

# **Strategic Human Resource Management**

**Block**

**2**

## **STRATEGIC HUMAN RESOURCE MANAGEMENT - IMPLICATIONS FOR ORGANIZATIONS**

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## BLOCK 2: STRATEGIC HUMAN RESOURCE MANAGEMENT – IMPLICATIONS FOR ORGANIZATIONS

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The second block to the course on Strategic Human Resource Management deals with the implications of strategic human resource management on organizations. The block contains seven units. The first unit deals with the concept of redesigning work systems. The second unit deals with human resource forecasting. The third unit gives an overview of strategic issues in staffing. The fourth unit explains the strategic implications of training and development. The fifth unit deals with the strategic aspects of performance appraisal. The sixth unit deals with the importance of compensation systems and different compensation strategies. The seventh unit focuses on the strategic challenges for leadership.

The **fifth** unit, *Redesigning Work Systems*, discusses the approaches adopted by organizations to redesign their work systems to support frequent technological changes. Differentiation and integration are the two ways in which the process of organizational design is explained. The factors affecting the design process are analyzed in this unit. Different organizational structures and emerging issues in organizational redesigning are also elaborated.

The **sixth** unit, *Human Resource Forecasting*, deals with the strategic issues in forecasting human resource supply. To determine the future needs of the company, forecasting is required on all factors - men, material and money. The basic issues involved in supply and demand forecasting techniques are explained in the unit. Since it is difficult to forecast all the requirements, strategic issues in demand forecasting are taken up for discussion in the unit.

The **seventh** unit, *Strategic Acquisition of Human Resources*, deals with the process of strategic recruitment and strategic selection. Identifying and attracting right pool of candidates for filling vacancies in the organization is of strategic importance because candidates hired should be able to perform in congruence with organizational goals. Core concepts in staffing, strategic approaches to staffing and strategic issues in staffing are also discussed in the unit.

The **eighth** unit, *Strategic Implications of Training and Development*, deals with the strategic issues in training and development. Organizations have realized that training and development are essential tools for enhancing the knowledge and skills of employees. Organizations also benefit by training activities as productivity of organization improves. It is strategically important to know the interconnection between learning, motivation and performance. Training activities when linked with organizational strategies, transfer of knowledge and learnings become more effective. All these are discussed in unit eight.

The **ninth** unit, *Performance Management and Evaluation*, deals with the strategic dimension of performance appraisal. While performance appraisal looks at the past performance of employees, performance management takes into account what needs to be done in future for ensuring effective performance from employees. Developing performance standards is an important aspect dealt in this unit. The balanced scorecard is one of the strategic tools to measure organizational performance. Similarly, the concept of

Economic Value Added (EVA) helps in measuring financial performance of organizations. All these are discussed in the unit.

The **tenth** unit, *Compensation and Strategic Human Resource Management*, deals with the objectives of compensation system, the relationship between strategy and compensation, the elements of pay, and how organizations compensate individuals and groups. The unit also discusses objectives and elements of executive compensation, Equity Theory of employee motivation and the concept of Broad Banding. The unit then discusses the steps taken by organizations to develop an ownership culture, the characteristics of employee stock option plans and the concept of pay for performance.

The **eleventh** unit, *Strategic Challenges for Leadership*, deals with the strategic challenges faced by leaders. The unit discusses how organizations work in a global environment and how they manage workforce diversity. When a leader exits, continuity in leadership should be maintained and hence CEO succession planning is of strategic importance. The unit also provides useful insights on how leadership strategies in family-owned businesses differ from those of professional businesses. The unit then discusses Level 5 leadership, leadership strategies of women CEOs and how organizations manage technological innovation.



## Unit 5

# Redesigning Work Systems

### Structure

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- 5.1 Introduction
- 5.2 Objectives
- 5.3 Designing Work Systems
- 5.4 Redesigning Work Systems
- 5.5 Organizational Design
- 5.6 Organizational Design Processes
- 5.7 Factors Affecting Design Processes
- 5.8 Organizational Structure
- 5.9 Types of Organizational Structure
- 5.10 Emerging Issues in Organizational Redesigning
- 5.11 Summary
- 5.12 Glossary
- 5.13 Self-Assessment Test
- 5.14 Suggested Readings/References Material
- 5.15 Answers to Check Your Progress Questions

*“An organizational structure carries inherent capabilities as to what can be achieved within its framework.”*

- Pearl Zhu

### 5.1 Introduction

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As has been put forth by Pearl Zhu, an organization structure defines the logical authority and responsibility relationships in the organization that helps in channelizing the people, task and technology elements towards achievement of strategic goals.

In the previous unit, the significance of aligning human resources to strategy was discussed. This unit would focus on the concept of redesigning work systems and its implications.

### 5.2 Objectives

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After studying this unit, students should be able to:

- Discuss various approaches to work system design to maintain a right fit between the job and its performer
- Differentiate between old and new organizational designs and analyze how they bring necessary improvement in the organizational structure

## **Block 2: SHRM – Implications for Organizations**

- Evaluate the factors affecting design process for attaining excellence at work
- Identify the different types of organizational structures
- Examine the best type that suits to the organization and employee needs.
- Analyze the emerging issues in organizational design to cope up with the problems associated with it.

### **5.3 Designing Work Systems**

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Designing work systems are vital for organizations. The human resource department, with the help of other functional specialists designs an organization's work system to achieve the following purposes:

- Design of the work systems facilitate the incorporation of technological changes
- Designing work systems motivate employees to perform better
- Efficient work systems enhance organizational productivity

#### **5.3.1 Approaches to Work System Design**

Organizations adopt different approaches for designing their work systems to make a right fit between the job and the job performer. Some of the approaches are:

- **Specialist approach:**
  - Specialists approach focuses on specific jobs
  - Specialist approach facilitates division of labour
  - Specialization is achieved by using specialist approach
  - Adopting specialist approach leads to an increase in efficiency and productivity
- **Generalist approach:**
  - Generalist approach focuses on developing diverse skills
  - The generalist approach makes use of techniques like job rotation, job enlargement and job enrichment
  - The generalist approach ensures accountability for diverse jobs
- **Strategic approach:**
  - Organizations adopting strategic approach focus on assigning right job to right person
  - The strategic approach helps in Improving efficiency
  - Strategic approach when followed meticulously helps in elevating the motivation and morale of the employees

Strategic approach can be further categorized into two types:

- Fitting people to jobs: Employees are selected in line with job design (e.g. customer care executives)
- Fitting jobs to people: Jobs are redesigned to suit to the requirements of people who man them (e.g. scientists)

Exhibit 5.1 illustrates Job Redesign at Microsoft.

**Exhibit 5.1: Think About the Future-Intelligent Workplaces -  
A Microsoft Case**

Despite of the work disruptions caused by COVID-19, organizations have been striving for optimizing the workforce and workplace experience and are coming up with strategies that would integrate technology and workplace to bring about a fit with the new working models that would evolve in the post-COVID-19 world so as to:

- Improve the occupancy ratios by bringing down the floor space.
- Change the emphasis from focused work to collaborative work that requires time physically spent with co-workers.
- Blending of in-person as well as virtual work.
- Organizations need to invest on health and safety of the employees by revising their policies and harnessing technology to implement the same.

But a word of caution here is that the impetus is on optimizing employee experience and not investing on digital tools. Thus what is needed is designing of intelligent workplaces that work the way people do.

This is what is exactly being done at Microsoft. Restructuring includes bringing together the people, technology and processes for enabling redesign of the workplace amid COVID-19 restrictions:

- Clear work policy - Employees working remotely up to 50% of the time
- Privacy backed systems to capture digital signals – Workplace analytics
- Viva Insights - for checking upon well-being of teams
- Microsoft Team Rooms Innovation - Ensuring participation for the people not in the room
- Change in processes using Microsoft Power Platform Apps

Sources: <https://www.accenture.com/in-en/insights/cloud/creating-intelligent-workplace>, 2020 (accessed on Oct, 21<sup>st</sup> 2021)

<https://www.microsoft.com/en-us/microsoft-365/blog/2021/05/21/how-microsoft-approaches-hybrid-work-a-new-guide-to-help-our-customers/> (Accessed on Oct, 21<sup>st</sup> 2021)

**Activity 5.1**

KPC Ltd., (KPC), an Indian oil company is planning to redesign its work system to establish a better link between jobs and employees. What are the various approaches that KPC can adopt for redesigning its work systems?

**Answer:**


## **Block 2: SHRM – Implications for Organizations**

### **5.3.2 Elements in Redesigning Work Systems**

Knowing the elements in redesigning work systems will help accomplish organizational goals in a timely manner and in compliance with standards of practice.

Elements that need to be considered while designing work systems:

i) Job design:

Effective job design comprises of job content (tasks, attributes, duties and responsibilities) and job depth (authority)

ii) Job inter-relationships: Job interrelationships can be categorized into

- Pooled interdependence:
  - In case of pooled interdependence, employees work independently within organizational framework
  - The employees work at their own pace when there is pooled interdependence
  - For example, LIC agents work independently within the organizational framework
- Sequential interdependence:
  - Sequential interdependence reflects structured and linear relationships
  - The work is totally interdependent with other jobs in case of sequential interdependence
- Reciprocal interdependence:
  - In case of reciprocal interdependence, there exists unstructured and non-linear relationships in the organization
  - Such type of interdependence is mostly seen in team structures
  - When the organization has reciprocal interdependence, the work needs to respond to internal and external variables

iii) Employee needs: The employee needs is one of the important determinants in designing work systems. Impetus needs to be laid on

- Just and equitable compensation for the employees
- Fair performance appraisal system for evaluating employees
- Opportunities for growth and development for meeting the higher order developmental needs of the employees
- Health, safety and welfare measures for the employees
- Work-life balance initiative for improving the motivation and morale of the employees

**Example**

With employees returning to office after months of working from home, “TCS Safe Workplace” ensures:

- Smooth workplace transition
- Productive environment
- Redefinition of safety protocols
- Strong Integration layer
- End-to-end services across advisory, design, implementation and support

TCS Safe Workplace Initiative includes:

- Set of apps and a dashboard that supports
- Collection of feedback
- Automation of return to work processes (contract tracing, shift management and workplace planning)
- Monitoring from self-attestation to contact tracing for employee well-being
- Grievance resolution management

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**Check Your Progress - 1**

1. Which of the following is an approach to work redesigning?
    - a. Tactical approach
    - b. Functional approach
    - c. Generalist approach
    - d. Incremental approach
    - e. Strategic approach
  2. Which of the following is not an important element of the work system?
    - a. Job design
    - b. Job inter-relationships
    - c. Employee relationships
    - d. Employee needs
    - e. Employee qualification
  3. What is that called which studies every single task, its attributes and how these tasks combine to form a job?
    - a. Job description
    - b. Job specification
    - c. Job design
    - d. Job evaluation
    - e. Job elements
-

## **5.4 Redesigning Work Systems**

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In order to respond to the changes in the internal and external environment and to improve flexibility that would facilitate adoption to the changes, the organizations need to redesign their work systems.

### **Essentials of redesigning the work systems:**

- The onus of redesigning the work systems should be on cross-functional team work.
- Redesigning the work systems should be such that it satisfies the individual as well as the organizational objective.
- Work systems redesign should ensure cooperation between the employer and the employees.
- Developing an efficient system for improving employee performance should be the primary objective of redesigning work systems.

### **5.4.1 Stages in Redesigning Work Systems**

Redesigning work systems can be categorized into four stages:

1. Inquiry and reflection: Involves
  - Examining the flaws in the existing/old system
  - Identifying the rationale for a new system
  - Formulating design team with employees across all levels and functional areas and other stakeholders
2. Asking critical questions:
  - What is the aim behind redesigning?
  - What is the guarantee that change will be for the better?
  - What are the crucial areas where changes are needed?
3. Unearthing assumptions about:
  - HR policies
  - HR practices
  - Leadership
  - Teamwork
4. Implementing change:
  - Change can be implemented by an internal team or an external consultant.
  - The key members of the organization need to understand the rationale and importance of the change.
  - The change should be introduced in a phased manner.
  - There should be a proper communication system for bringing about an awareness about the need for the change.
  - The organization needs to take effective measures for combating resistance to change

**Example**

Microsoft moved from its proprietary approach of change management to using the services of Prosci, an external global leader in professional discipline of change management.

Reasons for choosing Prosci:

- Has a comprehensive set of intellectual property (IP)
- Methodology is research-based
- Provides comprehensive set of training and readiness for customization and capacity building
- Focuses on individual change as well as organizational change

The focus on people at the individual level aligns with Microsoft's mission "to empower every person and every organization on the planet to achieve more."

**Activity 5.2**

Franklin Verinder, HR manager of Pharmacomp, a company that manufactures medicines, has been given the responsibility for redesigning the work systems of the company. In this situation, how should Verinder go about the process of redesigning? What are the pertinent stages of redesigning work systems?

**Answer:**


## 5.5 Organizational Design

It is the process by which an organization develops its structure keeping in mind its goals and objectives.

The focus of organizational design is on:

- Aligning organizational goals with the organizational structure for better implementation of strategies.
- Helping the organization to adapt to the environmental variables.

## 5.6 Organizational Design Processes

Organizational design is a process of shaping the way the organization is structured and run. It can be done in two ways:

1. Differentiation
2. Integration

## **Block 2: SHRM – Implications for Organizations**

- 1. Differentiation:** The process by which various organizational goals are divided into identifiable tasks is known as differentiation.

### **Dimensions of differentiation:**

#### **A) Horizontal differentiation**

- In case of horizontal differentiation, organizations are divided into various sub-units on the basis of knowledge, training or nature of work.
- The extent to which the organizational sub-units differ from each other is called horizontal differentiation.
- Horizontal differentiation increases with the degree of specialization.

#### **B) Vertical differentiation**

- Differentiation on the basis of authority and responsibility is known as vertical differentiation.
- Organizations having tall structures have greater vertical differentiation as compared to flat ones.

#### **C) Spatial differentiation**

When an organization sets up branches and offices in new areas, the lateral expansion which increases its number of business units is called spatial differentiation.

- 2. Integration:** The extent of coordination and collaboration between the divisions or departments or subunits is called integration.

Integration is of two types:

#### **A) Vertical integration**

- Vertical integration involves coordination of different activities across all the levels in the organization.
- The tools used for vertical integration are called vertical linkages.
- Vertical linkages can be in the form of policies, procedures, rules, and regulations which govern the accomplishment of the organization's tasks and objectives.
- Organizations with tall structures need more vertical integration as compared to organizations with flat structures.

#### **B) Horizontal integration**

- Horizontal integration refers to coordination of activities of the same level and within the department.
- Organizations having many departments or divisions, have a greater need for horizontal integration.



### 5.6.1 Organizational Design Dimensions

To achieve organizational goals, organizations need the right mix of integration and differentiation.

Organizations need to consider certain design dimensions combined in variable proportions such as the size of the company, financial viability, competencies of its employees for designing a suitable structure which is coherent with the organizational strategy.

Tall organization structure exhibits high degree of:

- Specialization
- Centralization
- Complexity
- Standardization
- Decision making is slow
- Centralization
- Rigid rules

Flexible and flat organization structures exhibit:

- Less degree of specialization
- Low centralization
- Less complexity
- Relatively less standardization

#### **Example**

The corporate hierarchy in Ford's organizational structure has the advantage of ensuring global direction and control.

The global functional groups maintain such hierarchy through functional support, such as HR management to maintain Ford's workforce.

The large regional geographic divisions have the advantage of easily implementing integrated policies and strategies throughout Ford's organizational structure.

These large regional geographic divisions also simplify the company's approach to its markets.

**Check Your Progress - 2**

4. What is the process by which an organization develops its structure, keeping in mind its goals and objectives, called?
    - a. Work redesign
    - b. System design
    - c. Organizational design
    - d. Job design
    - e. Organizational restructuring
  5. Which of the following refer to differentiation and integration in terms of organizational design?
    - a. Design processes
    - b. Design activities
    - c. Design systems
    - d. Design elements
    - e. Design factors
  6. Which of the following is not a type of differentiation process?
    - a. Spatial
    - b. Horizontal
    - c. Vertical
    - d. Diagonal
    - e. Lateral
  7. IBM has set up many branches and offices in new areas, leading to lateral expansion of its businesses. What do you call this type of differentiation?
    - a. Spatial
    - b. Lateral
    - c. Expansive
    - d. Geographical
    - e. Multiple
  8. Which of the following is a tool for enhancing vertical integration in organizations?
    - a. Management Information Systems (MIS)
    - b. Liaison officers
    - c. Task forces
    - d. Cross-functional teams
    - e. Decision Support System (DSS)
-

## 5.7 Factors Affecting Design Processes

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Organizations undergo change due to change in their size, technology, environment and strategies and goals. Hence it is difficult to label one structure to be an ideal organizational structure. The factors affecting design processes are explained below.

### 5.7.1 Size

The various indicators of organizational size are:

- Employee strength
- Scale of business operations
- Assets of the organization
- Geographical spread of the organization
- Diversity at workplace

### 5.7.2 Technology

Technology is the way in which the organizational tasks are accomplished. Technology makes use of:

- Tools
- Equipment
- Techniques
- Human know-how

Technology has redefined the way organizations work. Organizational structure varies according to the degree of usage of technology.

Joan Woodward<sup>1</sup>, a sociologist, conducted a study in 100 UK based companies to study the relationship between the size and success of an organization.

Findings of Joan Woodward:

- She could not find a relationship between the success of a firm and its size.
- The right combination of structure and technology were critical to organizational success.
- Technological advancements are the most frequent cause of change in organizations as they increase efficiency and reduce costs.

Joan identified three tiers of technologies which affected organizational designing:

1. Unit and small batch production which involves manufacturing of customized products
2. Large batch and mass production where production is done on a mass scale. Assembly lines are used for production

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<sup>1</sup> Joan Woodward was a British academician. She authored number of books. Please refer to Joan Woodward. Industrial Organization, Oxford University Press, 2nd edition, 1980

## **Block 2: SHRM – Implications for Organizations**

3. Continuous process production where the raw materials are processed in continuous manner by a number of machines to get the final finished product

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

Conclusions of Joan Woodward's study:

1. Increasing complexity of technology leads to tall organizational structure.
2. There was an increase in the executive's span of control.
3. There was requirement of fewer but highly skilled workers.
4. Level of specialization and formalization needed was very high in large and mass production organizations.

### **5.7.3 Environment**

Tom Burns and G.M. Stalker<sup>2</sup> hold the credit for finding the relationship between environment and organizational design. They studied 20 organizations and concluded that based on the environment, organizations design can be:

#### **1. Mechanistic designs:**

- They operate in highly stable environment
- They follow a bureaucratic system
- They facilitate tall structures
- Mechanistic designs follow centralized decision making
- They have rigid rules and regulations

#### **2. Organic designs:**

- They operate in unpredictable and dynamic environment
- Organic designs offer high degree of flexibility
- Organic designs facilitate flat structures
- They help in delegation of authority

### **5.7.4 Organizational Strategies and Goals**

Organizational design is greatly affected by an organization's strategy. Both corporate strategy and business strategy determine the organizational design.

**Corporate strategy:** It refers to the overall strategy adopted by an organization to manage all its strategic business units.

**Business strategy:** It focuses on a single business unit rather than the whole organization or a business group.

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<sup>2</sup> Tom Burns was Emeritus Professor of Sociology at the University of Edinburgh. Along with sociologist G.M. Stalker wrote the landmark book 'The Management of Innovation' in 1961. Please refer to Tom Burns; G.M. Stalker. "The Management of Innovation", Oxford University Press, 1994

The strategies propounded by Porter:

- Cost Leadership: Which involves cost reduction for gaining competitive advantage
- Differentiation: Which is achieved in terms of product features, service, delivery system, technology
- Focus: That aims at attaining competitive advantage by focusing on one particular product, market or customer group

The mapping of business strategy propounded by Porter to the organizational structure has been done by Danny Miller<sup>3</sup>.

Table 5.2 shows the various organization structures that can be adopted by organization depending on their business strategies.

**Table 5.2: Competitive strategies and Organization structures**

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

Source: Debra Nelson and James Campbell, *Organizational Behavior, Sixth Edition, 2020* (South-Western College Publishing)

#### Example

- Walmart Inc., follows a cost leadership strategy for achieving competitive advantage based on low cost and corresponding low selling prices of goods offered to consumers in the international retail industry. The company directly and indirectly competes against firms like Costco Wholesale and Amazon.com Inc.
- Rolls Royce, the iconic British company follows a focus strategy as it is the leading luxury automobile maker globally.
- Amazon, the biggest online retailer, follows price differentiation. Since it does not have retail stores, the same helps it in winning the price wars. It readjusts its product prices according to its competitors.

<sup>3</sup> <https://doi.org/10.5465/255893> (accessed on 21/10/21)

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Exhibit 5.2 illustrates the cost leadership strategy adapted by McDonald's.

### Exhibit 5.2: McDonald's Cost Leadership Strategy

A firm can attain cost leadership by:

- High asset utilization
- Low direct and indirect operating costs
- Higher control over the value chain

The cost leadership strategy of McDonald's, an American Fast Food Company, can be attributed to:

- Division of labour that leads to specialization which in turn brings down the cost by reducing time, wastages, defects and accidents
- Hiring freshers instead of experienced cooks, thus bringing down the cost of procurement
- Optimized processes for preparing food that are easy to learn and adopt
- Reduction in learning curve time by training
- Providing service faster thereby increasing the asset utilization

Incorporation of the above along with vertical integration of producing their own ingredient mixtures provides McDonald's a competitive advantage.

Source: <https://mktoolboxsuite.com/cost-leadership-examples/> (Accessed on Oct, 21<sup>st</sup> 2021)

## 5.8 Organizational Structure

Organizational structure needs to be studied to understand how tasks are accomplished to realize the goals of an organization.

### Features:

- Organizational structure is the formal pattern of linkages between different jobs and departments within the organization.
- The organizational structure is depicted in an organizational chart indicating the reporting relationships.
- The formal relationships created by the management, specific and applicable to each function, are included in the organization structure.
- The organization structure also includes the informal relationships which are formed because of commonality in interests.

### 5.8.1 Enacting Strategy for Structure

Alfred D. Chandler<sup>4</sup>, a business historian, was the first to ask the question relating to the relationship between strategy and structure, "which comes first, strategy or structure."

<sup>4</sup> At the time of his death, Alfred Chandler was the Isidor Straus Professor of Business History, Emeritus at the Harvard Business School.

For an introduction to Chandler and his work, please refer to Alfred Dupont Chandler. "The Essential Alfred Chandler: Essays toward a Historical Theory of Big Business", Harvard Business Press, 1991

In his book, “Strategy and Structure” he propounded:

- The precedence of strategy over structure
- Whenever organizations change their strategy, a change in structure usually follows

Organizations operating in a dynamic environment, need to adjust themselves to the changes in the political, economic, social, technological, environmental and legal systems in the environment. Hence the organizations need to have flat and flexible organization structures to accommodate the changes.

The relationship between structure and strategy is complex and hence needs a broader view. Structure may follow strategy but in many cases, changes in structure have changed or altered strategy.

**Example**

<sup>5</sup>In 2007 when streaming began which meant that the subscribers no longer needed to wait for DVD, Netflix was fast enough to respond to this change where people would watch content online. It envisaged the digital future, brought about changes in its structure and functioning and there was an enormous increase in the subscribers of Netflix surpassing a record of 209 million in Q2 of FY 2021.

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**Check Your Progress - 3**

9. Which of the following is not an organizational design dimension?
  - a. Standardization
  - b. Formalization
  - c. Localization
  - d. Specialization
  - e. Complexity
10. Who among the following had conducted research that established a relationship between technology and organizational design?
  - a. G.M. Stalker
  - b. John Abowd
  - c. Danny Miller
  - d. Joan Woodward
  - e. Debra Nelson

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<sup>5</sup> <https://www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/>  
(accessed on 21/10/21)

## **Block 2: SHRM – Implications for Organizations**

11. In what type of production system are products customized, according to customer specifications?
    - a. Unit and small batch system
    - b. Continuous productions system
    - c. Sequential production system
    - d. Mass production system
    - e. Project production system
  12. Which management theorist mapped strategies with organizational structure?
    - a. Danny Morrison
    - b. Danny Miller
    - c. Joan Woodward
    - d. Michael Porter
    - e. McGregor
- 

### **5.9 Types of Organizational Structure**

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By knowing different types of organizational structures, organizations can adapt the best suitable organization structure to their organization, taking in to consideration the needs of the organizations. There are two types of organizational structures. They are:

- Traditional structures
- Emerging structures

Traditional structures can be further divided into:

- Functional structures
- Divisional structures
- Hybrid structures

Emerging structures can be further divided into:

- Matrix structures
- Network structures

#### **5.9.1 Functional Structure**

Grouping of positions in an organization on the basis of the function performed is called functional grouping and the structure formed is called functional structure.

- Organizations have functional areas depending upon the product or services.
- Functional areas may differ depending upon the type of business.

**Suitability of Functional Structures:** Suitable for

- Small and medium scale companies
- Firms with single product or service
- Firms with clear reporting relationships



**Advantages of functional structures:**

- Functional structures help employees to gain expertise
- Functional structures result in performance efficiencies
- There is optimum utilization of resources in the organizations that follow functional structures
- Better coordination is ensured when there is a functional structure in the organization
- Functional structures offer the benefits of economies of scale
- Functional structures help the organization in attaining competitive advantage

**Disadvantages of functional structure**

- Functional structure is relatively more bureaucratic and rigid
- Functional structures lead to slow decision-making
- The employees become specialists rather than generalists in such structures
- It is very difficult to measure individual contribution in case of functional structure

**Example**

Airtel has a functional structure. It has directors for:

- Supply chain
- Marketing
- Human resources
- Technology
- Customer care
- Legal works

Each of these directors controls their departments and are answerable to what their functional department is responsible for.

**5.9.2 Divisional Structure**

Divisional structure is based on grouping on the basis of similar products, services, markets etc.

**Suitability of divisional structure:**

Divisional structure is suitable for those organizations which offer variety of products and services to their customers.

**Advantages of divisional structure:**

- Divisional structure makes organizations proactive
- Divisional structure ensures that the organizations go closer to their prospective customers and makes them focus on their needs and demands

## **Block 2: SHRM – Implications for Organizations**

- Divisional structure provides more autonomy to the employees
- Divisional structure helps in quick decision making
- Divisional structure provides competitive advantage

### **Disadvantages of divisional structure:**

- Every division has its own functional department leading to duplication of resources.
- Such a type of structure is costly in terms of time, effort and money.
- Unhealthy competition across cross functional areas can be found in case of divisional structures.

#### **Example**

PepsiCo follows a divisional structure. Its regional divisions include:

- North America Beverages (NAB)
- Latin America (LA)
- Europe Sub-Saharan Africa (ESSA)
- Quaker Foods North America and Asia
- Middle East & North Africa (AMENA)

### **5.9.3 Hybrid Structure**

A hybrid structure combines the best attributes of both divisional and functional structures but they do not lose their identity.

#### **Advantages of hybrid structure:**

- Hybrid structure offers economies of scale
- Hybrid structure promotes greater efficiency
- Hybrid structure leads to employee expertise
- In case of hybrid structure, the focus is more on customers, markets and products

#### **Disadvantages of hybrid structure:**

- Hybrid structure can result in conflict between employees of various functional and divisional structures
- Hybrid structure leads to duplication of resources
- There might be difficulty in coordination when the organization adopts hybrid structure
- Delayed decision-making is commonly seen when the organizations adopt hybrid structure

**Example**

Starbucks, one of the leading coffee chains, also uses hybrid organization structure by adopting a judicious mix of functional, geographical and product based structure to knit the strategy with the people having shared responsibilities and resources aligned towards strategic objectives of the firm.

**Activity 5.3**

Basyx, a telecom company, manufactures and sells high end telecommunication equipment to telecommunication service providers all over the world. It manufactures a range of telecom products at multiple locations. Basyx currently has a pure divisional structure which, it feels, does not suit their operations. Suggest a suitable structure for Basyx and give reasons why that structure would suit it?

**Answer:**

**5.9.4 Matrix Structure**

In case of matrix structure, functional and divisional forms are superimposed and hence both the forms lose their identities.

**Suitability of matrix structures:**

- Matrix structure is suitable in those organizations which have dual reporting relationships
- The organizations that work on projects find matrix structures beneficial

**Advantages of matrix structures:**

- Participative decision making across all levels is possible in matrix structure
- Matrix structure encourages teamwork
- There is high degree of coordination in matrix structure
- Optimum utilization of resources is possible in matrix structure
- Matrix structure provides flexibility to adapt to changes in business environment

**Disadvantages of matrix structure:**

- Matrix structure violates the principle of unity of command.
- Matrix structure leads to lack of clarity which in turn may create confusion and result in conflicts because of dual reporting relationships.
- Administrative costs increase in case of matrix structures because of the inclusion of project team members.

## Block 2: SHRM – Implications for Organizations

### Example

IBM is the first all matrix structure group in the world.

Features:

- Integrated three-level matrix structure (controls all global processes efficiently)
- Upper level (matrix structure of each country in the same zone)
- Last level (IBM has integrated worldwide matrix structure of each zone globally)

### 5.9.5 Network Structure

Network structures, also known as “non-structures”, are characterized by the complete absence of in-house business functions.

- Organizations that have network structures are also referred to as “virtual organizations.”
- Organization following network structure, forms a collaborative relationship with distributors, suppliers, designers and manufacturers for conducting business activities.
- Organizations with network structure outsource a host of activities for gaining competitive advantage.
- Organizations having network structure resort to technology for better communication.

Suitability of network structure:

Such type of structure is adopted by the firms that work in a highly unstable environment.

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### Check Your Progress - 4

14. Which business historian wrote the book, *Strategy and Structure*, after studying the top 20 organizations in the US?
  - a. Alfred Chandler
  - b. Michael Porter
  - c. Danny Miller
  - d. John Abowd
  - e. John F Kennedy
- 14 Which structure among the ones mentioned below results from grouping based on the similarity in products, services, markets?
  - a. Divisional structure
  - b. Hybrid structure
  - c. Network structure

- d. Matrix structure
  - e. Functional structure
15. In which of the following organizational structures, functional and divisional organizational structures are super-imposed on each other?
- a. Hybrid
  - b. Functional
  - c. Network
  - d. Matrix
  - e. Boundary less

---

### 5.10 Emerging Issues in Organizational Re-designing

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A successful organizational redesign should focus on its strategic priorities of cost reduction, better decision making and enhancing accountability.

Determinants of organizational design:

1. Information Technology (IT): Information Technology helps in achieving a wide span of management thus facilitating flat structures with clear lines of communication and cross functional interdependencies.
2. Globalization: Globalization leads to organizational designs that promote parent organization philosophy on one hand and cultural compatibility on the other.

By dint of globalization and advent of technology, the organization design has some inherent bias and inequalities. The same need to be addressed by:

- Designing appropriate diversity management capsules in the organization
  - By infusing a sense of relatedness and belongingness towards the organization through a conducive organizational culture
  - By bringing about improvement in processes and training initiatives
  - By ensuring collective accountability
3. Organizational flexibility: Flexibility in the organization can be achieved by adopting matrix, team and network organization structure.

#### Example

- Cisco uses Telepresence MX series to turn meeting rooms into collaboration hubs by connecting teams, customers and partners face-to-face at a moment's notice
- Google eliminates the boundaries across teams to enable continuous communication and “all hands meetings” by following flexible matrix organization structure

## Block 2: SHRM – Implications for Organizations

Exhibit 5.3 illustrates the restructuring at WIPRO to bring about organizational flexibility.

### Exhibit 5.3: Restructuring at WIPRO

The year 2021 witnessed an organization overhaul of its structure and operating model by IT services major, Wipro.

The key elements of the restructuring can be enumerated as:

- Replaced the earlier structure of seven strategic business units, service lines and nine geographies with four strategic market units (SMUs) and two global business lines (GBL) for sharper client focus
- Top layer of the pyramid narrowed down with selective leaders best suited for the goal
- Effort to hire talent from outside by onboarding several senior regional leaders and global account executives
- Change in talent mix from generalists to domain specialist and technology experts

However, Wipro sees little immediate need to downscale as there is growth on the cards.

Sources: <https://www.ceoinsightsindia.com/news/wipro-all-set-to-implement-new-business-model-from-2021-nwid-4022.html> (accessed on 21st October 2021)

<https://timesofindia.indiatimes.com/business/india-business/wipro-restructuring-leads-to-many-exits-at-the-top/articleshow/80553558.cms> 2021 (accessed on 21st October 2021)

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### **Check Your Progress - 5**

16. Which among the following is not a determinant of organizational design?
- Information Technology
  - Globalization
  - Organizational Flexibility
  - Cross functional dependencies
  - Performance management

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### **5.11 Summary**

- Different approaches for designing a work system are specialist approach, generalist approach and strategic approach. The work system comprises three elements – job design, job inter-relationships and employee needs.
- The steps in Work System design are inquiry and reflection, asking critical questions, unearthing assumptions and applying change.

- Organizational designing can be done by differentiation or integration, considering an organization's size, technology, environment and strategies and goals.
- Organizational structure is a formal pattern of linkages between different jobs and departments within the organization.
- Organizational structures can be fundamentally divided into traditional structures and emerging structures. Traditional structures can be further divided into functional, divisional and hybrid structures. Emerging structures can be divided into matrix and network structures.
- There are three issues which affect the way organizations are designed today. They are information technology, globalization and organizational flexibility.

### 5.12 Glossary

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

**Divisional Structure:** The structure that results from grouping based on the similarity in products, services, markets etc., is known as divisional structure.

**Horizontal Differentiation:** The extent to which the organizational sub-units differ from each other is called horizontal differentiation.

**Hybrid Structure:** A hybrid structure combines the best attributes of both divisional and functional structures.

**Job Design:** Job design is defined as the “Delineation of task responsibility as dictated by organizational strategy, technology and structure and is a key determinant of individual motivation and ultimately of organizational success.”

**Management Information System (MIS):** MIS is an information system that provides information to managers to use in making decisions.

**Network Structure:** Network structures also known as “non-structures”, are new and emerging structures which are characterized by the complete absence of in-house business functions. Organizations that have network structures are also referred to as “virtual organizations”.

**Organization Design:** The selection of an organization structure that best fits the strategic goals of the business.

**Spatial Differentiation:** When an organization sets up branches and offices in new areas, the lateral expansion which increases its number of business units is called spatial differentiation.

**Vertical Integration:** The process of coordinating activities of different levels in an organization is called vertical integration.

## **Block 2: SHRM – Implications for Organizations**

### **5.13 Self-Assessment Test**

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1. Briefly explain the approaches to work system design.
2. Explain the elements in re-designing work systems.
3. Define organizational design. Explain the processes in organizational design.
5. Define organizational structure. Briefly describe the traditional organizational structures.
6. Matrix structures and network structures are emerging organizational structures. Describe.
7. Explain the emerging issues in organizational re-designing.

### **5.14 Suggested Readings/Reference Material**

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1. Ananda Das Gupta. Strategic Human Resource Management-Formulating and Implementing HR strategies for competitive advantage, Productivity, Taylor & Francis Group, 2020
2. Armstrong, M, Armstrong's Handbook of Strategic Human Resource Management. 7th edition, London: Kogan Page, 2020
3. Dr. Ravi Kumar K. A text book of strategic human resource management - A guide to action, Notion Press, 2021
4. Gary Rees, Paul Smith. Strategic Human Resource Management.3rd edition, SAGE Publications Ltd., 2021
5. John Storey, Dave Ulrich, Patrick Wright, Strategic Human Resource Management-A research overview, Routledge, 2020
6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020

### **5.15 Answers to Check Your Progress Questions**

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#### **1. (c) Generalist approach**

Organizations adopt some approaches to design their work systems. The approaches include: specialist approach, generalist approach and strategic approach. Hence options a, b, d and e are incorrect.

#### **2. (c) Employee relationships**

There are three elements that need to be considered while designing work systems. They are job design, job inter-relationships, and employee needs. Hence option c is correct.

#### **3. (c) Job design**

Job design is defined as the “Delineation of task responsibility as dictated by organizational strategy, technology and structure, and is a key determinant of individual motivation and ultimately of organizational success.”



**4. (c) Organizational design**

Organizational design is the process by which an organization develops its structure keeping in mind its goals and objectives.

**5. (a) Design processes**

Organizational designing is done using two design processes such as differentiation and integration. Hence option a. is correct.

**6. (d) Diagonal**

The dimensions of differentiation process are horizontal differentiation, vertical differentiation and spatial differentiation. Hence option d is the correct answer.

**7. (a) Spatial**

The differentiation process followed in IBM is referred to as spatial differentiation since it has set up a number of branches and offices in new areas, leading to lateral expansion of its businesses.

**8. (a) Management Information Systems**

Management Information Systems (MIS) is also a tool for vertical integration. MIS integrates the organization by facilitating information flow between various levels.

**9. (c) Localization**

The basic organizational design dimensions include: formalization, centralization, specialization, standardization, complexity, and hierarchy of authority. Hence, option c is the correct option.

**10. (d) Joan Woodward**

Joan Woodward, a sociologist conducted research that established a relationship between technology and organizational design.

**11. (a) Unit and small batch system**

In unit and small batch production system, products are customized according to customer specifications.

**12. (b) Danny Miller**

The mapping of business strategy to the organizational structure has been done by Danny Miller.

**13. (a) Alfred Chandler**

Alfred Chandler, a business historian wrote the book, *Strategy and Structure*, after studying the top 20 organizations in the US.

## **Block 2: SHRM – Implications for Organizations**

### **14. (a) Divisional structure**

The structure that results from grouping based on the similarity in products, services, markets etc., is known as divisional structure.

### **15. (d) Matrix structure**

Functional and divisional organizational structures are super-imposed on each other in a matrix organizational structure.

### **16. (e) Performance Management**

Information Technology, globalization, organizational flexibility and cross functional dependencies are determinants of organizational design but performance management is not.

## Unit 6

# Human Resource Forecasting

### Structure

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- 6.1 Introduction
- 6.2 Objectives
- 6.3 Human Resource Forecasts
- 6.4 Strategic Issues in Forecasting Human Resources Supply
- 6.5 Utilization of Supply Forecasting Techniques
- 6.6 Techniques for Forecasting the Demand for Human Resource
- 6.7 Strategic Issues in Demand Forecasting
- 6.8 Utilization of Demand Forecasting Techniques
- 6.9 Contract Labor and its Implications
- 6.10 Summary
- 6.11 Glossary
- 6.12 Self-Assessment Test
- 6.13 Suggested Readings/Reference Material
- 6.14 Answers to Check Your Progress Questions

*“Future Forecasting is all about testing strategies - It’s like a wind tunnel.”*

- Jamais Cascio

### 6.1 Introduction

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As has been rightly said by Jamais Cascio, human resource forecasting relies upon the dynamics of the external environment to bring about a fit between the organizational strategic goal and manpower planning.

In the previous unit, the concept of redesigning work systems was discussed. In this unit, human resource forecasting will be discussed.

### 6.2 Objectives

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After studying this unit, students should be able to:

- Appreciate the concept of human resource forecasts that are essential to meet the future needs of a company
- Explain the strategic issues in forecasting human resource supply for enhanced organizational performance
- Discuss the human resource forecasting techniques to select appropriate method
- Analyse the implications of hiring contract labor for taking appropriate hiring decisions

### **6.3 Human Resource Forecasts**

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Human resource forecasting is the process of predicting the future needs of the company by looking into the competencies of the current staff and identifying the existing gaps. It helps managers to identify the sources of obtaining the necessary HR resources.

Forecasting human resource supply is of two types:

- Forecasting the external human resource supply
- Forecasting the internal human resources supply

#### **6.3.1 Forecasting the External Human Resource Supply**

Sometimes, organizations may have to recruit some employees from outside the organization on a contract basis.

##### **External sources of human resources:**

- *Educational institutions:* Campuses offer opportunities for recruitment of young graduates from educational institutions.
- *Unsolicited applications:* Refers to the pool of applicants who apply without any advertisement or requirement from the company

##### **Essentials of external human resource forecasting:**

- Human resource forecasting can predict the type of individuals likely to succeed in the organization by listing the qualities needed to succeed.
- Forecasting the external human resource supply enables managers to identify where potential employees may be found.
- Human resource forecasting estimates the external human resource supply by first making regular projections of labor market conditions.
- Human resource forecasting determines the number of personnel required within a field or profession.

Determinants in the external environment that influence the estimation of human resource supply can be enumerated as below:

- Political
- Economic
- Social
- Technological
- Environmental
- Legal

#### **6.3.2 Forecasting the Internal Human Resource Supply**

Often, the demand for future employees can be met internally. However, large firms find it difficult to know the skills and aspirations of their people. Hence aligning them to the strategic goals of the organization becomes all the more difficult.

Techniques to forecast internal human resource supply in large firms are:

- Management inventories
- Succession planning
- Skill inventories
- Replacement charts

While forecasting human resources, the above factors need to be analyzed. The same has been explained below.

### **6.3.3 Management Inventories**

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

- Educational background
- Field of specialization
- Work history and experience
- Current job performance
- Strengths and weaknesses
- Whether eligible for promotion at present
- Career goals and preferences
- Preferred location
- Retirement date
- Personal history

All the above information forms a database of an employee.

### **6.3.4 Succession Planning**

Succession planning is vital for ensuring business continuity and growth of any organization.

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

#### **Example**

Examples of internal succession planning done exceptionally well are:

- Virginia Rometty's succession as CEO of IBM in 2012
- Daniella Vitale's succession as CEO of Barneys New York in 2017
- Shashidhar Jagdishan appointment as new MD and CEO of HDFC bank in 2020

*Contd....*

## Block 2: SHRM – Implications for Organizations

At GE, succession planning is a part of the organization culture. <sup>6</sup>GE has a management development institute at Crotonville that trains about 10,000 employees every year. About 50 employees are selected as successors for existing leaders on the basis of their skills, abilities and knowledge. Jack Welch, the erstwhile CEO of GE, chose his successor, Jeffrey R Immelt through succession planning. However, John Flannery, current President and CEO of GE Healthcare, has been named CEO of the company by the GE Board of Directors effective August 1, 2017 and Chairman and CEO effective January 1, 2018. Jeff Immelt, Chairman and CEO, remained Chairman of the Board through his retirement from the company on December 31, 2017.

Since Oct 2018, Henry Lawrence Culp Jr. is the chairman and CEO of GE who is an outsider.

### 6.3.5 Skill Inventories

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

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

As such, the information pertaining to non-managerial employees is of utmost significance to them.

### 6.3.6 Replacement Charts

Some organizations use replacement charts that contain important managerial positions, the persons occupying them and their proposed tenure so as to identify people who are best qualified to move to higher positions.

Replacement charts enable organizations to:

- Know the supply of existing talent within the organization.
- Organizations become aware of possibilities for promotions and replacements by making use of replacement charts.
- “Replacement summaries” that list likely replacements with their relative strengths and weaknesses.

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<sup>6</sup> <https://www.ge.com/reports/john-flannery-named-chairman-ceo-ge/> (accessed on 29/11/2021)

Uses of replacement charts and summaries are enlisted below:

- Replacement charts and summaries provide valuable information to human resource administrators.
  - It is easy to create and maintain replacement charts and summaries.
  - Replacement charts and summaries provide useful insights on whether or not the organization needs training and development.
- 

### **Check Your Progress - 1**

1. Which of the following is a human resource supply forecasting technique?
    - a. Replacement charts
    - b. Delphi method
    - c. Expert consensus
    - d. Time series
    - e. Trend analysis
  2. Which of the following can be used to collect information about the employment history of potential employees?
    - a. Interviews
    - b. Informal parties
    - c. Examinations
    - d. Questionnaire
    - e. Formal parties
  3. Employee data on personal history, retirement date, career goals and preferences and strengths and weaknesses, are related to which of the following?
    - a. Replacement charts
    - b. Management inventories
    - c. Succession planning
    - d. Production planning
    - e. Manpower planning
- 

## **6.4 Strategic Issues in Forecasting Human Resources Supply**

Identifying the current and future human resource needs is essential for achieving organizational goals. Some strategic issues involved in forecasting the human resource supply are:

### **6.4.1 Make vs. Buy**

Making or buying decisions is one of the strategic issues involved in forecasting human resource supply in an organization.

## **Block 2: SHRM – Implications for Organizations**

- 1) **Make approach:** In make approach, organizations select people from within and train them for the skills required. Career enhancement programs in the organizations can help in make-approach.

### **Characteristics of “make” approach:**

- Make-approach is otherwise called the pure development strategy.
  - Internal people who are willing to learn the KSAO (knowledge, skills, abilities and other characteristics) required for the job are trained in the make-approach.
  - The “make” approach results in a long-term relationship between the organization and employees.
  - Organizations that use the “make” approach look for employees who have multiple skills.
- 2) **Buy approach:** In this approach, people possessing the required skills are hired to perform competently. This is a more cost-effective method.

### **Characteristics of “buy” approach:**

- Buy-approach is otherwise called the pure staffing strategy.
- Buy-approach follows hiring of employees who can deliver results soon after joining the organization.
- Organizations that use the “buy” approach look for employees who have particular competencies that help them implement the chosen strategy.

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

## **6.4.2 Investing in Training Facilities**

In an organization, training improves the skills of employees and contributes to improved performance.

Some formal methods of training in an organization are:

- **Apprenticeship programs:** These programs are a combination of on-the-job training and classroom training where the apprentice learns the specific skills required for the job.
- **Job instruction training:** It is a simple on-the-job training program in which a new worker is provided with step- by-step instructions to perform the said job.
- **Classroom lectures or conferences:** In this type of off-the-job training, the trainees are provided training in the form of lectures and discourses. In this method, a large number of employees can be trained simultaneously.
- **Simulation exercises:** In case of simulation exercises, training is provided in a scenario which is closely related to reality.



**Need for training in an organization:**

Organizations initiate training programs to achieve the following objectives:

- To orient new employees in the organization
- To improve employee skills and abilities
- To improve the motivation and morale of the employees
- To correct poor work habits
- To reduce absenteeism
- To handle complaints
- To reduce employee turnover
- To overcome resistance to change

Performance is considered to be a function of skills, abilities, motivation and opportunity to perform. Managers should ensure that the benefits that accrue from training exceed the costs incurred.

Reasons for poor performance which cannot be addressed by training interventions are enlisted below:

- Poor performance because the employees are not adequately paid which lowers their motivation and morale
- When the performance comes down due to faulty supervision
- The performance may come down due to inadequate worker benefits
- Sometimes poor performance can be attributed to improper physical work layout

Organizations must spend time and money wisely on training programs to improve performance. One way is to ask employees to make a list of topics such as:

- Problem solving
- Coping with stress
- Customer service
- Leadership

This list can be presented to company trainers or the external consultants conducting the training programmes.

**Franchisee model of training**

The features of the franchisee model of training are enumerated below:

- 1) The training company gives the franchisee the right to:
  - Use its brand name
  - The technical know-how used in the company
  - Use the manual containing the training objectives
- 2) The objectives of the firm are consistent across all its franchisees.

## Block 2: SHRM – Implications for Organizations

- 3) The franchisee invests in:
  - The office premises
  - Hardware
  - Other infrastructural facilities to carry out the activities.
- 4) In this model, the franchisee retains 60-80 percent of the revenue while the training company gets the rest.

### Training centers and their International presence:

Many Indian IT companies have set up training centers in countries such as China, Hong Kong, Indonesia, Singapore, Philippines and the USA

- Many global players also set up training facilities in India. Some of them have started 'Authorized Training Centers' (ATC).
- Companies like SAP and Oracle depend largely on India for supply of trained and skilled manpower.
- Oracle has a Global Education Center which has set up several ATCs.
- Small firms which do not have adequate infrastructure can tie up with large firms to impart training to their employees.

Exhibit 6.1 illustrates the learning initiative of TCS in the wake of COVID-19 pandemic.

#### Exhibit 6.1: Learning as an Investment

Learning continues to be the core value of TCS as the company uses the pandemic as an opportunity to upskill and reskill its employees as a part of its talent development initiatives towards the road to resilience and adaptability to the post-COVID world.

Secured Borderless Workspaces:

- Surplus Learning Platforms
- Extensive Training Programs
- Certifications

By the end of June 2020, TCS associates have broken their learning records while still on SBWS:

- 8.8+ million Learning hours
- 974 K+ competencies

More than 20 average learning hours per associate

Source: <https://www.tcs.com/blogs/gamified-learning-sharing-digital-upskilling> (accessed on 21st October, 2021)

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**Check Your Progress - 2**

4. The “make” strategy of human resource supplying is more popularly known as?
    - a. Staffing strategy
    - b. Pure development strategy
    - c. Staffing and development strategy
    - d. Functional strategy
    - e. Differentiation strategy
  5. Which of the following is a benefit of the pure development strategy of human resource supply?
    - a. Short-term relationship between organization and employees
    - b. Low cost
    - c. Less training is required and employees are more motivated
    - d. Long-term relationship between organization and employees
    - e. Regular training is required
  6. Which of the following is one of the primary reasons for corporates investing in training facilities?
    - a. To train employees of other organizations
    - b. To improve working conditions
    - c. To extend the tenure of retiring employees
    - d. To improve employee skills and abilities
    - e. To increase absenteeism
  7. Which of the following should be the prime responsibility of managers with respect to training programs?
    - a. Ensuring the personality development of employees
    - b. Ensuring reduction in work related stress
    - c. Ensuring that the benefits that accrue from training should exceed the costs incurred
    - d. Ensuring that the costs incurred on training should exceed the benefits accrued
    - e. Ensuring that the training programs are conducted smoothly
  8. Which among the following options given below is the term used for referring to these programs like computer modeling, simulation, lectures and apprenticeship programs?
    - a. Job rotation
    - b. Demand forecasting
    - c. Training
    - d. Succession planning
    - e. Job enrichment
-

## **Block 2: SHRM – Implications for Organizations**

Human resource supply forecasting is the process of estimating availability of human resources in relation to their demand.

HR supply forecasting:

- Provides the organizations with estimates to identify the gaps between supply and demand.
- HR supply forecasting makes use of techniques like succession planning to gather information on supply.
- Replacement charts are used in case of managerial positions to identify the managerial position and the people who can man the same.
- The information so collected is compared with the demand for human resources.

### **Example**

Prevedere, a Microsoft Cloud partner, has come up with a forecasting tool that gives businesses the manpower and expertise needed to forecast more accurately than ever by leveraging both internal and external data.

- At the heart of this solution is the External Real-time Insights Engine (ERIN).
- ERIN consists of model-ready data sets that can be:
  - Normalized
  - Tagged
  - Categorized
  - Adjusted for seasonality
- ERIN leverages Azure machine learning and advanced analytics.
- ERIN constantly monitors the data collection in real time and notifies business leaders of any future impact on performance.

## **6.5 Techniques for Forecasting the Demand for Human Resource**

Forecasting human resource needs heavily rely on past data for accomplishing future needs. The demand for human resources can be forecasted using the following methods:

- Delphi method
- Expert consensus
- Time-series methods

### **6.6.1 Delphi Method**

- Delphi method is a structured approach to get a number of experts to comment on a specific issue.
- Though developed to facilitate group decision making, Delphi method can also be used for HR forecasting as well.

Process of using Delphi Technique:

- Initially, the experts need to be identified. These experts can be first-line supervisors or top-level managers or can be experts from outside the organization.
- In Delphi technique, face-to-face interactions among the experts is not facilitated.
- The experts need to respond to the administered questionnaire in Delphi technique.
- If additional information is required, the questionnaire is modified accordingly and sent again to the experts.
- This process continues till the desired information for forecasting is received.
- The entire information thus received is pooled and summarized to arrive at the forecasts.

**Activity 6.1**

Anchor India Ltd., a major manufacturing firm received contracts from an aerospace firm. Of late, Anchor's client base had expanded and this had led to a shortage of human resources at the company. Hence, the company planned to hire more employees. The HR department was entrusted with the responsibility of forecasting the required human resources. Moreover, hiring people would require the staff to provide additional training that the current task of production will need and setting standards for measuring and controlling productivity. The HR department would also need to determine the number of people required for the production area. What methods can the HR manager of Anchor adopt to arrive at the forecasts?

**Answer:**

**Guidelines for using the Delphi Method effectively:**

Given below are some guidelines to make the Delphi method more effective:

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

## Block 2: SHRM – Implications for Organizations

### Limitations of the Delphi Method

Despite its advantages, Delphi technique is costly in terms of time, effort and money involved in administering the questionnaire.

#### 6.6.2 Expert Consensus

Expert consensus is otherwise referred to as the “jury of expert opinion method”.

- The information needed for the forecast is collected from the experts either within the organization or outside the organization.
- Face to face discussion is facilitated and a consensus needs to be reached in case of expert consensus method and the forecast is made accordingly.

#### 6.6.3 Time Series

Most organizations use time series methods to forecast employment levels.

- Time series analysis is based on the assumption that the future is an extension of the past.
- Time series techniques use the past information to predict the future.
- When we take data over a period of time, we come across the following variations/fluctuations:
  - Seasonal variations (Caused in case of seasonal requirements of labour)
  - Cyclical variations (Caused due to the effect of business cycles)
  - Secular variations (General increase or decrease in labour requirements)
  - Irregular variations (Caused due to some unexpected changes in the external environment like natural disasters, wars etc.)
- Though time-series methods identify patterns to predict the future, they do not explain the cause of such patterns.

#### Activity 6.2

The Hyderabad Cancer Research Center was in financial strain due to its bloated manpower. Following a carefully drawn out Voluntary Retirement Scheme and retrenchment scheme, it has decided to go for a planned forecast of human resource requirements so as to take in the optimum number of people. Suggest a suitable forecasting technique and give reasons for choosing that technique.

**Answer:**

## **6.6 Strategic Issues in Demand Forecasting**

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Demand forecasting techniques are necessary to perform annual analysis for every significant job in the organization.

### **6.7.1 Accuracy of Demand Forecasting Techniques**

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

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

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

### **6.7.2 Matching Forecast Results to Action Plans**

Activities affected by demand forecasting are recruitment, selection, performance appraisal, training and development to name a few. These activities consist of action programs which help organizations adapt to the changes in their environments.

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

### **6.7.3 Implications of Future Demand**

Forecasting human resources results in human resource inventory that covers a specific period of time in future.

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

## Block 2: SHRM – Implications for Organizations

<sup>7</sup>As per the reports of Global Talent Trends 2019, 60% of the companies are on their way to bring about workplace automation including 59% in US and 55% in China. Employers are looking up to artificial intelligence for HR.

### 6.7 Utilization of Demand Forecasting Techniques

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

As discussed in 6.6, there are many demand forecasting techniques. Utilization of these methods depends upon:

- The nature of the data
- The type of judgment to be given
- The size and quality of the data etc.

#### Example

IBM makes use of the multi-dimensional capabilities of IBM Planning Analytics along with IBM Cognos Analytics for providing:

- AI-fuelled insights
- Predictive modelling
- Accelerated planning, budgeting and forecasting cycles

Highlights of IBM Planning Analytics:

Accelerated planning, budgeting and forecasting processes for financial , HR and operational planning

Agility to easily update plans, budgets and forecasts

What-if analysis capabilities, enabling users to:

- explore scenarios,
- answer critical business questions,
- and see the impact of the changes in real-time

Automated data modelling capabilities, allow users to:

- Easily cleanse,
- Blend
- Shape their data for analysis

Highly visual and interactive dashboards allow users across the organization to monitor key metrics and dive deep into their data

Use forecasting in IBM® Planning Analytics Workspace to discover and model trend, seasonality and time dependence in data.

<sup>7</sup> <https://www.shrm.org/resourcesandtools/hr-topics/global-hr/pages/employers-embrace-artificial-intelligence-for-hr.aspx> (Accessed on 21/10/21)



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**Check Your Progress - 3**

9. Which of the following is a disadvantage of the Delphi method of forecasting?
  - a. Unreliable
  - b. Secrecy is compromised
  - c. Time consuming and expensive
  - d. Allows face-to-face interaction
  - e. Unrealistic
10. Which method is commonly referred to as the “jury of expert opinion method”?
  - a. Expert consensus
  - b. Delphi method
  - c. Regression analysis
  - d. Time series
  - e. Trend analysis
11. Which of the following is not a factor that affects the accuracy of a human resource demand forecasting technique?
  - a. Quantity of data used
  - b. The degree of inflexibility in staffing the workforce
  - c. Duration of the planning period
  - d. Employee performance
  - e. Workforce diversity

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**6.8 Contract Labour and its Implications on SHRM**

Studying the implications of contract labour on SHRM will help in taking proactive steps for providing health and welfare measures during employment and any legal hassle that may arise.

Contract labour can be distinguished from ‘direct labour’ in terms of employment relationship with the employer and the method of wage payment.

Contract Labour is the labour that is hired in connection with the work or “contract for service” with an establishment or through a contractor. They are neither borne on payroll or muster roll and are not paid directly by the employer.

Listed below are the advantages of contract labour (Employer Perspective):

- Contract labour is cost effective for the organizations as they can get the work done at minimum wages.

## **Block 2: SHRM – Implications for Organizations**

- Hiring contract labour can lead to reduction in industrial disputes as they are not unionized.
- The organization has procedural ease in termination of the contract labour.

The disadvantages of contract labour (Employer Perspective) can be enumerated as follows:

- The organizations find it difficult to track contract labour and guide them for qualitative work.
- The organizations cannot assign strategically important tasks to contract labour.

Not only to the employer but even the contract labour have their own advantages and disadvantages:

Advantages to the contract labour:

- Contract labour have the advantage of working at their own will.
- Contract labour can switch between the jobs easily.

Disadvantages for the contract labour:

- However, the major setback for the contract labour is that they work for minimal wages
- Contract labour have constant job insecurity

Now let us see the distinction between statutory workers and independent contractors. The differences have been discussed below:

- Statutory Workers:
  - Statutory workers work for the organization on a regular basis
  - The statutory workers receive wages on an hourly or salaried basis
  - In case of statutory workers, the employer has to pay statutory taxes
  - The employer has to pay the superannuation benefits to the statutory worker
- Independent Contractors:
  - Independent contractors take up work from different clients
  - They are paid on a project-by-project basis
  - Each assignment is considered a different contract for the independent contractors
  - The independent contractors need to sign a contract agreeing not to be treated as employees
  - The independent contractors receive payment by the job
  - The independent contractors are not eligible for workers' compensation coverage

### **Implication for SHRM**

Contract labor provides a company with flexibility and helps a company to meet its requirements arising due to competitive forces and cost cutting priority.

Reasons for possible rebellious feelings among contract workers can be attributed to the following:

- Job insecurity
- Lack of social security
- Exploitation by contractors
- Low wages
- Discrimination by trade unions

### **The Contract Labour (Regulation & Abolition) Act 1970:**

In India, contract laborers are protected by The Contract Labour (Regulation and Abolition) Act, 1970.

### **Definition of Contract Labour as per the Act:**

One who is hired in connection with the work of an establishment by a principal employer through a contractor.

### **Provisions of the Contract Labour Law:**

- Contract workers need to be paid as per The Minimum Wages Act, 1948.
- The contract workers need to be provided with health and safety measures such as safe drinking water, canteen facilities, first aid facilities etc.
- The contract workers need to be provided with social security covers in terms of provident fund benefits and medical facilities.

### **Cost Implications:**

Employing contract labour is economical in terms of time, effort and money spent on:

- Recruitment process
- On-Boarding training
- Employee benefits provided to full time employees
- Taxation

### **Specialized or Seasonal Job Requirements:**

Contract labour is a more cost-effective and viable solution:

- When the companies need specialized skill set and competencies
- When the companies need labour on a seasonal basis only

## Block 2: SHRM – Implications for Organizations

### Ease of Separation:

- In case of contract labour, there is procedural ease during termination.
- The legal hassles are less in case of separation of contract labour.
- In case of contract labour, there is no notice period for leaving as is found in case of permanent employees.

### Limited Exposure to Legal Action:

The legal risk pertaining to industrial dispute is relatively high in case of full time workers. But many of the employment legislations do not apply to independent contractors.

### Benefits to Contract Employees:

- Contract employees enjoy flexibility in terms of hours of work and employer.
- Contract employees earn relatively more as they are not tied to the success of a single business.

#### Example

<sup>8</sup>As a cost saving measure during COVID-19, 32% of the organizations have replaced full-time employees with contingent workers (Gartner Reports).

<sup>9</sup>Acknowledging the effect of the pandemic, the Ministry of Labour and Employment issued an advisory with a request to the establishments to pay wages to the contract labour and not to terminate them.

However, it is a non-binding advisory.

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### Check Your Progress - 4

12. Which of the following is a disadvantage of contract labor?

- a. Unreliable
  - b. Secrecy is compromised
  - c. Time consuming and expensive
  - d. Strategically important tasks cannot be assigned to them
  - e. Unrealistic
- 

<sup>8</sup> <https://www.gartner.com/smarterwithgartner/9-future-of-work-trends-post-covid-19> (accessed on 25/10/21)

<sup>9</sup> Order dated 29/03/2020, Home Secretary, the Ministry of Home Affairs and the Government of India, under S 10(2)(1) of the Disaster Management Act, 2015; Rohit Jain, Coronavirus Outbreak: Central Government Advises Employers Not to Terminate Employees, Bloomberg Quint, 23rd March, 2020 (accessed on 25/10/2021)

## 6.9 Summary

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- Human resource forecasting is the process of predicting the needs of the company to determine the future needs of the company
- Forecasting tries to understand the competencies of the current staff and identify existing gaps. This will help the HR department to determine future needs.
- Some external sources of human resource supply are, universities, competitors and unsolicited applications. Internal sources of HR supply use skills inventories, succession planning and management inventories.
- Organizations find it easier to “buy” human resources than to “make” them. Many companies invest in training facilities to help employees improve their skills.
- Different techniques for forecasting demand for human resources are: the Delphi Method, expert consensus and time-series methods.
- It is difficult to forecast demand accurately due to uncertainty in external and internal business environments. Organizations must avoid a mismatch between results and action plans. To meet the demand for human resources in the future, organizations can forecast the type of people they require.

## 6.10 Glossary

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

**Expert Consensus:** This is commonly referred to as the jury of expert opinion methods. It is widely used in forecasting. Experts either from the organization or from outside with knowledge of the subject (in this case demand forecasting) are approached for forecasts.

**Skill Inventories:** This refers to the information about non managerial employees who can be placed at higher levels in the organization.

**Succession Planning:** This refers to the process of identifying, assessing and developing talent to ensure that every key position in the organization is held by an efficient leader.

**Time Series:** In the time series technique, organizations take past quantitative data on demand and discern demand patterns to forecast the future.

## 6.11 Self-Assessment Test

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1. Human resource forecasts enable managers to estimate their human resource needs for the future and identify sources from where these resources can be obtained. Explain the types of human resource supply forecasting.

## **Block 2: SHRM – Implications for Organizations**

2. Traditionally, the role of human resource planning was mainly restricted to filling up vacancies. The forecasts were not aligned with the strategic planning process. But with the changing business environment, there have been changes in human resource forecasting. Identify the strategic issues in forecasting human resources.
3. Give instances of how organizations utilize supply forecasting techniques.
4. Explain the Delphi method of human resource forecasting? How should it be used and what are the limitations of the Delphi technique?
5. Describe the expert consensus and time series technique of forecasting human resource demand.
6. Briefly explain the strategic issues in demand forecasting.

### **6.12 Suggested Readings/Reference Material**

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1. Ananda Das Gupta. Strategic Human Resource Management-Formulating and Implementing HR strategies for competitive advantage, Productivity, Taylor & Francis Group, 2020
2. Armstrong, M, Armstrong's Handbook of Strategic Human Resource Management. 7th edition, London: Kogan Page, 2020
3. Dr. Ravi Kumar K. A text book of strategic human resource management - A guide to action, Notion Press, 2021
4. Gary Rees, Paul Smith. Strategic Human Resource Management. 3rd edition, SAGE Publications Ltd., 2021
5. John Storey, Dave Ulrich, Patrick Wright, Strategic Human Resource Management-A research overview, Routledge, 2020
6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020

### **6.13 Answers to Check Your Progress Questions**

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#### **1. (a) Replacement charts**

Replacement chart is a human resource supply forecasting technique. Delphi method, expert consensus, and time series are methods for forecasting demand for human resources.

#### **2. (a) Interviews**

Interviews can be used to collect information about the employment history of potential employees.

#### **3. (b) Management inventories**

Management inventories include employee data on personal history, retirement date, career goals and preferences and strengths and weaknesses.

**4. (b) Pure development strategy**

The “make” strategy of human resource supplying is more popularly known as “pure development” strategy.

**5. (d) Long-term relationship between organization and employees**

The “make” approach results in a long-term relationship between the organization and employees.

**6. (d) To improve employee skills and abilities**

Improving employee skills and abilities is one of the primary reasons for corporations investing in training facilities.

**7. (c) Ensuring that the benefits that accrue from training should exceed the costs incurred.**

The prime responsibility of managers with respect to training programs is to ensure that the benefits that accrue from training exceed the costs incurred.

**8. (c) Training**

Some methods of training are computer modeling, simulation, lectures, and apprenticeship programs.

**9. (c) Time consuming and expensive**

The disadvantage of the Delphi method of forecasting is that it is time consuming and is expensive.

**10. (a) Expert consensus**

Expert consensus is commonly referred to as the “jury of expert opinion method.”

**11. (d) Employee Performance**

The factors that affect the accuracy of a human resource demand forecasting technique include: the quality of data used, the duration of the planning period, the extent of integration of human resource planning with strategic business planning and the degree of flexibility in staffing the workforce. Employee performance is not a factor that affects the accuracy of a human resource demand forecasting.

**12. (d) Strategically important tasks cannot be assigned to them**

It is cost effective for the organization to hire contract labour as they can get the work done at minimum wages, industrial disputes would be less and there would be procedural ease for termination of employees but the disadvantage with contract labour is that strategically important tasks cannot be assigned to them.

## Unit 7

# Strategic Acquisition of Human Resources

### Structure

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- 7.1 Introduction
- 7.2 Objectives
- 7.3 Strategic Recruitment
- 7.4 Strategic Selection
- 7.5 Strategic Staffing
- 7.6 Strategic Approaches to Staffing
- 7.7 Strategic Issues in Staffing
- 7.8 Employee Wastage and Workforce Utilization
- 7.9 Effects of Absenteeism
- 7.10 Strategies to Deal with Employee Shortage
- 7.11 Employee Surplus and Crises - Strikes, Calamities
- 7.12 Summary
- 7.13 Glossary
- 7.14 Self-Assessment Test
- 7.15 Suggested Readings/Reference Material
- 7.16 Answers to Check Your Progress Questions

*"You don't build a business, you build people, and then people build the business."*

- Zig Ziglar

### 7.1 Introduction

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As has been propounded by Zig Ziglar, putting the right person in the right job helps in aligning the competencies of the people towards the strategic goals of the organization.

In the previous unit, human resource forecasting was discussed. In this unit, the strategic issues in staffing and the impact of technology on staffing will be discussed.

### 7.2 Objectives

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After studying this unit, students should be able to:

- Discuss the concept of strategic recruitment for creating a successful recruitment strategy
- Evaluate the process of strategic selection to achieve business goals
- Analyze strategic issues in staffing for acquiring and retaining skilled human resources
- Analyze the strategic approaches to staffing to sustain in the competitive world.



### 7.3 Strategic Recruitment

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Finding and attracting qualified candidates to organizations is of strategic importance for any organization as human resources are instrumental in elevating organizational performance.

Strategic recruitment is a process of creating a long-term strategic plan for attracting talent into the organization in line with the strategic goals of the organization.

#### 7.3.1 Strategic Aspects of Recruitment

Recruitment involves identifying and attracting the right pool of candidates for filling the vacancies.

Prerequisites for a successful recruitment strategy:

- 1) **Recruitment goals:** A good recruitment program should attract a high proportion of well qualified candidates interested in the job.
- 2) **Recruitment philosophy:** The key aspect of recruitment philosophy includes:
  - *Source of hire:* To decide whether to recruit candidates from internal or external sources.
  - *Time Implications:* To decide whether the recruitment is for short -term or long-term.
  - *Diversity and Inclusion:* To understand the diversity of the workforce.
  - *Process:* To ensure that the recruitment process is proactive, fair and honest.
- 3) **Recruiting Scope and Intensity:** The availability of qualified candidates for a particular job determines the scope and intensity of the recruiting effort. Other factors that need to be considered include:
  - Availability of qualified candidates for the particular job
  - The complexity of the job in question
  - The willingness of individuals to relocate or commute
- 4) **Types of Recruitment Message:** It includes the types of messages an organization uses to reach prospective candidates. The recruitment messages can be of the following types:
  - Traditional: They provide very little information about the job
  - Realistic: They provide realistic view enumerating the pros and cons of the job
  - Attractive: They focus on the positive aspects of the job
  - Targeted: They focus on a particular segment of the job market

## **Block 2: SHRM – Implications for Organizations**

5) **Media for Recruitment:** The different types of media used are:

- Print media
- Electronic media
- Combination of both

6) **Evaluating the Recruitment Process:** The commonly used method for evaluation is the yield ratio. Yield ratio shows the percentage of candidates moving to the next stage.

### **Example**

Take for instance: If the number of applicants who have applied for the job is 50 and the final candidates selected are 20, then the yield ratio is  $20/50 = 40$  percent.

7) **Temporary vs. Permanent Employees:**

This decision is based on:

- Time required for completion of the project
- Cost of hiring

### **Internal vs. External Recruitment:**

This decision depends upon the:

- Organizational goals and culture: Every organization has a recruitment philosophy.
- Quality and quantity of labor required: If the demand for and supply of labour matches, then they may go for internal sources
- Availability of sources: If sources within the organization are not available, the organization needs to look for external sources.
- Financial constraints: Internal recruitment is cost effective in terms of time, effort and money.

### **Advantages of using internal sources of recruitment:**

- The employees' skill, capability and performance are known.
- The employees' familiarity with the organization's culture reduces the training time.
- Opportunities of growth and development elevates the motivation and morale of the people.
- Cost-effective method in terms of time, effort and money.

### **Disadvantages of internal recruitment:**

- Can cause disharmony

- Can lead to dysfunctional conflicts
- Can bring down the morale of the employees if their promotion goals are not met

**Advantages of external recruitment:**

- Diversity in the work group can improve creativity and innovation
- Infuse new thought process into the organization
- Elevate the knowledge base of the employees

**Disadvantages of external recruitment:**

- Expensive in terms of time, effort and money

**Alternative methods that help in recruitment:**

- **Outsourcing:**

The business function is outsourced to a specialist firm who can perform it in a better and economical manner.

- **Employee leasing:**

The leasing company is approached for acquisition of the workforce. Since the costs of recruitment, training and compensation are taken care of by the leasing company and assume all risks as well, it is a very viable option.

Whether the recruitment is internal or external, effective planning and strategy formulation are essential for successful recruitment.

**Aspects that need to be considered at the time of recruiting:**

- Review and analysis of past recruiting practices should be carried out vigorously.
- The number of employees required for the job should be assessed.
- The time when an organization should start its recruiting efforts should be planned.

**7.3.2 Methods of Recruiting**

- **Word-of-mouth:** It is a process where the employees spread a word about their company to others.
- **Formal job posting** using print and electronic media
- **Employee Referrals:** It is a method which involves employees to share the job vacancies in their own networks and provide recommendations
- **Employment Agencies:** They match employers to employees.
- **Educational Institutes:** This is otherwise known as campus recruitment. It is facilitated by creating a liaison with the educational institutes for recruitment of students with technical and professional qualifications.

## Block 2: SHRM – Implications for Organizations

### Example

<sup>10</sup>Every year, Microsoft hires closer to 20,000 workers externally and approximately the same number internally. Despite these huge numbers, Microsoft constantly strives for making its applicant pool even bigger. Post acquiring LinkedIn for \$26 billion, Microsoft actively searches through LinkedIn profiles to find potential new hires.

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### Check Your Progress - 1

1. What is the recruitment message called if it focuses on a particular segment of the job market?
  - a. Traditional
  - b. Realistic
  - c. Attractive
  - d. Targeted
  - e. Reliable
2. What is the commonly used ratio in an organization's recruitment process?
  - a. Yield ratio
  - b. Recruit ratio
  - c. Personnel ratio
  - d. Select ratio
  - e. Cost per hire
3. What is the term used for referring to the contractual agreement between an employer and a company to lease employees?
  - a. Organizational leasing
  - b. Employee leasing
  - c. Personnel leasing
  - d. Knowledge leasing
  - e. Contract leasing
4. Which of the following statements is **true** regarding external recruiting?
  - a. External recruitment methods are becoming totally technology oriented
  - b. External recruiting is quickly being limited to Internet recruitment
  - c. External recruitment is expensive and time-consuming
  - d. External recruitment is the costliest recruitment method
  - e. External recruitment is unrealistic

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<sup>10</sup> <https://www.cnbc.com/2018/05/16/how-to-land-a-job-at-microsoft.html> (accessed on 1/12/21)

## 7.4 Strategic Selection

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Strategic selection is a process in which an organization hires individuals who can perform in congruence with its business goals which would in turn determine the organizational performance.

### Criteria for selection:

- 1) **Reliability:** It relates to the quality of measurement
  - A reliable test means that the selection methods, tests and ensuing results are:
    - Consistent
    - Do not vary with time, place or different subjects
    - Important criteria for decision making should be assessed. (E.g. writing skills for a content developer)
  - Subjectivity of people involved in selection process needs to be reduced by:
    - Using objective tools (tests and interviews)
    - Training the interviewer
    - Using more than one interviewer
- 2) **Validity:** Refers to the accuracy of the job performance

Two types of validity are considered:

  - Predictive validity which refers to the outcome or results of the selection technique and the ability to perform effectively
  - Content validity which refers to the assessment of the skill or ability that is relevant to the job. It talks about the desired knowledge that the employer should have to perform the job
- 3) **Generalizability:** Refers to the extent to which the validity of the selection tests is suitable in other work contexts
- 4) **Utility:** Refers to the cost benefit analysis of using the selection method
- 5) **Legality:** It talks about the legal standards that are to be adhered to in any selection method

### 7.4.1 Selection Methods

Selection methods can be enumerated as

- Applications
- Validity of resumes
- Tests
- Interviews
- Reference checks
- Physical examination

## **Block 2: SHRM – Implications for Organizations**

Interview is one of the most important selection methods. Interviews should be:

- Structured
- Standardized
- Focused to help companies select employees of their choice
- Multiple interviewers to avoid subjective errors

### **Classification of Interviews:**

#### **Structured interviews:**

They seek to measure the competencies of the applicants and are designed to obtain a sample of behaviors that demonstrate the competencies that are important to effective job performance.

#### **Unstructured interviews:**

They are carried out without any preparation or preset questions for assessing the candidate's ability. They have many themes or issues and include loosely-defined questions to track and explore what is meaningful to the respondent.

#### **Traditional job interviews:**

They make use of general questions (open ended questions) such as, “why do you want to work for this company”. The success or failure of the interview is often based on the interviewee's ability to communicate.

#### **Situational interviews:**

In such interviews, the candidate is given a hypothetical situation during the interview based on the job function.

#### **Behavioural interviews:**

They are based on the assumption that past job behavior is the indicator of future performance.

- The interviewer asks questions that explore an employee's past behavior.
- All the positions are assessed for competencies related to the success of the job.
- Structured questions are developed accordingly and asked to all the candidates.

### **Factors that influence the job choice of a candidate are:**

- **Pay:** Higher pay attracts more number of candidates to the job.
- **Responsibility and Career Advancement:** Jobs that provide autonomy and career advancement opportunities attract potential candidates.
- **Job Security:** Long term benefits of employment is an important criteria for job seekers.

- **Geographic Locations:** Geographic location is one of the determinants for job seekers.
- **Employee Benefits:** Employee benefits provided by the organization may attract talent.

**Example**

- Facebook uses behavioral interviews to assess job candidates based on their past performances.
- Google makes use of situational interviews.

#### 7.4.2 Selection Predictors

Predictors help forecast an individual's performance. Selection predictors can be enumerated as:

##### 1) Cognitive ability:

It is an individual's ability to:

- Store
- Retrieve
- Acquire
- Use information
- Learn
- Perform
- Deal with the complexities of the job

Types of cognitive abilities are:

- Verbal
- Numerical
- Spatial abilities which are used depending on the type of job

##### 2) Personality traits:

Based on the assumption that personality type determines the job performance, they are considered to be selection predictors.

According to the 'Big Five Framework' suggested by McCrae and Costa<sup>11</sup>, there are five primary components of personality:

- **Negative emotionality:**

It refers to the number and strength of stimuli required to elicit negative emotions in a person

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<sup>11</sup> McCrae, R. R., & Costa, P. T., Jr. (1997). Personality trait structure as a human universal. *American Psychologist*, 52, 509-516.  
<https://psycnet.apa.org/doi/10.1037/0003-066X.52.5.509> (accessed on 10/11/21)

## Block 2: SHRM – Implications for Organizations

- **Extraversion:**

It refers to the extent to which an individual is comfortable in dealing with people.

- High extraversion is characterized by the number of relationships an individual has and the time spent by him/her in enjoying them.
- Low extraversion is characterized by a less number of relationships an individual has and low proportion of time spent in interpersonal relationships.

- **Openness:**

Openness refers to the number of interests to which one is attracted to and the depth to which those interests are pursued.

- High openness refers to an individual having more interests.
- Low openness refers to an individual with less interests and comparatively more intensity in his/her interests.

- **Agreeableness:**

- It can be high or low.
- High agreeableness refers to the person adhering to several norms and takes decisions within those norms
- Low agreeableness is used for the person who follows his/her inner voice under any extremes

- **Conscientiousness:**

- It refers to the amount of goals on which one can concentrate.

### 3) Past performance:

- Experience of an employee in performing a job
- Can be achieved by reference checking
- Usually done in the final stages of selection process

#### Example

Personality tests used by employers:

- Myers-Briggs Type Indicator
- Caliper Profile
- SHL Occupational Personality Questionnaire
- HEXACO Personality Inventory-Revised
- DISC Personality Test



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**Check Your Progress - 2**

5. What is the term used for the test when the results of a selection method or tests are consistent and do not vary with the time, place, or subjects
  - a. Reliable
  - b. Valid
  - c. Generalizable
  - d. Legal
  - e. Illegal
6. Which of the following refers to the validity of the assessment of the skill or ability that is relevant to the job?
  - a. Predictive validity
  - b. Content validity
  - c. Contextual validity
  - d. Skill validity
  - e. Knowledge validity
7. In an interview, a candidate was taken around the workplace and was asked to carry out some job tasks or activities closely related to such tasks. He was selected based on his performance. What type of interview did the candidate go through?
  - a. Behavioral description interview
  - b. Situational interview
  - c. Structured interview
  - d. Unstructured interview
  - e. Informal interview
8. Which of the following is the core concept in selection that helps employees forecast an individual's performance?
  - a. Predictor
  - b. Assimilator
  - c. Identifier
  - d. Promoter
  - e. Distributors

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**7.5 Strategic Staffing**

By integrating staffing into strategic planning, a firm can decide what type of workforce it requires. This requires effective planning so that the organizational and individual goals are in congruence.

## **Block 2: SHRM – Implications for Organizations**

### **Determinants of staffing policy:**

- The general skills and ability of the employees
- Diversity of the business operations
- Using the right kind of staffing practices to attract right applicant
- Communication between the firm and the prospective candidate

### **Role of HR consultancies in staffing:**

- They have knowledge about the needs of the organization
- They have a database of candidates with diverse skills
- They provide the organization with prospective candidates

Exhibit 7.1 illustrates hiring in startups in 2020-21.

#### **Exhibit 7.1: Hiring in Startups in 2021**

Though the COVID-19 onset has hurt many companies in 2020 forcing them to make tough decisions like right sizing their teams and going for compensation cuts to name a few, the year 2020-21 has also witnessed increase in healthtech and fintech startup firms, thanks to the increasing interest among the investors to fund startups. Further, startups in logistics, digital media, e-commerce and deep-tech sectors are more aggressive about hiring with an increase by more than 20% as compared to 2019. (Startup Outlook Report of InnoVen Capital)

Recruitment Tactics for Startups:

- Formulate goals and implement strategies
- Create an appealing brand
- Flaunt on company culture
- Specify your requirements
- Come up with a talent pipeline
- Leverage exclusive sourcing strategies

Source: <https://economictimes.indiatimes.com/tech/startups/startup-jobs-seen-aplenty-in-2021-as-post-pandemic-hiring-gathers-pace/articleshow/81190242.cms> (Accessed on 21st October 2021)

### **7.5.1 Core Concepts in Staffing**

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

#### **To match the needs of the individual and organization**

Modern organizations align individual goals with the organizational goals for effective staffing decisions.

### Staffing as a Process

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

- **Recruitment:** This refers to attracting pool of eligible candidates
- **Screening:** This involves narrowing down the overall applicant pool. Human Resource Information Systems (HRIS) of the organization helps in the same
- **Analyzing the person's fit for the job:** This involves further reducing the search for candidates through:
  - Personality tests
  - Ability tests
  - Interviews
- **Person-organization Fit:** This calls for analysis of an individual's compatibility with the organization culture and work environment through:
  - The individual's ability to interact with peers and supervisors
  - Personality and psychological tests
- **Decision-making:** This helps in evaluating the candidate's skills and deciding about the recruitment.

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

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

#### Activity 7.1

Pictoria is a leading firm manufacturing picture tubes based in Bangalore. Pictoria was planning to venture into other cities to expand its operations. Apart from infrastructure and financial requirements, the company felt the need for an effective staffing strategy. The organization's HR head, Edmund Cuffy was given the responsibility of staffing decisions. What steps would you suggest to Cuffy for selecting the right person for the job?

**Answer:**


## **Block 2: SHRM – Implications for Organizations**

### **7.5.2 Organizational and Job Analysis**

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

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

These aspects help the organization analyze its short and long-term goals and select the right candidates who can fulfill these goals.

Job analysis is a process of analysis of the job, the key skills and abilities required to perform the job and the job context that is the physical conditions and the environment under which the job is performed.

Job analysis helps in bringing about a fit between the employee and the organization.

#### **Person–job fit**

This is the stage in which an organization brings in congruence between job demands and individual abilities.

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

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

The disadvantages include:

- Inability of an individual to perform multiple jobs
- Some skills can become obsolete due to the rapid technological advancements

In today's changing business environment, most modern organizations are laying emphasis on hiring people who can fit the job. Exhibit 7.2 discusses candidate driven hiring in 2021.

#### **Exhibit 7.2: Candidate Driven Hiring**

Amidst the pandemic, talent acquisition has become all the more different in 2021. 24% of the businesses have resorted to artificial intelligence for their talent procurement needs and 56% managers are planning to implement the same by the end of 2021 (SAGE Report).

*Contd....*

Candidate Driven Hiring in 2021:

- Hiring technologies in place
- New digital skills
- Fit between AI and People
- Remove bias in hiring process

Thus digital hiring solutions are going to stay in the post pandemic world as well with increased reliance on digital assessment, video interviewing and online reference checking, to name a few.

Source: <https://www.forbes.com/sites/markcperna/2021/01/05/4-ways-hiring-and-recruitment-will-change-in-2021/?sh=7dbf0881d09e> (Accessed on 21<sup>st</sup> October 2021)

**Person–Organization fit**

This is a new selection model for hiring employees.

- It brings congruence between the individual's overall skills, personality, values and the organizational environment and culture.

**Benefits of Person-Organization fit:**

- Contextual performance of the individual in accordance with the changing business environment.
- Individuals, whose values fit with the values of the organization are more committed.
- Such individuals also follow organizational rules and practices.

**Activity 7.2**

Funtoys is a Hyderabad-based manufacturer of kids' toys and is the market leader. It has segmented the toys market into the age groups of 1-5, 6-10, and 10-14. Funtoys has achieved good sales in the first two segments – 1-5 years and 6-10 years. But in the third segment, Funtoys has not been able to get the desired results. The company carried out a market research and has come to the conclusion that this segment has more competitors and that in order to gain an advantage, it needed good staffing practices. What are the core concepts in staffing that the company has to take into consideration in hiring new employees?

**Answer:**


## **Block 2: SHRM – Implications for Organizations**

### **Process of Person-Organization Fit**

#### **1) Assessing the work environment:**

This involves assessing the fit between the individual's knowledge and skills and the job

- Techniques used to assess these include:
  - Questionnaires
  - Critical incident techniques

The process emphasizes on the:

- Importance of knowledge
- Skills
- Capabilities of an employee

#### **2) Inferring on the type of person required:** The focus is on the skills required for the job.

#### **3) Assessing the organizational and individual fit:** The mutual fit between an organization and an employee can be assessed through:

- Cognitive
- Motor
- Interpersonal tests and personality tests

#### **4) Reinforcing the person-organization job fit:** An employee's knowledge and skills are reinforced through training sessions by assessing his/her ability to perform the job.

#### **Advantages of this model:**

- Greater job satisfaction
- Higher levels of commitment
- Low absenteeism
- Low turnover
- Less grievances

#### **Disadvantages associated with this model:**

- Recruitment cycle takes more time to complete
- Process needs to be changed in response to the changing
  - Business
  - Technological
  - Cultural requirements

**Example**

<sup>12</sup>The UK healthcare system witnessed years of digital evolution in 2020.

With the onset of COVID-19:

- Doctors assessed 100 percent of appointment via video link
- About 7 percent proceeding to face-to-face consultations
- This is contrary to less than 1 percent of appointments via video link in 2019

This change shift calls for the clinicians to adopt to effective and safe remote diagnoses.

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**Check Your Progress - 3**

9. Which among the following refers to an individual's ability to store, retrieve, acquire and use information?
  - a. Cognitive ability
  - b. Performance ability
  - c. Memorizing ability
  - d. Conscientiousness
  - e. Intellectual ability
10. Who has suggested the Big Five Framework related to personality types?
  - a. Ian Beardwell and Len Holden
  - b. Andrew and Friedman
  - c. Dunn and Guest
  - d. McCrae and Costa
  - e. Russ Hudson
11. Which among the following is being achieved by the organization which seeks to bring job demands and individual abilities in congruence?
  - a. Person-Organization Fit
  - b. Person-Job Fit
  - c. Organization-Job Fit
  - d. Person-Industry Fit
  - e. Job-Person Fit

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<sup>12</sup> <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/to-emerge-stronger-from-the-covid-19-crisis-companies-should-start-reskilling-their-workforces-now> (accessed on 1/12/21)

## **7.6 Strategic Approaches to Staffing**

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We have learnt core concepts in staffing, including staffing process and organizational and job analysis in strategic staffing.

Now in strategic approaches to staffing, we will discuss how we moved from traditional approach to staffing to strategy formulation approach, wherein candidates who can add value to organizations are hired.

The strategic impact of staffing has been discussed with emphasis on three methods:

- Traditional approaches
- Strategy implementation approach
- Strategy formulation approach

### **7.6.1 Traditional Approaches**

Traditional approaches to staffing are formulated on the basis that staffing has no role in formulation and implementation of business strategy. It assumes that people and jobs are stable.

#### **Advantages of traditional methods:**

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

#### **Disadvantages of traditional approaches:**

- Such methods are not successful in dynamic business environment.
- They are not flexible.

### **7.6.2 Strategy Implementation Approach**

This approach aligns the staffing process with the organizational goals and presumes that for an organization to perform effectively, staffing has to be a part of strategy implementation.

The main steps involved are:

- Identifying the organization's business strategy
- Deducing the organizational capabilities needed to implement the strategies
- The recruitment and selection processes that focus on candidates who can work in congruence with the organization's goals.

### **7.6.3 Strategy Formation Approach**

This approach focuses on the importance of hiring candidates who can add value to an organization's product and services.

- This value can help the company in retaining its position in the market.
- It is based on the presumption that staffing and strategy can be changed according to the external environmental factors.



## Unit 7: Strategic Acquisition of Human Resources

- Assumes that successful business strategies can be built around human resources.
- Stresses on equal importance to staffing as is given to acquisition and allocation of other resources.
- Assumes a flexible fit between an organization and its human resources and the external environment.

The following steps are used to implement this strategy effectively:

- Hiring creative and innovative people
- Hiring people who are highly adaptable to the changing business environment
- Devising retention strategies to retain employees
- Introducing effective systems to make use of their skills

The above strategies change depending on the type of organization.

### 7.6.4 Make vs. Buy Approach

As discussed in Unit 6 under 6.4, the Make vs. Buy approach is also an important approach for staffing.

#### “Make Approach”

The make approach follows hiring individuals with an aptitude to learn. Let us understand it in detail:

- Such employees are trained to meet the requirements of the job
- It builds an environment of trust and commitment
- It is a purely developmental approach
- Jobs like administration can be filled using this approach

#### “Buy Approach”

Buy approach focuses on hiring individuals with specific skills. Let us understand it in detail:

- Such employees work effectively in coherence with the organization's goals
- Jobs that require technical skills can be filled using this approach

An organization needs to have a combination of both “make” and “buy” approaches.

## 7.7 Strategic Issues in Staffing

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Managers in modern organizations need to select a high-quality workforce to achieve organizational goals.

Selection methods focus on:

- An individual's capability to perform expected tasks.
- The relationship the individual has with his team members, the extent to which he maintains personal discipline and how the peer and team performance is facilitated.

## Block 2: SHRM – Implications for Organizations

Modern selection programs focus on two important aspects –

- Adaptability
- Effective performance

Restructuring of an organization, downsizing, decentralization have all added to an organization's need to have a flexible workforce.

Few of the important strategic issues in staffing are discussed below:

**Workforce diversity<sup>13</sup>:** Refers to people with different backgrounds working for the same organization. Different backgrounds may comprise people belonging to:

- Different race
- Ethnic group
- Gender
- Age
- Cognitive style
- Personality
- Education
- Organizational function

### Diversity involves:

- How people perceive themselves along with how they perceive others.
- This perception, in turn, affects how people interact, communicate and work:

Diversity policies have to be incorporated in the hiring process to manage communication and adaptability effectively.

**Talent Acquisition:** Talent acquisition is the process of attracting and acquisition of skilled labour for the organization. Talent acquisition and retaining is important for an organization to sustain in the competitive world.

### Example

In a survey by Gartner, Inc. in 2021, it has been established that out of the IT automation technologies that were a part of the survey, only 20% of them have been successful in adoption since 2020. The most common reason attributed to the same is the shortage of talent availability (more than 75%).<sup>14</sup>

Talent Acquisition Trends in 2021:

- Fall back upon virtual recruiting technologies
- Attracting talent from remote location
- Intensifying succession planning efforts
- More comprehensive diversity and inclusion plans
- Up skilling

<sup>13</sup> <http://www.multiculturaladvantage.com/recruit/diversity/diversity-in-the-workplace-benefits-challenges-solutions.asp> (accessed on 23/10/2021)

<sup>14</sup> <https://www.gartner.com/en/newsroom/press-releases/2021-09-13-gartner-survey-reveals-talent-shortages-as-biggest-barrier-to-emerging-technologies-adoption> (accessed on 22/10/2021)

### 7.7.1 Selection for Competitive Advantage

In today's changing world, it is important for organizations to select individuals who can be a competitive advantage. Selecting individuals who are flexible increases the company's capacity to create new products.

### 7.7.2 Impact of Technology on Staffing

In the face of increasing global competition, the ability to attract, hire, and develop the most capable talent is the most important determinant of organizational effectiveness.

#### Impact of technology on staffing:

- Use of technology in staffing is time saving due to computerized resume databases
- Technology in staffing leads to a paperless process thus reducing staffing costs
- Software can help in easily mapping applicants with the job
- Use of interactive voice response technology further helps in staffing efforts
- An organization can gain competitive advantage by generating career pages

However, the company's success depends on:

- Its ability to attract applicants to its site
- The manner in which the e-recruitment process is incorporated into the organization's overall recruitment and selection strategy which includes
  - Refined behavioral and skills evaluation
  - Using appropriate interviewing methods

#### Example

- NIKE makes use of interactive voice response technology (IVR) for hiring employees for its retail stores
- <sup>15</sup>HireVue is the AI-powered hiring platform deployed by more than 700 companies including Unilever, Oracle, PwC with algorithms to determine the ideal candidates by analyzing their vocabulary, speech patterns, body language, tone and facial expressions
- MyaSystems deployed by L'Oreal, Deloitte to name a few to guide the candidates through the entire hiring process using conversational AI

<sup>15</sup> <https://towardsdatascience.com/5-companies-that-are-revolutionizing-recruiting-using-artificial-intelligence-9a70986c7a7e> (accessed on 1/12/21)

## Block 2: SHRM – Implications for Organizations

Refer Exhibit 7.3 for Digital Transformation Journey within the Staffing Industry.

### **Exhibit 7.3: Digital Transformation Journey within the Staffing Industry**

The onset of COVID-19 and the popularity of data analytics helped the staffing companies in identifying new opportunities and evaluations.

Four leading players within staffing and recruitment industry and the way they deployed technology:

- Cube19 provides business critical solutions for staffing industry
- Association of Professional Staffing Companies (APSCo) and The Recruitment Network (TRN) utilized technology by hosting online events
- Practical Software streamlined repetitive back-office operations within recruitment and staffing using technology
- PGC made use of technology called Precision for on boarding and off boarding workers for their clients.

Source: <https://pgcgroup.com/blog/how-technology-has-transformed-the-staffing-industry>  
(Accessed on 21st October 2021)

### **7.7.3 Techniques of e-Recruitment**

For many employers, online recruitment has been a significant response to their staffing challenge.

E-recruiting includes these techniques:

- Using general commercial sites
- Specialized job sites
- Chat rooms or newsgroups
- Company websites

E-recruiting is relatively:

- Inexpensive
- Faster
- Efficient as compared to conventional methods

E-recruitment increases applicant pools by:

- Enabling applicants to locate potential employment opportunities
- Providing the employer with the access job seekers

Companies that use their own websites combined with internal databases that employ all online recruitment tools integrated with conventional methods, are likely to have the biggest advantage.

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**Check Your Progress - 4**

12. Who identified eight-factors that highlight the importance of adaptive performance in organizations?
  - a. E D Pulakos et al
  - b. R Revans and Rover
  - c. E L Schien and Virginia
  - d. Silver and Mangham
  - e. Kenneth Bainey
13. Which of the following talks about the predictors of cooperativeness, extraversion and agreeableness?
  - a. Work performance
  - b. Predictive performance
  - c. Behavioral Performance
  - d. Contextual performance
  - e. Adaptive performance
14. What are the techniques of e-recruiting?
  - a. General commercial sites and specialized job sites
  - b. Electronic media
  - c. Newspapers
  - d. Advertisements
  - e. Word-of-Mouth

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**7.8 Employee Wastage and Workforce Utilization**

**Employee wastage**

Employee wastage refers to the employee loss not by redundancy but by factors like:

- Labour turnover
- Idle time
- Absenteeism

Wasting time during working hours leads to:

- Poor performance
- Missed deadlines
- Quality slips

## **Block 2: SHRM – Implications for Organizations**

Suggestions to combat employee wastage:

### **Leadership:**

It includes training, setting goals and targets for the team and leading them in the right direction for increasing productivity.

### **Heading off Time Wasting at Work:**

It includes proper job analysis, clear and specific job descriptions and appropriate job specifications.

### **Clear expectations from team members:**

It calls for devising realistic performance expectations along with a good communication mechanism in the organization. Additionally, there needs to be a consistent and objective standard of performance measurement for monitoring and control of performance.

Exhibit 7.4 discusses employee attrition rate in the IT sector.

#### **Exhibit 7.4: Hiring Imbalance**

COVID-19 has called for reengineering of all the sectors with the IT industry being no exception. The pandemic brought with it new challenges for the IT industry in terms of remote working and digital talent among others. Added to it is the emergence of startups, offering competitive packages to attract exceptional talent, thus increasing the rate of attrition.

Attrition Rate (2021):

- Accenture - 17%
- Tech Mahindra -17%
- Cognizant - 21%
- Infosys - 15.2%
- Wipro - 12.1%

Division of labour between humans and machines will lead to displacement of 85 million jobs along with creation of 97 million new ones by the year 2025 (World Economic Forum Report).

Reasons:

- Uncertainty due to pandemic
- Rapid acceleration of automation

Strategies to be adopted:

- Investment in data science and complex algorithms
- Upskilling of the employees
- Hiring and retaining the best talent
- Conducive work culture

Source: <http://www.businessworld.in/article/IT-s-Hiring-Imbalance-Attrition-Vs-Retention-/08-09-2021-403641/> (Accessed on 21<sup>st</sup> October 2021)

**Workforce utilization:**

The method or the manner used by an organization to maximize the efficiency of a company's employees is called workforce utilization. Workforce utilization helps in:

- Improving the productivity of the employees
- It helps in accomplishing the organizational objectives.

Techniques used for workforce utilization:

- **Training in multiple areas:**

- This ensures optimum utilization of resources
- It eliminates the risk of employee wastage
- It inculcates diverse skills in employees

- **Lean labor management culture:**

This improves efficiency by standardizing tasks, processes and the use of technology and material handling systems. It creates value by eliminating waste.

- **Standardized work processes map:**

For ensuring that the right practices are in place to improve performance and to incorporate initiatives for training of the employees across the organization. Train and cross-train employees along with workers involvement in decision-making.

## **7.9 Effects of Absenteeism**

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Employee absenteeism refers to failure of the employee to report to duty.

Employee absenteeism:

- It is expressed in terms of percentages
- If rampant, absenteeism can make organization dysfunctional
- Employee absenteeism can be attributed to the size of the firm and number of disputes
- Absenteeism can negatively impact the goodwill of the organization

**Reasons for employee absenteeism:**

Following are the reasons for absenteeism:

- Lack of job security
- Low wages and
- Unfriendly attitude by the management

## Block 2: SHRM – Implications for Organizations

The indirect costs and effects of absenteeism can be enumerated as:

- It leads to fall in quality of products and services
- It decreases productivity
- Excess manager time is required for dealing with discipline
- There would be frequent employee replacements
- There would be an increase in defects
- There would be increase in accidents
- Poor morale among employees due to increased work hours is a function of employee absenteeism

### 7.10 Strategies to Deal with Employee Shortage

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Poor planning and sometimes unforeseen contingencies lead to staff shortage. Organizations should be equipped with strategies to overcome the ill effects of shortage of employees.

#### **Promote from Within:**

Promotion and transfers are:

- Cost effective
- Help in improving the motivation and morale of the people

#### **Flexible hiring policy:**

Such policy helps in accommodating the changes in the external environment. By bringing about a fit between the internal needs and organizational goals.

- Flexi working hours and part-time jobs for instance help to fill in the jobs by providing the necessary feasibility.

#### **Outsourcing:**

Outsourcing is a cost-effective, fast and efficient way of dealing with staff shortages with legal risk being minimal.

- **Employee Reskilling and Upskilling:** Reskilling and Upskilling of employees to meet the new job expectations would help the organizations to meet its employee requirements.

#### **Example**

<sup>16</sup>The 5th Street Group, comprising five restaurants in Charleston, South Carolina, and Charlotte, North Carolina, faced acute shortage of labour as the restaurants were getting busier after the ease of lockdown amid COVID-19.

*Contd....*

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<sup>16</sup> <https://www.seattletimes.com/business/these-businesses-found-a-way-around-the-worker-shortage-a-big-boost-in-wages/> (accessed on 1/12/21)



Despite intensive efforts, to their surprise, they did not receive enough applications for the dozens of positions they were trying to hire.

To combat the employee shortage issue:

- The company raised the wages for its staff to \$15 an hour from \$12 per hour.
- Created “tip the kitchen” program with addition of a second line to table checks for gratuity for the back-of-the-house staff, which the restaurant matches up to \$500 per night.

Then applications began pouring in nearly overnight. Within three weeks, the restaurant group went from about 50 to 60% staffed to nearly fully staffed.

### 7.11 Employee Surplus and Crises - Strikes, Calamities

Employee surplus is another important aspect that has bearing on the financial performance of an organization. An employee surplus may lead to a crisis situation.

#### Reasons for employee surplus:

- Technological changes which may call for less number of employees or may lead to employee obsolescence.
- Changes in the political system which may cause uncertainty and affect the performance of the firm and the economy.
- Changes in business cycles which are the alternate trends of booms and depressions that may affect the economic variables. Business not doing well during recession may lead to employee surpluses.
- Changes in work methods: The changes in the work methods may lead to employment of less number of people which in turn leads to employee surpluses.

#### Measures to meet employee surpluses:

- **Modified schedules and work arrangements:** Part-time work, work-sharing can be used to even out surplus manpower.
- **Salary reductions:** Instead of complete layoff, reduced salary for reduced work especially during recession is a better option.
- **Shifting salary mix:** It is advisable to reduce the fixed salary component and increase the variable salary component which is linked to the actual production.
- **Retraining and redeployment:** Retraining the employee to fit them into new areas where there is a requirement would eliminate employee obsolescence.
- **Shifting to contract labour as per work demand:** This is a good practice especially during recession to reduce the number of permanent employees.
- **Outsourcing:** The work is outsourced to suitable organizations instead of having surplus employees without adequate work.

## Block 2: SHRM – Implications for Organizations

Companies, depending upon the requirements, opt for one or more of the options given above for efficient work flow.

### Example

With COVID-19 outbreak and the consequent lockdown, CEO of Ola, India, Bhavish Aggarwal had to forgo his salary for a year. This is an example of pay cuts taken up by the leadership team to avoid complete layoffs.

### Crisis Management Strategies:

Every firm should have effective crisis management strategies to adjust shifts in the market or operating conditions through proper planning. Some of the crisis management strategies are enumerated as below:

1. **Embed crisis management system and respond capabilities:** This refers to the ability to anticipate or detect a contingency to respond appropriately to unforeseen situations with immediate interventions.
2. **Adopt strategies of collaborations among network partners:** An excellent networking with all the stakeholders provides the much needed facilitation and support during a crisis.
3. **Value and nurture organizational learning:** Knowledge management that includes collection, analysis and dissemination of information across their networks is critical for managing crises.
4. **Use technology and analytics:** This helps in forecasting and responding to changes in the external environment.

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### Check Your Progress – 5

15. Wasting time during work hours leads to which of the following?
- a. Employee fatigue
  - b. Employee wastage
  - c. Employee retention
  - d. Employee mobility
  - e. Employee rotation

---

### 7.12 Summary

- Strategic recruitment is a process of creating a long-term strategic plan for the organization. It also involves having specific requirements for each job and aligning them with the organization's strategic plan.
- Strategic selection is a process in which an organization hires an individual who can perform in congruence with its goals. An organization's performance depends upon its employees; hence decisions regarding staffing have to be taken seriously.

- Interview is one of the most important selection methods. In the modern day selection methods, situational and behavior description interviewing are gaining importance.
- The core concepts in staffing include, matching individual needs with the organizational needs, the importance of staffing as a process, the importance of organizational and job analysis, the person-job fit for an organization and the growing emphasis on person-organization fit.
- The different approaches in staffing include: the traditional approach, strategy implementation approach, and strategy formation approach. Traditional approaches to staffing are formulated on the basis that staffing has no relation to the formulation and implementation of the strategy. Strategy implementation approach aims to align the staffing process with the organizational goals. The strategy formation method is based on the presumption that staffing and strategy are variable and they can be changed in accordance with the external environmental factors.
- The strategic challenges in staffing have become important for organizations to select employees who can be a competitive advantage. E-recruiting is being adopted by most companies today considering its low cost and high speed.

### 7.13 Self-Assessment Test

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1. Discuss the strategic aspects in recruitment.
2. Evaluate the factors that influence the fit of a job
3. Analyze the strategic issues in staffing
4. What do you understand by employee wastage? Explain the strategies to be adopted to deal with employee wastage.
5. Analyze the strategies to deal with employee shortage

### 7.14 Glossary

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**Content Validity:** This refers to the assessment of the skill or ability that is relevant to the job.

**Job Analysis:** It helps identify key skills and abilities required for the job. It is also an analysis of the task, knowledge, skill and ability required for the job.

**Job Context:** This refers to the physical conditions and the environment under which the job has to be performed.

**Predictive Validity:** This refers to the outcome or results of the selection technique and the ability to perform effectively when on the job.

**Strategic Recruitment:** It is a process of creating a long-term strategic plan for the organization. It also involves having specific requirements for each job and aligning them with the organization's strategic plan.

**Strategic Selection:** It is a process in which an organization hires individuals who can perform in congruence with its goals.

### **7.15 Suggested Readings/Reference Material**

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6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020

### **7.16 Answers to Check Your Progress Questions**

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**1. (d) Targeted**

The recruitment message is called targeted if it focuses on the particular segment of the job market.

**2. (a) Yield ratio**

Yield ratio is the commonly used ratio in an organization's recruitment process.

**3. (b) Employee leasing**

Employee leasing is a contractual arrangement between an employer (the leasing company) and a company which does not desire to employ its workers directly.

**4. (c) External recruitment is expensive and time-consuming**

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

**5. (a) Reliable**

A reliable test means that the selection methods, tests and ensuing results are consistent and do not vary with time, place, or different subjects.

**6. (b) Content validity**

Content validity refers to the assessment of the skill or ability that is relevant to the job.

**7. (b) Situational interview**

Situational interview involves taking a tour of the workplace and asking the interviewee to actually perform some aspect of the job, or a closely related aspect of the job. Therefore, the candidate was going through a situational interview.

**8. (a) Predictors**

The concept of predictors is a core concept in selection. These help forecast an individual's performance.

**9. (a) Cognitive ability**

Cognitive ability is an important predictor of individual performance. It is an individual's ability to store, retrieve, acquire and use information.

**10. (d) McCrae and Costa**

McCrae and Costa suggested the Big Five Framework related to personality types.

**11. (b) Person – Job fit**

When an organization seeks to bring job demands and individual abilities in congruence, it is trying to achieve a person job fit.

**12. (a) E D Pulakos et al.**

In the context of adaptive performance, E D Pulakos et al identified eight-factors that highlight importance of adaptive performance in organizations.

**13. (d) Contextual performance**

Cooperativeness, extraversion, agreeableness are all predictors of contextual performance.

**14. (d) General commercial sites and specialized job sites**

The major techniques of e-recruitment include: using general commercial sites and specialized job sites.

**15. (b) Employee wastage**

Wasting time during work hours leads to employee wastage which in turn results in poor performance, missed deadlines and quality slips.

## Unit 8

# Strategic Implications of Training and Development

### Structure

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- 8.1 Introduction
- 8.2 Objectives
- 8.3 Overview of Training and Development
- 8.4 Strategic Issues in Training and Development
- 8.5 Use of Technology in Training
- 8.6 Future of Internet-based Training
- 8.7 Summary
- 8.8 Glossary
- 8.9 Self-Assessment Test
- 8.10 Suggested Readings/Reference Material
- 8.11 Answers to Check Your Progress Questions

*“Train people well enough so they can leave. Treat them well enough so they don’t want to.”*

- Richard Branson

### 8.1 Introduction

---

As has been popularized by Richard Branson, training and development programs have a domino effect where skilled and engaged employees have high levels of organizational commitment which would help in retention strategy and contribute to the accomplishment of the strategic goals of the organization.

In the previous unit, strategic issues in staffing were discussed. In this unit, the strategic implications of training and development and the impact of technological advances on training and development activities will be discussed.

### 8.2 Objectives

---

After studying this unit, students should be able to:

- Analyze the need and significance for training employees for improving the productivity of the organization.
- Evaluate the strategic issues in training and development for competitive advantage of a company
- Analyze the relationship between learning, motivation and performance to assess the usefulness of training programs

- Assess the role of technology in training for competitiveness, flexibility and cost effectiveness
- Visualize the future of Internet-based training for developing virtual online training through new instructional designs

### 8.3 Overview of Training and Development

Training and development refers to a planned effort to help employees learn job-related behaviors to improve their performance, thus contributing to organizational productivity.

The terms “training” and “development” are often regarded as synonymous; however, the two terms are distinctive.

- **Training:** It is the term used when technical skills are imparted to the employees
- **Development:** Refers to the process of imparting managerial and behavioral skills

#### 8.3.1 Training Goals and Roles

Organization's strategic objectives form the basis for defining employee performance goals with training being an integrated part for achieving the same.

Exhibit 8.1 illustrates the training programs at Amazon.

#### Exhibit 8.1: Training Programs at Amazon

Amazon Inc., an American multinational company, in September 2021, announced an investment of \$1.2 billion for providing training programs for about 3,00,000 employees, as a part of the Amazon's Upskilling 2025 initiative.

The programs include:

- AWS: Grow your own talent: Off-the-job and on-the-job training programs for employees from non-technical background.
- Surge2IT- NEW: Self-paced learning for entry level IT employees
- User Experience Design and Research (UXDR) Apprenticeship: Classroom learning plus hands on experience combined together for research and design skills
- Career Choice: Sponsoring higher education of its employees
- Amazon Technical Academy: To help the non-technical employees to move into software engineering careers
- Machine Learning University: Imparts training in machine learning
- Mechatronics and Robotics: For upskilling the employees involved in technical maintenance roles
- AWS Training and Certification: Certification programs for cloud knowledge

Source: <https://www.aboutamazon.com/workplace/upskilling-commitments> (Accessed on October 30, 2021)

## Block 2: SHRM – Implications for Organizations

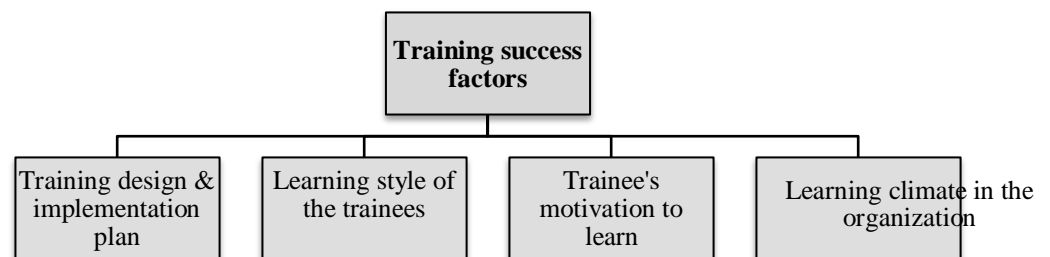
### Training system and process

For elevating their performance, employees need to continuously update their knowledge and skills. Training programs helps them:

- By providing them with the opportunity for requisite learning.
- By facilitating upgrading their skills to meet the ongoing job requirements.
- By preparing them to tackle with the inevitable changes in their jobs/roles.

However, Training being only an opportunity for learning, the following factors influence its success / effectiveness (Refer Figure 8.1).

**Figure 8.1: Factors influencing the training success**



*Source: ICFAI Research Center*

### Training Process Model

Training is an integrated process that analyzes organizational and employee needs in a rational, logical and strategic manner.

**Basis of training process:** The training programs of an organization are aligned towards achieving the:

- Organization's mission
- Strategies
- Optimum utilization of resources
- Employee needs
- Training budgets
- Staff
- Equipment

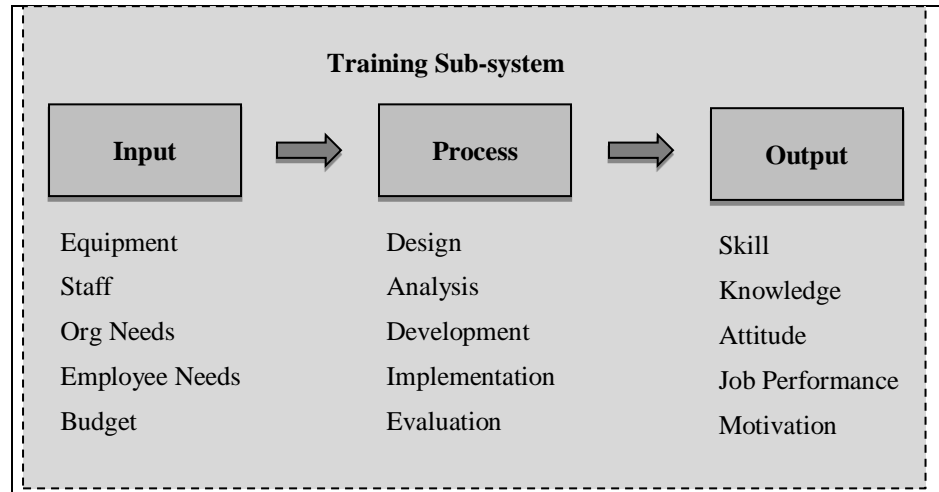
Training processes transform these inputs into the usable output for the organization like:

- Improved knowledge
- Skills & attributes
- Job performance



Thus training is a subsystem of the HR which in turn is a sub-system of the company. This is indicated in Figure 8.2.

Figure 8.2: Training Sub-system



Source: ICFAI Research Center

With the changing business environment & global business boundaries of competition, organizations started looking at training as a strategic tool and employees' knowledge as the competitive advantage.

The various phases of the training process & each of the phases, in brief, are explained below.

#### Analysis:

This is the phase wherein the organizational training needs are analyzed.

- Training need arises when a gap is identified between actual & expected organizational performance due to factors like:
  - Shortfall in profits
  - Reduced customer satisfaction
  - Anticipated poor performance of the company in the future unless changes are made
- Subsequently the cause identified is evaluated for importance and resolution.
- In the process, the concerned authority identifies:
  - The inadequacies of employee's Key Skill Areas (KSAs)
  - Issues of motivation
  - Quality of the company's equipment / infrastructure

This process of data gathering and analysis to determine which performance problems should be addressed by training is the analysis phase of the training process.

## **Block 2: SHRM – Implications for Organizations**

### **Design:**

Training needs identified at the previous stage act as an input for this stage. At this stage, the training objectives are defined. It includes identification of:

- Who has to be trained?
- What kind of training needs to be imparted?
- Who will impart the same?
- Post training practices

### **Development:**

Deals with the finalization of instructional strategy that facilitates the achievement of the training objectives.

- The instructional strategy is a combination/integration of:
  - Order of training delivery,
  - Timing / periodicity of training,
  - Detailed methodology of training,
  - Elements of learning facilitation like materials to be used, equipment, media & manuals etc.
- The outcome of the development phase becomes the inputs to the implementation phase.

### **Implementation:**

It is carried out by the concerned department. It involves addressing the initial hiccups/challenges involved.

### **Evaluation:**

This is carried out at the end of the training program.

- It focuses on the impact of training on :
  - The trainees
  - Their jobs
  - The organization at large
- The evaluation is also influenced by the factors like time available, money spent and the staff available.
- Both the processes of training as well as the outcomes are evaluated.
- The training objectives decided in the design phase forms the standard against which measurement happens.
- The findings of such evaluation serve as a powerful tool for improving the training programs.

**Example**

- Google uses different types of **need analysis** such as:
  - Organizational analysis
  - Work analysis
  - Cost-benefit analysis
- Google makes use of a combination of relational model for training program **design**
- **Delivery** of the training programs is done in various ways like
  - Discussions
  - Simulations
  - On-the-job training
- The **evaluation of the training programs** includes summative (to determine the effectiveness of the training program) and descriptive dimensions (to understand the effect of training).

---

**Check Your Progress – 1**

1. Which among the following is a factor for the success of training?
    - a. Learning style of the trainees
    - b. Job Analysis
    - c. Group Cohesiveness
    - d. Motor skills
    - e. Use of coercion
- 

**8.3.2 Opportunities and Challenges for Training**

The rapid changes in the business environment brought in challenges as well as opportunities.

Organizations and their HR managers have to deal with the various aspects / major issues of the business environment (both internal & external) in order to ensure that their training strategy delivers the desired results.

The figure presents the major issues faced by the organizations and its key stakeholders. Each issue is discussed below from the perspective of the opportunities and challenges it presents to the training function (Refer Figure 8.3).

**Figure 8.3: Major Issues in Organizational training**



*Source: ICFAI Research Center*

### **Aligning training with business strategy**

Training as a strategic tool helps in –

- Improving employees' job performance;
- Creation of organization-wide adaptability and
- Making people become change ready

### **Changing Demographics**

Due to globalization, the organizations witness the following demographic shifts:

- a) Increased diversity in ethnicity and culture
- b) Conflicting generational values
- c) Generational birth rate fluctuations
- d) Ageing population & the ageing of baby boomers.

Workforce diversity demands accelerated training in terms of legal and organizational policy requirements.

### **Knowledge Workers**

With the advent of technology, there is:

- An increase in productivity
- Requirement of advanced and specialized skills
- Mobility of labour
- New career opportunities
- Increased rate of attrition

## **Unit 8: Strategic Implications of Training and Development**

In order to balance talent retention and the new talent pool, companies rely on training to maintain the required competencies:

- To match the pace of the markets
- For having innovative knowledge delivery systems
- For increasing the breadth of training opportunities

### **Training as continuous improvement**

Training is integral to an organization's performance management system.

Continuous improvement is possible through:

- Performance Improvement Opportunities (PIO) & the reasons for it
- Finding alternative solutions for each of those PIOs and selecting the beneficial solution
- Design and implementation of such solutions
- Evaluation & work back on the PIO

Integrating the above into the training design forms the crux of a continuously evolving training strategy.

### **Quality**

Adherence to standards is quality. It is the most important determinant for continuous improvement processes.

For obtaining ISO certifications, an organization has to clear 5 stages in the certification process –

- i. Pre-audit: Organizations need to conduct a risk-based assessment to determine the focus of the audit.
- ii. Process mapping: It involves generating an audit work plan in which timing and resourcing of the audit is agreed with management.
- iii. Change: It involves recognizing the gap and preparation of the documentation.
- iv. Training: There is a need for employee training and education as they are the ones in the frontline of the system
- v. Post-audit: There is a need for ongoing improvement within the organization

Companies with ISO certifications find improved efficiencies in:

- Productivity
- Internal Communication
- Customer preference
- Cost reduction
- Training and development
- Improved documentation

## Block 2: SHRM – Implications for Organizations

A certification is followed by periodical audits on a company's compliance with the standards. This requires continuous training to ensure the standards are maintained.

### Legal Issues:

The following aspects need to be taken care of while devising training programs:

- Regulatory compliances
- Women at workplace
- Inclusivity of LGBT
- Ethnic, racial and religious diversity
- Intellectual Property Rights
- Health and Safety
- Confidentiality Agreements

### Example

Publix, the world's largest employee-owned company, has spent 21 consecutive years on Fortune's 100 Best Companies to Work For list.

#### Top Management Commitment:

- All of its employees - current and former - are controlling shareholders, with an 80% stake in the company
- All employees working for an average of 20 hours per week receive company stock, provided they have put in one year of continued service

#### Facilitating learning and training:

- Collaboration and communication are among the company's core values.
- Employees are supported in pursuing career goals and reaching out to colleagues for assistance.
- They are also encouraged to work in the company's various divisions to learn new skills, information and aspects of the business.
- Follows a policy of internal promotions in most of the cases.
- Perhaps it's no surprise then, that the company's annual voluntary turnover rate is 5%.

### 8.3.3 Need for Training

Employees, at regular intervals, need to be trained to upgrade their knowledge and skills on the job they perform. The following are the reasons for the need for training to employees:

- To improve the job performance of the employees
- To make employees acquainted with the organizational policies and procedures
- To enhance the adaptability, versatility and creativity of the employees. It also facilitates learning in the organization

- To prepare employees for jobs to be carried out in the future
- To transform employees' knowledge, skills and attitude permanently
- To help employees manage their careers
- To sustain a workforce which is knowledgeable
- To gain an edge over competitors through a knowledgeable workforce
- To encourage growth of the organization through individual growth.

#### **8.3.4 Determining Training Needs**

Training needs can also be determined by analyzing:

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

---

#### **Check Your Progress - 2**

2. Which of the following needs to be analyzed for determining the training needs?
    - a. Individual goals
    - b. Reasons for productivity enhancement
    - c. Skills needed by the employee/incumbent
    - d. When the incumbents possess the required skills
    - e. When employee is satisfied on the job
  3. Which of the following is **not** a level under needs assessment?
    - a. Organizational
    - b. Group
    - c. Task
    - d. Individual
    - e. Target
  4. Under needs assessments, which level examines specific duties and responsibilities assigned to different jobs and the skills and knowledge required to perform these jobs?
    - a. Organizational needs assessment
    - b. Group needs assessment
    - c. Task needs assessment
    - d. Individual needs assessment
    - e. Target needs assessment
-

## **Block 2: SHRM – Implications for Organizations**

### **8.3.5 Importance of Development**

#### **Development Programs:**

Development programs are organized to impart managerial and behavioral skills.

- They are future oriented.
- They are organized to prepare the employees for managerial level roles.
- Such programs lay emphasis on personal growth of employees.

#### **The development process:**

- Organizations undertake activities that improve job performance and contribute to the growth of an individual.
- Long-term educational process that utilizes a systematic and organized procedure to enable the personnel to enhance conceptual and behavioral skills.
- Developmental activities are concerned with the learning and performance improvement for individuals, teams as well as the whole organization.
- These activities integrate:
  - Individual development (identify their strengths and weaknesses)
  - Career development (fit between the individual and the job)
  - Performance management (job expectations)
  - Organization development (accomplishing strategic goals)

#### **Steps involved in development process:**

- Determine the objectives of the organization
- Define future plans of the organization
- Appraise the available resources
- Identification of managerial needs
- Identification of individual development needs
- Tailor fit the development programs in line with the individual and organizational needs
- Evaluation and control of the development program

#### **Example**

- TCS Learning & Development team in collaboration with Technology Excellence Group has come up with the EA Star program for building Enterprise Architects.
- TCS Ambassador Corp is a leadership development program for global sales roles.

*Contd.....*



This program focuses on:

- Critical business skills
- Interpersonal skills
- Diversity management skills

## **8.4 Strategic Issues in Training and Development**

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Training and development programs are considered as strategic tools for gaining competitive advantage. The different strategic issues involved in training and development are:

- Integrating training with performance management
- Compensation and organizational strategy
- Shift from training to learning
- Development of a learning organization

### **8.4.1 Strategic Training**

A business strategy integrates the company's goals, policies and actions. It influences the way the company uses its physical, financial and human capital. Training strategy determines:

- Amount of training required for current or future job skills
- Extent of training customization to meet the specific needs
- Extent to which training is restricted to specific groups of employees or open to all
- Extent to which training is planned and systematically administered
- Importance placed on training compared to other HR practices

Thus, the process of strategic training includes:

- Identification of business strategy
- Providing training and development activities that support the business strategy
- Identifying and collecting metrics that determine the value added by the training
- Focus on the organizational factors that influence the relationship between training and business strategy
- Employee involvement in training, the role of employees, managers and business units, HR planning strategy and support of the top management

## Block 2: SHRM – Implications for Organizations

Exhibit 8.2 illustrates Partner Training at Microsoft.

### Exhibit 8.2: Partner Training at Microsoft

At Microsoft Inspire 2021, a conference held annually by Microsoft for its partner fraternity, Microsoft amplified its industry cloud with sustainability cloud for healthcare, retail, manufacturing, financial services and non-profit sectors for vertical oriented offerings.

According to Nick Parker, Microsoft's Corporate Vice President of Global Partner Solutions, since partners contribute to more than 95% of commercial revenue for Microsoft, there would be increased investment in industry clouds and technical training in FY2022 for Microsoft Vendor Partner Team.

Microsoft's channel training regime for FY 2022:

- Investment in skilling by more than 250%
- Programs include those on virtual hands-on labs and on-demand digital skills
- “Power Platform” aiming at specific product areas
- Azure, data analytics and artificial intelligence areas also included
- Business Applications Addressed Markets:
- Will reach a projected \$582 billion by 2023 (Forrester Research data)
- Microsoft PowerApps add another \$40 billion (Garner data)

Source: <https://searchitchannel.techtarget.com/news/252504109/Microsoft-partner-community-gets-industry-cloud-training-boost> (Accessed on October 21, 2021)

### 8.4.2 Learning, Motivation and Performance

New knowledge is created through the process of developing, testing and reformulation of theory.

Effective training practices are a blend of -

- How does learning occur?
- What motivates people?

Training programs can be made effective by understanding the following:

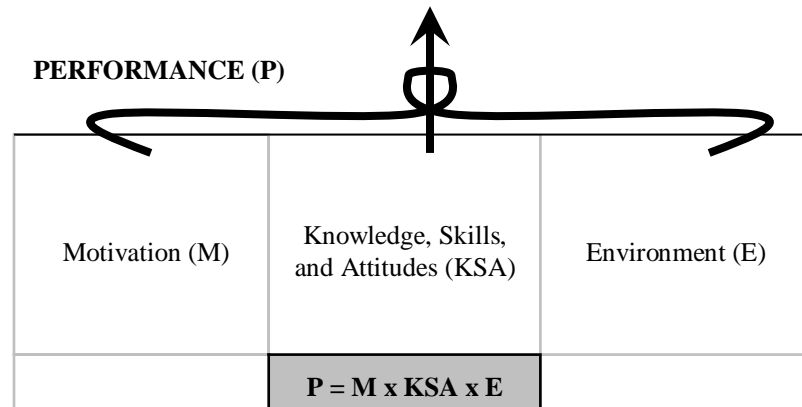
- Understand how people learn
- Factors that motivate the learning and consequent performance
- Impact of learning and work environment on employee's motivation and performance

Employee's performance and behaviour is a combinational outcome of:

- Knowledge (What an employee knows?)
- Skills (What he / she is able to do?)
- Attitudes (What does the employee believe in?)

Figure 8.4 demonstrates the factors influencing human performance.

**Figure 8.4: Factors Influencing Human Performance**



Source: Blanchard Nick, Thacker James and Anand Ram, *Effective Training: Systems, Strategies and Practices*, Pearson, Fifth edition, 2017

The above model thus helps determine employee training needs. Further, it also helps in identifying whether the poor performance of the individual is due to lack of KSA or other factors.

In order to design and implement an effective training program, the following three determinants of performance have to be considered:

- Learning modules & the training methods to impact trainee's motivation to learn
- Training facility and material should be able to influence the trainee's motivation.
- A supportive work environment that allows trainees to use their knowledge and skills on the job.

**Motivation:** Motivation is the result of an employee's personal needs & the process of decision making used to achieve those needs. The following factors reflect a person's motivation:

- Needs of the individual being addressed
- Means through which the individual addresses those needs
- Duration for which the individual works towards achieving those needs
- Efforts put in by the individual to achieve those needs

#### Theories of Motivation:

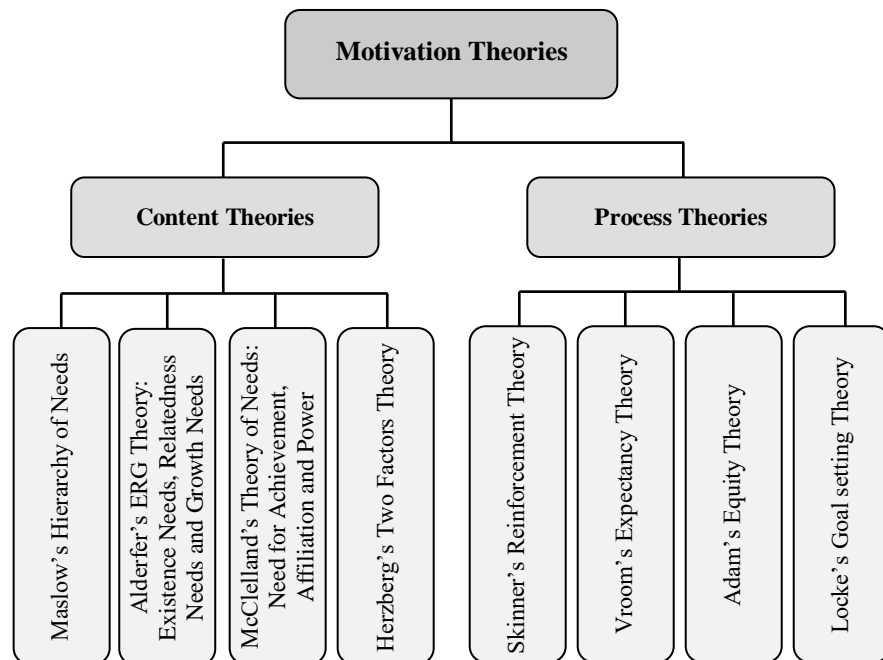
The theories of motivation are classified into two broad categories –

- Needs / Content Theories (lead to implications for the training process even after completion of the training)
- Process theories (how a person's needs translate into action)

## Block 2: SHRM – Implications for Organizations

Figure 8.5 enumerates the various motivation theories

**Figure 8.5: Types of Motivational Theories**



Source: ICFAI Research Center

In this unit, we shall discuss the Needs Theory (*ERG*) and three Process theories that have direct implication on training—*Classical Conditioning*, *Reinforcement Theory* and *Expectancy Theory*.

**1. ERG Theory:** This theory was propounded by Alderfer (Furnham, 2008)

- This theory categorized three classes of needs (similar to that of Maslow's Need Hierarchy). They are:
  - Existence needs which include physiological and safety needs
  - Relatedness needs which include belongingness and esteem needs
  - Growth needs that include self-esteem plus self-actualization
- ERG theory of motivation explains needs as a range rather than as a hierarchy.
- As such, focusing on one need at a time will not motivate the employee effectively and efficiently.
- Prioritization and sequence of these three categories shall vary from individual to individual.

**2. Classical Conditioning:** This speaks about:

- A generalized response to some stimuli in the environment
- It involves learning to emit a non-voluntary response to the stimuli that did not produce that response in the past

3. **Reinforcement Theory:** A satisfying experience tends to repeat behavior. The experience is not the same with respect to annoyance or dissatisfaction. Basing on this, Skinner developed the model of operant conditioning and reinforcement theory.

**Operant Conditioning:** The essentials of operant conditioning:

- A person is faced with an object or event in the environment (stimulus)
- As a result, he behaves in a certain way (response)
- Behavior results in an outcome (consequence) to the individual that is positive or negative
- The environment provides stimuli that elicit behaviors and consequences that reinforce or punish them.

**Reinforcement Theory:**

The theory predicts the various effects caused by the consequences of past behavior on future behavior.

He identified 4 types of consequences that can result from behavior:

- **Positive Reinforcement:** Behavior results in something desirable happening which can be tangible, psychological or some combination of the two.
- **Negative Reinforcement:** Behaviour results in removing something found to be annoying, frustrating or unpleasant.
- **Punishment:** Decreases the likelihood of the response occurring in the future.
- **Extinction:** Is the latter form of punishment.

**Example**

People buy books by a certain author because of the positive feelings they experience when they read them. However, if they don't get that feeling while reading the last two books by the author, they stop buying the author's books in the future. When the person's behaviour (like buying and reading the books) no longer produces the desired outcomes, the behaviour is less likely to occur in the future.

4. **Vroom's Expectancy Theory:** This theory is based on the assumption that the behaviour is the outcome of conscious choices made from among the available alternatives whose purpose is to maximize pleasure and minimize pain.
- An employee's performance is based on individual factors such as *personality, skills, knowledge, experience and abilities*.

## Block 2: SHRM – Implications for Organizations

- The theory suggests that although individuals have different sets of goals, they can be motivated if they believe:
  - There is a positive correlation between efforts and performance
  - Favorable performance will result in a desirable reward
  - The reward will satisfy an important need
  - The desire to satisfy the need is strong enough to make the effort worthwhile.
- All these elements determine the individual's motivation (i.e., effort) to engage in a particular course of action.
- When situations allow different courses of action, the one with the highest motivation level is chosen.
- Thus Expectancy Theory proposes that a person's motivation is the relationship among three conceptually distinct elements:
  - i) *Expectations of the individual*
  - ii) *Individual's belief about the outcome*
  - iii) *Individual's feelings on the various outcomes (positive or negative) which is referred to as Valence.*

The algebraic representation of Vroom's Expectancy theory is:

$$\text{Motivation (force)} = \sum \text{Valence} \times \text{Expectancy}$$

### Self-efficacy and Motivation:

A feeling about one's own competency is called self-efficacy. The combined factors that provide the estimate of an employee's ability to be successful are –

- Prior experience
- Behaviour Models (other's failures & success observed)
- Physical and emotional state
- Feedback (encouragement / discouragement).
- If success is expected, anticipating the positive consequences:
  - Employee works better
  - Harder
  - Longer
  - With more innovation and creativity
- The training needs to be designed in such a way that the trainee begins working on the easily mastered tasks and slowly moves on to the complicated tasks.

**Example**

Various video games (like bike race etc.) are designed around the same concept of building the self-efficacy of the participant. Thus, self-efficacy facilitates trainee success as it is a good predictor of both learning in the training environment and transfer of the behavior to the job. Hence, determining trainee's self-efficacy before training and embedding the required means to improve will show positive on an individual's overall performance.

**Understanding Learning:** Learning theory describes how individuals learn.

- Learning is something that is experienced by the individual and is measured in terms of relatively permanent behavior changes.
- It represents a change in the content, organization and information storage.

There are two approaches to learning:

**Cognitive Approach:**

- In this approach the learner controls learning.
- Prospective learners come to training with their own set of goals and priorities.
- The learners decide what is important to learn and go about learning by applying the strategies they developed and with which they feel comfortable.
- The trainer and the learning environment facilitate that process to a greater or lesser degree.

**Behavioural Approach:**

- In this approach, the environment controls learning.
- The trainer controls learning by controlling the stimuli and consequences that the learner experiences.
- The learner depends on the trainer to elicit the correct associations between stimulus and response (Refer Table 8.1 for training implications of the two approaches).

**Table 8.1: Training Implications of the Two Approaches**

Issue	Cognitive Approach	Behaviourist Approach
Learner's role	Active, self-directed, self-evaluating	Passive, dependent
Instructor's role	Facilitator, coordinator and presenter	Director, monitor and evaluator
Training content	Problem or task oriented	Subject oriented
Learner motivation	More internally motivated	More externally motivated

*Contd....*

## Block 2: SHRM – Implications for Organizations

Training climate	Relaxed, mutually trustful respectful and collaborative	Formal, authority oriented, judgmental and competitive
Instructional goals	Collaboratively developed	Developed by instructor
Instructional activities	Interactive, group, project oriented and experiential	Directive, individual and subject oriented

Source: Blanchard Nick, Thacker James and Anand Ram, *Effective Training: Systems, Strategies and Practices*, Pearson, Fifth edition, 2017

In order to achieve the desired outcomes of behavioural changes through learning, organizations have to integrate the substantiated aspects of both approaches. Such an approach is called the “Social Learning Approach” and the same is discussed below.

### Social Learning Approach:

As per this theory, the learner:

- Learns by observing the behaviour of others as well as the consequence of the same.
- Processing of such information leads to change in behaviour.

This is called *Anticipatory learning* which helps in acquiring behavioural consequences without actually engaging in the behaviour and experiencing the consequences.

### To facilitate the *retention* process:

- The learner practices the learned material.
- Program is designed to improve visualizing or imagining how knowledge or skill will be used.
- The learning process begins with the learner's attention becoming focused on particular objects and events in the environment (stimuli).

The concept of attention is important in training. The same can be achieved by:

- Making key learning points stand out so that the trainees will focus attention on them.
- Making learning exercises fun and interesting, keeps attention focused on the learning topic.
- Information processing for retention.
- Behavioural reproduction where the individual puts the information into practice which leads to better learning and retention.
- The effectiveness of the practice depends on the way the practice is designed and reinforced on the learner.



**Relating Instruction to Learning:** Effective instruction requires a “set of events” external to the learner, designed to facilitate the internal process of learning. It is relevant for all three types of learning outcomes:

- Cognitive knowledge
- Skill-based
- Attitudinal

Gagné and his associates provided a Micro Theory of Instructional Design, a guide for designing training (Refer Table 8.2)

**Table 8.2: Gagné-Briggs Nine Events of Instruction**

Instructional Event	What it does .... Gets trainee
Gaining attention	To focus on the trainer
Informing the trainee of the goal (objective)	To begin to focus on the goal
Stimulating recall of prior knowledge (learning)	To retrieve prior learning to working memory
Presenting the material	To selectively perceive important parts of training
Providing learning guidance	To consider how the new material fits into trainee's overall schema and clarify where it belongs for ease of retrieval
Eliciting the performance	To do it
Providing feedback	To perform effectively by reinforcing correct responses and assisting when incorrect
Assessing performance	To attempt a number of similar problems to determine if the trainee has the concept
Enhancing retention and transfer	To do more complex and varied examples of the concept and assess the success

*Source: Blanchard Nick, Thacker James and Anand Ram, Effective Training: Systems, Strategies and Practices, Pearson, Fifth edition, 2017*

### **Allowing trainee involvement and control over the learning:**

- Training programs need to be designed to incorporate individualized components.
- Training programs should make use of shared relevant experiences so as to overcome resistance to learning.

In order to be cost effective, training programs need to be designed for a large group of people.

### **8.4.3 Needs Assessment**

The training design process begins with a need assessment. This is followed by ensuring employees have the motivation and basic skills necessary to:

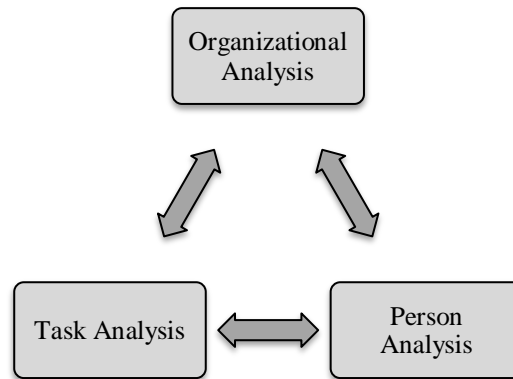
- Learn
- Create a positive learning environment

## Block 2: SHRM – Implications for Organizations

- Make sure that trainees use learned skills on the job
- Choosing the training method
- Evaluating whether training has achieved the desired outcomes

Through needs assessment, it is determined whether the training is necessary or not. Figure 8.6 indicates the components that make-up the Needs Analysis.

**Figure 8.6: Components of Needs Analysis**



*Source: ICFAI Research Center*

### Needs assessment provides:

Inputs for the training design and information related to who needs training and what trainees need to learn. This includes:

- The tasks in which they need to be trained
- Knowledge, skill and behavior
- Information about the learning outcomes and resources available for training.
- Information to choose the relevant training methodology that meets the requirement.
- Information relating to the collectible outcomes that would help in training evaluation.

**Process of Needs Assessment:** It is important to include managers, trainers, and employees in the needs assessment process since the goal of the process is to determine –

- Whether training needs exist? .
- For whom it exists? and
- For what tasks training is needed?

### Levels of Management and Needs Assessment:

#### Top Management:

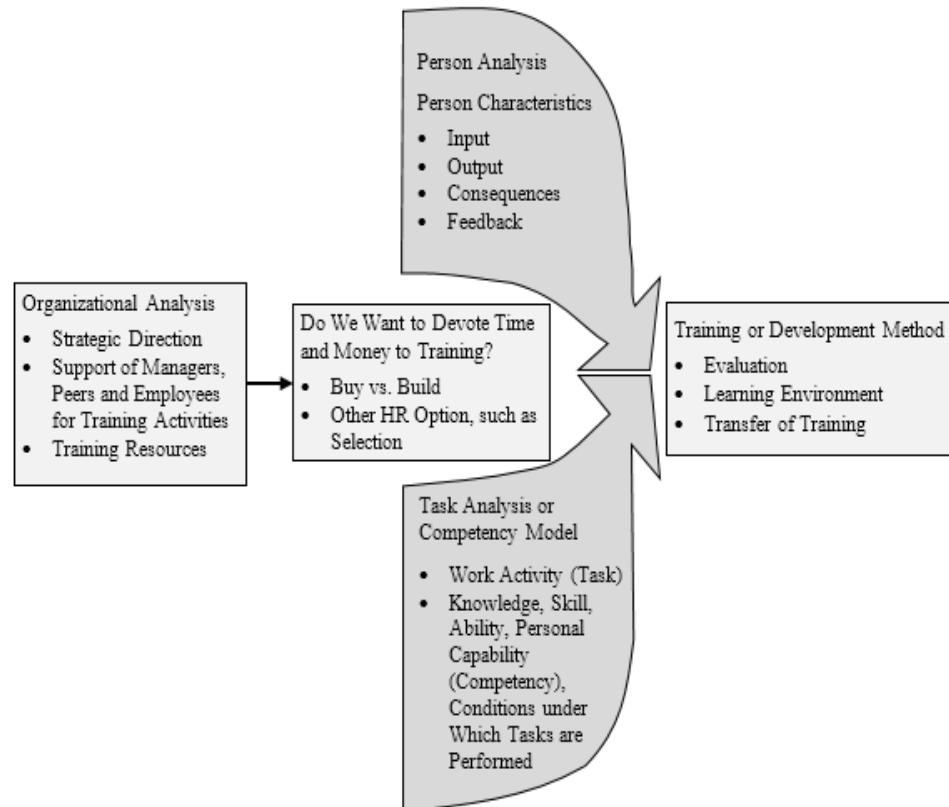
- Includes directors, chief executive officers (CEOs) and vertical heads
- They help in determining what type of training is required to meet business strategy and achieve competitive advantage

**Middle Management:**

Focuses on the impact of training on attainment of financial goals like:

- Budgets for training,
- Types of training at various levels and
- The difference that training can make in improving the products and customer service.

**Figure 8.7: Process of Needs Assessment**



Source: Raymond A Noe and Amitabh Deo Kodwani, *Employee Training and Development*, Tata McGraw-Hill, seventh edition, 2018

To maximize employees' motivation to learn in training programs, managers and trainers need to understand these factors prior to sending employees for training.

**Methods of Needs-assessment:**

The various methods for need assessment can be enumerated as follows:

- Observing employees performing the job
- Utilizing online technology
- Reading technical manuals and other documentation
- Interviewing Subject Matter Experts (SMEs)
- Conducting focus groups with SMEs
- Asking SMEs to complete questionnaires designed to identify tasks and knowledge, skills, abilities and other characteristics required for a job

## **Block 2: SHRM – Implications for Organizations**

### **8.4.4 Integrating Training with Performance Management**

The purpose of performance management is to ensure that the employee performance is in congruence with the objectives of the organization.

Performance management specifies activities and outcomes that help an organization implement organizational strategies successfully.

Donald L. Kirkpatrick in his book “Improving Employee Performance through Appraisal and Coaching” discussed how performance appraisal can be used for:

- Making performance improvement plans
- Implement it through supervisory coaching

Though the approach of training and performance appraisal is different yet their objective is to improve performance i.e. in a manner closely related to each other.

- Performance appraisal programs assess strengths and weaknesses of an employee through their past performance.
- The weaknesses observed may be converted into training needs which are the basic elements in planning training programs.
- Appraisals can not only be considered for making salary/promotion decisions but can also be used for planning a performance improvement program.
  - Performance Appraisals provide the necessary feedback to identify the performance gaps that need to be filled by relevant employee training.
- There should be a continuous updation of the training regime in line with the training needs identified by the performance appraisal feedback system so as to ensure elevated productivity and efficiency.
- The employees and the managers need to come together to formulate goals, monitor the progress and evaluate and control bottlenecks.

### **8.4.5 Integrating Training with Compensation**

Integrating training with compensation helps reinforce desired behaviors in employees.

To hire and retain talented people, IT firms link training with compensation.

The following things need to be kept in mind:

- Organizations must ensure that compensation reflects the results of training.
- Compensation need not always be monetary.
- Training that guarantees promotion and other non-financial rewards can also motivate an individual to remain with an organization.

### **8.4.6 Linking Training to Organizational Strategy**

Modern organizations must focus on strategic training where the training needs of the organization are aligned with the organizational goals.

## Unit 8: Strategic Implications of Training and Development

This process includes:

- Determining the goals of the organization in line with its vision and mission
- Assessing the training needs of the organization. This is done at three levels:
  - Organizational (within the context of organizational culture, structure and strategy)
  - Task (duties and responsibilities)
  - Individual (skills and abilities)
- Identifying the performance gaps
- Designing the training program
- Implementation of the same
- Evaluation and Control

### Activity 8.1

Stephen Haynes (Haynes), the HR manager of the Greaves Group, an IT company, wanted to introduce strategic training initiatives in the organization to make employees aware of changes in the business environment. To make these initiatives successful, Haynes suggested the use of information technology for effective implementation of training strategies. What steps should the HR and information technology departments take to integrate training into the strategic management process?

**Answer:**

### 8.4.7 Shift from Training to Learning

Training	Learning
Learn skills to improve job performance	Focuses on core competencies
Driven by individual requests	Driven by corporate strategy
Trainer-centered	Learner-centered
Imparts knowledge to the individual	People share experiences at workplace
Highly structured and rigid	Informal and flexible

**Shift from traditional training to learning:**

- Identify a common problem
- Establish strategy for combating it
- Implementation of the strategy
  - Facilitate learning and change
  - Leadership

## Block 2: SHRM – Implications for Organizations

- Communication mechanism
- Performance consulting
- Organizational structure and design
- Evaluation and control for troubleshooting the problems encountered
- Feedback which acts as an input for future strategies

### 8.4.8 Developing a Learning Organization

Continuous learning is required for superior job performance. Companies like Wipro and GE are gradually transforming themselves into learning organizations by emphasizing lifelong learning

#### Features of learning organizations:

- They respond to the changes in the external environment.
- They pay attention to the individual need for personal development.
- They are characterized by open communication, people-centered leadership styles and participative management.
- They create, acquire, and transfer knowledge and modify behavior of the employees so as to reflect new knowledge and insights.

“Learning” in organization involves three stages. They are:

- Cognition which refers to the act of knowing information to help organization learn new concepts
- Behavior which helps organization develop new skills and abilities
- Performance that enables organization to get the desired results

Thus learning enables the organization to bridge the gap between theory and practice.

The skills required for a learning organization are:

- **Problem-solving skills:** There is a need for abilities to identify problems and find innovative solutions.
- **Experimenting:** There is a need for learning new things through experimentation.
- **Learning from organizational experience:** Learning from past experiences and from the role models within the organization.
- **Learning from systems:** Learning from the feedback mechanism both from internal and external stakeholders is necessary.
- **Transferring and implementing:** Implementation of strategies, innovative solutions and transfer of knowledge to bridge the gap between theory and practice are equally important.

**Example**

Adobe, the software giant, has consistently been recognized by Fortune Magazine as one of the “Best 100 Companies to Work For.”

**Company’s Commitment:**

- Well-being of its staff
- Integrity, transparency and open lines of communication
- Diverse workforce

Adobe provides many learning opportunities to its employees through:

- On-demand online courses
- Mentorship and leadership development programs
- Education reimbursements
- In-house Award-winning program “Kickbox” which encourages innovation and risk-taking irrespective of the outcome. A staff member requesting for the same is provided with a cardboard box containing:
  - Stationery
  - Snacks
  - \$1,000 pre-paid credit card to explore an idea without any questions asked

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**Check Your Progress - 3**

5. What is the term that is used for the training session scheduled according to the convenience of the learners and facilitated jointly by trainers and learners?
    - a. Learner-centered
    - b. Trainer-centered
    - c. Group-centered
    - d. Problem-centered
    - e. Goal-centered
  6. Which of the following is **not** a characteristic of a learning organization?
    - a. It responds to the changing needs of employees and pays attention to their personal development
    - b. It is people-centered and includes participative management
    - c. It creates, acquires and transfers knowledge and modifies behavior of employees to create new knowledge
    - d. It believes in bureaucratic leadership styles
    - e. It encourages open communication
-

## **8.5 Use of Technology in Training**

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To cope with changing trends in the business environment, it is necessary to understand the use of high technology for business growth with training function being no exception.

### **8.5.1 Concept of Internet-based Training**

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

Some important components of IBT are:

- The World Wide Web
- Electronic Mail
- Chat Rooms
- Virtual Conference Rooms
- Videoconferencing
- Intranet (Internet technologies within the organization)

### **8.5.2 Strategic Issues in IBT**

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

### **8.5.3 Advantages of IBT**

IBT helps the learners and instructors to meet the challenges that arise in balancing theory and real-world experiences.

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

- It grants employees the freedom to participate in self-paced and self-directed training irrespective of time or location.
- It gives trainees the opportunity to explore training topics in depth with different websites connected through links.
- Employees find IBT relatively more engaging due to use of multimedia and its interactive nature.
- Since IBT grants anonymity to the trainees, they find it easy to comment, ask questions, or even present opposing views. This encourages communication that leads to better learning.
- IBT is cost-effective. Trainees need to be computer literate.
- There is no restriction with respect to time, space, and content.
- IBT is reliable and structured.
- IBT ensures easy revision and updation of the training material.



#### 8.5.4 Reasons for not Choosing IBT

Traditional pedagogical systems are so ingrained in the mind-sets of learners, that they resist the introduction of IBT. Some of the reasons for this are:

- **Training needs based on employee location:** It is not preferable when relatively few employees need to be trained.
- **Technical Skills of Trainees:** It is not feasible when employees lack computing skills.
- **Availability of Computing Systems and Support Staff:** It is not feasible when the organization does not have necessary infrastructure and support staff.

#### 8.5.5 Choosing the Right Kind of IBT

Dimensions of IBT:

- Synchronous dimension which talks about instructor-facilitated learning
- Asynchronous dimension speaks about self-paced and self-directed learning

Decision regarding IBT is dependent upon the following factors:

- Extent to which interaction is required between trainer and trainee.
- Extent to which interactive and dynamic material can be included in the training module.

IBT is said to be a high-end one when it incorporates multimedia and interactivity in the training module.

Given below are different modules of IBT arranged from low-end to high-end:

- **Only Email and slide shows and text:**
  - The training material is not interactive
  - The trainee has little choice concerning the sequencing of the training material
- **Drill and practice:**
  - The trainee is repeatedly presented with and tested on a specific topic
  - Facilitates in the acquisition of factual knowledge of a topic
- **Trainee-selected pathways:**
  - Trainee can choose his pathway to learning
  - Skip some material
  - Trainee can control the content and sequencing of the training material
- **Prepared simulations:**
  - Video and animation are used for each topic
  - The trainee cannot control the sequencing of the teaching material

## Block 2: SHRM – Implications for Organizations

- **Fully interactive simulations: A high-end form of IBT,**
  - The training material is highly interactive
  - The training material can be tailor fit to the needs of the target group
  - Supports interaction between the trainer and trainees

### Benefits of IBT:

- **Flexibility:** The learning is facilitated at one's own pace
- **Mobility:** It ensures anywhere learning
- **Economical:** It makes learning cost effective.
- **Networking:** It helps in collaboration
- **Easy Accessibility:** The content is easily accessible due to the online support and downloadable online content
- **Information Retention:** It increases retention as attractive images, videos, animated descriptions and more are incorporated into the learning content.
- **Formative Assessment:** Helps to understand where they stand in terms of learning

### Example

Learning experiences at Infosys:

- **A Flight Simulator:** Facilitates working on near real life problems in a safe environment
- **Adaptive Learning:** Uses machine learning algorithms for understanding:
  - Learning patterns
  - Learning experiences
  - Assessment results
  - Feedback to motivate the employees to complete their program
- **A virtual assistant:** Chatbox for query handling and recommending relevant courses
- **The organizational knowledge ecosystem:** Visual concept, real project details for application of technologies and skills
- **The Future of Education:** Amplified by Artificial Intelligence and augmented reality, it enhances the classroom experience

### 8.5.6 Challenges and Opportunities

The challenges for organizations using IBT are:

- They need to identify and exploit strategic opportunities on the internet.
- They need to develop the internet skills of individual employees and teams.
- Jobs need to be re-engineered to benefit from new information flows, primarily between the organization and its suppliers and customers.

The opportunities for organizations using IBT are:

- IBT promotes cross-functional teamwork by providing tools for collaboration and networking especially among the cross-geographical teams.
- IBT helps in:
  - Collection
  - Organization
  - Dissemination of information thereby eliminating redundancy and duplication of efforts.
- IBT facilitates innovation and helps organizations to respond to the changes in the internal and external environment.

### Activity 8.2

TechNet Solutions (TechNet), a Hyderabad-based IT company has recently recruited a bunch of fresh engineering graduates from the elite colleges in India. It aims to train and develop them in various IT streams. It intends to use all the high-end technology tools available for training and developing them. What tools can TechNet use for training and development of its employees?

**Answer:**

## 8.6 Future of Internet-based Training

Since training and development is essential for improving performance, strategic planning is required for understanding how future training and development programs can be integrated with technology.

- Internet-based Training (IBT) is a convenient way of enhancing human skills without worrying about the barriers caused by:
  - Time
  - Distance
  - Socio-economic status
- The increased acceptance of IBT has led to the emergence of websites that offer e-learning modules for organizations.
- These websites offer courseware and solutions to governments, financial institutions, healthcare organizations and consultancy firms.
- Organizations have realized that they can save money by cutting down classroom instruction.
- IBT has become popular among organizations as it combines communication, education, information and training.

## Block 2: SHRM – Implications for Organizations

- Many leading organizations are launching their own corporate e-learning universities.
- IBT creates a virtual classroom experience and improves employee retention and productivity.
- IBT is an effective means of developing new instructional designs and delivering lower cost solutions.

With the onset of COVID-19, the year 2020 saw a rapid increase in virtual learning with automation, machine learning and artificial intelligence accelerating the way people work and learn.

However, IBT faces stiff opposition from people who strongly believe that it cannot replace the environment of a physical classroom.

Exhibit 8.3 deals with the future trends of learning and development.

### Exhibit 8.3: Training and Development-Future Trends

There would be a transformation in corporate L&D approaches across the world in 2021 to make them more revolutionary, technology-enabled and at the same time humane to meet the requirements of post-COVID corporate world.

Training and Development Trends in 2021:

- Personalized training and adoptive programs
- Gamification
- Remote upskilling and reskilling programs
- Surge in life-learning attitudes
- Incorporation of artificial intelligence
- Mobile learning initiatives
- 360 degree feedback
- Real-time feedback
- Adoption of data in corporate learning design

Source: <https://www.forbes.com/sites/forbeshumanresourcescouncil/2020/12/23/five-learning-and-development-trends-to-watch-for-in-2021/?sh=17c51ad44d2f> (Accessed on October 30, 2021)

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### **Check Your Progress - 4**

7. Which of the following statements is **not true** of Internet-based training (IBT)?
- a. It grants employees the freedom to participate in self-paced and self-directed training irrespective of time or location
  - b. It is beneficial if there are only few trainees who are also geographically proximate

## Unit 8: Strategic Implications of Training and Development

- c. It is easy to revise and update training material on the Internet
  - d. It is cost-effective
  - e. There is no restriction with respect to time, space, and content
8. Which of the following refers to the term that is used in IBT for referring to, the aspect concerned with self-paced and self-directed learning?
- a. Synchronous dimension
  - b. Asynchronous dimension
  - c. Participatory dimension
  - d. Lateral dimension
  - e. Conformed dimension
9. What is the term that is used for the module referring to a video or animation to learn a topic or procedure?
- a. Drill and practice
  - b. Trainee selected pathways
  - c. Prepared simulation
  - d. Fully interactive simulations
  - e. Trainee-selected pathways
10. Which of the following are applicable in case of the Drill and practice module of IBT?
- a. Training material is not interactive
  - b. Trainees are repeatedly presented with and tested on a specific topic
  - c. Trainees select their pathways to learning
  - d. Video or animation is used to learn a topic or procedure
  - e. It is easy to revise and update training material on the Internet
11. Which is the convenient way of enhancing human skills without worrying about the barriers caused by time, distance, and socio-economic status?
- a. Internet-based training
  - b. Computer-based training
  - c. Electronic performance support systems
  - d. Video-conferencing
  - e. Instructor-based training
- 

### 8.7 Summary

- While training refers to efforts that enable employers to enhance the skills of their employees to carry out various tasks, development is concerned with preparing employees to handle other types of tasks or higher jobs.

## Block 2: SHRM – Implications for Organizations

- For effective performance, employees need to continuously upgrade their knowledge and skills.
- Training as a strategic tool helps in improving employee performance and helps employees become change ready.
- Training aims at improving the productivity of the organizations.
- It is essential to know how learning occurs and what motivates people so that the trainees transfer the knowledge and skills learnt in training to their jobs.
- Learning improves through key learning points. Social learning approach is an integrated approach of cognitive and behavioural approaches.
- Social learning theory explains the importance of attention, retention and behavioural reproduction for training.
- Gagne and others have given nine events of instruction for designing training.
- Integrating training with performance management and compensation helps employees to synchronize their activities with organizational objectives.
- To produce desired results, training is to be linked with organizational strategies.
- Organizations should opt for IBT only if it suits their needs, provides training at a low cost and enables them to become competitive.

### 8.8 Glossary

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**Development Process:** In this process, organizations undertake activities that improve job performance and contribute to growth of an individual

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

**Fully Interactive Simulations:** This is a high-end form of IBT. The training material is highly interactive. The trainee can determine the nature of the training material and can change it to suit his/her needs.

**Internet-based Training (IBT):** It is a form of distance training in which the Internet is used to deliver training material. IBT is a convenient way of enhancing human skills without worrying about the barriers caused by time, distance and socio-economic status.

**Organization Development:** It is defined as “an effort, planned organization-wide and managed from the top to increase organizational effectiveness through planned interventions in the organization's processes by applying behavioral science knowledge.”

**Prepared Simulations:** In this method, video and animation are used to learn a topic or procedure. The trainee cannot control the sequencing of the teaching material.

**Strategic Training:** It is a training process in which the training needs of the organization are aligned with the organizational goals.

**Synchronous and Asynchronous Dimension of IBT:** The synchronous dimension is concerned with instructor-facilitated learning while the asynchronous dimension is concerned with self-paced and self-directed learning.

**Training:** Training refers to efforts that enable employers to enhance the skills of its employees to carry out various tasks.

### 8.9 Self-Assessment Test

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1. Define training. Explain why training is needed in an organization.
2. In development process, organizations undertake activities that improve job performance and contribute to growth of an individual. Describe the development process.
3. State the strategic issues in training. Describe them in brief.
4. Explain the concept of Internet-based training. What are its advantages?
5. Give reasons for choosing the right kind of IBT.
6. Explain the future of IBT.

### 8.10 Suggested Readings/Reference Material

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1. Ananda Das Gupta. Strategic Human Resource Management-Formulating and Implementing HR strategies for competitive advantage, Productivity, Taylor & Francis Group, 2020
2. Armstrong, M, Armstrong's Handbook of Strategic Human Resource Management. 7th edition, London: Kogan Page, 2020
3. Dr. Ravi Kumar K. A text book of strategic human resource management - A guide to action, Notion Press, 2021
4. Gary Rees, Paul Smith. Strategic Human Resource Management. 3rd edition, SAGE Publications Ltd., 2021
5. John Storey, Dave Ulrich, Patrick Wright, Strategic Human Resource Management-A research overview, Routledge, 2020
6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020
7. Raymond A Noe. Employee Training and Development, McGraw-Hill Education, 2020

### 8.11 Answers to Check Your Progress Questions

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#### 1. (a) Learning style of the trainees

The success factors for training include training design and implementation plan, learning style of the trainees, trainees' motivation to learn and learning climate in the organization.

#### 2. (c) The skills needed by the employee/incumbent:

Training needs can be determined by analyzing the goals of the organization, the tasks to be completed to achieve the goals, the skills

## **Block 2: SHRM – Implications for Organizations**

needed by the employee/incumbent, and whether or not the incumbents possess the required skills to exhibit desirable behavior.

### **3. (b) Group**

Needs assessment is done at three levels: organizational, task and individual. Hence group is not a level under needs assessment.

### **4. (c) Task needs assessment**

Task-level assessment examines specific duties and responsibilities assigned to different jobs and the skills and knowledge required to perform these jobs.

### **5. (a) Learner-centered**

A training session which is intended to be a learning experience for the employees is learner-centered i.e. training sessions are scheduled according to the convenience and interest of the learners, and facilitated jointly by the trainer and the trainees.

### **6. (d) It believes in bureaucratic leadership styles**

Learning organizations are characterized by open communication, people-centered leadership styles, and participative management. Hence, option d is correct.

### **7. (b) It is beneficial if there are only few trainees who are also geographically proximate.**

IBT is useful when a large number of employees are geographically scattered. It may not prove beneficial if there are only a few trainees and are geographically proximate.

### **8. (b) Asynchronous dimension**

In IBT, the aspect concerned with self-paced and self-directed learning is called asynchronous dimension.

### **9. (c) Prepared simulation**

In Internet-based training if video or animation is used to learn a topic or procedure, then the module is called prepared simulation.

### **10. (b) Trainees are repeatedly presented with and tested on a specific topic**

In the drill and practice module of IBT, the trainee is repeatedly presented with and tested on a specific topic.

### **11. (a) Internet-based training (IBT)**

IBT is a convenient way of enhancing human skills without worrying about the barriers caused by time, distance, and socio-economic status.



## Unit 9

# Performance Management and Evaluation

### Structure

---

- 9.1 Introduction
- 9.2 Objectives
- 9.3 Strategic Dimension of Performance Appraisal
- 9.4 Moving from Performance Appraisal to Performance Management
- 9.5 Organizational Appraisal - Balanced Scorecard
- 9.6 Economic Value Added (EVA)
- 9.7 Summary
- 9.8 Glossary
- 9.9 Self-Assessment Test
- 9.10 Suggested Readings/Reference Material
- 9.11 Answers to Check Your Progress Questions

*“All it takes is a belief that people are fundamentally good—and enough courage to treat your people like owners instead of machines”*

- Laszlo Bock

### 9.1 Introduction

---

As is believed by Laszlo Bock, the performance management systems of any organization should aim at something beyond performance metrics. It should concentrate on building a “People-First” culture which would ultimately lead to the accomplishment of strategic organizational goals.

In the previous unit, we have discussed the strategic implications of training and development. In this unit, we will discuss the strategic aspects of performance appraisal and different organizational appraisal systems.

### 9.2 Objectives

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After studying this unit, students should be able to:

- Examine the strategic dimension of the performance appraisal for effective performance management
- Distinguish between performance appraisal and performance management systems for improving employee performance and achieving organizational goals
- Assess the strategic significance of using a balanced scorecard for measuring organizational performance and achieving organizational goals
- Explain the concept of economic value added for measuring the financial performance of the company

### **9.3 Strategic Dimension of Performance Appraisal**

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Effective and meaningful performance management is achieved by designing appropriate performance appraisal dimensions.

According to Dale S. Beach, "Performance appraisal is a systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development".

The strategic dimension of performance appraisal involves:

- Developing performance standards for achieving the organizational goals
- User involvement in the appraisal process
- Feedback mechanism incorporated in the appraisal process
- Incorporation of method of self-appraisal
- Coaching and counseling should be considered as a part of the appraisal process

Let us refer to the performance management at Infosys (Refer Exhibit 9.1).

#### **Exhibit 9.1: Performance Management at Infosys**

Infosys has been awarded “Fortune Best Big Companies to Work For” 2021 in USA. The performance management system of Infosys is one of the many areas attributed for achieving the same.

Elements of PMS at Infosys:

- Continuous conversations between managers and team members
- Performance Assessment Cycle: For managers – Annually  
For Sales Team – Bi-annual
- Facilitated by their web and mobile application- iCount
- Progress against their goals is constantly updated
- 360 degree feedback mechanism

*Source: <https://www.infosys.com/sustainability/documents/infosys-esg-report-2020-21.pdf>  
(Accessed on 21/10/21)*

#### **9.3.1 Developing Performance Standards**

A performance appraisal system must meet the following five criteria:

- **Strategic congruence:** The performance appraisal system should be flexible enough to adopt to the changes in the external environment in line with the goals of the organization
- **Validity:** The appraisal system should measure the relevant criteria in question

- **Reliability:** The appraisal system should measure the consistency of the performance measures used by an organization
- **Acceptability:** The appraisal system should be easy to use and acceptable to the employees with the employees being involved and consulted while developing it. All the people using it should be consulted while developing it
- **Specificity:** The performance appraisal system should clearly indicate what is expected out of the employees for contributing to the organizational strategic goals

### **9.3.2 User Involvement**

It is important to involve the users when developing or revising performance management processes. Reasons for user involvement are enumerated below:

- The perspectives and insights of the users will lead to the creation of a better process.
- Resistance to the revised appraisal system can be controlled.
- Future appraisals may be supportive, as their insights have been taken in the new appraisal system.
- It helps in improving the motivation and morale of the employees.

### **9.3.3 Feedback**

Incorporation of feedback mechanisms helps in performance improvement and elevation of motivation and morale of the people. The feedback serves as an input for future initiatives in the organization.

### **9.3.4 Self-Appraisal**

Self-appraisal refers to the employee participation in performance appraisal. This provides the employees to speak about their accomplishments which goes a long way in elevating their motivation and morale.

Now let us see the strategic dimension of using 360-degree feedback performance appraisal:

Employing a 360-degree performance appraisal system in the organization would facilitate improvement in job performance in a dynamic business environment.

### **Essentials for implementation of 360-degree performance appraisal:**

#### **1. Identify the people who will be involved in the appraisal system:**

This calls for

- Identification of the employees involved
- Ensuring anonymity to promote honest feedback

## **Block 2: SHRM – Implications for Organizations**

### **2. Questions to be asked during the appraisal process:**

The questions that needs to be asked during appraisal are enumerated below:

- Questions related to job competencies
- Questions related to organizational values
- Questions related to critical success factors

### **3. Method through which data will be reported:**

There needs to be written copies of reports on individual ratings and aggregate company scores

### **4. The process through which the organization will administer the program:** Administration of the appraisal process can be done by:

- In-house team
- External consultants

Technology can come handy in implementation and assessment and for assuring objectivity in the appraisal process

### **5. Evaluating the success of the program on the criteria of:**

The performance appraisal process needs to be evaluated in terms of

- Suitability
- Feasibility
- Acceptability
- Follow-up

Organizations must identify the criteria on the basis of which the employee will be judged. Before 360-degree feedback can be successfully incorporated into appraisals, employees should be made to feel comfortable with the appraisal system.

Let us see performance evaluation at Google (Refer Exhibit 9.2).

#### **Exhibit 9.2: Performance Evaluation at Google**

The much talked about Google culture has its foundations in its performance management system. Google relies on its people analytics to improve its performance management system and overall employee experience.

Performance Evaluation includes:

- Mid-point Check in instead of only annual reviews
- Self-Evaluation to be compared with 360-degree appraisals
- Assessing the overall individual
- Collecting and sharing 360 degree feedback
- Encouraging upward feedback
- Regular one-to-one meetings

Source: <https://www.tinypulse.com/blog/how-google-evolved-performance-management-to-drive-top-performance-across-its-growing-workforce> (accessed on 21/10/21)

**Advantages of 360 degree appraisal:**

- Provides managers with an effective workforce management tool
- Helps in comparison between the self-appraisal and 360 degree appraisal
- Provides a formal communication link between employees and their customers
- Makes the employees more accountable to their customers

**Essentials of an effective appraisal system:**

- It needs to be administered by well-informed and trained employees
- There needs to be communication about the goals and process of the appraisal system
- Necessary facilitation and support during formulating, administering and implementing the appraisal system should be provided

**Disadvantages of 360-degree appraisal are:**

- It is a time consuming method
- It may lead to conflicts in the absence of anonymity
- It calls for training for effective implementation

**Example**

Accenture, a global IT organization, uses a single consistent globally relevant digital performance application tool across all its geographical units using the latest scalable and server-less cloud platform services.

**Features of the performance management system:**

**Real-time performance:**

- Achieves near-real-time global reporting capability on performance management process
- Provides a novel and innovative system that is aligned with continuous, real-time feedback

**Speed:**

- Cloud-centric architected solutions with fail-forward and self-recovery mechanisms, resulting in zero downtime
- Core service engine to ensure performance optimization

**Activity 9.1**

Pierre & Pierre Ltd. (P&P), a leading consumer durables company in France had more than 5,000 employees. The management of the company noted that the performance of the employees began to deteriorate. One reason cited was

## Block 2: SHRM – Implications for Organizations

that the employees were not satisfied with the way the managers were evaluating them. As a result, the company planned to implement a 360-degree performance appraisal. The main idea was to know what the subordinates thought about the superiors and also to give a clear view to employees of how their peers evaluated them. What steps would you suggest for P&P to implement an effective 360-degree appraisal system?

**Answer:**

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### **Check Your Progress - 1**

1. What is the term that is used to refer to the extent to which performance management is in congruence with the strategic goals of the organization?
  - a. Reliability
  - b. Validity
  - c. Strategic congruence
  - d. Acceptability
  - e. Practicality
2. Which of the following terms is applicable for the performance management measurement system when two evaluators use similar evaluation methods?
  - a. Inter-rater reliable
  - b. Intra-rater reliable
  - c. Interviewer reliable
  - d. Person-job reliable
  - e. Job-person reliable
3. Which of the following is not an advantage of the 360-degree appraisal process?
  - a. It is an effective means for managing the workforce
  - b. It enables employees to compare their self-appraisal with the appraisal by peers, subordinates, superiors, etc.
  - c. It provides a formal communication link between employees and their customers
  - d. It requires training and significant effort from the whole organization
  - e. It makes the employees more accountable to their customers

4. Which of the following refers to the appraisal on the basis of information from direct subordinates, peers, customers, supervisors and clients?
- a. 180-degree performance
  - b. 360-degree performance appraisal
  - c. 90-degree performance appraisal
  - d. 60-degree performance appraisal
  - e. 30-degree performance appraisal
- 

### **9.3.5 Coaching and Counseling**

Coaching and counseling play an important role in developing employees.

Coaching and counseling help employees in:

- Identifying problem areas
- Taking corrective action
- Elevating productivity
- Accomplishment of organizational goals

#### **Coaching**

Coaching helps the individual in accomplishing organizational objectives.

- The coach guides the individual to perform efficiently with a judicious balance between individual and organizational goals
- Coach also provides the necessary support and facilitation to the employee for combating stress

#### **Counseling**

Counseling is a process in which a person helps another person to solve his/her problems. Counseling involves analyzing, implementing, understanding employee behavior and showing compassion and kindness.

#### **Steps in counseling**

The different steps involved in counseling are:

- **Identifying the problem:**
  - This calls for examining the organizational needs and the individual needs
- **Analyzing the forces that influence behavior:**

Forces influencing behaviour can be:

  - Controllable forces that can be modified, eliminated and enforced
  - Uncontrollable forces which call for need for adjustments as they cannot be controlled.

## **Block 2: SHRM – Implications for Organizations**

- **Planning, coordinating and organizing the session:** Care should be taken to ensure that:
  - Sessions should not have frequent interruptions
  - Sessions should not be closed abruptly
- **Conducting the session:** While conducting the session, the following points need to be considered:  
Counselor should be:
  - Sincere
  - Honest
  - Empathetic
  - Compassionate
- **Analyzing the causes identified by the person to be counseled:** The essentials for the same include:
  - Causes for counterproductive behavior should be analyzed
  - Remedial action needs to be formulated
- **Formulating action plan:**
  - There is a need to formulate comprehensive plan
  - The plan for follow-up sessions should be formulated as well
- **Reviewing the progress of the worker:** This is undertaken to monitor the progress of the employee and provide facilitation for:
  - Resolution of the problem
  - Behavior modification

### **Strategies for effective counseling:**

The following strategies can help managers and leaders counsel employees effectively:

#### **Respect for employees:**

Recognize the employee's unique skills, attributes and values

#### **Credibility:**

- Build trust
- Counsellor should be honest and consistent

#### **Empathy:**

- Should be empathic so as to provide with feasible interventions



**Example**

**Agile Coaches at Wipro are responsible:**

- For taking up lead roles in executing key engagements of rolling out Agile projects/programs/organizations
- For training, mentoring and coaching teams

**Activities involved in coaching:**

- Building plans
- Helping implementation of agile principles based on Scrum and XP to name a few
- Leading and/or enabling Agile Transformation activities for enterprise, lines of business, programs or multiple agile teams across business and IT
- Coaching senior stakeholders in the adoption of agile mind-sets and ways of working

**Advantages of using Agile coaching at Wipro:**

- Working with senior and operational management to plan out hybrid Agile models
- Creation of transformation roadmaps and solutions
- Leading the organization as they make the change to Agile
- Seeking to improve their existing Agile capabilities

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**Check Your Progress - 2**

5. What is the term used to refer to an individual who focuses on an employee in an organization and guides him to perform effectively, keeping in view the employee's personal goals?
- a. Guide
  - b. Coach
  - c. Consultant
  - d. Trainer
  - e. Mentor

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**9.4 Moving from Performance Appraisal to Performance Management**

Performance appraisals give employees valuable feedback on:

- What the company expects
- How well they are doing in meeting those expectations

## **Block 2: SHRM – Implications for Organizations**

“Performance management is the process of creating a work environment or setting, which enables people to perform to the best of their abilities.”

A performance management system includes the following activities:

- Developing clear job descriptions.
- Selecting appropriate people through an appropriate selection process.
- Discussing requirements and setting outcomes, measures and performance standards.
- Providing effective orientation, education and training.
- Providing ongoing coaching and feedback.
- Conducting quarterly performance development discussions.
- Designing effective recognition and compensation systems for rewarding employees for their contributions.
- Providing career development opportunities for employees.
- Assisting employees with exit interviews.

Performance appraisal is one of the steps in performance management. An effective performance management system nurtures individual creativity and strengths.

The following are the goals of performance management:

- **Improving employee performance:** This is achieved when
  - Clear picture of what is expected from the employees is drawn
  - The necessary support and facilitation for the accomplishment of organizational goals is provided
- **Ensuring that employees work for organizational goals:**
  - The individual goals should be directed towards the organizational goals

An effective performance management system will enable the organization to evaluate the employees on the basis of their performance in relation to managerial goals.

The four essential elements of performance management are:

- Aligning individual objectives with business strategy
- Conducting employee performance appraisal
- Reviewing the employee pay and reward system
- Influencing business strategy

### **9.4.1 The Performance Management Cycle**

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

#### **1) Defining the job:**

**Involves:**

- Alignment of individual activities with organizational activities
- The organization structure, job analysis and job structure should be so designed for motivating the employee

#### **2) Communicating about the job:**

**Involves:**

- Review organizational and individual performance standards
- Identifying the objectives, duties and projects to be accomplished
- Identifying performance measures and standards
- Identifying the performance factors and monitoring and developing a plan of action

#### **3) Evaluating the performance appraisal:**

- Monitoring the performance appraisal system
- Taking corrective action in case of deviations from the plan

#### **4) Constant feedback:**

- For improvement
- Acts as input for the next cycle

#### **Errors during appraisal:**

- Halo effect (one aspect of the subordinate's performance influences the rating)
- Recency effect (more weight is assigned to the recent occurrence)
- Leniency effect (liberal rating)
- Stereotyping (justifying ill-founded prejudices)
- Attribution (attribute subordinate's performance to the rater's personality)

Regular discussions between the appraisee and the appraiser can help minimize these errors.

### **9.4.2 Performance-related Pay**

Rewarding employees based on their performance in achieving organizational objectives will motivate employees to perform better.

## Block 2: SHRM – Implications for Organizations

Performance Management is concerned with:

- Integration of HR policies into a system that is measurable
- Better accomplishment of the organizational objectives

One system that has gained popularity in recent years is “performance-related pay”.

Features of this system include:

- Determination of an individual's increment salary based on his/her appraisal or merit rating
- Communication of performance objectives to employees by monitoring their accomplishments and rewarding them accordingly
- Taking into consideration, not only individual output but other indicators of performance such as quality of work, flexibility, teamwork and ability to achieve targets

John Purcell<sup>17</sup> (1993) has classified performance-based pay along two dimensions:

- **Type of performance which is measured both in terms of output and input**
- **Unit of performance which refers to:**
  - Individual systems that include:
    - Commission
    - Individual bonus
    - Individual performance-related pay
    - Skill-based pay and merit-pay
  - Collective systems that include:
    - Team bonus
    - Profit-sharing
    - Gain-sharing

### Example

#### Performance Related Pay at Microsoft

Microsoft follows an integrated approach for connecting rewards to performance.

*Contd.....*

<sup>17</sup> John Purcell, Performance Related Pay: Theory and Practice, Human Resource Management Journal, 2 (3): 16—33, Jan 2007 <http://dx.doi.org/10.1111/j.1748-8583.1992.tb00258.x> (accessed on 8/12/21)

**Inputs determining the performance ratings:**

- What do employees do during the year vs. their goals/commitments, relative to peer achievements?
- Behavior used to achieve those results as reflected in a feedback form from peers and manager?
- Employees' proven capabilities based on the above inputs plus their long-term performance record?

Microsoft provides an interactive intranet portal that allows employees to see how their compensation would shift based on different performance ratings.

**Benefits of using such performance-based pay system:**

- Clearer line of sight
- Clear and customized communications
- Elevated pay satisfaction among the employees
- Attracting and retaining key talent by delivering highest compensation to highest performing employees
- Staying competitive for people who perform best for the company

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**Check Your Progress - 3**

6. Which of the following term is used when the rater makes his/her own assessment of the appraisee at the time of appraisal and gives favorable rating?
  - a. Leniency error
  - b. Halo error
  - c. Recency error
  - d. Deficiency error
  - e. Personal bias
7. What is the term used when the individual's increment salary depends entirely on his/her appraisal or merit rating?
  - a. Job-related pay
  - b. Performance-related pay
  - c. Merit-related pay
  - d. Strategic pay
  - e. Profit-related pay

## **Block 2: SHRM – Implications for Organizations**

8. Who classified performance-based pay on two dimensions - type of performance and unit of performance?
  - a. John Purcell
  - b. Henry Clutterbuck
  - c. Andrew Barry
  - d. Barry S Bloom
  - e. Betty Malen
9. The unit of performance can be divided into individual and collective systems. Which one of the following is not an individual system of performance appraisal?
  - a. Skill-based pay
  - b. Merit-based pay
  - c. Individual bonus
  - d. Profit-sharing
  - e. Gainsharing

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### **9.5 Organizational Appraisal–Balanced Scorecard**

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Balanced scorecard is the new approach to performance management that has attracted the attention of many organizations.

The balanced scorecard, developed by Robert S Kaplan (Kaplan) and David P Norton (Norton) in the early 1990s, aims at:

- Translating the organization mission and strategy into a comprehensive set of performance measures
- Providing a strategic framework for strategic measurement and management system

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

- Determining the vision of the organization
- Determining how the vision can be turned into a competitive advantage
- Determining how the proposed perspectives help in performance improvement
- Determining the critical elements for ascertaining how far the organization has proceeded on the path to success.

#### **Functions of the balanced scorecard:**

- It provides feedback about the internal and external business processes and outcomes
- It helps organizations in improving their strategic performance
- It enables organizations to track their financial results
- It helps organizations in building capabilities and acquiring intangible assets

### **9.5.1 Importance of Balanced Scorecard**

Companies are increasingly using Balanced Scorecard (BSC) to have a judicious balance between short and long-term objectives.

The BSC can be analyzed through:

- Financial results which serve as an indicator of past financial performance
- Customer satisfaction which serves as an indicator of future sales potential
- Process performance which acts as an indicator of efficiency of processes
- Competence level is the indicator of company's competency level

Hence, the balanced scorecard can be viewed from four perspectives:

#### **Learning and growth perspective:**

In this perspective, the focus is on creativity, product development and improvement

- It measures new accomplishments
- It reviews corporate climate and culture
- There is a review of the training and development avenues in the organization

#### **Business process perspective**

In this perspective, the focus is on the effectiveness of internal operations and metrics are developed to measure the efficiency of processes

**Customer perspective:** The customer perspective helps the organizations recognize the market segments and their customers

The parameters for the same include:

- Customer satisfaction ratings
- Number of referrals
- Repeat customers
- Market share

#### **Financial perspective**

Here, the focus is on the study of a company's financial strength. It measures the liquidity, profitability and solvency position of the firm.

### **9.5.2 Building a Balanced Scorecard**

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

#### **1. Organizational and Environmental Analysis**

- Analysis of internal environment includes analysis of:
  - People
  - Task

## Block 2: SHRM – Implications for Organizations

- Technology
- Structure of the organization
- Analysis of external environment includes:
  - Political
  - Economic
  - Social
  - Technological
  - Environmental
  - Legal framework within which the organization operates
- 2. **Formulation of strategic objective:** This calls for commitment from the top management and initiating formulation of overall objective. Care needs to be taken to communicate about the same to all the stakeholders.
- 3. **Decide upon the perspective:** This involves choice of the perspective to be adopted, which may be:
  - Financial
  - Customer
  - Internal business process
  - Learning and growth

There is a need to examine the non-performing areas.
- 4. **Implications:** This involves examining the implications of the perspective adopted.
- 5. **Formulate top five objectives for each perspective:** These objectives will aid in deciding the top criteria for each perspective.
- 6. **Creation of a balanced set of measures:** The measures adopted should be congruent with short-term and long-term organizational considerations and should involve assessing the costs associated with collecting the data for the proposed perspectives.
- 7. **Necessary approvals** from the top management need to be obtained for having clear policy outlines.
- 8. **Communication:** There is a need for individual scorecards for each division, department and business units and this calls for a communication mechanism for dissemination of information.
- 9. **Goal Setting:** This step indicates short-term and long term objectives of the organization and goal setting for each measure adopted in the organization.
- 10. **Action Plan:** Action plan depicts the course of the plan for successful implementation of the organization's projects.
- 11. **Implementation:** This step talks about the conducting of regular reviews against current scorecard and discussion about the progress of the scorecard.



### 9.5.3 Linking Balanced Scorecard Measures to Business Strategy

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

- **Cause and effect relationships:** It is essential to clearly state the sequence of relationships between the different perspectives and their performance measures
- **Balance between performance measures and outcomes:** There is a need to strike stability between the performance measures or leading indicators (the financial drivers of profitability, the market share) and the outcomes or lagging indicators (such as customer satisfaction, employee skills)
- **Linkage to financial aspects:** Balanced Scorecard needs to be linked to financial aspects like return on capital employed or EVA

Programs such as total quality management, employee empowerment should be linked to outcomes that directly influence customers and deliver future financial performance.

Example				
Balanced Scorecard				
Strategic map for an E-Commerce Business				
	Objectives	Goals	Indicators	Initiatives
Financial	<ul style="list-style-type: none"> <li>• Improve sales</li> <li>• Cost reduction</li> </ul>	<ul style="list-style-type: none"> <li>• 18% increase in sales</li> <li>• 12% decrease in operating costs</li> </ul>	Financial Statements	Negotiate with stakeholders
Customer	Product line extension	18% increase in new launches every quarter	Log of new products launched per quarter	Research and Development
Internal Process	New product development	6 new product development projects every month	Innovation reports	Development team
Learning and growth	Motivated and well-informed staff	Min 3 professionals with specialization degrees	Staff accomplishments	Sabbatical Opportunities

#### Activity 9.2

UBK Retailers (UBK) radically improved its profitability using the Balanced Scorecard's four perspectives. For UBK, sustaining the Balanced Scorecard's initial improvements required the senior management to alter the company's overall vision and incorporate a new perspective into the company's Scorecard.

## Block 2: SHRM – Implications for Organizations

What are the steps that the management should take to effectively implement the Balanced Scorecard?

**Answer:**

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### **Check Your Progress - 4**

10. Who among the following is the propounded of The Balanced Scorecard?
  - a. Brown and Norton
  - b. Kaplan and Norton
  - c. Bloom and Norton
  - d. Kaplan and Bloom
  - e. Kaplan and Brown
11. According to the Balanced Scorecard, which of the following refer to the perspective designed to keep the company focused on creativity, product development and improvement?
  - a. Customer perspective
  - b. Learning and growth perspective
  - c. Financial perspective
  - d. Business process perspective
  - e. Internal business perspective

---

### **9.6 Economic Value Added (EVA)**

Economic Value Added (EVA) is one of the models that try to measure the financial performance of an organization.

#### **Need for systems for measuring value creation:**

- Increased competition in capital markets calls for a measurement of value creation
- Pressure from shareholders to boost stock prices drives the organizations towards measuring value creation.

One such system that is generating widespread interest among the organizations for measuring value creation is Economic Value Added (EVA).

#### **EVA system:**

- Was developed by Joel Stern and Bennett Stewart of New York City-based Stern Stewart & Co.

- It is an accounting-based measure of period operating performance
- It measures the residual value created by a company's operations
- EVA is increasingly being used not only for internal decision-making but also for evaluating the company and executive performance
- EVA seeks to measure whether the capital employed by the organization is creating value

**Calculation of EVA:**

EVA is calculated as the after-tax cash flow generated by a business minus the cost of the capital deployed to generate that cash flow.

Accordingly, EVA corresponds to the residual income that is remaining after investors earn their minimum rate of return. This residual income can be expressed as:

$$\text{EVA} = \text{Net Operating Profits after Taxes} - \text{WACC} \times \text{Invested Capital}$$

Where,

WACC = Weighted Average Cost of Capital

**Note:**

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

**9.6.1 Advantages of an EVA Management System**

The advantages of EVA can be enumerated as:

- EVA encourages managers to act like owners by linking their annual compensation to shareholder wealth
- EVA includes measures to:
  - Evaluate strategic plans
  - Gauge financial performance
  - Increase working capital
  - Identify unprofitable product lines
- EVA eliminates the confusion arising because of using multiple performance measures like:
  - Return on investment
  - Earnings per share
  - Net profit margin
  - Return on equity

## **Block 2: SHRM – Implications for Organizations**

- EVA aligns the interests of managers and shareholders
- EVA links performance evaluation with compensation
- EVA motivates employees by encouraging them to act like owners
- EVA provides benefits to all stakeholders, including employees, customers, shareholders and suppliers
- EVA helps organizations in increasing their operational efficiency by:
  - Focusing on capital employed
  - Identifying process improvements
  - Restructuring operations

### **9.6.2 Disadvantages of EVA**

#### **The disadvantages of EVA:**

- EVA is biased favoring large, low return investments
- EVA poses the difficulty of integrating EVA systems with the financial management information system existing in the company

### **9.6.3 Steps in Implementing EVA**

EVA can be successfully implemented and integrated in an organization with the commitment of the senior management:

#### **Essentials of EVA implementation:**

- EVA implementation requires continuous training at various organizational levels.
- EVA performance is linked with manager and employee compensation.
- An EVA feasibility study for the company as well as its competitors need to be conducted prior to implementation.
- EVA allows the company to benchmark its performance.
- Communication and awareness about the employees contribution to EVA is an essential step for implementation.
- Identification of key-value drivers across all levels in the organization is the prerequisite for successful implementation of EVA.
- Post-implementations support and facilitation for use and maintenance of the new system needs to be incorporated.

#### **EVA Implementation Bottlenecks:**

- Some organizations face difficulty with the EVA approach.
- There may be faulty implementation plan which inhibits the use of EVA.

**Success of EVA system:**

In order to ensure the success of EVA, the EVA data must be incorporated with the management information system of an organization to make employees view EVA as an integral part of their jobs.

**9.6.4 EVA for Planning and Control**

**Importance of EVA:**

- It is a complete measure of performance.
- It enables integration of capital budgeting with operations, in terms of both planning and control.
- It can be used as a tool for planning purposes.
- It is hailed as a system that integrates the planning and control functions within the firm.

**9.6.5 EVA and Rewards**

Linking managerial bonuses with EVA would help in:

- Aligning managerial and shareholder objectives and in integration of planning with control.
- It would provide managers with the incentive to be paid like owners.
- It provides business unit managers, the incentive to take a corporate, instead of divisional perspective.

However, concentrating solely on their unit at the expense of other units could be detrimental to overall firm value and therefore to the shareholders.

**9.6.6 Strategies to Improve the Efficiency of EVA**

For increasing the efficiency of EVA, managers should:

- Improve operating efficiency by resorting to cost-cutting measures.
- Enhance asset-management by a reduction in investments that leads to increase in the cost of capital.
- Increase profitable growth by going for investments with a higher rate of return.
- Aim at reducing the cost of capital by implementing the most effective financial and investor relations strategies.
- Consider business expansion by going for new investments.
- Improve efficiency by increasing the operating profits.
- Look into divestiture of non-performing assets.

## Block 2: SHRM – Implications for Organizations

### Example

While calculating EVA, there is no standard regulatory rule to determine what needs to be adjusted and what not. Firms make adjustments according to relevance to their businesses.

Whirlpool Corporation makes adjustments only in four areas as against the 140 adjustments:

- Goodwill
- Capitalized leases
- Restructuring charges
- Minority interest in investments

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### Check Your Progress - 5

12. Which of the following is the term used for the after-tax cash flow generated by a business minus the cost of capital it has deployed to generate the cash flow?
  - a. Economic Value Added
  - b. Business Performance Management
  - c. Return on Net Assets
  - d. Net Asset Value
  - e. Net Present Value
13. Which of the following is not an advantage of the EVA management system?
  - a. It encourages managers to act like owners by linking their annual compensation to shareholders wealth
  - b. It includes measures to gauge financial performance
  - c. It aligns the interests of managers and shareholders
  - d. Favors large low return investments
  - e. It evaluates strategic plans, gauges financial performance, increases working capital and identifies unprofitable product lines

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## 9.7 Summary

- Organizations need to measure and manage performance. As a developmental tool, performance appraisal can be used in several ways. It can help in identifying the career needs of the employees and motivate them to perform better.
- There are five criteria for developing performance standards: strategic congruence, validity, reliability, acceptability and practicality.

## Unit 9: Performance Management and Evaluation

- Since user involvement and feedback contribute to effective performance appraisal, 360-degree performance appraisal has become popular in many organizations.
- While performance appraisal takes a close look at the past performance of the employee, performance management analyzes what needs to be done in the future to help employees perform effectively.
- An effective performance management system nurtures individual creativity and strengths.
- The performance management cycle helps to identify the major components in performance management. They include defining the job, providing a clear picture of the job and evaluating the performance appraisal.
- Performance-related pay is also gaining importance as it helps reward the employees on the basis of accomplishing the objectives.
- The Balanced Scorecard, a new performance management tool, helps companies examine their performance from four perspectives: financial perspective, customer perspective, learning and growth perspective and internal business process perspective.
- Modern companies have turned to performance measurement tools such as Economic Value Added to improve their understanding and ability to achieve profitability. Many companies are implementing EVA as it encourages managers to act like owners by linking their annual compensation to shareholder wealth.

### 9.8 Glossary

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**Balanced Scorecard:** Balanced Scorecard is a method of measuring the performance of a firm beyond the typical financial measures. It links corporate goals and direct performance measures in a framework specific to a firm and is one method of measuring the impact of knowledge management.

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

**Coaching:** It is an ongoing, mostly spontaneous, meeting between managers and their employees to discuss career goals, roadblocks and available opportunities.

**Counseling:** It is a private supervisory conference between a supervisor and a subordinate employee at which the employee's performance deficiencies are discussed. The motivation for such counseling sessions is to improve the employee's performance and eliminate the performance deficiencies.

## **Block 2: SHRM – Implications for Organizations**

**Economic Value Added:** Economic value added is an accounting-based measure of periodic operating performance and is defined as the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow.

**Performance Evaluation:** A method of evaluating the behavior of employees in the workplace, normally including both the quantitative and qualitative aspects of job performance.

**Performance Management:** It involves the regular review of the performance measurement process flow to ensure that value is added and that the processes accurately reflect current stakeholder and customer requirements.

**Performance Related Pay (PRP):** Performance-related pay links an individual's performance with their pay.

### **9.9 Self-Assessment Test**

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1. The strategic dimension of performance appraisal involves developing performance standards for achieving the organizational goals, user involvement, feedback, self-appraisal, coaching, and counseling. Describe briefly.
2. Describe the goals of performance management. Explain the performance management cycle.
3. Define the Balanced Scorecard. Describe its importance in organizations.
4. Define EVA. Explain the advantages and disadvantages of the EVA system.

### **9.10 Suggested Readings/Reference Material**

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### 9.11 Answers to Check Your Progress Questions

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**1. (c) Strategic congruence**

The extent to which performance management is in congruence with the strategic goals of the organization is called strategic congruence.

**2. (a) Inter-rater reliable**

If two evaluators use similar evaluation methods, then the performance measurement system is said to be inter-rater reliable.

**3. (d) It requires training and significant effort from the whole organization**

The 360 degree appraisal system requires training and significant effort from the whole organization. Hence, it is not an advantage of having the 360-degree appraisal system.

**4. (b) 360-degree performance appraisal**

Appraisal on the basis of information from direct subordinates, peers, customers, supervisors and clients, is known as 360-degree performance appraisal.

**5. (b) Coach**

A coach focuses on an individual in an organization and guides him/her to perform effectively, keeping in view his/her personal goals.

**6. (a) Leniency error**

A leniency error occurs when a superior gives favorable ratings to all the employees irrespective of their performance in the organization.

**7. (b) Performance-related pay**

When an individual's increment salary depends entirely on his/her appraisal or merit rating, it is known as performance-related pay.

**8. (a) John Purcell**

John Purcell has classified performance-based pay along two dimensions: type of performance and unit of performance.

**9. (d) Profit sharing**

Individual systems include commission, individual bonus, individual performance-related pay, skill-based pay and merit pay. Profit-sharing is not part of the individual systems.

**10. (b) Kaplan and Norton**

The Balanced Scorecard was developed by Robert Kaplan and David Norton.

## **Block 2: SHRM – Implications for Organizations**

### **11. (b) Learning and growth perspective**

According to the Balanced Scorecard, the perspective is designed to keep the company focused on creativity, product development and improvement in learning and growth perspective.

### **12. (a) Economic value added**

Economic value added is an accounting-based measure of periodic operating performance and is defined as the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow.

### **13. (d) Favors large low return investments**

Favoring large low return investments is a disadvantage of the EVA management system.

## Unit 10

# Compensation and Strategic Human Resource Management

### Structure

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- 10.1 Introduction
- 10.2 Objectives
- 10.3 Objectives of Compensation System
- 10.4 Organizational Strategy, Goals, and Compensation of Employees
- 10.5 Pay Elements
- 10.6 Compensating Individual Employees
- 10.7 Compensating Groups
- 10.8 Compensating the Chief Executive Officer
- 10.9 Employee Motivation
- 10.10 Concept of Broad Banding
- 10.11 Moving from Participation to Ownership
- 10.12 Employee Stock Options (ESOPs)
- 10.13 Pay for Performance
- 10.14 Summary
- 10.15 Glossary
- 10.16 Self-Assessment Test
- 10.17 Suggested Readings/Reference Material
- 10.18 Answers to Check Your Progress Questions

*“A compensation is something which does not quite compensate.”*

- Frances Parkinson Keyes

### 10.1 Introduction

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As is rightly said by Frances Parkinson Keyes, competitive intelligence is a factor that needs to be taken care of while designing the compensation package so as to contribute to the talent acquisition and retention strategy of the firm.

In the previous unit, we discussed the strategic aspects of performance appraisal and different organizational appraisal systems. In this unit, we will discuss the importance of different compensation strategies for deriving a cost-effective and fair and equitable compensation system.

## **Block 2: SHRM – Implications for Organizations**

### **10.2 Objectives**

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After studying this unit, students should be able to:

- Analyze the objectives of compensation evolving for a fair, equitable and cost-effective compensation system
- Evaluate various pay systems used by organizations to compensate individual employees and groups for employee welfare
- Discuss the elements of executive compensation to relate them to organizational performance.
- Explain the equity theory for understanding the relationship between motivation and pay
- Identify the concept of Broad banding for simplifying and designing the compensation system

### **10.3 Objectives of Compensation**

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It is essential to understand the objectives of compensation system to design and implement a just, equitable and attractive compensation system which elevates the motivation and morale of the employees and improves employee retention.

Following are some of the objectives of a compensation system:

- To motivate employees
- To attract talent
- To retain employees
- To communicate to the employees what the organization expects in terms of quality and output
- To help employees recognize and understand the organizational goals and the role they have to play in achieving these goals

To create a competitive and equitable compensation system, organizations employ various job evaluation techniques to establish equity between jobs.

#### **Job evaluation**

The following are the definition of job evaluation:

- Wendell L. French defined job evaluation as “a process of determining the relative worth of the various jobs within the organization, so that differential wages may be paid to jobs of different worth”.
- Edwin B. Flippo defined job evaluation as “Job evaluation is a systematic and orderly process of determining the worth of a job in relation to other jobs”.
- Maurice B. Cumming defined job evaluation as “A technique of assessing the worth of a job in comparison with all other jobs throughout the organization”.

## Unit 10: Compensation and Strategic Human Resource Management

- John A. Shubin defined job evaluation as “a systematic procedure for measuring the relative value and importance of an occupation on the basis of their common factor (skill, training, efforts) for the purpose of determining wages and salary differentials.”

This technique is used for calculating the relative worth of jobs in an organization. There are various methods for finding out the intrinsic value of the jobs and the contribution of these jobs to the achievement of the overall objectives of the organization.

There are three major techniques of job evaluation.

- Job ranking
- Job classification
- Point system

**Job ranking:** This is the simplest method out of all the techniques of job evaluation. It ranks jobs according to their job descriptions.

<sup>18</sup>Job ranking involves comparison of one job with other jobs in the organization, based on duties and responsibilities involved in the job and the importance of the job to the organization and ranks all other jobs from the most important to the least important.

### **Demerits of job ranking:**

- Job ranking is highly subjective.
- It is difficult to assess the relative difficulty in doing two jobs which have been given the same rank under this technique.

**Job classification:** This is otherwise referred to as a job grading technique. In this method, jobs at different levels in the organizational hierarchy are divided into various grades with a clear cut definition of each grade that is formulated on the basis of nature of tasks, skills and knowledge required and responsibility and authority of various jobs.

- It is the most widely used technique for evaluating jobs in public sector companies. It is a flexible method of job evaluation.
- In this method, jobs are assigned to a predetermined job grade.

### **Demerits of job classification:**

It is highly subjective.

More importance is given to job titles rather than job content in this method.

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<sup>18</sup> P. Subba Rao, Personnel and Human Resource Management, Himalaya Publishing House, Fifth edition, 2015

## Block 2: SHRM – Implications for Organizations

### Example

In public sector companies, there are seven grades: G1 to G7. The jobs are grouped under these grades. Job grading is easy, flexible but also highly subjective. In addition, more importance is given to job titles rather than the job content.

**Point system:** This method is widely used in private sector companies

- In this method, jobs are split into various job elements.
- Each element is assigned points.
- It is an objective method of job evaluation.
- It is very easy to administer point system.

It uses a four-step process for evaluating jobs:

**Step I** – Identification of compensable factors:

- Various compensable factors common to all the jobs in the organization are identified.
- A few examples of compensable factors are education, skill, job conditions, and effort and so on.

**Step II** – Factor scales:

- Scales are designed to reflect the degrees within each factor.
- These degrees are listed in ascending order of complexity.
- The degrees for a factor like numeric skills would look something like this:
  - **1st Degree:** Ability to read and write numbers. Should know how to add and subtract numbers.
  - **2nd Degree:** Should be adept at multiplication, division and basic algebra. Should be able to interpret graphs and other mathematical diagrams.
  - **3rd Degree:** Should be good at geometry and drawing three dimensional objects. Should know how to use precision instruments.

In this way, degrees have to be developed for all the compensable factors which the organization has identified.

**Step III** – Assigning points to degrees:

- Once the degrees have been identified, they are assigned points.
- The lower degrees are given fewer points than the higher degrees.

**Step IV** – Applying degrees and points to a job:

- After the compensable factors have been identified and the degrees have been assigned points, the points are assigned to the jobs in the organization.

### 10.3.1 Traditional vs. Strategic Pay

Strategic pay uses compensation as a tool for rewarding, motivating and retaining talented employees.

#### Example

Alphabet Inc.'s Google had a plan to discontinue its Engineering Residency Program that was designed for entry-level engineers from underrepresented backgrounds. But the participants complained of "systemic pay inequities" (Courtesy: Reuters). An extensive job evaluation could possibly address the said issue.

## 10.4 Organizational Strategy, Goals and Compensation

E.E. Lawler has coined the term "New Pay" for rewards and compensation that aims to align organizational goals with the compensation system.

Setting appropriate goals and strategies for compensation are crucial for the growth of an organization as it is the major determinant of performance and productivity in an organization.

## 10.5 Pay Elements

The pay structure of the employees can be divided into two types:

- **Direct pay elements:** Pay in the form of cash, stock that is paid directly to the employees.
- **Indirect pay elements:** Financial benefits paid to the employees over and above the normal pay.

### 10.5.1 Components of Direct Pay

#### Base pay

Refers to the minimum amount of money invariably paid to the employee.

It is determined by the nature and number of tasks performed by the employee.

#### Merit pay

- It is based on performance evaluation of the employee.

#### Incentives

- Lump sum amount paid to employees when the productivity and profit of an organization increases.

#### Cost of Living Adjustments (COLA)

- It is the amount provided for helping employees cope up with adverse changes in the consumer price index.

### 10.5.2 Components of Indirect Pay

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

## **Block 2: SHRM – Implications for Organizations**

Some of the indirect pay elements are:

### **Leave with pay**

- Paid leaves for a fixed number of days
- Sick leaves

### **Protection programs**

- Insurance premiums
- Disability benefits
- Social security measures

### **Services and perquisites**

- Reimbursements for recreational activities
  - Reimbursements for travels and tours of employees
  - Providing office transport
- 

### **Check Your Progress - 1**

1. Which one of the following is not an objective of employee compensation?
    - a. Motivating employees
    - b. Training employees
    - c. Retaining employees
    - d. Attracting outside employees
    - e. To help employees recognize and understand the organizational goals and the role they have to play in achieving these goals
  2. Who coined the term “New Pay”?
    - a. E.E.Lawler
    - b. Ivan Pavlov
    - c. Henry Mintzberg
    - d. Mary F.Parker
    - e. John Purcell
  3. Which of the following is not a direct pay element?
    - a. Base Pay
    - b. Incentives
    - c. Merit Pay
    - d. Paid leave
    - e. Cost of Living Adjustments (COLA)
-



## **10.6 Compensating Individuals**

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Understanding the different pay systems in compensating individuals helps to gain better business outcomes. Organizations mostly compensate employees on an individual basis. Some of the pay systems used by organizations for compensating individuals are:

- Piece rate system
- Commission system
- Bonus system
- Skill-based system
- Merit pay system

### **10.6.1 Piece Rate System**

- Used by organizations involved in the production and manufacturing.
- Employees are paid on the basis of the number of units manufactured by them during a time period.
- Organizations use the output data of other companies.
- They use the time and motion studies analysis as well to arrive at the minimum number of units that must be made by a worker.

#### **Demerits of using this system:**

- Employees feel that management is only concerned about productivity and not their welfare.
- A feeling of distrust may develop between management and workers.
- As the productivity per worker increases, workers may resort to “go-slow” techniques to prevent management from laying off workers.

### **10.6.2 Commission System**

- Employees whose productivity can be quantified are usually paid on a commission basis.
- It is an objective and efficient system for compensating.
- Demerit of the system is that the employees may resort to unfair practices for receiving higher commissions.

### **10.6.3 Bonus System**

- It refers to a lump sum payment given to employees at the end of the year for achieving productivity or performance targets.
- The employees feel motivated when they receive a lump sum amount at a single instance.

## **Block 2: SHRM – Implications for Organizations**

### **10.6.4 Skill-based System**

- Employees are paid on the basis of the number of skills they possess.
- They are paid for the skills they learn on the job.
- Employees are put through various job activities.
- They are expected to develop expertise in all the activities of the job over a period of time. The purpose is to train employees in the various aspects of the job.
- Adopted by organizations having high performance work systems and self-managed work groups.

### **10.6.5 Merit Pay System**

- It refers to the salary increments based on performance reviews of the employees.
- They are cumulative in nature.
- It proves to be costly for the employer in the long run.
- There may be biases in merit rating that may creep into the compensation plan.

#### **Example**

Microsoft provides its employees with a base salary, annual cash bonuses, on-hire cash bonus (first 30 days of employment), stock awards – on hire stock awards and annual stock awards that are received over time.

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### **Check Your Progress - 2**

4. Which one of the following is not an individual pay system?
  - a. Profit sharing system
  - b. Merit pay system
  - c. Bonus system
  - d. Skill-based pay system
  - e. Commission system
5. What is the lump sum payment made to employees annually for achieving higher productivity?
  - a. Bonus
  - b. Commissions
  - c. Merit increase
  - d. Gain sharing
  - e. Profit sharing

6. Which compensation system pays the employees on the basis of the number of skills they possess?
- Piece rate system
  - Commission system
  - Skill based system
  - Merit Pay system
  - Competency-based pay system
- 

### 10.7 Compensating Groups

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Employees usually work in groups in different departments of the organization. Compensation of employees on the basis of the performance of the group in which they work instead of their individual performance is called group compensation.

Group incentive schemes have worked well in a number of companies. They have increased productivity and encouraged creativity.

Group incentive schemes can be categorized into:

- Profit sharing plan
- Gain sharing plan

#### 10.7.1 Profit Sharing Plan

In a profit sharing plan, a part of the profit earned by the organization is distributed among designated employees.

The profits can be distributed:

- Equally among the designated employees
- or
- Can be distributed in proportion to their income
- Employees receive their share of the profit either on retirement or termination.

There are three types of profit sharing plans:

- **Current distribution plan:** Here the profits are distributed in the form of cash or company shares.
- **Deferred payout plan:** Here the profits are transferred to a fund created in the name of employees and are provided the same at the time of retirement or termination.
- **Combination plan:** Employees receive a part of the fund that is created for the same as periodic cash payments and the rest is given to the employees at the time of retirement or termination.

## Block 2: SHRM – Implications for Organizations

### Advantages of profit sharing plan:

- Motivates employees to achieve higher profits.
- Links individual performance with organizational productivity.
- Develops a sense of ownership.

#### Example

As has been said by R. Suresh, MD, Stanton Chase International, a CEO aspirant in the metals industry was offered a fixed salary of ₹ 1.5 crore while the variable component was ₹ 3.5 crore which is close to a little over 1% of the profit of the company in the said year. Upon successful accomplishment of the target, the CEO would earn a whopping ₹ 3.5 crore (Economic Times Bureau, 2020). This is an illustration of profit sharing to lure the CEO.

### 10.7.2 Gainsharing Plan

This plan refers to the gains made by the organization which are distributed at unit level or group level. Table 10.1 differentiates between profit sharing and gain sharing.

**Table 10.1: Difference between Profit sharing and gain sharing**

Profit Sharing	Gain Sharing
<ul style="list-style-type: none"><li>• Distributed among designated employees</li><li>• Computed on the basis of mathematical formulae in line with RoI</li></ul>	<ul style="list-style-type: none"><li>• Limited to a particular unit or department that has contributed to the profits</li><li>• Calculation is based on productivity improvements as compared to the previous year</li></ul>

#### Activity 10.1

Neuron Communications (Neuron), a telephone equipment company has been compensating employees on an individual basis. In order to create synergy, induce creativity and increase the productivity of its employees, it has formed groups for doing various jobs. What are the options available to Neuron in terms of pay plans if it decides to implement a group-based compensation system?

**Answer:**

## **10.8 Compensating the Chief Executive Officer (CEO)**

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For any company, hiring executives involves high stake challenges. Care needs to be taken to:

- Structure executive pay packages in a way that would attract the best talent.
- Make use of non-monetary factors as recruiting tools along with monetary compensation.

### **10.8.1 Compensating CEOs**

- The topic of executive compensation has gained considerable importance during the last few decades.
- It has given rise to many heated debates because of the inequity between executive compensation and the compensation of other employees.
- Executives have been criticized for drawing huge pay packages even when the company was not doing well.

### **10.8.2 Objectives of Executive Compensation**

The CEO of an organization is responsible for the development and growth of the organization. Various sophisticated financial measures like EVA (Economic Value Added) and Total Shareholder Return (TSR) are being used for monitoring CEO performance in relation to organizational performance.

The correlation between the executive compensation and organizational performance is yet to be empirically validated, despite many studies on it.

### **10.8.3 Elements of Executive Compensation**

Various elements of executive compensation are:

- Executive Incentives: Which refers to the rewards other than their salary for their contributions towards the firm
- Long-term Incentives: Which refers to the gradual payments over a period of time, most popularly used being stock options which help in employee retention
- Performance Bonuses: Bonus calculation varies from company to company.. Board of Directors (BoD) decides the amount based on the performance of the firm...Some firms make use of some mathematical formulae to arrive at the bonus taking into account the RoI and net profit.
- Perquisites are the exclusive benefits and amenities provided to the CEOs.. The amenities are relatively more attractive and draw prospective candidates.

### **10.8.4 Executive Compensation – Indian Scenario**

Executive compensation primarily has two components, i.e. fixed and variable.

The Kumaramangalam Birla Committee report on Corporate Governance has suggested the formation of remuneration committees within companies for determining the CEO's pay. The Board of Directors, along with the shareholders, should play a proactive role in designing the CEO's pay structure.

## Block 2: SHRM – Implications for Organizations

Paying the CEO the right way:

- CEO pay should be linked to the achievement of the company's strategic goals.
- Strategic performance measures like EVA should be used for measuring CEO performance
- Independent compensation committees should be formed to measure the performance of CEOs
- CEO pay should be linked to the performance of the company's stock as well as the resulting wealth created for the shareholders.

Refer Exhibit 10.1 for an Executive Compensation perspective.

### Exhibit 10.1: Executive Compensation

Tim Cook, CEO of Apple, was the 8<sup>th</sup> highest paid executive of 2020 receiving a total compensation of \$ 265,043,550.

Break-up for the same:

- Salary \$3000,000
- Bonus \$10,731,000
- Stock \$250,274,291
- Perks \$1,038,259

A surge in the executive compensation is under scrutiny during the COVID-19 times as it indicates growth of only top 1.0% and top 0.1% incomes thus causing a huge disparity between very high earners and bottom 90%.

The same can be attributed to:

- Their power to set pay
- Pay is stock-related

Source: <https://www.bloomberg.com/graphics/2021-highest-paid-ceos/> (accessed on 21/10/2021)

### Activity 10.2

The compensation committee of Quark Chemicals is intending to structure the pay of its CEO, Tom Simon, in such a manner that it strikes the right balance between perquisites and incentives. What should be the aim of the compensation committee be in devising such a pay? What are the compensation elements at its disposal?

**Answer:**


**Check Your Progress - 3**

7. Among the pay-out plans given below, which is a profit sharing plan?
  - a. Executive incentives
  - b. Long-term incentives
  - c. Performance bonus
  - d. Productivity bonus plan
  - e. Current distribution plan
8. Which of the following techniques is used to measure CEO performance vis-à-vis organizational performance?
  - a. Economic Value Added (EVA)
  - b. Graphic Rating Scale
  - c. Management by Objective (MBO)
  - d. Behaviorally Anchored Rating Scales (BARS)
  - e. Critical Incident Techniques
9. Which of the following is an element of executive compensation?
  - a. Competency-based pay
  - b. Performance bonuses
  - c. Skill-based pay
  - d. Gain sharing
  - e. Profit sharing
10. Which committee was formed to suggest reforms in the area of executive compensation in India?
  - a. Ratan Tata committee
  - b. Rahul Bajaj committee
  - c. Kumarmangalam Birla committee
  - d. Dhirubhai Ambani committee
  - e. Shrivastav Committee

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**10.8.5 Linking Performance and Pay to Strategies**

Performance based pay is one of the critical planks of strategic human resource management.

**Need for linking performance with pay:**

- To attract talent
- To retain employees
- To motivate them to perform better

## **Block 2: SHRM – Implications for Organizations**

### **Elements of linking pay with performance:**

- Judicious balance between pay and other rewards in line with the individual performance
- Creation of a pool of talented and engaged workforce
- Ability to meet the long-term objectives of the organization
- Value creation

A sound pay-for-performance strategy should address the following issues:

- What motivates individual performance?
- What links individual performance and organizational performance?
- How to effectively use performance goals to achieve organizational objectives?

### **Motivating Individual Performance**

According to PricewaterhouseCoopers (PwC's) 14th Annual Global CEO Survey in 2011, it's critical that employers understand and apply the behaviors that enable them to attract, reward and retain pivotal talent.

While designing effective reward package, the company should take into account the typical components like:

- Salary
- Short-term incentives
- Long-term incentives
- Benefits (including health insurance, retirement savings and vacation pay)
- Training and development
- Recognition

Also, many organizations are also recognizing work/life balance and offering benefits such as:

- Flexible work schedules
- Telecommuting opportunities
- Sabbaticals

### **What links individual performance and organizational performance?**

Establishing a clear link between the organization's goals and employee performance can help employees better understand how their work contributes to the organizational goals.

The following are important steps that link individual objectives with the organizational goals:

- **Communication:** There should be clear and effective communication mechanism with open and free flow of information from all directions.
- **Goals:** Individual centric goals need to be developed and aligned towards the organizational goals.



### How to effectively use performance goals to achieve organizational objectives?

Performance goals essentially deal with performance management which is a systematic process of:

- **Planning work and setting expectations:** This is done in terms of goal setting, job design and organization structure.
- **Continually monitoring performance:** This involves evaluation and control mechanism for troubleshooting if required and providing feedback.
- **Developing the capacity to perform:** There needs to be incorporation of opportunities of growth and development and more autonomy needs to be provided to the employees.
- **Periodically rating performance:** There needs to be performance review and rating.
- **Rewarding good performance:** Recognizing employee contributions and rewarding them adequately should be of utmost importance.

#### Example

Infosys registered a 20.5% growth in net profit at ₹ 4,845 crore for the second quarter of FY21, as compared to the same quarter last year. Revenues grew by 2.2% in constant currency basis, with digital revenues coming in at \$1,568 million, accounting for 47.3% of Infosys' business. Operating margins came in at 25.4%, an increase of 370 basis points year-on-year.

Following this, Infosys rolled out 100% variable pay in the July-September quarter along with a one-time special incentive to junior level employees for the Q2 and salary increments and promotions across all levels with effect from January 1, 2021. Infosys paid a special bonus in the quarter to December, while paying 100% variable pay in the previous quarter with the team achieving outstanding results despite challenging business conditions globally.

### 10.9 Employee Motivation

An effective compensation strategy motivates current employees and is used as a tool to attract new talent. The concept of equity helps us in understanding the relationship between pay, employee motivation and performance.

#### 10.9.1 Equity

- Equity is a perceived feeling of being treated fairly by the firm in terms of compensation.
- Employees develop this feeling by comparing their salaries with that of their colleagues.
- Equity theory helps us understand the relationship between motivation and pay.

## Block 2: SHRM – Implications for Organizations

Equity Theory		
$\frac{\text{My rewards}}{\text{My contributions}} = \frac{\text{Other's rewards}}{\text{Other's contributions}} = \text{Equity}$		
$\frac{\text{My rewards}}{\text{My contributions}} < \frac{\text{Other's rewards}}{\text{Other's contributions}} = \text{Inequity (Under – rewards)}$		
$\frac{\text{My rewards}}{\text{My contributions}} > \frac{\text{Other's rewards}}{\text{Other's contributions}} = \text{Inequity (Over – rewards)}$		

According to the Equity theory proposed by J Stacey Adams, workers compare the work done by them and the compensation they get with that of their peers who do similar work.

- The pay differential should be fair to motivate employees.
- When the employees perceive an inequitable situation, he/she will try to alter his/her inputs or outcomes to achieve equity.
- Inequity may lead to absenteeism, lower productivity or even attrition.

There are two types of equity depending upon comparisons that can be drawn. They are:

### External equity

- Comparison between their inputs and outcomes with those of the other organizations.
- Comparison should be fair and rational.
- Employees feel underpaid and unmotivated and hence may leave the organization.
- Employees should keep track of the industry by conducting salary surveys.
- The data collected through salary surveys is mapped with the internal job evaluation. This process is called wage pricing.

### Wage and salary surveys

A wage and salary survey involves three steps:

- Identification of key jobs
- Selecting organizations for surveying
- Collecting data from selected organizations

### Internal equity

- The terms “internal equity” and “individual equity” are often used interchangeably though there is a lot of difference between the two.
- In internal equity, a relationship is drawn between jobs whereas in individual equity, individual employees doing the same job are compared.

## **Unit 10: Compensation and Strategic Human Resource Management**

- It is difficult to achieve individual equity when designing the compensation system.
- The salary expectations of employees differ because of their experience, education and skills.
- Organizations need to pay variable salaries and still maintain equity within the organization by using pay ranges.
- Pay ranges are designed keeping in mind the number of job grades within the organization.
- Pay ranges have an upper limit and a lower limit of pay.

### **10.9.2 Financial and Non-Financial Rewards**

Reward is compensation provided by an employer to the employees for the services rendered by the employees. It consists of packages of pay, amenities and other benefits.

Broadly, rewards can be divided into the following types:

#### **Financial Rewards:**

- Direct and indirect payment in monetary terms
- Help employee in meeting material needs
- Monetary rewards are extrinsic rewards
- Satisfy physiological and safety needs
- Can be provided in terms of cash or as fringe benefits
- Direct payments include:
  - Salary
  - Commissions
  - Incentives
  - Bonus
  - Allowances
- Indirect payments include:
  - Pensions
  - Medical insurance
  - Paid leaves
  - Sick leaves

#### **Non-financial Rewards:**

- Do not increase the financial well-being
- Intrinsic in nature
- Rather provide psychological satisfaction
- Satisfies more of social, esteem and self-actualization needs

## Block 2: SHRM – Implications for Organizations

- Non-financial rewards may take the form of:
  - Flexible work hours
  - Work-from-anywhere
  - Telecommuting
  - Appreciation
  - Recognition

These rewards need to be tailored specifically depending on age, gender and position in the hierarchy in organization.

### Example

- <sup>19</sup>As the world is struggling to fight the pandemic amid the COVID-19 second wave in 2021, India Inc., like Tata Steel, Mi India, Swiggy to name a few, are fast enough to respond by chalking out plans for fast-track inoculations for their employees and families in line with the approvals for the same as they come through. This move can be attributed to the fringe benefits provided by the said companies.
- <sup>20</sup> Announcement of Microsoft to gift its employees \$1,500 in recognition of completion of a unique and challenging fiscal year 2020.
- Netflix and LinkedIn offer unlimited annual leave as a work perk.

### 10.9.3 Motivating CEOs - Motivating Top Management Team - Challenges in Motivating Senior Management

On-the-job motivation is very important for employee performance and retention across all the levels, with the top executives being no exception.

It should not be assumed that generous stock options are sufficient to attract and satisfy top executives.

#### Six key drivers of executive motivation:

##### 1. Utilitarian/economic motive:

- Executives having utilitarian values are driven by monetary rewards only.

##### 2. Theoretical value motive:

- These individuals have a drive for learning and knowledge and explore new opportunities.

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<sup>19</sup> <https://economictimes.indiatimes.com/news/company/corporate-trends/amid-covid-second-wave-india-inc-steps-up-efforts-to-vaccinate-employees-their-families/articleshow/81718560.cms> (accessed on 21/10/2021)

<sup>20</sup> <https://timesofindia.indiatimes.com/gadgets-news/microsoft-to-give-1500-bonus-go-all-employees-heres-why/articleshow/84257160.cms> (accessed on 21/10/2021)  
<https://www.businessbecause.com/news/mba-jobs/7602/best-companies-for-benefits> (accessed on 21/10/2021)

**3. Social/altruistic motive:**

- They work for the greater interest of the people and society.

**4. Aesthetic value motive:**

- An urge is created by perfection as is perceived by their cognitions, values and behavior.

**5. Traditional /regulatory motive:**

- Executives prefer better quality of work-life and balance between their personal and professional life.

**6. Individualistic/political motive:**

- Get their feed from authority and power.

The top executive should be offered the menu of benefits so that the individual can pick and choose a rewards program that motivates him. A one-size-fits-all approach does not work for the organization.

Performance based compensation and non-monetary benefits go a long way in motivating the executives. The compensation package should be personalized to keep the executive motivated.

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**Check Your Progress - 4**

11. What is the perceived feeling of being treated fairly by the firm in terms of compensation called?
  - a. Equity
  - b. Equality
  - c. Honesty
  - d. Fairness
  - e. Validity
12. Who proposed the equity theory of motivation?
  - a. Ivan Pavlov
  - b. Fredrick Herzberg
  - c. E. E. Lawler
  - d. Stacey Adams
  - e. Abraham Harold Maslow
13. In terms of compensation, when does a worker feel under-rewarded?
  - a. When the ratio of his/her rewards to contribution is greater than other workers
  - b. When the ratio of his/her rewards to contribution is less than other workers

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- c. When the ratio of his/her rewards to contribution is equal to other workers
  - d. When the ratio of his/her rewards to contribution is not equal to friends
  - e. When the ration of his/her rewards to contribution is less than friends
14. Which of the following is a type of equity?
- a. Group equity
  - b. Individual equity
  - c. Partial equity
  - d. External equity
  - e. Personal equity
15. Which of the following is not a job evaluation technique?
- a. Job ranking
  - b. Job classification
  - c. Point system
  - d. Factor comparison
  - e. Ratios
16. Which of the following is a part of salary surveys?
- a. Identifying of key jobs
  - b. Identifying individual equity
  - c. Selecting organizations for surveying
  - d. Identifying key persons
  - e. Selecting people with big salaries
17. In which type of equity individual employees doing the same job are compared?
- a. Internal equity
  - b. External equity
  - c. Individual equity
  - d. Personal equity
  - e. Group equity
- 

### **10.9.4 Encouraging Entrepreneurial Culture**

Given the dynamic business environment, organizations need to be proactive to respond to the changes in the external environment and bring about a judicious fit.

#### **Essentials of entrepreneurial culture:**

- An entrepreneurial culture in an organization promotes innovativeness, creativity and risk-taking.

## Unit 10: Compensation and Strategic Human Resource Management

- This calls for employee brainstorming, contributing new ideas and aligning the environmental dynamics with the value system and strategic goals of the organization.
- The same can be achieved by effective change management, accountability and ownership.

### Characteristics of Entrepreneurial Culture

The characteristics of entrepreneurial culture are listed below:

- People and empowerment focused
- Value creation through innovation and change
- Attention to the basics
- Hands-on management
- Doing the right thing
- Freedom to grow and to fail
- Commitment and personal responsibility
- Emphasis on the future and a sense of urgency
- Communication is open and free environment

#### Example

20-percent time is a long standing Google initiative which is still an active program, which empowers employees to be creative and innovative, where the employees are encouraged to divide their time in such a way that at least 20 percent is spent working on projects that reveal big opportunities down the road. According to Page and Brin, “most risky projects may fizzle but they often teach us something. Remaining few succeed and become attractive businesses”.

Google News, AdSense, Gmail, Google Cardboard, Wear OS to name a few are some such advances.

### Involvement of Board of Directors in Organizational Motivation

There needs to be commitment from the BoD to improve organizational motivation.

- The commitment of the BoDs is reflected in the policies and philosophy of the organization.
- The board needs to have a clear understanding of:
  - Ethics
  - Governance
  - Accountability

## **Block 2: SHRM – Implications for Organizations**

- They need to be accountable.
  - They should contribute to the growth and expansion of the organization.
  - They should be aware of the corporate social responsibility as well.
  - They need to contribute to the ESG as well.
  - They need to foster learning organizations with opportunities for individual growth and development.

### **10.9.5 Motivation as a Strategic Tool for Organization Development**

Motivation plays a significant role in enhancing job satisfaction of an employee. The emotions, behaviors and attitudes of the employees towards their work has an important bearing on the job performance.

Lack of workplace motivation may result in:

- Absenteeism
- Attrition
- Lower productivity
- Anxiety
- Grievance and conflicts

### **Reward management and motivation**

Employee reward system in an organization motivates employees to perform better and contribute to the strategic organizational goals.

Rewards can be:

- 1) Tangible monetary rewards: Which include:
  - Salary
  - Commission
  - Bonus
  - Stock options
  - Gain-sharing programs
- 2) Intangible non-monetary rewards: Which include:
  - Respect and recognition
  - Promotions
  - More power
  - Status
  - Appreciation

Both monetary and non-monetary rewards play an important role in elevating employee motivation and driving them towards better job performance, thus contributing to organizational development.



Exhibit 10.2 illustrates the perception of the employees of CISCO about their workplace.

**Exhibit 10.2: Employees Speak**

Let us hear it from the employees as to what they find appealing and motivating about their organizations.

Cisco has been ranked as No.1 company to work for in 2021 (Courtesy Great Place to Work For).

Attraction:

- Considerate and Compassionate Executive Team
- Strategic Leaders
- Diversity Management
- Inclusion Programs
- Health and Safety
- Social Justice
- CSR Activities
- Fringe Benefits

American Express, ranked 10:

Employees enumerate:

- Agile Leadership
- Inclusion and Diversity Programs
- Change Management
- Health and Safety
- Training Initiatives
- Fringe Benefits

High employee motivation and morale would translate into lower rate of attrition and absenteeism and elevated engagement and commitment.

*Source: <https://www.greatplacetowork.com/best-workplaces/100-best/2021> (accessed on 21/10/2021)*

### **10.10 Concept of Broadbanding**

Simplification and standardization of pay structures and processes are vital for a compensation system. The same is done through broadbanding which helps the organization in rationalizing pay structures.

Organizations that either downsize or restructure their human resources have to redesign their compensation system and Broadbanding comes handy for designing the compensation system in such cases.

## **Block 2: SHRM – Implications for Organizations**

### **Features of Broadbanding:**

- Employer clubs together have a number of wage grades.
- Employees who used to get different salaries would now get salaries within a given range.
- Broadbanding can be done by taking the lower limit of the lowest wage grade and the upper limit of the highest wage grade.
- It helps simplify compensation procedures during restructuring.
- It increases the responsibilities of employees and gives them a sense of direction during the restructuring process.

### **10.11 Moving from Participation to Ownership**

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The concept of worker participation gained importance after the human relations movement.

The aim of workers participation is to:

- Involve employees in all the activities of management
- Build a participative culture
- Elevate the sense of belongingness towards the organization

#### **Limitations of workers participation:**

- Though profit sharing schemes and productivity linked bonuses encourage employee involvement, they were only short-term measures.
- They failed to sustain employee interest in overall organizational performance.

The indifference of the employees can only be tackled by developing a sense of ownership in employees.

Organizations should take the following steps to develop an ownership culture:

- Create a balance between organizational and employee needs.
- Make employees understand the advantage of long-term growth oriented measures over short-term schemes.
- Make employees understand the long-term objectives and goals of the company.
- Encourage transparency and create a knowledge sharing culture.

In organizations that have a highly participative culture, productivity-linked bonuses and 360° feedback, employees find it difficult to differentiate between participation and ownership.

Organizations can overcome this problem by educating employees about the differences between ownership and participation.

## 10.12 Employee Stock Options (ESOPs)

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A good compensation strategy must have a balance between internal equity and external competitiveness.

Employee stock options, a form of equity compensation paid to employees, is used:

- To motivate employees and create a sense of ownership in them
- To retain talent and attract outside talent
- To reward employees for their performance. (If ESOPs are given to a number of employees, then they are called broad-based stock options plans.)

Initially, stock options were synonymous with technology companies as they had a high rate of attrition. Off late it has been extended to the retail industry as well.

### 10.12.1 Characteristics of Stock Options

#### Stock options as motivational tool

Organizations are increasingly using stock options to motivate employees and improve their performance.

- In a study conducted by the economist John Abowd<sup>21</sup>, it was revealed that corporate performance improved when stock options were given as compensation.
- Research conducted by economists Clifford Holderness, Randall Krozner, and Dennis Sheehan (1999) showed that stock options created a sense of ownership in the top management of the company.

This sense of ownership encourages the top management to perform better, thus leading to better organizational performance.

#### Demerit of stock options:

- Uncertainty and resultant psychological anxiety.
- Provided only to the top executives in many companies.
- Accounting system does not make it obligatory to include stock options.
- Stock options affect the bottom line of profitability of the company.

## 10.13 Pay for Performance

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Organizations use compensation strategies to recognize individual or sometimes group performance through employee pay and rewards.

- Compensation, here, is linked to the quality and quantity of work done by an employee or a group.
- Aim of pay for performance is to recognize the superior work done and to elevate the motivation and morale of the employees.

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<sup>21</sup> Professor John Abowd is the “Edmund Ezra” Professor of Industrial and Labor Relations at Cornell University, Director of the Cornell Institute for Social and Economic Research (CISER), Distinguished Senior Research Fellow at the United States Census Bureau, Research mAssociate at the National Bureau of Economic Research (NBER Cambridge, Massachusetts), and Research Affiliate at the Centre de Recherche en Economie et Statistique (CREST, Paris, France).

## Block 2: SHRM – Implications for Organizations

### Drawback of pay for performance:

- <sup>22</sup>Non availability of metrics to measure individual performance.
- Elimination of individual rating in performance appraisals in many companies.

In such conditions, it is better to drive managers to have more-robust discussions with employees about their performance and then finding a way to better differentiate pay.

### 10.13.1 Concept of Variable Pay

Earlier, employees were compensated on the basis of the number of hours they worked rather than on the basis of their performance or output.

Off late, the concept of variable pay has gained importance due to:

- The difference in performance of different employees
- The quantity and quality of the output produced by different employees differs which calls for variable pay

Variable pay consists of numerous pay elements like:

- Skill-based pay
- Commission
- Non-financial rewards

### 10.13.2 Problems in Implementing Variable Pay

A variable pay system is difficult to implement due to the following reasons:

- There are no standard and objective performance measurement methods for measuring employee performance.
- Difficult to quantify certain types of work for measuring performance.

Thus, it is necessary to have an objective, efficient and effective performance management system before implementing a variable pay system.

Exhibit 10.3 discusses variable compensation of executives in select companies.

#### Exhibit 10.3: Variable Compensation

There is a rise in the practice of tying bankers' variable compensation to environmental, social and governance (ESG) metrics.

Illustrations:

- At HSBC Holdings, executive directors need to cut down upon the bank's carbon emission and urge their clients as well, failing which their variable pay would be cut down.
- 10% of the pay scorecard of senior management of UniCredit would depend on its ESG ratings.

Source: <https://www.businesstimes.com.sg/banking-finance/banker-bonuses-tied-to-esg-metrics-are-on-the-rise-in-europe> (accessed on 20/10/2021)

<sup>22</sup> Source: <https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/better-pay-for-performance.aspx> (accessed on 20/10/2021)

**Check Your Progress - 5**

18. What is the process of restructuring pay in the event of downsizing or restructuring called?
    - a. Pay structuring
    - b. Broad-banding
    - c. Broad-waging
    - d. Broad-structuring
    - e. Broad-pay
  19. Who among the following is the economist who has researched extensively on the motivational aspect of ESOPs.
    - a. John Crowe
    - b. John Abowd
    - c. John Mckinsey
    - d. John Tomasson
    - e. Johan Peter Zenger
  20. What is the concept of paying employees, on the basis of amount of work done rather than the number of hours worked called?
    - a. Variable pay
    - b. Differentiated pay
    - c. Proportional pay
    - d. Easy pay
    - e. Fixed pay
- 

**10.14 Summary**

- Employees are paid for the services they render to organizations. They receive monetary and non-monetary rewards. The system organizations use for rewarding their employees is called the compensation system.
- Some of the objectives of a compensation system are motivating employees, attracting outside talent, employee retention, communicating to the employees what the organization expects in terms of quality and output and helps employees recognize and understand the organizational goals and their role in achieving these goals.
- Organizations apply different compensation strategies depending upon overall corporate strategies. They also rely on external salary surveys for collecting information about compensation levels in other organizations within the same industry.

## **Block 2: SHRM – Implications for Organizations**

- The pay of employees can be divided into two elements: direct pay elements and indirect pay elements. Compensation given directly to the employee in the form of cash, stock etc., is called direct pay. Perquisites and benefits provided by the organization either as a legal requirement or as a welfare measure is called indirect pay.
- Organizations compensate employees on the basis of individual or group performance. Some of the pay systems used by organizations for compensating employees for individual performance are the piece rate system, commission system, skill-based system, bonus system and merit pay system.
- Organizations also compensate employees on the basis of the performance of the unit or group in which they work. Group incentive schemes can be categorized into profit sharing schemes and gain sharing schemes.
- Over the last few decades, the amount of compensation given to executives has attracted considerable attention. Executive compensation usually includes long- term incentives, performance bonuses and perquisites.
- It is believed that employee performance is dependent on employee motivation. One of the most important motivating factors is pay. Equity is a perceived feeling of being treated fairly by the firm in terms of compensation. There are three types of equity: internal equity, external equity and individual equity.
- Organizations employ various job evaluation techniques to establish internal equity at the workplace. Some of the job evaluation techniques are job ranking, job classification, and point system.
- Organizations that either downsize or restructure their human resources have to redesign their compensation system. In this situation, organizations use broadbanding for designing the compensation system.
- Organizations should take the following steps to develop an ownership culture – create a balance between organizational and employee needs, make employees understand the advantage of long-term growth oriented measures over short-term schemes, make employees understand the long-term objectives and goals of the company and encourage transparency and create a knowledge sharing culture.
- Many companies give ESOPs to make employees feel that they own the firm. These stock options are generally given to top management.
- Another modern system of compensation is the system of variable pay. In this system, employees are paid on the basis of performance or output rather than on the number of hours they put in.

### 10.15 Glossary

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**Broadbanding:** Broadbanding is a pay strategy that consolidates a large number of relatively narrow pay-grades into much fewer broad bands with relatively wide salary ranges, typically in the neighborhood.

**Compensation:** Compensation is the total amount awarded to an employee in return for work and services, including all employment-related pay elements such as base pay, bonuses, allowances, premiums, etc. It is also referred to as reward, remuneration, pay or salary.

**Entrepreneurial Culture:** An entrepreneurial culture is an environment where someone is motivated to innovate, create and take risks

**Equity:** Equity refers to a criterion of pay based on similar responsibilities and contribution to the organization. It may focus on the “fairness” of pay between employees within or outside the organization.

**External Equity:** External equity is the perceived fairness of the compensation employees receive relative to what other companies pay for similar work.

**Incentive (pay plans):** Pay plans designed to reward the accomplishment of specific results are referred to as incentives.

**Internal Equity:** Internal equity is the perceived fairness of the pay structure within a firm.

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

**Skill-based System:** In this type of compensation system, employees are paid on the basis of the number of skills they possess. Unlike the merit rating or bonus system where employees are paid for performance.

**Social/altruistic Motive:** In this type, the motivational driver for the individual is to be helpful to others and do something that is good for the society at large.

### 10.16 Self-Assessment Test

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1. State the objectives of a compensation system.
2. Explain the components of direct pay and indirect pay.
3. Describe the pay systems used by organizations for compensating individuals.
4. State the objectives of executive compensation. List and elaborate the elements of executive compensation.
5. Define equity. Explain the equity theory of motivation.
6. Explain the concept of broad banding.
7. Describe the characteristics of stock options.
8. Define variable pay. State the problems in implementing variable pay.

## **Block 2: SHRM – Implications for Organizations**

### **10.17 Suggested Readings/Reference Material**

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1. Ananda Das Gupta. Strategic Human Resource Management-Formulating and Implementing HR strategies for competitive advantage, Productivity, Taylor & Francis Group, 2020
2. Armstrong, M, Armstrong's Handbook of Strategic Human Resource Management. 7th edition, London: Kogan Page, 2020
3. Dr. Ravi Kumar K. A text book of strategic human resource management - A guide to action, Notion Press, 2021
4. Gary Rees, Paul Smith. Strategic Human Resource Management. 3rd edition, SAGE Publications Ltd., 2021
5. John Storey, Dave Ulrich, Patrick Wright, Strategic Human Resource Management-A research overview, Routledge, 2020
6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020

### **10.18 Answers to Check Your Progress Questions**

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**1. (b) Training employees**

Training employees is not an objective of employee compensation.

**2. (a) E. E. Lawler**

E.E. Lawler has coined the term “New Pay” for rewards and compensation that aims to align organizational goals with the compensation system.

**3. (d) Paid leave**

Direct pay elements include base pay, merit pay and incentives. Hence, paid leave is an indirect pay element.

**4. (a) Profit sharing system**

Individual pay systems include a piece rate system, commission system, bonus system, skill based system, and merit pay system. Hence, the profit sharing system is not an individual pay system.

**5. (a) Bonus**

Bonus is the lump sum payment made to employees annually for achieving higher productivity.

**6. (c) Skill-based system**

In a skill-based compensation system, employees are paid on the basis of the number of skills they possess.

**7. (e) Current distribution plan**

There are three types of profit sharing plans - current distribution plan, combination plan and deferred payout plan.



**8. (a) Economic Value Added (EVA)**

Economic Value Added (EVA) and Total Shareholder Return (TSR) are being used for monitoring CEO performance in relation to organizational performance.

**9. (b) Performance bonuses**

Executive compensation includes: Long-term incentives, performance bonuses and perquisites are all elements of executive compensation.

**10. (c) Kumaramangalam Birla committee**

Kumaramangalam Birla committee was formed to suggest reforms in the area of executive compensation in India.

**11. (a) Equity**

Equity is a perceived feeling of being treated fairly by the firm in terms of compensation.

**12. (d) Stacey Adams**

Stacey Adams proposed the equity theory of motivation.

**13. (b) When the ratio of his/her rewards to contribution is less than other workers**

A worker feels under-rewarded when the ratio of his/her rewards to contribution is less than other workers.

**14. (b) Individual equity**

There are three types of equity – internal equity, external equity, and individual equity.

**15. (e) Ratios**

Job ranking, job classification and point system are all major techniques of job evaluation. Hence, ratio is not a technique of job evaluation.

**16. (a) Identification of key jobs**

A wage and salary survey involves three steps - identification of key jobs, selecting organizations for surveying, and collecting data from selected organizations. Hence, organizational analysis is not a part of wage and salary surveys.

**17. (c) Individual equity**

In individual equity, individual employees doing the same job are compared.

**18. (b) Broadbanding**

Broadbanding is the process of restructuring pays in the event of downsizing or restructuring.

## **Block 2: SHRM – Implications for Organizations**

### **19. (b) John Abowd**

John Abowd is the economist who has researched extensively the motivational aspect of ESOPs.

### **20. (a) Variable pay**

The concept of paying employees according to the amount of work done rather than the number of hours worked is called variable pay.

## Unit 11

### Strategic Challenges for Leadership

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#### Structure

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Strategic Challenges for the HR Manager
- 11.4 Managing in the Global Environment
- 11.5 Managing Workforce Diversity
- 11.6 CEO Succession Planning
- 11.7 Leadership in Family Owned and Professionally-owned Businesses
- 11.8 Level 5 Leadership
- 11.9 Women CEOs
- 11.10 Managing Technological Innovation
- 11.11 Top Management –Team Collaboration
- 11.12 Conflict Management for Senior Managers
- 11.13 Resource Mobilization across Top Management
- 11.14 Managing Political Behavior while Implementing Strategies
- 11.15 Summary
- 11.16 Glossary
- 11.17 Self-Assessment Test
- 11.18 Suggested Readings/Reference Material
- 11.19 Answers to Check Your Progress Questions

*“Leadership is based on inspiration, not domination; on cooperation, not intimidation.”*

- William Arthur Wood

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#### 11.1 Introduction

As has been promulgated by William Arthur Wood, leadership is all about influencing people as the impetus is on goal rather than title or positions.

In the previous unit, compensation systems and strategies were discussed. In this unit, the strategic challenges faced by a leader will be discussed.

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#### 11.2 Objectives

After studying this unit, students should be able to:

- Assess the strategic issues involved in HR roles for managing increased competitive external environmental pressures.
- Identify cultural diversity and cultural sensitivity for managing business in a global environment.

## Block 2: SHRM – Implications for Organizations

- Evaluate the dimensions of workforce diversity and succession planning for effective leadership.
- Distinguish leadership between family-owned and professionally-owned businesses for meeting globalization challenges.
- Analyze the characteristics of Level 5 leaders for making a good company into a great one
- Evaluate women CEOs for nullifying glass-ceiling effect

### 11.3 Strategic Challenges for the HR Manager

---

Business organizations have to effectively deal with ever increasing challenges that they are confronted with due to the volatilities of the business environment.

HR managers face critical challenges like:

- Supporting new organizational structures
- Dealing with growing variations in employee relations
- These strategic challenges can be encountered across:
  - HR policy clusters
  - HR roles
  - HR outsourcing

In a Survey of Global HR Challenges: Yesterday, Today and Tomorrow, conducted by PricewaterhouseCoopers on behalf of the World Federation of Personnel Management Associations (WFPMA), top 10 challenges were identified for human resource management.

Table 11.1 presents these challenges.

**Table 11.1: Top 10 HR Challenges for HR Managers**

CHALLENGES	% OF COMPANIES FACING THE CHALLENGES
Change Management	48
Leadership Development	35
HR Effectiveness Measurement	27
Organizational Effectiveness	25
Compensation	24
Staffing	24
Succession Planning	20
Learning & Development	19
Retention	16
Benefits, Costs, Health & Welfare	13

Source: <https://www.villanovau.com/resources/hr/human-resource-management-challenges/#.WZR50VGGOUk>, 2017 (accessed on 16/12/21)

HR managers have to work hard to cope up with these challenges.

### **11.3.1 Strategic Challenges across HR Policy Clusters**

Organizations need to redesign their human resource systems to support new organizational structures. The reasons can be enlisted as:

- Employee relationships across various functional areas need to be considered while developing new structures.
- Managers need to develop human resource policies for contract workers who are not part of the organization.
- Performance and absenteeism should be assessed.
- The need to develop human resource strategies to support globalization.

HR policies have different clusters based on which HR managers can develop various strategies to manage the business. They are:

#### **1. Talent identification and deployment:**

- HR managers need to ensure that the workforce has the right skills to meet the organization's future needs.
- It is essential to identify employees who can fit and adapt to knowledge-based cultures.
- Succession planning needs to be implemented.
- Ensure reduction in the time and cost involved in hiring people.

#### **2. Human capital development:**

- The strategic challenge for managers is to ensure that the performance and learning systems fit into the new organization structure.
- It is equally important to socialize employees with the new structures.
- The organization needs to channelize its resources to train and develop its employees.
- It is a challenge for managers to link the organization's performance with the employee's skills and behaviors.

#### **3. Reward management:**

- Formulation and implementation of strategies and policies to reward employees in a fair and equitable manner.
- Reward management is planned taking into consideration employee contribution to the organization.
- Rewards motivate employees for superior performance.
- When suitably rewarded, it acts as a retention tool.
- It is a challenge for managers to align reward systems with new structures and also link reward systems to performance.

## Block 2: SHRM – Implications for Organizations

### 4. Employee relations:

The strategic challenges involved here are:

- To create a work environment that encourages high performance.
- To respect employee needs and commitments.
- To ensure high employee commitment and job satisfaction.
- To help employees overcome the feeling of job insecurity.

### 11.3.2 HR Roles: Strategic Issues

HR roles have gone through cultural transformation due to increased competitive external environmental pressures calling for reassessment of strategies.

#### Strategic issues involved in HR roles:

##### 1) Organizational Redesigning:

- It is undertaken for organizational survival and growth
- It aims at fostering desired employee behavior
- It helps in development of organizational culture that imbibes:
  - Cost
  - Quality
  - Innovation
  - Variety
- Redesigning helps in achievement of organizational objectives

##### 2) HR outsourcing and role delivery:

Refers to the hiring of expert external vendors who can cater to the organizational needs in a cost effective way.

#### Example

##### <sup>23</sup>Top 5 strategic human resource challenges in 2021

With the onset of COVID-19, HR professionals are dealing with challenges as never before. Amidst global health crisis, disruption of workflows leading to subsequent layoffs, social unrest ultimately culminating into an economic downturn has been keeping HR managers up at night. With this disruption likely to continue for some more time, firms need to carefully consider these 5 challenges that are enumerated below as they begin prototyping new workforce models:

*Contd....*

<sup>23</sup> <https://www.forbes.com/sites/forbeshumanresourcecouncil/2021/01/04/top-five-human-resources-challenges-in-2021/?sh=6e5cfa206da1> (accessed as on 14/12/21)

1. Subduing employee duress during crisis and uncertainty
2. Going ahead with objective and legally defensible layoffs
3. Living up to diversity, equity and inclusion promises
4. Elevating operational efficiencies
5. Making remote work possible

## **11.4 Managing in the Global Environment**

Due to globalization, more and more companies are entering into business in a global environment. To do business in a global environment, it is important for organizations to understand cultural differences and develop cross cultural sensitivity.

### **11.4.1 Understanding Cultural Differences**

Organizations that compete in the global market have to deal with diverse cultures. Therefore, it is necessary for managers in multinational organizations to appreciate cultural differences.

Geert Hofstede, a Dutch researcher, has found that cultural differences affect work-related attitudes. He identified the following six dimensions of culture (Table 11.1) which influence the work-related attitudes of employees:

#### **1) Individualism vs. Collectivism:**

**Table 11.1**

<b>Individualism</b>	<b>Collectivism</b>
Loose social frameworks	Tightly knit social frameworks
Value individual freedom and respect	<ul style="list-style-type: none"> <li>● Respect and accept group decisions</li> <li>● Value group welfare and harmony</li> </ul>
Organizational charts indicate individual positions	Organizational charts show sections and departments

#### **2) Power Distance:**

Refers to the degree of acceptance of the distribution of power in cultures

Culture with high power distance are the ones where the:

- Employers enjoy more power
- Employers seldom allow bypassing of authority

Cultures that have low power distance exhibit the following features:

- People trust each other
- Employees are less threatened by one other
- They strongly believe in equality
- Only competent people are given authority
- Employers allow judicious use of authority

## **Block 2: SHRM – Implications for Organizations**

### **3) Uncertainty Avoidance**

Cultures having low uncertainty avoidance:

- Take risks
- Believe in constructive criticism
- They prefer job mobility

### **4) Masculinity vs. Femininity**

Masculine culture exhibit the following features:

- It emphasizes assertiveness and materialism
- Men in this culture are expected to be tough, decisive and assertive
- Women in this culture are expected to be shy, tender and caring
- Performance, achievement and money are considered important in such culture
- The gender roles are clearly defined in such cultures

#### **Feminine culture:**

- In such culture importance is given to relationships and concern for others
- Gender roles are not clearly defined in such cultures

### **5) Time orientation**

Time orientation refers to the relative importance given to time by different cultures. They can be categorized into:

- Long term orientation: Where the emphasis is more on future
- Short term orientation: Where the emphasis is more on past and present

### **6) Indulgence Vs. Restraints:**

Indulgence refers to culture that allows:

- Free gratification of basic and natural human drives
- It takes the form of an open organization culture

Restraint refers to culture that suppresses:

- Gratification of needs
- Such culture regulates the organization with strict social norms

#### **Example**

- High power distance is more commonly found in countries like India, Mexico and Venezuela where titles are used to refer to the superiors rather than their first names whereas Denmark and Australia are examples of countries with low power distance.

*Contd....*



- The Chinese emphasize values such as persistence and have futuristic vision (long-term orientation) whereas the Russian culture emphasizes on traditions and social obligations (short-term orientation).
- Countries like Norway, Sweden and Denmark are known for their feminine cultures whereas Austrian, Indian and Japanese cultures are masculine.
- Japanese and Italian cultures have high uncertainty avoidance and hence they emphasize on career stability whereas Norwegian and Australian cultures have low uncertainty avoidance.

#### **11.4.2 Developing Cross Cultural Sensitivity**

Multinational organizations consist of employees from diverse cultural backgrounds. Sometimes, employees hold stereotyped views about other cultures and so they fail to appreciate those cultures.

Following are the ways to develop cross cultural sensitivity:

- Help employees understand different cultures
- Initiate effective socialization process
- Impart cultural training where employees are taught to recognize and appreciate cultural differences
- Use task forces or teams to develop cultural sensitivity with members from cross-cultural backgrounds.
- Promote strong organizational culture and belongingness for the organization

HR managers in a global organization face the following challenges:

- One of the biggest challenge is to provide support to a diverse workforce.
- It is equally challenging to develop a global perspective of various HR functions such as human resource planning, recruitment, training and selection that would serve everyone's interest.
- Possess adequate knowledge about the legal systems of various countries is essential.
- Understanding global economics, culture and customs calls for a lot of time and effort.
- The managers need to help the employees in fostering cooperation and interaction among people of different cultures.

Since most organizations are entering into the international arena, diversity has gained tremendous importance. Workforce diversity is no longer considered a liability for the organization.

- Strategic alliances and ownerships force people to have job tasks in other countries or to work in association with foreign managers within their own countries.
- With employees taking up job assignments across national borders, companies and their subsidiaries in each country become more diverse.

## Block 2: SHRM – Implications for Organizations

Hence, it is important for organizations to manage workforce diversity.

### Example

Microsoft tries to combat the following three hurdles for building a collaborative social culture which helps employees to understand and work better:

- Cultural sensitivity – Devises strategies for creating awareness around cultural differences for fostering team work on one hand and understanding their global customers on the other.
- Social distance – Fostering relationships based on trust across cross-geographical and cross-generational teams.
- Communication and tone – Trying to understand the cultural differences and formulate strategies for better inclusion and diversity management initiatives.

Exhibit 11.1 illustrates the cultural shifts in companies in 2020.

### Exhibit 11.1: Major cultural shifts in companies in 2020

- Nike’s “Just Don’t Do it Campaign” against Racism.
- WWP announced formation of an inclusive council with a commitment of \$30 million fund in its fight against internal discrimination.
- Verizon initiated “Citizen Verizon” project for upskilling 5,00,000 workers from minority groups by 2030.
- Starbucks announced donation of \$1 million to support racial-justice-oriented causes.

Source: <https://www.forbes.com/sites/ashleystahl/2021/04/14/whats-to-come-in-2021-for-diversity-equity-and-inclusion-in-the-workplace/?sh=6b66c4f27f26> (accessed as on 11/11/2021)

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### **Check Your Progress - 1**

1. Which of the following is not a HR policy cluster that help HR managers develop a HR strategy?
  - a. Human capital development
  - b. Reward management
  - c. Employee relations
  - d. Performance management
  - e. Talent identification and deployment

2. Which one of the following is not regarded as dimension of culture identified by Geert Hofstede?
  - a. Individualism vs. Collectivism
  - b. Masculinity vs. Femininity
  - c. Ethnic background
  - d. Time orientation
  - e. Uncertainty avoidance
3. What is referred to as the degree of distribution of power in work cultures?
  - a. Power equation
  - b. Power distribution
  - c. Power distance
  - d. Power equilibrium
  - e. Power parity

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## **11.5 Managing Workforce Diversity**

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Issues relating to diversity and inclusion continue to be frustrating and challenging for many organizations. Managing diversity is a significant organizational challenge and effective strategies need to be adapted for managing workforce diversity.

### **Diversity:**

Diversity in the organization refers to differences in age, personality, ability and social status and cultures. The changing demographics have resulted in increased attention to diversity.

Two problems that managers constantly face when dealing with diversity are:

- Lack of adequate knowledge about motivating diverse work groups
- Inability to communicate with employees who are culturally diverse

### **11.5.1 Gender Diversity**

The past few decades have witnessed the entry of more women into the workforce. However, a gender-related problem that exists in many organizations today is the “glass-ceiling effect” that prevents women representation on the Board.

### **11.5.2 Age Diversity**

Age diversity refers to the acceptance of different age groups in a professional environment. The results of having age diversity is that:

- Attitudes and values differ across age groups.
- The challenge for managers is to integrate employees with diverse attitudes and values into a cohesive group to achieve a common goal.

## Block 2: SHRM – Implications for Organizations

### Example

<sup>24</sup>A 2020 study in the Journal of Applied Psychology showed that being a part of a mixed-aged workplace group increased motivation for both older and younger colleagues and increased their intent to stay with the organization.

### 11.5.3 Cultural Diversity

Globalization has increased the cultural diversity in organizations.

- A transnational organization consists of people from different countries.
- Cultural diversity poses the risk of employees having prejudices and stereotyped notions about different cultures.
- These may prevent managers and employees from developing synergies between their respective cultures.

Refer Exhibit 11.2 to get an insight into diversity management at Microsoft.

#### Exhibit 11.2: Microsoft's 2020 Diversity and Inclusion Report 2020

The following data illustrates about the diversity at Microsoft:

- Women Representation: 28.6% of global workforce
- Black or African Employees: 4.9% of their US workforce (5.2% individual contributors, 2.9% managers, 2.6% directors and 2.9% partners and executives)
- Hispanic and Latinx Employees: 6.6% of their US workforce (4.4% partners and executives)
- Asian Employees: 34.7% of their US workforce

Initiatives for Cultural Diversity:

- Inclusion Programs
- Ecosystem Engagement
- Community Skills Program

Source: <https://blogs.microsoft.com/blog/2020/10/21/microsofts-2020-diversity-inclusion-report-a-commitment-to-accelerate-progress-amidst-global-change/> (accessed on 20/10/2021)

### 11.6 CEO Succession Planning

When a leader exits, another competent person should fill the vacancy immediately, failing which there may be chaos in the organization. Succession planning provides a solution for the same.

Succession planning is the process of Identifying, assessing and developing talent to ensure that every key position in the organization is held by an efficient leader.

<sup>24</sup> <https://www.forbes.com/sites/nextavenue/2020/07/19/the-diversity-employers-need-to-remember-age-diversity/?sh=630f67e74b6b> (accessed as on 20/10/21)

### **11.6.1 Benefits of Succession Planning**

The following are the benefits of succession planning:

- It assures the continuity of leadership in organizations.
- It contributes to the success of the organization.
- It guides the development activities of key executives.
- It ensures that the senior management does a disciplined review of the leadership talent available within the organization.
- It helps review the selection, appraisal and management development processes.

The board of governors has an important role in the selection of the next CEO. The prospective candidate for the CEO position should be clearly told that his/her ability to handle succession will determine his/her chances of becoming the CEO.

Given below are a few guidelines for a board, to determine the qualities it should look for in an incumbent CEO. They are:

- The candidate should possess strategic leadership competencies.
- The candidate should be consistent and inspire trust in others.
- The candidate should be able to delegate and introduce a high degree of accountability.
- The candidate should believe in spending time adequately in motivating others and in communicating the purpose and the company's values down the hierarchical levels.
- The candidate should have good communication skills.
- The candidate needs to be compassionate and empathetic.
- The candidate should be good in disseminating information.

### **11.6.2 Strategies for Effective CEO Succession Planning**

Some of the strategies for effective succession planning are:

- The board of governors should be involved in the process of succession planning.
- The selection criteria of the new CEO must be specified.
- Both internal and external candidates should be considered for succession planning.
- Decisions should be based on personal interactions and not paper reports.
- The current CEO must spend sufficient time with the potential candidates.
- No candidate should be excluded from the list until the final choice is made.
- It would be wise to appoint two people; one as the CEO and the other as the chairman, to ensure having successors.
- The responsibility of choosing the next CEO should not be thrust on others.
- Succession plan should be viewed as an ongoing exercise.

**Check Your Progress - 2**

4. Which of the following is the process of identifying, assessing and developing talent to ensure that every key position in the organization is led by an efficient leader?
- Career management
  - Performance management
  - Succession planning
  - Employee development
  - Reward management
- 

**11.7 Leadership in Family-Owned and Professionally-Owned Businesses**

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Economic pressures and an increasing global business environment have put forth challenges in managing businesses.

To be successful, one needs to consider all the aspects about the advantages and disadvantages of family owned businesses in comparison with the professionally-owned businesses.

Features of family-owned businesses:

- Family-owned businesses are believed to be more traditional.
- It is difficult to separate ownership and management in such businesses.
- CEOs of family-owned businesses often choose their sons, or other relatives as their successors.
- Some family-owned businesses have most of their family members on the board.

Features of professionally-owned businesses:

- Such businesses do not promote active participation of family members in the business.
- They separate management and ownership although the family retains control on the business.
- Other top positions are occupied by professional managers in case of professionally-owned businesses..

Differences between family-owned businesses and professionally-owned businesses with special reference to trust, control systems and governance are discussed below.

**Trust**

- The belief that family-owned businesses enjoy trust both from employees and customers has changed.

**Example**

Piramal Industries is an example of a company that strongly supports the professionalization of business.

**Control systems**

Most family-owned businesses fear that they may lose authority if they give up control. Therefore, these businesses usually adopt bureaucratic control.

Bureaucratic control focuses on regulation through:

- Rules
- Policies
- Supervision, budgets
- Schedules
- Reward systems
- Other administrative mechanisms aimed to ensure that employees behave appropriately and meet performance standards.

Professionally-owned businesses need clan control to facilitate delegation of authority and to promote an informal work environment.

Clan control relies on:

- Beliefs
- Informal relationships
- Values
- Corporate culture
- Traditions
- Shared norms
- Regulating employee behavior
- Achieving organizational goals

**Governance**

Professionally-owned businesses ensure that the board does not include more than one member from the family.

**Example**

Azim Premji, the CEO of Wipro, represents the family on the board. The other 10 members on the board are professionals not related to the Premji family.

## Block 2: SHRM – Implications for Organizations

Exhibit 11.3 illustrates a survey on family owned business in the wake of COVID-19 Pandemic.

### Exhibit 11.3: Future of Family Business

The global family business survey was conducted by Family Business Network International (FBN) in collaboration with PwC in 2020 with respondents being 2801 owners and executives of family businesses across 87 territories.

The results indicated that:

- Financial resilience is high with only 34% cutting on dividends during the crisis.
- Only 37% on an average have a sustainability strategy.
- 80% are worried about digital transformation.

This survey is a wakeup call for many of the family businesses. Despite their financial resilience, there is a strong need to reposition themselves so as to recover in the post COVID-19 scenario, with the impetus being on the NextGen members to improve upon the policy areas to continue the legacy. The areas being:

- Deliver on ESG
- Transform digital capabilities
- Improve internal family governance

Source: <https://www.pwc.com/gx/en/family-business-services/family-business-survey-2021/pwc-family-business-survey-2021.pdf> (accessed on 10/11/2021)

### 11.7.1 Reasons behind the Transition of Family-owned Businesses into Professionally-owned Businesses

Reasons underlying the transition of family-owned businesses into professionally-owned businesses are:

#### 1) Globalization

Globalization calls for rapid manpower deployment and productivity enhancement and hence there is a need for professionally-owned businesses

#### 2) Increased complexity

Increased complexity in business due to the need for diversification, technological advancement and increased competition, calls for professionally-owned businesses.

#### 3) Need for specialist expertise

With improvements in technology, there is a need for specialist expertise and professionally-owned businesses can attract talent to cater to the needs of the organization.



### 11.7.2 Strategies for Successful Transition of Family-owned Business into Professionally-owned Business

Some strategies for successfully making the shift from a family-owned business to a professionally owned business are:

**Freedom to professional managers:** More autonomy should be provided for decision making.

**Change in the mindset:** There should be a commitment from the top management to give up bureaucratic control.

**Ownership:** There should be a shift from direct ownership to indirect ownership so as to prevent interference in the running of the business.

**Determination:** The owners of the family-owned businesses should ensure that their heirs do not make unfair attempts to re-enter into the management.

#### Activity 11.1

Dubey Textiles is owned by Giriraj Dubey's (Dubey) family. Of late, the textile company has not been doing well. This has been attributed to the over-involvement of the Dubey family (which has a majority stake in the company) in the day-to-day affairs of the company. This has not been taken well by the senior managers of the company. In order to instill professionalism in the company, Dubey decided to take a backseat and appoint a professional as the CEO, while he himself will remain as the chairman of the company. In the above mentioned situation what steps should Dubey take for making his company a professionally managed company?

**Answer:**

### 11.8 Level 5 Leadership

Understanding Level 5 leadership is of utmost importance for developing leaders.

- The term Level 5 refers to a hierarchy of executive capabilities.
- These leaders can meet the leadership challenges effectively.
- Level 5 leaders are considered to be modest and willful, humble and fearless.
- Level 5 leaders tend to have tremendous ambitions for the company, not for themselves.
- They assume responsibility during a crisis.
- They believe in sustained results and shunning celebrity status

## Block 2: SHRM – Implications for Organizations

Table 11.2 shows the different levels in Level 5 Leadership

**Table 11.2: Level 5 Leadership**

<b>Level 5</b>	<b>Level 5 Executive</b> Successful blend of personal humility and professional will.
<b>Level 4</b>	<b>Effective Leader</b> Creates a clear vision and catalyzes commitment to vision. Also sets and stimulates high performance standards.
<b>Level 3</b>	<b>Competent Manager</b> Ensures effective and efficient achievement of objectives by organizing people and resources properly.
<b>Level 2</b>	<b>Contributing Team Member</b> Emphasizes achievement of group objectives and contributes individual capabilities to achieve those objectives.
<b>Level 1</b>	<b>Highly Capable Individual</b> Successful blend of talent, knowledge, skills and good work habits.

Source: Jim Collins, “Good to Great: Why Some Companies Make the Leap, Others Don’t,” (Harper Business, First Edition, 2001).

### 11.8.1 Characteristics of Level 5 leaders

The different characteristics of Level 5 leaders are as follows:

#### Setting up successors for success

- Level 5 leaders are more concerned with the success of the company than with their own.
- Level 5 leaders believe in succession planning.

#### Compelling modesty

- Level 5 leaders rarely talk about themselves.
- They prefer to speak about the contributions of other executives to the success of the company.
- They give credit to their predecessors who contributed to the success of the company.

Level 5 leaders are often described as:

- Quiet
- Modest
- Humble
- Shy
- Mild-mannered

- Gracious
- Understanding
- Self-effacing individuals

**Unwavering resolve**

- Level 5 leaders have stoic determination to do everything they can for the success of the company.
- They have the drive to produce sustained results.

**Activity 11.2**

Harry James (James) is the CEO of Benny's, a fast food company. Benny's has fast food outlets in almost all the major cities of America. James is known for his leadership qualities. He does not sit in his corporate office all the time enjoying its luxuries, but works along with the stewards if he gets time. He believes in leading by example. Apart from this, his humble and charismatic nature has a profound effect on all the employees and they try to emulate their leader in all aspects. Having studied various levels of leadership, at what level do you see James in the leadership ladder? Draw the leadership ladder and explain the characteristics of level 5 leaders.

**Answer:**

---

**Check Your Progress - 3**

5. Which among the following is used to describe a leader who successfully blends personal humility with professional will?
- a. Level 1 leader
  - b. Level 2 leader
  - c. Level 5 leader
  - d. Level 4 leader
  - e. Level 3 leader

---

**11.9 Women CEOs**

The need for diversity and inclusion programs has become essential for the success of modern organization. Some studies point out about the glass ceiling effect and other cultural biases within the organizations.

## Block 2: SHRM – Implications for Organizations

Some people feel that women make better managers as they are known to be:

- Intuitive
- Conscientious
- Sensitive
- Sympathetic
- Caring
- Innovative
- Better at resolving problems

The important aspects concerning Women CEOs are:

### 11.9.1 Glass Ceiling Effect

The Glass Ceiling effect prevents women from rising across the hierarchical levels in the organization.

Reasons that can be attributed to the existence of glass ceiling effect are:

- Lack of proper training and mentoring programs for women in the organization
- Lack of relevant job experiences

#### Example

##### **Breaking the glass ceiling effect: Examples of Women in Technology**

Debjani Ghosh, first woman President of NASSCOM in more than 30 years.

Vanitha Narayan, Managing Director of IBM, one of the 12 Global Indian Super Women of 2016.

### 11.9.2 Leadership Traits

Many studies suggest that men and women do not exhibit any significant difference in leadership styles. However, some studies reveal that women leaders are stereotyped as being more relationship-oriented. Exhibit 11.4 enumerates some of the female CEOs of Fortune 500 in the year 2021.

#### **Exhibit 11.4: Female CEOs on Fortune 500**

The year 2021, amidst the pandemic, saw an all-time record of the number of women running businesses being 41 on the Fortune 500 list.

Highest Ranking Business Ever - Karen Lynch

Women of Colour: Walgreens Boots Alliance CEO Roz Brewer and CEO of TIAA - Thasunda Brown Duckett Gap CEO Sonia Syngal, Advanced Micro Devices CEO Lisa Su, Yum China CEO Joey Wat and Reshma Kewalramani of Vertex Pharmaceuticals.

*Contd....*

First women to run major Wall Street Bank: Citigroup CEO Jane Fraser

Company ranking for the first time: Judith Mark, CEO of Otis Elevator

As has been stated by Hariton of this year's trend, many of them took over from male CEOs and what is seen is more intentionality with focus on women of color which is a clear indication of the diversity and women in leadership go hand in hand.

Source: <https://fortune.com/2021/06/02/female-ceos-fortune-500-2021-women-ceo-list-roz-brewer-walgreens-karen-lynch-cvs-thasunda-brown-duckett-tiaa/> (accessed on 12/11/2021)

### 11.10 Managing Technological Innovation

The Society for Human Resource Management in its (<sup>25</sup>SHRM's) Special Expertise Panels has identified technology as an emerging trend for the new organizations.

Increased flexibility and productivity in the organization is achieved by:

- Usage of talent networks
- Crowdsourcing
- Social networks

But their use in supporting a virtual workforce has really become challenging for employee management and team building. Managing such technological innovation for strategic leaders has become a necessity.

#### Impact of technology on the organizations:

- There is a massive transformation and restructuring of the organizations
- There is a change in the communication mechanism
- Technology overcomes the time, space and distance constraints
- Development of networking, integration, collaborative, security and support tools is facilitated by the use of technology

An important contribution of technology to organizations is “expert systems”. Expert systems represent human expertise in solving problems in a specialized field of knowledge. Another important technological innovation has been the invention of robots that have enabled organizations to cut down on manpower and speed up processes.

Leaders need to adopt proactive strategies to manage technological innovations. Some of them can be:

- Providing alternative work arrangements such as telecommuting
- Adapting to the changing nature of managerial work
- Helping employees to adapt to technological changes

<sup>25</sup> <https://www.shrm.org/hr-today/news/hr-magazine/0316/pages/the-big-issues-facing-hr.aspx> (accessed on 20/10/2021)

## **Block 2: SHRM – Implications for Organizations**

### **11.10.1 Telecommuting**

In telecommuting, people choose to work from home for the majority of the time without reporting to an office thus saving time spent on commuting. Telecommuting includes:

- Flexible work schedules
- Use of advanced information technology to communicate

#### **Advantages of telecommuting**

- It increases retention rate of employees
- Maximizes office space
- Reduces absenteeism
- Reduces overtime pay
- Increases employee productivity and job satisfaction.

#### **Disadvantages of telecommuting:**

- Decreases face-to-face communication
- Demands greater coordination
- Suitable only for certain jobs
- May be misused by employees.

#### **Telecommuting ensures:**

- Better work life balance for the employee
- Elevated productivity
- Better employee engagement and retention

### **11.10.2 Changing Nature of Managerial Work**

Technological innovations have a tremendous impact on the nature of managerial jobs.

Technological innovations call for:

- Constant upskilling and reskilling for developing the required technical competence to respond to the changes
- Open communication
- Participative management styles where employees are involved in decision making.

Managers can adopt the following strategies to manage the changing nature of managerial job:

- Help employees manage work-related stress that arise due to technological innovations
- Motivate, counsel and coach workers to help them understand the importance of technological innovations in organizational growth

- Overcome the resistance of the workers through proper communication, facilitation and support
- Develop their own technical competencies to gain respect of the workers
- Help employees adapt to technological changes

### 11.10.3 Helping Employees Adjust to Technological Change

Managers can take the following steps to help employees adjust to technological changes:

- Empowering employees to participate in the decision-making process regarding technological innovations
- Assess the impact of technology on the skills of the employees in terms of:
  - Assume more responsibility
  - Provide job autonomy or freedom to the employees to use their potential
  - Just and equitable pay would ensure employee productivity
  - Training the employees to adopt new technology would help in eliminating resistance to technological changes
  - The managers should develop support groups within the organization to deal with emotional unrest at workplace
  - The managers should encourage and reward workers to invent new uses for existing technology which is called “reinvention”

#### Example

Google follows a management model which is unorthodox as well as successful in driving innovation across the organization. The management principles of the Google Model are:

- Dynamic capabilities
- People-centric approach
- Proactive-change approach
- Ambidextrous organization
- Open system approach

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### **Check Your Progress - 4**

6. Which among the following is the technical term for the work from home concept?
- a. Telecommuting
  - b. Flexi-work
  - c. Cross commuting
  - d. Compressed work weeks
  - e. Job sharing
-

### **11.11 Top Management- Team Collaboration**

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The modern workplace is dynamic and in the challenging economic environment innovative solutions are needed.

Organizations are trying different approaches to enhance productivity and new ways to engage workers to survive tough competition.

Teams do well when executives keenly support and value teamwork. They should not only support but “walk the talk” by demonstrating collaborative behavior.

Some of the characteristics of collaborative environment and its leadership are as follows:

**Power:** As far as power is concerned:

- There should be equal participation across all levels
- Effective solutions should emerge from the best ideas of the group
- A team approach to problem solving needs to be adopted

**Information sharing:** The initiative should be such that there is

- Open information sharing in the organization
- Creative problem solving should be encouraged
- Cross-functional collaboration should be fostered

**Team voice:** The adoption of the same would:

- Give everyone in the team a voice
- Leaders are open to suggestions and ideas from their team
- Brainstorming and different perspectives can bring unique insights
- Collaborative leaders recognize the power of group approach to problem solving

**Trust and resource sharing:** The following are the advantages of trust and resource sharing:

- Corporate resources are shared proactively
- Allows projects to progress rapidly with access to:
  - Time
  - Money
  - Materials necessary to do their jobs efficiently
- Teams are encouraged to work together
- This allows roles and responsibilities to evolve and take shape based on the greater good

**Feedback:** Feedback mechanism helps the organization in the following ways:

- Leaders and team members are equally valued and work closely together
- Mechanism for immediate feedback and constructive criticism



- Knowledge sharing and mentorship facilitates feedback mechanism
- They become mentors or a coach to their team members

A collaborative environment is creative, innovative and beneficial to any organization. The challenging economic environment and international competition has forced companies to seek new methods to achieve growth.

**Example**

Infosys' vision for digital workplace is engrossed on augmenting the user experience and elevating efficiency through a "Collaboration Continuum" by envisaging the different work style needs across the workforce, enabling them to collaborate effectively as a focused network of teams and evolve to the workplace of future by using IT models. Some of the collaborative tools are enumerated below:

- Migration and Implementation Services
- Document and Record Management
- Corporate Intranet and Department Portals
- Cloud Voice Services
- Adoption-Training and Enablement
- Workplace Collaboration Platform Implementation

### **11.12 Conflict Management for Senior Managers**

Conflict at the workplace is inevitable. Effectively managing conflict is the biggest challenge for senior managers.

Managers with the right skill-sets can take appropriate action and ensure that it does not affect employee morale or productivity. Some of the skills for conflict management are enumerated below:

- One needs to accept the inevitability of conflict in management
- The manager should not be a conflict-avoider
- The manager needs to stay calm and provide objective solutions
- There needs to be meticulous documentation for avoiding legal hassles
- The focus should be on the problem, not the individual
- The focus should not be on "winning," but on constructively resolving

Conflicts, if managed properly, can generate new ideas that can be experimented. Such conflicts are necessary for organizational vibrancy. But dysfunctional conflicts can be damaging if not handled promptly and conflicts resolved expeditiously.

### **11.13 Resource Mobilization across Top Management**

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Resource mobilization has become the need of the hour for the strategic leader with many companies feeling a strain on their budgets, thanks to the dwindling economy. The essentials of resource mobilization:

- Resource mobilization is the systematic method by which resources are solicited by a welfare program.
- Resources are the inputs that are employed in the activities of a program. Resources can be natural, physical, financial, human or social.
- They are provided by donors and partners.
- The process of mobilizing resources begins with the formulation of a resource mobilization strategy.

Resource mobilization is critical to any organization for the following reasons:

1. It ensures the continuation of the organization's service provision to clients.
2. It supports organizational sustainability in terms of social, human, economic and environmental dimensions.
3. It allows for improvement and scale-up of products and services that the organization provides.

#### **Role of Top Management**

The top management plays the role of the governing body in mobilizing resources. It is important for the governing body to do the following:

- (a) Guiding the formulation and implementation of a resource mobilization strategy consistent with the overall strategy.
- (b) Spelling out policy and rules regarding acceptance of tied or earmarked funds, private sector funds, or different financial instruments such as promissory notes.
- (c) Staying open to the prospects of new donors, including private donors, foundations to name a few.

### **11.14 Managing Political behavior while Implementing Strategies**

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Political behavior involves attempts to influence the behaviors of others and thus the course of events in the organization in order to:

- Protect their self-interests
- Meet their own needs
- Advance their own goals

Labeling behavior as political implies that:

- Certain people are gaining at the expense of others or the organization as a whole.
- Political behavior is warranted for the greater good of the organization.
- Political behavior is inevitable, owing to naturally occurring disagreements and uncertainty about choices and actions.

The term political power is applied to:

- Individuals
- Groups
- Teams
- Departments
- Organizations
- Countries

In practical terms,

- It is the individuals who ultimately take actions and implement strategies of the organization.
- They are responsible for motivating the group of people for achieving the goals of the organization.
- In such a situation, the individual, who is usually the leader, has to act in a politically correct manner to persuade the dissenters to accept the point of view for implementing the strategy.
- However, we must understand that political behavior is integral to organizational behavior and is not necessarily always dysfunctional.

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### **Check Your Progress - 5**

7. Which of the following involves attempts to influence the behaviors of others and thus the course of events in the organization in order to protect their self-interests, meet their own needs and advance their own goals?
  - a. Social behavior
  - b. Psychological behavior
  - c. Political behavior
  - d. Individual behavior
  - e. Group behavior

## **Block 2: SHRM – Implications for Organizations**

8. Which of the following characteristics is the cornerstone of collaborative leadership?
    - a. Power
    - b. Information sharing
    - c. Team voice
    - d. Feedback
    - e. Trust and resource sharing
  9. What is the systematic method called by which resources are solicited by a welfare program?
    - a. Occupational mobility
    - b. Horizontal mobility
    - c. Vertical mobility
    - d. Resource mobility
    - e. Capital mobility
  10. What prevents women from rising across the hierarchical levels in the organization?
    - a. Age diversity
    - b. Face-ism
    - c. Leadership traits
    - d. Personality traits
    - e. Glass ceiling effect
- 

### **11.15 Summary**

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- HR managers face critical challenges like supporting new organizational structures and dealing with growing variations in employee relations. These strategic challenges can be encountered across HR policy clusters, HR roles and in HR outsourcing.
- To do business in a global environment, it is important for organizations to understand cultural differences and develop cross cultural sensitivity.
- Managers need to deal with workforce diversity. To manage in a global environment, managers need to understand cultural differences and cross cultural sensitivity. Since workforce diversity is considered a competitive advantage, managers need to adopt various strategies to manage workforce diversity.
- Succession planning is the process of identifying and developing talent to ensure that an organization is led by an efficient leader.

- Of late, many family-owned businesses are transforming themselves into professional businesses. Some reasons are: globalization, increased complexity in the business environment and competitive pressures.
- Level 5 leadership refers to the hierarchy of executive capabilities. The different hierarchical levels are: highly capable individual, contributing team member, competent manager, effective leader and Level 5 executive.
- It is not uncommon for modern organizations to have women in top positions. Women CEOs are making their presence felt in the corporate world. Though women CEOs are said to possess the same leadership traits as their male counterparts, they are usually considered to be more relationship-oriented.
- To manage technological innovations, managers need to provide alternative work arrangements to workers, help them cope with the changing nature of managerial job and help them adapt to the technological changes.

### 11.16 Glossary

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**Compelling Modesty:** Level 5 leaders rarely talk about themselves. They are often described as quiet, modest, humble, shy, mild-mannered, gracious, understanding and self-effacing individuals.

**Competent Manager:** Competent Manager is a manager who ensures effective and efficient achievement of objectives by organizing people and resources properly.

**Diversity:** Diversity refers to differences in age, personality, ability and social status.

**Effective Leader:** Effective leader creates a clear vision and catalyzes commitment to vision and sets and stimulates high performance standards.

**Glass Ceiling:** Glass ceiling is the intangible barrier that prevents women and minorities from rising to the upper levels in business.

**Power Distance:** Power distance refers to the degree of acceptance of the distribution of power in cultures.

**Staying Calm:** Maintaining calm and composure during conflict situation allows the managers to be objective and think clearly to seek alternative solutions.

**Succession Planning:** Succession planning is the process of identifying, assessing, and developing talent to ensure that every key position in the organization is held by an efficient leader.

**Telecommuting:** Telecommuting refers to working at home, or at another off-site satellite location, for an organization whose office is located elsewhere, with one-way or two-way electronic linkage to that organization via phone, fax, modem, and/or the Internet or a company Intranet.

**Time Orientation:** Time orientation refers to the importance given to time by different cultures.

## **Block 2: SHRM – Implications for Organizations**

### **11.17 Self-Assessment Test**

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1. Geert Hofstede identified five dimensions of culture which influence the work-related attitudes of employees. Explain them in detail.
2. Explain how organizations manage workforce diversity.
3. List the benefits of CEO succession planning. Also state some of the strategies for effective CEO succession planning.
4. Explain the differences between family-owned businesses and professionally-owned businesses with special reference to trust, control systems and governance.
5. Describe the concept of Level 5 leaders. Explain the characteristics of Level 5 leaders.
6. Describe the concept of glass ceiling effect.

### **11.18 Suggested Readings/Reference Material**

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1. Ananda Das Gupta. Strategic Human Resource Management-Formulating and Implementing HR strategies for competitive advantage, Productivity, Taylor & Francis Group, 2020
2. Armstrong, M, Armstrong's Handbook of Strategic Human Resource Management. 7th edition, London: Kogan Page, 2020
3. Ravi Kumar K. A text book of strategic human resource management - A guide to action, Notion Press, 2021
4. Gary Rees, Paul Smith. Strategic Human Resource Management. 3rd edition, SAGE Publications Ltd., 2021
5. John Storey, Dave Ulrich, Patrick Wright, Strategic Human Resource Management-A research overview, Routledge, 2020
6. Ram Charan, Julia Yang. The Amazon Strategic Human Resource Management, Wiley, 2020

### **11.19 Answers to Check Your Progress Questions**

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#### **1. (d) Performance Management**

HR policies have different clusters based on which HR managers can develop various strategies to manage the business. They are talent identification and deployment, human capital development, reward management and employee relations. Performance management is not an HR cluster.

#### **2. (c) Ethnic background**

Geert Hofstede had identified five dimensions of culture - individualism vs collectivism, power distance, uncertainty avoidance, masculinity vs femininity and time orientation. Hence, ethnic background is not a dimension of culture.

**3. (c) Power distance**

Power distance refers to the degree of acceptance of the distribution of power in cultures.

**4. (c) Succession planning**

Succession planning is the process of identifying, assessing and developing talent to ensure that every key position in the organization is held by an efficient leader.

**5. (c) Level 5 leader**

A leader who successfully blends personal humility with professional will is referred to as a Level 5 leader.

**6. (a) Telecommuting**

In telecommuting, people choose to work from home, with the help of a PC without reporting to an office, thereby saving money and time on commuting.

**7. (c) Political behavior**

Political behavior involves attempts to influence the behaviors of others and thus the course of events in the organization in order to protect their self-interests, meet their own needs and advance their own goals.

**8. (b) Information sharing**

Open information sharing is the cornerstone of collaborative leadership. Information sharing and creative problem-solving techniques are the essence of collaboration.

**9. (d) Resource mobility**

Resource mobilization is the systematic method by which resources are solicited by a welfare program.

**10. (e) Glass ceiling effect**

The glass ceiling effect prevents women from rising across the hierarchical levels in the organization.

# Strategic Human Resource Management

## Course Components

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