reason, however, no such amendment binds the employees unless the same is notified in writing.

The Chief Ethics Counsellor of Tata Motors reveals how the company's code of conduct and whistleblower policy is actually implemented.

At Tata Motors the main areas of concerns include... adherence to the Tata Code of Conduct by individuals, colleagues, other group companies and guiding departments or colleagues on correct interpretation of the Code. Mostly all the concerns are resolved within a reasonable timeframe. For the year 2007–08, 95 of the 115 concerns have been resolved and the remaining ones were under review.

(Source: Published material on Tatamotors.com and reported in *Human Capital*, June 2009, p. 49)

Policy As with Tata Motors, all organisations need to have their own policies towards whistle blowing. Following considerations should guide such a policy:

- Mechanisms for reporting violations such as hotlines and mailboxes need to be installed.
- Have a referent person (such as the Chairman of the Audit Committee in Tata Motors) to whom communication can be addressed.
- Specify clearly the procedure for whistleblowing and following action that will be initiated.
- Strong commitment from top management to encourage whistleblowing is essential.
- Creating a culture of openness, honesty and sincerity is an essential prerequisite.
- Set a deadline on or before which follow up to the complaint should be complete.
- Ensure full protection to the whistleblower.

Do's	Don'ts
<ul style="list-style-type: none"> • Redress, at the earliest, any ethical issue that comes to the notice • Encourage employees to be transparent. For example, if some one has serious health 	<ul style="list-style-type: none"> • Forget the fact that an ethically honest firm is also profitable • Interfere in the working of ethics committee • Give in to false allegations. • Forget to conduct due diligence

problem, he or she should not hesitate its disclosure

- Action to correct unethical conduct should not depend on one's designation. If a lowly placed employee makes some quick money dubiously it is unethical. Same logic should apply to a CEO who does identical felonies. Ethics cannot be relative
- Set your own house in order. Charity should begin at home
- When caught between rule of law and rule of life, choose the former, however painful it is.

to establish validity of an allegation

Ethics Training Programmes

Nearly all companies, which take ethics seriously, provide training in ethics to their managers and other employees. In such training programmes, company personnel are made familiar with the official company policy on ethical issues, and it is shown how those policies can be translated into the specific everyday decision making. Often, simulated cases based on actual events in the company are used to illustrate how to apply ethical principles to on-the-job problems.

Generally speaking, training in ethics is most effective when it is conducted by the company managers themselves rather than external agencies. To make such a training effective, it is important that it is steered away from abstract philosophical discussions and focuses on specifics of the work environment of those attending.

Pause and Ponder

How far does the Right to Information Act help promote ethical conduct in government departments and business firms?

Ethics and Law

Law and ethics have a common aim—defining proper and improper behaviour. But the two are not quite the same. Laws are the society’s attempt to formalise—that is to reduce to written rules—ideas about what is right and what is wrong in various walks of life. However, it is rarely possible for written rules to capture all the subtle variations that people give to ethics. Ethical concepts are more complex than written rules. Ethics deals with human dilemmas that frequently go beyond the formal language of law and the meanings given to legal rules.

Similarities and differences apart, legal rules help promote ethical behaviour in organisations. Some of the acts which seek to ensure fair business practices in our country are the following:

The objective of ethics and law is same— defining proper and improper behaviour. However, in practice they differ. Law seeks to reduce to written rules. Ethics goes beyond the formal language of law and the meanings given to legal rules.

- The Foreign Exchange Regulation Act, 1973, now replaced by FEMA.
- The Companies Act, 1956.
- The Monopolies and Restrictive Trade Practices Act, 1969, now replaced by Competition Act, 2002.
- The Consumer Protection Act, 1986.
- The Environment Protection Act, 1986.
- The Essential Commodities Act, 1955.

Compliance Department

Most organisations have departments called Controls and Compliance which are entrusted with the responsibility of being their conscience-keepers. The staff is a dedicated team that reports to the corporate HQ and will have limited linkages to the local hierarchy. This ensures that they act independently and in the best interest of the organisation. All regulations

stipulated as per the law of the land are scrutinised for compliance through internal polices. The department ensures compliance of all corporate laws, tax laws and employment related regulation to ensure adherence to the framework for doing business. Experts in the subject of corporate law and corporate tax discipline are part of this department. Recommendations made by the department are final and binding on the business.

Enterprise Risk Management Initiative

The Enterprise Risk Management (ERM) team in an organisation is entrusted with the specific responsibility of ensuring that any or all kinds of risk to the business are eliminated /reduced to the minimum. Among many risks, exposure on account of ethical conduct of the employees is reviewed closely to ensure protection of company as well as customer/client information and intellectual property. Monitoring of employee activities to ensure that sensitive company or client information is not being shared externally is a key responsibility of this team. Downloading of unauthorised software using company resources such as laptop/desktop and internet connectivity are closely stated as forbidden and are closely monitored. Viewing of objectionable websites and videos on company resource provided to the employee is a violation of the ethics code. Employees face warning, both verbal and written, and might even be terminated if the team finds the breach severe enough.

Vigilance/Investigation Unit

The vigilance cell specifically looks into financial irregularities involving employees. Specific teams investigate complaints received from vendors or dealers and customer allegations against employees. The focus here is only on finance related issues such as misappropriation of marketing budgets for non-marketing purposes, misusing corporate credit cards for personal use, bribing dealers or favour a client or customer. The investigation is carried out independently and submitted to ethics committee recommending corrective measures.

There are other ways of fighting graft as [Table 23.8](#) shows.

Table 23.8 *Measures to Fight Graft*



(Note: Figures represent percentages of respondents. Total exceeds 100 because of multiple options)

(Source: *Business Today*, dated March 18, 2012)

Corporate Culture and Ethical Climate

Corporate culture is a blend of ideas, customs, traditional practices, company values, and shared meanings that help define normal behaviour for every one who works in a company. Every organisation has a culture which exercises considerable influence on employee behaviour.

Hewlett-Packard is well-known for a culture that stresses on values and ethics. Called the 'HP Way' by employees, the most important values of the culture are confidence in and respect for people, open communication, sharing of benefits and responsibilities, concern for the individual employees, and honesty and integrity.

Organisational climate at Xerox is ethics driven. This is the reason why the MNC has received several accolades such as one of the World's Most Ethical Companies (2008)', and is ranked fifth among the top 10 'Most Influential Organisations in the past 40 years in IT'.

In some companies, one can feel the blowing of ethical winds. People pick up subtle hints and clues that tell them what behaviour is approved and what is forbidden. This unarticulated understanding among employees is called as *ethical climate*. It is that part of corporate culture that sets the ethical tone in a

company.

One way to view ethical climate is given in [Table 23.9](#). There are three different types of ethical yardsticks, they are—egoism (self-centeredness), benevolence (concern for others), and principle (respect for one’s own integrity, group norms, and society’s laws). These ethical yardsticks can be applied to dilemmas concerning individuals, one’s company, or society at large. For example, if a manager approaches ethical issues with benevolence in mind, he or she would promote friendly relations with employees, emphasise the importance of team-play and co-operation for the company’s benefit, and recommend socially responsible courses of action. However, if the manager uses egoism to think about ethical problems, he or she would more likely to think first of self-interest, promoting the company’s profit motive and would strive for efficient operations at all costs. A company’s ethical climate depends on the combination it has of these nine possibilities.

Corporate culture and ethical climate can put pressure on people to channel their actions in certain directions desired by the company.

Ethical climate is often defined by peculiar circumstances as it happened to public sector units in India. The Transparency International India (TII), the local chapter of the global non-profit organisation that seeks to combat corruption, is hampered by lack of resources, to effectively monitor agreements it has signed with 29 public sector enterprises in India. These agreements are known as ‘Integrity Pacts’. Signing the pact binds an undertaking to guarantee transparency in its procurement deals. Besides, pacts help the signatories when they bid for international projects. TII has not started monitoring yet because of shortage of resources. The undertaking that have signed the pacts include, among others, ONGC, ISPAT Nigam, HPC, GAIL, and Coal India.

Table 23.9 *The Components of Ethical Climate*

<i>Ethical Criteria</i>	<i>Focus of Ethical Concern</i>		
	<i>Individual</i>	<i>Company</i>	<i>Society</i>
Egoism (Self-centred approach)	Self-interest	Company interest	Economic efficiency
Benevolence (Concern for others approach)	Friendship	Team interest	Social responsibility
Principle (Integrity approach)	Personal morality	Company rules and procedures	Laws and professional codes

Source: Fredrick, et. al, *Business and Society*, McGraw-Hill, 1992, p. 85.

IMPROVING ETHICAL DECISION MAKING

Ethical decisions are difficult to make. They cannot be programmed like production and inventory decisions. This section contains practical difficulties in decision-making and guidelines which help managers in making a choice.

Difficulties in Decision Making

There are at least nine reasons that can be attributed to decision-making in the ethical context.

First, managers face, as stated earlier, dilemmas in deciding on a course of action.

Second, managers confront situations where a distinction between facts and values has to be made while making ethical decisions. Facts are statements about 'what are' and values are statements about 'what ought to be'. 'What is can never define 'what ought to be'. For example, the cost of researching, developing and producing a life-saving drug may necessitate fixing a high price, as far as the company is concerned. But the price may be perceived as exploitative by users.

Third, the good and evil exist simultaneously, in tandem, and are inter-related. Nestle's sales of infant formula in Kenya and Zambia have led to infant deaths as mothers mixed the powdered food with contaminated local water and their babies died of dysentery. But evidence also shows that the same formula has saved other infants. Evils should be minimised if not eliminated.

Fourth, knowledge about the consequences of an action is limited. One of the principles of decisionmaking is utilitarian. This implies that if an act results in the greatest good of greatest numbers, it is taken as morally acceptable. This principle assumes that the consequences of the act are defined. But in an uncertain environment, consequences cannot be easily predicted.

Fifth, antagonistic interests frequently use incompatible ethical arguments to justify their intentions. Thus, the ethical stand of an organisation is often

based on entirely different premises from the ethical stand of critics. Animal lovers may argue against slaughter on the ground that animals are entitled to rights similar to those enjoyed by humans, including the right to live. Poultry growers, on the other hand, contend that raising animals for food ensures benefits to society.

Sixth, some ethical standards vary with the passage of time. Donations to political parties were forbidden earlier, but it is allowed now. In addition, certain bribes and payments are practised in the Asian, African, and Latin American countries but are not regarded as ethical in the US. Doing business with close friends and family is a standard practice in the Arab world, but is treated as nepotism in western Europe.

Seventh, ethical behaviour is moulded from the clay of human imperfection. Unethical practices abound everywhere (see Fig. 23.5 for different crimes). An honest HR manager finds himself or herself like a babe in the woods, not able to do anything, surrounded as he or she is, by dishonesty everywhere.

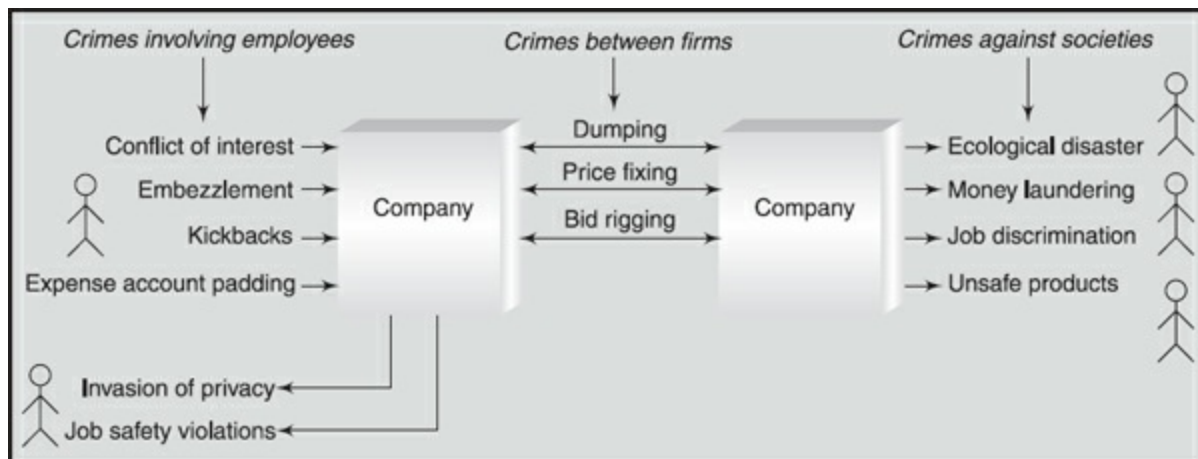


Fig. 23.5 *The Corporate Crimes*

Source: Adapted from *Business and Society* by Frederic, Post and Davis, *op. cit.*, p. 70.

Eighth, the early 21st century presents managers with newer and emerging ethical problems that are not solved easily with traditional ethical guidelines. For example, modern ethical theory has not yet developed an adequate principle for weighing human life against economic factors in a decision.

Cancer studies may predict that workers exposed to chemicals will become ill in small numbers far in the future. How should this information be balanced against costs of regulation, capital investment or job loss?

Finally, the growth of large-scale organisations in the 21st century gives new significance to ethical problems such as committee decision-making that masks individual responsibility, organisational loyalty versus loyalty to the public interest, and preferential hiring of disadvantaged sections of society.

Ways of Resolving Ethical issues

The individual in business can take number of steps to resolve ethical problems.

First, he or she can consider three well-known principles to resolve an ethical issue: moral idealism, intuitionism and utilitarianism.

Moral idealism postulates that certain acts are good and others are bad. Pursue those acts which are good and avoid the bad ones. Moral idealism gives definite answer to ethical issues.

Intuition leaves it to the individual HR practitioner to sense the moral gravity of the situation. If he or she feels that his or her motives are good and that they do not intend to hurt anyone, he or she is taking an intuitive approach to morally difficult situations.

Utilitarianism seeks to establish the moral locus not on the act or the motives but on the consequences. If the consequences represent a net increase in the society's happiness, or at least not a decrease, the act is morally right.

Principles of the type described above help a manager in making a decision in ethically difficult circumstances.

Second, consider some decision tactics that illuminate moral choices. One such device is to engage in imaginary conversations with a hypothetical opponent as an antidote for certitude. Have a debate with an intelligent person who takes a different view. Seek out a more experienced, ethically sensitive person in the organisation to be your adviser. Alternatively, write an essay in favour of a stand and then a second, to oppose it. Write a case study in the third person about your situation. Try to apply ethical principles in answers to questions raised by the case.

Third, write down pros and cons in the form of a balance sheet. The balance-sheet approach helps decision making by presenting information in

an organised way.

Fourth, sort out ethical priorities before problems arise. Prioritisation shall help consider alternatives when one is not under stress.

Fifth, one should commit oneself publicly on ethical issues. He or she should identify potential areas of ethical conflict and make clear his or her opposition to padding expense accounts, stealing supplies from the company, bias in performance appraisal or unjust laying-off of employees. Once the stand is made clear, employees will be less tempted to approach with corrupt intentions.

Finally, ethical perfection is illusory. We live in a morally complex civilisation with profuse rules, norms, obligations, and duties, like road signs that generally point in the same direction, but sometimes do not. No method of decision making ends conflicts, no principle penetrates unerringly to the good, and no manager achieves an ethical ideal.

But the HR practitioners cannot absolve themselves of their responsibility to ensure ethical conduct. In fact, the special role of the HR function has resulted in significant exposure to ethical challenges for the HR manager. As the function is integrated into the strategic management of the enterprise, and the HR leader is routinely involved in the process that deals with company-wide issues, the exposure to ethical issues grows.

As a result, the HR manager deals with more stakeholders than other functional managers: the interests of the company, as seen from management's perspective; the interest of the employees, where the HR manager historically has been expected to play the role of advocate; and the interests of shareholders and other stakeholders.²⁵

The HR manager is often involved into an ethical dilemma particularly when employee's interests conflict with those of the organisation. His or her position becomes more embarrassing when the organisation's leadership engages in unethical actions or promotes unethical behaviours. The HR manager, who is a member of the top-management team, can influence and sometimes bring about changes in the ethical culture of the organisation. However, one who expects to substantially and positively influence an organisation's ethical behaviour is probably doomed to disappointment.

SUMMARY

Ethics, in general, refers to a sense of right and wrong, and goodness and badness of actions. The same meaning applies to business ethics too.

Business ethics stems from religion, cultural experience and the legal system.

Ethics is important as it corresponds to basic human needs, creates credibility with the public, helps management build trust with the employees, helps better decision-making, helps a firm earn profits in the long-run, and protects society even if law fails to do so.

With honourable exceptions, Indian businessmen are unethical. Unethical practices, however, are not confined to Indian businesses alone. They are universal.

An HR specialist faces certain ethical dilemmas. More important of them are: face-to-face ethics, corporate policy ethics, and functional area ethics.

Certain ethical issues are unique to HR function. Areas of ethical misconduct in the personnel function include employment, remuneration and benefits, labour relations, health and safety, and the like.

There are ways of managing ethics. Committing top management to ethical behaviours, evolving and enforcing codes of ethics, constituting ethics committees and conducting ethics training programmes are some of the ways of ensuring ethical conduct from organisational members.

Improving ethical decision-making is a difficult task for an HR manager. Difficulty arises from several sources but HR specialist should make decisions which are ethically correct, atleast relatively.

KEY TERMS

Codes of ethics

Corporate-policy ethics

Employment issues

Employee privacy Ethics

Ethical climate

Ethical dilemmas

Face-to-face ethics

Functional-area ethics

Intuition

Managing ethics

Moral idealism
Utilitarianism
Whistle-blowing

REVIEW QUESTIONS

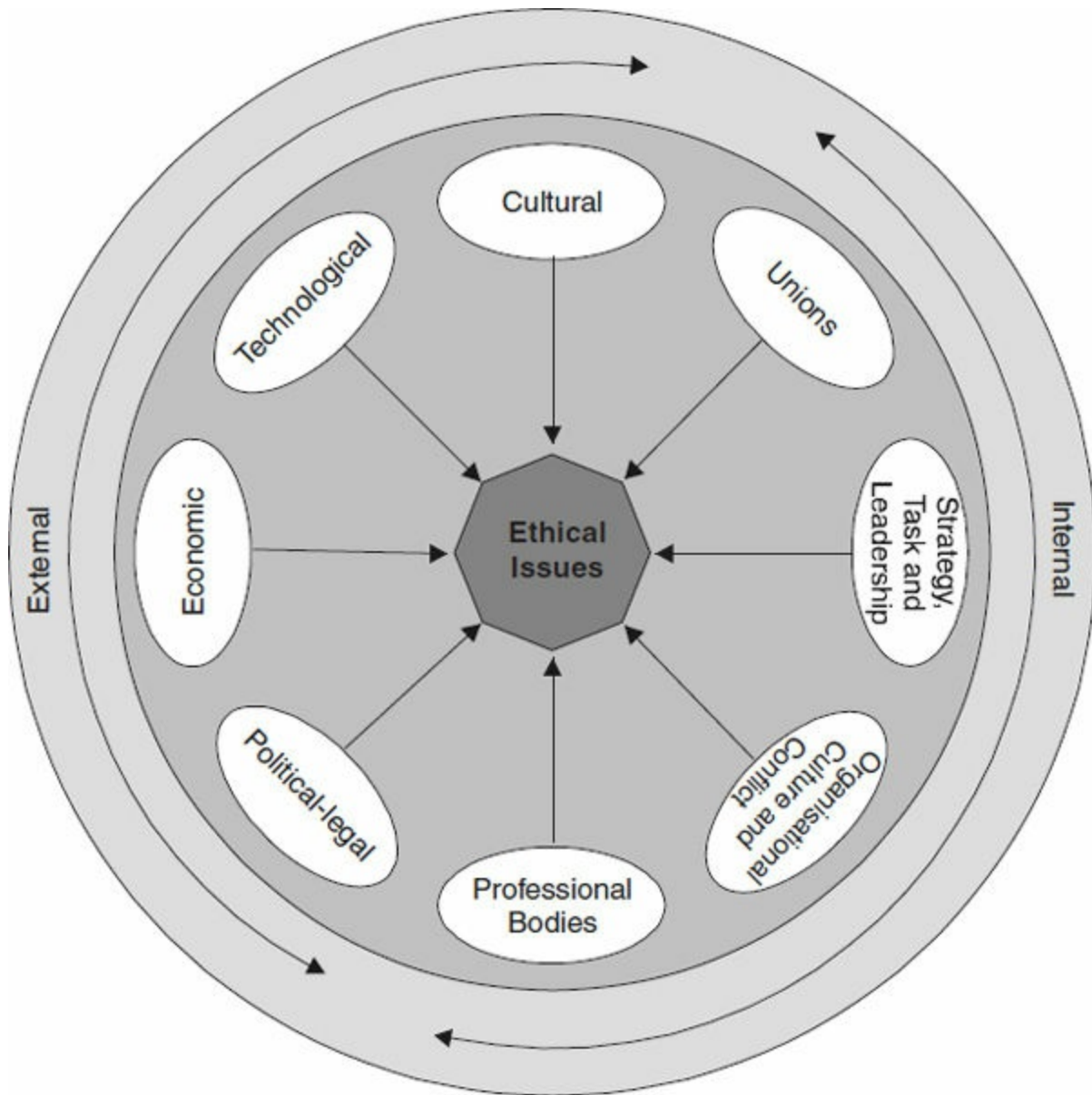
1. Define the term ethics. Trace the sources of ethics. Why is ethics important?
2. What are ethical dilemmas? Explain each.
3. Explain the various HR ethical issues.
4. Prepare a list of the guidelines for managing ethics.

DISCUSSION QUESTIONS

1. “Ethical behaviour is moulded from the clay of human imperfection”—give your viewpoint?
2. “An HR manager who hopes to substantially alter ethical conduct of an organisation is doomed to disappointment.” Elaborate.
3. Why is ethical decision-making difficult? Discuss.
4. Placing yourself as the international manager, comment on each of the opening cases to this chapter.
5. How does HR function become involved with business ethics in the organisations?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact ethical issues, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

Ensuring ethical conduct at work place is one of Vybhav's core values. On the day a new hire joins Vybhav, employee is made to read and sign a Code of Business Conduct (CBC) agreement along with the Non-Disclosure agreement. These are mandated and every new hire should sign the documents which will be filed in his or her personal file. The CBC contains typical 'do's of ethical conduct and 'don'ts' of unethical behavior.

In addition to signing the agreements at the time of joining, there are six monthly on-line e-learning modules offered as refresher courses that every

employee must complete in order to retain employment with Vybhav. The employee gets up to five reminders after which he or she is automatically locked out of the system and cannot access email or intranet, and would be once again 'inducted' into the company as a new hire.

The legal team at Vybhav also reinforces the ethical conduct of all employees. There is a legal attorney attached to each business unit of Vybhav. All business contracts need to be reviewed by the legal team before they can be signed off. The role of the legal team is to ensure compliance to host country code, alongside adherence to CBC of Vybhav. While this might often lead to delay in closing a contract, it is established as a non-negotiable internal process. The HR department too relies on the legal team with reference to employment and separation related issues. Any letter/document provided to the employee should be first cleared by the legal team. The offer letter, the non-disclosure agreement, the relieving letter, and the annual holiday list, are some of the documents that are vetted by the legal team. Any changes to these and other documents could be made and implemented only after clearance from the legal team.

An employee background verification process is another very well structured process at Vybhav. All new hires are on-boarded subject to positive background verification feedback relating to academic credentials, previous work experience and criminal records, if any. In addition to background verification at the time of hiring, all employees who complete 3rd, 6th, 9th (multiples if there years) are background checked for criminal offences, if any. This has been incorporated as a formal policy and all employees are sensitised about it.

Closing Case-1 *When an Employee Says He is HIV Positive*

Chemtech was a chemical firm employing nearly 1,500 people. Since the company was operating in a sheltered economic environment, the organisational focus for many years was on technology and manufacturing. There was little accent on marketing. But a liberal import regime heralded by the Government of India galvanised the management into sprucing up its sales and marketing team. A number of people were being hired from outside the company in a long overdue exercise of giving a customer-

oriented focus to the company's operations. A few employees were also being promoted from within. In a professional career spanning over two decades in personnel function in different companies, Aparojit Das, Vice-president (HRD), was closely involved with the hiring interviews. And he had always chosen well even while most of his contemporaries had been expressing disillusionment with the interview as a medium of getting the right candidate for the right job.

The secret of his success lay in a technique he had worked to perfection. As a candidate walked in for an interview, Das would quickly size him up for a first impression. Subsequently, the whole tenor of his questioning over the period of the interview would be aimed at destroying that impression. If the first impression was favourable and if it persisted till the end of an interview or if an unfavourable impression turned otherwise by the end, Das had an intuitive feeling that he had a good candidate on his hands. Of course, the assessment already made by the concerned divisional head regarding specific job requirements would be a major benchmark in the final selection of a candidate.

Das knew, however, that if he had chosen people well, it was not because of any particular skill but because he was simply lucky.

That morning, as he looked at the folder lying in his desk, Das wondered whether he was finally running out of luck. The folder contained dossiers of two candidates who have been interviewed at various levels over the previous month. As a part of the final assessment, Das himself had met them individually an hour ago. Both were internal candidates, presently working as sales executives and seeking promotion to the post of the sales manager to be based at the head office of the company. Both were highly recommended by the company's vice-president (sales) for the post.

The first dossier was of Prem Sagar who had been with Chemtech for five years. Sagar had worked his way up and understood the company's product and their markets. He was very keen to take on new responsibilities. The second was of Arvind Vardhan who had joined the company only the previous year. He seemed confident, sensitive to others' points of view, a self starter, and a good team player. Das's maiden impression was that Vardhan was a natural salesperson and it persisted, however hard he tried to disprove himself. He was clearly in favour of Vardhan.

It was when he was about to terminate the interview that Vardhan said “Mr Das, there is something that I think I must mention in all fairness. But before I do so, I need to have your word that what I tell you will remain between the two of us”. “You have my word”, said Das. “I have been declared HIV positive”, said Vardhan, “ the tests came last week”.

If Das panicked, he did not show it. “I don’t see how it can affect your chances of promotion”, he said, in a voice that, much to his own surprise, lacked conviction. “I think we should talk about this separately,” he continued, trying hard to retain composure. “I will get back to you. In the meantime, take care”.

Later, alone in his cabin, Das found the burden of having to make a decision lying heavily upon him. The company’s standing orders stated that no physical disability or even a chronic health problem should come in the way of a promotion ‘as long as it does not interfere with performance directly.’ But there were two major issues, as Das saw them. First, although the HIV infected people were known to work productively for years, the risk of developing active AIDS at any point of time was real. Recovery from even a temporary bout of illness such as pneumonia for example, would be longer, reducing the pace of work and affecting performance on the job. This was an angle which had to be borne in the mind while giving a promotion. Second, could the confidentiality of the information given by Vardhan be retained at all for long? It was important that two other persons be informed quickly—the company’s managing director because this was the first-ever case of its kind in the history of the company, and the vice-president (sales) because he was Vardhan’s functional head.

Das further thought that once it was leaked, everyone in the company would know quickly enough. Although there was no danger of contagion from casual contact, people would surely be prejudiced against Vardhan which in turn would affect his ability to deal with them. Das wondered whether in such a scenario Vardhan could be entrusted with a responsibility which in its very nature involved greater interaction with people and higher pressure of work. On the other hand, Vardhan deserved the promotion on sheer merit. To deny what was due to him would be unfair.

What should Das do?²⁶

Closing Case-2 *The Non-Plussed MBA Student*

Vinod Agashe is an MBA IV semester student at CBSMS and is majoring in HRM. He has a pleasant encounter with Dinesh Singh who is an employee of a private firm located in Bangalore. Listen to Vinod.

“It was a chance meeting with Mr Dinesh Singh the other day. He was in a leisurely and conversational mood. Having known that I am a student of HRM, Mr Singh went on talking about his experience 20 years back.

“Mr Dinesh Singh was an employee in a public sector undertaking located in Bangalore. He proved his mettle as a draughtsman and was obviously liked by his boss, peers, and subordinates. He served as a draughtsman for 10 long years in the PSU.

“Having come to know the competency of Mr Dinesh Singh, a private firm (located in Bangalore) wanted to poach on him. Attracted by higher pay and perks, Mr Singh quit the government-owned organisation.

“The trouble started now. Mr Vittal, the HR Manager of the private firm insisted on a fitness certificate from a doctor and advised Mr Dinesh Singh to get one. Mr Singh went to Dr Nandish, a general physician, who diagnosed a heart ailment and gave a report accordingly. Mr Vittal refused to take Mr Singh in.

“Mr Singh was on the street. He lost his secured government job. Nor was he acceptable to the firm which made him put in his papers to the government undertaking. He had dependants at home.

“On advice from friends, Mr Singh consulted Dr Bharath, a cardiologist and an approved government doctor for several firms in Bangalore. On examination, the doctor certified to the fitness of Mr Singh but advised him to see him (the doctor) after a couple of months.

“Fitness certificate being produced, Mr Singh was inducted into the firm. After two months, Mr Singh promptly met Dr Bharath who, after a thorough check-up, advised the former to undergo heart surgery.

“Mr Singh was hospitalised for two months and the entire medical and nursing bill was picked up by his employer.

“Who is right and who is wrong”?

“I am at a loss. Certain questions are bothering me: What ethical issues are involved in this? Was Mr Singh right? Dr Nandish wrong? Was Dr Bharat unscrupulous? Was Mr Vittal made a fool? Enlighten me”.

REFERENCES

1. Charles R. Greer, *Strategic Human Resource Management*, Pearson, 2002, p. 25.
2. John J. Wild, *et. al.*, *International Business*, Prentice Hall International, 2002, p. 183.
3. *Ibid.*, p. 75.
4. George A Steiner and John F. Steiner, *Business, Government and Society*, McGraw-Hill, 1997, p. 180.
5. William C. Frederick, *et al*, *Business and Society*, McGraw-Hill, 1992, p. 53.
6. George A. Steiner, *op. cit.*, p. 182.
7. *Ibid.*, p. 185.
8. *Ibid.*, p. 189.
9. Joseph W. Weiss, *Business Ethics*, Thomson, 2002, p. 18.
10. The discussion here is based on *Corporate Ethics*, (Ed), Therophone A. Mathias and Published by Allied.
11. A.L. Basham, *The Wonder That Was India*, Rupa & Co., p. 110.
12. R.M. Lala, *Creation of Wealth*, p. 194.
13. William C. Frederick, *et al*, *op. cit.*, p. 95.
14. Gerald R. Ferris, *et al*, (Ed), *The Manual of Human Resource Management*, Beach Books, 1998, p. 206.
15. *Ibid.*
16. William C. Frederick, *et. al.*, *op. cit.*, p. 376.
17. Laura P. Hartman, *Perspectives in Business Ethics*, TMH, 2003, p. 373.
18. William C. Frederick, *et. al.*, *op. cit.*, p. 327.
19. Joseph R. Desjurdins and John J. McCall, *Contemporary Issues in Business Ethics*, Wadsworth, 2000, p. 243.
20. *Ibid.*, p. 266.
21. *Ibid.*, p. 285.
22. *Ibid.*, p. 127.
23. R.M. Lala, *op. cit.*, p. 85.
24. George A. Steiner, *et. al.*, *op. cit.*, p. 239.
25. Gerald R. Ferris, *et. al.*, *op. cit.*, p. 214.
26. R. Chandrasekhar, *The Buck Stops Here*, Macmillan, 1997, p. 87.

HR Audit and Evaluation

Learning Objectives

After reading this chapter you should have a good understanding of:

- Nature of HR evaluation
- An evaluation framework
- Approaches to evaluation

Opening Vignettes

HR FOCUSING ON HOW IT CAN ADD VALUE

Human resources professionals are in the midst of reinventing themselves—changing what they do for the companies that employ them and how they relate to those on the operations side. Their goal is to shoot for the corporate gold—a seat around the senior management table right alongside decision makers like the chief operating, information and finance officers.

The singlemost important tool they have in their uphill struggle is the intellectual capital held within any corporation. In the past, the profession has focused on winning the hearts of employees. Today their aim is to quantify and harness their minds. ‘HR used to be the feel-good department,’ says Michael Ford, president of the Human Resources Institute of Alberta. ‘Now the focus is on value added. We are in the midst of a fundamental shift from being a cost item on the balance sheet to being, if not a profit centre, then to at least being able to justify return on investment.’

Granted, such a fundamental shift takes time and brings with it a certain measure of confusion. ‘The main problem right now is figuring out just what HR is going to do within a corporation,’ says Paul Juniper, president of the

HR Professionals Association of Ontario. ‘Historically we have performed administrative functions like payroll, pensions and benefits administration. ‘We were the personnel department. We hired, we fired, and we took care of the details. We never added a lot of value to the company.’

That role changed with the advent of the technological age. In the past decade, many employers found that they could first automate most of those traditional functions and then become more effective by outsourcing them to third parties. For HR professionals, what seemed like a threat to their livelihood may actually have been a blessing. ‘Suddenly, we were relieved of these humdrum tasks... That left the HR department free to devote its time to developing a new role, one that could help the company reach its strategic objectives.’

Success and a seat at the senior management table will depend on HR professionals looking beyond their traditional playing field, Mr. Juniper adds.¹

Expectations from HRM are soaring, as the opening case indicates. HR professional is now expected to play roles of change agent, strategic partner, employee champion and transformationalist. How far he or she has risen to the expectations is a question which needs to be addressed at this context.

This chapter is devoted to explain the model for HR evaluation and approaches to evaluation. Discussion on macro-level evaluation of human resource effectiveness also follows.

NATURE AND NEED FOR HR EVALUATION

HRM evaluation refers to the procedures and processes that measure, evaluate and communicate the value added of HRM practices to the organisation.² HRM evaluation assumes significance because of the intensive emphasis on cost control, need for efficient allocation of resources, contribution to the bottom line, and capability of human resources to provide a competitive advantage to the firm.³ Specifically, HRM evaluation has been advocated for a number of reasons including:⁴

- Promotion of the HR function, through demonstration of bottom-line contributions through reduced turnover.

- The demonstration of accountability in utilisation of resources.
- Promotion of change by identifying strengths and weaknesses.
- Introduction of financial assessment as a decision tool in human resource programme selection.
- Highlighting key HR practices.
- Gauging the performance of HR function.
- Demonstrating the function's role in the accomplishment of firm's goals.

EVALUATION FRAMEWORK

Figure 24.1 provides a comprehensive framework for HRM evaluation. The model emphasises the overall relationship among three major elements: **(i)** HRM policies and practices, **(ii)** HR performance measures both at individual as well as group levels, and **(iii)** Organisational performance indicators.

HRM policies and practices include employee hiring, training and development, performance review and compensation systems. These will impact employee performance at both individual as well as group levels.

Employee performance seeks to emphasise on such outcomes as turnover, accidents, grievances and absenteeism. These indicators no doubt provide for objective assessment of performance but miss more meaningful indicators. HRM policies and practices should result in behavioural outcomes more than quantifiable indicators. Behavioural outcomes include employee loyalty, commitment, hardwork, motivation and morale.

Organisational performance indicators include cost, quality, profitability and return on investment (ROI). These outcomes are the result of HRM policies and practices and can be conveniently used to evaluate HR function.

If employee and organisational performance falls short of desired limits, HRM policies and practices may need to be redesigned.

Pause and Ponder

‘What cannot be measured cannot be managed’ so goes the saying. But how far this saying applies to work related situations where team work, knowledge work, potential for performance, intangibles and the like are predominant?

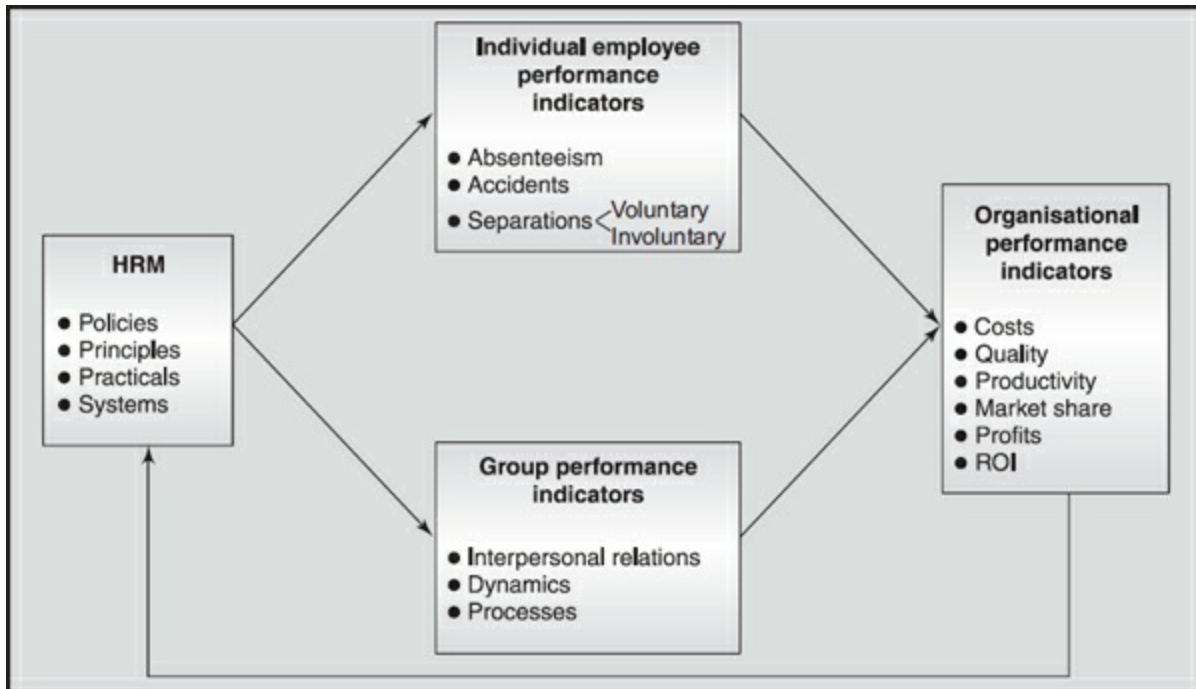


Fig. 24.1 *Framework of Evaluation*

APPROACHES TO EVALUATION

There are several approaches to human resource evaluation. The most prominent of them are: audit approach, analytical approach, qualitative and quantitative approach, balanced scorecard perspective, dash boards and bench-marking (See also [Fig. 24.2](#)).



Fig. 24.2 *Approaches to HR Evaluation*

Audit Approach

HRM audit is a process of evaluating the effectiveness of the HR function. The HRM audit, as its financial audit counterpart, possesses the following elements:⁵

- independence from the subject being audited
- technical work in the form of a systematic gathering and analysis of data
- an evaluation of the HR activities, policies and systems based on the evidence
- a clearly defined objective of the process
- action in response to audit findings.

HRM audit offers several benefits as outlined below:⁶

It—

- provides verifiable data on the HRM function
- clarifies the HR function's duties and responsibilities
- identifies critical HR problems
- helps align HR strategy with organisational strategy
- improves the status of HR function
- helps reduce HR costs
- helps review and improve the HRIS.

HR audit may be partial or total. Where it is partial, HR audit covers a few areas of HR, as for example, compliance of managers and supervisors with the established HR principles and practices. In the comprehensive audit system, all HR activities such as HRP, employee hiring, training and development, performance management, employee well-being, safety and health, IR and the like will be covered. Better results from HR audit will be obtained where it is comprehensive.

Practices of HR Audit Auditors may adopt any of the five practices for the purpose of evaluation:⁶ **(i)** comparative, **(ii)** outside authority, **(iii)** statistical, **(iv)** compliance, and **(v)** Management By Objectives (MBO). It may be stated that irrespective of the practice, the data for assessment are provided by HR research.

In the *comparative practice*, the auditors identify another company as the model. The results of their organisation are compared with those of the model company. Often, the auditors use standards set by an outside consultant as benchmark for comparison of own results. This practice is called the *outside authority system*. The third practice is the *statistical practice*. Here, statistical measures of performance are developed based on the company's existing information. Examples of such measures are absenteeism and turnover rates. These data help auditors assess the performance. In the *compliance practice*, auditors review past actions to determine if those activities comply with legal requirements and company policies and procedures. A final practice is for specialists and operating managers to set objectives in their areas of responsibility. The *MBO system* creates specific goals against which performance can be measured. Then the audit team researches actual performance and compares it with the objectives.⁷

The audit programme comes to an end with the preparation of the audit report. The report may be clean or qualified. The report is qualified when the HR performance contains gaps. Where gaps are observed, remedial measures are suggested. The report is clean where the performance is fairly satisfactory.

Figure 24.3 shows the HR audit process. The audit covers four areas, and, to do so, one or more strategies are adopted. The audit is conducted with the help of data provided by HR research. The audit report provides feedback to the HR department.

HR Research HR auditors depend on personnel or HR research for data. Research is understood as the systematic and goal-oriented investigation of the facts to establish a relationship between two or more phenomena. Its purposes are varied. Specifically, research can lead to an increased understanding of and improvement in HR practices. The major topics covered in HR research are:

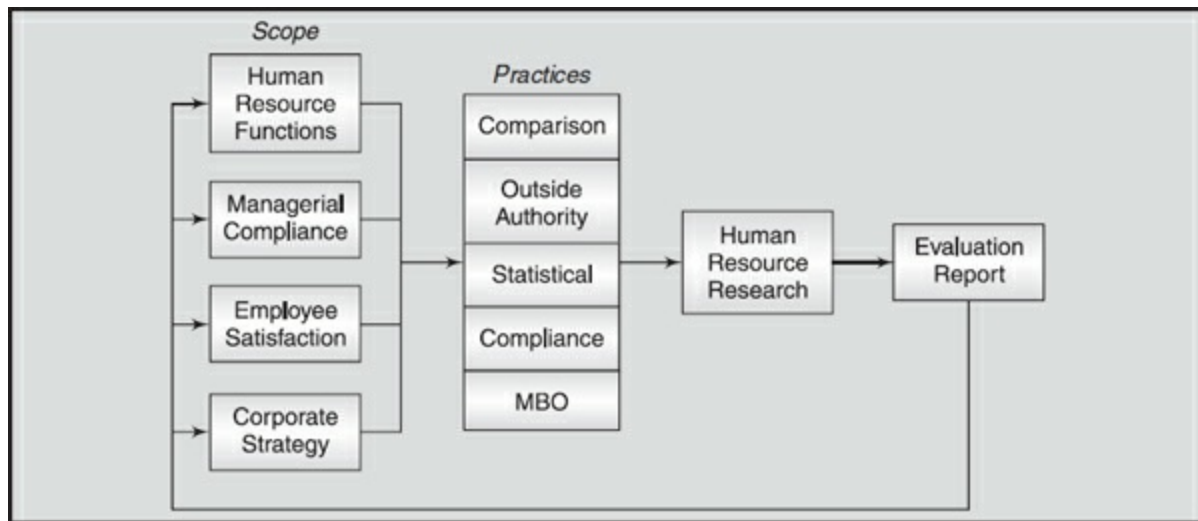


Fig. 24.3 *Process of Human Resource Audit*

- Wage surveys,
- Effectiveness of various recruitment sources,
- Effectiveness of training efforts,
- Survey of supervisor's effectiveness,
- Recent industrial settlements,
- Job analysis,
- Job satisfaction survey,
- Survey of employee needs,
- Attitude survey towards reward system, and
- Areas of high accident frequency.⁸

Findings on the topics listed above and other related areas constitute the basis for HR audit.

Requisites for Successful Audit HR audit becomes effective when the following are taken care of:

- HR audit needs to be comprehensive covering all people related functions.
- Engage the services of outside experts to conduct the audit.
- Results of the audit may be shared with all within the company.
- Periodicity needs to be determined and followed. How often audit can be conducted depends on the business plan and growth cycle of the organisation. Where the business plan is shortterm oriented, audit may

be needed quite often. Where business is in the growth stage, audit can be infrequent. Where the business is project specific, audit may be conducted soon after the completion of the project.

Analytical Approach

The second approach to HRM evaluation is the analytical one. The analytical approach relies on cost-benefit analysis, also called the **utility analysis**.⁹ Utility analysis seeks to express evaluations in economic terms, which are more useful for decision makers. Several HR activities have been evaluated with utility analysis, including appraisal systems, employee hiring, training and turnover. Although utility analysis has wide applicability and represents a quantitatively superior means of evaluating HR activities, the process is difficult. Because of this difficulty, and the amount of resources and effort required for analysis, its use has been limited to only certain specific situations.

Qualitative and Quantitative Indices

A number of quantitative indices or metrics are available to determine effectiveness of HRM. For example, one can calculate cost of turnover, absenteeism cost, cost of work-life programmes, cost per hire, lead time to fill vacancies, HR expense factor, training costs and the like (See Exhibit 24.1). Sears, Roebuck and Co. applied behaviour-costing methodology to study the relationship between employee attitudes, customer behaviour and profits. In retailing, for example, there is a chain of cause and effect running from employee behaviour to customer behaviour to profits.¹⁰ HRM department itself can be treated as a profit centre. These and other indicators, when calculated and compared with other firms, give a fair picture about the outcome of HR functions and activities. Excessive reliance on quantitative indices to evaluate HRM effectiveness, however objective they may appear, may be dysfunctional. Qualitative parameters too are highly useful for evaluation. Employee loyalty, organisational commitment, attitudes, morale and similar other soft indices help gauge HRM effectiveness.

HR Metrics	How Calculated?	Significance
1. ROI	$\frac{\text{Net benefits}}{\text{Cost of HR interventions}}$	HR value addition is determined
2. Hiring cost	$\frac{\text{Total cost of hiring}}{\text{No. of hires}}$	Gives a picture about how much the company incurs on recruitment and selection
3. Rate of absenteeism	$\frac{\text{No. of days absent in a month}}{\text{Average number of employees during the month} \times \text{Number of working days}} \times 100$	Shows the absence rate of employees
4. Turnover rate	$\frac{\text{No. of employees left during a year}}{\text{Average number of employees}} \times 100$	Shows the rate of employee turnover in a year.
5. HR expense factor	$\frac{\text{Cost of HR}}{\text{Total cost}}$	Shows the cost incurred on HR function as compared to the total operating cost of the company.
6. Lead time to fill vacancies	$\frac{\text{Days lapsed to fill vacancies}}{\text{Number of hires}}$	Shows the lead time required to fill vacancies
7. Effectiveness of each employee	$\frac{\text{Productivity}}{\text{Cost to the company (CTC)}}$	Shows how far an employee is useful to the organisation

Balanced Score Card

Developed by Kaplan and Norton, balanced score card helps evaluate HRM effectiveness (See [Fig. 24.4](#)). The balanced score card contains four dimensions: financial performance of an organisation, its customer service, its internal business processes, and its capacity to learn and achieve growth. Within these four areas, managers need to identify key performance indicators the organisation should track. The financial dimension reflects a concern that the organisation's activities contribute to improving short-term and long-term financial performance. **Customer service** perspective

measures such things as how customers view the organisation, as well as customer retention and satisfaction. **Business process** indicators focus on production and operating statistics, such as order fulfillment or cost per order.

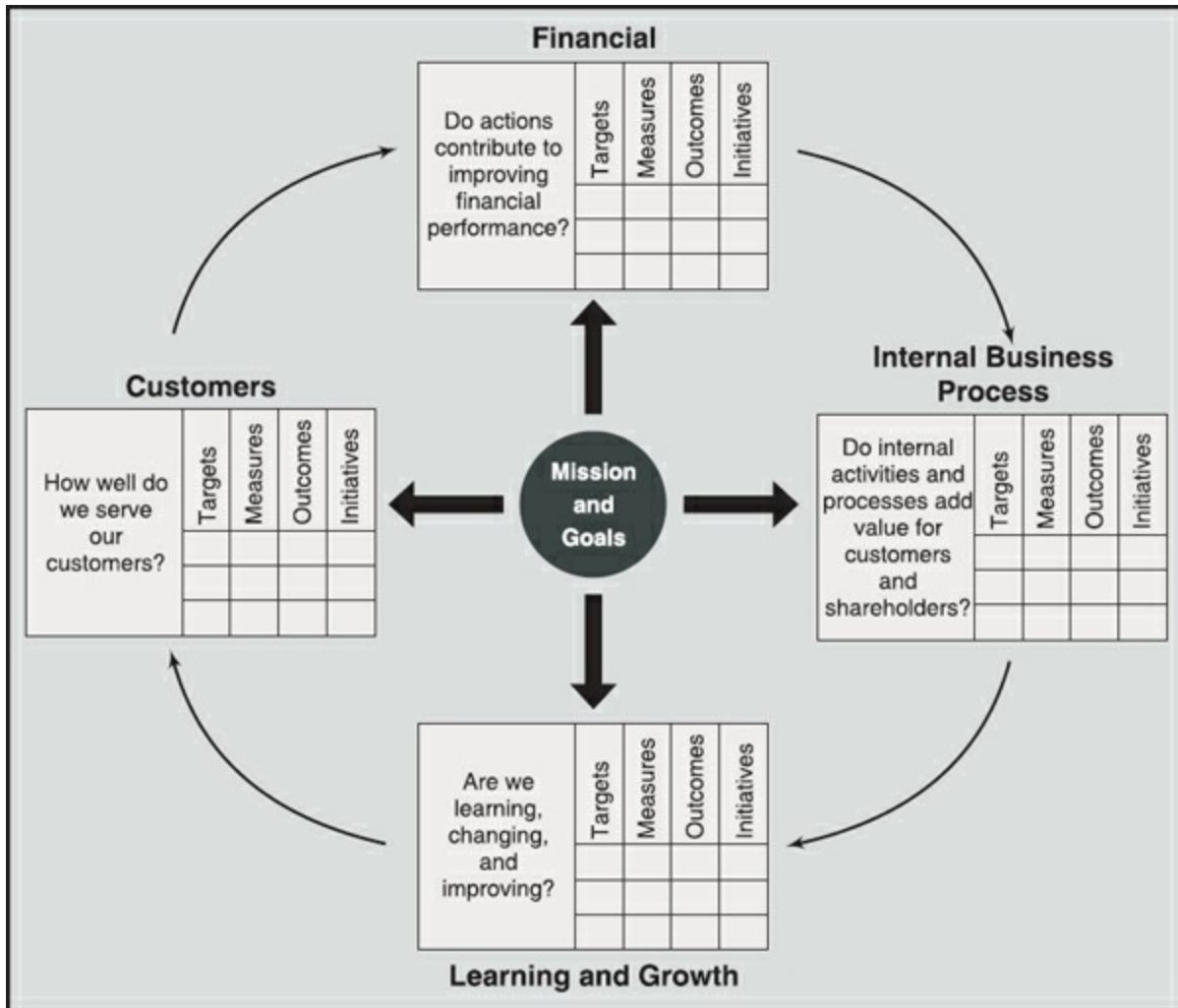


Fig. 24.4 *Balanced Scorecard*

Do's	Don'ts
<ul style="list-style-type: none"> • HR <i>audit</i> is most meaningful if a neutral auditor, equally good in HR, conducts it • Custom-make balanced score card to meet your requirements • Make evaluation on-going. 	<ul style="list-style-type: none"> • Forget to map HR trends year on year • Benchmark any company or every company. Culture-fit between yours and the model company is a must.

Yearly routine can be converted into a regular feature

• Forget to act on lapses identified during evaluation

The final component looks at the organisation's potential for learning and growth. Metrics may include such things as employee retention and the introduction of new products. This perspective seeks to focus on how well resources and human capital are being managed for the company's growth.

The score card provides a balanced picture of current performance as well as the triggers for future performance. The score card helps managers align their business units, as well as their financial, physical and human resources to the firm's overall strategy.

What needs emphasis is that the HR evaluation should not confine only to people dimension of the score card. The HR professional should be judged on all the dimensions of the score card. HR managers tend to believe that their success should be judged only by the extent to which they meet employee needs. As the score card indicates, employee commitment is only one criterion for effective HR performance, and HR professionals will be held accountable for all the dimensions as other managers. At AT&T, for example, HR Vice President is evaluated by the same balanced score card as the other executives of the company. This approach requires that HR professionals master the financial and customer issues and recognise their contribution to organisational effectiveness.¹²

Benchmarking

Benchmarking involves employees learning and adopting the so-called "best practices" by comparing their HRM practices with those of other (more successful) organisations. Benchmarking essentially involves that employees study the practices followed in competing firms and evaluating own practices with those thus collected. Besides evaluation of own HR practices, benchmarking enables managers to learn from other firms and adopt effective HR strategies. In addition, benchmarking can help create and initiate the need for change because it identifies what an organisation needs to do to improve relative to the HR strategy in excellent companies.¹³

Benchmarking involves seven sequential steps:¹⁴

1. Identify HR practices for benchmarking. Obviously, critical practices from organisation's perspective are identified for benchmarking.
2. Constitute a core or a project team to handle the benchmarking process.
3. Identify benchmarking partners—organisations from the same or different industry, competitors or non-competitors or international firms—who are known to have tried best practices successfully.
4. Collect data from each of the benchmarking partners (for example firms A, B and C).
5. Analyse and interpret the data.
6. Prepare a comprehensive report based on the data analysis and interpretation.
7. Develop action plans to improve HR strategy and practices (See also [Fig. 24.5](#)).

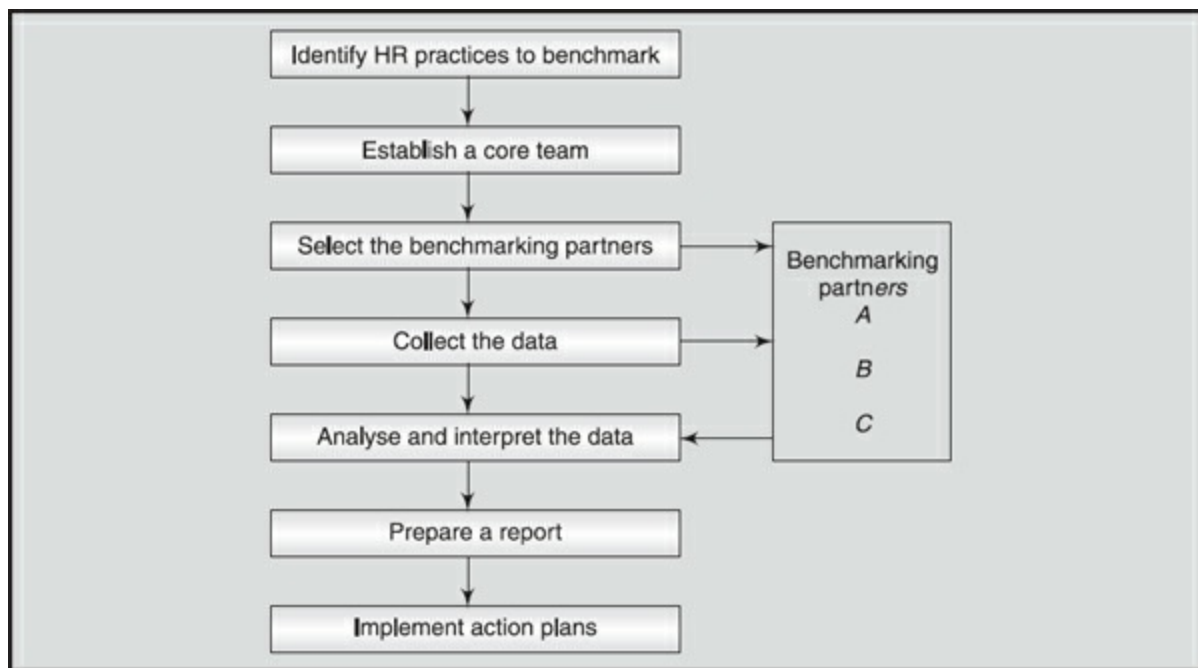
Pause and Ponder

Identify the best practices for administering a university or running a college or a B-school. Which of the educational institutes around you follow such practices so that you can benchmark them?

Starting with harder and more objective aspects of business such as technology, systems and financial ratios, benchmarking has been employed to touch softer dimensions of organisations too. There are many takers of benchmarking and with some firms it has become almost a religion. Xerox, for example, studied the order fulfillment techniques of L.L. Bean and learnt ways to reduce warehouse cost by 10 per cent. GE deployed a core team to examine management practices in some of the best managed firms in the world to identify key processes for improving productivity. This team derived a set of principles and processes to help GE businesses become even more productive. These practices became institutionalised in a course entitled "Productivity/Best Practices" attended by over 1,000 GE managers. Digital Equipment Corporation benchmarked 12 companies and concluded that best practice in HR should focus less on a particular practice than on a set of general principles.¹⁵

HR Dash Boards

HR Dash Board is an appealing visual display of HR metrics. Dash Boards extend to other functional areas and include Business Performance Dash Board, Finance Dash Board, Marketing Dash Board, Sales Dash Board, Productivity Dash Board and Utilisation Dash Board. While there is no standard template that is used, each firm has its own customised Dash Board to track and report progress against set goals.



Source: John Bratton and Jeffrey Gold, *op. cit.*, p. 449.

Fig. 24.5 Benchmarking Process

The HR Dash Board serves as a ‘dip stick’ that reveals the HR health of the firm. Usually, the information provided is at a high level, with the option to obtain further information relatively quickly. Publishing the HR Dash Board revolves around gathering, verifying, sorting, analysing and repackaging information for consumption of the top management. Essentially, HR Dash Board serves as a means of keeping finger on the pulse of the organisation. Exhibit 24.2 contains typical HR Dash Board metrics. The focus is on HR functions and their effectiveness.

The information provided by the HR Dash Board can be archived and

referred to over a period of time to map trends and identify areas of improvement.

Exhibit 24.2 HR Dashboard Metrics

1	Employee Headcount	Overall employee headcount by team, by function, by level, by gender, by years of experience, by division, by status of employment (full-time vs. contractual).
2	Recruitment & Staffing	No. of open positions by team, by level, by location, by status of employment. No. of positions filled —by level, by team, cost of hiring, time taken to hire etc.
3	Employee Time	Employee availability, absenteeism, time-off analysis by team, by level and by status of employment.
4	Attrition	Attrition-voluntary and forced/non-voluntary, by team, by level, by tenure, by years of experience etc.
5	Productivity/Utilisation	Output per person, output per hour, utilisation vs. availability.
6	Employee/Labour Cost	Cost per employee, cost per hour, cost per team vs. revenue, total cost per employee, employee cost as a percentage of total, cost of contractual labour as a percentage of total employee cost, actual employee cost vs. budgeted employee cost etc.
7	Payroll	Payroll cost as percentage of total cost, payroll cost per team, payroll cost by level, payroll cost by department/business unit.
8	Incentives/Commissions	Cost of incentives, cost of incentives as a percentage of employee cost,

9	Benefits & Cost of Benefits	incentives payout vs. budgeted amount, monthly analysis of cost pattern, analysis year-on-year. Cost of benefits, cost of benefits as a percentage of total employee cost, benefits payout vs. budgeted amount, analysis of benefits cost year-on-year.
10	Exit Interview	Employee and dissatisfaction exit interview. Analysis is made by manager, by team, by department over a period of time. Identify top reasons for exit and dissatisfaction.
11	Additions	Analysis includes number of new hires. Information covers recruitment process.
12	Head Count	Employee count separated by the departments and by levels
13	Skills	Individual competencies are provided. Also details on previous trends of employees and skills mix.
14	Compensation	Analysis of compensation to the employees-category-wise, function-wise etc.
15	Termination	Termination of employees-major reasons for removals
16	Scorecard	Used to keep track and analyse the factors influencing HR indices such as Revenue/FTE. Profit/FTE etc. HR score makes it possible for HR managers to understand how to align HR strategy with over all business objectives.
17	HR Metrics/FTE(Full time employee)	To convert part-time staff into FTEs, total numbers of hours worked by part-time employees are divided by

		the total number of hours in the work year. FTE is a way for organisations to measure, overall enrolment trends and enrolment patterns.
18	Variance Percentage	Variance percentage is the difference between last year and current year HR Dashboard factors. It is used to measure the performance of a HR function and analyse business results to better understand market conditions.
19	Continent wise Data Analysis	Shows historical data by continents. Pie chart shows the overall total of HR metrics with the option to click and get more details, presenting the actual and targeted values and the percentage variance between them.
20	Training Metrics	Show information related to soft skills, the abilities and innate insights born out of experience, and training. Training costs, presenting the actual and targeted values and the percentage variance between them.
21	Leadership Metrics	Show information related to incumbents occupying key positions in the organisation, development initiatives, succession planning activities, vacant positions/new positions etc.

SUMMARY

HRM evaluation is the process of assessing its effectiveness and passing on

the findings to the organisation to initiate corrective action. HRM evaluation seeks to serve number of causes, as for example, establishing accountability in using resources, promoting change and the like.

HRM evaluation model seeks to establish interrelationship among (i) HR policies and practices, (ii) employee performance, and (iii) organisational performance.

The six evaluation approaches that are increasingly being used to evaluate HRM are: auditing, analytical, qualitative and quantitative, balanced score card, dash boards, and benchmarking.

KEY TERMS

Balanced Scorecard

Benchmarking

Cost of absenteeism

Cost of turnover

Employee performance

HR audit

HR audit

RH dash boards

HRM evaluation

Organisational performance

REVIEW QUESTIONS

1. What is HRM evaluation? Why is it justified?
2. Explain the framework of HRM evaluation.
3. What are the approaches to HRM evaluation?
4. Define HR audit. Bring out its scope and approaches.
5. What is a HR Dash Board? How does it help?

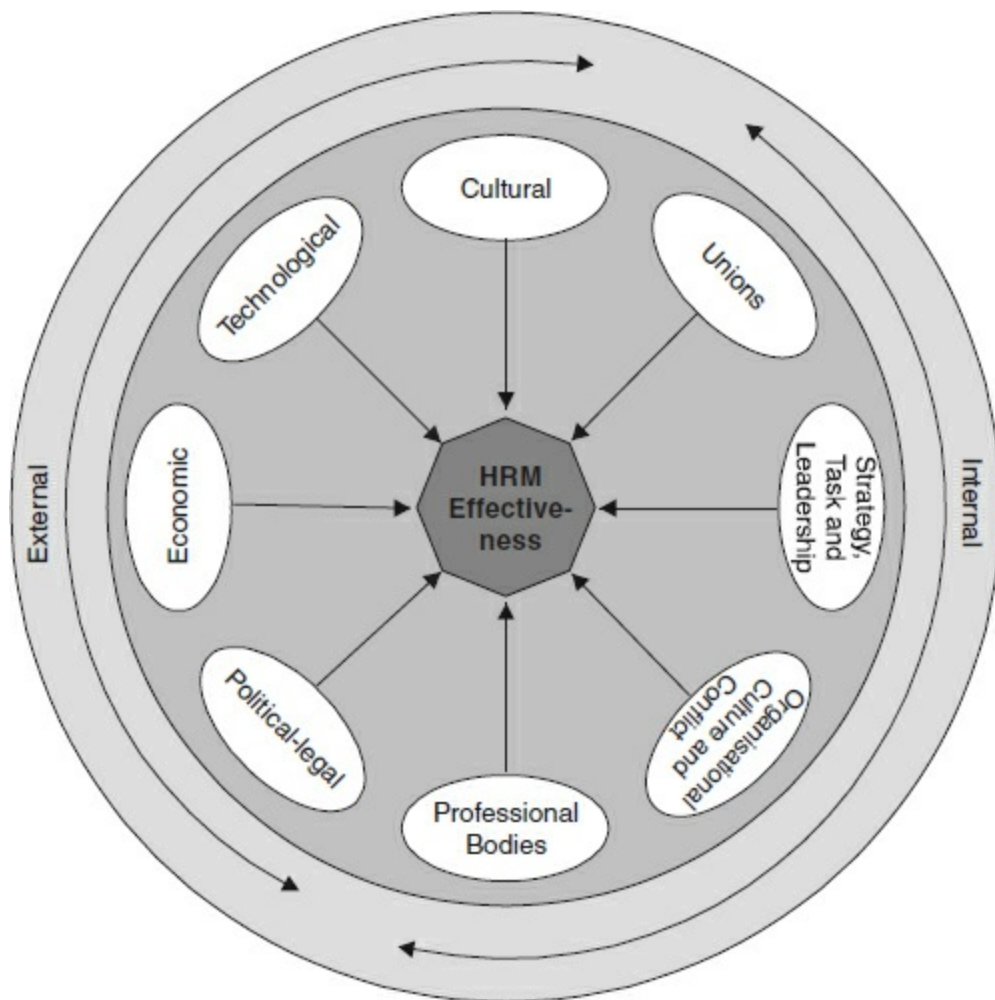
DISCUSSION QUESTIONS

1. Why should an organisation assess its own HRM function?
2. How can the effect of HR strategy on organisational performance be explained?

3. How effective is the benchmarking and balanced scorecard for measuring an HR strategy's contribution to the financial "bottomline" of a company?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact HRM effectiveness, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

As with most growing organisations, at Vybhav five years back, HR function transitioned itself from a transactional fire-fighting role to that of a proactive

business partner. One of the key triggers for this change came from the fact that Vybhav had grown too large to sustain a fragmented approach to HR. In order for Vybhav to consolidate its collection of small successful businesses, a unified culture was thought essential.

In this endeavour, Vybhav's HR function would need to become a strategic partner to participate in major decision making and to attract, retain and develop superior talent.

The senior leadership of Vybhav articulated the vision statement for transformation of the HR team as: "to expand and grow the responsibilities of the HR professionals from a focus on the support functions to include more strategic dimensions, otherwise called deliverables".

This was Renny Joseph's first assignment when she joined Vybhav as Director – HR five years ago. In order to hasten the process of HR transformation, Renny decided to hire the best consultant — HA Associates- to partner and support the shift. Building on Dave Ulrich's framework of *HR Champions*, the explicit changes to the role of HR professionals in supporting and achieving Vybhav's vision and objectives were written down. HA carried out extensive surveys of employees, managers, and all of the senior leadership team and the strategy for transformation was formulated. All along in the process, HR team members were also closely involved in data collection and analysis. This ensured that they were aware of the need for change and clarity of expectations from those whom they support.

Following were some of the key initiatives finalised:

- Setting up a HR HELP Desk that provided voice and mail support for any HR policy/benefits/ salary related query that an employee might have. A team of five HR Administrators provides answers to queries within four working hours. The introduction of the Help Desk took away a large part of the transactional role of HR activities and the HR professional used to operate close to 40 percent of their time on this.
- The second was establishing a set of HR competencies and new job descriptions in keeping with the more strategic roles and responsibilities. All of the HR team spent an entire week away from work at a behavioral training workshop to understand the new expectations from the business. Each HR professional built his or her own personal learning plan that identified the technical, strategic and change management competencies required for his or her success.

- Third, the HR teams then went back to their respective divisions and spent a day with the senior leaders of the division to understand the strategic priorities of the business of the division and linked the vision of HR to this. The outcome from this day-long exercise was an HR Operating Plan outlining the key HR deliverables with reference to the division's talent management challenges.

On a quarterly basis, as part of the quarterly HR review, the HR teams across the divisions meet to share their operating plans and best practices. At Vybhav today, the effectiveness of HR function is closely linked to the achievement of the business objectives and are equal partners in the success of Vybhav.

Closing Case *Chairman and CEO Seeking a Solution and Finding It*

Sitting on 50-plus year old ION Tyres, the Kolkata-based tyres and tubes manufacturing company with a turnover of more than ₹1,000 crore, both A.K. Mathur, the Chairman and Raman Kumar, the CEO are searching for solutions to problems which their company started unfolding.

Financial performance of ION Tyres, is poor as reflected in its falling PBT. Performance gap between the top performer in tyres and tubes and ION Tyres ranges from 4 per cent to 5 per cent. The company has aging managerial people and equally old plant and equipment. High cost of production keeps the company in a disadvantaged position. "Boss is always right" culture has permeated the entire organisation killing initiative and innovativeness. There is slackness, laxity and complacency everywhere. Common thread binding all the departments is missing. Each department is a stand alone entity.

There are positives nevertheless. ION Tyres and tubes are famous world-wide for durability, and superior quality. The company offers a wide range of bias tyres and tubes catering to all user segments like heavy and light commercial vehicles, motorbikes, scooters, and autos. The firm has state-of-the-art radial plant. The client list of ION comprises several big guns in Indian corporate sector. Tata Motors, Hero Honda, TVS Motors, Mahindra and Mahindra, L&T, Eicher, Swaraj Mazda, Maruti Udyog and Bajaj are the regular patrons of ION. The company also has foreign

presence with USA, UK, S. Africa and Asian countries regularly buying ION's tyres and tubes.

ION seems to have everything going in its favour. It is the market leader in the Indian market enjoying 19 per cent of the market share; manufactures 5.6 m tyres per year, has a network of 50 regional offices with over 4,000 dealers and 180 C&F agents.

Suddenly both Chairman and CEO have realised that there are too many road blocks ahead of them and the journey is going to be rough and bumpy.

Realisation dawned on Mathur and Raman Kumar way back in 2001 when they both attended a two-day seminar on "Enhancing Organisational Capability through Balanced Scorecard" organised by CII at Kolkotta. The duo had personal talk with Sanjeev Kumar, the then Chairman of CII. They are now convinced that Balanced Score card is ideal performance assessment tool that could be used in ION with greater benefits.

Mathur and Raman Kumar acted fast. They soon organised a workshop on "Balanced Scorecard" to educate in-house managers about the concept and the procedural aspects of its implementation. There was initial resistance to accept the scorecard as the managers felt that they were already burdened since they were busy implementing other quality improvement initiatives. Deliberations in the workshop changed them. They are now convinced and enthusiastic about the positives of the scorecard. They are ready to implement the system.

A two-member task force was constituted comprising Director—HRD and G.M.—Strategy and Planning. The task force travelled to all the three factories as well as zonal headquarters to unfold the implementation of the scorecard. The scorecard principles were implemented successfully from November 2002 and completed by March 2003. [Figures 24.6 to 24.9](#) show the scorecards adopted by ION Tyres.

Outcomes of scorecard implementation have been very encouraging. PBT improved and the gap between ION Tyres and the toppers in the industry reduced by 50 per cent. A transparent and objective performance assessment system came to be kept in place. With inertia and the ennui being broken, both Mathur and Kumar felt galvanised and realised that the road ahead of them was no more bumpy and rough. Thus, solutions to the

problems were found.¹⁶

Financial				
	Objectives	Measure	Target	Initiatives
"To succeed financially how should we appear to our shareholders"	To achieve turnover of ₹1850 crs by FY05	<ul style="list-style-type: none"> • Sales turnover • PBIDT 	<ul style="list-style-type: none"> • To achieve turnover of ₹1850 crs by FY05 • PBIDT of ₹150 crs (FY05) • Decrease in conversion cost from ₹25 to ₹21/kg in Bhopal plant and ₹28 to ₹25/kg in Mysore plant 	<ul style="list-style-type: none"> • Develop acceptable 1000-20 lug tyres • Increasing number of sales offices from 180 to 220 • 7 day work week to be introduced at the Bhopal plant • Improve fuel wastage and ensure lower power consumption • VP Technology and MD to initiate technology tie-ups

Fig. 24.6

Customer				
	Objectives	Measure	Target	Initiatives
"To achieve our vision, how should we appear to our customers"	Improvement in customer satisfaction	<ul style="list-style-type: none"> • Customer satisfaction survey (by external agency) 	<ul style="list-style-type: none"> • To improve from 65% to 70% • Customer engagement at 30% 	<ul style="list-style-type: none"> • Claim settlement to be reduced from 8 to 2 days • Improvement of casing value of used tyres, atleast by 15% • Cost per Kilometer of tyre comparable to competitors

Fig. 24.7

Learning and Growth				
	Objectives	Measure	Target	Initiatives
"To achieve our vision, how will we sustain our ability to change and improve"	Identification of "high-fliers"; Talents to be identified through development workshops	<ul style="list-style-type: none"> • Job enrichment, job enlargement, job rotation • Competency Assessment • Potential Appraisals 	<ul style="list-style-type: none"> • Career planning for the "High-Fliers" (expected to be around 30 managers) • Succession planning for all key positions • 5 manday's training/manager/year 	<ul style="list-style-type: none"> • Move people within the same functions, in the first two years and at the year two move them to another function • Variable pay component in the ratio 1:4 for the "high-fliers" • Non-financial rewards • Felicitation by company chairman in presence of family members for recognizing extraordinary contributions

Fig. 24.8

Internal Business Processes				
	Objectives	Measure	Target	Initiatives
"To satisfy our shareholders and customers, what business processes must we excel at"	<p>Introduction of new products in the commercial tyre segment</p> <p>Reduction of development time</p> <p>Quarterly reconciliation of accounts receivables from dealers</p> <p>Annual increases on-time to employees</p>	<ul style="list-style-type: none"> • Introduction of 3-4 new products per year in commercial tyre segment • Reduction of development time from 18 months to 6 months • Achieve 100% reconciliation • Annual increases by on time by 1st July 	<ul style="list-style-type: none"> • Introduction of 3-4 new products per year in commercial tyre segment • Reduction of development time from 18 months to 6 months • Achieve 100% reconciliation • Annual increases by on time by 1st July 	<ul style="list-style-type: none"> • Regular quarterly review of performance • KRA targets to be ready by 1st April • European certification for tyres

Fig. 24.9

Questions

1. Do you agree with the conclusion drawn at the end of the case that scorecard system has galvanised ION Tyres? In other words, does scorecard system deserve all the credit?
2. Will quality improvement initiatives clash with scorecard implementation? If yes, how to avoid the clashes?

REFERENCES

1. John Bratton and Jaffrey Gold, *Human Resource Management*, Palgrave MacMillan, 2003, p. 432.
2. *Ibid.*, p. 429.
3. Charles R. Greer, *Strategic Human Resource Management*, Pearson, 2006, p. 321.
4. *Ibid.*
5. John Bratton and Jeffrey Gold, *op. cit.*, p. 448.
6. *Ibid.*
7. William B. Werther and Keith Davis, *Human Resources and Personnel Management*, McGraw-Hill, 1996, p. 562.
8. *Ibid.*
9. Charles R. Greer, *op. cit.*, p. 325.
10. Wayne F. Cascio, *Managing Human Resources*, McGrawHill, 2003, p. 55.
11. Richard L. Daft, *Management*, Thomson, 2003, p. 674.
12. Dave Ulrich, *Human Resource Champions*, Harvard Business School Press, 1997, p. 58.
13. John Bratton and Jeffrey Gold, *op .cit.*, p. 449.
14. *Ibid.*, pp. 449–450.
15. Dave Ulrich, *op. cit.*, p. 61.
16. Case contributed by Prof. Ranganath and Indranil of the Department of Management, AIMS, Bangalore.

Contemporary Challenges in Human Resource Management

Learning Objectives

After reading this chapter you should have a good understanding of:

- The major challenges ahead of HRM
- The HR responses to major challenges

Opening Vignettes

Working women make tough choices every day.

- Bread and cheese or idly and sambar.
- A new sari or the electric bill.
- A sick child or a demanding boss.
- A parent-teacher meeting or ‘that’ all important conference at the office.

Whether your top concern is equal pay or flexible hours, childcare or elder care, training for a new job or respect for the one you do now, one thing is certain—working women face a challenge—what you *feel* invariably affects how you *behave*.

Not very long ago, it seemed to me that as a working mother I was forever running out of the house to swipe my card into the office in time, be back home to cater to the little ones back from school with the home work done and daily lessons read, and not to take for granted the cooking of an attractive meal to please everyone. I would struggle relentlessly at keeping a spanking clean home, tastefully furnished and not a thing out of its corner, raving at the housemaids (I kept two of them just so that everything gets done) and landed up at bed most nights a ‘rag’ and bad tempered one at that !

It took me a long time to realise that I could not do everything. I wasn't a superwoman, I wasn't invisible, I was human, yet everyone else used me as their rock, their support. In the milieu of tasks I often asked myself 'what success and support 'actually' meant.

My days of endless exhaustion and irritability had to cease. Why was this?

I didn't think looking like a zombie, with all the work completed in preparation for tomorrow, slouched on the sofa at the end-of-day even looked remotely supportive!

On many occasions I would reflect on my day in the office. What had I accomplished? Well, I had that highly successful meeting with the production managers; I had finally got approval and put in place a long pending policy, and I had that disagreement with a co-member of the team over work 'going behind schedule'. I had taken a breather in the 'café' next door with a colleague only to discover I knew so little about the grapevine ripe with news of some office politics. It was shocking to realise how successful I'd been in professionally managing on the work-front as well as at home where things went with almost clockwork precision, while the softer, subtler and the 'gut-level' stuff always went unnoticed by me.

I came to the conclusion that there had been something out there for me. I was a reasonably intelligent woman, my brain wasn't totally frazzled by children's cartoons. So what skills have I got apart from making a good casserole or a wonderful presentation on the latest concepts? I could talk (too much apparently) and communicate, I had updated myself with the latest management jargons and considered myself a domain expert at 'application' of these concepts at work.

Taking the step towards self-enlightenment, as I'd like to call it, I woke up to the truth that most of us have foolish ideas about who we are, what makes 'success' in a role and that we have rigid rules about how life ought to be lived.

The other day I was reading a book *You can Heal Your Life* by Louise L Hay and found this very luring quote:

***“In the infinity of life where I am,
all is perfect, whole and complete.
I believe in a power far greater than I am
That flows through me every moment***

of every day.”

Somewhere hidden in these lines I found a likeness to what I experience personally in the work-life balance that I constantly strive to achieve.

This didn't happen in a day, it took a long while and it was a steady process during which I often kept slipping into the old behaviour of a drawing-up long-winding 'to do lists'. Once I realised that I had a goal that involved the family as well as my career, I felt passionate about 'setting myself up' for 'true' success. Not the success that comes from a well planned set of physical activities, but the one that rewards the 'spirit'.

For close to 10 years since I donned the mantle of a 'working housewife', I carried the popular notion that being successful in this role meant 'managing expectations' till I realised that it was all about 'managing relationships'. No one cared much nor appreciated the 'number' of things I did, the variety of dishes I packed for lunch, the new recipes I struggled to shop for and cook, the amount of time I spent planning to make things happen in time, and at work the reports I prepared in time and the tasks and projects I completed to perfection. What mattered was the time I invested in meeting my own and the person's psychological and emotional expectations.

I discovered that taking care of oneself is the first step towards achieving balance. I had the support of my husband who suddenly found me behaving 'differently' (as he now recalls). When stress closes in and you feel overwhelmed, even the smallest tasks can seem impossible. I carried the stress of making the 'shift' and keeping it unobvious to others. I struggled to 'not' derive satisfaction from the 'to do lists' I still carried in my handbag and focused instead on balancing it with 'value time' I created for all those who mattered to me, both at work and at home.

To begin with I began to spend time 'sharing lighter moments' laughing and joking with the kids, with my husband and the team at work and it revealed in the sometimes puzzled look on their faces behind me when I left. The more I indulged the more I relished it and the more people around me accepted this change in my style.

It wouldn't be fair if I did not admit that often the sense of humour disappeared and impatience and frustration would take over and I'd fight with the urge to be critical and outright in expressing when I was peeved at things that did not happen on time and the way it could best be done. The person at

the receiving end of it turned out to be the dearest ‘husband’, a college sweetheart I fell madly in love with and dote on as much today as I did 14 years ago!

Finally, it is a battle we fight together where we realise that the balance comes from a lot of sharing of common chores, of sharing responsibilities and of sharing understanding, most of all. When he’s upset I calm my anger and when I’m upset he’s the one who lends the patient ear.

The balance comes from the one that I strike with my 11-year-old son and the 6-year-old daughter in making the ‘connection’ and remaining ‘connected’ no matter where we are—at home together or at work/school. Cooking becomes fun time with all helping in and it was pleasant (and I must admit threatening too) to realise that the husband and son exhibited as much interest in acquiring cooking skills as did the daughter. I did experience the pinch as the turf-battle within me surged and ebbed, but it was not for long. Keeping home was as much everyone’s responsibility as mine, and it was amazing to see the ideas the little ones came up with. I felt truly foolish but yes, proud and relieved too.

The balance at work comes from being sensitive—a simple word that means so much for me. The need to take matters less grievously at work helped work wonders. The need to rush, got replaced with a genuine concern to be steady and soft rather than rush and push to a conclusion. I was far more appreciated and welcomed now and office gossip, you bet, I know twice more than 5 of the others put together. I was popular, but more for the work I did rather than as a person, and today I’ve come a long way from that reputation. And what actually was my complete undoing was the success I continued to face in getting the work done, on time and to perfection.

The mindset I had to overcome in this balancing act was to stop seeing myself as walking the tightrope suspended 100 meters above with the pole in my hand, all alone. Somewhere I’d assumed that being a working housewife was my responsibility instead of it being a shared responsibility. The shift all along was an effort no doubt, but definitely most rewarding.¹

This is the story of a woman executive who struggles and finally succeeds in balancing work and life. Work-life balancing is not the only issue before today’s HR managers. There are many more as [Fig. 25.1](#) shows.

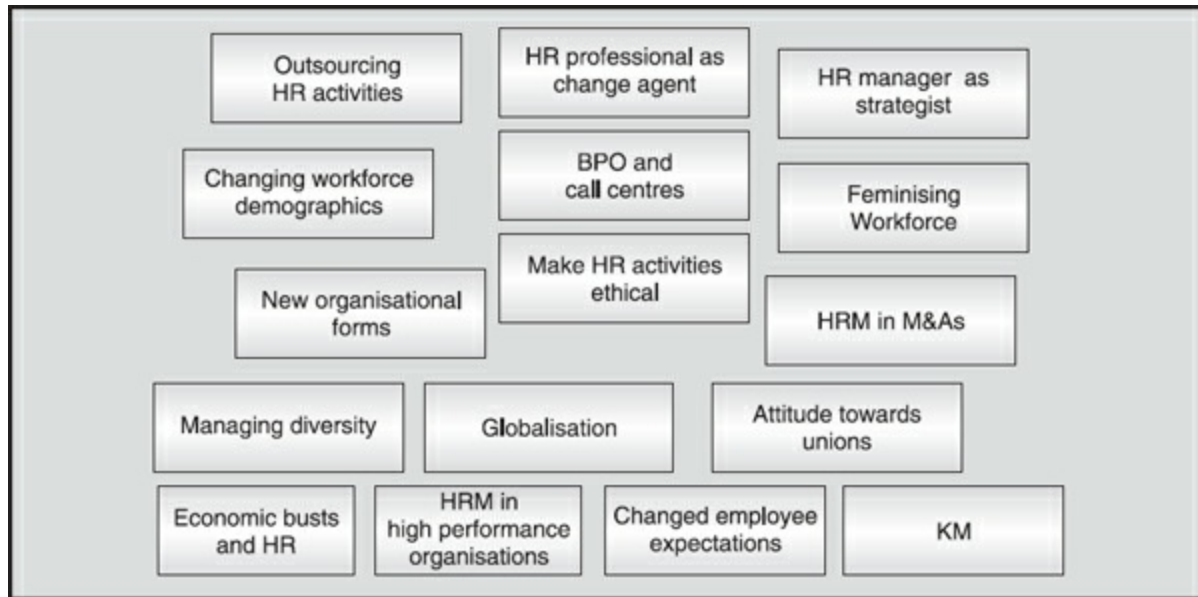


Fig 25.1 *Contemporary Issues in HRM*

Pause and Ponder

Read these HR challenges along with the paradoxes of HRM explained in [Chapter 1](#). Do you find any paradoxes? Ponder.

OUTSOURCING HR ACTIVITIES

Outsourcing is the act of moving some of the firm's internal activities and decision responsibilities to external service providers. The reasons why a company decides to outsource can vary. It allows a firm to focus on activities that reflect its core competencies. Thus, the organisation can create a competitive advantage while reducing cost.

Outsourcing has its flip side too. There is the fear of losing jobs, sensitive information may be lost, and ethical issues of the vendor. Some of the worst business disasters of recent years have been caused or aggravated by outsourcing. Nine years ago Boeing, America's biggest aeroplane maker, decided to follow the example of car making firms and hire contractors to do most of the grunt work on its new 787 Dreamliner. The result was a shocking experience. Some of the parts did not fit together and some contractors did not deliver components on time. Worst, contractors in turn sub-contracted

their work resulting in chaos. Boeing had to take over some of the sub-contractors to prevent them from bankrupting. By the time Dreamliner rolls off of the production line, it will be billions of cost escalation and years behind schedule.

There are other issues too. Organisations tend to squeeze sub-contractors so hard that they are forced to cut corners. There are also instances where vendors over promise, win the contract, but fail to deliver.

Outsourcing has come to stay. It has transformed global business. Over the past few decades companies have contracted out everything from mopping the floors to spotting the flaws in their internet security. Even war is being outsourced. America employed more contract workers in Afghanistan than regular troops. It is estimated that \$100 billion worth of new contracts are signed every year.

Increasingly many large firms are getting their HR activities done by outside suppliers and contractors. Employee hiring, training and development and maintenance of statutory records are the usual functions contracted out to outsiders. P&G has signed a 10-year, \$400 million deal with IBM to handle employee services. IBM will support almost 98,000 of P&G employees in nearly 80 countries with services such as payroll processing, benefits administration, compensation, planning, expatriate and relocation services, and travel and expense management.

At Nokia, except mentoring, assimilation, and culture building, all other activities are outsourced.

The trend towards outsourcing has been caused by several strategic and operational motives. From a strategic perspective, HR departments are divesting themselves from mundane activities to focus more on strategic role. Outsourcing has also been used to help reduce bureaucracy and to encourage a more responsive culture by introducing external market forces into the firm through the bidding process.²

At the operational level, outsourcing helps save money. National Highway Authority of India is handling projects worth ₹45,000 crore with a human resource strength of just 570 people, working out to a ratio of one person per ₹100 crore—thanks to outsourcing. Another reason for pursuing outsourcing is to gain increased efficiency and better service in the performance of functions. In addition, outsourcing has been used to obtain specialised

expertise that is not available in-house.

Outsourcing has its negative side. The relevance of HR departments is at stake. If outsourcing is carried to the logical end, a firm can do without an HR department. Does it mean that a function so dearly held and cherished for decades, suddenly becomes irrelevant? Then, of what use are the specialised bodies advocating HR functions? Why then B schools run courses on HR specialisation? Why then is the present book on HRM? Sad to imagine answers to these questions.

In addition, apprehensions are expressed about the lost jobs in HR functions. Firms which outsource HR activities do not maintain or have only skeleton HR departments. Days when HR departments occupied huge space in factories and portrayed structures of the magnitude shown in [Fig. 1.6](#) (see [Chapter 1](#)) are gone. Obviously, HR departments are no more job givers.

It is a big challenge before the HR manager to prove that his/her department is as important as any other function in the organisation.

Outsourcing of other activities of a business will be explained in the next section.

BPO AND CALL CENTRES

Business Process Outsourcing (BPO) Several MNCs are increasingly unbundling or vertical deintegrating their activities. Put in simple language, they have begun outsourcing (also called business process outsourcing, or BPO) activities formerly performed in-house and concentrating their energies on a few functions. Outsourcing involves withdrawing from certain stages/activities and relying on outside vendors to supply the needed products, support services, or functional activities.

It may be stated that the concept of BPO was given to the world three decades ago by India. Today, the outsourcing industry is a capitalist marvel earning India \$100 billion annually.

Indian firms benefiting from outsourcing are many. At one time 250 engineers of Infosys were developing IT applications for BOFA (Bank of America). Infosians also process home loans for Greenpoint Mortgage of Novato, California. At WIPRO, five radiologists interpret 30CT scans a day for Massachusetts General Hospital. 2500 College educated men and women are buzzing at midnight at WIPRO Spectramind at Delhi. They are busy

processing claims for a major US insurance company and providing help-desk support for a big US Internet Service Provider—all at a cost upto 60 per cent lower than in the US. Seven WIPRO Spectramind staff with Ph.Ds in molecular biology sift through scientific research for western pharmaceutical companies. ICICI Infotech Services, TCS, Transwork, e-Service, Daksh, Msource, eFunds, and EXL Service are the other active Indian players in the outsourcing industry.

The outsourcing industry is growing from strength. Though technical support and financial services have dominated India's outsourcing industry, newer fields are emerging which are expected to boost the industry many times over.

Outsourcing of human resource services or HRBPO is emerging as big opportunity for Indian BPOs with the global market in this segment estimated at \$40-60 billion per annum. HRBPO comes to about 33 per cent of the outsourcing revenue and India has immense potential as more than 80 per cent of Fortune 1000 companies are contemplating offshore BPO as a way to cut costs and increase productivity.

Another potential area is ITES/BPO industry. According to a NASSCOM survey, the global ITES/ BPO industry was valued at around \$773 billion during 2002 and it is expected to grow at a compound annual growth rate of nine per cent during the period 2002–06. Legal outsourcing is another attractive area in BPO.

BPOs—Cost Advantage BPO is based on sound economic reasons. Outsourcing helps gain cost advantage. If an activity can be performed better or more cheaply by an outside supplier, why not outsource it? Many PC makers, for example, have shifted from in-house assembly to utilising contract assemblers to make their PCs. Cisco outsources all production and assembly of its routers and switching equipment to contract manufacturers that operate 37 factories, all linked via the Internet.

Secondly, an activity not crucial to the firm's ability to gain sustainable competitive advantage and will not hollow out its core competence services, capabilities or technical know-how can be outsourced. Outsourcing of maintenance services, data processing, accounting, and other administrative support activities to companies specialising in these services has become common place.

Thirdly, outsourcing reduces the company's risk exposure to changing

technology and /or changing buyer preferences.

Fourthly, BPO streamlines company operations in ways that improve organisational flexibility, cut cycle time, speed up decision-making, and reduce coordination costs.

Finally, outsourcing permits a company to concentrate on its core business and do what it does best.

BPO sector employs 1.98 mn directly and 7.5 mn by indirect means like transport and security services.

HR Managers and BPOs What does BPO mean to HR managers? HR plays a key role in the development and execution of the business strategy of a BPO where the entire business model is people-centric. HR is fast evolving from a transactional support role to partnering in the BPO business strategy.

The major challenge faced by a HR manager relates to retention of employees. Various estimates suggest that the average time-to-profit-time period for a new hire in the BPO industry is about nine months suggesting that a fresher begins to break-even the investments made on him or her and earn profit for the firm only after nine months. Exit of an employee before the nine month period can cost upto five times of his or her paid salary.

The attrition rate varies between 40% and 50%. The oft cited reasons for frequent job-hopping in BPO industry are:

Compensation	10%
Night shifts	35%
Monotonous/Boring jobs	30%
Others	25%

Surprisingly, employees who quit BPO firms will land up in other firms but in the same industry. Obviously, better career prospects attract the employees to change organisations. Agents want to become team leaders. Team leaders want to become supervisors. And supervisors want nothing short of CEO's jobs.

HR managers need to be proactive and develop innovative employee interventions to retain talent. Some suggestions are worth stating in this context.

Supervision may be an old concept but its role in people management continues to be relevant today and in the days to come. Quality of supervision has its impact on employee motivation, productivity and loyalty to the

organisation. It may be stated that people leave managers and not organisations. It needs no emphasis that the managers need to change their attitudes and approaches towards subordinates.

The perception of equity in rewards—both monetary and non-monetary—is an important variable in deciding how long an employee stays in an organisation.

The ability of the employee to speak out freely within the firm is another key factor in his or her retention. Having meetings at least once a month, to share the company's vision, industry's growth and how employees see themselves in the changing scenario help a great deal.

Firms may enter non-poaching agreements. These kinds of agreements ensure that the companies involved do not hire people from another. Non-poaching agreements have their flip side. The freedom of an individual to move is curtailed. The market for a talented person shrinks as he or she can apply only to a limited number of firms.

Offering a salary hike is another strategy that can help retain talent. Some BPO firms offer bachelor accommodation to unmarried employees. A majority of firms hold party and fun games to hold the interest of the employees and keep them invigorated. At times these games are related to performance. Well performing employees are allowed to take part in motivating games.

Competency models may be implemented and integrated with HR activities like hiring, training, and performance and potential appraisal.

Opportunities for people may be provided to share their knowledge through training sessions, presentations and mentor team assignments.

Work-life balance initiatives serve as retention strategies.

Have exit interviews to get a realistic and unbiased feedback which will be a good source of information regarding the shortcomings in the systems and practices.

Review the hiring process to get people who can work during nights and handle the monotony. Select the right people in the first place through behaviour-based testing and competency screening mechanism.

Call Centres—Challenges If an external company develops the software for a company, if someone else does advertising for the company's products and if some other firm administers benefits for the company's employees, it is BPO. Similarly, if some other company makes calls to the company's

customers or receives their calls, it is call centre business, also called voice business—a part of BPO itself. But because of its high visibility, call centre business is treated independently.

Call centre business is booming, so are the human resource problems associated with it. Boys and girls (in their early 20s) working in call centres pose a challenge to HR manager and how effectively he or she tackles this challenge is a real test to the person. First let us take a look at the problems of these employees.

First, the boy or the girl has no identity of his or her own, particularly when the individual is working in a firm serving foreign clients. The name by which this employee is called is not his or her original name; the language and its accent are not his or hers; and the festival he or she is compelled to celebrate is alien.

Second, stress levels of call centre employee are high. Typically, the boy or the girl is glued to the earphone all through the working hours, either receiving calls or making calls. A receiving call is invariably about a faulty service or a defect in the product supplied earlier. Whatever the cause, the tone sounds scornful. The employee needs to be patient and balanced and should offer a convincing reply. A couple of calls of this type may not be stressful. But all the 100 calls the employee receives per day certainly turn out to be stressors.

Making a call to an unknown prospect introducing self and a product is no pleasant job either. For one thing, the contact person has no time to listen to the communication. Besides, the reply will be a firm ‘no’ which implies that the caller is ineffective. Then there is the risk of invading into one’s privacy if the contact person happens to be a foreigner.

Third, besides being stressful, the job of a call centre employee is exposed to health hazards. When a day is a night and a night is a day (usually the case with any call centre employees), the body experiences difficulty in adjusting to the unearthly timings and it becomes worse when changes in shift timings are rotational. The typical demeanour of the boy or the girl is—sleepy, overeating, shabby, dry, and deviant in behaviour.

Fourth, drug addiction is common among youth working in call centres. Besides, they indulge in carnal pleasures early in age.

Fifth, the aspirational levels of call centre employees are low. At young age they get into the jobs and start earning and spending money. They believe

that this is life and are at peace with themselves. The desire to study more, qualify better and expect higher things in life is lost.

Sixth, as stated above, these youngsters typically work by night and sleep by day. Their health is at stake, their social life is disrupted, their culture is westernised and jobs are never secured for them. Human side of them has been taken away by blazing lights, high security buildings, sports utility vehicles, laptops, e-mails, computers, cell phones and un-English like English language. How to make them lead a normal working life is a challenge before HR manager.

Finally, the boy or the girl tastes money and position and power quite early in life. He or she has no respect for value of money, no respect for compensation principles, no respect for organisational hierarchies, no respect for seniority, and no loyalty to the organisation. (See also Exhibit 25.1.)

Exhibit 25.1 Life Styles of Call Centre Employees

- They party hard at five-stars, buy branded apparel, pick up the latest gizmos, go on long drives, hang around multiplexes... and pay for it all on their own.
- They are in their early 20s, but they work in the world class environment and earn anything between ₹8,000 and ₹25,000. And never mind if the big bucks come at the cost of sleep!
- “I like to have a blast at the discs on weekends,” says Deepika Pahwa, 20, customer care executive who works at a call centre firm called Saffron Global Ltd.
- “Transportation and food are provided at a very nominal cost by the company. My expenses only include house rent, the rest of the salary I spend on eating out and having fun with friends,” she says.
- I don’t hold a great professional degree. I’m a plain graduate but with excellent communication skills, and look where I’m going!
- When India sleeps, we are awake, buzzing with the day-time activities of Americans and Britons. I enjoy speaking with people from different countries and I even go back and browse on the net to find out more about the cities and towns that my customers call me from.
- Answering phones for global clients is a plum job indeed. Ninety-nine per cent of the BPO employees own cell phones and credit cards, and

have a hip-hop lifestyle. Enough to pull youngsters from various corners of India to the metros in search of a quick buck, a trendy lifestyle and freedom.

- “There is a sense of independence. We enjoy a lot, with no one keeping an eye on us,” said Rigvedi Sharma, 22, from Assam, a customer care executive at Daksh eServices.
- Going on outings with colleagues and team members to nearby hill stations is also common among India’s BPO workers.
- “As soon as I get my salary, I go for shopping to the malls in and around Delhi,” says Shweta Rajpal, 22, a customer care executive with Wipro Spectramind for more than a year.
- Some, of course, save up for parents and siblings. “I always aspired to present a car to family, and I did,” said a proud Dhruv Kohli, 23, who has been a senior customer care executive with Daksh eServices for a year and a half.
- “I look forward to the quarterly performance rewards, I have earned a flat-screen colour TV, a Sony Camcorder and a DVD player last year,” says a senior customer care associate at AOL, Bangalore.⁴

Given the problems stated above, what are the challenges before the HR manager?

First, attrition rate tends to be high. Employees in call centres are known for organisational rootlessness. A typical employee in a call centre is prepared to job-hop provided he or she is offered a few hundreds more by a competitor. The nature of job itself permits high attrition among these employees. Unlike other jobs, the skill set required to become a call centre employee is minimal. The prerequisite to get in is the ability to speak moderately accented fluent English. The tasks discharged by these employees are generic—whichever call centre the boy or the girl works for, attends to identical duties—receiving and making calls.

Other reasons for high attrition rate are—sense of alienation, confused career plans and uncertainty about future.

Second, logistics becomes a problem for HR manager. Employees need to be picked up and dropped at their respective homes. Arranging cabs is a problem. Providing safety to the boys who are required to stand at strategic

points late in the nights before they are picked up by cabs is an additional responsibility. Too many cases of these boys being robbed are occurring frequently in Bangalore. Girls need extra safety measures when they are working during night shifts.

Third, and the biggest challenge before the HR manager is to answer and be accountable to the following:

- How long these boys and girls continue to work in call centres? Can a call centre job be a preferred choice for an individual to pick up, join, work and retire?
- How to destress these young men and women and prevent them from getting burntout by the time they reach their 40s?
- How to protect these youngsters from becoming drug addicts?
- How to restore values in them?
- How to prevent them from getting dehumanised?

Pause and Ponder

Now that you know the problems associated with call centre jobs. If an offer is made by a call centre employer to you, will you accept? Why? Don't? Why?

MAKING HR ACTIVITIES ETHICAL

The HR manager's role in building an ethical climate in the organisation is significant. The HR manager needs to carefully screen applications for jobs, weed out those who are prone to indulge in misdemeanours and hire those who can build a value driven organisation.

Hiring ethically strong employees is only the beginning. The HR manager needs to institute mechanisms to ensure ethical conduct of employees. As stated in [Chapter 23](#), whistle blowing, ethics hotline and ethics committee are some of the ways of ensuring ethical conduct by employees. Having established these, the HR manager needs to create an environment for effective functioning of such mechanisms.

The HR manager by himself/herself should set an example for ethical behaviour. Regrettably, HR managers are accused of being dishonest as they

are known to accept bribe from hiring firms, caterers, transport operators and real estate developers. Dishonest people can only make others dishonest.

MANAGING DIVERSITY

As was stated in [Chapter 2](#), diversity refers to establishing a heterogeneous workforce to perform to its potential in an equitable work environment where no member (or group) has an advantage or a disadvantage. Managing diversity effectively is a big challenge to the HR manager. The challenge is to create a work environment in which each person can perform to his or her full potential and, therefore, compete for advancement and other rewards on merit basis.

Increasingly, organisations find themselves having workforces that have a variety of cultures (and sub-cultures) and consist of a largely diverse population of women, men, young and old, blacks and whites, Indians, Latin's, Asians, Arabs, lesbians, physically challenged, and even people who are significantly overweight. Days were when a typical Indian firm was manned with Shettys, Reddys, Nairs, Raos, Patels, Mehtas, or Singhs. As typical organisation now is an amalgam of a diverse workforce in terms of gender, race, and ethnicity. One can find a Shastri rubbing shoulders with a Khan, both jostling with a Gowda, and all shaking hands with a Singh.

Diversity is going to be a more challenging task for HR professionals for the following reasons:

- The number of young workers(Generation y) in the workforce is increasing
- Organisations are getting increasingly feminised.
- Proportion of ethnic minorities in the total workforce is increasing
- Workforce mobility is on the rise
- International careers and expatriates are becoming common
- International experience is becoming a pre-requisite for career progression to many top-level managerial positions.

Effective diversity management offers strategic advantages to an organisation. One main benefit of diversity is the generation of more and better ideas. Because group members come from a host of different cultures, they are often able to create unique and creative solutions and recommendations. A *second* major benefit is that culturally diverse groups

can prevent groupthink, which is a social conformity that pressures individual groups to conform and reach a consensus. When this occurs, group participants believe that their ideas and actions are correct and those who disagree with them are either uninformed or are deliberately sabotaging the efforts. Multicultural teams are able to avoid this problem, because the members do not think similarly or feel the pressure to conform. *Third*, organisations will be able to tap gender and racially diverse markets better with a more diverse workforce. *Fourth*, firms having good records in managing diversity may be able to attract talent. *Finally*, organisations that can manage diversity better tend to be more flexible and vibrant, because they have broadened their policies, are more open minded, have less standardised operating methods and have developed skills to manage resistance to change.

There are numerous examples demonstrating the financial benefits that can accrue to companies that embrace diversity. Here are a few:

- Xerox plants using diverse work teams are now 30 per cent more productive than conventional plants.
- Procter & Gamble achieves 30-40 per cent higher productivity at its 18 diverse team based plants than at its non-diverse plants.
- Motorola beat its competitors by producing the worlds most efficient and high-quality cellular phones which are produced almost exclusively by diverse work teams.
- Research has shown that organisations that proactively recruit, develop, and leverage multinational leaders are in better positions in the global market place.
- GE Power Systems achieved 13 per cent productivity gains from cross-functional and multicultural teams versus homogeneous teams.
- Numerous empirical studies of work teams demonstrate that when tasks are complex and not clearly defined, heterogeneous teams outperform homogeneous teams. ‘Super teams’, those that were diverse in numerous respects and selected because of their differences, outperformed those that were homogeneous.
- ‘Unlike other MNC’s, diversity for us is a business imperative and not an issue of legal compliance. We want HUL’s management to be representative of our diverse customer base so that they understand the needs of the customer better. If a manager understands the brand he or

she is handling, the learning curve is that much shorter. For instance, in marketing, if the target audience is women, it is an advantage if a woman is in charge of the brand'. Says Prem Kawath, HR Manager, HUL.

There are problems associated with diversity. It may cause a lack of cohesion that results in the firm's inability to take concerted action, and direction-less. Decisions are delayed and performance may suffer. When diversity is not managed effectively, consequence will be conflicts, flight of talent and decreased morale.

There are perceptual problems too. When culturally diverse groups function together, they often bring preconceived stereotypes with them. A related problem is inaccurate biases. Japanese firms, for example, depend on groups to make decisions. Entrepreneurial spirits, individualism, and originality are downplayed. Inaccurate communication is yet another problem of culturally diverse groups. Two reasons account for inaccurate communication:

One is the misunderstandings caused by words used by one but not clear to others. Second is the interpretation of situations. Many Japanese, for example, nod their heads when others talk, but this does not imply of any approval. They are merely being polite and attentive.

How to manage diversity effectively?

Following are some guidelines:

- Top management commitment to diversity.
- Focus on bringing the best talent, not on meeting numerical goals.
- Hold managers responsible for diversity goals.
- Have more women as supervisors. They in turn bring in more females as employees.
- Develop career plans for employees as part of performance reviews.
- Develop an age, gender, and race/ethnic profiles of present employees.
- Promote minorities and other disadvantaged sections to decision-making positions, not just to fill vacancies.
- Diversify the company's board.
- Provide extended leaves, flexi-time, job-sharing, and opportunities to telecommute, particularly for disadvantaged workers.
- Organise diversity training programmes that provide diversity awareness and educate employees on cultural and sex differences and how to

respond to those in the workplace.

- Have a support group to provide a nurturing climate for employees who would otherwise feel isolated or alienated.

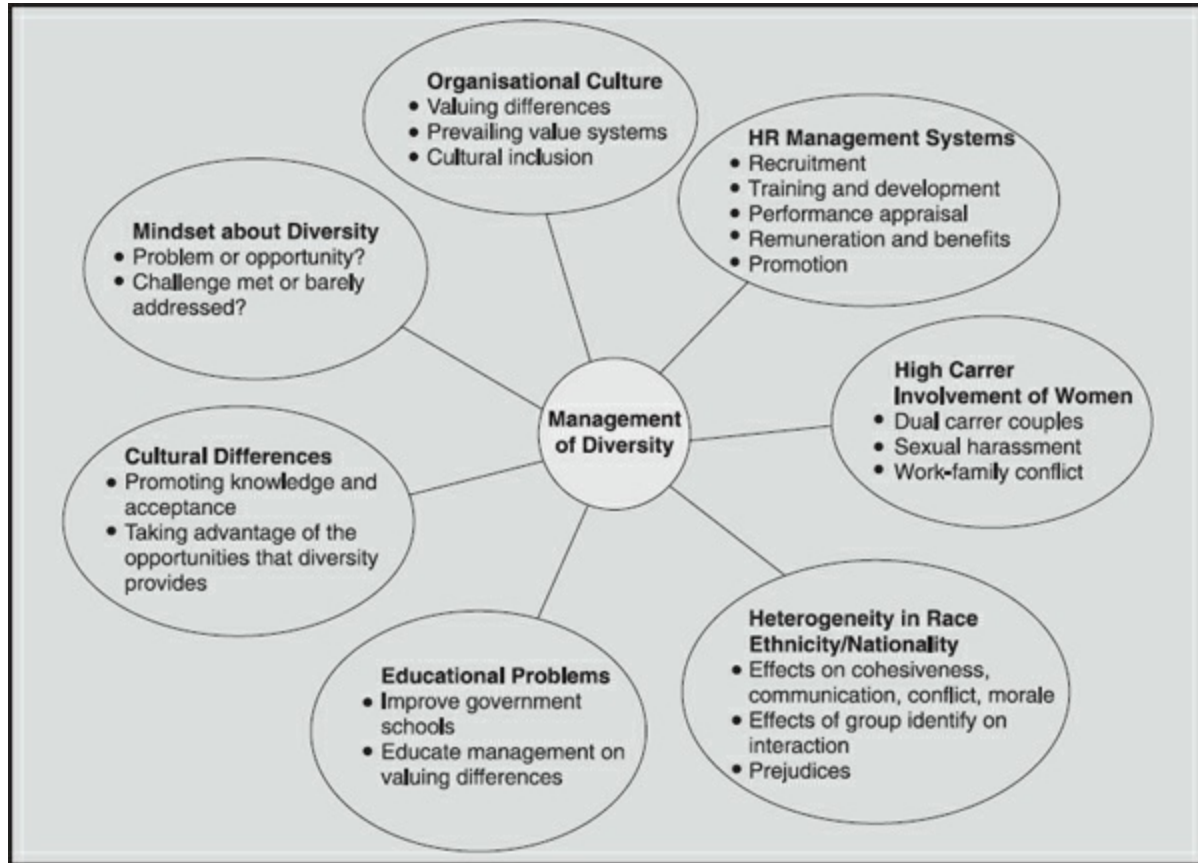


Fig 25.2 Diversity Management Strategies

- Create mentoring programmes in which senior managers identify promising women and minority sections and play an important role in nurturing their career progress.
- Institute diversity audit to review the effectiveness of an organisation's diversity management programme.

Figure 25.2 contains more interventions for managing diversity.

FEMINISING WORKFORCE

Organisations are becoming highly feminised and it is a good sign. Some satisfiers are worth recollecting here. Women employees in the organised

sector numbered 5.31 million in 2007, up from 4.92 million in 2000. Not only India, emerging world is also becoming the world of businesswomen. Seven of the 14 women identified in *Forbe's* magazine's list of self-made billionaires are Chinese. In China, 32 per cent of the senior managers are female, compared with 32 per cent in America and 19 per cent in the UK. In India, 11 per cent of CEO's of large companies are female, compared with 3 per cent of *Fortune 500* bosses in America. In Brazil, 11 per cent of the CEOs and 30 per cent of senior executives are women.

Young, middle class women are overtaking their male peers when it comes to education. In the UAE 65 per cent of university graduates are female. In Brazil and China the figures are 60 per cent and 47 per cent respectively. In Russia, 57 per cent of the college-age women are enrolled in tertiary education and men constitute only 43 per cent. B Schools are feminising fast. Some 33 per cent of students at the China Europe International Business School (CEIBS) in Shanghai and 26 per cent at the Indian School of Business are female.

Since 1970, the proportion of women of working age who have paid jobs across the rich world has risen from 48 per cent to 64 per cent. The labour force participation rate in different countries is shown in [Fig 25.3](#).

Though statistics stated above sound positive, in India, the scene is not that encouraging. In India's 500 largest companies, 50 per cent of women give up their jobs before they turn 30 and 18 per cent of them drop out of work every year. Only 18% of women are in middle management, 2.7 per cent rise to be directors and only 1.8 per cent of women are CEOs.

Not so encouraging status of women in India notwithstanding, the trend everywhere is the rising power of women. Why this heightened visibility of women in workforce? *First* is the politics that has played its role. Feminist organisations across the globe have highlighted domestic slavery, exploitation and discrimination. Activated thus, governments have passed equal rights Acts. Female politicians such as India Gandhi, Margaret Thatcher, and Mrs. Clinton have taught bravery to the young women and woke them up to fight the suppression. Indira Nooyi and Dong Mingzhu, the author of one of the best selling business books in China, are real role models.

Second, the nature of labour market now is different form what it was decades back. In the past what was required was the bran power where man

eminently suited. Organisations now require more of brain power. Obviously, both the sexes are equally matched, men having lost their inherent advantage.

Third, relentless rise of the service sector (where women are as competent as men) and the relatively declining manufacturing sector is the cause for increasing feminisation of workforce. *Fourth*, technology has played its role in the high visibility of women in organisations. Improved technology reduced the amount of time needed for the traditional female work of cleaning and cooking. More dramatic innovation is the contraceptive pill. The spread of the pill has enabled women to postpone child births. Not to be overlooked is the revolution in telecommunication that enables people operate from homes which have become surrogate offices.

Finally, certain social factors have contributed to the growing presence of women in organisations. For growing number of single mothers, jobs have become a necessity. A growing proportion of married women have found that they can supplement their husband's incomes so that their living standards can be improved.

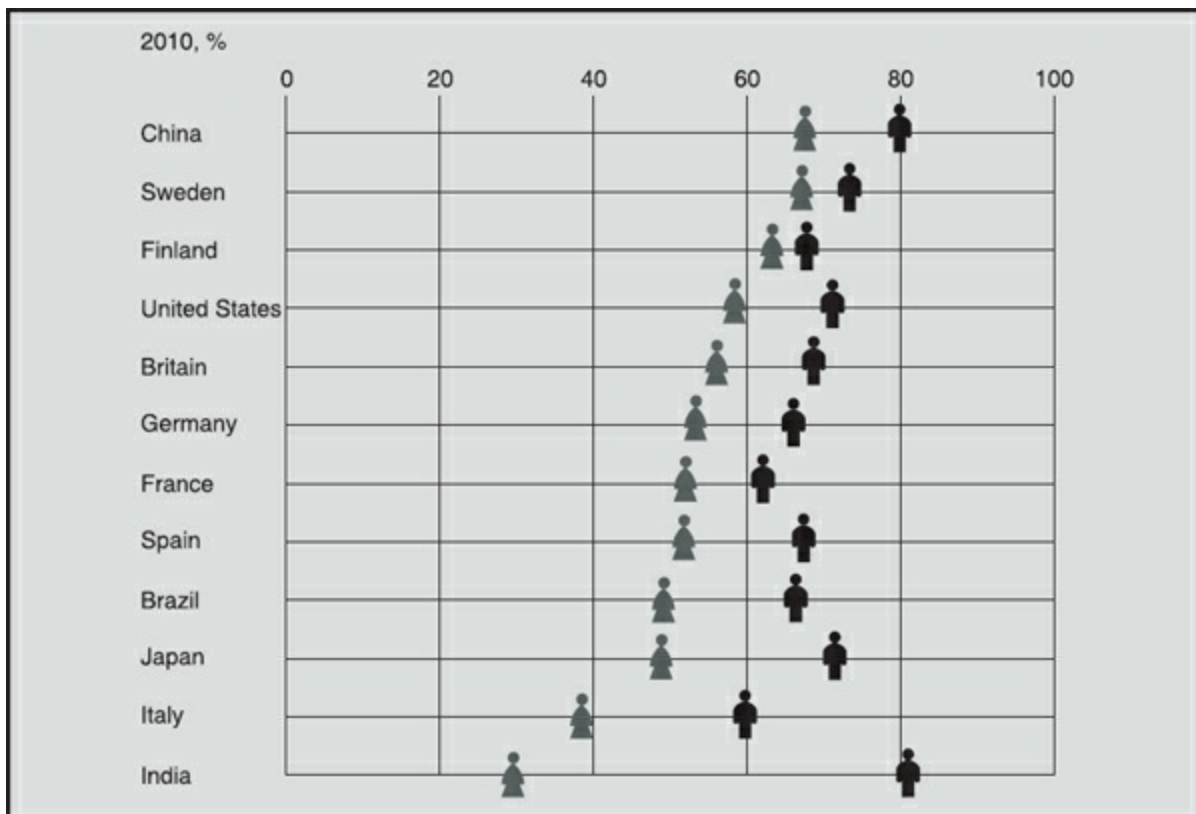


Fig 25.3 Labour Force Participation Rate

(Source: *The Economist*, 26th Nov, 2011)

What are the implications of feminising workforce? There are advantages and problems too. Talking about the advantages, organisations benefit immensely by having more women in the total workforce. *First*, women tend to have better relational skills. They can strike rapport easily and early with clients, particularly with overseas buyers. Infact, foreign clients seek to meet them and remember their names easily. *Second*, organisations in general face shortage of talent. Women fill the gaps ably. *Third*, women managers act as role models for other women. *Fourth*, a number of studies have shown that the presence of women in senior jobs is positively correlated with a company's performance and higher profits. McKinsey looked recently at 89 listed companies in Europe with a very high proportion of women in senior management positions and compared their financial performance with the average for firms in the same industry. It found that these firms enjoyed a higher return on equity, better operating profit and a more buoyant share price. But not many countries seem to have realised correlation between female presence in boards and corporate performance as [Fig 25.4](#) shows. Norway has the highest female presence in top management positions and the least is found in India.

Pause and Ponder

“Men are promoted based on potential, while women are promoted based on past accomplishments.” Comment.

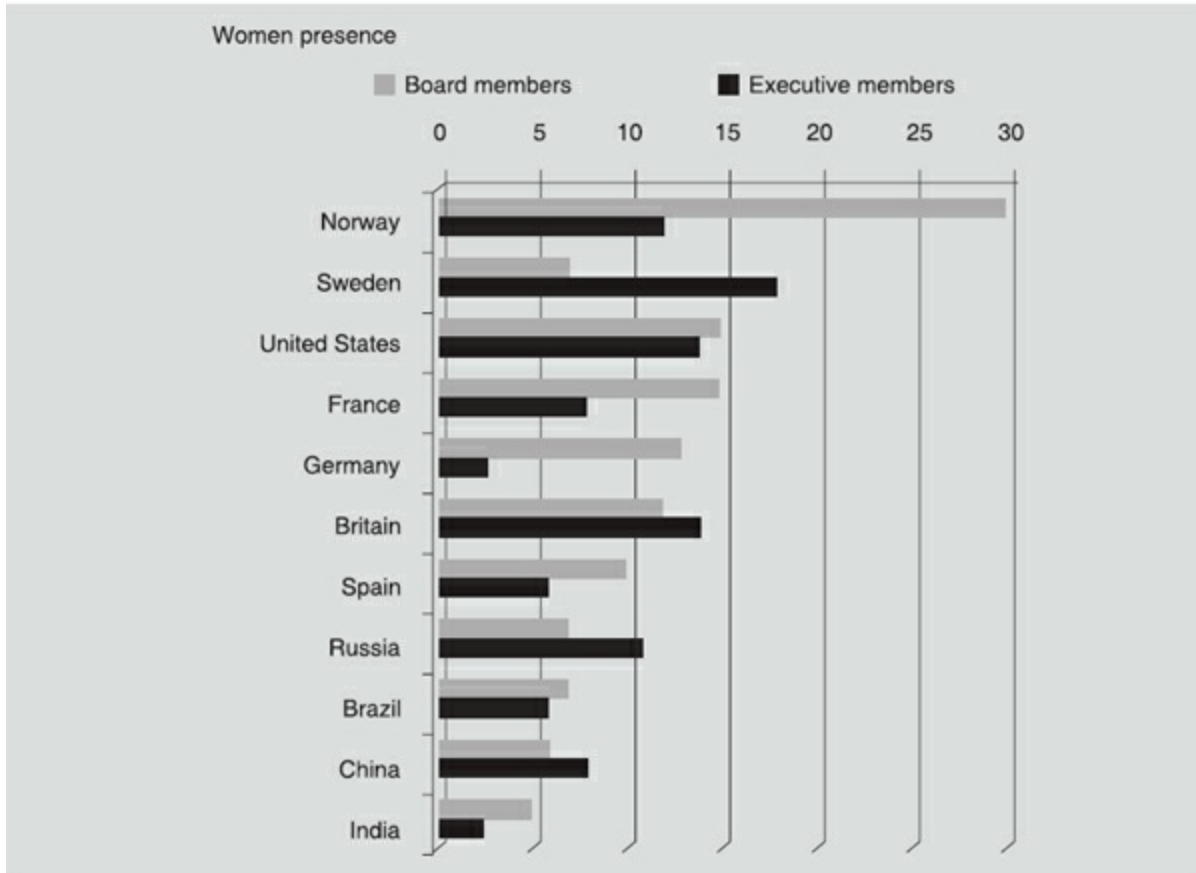


Fig 25.4 *Girl Power*

(Source: *The Economist*, 23rd July, 2011)

There are problems associated with female presence in the workforce. Extra facilities and benefits need to be extended to women. They cannot be put to all kinds of work. Women lack ambition, when chips are down, their choice is family and not career. There is a psychological problem too. Where woman is the boss, there is unwillingness to cooperate on the part of a man and where he is the boss there is excessive chivalry. Either way, performance tends to suffer.

Pause and Ponder

Which is your choice and why?

- As a boss to a woman.
- As a report to a woman.

The HR manager faces another problem-balancing work-life. Balancing work and life assumes relevance when both wife and husband are employed. Travails of a working housewife are more severe than a working husband, as the opening vignette to this chapter shows.

Organisations should undertake work-life balancing programmes as in their absence both men and women will be exposed to stress, depression and anxiety. A few balancing programmes include:

- Child care at or near the work place
- Job sharing
- Care for sick children and employees
- On-site summer camp
- Training superiors to respond to work and family needs of employees
- Flexible work scheduling
- Sick leave policies
- Variety of errands from dry cleaning, dropping children at school, making dinner reservations and the like.

Organisations that have developed balancing programmes have found happier and more productive employees. There are also many firms that still have not investigated, implemented or experimented with work life balancing programmes. Those firms believe that balancing work with life is a personal problem and not an organisational issue. Often, the individual herself balances her life at home and at work with her own attitude as the opening vignette shows.

There are some interesting revelations about the status of work-life balancing. Two separate global surveys conducted among senior executives by AESC, an association of executive search firms, reveal that 53 per cent of the executives agree that work-life balance has worsened in the last nearly a decade. Asia-pacific executives are said to be worse off than their counterparts elsewhere in the world.

Problems notwithstanding, managements are walking that extra mile to hire more women. Infosys, for example, has been at the forefront in ushering gender inclusivity. The NASSCOM 3rd Annual IT Women Leadership Summit held at Bangalore in November 2008, witnessed the IT major winning the award for excellence in gender inclusivity. Pepsi Co. has the

highest women representative (12) in its senior leadership positions. Its rival Coco-Cola has 18 top positions, but only one of them is a woman (Also see exhibit 25.2).

Pause and Ponder

How far your class contains diversity? How many of your are boys, girls? Which places you come from? What languages do you speak? What has been your experience while interacting with a boy or a girl who hails from some other place and speaks a different language?

Exhibit 25.2 Indian Companies Becoming Cosmopolitan

Take the case of HUL. A majority of its customers are women but till 2000 women constituted just 5% of its management. Alarmed by that number, the company put in place a plan to aggressively hire more women. It looked at companies like ICICI and IBM, which had a far better representation of women in their workforce. HUL started several initiatives like a six-month fully paid maternity leave as well as a 5-year sabbatical. It also grants maternity leave in cases of adoption. The results are beginning to show: today the number of women in HUL has gone up to 16%. Says Leena Nair, GM, HR; HUL “There is more vitality in the workplace. HUL is a softer place, with less hierarchy”. At IBM many women now have full time jobs working from home. Male managers at IBM are sensitised not to schedule meetings after 6.30 pm. IBM India now has 26% women in its workforce. DuPont makes sure that for every job opening there is at least one-woman candidate in the shortlist.

At Wipro, managing diversity means accommodating people of different backgrounds and work experiences. Wipro has 1,500 people of nationalities as diverse as Portugal, Austria, Sweden, and Finland in its workforce.

Source: The Economic Times, dated Jun. 23, 2007.

Instances of a few companies encouraging gender inclusivity do not

constitute a trend. The prevailing vogue in India is one of low treatment of women in general. India came in at 113 among 135 countries in the gender gap ranking (for 2011) released by the Geneva-based World Economic Forum, standing near the bottom by most metrics used to gauge gender inequality barring one-political empowerment of women (see [Table 25.1](#))

KNOWLEDGE MANAGEMENT

Knowledge, knowledge worker, and knowledge management (KM) are the three terms which need clarification before discussing the topic of this section.

Knowledge refers to understanding of a specific subject or things in general. More precisely, knowledge refers to data, information and wisdom. Data refer to statistical details which are in raw stage. When processed, data become information. Information gives meaning to the data. Wisdom enables an individual to temper the information to distinguish between good and bad and right and wrong. Figuratively, the three components appear as shown in [Fig. 25.5](#).

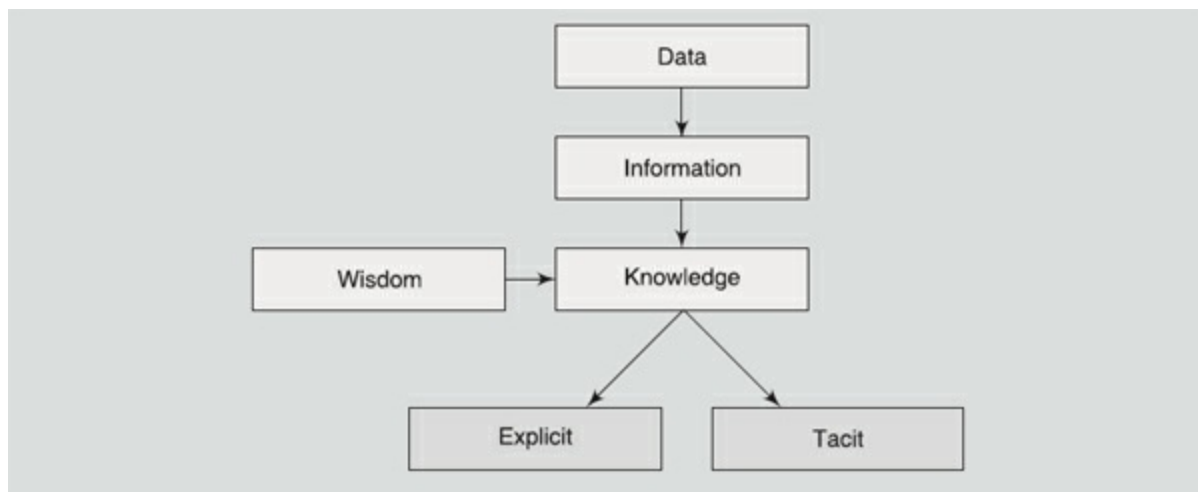


Fig 25.5 *Three Components of Knowledge*

Knowledge may be explicit or implicit or tacit. Tacit knowledge is characterised by the fact that it is personal, context-specific and obviously difficult to formalise and communicate. Implicit knowledge is acquired through observation and direct experience. A truck driver, for instance, does

not learn the art of driving by listening to lectures alone. He masters the necessary skills by watching the subtle details as others perform the task, and by directly experiencing this complex interaction of actions with machine's response.

Similarly, organisations acquire tacit knowledge when employees experiment with new technology or work on unique projects for clients. Most knowledge in organisation is tacit and one of the challenges in KM is to make implicit understanding explicit so that it may be stored and shared easily.

Explicit knowledge is transmittable through any systematic language. The information a student receives in a class room is mainly an explicit knowledge because the professor packages and consciously transfers it to students. Explicit knowledge is codified, written down and is made available through printed media. However, explicit knowledge represents only tip of the ice berg of the entire body of knowledge.

Table 25.1 *India on Gender Gap Index*

	<i>Over All</i>		<i>Economic Par-ticipation</i>		<i>Educational Attainment</i>		<i>Health and Survival</i>		<i>Political Em-powerment</i>	
	<i>Rank</i>	<i>Score</i>	<i>Rank</i>	<i>Score</i>	<i>Rank</i>	<i>Score</i>	<i>Rank</i>	<i>Score</i>	<i>Rank</i>	<i>Score</i>
Gender gap index 2011 (out of 135 countries)	113	0.619	131	0.396	121	0.837	134	0.931	19	0.312
Gender gap index 2010 (out of 134 countries)	112	0.615	128	0.403	120	0.837	132	0.931	23	0.291
Gender gap index 2009 (out of 134 countries)	114	0.615	127	0.412	121	0.843	134	0.931	24	0.273
Gender gap index 2008 (out of 130 countries)	113	0.606	128	0.399	116	0.845	128	0.931	25	0.248
Gender gap index 2007 (out of 128 countries)	114	0.594	122	0.398	116	0.819	126	0.931	21	0.227
Gender gap index 2006 (out of 115 countries)	98	0.601	110	0.397	102	0.819	103	0.962	20	0.227

As stated above, implicit knowledge should be converted into explicit knowledge. Tacit knowledge is person-specific and comprises two dimensions: Institutional memory and proprietary knowledge. Institutional memory means what the members of an organisation have learnt from experience as a direct consequence of living through exposures and by participating in decision-making. Proprietary knowledge stems from the lessons gained from experience that are unique to serving the customers or building the organisation's products. Now, both institutionalised memory and

proprietary knowledge depart from the organisation when the individual exits. Hence, the need for conversion.

Knowledge worker is an individual who has data and information and apply them to solve organisational problems. These are the days of knowledge workers. It was Peter Drucker who effectively wrote the obituary for the obedient, gray-suited, loyal, corporate man and woman. It was the management guru who predicted the rise of the 'knowledge worker' long before the term came into common usage.

Knowledge Management (KM) in simple terms is managing knowledge in organisations. This way of understanding KM leads a reader nowhere. Appropriately, KM may be understood as any process or practice of creating, acquiring, capturing, sharing and using knowledge in organisations. KM comprises three essentials:

- Culture-establishment of a knowledge focused organisational culture
- Structure-the business processes and organisational structures that facilitate generation and sharing of knowledge.
- Technology—the enabler of KM

Benefits of KM

Gained an entry in business management circles, educational institutions and other organisations in 1970's, KM has attained wide acceptance and publicity. Infact, KM has become big business for major international consulting firms such as Ernst and Young, Arthur Anderson and Booz-Allen & Hamilton. The biggest benefit of KM is that it makes people in an organisation think out-of-the box and discover alternative solutions to fix a problem. Specifically, KM offers the following benefits to an organisation:

- Competitive advantage
- Attraction and retention of talent
- Innovation through free-flow of ideas
- Enhanced customer satisfaction through streamlined response time
- Reduced cost, improved performance, improved productivity and increased revenues.

Role of HRM

Knowledge is a human attribute and HR professionals are the right people who can manage knowledge better. Role of HR in creating, storing and sharing knowledge shall be on the following lines:

- Attracting, developing, rewarding, and retaining human capital
- Recognising the importance of social capital
- Building a knowledge focused culture
- Promoting a climate of commitment and trust
- Streamlining hiring process and advising hiring specialists to employ people who can contribute to knowledge creation and sharing
- Encouraging and rewarding those who contribute and share knowledge
- Knowledge sharing to become one of the components in appraisal
- Converting the organisation into a learning one
- Creating appropriate forums such as workshops, seminars and conferences where employees can share their knowledge with peers
- Providing appropriate technology that facilitates KM
- Making top management committed to KM
- Ensuring that KM is aligned with business strategy

ATTITUDE TOWARDS UNIONS

We made references to unions in [Chapters 2](#) and [21](#). In [Chapter 2](#), we highlighted how unions constitute internal environment of an organisation. [Chapter 21](#) dealt with unions exclusively. Now, what are the attitudes of managements towards unions? General perception of managers is to avoid unionisation.

Contrary to the popular perception, unionisation is beneficial to the organisation. Unions provide a means for workers to express before the management conditions prevailing in the workplace. In situations where management is unreceptive to the concerns of individual workers and there is no union to provide a voice, the only alternative left to the dissatisfied employee is to go in search for greener pastures elsewhere. Because of the voice mechanism or the instrumentality role (refer to [Chapter 21](#)), unionised firms have lower turnover rate and encourage organisations to provide more rational and professional management.

Unionisation can have positive impact on a firm's performance under certain labour market conditions. This can occur in situations in which the

employer has monopoly in the labour market. When unions negotiate higher wages under such conditions, the economically rational response of employers is to add more capital per worker and enhance the quality of labour. This leads to higher productivity.³

Unionisation is preferable because to remain union-free costs the organisations heavily. Pay raises, out of turn promotions, generous perks and other benefits need to be doled out frequently to appease workers.

Of course, the negative impact of unionisation is too familiar to all. Strikes, spoiled labour relations, lost production and lost revenues are the consequences of unionisation. Fearing the dark side of unions, managers seek to keep their plants union-free.

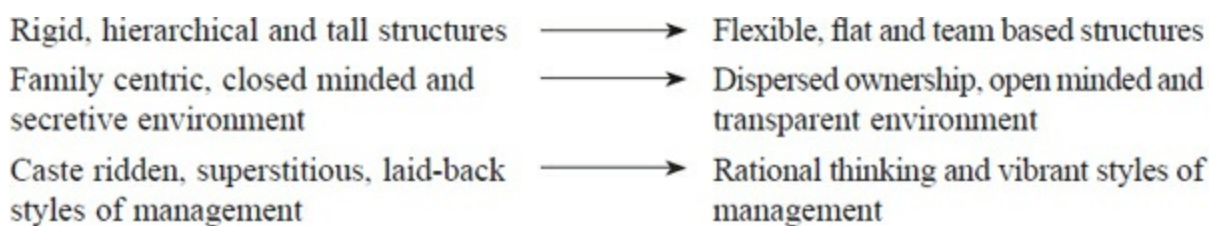
Managers need to realise that unions are inevitable part of organisations. Whether it is an old economy firm or the one belonging to the new economy, unionisation cannot be prevented. Take the case of BPO and call centre industry in the new economy. An organisation in South India, the IT Professionals Forum of India (ITPFI) has taken up the task of protecting interests of professionals in this sector from getting victimised by unfair HR practices. ITPFI is on its way to form an outfit called Centre for BPO Professionals (CBPOP) that is likely to be registered under the Trade Union Act. ITPFI is a part of Union Network International (UNI), Geneva, an international body that safeguards the interests of professionals in all sectors, including IT and BPO.⁴ Unionisation in the old economy firms is too well known to need a recount in this context.

GLOBALISATION

How to face competition from MNCs is a worry for Indian firms. As globalisation spreads, more foreign firms are entering Indian market and the challenge before domestic firms is going to be much more severe in the years to come. Many Indian firms are compelled to think globally, something which is difficult for managers who were accustomed to operate in vast sheltered markets with minimal or no competition either from domestic or foreign firms. The Internet is adding fuel to globalisation and most large MNCs are setting up green field projects in India or entering joint-ventures with local companies. The implications of a global economy on human

resource management constitute the subject matter for the next chapter. Some issues from global sector are:

- World class HR practices have found their application in Indian businesses. Hiring practices, motivational approaches, compensation packages, training and development methods and techniques, appraisal systems and capability development now being practised by HR managers include ideas and practices followed in US or Japanese firms. If company prayers, common uniform and shared canteens have come from Japanese firms, US corporations have helped Indian HR managers professionalise their activities.
- Indian firms have large number of foreign nationals working here or Indians are being sent as expatriates to other countries to work in home countries of MNCs. Either way, the task of HR manager becomes more challenging. Expatriates (home country nationals working in India or Indians sent abroad) need to be attracted, trained, compensated, promoted and motivated differently.
- As stated earlier, MNCs scout around for local firms to form strategic alliances. Joint ventures benefit MNCs no doubt, but local firms also stand to gain in terms of increased sales, expanded markets, sharing of technology and professionalisation of management. What is necessary is that the domestic company should become a potentially fit candidate to enter an alliance. No MNC ventures to have a partnership agreement with a local firm which is not known for competence. It is the task of every manager, more so of HR manager, to make the company competent so that it gains attraction of MNCs which are searching for prospective alliance partners.
- Indian firms need to move from one end of each continuum to the other end as shown below:



It is the HR manager who can be the catalyst to move his/her organisation

from the left side of each continuum to its right side.

- The HR professional needs to be aware of the fact that his or her own practices have undergone a change as [Table 25.2](#) indicates.

Table 25.2 *Paradigm Shift in Key HR Practices*

<i>Past Characteristics</i>	<i>Future Characteristics</i>
Local practices	Global practices
Hierarchical organisations	Flattened organisations
Jobs/positions	Self-directed teams
Points	Broadbands
Skills	Core competencies
Salary	Total compensation
Tactical	Strategic
Data/information	Knowledge/intelligence
Data collection/reporting	Reporting/forecasting

Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, Wiley India, 2005, p. 267.

Additional responsibilities of HR professionals include:

- (I). Preparing employees expatriation—organising CCT and managing culture shock, inpatriation and repatriation.
- (II). Grooming, ‘globe trotters’ and enhancing their abilities to work virtually across distances and times. Consistently building quality systems to meet global customer expectations.
- (III). Honing skills to manage talent and knowledge.

HRM IN MERGERS AND ACQUISITIONS

Firms seek growth through any or both of two routes: (i) organic, (ii) inorganic, or mergers and acquisitions (M&As). Organic growth is sought to be achieved through green field projects—setting up operations newly. Organic growth is fraught with uncertainties. Investment involved is heavy, gestation period is long and business fortunes are not known. Merger or

acquisition route involves combining with or taking over an existing business. Obviously, M&A route is relatively easy as an unit, already functioning, is being merged with or being bought over.

Indian businesses are on an acquisition spree—not just local companies but of foreign firms as well. Tata Steel bought over Corus, the European steel maker. Hindalco bought over Novelis, an US-based aluminum manufacturer. Similarly, and Videocon acquired Daewoo Electronics. So also ONGC Videsh took over Petrobras's BC—10 block in offshore Brazil and Energy Brands (US), acquired by Tata Tea. Wal-Mart and Bharti are coming together so also Vodafone and Essar. The classic example of a merger at the international level is the coming together of Daimler-Benz and Chrysler.

Although M&As are easy routes for business growth, certain problems associated with them need to be taken note of. M&As will lessen competition and consequently oligopoly markets come into being. The combined firm may resort to job cuts and price hikes. There may also be skeletons in the cupboards of the target company—hidden liabilities. Besides, cultural integration becomes difficult. What is the role of HR manager in M&As? Following are the typical tasks of the HR professional:

- Composition of new board
- Deciding who will occupy which job?
- Assessing culture
- Undertaking human capital audit
- Effective communication
- Retaining talent
- Aligning performance evaluation and reward systems
- Managing the transition.

New Board Composition The post merger or acquisition business needs a board for decision making and the board shall comprise members representing both the firms. Members of the new Board should be change agents so that they can carry out the change process dictated by the merger or acquisition. Often such top level change is both symbolic and a signal of the changes to be made at lower levels. Board level changes could also be inspirational for the rest of the organisation. This is particularly true where the merging partners had experienced performance problems, which triggered the merger.

Who will Occupy which Job In any merger, there will be rival claims for senior executive positions such as CEO, VP, CFO, COO, heads of divisions and heads of departments. The choice of the right person for the right job is crucial as otherwise, the success of the merger will be jeopardised. Besides, the choice shall be a signal about the style, culture and intent of the new management. Such choices based on predictions of the acquirer or on non-transparent processes will lead to perceptions of biases and lack of good faith. The disappointed managers may linger, nurturing resentment and grievance and slackening their commitment to the merged firms or may even leave. Accent on merit is as important as the integrity of the process of managerial appointments.⁵

Assessing Culture The purpose of cultural assessment is to evaluate the factors that may influence the organisational compatibility, to understand the future cultural dynamics as the deal takes place, and to prepare plans of how the cultural issues should be addressed if the merger or acquisition goes through.

Cultural assessment is crucial as many partnerships failed because of the absence of cultural compatibility. Approximately 70 per cent of the mergers across the globe are said to have failed to produce the expected result. It is also observed that most often these combinations fail because of cultural problems rather than faulty business logic. Obviously, the cultural side of the business needs to be managed effectively.

Human Capital Audit Human capital audit needs to be focussed on two dimensions. One dimension is preventive, focussed on liabilities such as obligations, employee litigations and outstanding grievances. It also includes comparing the compensation policies, benefits and labour contracts of both the firms. The second dimension of human capital audit refers to the talent audit which, in the long-run would be critical for the success of a merger or acquisition deal. In most M&A deals talent audit is often ignored.

Effective Communication In M&As, communication plays a critical role in several ways. First, it seeks to alleviate tensions among employees, particularly of the acquired company. ‘Merger syndromes’ do occur among

employees. Fears such as layoffs, relocations, big fish vs. small fish attitudes, superiority vs. inferiority complexes and victory—vanquished perceptions do cause stress to the employees. Communication should help acquire coping strategies to deal with the stress arising out of extraordinary organisational changes. Second, communication feeds the top management about the integration that should take place between the two marrying partners. Finally, senior management should communicate a vision throughout the company.

Retaining Talent Retention of talent assumes relevance as competent employees, particularly of the target company, tend to leave before or after the deal. It is all the more crucial if the deal is struck with a view to acquire unique knowledge of the employees of the target company.

The uncertainty during a merger or takeover often makes senior managers to leave. Others might leave because they regard the future envisaged by the merger or acquisition, in terms of culture, business model and compensation system with suspicion. A merger is also the time when competitors attempt to capitalise on uncertainty and wean away the ‘stars’. After the merger between Smith Kline Beecham and Glaxo Welcome, for example, many leading scientists left the merged GSK to join rival firms.

What should HR manager do to retain talent? First, identify those employees with gifted skills and capabilities. Second, try interventions which would help hold back those talented individuals. Finally, all said and done, what melts any individual is one to one and heart to heart communication.

Aligning Performance Appraisal and Reward Systems Aligning performance measurement and reward systems is a challenging task particularly when the two firms have different policies and one of the parties is adversely affected by the change. When Daimler-Benz merged with Chrysler in 1998, there were glaring differences in the compensation arrangements between the American managers and the German counterparts. But parity between compensation systems needs to be brought out as that would help build united culture.

Managing the Transition Transition occurs immediately after the deal and before a new team of managers is in place. Integration managers (formed for the purpose) are expected to manage the transition. Following are the tasks

cut out for the integration managers:

First, the integration manager is expected to guide the integration process, making sure that critical decisions are made and activities are put in place according to an agreed schedule. He or she should also champion norms and behaviours consistent with new norms, communicate key messages across the new organisation, and identify new value adding opportunities.

Second, the integration manager needs to educate the bought-out company to understand how the new management operates. He or she can also help forge social connections among the people of both the partners, enable acquired company's employees to understand the language of the parent and its way of doing things.

Third, the integration manager needs to act as an arbiter between the two companies and thwart the tendency of the parent to act big and enact 'big fish-eat-small-fish' syndrome. Often, alliances fail because of the tendency of the acquirer to act as a winner and treat the acquired as vanquished.

Finally, the integration manager and the transition team need to serve as a role model as to how the new organisation should function. They should disseminate the shared vision and make sure that the practices are appropriately aligned with the vision.

HRM IN HIGH PERFORMING ORGANISATIONS

Organisations are getting highly charged now-a-days. Globalisation and consequent competition are the compelling reasons why firms are performing better and better. Perform or perish is the slogan of corporate executives.

A high performing organisation is the one which has judicious mix of people, structure and technology to make use of resources and opportunities to reach its goals. The outcomes of high performance are: customer delight and employee satisfaction. Customer delight in turn results in increased sales, brand loyalty and higher profits. Similarly, low turnover, low absenteeism and high morale are the consequences of high customer satisfaction (see [Fig. 25.6](#)).

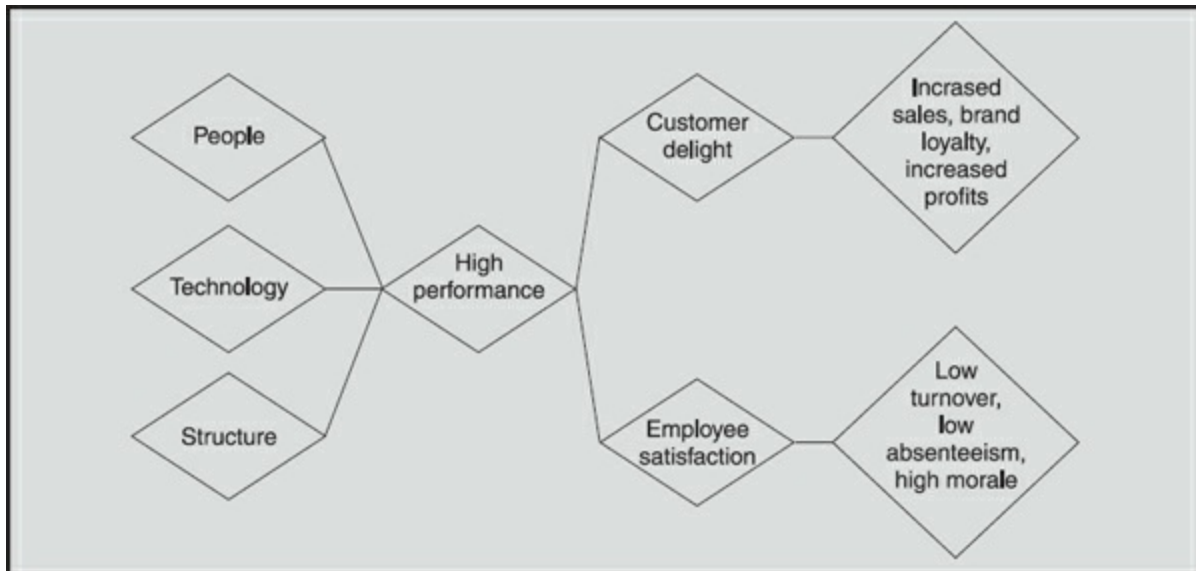


Fig 25.6 Causes and Consequences of High Performance

A high performance organisation is also understood as the one which has high employee value exchange (EVE). EVE then is understood as the balance between the rewards employers offer and the expectations they set in exchange for those rewards. [Figure 25.7](#) shows the list of expectations and rewards organisations seek to maintain EVE by benefitting employees well and motivating them to meet organisation’s expectations.

<u>Expectations</u>	<u>Rewards</u>
Performance	Affiliation
Teams having coordination, collaboration and commitment	Compensation
Engagement	Benefits
Behaviour	Career
Retentions	Work content

Fig 25.7 The Employee Value Exchange

(Source: Lance A. Berger and Dorothy R. Berger, *Talent Management Hand Book*, TMH, 2011, p. 112)

What are HRM contributions to high performance? [Table 25.3](#) outlines the various interventions that would help organisations achieves high performance. All these interventions have already been covered at different places in the book.

Table 25.3 *HRM Interventions for High Performance Organisations*

<ul style="list-style-type: none">• HRM practices match organisation's goals• Individuals and groups share knowledge• Work is performed by teams• Organisations encourage continuous learning• Work design permits flexibility in where and when tasks are performed• Selection system is job related and legal	<ul style="list-style-type: none">• Performance management system measures customer satisfaction and quality• Organisation monitors employee satisfaction• Discipline system is progressive• Pay systems reward skills and accomplishments• Skills and values of a diverse workforce are valued and used• Technology reduces time and costs of tasks while preserving quality
--	--

Source: Raymond A. Noe, *et al.*, *Fundamentals of Human Resource Management*, TMH, 2007, p. 543.

NEW ORGANISATIONAL FORMS

The practice of HRM is shaped by the organisational forms in which people are employed. Elsewhere, economies have been undergoing fundamental changes and the structures of organisations and the relationships between them have been transformed. Big organisations have grown bigger in the sense that the world economy is dominated by transnational organisations. Between a quarter and one-fifth of the total GNP of the world is, thus, accounted for by just 600 companies.

But the employment potential of these giant corporations is declining. Large production units have become increasingly a thing of the past, and large companies now tend to consist of business units managed relatively independently. 'Business process re-engineering', with its philosophy of

hiving of ancillary and expensive tasks to suppliers and automating the remaining functions, is the latest contributor to this trend.

The consequence has been a higher profile of medium sized and small sized firms as employers. A majority of the population are employed in units with fewer than 200 employees.

This trend affects HRM functions in various ways:

1. Smaller firms and establishments mean a more personalised style—not necessarily more progressive, but more face-to-face.
2. Smaller units may require less complex and sophisticated systems of HR management, but may also be less able to sustain them in areas like management development.
3. Smaller units are less able to sustain a specialist HR management function.
4. On the other hand, the business and human challenges of operating in this kind of environment are becoming greater. The contribution of HRM will then be in facilitating the processes which support the development of the enterprise, rather than, as traditional personnel management has done, in administering systems for controlling people.

The basic challenge to HRM and enterprise management comes from the changing character of competition. The issue is not large firms or small firms but large firms, medium firms, and small firms. Competition in many sectors is no longer between individual firms, large or small, but between constellations of firms. In the international sphere, for instance, major companies operate through a complex web of strategic alliances of varying degrees of permanence.

The same pattern is seen in the domestic scenario in the increasingly close relationships which large (often transnational) corporations forge with their local suppliers. In the motor vehicle and electronics sectors, for example, buyer-supplier relationships have been transformed by the need for co-operation in the pursuit of reliability, continuous quality, product improvements, and shorter developmental lead times. Such a relationship depends on regular exchanges of people and information.

Often (for example, in the motor industry), a single large company is surrounded by suppliers in close geographical proximity. While this is obviously efficient from a delivery and communication point of view, and firms consider such factors in choosing a location, it also indicates that

competition, especially international competition, is between clusters of firms in 'industrial districts'. As a result, the development of the single firm depends increasingly on the development of the locality and the sector as a whole. This includes the development of specialised skilled labour (technical and managerial) managed flexibly, within the local labour market.

These changes in economic structure and patterns of competition mean that managers generally, including HR professionals, will have to cope with the implications of networked relations more and more, in place of the more comfortable hierarchical relationships which dominated most people's experience of organisations until recently.⁶

CHANGING DEMOGRAPHICS OF WORKFORCE

The major challenge that has resulted from changing workforce demographics concerns dual career couples, couples where both partners are actively pursuing professional careers. Organisations have been accustomed to using job moves and physical relocation as an important means of developing talent. Men or women moving through organisational ranks to upper-level positions need experience in a variety of roles in different organisational units. Frequently, physical relocation is required. The increasing number of dual-career professionals limits individual flexibility in accepting such assignments and may hinder organisational flexibility in acquiring and developing talent.⁷

Another change in the workforce demographics relates to the growing number of employees who are young. Companies which were set up in the 1940s and the 1950s have employees who are now superannuating. People who join to fill up the vacancies are obviously fresh college graduates or diploma holders. Enterprises which are newly established obviously prefer young men and women.

The effect is that the average age of workforce is around 25 years. The Bangalore-based Infosys, for example, has employees whose average age is just 25 years. Employees of Infosys are taken to the office about 45 minutes away from the city by bus; and the day starts with breakfast, in consideration for the employees who are single. Recognising that people spend most of their working hours here, the company is doing everything it can to make it

more than a 'desk and a telephone' set-up. Dormitories are provided for those who want to sleep over. A gymnasium is being built for breaks during the day. These are the type of facilities that need to be provided to the workforce which has more of young employees.

Exciting days are ahead for Indians at the global level. The country has the largest number of young people in the world today. China has curtailed the birth rate with its 'one child' policy while population policy sputtered in India. We have approximately 65 million children below 15 years of age, and as many as 400 million young people below the age of 23. These young people may join the ranks of workforce in the next few years, thus creating vast productive activities, incomes and savings. India's young people can be an asset to the global economy because while India's population will be growing younger in the next few decades, the population of all the developed countries will be getting older. The rich countries will face a shortage of working age people while India will have a surplus. Indians can, therefore, bring in more than \$ 200 billion ('8.8 lakh crore) of revenue every year from the rich nations and create 40 million additional jobs by providing a variety of services to the rest of the world.⁸

The other demographic changes in the workforce are: **(i)** increasing number of working mothers, **(ii)** a steady decline of blue-collar employees who are giving way to white-collar employees, and **(iii)** increasing awareness and education among workers. All these have their own implications for HR managers.

CHANGED EMPLOYEE EXPECTATIONS

With the changes in workforce demographics, employee expectations and attitudes also have shifted. Traditional allurements such as job security, attractive remuneration, housing and the like do not attract and motivate today's workforce.

Employees demand empowerment and expect equality with the management. Previous notions about managerial authority are giving way to employee influence and involvement along with mechanisms for upward communication and due process.

Empowerment results in redefining jobs, both on the shopfloors and in

board-rooms. As workmen are given more control over their jobs, a whole class of inspectors may become redundant, not because they will do a bad job, but because there shall be no need for them. Empowerment also means that a worker can bring his or her sons or daughters to the workplace, so that they can look around and even can gain knowledge about work methods. This is the privilege, enjoyed till now, only by owners of enterprises whose children can even have access to vital documents.

Expectation of equality breaks up the traditional relationship between employer and employee, top and bottom. There is an emphasis on leading by example, instances like an MD instituting a waste-elimination programme but buying a car worth '35 lakh for himself are not appreciated. Also, no longer does the employee relish the idea of waiting for hours at airports or bus stations to receive the executive, with his or her name-plate held aloft. This points to an expectation of equality, differences in salaries and status notwithstanding.⁹

Another expectation by the employee is that the electronic and telecommunication revolution will improve the quality of work life. Innovations in communication and computer technology will accelerate the pace of change, and as a result, lead to many innovations in HRM.

One possibility that is increasingly becoming a reality is the opportunity to work at home. Alvin Toffler estimates that the information revolution will shift millions of jobs out of the factories and offices back to the home front.

On the flip side, the home becoming an office has serious implications. Employees lose exclusivity and freedom. The pleasure of spending at least Sundays with their families is lost. Any time of the day, (holiday or working day) a message may be e-mailed to the employee's residence and he or she is required to go to some place or attend to some problem immediately. The employees virtually become bonded labourers, chained to the company 24 hours a day, and 365 days a year.

Also, today's average worker demands better treatment, challenging jobs and career advancement. Look at the workers' unions of Otis, Hindustan Unilever, ICI, Blue Star, Webel Electro, and Central Bank. They rewrite their agenda to include quality and better customer service and are even accusing the managements of malpractices. The HR manager must, therefore, redraw the profile of the worker and discover new methods of hiring, training,

remunerating and motivating employees.

HR PROFESSIONAL AS CHANGE AGENT

As was stated earlier, expectations on HR professionals are soaring. The HR manager is, among others, expected to play the role of a change agent. This demands that the people manager must move from playing transactional role to transformational role.

Before we elaborate on the role of HR as a change agent, it is useful to understand the nature of change, forces leading to change, why people resist it, and the ways of managing the change.

Nature of Change Organisational change is the process by which firms move from their present state to some desired future state to increase their effectiveness.¹⁰ Characteristically, change is –

- Vital if an organisation were to avoid stagnation,
- A process, not an event,
- Normal and constant,
- Fast and is likely to increase further in competitive business,
- Is ‘natural’, that is evolutionary or ‘adaptive’, that is reaction to external circumstances and pressures,
- ‘Directive’, that is, implemented by ‘top down’ management or ‘participative’, that is, involving those parties impacted by change,
- Is ‘incremental’, that continuous small changes or ‘step’, that is radical shift from current to new processes, and
- Is interdependent on organisational environment or culture.¹¹

Forces Leading to Change Change has become the norm in organisations. Business failures, plant closures, mergers and acquisitions, downsizing, reengineering, new technology adaptation, productivity improvement, globalisation, cycle-time reduction, and other strategies to survive competition are common among organisations. Organisations will be in a state of transition and all employees are affected by change. But the reactions of employees towards change may vary from acceptance to active resistance as [Fig. 25.8](#) shows.

The changes that have been listed above are triggered from several

sources. Some of these are external, arising from outside the organisation, whereas others are internal, arising from sources within the company. There are also organisational, group level and individual level sources of change. (See also Fig. 25.9)

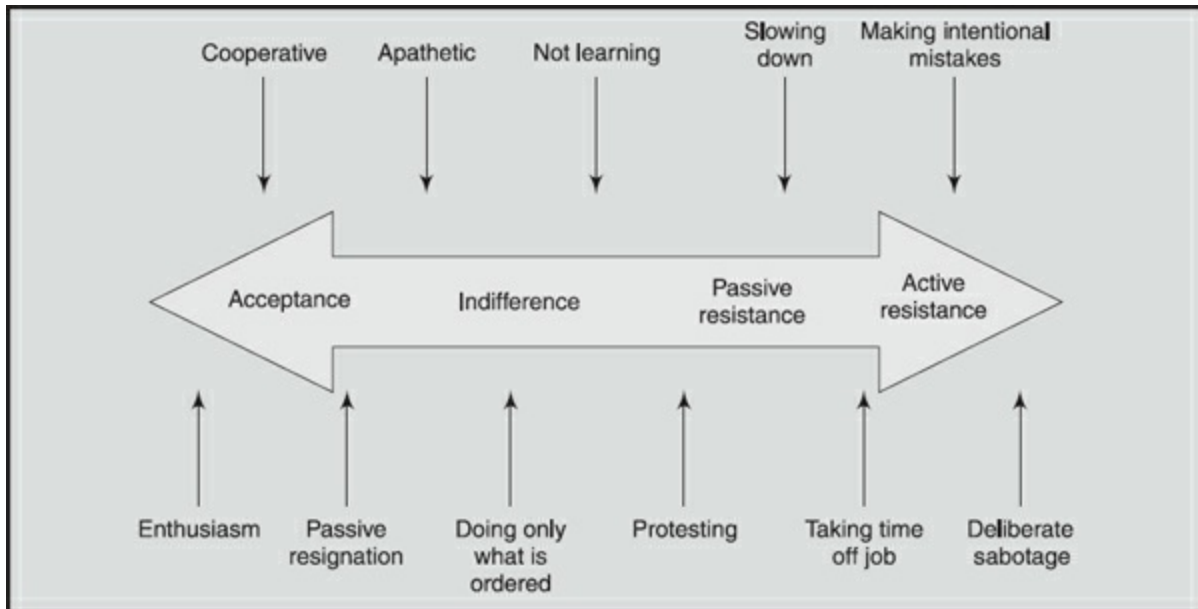


Fig 25.8 *A Continuum of Reactions to Organisational Change*

Source: Jerald Greenberg and Robert A. Baron, *Organisational Behaviour*, p. 601.

<i>External</i>	<i>Internal</i>	<i>Organisational</i>	<i>Group level</i>	<i>Individual level</i>
● Globalisation	● Organisational silence	● Structure	● Norms	● Cognitive biases
● Workforce diversity	● Falling effectiveness	● Strategy	● Cohesiveness	● Uncertainty
● Technological change	● Crisis	● Over determination	● Groupthink	● Selective perception
● Managing ethical behaviour	● Changed employee expectations	● Sub-unit orientation		● Habits
● Govt. policies	● Change in the work climate	● Power and conflict		
● Competition				
● Resource scarcity				

Fig 25.9 *Sources of Change*

External Forces Globalisation has made MNC's enter joint—ventures with host country business. The joint—venture partner in the host country will be forced to change its ways of doing business and gradually adopt the culture of the MNC.

Globalisation has made organisations to rethink the boundaries of their markets and to encourage their employees to think globally. Globalising an organisation means rethinking about the most efficient ways to use resources, gather and disseminate information, and develop people to become global citizens.

Walk the **Talk**

Do's	Don'ts
<ul style="list-style-type: none"> • Nurture a positive attitude towards unions and other employee forums that fight for employee rights • Train and invest on HR team. This ensures an agile and proactive HR team • Any change initiative should involve small groups of employees • Treat call centre and BPO employees differently 	<ul style="list-style-type: none"> • Pay lip service to diversity • Forget to have more female employees at senior levels. This will facilitate more women joining the organisation • Forget to build core competencies by focusing mainly on skills enhancement

Related to globalisation is *workforce* diversity which makes an organisation reposition itself, reposition its strategy from a brick-and-mortar to an e-commerce environment, launch a new project, create a new idea, develop a new market plan, design a new operation, and assess emerging trends from a new perspective. All these involve considerable change.

Technological innovations bring about profound change because they are not just changes in the way work is performed. Instead, the innovation process promotes associated changes in work relationships and organisation structures. Technological innovations result in flatter structures, decentralised decision making, and more open communication across the employees.

Recent scandals have brought the issue of *ethical behaviour* in organisations to the forefront of public consciousness. Ethical issues, however, are not always public and monumental. Employees face ethical dilemmas in their daily work lives. The need to manage ethical behaviour has brought about several changes in organisations. Most centre around the idea that an organisation must create a culture that encourages ethical behavior.¹²

Ethical behavior should touch such areas as product safety, employee health, sexual harassment, AIDS, smoking, acid rain, affirmative actions, waste disposal, cover ups, transfer pricing, dumping, lay-offs, gifts, and the like. Strategies covering these and other areas need to be formulated and implemented keeping ethical implications in mind.

The other external forces invoking change include changes in *government policies, competition, and scarcity of resources*. These are self evident.

Internal Forces Internal forces that trigger change are several. Employers hope that employees will recognise and report problems that must be addressed. In some firms, however, there is a norm of *organisational silence* in which employees avoid bringing up certain issues, even when every one is aware that a problem does exist.

An organisation that experiences its *third quarterly loss* within a fiscal year is forced to do something about it. Some companies react drastically – resorting to lay – offs, pay cuts and other cost saving measures. Some others look at the bigger picture, view the loss as symptomatic of an underlying problem, and seek causes and solutions.

A *crisis* may also instigate changes in an organisation. Strikes may compel employers to resort to pay cuts. The resignation of a key executive may cause the company to rethink the composition of its management team and its role in the organisation.

Differing employee expectations can also cause change in organisations. Expectations of young and newly hired employees are different from those of aged employees. Youngsters are more career-oriented than their old counterparts and are known for organisational rootlessness. Retaining and motivating such employees is challenge for any HR manager.

Changing in the *work climate* of an organisation can trigger change. A workforce that seems lethargic, apathetic, and dissatisfied is a symptom that must be addressed. This symptom is common in organisations that have

experienced layoffs. Workers who have escaped a lay-off may grieve for those who have lost their jobs and may find it hard to continue to be productive. They may feel that they will also be laid-off one day, and feel insecure in their jobs.

Organisational Forces of Resistance Organisational forces resisting change include organisation structure, organisational culture, organisational strategy and over – determination.

An organisational structure can be an obstacle to change. When a firm creates a structure, it crates a stable pattern of task relationships that affect the way people perform. Every time an organisation structure becomes self-maintaining-that is, people come and go, but the task relationships remain unchanged-it becomes a resistance to change. Changing structure is not an easy job. Change disrupts taken – for – granted expectations, and employees view negatively at it.

An organisation S strategy can be an obstacle to change. Managers are often biased by previous commitments, called escalation of commitment, and they stick to a course of action even if it is not working. Another tendency on the part of organisations is to pursue a strategy that worked well in the past but has ceased to create value. In either case, resistance causes managers to pursue outdated structures that will ruin the organisations.

Organisations have several systems designed to maintain stability. For example, consider how organisations control employee performance. To ensure that as employees they will do the job the organisation desires, job seekers must meet specific requirements in order to be hired. As soon as a person is hired, he or she is given a job description, and the supervisor trains, coaches, and counsels the employee in task completion. The new employee usually serves some type of probationary period that culminates in regular performance evaluation. Finally, rewards, punishment, and discipline are administered depending on the level of performance. Such a system is characterised by *over determination* or structural inertia. In other words, the structure of the organisation provides resistance to change because it was designed to maintain stability.

There are obstacles to change even at the functional or departmental level.

Differences in sub-unit orientation are a major resistance to change and source of organisational inertia. Different functions and divisions of an

organisation often see the source of a problem differently because they see an issue or problem primarily from their own view point. Like top managers or divisional managers, functional heads may lobby for their own interests and try to influence the change process so that change benefits them. If declining sales is the problem that must be solved, what changes should the organisation make? The sales function may lobby for an increase in the size of the sales budget and the hiring of more sales people. R & D may lobby for more money for new product development. Production function may lobby for new low-cost machinery so that the organisation can obtain a low-cost advantage. It is easy to see how different view points can be an obstacle to change.

Power and conflict often block change-Change usually benefits some people and divisions at the expense of others. When change causes power struggle and conflict, an organisation is likely to resist it. For example, a change in purchasing practices will help materials management achieve its goal of saving on cost, but which will adversely affect manufacturing's ability to reduce production cost. While the materials function will push for change, manufacturing will resist it. The conflict between the two functions will slow down the process of change and perhaps prevent it from occurring.

Group-Level Obstacles to Change Much of an organisation's work is performed by groups and several group characteristics can generate resistance to change.

Groups develop their *own norms* to promote desirable performance. Most members conform to these norms, especially in closely – knit groups. Consequently, any change that disrupts group norms will evoke resistance from group members. Groups also suboptimise to ensure their own self-interests, often at the expense of the bigger organisation. This means that groups will resist changes that do not directly benefit them individually.

A highly *cohesive group* may resist attempts by management to change what it does or even who is a member of the group. Group members may also unite to preserve the status quo and protect their interests at the expense of other groups.

Groupthink refers to situations in which group pressures for conformity deter the group from critically appraising unusual or unpopular views. It occurs when one powerful point of view prevails in a group, even though

cogent arguments against it may exist in the group. Obviously, groupthink occurs in a cohesive group.

Individual – Level Resistance to Change Individual – level obstacles to change are many and are powerful too.

Cognitive biases can influence an individual manager's perception of a given situation and make him or her interpret the situation in ways that benefit him or her. Cognitive dissonance, projection, ego-defence, escalation of commitment, and the like are cognitive biases. They distort managers' perception of why change is necessary and what should be done. Cognitive biases strengthen organisational and sub-unit-level obstacles discussed above.

Uncertainty about the outcome of change makes people resistant to change. 'Fear of the unknown' is a strong obstacle to change.

When change is impending, employees may fear losing their jobs and the fear becomes acute when advanced technology is introduced. Employees may also fear losing their status because of change. Another common fear is that change may diminish the positive features the individual enjoys in his or her job.

Perception plays a significant role in shaping employee performance. There is a tendency for people to *selectively perceive information* that is consistent with their existing views of their organisations. Thus, when change takes place, workers tend to focus only on how it will personally affect them or their function or division; if they perceive few benefits they may reject the purpose behind the change. As a result, it can be difficult for an organisation to develop a common platform to promote change across the organisation and to get people to see the need for change in the same way.

Habits Employees' preferences for familiar actions and events are also an important source of resistance to change. Habits die hard because people have a built in tendency to return to their original performance, a tendency that prevents change.

Individual-level obstacles to change discussed above are emotional in their approach. Employees have justifiable reasons for their resistance to change. Popularly called logical or rational sources, such obstacles include time required to adjust, extra effort to relearn, economic costs of change, and questioned technical feasibility of change. These are self-explanatory.

Role of HR Professional

HR professional should play the role of a change agent in three areas: initiatives, processes, and cultural adaptations. **Initiative changes** focus on implementing new programmes, projects or procedures. Such initiatives (for example, cost reduction programme, quality improvement initiative, restructuring organisational design) take place routinely in any firm. Through strategic planning, specific initiatives are identified as necessary and are implemented effectively. **Process changes** within a firm focus on the ways in which work is being done. Firms first identify core processes and then try to improve those processes through work simplification, value added assessments and other reengineering efforts. **Cultural changes** occur within a firm when fundamental ways of doing business are reconceptualised. The identity of the firm is transformed both for employees and customers.

HR professionals as change agents build a firm's capacity to manage all the three types of change. They ensure that initiatives are defined, developed, and delivered in a timely manner, that processes are stopped, started and simplified; and that fundamental values within the organisation are debated and appropriately adapted to changing business conditions.

GE is one example where all the three types of change were implemented effectively and HR professionals were the major change agents. During early part of 1980s, change efforts focused on initiatives that restructured the business mix and reducing workforce. By the late 1980s, GE was strategically strong, with 13 major businesses, each lean, globally positioned, and number one or two in market share.

Since the latter part of 1980s, GE's management has focused on cultural change. Bureaucracies were dismantled, faster decision making was encouraged, speedier customer service was insisted and unnecessary work was shed. GE worked to incorporate the values of speed, simplicity and self confidence into the organisation's culture.

HR DURING DOWNTURNS

The HR principles and practices written in articles, books (including this book), and articulated in classrooms, seminars, training programmes and workshops are tailor – made for boom periods in the economy. The major

assumption made behind employee hiring, training and development, performance appraisal or compensation is that the businesses are doing well. What then are the challenges of HR professionals during economic downturns as are being witnessed around the globe today?

The first challenge before HR manger is to keep morale of the employees intact. Unsure of whose turn it is next to receive the pink slip, employees are crestfallen, let down and dispirited. They are frustrated too as alternatives jobs are not available. HR executive can play key role in restoring and sustaining morale. Communicating with every body, taking everyone into confidence, convincing the employees that the present crisis is only a temporary phenomenon and assuring the worst thing that could happen is a slight pay cut but no lay off, can help keep the flock together and motivated (Also see [Fig 25.10](#)).

“Manage staff sentiment, keep them motivated”.

“Communication – direct mail from president to communicate what and how the company is doing... HR to work with business leaders to formulate a plan to cautiously and positively convey messages to the rest of the workforce.”

“Engagement and change management. How we can help leaders and employees to adjust to the new situation is critical. It will be a big change/issue when doing reductions in India”.

“It’s important for managers to recognise it as a crisis and maintain a positive environment and keep up positive communication with their staff”.

“If you end up needing to cut people, {you need to know} who you cut, how you cut. You need to communicate frankly with {the employee}”.

“To manage with a human approach, the company must be transparent, fair and open to talent. The company should not lose the brand image because of this”.

Fig 25.10 *Helping Staff to Cope with Turbulence*

(Source: Mercer, 2008)

Second, organisations resort to cost cutting measures to keep themselves

alive and dynamic. While major areas amenable for cost cutting comprise management of inventory, bills receivables, supply chain, and discounts, certain HR initiatives will also help save on the cost. Pay cuts, paid holidays, sabbaticals, redesigning jobs, economising on the use of phone bills, cut on travelling and the like are but only a few cost cutting measures. Pay cut is preferable to job cut. HP has resorted to a cut of 20 percent in the pay of the CEO, 10 to 15 percent cut in the case of executives and five percent in lower level employees' pay. The MNC has managed to avoid job cuts, at least some time. With 60 percent of cost in IT/ITES firms being talent linked, the HR function is at a vantage position to cut costs (Also see [Fig 25.11](#)).

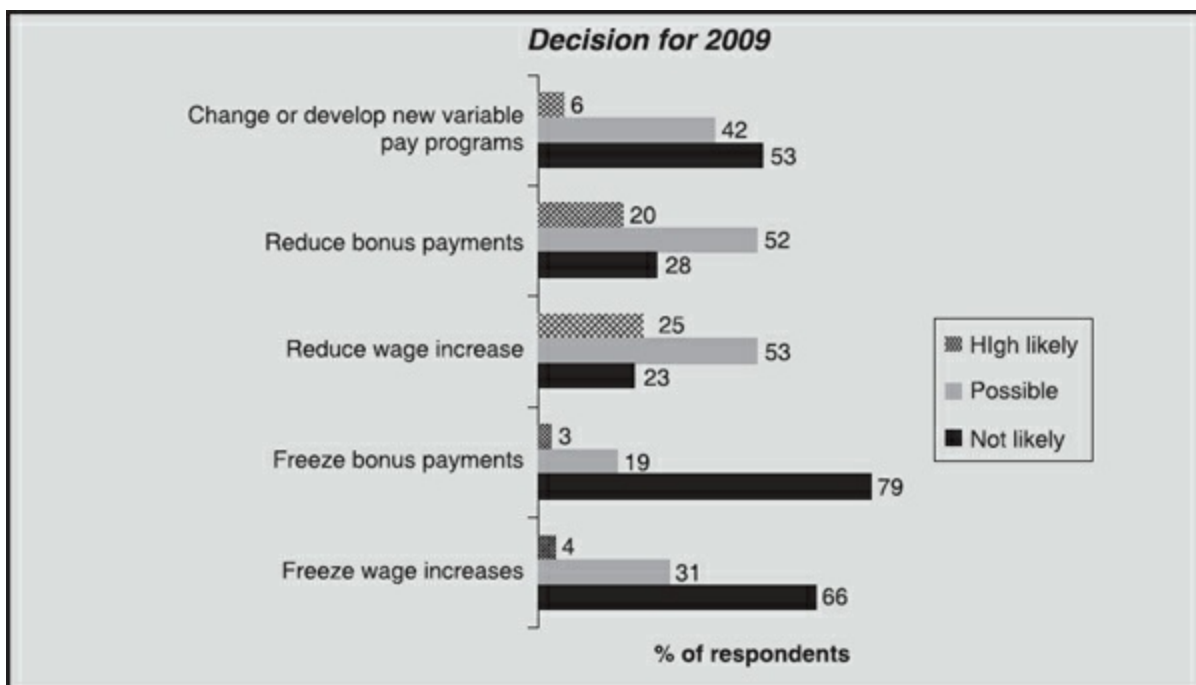


Fig 25.11 Actions Companies took in 2009 to Control Costs

(Source: Mercer, 2010)

Third, any slow down is probably a good time to separate wheat from the chaff. Focus is on hiring the best, but not halting the hiring process itself. In fact, downturn is the best time to hire talent from competitors. These are the people who may be looking for new jobs, have been recently laid off, or working for a company that has serious financial problems. While hiring can take place, care should be taken to avoid appointing people in anticipation of

projects. Care should also be taken to make than buy. Fill vacancies with current employees.

Fourth, more focus on employee referrals and job boards/portals while hiring will save costs on recruitment and selection. Even for training, in-house talent can be made use of instead of engaging more expensive external trainers.

Fifth, companies in India generally avoid lay-offs, notwithstanding economic recession. They would rather go for deferral of allowances and salaries, temporary withdrawal of benefits and options like leave without pay and deferred annual increments. HSBC had been able to save 600 jobs by redeploying employees among 63 workplace locations. But lay-offs might become inevitable if business is in red for a long time.

Sixth, salary packages of employees are being reshaped, with variable pay occupying major share. In other words, there is higher proportion of variable pay or ‘pay at risk’. The fixed-variable combine earlier was 70-30, now it has been revised to 50-50. More and more companies are using the variable pay and are expanding the use of long term incentives, both of which give employees a greater stake in the organisation’s success and performance.

Seventh, lean period is the best time to think of creativity and innovation. Employees are relatively free and relaxed. Their attention can be diverted towards innovation. Mahindra and Mahindra have set up ‘eureka’ for the purpose of promoting innovation. HCL is leveraging employee capabilities to come out with innovative ideas. Bosch India made use of the lean period to invest on innovations and upgrading HR skills.

Finally, this is the best time for the HR professionals themselves to pursue academics, read books on management, engage in teaching and improving own academic credentials.

[Table 25.4](#) shows the most effective steps taken by companies to weather the economic crisis.

Table 25.4 (n=912)

<i>Strategic initiatives to avert crisis</i>	<i>% of respondents adopting the strategy</i>
Reduce operating cost	77
Increase productivity	38

Introduce new products/services	34
Reduce capital investments	27
Restructure	22
Hire talent	18
Seek merger or acquisition opportunities	13
Leave certain markets	8
Increase hedging	2
Others	6
No steps	2

(Source: *Mint*, 3rd April, 2009)

HR MANAGER As STRATEGIST

HR manager is expected to act as a strategist. Being a strategic partner, he or she must answer: How to create an organisation to accomplish business goals? Business objectives may be stated in several ways—as financial targets, balanced score cards, visions, intents, missions, aspirations, or goals. Regardless of the objective’s form or content, an organisation must be created to make it happen. When HR professional acts as a strategic partner, he or she works with line managers to institute and manage a process that creates an organisation to meet business requirements.¹³ [Chapter 3](#) provides more details on strategic human resource management.

OTHERS

Deloitte, in its compensation trends survey report identified four key HR challenges for 2012-2013. The challenges are:

- Retaining critical talent
- Hiring of skilled talent
- Engaging the employees
- Training and developing potential leaders

The above have been covered at different places in the book.

SUMMARY

Figure 25.1 contains the major challenges before HR managers. Outsourcing, attracting and retaining talent, work-life balancing, creating ethical climate, corporate reorganisation, globalisation, changed employee expectations, changing demography and the like are the major HR challenges.

KEY TERMS

Corporate restructuring

Diversity

Ethical conduct

Globalisation

HR challenges

Outsourcing

Work-life balance

BPO and call centres

REVIEW QUESTIONS

1. Bring out the challenges lying ahead of HRM.
2. How do changing employee demographics affect HRM?
3. Bring out the impact of corporate reorganisations on HRM.
4. How to manage diversity?
5. How to ensure ethical behaviour?

DISCUSSION QUESTIONS

1. In what way has increased international competition influenced HRM?
2. What do you think are the two most important challenges of the HR managers in future? Why do you think so?
3. Identify and discuss the major forces influencing HRM in future. In your answer, address how these challenges are likely to affect the practice of HRM.

CONTINUING CASE

At Vybhav, leadership development is the latest buzzword. It was in 2003 when Vybhav consolidated its businesses and got all business units under one umbrella that leadership talent in key positions emerged as the biggest challenge over coming years.

A review of hiring and retention of talent in the senior management grades revealed an average tenure of 2.5 years. This was alarming when compared with tenure of five years in middle management grade and an average tenure of 3.5 years at the base of the pyramid. To add to this concern was the declining scores in the Voices Survey over the past three years around 'managerial effectiveness'. Renny Joseph presented these findings to the senior leadership and after a few interactions and brainstormings, 'leadership development' emerged as an immediate need for focus and attention across Vybhav's divisions.

The Vybhav Leadership Academy (VLA) prepared calendar of events and activities which would help nurture leadership competencies in senior managers. The VLA was inaugurated with a 2-day residential programme facilitated by leading management gurus-Sam Bharon and S.M. Mcaladd. The 58 participants in the program listened in awe as the speakers chanted new *mantras* for effective managers in the globalised business. The participants were asked to bring along their earlier 360 degree feedback scores. Each one along with his or her scores and one-page write-up on his or her career plans was provided an-hour counseling time with either Sam or Mcaladd. Post the counseling, the participants were asked to reflect on their lives and career goals as well as the 360 degree assessment scores to plan for the way ahead. This was the beginning.

Each senior leadership team member was assigned with a corporate life coach for an initial period of six months. The base coaching consisted of initial 60 minute phone session twice a month for the first six months. E-mail coaching followed between the calls. E-mail coaching involved sharing articles and success stories related to the topic of coaching the leader had identified as an area for improvement. As part of this engagement, the professional coach evaluated, clarified and challenged the leader to achieve the goals of effective leadership. On quarterly basis, the leadership was

invited to give feedback on the effectiveness of the coaching arrangement. If the feedback was not positive, the life coach was changed. The second phase of coaching provided for the next six months with monthly 30 minute coaching session, supplemented with e-mail coaching.

On completing the Corporate Life Coach Programme, each leader acted as a success coach for the second line leaders and managers. This was again managed as a formal process under the corporate mentoring programme. Each leader interacted with at least five second line leaders (from other Vybhav divisions, not of their own) as a mentor and coached them for executive success for the next 12 months.

In order to assess the effectiveness of the leadership development initiatives, the scores from the 360 degree feedback total (only for the 58 senior and strategic leadership positions) was closely scrutinised to review the shift in leadership style year on year. In situations where a leader required specific training on skills/competencies enhancement, he or she was sponsored time-off to enrol in courses with premier institutions and workshops to acquire and practice the skills back at the workplace.

REFERENCES

1. Contributed by Sadhna Dash, Head, HR, with a BPO company headquartered at Bangalore. She is my co-author for *International Human Resource Management*, published by TMH. She may be contacted at sadhna_dash@yahoo.com.
2. Charles R. Greer, *Strategic Human Resource Management*, Pearson, 2002, p. 30.
3. Charles R. Greer, *op. cit.*, p. 267.
4. *The Financial Express*, July 29, 2004.
5. Sudhi Sudarsanam, *Creating Value from Mergers and Acquisitions*, Pearson, 2003, p. 537.
6. Chris Henry, *Human Resource Management-Strategic Approach to Employment*, BH Contemporary Business Series, London, 1995, pp. 441–443.
7. Cynthia D. Fisher, *et. al.*, *op. cit.*, p. 22.
8. *Business Today*, January 16, 2005.
9. Sarah Abraham, “Work place”, *Business India*, April 24–May 7, 1995.
10. Gareth R. Jones, *Organisational Theory*, Pearson Education, 2000, p. 511.
11. Colin Rye, *Change Management*, Kogan Page, 2001, p. 6.
12. Debra L. Nelson and James Campbell Quick, *Organisational Behaviour*, Thomson, 2003, p. 611.
13. Dave Ulrich, *Human Resource Champions*, Harvard Business School Press,

1997, p. 151.

International Human Resource Management

Learning Objectives

After reading this chapter you should have a good understanding of:

- The need of international human resource management
- The differences between domestic and international human resources management
- The basic steps in IHRM
- The key issues involved in international labour relations

Opening Vignettes

1. Getting used to having a Friday rather than the usual Sunday as a weekly off was perhaps hardest to get used to for Arvind Kumar and his family when they moved to Dubai four years ago.

After working in India for 20 years with companies like Asian Paints, Marico and Pepsi, Kumar moved to Dubai in early 2000 with International Foodstuffs Company (IFFCO), an FMCG player that owns the Tiffany brand of confectionary and chocolates. Bitten by the diversity bug, the IIM-A alumnus tried everything that came his way: moving to different companies, functions and industries. Moving overseas and getting global exposure was the next step. A year ago, he moved to Dabur International, a subsidiary of Dabur India, as CEO.

“Dubai’s very convenient. It’s a progressive society and easy to acclimatise to, because 53 per cent are South Asians, half of whom are Indians”, says Kumar, who moved there with his wife and two sons. “From school admissions to domestic help, ethnic stores to a mandir

next door, it had it all and made it very easy to settle down”.

Being a special educator, Kumar’s wife had no problems getting work given that Dubai is a more developed society than India. “Flexibility and opportunities like these require much more effort in India”, says Kumar.

The Kumars got a bit of a culture shock when they first arrived, and it took the family almost 7–8 months to get over it. “Different strata of society behave differently and one felt bewildered at fairly simple things like how to greet someone when visiting their house”.

The Arabs may seem a homogenous culture group to the outside world, but it’s a different state of affairs internally. “It’s actually as variegated as, perhaps, the different states in India. The Lebanese, for instance, are very different from the Emirati, who in turn are very different from the Saudi. These differences manifest themselves in all areas of life including familial relationships, stature of women, work and business ethics, amount of transparency, even attitude to foreigners, more specifically Indians”, says the St. Stephen’s alumnus.

Language can prove to be an issue. Recalls Kumar: “A company wanted to launch a brand of rice popularly known as ‘Mehfil’. In India, the word simply means a gathering of people. But in Dubai, there’s a totally different interpretation of the word—a person who’s the butt of all jokes at a party. The word actually has six different interpretations”.

Given the influx of Indians and Pakistanis, people in UAE are quite conversant with Hindi, but outside of the six GCC countries, language becomes an issue. While the Dubai police may speak in Hindi, Kumar hasn’t been able to pick up any Arabic.

“The holy month of Ramadan was an eye opener. It showed how an entire nation and community, including children, dedicated itself to a month of abstinence. The work schedules, cycle of business, work habits all change drastically and at the end of the month, it’s all back to usual!”

Given that corporate Dubai is a melting point of nationalities and cultural idiosyncrasies, life got interesting for Kumar at various points in time. Here’s one instance from his stint with IFFCO : “I was told to look at a Jordanian for a certain position. He had come through connections within the company. Working through an interpreter, I tried talking to him about areas where he was lacking and what progress needed to be

made. I thought I was being considerate, but that fellow went back and complained bitterly about me, about how I didn't respect the position he came from, etc."

At another time, a subordinate of his—a British—refused to put in extra hours, sticking to the 9-to-5 requirement of his contract with the company. Kumar was under a lot of pressure to build up the business and needed him to work more, but the guy refused to budge from his position. So one day over lunch, Kumar asked him what the matter was and if he had another job offer in hand? The gentleman said he had no job offers and preferred to go back to the UK and drive a forklift, but would not compromise on his work-life balance. Kumar was bewildered at the reply, given that the guy had four kids and was the only earning member of his family.

In fact, the interesting part of his work in Dubai had been the different facets of various nationalities he'd come across. While his American associate was blunt and honest, those from other areas within UAE didn't react as well to direct feedback and criticism. "Europeans in general have the basic discipline of going all out during work hours, and forgetting all after work. They prefer black and white and hate grey areas," says Kumar.

Indians are respected for having good work ethics and coming up with a lot of positive enthusiasm in their jobs. Typically, Indians stick with other Indians while socialising. Initially, Kumar felt a void of having left behind 'age-old relationships' when he moved to Dubai. But things got better when a friend of Kumar from his management trainee days moved there too. They remain friends and neighbours.

2. Jacques Creten, the 40-year-old managing director, Indian sub-continent, for FedEx certainly doesn't feel castaway in India. "This country grows on you". He says, "Typically for expats, the first two years are spent in complaining about the country and the next three years they're worried about having to go back home".

Creten has worked with FedEx in the erstwhile Soviet Union, Africa, Scandinavia, Spain, Turkey, Italy, Poland, Germany and the Middle East before, so he's quite used to cultural diversity. He first visited India in 1995 on an orientation trip, when he was based in Dubai and again in 1996 to set up FedEx operations in India. Three years later,

he moved to Mumbai where he loves everything but the weather. “I’d like to have the Mumbai life with the Belgian climate”, he says.

Creeten is a Belgian. He lives in the suburb of Bandra with his wife and 11-year-old son Bruce, who studies at the American School of Mumbai and is now as Indian as Belgian. “He knows every dirty Hindi word”. says Creeten, adding “He’s a typical expat child. He thinks of taking an airplane like I take a bus”.

It took a while to get used to the Indian culture of working late and coming in on weekends. He feels it’s really the key difference between organisation cultures in Asia and Europe, where work and personal time are clearly segregated: “In Asia the boundaries disappear”. Work for Creeten means extensive travelling and meeting people in the field rather than getting holed up in the office. “You get your best ideas from people who do it every day”, he says.

A perfect evening for Creeten would be one with a close circle of friends, which include other expats as well as Bollywood actors Sunil Shetty and Jackie Shroff, whose children too study in the American School of Mumbai. His favourite restaurants are Indigo and Celini, the new Italian speciality restaurant at the Grand Hyatt, Mumbai. “I’m a real fan of Italian food”. Like most other expats, Creeten too is a curry convert and is fond of Indian cuisine, particularly spicy food. Mention Hyderabadi biryani and his eyes light up. “India is the only place where you can get such a variation of vegetarian food.” He explains that Belgian food has a very young history, influenced by different cuisine like German and French. “It’s typically meat or seafood, creamy sauces, vegetables like white asparagus and chicory, a very typical Belgian vegetable”.¹

Arvind Kumar and Jacques Creeten are typical expats who represent new generation of globe trotters. It is indeed a big challenge for international HR manager to manage —identify, train, compensate and relocate these expatriates. Managing expatriates is but one task of international HR manager. There are other functions too as subsequent pages in this chapter reveal.

Globalisation of business has probably touched the HR manager more

severely than any other functional head. The HR executive needs to give international orientation to whatever he or she does—employee hiring, training and development, performance review, remuneration, motivation, welfare, or industrial relations. International orientation assumes grater relevance as businesses get increasingly interlinked across nations.

Chapters 1 to 25 covered domestic HR activities extensively. This chapter throws light on internationalisation of HR activities.

Just as the success of a domestic business depends on its human resources, so is the case with an international business. The type of people, the willingness with which they work and the commitment they exhibit towards the organisation determine the competitive edge of an MNC in the international market. The international firm may have the best of resources at its headquarters. The resources cannot be effectively utilised or transferred to foreign affiliates without using the human power.²

An international business must procure, motivate, retain, and effectively utilise services of people both at the corporate office and at the foreign plants. The process of procuring, allocation, and effectively utilising human resources in an international business is called international human resources management (IHRM).

IHRM is the interplay among the three dimensions—HR activities, types of employees, and countries of operation³ (See Fig. 26.1).

1. The three broad activities of IHRM, namely procurement, allocation and utilising cover all the six activities of domestic HRM. The six functions of domestic HRM are—HR planning, employee hiring, training and development, remuneration, performance management, and industrial relations. These six functions can be dovetailed with the three broad activities of IHRM.
2. The three national or country categories involved in IHRM activities are—the host country where a subsidiary may be located, the home country where the company has its headquarters, and ‘other’ countries that may be the source of labour or finance.
3. The three types of employees of an international business are—host country nationals, parent-country nationals, and third-country nationals. Thus, for example, IBM which employs Australian citizens in its Australian operations, often sends US citizens to Asia-Pacific countries

on assignment, and may send some of its Singaporean employees to its Japanese operations.

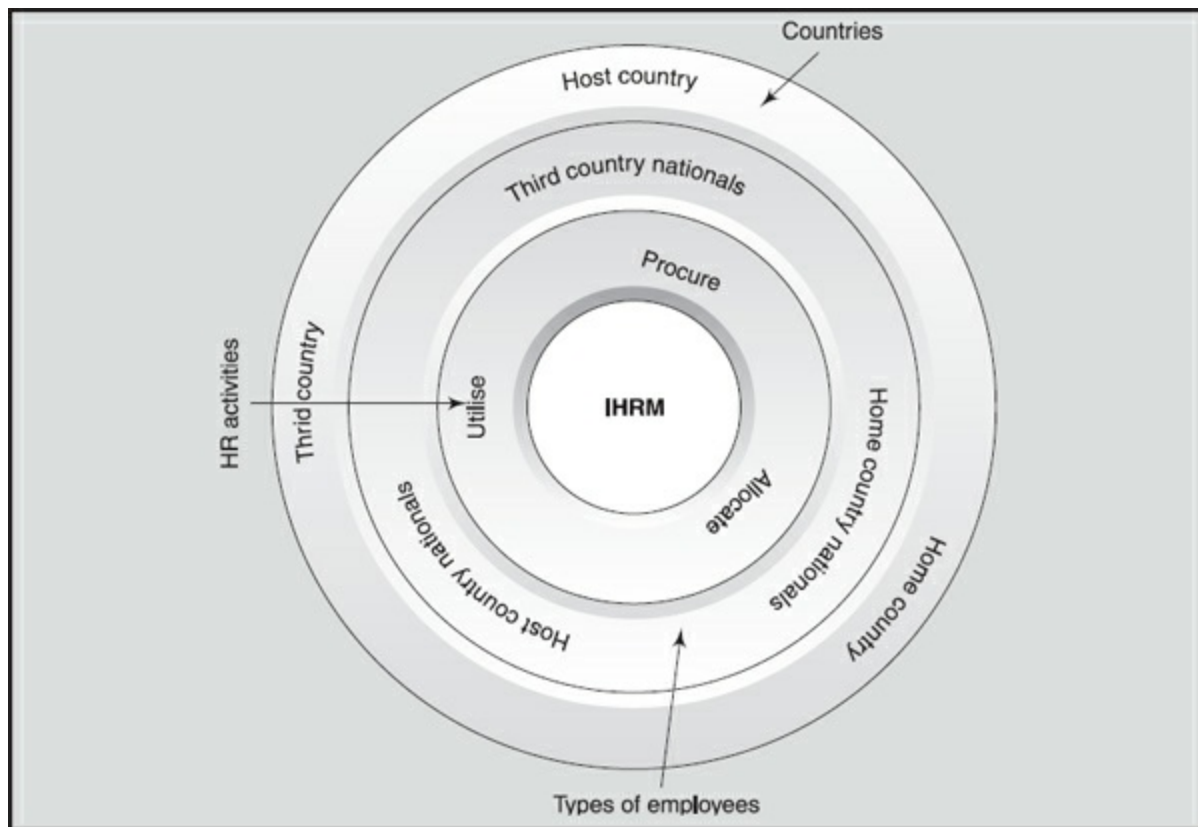


Fig 26.1 Model of IHRM

DOMESTIC HRM AND IHRM COMPARED

Several factors differentiate IHRM from domestic HRM (DHRM). The main differentiators are:⁴

1. More HR activities,
2. Need for a broader perspective,
3. More involvement in employee's personal lives,
4. Changes in emphasis as the workforce mix of expatriates and locals vary,
5. Risk exposure, and
6. More external influences.

More Human Resource Activities

The scope of IHRM is much broader than managing domestic HR activities. There are issues connected with international taxation, international orientation and relocation, administrative services for expatriates, host–government regulations, and language translation services.

Each function of HR has new dimensions in IHRM as shown below:

- Human Resource Planning:
 - (i) Difficulty in implementing HR procedure in host countries.
 - (ii) Difficulty in aligning strategic business planning to HRP and vice versa.
 - (iii) Providing developmental opportunities for international managers
- Employee Hiring:
 - (i) Ability to mix with organisation’s culture.
 - (ii) Ethnocentric, polycentric or geocentric approach to staffing.
 - (iii) Selection of expatriates.
 - (iv) Coping with expatriate failure.
 - (v) Managing repatriation process.
- Training and Development:
 - (i) Emphasis on cultural training.
 - (ii) Language training.
 - (iii) Training in manners and mannerisms.
- Compensation:
 - (i) Devising an appropriate strategy to compensate expatriates.
 - (ii) Minimising discrepancies in pay between parent, host and third country nationals.
 - (iii) Issues relating to the reentry of expatriates into the home country.
- Performance Management:
- Compensation:
 - (i) Constraints while operating in host countries need to be considered
 - (ii) Physical distance, time differences and cost of reporting system add to the complexity.
 - (iii) Identification of raters to evaluate subsidiary performance.
- Industrial Relations:
 - (i) Who should handle industrial relations problem in a subsidiary?

- (ii) What should be the attitude of parent company towards unions in subsidiary?
- (iii) What should be union tactics in subsidiaries?

Thus, the list goes on. Be it employee selection, training or compensation, IHRM adds to new dimensions which are not being felt or being observed in DHRM.

Need for Broader Perspective

When compared to domestic HRM, IHRM requires a much broader perspective on even the most common HR activities. For example, while dealing with pay issues, the corporate HR manager must co-ordinate pay systems in different countries with different currencies that may change in relative value to one another over time. While handling fringe benefits too, complications tend to arise. It is a common practice in most countries to provide health insurance to employees and their families. The family in some countries is understood to include the employee's spouse and children. In other countries, the term 'family' may encompass a more extended group of relatives—multiple spouses, aunts, uncles, grandparents, nephews, and nieces. It is a difficult task for an international business to deal with the different definitions of family.

Any activity of IHRM needs a broader perspective because HR managers working in the global environment face the problem of designing and administering programmes for more than one country (see Exhibit 26.1).

Exhibit 26.1 HRM in the Asia-Pacific Region

The *Far Eastern Economic Review* recently undertook an extensive survey of its subscribers in ten Asia-Pacific countries. There were some large differences between countries in which HR practices were seen as most legitimate. Some of the findings of most interest are highlighted below.

Gender-based pay About one-third of respondents agreed that a family man should be paid more for the same job than a single woman. This belief was especially strong in Korea, Singapore, Japan and Indonesia. However, the conviction seems to be weak and is almost uniformly opposed by

female employees in Asia.

Nepotism Traditionally, hiring relatives has been an accepted practice, especially in smaller businesses. However, this is changing, especially in Hong Kong and Singapore, where non-relatives are seen as being easier to manage. As for romance at work, Koreans see it as a natural social development, while Indonesians, Malaysians, and Filipinos feel that becoming romantically involved with co-workers is inappropriate.

Overtime When the workload increases, Australian and Singaporean firms are most likely to add staff, while Korean and Japanese firms are most likely to insist that existing staff work longer hours.

Promotions Respondents were asked whether or not they agreed that promotions should be based on length of service, rather than on merit or other factors. The percentage of respondents agreeing with this statement in each of the ten countries is shown below:

4%	Australia
10%	Hong Kong
14%	Philippines
17%	Malaysia
22%	Singapore
28%	Indonesia
31%	Japan
34%	Thailand
36%	Taiwan
40%	Korea

In keeping with the Korean emphasis on seniority as the basis for promotion, 35 per cent of the Koreans also believed that employees should stay with the same employer for life. In contrast, only 3 per cent of western expatriates in Asia believed in this type of loyalty.

MNCs operating in these countries need to be aware of varied perceptions and they should consider modifying their policies to some extent to suit local sentiments.

More Involvement in Employee's Personal Lives

A greater degree of involvement in the employee's personal lives is necessary for the selection, training and effective management of both parent-country and third-country nationals. The HR department needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of remuneration packages provided for the foreign assignment. Many international businesses maintain an "International Human Resource Service" section that co-ordinates administration of the above programmes and provides service for the parent-country and third-country nationals such as handling their banking, investments, home rental while on assignment, co-ordinating home visits, and final repatriation.⁵

Involvement of the HR department in the personal lives of the employees is limited in domestic HRM. The firm may, for example, provide employee insurance programme, or when a transfer is involved, the HR department may provide some assistance in relocating the employee and his or her family. But in the international setting, the HR department must involve itself more and understand the personal lives of employees to provide the service and support needed by them. For example, some governments ask to submit a marriage certificate before granting visa to an accompanying spouse. Thus, marital status could become an important consideration in the selection process. In such a situation, the HR department should advise all candidates being considered for the positions of the host-country's visa requirement with regard to marital status and allow each candidate to decide whether he or she wishes to remain in the selection process. Apart from providing suitable housing and schooling in the assignment location, the HR department may also need to assist children left behind at boarding schools in the home country. These issues do not figure in domestic HR management.

Changes in Emphasis

As an international business matures, the emphasis placed on various HR activities change. For example, as the need for parent-company and third-country nationals declines and more trained locals become available, resources previously allocated to areas such as expatriate taxation, relocation,

and orientation are transferred to activities such as staff selection, training, and management development. The latter activity may require establishment of a programme to bring high-potential local staff to corporate headquarters for development assignments. The need to enhance emphasis in HR activities, as a foreign subsidiary matures, is clearly a factor that broadens the responsibilities of local HR activities.⁶

Risk Exposure

Risk exposure is high in domestic HRM. Unfair hiring practices may result in a firm being charged with the violation of the Constitutional provisions and be liable for penalties. Failure to maintain cordial relations with unions may result in strikes and other forms of labour unrest (Read [Chapter 22](#) for more details). In IHRM, in addition to these risks, there are other hazards that are unique and more threatening. Depending on the countries where the MNC operates, the headquarters and subsidiary HR managers may have to worry about the physical safety of the employees. A student of the author who was sent to Moscow on an assignment, narrated his harrowing experience about how on a chilly night he and his friend were attacked in the apartment by armed gangsters and were robbed of the belongings completely. An American engineer Paul Johnson was beheaded in Saudi Arabia in June 2004. Two Indians—Kutty and Suyanaryana were kidnapped and killed in Afghanistan in 2006. In many countries kidnapping and terrorism are common and the international HR managers must learn to live with them. Terrorism poses a great risk to international operations. The cost of kidnapping may run to \$2 million to \$3 million, and it is found that there are 10,000 to 15,000 kidnappings a year worldwide. In India the number of kidnappings and ransom demands (K & Rs) rose from 15750 in 2005 to 23991 in 2006, a jump by 52 percent. The country has been rated as 6th among the top 10 worst record holders in K & Rs. Firms are, therefore, forced to spend 1 to 2 per cent of their revenues on protection against terrorism. These are not the problems usually confronted by domestic HR managers.

Companies maintain separate establishment to handle global workforce. TCS has a strong 450 HR team for the purpose. The IT major hires 100 people per day in its global offices. Wipro has 250 HR team.

The HR department may also be required to devise emergency evacuation procedures for highly volatile assignment locations. The invasion of Kuwait and the ensuing Gulf War in 1991 is an example of such a situation.

Besides these risks, it has been estimated that an average expatriate manager, with family, costs an MNC nearly \$2,50,000 (US) per year and that rates for American Expatriate managers have ranged from 25 to 40 per cent between 1965 and 1985. If managers do not perform well and must be recalled to the home country, their failure represents huge financial losses for the firms. The risks associated with the poor selection decisions are high.⁷

Yet another risk is that of expropriation or seizure of MNC's assets in a foreign country. If HR policies antagonise the host-country unions or important political groups, the MNC may be asked to leave the country, have its assets seized, or find the local government taking the majority control of its operations. This is not the sort of risk that most domestic HR managers face.

External Influence

The IHRM activities are influenced by a greater number of external factors than are domestic HRM functions. Because of the visibility that the international businesses tend to have in host countries (particularly in developing countries), the subsidiary HR managers may have to deal with ministers, political figures, and a greater variety of economic and social interest groups than domestic HR managers would normally encounter. A host-country government can dictate hiring procedures as is the case in Malaysia. During the 1970s, the Malaysian government introduced an injunction according to which foreign firms must comply with an extensive set of affirmative action rules designed to provide additional employment opportunities for the Malaysians.

In developed countries, labour is more expensive and better organised than in less developed countries, and governments require compliance with guidelines on issues such as labour relations, taxation, health, and safety. These factors shape the activities of the subsidiary manager considerably. The subsidiary HR manager also needs to spend time learning and interpreting the local ways of doing business and the general code of conduct regarding activities such as giving gift. It is also likely that the subsidiary HR

manager will become more involved in administering benefits such as housing, education, and other facilities that are readily available in the host country.

GROWING INTEREST IN IHRM

The following reasons have contributed to the growing interest in IHRM:⁸

- Globalisation of business has added to the number of multinational enterprises across the globe resulting in greater mobilisation of human resource.
- The effective management of human resources is increasingly being realised as a major determinant of success or failure in international business.
- Underperformance or failure in overseas assignments is costly, both in human and financial terms, and the indirect costs of poor performance in international assignments such as damage to foreign customer relations may be particularly costly.
- The implementation of international strategies is often constrained by the absence of competent managerial personnel to man overseas assignments which results in decreased interest in setting up subsidiaries.
- The movement away from more traditional hierarchical organisational structures towards the network organisation has been facilitated by the development of networks of personal relationships and horizontal communication channels. It is no secret that HR plays a more significant role in network organisations.
- Finally, HR plays a significant role in implementation and control of strategies in an international business. It is the implementation of strategies that is more crucial than crafting them. Implementation of strategies is not possible through structural innovation but can be done with radical organisational cultures. Cultures are built by proactive HR policies and actions.

MANAGING INTERNATIONAL HR ACTIVITIES

Managing international HR activities is an elaborate and complex task. [Figure 26.2](#) outlines the basic steps involved in international HR activities.

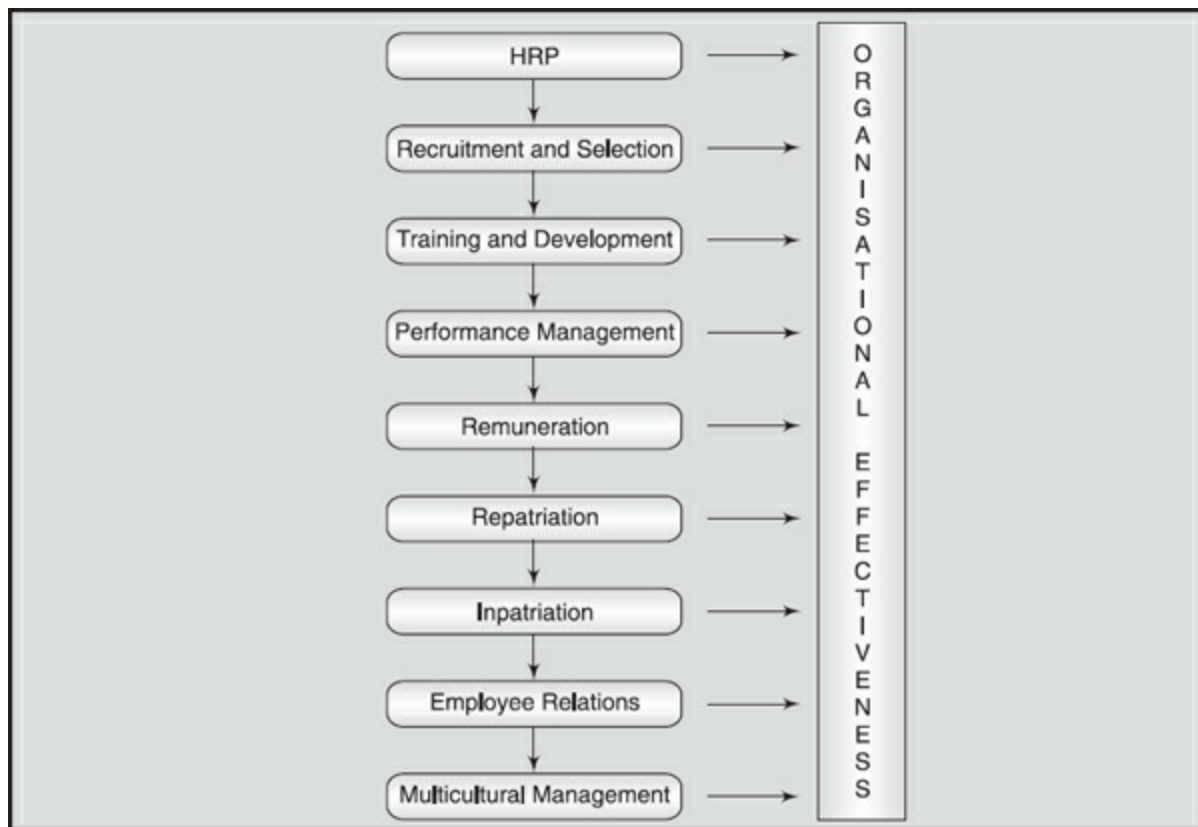


Fig 26.2 *Basic Steps in International HRM*

HR Planning (HRP)

HRP assumes greater relevance in international businesses where efficient use of human resources is necessary to realise strategic global objectives. But the implementation of HRP procedures may be difficult in some host countries than in others. In cultures where people are viewed as being basically subjugated to nature, there is very little need for HRP. After all, why plan when people are unable to determine what happens? The implementation of extensive HRP systems in such cultures would be met with bewilderment at best and significant resistance at worst. Likewise, societies that are oriented towards the present would not view long-term planning as valuable. In societies oriented towards the past, planning would tend to focus on purely historical data and the use of these data in predicting

future HR needs. Such an approach might be appropriate for firms that operate in relatively stable environments, but would not work well for firms operating in highly volatile environments, where the past has little to do with the future.

Six other key issues in international HRP are as follows:

1. Identifying top-management potential early.
2. Identifying critical success factors for future international managers.
3. Providing developmental opportunities.
4. Tracking and maintaining commitment to individuals in international career paths.
5. Tying strategic business planning to HRP and vice-versa.
6. Dealing with multiple business units while attempting to achieve globally and regionally focused (e.g. European or Asian) strategies.⁹

Recruitment and Selection

HRP, having done, the international HR manager must proceed with the job of hiring the right number of people of the right type. The international HR manager must not only select people with skills, but also employees who can mix with the organisation's culture. General Electric, for example, is not just hiring people who have skills required to perform particular jobs, it wants to hire employees whose styles, beliefs, and value systems are consistent with those of the firm.

International businesses are said to adopt three approaches to staffing—ethnocentric, polycentric, and geocentric.

Ethnocentric Approach In this approach, all key management positions are held by parent-country nationals. This strategy may be appropriate during the early phases of international business, because firms at that stage are concerned with transplanting a part of the business that has worked well in their home country. This practice was widespread at one time. Firms such as Procter and Gamble, Philips, NV, and Matsushita originally followed the ethnocentric approach. In the Dutch firm Philips, for example, all important positions in most foreign subsidiaries were at one time held by Dutch nationals who were referred to by their non-Dutch colleagues as the Dutch Mafia. In many Japanese and South Korean firms today, such as Toyota,

Matsushita, and Samsung, key positions in international operations are still held by the home-country nationals. According to the Japanese Oversease Enterprises Associations, in 1996 only 29 per cent of foreign Japanese companies had presidents who were not Japanese. In contrast, 66 per cent of the Japanese subsidiaries of foreign companies had Japanese presidents.¹⁰

Pause and Ponder

It is said that being ethnocentric is the basic propensity of human beings. List the areas (managerial as well as personal) where ethnocentrism is being observed.

Polycentric Approach The polycentric staffing requires host-country nationals to be hired to manage subsidiaries, while parent-country nationals occupy key positions at corporate headquarters. Although top management positions are filled by home-country personnel, this is not always the case. For example, many US MNCs use home-country managers to get the operations started, then hand them over to the host-country managers. Hindustan Uniliver Ltd (HUL), the Indian subsidiary of Uniliver, has locals as its chiefs.

Preference for home-country citizens for key positions does not fit into a pattern, unless government interventions dictated selection process. In Brazil, for example, two-thirds of the employees in any foreign subsidiary traditionally had to be Brazilians. In addition, many countries exert real and subtle pressure to staff the upper-management ranks with nationals. In the past, these pressures by host countries have led companies such as Standard Oil to change their approach to selecting managers.¹¹

The Geocentric Approach This staffing philosophy seeks the best people for key jobs throughout the organisation, regardless of nationality. Selecting the best person for the job, irrespective of nationality, is most consistent with the underlying philosophy of a global corporation. Colgate-Palmolive is an example of a company which follows geocentric approach. It had been operating internationally for more than 50 years, and its products are household names in more than 170 countries. Sixty per cent of the company's

expatriates are from countries other than the US. All the top executives speak at least two languages, and important meetings routinely take place all over the globe (See also Exhibit 26.2).

Exhibit 26.2 Global Human Resource Management at Coca-Cola

Coca-Cola is one of the most successful multinational enterprises. With operations in about 200 countries and nearly 80 per cent of its operating income derived from business outside the US, Coca-Cola is typically perceived as the quintessential global corporation. Coca-Cola, however, likes to think of itself as a multi-local company that just happens to be headquartered in Atlanta but could be headquartered anywhere and that presents the Coca-Cola brand with local face in every country where it does business. The philosophy is best summarised by the phrase “think globally, act locally”, which captures the essence of Coca-Cola’s cross border management mentality. Coca-Cola grants national businesses the freedom to conduct operations in a manner appropriate to the market. At the same time, the company tries to establish a common mindset which all its employees share.

Coca-Cola manages its global operations through 25 operating divisions that are organised under six regional groups—North America, the European Union, the Pacific Region, the East Europe/Middle East Group, Africa, and Latin America. The corporate HRM function is charged with providing the glue that binds these various divisions and groups into the Coca-Cola family. It achieves this in two main ways—(1) by propagating a common HR philosophy within the company; and (2) by developing a group of internationally minded mid-level executives for future senior-management responsibilities.

The corporate HRM group sees its mission as a developing one and providing a underlying philosophy around which local businesses can develop their own HR practices. For example, rather than having a standard salary policy for all its national operations, Coca-Cola has a common salary philosophy—the total compensation packages should be competitive with the best of the companies in the local market. Twice a year the corporate HRM group also conducts a two-week HRM orientation session for the HR staff from each of its 25 operating divisions. These sessions give an

overview of the company's HRM philosophy and talk about how local business can translate that philosophy into HR policies. Coca-Cola has found that information sharing is one of the great benefits of bringing HRM professionals together. For example, tools that have been developed in Brazil to deal with a specific HRM problem might also be useful in Australia. The sessions provide a medium through which HRM professionals can communicate and learn from each facilitates other, which facilitates the rapid transfer of innovative and valuable HRM tools from region to region.

As much as possible, Coca-Cola tries to staff its operations with local personnel. To quote one senior executive, "We strive to have a limited number of international people in the field because generally local people are better equipped to do business at their home locations". However, expatriates are needed in the system for two main reasons. One is to fill the need for a specific set of skills that might not exist at a particular location. For example, when Coca-Cola started its operations in eastern Europe, it had to bring in an expatriate from Chicago, who was of Polish descent, to fill the position of the finance manager. The second reason for inducting an expatriate is to improve the employee's own skill base. Coca-Cola believes that since it is a global company, senior managers should have had international exposure.

The corporate HRM group has about 500 high-level managers involving in its global service program. Coca-Cola characterises these managers as people who have knowledge of their particular field, plus knowledge of the company, and who can do two things in an international location—add value by the expertise they bring to each assignment, and enhance their contribution to the company by having international experience. Of the 500 participants in the programme, about 200 move each year. To ease the costs of transfer of these employees, Coca-Cola gives those in its global service programme, a US-based compensation package. They are paid according to US benchmarks, as opposed to the benchmark prevailing in the country in which they are located. Thus, an Indian manager in this program who works in Britain will be paid according to US salary Benchmark, and not those prevailing in either India or Britain. An ultimate goal of this programme is to build a cadre of internationally minded high-level managers from which the future senior managers of Coca-Cola will be

drawn.

Source: Charles W.L. Hill, *International Business*, p. 562–563.

International businesses have choices of hiring three categories of employees—parent country nationals (PCNs), host country nationals (HCNs) and third country nationals (TCNs). [Table 26.1](#) brings out the advantages and disadvantages of each choice.

Table 26.1 *The Advantages and Disadvantages of Using PCNs, TCNs and HCNs*

	<i>Advantages</i>	<i>Disadvantages</i>
PCNs	<ul style="list-style-type: none"> ● Familiarity with the home office, goals, objectives, policies and practices. ● Easy organisational control and coordination. ● Promising managers are given international exposure. ● PCNs are the best people for assignment because of special skills and experiences. 	<ul style="list-style-type: none"> ● Difficulty in adapting to the foreign language and the socio-economic, political, cultural and legal environment. ● Excessive cost of selecting, training and maintaining expatriate managers and their families abroad. ● Promotional opportunities for HCNs are limited. ● PCNs may impose an inappropriate HQ style. ● Compensation for PCNs and HCNs may differ. ● Family adjustment problems, especially concerning the unemployed spouses.
HCNs	<ul style="list-style-type: none"> ● Familiarity with the socio-economic, political and legal environment and with business practices in the host country. ● Lower cost incurred in hiring as compared to PCNs and TCNs. ● Promotional opportunities to locals and consequently their motivation and commitment. ● Responds effectively to the host country's demands for localisation of the subsidiary's operations. ● Languages and other barriers are eliminated. ● Continuity of management improves, since HCNs stay longer in positions. 	<ul style="list-style-type: none"> ● Difficulty in exercising effective control over the subsidiary's operations. ● Communication difficulties in dealing with home office personnel. ● Lack of opportunity for the home country's nationals to gain international and cross-cultural experience. ● HCNs have limited career opportunity outside the subsidiary. ● Hiring HCNs may encourage a federation of nationals rather than global units
TCNs	<ul style="list-style-type: none"> ● Salary and benefit requirements may be lower than for PCNs. ● TCNs may be better informed than PCNs about host country environment. ● TCNs are truly international managers. 	<ul style="list-style-type: none"> ● Host country government may resent hiring TCNs. ● TCNs may not want to return to their own countries after assignment. ● Host country's sensitivity with respect to nationals of specific countries. ● HCNs are impeded in their efforts to upgrade their own ranks and assure responsible positions in the multinational subsidiaries.

Pause and Ponder

Between PCNs and HCNs, which do you prefer? Why? What industry and subsidiary characteristics do influence your choice?

HCNs or PCNs

Keeping aside the TCNs, what is the choice between HCNs and PCNs for heading subsidiaries in foreign locations? [Table 26.2](#) summarises the factors influencing the choice. The factors fall into four categories: Parent country, industry, subsidiary and host country variables.

Table 26.2 *Factors Favouring PCN_s or HCN_s*

A. Parent Country Characteristics	Cultural distance between parent unit and subsidiary, size of operations, research intensity.
B. Industry Characteristics	Financial institutions, need for control, need to customise
C. Subsidiary Characteristics	Age, acquired or green field project, performance, ownership pattern
D. Host Country Variables	Education levels, political risks, cost of living.

With regard to parent country characteristics, MNCs prefer home country nationals to head subsidiaries where culture distance is high. This is necessary to maintain unified corporate culture. Size is positively related to the preference of PCNs. Larger MNCs have more PCNs as heads of subsidiaries since they have managerial resources and are more likely to have a formal management development programme around the world. Similarly, MNCs that are more research intensive tend to deploy talent from head office to subsidiaries so that locals may be trained.

With regard to industry characteristics, the tendency is to have more PCNs as heads of subsidiaries in banking, security brokering and publishing and printing industries. The need to exercise greater control and the need to understand local needs force the dominance of PCNs in banking and their low presence in advertising industries, respectively.

Subsidiary characteristics too influence the choice of PCNs or HCNs. A newly set up subsidiary tends to attract PCNs to establish systems and procedures. Where a subsidiary is acquired, tendency is to have more of HCNs. PCNs tend to dominate, if a subsidiary occupies a strategic role. Fully owned subsidiary occupies strategic importance and hence tends to attract

more PCNs. Where subsidiary performance is slackening, headquarter's intervention through PCNs becomes a necessity.

PCNs need to be expatriated to staff subsidiary if education level in the host country is low and skilled people are not available. Besides, a high level of political risk in the host country is likely to make direct control through PCNs more important. Where cost of living in the host country is lower, it is advantageous to employ HCNs for top positions in subsidiaries.

THE EXPATRIATE PROBLEM

Of the three staffing policies we discussed above, two of them, namely, ethnocentric and geocentric approaches and two categories of employees, viz., PCNs and TCNs, rely on extensive use of expatriate employees working outside their home country with a planned return to that or a third country. As expatriates play a major role in international businesses, MNCs take great care in their selection process. [Figure 26.3](#) is a model of the life-cycle of an expatriate assignment. It involves a process of determining the need for an expatriate assignment, identifying and then selecting likely candidates, pre-assignment training, departure, post arrival orientation and training, crisis and adjustment of crisis and failure, reassignment abroad, and/or repatriation and adjustment.

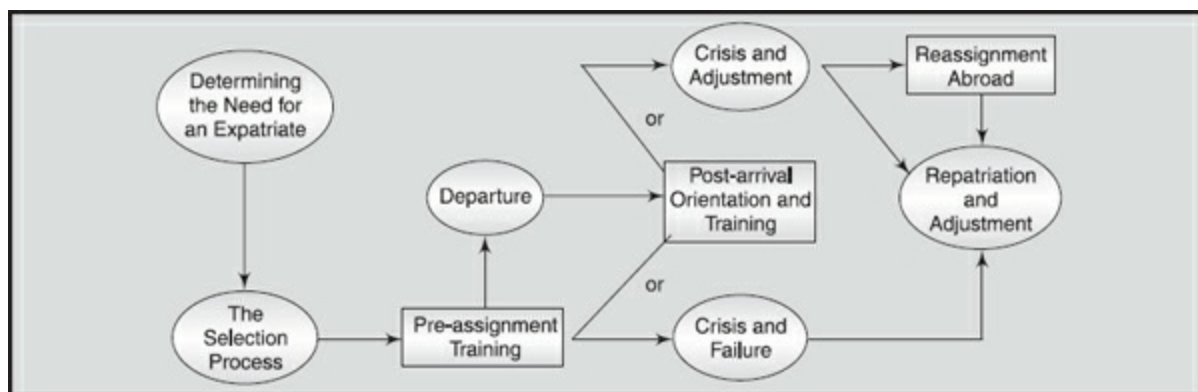


Fig 26.3 *The Expatriate Assignment Life Cycle*

Source: Cynthia D. Fisher, et al, *Human Resource Management*, p. 781.

A major problem connected with expatriates is their premature return to their home country. Popularly called expatriate failure, the subject has

assumed considerable importance in the literature on international business. As stated earlier, expatriate failure results in considerable losses to MNCs. Several reasons have been assigned to explain why people return home before the assignment period expires. [Table 26.3](#) summarises the cause for expatriate failure.

Table 26.3 *Reasons for Expatriate Failure (in Descending Order of Importance)*

<i>US Firms</i>	<i>Japanese Firms</i>
<ul style="list-style-type: none"> • Inability of spouse to adjust • Manager’s personal or emotional maturity • Other family reasons • Manager’s inability to adjust responsibilities • Inability to cope with larger international 	<ul style="list-style-type: none"> • Inability to cope with larger international responsibilities • Difficulties with the environment • Personal or emotional problems • Lack of technical competence • Inability of spouse to adjust

Source: Peter. J. Dowling, *et al.*, *op cit.* p. 82.

One of the reasons for expat failure is his/her inability to adjust to host country culture. Expat’s cultural adjustment typically comprises three stages (see [Fig. 26.4](#)). The U-shaped curve starts with a high suggesting that the expat enjoys a great deal of excitement, as he/she discovers the new culture. This stage is called the *tourist stage*. Business travellers, as compared with expatriates, often have the luxury of remaining at this stage. This initial phase is followed by a period of *disillusionment* (second stage) in which the expatriate’s mood descends as the difficulties with the new culture become clear. These difficulties typically include an inability to converse well in the local language, problems in obtaining certain products and food supplies of personal preference, home sickness and so on. In this stage the curve hits bottom and is characterised by what is called *culture shock*.

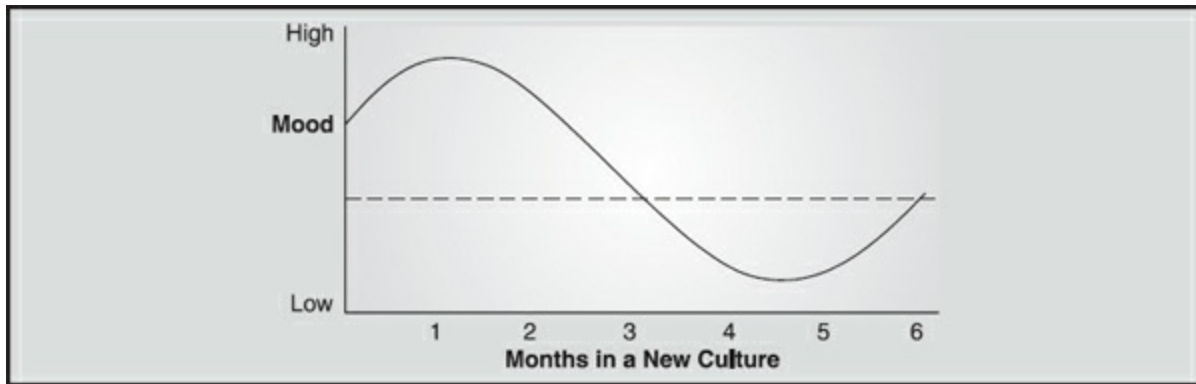


Fig 26.4 *Culture Shock Cycle*

Culture shock is explained in terms of its disruption to established routines of behaviour. The more routines that are disrupted, the more severe is the culture shock. In addition, the more critical the routine that is disrupted, the greater mental energy is required to adjust, and the greater the frustration, anxiety and anger. Culture shock is a critical stage, and how the individual copes with the psychological adjustment in this phase has an important outcome in terms of success or failure.

If culture shock is handled successfully, the expatriate enters the third stage, which may be called the *adapting* or *adjustment* phase. He/she begins to feel more positive, works more effectively and lives a more satisfying life. Neither the highs of tourist stage nor the lows of culture shock phase usually mark this adaptive phase. If culture shock is not handled successfully, the expatriate's work performance deteriorates and he/she will eventually return home having not really done the job well or enjoyed the time spent abroad.

One way to reduce expatriate failure is by improving selection procedures to eliminate inappropriate candidates. The first step in this direction is to delineate the selection criteria for selecting expatriates. [Figure 26.5](#) illustrates the factors involved in expatriate selection, both in terms of the individual and the specific demands of the situation concerned.

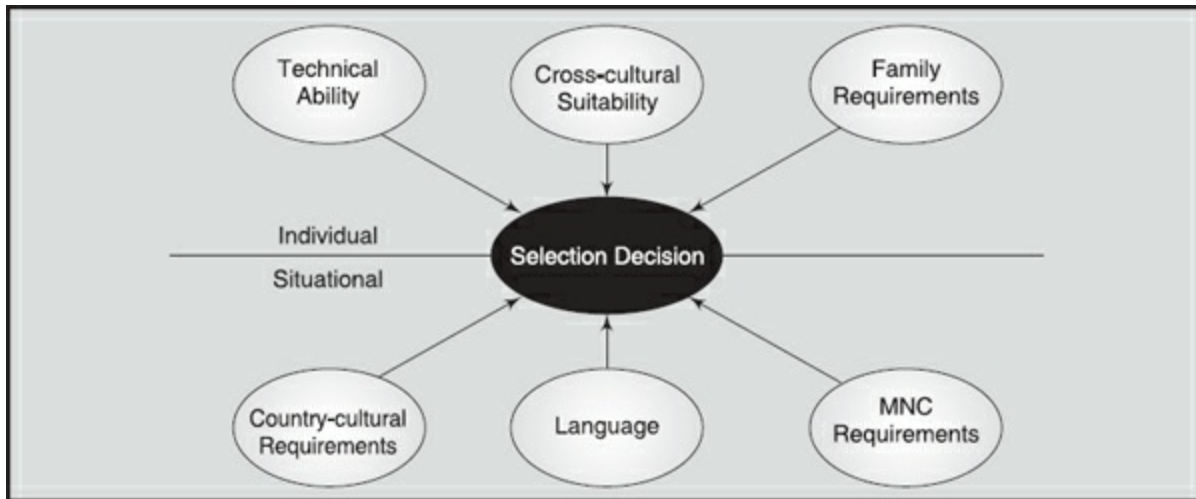


Fig 26.5 *Factors in Expatriate Selection*

Source: Peter J. Dowling, *et al.*, *op cit.*, p. 85.

Technical ability refers to the ability of a person to perform the required tasks. International firms place heavy reliance on relevant technical skills during the expatriate selection process. *Cross-cultural suitability* includes adjustability of the expatriate to operate in a new environment. Cultural abilities required include cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability and maturity.

Another requirement for expat success is *family requirement*. This refers mainly to the adjustment of spouse. It is now clear (see opening case) that the success of Arvind Kumar, an expat, owes as much to his wife as his own capabilities. The host country is an important factor when we talk about *country/ cultural requirements*. Certain countries or regions are considered “hardship postings”— remote areas away from major cities or modern facilities, or war-torn regions with high physical risk. There may be reluctance to select females for certain Middle East or South East Asian regions. Some countries do not issue work permit for a female.

MNC requirements influence expat selection. Duration of the assignment and philosophy of staffing are the two criteria that are crucial in this context. *Language* skills also decide on expat selection. When we say language, we refer to the language of the host country. Knowledge of the host country language adds to the performance of the expat.

The final step in improving the selection process of an expatriate is to use

appropriate tests to select or reject aspirants. Generally, personality and psychological tests are used in the selection process, but the effectiveness of such tests is questioned. Many HR managers tend to equate domestic performance with overseas performance potential. But the two are not same. An executive who performs well in domestic settings may not be adept to managing in a different cultural environment.

Figure 26.6 contains selection criteria and selection methods used by international businesses. The figure also includes all those criteria which were listed in Fig. 26.5.

Broadly, the selection criteria include professional/technical skills, relational abilities, international motivation, family situation and language skills. Each of these carries with it several specific criteria as shown in Fig. 26.6.

International businesses use a combination of selection methods to identify people with the appropriate talent for overseas posting. Some popular techniques include interviews, standardised tests of intelligence or technical knowledge, assessment centres, biographical data, work samples and references.

As globalisation gets intensified, expats become a reality, problems associated with them notwithstanding. Table 26.4 shows the presence of expatriates occupying senior positions in Indian companies

Table 26.4 *Swadeshi, No Videshi, Yesh: Expats in Indian Companies*

<i>Expat</i>	<i>Company and Designation</i>
Carl-Peter Forster (German)	CEO with Tata Motors
Ralf Spetch (German)	
Team of Germans	Engineers at Bajaj Auto
Two US Nationals	Executives at Mahindra & Mahindra
Marten Pieters (Dutchman)	Vodafone Essar Ltd
Carol Borghesi (Canada)	Director-Customer Services, Bharat Airtel
David Nishball (US)	Heading Enterprise Service Division at Bharti Airtel

Joachim Horn (US)	Executive Director Network Services, Bharti Airtel
Anterco Malkki	CEO at Welspun Stahl Rohren Ltd
Russel Berman	CEO at Aditya Birla Retail
Anderon Derby	Overseeing supermarkets Business at Aditya Birla Retail
Gwyn Sundhagul (and 14 others), Thailand	Reliance Retail Ltd.
Woffgang Prock-Schauer Schauer (Austrian)	CEO at Jet Airways (2003-09)
Nikos Kardassis (American)	CEO at Jet Airways
Gustav Baldauf (Austrian)	COO at National Aviation Co.
100 Expats	Middle and Senior Level Managers at Infosys
Martha Bejar	Head Global Sales and Operations at WIPRO

Total Expatriates in India as on Dec 31, 2008—20,394

Total expatriates in China in 2003 – 1,50,000

(Source: Mint, May 17, 2010)

Key Success Factors	Selection Methods					
	Inter-views	Standard-ised Tests	Assessment Centres	Biographical Data	Work Samples	References
<i>Professional / technical skills</i>						
● Technical skills	✓	✓		✓	✓	✓
● Administrative skills	✓		✓	✓	✓	✓
● Leadership skills						
<i>Relational abilities</i>						
● Ability to communicate	✓		✓			✓
● Cultural tolerance and empathy	✓	✓	✓			
● Tolerance for ambiguity	✓		✓			
● Flexibility to adapt to new behaviours and attitudes	✓		✓			✓
● Stress adaptation skills	✓		✓			
<i>International motivation</i>						
● Willingness to accept expatriate position	✓			✓		
● Interest in culture of assignment location	✓					
● Commitment to international mission	✓					
● Fit with career development stage	✓			✓		✓
<i>Family situation</i>						
● Spouse's willingness to live abroad	✓					
● Spouse's relational abilities	✓	✓	✓			
● Spouse's career goals	✓					
● Children's educational requirements	✓					
<i>Language skills</i>						
● Ability to communicate in local language	✓	✓	✓	✓		✓

Fig 26.6 Expatriate Success Factors and Selection Methods

Source: John B. Cullen, *Multinational Management*, South Western, 1999, p. 426.

India is attracting more and more expats as MNCs having subsidiaries here view the country as strategically critical. Market leaders such as LG, Suzuki, IBM and Samsung have seen the number of expats in their Indian subsidiaries swell. Nokia has nearly 100 Finns at key positions in India. Samsung has 25 Koreans, LG 30 Koreans, Maruti 15 Japanese and Huawei has 125 Chinese working at their respective operations in India.

Pause and Ponder

What is the track-record of Indians as expats?

Training and Development

After selection, the next step in IHRM is to train and develop new hires, particularly for those who are expected to be posted overseas.

A few commonly understood objectives of training in the multinational corporations are:

1. Bridging the cultural gaps between the host and the parent organisations.
2. Recognising that orientation/induction challenges are different for the parent and the host unit.
3. Ensuring that organisational success is critical in achievement of global objectives.
4. Building a united corporate culture across subsidiaries.

An expatriate needs pre-departure training before leaving for foreign assignment. As noted earlier, training is one of the ways of reducing expatriate failure rate. An expatriate needs cross culture training, language training, and practical training.

Cross Cultural Training (CCT) CCT seeks to foster an appreciation for the host country's culture. The belief is that understanding the host country's culture will help the manager empathise with the culture, which will enhance his or her effectiveness in interacting with host-country citizens. An expatriate should receive training in the host country's culture, history, politics, economy, religion, and social and business practices. If possible, it is also advisable to arrange for a familiarisation trip to the host country before the formal transfer, as this is likely to ease a likely cultural shock. Given the problems related to adaptation of spouse in the host country's, it is important that the spouse and perhaps the whole family, be included in the training programmes. Often, CCT includes counselling on return to home base to prevent reverse culture shock.¹²

CCT is receiving considerable attention now as more and more managers are required to travel around the globe frequently on business deals. In 1994 the Japanese spent \$17 million in business etiquette training. Nearer at home, firms which have recognised the importance of CCT are Mafatlal, O.P Jindal Group, Reckitt & Coleman India, and Ranbaxy.

[Table 26.5](#) bring out the benefits and problems of CCT.

Table 26.5 *Benefits and Drawbacks of CCT*

<i>Merits</i>	<i>Demerits</i>
<ul style="list-style-type: none"> • Increases chances of success in global assignment • Provides a comprehensive global perspective for managers • Instills a sense of confidence into people • Foreign employees can be managed better • Reduces culture shock 	<ul style="list-style-type: none"> • Develops a false sense of confidence among expatriates • May not remove cultural biases and prejudices • May not be taken seriously by the recipients • May not make a visible difference on business volumes • Can never fully prepare an assignee to face real problems

Language Training Language training is a seemingly obvious and desirable component of a predeparture programme. One weakness of many MNCs is that they do not give attention to the importance of language training. English is the primary language of international businesses, and most expatriates from all the countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English speaking countries like China. It may be reiterated that willingness to communicate in the host-country language will help build rapport with local employees and improve the expatriate's effectiveness. What Reliance has done is worth recollecting in this context. The company has hired 1800 Chinese engineers to lay their gas grid in India. It has started training Indians in Chinese language so that they can easily converse with the Chinese engineers. Hence language training is important.

Practical Training Practical training seeks to help the expatriate manager and family feel 'at home', in the host-country. Sooner the expatriate settles down, better are the prospects that he/she and his/ her family will adapt successfully. One important need is for a support network of friends. Where an expatriate community exists, firms often try to integrate the new expatriate family quickly into that group. The expatriate community can be a useful source of support and information, and can help the family to adapt to an alien culture.

Training expatriates before their departure to overseas assignment cannot

be over-emphasised. An extreme and tragic case highlights the importance of exposure and training for international assignments. Management staff of an oil company operating in the Pacific assigned young local workers to supervisory roles over considerably older workers. Within one week, all supervisors were discovered dead. They were murdered. The expatriate managers were unaware that status in this region was related to age. This tragedy could have been averted by training managers to re-orient their perspective when appointing locals in a foreign culture, and providing them with right orientation.¹³

Management Development and Strategy MNCs use management development as a strategic tool. This is particularly true in firms pursuing a multinational strategy which is a common feature among firms these days. Such firms need a strong, unifying corporate culture and informal management networks to assist in co-ordination and control. In addition, MNCs need to be able to detect pressure to conduct business in a locally-responsive manner. This obviously demands knowledge about country culture.

Management development programmes help build corporate culture by encouraging new managers to socialise and imbibe the values and norms of the firm. In-house training programmes and intense interaction during off-site training can foster esprit-de-corps, shared experiences, informal networks, perhaps a company language of jargons, as well as competencies. These training courses often include songs, picnics, and sporting events that promote feelings of togetherness. These rites of integration may include initiation rites where personal culture is stripped, company uniforms are donned, and humiliation is inflicted. All these activities are aimed to strengthen a manager's identify with that of the company.¹⁴

Bringing managers together in one location for extended periods and rotating them through different jobs in several countries help the firm build an informal management network. An example in this context is Ericsson, a Swedish telecommunications company. Interunit co-operation is extremely important at Ericsson, particularly for transferring know-how and core competencies from the parent company to its subsidiaries, from subsidiaries to the parent, and among the subsidiaries themselves. To facilitate co-operation, Ericsson transfers large numbers of people back and forth between

headquarters and subsidiaries. Ericsson sends a team of 50–100 engineers and managers from one unit to another for a year or two. This establishes a network of interpersonal contacts. This philosophy is effective for both giving shape to a common culture in the company and co-ordinating the firm's globally dispersed operations.¹⁵

HCN Training

It is not that an expatriate alone needs to be trained. A HCN who is tipped to head a subsidiary should also be trained. In selecting a host country national for a subsidiary, the focus is on ascertaining the technical and managerial fit for the role. In preparing a host country national for the assignment, the priority in training is the knowledge and the awareness of the parent company, beginning with the history and genesis of the organisation, connecting with its vision/mission, goals and the specific objectives of the subsidiary. Specifically, HCN training should focus on:

- gaining knowledge about the parent organisation and its global presence and objectives.
- acquisition of technical know-how specific to the organisation.
- role of the subsidiary in the MNCs road map both from the technological as well as corporate cultural perspective.
- general awareness of the parent country cultural norms.

Performance Management

One of the most challenging tasks of IHRM is managing the performance of a firm's various international facilities. While recruitment, selection, and training and development tend to focus on preassignment issues, performance management looks at post-assignment performance-related issues.

Performance management may be understood as a process that enables an MNC to evaluate and facilitate continuous improvement of individuals, subsidiary units, and corporate performance, against clearly-defined, pre-set goals and targets.¹⁶ Obviously, performance management is comprehensive in as much as it includes assessment of the performance of not only individuals but the activities of the firm and its subsidiaries too. But we focus mainly on assessment of expatriate performance.

In the international context, expatriate performance management comprises several steps: linkage with organisational strategy, setting performance goals, identifying variables impacting performance, appraising the performance, providing feedback, offering opportunities for improvement and linking results with rewards (see Fig. 26.7).

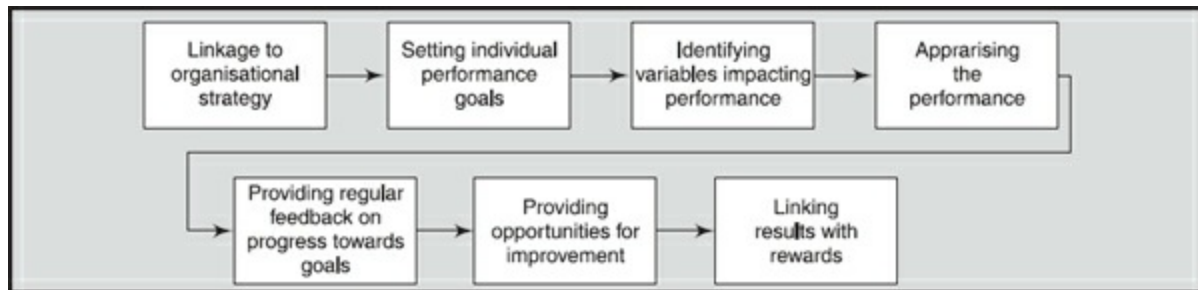


Fig 26.7 Steps in Expatriate Performance Management

Linking with Organisational Strategy Performance management becomes an integral part of corporate strategy. Besides contributing to enhanced performance, performance management helps identify employees with high potentials, facilitates establishing performance—reward linking and delineates employee needs for development. All these offer vital inputs for formulation and execution of strategies. **Setting Individual Performance Goals** It is critical, in the international context, to closely link unit goals to individual/team goals especially at the top and senior management levels. Goals are the future outcomes that individuals and organisations desire and strive to achieve. Popularly, goals seek to serve three specific purposes:

- guide and direct behaviour in the direction of the goal.
- offer benchmarks for employees to strive towards excellence.
- reflect what the employees and managers consider as important.

In order to serve the above purposes, goals must be specific, measurable, accurate, realistic and timely (SMART). Specific and challenging goals serve to focus the individual attention on precisely what is to be accomplished and to arouse him or her to peak performance. In a wide range of occupations, people who set specific and challenging goals consistently outperform those who have easy or unspecified goals, as Fig. 26.8 shows.

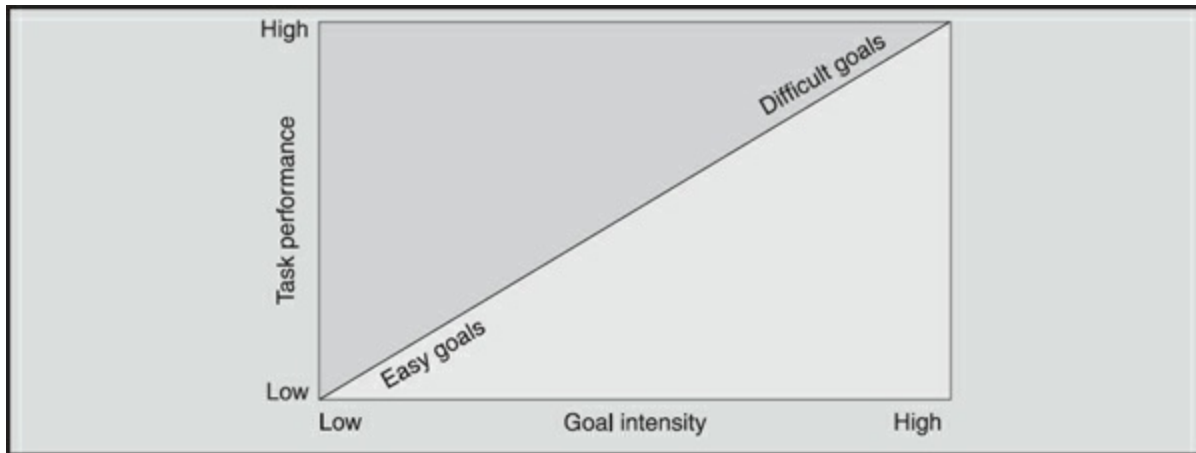


Fig 26.8 *Goals and Performance*

Similarly, quantitative goals render themselves easy for measurement and time bound goals enhance measurability. Measurability and timeliness add to performance enhancement.

Variables Impacting Performance Performance of an expatriate depends on several variables which are distinct from the performance of an employee working in his or her home country. Performance of the non-expatriate is influenced by job extrinsic factors (for example, working conditions, company policy) and job intrinsic factors (example, challenging job, career prospects). An expatriate's performance depends on several other variables (see Fig. 26.9) in addition to job extrinsic and job intrinsic factors.

Compensation packages contribute to performance considerably whether an employee is working in the home country or is an expatriate posted in a foreign location. Expatriate's performance is influenced by the type of **task** too. Home office **moral and physical support** is vital in expatriate performance. **Host environment**, as it is prevailing in Afghanistan and Iraq, hardly enhances performance. Finally, the ability of the expatriate to live comfortably in **an alien culture** is essential for his or her success. Multicultural adjustability refers to being sensitive to host culture, language fluency, diplomacy, adaptability, positive attitude, emotional stability and maturity.¹⁷

Appraising the Performance Appraising performance is a routine job but involves three key decisions areas: Specifying on performance criteria,

identifying the appraisers, and deciding on the frequency of appraisal.

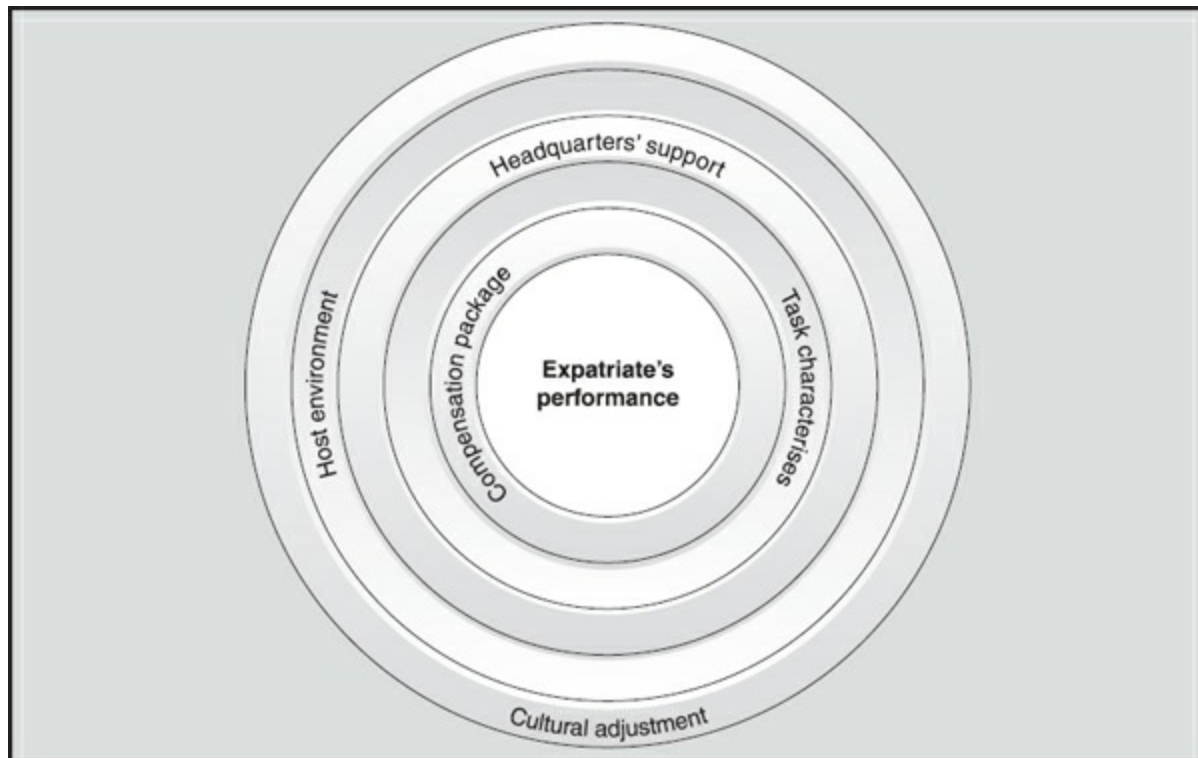


Fig 26.9 *Expatriate's Performance*

Generally, performance criteria in any organisation include outcomes and behaviours. Appraisers in an MNC include immediate managers/supervisors, team members and clients. Self appraisal is also in place. With regard to frequency of performance, MNC's have almost the same periodicity as domestic firms. Frequency shall be once in three months, six months or once in a year.

Providing Feedback Feedback refers to the information provided to the assessee about work behaviour and outcomes. It helps control the work behaviour of employees by directing their behaviour through the provision of necessary feedback for corrective action.

The task of assessing performance and providing feedback in MNCs is compounded by time and distance. Physical distance between headquarters and subsidiary is long and time zones are different. But technological advancements have helped ease the difficulty to some extent. International managers do travel long distances and spend considerable time with

subsidiary heads and employees, as part of assessment and feedback.

Opportunities for Improvement Performance feedback also helps in highlighting the need for training and development. Conducting appraisal, offering feedback and organising training and developmental programmes are all parts of performance management. These activities seek to provide opportunities to expatriates to improve, socialise, and adjust to local environment ably.

Linking Rewards and Results The final activity in expatriate performance management relates to establishing linkages between performance and compensation. Rewards must follow performance. Only then there is positive reinforcement to repeat performance.

Paying Expatriates

Yet another activity that receives considerable attention of the international HR manager is designing attractive remuneration packages for the expatriates. Any expatriate remuneration package needs to be designed to achieve the following objectives:

1. Attract employees who are qualified and interested in international assignments
2. Facilitate the movement of expatriates from one subsidiary to another, from the home country to subsidiaries, and from subsidiaries back to the home country;
3. Provide a consistent and reasonable relationship between the pay levels of employees at the headquarters, domestic affiliates, and foreign subsidiaries; and
4. Be cost-effective by reducing unnecessary expenses.¹⁸

Generally, the following problems crop up while designing an international remuneration package:

1. Discrepancies in pay between parent, host and third-country nationals.
2. The need to vary expatriate compensation, depending on the 'stage of life cycle' of the expatriate's family (e.g. young children, children in college, etc).
3. Remuneration issues related to re-entry into the parent-country

organisation.

4. Remuneration issues to deal adequately with new waves of change in the international business environment.¹⁹

Expatriate compensation depends on internal as well as external factors as Fig. 26.10 shows. Internal factors include goal orientation, capacity to pay, labour relations, subsidiary role and the like. Parent nationality, local culture, industry type and the like constitute external factors of expatriate compensation. These variables are self-explanatory.

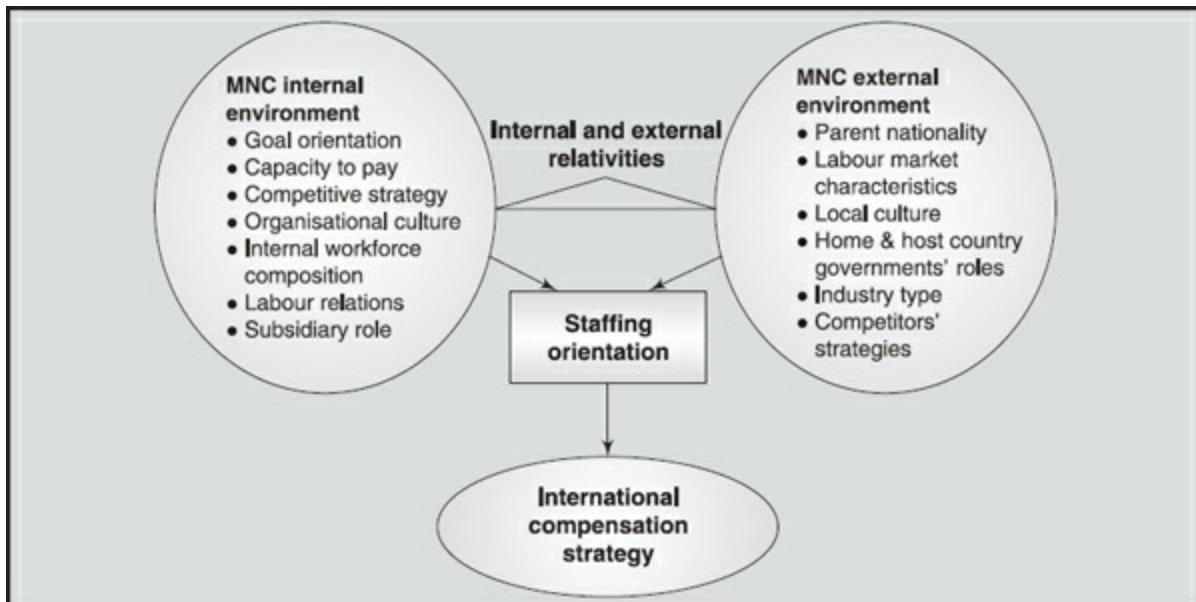


Fig 26.10 *Factors Influencing International Compensation*

Source: Anne-WilHarzing, et al., *International Strategic Human Resource Management*, p. 311.

The expatriate remuneration package generally comprises salary, benefits, allowances, incentives and taxes (see Fig. 26.11).



Fig 26.11 *Components of Expat Compensation*

Base Salary The term base salary acquires a somewhat different meaning when employees go abroad. In a domestic setting, base salary denotes the amount of cash compensation that serves as a benchmark for other components (e.g. bonuses and benefits). For expatriates, it (base salary) is the primary component of a package of allowances many of which are directly related to the base salary (e.g. foreign service premium, cost-of-living allowance, housing allowance) as well as the basis for in-service benefits and pension contributions. It may be paid in home-country or host-country currency. The base salary is the foundation block for international remuneration whether the employee is a parent-country or third-country national.

Benefits Benefits constitute a major element of the remuneration of a regular employee. These benefits comprise a similar, or even larger, portion of expatriate remuneration. However, several thorny issues surround benefits package to expatriates. These include:²⁰

1. Whether MNCs should maintain expatriates in the home-country benefits programmes, particularly if these programmes are not tax-deductible;
2. Whether MNCs have the option of enrolling expatriates in the host-country benefits programmes and/or making up for any difference in coverage;
3. Whether host-country legislations regarding termination of employment affects the employee benefits entitlement;
4. Whether the home or the host country is responsible for the expatriate social security benefits;

5. Whether the benefits should be subject to the requirement of the home or the host country;
6. Which country should pay for the benefits;
7. Whether other benefits should be used to offset any shortfall in the coverage; and
8. Whether home-country benefits programmes should be available to local citizens.

Allowances Allowances are an expensive feature of expatriate remuneration packages. One common allowance relates to the cost-of-living allowance—a payment for differences between the home-country and the overseas assignment. This allowance is designed to provide the expatriate with the same standard of living that he or she enjoyed in the home-country, and it may cover a variety of expenses, including relocation, housing, education, and hardship.

In any expatriate remuneration package what is unique is the *spouse assistance*. Many MNCs offer spouse assistance to help guard against or offset the income lost by an expatriate's spouse as a result of relocation abroad. Although, some firms may pay an allowance to make up for a spouse's lost income, the US firms are beginning to focus on providing spouses with employment opportunities abroad, either by offering job search assistance or employment in the firm's foreign subsidiary.

Incentives In recent years, some MNCs have been designing special incentives programmes for keeping expatriate motivated. In the process, a growing number of firms have dropped the ongoing premium for overseas assignment and replaced it with one-time lump-sum premium. For example, in the early 1990s, over 60 per cent of MNCs gave ongoing premiums to their expats. Today, the figures have come down to 50 per cent and the declining trend continues.²¹

The lump-sum payment has at least three advantages. First, expatriates realise that they are paid this only once and that too when they accept an overseas assignment. So the payment tends to retain its motivational value. Second, costs to the company are less because there is only one payment and no future financial commitment. This is so because incentive is a separate payment, distinguishable from a regular pay, and it is more readily for saving

or spending.

Taxes The final component of the expatriate's remuneration relates to taxes. MNCs generally select one of the following approaches to handle international taxation:²²

1. **Tax equalisation** Firms withhold an amount equal to the home-country tax obligation of the expatriate, and pay all taxes in the host country.
2. **Tax protection** The employee pays up to the amount of taxes he or she would pay on remuneration in the home country. In such a situation, the employee is entitled to any windfall received if total taxes are less in the foreign country than in the home country.

Tailoring the Package Working within the components described above, MNCs seek to tailor remuneration packages to fit with the specific situation. For example, senior-level managers in Japan are paid four times more than their junior staff members. This is in sharp contrast to the US, where the gap is much higher. Many senior-level managers in Europe are paid much less than their US counterparts.

In designing an expat's remuneration, MNCs generally follow a number of approaches. The most common is the *balance-sheet* approach, which envisages a compensation package that seeks to equate or balance an expat's purchasing power in the host country with the purchasing power in his or her home country. In order to balance the compensation received for the international assignment with compensation received in the home country, MNCs usually provide additional salary. This increased salary includes adjustments for differences in taxes, housing, and the costs of basic goods and services. Goods and services include items such as food, recreation, personal care, clothing, education, furnishing, transportation and medical care. [Figure 26.12](#) illustrates the balance sheet approach. This approach is most common and majority of MNCs use balance sheet approach to compensate their expats.

A second approach to expat compensation is the *going-rate* approach. In this, the expat compensation is linked to the salary structure in the host country. A third approach is *lumpsum* method, which involves giving the expat a predetermined pay and letting the individual decide about how to spend it. Fourth is the *cafeteria* approach, which entails giving expat a series

of options and then leaving him or her how to spend the available funds. Last is the *regional* system, under which the MNC sets a compensation system for all expats who are assigned to a particular region. Thus, everyone going to Europe falls under one particular system and everyone going to South Africa falls under a different system.

Repatriation

In the previous sections, we described expatriate selection, training, remuneration, and performance appraisal. Any discussion on expatriates should include their repatriation—the activity of bringing the expatriate back to the home country. Repatriation needs careful handling, which has been realised lately. It has been the knowledge of practitioners and academics that re-entry into the home country presents new challenges as the repatriate (returning person) copes with what has been termed *re-entry shock*, or *reverse culture shock*?³ While people expect life in a new country to be different, they may be less prepared for a possible problem of adjustment upon home-coming. As a consequence, it can be a traumatic experience for some, even more than what was encountered in a foreign location. An MNC may think that repatriation is the final phase in the expatriation process, but its ability to attract future expatriates depends on how well the firm handles its repatriation programmes.

Domestic Assignment: Expenses and Spendable income:		Expatriate Assignment: Expenses and Balanced Spendable Income + Allowances:	
Base Salary	+	Base Salary	
	=		
Taxes	=	Taxes	
	+		
Goods and Services	=	Goods and Services	
	+		
Housing	=	Housing	
	+		
Spendable Income	=	Spendable Income	

<input checked="" type="checkbox"/>	Allowances as an incentive to take position, foreign service premium, hardship pay, R&R
<input checked="" type="checkbox"/>	Allowances to balance extra tax payments
<input type="checkbox"/>	Allowances to cover cost of living differences, housing, children's education, medical costs, automobile, recreation, home leave travel
<input type="checkbox"/>	Allowances for moving expenses, settling in expenses, initial housing costs, and furnishing allowances

Fig 26.12 A Balance Sheet Approach to Expatriate Compensation

Source: John B. Cullen, *Multinational Management* p. 442.

There are several reasons for repatriation. The most common reason for returning is that the period of posting got over. Before the assignee was sent, he or she was told that the assignment would be for a specific period and that the period expired now. A second common reason is that expatriates want their children in a home-country school, and the longer they are away, less likely it is that this will happen. The third reason can be that the assignees are not happy in their overseas assignments. Unhappiness can stem from one's inability to adjust to host country environment, spouse's or children's unwillingness to stay, and moral support from headquarters did not come when there was a crisis. Finally, expatriates return because of failure to do a good job. Such failure often spells trouble for the assignees and may result in demotion and termination.²⁴

Benefits from Returnees Repatriates offer several advantages to the company. Coke, Cisco, Ford, Whirlpool, Britannia and McKensey are increasingly

hiring foreign returned Indian executives. The reasons given are twofold: such returnees have imbibed global culture and also have understood local culture.²⁵ Second, having extensive understanding of how the company is perceived in other countries and being part of the global social network that can advance company's business around the world, repatriates are an important element in expanding the international operations of the company.²⁶ Third, repatriates understand both the operations of corporate headquarters and of overseas operations. They can also transfer important technology or information from foreign subsidiaries back to the home country, or provide critical coordination and control functions from the home office to local operations.²⁷

Repatriates too have added value to their personal and professional life. During their stay overseas, the returnees have gained exposure and expertise. Their outlook is global, their vision is borderless, their skills are sharpened—in all they come back fully groomed to take on any challenges of domestic as well as global business. Their status in society is enhanced, others view the repatriates with awe and respect. Such glories as “foreign returned,” and “widely travelled” figure in their resumes and in welcoming speeches during conferences and seminars.

Repatriation Process [Figure 26.13](#) shows the repatriation process. Before elaborating on the stages in the repatriation process, it is useful to understand that on completion of the overseas assignment, the MNC brings the expatriate back to the home country, although not all foreign assignments end with a transfer to home—rather the expatriate is re-assigned to another international assignment. Some employees are made to travel around the globe frequently in which case they form part of the MNC's international cadre of managers. Even with such managers, repatriation is essential, particularly at retirement.

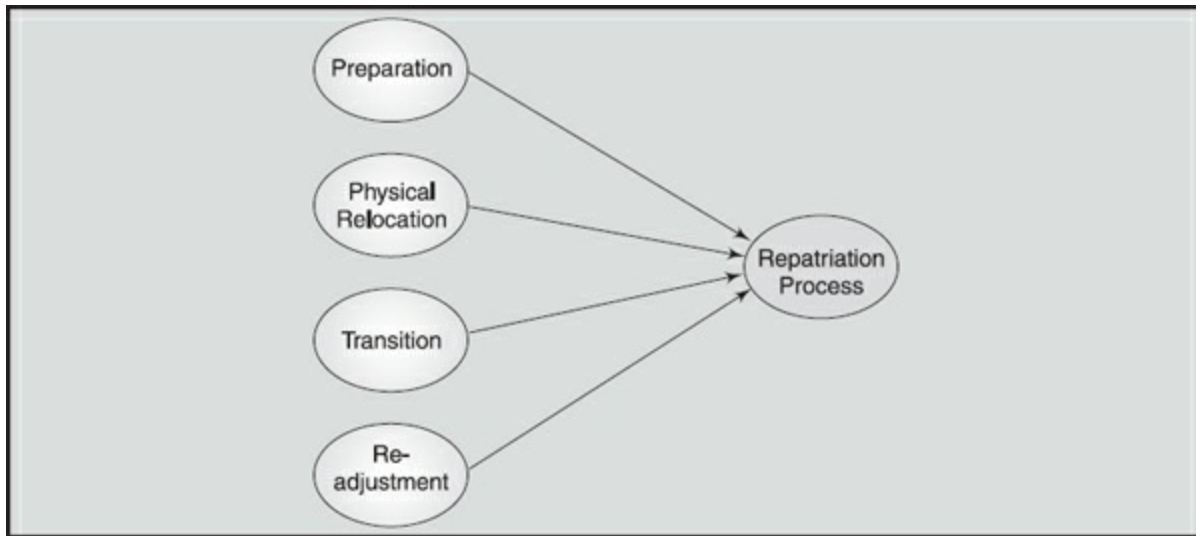


Fig 26.13 *The Repatriation Process*

Source: Peter J. Dowling, *et al.*, *op cit.*, p. 206.

Pause and Ponder

Your B-School has a tie-up with a university in Cyprus. A few of the professors of your school need to go to that country to teach there for two years. Draft expatriation and repatriation policies.

1. *Preparation* involves developing plans for the future and gathering information about the new position. The firm may provide a checklist of items to be considered before the return to home (e.g. closure of bank accounts and settling bills) or a thorough preparation of the employee and his or her family for the transfer to home.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none"> • Keep appraisal and promotion policies uniform across locations — they facilitate easy relocations • Ensure a global travel and 	<ul style="list-style-type: none"> • Have separate policies for expat and other employees at the same location • Ever leave an expat 'unattended' to at the host

accommodation policy to avoid employee discontent due to perceived discriminations

- Mandate CCT for all expats
- Pay attention, more of it than expatriation, to repatriation
- Ensure an expat has a 'buddy' at the host location. Also ensure that the 'buddy' checks – in expat atleast once a week during the first 2–3 months and once in 3–4 weeks after.

location.

- Be ethnocentric in your approach.
- Forget to update knowledge about international environment.

2. *Physical relocation* refers to saying good bye to colleagues and friends, and travelling to the next posting, usually the home country.

Personalised relocation assistance reduces the amount of uncertainty, stress, and disruptions experienced by the repatriate and the family.

3. *Transition* means settling into temporary accommodation, where necessary, making arrangements for housing and schooling, and carrying out other administrative tasks such as renewing driving licence, and opening bank account.

4. *Readjustment* involves coping with reverse culture shock and career demands. Of all the steps in the repatriation process, re-adjustment is the most difficult one. The re-entry adjustment is a tough task because of multiple factors. First, there is anxiety experienced by the expatriate when he or she returns home, the apprehension being accentuated by the uncertainty about the placement in the firm, career prospects, and a sense of isolation; feeling of 'devaluing' the international experience; coping with new role demands; and probable loss of status and pay.

MNCs respond to the repatriation problem in several ways. Many firms have formal repatriation programmes. Some companies assign the expatriate to a mentor, popularly called as the 'godfather'. The mentor is usually in a more senior position than the expatriate and knows him or her personally. The purpose behind the use of a mentor is to remove the sense of alienation through the provision of information (e.g. workplace changes) on a regular

basis, so that the expatriate is better prepared for the conditions he or she is likely to face upon re-entry. The mentor should also ensure that the expatriate is not sidelined when important decisions are made regarding positions and promotions.²⁸

Challenges of Re-entry Repatriation poses certain problems more intense than those encountered at expatriation. Infact, assignee views expatriation as sort of reward for impressed performance but repatriation is perceived as the end of a 'honeymoon' in his or her career. Challenges of re-entry relate to the individual assignee as well as the MNC.

Individual Perspectives Challenges from the assignee perspective include personal and professional. From a personal perspective, the assignee experiences 'reverse culture shock.' The returnee expects that the home country would remain the same when he or she had left. But after repatriation the assignee finds that things are not the same. Political, economic, social and cultural climate has changed. Moreover, the returnees themselves are not the same old individuals. The 'stay abroad' has brought changes in their perception, attitudes, habits and practices. These changes have created high expectations about the home country, but the hopes do not match with reality. They exhibit fussiness about everything and this separates expatriates from home country citizens. It is not the assignee alone facing the adjustment problem. Even the spouse has the same problem. Children too find re-entry difficult. Coming back to school, attempting to regain acceptance into peer groups and being out-of-touch with current slang, sports and fashion do cause problems.

Lowered social status, depleted spendable income, housing problem, problem of children's school, difficulty of club membership and the like add to the reentrant's problems.

Professional disappointments add to the returnee's woes. The repatriate feels that his or her skills acquired while on foreign service are no more in use. The repatriate is of the opinion that job at home is lacking in autonomy, authority and significance, compared to his or her global assignment. He or she feels that the organisation is unfairly ignoring the global competence acquired by the returnee. Worst, organisations may not guarantee jobs to the returnees. Often, due to poor career planning, repatriates are placed in a

‘holding pattern’—being assigned jobs that are available, without regard to the individual’s abilities, capabilities and needs. Many returnees complain that, upon return, they are offered a limited number of career choices and are rarely considered for promotions—which makes them feel that they have been removed from the main stream of corporate advancement.

Challenges from Organisation Perspective As is too well known, majority of the returnees consider quitting the organisation. Considering the investment made on training, posting, and maintaining the assignee while on assignment, his or her quitting will adversely affect the MNC’s bottom line. Often, loss of the multinational becomes gain for a rival. When an experienced assignee quits and joins a rival organisation, the latter tends to gain competitive advantage. In addition, high withdrawals by returnees may affect the company’s ability to hire bright individuals in future.

Inpatriation

One of the visible practices of international human resource management is inpatriation—movement of managers from a subsidiary to its parent office, a trend most in practice in HUL.

An inpatriate is a competent and knowledgeable individual from a host country who moves to work in the parent company. Inpatriation is also called ‘reverse diffusion’.

Why inpatriation? There are some reasons for such a practice. First, over time some host countries— India and China in particular—have acquired prominent positions in the globalised world. Centuries of civilisation behind them have made these countries strong culturally with unique norms of behaviour of their citizens. It is those cultural nuances that have made these companies insulated themselves from the recent economic downturn. Entire world is looking at these fast developing countries to learn and benchmark their best managerial practices. Employees from these host countries are best fit for inpatriation. MNCs are too aware of this potential and are eager to leverage the talent.

Second, corporate offices of MNCs are no longer exclusive repositories of knowledge. Nor do the host countries remain backward for ever. Some of the host countries are developing fast and are emerging themselves as centres of

excellence. People in these countries are more knowledgeable and are better skilled. International businesses are keen on using this talent pool for worldwide operations.

Third, competent managers and HR professionals from subsidiaries are invited to corporate office to share and educate the corporate teams and leaders on cultural nuances and their impact on behaviour and performance in host countries.

Finally, an inpatriate learns policies and practices of corporate office while on inpatriation. Back in subsidiary, he or she is in a better position to translate into reality what the inpatriate has learnt on inpatriation.

Unilever is the leader in inpatriation. Over 200 managers from HUL now work for the global unilver. Leena Nair, Executive Director of HUL has now become Sr VP for Leadership and Organisational Development at Unilever. Harish Marwani also from HUL has become Chief Operating Officer at Unilever.

Employee Relations

The last component of IHRM is labour or employee relations. From a strategic perspective, the key issue in international employee relations is the degree to which organised labour can limit the choices to integrate and consolidate its global operations. A firm's ability to integrate and consolidate its global operations to realise experience curve and location economies can be halted by organised labour, constraining the pursuit of a global strategy. An example to be stated here is General Motors which bought peace with labour unions by agreeing not to integrate and consolidate operations in the most efficient manner.²⁹ Another example is Daewoo, which went bankrupt because of resistance from labour to the management's move to trim the size of its labour force.

Key Issues in International Labour Relations

Who Should Handle Labour Relations? One issue relates to the responsibility of handling labour relations. Who should take up this responsibility—the headquarters or the subsidiary plant in the concerned country? Because national differences in economics, political, and legal

systems produce different labour-relations systems across countries, MNCs generally delegate the management of labour relations to their foreign subsidiaries. However, a policy of decentralisation does not keep the corporate office away from exercising some co-ordination over labour-relations strategy. Generally, the corporate office becomes involved in overseas labour agreements made by foreign subsidiaries because these agreements may affect the international plans of the firm and/or create precedents for negotiations in other countries.

However, the involvement of the MNC headquarters in host-country labour relations is influenced by several factors. First the labour-relations function is centralised and is co-ordinated by headquarters when there is a high degree of inter-subsidiary production integration. Labour relations throughout a system become crucial to corporate headquarters when transnational sourcing patterns are developed, that is, when a subsidiary in one country relies on another foreign subsidiary as a source of components or as an user of its output. In this context, a co-ordinated labour-relations policy is one of the key factors in a successful global-production strategy.

Second, the nationality of ownership of the subsidiary has an impact on who handles employee relations. For example, there are differences between European and US firms in terms of headquarters involvement in employee relations. US firms tend to exercise a greater centralised control over labour relations than British or European firms. Finally, subsidiary characters also influence on the who should handle employee relations. For example, subsidiaries that are formed through acquisition of well-established indigenous firms tend to be given much more autonomy over labour relations than are green-field sites set up by an MNC. Similarly, greater intervention would be expected when the subsidiary is of key strategic importance to the MNC, particularly when it is young. Further, where a subsidiary depends more on its parent company for resources, there will be an increased corporate involvement in labour-relations and HR management. Again, a poor subsidiary performance tends to be accompanied by an increased corporate involvement in employee relations.

What should be the Union Tactics? Unions use several tactics to deal with international business. By far the most common union tactic is strike. A strike is a concerted and temporary suspension of functions, designed to exert

pressure upon others in the same unit. Strike is a very powerful ploy as it suspends production, cuts out the creation of profit, cuts off the firm from its market, sources of materials may be lost, and fixed charges such as interest, taxes, and salaries for officials continue to be incurred during the strike period. The very existence of the firm may be threatened by a prolonged strike.

Unions should be cautious before resorting to a strike. An MNC enjoys formidable financial strength. It can absorb losses in a particular foreign subsidiary that is in dispute with a national union and still show an overall profit on worldwide operations. The bargaining power of a union may be threatened or weakened by the financial resources of a multinational. This is particularly evident where an MNC has adopted a practice of transnational sourcing and cross-subsidisation of its products or components across different countries.

An MNC has the ability to move the production facilities to other locations from the place of industrial dispute. Ford, for example, threatened British unions with a plan to move manufacturing to continental Europe unless British workers abandoned their demands. National relative advantages provide MNCs with the choice of location of units. Threats by MNCs, whether real or professional, to reorganise production facilities internationally, with the accompanying risk of plant closure or rationalisation will have serious impact on the ability of a union to organise strikes.

The second tactic used by labour unions is to form International Trade Secretariats (ITSs). There are 15 ITSs which function as a loose confederation to provide worldwide links for the national unions in a particular trade or industry (e.g. metals, transport, and chemicals) worldwide. The secretariats operate mainly to facilitate the exchange of information. The primary goal of each ITS is to achieve transactional bargaining with each of the MNCs in its industry.³⁰

Next tactic sought by the labour unions is lobbying for restrictive national legislations. The motivation for labour unions to pursue restrictive national legislations is based on a desire to prevent the export of jobs via multinational investment policies.

Finally, labour unions seek intervention from the International Labour Organisation (ILO), the United Nations Conference on Trade and

Development (UNCTAD), the European Union (EU), and Organisation for Economic Co-operation and Development (OECD). The ILO has identified a number of work-place-related principles that should be respected by all nations. These are—freedom of associations, the right to organise and collectively bargain, abolition of forced labour, and non-discrimination in employment. In 1997, the ILO adopted a code of conduct for MNCs. The code has been influential in drafting of the OECD guidelines for MNCs. These voluntary guidelines cover disclosure of information, competition, financing, taxation, employment and industrial relations, and science and technology.

Multiculturalism

Culture is understood as the customs, beliefs, norms and values that guide behaviour of people in a society and passed on from one generation to the next. Multiculturalism means that people from many cultures (read many countries) interact regularly.³¹ Global firms are the repositories of multiculturalism. Not that domestic firms have only mono cultures. Domestic firms too will have employees with different nationalities. Infosys, for example, has foreigners representing nine per cent of the total employee strength, so also Wipro which has overseas citizens accounting for four per cent of its total number of employees. Domestic firms have multiculturalism may be by choice but it is by design with MNCs. Multiculturalism does not mean that each subsidiary of an international business has its own distinct culture. If this happens, subsidiaries might become stand-alone companies. International business, therefore, needs to maintain a united culture that knits all the subsidiaries together.

Multicultural management offers the following benefits:

- Greater creativity and innovation
- Awareness about the need to maintain sensitivity in dealing with foreign customers
- Possibilities of hiring the best talent
- Creating a ‘superorganisational culture’, using the best of all cultures
- Evolving universally acceptable HR policies and practices.

The IHR manager needs cross-cultural competence to manage multiculturalism. Specifically, the IHR manager needs to:

- Possess strong personal identity
- Have knowledge of beliefs and values of different cultures
- Display sensitivity to the affective processes of culture.
- Communicate clearly in the language of a given cultural group.
- Cultivate cosmopolitan outlook and attitudes.

Hofstede's Cultural Dimensions

The cultural dimensions proposed by Geert Hofstede are of immense help to the IHR manager in as much as they equip him or her with basic tools necessary to analyse the culture in which business operates.

Hofstede identified four cultural dimensions around which countries have been clustered with people in each group exhibiting identical behaviours. The four dimensions are: Power distance, uncertainty avoidance, individualism and masculinity.

Power Distance Power distance concerns how cultures deal with inequity. Hofstede suggests that a country can be high on power distance or low on the same. In the former, inequality is accepted and even taken as good.

Low power distance cultures are found in societies that seek to play down such inequities as much as possible.

Uncertainty Avoidance This relates to norms, values, and beliefs with regard to their tolerance for ambiguity. Again, societies may be high or low on this dimension. Members of high uncertainty avoidance societies place a premium on job security, retirement benefits, and career patterns. They also have a strong need for rules and regulations; the manager is expected to issue clear instructions and the subordinates shall simply carry them out. Low uncertainty avoidance cultures are characterised by a greater readiness to take risks and accept change.

Individualism The spirit of individualism focuses on the relationship between the individual and the group. Societies may be individualistic or collectivist. Individualistic cultures view people as unique. People are valued in terms of their own achievements, status and other unique characteristics.

Collectivist societies view people largely in terms of the group to which

they belong. Social groups such as family, social class, organisation, and team take precedence over the individual. People believe that their identities are based on group memberships, group decisions are the best and groups protect individuals in exchange for their loyalty to the group.

Masculinity Masculinity represents the overall tendency of a culture to support the traditional masculine orientation. Here too societies can be high or low. High masculinity cultures have norms, beliefs and values such as men are assertive and dominant, exaggerated maleness in men is good, men are decisive, advancement and success are important, and gender roles should be clearly distinguished. In low masculinity societies (read feminine societies) sex roles are less sharply distinguished, and little difference is made between men and women in the same job (See [Table 26.6](#) for different multicultural dimensions and the countries coming under each of them).

Table 26.6 *Examples of Hofstede’s Cultural Dimensions*

<i>Country</i>	<i>Individualism- collectivism</i>	<i>Power Distance</i>	<i>Uncertainty Avoidance</i>	<i>Quality of life</i>
Australia	Individual	Small	Moderate	Strong
Canada	Individual	Small	Low	Moderate
England	Individual	Small	Moderate	Strong
France	Individual	Large	High	Weak
Greece	Collective	Large	High	Moderate
Italy	Individual	Moderate	High	Strong
Japan	Collective	Moderate	High	Strong
Mexico	Collective	Large	High	Strong
Singapore	Collective	Large	Low	Moderate
Sweden	Individual	Small	Low	Weak
US	Individual	Small	Low	Strong
Venezuela	Collective	Large	High	Strong

(Source: Jeffrey A. Mello, *Strategic Human Resources Management*, p. 404)

How do all these are relevant to IHR professional? Hofstede’s cultural model helps the IHR manager apply culture specific approach to HR practices. For example, in societies with high power distance culture, selection of executives is based on the social class to which the aspirants belong and their elite educational qualifications. In low power distance cultures, educational achievement is the main criterion. Leadership styles in high power distance societies are authoritarian but are participative in low

power distance cultures.

Executives are hired on the basis of seniority and expected loyalty in high uncertainty avoidance societies but the criteria for such selections in low uncertainty avoidance cultures are education and past job performance. Leadership styles in the foreign societies are task-oriented and relations-oriented in the latter category of cultures.

Leaders, in general, tend to appeal to subordinates to perform in collectivist societies, but in individualistic cultures, leadership believes in rewarding achievers and punishing non-performers. In collectivist cultures, executive selection is based on group affiliation but it is geocentric in individualistic cultures.

Similarly, managerial selection is independent of gender and leadership is participative in feminine cultures. In masculine cultures, men are mainly preferred for jobs, and leadership tends to be authoritarian.

In addition, staffing policies—ethnocentrism, polycentricism or geocentricism—depend on whether a host country is known for high power distance, low uncertainty avoidance, or feminine orientation. Where power distance is high, staffing is influenced by ethnocentric orientation, so also when a host country believes in high uncertainty avoidance.

SUMMARY

The process of procuring, allocating, and effectively utilising human resources in an international business is called IHRM. IHRM is the interplay among the three dimensions—HR activities, types of employees, and countries of operation.

Multiple HR activities, need for broader perspective, more involvement in employee personal lives, risk exposure, changes in the emphasis, and more external influences make IHRM different from domestic human resource management.

HRP, employee hiring, training and development, performance management, remuneration, repatriation and employee relations constitute the scope of IHRM.

KEY TERMS

Balance sheet approach
Ethnocentric approach
Geocentric approach
Host-country nationals
IHRP
Polycentric approach
Reverse culture shock
Tax protection
Union tactics
Culture shock
Expatriate
Going rate approach
IHRM
Parent-country nationals
Repatriation
Tax equalisation
Third-country nationals

REVIEW QUESTIONS

1. What is IHRM? How does it differ from domestic HRM?
2. Explain the different activities of IHRM.
3. Bring out the components of expat remuneration.
4. What constitutes an expat training?
5. What is reverse culture shock? How do MNCs cope with it?
6. How is expat performance assessed?
7. How are industrial relations of a subsidiary handled?
8. What is culture shock?

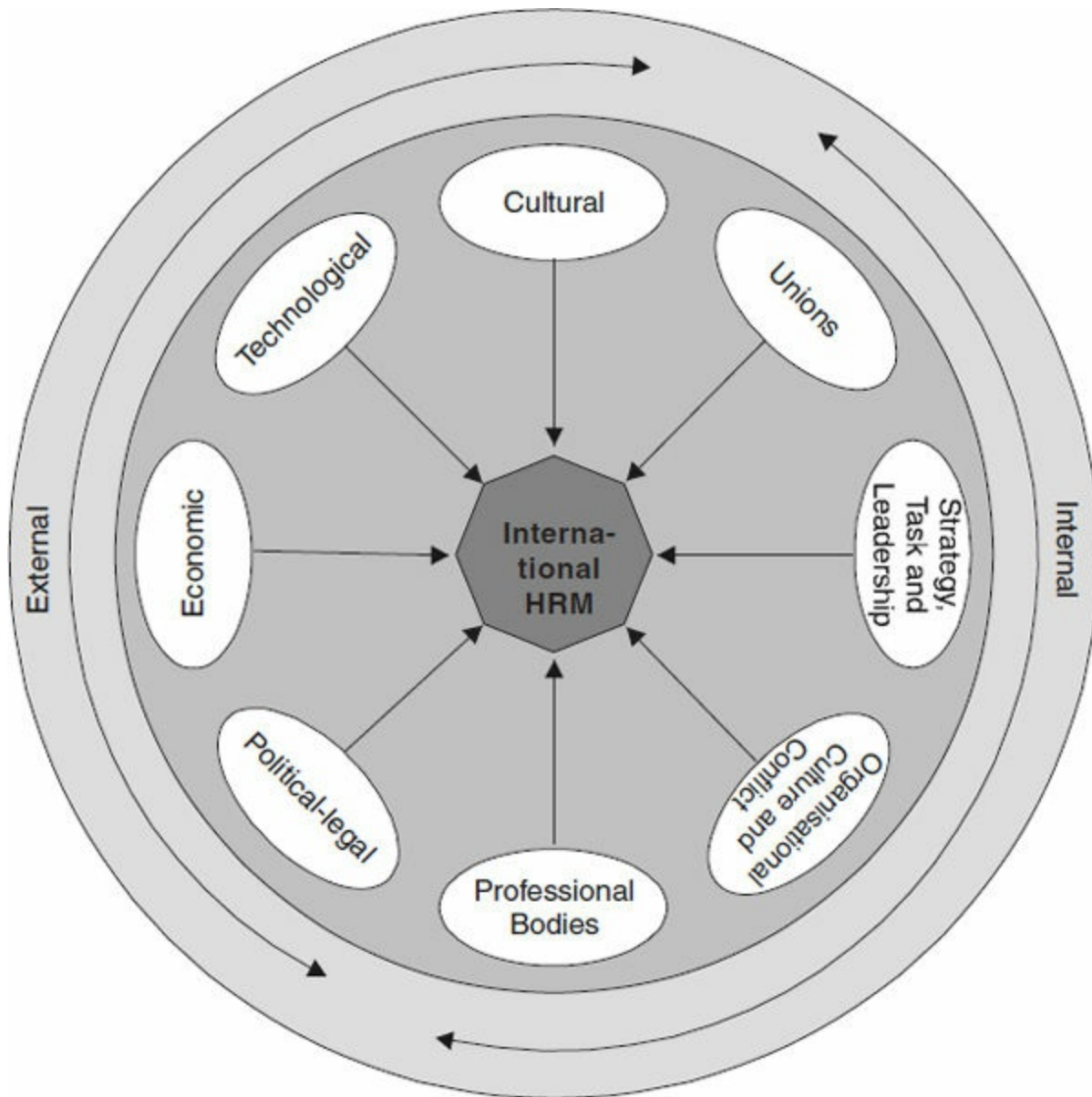
DISCUSSION QUESTIONS

1. Why do expat failures occur? How can MNCs minimise such failures?
2. Which staffing policy—ethnocentric, polycentric or geocentric—is preferable for an MNC? Why?
3. How is a remuneration package tailor-made to expats? Which approach, according to you, is more suitable for MNCs operating in India?

4. Supposing your company intends to set up a subsidiary in Thailand. Which country's nationals do you pick up to head the subsidiary—India, Thailand or any other country?
5. You are asked to draft a repatriation programme. How do you go about it?

IMPACT ASSESSMENT EXERCISE

From the figure given below, identify the forces (external and internal) that impact International HRM, describe such an impact of each and rank the forces on a scale of 1 to 5 (1 being the least and 5 being the most significant).



CONTINUING CASE

One of the key objectives of the Vybhav Leadership Academy (VLA) is to mobilise key talent globally across its 13 country locations. It may be stated that VLA has the responsibility of nurturing and developing talent through international assignments. Every year as part of annual review process, people in the senior leadership positions are screened by the MD and VP-HR for overseas postings. As a policy, all such assignments are for a duration of 2 to 3 years and are subject to lateral movements. The HR team prepares individual talent docket for each leader which includes details from the Perf

Career Tool and the Perf-Perfect Tool. A total of 10% to a maximum of 15% of this leadership talent is identified to move to other geographies over the next six months.

Once the names are finalised, top leader is made aware of and he/she offers his/her consent to the new opportunity and the related relocation. The corporate HR team works out the relocation package allowance based to the cost of living details at the new location. The leader undergoes 25 hours of intensive online and class room sessions to equip him/her to acclimatise to the new country and the acceptable work culture and life style. If the family of the leader is also proposing to relocate to the new country, extensive reading material and DVDs are provided to educate the family about the life in general in the host country. The employee and his/her family then work with Vybhav's approved relocation consultant (Mays International Consulting Services Private Ltd) to decide on accommodation support and for identifying educational institutions for children and all of the physical relocation of personal belongings. As per company policy, the employee and his/her family are permitted a trial visit to the host country and stay over there for two weeks to understand the challenges of the new environment. In most cases, the family decides not to relocate given the duration of the assignment. But the final decision is left to the employee.

This initiative has helped Vybhav Corporation in building a truly global senior management team with significant understanding of the global challenges and help focus on the right growth areas and de-focus on areas where it did not make business sense and growth was limited.

EXERCISE

Identify at least five Indian MNC's and study their respective expatriate policies. Compare them with similar policy of Vybhav. Make a report and present it to the class.

Closing Case *The Office Equipment Company*

Office Equipment Company (OEC) must identify a manager to help set up and run a new manufacturing facility located in the Palestinian-controlled

Gaza Strip. The position will have a minimum duration of three years. OEC manufactures office equipment such as photo copying machines, recording machines, mail scales, and paper shredders in eight different countries. OEC's products are distributed and sold worldwide.

Currently, OEC has no manufacturing facility in the Middle East but has been selling and servicing products in Israel since the early 1970s. OEC sells its products in Israel through independent importers, but is now convinced that it needs to have a local manufacturing facility in order to take full advantage of the new, more peaceful situation in the region. Despite occasional turmoil that interrupts new moves towards peace, OEC's sales in Israel have been improving, with increase in profitability. OEC has recently been contacted by distributors in Jordan and Egypt about possible sales of OEC products. Incentives for foreign direct investment in Gaza Strip could help OEC develop extensive operations in the region at considerably reduced cost.

OEC hopes to begin constructing a factory in Gaza Strip within the next six months. This factory would import products and assemble them. The construction of the assembly plant would be supervised by an US technical team and a US expatriate would be assigned to direct the production. This expatriate manager would report directly to the headquarters of OEC at US.

The option of filling the position of managing director with someone from outside the firm is alien to OEC's policy. Otherwise the options are fairly open. OEC uses a combination of home-country, host-country, and third-country nationals in top positions in foreign countries. It is not uncommon for managers to rotate among foreign and domestic locations (in the US). In fact, it is increasingly evident that international experience is an important factor in deciding the persons who will be appointed to top corporate positions. The sales and service operations in Israel have been controlled through OEC's European regional office located in Podernone, Italy. A committee at the European regional office has quickly narrowed its choice to the following five candidates.

Tom Zimmerman Zimmerman joined the firm 30 years ago and is well-versed in all the technical aspects required for the job. Zimmerman is a specialist in start-up projects, and has supervised the construction of new manufacturing facilities in four countries. He has never been assigned to

work abroad permanently. His assignments have usually been in developed countries and for periods of less than six months. He is considered to be extremely competent in the duties he has performed during the years, and will retire in about four-and-a-half years. Neither he nor his wife speaks any language other than English—their children have grown and are living in the US. Zimmerman is currently in charge of an operation about the size that the one in Gaza Strip will be after the factory begins operating. However, as that operation is being merged with another, this present position will become redundant.

Brett Harrison At age forty, Brett has spent 15 years with OEC. He is considered highly competent and capable of moving into upper-level management within the next few years. He has never been based abroad but has frequently travelled to Latin America. Both he and his wife speak Spanish adequately. Their two children, aged fourteen and fifteen, are just beginning to study Spanish. His wife is a professional as well, holding a responsible marketing position with a pharmaceutical company.

Carolyn Moyer Carolyn joined OEC after getting her BS in engineering from Purdue University and an MBA from the prestigious Bond University in Australia. At the age of 37, she has already moved between staff and line positions of growing responsibility. For two years, she was the second-in-command of a manufacturing plant in Texas about the size of the new operation in Gaza Strip. Her performance in that post was considered excellent. Currently, she works as a member of a staff production planning team. When she joined OEC, she had indicated her eventual interest in international responsibilities because of a belief that it would help her advancement in career. She speaks French well and is not married.

Francis Abhrams Francis is currently one of the assistant managing directors in a large Mexican operation, which produces for and sells to the Mexican market. He is a Jewish New Yorker who has worked for OEC in Mexico for five years. He holds an MBA from New York University and is considered to be one of the likely candidates to head a Guatemalan operation when the present managing director retires in four years. He is 35, married with four children (ages two to seven). He speaks Hebrew adequately. His wife does not work outside the home and speaks only English.

Leon Smith At 30, he is assistant to the managing director at the Athens

manufacturing facility, a position he assumed when he joined OEC after completing his under-graduate studies in the US seven years ago. He is considered competent, especially in production operations, but lacks in managerial experience. He was successful in increasing OEC's production output in Athens during his tenure in Athens. Leon travelled extensively in the Middle East. He went to the college with a number of students from Saudi Arabia, Jordan, and Egypt. These individuals came from prominent political and business families in their countries, and Leon has visited them during his travels. He thus has the advantage of being reasonably well-connected with influential families in the region. He is not married.

Questions

1. Whom should the committee choose for the assignment and why?
2. What problems might each individual encounter in the position?
3. How might OEC go about minimising the problems that the chosen person would have in managing the Gaza Strip operations?³¹

REFERENCES

1. *The Economic Times*, respectively dated Oct. 1, 2004, and June 25, 2004.
2. Cynthia D. Fisher, *et al.*, *Human Resource Management*, Houghton Mifflin, 1997, p. 765.
3. Peter J. Dowling, *et al.*, *International Human Resource Management*, South Western, 1999, p. 3.
4. *Ibid.*, p. 4–5.
5. *Ibid.*, p. 7.
6. *Ibid.*, p. 8.
7. Cynthia D. Fisher, *et al.*, p. 767.
8. Darrell Mahoney, *et al.*, *International Business*, Longman, 1997, p. 501.
9. Wayne F. Cascio, *Managing Human Resources*, McGraw-Hill, 1998, p. 656.
10. Cited in *International Business* by Charles W.L. Hill, p. 566.
11. Richard M. Hodges and Fred Luthans, *International Management*, McGraw-Hill, 2000, p. 430.
12. *Business Today*, Jan 7–21, 1996, p. 227.
13. Darell Mahoney, *et al.*, *International Business—A Management Perspective*, Longman, 1997, p. 776.
14. Charles W.L. Hill, *op. cit.*, p. 576.

15. *Ibid.*, p. 577.
16. Peter J Dowling, *et al.*, *op. cit.*, p. 123.
17. *Ibid.*, p. 120.
18. *Ibid.*, p. 797.
19. Richard M. Hodgetts and Fred Luthans, *op cit.*, p. 443.
20. *Ibid.*, p. 444.
21. Peter J. Dowling, *et al.*, *op. cit.*, p. 194.
22. *Ibid.*, p. 204.
23. Charles W.L. Hill, *op. cit.*, p. 581.
24. Richard M. Hodgetts, *et al.*, *International Management*, TMH, 2005, p. 453.
25. *The Economic Times*, Dec. 9, 2005.
26. Anne-Wil Harzing and Joris Van Ruysseveldt, *International Human Resource Management*, Sage Publications, 2004, p. 336.
27. Monir H. Tayeb, *International Human Resource Management*, Oxford, 2005, p. 195.
28. Anne-Wil Harzing and Joris Van Ruysseveldt, *op. cit.*, p. 338.
29. Peter J. Dowling, *et al.*, *op. cit.*, p. 243.
30. John D. Daniel and Lee H. Radebough, *International Business*, Pearson, 2003, p. 501.
31. *Ibid.*, pp. 766-768.

e-Human Resource Management

Learning Objectives

After reading this chapter you should have a good understanding of:

- Nature of e-HRM
- Different dimensions of e-HRM

We had pointed out in the first chapter that people management has travelled a long way. From purely handling industrial disputes, it grew into personnel management with managers of personnel going beyond fire-fighting to such activities as welfare, wage administration, promotions, works councils, suggestion schemes and the like. Overtime, from personnel management the subject matured into human resource management elevating the status of HR professionals to strategic partners and change agents. Of late, HRM is transforming itself to human capital management.

What is to be underlined is that technology also travelled along with the management of people in organisations. If HR's role has been to deliver workforce support and management based on the needs of the business, the role of technology has been one of enabler. During the past years, HR processes and procedures have been supported by everything from complicated file-folder systems to automation, going from usage of multiple systems and databases to a single version of the whole system. These are the days of e-HR. HR professional needs to be aware of and knowledgeable enough to adopt the new technology for the benefit of his or her business.

NATURE OF e-HRM

When HR departments make use of the Internet and related technologies to

support their activities, the process becomes e-HRM (where e stands for electronic). e-HRM is the complete integration of all HR systems and processes based on common HR data and information and on interdependent tools and processes. Fully developed e-HRM could provide the data gathering tools, analysis capabilities, and decision support resources for HR professionals to hire, pay, promote, terminate, assign, develop, appraise and reward employees in ways that fully engage them in managing their own outcomes, maximise the contribution of each employee, and support execution of firm's strategy.¹

e-HRM has the potential to change all traditional HRM functions. For example, employees in different geographic locations can work together. Use of Internet enables companies to search for talent cutting across time and distance constraints. Recruiting can include online job postings, applications, and candidates screening from the company's Website or the Websites of recruiting firms, such as monster.com, naukri.com., and clickjobs.com. Employees from geographic locations can all receive the same training over the company's computer network.²

In addition, e-HR can contribute to enhanced performance of HR in four ways: self service, call centres, productivity improvement, and outsourcing. Using company's intranet, all the employees can self-service many of their personal transactions, such as updating personal information and changing benefits allocations. Thanks to technology, a centralised call centre can be created within the organisation. From the call centre, HR specialists can answer questions from all far-flung (company's) employees, reducing the need for HR department at each location.

More and more companies are installing Internet and computer-based systems for improving HR productivity. Ratio between HR staff to employees can be brought down to one to 150 from one to 100 as of now. Technology also makes it easier to outsource HR activities to specialist service providers by giving vendors real-time, Internet-based access to the employer's HR information database.

As of now, access to technology is phenomenal. Things never dreamt of three decades ago can now be done easily. For example, it is now possible to bring together information from many sources into one cohesive portal that is accessible to all employees. This is a massive shift and it has occurred in just

the last ten years. [Figure 27.1](#) brings out the likely developments in the years to come.

- Portals will recognise an individual's role and preferences and supply quick access to material required for task completion.
- Self-service will be taken to the next generation: highly filtered, incredibly intuitive, and extremely easy to understand and use.
- Self-management will impact managerial and supervisory roles, changing the face of the job-role landscape as managers assume more HR responsibilities and HR takes on more business functions.
- A worker's portal will cater directly to the way that the individual likes to receive information and learning based on his or her work patterns, such as left-brained or right-brained learning styles and self-directed or mentored work styles.
- Multimedia will enable workers/managers to speak, touch, or type in questions and receive coaching, counseling, and knowledge tailored to their particular work styles.
- The personalised portal will provide only viable options and relevant material while suggesting choices in a manner similar to the way Amazon.com began doing when it sets e-business standard in the early Internet era.
- Content from external sources will be integrated with transactions. For example, benefits enrollment will link to relevant directories, training enrollment will link to relevant learning programme, job listings will link to relevant candidates, and so on.
- Training will be minimised, and most learning will occur while tasks are already in process via intuitive prompts driven by integrated content and analytics.
- Workers will use portal technology to help analyse their own degree of effectiveness and efficiency.
- Workers will be able to download just-in-time corporate, product, cultural, or language information as needed for specialised job functions.
- Robotics will handle a number of routine tasks, such as mail delivery and many blue-collar assembly-line jobs. Further dynamics will emerge as organisations introduce bionics into robotics.

Fig 27.1 *Portends*

(Source: Hal G. Gueotal and Dianna L. Stone, *The Brave Newworld of e-HR*, Wiley India, 2006, pp 286-287)

e-HR ACTIVITIES

Throughout the book we had referred, at appropriate places, to the use of technology to HR functions. We highlight some of them in greater detail here. Particularly, we focus on recruitment, selection, training, performance management and compensation.

Pause and Ponder

“e-HRM may result in dehumanisation of HR function and irrelevance of the HR department itself.” Give your point of view.

e-RECRUITMENT

Alternatively called online recruiting, e-recruitment is being widely used these days. Surveys show that 70 and 90 per cent of large firms now use e-recruiting systems, and it is anticipated that over 95 per cent of organisations plan to use them in the near future. Cisco Systems recruit employees only through e-recruiting.

e-recruiting offers several benefits to the organisations practising it. The major advantages include: (a) reaching large numbers of qualified applicants, (b) reducing recruitment cost, (c) decreasing cycle time, (d) streamlining burdensome administrative processes, and (e) enabling assessment of the effectiveness of recruiting strategy.

There are dysfunctional or unintended consequences of using electronic media for recruiting. Replacing traditional recruiters with computerised systems may make the recruitment process much more impersonal and inflexible leading to a negative impact on applicants' attraction and retention rates. In addition, the use of online recruitment may deny the opportunities to apply to people who have no access to computers and those who lack skills to make use of the electronic gadgets. Further, applicants may perceive that online systems are more likely to invade personal privacy than other recruitment processes. Misuse of confidential information by companies is possible. Consequently, many applicants are less willing to use online recruiting.

The most common practices in e-recruitment are: (a) adding recruitment to existing organisational websites, (b) using special recruitment websites, (c) developing interactive tools for processing applications, and (d) using software for online screening of applications.³

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• Firm with strong brand equity tends to benefit from on-line recruiting than those that are not well known	<ul style="list-style-type: none">• Use e-recruiting as the only source of hiring• Forget to use websites to promote values that will be

- Use e-rehiring when large numbers of candidates are needed or when searching for individuals with high educational levels
- Develop on-line hiring systems that provide applicants with information about the unique characteristics of the firm and ensure they are given a realistic preview of the firm
- Align e-HR practices with business strategies
- E-HR practices should not invade privacy of employees
- View the change to e-HRM as a necessity, not an option
- Empower teams to promote e-HR developments

- attractive to most new employees rather than just select those that fit with traditional culture
- Use e-HR practices as fads to show off yourself
- Use sophisticated e-recruiting systems that will discourage less educated individuals from applying
- Forget to have preventive maintenance to avoid down time.

Cautions while using e-Recruiting

The following guidelines regarding e-recruiting will be highly useful for recruiters:

- e-recruiting needs to be aligned with organisation's strategic goals. For example, if a firm has an innovation strategy that focuses on developing new information technologies, e-recruiting shall identify individuals with skills that can help meet these goals.
- Organisations that have reputation can benefit from e-recruiting.
- Firms need to use e-recruiting as one of the sources but not the only source of attracting talents.
- May attract frequent job hoppers.
- The websites should be designed for easy use, simple to navigate and attract candidates rather than simply screening them.
- Organisations should develop online screening systems based on job

analysis and ensure that inferences made from the systems are reliable and valid.

- The system should give adequate information about the company and the positions to the candidates.
- Organisations should use websites to promote values that will be attractive to most employees rather than just select those that fit with traditional culture.
- e-recruiting should not be used as fad but should be measured in terms of successful placements made.
- Collect feedback from job applicants on the direct and indirect messages conveyed by the website regarding the climate of the organisation.
- Companies should use appropriate languages in the website for people with diverse background can use the website.
- The system should be simple and should not cause anxiety in the minds of job applicants while navigating the site.
- Should meet all legal requirements and without any bias based on caste and religion.
- Should attract disadvantaged sections of the society.
- Protect the privacy of individual. The web should have limited access to data and the data collected are relevant to the job.⁴

e-SELECTION

Next to e-recruitment is e-selection. Organisations using online selection system must consider a variety of procedural requirements, including processes to design upfront; vendor selection and project steps; assessment steps and protocols for the test event; feedback to the candidates and internal clients; methods of processing candidates after testing; and management of the candidate flow and text programme itself.

The purposes of e-selection are mainly three: (a) achieving cost reduction, (b) maximum utilisation of human capital, and (c) sustainability. Cost reduction is the main objective and infact, it is mainly for cost saving that organisations switch over to e-selection from conventional selection process. e- selection help cost reduction in several ways. Loss rates between events in the selection process are minimised, administrative costs involved in the

selection process are reduced and costs of sourcing candidates into the employment process become less.

The second objective of e-selection is to achieve maximum utilisation of human capital. This is being achieved through high retention rates, increased percentage of candidates who meet employment requirements and improved productivity after the new hires.

Sustainability is the last objective of e-selection. Sustainability refers to the organisation’s ability and willingness to maintain the e-enabled system and also progressively evolve the system to satisfy changing requirements.⁵ Sustainability is necessary to ensure that the business continues to reap ongoing benefits from e-enabled system.

e-Selection Process Figure 27.2 is a typical flow chart to introduce e-selection system. Each step shown in the figure is self-explanatory.

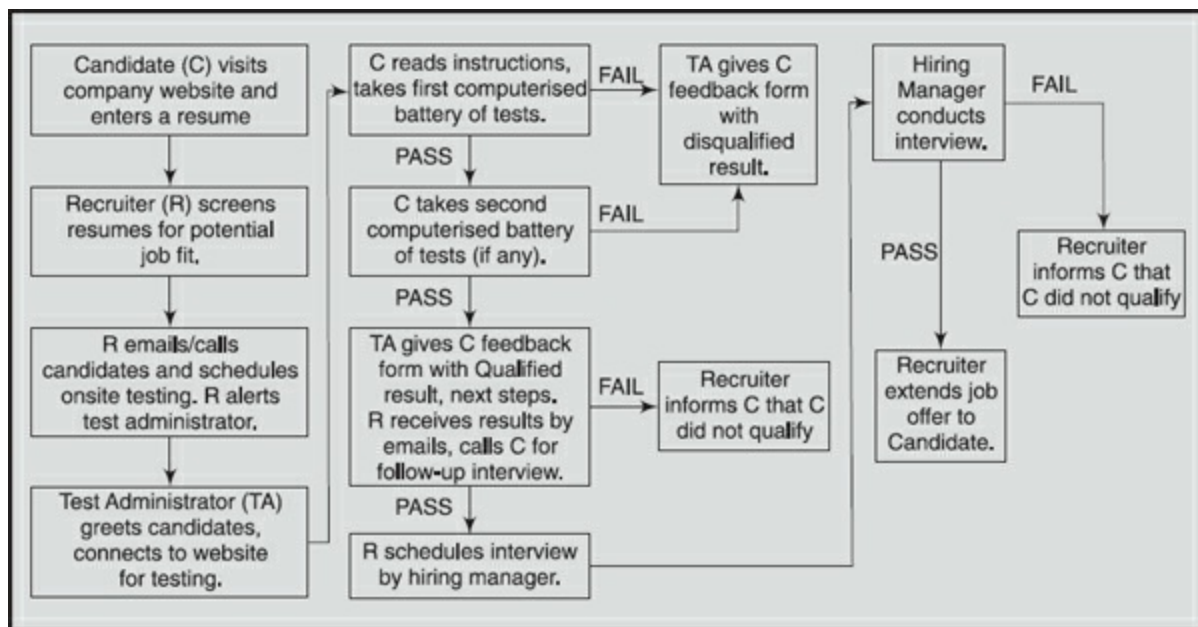


Fig. 27.2 Sample Employment Process Flow Chart

Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, p. 89.

Technology Considerations Which technology to use in selection is a critical decision to be made by an organisation. One option is to implement technology as a new module within an existing company system (HRIS) or as an intranet application. For example, certain types of HRIS systems can be

programmed to administer and/or score selection assessments. Alternatively, typical web-based assessment tool can be implemented on a company's intranet. The third implementation method is an Internet application administered via an application service provider (ASP) model by the testing vendor. This model is becoming increasingly popular for implementing e-assessments via computer. It allows the company to completely outsource the implementation, maintenance, and support of the assessments. [Table 27.1](#) provides score of the key decision points that influence which of the alternative models to choose and also indicates where each method falls in terms of each. As can be made out, no single model is an answer to all the requirements.

Table 27.1 *e-Selection Decision Points*

<i>Considerations</i>	<i>Technology Alternatives</i>		
	<i>PC-Based</i>	<i>Intranet (Internal to Company)</i>	<i>Application Service Provider (by Vendor)</i>
Cost	Low	Moderate	High
Centralized Databasing	Low	High	High
Ease of Updating	Difficult	Easy*	Easy
Support	Difficult	Moderate	Easy
Implementation Timeline	Moderate	Moderate*	Fast
Integration with Other HR Systems	Difficult	Moderate-Easy	Moderate-Easy
Demands on Internal IT Resources	Moderate-High	High	Low

*Entries fluctuate depending on the ability to quickly and easily task IT resources within the organization.

Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, Wiley India, 2005, p. 71.

e-PERFORMANCE MANAGEMENT

Performance management is another area which has been e-based. The use of technology in performance management tends to increase productivity, enhance competitiveness and motivate employees as Exhibit 27.1 indicates. This is possible through two ways: (i) technology may facilitate measuring an individual's performance via computer monitoring activities, (ii) technology

become a tool to facilitate the process of writing reviews or generating performance feedback. Examples here include multirater appraising that supervisors or team members generate online, as well as off-the-shelf appraisal software packages that actually construct an evaluation for a manager. This particular technological approach occurs more often in the context of jobs that involve personal judgement and high discretion.

Exhibit 27.1 e-Performance and Motivation

Motivating front line staff and restraining exits are two of the biggest challenge facing retail sector today. “People in the frontline are key to the brand’s success,” says Mr. Sandeep Kulhalli, Business Head, Retailing Services Group, Titan Industries. The company is in the fourth year of its ‘Face of Titan’ initiatives for sales staff, covering customer relationship officers, store managers and service receptionists. The programme assesses and recognises the webbased performance of over 1,200 frontline staff employed in 213 stores across 113 cities. Curbing attrition is a pressing need in the retail sector that’s witnessing 80-85 per cent frontline employee turnover. “The programme has helped us here. In fact, last year, among our regional finalists, numbering about 150, we saw attrition dive down to about 12 per cent,” according to Mr. Kulhalli. Normally, Titan witnesses a frontline staff attrition rate of 40 per cent in the metros and about 35 per cent in non-metros. The programme runs on customised software to ensure speed, accuracy, fairness and transparency in the evaluation process. Titan has real time access to database, training need analysis, talent pool, and store and staff performance cad. “The assessment also helps us weed out poor performers, perhaps place them in other roles and in capability building,” says Mr. Kulhalli. The current program, kicked off in January 07, is expected to conclude in June 07.

Source: Business Line, Feb. 24, 2007

Technology can be applied in performance management in several ways. In the first place, routine or low discretion jobs can be subject to computerised performance monitoring (CPM) system that helps generate performance data. Second, softwares are available that help generate

appraisal forms and their accompanying narrative. Third, performance management system can be integrated with an overall enterprise resource planning (ERP) software system. This approach helps HR professional to identify high performers, spot skill and competency gaps and to analyse pay relative to performance. With this information being available, HR manager can plan for training, coaching and education. Fourth, intranets and Internet may also help performance-management process. Fifth, stand-alone software packages are a great help in performance management system. Some of these packages are relatively inexpensive and easy to use. The greatest benefits of appraisal software are the elimination of paperwork and simplification of the logistics for evaluators, workers and administrators. Software packages facilitate the automation of the tedious parts of evaluation, enabling managers to focus on contents of the evaluation process rather than on forms. In addition, some programmes allow users to click buttons on a screen for each rating and simultaneously create sentences and paragraphs of text. Appraisal software may also include a coaching utility that provides information to evaluators about coaching individuals they evaluate.

Some packages contain psychometric features. Psychometric features help check evaluators from inflating ratings. Such built-in checks boost robustness and accuracy of ratings.

As more and more companies are switching on to online performance management, the following ingredients need to be kept in mind:

- Scalability—ability to deploy on large scale with solid security.
- Employee self-service—managers and employees are able to access systems anytime, any place, on demand.
- Integration—ability to connect with other HR systems.

Thus, technology available to e-base performance-management process is enormous. But there is the dark side to the e-enabled ratings. It may be observed that performance appraisal is person centric and no machines can substitute one-on-one interaction. Face-to-face interaction is vital for objective assessment of anybody's performance. e-performance tends to forgo this important feature. Care should, therefore, be taken to ensure that technology intervention between an assessor and an assessee is confined to the extent it is essential.

e-LEARNING

e-learning refers to the use of Internet or an organisational intranet to conduct training on-line. Elearning is becoming increasingly popular because of the large number of employees, who need training. Wipro's, employees are spread over onsite as well as off-shore centres. How to organise training for all these? Wipro also has a policy of subjecting any employee for a two-week training every year. E-learning helps Wipro considerably. Infosys has a major portion of its total training through e-learning.

e-learning has come a long way from its early days when it was used extensively for technical education such as learning new language and familiarisation with new technologies. Today, firms are introducing soft skill modules as well.⁶

Four types of e-learning are distinguished: web-based training which tends not to involve any support from HR practitioners; supported on-line learning which involves on-line trainer support; e-learning community which involves on-line knowledge sharing amongst a group of learners; and informal e-learning whereby learning occurs as a result of on-line communications with others who can be internal or external to the organisation.

It is not that e-learning replaces traditional training system. In fact, e-learning becomes more effective when blended with traditional learning methods. Many firms use e-learning as a prerequisite before classroom training popularly called *blended training*, a combination of e-learning with classroom approach. Routine training such as orientation, safety and regulation compliance is best handled in classrooms. Learning that requires discussion, tutoring and team-work can go on-line though it might also stay in the classroom.

Requisites for e-Learning e-learning does not simply mean putting existing courses and materials on a website. Following requisites need to be provided before launching learning on-line.

- Sufficient top management support and funding needs to be committed to develop and implement e-learning.
- Managers and HR professionals need to be “retrained” to accept the idea that training is being decentralised and individualised.

- Current training methods (compared to e-learning) are not adequately meeting organisational training needs.
- Potential learners are adequately computer literate and have ready access to computers and the Internet.
- Sufficient number of learners exist and many of them are self-motivated to direct their own learning.⁷
- cultural change has taken place about how training and learning happens and is delivered;
- e-learning is closely aligned to the needs of the business;
- e-learning is closely “blended” with other types of training such as classroom activities and is not used to wholly replace other activities;
- learning needs that drive the technology rather than the other way around;
- a range of people with different skills are involved, including expert trainers, facilitators, champions of e-learning and specialist web and graphic designers.
- Programme and content are relevant, method of presentation is interesting and high use of visuals
- Learners are engaged in learning – able to measure their own progress but need feedback
- Self-paced learning is more effective⁸

Advantages and Disadvantages of e-Learning e-learning is advantageous in as much as it is self-paced, allows for consistency and incorporates built in guidance and help. There are problems nevertheless. e-learning tends to cause trainee anxiety, as many may not be ready to accept or have access to computers and Internet. [Table 27.2](#) brings out the advantages and disadvantages more comprehensively.

Table 27.2 *Advantages and Disadvantages of e-learning*

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • It is self-paced. Trainees can proceed on their own time • It is interactive • Allows for consistency in the 	<ul style="list-style-type: none"> • May cause trainee anxiety • Not all trainees may be ready for e-learning • Not all trainees may have easy

- | | |
|--|---|
| <ul style="list-style-type: none"> delivery of training • Enables scoring of services/assessments and the appropriate feedback • Incorporates built-in guidance and help for trainees to use when needed • It is relatively easy for trainers to update content • Can be used to enhance instructor-led training. | <ul style="list-style-type: none"> and uninterrupted access to computers • Not appropriate for all training content (e.g. leadership, cultural change) • Requires significant upfront cost and investment • No significantly greater learning evidenced in research studies • Requires significant top management support to be successful |
|--|---|

As a part of e-learning, firms are increasingly making use of web-seminars (webinars). Many HR professionals are using webinars to organise training sessions to ramp up new hires, and enhance soft skills, particularly when they have to deal with globally dispersed employees. Further, webinars help HR managers in communicating new or latest company policies and manage employee information. Webinars also facilitate involving out-station employees to be virtually present during all meetings.

Webinars help reduce trainer-trainee travel times, and training budgets. In addition, the trainer is able to focus on the contents of training, impart more training programmes regularly, and maintain training calendar, and get a world-wide employee reach with lesson notes e-mailed before the seminar. Training modules can be recorded and used in future.

Apart from training, webinars are used by companies for brand building, generating sales leads and press meets.

e-COMPENSATION

e-Compensation represents a web-enabled approach to an array of compensation tools that enable an organisation to gather, store, manipulate, analyse, utilise, and distribute compensation data and information. Using an Internet browser, the Internet and the world wide web, individuals access electronically distributed compensation software, databases, and analytic

tools from anywhere—their office, their home, on vacation, and on the other side of the globe.⁹

HR professionals are able to gain access to knowledge management databases, best practices and competitive information. Web-enabled tools also enhance HR professionals' ability to distribute this key information and compensation metrics to employees and managers for critical decision making. In addition, web-based tools help increase HR managers' productivity through automating information access and distribution of transactional compensation administration responsibilities to line managers and employees.¹⁰

SUMMARY

e-HRM refers to the use of Internet and related technologies in support of HR activities. e-HRM has the potential to change all the traditional HR activities as [Table 27.1](#) outlines.

Typical e-enabled HR activities include e-recruitment, e-selection, e-learning, e-performance management and e-compensation. All these have been covered in brief.

KEY TERMS

e-HRM
HRM portals
e-recruitment
e-selection
e-learning
e-compensation
e-performance management
webinars

REVIEW QUESTIONS

1. What is e-HRM? How do web-based HR activities differ from the conventional personnel management functions?

2. What is e-recruiting? Explain the typical e-recruiting model.
3. What is e-selection? What are its purposes?
4. What are the benefits and demerits of e-learning?
5. How does e-compensation help HR professionals in improving their productivity?

DISCUSSION QUESTIONS

1. Design e-selection model for an organisation having an employee strength of 2000.
2. Can e-enabled packages replace conventional methods of handling HR activities? Discuss.

CONTINUING CASE

The employee portal at Vybhav is branded “Vybhav Samachar” and provides the employees with complete information on anything he or she might need to know, be it about the company, his or her current job and future roles. As an employee Rahul has the option to set the Vybhav Samachar URL as the default login page and as he boots his laptop each morning, he is greeted with a personalised inspirational quote for the day. It is essentially a one-stop shop for Rahul to navigate and obtain information quickly. Rahul can do the following activities from the Welcome page on Vybhav Samachar:

- Access link to corporate website
- General communication items on Vybhav, posting by the MD/CEO and other business leaders, newsletter and awardee list over the past five years
- Choose to look up a HR policy post any HR query to the HR Helpdesk
- View product intranet to access information on various products, competitor information and strategic positioning in the market
- Open an IT Helpdesk issue ticket
- Choose to look up his personal and professional information and make changes
- Place a request for employment or salary certificate, or apply of leave
- View the job openings at various Vybhav locations on business units, apply for them, or make referrals for open positions

- Internal messaging services, post personal notes for colleagues, photo share facilities
- Post assets/buy articles sell personal effects, look up flats for rent or a car for sale
- Place request for booking official travel tickets to the company Travel Desk, including accommodation, transport-local and at the visiting city
- Post a suggestion to the employee suggestion centre
- Post a question to CEO

It is April, and the company's annual performance review time. Rahul gets an e-mail alert which is auto generated from the performance assessment tool-Perf-Perfect- and he can access it from Samachar to begin his annual review self assessment. There is an end date set for him (15th April) to complete the self review of his KRA's. Rahul continues to get e-mail alerts every three days till he completes the task. Once he has completed his assessment, Rahul's boss Cynthia receives the e-mail alert to the effect that Rahul has completed his self assessment. Cynthia can now access 'Perf-Perfect' through Samachar to complete her assessment of Rahul's KRAs. Rahul once again gets an e-mail alert and he can view his boss's assessment and proceed to fix up a time with Cynthia to discuss the review ratings. Once the discussion is over, Cynthia uploads the final assessment on the 'Perf-Perfect' for Rahul to review and sign off. The assessment process is now complete. Along with the performance review process, Cynthia and Rahul need to complete activities on the — Development Perfect-Tool which can again be accessed on Samachar to update Rahul's competency assessment and a six month development plan review

Come October, Rahul and Cynthia receive —mail alerts again reminding them and guiding them through the process of mid-year review. As Cynthia goes about reviewing the development plan identified in April for Rahul, she can view the training programmes attended by Rahul in the past six months and also the trainer's feedback.

Rahul has been with Vybhav for three years now, and as discussed with Cynthia, is planning to apply for a position in marketing. He has looked up the job openings on Samachar and has found something interesting that matches with his skills. In his mid-year review conversation, Rahul would be discussing this with Cynthia. Cynthia needs to give her consent to Rahul to apply for openings with in the company and till she does this, the HR team

cannot consider Rahul's application for a change of role.

EXERCISE

Break into groups of 5—7 members and assign yourselves five days to come up with the design proposal for the employee portal at Vybhav

- The in-house portal needs to include all possible professional information needs of an employee right from the point of joining Vybhav to the time the employee is exiting Vybhav
- Also explore creative personal needs of busy Vybhav employees that the portal can cater to while ensuring that the employer is not liable for losses or profits thereof.
- Have the faculty assess and award the three best portal proposals. This can also be a graded exercise.

REFERENCES

1. Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, Wiley India, 2005, p. 54.
2. Raymond A. Noe, *Fundamentals of Human Resource Management*, TMH, 2007, p. 52. (a) Garry Dessler, *Human Resource Management*, PHI, 2008, p. 13.
3. Hal G. Gueutal and Dianna L. Stone, *op. cit.*, p. 22.
4. *Ibid.*, pp. 48–49.
5. *Ibid.*, p. 58.
6. *The Economic Times*, dated Feb. 20, 2004.
7. www.malerlim.com.
8. Patricia A. Galagam, “The E-learning Revolution”, *Training and Development*, 2000, p. 24.
9. Hal G. Gueutal and Dianna L. Stone, *op. cit.*, p. 167.
10. *Ibid.*, p. 287.

Human Resource Management in Small Scale Units

Learning Objectives

After reading this chapter you should have a good understanding of:

- The nature of micro, small and medium sized enterprises
- The role played by the MSM sector units
- The problems faced by the small scale units
- Need for HR practices in MSM sector
- Problems in applying HR practices
- Typical existing HR practices
- Guidelines for application of HR practices

Opening Vignettes

WHERE THE STREET KNOWS ONE NAME

This little story is about Bhau Basha, as hardly an entrepreneur as you can find under an open sky. He is entirely innocent of English, but I look forward to the day when this article will be published, I'll be pleased to show him the newspaper and he, I am sure, will be pleased to see his name in print.

Some 32 years ago, the rain clouds drifted away without smiling upon the parched earth of Kadapa in Andhra Pradesh. When the well in which Basha and his playmates would splash ran dry, the 12-year-old, accompanied by a benevolent uncle, began a 200-kilometre journey to a city that would become India's technology capital.

Shivajinagar is not Bangalore's most fashionable locality, but it allows an

honest man to earn a decent living. It is archetypical of urban India. Look around and you can see what I mean. Here, nestled between the milling crowds that throng St Mary's Basilica, Russell Market and the Shivajinagar bus stand, Basha joined the ranks of the millions of India's primal entrepreneurs, those with little else but an intense desire to survive honourably. He was a street hawker, the proud owner of a push-cart and 6 kg of peanuts.

"I bought the peanuts for ₹6. At the end of my first day, I had ₹15. Life was good," he reminisced. The good life lasted for 17 years. The young lad from Kadapa had grown into a man, got two sisters married, and tied the knot himself.

Then, when one day the government decided that it was time to renovate Shivajinagar's bus stand, the iron entered his soul. Basha and the dozens of others like him who had found refuge in Shivajinagar were driven away. "For more than a year I wandered around looking for a place to earn my living. It was the worst period of my life".

When the dark days ended, he sometimes plied his trade on Commercial Street. At other times, it would be adjacent to the gurdwara opposite Ulsoor Lake. Instead of peanuts, he sold jackfruit. For a while, watermelons earned him his daily bread. He would stock the fruit in huge piles opposite Safina Plaza on Infantry Road and found that business was brisk. The policemen kept away, well satiated by a daily gift of ₹20.

"I was making money easily and got tempted by the devil. I took to drink and would not go home for days, God saved me from disaster by making me realise that I was ruining my life and my family", he says. And so, it was goodbye to Infantry Road and watermelons. Basha had decided to get back to his cart and become a vendor of chaat. He learned the tricks of the trade from a friend and picked his spot well, on the little lane that connects MG Road and Church Street. That's where I met him.

"I get troubled almost every day by relatives asking for my daughter's hand in marriage. But "I am determined that she'll complete her education. None of my children should have to do what I have done to earn a living."

Basha decided to diversify. Along with chaat, he now sells fruit bowls, topped with salt, pepper and honey. His income has nearly doubled to ₹1500 per day.

"I won't have to borrow to have a grand wedding for my daughter", he

said.

(Source: Karthik Subbaraman, *The Economic Times*, dated: December 28, 2009)

The phrases “HR” and “small businesses” sound oxymoron. It was Kipling who said, “East is East, West is West, and the twain shall never meet.” Likewise, HRM and small businesses shall never meet. Our statements may sound harsh, but the scenario about the application of HR practices in small scale units confirms our assertion. Talk to NIPM (Karnataka Chapter) personnel about HR practices in small enterprises, the response is one of bewilderment – they never have heard of such concepts. Talk to any HR professional about the topic, you get derisive laugh. Quiz any owner/manager of a small enterprise, the responses is harsher: “Thanks, I have been running my unit successfully without HR. I do not want to run the risk of incurring loss by having such a department in my firm”. (Read Exhibit 28.1 for narration of the story about a successful small unit which does not have HR department. We are not attributing the above statement to the owner of the unit).

Exhibit 28.1 Do You Want to See

- A highly reputed firm which does not have own HR department.
- A plant which does not have security and reception and whose gate is never kept closed except when the plant is closed for the day?
- A small unit which has employed most contemporary management concepts like JIT, Kanban and Kaizen?
- A small unit which has gained the attention of top industrialists in the country? (Adi Godrej and a senior Tata executive visited the unit to study the way management concepts have been implemented)
- A unit which does not have departments, closed chambers for managers, ceiling fans and lighting and peons?
- A unit which does not offer tea to visitors when they come at non-tea hours? (Tea is served only at 10.30 AM & 3.30 PM every day)
- A plant which is a temple of ethics?
- A plant which seeks to spiritualise all its activities?

- An enterprise which has won several trophies and scrolls for excellence in all its activities (and all these are showcased at the entrance to the factory?)
- A success story that has been widely discussed in academic circles? A topic for case writing?
- An organisation which is cash rich, self-reliant, debt-free?
- An enterprise which believes in systems (systems and not products that bring profit is the firm conviction)?
- A plant which does not have supervisors and has a flat structure?

Welcome to Polyhydron (P) Ltd, a medium-sized enterprise located at Belgaum, 550 km away from Bangalore. Started as a small-scale unit three decades ago, it has grown over the years. Last year's turnover was ₹83 cr. It manufactures hydraulic equipment.

The number of employees is 200 and the average age of them is around 30 years. Most of them are natives of Belgaum or from nearby villages. All of them are highly motivated, committed, value-driven, and are leading tension-free lives. Industrial disputes, attritions and resentments hardly exist. Communication is direct—anybody can barge into CEO's chamber any time during working hours to express one's view. No prior appointment is required and no time need to be wasted waiting to be called in. Nothing is confidential—any employee can access any source of information.

Employee hiring is highly informal. A box is kept at the entrance to the factory. Job seekers are expected to drop their resumes in the box. When need arises for hiring, applications are retrieved from the box, eligible applications are picked up and fit candidates are called for interview—mostly one-to-one type. Those found suitable are hired. Mostly freshers are preferred and the choice is invariably the diploma holders.

The new hires are expected to acquire required skills undergoing OJT. No formal training is organised for the purpose. Formal training is considered to be avoidable expense, a diversion from the main task and a device to facilitate job-hopping.

Structured scales of pay are not in use but what is paid to employees is more than industry and locality norms. Every employee is paid compensation twice a month—in April and October. Payments made in April are regular salaries/wages and are expected to neutralise cost of living and those paid in October represent bonus, which for the past four years has

been 100 percent. The company believes in wealth distribution. Accordingly, profit earned is distributed thus:

- Shareholders 5%
- Employees 30%
- Social welfare 1%
- Business Development 64%

It is the employee's share of profit which is paid to them as bonus every month.

Performance of employees is assessed on an ongoing basis. Here again, structured formats and prescribed procedure are not followed. Appraisal of each employee is made keeping such parameters as productivity, loyalty, ethical conduct and obedience. Assessment is made by the CEO himself. Based on the performance and behaviours, employees are categorised into three as shown below:

- Category A: Follow company values and be committed to the organisation
- Category B: Follow company values but not committed
- Category C: Neither value-driven, nor committed (They are exited but instances are few and far between.)

Job security is assured to the employees. Being value-driven and committed, employees do not lend themselves for removal or exit. Employees working in Business Ashram, a sister concern, have been sitting idle since four months. Orders from China have dried up, owing to down time there. The plant was set up specifically to execute orders from China. Operations have been suspended, yet no employee has been exited. They are getting their salaries regularly.

As stated earlier, Polyhydron does not have functional departments. Obviously, there is no HR department. Two employees are taking care of the HR related activities. These two may not be on the same job forever. Job rotation is in place and after a couple of years some other employees may be asked to handle the tasks.

Attrition is almost nil in Polyhydron. Two reasons have contributed to zero employee turnover. First, employees are paid well, trusted and empowered. Two, most of them are natives of Belgaum and surrounding

villages. They do not want to migrate to cities disrupting their family and social life. No one wants to leave the company before retirement.

The factory has excellent meditation centre and well equipped gym. The firm sponsors major sports events.

It is a pleasant experience to go around the plant. Shop floors are spik and span, every item has a place and each component is in its place. Cool breeze, lush greenery around reminds you of a star hotel than a manufacturing enterprise. Except for sound of machines, the plant is free from noise pollution.

While going round the plant a feeling starts nagging you. Is there any disconnect simmering in the minds of the employees under the veneer of contentment, success and glory? Are the employees preparing themselves and waiting for an opportunity to erupt? This perception is ill founded. The HR manager of a Bangalore based firm deputed his union leaders to visit Polyhydron and observe it's working. While in the plant, the leaders coaxed employees of Polyhydron to unionise themselves and told them about the benefits they would get from such unionisation. There was total resistance from all the employees of Polyhydron and the suggestion was not acceptable to them at all. No better proof is required to demonstrate how committed the employees are towards Polyhydron.

There are dark spots which should be pointed out in this context. There is resentment in employees who are retiring shortly. They complain, not openly though, about their discomfort so far as compensation and retirement benefits are concerned. They are of the view that wages/salaries paid to them do not adequately compensate their age, experience and the struggle they underwent in the formative stages of the unit. Second, the CEO is criticised of promoting nepotism. Both his son and daughter-in-law are employed in Polyhydron. Third, the CEO seems to be in the habit of picking up only appreciative points made by the visitors to the plant. He ignores adverse remarks, if any, made by them.

The Man Behind

Behind the success of an organisation there is a man and the person behind Polyhydron is Suresh Hundre. He was borne in a middle class family. After graduating himself in mechanical engineering, Hundre started his career as

a Technical Assistant in a hydraulic pump manufacturing company. Not being content, he went to Mumbai in search of greener pastures. While in Mumbai, the idea of starting something own struck him, and this began the saga of success, initial hiccups being what they were. He is the CMD of Polyhydron. Hundre is an achiever par excellence, envied by jealous people but admired by hundreds across the country, and even abroad. He is a role model for youngsters. What is so unique about this 62-year-old, short, polite, mild and ever smiling man?

The most striking feature about Hundre is his time discipline. We were given appointment to meet him at 11.30 AM. We went 15 minutes ahead and this time was added to the total time given to us to spend with him. Ramesh Chauhan, the systems specialist, was asked to take us round the plant and was given 45 minutes for the purpose. We went along with him and while briefing us, he was looking at his watch every five minutes to ensure that he was not stretching beyond 45 minutes. Time consciousness is an obsession with all the employees. Any one coming late runs the risk of losing wage for one hour for every minute of late arrival.

Second, Hundre is epitome of frugal living. A man who pays income tax of ₹50,000 for every working hour, has only four white half sleeve shirts for himself. He buys one shirt per year but never buys pants as they are provided by the company. His office carries no expensive decor, and there is no secretary, and no AC. Himself attends to phone calls and replies to them immediately.

Third, his uncompromising commitment to ethical conduct is revealing. Slogans like “Temple of Ethics”, and Honesty is not the Best Policy, But the Policy" embellished to the walls are not mere catchy statements; they are practised in full spirit. What made him to become so ethically conscious? Decades ago, Hundre and his partners, including his wife, were held guilty for having evaded payment of income tax. They were required to make rounds to the court. He felt humiliated that his wife too was required to appear in the court. That feeling of shame and guilt was a turning point in his life. Hundre decided to be ethical and he never did any unethical act since then. Being ethical, he proved to be most successful businessman disproving the popular belief that profit and ethics cannot go together.

Fourth, Hundre is not content with being honest in all his transactions.

He is trying to spiritualise business. A staunch follower of Swami Vivekananda, Hundre is as determined as the great sage was.

Fifth, Hundre is socially conscious, and has floated a few NGOs. This is not unique. What is so strange is that out of eight hours of office work, he devotes two hours for social work. He draws salary for only six hours a day. Hundre desires to increase the number of hours for social work which correspondingly would cut into his earnings.

Does he entertain political ambitions? There have been compulsions on him to contest elections. But he refused. He wants to remain apolitical. As of now Hundre is a contended man, so are his employees and family. Contentment is the ultimate in one's life and Hundre is lucky to have won it in abundance.

Scenario should change. HR practices must be applied in small units also. The prevailing notions about the topic should change. With HR in place, small units can become more competitive and more prosperous. Owners/managers of those firms should realise that their firms can derive competitive edge from employees and their better management is a must to gain the advantage. This chapter is devoted to describe the present practices, identify challenges confronted in introducing people practices and suggest guidelines to make the application rewarding.

WHAT IS A SMALL BUSINESS UNIT?

Small units comprise three categories of undertakings: micro, small and medium (MSM). Investment in plant and machinery is kept as the benchmark to call unit as micro, small or medium. Viewed from investment perspective, a micro unit is understood as the one having plant and machinery worth ₹25 lakh or less; a small unit with more than ₹25 lakh but less than ₹5 crore; and medium enterprise having more than ₹5 crore but less than ₹10 crore.

The above criterion applies to small units in the manufacturing sector. The same units operating in the service sector carry different investment figures, as shown below:

Micro: ₹10 lakh and below

Small: more than ₹10 lakh but ₹2 crore or less

Medium more than ₹2 crore and ₹5 crore or less

Figures of small units in the service sector represent investment in equipment.

Data relating to MSM units are staggering. There are as many as (in 2006-07) 128.44 lakh enterprises, with an output measuring ₹471663 crore, providing employment to 313 lakh people and earning forex of ₹150242 crore.

SIGNIFICANCE OF MSM ENTERPRISES

Small business units are highly relevant for any country, particularly of a developing economy like India. India has nearly ₹40 crore citizens who are active and productive, scattered across the country. Organised sector cannot absorb all these employable citizens. Small scale units fill the void ably. There are other reasons supporting the relevance of MSM undertakings.

Core inherent strength of small units is innovativeness. Unlike large enterprises, small units may not own R&D establishments, but disproportionate share of innovative ideas have generated from them. Some examples are worth recollecting. Santosh Ostwal, the son of a farmer, invented Nano Ganesh, a modem which coupled with a mobile phone, is connected to the starter mechanism of the water pump, making the long march of the farmers for their water pumps in remote locations unnecessary. For this, Ostwal was awarded the first prize at international level amidst 1000 competitors.

Walk the Talk

Do's	Don'ts
<ul style="list-style-type: none">• <i>Become an entrepreneur yourself, run it well and implement all policies and practices we described in this chapter</i>• <i>Design customised HR policy packages and make them available to owners/managers</i>	<ul style="list-style-type: none">• <i>Adopt an attitude that HR and small units are poles apart</i>• <i>Entertain the thought that HRM is relevant only for large domestic and overseas organisations</i>

- *Groom young entrants on the nitty-gritty of HR and motivate them take up jobs in small scale units*
- *Step down from the high pedestal of glittery corporate sector and reach out to the owners/managers of small units. Many of them are leading frugal life, afford only two wheelers often trudge along and are fighting hard to keep their units afloat. Bailing them about is your real service as a HR professional*

Devesh Agarwal, CEO of Infomart India, has technology called 'Power Over Ethernet (POE), a system which transmits electric power along with data to remote devices over cable in an Internet network.

MSM units cater to individual needs and tasks, particularly in service sector. Service sector is servicesensitive and enterprises which offer personal care, attract customers better. PN Rao is a household name in Bangalore. It was in 1923, PN Rao (the unit is named after the founder) opened a cloth store catering mainly to British gentlemen. As of now, PN Rao has transformed into a suit destination – stocking ready to wear suits. Entry of mega brands like Zodiac, Reda, Black Berrys, Park Avenue and the like did not deter the *desi* ready to wear suit destination. PN Rao stocks readymade suitings and shirtings for all occasions such as parties, birthday bashes, wedding anniversaries, marriage receptions and the like. Prices range from very competitive to high ends.

A mother, who shopped at PN Rao for her son's wedding reception, recounts her pleasant experience with the way she and her son were treated in the store. After trying elsewhere, they stepped into PN Rao's branch and came out smiling. The lady says that the sales people were courteous, patient, smiling, polite and sincere. No glib talk and no posturing.

In Bangalore, GK Vale is synonymous with photography. Established in 1910; G.K Vale is 100 plus years, still going strong. It has 17 branches spread over, Bangalore, Mysore and Mangalore. Generations of Bangaloreans have been thrilled to have their cherished moments imprinted in emulsion for eternity. Uncompromising quality, unmatched service and customer care have made GK Vale the last word in photography.

Probably, the strongest argument in favour of small units is the equity principle. By nature, small enterprises are widely spread geographically, owned and controlled by people who are likewise vastly dispersed. Income earned from these firms is dispersed. Wealth generated by large firms is concentrated in a few hands leading to wide income inequalities. Small scale units have the potential to empower women, uplift marginalised sections of people, and achieve inclusive growth (See the opening vignette).

FACILITIES

Several facilities are available that seek to facilitate the growth of MSM sector. Any number of agencies, central as well as state governments have been set up to promote small scale units. Right from the stage of inception, all aspects of a small unit, viz, production, marketing, finance, technology and other requirements are taken care of by one agency or the other. It looks as though you should only make up your mind to start a small unit, you will be automatically raised to the status of an industrialist, just as you are pushed to the other end of the road by a huge and thick crowd, provided you allow yourself to be jostled.

But it is ironic that there are not many takers, though several facilities are available. One is tempted to question the educated youth why they should not grab the facilities thrown open by the government and start small-scale units instead of lining up before employment agencies.

PROBLEMS

If there are not many takers, there are supporting reasons. In other wards, problems of the SME sector are many and serious as explained below. Incidentally the problems set the tone for application of HR practices.

1. The expansion of the MSM sector till now has been policy-driven.

Raising the assets limit, increasing the reservation net and providing concessions and subsidies have contributed to the enormous increase in the number of small-scale units, many of them turning sick subsequently. If some units have prospered, it is because of the dynamism of the owners-managers. Successful entrepreneurs do not know what a small unit means. Nor are they aware of the reservation net (It is estimated that only 22 per cent of units have benefited from reservation). It is time that the policy-driven measures are replaced by more forward-looking and entrepreneurial-oriented measures like: (a) favouring the growth-oriented and viable units and the units satisfying the socio-economic norms; (b) fostering more of the clustered units to reinforce backward and forward linkages; (c) relying exclusively on assistance related to raw-materials, marketing, machinery, and technical advice; and (d) offering timely and adequate assistance.

2. In today's environment, it is performance and not protection that is at the top of agenda of any small unit. In order to achieve performance, small-scale units require efficient and willing human resources. Since small scale units cannot offer the kind of packages that large companies can, they lose personnel. Remedial measures are needed to attract and retain talent.
3. Finance continues to be bugbear. Commercial banks have been fulfilling their commitment only partially to the MSM sector. Infact, many banks are cautious when it comes to lending money to small units, Exception however is SBI, PNB and Canara Bank. Recently, SBI has restructured over 38,500 accounts of MSMs thanks to the RBI revision of provisioning norms.

The MSM Act has, no doubt, mandated payments on purchases from small units within 45 days from the dates of procurement. This provision too has been observed more in breach than in practice.

Export-oriented units in sectors like garments, leather, marine goods and auto components have their own woes. They face serious problem while realising payments form overseas buyers.

The so-called micro units are disadvantageously placed. About 90 per cent of MSM units in the country are micro units. Majority of these units do not come under the formal banking system.

4. The other problem is marketing. Small firms often do not have the

resources for serious marketing efforts. A market development fund may be set up by the government to solve the marketing problem. Alternatively, the government could itself market products of small units under a common brand name. Government need not shy away from intervention although the present trend is non-intervention in economic activities.

5. Technology modernisation has become a problem particularly because of the asset limit for definitional purpose. To circumvent this problem, several entrepreneurs set up new units with modern technology leaving the old ones to languish.

In order to meet a long-standing demand, the government is now considering twin packages for the reserved and non-reserved sectors. First, the investment limit is likely to be raised to ₹1.5 crore for units falling under the reserved net and ₹5 crore for those falling outside. The logic is that since excise concessions stop after a unit reaches the ₹ 2 crore turnover limit, the revenue loss will not be high. Units will be able to start with modern technology, or upgrade the existing one.

Small units might also choose to consolidate multiple units.

6. There are endless hassles from the government and other agencies, who are otherwise meant for encouraging the development of the small scale sector. There are 30-40 inspectors from various departments visiting a given unit. The entrepreneurs are also confronted with cumbersome procedures. To the credit of the governments, both central as well as state governments are trying to minimise inspectors and reduce procedures.
7. Economic reforms affect the fortunes of small units badly. This will be particularly true of the units which are engaged in the production of consumer goods without the benefit of any brand advantage. The new product launches of giant corporations will sooner or later encroach severely on the small segments of consumer markets which have hitherto been the sheltered domain of the SME units.
8. The organisational base of many of the SME units has remained weak in terms of what the emerging competitive conditions will warrant. The recent transformation of the Indian capital market has not benefited the SME sector which continues to operate as proprietary concerns. If they are to access capital markets, small units must restructure their

ownership forms into corporate outfits. This also implies that the small units must grow in size to become corporate entities.

9. Much of the current crisis faced by the SME sector is the lack of clarity with regard to the nature of SME units. There has been a proliferation of definitions of SMEs and consequently, many small entrepreneurs are not sure whether they fit into the governments' definitions.

Ancillary units (with the stipulation that they should not be subsidiaries of other industrial units) hardly number 8,000 out of more than a lakh SME units. In fact, it is this sub-sector which holds much promise for the emergence of sub contracting as a major strategy for competitive positioning of industries. Unfortunately, these units are likely to be lumped with other loosely defined units for the purpose of benefits. This problem needs to be tackled immediately.

10. Multiplicity of laws has proved to be often a burden on small units. MSMEs are required to follow several laws and regulations beginning from their inception till the time they operate, at various stages. These laws framed by the government—both central and state – sometimes do bring in a multiple adherence system which proves to be hurdle for SMEs but are nevertheless necessary.

What is important is that the owner/manager himself or herself is the person who should manage the unit successfully. Many a time, sickness is caused by the owner/manager himself or herself. Often, an individual not endowed with entrepreneurial qualities (See Exhibit 28.2) starts a unit – may be to enjoy the benefits and incentives offered by the government or the person has no other avocation to engage himself or herself in. There are instances where the owner / manager siphoned off funds for personal use such as buying vehicles, jewellery, or celebrating marriages. Units become sick in the meanwhile.

Exhibit 28.2 Skills Needed to Run Small Businesses Successfully

Technical Skills

- Writing
- Monitoring environment
- Technical business management
- Technology

- Ability to organise
- Network building
- Management style
- Coaching
- Being a team player

Business Management Skills

- Planning and goal setting
- Decision-making
- Communication
- Human relations
- Marketing
- Finance
- Accounting
- Management
- Control
- Negotiation
- Venture
- Launch
- Managing growth

Personal Entrepreneurial Skills

- Inner control/disciplined
- Risk taking
- Innovative
- Change oriented
- Persistent
- Visioneering
- Ability to manage change

Pause and Ponder

Recollect stories you have read from Exhibit 28.1, continuing and closing cases. What are the commonalities among the three? What lessons can you draw from them?

PEOPLE PRACTICES IN SMALL UNITS

All stakeholders – HR professionals, executives, think tanks, policy makers, academic bodies, professional bodies and government agencies have accepted the prevailing scenario and appear to believe that nothing can be done to bring HRM policies and practices to MSM enterprises. Consequently there has been an undue bias from all concerned in favour of the application of HR policies and practices in MNCs and large domestic organisations. While the tilt is understandable considering the visibility, clout, scales and operations of large firms, the total neglect of small scale sector is regrettable. All said, it is the MSM sector which needs better people management practices. In large organisations, after a few years, the existing systems and manuals are institutionalised and are in place. Things take place in a routinised way, HR or no HR. It is different in MSM sector. Small units are in a constant flux all the time-people keep coming and going, every action is new and every decision is precedentless. Management is highly paternalistic. Consequently, small units are highly vulnerable. They need services of HR professionals who can customise practices to suit small enterprises. Such practices bring in stability, continuity and resilience to MSM sector.

CHALLENGES IN INTRODUCING HR PRACTICES

Granted that the small and medium enterprises are the fit case for HR application. There are problems that need to be addressed. *First*, size of operations of a small unit is a major hindrance. Small scale units may not be in a position to afford to have full-fledged HR departments. Their usual HR practices are maintenance of statutory records relating to PF and ESI contributions. Maintenance of these records is outsourced. B.Com graduates render such a service for a fee. The commerce graduate makes his living by undertaking such a task for 5 to 6 similar units. Outsourcing works out cheaper for small units.

Second, HR professionals themselves price out from MSM units. Expectations and demands of HR specialists are too high for MSM units to afford. Blame lies with the HR professionals. They are too enamoured and lured by the fat cheques and perks offered by large corporations and MNCs.

Third, priorities of a small unit owner are different. She/he is running business to earn money and not with an altruistic motive. Employee welfare, social responsibility, community development and similar other philanthropic

ideals are relevant only to large organisations like TATA's and TVS group of companies.

Fourth, customised HR practices as applicable to small business hardly exist. Concepts like strategic HRM, HR professionals as change agents, competitive edge, human capital management, knowledge management, retention and the like do not apply to MSM units.

Available literature on HRM focuses on the relevance of HR practices in large firms. HRM guru – Dave Ulrich – suggests that small businesses having 50-75 employees do not need HR professionals. Ulrich and people like him are the right experts who should recommend models, principles and practices custom-made for MSM enterprises.

Pause and Ponder

Recollect continuing case. Can other small scale units be incubated with large firms?

CURRENT PRACTICES

HR practices in small firms vary from unit to unit and often depend on locations. In general, prevailing practices are conditioned by the following factors:

- Openness, need, desire to change attitude and financial position of the owner/manager.
- Availability of trainers, specially groomed from the small units moorings, to train employees. Besides, affordability is a key factor. Owner/manager of a small unit cannot afford to pay as much as large organisations compensate trainers.
- Educational and skill levels of employees together with their age and willingness to learn and enhance their career prospects.
- Whether the unit is city based or location in a remote village.
- Interest and initiatives from HR professional bodies and governmental agencies.

Coming to the prevailing HR practices in MSM units, it is much easier to describe what is not found in practice rather than what is being followed.

There can be exceptions but such varieties are few and far between and also do not constitute a trend.

Employee hiring practices which we read and listen rarely exist. Not that small units do not hire at all. Whatever the practice that is followed is unstructured, non-standardised and localised. A job-seeker, who is recommended by spouse, friend, employees, lending agency, supplier or customer, is generally hired. Hiring is need-based and not favour-based. Elaborate procedure of notifying vacancies, conducting test and interviews is the luxury of only large organisations. Many small units display “wanted” boards at the factory gates and eligible candidates are hired on the spot. Some others keep boxes at the entrance and the job-seekers are required to drop their resumes in the boxes. As and when need for hiring occurs, boxes are opened, resumes are picked up and eligible applicants are hired.

A hiree is expected to train himself while working on the job. He joins today, stays with the firm for decades and grooms himself through on-the-job training. A boy who joined as a fitter is said to have groomed himself and has risen to the level of a CNC machine operator. Formal training is perceived to be an avoidable expense more forgotten than learnt, and a device to facilitate job-hopping.

Compensation is unstructured, often niggardly and firm-specific. What is paid to X, for example, is influenced by his loyalty, hard work, productivity and obedience. Increments, bonuses, perks and benefits are not in existence. Motivated by the desire to accumulate *punya* or wash-off from a sin, the owner/manager may meet educational and medical expenses of employees of their families and children.

Performance assessment is highly informal. Owner/manager observes the behavior and performance of every-employee on an ongoing basis. What is his assessment of an employee is final and the rank given by him is ultimate. High-performance is often rewarded by mere nice words, but rarely accompanied by monetary rewards. No formats are used and no techniques of appraisal are employed for assessment purpose. Obviously, assessment is subjective.

Industrial relations is not an issue in MSM sector. Not that all employees are totally happy and all owners/managers are Tata's. Take the case of employees of Medimix, a medium scale enterprise located in Bangalore (see closing case). In its initial stage, the unit was closed for several days. All the

employees would come in the morning every day, sit in front of the gate till evening and return home in the evening. No one exited thought no wages were paid to them. This is the mindset of the employees in most of the small scale units. Strikes, lock-outs, unionisation, arbitration, adjudication, labour courts and the like are the terms mainly heard in the corridors of large organisations.

Organisational set up for HR department does not exist in small units as HR activities themselves are not in place. Line managers generally handle people related activities. Accountant, storekeeper and office managers are the people who maintain mandatory records related to employees.

Despite all these, MSM units are marching ahead and some of them have done exceedingly well in terms of growth, prosperity and people welfare. Stories told in Exhibit 28.1 and closing case are typical.

GUIDELINES FOR APPLICATION OF HR PRACTICES

Reading this chapter till now gives an impression that MSM units are shying away from HR practices. This understanding may not be correct. Owners/managers are hiring, training, compensating and motivating people. But all these activities are carried on informal and randomly.

If the same practices are made formal and carried out on a sustainable basis, you have HRM, even if a qualified HR professional is not hired for the purpose.

One ubiquitous facility available is Internet. The owner/manager can google through Internet for customised practices for hiring, training, evaluating and compensating employees. The customised practices accessed through Internet may be Americanised but the same can be modified to meet our requirements.

Government can play a key role in this direction. Not that governmental agencies are not available, but the focus of those agencies is more on training of entrepreneurs and not implementing HR systems in small scale units. The major activities of MSME Development Institute (a central government organisation) include the following, more of which are targeted at employers:

- Assistance/consultancy to prospective entrepreneurs and existing units
- Preparation of state industrial profile
- Preparation of District Industrial Potential Surveys

- Project profiles
- Entrepreneurship Development Programmes
- Management Development Programmes
- Intensive technical assistance
- Library facilities
- Sub-contract exchange
- Coordination with state government agencies like DLs, DICs, corporations, etc.
- Provide common facility workshop/laboratories
- Promotion of quality upgradation systems like ISO 9000/14000.

Professional bodies and HR consultants too can play their role in educating owner/manager about the benefits of having HR departments. Along with this, they should also devise cost effective practices suitable to MSM units.

SUMMARY

MSM sector comprises micro, small and medium sized enterprises. Government has stated investment limits to define these units. Small scale units play key role, but are beset with series of problems.

HR practices in small scale units do exist, but in an informal and random way. However, small scale units do need HR services to become more competitive.

KEY TERMS

MSM sector

HR practices

Informal assessment

Human Resource Management in Small Scale Units **857**

REVIEW QUESTIONS

1. What do you understand by micro, small and medium enterprises?
2. Bring out the problems faced by the MSM sector units. How do they set a tone for application of HR practices in these units?

3. Describe the current HR practices followed in small scale units

DISCUSSION QUESTIONS

1. Do you agree with the statement made by the owner/manager of a small unit — “I don’t want to run the risk of incurring loss by having HR professional”?
2. What role can each of the following play in application of HR in small units
 - (a) Owner/Manager?
 - (b) Government?
 - (c) HR consultants?
 - (d) Professional bodies?

CONTINUING CASE

A year ago, a new division was floated by Vybhav. The youngest grandson of the founder, Shawn Dewan, wanted to set up his own advertising company and the Board took a decision in its annual meeting to have it incubated within the larger Vybhav group of companies. It was named Vybhav Advertising (VAD). Being a part of the larger Vybhav Group, VAD had to align to the corporate policies and practices prevalent commonly across all the divisions. Shawn had one only request from the corporate team to allow him complete autonomy to run the business as he thought best. Having done his Masters from a reputed university overseas and worked at a start-up company in the US in the advertising space, his request was not questioned.

Over the year, it grew to be 45 employees in strength and had already generated revenue of ₹12 crore by bagging a large advertising opportunity from a sports goods company for an international cricket event. Employee turnover was well below the industry standard; as it is typical of this industry. The teams worked round the clock often not even going back home for a day or two due to deadlines and commitments made to customers; ran huge bills on team parties at the city’s most popular lounge and clubs; compensation was pegged at a moderate 75th percentile with reference to peer companies in the advertising industry and the advertising market was already buzzing with

news of VAD and its quick success.

Renny was curious to understand what exactly Shawn was doing differently that resulted in such high morale and business success for VAD. She set up time with Shawn to meet him and what she discovered was stunning. One of the success factors that Shawn quoted was that there was no HR at VAD! A more detailed analysis revealed that Shawn had used some simple and effective methods to ensure employee engagement and retention that were typical of the media and advertising industry that saved him the cost of a dedicated HR professional.

1. Staffing was the responsibility of each team manager. He needed to justify the 'need' for hiring and then identify the person best suited for the job and be accountable for the performance and deliverables from each of his/her team member. And since this industry largely works on networks, referrals served as the best source. Since each team worked on dedicated accounts they were made responsible for being profitable. This placed a lot of accountability on the manager so he manages cost to ensure the best margins. Given the size of an account the decision to outsource parts of the jobs to freelance consultants was a commonly chosen path. Often, teams would prefer to stretch and complete a task per the deadline.
2. Performance management was more a personal mission. Since the job is highly creative and driven largely by passion, satisfaction and motivation were self-driven rather than by external factors. Teams worked hard to deliver and then partied even harder to celebrate its achievements. Underperformers, those unable to scale to meet the expectations, would automatically exit the team without even being told.
3. The word 'training and development' does not exist in the dictionary of the advertising world. So heavily is the industry dependent on personal skills, the 'perception' of some one needing to be trained to do a job is viewed negatively. People are in this industry because they love it and learn on-the-job, the rest that is required to survive in the corporate world.
4. As is the case with other industries, compensation is commensurate with skill and experience and are structured simply. There is no linkage of level to pay and it is possible that a team member with key skills

might draw a salary higher than that of his/her team leader or a manager. There are variable pay components linked to team/unit/business success and revenues.

5. Culture is highly informal. The average age of employees is as low as 24 years. Normal rules and policies do not apply. For example work hours are 100% flexible and are discussed and agreed with the team and then complied with. Norms are that no one is 'boss'; all are at par and bring their individual and often unique skills and techniques to the job. Each contributes in his/her individual capacity and is respected for it. The style of the manager/leader too is mostly laissez-faire. Hierarchy is very flat, with just 3-4 levels that differentiate the maturity of the skill. Age is not a barrier. What was unique to observe was that employee retention is directly linked to company's success. An advertising firm doing well and bagging its share of 'big accounts' is seen as adding significant value of the 'resume' of the employee. There is a clear alignment of the quality of employees with the success of the unit. Employees, who do exit for professional reasons, manage the exit in such a way that no bridges are burnt. It's a small and extremely well-networked industry and positive responses are key to find a larger and more interesting role.

Renny was convinced that this model was really working well given the current team size and the revenue model they had in-place. However, it might not work out years down the line when the units grow larger. She wishes Shawn all the success, asking him to reach out to her if he ever felt he needed a dedicated HR person.

Closing Case *The Saga That Inspires*

It is highly difficult to stereotype the man. He refuses to be slotted. At 80, he is not sitting idle and does not indulge in endless gossip which men of his age savour all the time.

Octogenarians generally complain about sons and daughters-in-law for their negligence of them, curse politicians and officials for their slothfulness and corrupt practices (some of these elderly gentlemen themselves were government servants before their superannuation); and

admonish today's youth for their excessive greed.

He has serious health problems, In fact, he was born partial deaf. He has the usual other ailments – hypertension, sugar, heart surgery, breathing problem-which age and city life have wrought on him. He does not mind all these. With a mouthful of tablets and couple of pricks in the morning, afternoon, and night everyday, he shrugs and declares—“I am 100 per cent fit”.

Fit he tries to be. He is a stickler. He and his wife stay in a posh and well-decorated house in Bangalore. Most of the time, he spends his time in his study room in the first floor. For bathing, food, meeting visitors, he come down to the ground floor. He maintains a log book and records therein every time he comes down and climbs up. He ensures that he has at least done these 25 times a day. Unmindful of heart ailment and breathing difficulty, he climbs the seven hills of Lord Venkateshwara (so far five times) barefooted, flies and stays in hotels when not in Bangalore, without an escort.

His ambitions are infectious, spirits inebriating and his zeal to achieve more is undying. He is a voracious reader, prolific writer, and composes poetry felicitously in Sanskrit. He is well-grounded in the *prasthanā traya*, the Vedas, the Upanishads and the Gita. He is quite familiar with the Quran and the Bible and the philosophical concepts built around Buddhism.

Dr. Dayanand S.Rao was born in 1929 at Mangalore, did his schooling, graduation and Ph.D. in Mumbai (then Bombay). He majored in Organic Chemistry. He worked in the US as Research Scientist and parallelly completed his MBA over there.

Back in India, he worked for two companies – Amar Dye Chem and Colour Chem. In both these companies, the job involved was dealing with dyestuffs. Though the nature of business was unknown to Dr.Rao, he did commendable jobs, receiving awards and earning patents for the companies.

Somewhere, deep in his thoughts, Dr. Rao felt he was wasting his time and talents in Mumbai. He also felt he was commoditised. He decided to start something on his own. Thus, the first generation entrepreneur was borne in Dr. Rao. He was 51 years old then. He relocated to Bangalore and in association with close friends and relatives, Dr. Rao started Remidex

Pharma Pvt. Ltd. The initial investment was ₹20 lakhs and the employee strength was just 15. Remide-X went into manufacture formulated drugs, in the form of tablets, capsules and liquid orals. This was a bold move, which was his wont all the time, as Dr. Rao had only self-acquired knowledge about pharmaceuticals. From Organic Chemistry to Dyestuff to Pharma, the journey was long and arduous.

During the last 25 years, Remidex has grown in strength. As of now, the firm's turnover is '350 crore and employee strength is 600, which includes contract employees also. Over the time, two more firms were added:

1. Sanil Pharmaceuticals Pvt. Ltd.
2. Ishaan Labs Pvt. Ltd.

Sanil is into making granules and Ishaan makes potent hypoglycemic.

Was the journey from rags to riches, smooth for Dr. Rao? No. There were setbacks, betrayals and humiliations. It was the early period of Remidex's life. Dr. Rao was in need of money. He thought of raising loan from a bank and decided to meet the branch manager of a nationalised bank. When Dr. Rao sent in his business card, the manager refused to give Dr. Rao an audience, forget about sanctioning the loan!

The year was 1986, Karnataka State Financial Corporation (KFSC), the agency supposed to lend money to small units, closed the doors and gates of Remidex on the pretext that outstanding loans were not cleared. Everyday morning workers come, wait at the gate and go back in the evening. This went on for 10 days. In the meantime, Dr. Rao was left to fend for himself. He has been converting every adversity into an opportunity. His partial deafness made him not to attend functions and meetings. He became inward looking. He has taken to reading and writing, focusing mainly on philosophy. He is seeking to get the right answer to an ever elusive question "Who am I"?

Ask him what is the secret behind his success as an entrepreneur? "It is people", says Dr. Rao. His employees work for him, stay with him and are totally aligned with Remidex. Hardly does any employee leave and those who quit earlier came back to him. No HR expert himself, it is amazing how Dr. Rao could hire such loyal and committed employees. It appears that he hires only the top-level executives. They are given freedom and authority to hire people down the line.

Is Dr. Rao paternalistic in his approach towards his employees? The answer is no. Though CMD himself, Dr Rao goes to the plant two days in a week and that too for a brief stretch. He lays down only major policy initiatives to the functional heads. It is up to them to carry out. They are given total operational freedom. He trusts his employees and they live up to his expectations. Management of Remidex is fairly professionalised.

Born in a poor family, Dr. Rao has earned money for himself and generated wealth for the country. More than six hundred families are depending on him and drugs turned out from Remidex are lifesavers. Being kind-hearted and generous, Dr. Rao is ever eager to reach out to the bottom of the pyramid. The tips he gives to waiters in hotels he checks in and cab drivers at airports are legendary. He has also set up a trust with corpus of ₹2.0 crore. The trust aims at providing scholarships for higher studies to poor students on the basis of merit.


What is Dr. Rao's message to today's youth? He blushes when quizzed on this. Pressed, Dr. Rao says with conviction and sincerity—have good intentions, be a good human being, have ambition but not greed, have patience and be determined. Old clichés may be, but these are the pillars of success, which sadly most people do not possess.

From Mangalore to Mumbai to the USA to Germany to Bangalore and from organic chemistry to dyestuff technology to pharma to philosophy to book writing, Dr. Rao's saga is eventful, colorful and inspiring.

(Dr. Rao expired in April 2012)

Questions

1. What lessons can the owner and manager of a small unit learn from Dr. Rao?
2. Do you think that with the change of time and the announcement of new policies and initiatives, the life of a small unit owner would become easy?



Bibliography and Web Resources

- Agarwal, R.D., *Dynamics of Personnel Management in India*, New Delhi, Tata McGraw-Hill Publishing Co., 1977.
- _____. *Dynamics of Industrial Relations in India*, Tata McGraw-Hill Publishing Co., New Delhi, 1977.
- Alvin Toffler, *Power Shift*, Bantam Books, 1992.
- Arthur A. Thomson and A.J. Strickland, *Strategic Management*, Tata McGraw-Hill, 2003.
- Aswathappa, K., *Essentials of Business Environment*, Himalaya Publishing House, Bombay, 1995.
- Ashok Som, *Organisation Redesign and Innovative HRM*, Oxford, 2008.
- _____. *Organisational Behaviour*, Himalaya Publishing House, Bombay, 1997.
- Baer, W.E., *Grievance Handling: 101 Guidelines for Supervisors*, American Management Association, 1970.
- _____, Popplewell, Barry and Alan Wildsmith, *Becoming the Best*, Gower, London, 1988.
- Bass, Barnard M. and Barret, Gerald V. *Man, Work and Organisations: An Introduction to Industrial and Organisational Psychology*, Allyn and Bacon, Boston, 1972.
- Bass, Barnard M, and Vaughan, J.A., *Training in Industries: The Management of Learning*, Wordsworth Publishing Co., California Belmont, 1966.
- Barnard, Chester, I., *The Functions of the Executive*, Harvard University Press, Cambridge, Massachusetts, 1938.
- Baron, Robert, *Psychology*, Prentice-Hall of India, 1996.
- Basu, K.S., *New Dimensions in Personnel Management*, Macmillan & Co., New Delhi, 1979.
- Belcher, D.W., *Wage and Salary Administration*, Prentice-Hall, New Jersey, 1962.
- Berliner, W. and M.C. Larney, *Management Practice and Training*, Homewood, 1974.
- Berlo, D.K., *The Process of Communication*, Holt Rinehart & Winston, New York, 1989.
- Black, James, M., *Positive Discipline*, American Management Association, 1970.

- Bolar, Malati, *Performance Appraisal*, Vikas Publishing House, New Delhi, 1979.
- Bolley, J.W., *A Guide to Effective Industrial Safety*, Gulf Publishing House, 1977.
- Bowley, A.M. (Ed), *Handbook of Salary and Wage Systems*, Grover Press, New York, 1975.
- British Institute of Management, *Job Evaluation: A Practical Guide for Managers*, 1970.
- Brown, J.A.C., *The Social Psychology of Industry: Human Relations in Factory*, New York, Penguin Books, 1954.
- Calhoon, R., *Managing Personnel*, New York, Harper & Row., 1964.
- Carroll, J., and H.L. Josi, *Management by Objectives*, Macmillan & Co., New York, 1973.
- Carvel, Fred J., *Human Relations in Business*, Macmillan & Co., New York, 1970.
- Chandra, *Grievance Procedure: A Survey of Practices in India*. Administrative Staff College, Hyderabad, 1968.
- Chakraborty, S.K., *Management by Objectives*, Macmillan & Co., New Delhi, 1976.
- _____, *Management Transformation by Values—A Corporate Pilgrimage*, Sage Publications, New Delhi, 1991.
- Chandrasekhar, R., *The Buck Stops Here*, Macmillan, New Delhi.
- Charles R. Greer, *Strategic Human Resource Management*, Pearson, 2002.
- Charles W. L. Hill, *International Business*, Tata McGraw-Hill, 2005.
- Chisholm, G., *Communication in Industry*, Business Publishing Co., New York, 1963.
- Chris Hendry, *Human Resource Management—A Strategic Approach to Employment*, B.H. Contemporary Business Series, 1995.
- Christopher Mabey, Graeme Salaman and John Storey, *HRM—A Strategic Introduction*, Blackwell Publications, 1998.
- Chrudden, Herbert J. and Sherman, Arthur W., *Personnel Management*, South Western Publishing Co., 1972.
- Chung & Megginson, *Organisational Behaviour—Developing Managerial Skills*, Harper & Row, 1981.
- Cole, G.A., *Personnel Management—Theory and Practice*, D.D. Publications, 1993.
- Craig Robert L., and Lester R. Brittle (Ed), *Training and Development Handbook*, McGraw-Hill, 1967.
- Craig Robert L., and Bittei Lester, *Training and Development Handbook*, McGraw-Hill, 1967.
- Crane, B.R. and Hoffman, R.M., *Successful Handling of Labour Grievance*, Central Book Co., 1956.
- Cumming, Maurice W., *Theory and Practice of Personnel Management*, William Heinemann Ltd., 1972.
- Cynthia D. Fisher, et al., *Human Resource Management*, Houghton Mifflin Co., Boston, 1997.
- Dale S. Beach, *Personnel—The Management of People at Work*, Fourth Edition

- Macmillan & Co., New York, 1980.
- Dalton, M., *Men Who Manage*, John Wiley & Sons, New York, 1959.
- Dave Ulrich, *Human Resource Champion*, Harvard Business School Press.
- Dave Ulrich and Wayne Brockbank, *The HR Value Proposition*.
- David A. Decenzo and Stephen P. Robbins, *Personnel/Human Resource Management*, Third Edition, Prentice-Hall of India, New Delhi, 1989.
- David J. Cherrington, *Organisational Behaviour*, Allyn & Bacon, Boston, 1989.
- David R. Hampton, *Contemporary Management*, McGraw-Hill, 1981.
- Debra L. Nelson, et al, *Organisational Behaviour*, Thomson, 2003.
- Donald F. Harvey, *Strategic Management and Business Policy*, Merrill Publishing Co., 1988.
- Don Hellriegel, et al, *Organisational Behaviour*, South-Western, 2001.
- Dubin, R. (Ed), *Human Relations in Administration*, Prentice-Hall of India, New Delhi, 1974.
- Dunn, J.D. and Rachel, M., *Wage and Salary Administration: Total Compensation Systems*, McGraw-Hill, New York, 1972.
- Edmond, R. Gray and Larry R. Smeltzer, *Management—The Competitive Edge*, Macmillan & Co., New York, 1990.
- Edwin B. Flippo, *Personnel Management*, Sixth Edition, McGraw-Hill, New York, 1984.
- Elbert W. Steward and James A. Glynn, *Introduction to Sociology*, McGraw-Hill, 2002.
- Edward E. Lawler, et al, *Achieving Strategic Excellence*, 2006.
- Elmer H. Burack and Robert D. Smith, *Personnel Management—A Human Resource Systems Approach*, West Publishing Co., St. Paul, 2000.
- Eugene, V. Schneider, *Industrial Sociology*, Tata McGraw-Hill Publishing Co., New Delhi, 1983.
- Feldman and Arnold, *Managing Individual and Group Behaviour in Organisations*, McGraw-Hill, New York, 1983.
- Finley, Robert E. (Ed), *The Personnel Man and His Job*, D.B. Taraporevala, Bombay, 1962.
- Fleishman, Edwin and Alan Bass, *Industrial Psychology*, Dorsey, New York, 1974.
- Frank, H.E., *Human Resource Development: The European Approach*, Gulf Publishing Co., 1974.
- Fraser, H.E., John Munro, *Introduction to Personnel Management*, Thomas Nelson and Sons, 1971.
- Fred Luthans, *Organisational Behaviour*, McGraw-Hill, New York, 2000.
- Fred R. David, *Strategic Management*, Prentice-Hall, 1995.
- French, Wendel, *Personnel Management Process: Human Resource Administration*. 1977.
- Fumularo, J.J. (Ed), *Handbook of Modern Personnel Administration*, McGraw-Hill,

- New York, 1972.
- Ganesh Natarajan, et al, *Knowledge Management*, Tata McGraw-Hill, 2000.
- Garry Dessler, *Human Resources Management*, PHI 2008.
- Geisler, *Manpower Planning: An Emerging Staff Function*, American Management Association, 1967.
- George A. Stenier and John F. Stenier, *Business Government and Society*, McGraw-Hill, 1997.
- George Bohlander, et al, *Managing Human Resources*, Pearson, 2002.
- George T. Milkovich and Johri W. Boudreau, *Human Resource Management*, Trwin, 1997.
- Gerald R. Ferris, et al., *The Manual of Human Resource Management*, Beacon Books.
- Gilmer, B.A, *Industrial Psychology*, McGraw-Hill, New York, 1961.
- Ginsberg Eli, *The Development of Human Resources*, McGraw-Hill, New York, 1965.
- Grant, Valerie, J. and Smith, Geoff, *Personnel Administration and Industrial Relations*, Longman Group, 1977,
- Gray, D.H., *Manpower Planning: An Approach to the Problem*, Institute of Personnel Management, 1966.
- Gray and Starke, *Organisational Behaviour—Concepts and Applications*, Merrill, New York, 1988.
- Gregory B. Northeraff and Margaret A. Neals, *Organisational Behaviour*, Thomson, 2001.
- Gvin, Robert M., *Personnel Training*, McGraw-Hill, New York, 1965.
- Hacon, R.J., *Management Training: Aims and Methods*, English University Press, 1961.
- Hal G. Gueutal and Dianna L. Stone (Ed), *The Brave New World of e-HR*, Wiley.
- Hammer, W.C. and F.L. Schmidt (Ed), *Contemporary Problems in Personnel*, St. Clair Press, 1974.
- Hammer, Willie, *Occupational Safety Management Engineering*, Prentice-Hall, Englewood, 1976.
- Haimann, Theodore, and Hilgert, Raymond L., *Supervision: Concepts and Practice of Management*, South Western Co., New York, 1977.
- Halloran, Jack, *Applied Human Relations: An Organisational Approach*, Prentice-Hall of India, New Delhi, 1978.
- Harrel, T.W., *Industrial Psychology*, Oxford and IBH, New Delhi, 1972.
- Harris. O., Jeff, Jr., *Managing People at Work: Concepts and Cases in Inter-Personal Behaviour*, John Wiley & Sons, New York, 1976.
- Heinrich H.W., *Industrial Accident Prevention*, McGraw-Hill, New York, 1959.
- Helga Drummond, *The Quality Movement*, Kogan Page, London, 1992.
- Hellriegel, Don, et al., *Organisational Behaviour*, South Western, 2001.
- Henderson, Richard L., *Compensation Management*, Reston Publishing House, New York, 1976.

Herbert, G. Herman III, et al., *Personnel/Human Resource Management*, Homewood, 1986.

Hermann, et al, *Personnel/Human Resource Management*, Irwin, 1986.

Huneryager, S.G. and Heckman,, I.L. (Ed). *Human Relations in Management*, D.B. Taraporevala, 1972.

Ian Beardwell and Len Holden, *Human Resource Management*, Macmillan, 2000.

ILO, *Job Evaluation*.

ILO, *Payment by Results*, 1951.

Indian Institute of Personnel Management, *Personnel Management in India: The Practical Approach to Human Relations*, Asia Publishing House, 1977.

Industrial Welfare Society, *Health and Security in Industry*, 1942.

Jain, Arunkumar, *Managing Global Competition*, Competence Publishing Co., Dehradun, 1994.

Jain, S.C., *Productivity and Discipline*, Allied, 1988.

James, A.F., Stoner, *Management*, New Delhi, Prentice-Hall of India, 1998.

James, W. Vander Zanden, *Sociology*, McGraw-Hill, 1996.

John, H. Bernardian and Joyce, E.A. Russell, *Human Resource Management—An Experiential Approach*, McGraw-Hill, New York, 1999.

John Bratton and Jeffery Gold, *Human Resource Management*, Palgrave.

John Ingham, *Strategic Human Capital Management*, 2007.

John M. Ivancevich, *Human Resource Management*, Tata McGraw-Hill, 2004.

John B. Miner, et al, *Personnel and Industrial Relations*, Macmillan, 1985.

John W. Boudreau and Peter M. Ramstad, *Beyond HR*, Harvard Business Review, 2007.

John Storey, *Human Resource Management*, (Ed), Routledge, 1995.

Joseph R.D., et al, *Contemporary Issues in Business Ethics*, Wadsworth, 2000.

Jucuius, Michael J. *Personnel Management*, Homewood Richard D. Irwin, 1976.

Ingrid Lopez, *Performance Evaluation* Tossey Bass, 2008.

Kast, Fremont, E. and Rosenweig, James E., *Organisation and Management: A Systems Approach*, McGraw-Hill, New York, 1970.

Keith Davis and Newstrom, *Human Behaviour at Work—Organisational Behaviour*, McGraw-Hill, New York, 1993.

Kudchedkar L.S., *Aspects of Personnel Management and Industrial Relations*, 1979.

Larry A. Hjelle and Daniel J. Ziegler, *Personality Theories—Basic Assumptions, Research and Applications*, McGraw- Hill, 1976.

Laski, Harold J., *A Grammar of Politics*.

Lala R.M., *Creation of Wealth*.

Laura P. Hartman, *Perspectives in Business Ethics*, Tata McGraw-Hill, 2003.

Lawler, Edward, E., *Pay and Organisational Effectiveness: A Psychological View*, McGraw-Hill, New York, 1971.

Ling, Cyril Curtis, *The Management of Personnel Relations: History and*

- Organisation*. Homewood, Richard D. Irwin, 1965.
- Lloyd L. Byars and Len Holden, *Human Resource Management*, Macmillan, 1995.
- Louden, J.K. and T.C. Newton, *Job Analysis*, French and Wagness Co., 1948.
- Louden, J.K. and J. Wayne Delgan, *Wage Incentives*, John Wiley & Sons, New York, 1959.
- Luck, T.J., *Personnel Audit and Appraisal*, McGraw-Hill, New York, 1955.
- Luis R. Gomez and Mejia, et al, *Managing Human Resources*, Prentice-Hall of India, 2003.
- Lyons, T.P., *The Personnel Functions in a Changing Environment*, Pitman & Sons, 1971.
- Mac Farland, D.E., *Personnel Management: Theory and Practice*, Macmillan & Co., New York, 1968.
- Mahesh V.S., *Thresholds of Motivation—The Corporation as a Nursery for Human Growth*, Tata McGraw-Hill Publishing Co., New Delhi, 1993.
- Mathis & Jackson, *Personnel—Contemporary Perspectives and Applications—St. Paul*, West Publishing Co., 1982.
- Mae, John, *Management Organisation for a Sound Personnel Programme*, School of Business, Indian University.
- Mae, John, E., *Personnel Handbook*, Ronald Press, 1951.
- Megginson, L.C. *Human Resources, Cases and Concepts*, Harcourt Brace, Ivancevich, 1971.
- Michael Armstrong, *A Handbook of Personnel Management Practices*, Kogan Page, 1988.
- Michael R. Carrell, et al, *Personnel/Human Resource Management*, Maxwell Macmillan, 1992.
- Milkovich and Boudreau, *Personnel—Human Resource Management*, Richard D. Irwin, 1990.
- Milton L. Rock, *Handbook of Wage and Salary Administration*.
- Miner, J.B. and Miner, Mary Green, *Personnel Management*, Tata McGraw-Hill Publishing Co., 1979.
- Miner, J.B. and Miner, M.G., *Personnel and Industrial Relations*, Macmillan, 1985.
- Moorthy, M.V., *Principles of Labour Welfare*, Gupta Brothers, Visakhapatnam.
- Morrison, J.H., *Human Side of Management*, Addison-Wesley Publishing Co., 1971.
- Muir, M.G. and Muir, J.B., *A Guide to Personnel Management*, Bureau of National Affairs, 1973.
- Munn, N.L., et al., *Introduction to Psychology*, IBH Publishing Co., 1972.
- Myres, Chartes, and R.C. Goyal, *Management of Personnel*, Manaktala, 1957.
- Nadler, L., *Developing Human Resources*, Gulf Publishing House, 1971.
- Nash, Allan, and Miner, J.B. (Ed), *Personnel and Labour Relations: An Evolutionary Approach*, Macmillan & Co., New York, 1973.
- Nivem, M.W., *Personnel Management*, Institute of Personnel Management, 1967.

Northcott, C.H., *Personnel Management: Principles and Practices*, Issac Pitman & Sons, 1960.

Odiorne, George S., *Personnel Administration by Objectives.*, Homewood Richard, D. Irwin, 1971.

Ordway, Tead and Metacaff, H.C., *Personnel Administration: Its Principles & Practice*, McGraw-Hill, New York, 1970.

Otis, Joy L., Richard H., Leukart, *Job Evaluation*, Prentice-Hall, New York, 1954.

Patton, Littlerield and Allen, *Job Evaluation*, Homewood, Richard D. Irwin, 1964.

Paul, W.J. and Robertson, K.B., *Job Enrichment and Employee Motivation*, Gower, 1970.

Peter Ward, *360-Degree Feedback*, Jaico Publishing House, 1999.

Philip Darling, *Training For Profits*, McGraw-Hill, 1993.

Philip R. Harris, *et al.*, *Managing Cultural Differences*, Elsevier.

Piramal, Gita, *Business Mahanajas*, Viking.

Pradip Barjal, *Disinvestment in India—I Lose and You Gain*, Pearson, 2008.

Ramaswamy, E.A., *Rayon Spinners*, Oxford University Press, 1994.

Randall, S. Schuler, *Personnel and Human Resource Management*, West Publishing Co., St. Paul, 1981.

Ranger, Allence R., *Personnel Administration: Changing Scope and Organisation*, National Industrial Conference Board Studies in Personnel Policies, No. 203, 1966.

Raymond Noe, *et al.*, *Human Resource Management*, Irwin McGraw-Hill, 2000.

Richard M. Hodgelts and Fred Luthans, *International Management*, McGraw-Hill, 2000.

Richard T. Schaefer and Robert P. Lamm, *Sociology*, McGraw-Hill.

Richard S. Wellins, *et al.*, *Empowered Teams*, Bass Publishing, 1991.

Robert P. Veechio, *Organisational Behaviour*, The Dryden Press, 1995.

Robbins, Stephens, P., *Personnel: The Management of Human Resources*, Prentice-Hall of India, New Delhi, 1978.

Robert L. Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2003.

Robbit H.R., *et al.*, *Organisational Behaviour*, Prentice-Hall, 1978.

Rohinton, D. Aga, *Changing the Mindset—Reflection of a Chief Executive*, Tata McGraw-Hill Publishing Co. Ltd, New Delhi, 1994.

Sarma, A.M., *Industrial Relations—Concepts and Legal Framework*, Himalaya Publishing House, Bombay, 1989.

Schermerhom, *et al.*, *Managing Organisational Behaviour*, John Wiley & Sons, New York, 1985.

Schlech, E.C., *Management by Results*, McGraw-Hill, New York, 1960.

Sharu Rangnekar, *In the Wonderland of Indian Managers*, Vikas Publishing House, New Delhi, 1993.

- Sikula, Andrew F., *Personnel Administration and Human Resources Management*, John Wiley & Sons, New York, 1977.
- Stainer, G., *Manpower Planning*, William Heinemann, 1971.
- Standford, Aubery C., *Human Relations: Theory and Practice of Organisational Behaviour*, 1977.
- Steers, R.M., *Motivation & Work Behaviour*, McGraw-Hill, New York, 1975.
- Steven L. McShane and Mary Ann Von Glinow, *Organisational Behaviour*, Tata McGraw-Hill, 2000.
- Stephen, P. Robbins, *Dimensions of Organisational Behaviour*, Prentice-Hall of India, New Delhi, 1993.
- Stessin, Lawrence, *Employee Disciplining*, Bureau of National Affairs, Washington, 1960.
- Stone, Harold C. and Kendell, W.E., *Effective Personnel Selection Procedures*, 1956.
- Strauss and Sayles, *Personnel—The Human Problems of Management*, Prentice-Hall of India, 1982.
- Subramanian, K.N., *Wages in India*, Tata McGraw-Hill Publishing Co., New Delhi, 1979.
- Suzanne C. de Janasz, et al, *Interpersonal Skills in Organisations*, McGraw-Hill, 2002.
- Suri, G.K., *Wage Incentives: Theory and Practice*, Shri Ram Centre for Industrial Relations, 1973.
- Taylor, V.B. and G. Lippit, *Management Development and Training Handbook*, McGraw-Hill, New York, Book Co., 1975.
- Terry, L. Leap, Michael D. Crino, *Personnel/Human Resource Management*, Macmillan & Co., 1990.
- Terry and Franklin, *Principles of Management*, All India Traveller Bookseller, 1987.
- Thakur, C.P., *Corporate Strategy on Fringe Benefits*, Spectrum Publishing House, Delhi, 1985.
- Theophane, A. Mathias, (Ed.), *Corporate Ethics*, Allied, Madras, 1994.
- Thomas, H. Stone, *Understanding Personnel Management*, CBS College Publishing, 1989.
- Toffer, Alvin, *Power Shift*, Bantom Books, New York, 1992.
- Trovongton, Derek (Ed), *Encyclopaedia of Personnel Management*, Grover Press, 1974.
- U.S. Department of Labour, *Handbook of Job Analysis*, 1973.
- Valerine, Grant J. and G. Smith, *Personnel Administration and Industrial Relations*, Longman Group, 1971.
- Velter Eris, W., *Manpower Planning for High Talent Personnel*, 1967.
- Venkataratnam, C.S. and Srivastava, B.K., *Personnel Management and Human Resources*, Tata McGraw-Hill Publishing Co., New Delhi, 1991.
- Vernon, H.M., *Accidents and Their Prevention*, Cambridge University Press, 1936.

- Virmani, B.R. and Premila Seth, *Evaluating Management Training and Development*, Vision Books, 1985.
- Virmani B.R., *Workers Participation in Management*.
- Vroom V.H., *Work and Motivation*, Wiley Eastern, New York, 1978.
- Wasmuth, W.J., Simong, R.H., Hilgert, R.L. and Lee, H.C. *Human Resources Administration: Problems of Growth and Change*, Boston, Houghton Mifflin & Co., Boston, 1970.
- Wayne, Mondey R. and Robert, M. Noe III, *Personnel—The Management of Human Resources*, Allyn & Bacon, Boston, 1981.
- Wayne, F. Cascio and Elios M. Awad, *Human Resource Management*, Reston, New York, 1981.
- Wayne F. Cascio, *Managing Human Resources*, McGraw-Hill, New York, 1995.
- Whistler, T.L. and S.F. Harper (Ed.), *Performance Appraisal Research and Practice*, Holt, Rinehart and Winston, 1962.
- White and Bednar, *Organisational Behaviour—Understanding and Managing People at Work*, Boston, Allyn & Bacon, Boston, 1986.
- William C. Frederick, et al, *Business and Society*, McGraw-Hill, 1992.
- William J. Rothwell, *Strategic Human Resource Planning and Management*, Prentice-Hall, 1988.
- William W. Werther, Jr and Keith Davis, *Human Resources and Personnel Management*, Fourth Edition, McGraw-Hill, New York, 1993.
- Whyte, William, J. McLarnery, *Management Training Cases and Principles*, Homewood, Richard D. Irwin.
- Wilkstrom, W.S., *Manpower Planning: Evolving System*, Industrial Conference Board, No 521, 1971.
- William, P. Anthony, et al., *Strategic Human Resource Management*, Dryden Press, 1993.
- Yoder, Dale, *Personnel Management and Industrial Relations*, Prentice-Hall of India, New Delhi, 1975.

Periodicals and Reports

- Business India*, April–May 1993
- Dance F.E.X., “The Concept of Communication”, *Journal of Communication*, June 1970.
- Frederick Herzberg, “The Wise Old Turk”, *Harvard Business Review*, September–October 1977.
- Harvard Business Review*, Harvard University Graduate School of Business Administration.
- Human Resources Management*, University of Michigan.
- India Today*, June 31, 1985.

Indian Journal of Industrial Relations, Shri Ram Centre for Industrial Relations.
Indian Journal of Social Work, Tata School of Social Sciences.
Indian Labour Journal, Indian Labour Bureau.
Industrial Management, Industrial Management Society, Chicago.
Industrial Relations, Institute of Industrial Relations, University of California.
Journal of Communication.
Klemmer and Snyder, "Measurement of Time Spent on Communication", *Journal of Communication*, June 1972.
Management Review, American Management Association.
Mirza, S. Saiyadain and Arun Monappa, "Profile of Indian Managers", *Vidyavahini*.
National Institute of Labour Bulletin, New Delhi.
Parel, W.J., et al., "Job Enrichment Pays off", *Harvard Business Review*, March–April, 1969.
Personnel Administrator, American Society for Personnel Administration, Washington.
Personnel, American Management Association.
Personnel Journal, Santa Monica, California.
Personnel Management Abstract, University of Michigan.
Personnel Psychology, College Station, Durham.
Personnel Today, National Institute of Personnel Management, Calcutta.
Productivity, National Productivity Council, New Delhi.
Ramaswamy, E.A., "From IR to HRD", *Business India*, April 21–May 4, 1986.
Ramaswamy, E.A., "Trade Union and Politics", *Business India*, October 7–20, 1985.
Report of the ILO, Asian Regional Conference, 1950.
Report of the Royal Commission on Labour, 1931.
Robert Ford, "Job Enrichment Lessons for AT&T", *Harvard Business Review*, March–April, 1969.
Sarah Abraham, "Workplace, 1995", *Business India*, April 24–May 7, 1995.
Sultan and Porter, "A Study of the Grapevine in a Government Organisation", *Personnel Psychology*, Vol. 21, 1968.

Web Resources

Please visit "Online Learning Centre" website:
www.mhhe.com/aswathappa7e



Name and Organisation Index

ABB India [25](#)
ABC Consultants [203](#), [471](#)
ACC [467](#)
Accenture [23](#)
Aditya Birla [356](#)
Aditya Group [467](#)
Air India [426](#), [660](#)
Alwin Toffler [474](#)
Amarchand Mangaldas Hiralal [239](#)
American Airlines [586](#)
Amoco [448](#)
ANZ Grindlays [397](#)
Apollo Hospitals [536](#)
Apollo Tyres [663](#)
Arthasastra [35](#)
Arthur Anderson [344](#), [781](#)
Arun Maira [245](#)
Ashok Leyland [383](#)
Asian Paints [478](#), [800](#)
ASSOCHAM [541](#), [621](#)
AT&T [751](#)
Ayatolla Khomeini [674](#)
Azim Premji [473](#)

Babylonian Code of Hammurabi [35](#)
Baidu [23](#)
Bajaj Auto [815](#)
Bank of America [245](#), [463](#), [714](#), [768](#)
Bank of India [463](#)
Bank of Madurai [273](#)
Batliboi & Co. [206](#)

Bayer India 729
BCG 245
BEL 207, 471
BGML (See Kolar Gold Fields)
Bharti Airtel 6, 466, 815
BHEL 89, 475, 533, 555, 597
Bill Gates 470
Binny Mills 438, 589
Birla Cement 536
Birla Management Corporation 356
Birla Sunlife 464
Black Berry 854
Blue Star 660, 789
Boeing 767
Bokaro Steel Plant 65, 660
Booz-Allen & Hamilton 781
Bosch 664, 683
BP 448
BPCL 357
BPL 207, 464
Brij Mohan Lall Munjal 470
Britania 825
Brooke Bond 576

Cadbury India 343
Canara Bank 790, 850
Charles Dickens 20
Chrysler 471, 785
Chung Mong-Koo 705
CISCO 825, 840
Citibank 261
Citigroup 463
Coca Cola 74, 93-95, 603, 778, 809
Coke 471
Colgate Palmolive 75, 255, 452
Columbus 315
Crompton Greaves 343
Cyrus Mistry 314

Dabur India 801
Daimler-Benz 785

Daksh [768](#)
Dave Ulrich [623](#)
David P Norton [750](#)
DCM [614](#)
DeBono [271](#)
Dell [586](#)
Deming [89](#)
Devesh Agarwal [854](#)
Digital Equipment Corporation [752](#)
Doco Chemicals [513](#)
Dolphin Laboratories [660](#)
Donald Kirkpatrick [291](#)
Dong Mingzhu [776](#)

Edward Deming [363](#)
Eicher [342](#)
Eicher Tractor [614](#), [616](#)
Ekalavya [315](#)
Elton Mayo [617](#)
Enron [729](#)
Ernst & Young [235](#), [781](#)
Escorts [471](#)
EXL Service [768](#)

Fabine Textiles [524](#)
Federal Express Corp. [582](#)
FedEx [809](#)
FedEx Corporation [256](#)
FICCI [621](#)
Flanders [677](#)
Ford [825](#)

G K Vale [854](#)
Gallup Study [384](#), [385](#)
Gammon India Ltd [533](#)
GE [292](#), [592](#), [752](#), [795](#)
George Soros [208](#)
GKW [580](#)
Godrej N.P [64](#)
Google [23](#)
Google India [23](#), [444-445](#), [582](#)

Graziano Danmission 614

HAL 626

Hay Group 478

HCL Technology 23, 334, 471

HDFC 425, 463

Head Hunters 206

Henry Ford 315

Herzberg 566

Hindustan Ciba Geigy 590

HMT 207, 576

Hoechst 660

HP 292

HPL Refinery 520

HSBC 261

HUL 21, 57, 201, 258, 269, 282, 299, 307, 339, 603, 773, 778, 780

Hyundai Motors 705

IBM 23, 57, 197, 332, 452, 586, 767, 778

ICICI Bank 6, 270, 351, 466

IDBI Bank 463

iGATE 245

ILO 423, 428, 437

Indian Railways 54, 55

Indira Gandhi 776

Indira Nooyi 776

Infosys 23, 398, 789

ING Vysya 355

Intel India 581

International Business School 299

IPCL 520

ITC 661

ITC Bhadrachalam 536

ITI 102, 579, 597

J&J 725, 780

J.K Synthetics 520

Jet Airways 815

Jindal Aluminium 65, 576

Jindal Steel 469

JRD Tata 725

K.V. Kamath [463](#)
Kalaniti Maran [470](#)
Kamani Industries [660](#)
Karl Marx [617](#), [663](#)
Kautilya [35](#)
Kaveri Maran [470](#)
Kellog India [471](#), [729](#)
Kelly & King [356](#)
Khoday Distilleries [65](#)
Kolar Gold Fields [567](#)
KPMG India [235](#), [268](#), [464](#)
Krishnamurthy V [475](#)
KS & DL [475](#)
Kudremukh Iron Ore Company [674](#)
Kumara Mangalam Birla [467](#)

L&T [23](#), [65](#), [101](#), [114](#), [201](#), [355](#), [536](#)
Land Rover [382](#)
Lee Iacocca [471](#)
Leena Nair [778](#)
LG India [75](#), [257](#), [262](#), [553](#), [729](#)

M&M [663](#)
Mafatlal [343](#)
Maharshi Mahesh Yogi [549](#)
Mahindra & Mahindra [6](#)
Mandya Sugar Mill [523](#)
Mangalore Port [674](#)
Margaret Thatcher [776](#)
Marico [800](#)
Marriott Hotels India [582](#)
Maruti [614](#), [678](#), [680](#)
Maruti Suzuki [20](#)
Matsushita [804](#)
Max New York Life [464](#)
McDonald's [54](#)
McKinsey [311](#), [464](#), [825](#)
Medimix [858](#)
Merck & Company [593](#)
Merrill Lynch [464](#), [714](#)
Microsoft [23](#), [103](#), [197](#), [261](#), [470](#)

Mind Tree Consulting Firm [342](#)
Modi Xerox [343](#)
Monica Electronics [520](#)
Motorola [84](#), [201](#), [397](#)
Mphasis [245](#)
MRF Tyres [663](#), [683](#)
Mrs. Clinton [776](#)
Msource [768](#)
Mukesh Ambani [474](#)
Murali K. Divi [470](#)
Mutual Aids Response Group [522](#)

Nanda HP [473](#)
Nano Ganesh [848](#)
Narayana Murthy N. [478](#)
National AIDS Control Organisation (NACO) [554](#)
National Organic Chemical Industries [343](#)
National Textile Corp. [591](#)
Naveen Jindal [470](#)
Nestle [471](#), [663](#)
Net App India [582](#)
NGEF [631](#)
NIIT [452](#)
NOCIL [531](#)
Nokia [664](#), [676](#), [768](#)
NSDC [293](#)
NTPC [582](#)

Omax Auto [663](#)
ONGC [520](#)
OP Jindal [817](#)
Otis [790](#)

P N Rao [854](#)
P&G [258](#), [343](#), [767](#), [773](#)
Park Avenue [854](#)
Patni Computers [245](#)
Pawan Munjal [470](#)
Pepsi [471](#), [778](#), [800](#)
Peter Drucker [352](#)
Pfizer [343](#), [660](#)

Phanesh Murthy [245](#)
Philips [343](#), [650](#), [660](#)
Polyhydrone (P) Ltd [851](#)
Practice of Management [352](#)
Premier Automobiles [425](#)
Punjab National Bank [850](#)

Raghupathy B.G. [470](#)
Rahul Bajaj [473](#)
Rail Wheel Factory [424](#)
Rainbow Warrior [536](#)
Ranbaxy [356](#), [469](#), [817](#)
Ratan Tata [314](#)
Ravi Ragh Industries [525](#)
Raymond [467](#)
Reckitt & Coleman [817](#)
Reda [854](#)
Reg Revanes [296](#)
Reliance Industries [397](#)
Reliance Petrochemicals [613](#)
Reliance Retail [815](#)
Reva [78-79](#)
RMSI [581](#)
Robert Kaplan [750](#)
Robert Owen [577](#)
Russy Mody [471](#)

SAIL [427](#), [475](#), [522](#), [591](#), [660](#)
Samsung [809](#)
Santosh Ostwal [853](#)
SBI [469](#)
Sears Roebuck [593](#)
Sega Enterprises Ltd [704](#)
Shah of Iran [674](#)
Siemens India [437](#), [660](#), [725-726](#)
Singareni Coal Co. Ltd [244](#), [660](#), [679](#)
Skoda [663](#)
Sony Television [464](#)
Standard Oil [809](#)
State Bank of India [850](#)
Subhas Chandra [473](#)

Sumant Moolgaokar [650](#)
Sumran [549](#)
Sun TV [478](#)
Suresh Hundre [851](#)
Suzuki [817](#)
Swami Vivekananda [853](#)

Taj Hotel [258](#), [265](#), [382](#)
Tale of Two Cities [20](#)
Tata AIG [464](#)
Tata Electric Co. [5](#)
Tata JRD [65](#)
Tata Management Training Centre [296](#)
Tata Motors [466](#), [730-731](#)
Tata Steel [466](#), [536](#), [613](#), [644](#)
Tatas [201](#)
TCS [23](#), [333](#), [473](#), [553](#), [768](#)
The War for Talent [311](#)
Thomas T [475](#)
TISCO [580](#)
Titan [471](#)
Titan Watch Co. [207](#)
Tomco [660](#)
Toyota [4](#), [103](#), [809](#)
Toyota Kirloskar [663](#)
TVS Group [644](#)

Union Carbide [513](#)

Vascoda Gama [315](#)
Victor H Vroom [394](#)
Vijay Mallya [614](#)
Visaka Patnam Steel Plant [207](#)
Vodafone [815](#)
Voltas [660](#)

Walmart [54](#)
Watson Wyatt [409](#)
Webel Electro [790](#)
Whirlpool [825](#)
William M Mercer [358](#)

Williamson Mager & Co. [365](#)
WIPRO [4](#), [23](#), [55](#), [342](#), [398](#), [768](#), [778](#)
Worbug Pinres [464](#)
World.com [729](#)

Xerox [734](#), [773](#)
Xerox Corporation [282](#), [452](#)

Yahoo [262](#)
Yes Bank [245](#), [469](#)

Zappo [23](#)
Zee Telefilms [473](#)
Zodiac [854](#)



Subject Index

360° appraisal [333](#), [352](#)

720° appraisal [357](#)

Absenteeism [119](#)

Accidents (See safety)

Achievement needs [61](#)

Action learning [296](#)

Action Service Hope for AIDS (ASHA) [555](#)

Adjudication (See industrial disputes)

AIDA [200](#)

AIDS [536](#), [554](#), [721](#)

AITUC [567](#), [657](#), [659](#), [660](#)

Alcoholism [556](#)

All India Trade Union Federation [660](#)

American Society for Training and Development [257](#)

Amorality [706](#)

Analysar strategy [329](#)

Annual Achievement Award [450](#)

Application blanks [208](#)

Apprentices Act [191](#)

Arbitration (See industrial disputes)

Assessment centre [284](#), [351](#)

Bajaj Prize for Fair Business

Practices [729](#)

Balanced score card (See HR evaluation)

BARS [346](#)

Barth variable plan [429](#)

Bedaux scheme [430](#)

Behaviour modelling [297](#)

Benchmarking (See HR evaluation)

Best fit approach (See strategic HRM)
Best practices approach (See strategic HRM)
Bidi & Cigar Workers Act [571](#)
Bio feedback (See work stress)
Blended training [846](#)
Blind ad [199](#)
BMS [657](#), [663](#)
Boilers Act [523](#)
Bombay Social Service League [571](#)
Bonus [467](#)
B-players [604](#)
BPO [256](#), [272](#), [541](#), [676](#), [769-772](#)
BPRE [175](#)
Brain storming [271](#)
British Council [515](#)
Burnout [547](#)
Business games [284](#), [298](#)
Business Leadership Training [299](#)

California Psychological Inventory [226](#)
Call centres [769](#), [771](#)
Campus recruitment [204](#)
Career management
 nature [300](#)
 roles [301-303](#)
 initiatives [303-306](#)
 challenges [306-307](#)
 process [307-309](#)
 models [313](#)
Case study [284](#), [297](#)
Change agent [791](#)
Change management [792-796](#)
Checklist [344](#)
Child care [450](#)
Child Labour [523](#)
Child Labour Act [191](#)
CII [21](#), [57](#), [537](#), [616](#)
CITU [567](#), [657](#), [662](#)
Coaching [295](#)
Code of discipline (See industrial disputes)
Code of ethics [63](#), [728](#)

Cognitive restructuring (See work stress)
Collective bargaining (See industrial disputes)
Competition Act [734](#)
Competitive advantage [79](#)
Computer assisted instruction [283](#)
Conciliation (See industrial disputes)
Confidential records [348](#)
Conflict [599-601](#)
Constitution [51](#), [191](#)
Consumer Protection Act [734](#)
Contract Labour Act [571](#), [640](#)
Contract workers [198](#)
Corporate governance [476](#)
Council for Fair Business Practices [729](#)
Creativity [270](#)
CRISIL [208](#)
Critical incidents [344](#)
Cross cultural training [818](#)
Culture [61-62](#), [380](#)
Culture shock [814](#)

Decision making [736](#)
Defender strategy [328](#)
De-jobbing [143](#)
Delhi Science Forum [523](#)
Deligent dozen [378](#)
Delphi technique [110](#), [113](#)
Demographics [789](#)
Depressed Classes Mission Society [571](#)
Digital manufacturing [175](#)
Directive Principles of State Policy [448](#)
Discharges [588](#)
Discipline [601-602](#)
Displaced persons [207](#)
Diversity [56-58](#), [271](#), [773-775](#)
Dock Workers' Scheme [573](#)
Domain consensus [67](#)
Drug abuse [536](#)
Drug testing [723](#)

EAPs [450](#)

Economic environment [53](#)
EDPS (See management development)
Egalitarianism [410](#)
e-HRM
 nature [839](#)
 activities [840-847](#)
Elder care [450](#)
e-learning (see e-HRM)
Eliticism [410](#)
Emersent's plan [433](#)
Employee assistance programmes (EAPs) [553](#)
Employee Benefits Accounting and Risk Study [455](#)
Employee Compensation Act [639](#)
Employee engagement
 nature [374](#)
 types [375-376](#)
 drivers [376-382](#)
 benefits [382-383](#)
 measurement [383](#)
Employee Provident Fund Act [448](#)
Employee Value Exchange (EVE) [788](#)
Employee welfare
 nature [566](#)
 merits [566](#)
 types [568-575](#)
 approaches [575-578](#)
 administration [578-581](#)
Employment contract [655](#)
Employment Exchange Act [191](#), [203](#)
Enacted environment [66](#)
Enterprise resource planning [845](#)
Enterprise Risk Management [734](#)
Environment Protection Act [523](#), [734](#)
e-performance management (see
Equal Remuneration Act [398](#), [640](#)
Equity theory [393](#)
E-recruiting [198](#)
e-recruitment (see e-HRM)
Ergonomics [171](#)
Error of wishful thinking [338](#)
e-selection (see e-HRM)

ESI Act [538](#), [640](#)
ESOPs [465-466](#)
Essay method [349](#)
Essential Commodities Act [734](#)
Ethical climate [735](#)
Ethics [268](#)
 nature [706](#)
 sources [706-708](#)
 myths [708-710](#)
 importance [710-711](#)
 ethical practices among businesses [711-715](#)
 dilemmas [716-717](#)
 HR issues [717-725](#)
 managing [725-735](#)
 decision making [736-738](#)
Ethics committees [729](#)
Ethics hotline [729](#)
Ethnocentrism [810](#)
EU [831](#)
Executive [51](#)
Executive remuneration
 components [463-468](#)
 extent [468-471](#)
 justification [471-473](#)
 issues [473-474](#)
 remedial [474-477](#)
Exit-interviews [594](#)
Expatriation compensation [823](#)
Expatriates [813](#)
Expectancy theory [392](#)

Factories Act [191](#), [448](#), [639](#)
Factory Advice Service and Labour Institute [533](#)
Fair wage [412](#)
FEMA [734](#)
Feminising workforce [776-780](#)
FICCI [729](#)
Field review [348](#)
Fombrum model (See HR models)
Forced choice [344](#)
Forced distribution [345](#)

Fringe benefits [391](#)

GAAPs [717](#)

Gant Task System [432](#)

Gender Gap Index [780](#)

Geocentricism [810](#)

Globalisation [783-784](#)

GMAT [226](#)

Going rate [397](#)

Granny Gratitude Day [451](#)

Graphology Tests [228](#)

Gratuity [390](#)

Gray plague [554](#)

Grid analysis [271](#), [297](#)

Grievance procedure (See industrial disputes)

Group insurance [449](#)

Guest model (See HR models)

Guilford Zimmerman Temperament Survey [226](#)

Haj pilgrims [447](#)

Halo error [336](#)

Halsey plan [428](#)

Harvard model (See HR models)

HCNs [812](#), [813](#)

Health

- physical [538](#)
- mental [538](#)

High net worth individuals (HNWIS) [461](#)

High performing organisations [787](#)

Highway Transport Authority [730](#)

HIV (See AIDS)

HMS [657](#), [660](#)

HR audit (See HR evaluation)

HR competency model [27](#)

HR dash boards (See HR evaluation)

HR evaluation [746](#)

- framework [746-747](#)
- approaches [747-755](#)

HR models [28-34](#)

HRD Network [27](#)

HRIS [59](#), [118](#), [843](#)

Human capital management [37](#)
Human relations approach (See industrial relations)
Human resource management [6](#)
 nature [9](#)
 functions [10](#)
 semantics [10-13](#)
 objectives [13](#)
 functions [14](#)
 organisation [15](#)
 paradoxes [18-23](#)
 policies [23-26](#)
 principles [26](#)
Human resource planning [192, 809](#)
 nature [100](#)
 importance [101-104](#)
 influencing factors [104-108](#)
 process [108-123](#)
 succession planning [123-124](#)
 and government [124-125](#)
 requisites [126](#)
 barriers [126-127](#)
Hygiene factors [566](#)

ILO [566, 624, 625, 632, 831](#)
Incentive payments
 nature [421](#)
 importance [422](#)
 disadvantages [422-424](#)
 requisites [424-425](#)
 scope [426](#)
 types [426-434](#)
 group [434](#)
 indirect workers [434](#)
 Indian industries [435](#)
 installing [436](#)
Indian Electricity Act [523](#)
Indian Explosives Act [523](#)
Indian Forensic Consultancy Services [712](#)
Indian Labour Commission [615, 620](#)
Indian Society for Planning and Development [27](#)
Induction (See orientation)

Industrial Disputes Act [588](#), [638](#)
Industrial disputes
 nature [673](#)
 causes [673-681](#)
 manifestations [681](#)
 settlement [681-697](#)
Industrial relations
 nature [614](#)
 importance [615-616](#)
 approaches [616-618](#)
 stakeholders [618-626](#)
 strategy [626-627](#)
Inpatriation [827](#)
Institute of Chartered Accountants, India [712](#)
International human resource management
 nature [803](#)
 compared with DHRM [804-808](#)
 growing interest [808](#)
 managing [844-833](#)
International Human Resource Service [806](#)
International Labour Code [625](#)
International Trade Secretariats [830](#)
Inter-State Migrant Workers Act [191](#), [572](#)
INTUC [657](#)
ISO Safety Standards [533](#)
IT enabled services [644](#)

JITn [851](#)
Job [137](#)
Job analysis
 nature [138](#)
 competitive advantage [140](#)
 process [140-155](#)
 and TQM [155](#)
 and strategic HRM [156](#)
 problems [156](#)
Job compatibility questionnaire [212](#)
Job description [146](#), [401](#)
Job design [158](#)
 factors [161-166](#)
 approaches [164-171](#)

- contemporary issues [172-176](#)
- Job engineering [165-166](#)
- Job enlargement [166-167](#)
- Job enrichment [161-171](#)
- Job evaluation [403, 404](#)
 - nature [177](#)
 - scope [177](#)
 - process [186-183](#)
 - alternative [183-184](#)
- Job hierarchy [402](#)
- Job offer [235](#)
- Job posting [195](#)
- Job rotation [165, 296](#)
- Job specification [148](#)
- Job-based pay [406](#)
- Judiciary [51](#)

- Kaizen [851](#)
- Kanban [85](#)
- Kidnappings and ransoms [807](#)
- Knowledge management [781-782](#)
- KSA analysis [278](#)

- Labour laws
 - nature [633](#)
 - need [633-634](#)
 - principles [634-635](#)
- Labour Welfare Officer [572](#)
- Laissez faire policy [622](#)
- Lay-offs [724](#)
- Leniency [335](#)
- Living wage [412](#)

- Make or buy [194](#)
- Management Associate Programme [299](#)
- Management development programmes [293-299](#)
- Management games (See business games)
- Management inventories [117](#)
- Management position description questionnaire [154](#)
- Managerial judgement [110](#)
- Managerial succession planning [123](#)

Manu [715](#)
Marxist approach (See industrial relations)
MBO [350](#), [748](#)
Meditation [549](#)
Mentoring [308](#)
Merchant Shipping Act [573](#)
Mergers and acquisitions [785-786](#)
Mines Act [191](#)
Minimum wage [412](#)
Minimum Wages Act [398](#), [640](#)
Minnesota Multiphase Personality [226](#)
MNCs [472](#)
Moonlighting [199](#)
Moral unity [706](#)
Motivation [392](#)
Motor skills [267](#)
MSME Development Institute [861](#)
Multiculturalism [831](#)

NASSCOM [769](#)
National Commission on Labour [55](#)
National Highway Authority [768](#)
National Labour Commission [654](#)
National Safety Council [515](#), [527](#)
National Skill Development Corporation [52](#)
Needs assessment [275](#)
NGOs [854](#)
NIPM [62](#), [63](#)
Noise control [540](#)

OECD [831](#)
OJT [280](#)
Old Timers Club [451](#)
Organisational culture [65](#)
Orientation [257](#)
 purpose [258](#)
 programme [258-262](#)
 requisites [262-263](#)
 evaluation [263](#)
 problems [263-265](#)
Outbound learning [285](#)

Outsourcing [17](#), [107](#), [211](#)
Outsourcing [767-772](#)

Paired comparison [349](#)
Participative management [382](#)
Pay surveys [402](#)
Payment of Bonus Act [398](#), [640](#)
Payment of Gratuity Act [398](#), [640](#)
Payment of Wages Act [398](#), [638](#)
PCNs [812](#), [813](#)
Performance appraisal [400](#)
 nature [325](#)
 objectives [326](#)
 competitive advantage [327-328](#)
 principles [328](#)
 process [326](#)
Performance interview [360](#)
Performance management [329-361](#)
 challenges [363-364](#)
Performance management [820](#)
Perquisites [391](#), [466-467](#)
Personnel management [11](#)
Personnel research [666](#)
Placement [246-248](#)
Plantation Labour Act [571](#)
Pluralistic approach (See industrial relations)
Political-legal environment [53](#)
Polycentricism [810](#)
Position analysis questionnaire [153](#)
President's Club [450](#)
Principle of reciprocity [707](#)
Programmed instruction [283](#)
Promotions [596-599](#)
Prospector strategy [329](#)
Psychological contract [655](#)
Public Interest Disclosure Bill [731](#)

QWL [653](#)

Rajiv Gandhi Kalyan Yojana [449](#)
Ramanujam Committee [637](#)

Rating scales 343
Ratio trend analysis 110
Realistic job preview 212
Recruitment
 nature 191
 purpose 191-192
 factors 192-194
 process 195-214
 philosophies 214-215
 alternatives 215-216
Re-entry shock 826
Regression analysis 110
Reinforcement 288
Reinforcement theory 392
Remuneration
 philosophy 389
 components 392
 theories 392-394
 importance 394-396
 influencing factors 39-402
 and business strategy 400-401
 devising a plan 401-407
 challenges 407-410
 policy 411
Repatriation 825-826
Resource based view (See Strategic HRM)
Restructuring 724
Retrenchment 589
Reverse culture shock 826
Rightsizing 592
ROI 750
Rowan system 429

Sabbaticals 308
Safety
 nature 515, 516
 types of accidents 517
 need 518-520
 programme 520-535
Salary bands 406
SEBI 731

Second World War [660](#)
Secondments [308](#)
Selection
 nature [224](#)
 competitive advantage [224-225](#)
 organisation for [225-226](#)
 process [226-241](#)
 barriers [242](#)
 evaluation [243](#)
 effective [243-245](#)
 in India [245-246](#)
Sensitivity training [285](#)
Separations [587](#)
Service Level Agreements (SLAs) [15](#)
Seva Sadan Society [571](#)
Severance pay [449](#)
Severity [335](#)
Sexual harassment [719](#)
Simulations [283](#)
Skill banks [195](#)
Skill based pay [408](#)
Skills inventories [115](#)
Small scale enterprises
 nature [854](#)
 significance [854-855](#)
 facilities [856](#)
 problems [856-858](#)
 HR practices [859](#)
 challenges [859](#)
 current practices [859](#)
 guidelines [860-861](#)
SMART goals [821](#)
Smoking [557](#)
Social security [448](#)
Society for HRM [11](#)
Socio-economic systems [170](#)
Standard hour system [427](#)
Strategic HRM
 nature [76](#)
 contrasted with conventional HRM [77](#)
 process [77-83](#)

- benefits [83-84](#)
- barriers [84-85](#)
- typical strategies [86-88](#)
- enhancing performance [88](#)
- Stress diary [550](#)
- Supreme Court [518](#)
- SWOT analysis [77](#)

- Talent management [13](#)
 - nature [309](#)
 - imperatives [310](#)
 - life cycle [310](#)
 - initiatives [310-315](#)
- Talk-in interview [204](#)
- Task environment [67](#)
- Tax equalisation [825](#)
- Tax protection [825](#)
- Taylor's piece rate [431](#)
- TCNs [812](#)
- Team- based pay [413](#)
- Teams [272](#)
- Techno stress [172](#)
- Technology [58-60](#)
- Telecommuting [172](#)
- Tell and listen [360](#)
- Tell and sell [360](#)
- Temps [198](#)
- Textile Labour Association [571](#)
- T-Group training (See sensitivity training)
- Thematic Apperception Test [226](#)
- Thurstone Temperament Survey [226](#)
- Time lapsed data (TLD) [209](#)
- Time management (See work stress)
- TQM [54](#)
- Trade associations [198](#)
- Trade Unions [55, 64, 621](#)
 - nature [653-654](#)
 - strategic choices [654](#)
 - why join union [654-656](#)
 - tactics [658-659](#)
 - movement in India [659-660](#)

- trends [660-664](#)
- managing [665-666](#)
- Trade Unions Act [636](#)
- Training and development
 - nature [265-268](#)
 - inputs [267-272](#)
 - competitive advantage [272-275](#)
 - process [275-293](#)
 - impediments [291-292](#)
 - how to make effective [292-293](#)
 - government initiative [293](#)
- Transcendental Meditation (TM) [549](#)
- Transfers [593-596](#)
- Transparency International [711](#)
- Type A personality [545](#)
- Type B personality [545](#)

- Ulrich model (See HR models)
- UN [719](#)
- UNCTAD [831](#)
- Unemployment insurance [448](#)
- UNICEF [719](#)
- Union instrumentality [655](#)
- Unitary approach (See industrial relations)

- Vestibule training [284](#)
- Voluntary retirement scheme (VRS) [123](#), [590-592](#)

- Walk-in interview [204](#)
- Wall Street Journal [6](#)
- Warwick model (See HR models)
- Welfare fund [575](#)
- Wellness [377](#)
- Whistle blowing [730-731](#)
- Work place violence [559](#)
- Work Stress
 - nature [542](#)
 - experience [541-542](#)
 - sources [542-545](#)
 - outcomes [545](#)

management [548-553](#)
performance [553](#)
Work study techniques [110](#)
Worker's compensation [448](#)
Workmen's Compensation Act [518](#)
Workmen's Institute of Bengal [571](#)
World Economic Forum [779](#)
World No Tobacco Day [558](#)
World Wealth Report [461](#)
Write-in interview [204](#)

Yield ratios [194](#)
YMCA [571](#)