

Strategic Human Resource Management

Block

4

EMERGING TRENDS AND CHALLENGES FOR HUMAN RESOURCES

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BLOCK 4: EMERGING TRENDS AND CHALLENGES FOR HUMAN RESOURCES

The fourth block to the course on Strategic Human Resource Management deals with the emerging trends and challenges for human resources. The block contains four units. The first unit deals with the mergers and acquisitions and their effects on the human resources of the companies concerned. The second unit focuses on outsourcing and its relevance to HR. The third unit deals with ethical issues in strategic human resource management. The fourth unit deals with strategic HR challenges.

The unit **fifteen**, *Mergers and Acquisitions (M&A)*, is included as many of the companies are going through these processes in the current scenario. A thorough understanding of M&A is essential to make the processes of M&A lasting and effective. First a definition of M&A is given followed by a discussion on different types of M&A. The strategic management of HR during M&A becomes crucial as several HR issues such as job-cuts, retention of employees, leadership roles, compensating employees and cultural integration of employees crop up after the process. The significant role of HR department in attending these issues is vital.

The unit **sixteen**, *Outsourcing*, deals with why companies resort to outsourcing and the implications that arise due to outsourcing. HR plays a vital role in determining which activities are beneficial to companies if outsourced and which key activities are not to be outsourced. The problems, issues, risks and benefits associated with outsourcing are dealt within the unit. The legal issues involved in HR outsourcing are also taken up for discussion.

The unit **seventeen**, *Ethical Issues in Strategic Human Resource Management*, is vital as ethical compliance at workplaces has become mandatory for all organizations. This unit aims to discuss the importance of ethics at the workplace and ethical issues in labor-management relations. The unit explains the significance of operating within the ethical guidelines set by business organizations in letter and spirit for business growth and success. Ethical issues in labor-management relations and ethical conflicts that arise between shareholders and management are also analyzed in the unit.

The unit **eighteen**, *Strategic HR Challenges*, is important because knowing the challenges alone can help in finding coping mechanisms. The unit deals with the role of SHRM in enhancing organizational performance and ensuring sustainable competitive advantage. The challenges in this direction are too many. This unit discusses important challenges such as talent acquisition, talent management, employee relocation, competency mapping, skill development, managing to be ethical organization and fulfilling corporate social responsibility. The unit concludes with a discussion on how the CEOs meet the challenges in strategic HR issues.

Unit 15

Mergers and Acquisitions (M&A)

Structure

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Mergers and Acquisitions (M&A)
- 15.4 Types of Mergers and Acquisitions
- 15.5 Strategic Management of HR during M&A
- 15.6 Significance of Organizational Culture during Mergers
- 15.7 Role of HR Departments and HR Professionals during Mergers
- 15.8 Avoiding Job Cuts during Mergers
- 15.9 HR Issues in M&A
- 15.10 Impact of M&A on Employee
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- 15.12 Challenges Faced by Senior Management in M&A
- 15.13 Summary
- 15.14 Glossary
- 15.15 Self-Assessment Test
- 15.16 Suggested Readings/Reference Material
- 15.17 Answers to Check Your Progress Questions

“I have never cared what something costs; I care what it is worth.”

- Ari Emanuel

15.1 Introduction

As has been put forth by Ari Emanuel, mastering the art of deal making is what transforms an ordinary firm into a leading business empire. In the previous unit, the concepts of employee separation and downsizing were discussed.

In this unit, various types of mergers and acquisitions and their effects on the human resources of the company concerned will be discussed.

15.2 Objectives

By studying this unit, students should be able to:

- Discuss the types of mergers and acquisitions for an understanding of the concept of M&A
- Discuss the process of a merger or an acquisition for making HR management effective

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- Analyze the significance of organizational culture during mergers and acquisition to make employees to conform to their organizational culture
- Identify the role of HR department and HR professionals in mergers and acquisitions for making mergers and acquisitions lasting and successful
- Evaluate HR issues during mergers and acquisitions for organizational growth and enhancing their market share.

15.3 Mergers and Acquisitions (M&A)

Many companies regard mergers and acquisitions as a strategic tool for increasing profitability, gaining market share and developing synergies. Companies have started entering into M&A to become market leaders in their respective industries.

Issues involved in mergers and acquisitions:

- Both potential companies and not so strong companies are involved in the process of M&A with the stronger ones aiming at expansion and the not so strong ones aiming at sustenance.
- Such being the involvement of almost all the companies, studying the implications of M&A becomes crucial.
- In a merger, two companies come together to form a new entity; but in an acquisition, one company buys or acquires another company.
- The acquiring company usually implements its own policies and procedures for managing the acquired company.

15.4 Types of Mergers and Acquisitions

The important opportunities available for the corporate sector for expanding or diversifying activities are mergers and acquisitions. Hence it is important to know the different types of mergers and acquisitions that are in prevalence.

15.4.1 Types of Mergers

Depending upon the post-merger implications for both the parties, mergers are classified into:

- Merger of equals: Which refers to the mergers where the financial, operational and staffing implications are the same for both the companies.
- Merger of unequals: Which refers to the mergers where the financial, operational and staffing implications are different for both the companies.

Mergers can be further classified into:

Horizontal Mergers

A merger of two or more companies that:

- Produce the same products or services
- Are competing in the same market

- Take place to achieve economies of scale
- Take place to increase market share
- Take place to monopolize the market

Firms that enter into such mergers often use anti-competitive practices.

Vertical Mergers

A merger of firms working on different stages of production of a product is called a vertical merger. For example, a company that manufactures the raw material for a product merges with a company that produces the finished product. Firms integrate vertically to reduce transaction costs and share technological expertise.

Conglomerate Mergers

A merger of two companies that are into unrelated businesses is known as a conglomerate merger.

Conglomerate mergers are of three types:

- Product extension mergers or concentric mergers which are taken up for expanding their product lines
- Geographic market extension mergers that are undertaken to increase firms' geographical reach
- Pure conglomerate mergers take place between two firms with no market crossover

Examples

Horizontal Mergers:

- Integration of Facebook, WhatsApp, Instagram and Messenger
- PepsiCo's merger with its distributors Rockstar
- Merger of Disney+ with Hotstar, India's streaming platform owned by Star network

Vertical Mergers:

- AT&T, world's largest communication company's merger with Time Warner, a humongous media and entertainment company
- Swedish furniture giant IKEA bought Romanian and Baltic forests
- Walt Disney acquired Pixar Animation Studios

Conglomerate Mergers:

- Merger of Siemens AB with Varian Medical Systems, which is considered a world's leader in radiotherapy technology
- eBay and PayPal merger
- Merger between Walt Disney and American Broadcasting Company

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Activity 15.1

Jane Paper Mills (JPM) manufactures and recycles paper. It recently announced its merger with Cosy Tissues Limited (CTL). CTL manufactures paper tissues for domestic purposes. What is this type of merger called? Explain the different types of mergers in detail.

Answer:

15.4.2 Types of Acquisitions

Broadly, acquisitions can be categorized into two types¹:

Asset acquisition

- The acquirer buys some or all of the target's assets/liabilities directly from the seller.
- If all assets are acquired, the target is liquidated.
- In case the acquirer wants to acquire only a few assets, an agreement will be made between the purchaser and the seller which of the assets are acquired specifically, for which the liabilities and responsibilities lie with the acquirer.
- The tax liability of both acquirer and seller also will be mentioned in the agreement.

Stock acquisition

- The acquirer buys the target's stock from the selling shareholders.
- In a stock purchase, all of the assets and liabilities of the seller are sold upon transfer of the seller's stock to the acquirer.

Example

Walmart acquired 77% of Flipkart for \$16 billion, making it the largest acquisition involving an Indian company, in 2018.

Check Your Progress - 1

1. Which of the following term is applicable when two companies come together to form a new entity with the strategic intent of gaining synergies?
 - a. Merger
 - b. Acquisition

¹ <http://macabacus.com/accounting/types-of-acquisitions> (accessed on 24/12/2021)

- c. Spin-off
 - d. Strategic partnership
 - e. Diversification
2. Which of the following is the term used to refer to merger between two companies that are into the same business?
- a. Vertical merger
 - b. Conglomerate merger
 - c. Horizontal merger
 - d. Parallel merger
 - e. Product-extension merger

15.5 Strategic Management of HR during M&A

When companies announce mergers, the market usually reacts positively. However, the employees of the merging firms may not be happy about the merger.

There might be:

- Fear for the unknown
- Fear of losing one's authority and position
- Fear of economic loss
- Fear of technological obsolescence

It is necessary to understand the strategic HR related issues in M&A activity.

Role of HR Department during M&A:

- The HR department needs to analyze the strategic expectations of the employees.
- The HR department has to conduct due diligence in terms of organizational culture.
- The HR department should consider the leadership roles and commitments of both the parties involved.
- The HR department needs to validate costs on HR functions like compensation, training to name a few.
- The HR department should ensure effective communication to manage fear and uncertainty.
- Retention strategies need to be designed appropriately.

For effective HR management during a merger or an acquisition, following issues must be addressed:

- Preparation of due diligence report
- Creation of manpower plan

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- Communication mechanism used
- Formulation of retention strategy
- HR integration
- Cultural integration

15.5.1 Preparation of Due Diligence Report

The following issues need to be considered for preparation of the due diligence report:

- There should be a thorough audit of the human resources before starting the merger process.
- All the issues mentioned below with regard to the mergers needs to be discussed:
 - Recruitment
 - Training
 - Performance appraisal
 - Compensation
 - Labor relations
 - Legal compliance
- There should be proper identification of the probable areas that need integration after the merger.
- There should be thorough auditing to ensure non-existence of pending lawsuits or legal non-compliance.

15.5.2 Creation of a Manpower Plan

A comprehensive manpower plan needs to be prepared. The following points need to be considered:

- The structure of the merged entity should be properly designed.
- The roles and the reporting responsibilities need to be delineated.
- The key people who would assume strategic positions in the merged entity should be identified.

15.5.3 Communication

A communication mechanism which would facilitate the functions mentioned below needs to be developed:

- There should be proper dissemination of the decision about merger/ acquisition.
- The objective of the decisions arrived at needs to be communicated to all the people concerned.
- The employees need to be counseled about the impact of the changes on the individuals and the organization.

15.5.4 Retention Strategy

A comprehensive retention plan should be developed keeping in mind the following essentials:

- A proper forecast of the possible employee separation post communication of its merger/acquisition decision needs to be made.
- Employee separation needs to be avoided as far as possible.
- Comprehensive retention strategies should be devised.
- A lucrative retention bonus plan to retain talented employees should be designed.
- Remove biases if any in the retention bonus plan.

15.5.5 HR Integration

After a merger or acquisition the following aspects need to be considered:

- It is necessary to bring about a judicious fit between the systems, tasks, policies and practices of both the companies.
- All the HR functions like compensation system, performance appraisal system and training and development system need to be aligned with the objectives of the merged company.
- There should be proper change management initiatives and communication mechanism.

15.5.6 Cultural Integration

Most difficult part of any merger/acquisition. Most of the mergers/acquisitions fail due to cultural incompatibility.

Example

When Piramal Healthcare sold its healthcare division to Abbott Labs in 2009, it strongly believed that their employees create value for the company. Hence they announced a bonus payment to their employees with the employees of the outgoing division being no exception. This example illustrates the importance that Piramal attributed to HR issues in the sale transaction in order to prevent any dissent or dissatisfaction from the employees of the outgoing division.

15.6 Significance of Organizational Culture during Mergers

The experience of the past few years show that some of the mergers and acquisitions faced a brunt of failure and a lot of it is due to the issues involved in organizational culture as changing the values, beliefs and assumptions possessed by employees is much tougher than changing the names, size of the organizations.

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Debra Nelson and James Quick in their book ‘Organizational Behavior’ define Organizational Culture as “a pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think and feel in the organization.”

Factors that necessitate a change in organizational culture:

- Political
- Social
- Technological changes

A merger also necessitates such a change. There are two approaches for changing organizational culture:

- In the first approach, a company can coach and counsel its employees to help them change their behavior and assumptions.
- In the second approach, the company can remove the people who are unwilling to change and recruit new people in their place.

The employees of the merged entity will have to unlearn the behavioral norms of their previous company and adopt those of the new company.

There has to be a fundamental change in their assumptions. Exhibit 15.1 deals with an example of clash of cultures owing to a merger.

Exhibit 15.1: Clash of Cultures owing to Mergers

In 2020, SAP officially announced that it would spin out its Qualtrics unit, with an IPO. What makes it surprising is that it has only been a couple of years since it has acquired Qualtrics, an experience management company.

Post spin out, the majority ownership of Qualtrics would be with SAP and the leadership team would remain the same, with founder Ryan Smith being the largest individual shareholder.

One of the major reasons for the spinoff is the cultural incompatibility. SAP, an older company, failed to integrate the cultures or adapt to the new cultural elements of a relatively young company, Qualtrics.

As has been suggested by Michele Hamill, CHRO at Jaggaer, a spend management solution, creating and implementing a strategy to successfully blend cultures is core to the success of merger and acquisitions. Forcing one culture on another never works.

Source: <https://www.toolbox.com/hr/hr-strategy/articles/examples-merger-failure-cultural-incompatibility/> (accessed on 24/12/2021)

15.7 Role of HR Departments and HR Professionals during Mergers

The HR department plays a vital role during a merger. Once the merger deal has been signed, it drives the whole process of integration.

Many mergers fail to achieve their objectives because HR professionals are either not involved or are involved at a very late stage in the merger process.

In some cases, even though HR executives were involved at an early stage, mergers failed because of lack of experience and insight on the part of HR professionals in managing mergers.

To ensure a successful merger, the HR department of the concerned companies should undertake the following activities:

1. Formulating strategy whereby two companies should formulate a strategy before starting the process of a merger or an acquisition with the involvement of the HR department.
2. Creating teams and task forces comprising of people from both the companies and training them on negotiation and interpersonal skills and help them in team building and change management
3. Creating organizational structure in line with the merged entity's new strategy.
4. Developing a communication plan so that the information is collected and delivered to the right people at the right time.
5. Creating a transition system by preparation of a blueprint of the new HR systems like compensation and performance appraisal systems to avoid confusion after the merger.

Enumerated below are the roles of HR manager during mergers.

15.7.1 Facilitator

- HR managers facilitate and guide transition teams (teams formed to study and recommend mergers).
- Members of transition teams often get involved in organizational politics and try to push their own agenda.
- This often leads to conflict between the team members.
- HR managers should try to prevent such conflicts and ensure that the decisions made by these teams are not biased.

15.7.2 Educationist

- Employees in the organization are under tremendous stress during mergers. HR managers should help employees in managing stress.
- They should conduct seminars and try to dispel doubts and fears about the merger.

15.7.3 Team Builder

- Once the merger is complete, new teams are formed to carry out various activities within the merged company. HR managers should make sure that synergy is not lost due to the formation of new teams.

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- Team building exercises should be taken up before resuming operations after the merger.
- Lack of role clarity and interpersonal conflict are common after a merger.
- HR managers should take steps to avoid such confusion and conflict.

15.7.4 Culture Integrator

- When two companies merge, there is bound to be a clash of cultures. HR managers must help people understand each other's culture and develop a culture of its own.
- To do so, HR managers can adopt the best cultural aspects of both the companies. The HR manager can use cultural change plans for the same purpose.

Now let us understand about cultural change plan in detail:

- A cultural change plan is a tool for evaluating the cultural, functional and organizational aspects of companies.
- It helps HR managers to anticipate and deal with cultural problems that often arise after a merger has taken place.
- Problems can arise over seemingly trivial matters. For example, if a quality conscious company merges with a company that emphasizes productivity over quality, an ideological conflict may arise.

15.7.5 Strategy Formulator and Implementer

HR managers of merging companies work along with top management or outside consultants to prepare the HR strategy to be adopted during mergers.

External Consultants are preferred:

- When the organizations involved struggle due to lack of internal expertise to attain the objective in question, it is then that the external consultants are preferred to fill the gap.
- External consultants can sometimes be valuable by virtue of being external since at times like mergers, being too close to the organization may actually act as a barrier to being creative and navigating challenges.
- External consultants can make more objective and rational decisions without the fear of repercussions and disruptions, which usually the insiders may be weary of making.

Activity 15.2

Chris James (James) is the HR manager of XYZ Telecom. The company will be merging with ABC Telecom. The merger has been termed as a merger of equals. What are the different roles to be played by James as an HR manager during the course of merger?

Answer:

Check Your Progress - 2

3. What is defined as the “pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think and feel in the organization?”
 - a. Organizational culture
 - b. Organization structure
 - c. Organization values
 - d. Organizational norms
 - e. Organizational policies
4. Which of the following is the tool that helps evaluate the cultural, functional and organizational aspects of companies?
 - a. Diligence reports
 - b. HR audits
 - c. Culture change plans
 - d. Audit reports
 - e. Statutory reports
5. Which among the following refers to the role played by a HR manager in guiding and managing transition teams during mergers?
 - a. Facilitator
 - b. Educationist
 - c. Integrator
 - d. Disciplinarian
 - e. Motivator

15.8 Avoiding Job Cuts during Mergers

More than anything else, the hidden factor of mergers and acquisitions is either job-cuts or lay-offs. Almost all mergers and acquisitions have shown job-cuts in one way or the other.

In such prevailing conditions, avoiding job-cuts which cause untold hardships to human capital becomes significant.

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To avoid job cuts, management can take the following steps:

- Top management should give HR as much importance as it does to finance and operations.
- Management should educate employees about the importance and need for mergers.
- Management should adopt a proactive approach during a merger. The belief that people are soft and difficult to manage should be given up.
- Management should consult employees on all steps it takes during mergers. Forums and the company Intranet can be used to find out the views of employees.
- Management should attempt to minimize separations in the event of mergers, not just try to retain employees.
- Management can use retention bonuses as a form of compensation during mergers.
- These bonuses should be distributed equitably among the different categories of employees.

15.9 HR Issues in M&A

M&As do sometimes fail to achieve their anticipated strategic and financial objectives due to various HR-related issues such as:

- Incompatible cultures
- Inappropriate management styles
- Poor employee motivation
- Loss of key talent
- Lack of communication
- Diminished trust
- Uncertainty of long-term goals

Such being the significance of HR related issues in M&A, a detailed understanding of these issues help us to analyze the factors leading organizational growth in the context of M&A.

Rationale for mergers and acquisitions:

- Many companies increasingly employ mergers and acquisitions as a strategy for fast growth and enhancing their market share.
- They are widely accepted because:
 - The strengths of the companies can create synergies
 - They bring productive changes in work processes
 - New technologies that may prove beneficial are introduced

The key drivers for M&A are mainly:

- Economies of scale: The cost advantages that the firm can acquire because of large scale production
- Taking advantage of deregulation: The advantages that can be attained by removing the barriers to entry
- Enhancing global presence: Increasing the geographical reach
- Expanding markets: Entering into new markets or existing markets with new products or both
- Spreading risk: Diversification of risk
- Need for rapid response to market conditions: To be better equipped to meet the dynamics of volatile market conditions

Example

²PwC's latest Global Private Equity Responsible Investment Survey put forth that more than 65% of survey respondents have developed a responsible investing or ESG policy and the tools to implement it. In addition, 72% of respondents' screen target companies for ESG risks and opportunities at the pre-acquisition stage.

This clearly indicates that corporates are putting impetus on ESG due diligence to examine the value and risk as part of both M&A strategy and process. ESG is one of the key drivers for M&A.

Some of the most common types of M & A and their purposes are-

- Horizontal mergers for market dominance and attaining economies of scale
- Vertical mergers for channel control
- Hybrid mergers for spreading risk, cost cutting, synergies and defensive drivers
- Growth for world-class leadership and global reach

But the merger and acquisition strategies are inherently fraught with certain risks, most notably HR issues. Many management experts are now convinced that human resource issues are the primary indicator of the success or failure of an M&A deal.

To be successful, leaders in the merged entity need to be -

- Sensitive to cultural differences
- Open to accommodate changes

² <https://www.pwc.com/gx/en/services/deals/trends.html> (accessed on 24/12/2021)

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- Flexible to adopt to new systems and processes
- Prepared to recognize the relative strengths and weaknesses of both companies
- Committed to retaining key employees
- Good listeners to provide support and facilitation during transition
- Visionary to make the M&A decision successful

The senior HR executives should provide advice on such essentials as retaining key talent, communication to employees, taking steps to combine cultures and developing processes for managing different benefit programs.

During mergers, the following people issues are important and they need to be addressed on a priority -

Retention of key talent from the erstwhile entities must be taken on board so as to ensure that work processes and schedules are not disrupted.

- Retaining key human resources and intellectual capital can help improve innovative thinking and development within the company.
- The merged entities should build up a pool of talent, which they can redeploy to share and apply the learning gained across all levels in the new organization.

Communication:

- The employees need to be kept informed about the progress of the M&A process.
- Special attention needs to be paid to the employee issues like compensation, career progression and growth opportunities.

Integration of corporate cultures:

- In the process of integrating corporate cultures, entire sets of human resource policies and practices from both companies should be reviewed and only those that are relevant to the new entity should be retained.
- Cultural assessments involve describing and evaluating the two companies' philosophies and values regarding issues like:
 - Leadership styles
 - Time horizons
 - Relative value of stakeholders
 - Risk tolerance
 - Value of teamwork versus individual performance
 - Reward management

The following Table 15.1 summarizes the various HR action points required in M&A deals:

Table 15.1: HR Issues and Implications during M&A

HR Issues	HR Implications and Actions
<ul style="list-style-type: none">● Selecting the integration manager● Designing/implementing teams● Creating the new structure/strategies/leadership● Retaining key employees● Motivating the employees● Managing the change process● Communicating to and invoicing stakeholders● Deciding on the HR policies and practices	<ul style="list-style-type: none">● Selecting the appropriate candidate● Creating team design and selection are critical for transition to a combined entity● Effective communication is essential● Deciding on who stays and goes● Establishing a new culture, structure and HR policies and practices

15.10 Impact of M&A on Employee Compensation

The employees of the companies merging and acquired, in most cases, are affected. In many cases the people's issues are the main reason for merger failures. It is essential to understand the impact of M&A on employees which is crucial for the success of M&A.

Challenges faced by HR department during M&A are:

- It is a tough job to convince the people that the merger is for the common good and beneficial to them.
- The major issue is clearly the salary and other benefits of the employees.
- Since the organizational structures are different, differences in compensation packages and designation can occur in M&A.
- The employees face great uncertainty, which in turn produces stress. Such stress ultimately affects their perception, performance and judgment.

The most common feelings of employees are-

- Loss of identity
- Lack of information and anxiety due to uncertainty
- Lost talent
- Family repercussions
- Resistance to change
- When employees realize that their potential for future growth within the organization is bleak, they often become withdrawn and frustrated which can impact productivity of the company.

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Communication of retention offers must be quickly done. The following aspects need to be considered:

- Retention packages are the most effective, transparent and clear communication by the organization and would have a positive impact on the employee.
- Valuable employees may be lost. Effective retention packages offer sufficient financial inducement for employees to remain with the company.
- The feeling of security and attraction of the compensation package reduces the anxiety of the employees and they would continue to work for the company.
- Employee attrition will always be a risk factor in mergers and acquisitions, but careful attention to appropriate practices and retention packages can go a long way in minimizing these risks.

Companies can adopt the following retention strategies in M&A deals, based on the study conducted by Towers Watson.

Employee Retention Strategies Post Merger

³A retention strategy takes into account the particular retention issue the organization is facing and sets out ways in which these issues can be dealt with (Capelli, 2000). Now let us discuss the retention strategies that needs to be adapted post-merger:

- During M&A, risk analysis needs to be carried out for identifying potential risk areas i.e. the key people who may leave. It needs to be done to estimate the likelihood of occurrence of the same, the consequences of losing key people and estimation of the replacement costs involved.
- Depending upon the estimates so made, the employees who are important for business continuity should be identified and retained by entering into contracts and payment of retention bonus to stay on post-merger.
- Similarly, the induction crisis following M&A should be addressed by providing the retained employees with adequate training and support so as to enhance employee buy-in.
- Equally important is to provide opportunities to learn new skills and develop careers which would go a long way in elevating the motivation and morale of the employees and help in employee retention.
- The selection and promotion procedures should be fair and transparent and should match the capacities of the individuals with the demands of the work that they do.

³ Michael Armstrong, Stephen Taylor, Armstrong's Handbook of Human Resource Management Practice, 15th edition, Kogan Page, 2020

- There is a need to redesign the jobs to maximize skill variety, task significance, autonomy, control over their work and feedback. This would motivate the employees to identify and relate with the organization post M&A,
- Any organizational change, M&A being no exception involves lot of uncertainty and stress, the same needs to be addressed by recognizing the needs of the employees and providing necessary support and facilitation to adapt to the new culture.

Exhibit 15.2 illustrates the results of the Tower Watson 2020 Global M&A retention study:

Exhibit 15.2 Tower Watson 2020 Global M&A Retention Survey

Tower Watson 2020 Global M&A retention study examined the retention periods and the program design structures, the budget allocated for payments within the deals and the key objectives that drive such decisions. The survey conducted in August 2020, included 166 respondents across 18 countries and 8 industry sectors. It was found that many of the deals made focused on acquisition of key skills and talent.

The key findings of the study are enumerated below:

- The most common retention tool was found to be a straightforward pay-to-stay approach, which was employed by 84% of the survey respondents. This was administered in the form of time-based cash bonus, denominated as percentage of base salary in most cases.
- The median retention budget was found to be 1 to 2 percent of the total purchase price. A point to be noted here is that over one-quarter of the acquirers did not set a retention budget at the first place.
- Respondents were optimistic about retention outcomes and effectiveness of retention agreements but a third of acquirers did not track retention rates.
- Acquirers continue to realize that acquisitions can lead to regrettable losses of their own talent. In 36% of deals, the retention pool was used for retention agreements or special one-time payments to the acquirer's employees. Even among survey respondents, use of retention awards was not universal; 16% of the respondents who had recently completed deals did not use retention agreements.

Median total retention value was found to be 60 percent of base pay for senior leaders and 31 to 40 percent of base pay for other employees.

Source: <https://www.willistowerswatson.com/-/media/WTW/Insights/2021/04/the-evolution-of-talent-retention-practices-during-m-and-a> (accessed on 18/5/2022)

Block 4: Emerging Trends and Challenges for Human Resources

Example

⁴During the consolidation of LinkedIn and Microsoft, LinkedIn CEO received a retention award of \$7 M in RSUs, which vest one year after the close of the merger.

Check Your Progress - 3

6. Which among the following are the key drivers for M&A?
 - a. Economies of scale
 - b. Achievement of goals
 - c. Retaining the employees
 - d. Motivating the employees
 - e. Harmonizing the culture
7. Which of the following needs to be managed by leaders in the merged entity?
 - a. Organizational values
 - b. Resistance to change
 - c. Organizational structure
 - d. Reduced pay for employees
 - e. Employee satisfaction

15.11 Role Redundancy with M&A

Post-merger scenarios may create many issues. One of them could be the redundancy of services or the products available in the pre-merger scenario. Redundancy occurs when the work being done is no longer required due to changed circumstances.

Redundancy arises:

- When the employer does not require the employee's job and hence he is asked to leave the company.
- It also occurs when jobs are rationalized and fewer people are needed.
- It may occur when there is a fall in business.
- It may be the result of technological advancements.
- Inefficient use of resources may also lead to redundancy.
- Changes in legislation may lead to redundancy.

⁴ <https://www.capartners.com/cap-thinking/compensation-implications-mergers-acquisitions/>(accessed on 24/12/2021)

Effects of redundancy:

- Redundancy leads to cost reduction and improved output in an organization.
- It results in an employee losing his regular source of income.
- Many people have used it as an opportunity for positive change in their lives and careers.

Since redundancy is a painful process of asking the employee to leave the company, it must be dealt with sensitivity. The organization must make every effort to avoid redundancy.

To combat the demerits of redundancy, the company should adopt strategies like-

- *Voluntary redundancies* - The firm may collect consent from the employees who are willing to quit.
- *Reducing pay* - Instead of full pay, the company may introduce reduced salary rather than going for loss of job.
- *Reducing hours* - Duty hours can be reduced to the extent the company needs the services of the employees rather than terminating the employees.
- *Job sharing* - Instead of one person doing the entire job, it is shared between two or more employees so that both can earn wages, though on a reduced scale.

Besides the above measures, the company should:

- Discharge its moral obligation of providing adequate notice and pay the wages/salary during the notice period.
- It should also run outplacement services to ensure that the employees get a suitable job.
- In some cases, the job consultation service charges must be borne by the company.

The whole idea is to ensure that dislocation of the employee should not be harsh and every effort must be made to ensure that hardship to the employee is mitigated.

The employees on their part should:

- Take care that they do not panic rather should look for better options to shift elsewhere
- Use their networks and be in touch with professional bodies for alternative options
- They should come in terms with the realities of mergers and the resultant changes

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Example

The alliance of American Online and Time Warner is the most prominent merger failure ever. In 2001, America Online acquired Time Warner in what was considered as the largest business amalgamation until that time. The idea was to capitalize on the convergence of mass media and the internet. But unfortunately, soon after the merger, the dot-com bubble burst, causing considerable fall in the value of the company's AOL division with a reported loss of what was said to be the highest annual net loss ever. This talks about the effect of redundancy on M&A.

15.12 Challenges Faced by Senior Management in M&A

Mergers and acquisitions make people of different corporate cultures and sometimes across borders into a single group. Hence it is quite a challenging job for the leader and other senior managers. It is necessary to understand the challenges.

- The managers must be skillful to deal with the differences among people and different sets of cultures of the merging companies.
- They need to bridge the psychological differences between the employees.
- The leadership should be sensitive to the subtle cultural differences and the mindset of the employees and break the ice.
- Leaders need to be visionary and the leadership should be value-based.

The leaders reinforce the values inherent in the organization's vision and exhibit characteristics such as:

- Using strong expressive forms of communication for articulating a clear and appealing vision
- Displaying strong sense of self-confidence which would go a long way in believing and working for the attainment of the vision
- Communicating high expectations from followers and confidence in their abilities
- Role-modeling behaviors that emphasize and reinforce the values inherent in the vision
- Empowering the people responsible for achieving the set goals and contribute to the vision

These elements should be combined with a strong communication of the company's core values like integrity, passion and commitment. Orit Gadish, Robin Buchanan, Mark Daniell and Charles Ormiston in their research article - A CEO's guide to the new challenges of M&A leadership⁵ - have identified five essential roles for a leader. They are:

⁵ <http://dx.doi.org/10.1108/10878570210427918> (accessed on 24/12/2021)

Leaders must be visionary:

- They must establish and communicate the strategic vision for the merger.
- They need to clearly articulate “why” and “what” of a merger i.e. why the company is following a particular strategy and what it plans to achieve.
- Leader needs to explain clearly the value in the deal and how it benefits the employees.
- Leader should assume responsibility to disseminate core values and culture of the new organization.

Cheerleader role:

- The leader needs to cheer on the team to generate enthusiasm and foster camaraderie.
- The leader needs to dispel fear and uncertainty among the people.
- Address the challenges like investors' fear of stock-price fall, employee concern about uncertain future.

Closure:

- The leader should consider it to be a priority to close the deal by completing the formalities at the earliest.
- The leader should prevent calling off of the merger deal due to:
 - Regulatory issues that are involved in the deal
 - Failure of the leader to resolve outstanding disagreements over the terms and conditions of the deal.

Leader as a captain:

- The leader playing the role of a captain leads and directs people towards goal attainment.
- The leader as a captain takes the ownership of the action plan which outlines milestones and deliverables for the teams responsible for integration.
- The leader playing the role of a captain outlines the road map on which the two companies will start to work together.

The leader playing the role of the crusader:

- The leader crusades for the new entity.
- The leader as a crusader generates momentum dispelling inertia.
- The leader playing the role of the crusader encourages people to take actions that are in sync with the overall strategic vision.
- The leader as a crusader guides the team and sets both hard and soft targets for performance.
- The message of the leader playing the role of a crusader needs to be clear and the leader should lead by example.

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Example

In 2007, HDFC Bank considered a merger with Bank of Rajasthan. However, prior to assessing the commercial and financial viability, HDFC bank management found that there is no possibility of successful integration of people and culture of the traditionally run Bank of Rajasthan. Hence, HDFC dropped the proposal which was however later on considered by ICICI in 2008. The calling off of the proposal by HDFC bank clearly demonstrates one of the challenges that the top management faces while considering M&A, which in this case is HR integration.

Exhibit 15.2 talks about the Kraft Heinz and Unilever case to illustrate the challenges faced by senior management during mergers and acquisitions

Exhibit 15.2: Challenges Faced by Senior Management in Mergers and Acquisitions - Kraft Heinz and Unilever Case

In 2017, the news of Kraft Heinz acquiring Anglo-Dutch stalwart Unilever for \$ 143 bn came as a surprise for the business world. But, within a couple of days post announcement, Heinz withdrew its offer as Unilever had strongly rejected the bid.

The reason for the same was the political dimension on one hand but the prime reason for dropping the bid can be attributed more to the clash of corporate cultures.

The causes of failure can be attributed to:

- Improper due diligence
- Lack of communication

Challenges to the senior managers in such types of mergers:

- Language barriers
- Cultural differences
- Misalignment due to differences in core working hours and response
- Management of change

Source: <https://www.tmf-group.com/en/news-insights/articles/2018/october/top-5-m-and-a-failed-deals/> (accessed on 24/12/21)

Check Your Progress - 4

8. What is the term that is used to refer to the case when the work being done is no longer required due to changed circumstances?
 - a. Job sharing
 - b. Redundancy

- c. Resignation
 - d. Firing the employee
 - e. Organizational restructuring
9. The leadership should be highly sensitive to which of the following parameters with respect to values during mergers and acquisitions?
- a. Individual differences
 - b. Compensation differences
 - c. Cultural differences
 - d. Market differences
 - e. Strategic differences
10. Which among the following indicate the leader's job in the team to help generate enthusiasm and foster camaraderie among the members?
- a. Visionary
 - b. Motivator
 - c. Counselor
 - d. Captain
 - e. Cheerleader
-

15.13 Summary

- In a merger, two companies come together to form a new entity; but in an acquisition, one company buys or acquires another company.
- Mergers may be further classified into the following types - horizontal mergers, vertical mergers and conglomerate mergers.
- For effective HR management during a merger or an acquisition, following issues must be addressed - preparation of due diligence report, creation of manpower plan, communication, retention strategy, HR integration, and cultural integration.
- Organizational Culture is a pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think and feel in the organization.
- To ensure a successful merger, the HR department of the concerned companies should undertake the following activities - formulating strategy, creating teams, creating structure, developing a communication plan and creating a transition system.
- HR managers assume the roles of a facilitator, educationist, team builder and culture integrator during mergers.
- Whether the employer or employee initiates separations, HR managers should ensure that they do not disrupt the operations of the company.

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15.14 Glossary

Acquisition: In an acquisition, one company buys or acquires another company. The acquiring company usually implements its own policies and procedures for managing the acquired company.

Conglomerate Mergers: A merger between two companies that are into unrelated businesses is called a conglomerate merger.

Culture Change Plan: A cultural change plan is a tool for evaluating the cultural, functional and organizational aspects of companies.

Culture Integrator: When two companies merge, there is bound to be a clash of cultures. HR managers must help people understand each other's culture and develop a culture of its own

Job Sharing: Instead of one person doing the job entirely, it is shared between two or more employees so that both can earn wages though on a reduced scale.

Merger: In a merger, two companies come together to form a new entity.

Organizational Culture: Organizational culture is defined as a pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think and feel in the organization.

Role Redundancy: Redundancy occurs when the work being done is no longer required due to changed circumstances. It arises when the employer does not require the employee's job and hence he is asked to leave the company

Voluntary Redundancies: asking employees who are willing to quit.

15.15 Self-Assessment Test

1. Explain the difference between a merger and an acquisition. Describe types of mergers in brief.
2. For effective HR management during a merger or an acquisition, strategic issues must be addressed. State and explain those issues.
3. Briefly explain the significance of organizational culture during mergers.
4. The HR department undertakes some activities to ensure a successful merger. Explain those activities.
5. Describe the roles assumed by HR managers during mergers.
6. What are the steps taken by the top management to avoid job cuts during mergers?

15.16 Suggested Readings/Reference Material

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

15.17 Answers to Check Your Progress Questions

1. (a) Merger

When two companies come together to form a new entity, with the strategic intent of gaining synergies, a merger is said to have taken place.

2. (c) Horizontal merger

Merger between two companies that are into the same business is called a horizontal merger.

3. (a) Organizational culture

Organizational culture is defined as the “pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think and feel in the organization.”

4. (c) Culture change plans

A cultural change plan is a tool for evaluating the cultural, functional, and organizational aspects of companies.

5. (a) Facilitator

The role played by a HR manager in guiding and managing transition teams during mergers is that of a facilitator.

6. (a) Economies of Scale

Mergers and acquisitions generally succeed in generating cost efficiency through the implementation of economies of scale. A merger or acquisition can create economies of scale, which in turn generates cost efficiency. As the two firms form a new and bigger company, the production is done on a much larger scale and when the output production increases, there are strong chances that the cost of production per unit of output gets reduced.

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7. (b) Resistance to Change

The resistance to change can be attributed to the lack of communication, no clear vision, no proper reward system, confusion and frustration, force of habit, fear of the unknown, fear of insecurity, loss of competency and lack of support. Hence it is the responsibility of the leader to effectively manage the resistance to change by the employees.

8. (b) Redundancy

Redundancy occurs when the work being done is no longer required due to changed circumstances. It occurs when jobs are rationalized and fewer people are needed. Redundancy leads to an employee losing his regular source of income.

9. (c) Cultural Differences

When two companies merge, there is bound to be a clash of cultures. Leaders and HR managers must help people understand each other's culture and develop a culture of its own. To do so, leaders of the organization can adopt the best cultural aspects of both the companies. The HR manager can use cultural change plans for the same purpose.

10. (e) Cheerleader

A leader's job is also to cheer on the team to generate enthusiasm and foster camaraderie. The main reason is to dispel fear and uncertainty among the people. Challenges like investors' fear of stock-price fall, employee concern about an uncertain future need to be addressed by the leader.

Unit 16

Outsourcing and Legal Implications

Structure

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Concept and Definition of Outsourcing
- 16.4 Reasons for Outsourcing
- 16.5 Criteria for Outsourcing
- 16.6 HR as an Outsourcing Practice
- 16.7 Types of HR Outsourcing
- 16.8 HR Outsourcing as a Best Practice
- 16.9 Outsourcing and HR Department
- 16.10 Making the Outsourcing Decision
- 16.11 Problems Associated with Outsourcing
- 16.12 Issues in HR Outsourcing – Strategic Advantage in Outsourcing
- 16.13 Outsourcing for Competitive Advantage
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- 16.20 Answers to Check Your Progress Questions

“Do what you do best, outsource the rest.”

- Peter Drucker

16.1 Introduction

As has been advocated by Peter Drucker, outsourcing helps the organization to leverage on its competence, given the scale of operations and complexities of modern businesses. In the previous unit, mergers and acquisitions were discussed.

In this unit, outsourcing and its relevance to HR will be discussed.

16.2 Objectives

By the end of this unit, students should be able to:

- Analyze the reasons for outsourcing and assess organizational effectiveness.
- Discuss the HR outsourcing practices to determine which type of activities to be retained by the firms and which type of activities to be outsourced.

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- Evaluate the problems associated with outsourcing to have a balanced approach to outsourcing
- Discuss the legal issues involved in outsourcing to have a risk free and fair outsourcing methodologies

16.3 Concept and Definition of Outsourcing

Outsourcing can be defined as “The use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities.”

Many companies resort to outsourcing to achieve these benefits:

- Outsourcing helps them to concentrate on their core business by outsourcing routine activities.
- Outsourcing helps them to obtain the services at more economical costs as compared to performing them on their own.
- Outsourcing provides firms with specialized services in the event of unavailability of in-house expertise.
- Outsourcing not only cuts costs but also creates value.
- Outsourcing involves developing and managing relationships between firms and their service providers.
- The relationship between the firms and their outsourcing partners is long-term and multidimensional.

16.3.1 Outsourcing vs. Consulting

Many people confuse outsourcing with consulting as many service providers, called hybrid firms, offer both the services. But the fundamental difference is that while consulting firms play an advisory role, the outsourcing service providers complete the activities on behalf of the firm.

Example

With more than 1,70,000 exceptional people in over 50 centers, Accenture is a hybrid firm that offers its clients both consulting and outsourcing services.

16.3.2 Outsourcing vs. Jobbing

It is important to differentiate between outsourcing and jobbing. The points of differences between the two are:

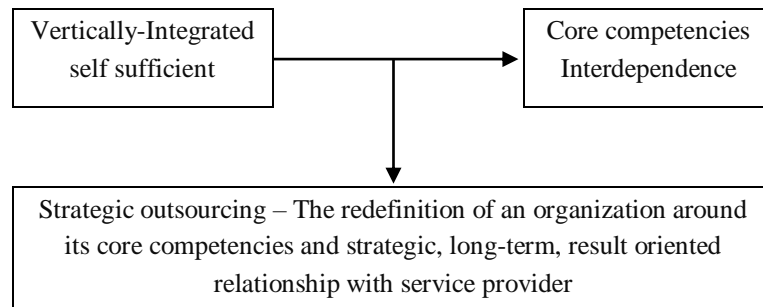
- Outsourcing is a long-term relationship formed for mutual benefit whereas jobbing is a short-term temporary relationship that is formed due to inadequate capabilities of the out-jobbing firm.
- Since outsourcing is a close, contractual, continuous relationship, it requires a lot of understanding and communication between the outsourcer and the service provider.

16.3.3 Model for Outsourcing

Figure 16.1 shows the model of outsourcing as has been proposed by Michael Corbett and Associates. The model shows a lateral shift where firms that were once highly integrated are now more focused on core competencies.

Outsourcing is one of the options that emerged during this lateral shift.

Figure 16.1: Model for Outsourcing



Source: ICFAI Research Center

16.3.4 Evolution of Outsourcing

Outsourcing has grown tremendously in the last decade as a tool of great importance for managers at all levels of decision-making – strategic, operational and tactical.

Activity 16.1

Spartak Automobiles Ltd., (SAL), a two-wheeler manufacturer intended to increase its production. The company had a problem manufacturing an important component of their two-wheelers. Subsequently, SAL signed a contract with Global Automobiles Ltd., (GAL) to manufacture the component for them for a period of two years. In this situation can we say that SAL has “outsourced” the manufacturing of the component to GAL? If not, identify the type of contract?

Answer:

16.4 Reasons for Outsourcing

As seen above, outsourcing is a scenario where a company employs another organization for performing some of its activities. There could be strategic, tactical and transformational reasons for outsourcing. Let us have a look at them.

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16.4.1 Strategic Reasons

The strategic reasons for outsourcing involve leveraging partners' expertise for improving business.

1. Firms outsource their routine administrative activities to enhance their business focus on core activities which leads to attainment of competitive advantage.
2. Outsourcing service providers are specialists in their own fields who make optimum utilization of the available knowledge, tools, techniques, methodologies and procedures which not only improve quality but also provide the services at cheaper prices.
3. External service providers' act as catalysts for the firm going for business process reengineering as many of the secondary activities of the firm can be outsourced with the core activities being performed by the firm.

16.4.2 Tactical Reasons

Tactical outsourcing refers to sourcing specific functions to cut down operational costs. The following reasons for outsourcing helps us to understand it better:

- Firms can cut down costs on operational activities by outsourcing.
- Outsourcing generates additional cash which would have otherwise remained tied up in non-productive activities.
- When the resources needed for a particular activity are not available, a firm opts for outsourcing.
- Money saved by outsourcing can be invested in more productive activities. In other words, it makes more capital available to the firm.

16.4.3 Transformational Reasons

When the organizations go for rapid organizational change or launch new strategies or reshape company boundaries, they go for outsourcing for transformational reasons.

- Outsourcing reduces the risk associated with the entry of a company into new markets.
- Outsourcing enables firms to build relationships with other firms, thus transforming the value chain completely and results in superior services.
- Product life cycles are not as long as they used to be, thanks to the continuous innovation for offering competitive products. Outsourcing the support activities help the organization to be flexible and adaptive.

Example

- Innovation and technology being the strength and heart of its business, Google has been outsourcing its non-core functions like administration and IT for years.

Contd....

- WhatsApp, right from its inception, has been sourcing development resources from Russia for a small fraction of what they would have had to pay in the US.
- Skype picked East Europe as a source of talent and brought on several developers to work on the product.

16.5 Criteria for Outsourcing

Outsourcing is concomitant with advantages and also pitfalls. The decision to outsource a particular activity poses a dilemma for the outsourcing firm. Usually, firms find it difficult to identify the activities that can be outsourced.

A firm's decision to outsource depends on two criteria:

- i) Strategic importance of the activity to be outsourced.
- ii) Interdependence of the activity to be outsourced with other activities.

The same has been explained below:

- Activities of a firm like R&D department may have high strategic importance but at the same time low task interdependence with its routine operational activities, then the firm may go for spin-off where a separate legal entity is created from the existing firm.
- The routine activities like some of the administrative functions in the organization which have high interdependence but low strategic importance can be outsourced to outside firms that have a similar culture.
- If both the strategic value and interdependence are high for an activity, then it should not be outsourced.
- Finally, the decision to outsource or not depends on the cost and quality of the service being provided by the service provider.

16.5.1 Administrative Consideration in Outsourcing

In most companies, routine and administrative work like recruitment, training to name a few amounts for a major portion of the work done by the human resource department resulting in high administrative costs. Hence they resort to HR outsourcing to derive cost advantages.

Check Your Progress - 1

1. Which of the following refers to the use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities?
 - a. In sourcing
 - b. Outsourcing
 - c. Business process reengineering

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- d. Business restructuring.
 - e. Business integration
2. Companies outsource for which of the following three reasons?
- a. Strategic, tactical, transnational
 - b. Tactical, strategic, operational
 - c. Transformational, operational, strategic
 - d. Strategic, tactical, transformational
 - e. Tactical, operational, implementational
3. Which of the following statements is incorrect with respect to benefits of outsourcing?
- a. Outsourcing enhances business focus
 - b. Outsourcing cuts down costs on operational activities
 - c. Outsourcing reduces the risk associated with the entry of a company into new markets
 - d. Outsourcing does not enable firms to build relationships with other firms
 - e. Outsourcing helps in making product development more flexible and adaptive
4. Jobbing is a process of which of the following mentioned activities?
- a. Long term and permanent relationship with the out-jobbing firm
 - b. Short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm
 - c. Either a long-term or a short-term relationship
 - d. Same as outsourcing
 - e. Given by outside business services vendor and its supervised personnel, either on the customer's premises or off-site at the vendor's location
5. Payroll processing is an example of which of the following functions?
- a. Consulting
 - b. Jobbing
 - c. Outsourcing
 - d. Outsourcing as well as consulting
 - e. Jobbing as well as consulting

16.6 HR as an Outsourcing Practice

HR as an outsourcing practice has come into vogue. Various facts are to be considered whether to go for outsourcing or not.

- It is very important for the organization to determine what activities are beneficial for a firm to outsource and what type of activities are to be essentially managed within the firm.
- Organizations have been outsourcing administrative and operational activities of HR functions such as recruitment, training, payroll, benefits to name a few.
- Organizations need to consider the impact of outsourcing these activities on the organization's overall performance.

16.7 Types of HR Outsourcing

One of the services being outsourced by many organizations is outsourcing HR Services. It is essential for organizations to determine which activities require outsourcing.

HR outsourcing can be broadly divided into three types:

1. Application Service Provider
2. Business Process Outsourcing
3. Total HR outsourcing.

16.7.1 Application Service Provider (ASP)

A host of companies specialize in providing hardware and software applications to support large organizations, including application vendors like PeopleSoft, Oracle to name a few, which have developed application packages (PeopleSoft HRMS, Oracle HRMS) for supporting human resource activities in an organization.

Essentials of ASP:

- ASP installs, customizes and provides support for running the above mentioned applications.
- However, there are certain cost disadvantages with the application software in terms of maintenance and upgradation.
- There may be implementation failure of the application software in some cases.

16.7.2 Business Process Outsourcing (BPO)

The major difference between BPO and ASP is that in BPO, the client is in direct contact with employees through call centers or support centers. MNCs generally opt for BPOs as they operate in many countries and employ a large number of people. While certain firms wish to retain the power to control human resources, others hand over the power to service providers.

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Exhibit 16.1 enumerates the Business Process Outsourcing Services of Accenture.

Exhibit 16.1: Business Process Outsourcing Services of Accenture

Accenture's global network of Intelligent Operations Centers offers business continuity and agility needed to respond quickly to changing business demands owing to the onset of COVID-19 and also offers solutions to capture new market opportunities.

Some of the outsourcing services provided by Accenture are:

- **Intelligent Finance Operations:** To help the companies to change from transactional to strategic organization through intelligent operations.
- **Sourcing and Procurement:** Provides data-driven insights to ensure optimization of processes, elevate efficiency and drive out more value.
- **Supply Chain:** Building agile, transparent supply chains to help businesses navigate market volatility with success.
- **Sales and Customer Operations:** Transforming sales, marketing and service operations to deliver sustainable breakthrough growth.
- **Banking:** Ensure business sustainability by transforming to an agile banking operational model.
- **Insurance:** Helping businesses harness the power of human+ machine to establish resilient operations.
- **Health:** Helping payers, providers and government agencies drive growth, while improving patient outcomes.

Source: <https://www.accenture.com/in-en/services/business-process-outsourcing-index> (accessed on 31/12/21)

16.7.3 Total HR Outsourcing

In this type of outsourcing, the service provider runs the entire HR function. There is no specific HR department in the organization except for senior HR professionals called the HR strategists. All the non-strategic functions are performed by the service provider.

16.8 HR Outsourcing as a Best Practice

Of late, companies felt the need to outsource the operational activities of HR to service providers who were better equipped to deal with operational problems in HR. Following are some of the HR activities that are generally being outsourced:

16.8.1 Recruitment

Outsourcing the recruitment activity includes the following:

- The service provider takes up the responsibility of inviting applicants for interviews and provides them with information pertaining to the job.

- The service provider may also conduct a preliminary interview but the outsourcing company does the final interview and selection.
- There are organizations which offer services ranging from providing a temporary workforce, to screening and recruiting for different positions, to handling entire recruitment process, i.e. RPO (Recruitment Process Outsourcing).

16.8.2 Payroll Processing

Outsourcing of payroll processing involves the following steps:

- In payroll processing, the service provider takes over the payroll function.
- The service provider calculates gross salaries, deductions and taxes and writes paychecks.
- Certain companies also outsource other HR functions like benefits administration and workmen compensation.
- Payroll outsourcing also helps to assure greater compliance with changing tax requirements.
- Some providers also provide the clients with automation and self-service tools that facilitate better employee management.

Exhibit 16.2 gives details about payroll processing offered by TCS.

Exhibit 16.2: Payroll Processing offered by TCS

Tata Consultancy Services provides CHROMA™- integrated managed payroll services that provides touchless payroll processing to augment the business benefits.

The benefits of CHROMA are:

- Error-free and timely payroll
- Single point of accountability
- Streamlines payroll process
- Boosts HR Productivity
- Statutory Compliance
- Accurate and easy reporting

Source: <https://www.tcs.com/managed-payroll-management-system-business-benefits> (accessed on 31/12/21)

16.8.3 HR Consulting

The need for HR consulting arises due to the following reasons:

- Internal HR or recruiting teams may have limitations in their knowledge and skills simply due to lack of experience or training.

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- Hence the internal HR teams sometimes do not have the ability to serve the organization as the strategic business partner required for achieving the business goals.
- An effective HR consultant can fill the gap by providing strategic guidance in various areas of HR function and by coaching/mentoring the internal staff and transferring knowledge.

16.9 Outsourcing and HR Department

With HR outsourcing becoming a practice in many organizations, human resources are seen as human capital and are no longer viewed as headquarters of administration. They play a strategic role in the attainment of organizational objectives.

16.10 Making the Outsourcing Decision

While making outsourcing decisions, all the HR activities that are critical to the success of the organization should be retained. However, the HR department should not suffer from HR-Anorexia - the feeling of lost capabilities in people after outsourcing.

16.10.1 Selecting Service Provider

As discussed earlier, outsourcing is a long-term relationship which can at times assume the role of a partnership between the outsourcing company and service provider.

Important factors to be considered in vendor selection are:

- *Focus on results* – It is important to convey clearly to the service provider what the organization expects from them in terms of quantity, quality and commitment. It is advisable to go in for a pay for performance agreement.
- *Customization* – The service provider should be creative and innovative. It should understand the organization's problems and customize its solutions.
- *Integrity* – A company that outsources shares relevant data with the service provider. Therefore, there should be mutual trust and confidentiality of the data should be maintained.
- *Experience* – It is always better to select a service provider who already has a client base and is not new to the business.
- *Cultural fit* –The outsourcer-service provider should have cultural compatibility and should share similar values and develop long-term relationships.

16.10.2 Managing the Outsourcing Relationship

The essentials for managing the outsourcing relationship can be enumerated as:

- There is a need for specialists who are good at managing the outsourcing relationship.

- Such specialists should strengthen and nurture the relationship over a period of time.
- Strengthening good relationships requires considerable experience and foresight on part of both the parties.
- The relationship should encourage a culture of knowledge sharing and mutual learning.

16.10.3 Monitoring and Evaluating Vendor Performance

The monitoring and evaluation of the vendor performance is equally important for the success of outsourcing. The following deliberations are essential for effective vendor performance:

- Before the HR activity is outsourced, the performance standards for the activity have to be conveyed to the vendor.
- External consultants can be consulted to develop performance standards.
- There is a need for frequent communication between the outsourcer and the vendor.
- In order to enhance performance, the organization can also resort to schemes where it shares the amount saved due to reduction in compensation claims with the vendor.

Activity 16.2

XYZ plc. (XYZ), a consumer packaged goods company, outsourced its HR activities to Glaze, an HR service provider. After receiving service from Glaze, XYZ realized that it was not getting the kind of service it had expected. What are the major factors that XYZ should have considered before selecting Glaze?

Answer:

16.11 Problems Associated with Outsourcing

It is felt that outsourcing has increasingly become disadvantageous to nations as the employment generation in the originating country will come down due to this outsourcing activity. Knowing such disadvantages will help in having a balanced approach.

Some of the general problems associated with outsourcing are:

- When an organization outsources an activity it also gives up a considerable amount of authority. It does not have complete control over the outsourced activity.

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- Outsourcing may turn out to be cheaper in the present context, but there is risk involved because outsourcing costs may go up in the future.
- Outsourcing when associated with downsizing may tarnish a company's image.
- Outsourcing may be a demotivating force for the existing employees of the company because of the fear of losing their job or loss of control.
- Transferring the duties performed by the HR representatives to third parties or outsourcing a part or whole of HR functions can lead to staff feeling disconnected from their employers
- Outsourcing may result in the employer's inefficiency in understanding their employees' needs and aspirations.
- Companies outsourcing their functions to Professional Employer Organization (PEO) to handle everything from hiring to firing and payroll to insurance might find themselves with fewer choices when it comes to selecting benefits for their organization.
- Many service providers use web-hosted software to handle HR functions, leaving sensitive employee information vulnerable to security threats as well as crashes. Thus, security of sensitive information is a serious concern.

16.12 Issues in HR Outsourcing-Strategic Advantage in Outsourcing

As mentioned earlier, in today's highly competitive business environment, HR outsourcing offers significant advantages to companies.

Advantages of outsourcing

Broadly, the advantages of outsourcing can be enumerated as given below:

- Outsourcing is employed mainly for downsizing workforce and cost reductions in most large and medium sized companies.
- It is used as a strategic tool to make a positive impact on corporate growth and financial stability.
- By outsourcing non-essential tasks, companies can focus on tasks that have direct bearing on issues that give them competitive advantage over their rivals.
- To achieve the advantage, the company must know its core competencies and focus on strengthening them to its advantage.

The specific advantages of outsourcing are as follows:

- *Cost-effective solution*

The biggest advantage of outsourcing is that it is cost-effective.

- *Expert knowledge*

Outsourcing brings in expertise such as better understanding of taxation laws and procedures and improved and accurate management of all the functions.

- Conserve manpower resources, time and money

Employees can be deployed to more value-adding tasks. By eliminating the routine activities, a company saves time and money.

- *Increased efficiency*

Outsourcing HR functions provides relief from the administrative tasks involved in employee-related responsibilities, allowing the company time to focus on developing strategies that create growth and enhance competitive edge for the organization.

Risks in outsourcing

Outsourcing HR also presents some potential risks:

- Unexpected cost impact
- Organizational resistance
- Reduced service levels
- The Human Resources Outsourcing (HRO) vendor's failure to deliver
- Changes in the HRO vendor's business
- Vendor management issues

If a vendor or partner fails to meet the defined standards, the outsourcing arrangement fails.

Factors to be considered in outsourcing:

What are the keys to success?

Identifying the corporate core competencies and mapping out the work of the business are the basic steps essential in strategic outsourcing.

Core Competency:

Core competency is defined as the integration of technologies, the relevant skills and the enterprise learning that sustains the enterprise and serves as a base for the creation of new business opportunities in the future. The following points help us to understand it better:

- These competencies constitute the competitive advantage needed for success.
- The identified competencies create distinct advantages for the enterprise in delivering products and services to clients.
- They provide differentiated value propositions to the customers.
- The role of senior management is to understand the enterprises' competencies before undertaking strategic outsourcing for competitive advantage.
- Mapping out the competencies to the types of work that can be done inside the company are segregated from work that can be outsourced.

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- Usually, non-essential work and work that entails disproportionate costs are outsourced.
- The main criteria for outsourcing are decided on factors like - better, faster, and less expensive product or service.

What and why of outsourcing:

- Outsourcing must be done to achieve strategic objectives such as to reduce overheads
- Outsourcing helps the firms to gain specialist knowledge
- Outsourcing promotes new services
- Outsourcing also helps in decreasing employee attrition.

An organization needs to carefully consider why they should outsource and what should be included. The following points would help us to understand it in detail:

Set clear objectives: Outsourcing is not just about saving costs. Organizations must focus on the results that they wish to achieve to increase efficiency. Results must be measurable and a reporting system should be set up to ensure that targets are being met.

Select right vendor: Once clear objectives are established it is important to select the right vendor/partner who understands clearly the goals and has capacity and experience to execute the strategy and achieve the desired objectives.

Legal contracts: It is important to carefully draft the contract or agreement that should clearly specify the terms and conditions including provisions like deliverables, payment terms and service levels, penalties if any for non-compliance and termination details.

Learning and development: If the organization identifies that learning and development is very important but is a non-core function that can be outsourced then it must invest the time to find the right agency capable of handling the task.

Example

⁶IBM and Queensland case is a mega disaster when it comes to outsourcing going wrong. In 2008, IBM was supposed to develop an application for payroll administration but was never successful in providing one, leaving thousands of staff not receiving their paychecks while others were overpaid. Queensland banned IBM from working on other government projects and sued IBM to recover losses.

Contd....

⁶ <https://www.itproportal.com/2015/12/19/five-of-the-biggest-outsourcing-failures/> (accessed on 31/12/2021)

Both the parties were at fault. Queensland failed to communicate their complete specifications and expectations to IBM and could not vet their contractor properly. IBM, on the other hand, is said to have used unethical tactics to gain favorable consideration over other contenders.

16.13 Various HR Outsourcing Services

Outsourcing HR services has become an attractive option for firms to reduce costs and enhance service improvements. Many organizations now prefer to transfer HR functions such as recruitment, payroll processing to external vendors.

16.13.1 Recruitment Process Outsourcing (RPO)

RPO is a form of business process outsourcing (BPO) where an employer transfers all or part of its recruitment processes to an external service provider.

- RPO providers undertake the entire recruiting/hiring process from job profiling to screening the candidates for final interview by the company.
- A properly managed RPO will improve:
 - Time utilization
 - Increase the quality of the candidate pool
 - Provide measurement metrics
- It also helps in reducing the associated hiring costs and assures legal compliance.

Example

Global Hunt offers recruitment and talent acquisition services with its clients spread across the world.

Advantages of RPO

The advantages of RPO are:

- It reduces the HR activities and helps the company to focus on its core competencies relating to the business.
- RPO offers professional expertise to get the right employee for the right job. The huge data bank of the RPO firm quickly identifies the exact profile of the candidate for filling the position with the best-qualified candidate for the job.
- RPO can accelerate an organization's ability to attract and retain top-performing employees and thus contributes to the quality of human capital available to the company.
- An increase in the scale of operations for the organization requires a large number of candidates to be recruited. Ramping up may be tough for an in-house HR team given the time constraint. RPO provides a turnkey, cost-effective solution.

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Following are the ways in which recruitment cost can be reduced:

- An RPO services provider, due to “economies of scale”, can significantly reduce the cost per hire.
- The cost per hire is low when the employer needs large-scale manpower.
- RPO has professional recruiters who complete the process quickly.

16.13.2 Payroll Process Outsourcing (PPO)

In an organization, payroll is the sum of all financial records of salaries, wages and bonus paid to an employee. Outsourcing the payroll system provides the firm with the following advantages:

- Payroll process outsourcing provides an automatic payroll process which helps the company to comply with legal and tax requirements and simplifies the process of employee compensation.
- PPO is economical in terms of time, effort and money.
- A payroll system generates a multitude of reports for hourly and salaried employees and include reporting templates that help managers to compute their payroll costs for a given period.

Example

ADP Vista HCM provides a secure, accurate and legally compliant effortless cloud-based payroll software that is easily configurable and highly flexible.

16.14 HR Outsourcing in Software Industry

Software industry is highly competitive and many companies are forced to slash overhead costs and generate more revenue from their primary products or services.

Software companies go for outsourcing functions due to the following reasons:

- *Organizational factors* – If required competencies are not available in software firms, then they may go for outsourcing.
- *Improvement factors* – The software firm can concentrate upon value addition by outsourcing some of its non-core activities.
- *Financial factors* – To save upon the overhead costs, IT firms go for outsourcing.
- *Customer Satisfaction* - Quick customer response is possible when the software firms outsource some of their activities.

Notable risks in outsourcing are:

- An outsourcing project might fail because of poor selection of the vendor.
- Mismanagement of the outsourcing contract may lead to failure of outsourcing decisions.
- Wrong choice of the vendor may defeat the very purpose of outsourcing.

16.15 Strategic Planning and Legal Issues

For a sound outsourcing strategy, an organization must be able to analyze every aspect of its business and identify clearly the areas that can be outsourced in the best interest of all stakeholders like employees, customers, suppliers and above all the organization itself.

Legal issues in outsourcing

When an organization outsources a service or function, certain key risks are taken into account. Some of the important aspects of the contract that deserve attention from legal point are –

- 1) Risk of poor performance by the service provider.
- 2) Hidden fees or charges.
- 3) Property damage or data loss.
- 4) Potential liability to staff and the public arising out of an act or omission of the service provider and employment liabilities.
- 5) The process and day-to-day management and how exit clause will be managed.
- 6) The taxation policies and the tax implications need to be carefully considered while entering into outsourcing agreements.
- 7) The heterogeneity of the legislations in different countries need to be taken into consideration while entering into any outsourcing agreements.
- 8) The outsourcing contract should have a clear description of the services:
 - This is very critical to any outsourcing contract. This is normally done through a service schedule or specification that is annexed to the contract.
 - The service levels setting out the standards to which the services must be provided are clearly defined in the agreement.
 - Key Performance Indicators (KPIs) are used to measure and to assess whether the standards have been met.
 - All outsourcing agreements should require the contractor to perform the services in accordance with a set of service standards.
 - The confidentiality clause, protection of data or loss of data must be properly incorporated in the agreement.
- 9) Indemnity bond:
 - It is a kind of a guarantee issued by the indemnifier that in case of any loss arising out of the contract he will reimburse the cost and bear the loss of the bondholder.
 - The risks are normally covered by an indemnity bond where the contractor indemnifies the client in respect of any costs, claims or losses arising as a result of the act or omission by the contractor.
 - The contractor has to take suitable insurance to meet unforeseen contingencies.

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10) The termination right:

- In case the organization is not satisfied with the vendor/contractor with the services rendered, it reserves the right to terminate the contract after giving notice to the contractor/vendor.
- It is prudent to include an obligation requiring the contractor to cooperate upon the termination or expiry of the contract, so as to ensure a smooth transfer of the services to a successor service provider and/or back in-house to the client.
- Very often there is a clause in the agreement that due to unsatisfactory performance by the vendor, the company reserves the right to terminate the contract unilaterally.

Legal Issues in Outsourcing to India

Some of the legal issues with respect to outsourcing in India are discussed here.

- *Effective changes in Indian laws:* India complies with the "agreement on trade related intellectual property rights" and the "world trade organization agreement" along with necessary changes in the intellectual property laws governing patents, copyrights, designs and trademarks.
- *Freedom of choice to choose any law:* When a foreign company outsources to India, it has the option to choose the law that would govern the legal aspects of the contract and decide the court of jurisdiction.
- *Legal provisions:* The sections 13, 15 and 44A of the Indian Civil Procedure Code and Section 41 of the Indian Evidence Act, govern the conclusiveness and enforcement of foreign judgments made in India.

Example

In India, there is no special regulation for outsourcing. Certain laws regulate outsourcing activities in specific sectors:

- The Indian Contract Act, 1872 (ICA) applies to all domestic and cross-border outsourcing contracts.
- The Information Technology Act, 2000 (ITA) governs all electronic transactions in India.

Check Your Progress - 2

6. Which of the following is the term used to indicate the feeling of lost capabilities in people working in the human resource department in the post-outsourcing period?
- a. HR Anorexia
 - b. HR Amnesia
 - c. HR Dyslexia
 - d. HR oblivion
 - e. HR memory loss

7. Which of the following is not a problem associated with outsourcing?
 - a. Organizations do not have complete authority
 - b. Outsourcing costs may increase in future
 - c. Outsourcing in association with downsizing may tarnish the image of the company
 - d. Outsourcing may be a demotivating force for the existing employees
 - e. Outsourcing may be motivating for the employees
8. Which of the following talk about the drivers of the companies outsource functions related to competencies that are not available in organization?
 - a. Improvement factors
 - b. Financial factors
 - c. Cost factors
 - d. Organizational factors
 - e. Legal factors
9. Which of the following options indicate outsourcing from the company's point of view?
 - a. Wastes money and resources
 - b. Reduces process improvements
 - c. Decreases operational efficiencies
 - d. Increases the cost
 - e. Increases operational efficiencies
10. Which among the following is not one of the important aspects of a legal contract for outsourcing?
 - a. Indemnity bond
 - b. Termination right
 - c. Heterogeneity of legislation
 - d. Taxation Policies
 - e. Jobbing

16.16 Summary

- Outsourcing is defined as the use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities.
- Outsourcing can be done for three reasons – strategic, tactical and transformational.
- A firm's decision to outsource depends on two criteria – Strategic importance of the activity to be outsourced and interdependence of the activity to be outsourced with other activities.
- A number of human resource activities are specific, routine and non-strategic in nature and hence they can be outsourced.

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- HR outsourcing can be broadly divided into three types – Application Service Provider (ASP), Business Process Outsourcing (BPO) and Total HR outsourcing.
- In recruitment, the service provider takes up the responsibility of inviting applicants for interviews and provides them with information pertaining to the job, nature of work etc. In payroll processing, the service provider takes over the payroll function.
- Important factors to be considered in vendor selection are – Focus on results, customization, integrity, experience and cultural fit.
- Some of the problems associated with outsourcing include – Organizations do not have complete authority, outsourcing costs may increase in future, outsourcing in association with downsizing may tarnish the image of the company and outsourcing may be a demotivating force for the existing employees.

16.17 Glossary

Hybrid Firms: Consulting firms play an advisory role and outsourcing service providers put the advice into practice. Firms that are into consulting as well as outsourcing are called hybrid firms.

Indemnity Bond: It is kind of a guarantee issued by the indemnifier that in case of any loss arising out of the contract he will reimburse the cost and bear the loss of the bondholder.

Jobbing: Jobbing is a short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm.

Outsourcing: Outsourcing refers to the use of an outside business services vendor and its supervised personnel, either on the customer's premises or off-site at the vendor's location, to perform a function or run a department that was previously staffed and supervised by the customer directly.

Payroll Process Outsourcing (PPO): payroll refers to the amount paid to employees for services they provided during a certain period of time. An automatic payroll process helps the company to comply with legal and tax requirements and simplifies the process of paying employees. In today's business context payroll is outsourced to professional agency like RPO. The benefits are similar to the advantages available in RPO. It saves precious time and is cost effective for the organizations.

Payroll Processing: In payroll processing, the service provider takes over the payroll function. The service provider calculates gross salaries, deductions, taxes and writes pay checks.

Recruitment Process Outsourcing (RPO): RPO is a form of business process outsourcing (BPO) where an employer transfers all or part of its recruitment processes to an external service provider. RPO providers undertake the entire recruiting/hiring process from job profiling to screening the candidates for final

interview by the company. A properly managed RPO will improve time utilization, increase the quality of the candidate pool and provide measurement metrics.

Total HR Outsourcing: In this type of outsourcing, the service provider runs the entire HR function.

16.18 Self-Assessment Test

1. Define outsourcing. Explain the difference between outsourcing & consulting and outsourcing & jobbing.
2. Outsourcing is done for strategic, tactical and transformational reasons. Briefly explain these reasons.
3. Describe the criteria for outsourcing.
4. HR outsourcing can be broadly divided into three types – Application Service Provider (ASP), Business Process Outsourcing (BPO) and Total HR outsourcing. Explain them in detail.
5. Explain the concept of HR Outsourcing as a best practice.
6. Describe the increasing significance of HR department in outsourcing.
7. State and explain the important factors to be considered in vendor selection.
8. State some of the problems associated with outsourcing.

16.19 Suggested Readings/Reference Material

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

16.20 Answers to Check Your Progress Questions

1. (b) Outsourcing

The use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities is known as outsourcing.

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2. (d) Strategic, tactical, and transformational

Companies outsource for strategic, tactical, and transformational reasons.

3. (d) Outsourcing does not enable firms to build relationships with other firms

The statement 'outsourcing does not enable firms to build relationships with other firms' is incorrect. In reality, outsourcing enhances business focus, cuts down costs on operational activities, and reduces the risk associated with the entry of a company into new markets. Thus, outsourcing enables firms to build relationships with other firms.

4. (b) Short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm

Jobbing, is a short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm.

5. (c) Outsourcing

A number of human resource activities are specific, routine and non-strategic in nature and hence they can be outsourced. Payroll processing can be outsourced to a different organization that has expertise to do it.

6. (a) HR Anorexia

The feeling of lost capabilities in people working in the human resource department in the post-outsourcing period is known as HR Anorexia.

7. (e) Outsourcing may be motivating for the employees

All the options except option 'e' refer to the problems related with outsourcing. Hence option e is correct.

8. (d) Organizational factors

Organizational factors are the factors within the organization related to the competencies that are not available in organization, but required for effective completion of the job or processes.

9. (e) Increases operational efficiencies

Outsourcing makes use of better competencies, optimum utilization of various resources and improves the efficiency of the job done.

10. (e) Jobbing

Jobbing is a short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm. This does not constitute the legal aspect of outsourcing.

Unit 17

Ethical Issues in SHRM

Structure

- 17.1 Introduction
- 17.2 Objectives
- 17.3 Core Concepts in Ethics
- 17.4 Gender Differences
- 17.5 Ethics at the Workplace
- 17.6 Ethical Issues in Labor-Management Relations
- 17.7 Manager-Shareholder-Conflict of Interest
- 17.8 Summary
- 17.9 Glossary
- 17.10 Self-Assessment Test
- 17.11 Suggested Readings/References Material
- 17.12 Answers to Check Your Progress Questions

“Ethics is knowing the difference between what you have a right to do and what is right to do.”

- Potter Stewart

17.1 Introduction

As has been propounded by Potter Stewart, incorporation of moral and ethical beliefs in the organization guides the value system, behavior and decisions of the individuals and drives them towards the strategic goals of the organization. In the previous unit, we have discussed outsourcing and its relevance to HR.

In this unit, ethical issues in strategic human resource management will be discussed.

17.2 Objectives

After reading through the unit, the students should be able to:

- Explain the core concepts in ethics to relate them to business ethics
- Analyze gender bias at the workplace to show its impact on ethical practices.
- Discuss the strategic issues involved in workplace ethics for ethical compliance at workplaces
- Analyze ethical conflicts between managers and shareholders for smooth functioning of organizations.

17.3 Core Concepts in Ethics

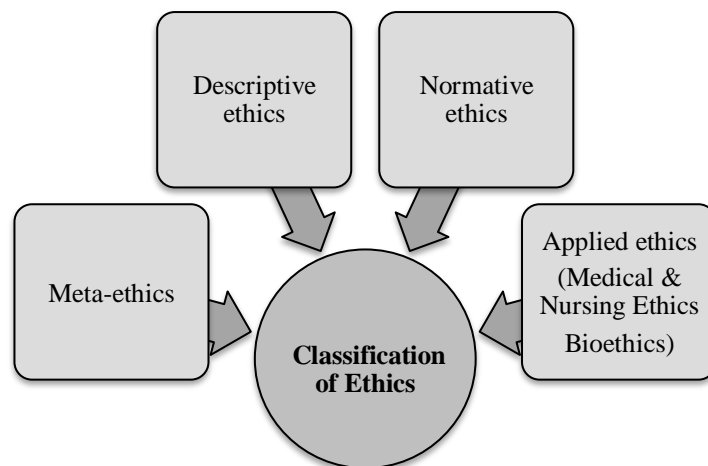
The word ethics is derived from the Greek word Ethikos and Latin word Ethicus which mean custom or character. Ethics is a normative science and tells human beings what is right and what is wrong.

What is right and what is wrong is the base for determining ethical codes. According to Peter. F. Drucker, “Ethics deals with the right actions of individuals.” Ethics include the following:

- Well-based standards: Ethics refers to well-based standards of right and wrong that prescribe what humans ought to do.
- Study and development of one’s ethical standards: Ethics refers to the study and development of one’s ethical standards.

Ethics is sometimes referred to as moral philosophy and can be broadly divided into four subject areas as has been depicted in Figure 17.1.

Figure 17.1: Classification of Ethics



Source: ICFAI Research Center

The same can be explained as follows:

- Meta-ethics aims to understand the nature of ethical evaluations, the origin of ethical principles and the meanings of terms used but are value-free.
- Descriptive ethics involves, for example, determining what proportion of the population or a certain group considers that something is right or wrong.
- Normative ethics, sometimes referred to as moral theory, focuses on how moral values are determined, what makes things right or wrong and what should be done.
- Applied ethics examines controversial issues (such as euthanasia, abortion and capital punishment) and applies ethical theories to real life situations.

Applied ethical issues are those which are clearly moral issues and for which there are significant groups of people who are either for or against.

- Medical and nursing ethics (considers moral values and judgments linked to medicine and nursing)
- Bioethics (considers ethical issues which arise in connection with the advances in biology and medicine) – medical ethics and bioethics are closely linked and there is sometimes overlap between the two⁷.

17.3.1 Definition of Ethics

Ethics is defined as a set of moral principles and includes study of universal values such as the essential equality of all men and women, human or natural rights, obedience to the law of land, concern for health and safety and the environment at large.

17.3.2 Ethics, Morals and Philosophy

Now let us understand the concepts of ethics, morals and philosophy.

- “Morals are defined as a set of personal standards that make up an individual’s character”. Morals are a result of an individual’s social and family interactions. They change according to circumstances.
- Unlike morals, ethics remain constant throughout an individual’s life. It requires a sound philosophical foundation. It is constantly subjected to questioning, inquiry and intense scrutiny.
- Ethics and philosophy are closely related. “Ethics is a branch of philosophy that explores the nature of moral virtues and evaluates human actions”. Having a philosophical approach to ethics avoids irrationality that characterizes personal moral views.

Ethics asks questions like –

- "How should people act?" (Normative or Prescriptive Ethics)
- "What do people think is right?" (Descriptive Ethics)
- "How do we take moral knowledge and put it into practice?" (Applied Ethics), and
- "What does 'right' even mean?" (Meta-Ethics⁸)

Ethical foundations are extremely important for an organization. Organizations must be ethical while dealing with stakeholders.

The following eight elements as has been depicted in Figure 17.2 comprise the ethical bedrock of an awesome organization⁹.

⁷ <http://www.alzheimer-europe.org/Ethics/Definitions-and-approaches/What-is-meant-by-the-term-ethics> (accessed on 04/01/2022)

⁸ www.philosophybasics.com/branch_ethics.html (accessed on 04/01/2022)

⁹ <https://www.entrepreneurship.org/articles/2002/12/eight-elements-of-an-ethical-organization> (accessed on 04/01/2022)

Figure 17.2: Ethical Foundations of an Organization



Source: ICFAI Research Center

Let us discuss the same in detail.

Respect: Respect and trust make it easier for you to avoid micromanaging the people / employees of the organization. Organizations try to imbibe the same in their culture so as to have a strong ethical foundation.

Honor: It is important for firms to acknowledge and honor the contributions of their employees both publicly and in person. Providing recognition for good work exemplifies the organizational spirit and improves the motivation and morale of the employees.

Integrity: Firms with ethical foundations hire people having integrity and their organizational culture promotes and reflects the same.

Customer focus: It is equally important to cater to the needs of the customers so as to have an edge over their competitors but not to forget the ethical responsibility towards all the stakeholders.

Results-oriented: Organizations should focus on attainment of its organizational objectives but not at the cost of its stakeholders. A conducive environment with effective communication mechanisms, ethical practices and feedback mechanisms should be provided for long term growth and sustainability.

Risk-taking: Great companies attract employees who are willing to take risks, and they encourage, support and reward them for taking calculated risks. When the risks pay off, they share the rewards with those responsible for the same.

Passion: The passion of the employees towards their work and workplace, makes the organization a great place to work for. A conducive culture that fosters creativity and innovation drives people towards goal attainment.

Persistence: Perseverance and diligence are the key factors of organizations which incorporate ethics into their culture. These attributes drive the individuals towards goal attainment despite adversities and crisis.

17.3.3 Law and Legality

Ethical behavior becomes complicated when legal considerations crop up. It has been found that ethics and laws usually do not go hand-in-hand. What may be legal may not be ethical and vice versa in some situations. Laws need to be amended from time to time to incorporate ethics into it.

17.3.4 Political Correctness

Political correctness plays an important role in day-to-day life. It includes avoiding behaviors that are offensive to people belonging to different ethnic groups, such as using offensive signs and language.

Political correctness is essential to prevent people from behaving in ways that will be considered unethical by others. Thus, political correctness is an attempt to:

- a) Protect vulnerable, marginalized or historically victimized groups
- b) Promote shaping public discourse, often by inhibiting speech or other forms of social discrimination signaling
- c) Avoid humiliation and outrage, a lowered sense of self-esteem, or offending the sensibilities of such groups or their allies.

17.3.5 Good Manners, Etiquette, and Civility

Manners allow people to be comfortable in each other's presence, failing which it may inadvertently offend other people. Good manners and etiquette (socially correct behavior) make the environment at the workplace pleasant with performance targets achieved without friction and stress.

17.4 Gender Differences

Initially, workplace traditions were dominated by religious beliefs, social norms, and gender bias. As more and more women began to join the workforce in the 20th century an attempt was made to break the glass ceiling and gender biases in compensation and job responsibilities.

Example

TCS launched its Good Growth community in October 2020, to support, mentor and nurture a community of over 300 women-led businesses in the UK. The aim is to support women entrepreneurs and facilitate positive change by making entrepreneurship more accessible for women and increase access to support; share skills and experience, tools and techniques; and provide ongoing opportunities to connect to experienced mentors.

Block 4: Emerging Trends and Challenges for Human Resources

Exhibit 17.1 illustrates initiatives of Microsoft Partners for promoting the diversity and inclusion priority of Microsoft.

Exhibit 17.1: Microsoft Partners Champion Gender Equality

In May 2020, Microsoft partnered with the Male Champions of Change, an Australian not-for-profit institute for promoting gender equality and inclusion at workplace.

Microsoft took the initiative to find innovative and disruptive ways to lower the barriers to entry to the engineering sector.

The group decided to work upon the following:

- Building flexible workplaces
- Developing new approaches to attracting and retaining women in the sector
- Leveraging equity to encourage successful transformation

Source: <https://news.microsoft.com/en-au/features/microsoft-partners-champion-gender-equality/> (accessed on 05/01/2022)

Check Your Progress - 1

1. Which of these can be defined as sets of personal standards that make up an individual's character?
 - a. Morals
 - b. Ethics
 - c. Philosophies
 - d. Sermons
 - e. Principles
2. Which of these relates to political correctness at the workplace?
 - a. It avoids behavior considered offensive by certain ethnic groups
 - b. It is the way people generally converse at the workplace
 - c. It is an individual performance measurement tool
 - d. It is an organizational performance tool
 - e. It is the way generally people behave at the workplace
3. Which of the following options refers to the glass ceiling in the organization?
 - a. Gender bias at workplace
 - b. Gender bias in everyday life
 - c. Good manners
 - d. Skill assessment
 - e. Knowledge assessment

4. Which of the following talks about ethics according to Peter F. Drucker?
 - a. Right actions of the individual
 - b. Social science
 - c. A set of moral principles
 - d. A branch of philosophy
 - e. Etiquette
5. Which of the following dominates the workplace traditions?
 - a. Education
 - b. Skills
 - c. Religious beliefs, social norms, and gender bias
 - d. Good manners
 - e. Knowledge

17.5 Ethics at Workplace

Ethics applies to all working people. The following points indicate the rationale behind ethics at workplace:

- Employee awareness of how to make ethical decisions is part of good workplace practice.
- The values and principles help people determine how things ought to be done.
- Ethics guide work practices, interactions and behaviour within an organization.
- Ethics are the foundation on which an organization operates and apply across all levels of the organization – from the Secretary or Chief Executive to frontline employees¹⁰.

Ethics at the workplace includes:

- Incorporating ethical components in labor-management relations
- Choosing between individual rights and group rights
- Ensuring fair treatment to all employees
- Solving the ethical dilemmas in employer-employee relations
- Solving personality conflicts.

Importance of Workplace Ethics

The organizations which try to redress employee grievances, have a more satisfied workforce which keeps their attrition rate low. Workplace ethics also go a long way in strengthening the bond among employees and most importantly their superiors.

¹⁰ <http://vpssc.vic.gov.au/ethics-behaviours-culture/ethics-in-the-workplace/> (accessed on 04/01/2022)

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Exhibit 17.2 illustrates Wells Fargo Workplace Ethics Failure.

Exhibit 17.2: Wells Fargo Workplace Ethics Failure

Wells Fargo and Company is a diversified community-based financial services company. Workplace ethics failure is elaborated below:

- A Wells Fargo internal memo reports that more than 100 employees were fired for creating fake profiles and filing fraudulent applications to get money from the Small Business Administration Relief Program—a program intended to help struggling small businesses amid the coronavirus pandemic.
- In February 2018, the Federal Reserve imposed an asset cap on Wells Fargo, restricting the scandal-plagued bank from growing larger than its 2017 total asset size (\$1.95 trillion). The cap was imposed due to the bank's systemic failures to stop a host of consumer abuses and compliance breakdowns in its banking, lending and auto insurance divisions—which included opening millions of fake accounts in customers' names and overcharging customers in its mortgage and auto loan businesses.
- An asset cap placed on Wells Fargo in 2018 following the fake account scandal had temporarily been lifted by the Federal Reserve Board in 2020 in order to grant the bank greater access to administer these loans and this is how its employees repaid the gesture.
- In February 2020, Wells Fargo agreed to pay \$3 billion to settle potential federal criminal and civil charges that, for more than a decade, the bank's aggressive sales goals led to widespread consumer abuses, including millions of accounts opened without customers' consent.

Sources: <https://www.washingtonpost.com/business/2020/02/21/wells-fargo-fake-accounts-settlement/> (accessed on 5/1/2022)

Wells Fargo (WFC) Fires More Than 100 Workers Over Covid Relief Fund Abuse - Bloomberg (accessed on 5/1/2022)

Those employers who implement ethical policies and practices face minimal conflicts of interest arising due to the difference of opinion, values and culture in the workforce. However, handling ethical issues in the workplace requires a steady and cautious approach. The strategic issues involved in ethics at the workplace are:

- Selection and promotion of employees and supervisors
- Right to information versus right to privacy
- Differences in incomes at the workplace

17.5.1 Selection and Promotion of Employees and Supervisors

The HR department recruits and promotes employees. The process of recruitment and promotion involve various ethical issues. Some of them are:

- HR professionals should address certain ethical questions such as good citizenship, organizational goodwill while selecting and promoting personnel. However, job descriptions that are developed while recruiting people seldom list these qualities.
- Sometimes, the HR department may select the candidate even before the selection and promotion processes take place formally. In such situations, the HR department is ethically accountable to the candidates who were not selected or promoted despite possessing the required skills.

Example

In December 2020, the US Department of Justice filed a lawsuit against Facebook over its hiring practices. It was alleged that Facebook has been discriminating against US workers after it “refused to recruit, consider, or hire qualified and available US workers for over 2,600 positions.”

Activity 17.1

The Anand Group of Companies was operating in most of the South Asian countries. As the quality of the products being manufactured by the group was better compared to its competitors, it received a number of orders. Therefore, it has planned to hire more people. What steps should the company take for an ethical selection system?

Answer:

17.5.2 Right to Information vs. Right to Privacy

Employee privacy is an ethical issue. Managers need to measure the performance of their subordinates without encroaching upon their privacy. The issues involved in the dilemma of right to information vs. right to privacy are:

- On one side, businesses have the right to monitor the actions of employees while they're on the job.
- At the same time, employees also have a reasonable expectation of privacy in certain circumstances.

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- It can be a fine line between what is acceptable, fair and ethical and what isn't and even the courts sometimes waver in how they rule in cases involving employee privacy¹¹.
- Employee privacy can be protected with the help of information practices such as open communication, intranets and group interactions.
- Employees need information to make choices and assert their rights.

Some strategic issues involved in ethical conflicts regarding employee privacy and employers' rights to collect information are:

- Employees must be monitored for drug or alcohol abuse. Employees who fail monitoring tests should be provided with information about the impact of drugs and should be counseled on how to avoid drug or alcohol use.
- Some employers collect information on the employee's personal life and previous work performance while recruiting. If the employers share this information with third parties, employees or candidates can take legal action against them.
- Monitoring employees through computers, voice mails, telephone calls and video cameras to have better control over the employees can result in ethical conflicts as the employees may consider it as a violation of their right to privacy.

Example

¹²Alphabet Inc.'s Google fired staff scientist Margaret Mitchell in 2021 for having violated the company's code of conduct and security policies by moving electronic files outside the company.

Exhibit 17.3 discusses a case of Dittman Vs UPMC to illustrate the employee privacy concerns.

Exhibit 17.3: Dittman vs. UPMC

When the data of 62,000 UPMC employees was stolen from UPMC's database, a case was filed by Barbara Dittman, along with some other individuals claiming that the University of Pittsburgh Medical Center and UPMC McKeesport breached a legal duty of protection of data by not resorting to encryption, adequate firewall protection and access authentications which resulted in instances of identity theft involving fraudulent tax returns.

Contd.....

¹¹ <http://smallbusiness.chron.com/ethical-employee-privacy-policies-15724.html> (accessed on 04/01/2022)

¹² <https://www.reuters.com/article/us-alphabet-google-research-idUSKBN2AJ2JA> (accessed on 4/1/2022)

The Supreme Court of Pennsylvania concluded that under Pennsylvania's Economic Loss Doctrine and Negligence Tort Theory, Dittman could recover actual damages. This case paved way for legislations on data privacy in Pennsylvania.

Source: <https://www.forbes.com/sites/tomspiggle/2021/04/22/employee-data-privacy-lawsuits-a-growing-trend/?sh=18d998573555> (accessed on 5/1/2022)

Activity 17.2

ABC Ltd., a software company monitors all its employees by checking their e-mails. By doing this, the company violated employee privacy. To what extent does the company have the right to information and the employees have right to privacy?

Answer:

17.5.3 Differences in Income at the Workplace

Sometimes, organizations have to modify pay structures to respond to employee concerns regarding salaries and benefits. This may result in conflicts, which may snowball into ethical debates regarding the fairness in pay structure.

Ethical issues regarding compensation disparity at workplace are given below:

- Some ethical issues pertaining to income levels are equality in the compensation structure, equality in wage rules, education level and skills and abilities. For an HR professional, the question is “what is a fair day's wage for a fair day's work?”
- Employees expect to be judged on the merits at work—to be recognized for accomplishments and unique talents, insights and efforts.
- Gender bias also contributes to differences in income at the workplace. The ethical consideration is to let skills and not gender determine the individual's income.
- The same holds true for racial discrimination. Studies reveal that employees belonging to minority groups are paid less apart from being discriminated against on the basis of their color.

Check Your Progress - 2

6. Which of the following refers to the branch of philosophy that explores the nature of moral virtues and evaluates human actions?
 - a. Morals
 - b. Policy

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- c. Procedure
 - d. Ethics
 - e. Program
7. A company secretly checks the e-mails sent by its employees. Which aspect of ethics is violated in this case?
- a. Employee rights
 - b. Employee privacy
 - c. Gender bias
 - d. Employee morale
 - e. Employee ego
8. Which of the following is the reason for potential conflicts of interest in the organization?
- a. Diversity of opinion
 - b. Values
 - c. Culture in the workforce
 - d. Beliefs
 - e. Egos
9. Which of the following can help in protection of employee privacy?
- a. Right to information
 - b. Right to privacy
 - c. Glass Ceiling
 - d. Open communication, Intranets and group interactions
 - e. Ethical promotion of employees
10. Which of the following helps HR professionals to address certain ethical questions while selecting and promoting personnel?
- a. Insights and efforts
 - b. Unique talents
 - c. Unique behavior
 - d. Merits at work
 - e. Good citizenship and organizational goodwill

17.6 Ethical Issues in Labor – Management Relations

Of all the organizational issues or problems, ethical issues are the most difficult ones to handle or deal with. Numerous labor-management issues possess ethical

dimensions and pose ethical questions. Some ethical issues involved in labor-management relations are discussed below:

- Before the amendment of labor laws, joining labor unions was considered unethical by employers. Some employers violated the law that legalizes the existence of unions and union members were discriminated against and victimized.
- Trade unions collect membership fees which should be used for collective bargaining, grievance handling and employee welfare activities. Misusing the money raised by the members is unethical and illegal.
- The process of collective bargaining also involves various ethical aspects. Concealing information from the other party during negotiations is considered unethical.
- Similarly, one party may coerce the other party to arrive at a solution. This is also unethical.
- Collective bargaining is considered ethical when the conflicting parties find solutions to problems that are in best interests to both parties.

Negotiations between trade unions and management should be open and participative and should be used as an opportunity to build trust among the conflicting parties without the use of power and authority by the management.

17.7 Manager-Shareholder Conflict of Interest

Responsibilities of the corporation are divided between - shareholders (owners), directors (Board of Directors), managers, corporate officers who manage the company for the owners. The following points help us to understand this better:

- While the separation of ownership and management gives corporations an advantage over other structures, it also raises conflicts of interest between shareholders and managers of corporations.
- Some of these issues arise as shareholders want the value of the firm to increase, and the stock price to rise. Whereas the managers of the firm may be more concerned about increasing their own personal salaries, or job security.

The conflicts between stockholders and the managers of a business include the following:

- Stockholders obviously want the best managers for the job, but when it comes to payment they don't want to compromise on their returns. Executives expect exuberant compensation for their contributions. This leads to a conflicting interest.
- The top-level executive of a large public business typically has the dominant voice in selecting the persons to serve on its board of directors.

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- In ideal situations, the two sides respect each other's contributions to the business. Of course, the real world is far from ideal and in some companies, managers control the board of directors rather than the other way around.

Finally, the question of who should control the business — managers, who are hired for their competence or stockholders who provide the necessary capital — can be tough to answer¹³. Some of the issues to be considered in this aspect are:

- Shareholders usually concede most of their control rights to managers.
- If managers try to protect the interests of shareholders, they often encounter conflicts of interest.
- Manager-shareholder relationship is important for the growth and survival of the organization.
- Shareholders expect managers to act in their interest.
- Ethical conflicts arise when managers cannot win the shareholders' confidence or when there is a conflict between the parties and when the parties cannot meet each other's expectations.
- Further, when both parties act in their self-interest and when managers conceal information from shareholders, there are bound to be ethical debates.

Ethical conflicts between managers and shareholders can be resolved through frequent interactions and meetings and sharing of relevant information and negotiations whenever required.

Example

¹⁴An anonymous group calling itself “ethical employees” has complained to the board of Infosys and the US Securities and Exchange Commission (SEC) alleging that the company is taking ‘unethical’ steps to boost short-term revenue and profits.

“In large contracts like Verizon, Intel, JVs in Japan, ABN AMRO acquisition, revenue recognition matters are forced, which are not as per accounting standards,” the complaint letter stated.

17.8 Summary

- Ethics is defined as a set of moral principles. In an organization, ethics are rules or standards to govern the conduct of members. Morals are defined as a set of personal standards that make up an individual's character.
- Gender bias should not be allowed at the workplace. Gender bias in compensation or job duties is considered unethical. Employees should be judged on merit and not on gender.

¹³ "Recognizing Conflicts between Stockholders and Managers", <http://www.dummies.com/business/operations-management/recognizing-conflicts-between-stockholders-and-managers/> (accessed on 04/01/2022)

¹⁴ <https://economictimes.indiatimes.com/tech/ites/whistleblower-accuses-infosys-of-unethical-practices-to-boost-nos/articleshow/71679710.cms> (accessed on 05/01/2022)

- The strategic issues involved in ethics at the workplace are selection and promotion of employees and supervisors, right to information versus right to privacy and differences in incomes at the workplace.
- Ethical issues are important even in labor-management relations.
- Ethical conflicts between managers and shareholders arise when they try to pursue their own interests.

17.9 Glossary

Conflict of Interest: A conflict of interest is a situation in which a corporation or person with a vested interest in a company becomes unreliable because of the clash between personal interests and professional interests.

Employee Privacy: Employee privacy rights encompass an employee's personal information and activities at work.

Ethical Dilemma: An ethical dilemma is a complex situation that often involves an apparent mental conflict between moral imperatives, in which to obey one would result in transgressing another.

Ethics: Ethics is defined as a set of moral principles. In an organization, ethics are rules or standards to govern the conduct of members.

Gender bias: Unequal treatment in employment opportunity (such as promotion, pay, benefits and privileges) and expectations due to attitudes based on the sex of an employee or group of employees.

Labor-management Relations: Labor-management relations include aspects of industrial life such as collective bargaining, trades unionism, discipline and grievance handling, industrial disputes, employee participation in management and the interpretation of labor laws. The collective bargaining process is a key part of industrial relations.

Morals: Morals are defined as a set of personal standards that make up an individual's character.

Political Correctness: The avoidance of forms of expression or action that are perceived to exclude, marginalize, or insult groups of people who are socially disadvantaged or discriminated against.

Racial Discrimination: Racial discrimination is when a person is treated less favourably than another person in a similar situation because of their race, colour, descent, national or ethnic origin or immigrant status.

17.10 Self-Assessment Test

1. Describe the core concepts in ethics.
2. Explain the strategic issues involved in ethics at the workplace.
3. State the ethical issues in labor management relations.
4. Explain the concept of manager-shareholder - conflict of interest.

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17.11 Suggested Readings/Reference Materials

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

17.12 Answers to Check Your Progress Questions

1. (a) Morals

Morals can be defined as sets of personal standards that make up an individual's character.

2. (a) It avoids behavior considered offensive by certain ethnic groups

Political correctness at the workplace avoids behavior considered offensive by certain ethnic groups.

3. (a) Gender bias at the workplace

Glass ceiling is associated with gender bias at the workplace.

4. (a) Right actions of the individual

In the words of Peter. F. Drucker, Ethics deals with "Right actions of the individual"

5. (c) Religious beliefs, social norms, and gender bias

Workplace traditions were dominated by religious beliefs, social norms, and gender bias.

6. (d) Ethics

Ethics is a branch of philosophy that explores the nature of moral virtues and evaluates human actions.

7. (b) Employee privacy

By secretly checking the emails sent by its employees, companies violate employee privacy.

8. (c) Diversity of opinion, values and culture in the workforce

Workplace ethics policies are usually well-prepared for the potential conflicts of interest that arise due to the diversity of opinion, values and culture in the workforce.

9. (d) Open communication, Intranets, and group interactions

Employee privacy can be protected with the help of information practices such as open communication, Intranets and group interactions.

10. (e) Good citizenship, organizational goodwill

HR professionals should address certain ethical questions such as good citizenship, organizational goodwill while selecting and promoting personnel.

Unit 18

Strategic HR Challenges

Structure

- 18.1 Introduction
- 18.2 Objectives
- 18.3 Strategic HR Planning - Strategic HR Acquisition, Training and Development
- 18.4 Role of SHRM in enhancing Organizational performance
- 18.5 Managing Talent to retain Competitive Advantage
- 18.6 Business Strategy Execution
- 18.7 Competency Mapping
- 18.8 Managing to be an Ethical Organization
- 18.9 Strategic HR Challenges in Employee Relocation
- 18.10 Meeting Social Responsibility
- 18.11 Skill Development-Dimensions
- 18.12 Summary
- 18.13 Glossary
- 18.14 Self-Assessment Test
- 18.15 Suggested Readings/Reference Material
- 18.16 Answers to Check Your Progress Questions

“The real challenge is to combine strong leadership and strong management and use each to balance the other.”

- John Kotter

18.1 Introduction

As has been propounded by John Kotter, strong leadership and management goes a long way in resolving the strategic HR challenges that the organizations come across. In the previous unit, we have discussed ethical issues in strategic human resource management.

This unit would concentrate on the strategic challenges faced by the organizations.

18.2 Objectives

After going through this unit, the student should be able to:

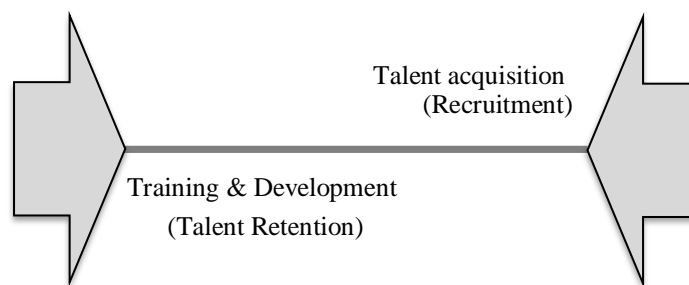
- Analyze human resource planning to align with the overall strategic plans of the organization
- Evaluate the role of SHRM in enhancing organizational performance

- Explain how to manage talent to retain competitive advantage of the company
- Discuss the key elements of ethical organizations for ethical leadership
- Identify the challenges in employee relocation to reduce the hardships caused to employees in relocation

18.3 Strategic HR Planning

Strategic human resources planning should serve as a link between human resources management and the overall strategic plan of an organization and the HR processes and initiatives.

Figure 18.1: Two phases of Strategic Human Resource Management.



Source: ICFAI Research Center

Figure 18.1 depicts the phases of strategic human resource management. Let us understand them in detail.

18.3.1. Strategic HR Acquisition

As noted earlier, HR plays an important role in the acquisition of people to ensure that business strategy and HR strategy are linked in a robust manner. The following points help us to understand it better:

- People are assets who translate the objectives of the organization into reality through productivity.
- The skills and abilities of the employees contribute to the efficiency of productivity and serving the customer effectively.
- A bad hire invariably costs the company heavily as it drives down the business and customer loyalty is lost.
- In today's business world, a good employee with the right skills and attitude can be the differentiating factor for growth of an organization.

Example

In line with the strategic goal of digital transformation, Fidel's Robotics Process Automation (RPA) solution for HR & Recruitment assists recruiters in managing the daily chores efficiently thereby helping the organization to cut down on their administration and operational costs significantly.

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18.3.2 Training and Development

Continuous learning is not an option but a necessity in 21st century organizations, thanks to the dynamic external environment.

The following points substantiate the same:

- The impact of technology on learning has been dramatic and has been transforming traditional learning and development learning methods.
- Training as an organizational learning intervention plays an important role to facilitate acquisition of knowledge, attitude and skills among its employees in the organization to improve their current job performance and contribute to the achievement of organizational goals.
- Training is required to build up strong, effective, motivated and dedicated employees who should understand employers in terms of organization and their own personal growth.
- It is essential for gaining a competitive edge.
- Training is an indispensable strategic component to meet long-term organizational goals and objectives.
- Having goals such as development of new and better products, expanding to a global market and developing a workforce with core competencies are strategically critical for organizational effectiveness and survival.

18.4 Role of SHRM in Enhancing Organizational Performance

Strategic Human Resource Management implies a managerial orientation that ensures that human resources are employed in an optimal manner to achieve organizational goals and mission.

The following points would help us to understand the role of SHRM in improving organizational performance:

- Strategic Human Resource Management (SHRM) evolved in the 1990s with an increased emphasis on a proactive, integrative and value-driven approach to organizational priorities.
- It takes a strategic approach to employee selection, compensation and performance appraisal.
- This, in turn, adds value to the organizational performance.
- A documented HRM strategy helps the organization to develop an HRM vision and objectives and to monitor performance.
- Organizations can develop and enhance the quality of the current employees by providing comprehensive training and development in a structured way.

- Training inputs in problem-solving, teamwork and interpersonal relations create a positive impact on employees. This results in higher organizational performance.
- Organizations can monitor the development of desired employee attitudes and behaviors through the use of the appraisal mechanisms.
- Organizations can use reward management systems effectively to motivate employees in several ways.
- They can use performance-based compensation to provide rewards to employees for achieving the specific goals and objectives of the firm.

Besides strategic HR using employee empowerment can go a long way in enhancing the performance of the organization.

Exhibit 18.1 illustrates the benefits provided by Microsoft to reward and retain its employees.

Exhibit 18.1: Employee Benefits -- the Microsoft Way

Microsoft puts its employees at the center of everything that it does. It not only provides its employees with exceptional work experience but also incomparable rewards and benefits for their employees and their families to live well.

Some of them have been enumerated here:

1. Competitive pay packages that they offer or the bonus and the stock awards that are designed for the eligible employees in line with their individual performance.
2. Benefits to help the employees and their families leading a good life: Parental leave, family caregiver leave, family support programs, college coach programs, disability support, physical well-being programs, on-campus health access to name a few.
3. Investing on the future of the organization and employee: Internal resources, speaker series, on-site library, sabbatical reimbursement, loan refinancing programs, employee stock purchase plans to name a few.
4. Helping in creating memorable employee experiences: Social clubs and networks, Microsoft Connector shuttle and bus fleet, employee resource groups, time off and the list goes on.

Source: <https://www.microsoft.com/en-us/corporate-responsibility/empowering-employees> (accessed on 6/1/2022)

18.5 Managing Talent to retain Competitive Advantage

In the 21st century, successful “talent management” requires pro-active involvement from individuals and organizations alike. An enterprise needs good,

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if not the best, people to retain its competitive edge. Let us discuss the same in detail.

- Companies must carefully plan their manpower strategies and build an organizational culture that fosters growth of talented workforce.
- These trends affecting work roles are driving the organizations to approach career management with a new perspective.
- Research and several surveys indicate that employees have ranked "feeling appreciated" and "feeling informed" as most important to job satisfaction.
- The theories of motivation tell us that human urge for praise, recognition and information is a natural demand of the employees. Any manager who displays arrogance in his behavior is never going to generate loyalty among his team.
- Abundance of labor at a particular point of time is no guarantee that the situation will remain the same in the future.
- The fascinating thing about job psychology is that people are far more motivated to carry out a task if they feel it is of their own free will rather than that someone instructed them to do it.
- Treating employees as volunteers and tapping into their self-propelled desires provides a competitive edge to the organizations.
- Recruiting and retaining employees through a well-thought-out process is critical for the organizations to stay competitive in today's cut-throat business environment.
- By hiring, developing, promoting and ultimately rewarding talented workforce, the company can sharpen the organization's overall talent edge.
- Employer brands can be built by being able to identify the desired and desirable employees.
- Recruiting and retaining employees through a well-thought-out process is strategically important for the organizations to stay competitive in a cut-throat business environment.

Exhibit 18.2 illustrates the need for reinventing the traditional talent management system.

Exhibit 18.2: Agile System for Talent Management

TCS acknowledges that the traditional talent management systems are numbered and what is needed is an agile system that would bring about a fit between HRM and strategic business by employing artificial intelligence, analytics and automation so as to achieve:

- Employee Reskilling and upskilling
- Gain real-time talent insights
- Optimize employee engagement

Contd....

TCS' Resource Management Group (RMG) was awarded three coveted industry prizes in 2021 for human resource optimization and management. One among these is Brandon Hall Group's 2021 Excellence Awards for Best Advance in Workforce Planning and Management.

Source: <https://www.tcs.com/tcs-way/rmg-human-resource-management-talent-management> (accessed on 5/1/2022)

Check Your Progress - 1

1. To ensure a sustainable competitive advantage is the ultimate challenge of HR strategy in an organization.
[True/False]
 2. Which of the following is not the concern in talent management?
 - a. Manpower planning
 - b. Job Satisfaction
 - c. Recruitment
 - d. Retention
 - e. Inventory management
 3. Training as a learning intervention helps in facilitating the learning of which of the following given below among the employees of the organization?
 - a. Knowledge, attitude and skills
 - b. Knowledge, performance and aspirations
 - c. Attitude, aspirations and achievement
 - d. Knowledge, skills and behaviour
 - e. Skills, competencies and aspirations
 4. Which of the following does not indicate the need for continuous learning in the organization?
 - a. For gaining competitive advantage
 - b. For attaining the long-term organizational objectives
 - c. For development of new and better products
 - d. For acquisition of knowledge, skills and attitudes
 - e. For avoiding core competencies
 5. Which of the following along with rewarding the talented would help organizations to sharpen the overall talent edge?
 - a. Hiring, training, counseling
 - b. Recruiting, training, competing
 - c. Staffing, evaluating, performing
 - d. Training, profit making, compromising
 - e. Hiring, developing, promoting
-

18.6 Business Strategy Execution

The main objective of business strategy is to create sustainable competitive advantage for the firm. Business strategy has to be unique in the sense that-

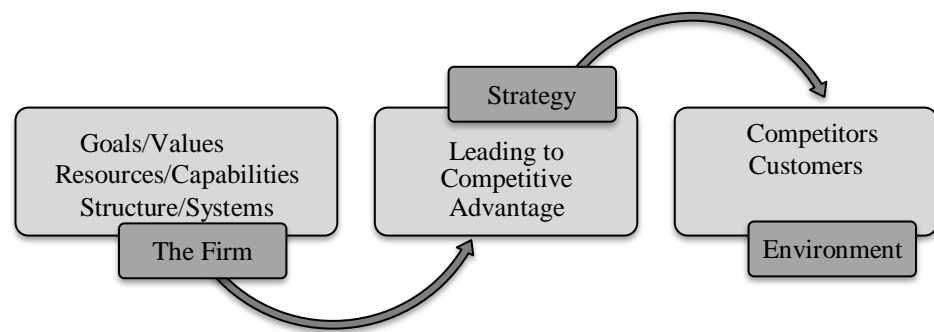
- The competitor fails to duplicate the benefits or
- The competitor finds it too expensive to adopt the strategy.

In essence, business strategy deals with the understanding how firms-

- Create, capture and sustain competitive advantage.
- Analyze strategic business situations and formulate strategic plans.
- Implement specific strategy and organize the firm for creating sustainable advantage.

Figure 18.2 illustrates the business strategy framework to bring about a fit between the internal and external environment.

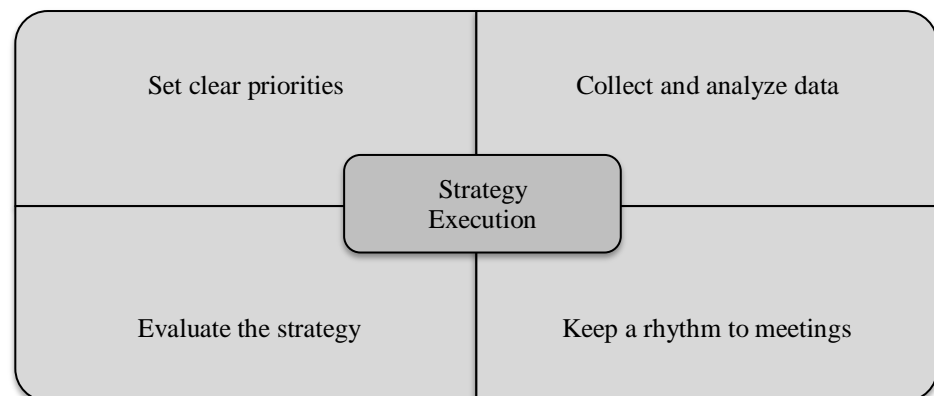
Figure 18.2: Business Strategy Framework



Source: ICFAI Research Center

In the ultimate analysis, any business strategy has to be translated into realistic achievements. The 4-step process is a simple method to help organizations to execute their strategies. The same is depicted in Figure 18.3.

Figure 18.3: Strategy Execution Graphic Representation



Source: ICFAI Research Center

Let us understand it better:

- *Set clear priorities:* Avoid setting too many priorities. Establish only one priority at a time along with supporting initiatives.
- *Collect and analyze data:* Develop key performance indicators (or KPIs) that can be measured and monitored on an ongoing basis.
- *Keep a rhythm to meeting:* Ensure that the entire organization keeps in sync with its vision and strategic plan and the staff should gather periodically for different types of update meetings.
- *Evaluate the strategy:* Periodic meeting with key personnel to discuss strengths, weaknesses, opportunities and threats (SWOT) and alter strategy to meet new contingencies.

18.7 Competency Mapping

Competency is an inherent set of knowledge, skills and attitude for accomplishment of desired results. According to Boyatzis, competency is “A capacity that exists in a person that leads to behavior that meets the job demands within parameters of the organizational environment, and that, in turn brings about desired results”.

Let us draw a distinction between competence and competency:

- Competence is a work-related concept that refers to areas of work at which the person is competent.
- Competency is a person-related concept that refers to the dimensions of behavior displayed by a competent performer.
- Competencies are often referred to as the combination of the above two (Woodruffe - 1991).

Types of competencies

The following are the various types of competencies:

- *Generic or threshold competencies:* Basic competencies required to do the job, which do not differentiate between high and low performers.
- *Performance competencies:* Are those that differentiate between high and low performers.
- *Differentiating competencies:* Behavioral characteristics that high performers display and are exceptional in nature.

Competency Mapping can be defined as a process through which one evaluates and determines one's strengths as an individual worker.

- Individual's level of competency in each skill is measured against a performance standard.
- Competency mapping involves the process by which we determine the nature and scope of a specific job role, the skills required, the level of knowledge required and the behavioral capacities required to apply those skills and knowledge in that role.

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- Competency mapping plays a vital role in selecting, recruiting and retaining the right people.
- When the competency required for a particular position is mapped, an accurate job profile is created – in terms of job specification and skill required.
- Competency mapping, irrespective of the sector and organization, follows steps that are consistent across its different methods.

Example

¹⁵Bruce Temkin, the managing partner of the Temkin Group, a Newton, Massachusetts-based research, consulting and training firm has enumerated purposeful leadership, compelling brand values, customer connectedness and employee engagement to be the four core competencies for superior customer experience.

Refer to Exhibit 18.3 for competency mapping for inclusion into the digital economy.

Exhibit 18.3: Competency Mapping - Inclusion into the Digital Economy

The workforce development has to be reimagined to prepare marginalized and vulnerable population for the future of work because of the following reasons:

- By 2024, roles requiring digital skills will grow by 12%
- 82% of businesses using collaboration tools would increase it further
- Project-based work has increased from 28% in 2015 to more than 70% in 2020

What has to be done now?

- Apply skills to interact, build relationships and show the self-awareness needed to work effectively with others in person as well as virtually.
- Build Tech Know-How to use, manipulate and create technologies and data.
- Create and solve skills to approach problem solving creatively, using empathy, logic and novel thinking.
- Learn to earn foundational skills to get work and be ready for the workforce.
- Cultivate a growth mindset skills to stay relevant, continuously learn and grow and adapt to change.
- Specialize for work relevant skills to address local market priorities and industry needs.

Source: <https://www.accenture.com/acnmedia/pdf-63/accenture-new-skills-now-inclusion-in-the-digital.pdf> (accessed on 6/1/2022)

¹⁵ <https://www.tcs.com/content/dam/tcs/pdf/perspectives/edition-9-the-four-core-competencies-of-cx-interview-with-bruce-temkin.pdf> (accessed on 6/1/2022)

18.8 Managing to be an Ethical Organization

Ethics are a foundation of a good company, and the best companies begin with a sound ethical footing. Following points need to be considered by the organizations:

- Ethics represent the philosophical side of an organization and ensure that an “organization” is transformed into an “institution”.
- Ethics is about what is right and wrong from a moral perspective.
- Driving forces of ethical organizations are ethical values and integrity.
- Ethical organizations reflect the values, attitudes and behavior patterns that define the organization’s operating culture.
- Organizational ethics is a direct reflection of its leaders.

18.8.1 Ethics and Leadership

Leaders are role models for their organizations and they must be consistent in their words and deeds providing the necessary inspiration by exhibiting exceptional values. Effective leaders take responsibility for ethical lapses within the organization.

18.8.2 Key Elements of Ethical Organization

Following are the key elements of an ethical organization:

- Communicates ethics as a priority
- Sets a good example of ethical conduct
- Keeps promises and commitments
- Provides transparency
- Supports employees in following organizational standards

18.9 Strategic HR Challenges in Employee Relocation

Employee relocation involves moving employees from one place to another, sometimes from one geography to another in the interest of the organization. It naturally causes a great deal of hardship to the employee and the majority of employees are averse to relocation.

Challenges in Employee Relocation:

The most common factor is "fear of the unknown" involved in a relocation exercise. The HR needs to understand the human factor in relocation. Often, the employee's family members exhibit more stress than the transferee himself/herself. HR has to address this potential with features that instill positive feelings in the transferee's family members.

Block 4: Emerging Trends and Challenges for Human Resources

The following check-list can help the HR as guidelines.

- Equitable compensation adjustments if the new location's cost of living is higher than the transferee's current home base.
- Using services of relocation firms to work with the firm and transferee to ensure a low stress, successful change of location.
- Paid house-hunting trips enabling the employee and his/her spouse to view appropriate homes and become familiar with acceptable new locations.
- Moving and travel expense reimbursement so the transferee's personal property is moved professionally and minimizes expenses for the family to travel to the new location.
- Compensation for time off needed to house hunt, for moving days and to get settled in the new location.

18.10 Meeting Social Responsibility

Corporate social responsibility (CSR) is the balanced integration of social concerns of the environment with business operations. HR is the organizational function dealing with recruiting, managing and motivating people for the cause of the organization. The following points will help us to understand it better:

- Companies are increasingly required to take into consideration the impact of their activities on society.
- HR function becomes a critical link. It is the responsibility of the HR department to ensure that employees have relevant knowledge, skills relevant to organizational learning and cultural change.
- How people are managed and how employees are engaged in the institution of the organization are critical for the CSR program of the organization.

Refer to Table 18.1 which focuses on the “I” factor. The models describe the responsibility of the individual to act in a responsible and accountable manner.

Table 18.1: I Factor - Responsibilities of the Individual

I am committed to act	
I believe	Employees are familiar with CSR strategy and how it helps the company to meet its objectives
I understand the message	Employees learn the reasons behind the company's CSR objectives and begin to understand their role in making the company successful
I'm aware of the message	Employees are familiar with the CSR strategy and how it helps the company meet its objectives.

Adapted from Melcrum, (2006) Engaging Employees in Corporate Responsibility: How the World's Leading Companies Embed CR in Employee Decision-making, p9

Example

TechSpark is the CSR initiative of Microsoft to support local communities by promoting digital skills and employability, increasing access to broadband and helping local organizations to thrive and leverage the power of technology to grow, innovate and compete.

18.11 Skill Development Dimensions

The various dimensions of skill development can be enumerated as follows:

- Organizations should have an understanding on how many people are required and how productive they would be at work.
- The people who join the organization should be willing to acquire the relevant skill-set to perform at the desired competency levels.
- The perception of skills development as a strategic tool would enable the business enterprises all over to seek to step up investments in skills development.
- This aspiration, to realize the potential of skills development, would give strength to the organizations to face common challenges.
- Organizational leaders should adopt a framework for strong, sustainable and balanced growth as the instrument for their cooperative action.
- The organizational policies should strengthen the ability of the workers to adapt to changing market demands to benefit from innovation and investments in new technologies.

18.11.1 A Common Framework for Skills Development

Organizational needs to match between today's and tomorrow's skills of their employees have to follow a multi-dimensional approach. It involves:

- Matching supply to current demand for skills which can be met with equality of opportunity in access to education, training, employment services and employment and quality of training,
- Secondly, help workers and enterprises to adjust to change by learning new skills, upgrading existing ones and to help workers to maintain their employability and enterprises to adapt and remain competitive.
- Finally, build and sustain competencies for future labor market needs with better education, training, innovation, investment, technological change, economic diversification and competitiveness, and thus job growth.

18.11.2 A Strategic Framework for Skills Development

The organizational policy framework for developing a suitably skilled workforce needs a strategic approach which focuses on:

- Training helps in matching skills to the needs of enterprises with a direct participation of employers, workers, and government and training providers.

Block 4: Emerging Trends and Challenges for Human Resources

- Continuous workplace training and lifelong learning to adjust to an increasingly rapid pace of change.
- Anticipating and building competencies for future needs with cooperation between employers and trainers, coordination across government institutions, and labor market information to an early identification of skill needs.

Skill development can be approached through a structured training intervention. It can be customized by using the following three-step method:

- ✓ Phase 1: Assess Situation and Prioritize High Impact Areas
- ✓ Phase 2: Transfer Skills and Apply Processes on Pressing Issues
- ✓ Phase 3: Deliver Results and Coach for Practical Workplace Application

It is here necessary to know the skills required for the new generation workforce.

18.11.3 Millennial Skill Development

Globalized markets are accelerating the diffusion of technology and the pace of innovation with new occupations emerging and replacing others. This change necessitates each occupation to require new skills and competencies.

Ultimately, the success of an organization depends on –

- How many of its people are at work?
- How productive are they?

This, in turn, rests on -

- The skills they have and
- How effectively are those skills used by its people?

Global trends and a selected number of global drivers of change are to be considered for education and training today and in the future. The major implications of these trends would be on the –

- Economic growth
- Growing size of the youth entering the world of work with low skill levels would find it difficult to secure jobs

Exhibit 18.4 illustrates the global skills initiative program of Microsoft.

Exhibit 18.4: Global Skills Initiative Program of Microsoft

The year 2020 is undoubtedly one of the challenging times in history, thanks to COVID-19. Amidst the ongoing pandemic, economies worldwide are trying to recover and revive. One such initiative would be acquisition of digital skills to fill the future jobs.

Contd....

All the organizations worldwide have intensified their diversity and inclusion efforts to provide access to digital skills to people who have been hit hard due to job losses during pandemic and not to forget women and unrepresented or underrepresented minorities.

Microsoft was fast enough to respond to this crisis and launched its global skills initiative program that aims at:

- Bringing more digital skills to 25 million people around the world by the end of 2020.
- Will integrate every part of the company by combining existing and new resources from LinkedIn, GitHub and Microsoft.

The focus area for Microsoft would be:

- To make use of data for identification of in-demand jobs and the requisite skills to man them
- To provide them with content for developing the skills required for career progression
- Affordable certification courses and free job-seeking tools to help develop marketable skills to pursue new jobs

Source: <https://www.microsoft.com/en-in/campaign/MS-IndiaSkillInitiative/> (accessed on 6/1/2022)

18.11.4 Skill Development - The Indian Scenario

The Indian skills ecosystem is maturing and governments and organizations today are committed to building a robust skill development system. However, coordination amongst multiple agencies remains a key challenge.

The key challenges are:

- It is not just for the economic benefit that India must skill its young population; it must do so for social reasons also. The ultimate objective is to create quality and productive employment opportunities.
- There is a need for creating a conducive environment.
- Making the people skilled is to be viewed as a national movement.
- India enjoys a demographic dividend that is not available even to the most advanced countries. There is a big responsibility of providing employability to millions of youth from this country.

There are two reasons why India needs to be in the forefront of skill development:

- i. India is turning out to be a high growth market – which will need employment in a big way.
- ii. With an ageing world population, young India has an opportunity to be the global supplier of manpower.

Block 4: Emerging Trends and Challenges for Human Resources

But the most important factor is skilling the people. This golden opportunity can be capitalized provided we develop the capability to cater to this demand. The following points need to be considered for skill development:

- The skill development initiative needs to dynamically align with the needs of the industry and work backwards to create training programs.
- Technology can play a critical role by exploiting economies of scale and reaching larger target audiences.
- While addressing the industry needs vis-à-vis skill gaps, it is important to look at the 'aspirations gap' of the youth too.
- Today's youth are highly aspirational and careers must provide them job satisfaction to avert problems in the future.

It is obvious that convergence of efforts at different levels and skill development institutions like National Skill Development Corporation of India (NSDC) will be the key for successful outcomes.

Example

In March 2021, Google CEO Sundar Pichai announced new efforts to reskill millions of job seekers by opening up enrollment for latest career certificates, diversifying employer consortiums and introducing new tools to enhance job search.

Let us now understand the role of top executives in skill development:

i) Role of CEO

The CEO plays a pivotal role in skill development with many CEOs mentoring and insisting on continuous up gradation of skills of employees for achieving better outcomes. The following points speak about the role of CEO in skill development:

- They regard the development of the next generation of employees as essential for organizational growth.
- When the leader “walks the talk,” the message is loud and clear for the rest of the staff to get inspired in following in the leader's footsteps.
- He/she provides general direction for the training function.
- The vision of an organization reflects in the CEO's expression of what the true culture of the organization should be with regard to training, education and overall improvement of the people within the organization.

ii) Role of Chief HR Executives and Chief People Officers in Organization Skill Development

The Chief Human Resources Officer (CHRO) and similar other job titles who oversees all aspects of human resource management and industrial relations

policies, practices and operations for an organization have a vital role to play in organizational skill development.

- The CHRO's roles and responsibilities would encompass issues relating to workforce as a strategist, organizational and performance conductor, HR service delivery owner, compliance and governance regulator and coach and adviser to the senior leadership team and the board of directors.
- They may also be involved in board member selection and orientation, executive compensation, succession planning, communications, facilities, public relations and related areas.
- As they report directly to chief executive officers, their key capabilities required vary by company based on business strategy and the competitive global environment.
- They help the organization in developing and managing a multi-generational workforce.
- They facilitate them to adapt to the change and operate effectively in different cultures and business structures.
- The strategic role of the CHRO has expanded with increased knowledge of workforces and companies requiring better systems to compete for scarce high-skilled workers.
- Their focus is not exclusively on human resource issues and service delivery, but is also on creating strong talent pipelines to both enhance organizational decision-making and secure future growth.
- These changes in the business landscape are forcing the CHROs to heighten the focus on talent, capabilities and company culture.

The focus of skill development will be on key skills and capabilities such as understanding of technology and analytics, familiarity with multiple disciplines, ability to manage change and commercial acumen.

Check Your Progress - 2

6. Which among the following refer to the basic competencies required to do the job, which do not differentiate between high and low performers?
 - a. Generic competencies
 - b. Performance competencies
 - c. Differentiating competencies
 - d. Merit competencies
 - e. Unique competencies

Block 4: Emerging Trends and Challenges for Human Resources

7. Which of the following is the appropriate term for the underlying characteristic that resides in the person that enables him in result accomplishment?
 - a. Competence
 - b. Competency
 - c. Competencies
 - d. Complementaries
 - e. Skill-development
8. Which of the following is not a key element of ethical organization?
 - a. Communicates ethics as a priority
 - b. Sets a good example of ethical conduct
 - c. Keeps promises and commitments
 - d. Provides information about what is going on
 - e. Ensures profits at any cost
9. Which of the following does not find a place in the HR checklist for employee relocation?
 - a. Equitable compensation adjustment
 - b. Moving and travel expense reimbursement
 - c. Paid-house hunting trips
 - d. Compensation for time-off
 - e. Compensation based on merit
10. Which of the following areas does not involve the CHRO during skill development initiative?
 - a. Board Member selection and orientation
 - b. Executive compensation
 - c. Succession planning
 - d. Public relations
 - e. Sales forecasting

18.12 Summary

- To ensure a sustainable competitive advantage is the ultimate challenge of HR strategy in an organization.
- HR has to proactively play a role in the strategic workforce planning processes and develop analytics to assess, manage and measure employee performance and monitor the inflow and outflow of talent in the organization.

- Human resources planning should serve as a link between human resources management and the overall strategic plan of an organization.
- A good and sound acquisition of employees is critical for business success in the highly competitive business environment.
- Training as an organizational learning intervention plays an important role to facilitate building up knowledge, attitude and skills among employees in the organization to improve their current job performance and contribute to the achievement of organizational goals.
- A documented HRM strategy helps the organization to develop an HRM vision and objectives and to monitor performance.
- In the 21st century, successful “talent management” requires pro-active involvement from individuals and organizations alike.
- Recruiting and retaining employees through a well thought out process is critical for the organizations to stay competitive in the highly competitive business environment.
- Competency is the ability to accomplish desired results. It resides in the person and is an underlying characteristic that enables results accomplishment (Knowledge- Skill and Attitude).
- Ethics form the foundation of a good company and the best companies begin on a sound ethical footing.
- Employee relocation involves moving employees from one place to another, sometimes from one geography to another in the interest of the organization. HR has to deal with the issue with sensitivity.
- It is the responsibility of HR to ensure that employees have knowledge, skills and behavior. They should contribute effectively to the CSR initiatives.
- The Indian skills ecosystem is maturing and government of the day is supportive of building a robust skill development system. Convergence of efforts at different levels and skill development institutions like National Skill Development Corporation of India (NSDC) will be the key for successful outcomes.

18.13 Glossary

Demographic Dividend: Demographic dividend occurs when the proportion of working people in the total population is high because this indicates that more people have the potential to be productive and contribute to growth of the economy.

Employee Empowerment: Employee empowerment is giving employees a certain degree of autonomy and responsibility for decision-making regarding their specific organizational tasks.

Block 4: Emerging Trends and Challenges for Human Resources

Organization Vision: Organizational vision refers to the projection of a future status of an organization where the organization intends to arrive through shared purpose amongst the organization's members.

SWOT: A study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats.

18.14 Self-Assessment Test

1. Briefly explain the concept Strategic HR Acquisition and Employee Training and Development.
2. Analyze briefly Role of SHRM in enhancing organizational performance.
3. Give an account of various challenges in employee relocation.
4. Examine the various types of competency mapping.

18.15 Suggested Readings/Reference Material

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

18.16 Answers to Check Your Progress

1. **True**
To ensure a sustainable competitive advantage is the ultimate challenge of HR Strategy in an organization.
2. **(e) Inventory Management**
All other options deal with talent management whereas inventory management deals with production management.
3. **(a) Knowledge, attitude and skills**
Training as an organizational learning intervention plays an important role to facilitate learning of knowledge, attitude and skills among its employees.

4. (e) For avoiding core competencies

All the other options like gaining competitive advantage, attaining the long-term organizational objectives, development of new and better products, acquisition of knowledge, skills and attitudes require continuous learning in the organization.

5. (e) Hiring, developing, promoting

By hiring, developing, promoting and ultimately rewarding talented workforce the company can sharpen the organization's overall talent edge.

6. (a) Generic competencies

Generic or threshold competencies refer to the basic competencies required to do the job, which do not differentiate between high and low performers.

7. (b) Competency

Competency resides in the person and is an underlying characteristic that gives rise to skill accomplishment.

8. (e) Ensures profits at any cost

Except ensuring profits at any cost, the remaining options are key elements of an ethical organization.

9. (e) Compensation based on merit

Compensation based on merit is not considered while employee relocation rather, compensation based on adjustment and time-off are considered. Similarly moving and travelling reimbursement and paid house-hunting is also considered.

10. (e) Sales forecasting

The CHRO would be involved in board member selection and orientation, executive compensation, succession planning, communications, facilities and public relations. Sales forecasting comes under the purview of Chief of Sales and Distribution area.

Strategic Human Resource Management

Course Components

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Unit 16	Outsourcing and Legal Implications
Unit 17	Ethical Issues in Strategic Human Resources Management
Unit 18	Strategic Human Resources Challenges