Human Resource Management
Introduction to Human Resource Management

Human resources is one of the most valuable and unique assets of an organization. According to Leon C. Megginson, the term human resources refers to “the total knowledge, skills, creative abilities, talents and aptitudes of an organization’s workforce, as well as the values, attitudes and beliefs of the individuals involved.”

Management as a process involves planning, organizing, staffing, leading and controlling activities that facilitate the achievement of an organization’s objectives. All these activities are accomplished through efficient utilization of physical and financial resources by the company’s human resources.

Human resource management is one of the most complex and challenging fields of modern management. A human resource manager has to build up an effective workforce, handle the expectations of the employees and ensure that they perform at their best. He/she also has to take into account the firm’s responsibilities to the society that it operates in.

Traditional approaches to personnel management emphasize command and control. These have now given way to new approaches characterized by greater freedom and support to the employee. This transformation is almost complete and many successful companies today empower their employees to manage most aspects of their work.
Before the 1980s, personnel administration was characterized by standardization, and consistency and conformity were the hallmarks of the management policy. However, today, flexibility has become a significant aspect of a company’s corporate human resource strategy. Though an organization’s physical assets are major factors in determining its success, it has now been accepted that its employees or human resources, are equally critical assets. The successful management of an organization’s human resources is an exciting, dynamic and challenging field, especially at a time when companies are globalizing, and employing increasingly larger numbers of knowledge workers.

In this chapter, we discuss the concept and the history of human resource management (HRM), its functions, its policies and procedures, the role of HR professionals in organizations and the challenges facing them in the 21st century.

In this chapter, the student should be able to understand the

- Definition and Concept of Human Resource Management
- History of Human Resource Management
- Functions of Human Resource Management
- HR Policies and Procedures
- Emerging Role of Human Resource Management
- Role of HR Executives
- Challenges to HR Professionals
- Strategic Human Resource Management
Section 1

Definition and Concept of Human Resource Management

Human resource management deals with the “people” dimension in management. Byars and Rue, say “Human Resource Management encompasses those activities designed to provide for and coordinate the human resources of an organization.”² According to Ivancevich and Glueck, “Personnel/Human resource management is the function performed in organizations that facilitates the most effective use of people (employees) to achieve organizational and individual goals.”³

Every organization is composed of people and utilizing their services, developing their skills, motivating them to enhance their levels of performance and ensuring that they remain committed to the organization are essential for the accomplishment of organizational objectives. This is true for all types of organizations - government, business, education, health, recreation or social action. Acquiring and retaining good human resources is an essential precondition for the success of every organization. Organizations that can do this will be both effective (i.e., they will be able to achieve their goals) as well as efficient (i.e., they will use minimum resources necessary to achieve their goals). Inefficient or ineffective organizations face the danger of stagnating or going out of business. Competent managers and workers are essential for the coordination of efforts towards the ultimate objectives which ensure the survival of the organization. Though such coordination alone cannot guarantee success, the lack of it can lead to failure.
HRM is a process that consists of four functions – acquiring, developing, motivating and retaining human resources. The acquisition function starts with planning (for the number and categories of employees required) and ends with staffing. The development function has three dimensions – employee training, management development, and career development. The motivation function includes identifying the individual motivational needs of employees and identifying ways to motivate them. The retention function is concerned with providing a work environment conducive to the employees and nurturing them to make them feel committed and attached to the organization.

These four functions and their constituent sub-functions have changed over the years, in response to changes in the social and political environment of business, and as a result of new developments in management thought.
Section 2

History of Human Resource Management

There is a vast difference between modern HRM and the personnel management that was prevalent decades ago. By the end of the twentieth century, the managerial philosophy that has defined the personnel function has undergone radical changes. Over the past eighty years, the scientific management approach and the human relations approach appeared and then disappeared too. The human resource approach has gained prominence in the recent times.

Scientific Management Approach

In the early 1900s, most business owners and managers believed that if employees were to be effectively managed, they had to be constantly supervised and forced to work. All employees were considered to be equal in terms of productivity; when they failed to achieve the set targets they were disciplined or fired. The scientific management approach challenged these beliefs and suggested that managers adopt a scientific and objective approach to determine how work could be designed and carried out most efficiently. Fredrick Taylor, who is widely considered to be the father of scientific management, focused on the study of motions that were required for each job, the tools used, and the time needed to accomplish each task. Fair performance standards were then determined for each job, on the basis of such scientific data rather than on the superior’s subjective judgment. Those workers whose output exceeded the standard were given additional incentive pay. Scientific management principles spread quickly and gained wide popularity at that time. However, the belief that formed one of the bases of scientific management – that, workers were solely motivated by money – led to many problems.

The scientific management approach resulted in work methods and techniques that emphasized employee output. Taylor’s time-and-motion studies replaced “rule-of-the thumb” work methods with the “one best way” to accomplish a task. This “one best way” to do the job involved a high degree of standardization and usually required little mental effort. Workers had few opportunities to use their judgment or make their own decisions. Advocates of this approach pointed out that these were not serious limitations, as the average worker (of that time) did not have much formal education and employed minimum knowledge and skill in his work.
During the early years of the twentieth century, managers embraced the concept of the ‘economic man’, which suggested that a worker was basically motivated by economic gain and that financial incentives alone could maximize the worker’s output. It was this concept that led Taylor to propose the differential piece-rate system where workers get a higher rate of pay for every unit of output that exceeds the daily output standard. Taylor expected the workers to maximize production in order to satisfy their one work-related need – money.

During the time, personnel departments of big manufacturing organizations had the traditional responsibility of recruiting, selecting, and training staff, and ensuring the health and safety of their employees. Nevertheless, the prime focus of their activities was the implementation of the scientific management techniques. Thus personnel staff conducted time-and-motion studies and fatigue studies; did job analysis and developed job specifications; and designed wage incentive programs. Many personnel departments supported welfare programs that addressed such needs of the workers like vacations, employee hygiene, job training, lunchrooms, company housing, employee loans, insurance plans and recreational programs. These welfare programs reflected the paternalistic attitude of the management. However, such practices were not very successful in bringing about behavioral changes and productivity gains to the extent desired by the management. This is why the employee welfare programs become less popular during the 1920s and 1930s.

### Human Relations Approach

The Hawthorne studies, conducted during the 1930s and 1940s, forced organizations to shift their attention from the scientific management approach to the human relations approach. The results of these studies suggested that employee productivity was affected not only by the way the job was designed and the economic rewards but also by certain social and psychological factors. In the course of their studies, Elton Mayo and F. J. Roethlisberger found that the feelings, emotions and sentiments of employees were greatly influenced by such work conditions as group relationships and management support. These soft rewards in turn affected productivity. It was recognized that treating employees with respect would improve employee satisfaction and help in achieving higher productivity.

The growing strength of unions was also a major factor responsible for the shift to the concept of human relations. The rise of unionism gave workers the legal right to organize and to bargain collectively. The issues varied from wages and benefits to job security and working conditions. Though unionization led to the deterioration of labor-management relations in some companies, by and large, it led to greater acceptance of the principles of human relations.

Although the human relations approach was instrumental in improving the work environment for many workers, it was not very successful in increasing their productivity and improving job satisfaction. The reasons for this were:
This approach was based on an oversimplified concept of human behavior in an organizational setting. The assumption by the management that “a happy worker is a hard worker,” is now found to be valid only for a part of the workforce.

The human relations approach did not recognize individual differences. Each employee is unique and his/her wants, needs and values would be different. Moreover, something that motivates one worker may not have the same impact on another worker.

The approach did not recognize the need for a job structure. It did not give adequate importance to procedures, standards and work rules that would steer employees towards the achievement of organizational goals.

The approach failed to recognize other factors that could influence employee satisfaction and productivity, like performance management, career development, job enrichment and career planning. It assumed that good human relations alone was sufficient to foster a high level of motivation, which is not true in practice.

During the 1950s and 1960s, the human relations approach began to be seen as outdated, and was abandoned by many organizations. Though good human relations are a significant organizational objective even today, it is no longer the predominant approach in guiding management of employees within organizations. It is now evident that many factors have to be considered in order to ensure high levels of employee satisfaction and productivity.

**Human Resources Approach**

Organizations have now adopted the human resources approach, which treats the organizational goals and employee needs as being mutual and compatible, and which can be pursued in unison.

Research in behavioral sciences during the 1970s suggested that treating people as resources rather than as factors of production or as human beings who act on the basis of emotions alone, would lead to real benefits for the organization as well as for the employee. The human resources approach is based on a number of principles, some of which are:

- Employees are assets to an organization. The time and resources employed in managing and developing them are an investment that the organization makes for better returns in the present and in the future.

- Policies, programs and practices must cater to the needs of employees and should help them in their work and also in their personal development.

- It is necessary to create and maintain a work environment which is conducive to encourage the employees to develop and harness their knowledge and skills for the benefit of the organization.
HR policies and practices should be in alignment with the goal of balancing individual and organizational needs. This can be achieved through a mutual process where the organization and the employees help each other to achieve their goals, as represented in Figure 1.2.1.

**Figure 1.2.1: Human Resource Approach**

Source: ICMR.
Section 3

Functions of Human Resource Management

Every manager must get things done through people. Individual goals and aspirations have to be in alignment with organizational goals for the successful handling of a business. An effective manager should be able to utilize human and non-human resources to bring about this alignment and eventually achieve these goals. A manager’s handling of the human assets reflects his/her managerial capabilities. Managing people is one of the biggest challenges for any manager, for the following reasons:

- Individuals differ from each other in terms of their values, attitudes, beliefs and culture. This leads to a very complex situation in an organizational context.
- The stimulating and motivational factors might not be the same for all the employees. It is important to understand the individual needs of these employees and cater to these needs.
- The expectations of employees of today are much greater when compared to the employees of yesteryears. They know they are valuable assets and demand to be treated as such.

A manager must understand and accept the fact that individuals, and not organizations, create excellence. The famous American industrialist, John D Rockefeller once said, “I will pay more for the ability to deal with people than for any other ability under the sun.” This explains the importance of the human element in organizations. Underlining the significance of the human element in the production process, Peter F. Drucker says that “man, of all the resources available to man, can grow and develop.”

However, there are still many unanswered questions about how to establish the right climate for enhancing employee motivation and commitment.

HRM functions can be broadly classified into two categories:

1. Managerial functions
2. Operative functions
Refer to the keynote (1.3.1) for the various functions of Human Resource Management.

**Keynote 1.3.1: Functions of HRM**

Managerial functions (refer to keynote 1.3.1) of the human resource department are planning, organizing, staffing, directing and controlling. All the managerial functions have an impact on the operative functions, as shown in Figure 1.3.1.

**Operative Functions**

The operative functions of HRM are related to specific activities of HRM, viz., employment, development, compensation, and employee relations. Since the human resource function is unique to each organization, the activities of the HR department differ from one organization to the other.

The various operative functions of HRM are discussed below:

**Employment**

Employment is the first operative function of HRM. This involves sourcing and employing individuals with suitable knowledge, skills, experience and aptitude necessary to perform various jobs. It includes functions such as job analysis, human resource planning, recruitment, selection, placement, and induction.

**Job Analysis** – To ensure the satisfactory performance of an employee, his skills, abilities and motives to perform a job must match the requirements of the job. A mismatch will result in poor performance, absenteeism, turnover and other problems. Job analysis is the process by which the tasks which comprise the job are determined and the skills and abilities required to perform it successfully are identified. It is
the process of studying and collecting information pertaining to the operations and responsibilities of a specific job. It involves:

- Preparing job description, job specification, job requirements and employee specification so that the HR manager can determine the nature, levels and quantum of human resources required.
- Providing the guides, plans, and basis for job design and redesign. It also forms the basis for all operative functions of HRM.
- The job analysis data, besides being used for job description and specification can also be used for job evaluation which is discussed in page 14.

**Human Resource Planning**— Human resource planning involves forecasting the human resource requirements of an organization and the future supply of human resources, and making suitable adjustments between these two in correlation with organizational plans. It also involves assessing the possibility of developing the human resources to match the requirements, by introducing appropriate changes in the functions of HRM. Human resource planning assures an organization of suitable and adequate manpower to perform various jobs in accordance with the organizational goals. It involves:

- Estimating the present and future manpower requirements on the basis of long range plans and organizational objectives
- Estimating the net human resource requirements on the basis of the present inventory of human resources, and taking into account retirements, transfers, attrition etc.
- Taking measures to mould, change and develop the existing employees to enable them meet future organizational requirements
- Developing action plans to attract and acquire valuable human resources from the market.

**Recruitment** — To a large extent, the effectiveness of an organization depends on the effectiveness of its employees. Hence, recruitment of human resources becomes a significant HR function. Recruitment is the process of seeking and attracting prospective candidates against a vacancy in an organization. It involves:

- Tapping the existing sources of applicants and developing new sources
- Identifying or creating new sources of applicants
- Stimulating and attracting the candidates to apply for jobs in the organization
- Deciding on the recruitment procedure.

**Selection** — The purpose of employment selection is to choose the right candidate for a job. The process of identifying and establishing the credentials of a candidate for a job to ensure success is referred to as selection. This includes predicting the in-job performance of candidates. This function deals with:
Scanning the application forms/CVs
Identifying and developing suitable and reliable testing techniques
Involving the line managers or respective departments
Evaluating the candidates and fixing their salary and benefits
Formulating medical fitness policy and examination procedures
Intimating the candidates, even the ones who are not selected, about the results of the selection process
Employing the selected candidates.

Placement – After a selected candidate conveys his/her acceptance of the offer of employment made by an organization, his/her placement has to be decided based on the needs of the organization. The individual’s needs also have to be given due consideration where possible.

Discussing the placement with the line/functional managers and identifying a mentor for the new entrant
Conducting follow-up study and evaluating employee performance so as to determine how well the employee has adjusted to the job
Identifying mistakes in placements and correcting them.

Induction – Introducing a new employee to the organization, its business, the organization culture, its values and beliefs, and practices and procedures is termed as induction. It also includes helping the employee get acquainted with his new job and his tasks and responsibilities.

Human Resources Development

Human Resource Development (HRD) is the process of training and developing employees to improve and update their knowledge and skills, so as to help them perform their jobs better. The process also includes developing the attitudes, beliefs and values of the employees to match the organizational needs. HRD has to be a continuous process and should take into consideration both the present and future organizational requirements. HRD includes performance appraisal, training, management development, and career planning and development.

Performance Appraisal – This is the process of evaluating the performance of an employee on the job and developing a plan for improvement. This includes an assessment of the strengths and weaknesses of the employee, and drawing up a development plan in consultation with him to prepare him for future tasks and responsibilities in the organization. Performance appraisal includes:

Designing a performance appraisal system that suits the organizational needs and culture;
Developing suitable methods to ensure that the system works successfully;
Training all the employees in conducting appraisals;
Implementing the system effectively and maintaining records;
Obtaining feedback on its effectiveness and making timely and necessary changes.

**Training** – Training is the systematic development of the knowledge, skills and attitudes required to perform a given task or job successfully, in an individual. It includes:
- Identifying the training needs of the individuals, keeping in view the organizational needs.
- Designing suitable training programs to eliminate the gaps in knowledge, skill or attitude.
- Conducting training programs, or providing support to other departments in conducting training.
- Evaluating the effectiveness of the training programs and making necessary changes.

**Management Development** – Management development is the concept of developing the employees of an organization to meet future changes and challenges. It includes forecasting the human resource demands of an organization and gearing up to meet these demands. Management development looks at enabling an employee to develop his overall personality and his capability for continuous improvement. It is different from training, where the employee is taught a set of specific skills or imparted knowledge on a particular subject.

**Career Planning and Development** – Career planning refers to identifying one’s career goals and formulating plans of reaching them through various means like education and work experience. Career development looks at individuals’ goals from the point of view of the organization, where as career planning looks at the same from the individual's viewpoint. Hence, it is important that career planning and career development reinforce each other.

**Compensation**

Compensation includes all the extrinsic rewards that an employee receives during and after the course of his/her job, for his/her contributions to the organization. The principles of compensation payment are that it has to be adequate, equitable and fair to the employees. Compensation encompasses base salary, incentives, bonus and benefits and is based on job evaluation.

**Job Evaluation** – It is a systematic determination of the value of each job in relation to other jobs in the organization, in the industry and in the market. In other words, job evaluation involves classifying a job based on its importance and its contribution to the organization and its requirements. It involves:
- Identifying/designing suitable job evaluation techniques
- Evaluating various jobs
- Ascertaining the relative worth of jobs in various categories.
Wage and Salary Administration – The process of formulating and operating a suitable wage and salary program is known as wage and salary administration. It includes:

- Conducting wage and salary survey in the market and in the industry
- Determining wage and salary rates on the basis of various factors like law, equity, fairness and performance
- Implementing wage and salary administration programs
- Evaluating the effectiveness of these programs.

Incentives - Incentives are the rewards an employee earns in addition to regular wages or salary based on the performance of the individual, the team or the organization.

Bonus – Bonus is primarily a share in the surplus or bounty and is directly related to the organization’s performance. In India, the payment of bonus is a very popular means of rewarding employees and is governed by The Payment of Bonus Act 1965.

Fringe Benefits – Fringe benefits are those monetary and non-monetary benefits given to employees during their employment, and sometimes, in the post-employment period also. These benefits are connected to employment with the organization and are not related to the employee’s performance. These benefits provide a sense of security to the employee and keep them committed to the organization.

Some of the fringe benefits include:
- Disablement benefits
- Housing facilities
- Canteen facilities
- Conveyance facilities
- Educational facilities for employees and their children
- Credit facilities
- Recreational facilities
- Medical and welfare facilities
- Post-retirement benefits
- Company stores
- Legal aid.

Employee Relations

Employee relations deals with the employees in the organizational context, as a social group that contributes to the organization. It includes:

- Increasing employee productivity
- Keeping the employees satisfied and motivated
- Developing team building, team management and leadership skills in employees
Designing and implementing a fast and suitable grievance management system

Ensuring discipline among the employees by prompt action to correct deviations

Supporting employees by counseling and developing them into complete individuals and responsible citizens

Enhancing the quality of worklife and personal life of the employees.

The relationship between an employee and his manager plays a critical role in determining the job satisfaction level of the employee. Ideally, an average employee desires his manager to possess the following characteristics:

- Be genuinely interested in the employee and his/her work
- Lend support and guidance whenever required
- Bring in clarity in terms of the job responsibilities and tasks
- Identify the strengths and suggest how to build on them
- Identify the weaknesses of the employee and encourage him/her to overcome them
- Take a personal interest in the employee and his/her problems
- Be willing to listen and accept concrete and valuable ideas
- Reward the employee for his/her contributions
- Have faith and confidence in the abilities of the employee
- Be frank and open in his/her dealings with the employee as well as the organization.
Section 4

**HR Policies and Procedures**

HR policies define the role of the HR department in an organization. These policies are derived from the organizational and HR objectives and guide the decision-makers. They should aim at achieving both employee satisfaction and organizational objectives, without any conflict between the two. The HR policies of an organization should be based on ground realities and be employee-friendly. HR policies that are based on individual decisions of some top management staff would lead to employee frustration and their subsequent alienation from the organization.

HR policies can be defined as the set of guidelines that determine the way in which employees are to be treated in the organization. They are based on the organizational culture and the external environment, apart from the organizational objectives. For example, if an organization believes that its employees are its most important assets and that it needs to keep them happy, then its HR policies would be employee-friendly. Similarly, if an organization’s goal is to grow rapidly in the market on the strength of its employees, this would be reflected in its policy to train and develop and invest in the employees. However, in an organization where human resources are treated as just factors of production, the HR department would have a very limited role to play. In a competitive environment, where companies are all vying for the same talent, the responsibility and demands on the HR department are immense.

Good HRM policies enable the management to keep the workforce secure, satisfied and motivated. They also help the management in deriving better employee performance, in better management and also in cost-savings. For example, the organization’s policy on rewarding performance would enable the organization to get higher standards of performance from its employees and also keep them motivated. HR policies also help in maintaining uniformity in administration across different units and departments in the organization, as the guidelines are already set. They lead to better control and coordination. For example, the leave policy keeps track of employee regularity and the transfer policy of the organization supports better organizational management.

HR policies need to find a balance between a number of factors like organizational objectives, individual
expectations, market demands, etc. Therefore, they are difficult to formulate and implement. In other cases, the positive aspects of a policy could get shrouded by individual fallacies at the implementation stage. In some other cases, a policy designed earlier might no longer be relevant or desirable. HR policies need to be updated to match the changing needs of the organization and the employees. For example, in earlier times, pay was linked to the length of service but in today’s highly competitive environment, it is related to employee and organizational performance.

HR policies should be easy to understand and implement. They should favor the employees of the organization and not leave room for any discrimination among them. For example, if the performance appraisal policy of the company implies that everything is in the hands of the immediate superior, then it might lead to a host of problems like individual biases of the boss, special favors, employees concentrating on pleasing the boss and unhealthy competition. HR policies should therefore be designed and implemented with utmost care.

HR procedures help the management in implementing the HR policies. They are specific applications or actions. For example, suppose the performance policy of an organization states that performance is to be rewarded. The procedure that aids in implementing this policy is payment of annual/quarterly incentives based on employee performance.
Section 5

Emerging Role of Human Resource Management

In the changing times, it has become evident that it is the human resources of an organization or a country that can lead it on the path of success. It is the competencies and attitudes of the human resources that can make or break a business. The business of attracting and retaining talent and nurturing it has become imperative for the development of an organization. Innovative and proactive HR managers have been defining new boundaries of HRM. The turbulent and dynamic markets and the changing values and expectations of the workforce have made the earlier concepts of personnel management irrelevant. A new strategic role has emerged for HRM - that of a key player, to make the organization survive and succeed in a highly competitive business environment.

Value of Human Resources

The human resources of a country play a vital role in determining its progress and prosperity. Even a nation with rich physical resources will not develop, if its human resources are inadequate. A nation rich in its human resources can develop fast and a developed nation enriches the quality of its human resources; this is a cyclic process. In this modern age of technology and globalization, quality human resource is an important contributor to the well-being and development of a nation.

Human Resources - A Competitive Advantage

Business has become knowledge based, service oriented, competitive and more dynamic in this new age. The quality of human resources has become an essential factor in determining the success of any organization. According to Adi Godrej, Chairman and Managing Director, Godrej Consumer Products Ltd., “all corporate strengths are dependent on people.” Human resources of an organization is an unique asset to the organization and is essential for a business to gain competitive advantage over its competitors. Hence, there is a need for effective HR professionals and workers in the market.

Human Resources Accounting

In the words of Eric Flamholtz a renowned HR consultant and a Professor at Anderson Graduate School, human resources accounting is defined as “accounting people as organizational resources. Human resources accounting is
measurement of the cost and value of people for an organization.”
Till recently, people were not accounted as resources and no value was attributed to their contribution. However, in recent times, the criticality of the contributions of human resources have been acknowledged and recognized. Hence, the concept of attributing an appropriate value to the worth of human resources of an organization has become popular. Human Resource Accounting helps management to value its human resources and use these resources with discretion and wisdom. It also provides essential information to the management to maintain and develop its important resources. Hence, human resources accounting is considered to be an appropriate control technique.

**Strategic Human Resource Management**

Strategic Human Resource Management is the optimum utilization of human resources to achieve the set goals and objectives in the business environment. This utilization has to be in alignment with the organizational strategy and in tandem with the strategies of other functional areas like finance and marketing. Objectives are achieved and visions realized only when this synchronization takes place. In detail it is explained in section 8.
Role of HR Executives

HRM is a part of every manager’s job. Let us look at the different roles and responsibilities of HR managers in this context. However, it has to be noted that in a dynamic working environment, the boundaries of any role cannot be clearly defined; therefore, the following should be considered only a broad outline. The specialist role of the HR manager takes a number of forms explained in the keynote 1.6.1:

- Service Provider
- Executive
- Facilitator
- Consultant
- Auditor

Source: www.justanotherhrblog.files.wordpress.com

Keynote 1.6.1: Role of HR Executives

Source: ICMR
Challenges to HR Professionals

The business environment has become very fluid and turbulent in the recent times. This is especially true in the Indian context, after the economy has opened up to the global challenge. The markets have become very competitive and businesses have been forced to become more service-oriented. In this scenario, it is a very challenging task to attract, mould, develop and retain (or retrench) valuable human resources. The expectations of the employees have also increased as more and more of them belong to the category of knowledge workers. They are in demand and they are in a position to choose their employer, and none except the best would do (Refer to Exhibit 1.7.1 for challenges faced by HR professionals).

Worker Productivity

In today’s highly competitive markets factors like world-class quality, flexible manufacturing, and shorter product development cycles are not competitive advantages but prerequisites for survival. Companies are reinventing themselves to stay ahead of the competition. One of the major steps taken in this direction is a complete revamp of organizational culture and structure. Tall hierarchies and communication barriers have been dismantled. Business decisions are no longer taken within the confines of the board rooms. They are taken in the place of work, on the shop-floor and in the market, because that is where the action is. This new concept of empowerment gives the employees a feeling of belonging and commitment towards the organization. The fact that they are accountable for their decisions makes them more responsible and keeps them motivated to better their performance.

Many HR professionals are leading the workplace revolution. They have infused fresh life into the old and archaic systems which are no longer relevant. They prod their employees to be more creative, proactive and outgoing. In many organizations, the management is willing to take the risks involved in giving more autonomy and responsibilities to their employees. They are confident of their employees and their capabilities. Self-managed teams are now common and have replaced supervisors in many competitive companies. The old concept that all people-related problems are problems of the HR department is no longer valid. The line managers can no longer ignore people-issues. They have to manage people if they have to manage the work in their respective departments. The HR department is a facilitator providing the support required by the line managers on any personnel related issue.
Quality Improvement

For the past several years, the term “quality” has been popular corporate buzzword. Every company has to continuously strive to improve the quality of its products and services if it has to survive in the highly competitive market. It is disastrous to be complacent with quality; every competitor is trying to do better than the others. Customers have become more quality conscious and are always on the lookout for the best bargain.

A quality orientation requires a significant change in corporate culture. Quality is all pervasive and affects all the departments. For a company to strive for excellence in quality, all its employees and the top management should have a strong belief in, and commitment to, the concept of quality. In today’s world, all the companies have woken up to the reality of “excellent quality” and are gearing up to meet the quality challenge. If some companies are striving to meet the global quality standards, leaders like GE are setting these standards. Jack Welch, the former CEO of GE recognized the importance of ‘quality’ almost two decades back, when most of the companies were unaware of the sweeping changes of a global market that would soon emerge. Welch predicted that the Japanese companies, which were very quality conscious, would shake up the American markets. He made ‘quality’ the mantra for the employees of GE. It took sometime for the employees to accept and understand the concept as they were uncertain as to why Welch was bent upon improving the quality standards which were already the best in the American industry. They realized the importance of Welch’s proactive step when most of the American

Exhibit 1.7.1
The Challenges Faced by HR Professionals

With growth of the national economy, and industries like IT and business process outsourcing experiencing a boom, the job of HR professionals was becoming twice as challenging. Marcel Parker, president, HR at Raymond Group of Companies, Mumbai said, “It is like building an aircraft while you’re in the air.”

HR professionals were facing excessive expansion of workforce in some industries and severe attrition in others and were spending over 80 percent of their time on recruitment. To add to this, the bulk of women they hired, who represented 20 percent of the workforce, quit abruptly before age 30.

The toughest part was to find workers with the suitable skills required as even top industries were unable to attract college students without raising salaries and lowering job expectations. A senior HR director at Skyworks Solutions Inc. in California, Philip Felando, who was also responsible for the company’s Hyderabad office observed that the Indian employees got quick raises and promotions after six months because of HR’s fear of losing them, as opposed to their western counterparts who had to wait for at least two years. An added factor leading to higher salaries was that skilled Indian workers tended to give long notice periods of 4-6 weeks and survey the market to get counteroffers that could further better their current one. Retention of young employees was a major challenge, whatever the industry. Some new hires found a better job in the short time between offer and start date and never show up to work on the first day.

Finding employees with the right attitude to match the changing workplace culture was another problem faced by the HR professionals. It was observed that most workers lacked the drive and dedication that existed in their counterparts in countries like Singapore or China. Moreover, they were not interested in progressing in their careers but only in balancing work with their existing family and social commitments.

HR experts felt that though India had numerous engineers and technocrats it lacked managers, who could be the driving force in an organization. Out of the existing managers, many lacked training and expertise and only a handful of them had international experience. Due to the lack of experience, managers were inadequately prepared to handle global challenges cropping from mergers, acquisitions, joint ventures, and entry into new markets.

While the Indian companies had major HR challenges ahead overcoming which was both critical and necessary for future success of organizations, the number of qualified HR managers currently available to tackle these problems was quite small.

Adapted from Robert J Grossman, “HR’s Rising Star in India,” <> http://www.shrm.org/Publications/hrmagazine/EditorialContent/Pages/0906cover.aspx
companies lost their market share to the Japanese players. GE however, managed to regain its leadership position, thanks to its early adoption of the ‘quality mantra’.

The important factors in quality improvement are listed in Table 1.7.1. However, one common prerequisite for the success of such programs is the strong organization-wide commitment to the program at all levels and across all functions. This has to come from the top management and trickle down through all employee levels.

### Table 1.7.1: Key Characteristics of Successful Quality Improvement Programs

- Education and training (problem solving, technical improvement including hands-on training, case studies, role playing)
- Teamwork (especially across functional areas)
- Total systems approach
- Employee involvement (at all levels of the organization)
- Top management commitment and encouragement
- Establishment of customer-driven standards
- Long-term perspective
- Allocation of resources to the program.


**The Changing Nature of Workforce**

One of the first cost-cutting measures adopted by any company to improve its bottom line, is downsizing. Many companies believe that it is important to be lean and mean to survive in a competitive market. The concept of ‘job security’ has become outdated as no employee knows when he/she might be asked to resign. Employees have also realized the turbulence of market dynamics and are no longer as loyal to their employers as they used to be. They are on the lookout for better opportunities and never lose a good deal due to commitment to any one organization.

The markets across the world have opened up and it is now one single global market, which is very diverse and complex. A lot of employees are moving around the world in pursuit of their career and organizational goals. A Korean might be working in India for his company and a Japanese might be working in the US on a project. This workforce diversity has been a major challenge for organizations. A study by ‘The Families and Work Institute’ – a non-profit research organization, showed that people prefer working with people belonging to the same race, sex, gender, and level of education as this is what they have been used to. But, the survey also suggested that once people were exposed to and became used to working with diverse work groups, they preferred to work in such an environment.

Most companies are attempting to eliminate discrimination based on religion, caste creed, gender, ethnic background, etc. at the workplace. They are striving to develop a more open and cosmopolitan culture to encourage all employees to succeed. Gender discrimination is no longer as pervasive as it used to be a few decades ago. We see more and more companies encouraging their female employees to compete with their male counterparts. Though the glass-ceiling effect that hindered the career progression of female employees is still evident in some companies, it has become less prevalent in the more progressive companies. One of the best
examples of an Indian company providing equal opportunities to male and female employees is ICICI Bank (Refer to Exhibit 1.7.2 for equal opportunity at ICICI).

With more single parents, dual career couples, and a growing population of elderly people, balancing the demands of family and work has become a major challenge for the typical Indian worker and his employer. This is forcing companies to become more family-friendly. Companies like Eicher and Oil & Natural Gas Corporation Ltd. (ONGC) have realized that a family-friendly environment acts like a competitive weapon. This has resulted in low absenteeism and turnover, and improvement in efficiency. Eicher for example, helps its employees with their household chores like payment of their electricity bills so that they need not waste their time standing in long queues. ONGC encourages its employees' children by rewarding them with merit scholarships.

‘Flexible work hours’ is one of the major demands of knowledge workers today. Most of the companies, especially the IT companies do cater to this need of the employees. Many female employees have the responsibility of rearing their children when they are young. In fact, most of the employees would have some responsibilities, either towards their ageing parents or towards other family members. These employees do not want to lose out on the career front because of their personal responsibilities and would do quite well in a flexible work environment. In fact, this flexibility can prove to be more productive than strictly binding office hours as the employees feel more relaxed and respected. The concept of "working from home" is also slowly catching up and more and more organizations are looking at providing

---

**Exhibit 1.7.2**

**Equal Opportunity at ICICI**

In an article written by K.V. Kamath, MD and CEO of ICICI Bank, the recent times had seen considerable focus by the media on the rise of women in leadership positions in the Indian corporate world as opposed to the fields of medicine, education, and arts where women have played prominent roles. In spite of this rise, the growth of women in this field was viewed with amazement because it was still not as widespread. The only way to change people’s attitudes was to convert the workplace into a truly ‘equal opportunity’ workplace which was completely gender neutral.

He believed that ICICI has made tremendous progress toward providing employment to women and at the same time, their management was unbiased to gender when selecting people for positions and promotions. The company had a large number of women in leadership positions – three out of five executive Board members, CEOs of two key subsidiaries, and several senior business and operational heads. But he noticed the high proportion of women in their top management team only when outsiders point it out to him.

Though he was proud of the fact that they had created so many successful women, he commented that this was not a result of special focus on women but a result of their universal policy of being an equal opportunity employer with concentration only on merit. As a result, they had a large number of women in senior positions and these women were role models to other women both inside the organization and potential women recruits who saw ICICI’s equal opportunity practices live as opposed to a mission statement.

The company, while being performance driven was also sensitive to their employees’ needs toward their children and families. He added with great pleasure that most of his senior management, particularly women, had young children and they were able to rise to their current positions after overcoming the initial testing phases with the company’s accommodative nature and lead happy family lives.

this option to their employees.

The Impact of the Government

Government policies and programs have a major effect on the way the markets operate. The economic reforms introduced in 1991 by Dr. Manmohan Singh, the then Finance minister of India, have changed the face of the Indian economy. Today, every one talks of globalization, divestment and liberalization, but these words were probably absent in the dictionary of Indian economic planners before 1991. In India, the various labor laws and acts, formulated and amended over the years, like The Trade Unions Act (1926), The Industrial Employment (Standing Orders) Act (1946), The Industrial Disputes Act (1947), Payment of Wages Act (1936), The Factories Act (1948), Payment of Gratuity Act (1972), etc. have shaped and tuned the psyche of the Indian organizations and the workforce.

Quality of Work Life

Quality of Work Life (QWL) refers to the extent to which an employee’s work meets his/her professional needs. Every employee has some expectations from his/her work, like a sense of satisfaction or achievement, security, a high self-esteem, etc. The quality of work life gets better when more and more of these employee needs are satisfied. Organizations in today’s world are continuously striving to improve the quality of work life for their employees by making work more rewarding, reducing employees’ anxieties, encouraging employee participation in work and employment-related decisions, and team building.

Evidence has shown that improvements in QWL have a positive impact on organizational performance and help organizations to compete in the global marketplace. The Japanese, who are staunch supporters of the QWL approach, design work around teams and lay stress on a strong organizational culture.

Technology and Training

Technological changes have been rapid and radical in India in the recent times. For example, the use of wireless and cellular technology was very limited till less than a decade ago. Today, we see many companies using such technologies for faster and dependable decision making. The use of computer technology for better data management and communication is now pervasive in all the organizations. Till a few years back, most government organizations and public sector banks were apprehensive of taking to this new technology. Now, even such organizations are quick to adopt new technologies.

All this became possible because organizations realized the importance and benefits of new and better technologies. They invested in such technologies and also trained their employees in adapting to this new technology. Training and development of employees has to be a continuous process in any organization, if it has to survive and progress.
Section 8

Strategic Human Resource Management

Strategic management is the management of the available resources to achieve the long-term and short-term goals of an organization, in a dynamic and competitive environment. According to Arthur Thomson, Jr. and A J Strickland III, “business strategy is management’s gameplan. Management would not have a road map to follow or an action plan to give desired results without a business strategy.”

Strategic HR planning involves designing HR goals in alignment with the goals of the organization, identifying the human resources required to achieve these goals and then developing these resources internally or acquiring them from outside. It also includes the conception and implementation of new HR initiatives required to accomplish organizational goals.

In an industry like the IT industry, which depends more than anything else on its human resources and their competencies, strategic human resource management is especially important. Here, the planning of resources, acquiring them, developing them and retaining them, all in a highly competitive market is a very complex and challenging job. For example, a second rung IT firm may decide to recruit most of its employees from Tata Consultancy Services, a company which invests a lot in training its fresh recruits. This company, because of its strategy of poaching from other companies, has trained talent ready to perform from day one and needs to invest very little in training fresh recruits.

Source: www.reasonablespread.com
Additional References:

Video 1.8.1: HR Shared Service Video Case Study: Pepco’s Success

Strategy – a New HR Operating Model

Source: www.youtube.com/watch?v=6tBF7lctKJ0

Video 1.8.2: Human Resources Management

Source: www.youtube.com/watch?v=ZPLiDnnbcEQ

Reference Questions

1. Explain what HRM is and how it relates to line management.

2. What is Strategic HRM? Give an example of how HR managers can help support their firms’ strategic goals?

3. Why is it important for a company to make Human Resource into competitive advantage? How can HR function contribute to doing so?

4. What are the trends in HRM?

5. What is HRD and how is it different from HRM? Now, HCM is making rounds? Explain your views.

6. Has the status of HRM truly raised to a strategic level? Explain.

7. What is the significance of HRM in contemporary India?

End Notes:


5. Essentials of Management, Prentice Hall, 2\textsuperscript{nd} Ed. 1971.


Section 9

Case Study: Microsoft India’s HR Practices

This case was written by Besta Shankar, under the direction of Ramalingam Meenakshisundaram, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmrindia.org
Microsoft India’s HR Practices

“We have a talent agenda and we need to, because in any intellectual property-driven business, our assets walk in and walk out every day. If we are to remain competitive, we have to give them a proper environment to shine through, so that they stay with us.”

- Ravi Venkatesan, Chairman, Microsoft India

“Once a year, we take a deep dive to look at key people, key positions, the existing succession plan and developmental needs. We aim to identify or develop at least two ‘ready now’ and ‘one move away’ candidates for each key position. The idea is to facilitate planned career moves, especially for our leadership bench.”

- Joji Gill, Director-HR, Microsoft India

“My experience in Microsoft has been exhilarating and rewarding so far. The three things that I like the most about Microsoft India Global Technical Support Center (IGTSC) are - Employee first approach, transparency and numerous opportunities for growth - both in personal and professional space.”

- Rohit Gulati, an employee, Microsoft India

INTRODUCTION

In 2008, Microsoft India Corporation Pvt. Ltd (Microsoft India), the Indian subsidiary of Microsoft Corporation (Microsoft), was ranked as number one in the list of ‘Best Companies to Work for in India’ surveyed jointly by Business Today, Mercer LLC, and Taylor Nelson Sofres (TNS) Global. Microsoft India was also believed to be one of the most sought after companies for information technology (IT) professionals and graduates in India.

In early 2009, Microsoft announced the layoff of five percent of its workforce worldwide, as it reported its first drop in revenues in its history of business spanning over three decades. The company-wide cost cutting measures were applicable to some extent to its Indian operations, where the company laid off one percent (55 employees) of its total workforce. If the economic situation deteriorated further beyond a point, the company was prepared to prune its headcount further, globally as well as in India. Did the economic situation also warrant a change in Microsoft India’s human resource (HR) practices? Or, were its strategic HR practices in alignment with the company’s mission, values, and strategy?

BACKGROUND

Right from its humble beginning in 1975, Microsoft had been an innovator in computer software and related services. Its product portfolio included the Windows series of operating system software for clients and servers, the office productivity suite - MS Office, business applications software, games, and software for mobile phones and...
handheld devices. Apart from its software products, Microsoft provided online services for publishing and advertising, an e-mail facility for communication, and a search engine for information retrieval and decision support. The company’s mission was: “To enable people and businesses throughout the world to realize their full potential”¹² (Refer to Exhibit I for Microsoft’s value system and its relevance to the company’s mission).

For the financial year ending June 2008, Microsoft earned an annual revenue of US$ 60.42 billion¹³ and employed nearly 91,000 people for its operations in 105 countries worldwide.¹⁴ Not only was it well known for its product innovations but it also won accolades for its employment and workplace management in terms of equal opportunity for all genders and for minority groups, long-term employment, fair recruitment processes, careers opportunities for the differently abled, providing work-life balance for working mothers, and representation of diverse cultures in its workforce. It was ranked 38th in Fortune Magazine¹⁵’s List of ‘100 Best Companies to Work For’ published in the year 2009.¹⁶

Continuing its expansion of services worldwide, Microsoft started its Indian operations in the year 1990¹⁷ setting up Microsoft India Corporation (Pvt) Ltd in New Delhi. Later, Microsoft expanded its footprint in India by bringing all its six main units of business into the country. Microsoft’s business in India (Microsoft India) was organized into the following six groups: Microsoft Corporation India (Pvt.) Ltd. (Marketing Unit), Microsoft India Development Center, Microsoft Global Technical Support Center, Microsoft Global Development Center India, Microsoft Global Services India, and Microsoft Research India (Refer to Exhibit II for more information on various business units of Microsoft India). Microsoft India's mission was closely aligned with that of the parent organization (Refer to Exhibit III for the mission of Microsoft India and how it intended to realize its mission).

Microsoft India had offices in ten cities in India namely Bangalore, Hyderabad, Chennai, Kolkata, New Delhi, Pune, Ahmadabad, Gurgoan, Indore, and Nagpur and its activities included research, product development, sales & marketing, and support services with an employee base of around 5,500 people. In terms of headcount, Microsoft India was second only to Microsoft in the US as of May 2009.¹⁸

GALLERY 1.10.1: Microsoft Office Buildings

Source: www.upload.wikimedia.org

Microsoft India Office at Bangalore
The headcount at Microsoft India Development Center (MSIDC) at Hyderabad grew from 20 in 1998 to more than 1,500 by the end of 2008, making it the company's second biggest development center in the world (the biggest was the Redmond Development Center in the United States). MSIDC was spread across 54 acres and enjoyed state-of-the-art facilities for employees. It carried out distributed product development in collaboration with the center at its US headquarters and also carried out end-to-end product development from India. The facility at Hyderabad had won The Acer, Intel & Economic Times Smart Workplace award for providing a lively environment by combining technological infrastructure with recreational amenities to create healthy work-life balance. It was noted that the center closely resembled the company's facility at Redmond.

MICROSOFT INDIA'S HR APPROACH

Managing human resources in the IT sector has been a challenge for most companies that have set up operations in India. These companies aimed to take advantage of the relatively low cost of technically competent labor in India as compared to the US and developed countries in Europe. There was a huge demand for skilled personnel in this sector, but companies confronted by a lack of sufficient numbers of skilled personnel to meet the demand. In this scenario, many companies had to develop a strategic HR approach to retain and manage the talent. Microsoft India, for its part, had implemented employee-friendly HR practices across all its locations in India.

Microsoft India's HR strategy was focused on building the organizational capability to leverage the limited human resources to achieve the company's mission. Its HR approach aimed to increase employee involvement in the company, and used HR metrics to build accountability of the HR function toward business success. Microsoft India opted for a flat organizational structure. Senior executives acted as mentors rather than as bosses.

The company had a separate division that offered solutions and services to business units in the areas of:

- Organizational capability and change
- Talent management
- Leadership
- Technical training for developers and software architects

Video 1.10.2: Redmond - Microsoft - Building 35.

Source: www.youtube.com/watch?v=HVPjEiyauzw
According to Microsoft India’s HR growth model, HR was ultimately expected to be a change leader and business driver. To achieve this goal, it required a sound HR infrastructure and error-free implementation (Refer to Figure I for Microsoft India’s HR growth model). Excellence in execution of the practices was the main pillar on which the foundation and growth of HR relied upon.

HUMAN RESOURCE MANAGEMENT PRACTICES

Recruitment and Selection

Microsoft India recruited both fresh graduates from academic campuses and experienced professionals in the IT industry. For campus recruitments, the selection process included written tests and several rounds of personal interviews. It conducted campus selection in prestigious engineering colleges in India like the Indian Institutes of Technology (IIT) and it was one of the most sought after brands for the brightest and the best. For selection of experienced professionals, it scrutinized the candidates’ CVs and conducted four to five rounds of interviews, including technical and HR interviews. The company sought candidates who had “sound computer science basics, ability to understand the technology, and its sharp application in creating superior quality software”.24

Microsoft India assigned a buddy (friend) to each new recruit to help in adapted to the company’s environment. It also provided a real estate consultant to assist new recruits in finding convenient accommodation.25

Training and Development

For trainees, Microsoft India conducted a training program named Leap Engineer Acceleration Program (LEAP) which imparted technical and personal skills required to carry out the job26. It implemented a mentoring system that helped employees in getting guidance from their mentors through open discussion and an interactive learning process.

In order to provide growth opportunities to its employees, the company conducted various technical and management training programs. It also provided opportunities for job rotation so that its employees could gain more knowledge from different jobs and technology domains. The company identified young professionals with leadership potential at an early stage of their careers and prepared them for leadership roles ahead at a later stage of their career. Microsoft India’s employee
development measures served to retain existing employees by providing them with opportunities for growth.

**Career Management**

Microsoft India provided both vertical and lateral growth prospects for its employees in all the six business units present in India. India was one of few countries where all the different business divisions – Research, Development, Testing, Consulting, Sales & Marketing, and Support – had a significant presence. Employees could move between the six business units according to their areas of interest. Moreover, employees were provided with exposure to different business units by way of mentoring from senior employees of Microsoft worldwide.27

**Flexible Work Timings**

Microsoft India followed a flexible work timings policy for its employees. A flexi-time policy enabled the employees to work according to their convenience liberating them from rigid work timings. Through flexible routines, the company strove to infuse a sense of responsibility and discipline in its employees, while also building up a rapport with them and among them. It also served as a retention scheme for employees.

**Employee Retention at Microsoft Global Technical Support Center (MSGTSC)**

For employee retention, Microsoft India initiated various programs particularly in MSGSTC, Bangalore, where work was carried out around the clock (24 X 7) in order to provide technical support services to its customers in different nations and time zones. While similar companies in 24/7 working environments faced attrition levels of 17% to 20%, MSGTSC managed to bring the level down to single digit levels by communicating to its employees their high career growth path, providing rewards and recognition for their performance, and creating an enjoyable workplace, apart from offering satisfying compensation packages.

MSGTSC conducted a questionnaire survey to find out why employees stayed with the organization, their reasons for leaving, and reasons for returning to the organization after having left. The details collected were analyzed and interpreted to frame an ‘Employee Value Proposition’ that articulated what the company offered to its employees. According to this ‘Employee Value Proposition’, working at the company met the following eight needs of Microsoft employees:

- Working with technology everyday
- Caring for every employee
- Working in an energizing environment
- People-friendly benefits
- Building careers for life
- Recognizing great work
- Enjoying each day
- Making a difference globally

In order to satisfy the assessed needs of the employees, MSGTSC launched a program called ‘You and Microsoft, Living the Experience together!’28. Actions initiated under this program
included allowing the employees to work on cutting-edge technologies much before they entered the market and creating an environment to work with development teams in Redmond, USA in producing new products. It also provided a fun workplace with facilities such as a recreation room with Microsoft X-box video gaming and other relaxation facilities.29

Compensation and Benefits

Microsoft India provided compensation packages on par or higher than the industry standards based on the technical skills and experience of the candidates. Employee benefits were standardized across employees. The benefit schemes were re-evaluated twice a year. The benefit programs included:

- Medical benefits that were aimed keeping the employees healthy and motivated, so as to reach expected productivity levels.
- Tuition assistance programs which included financial assistance to meet tuition expenses for all employees. This gave them the opportunity to continue their formal education while working.
- A range of professional counseling and support services for employees and eligible family members.
- Facilitation for employees to relocate if transferred to help them settle easily in the new location.
- Assistance programs in case of emergency for employees and their eligible dependents travelling on company work to locations worldwide.
- Company stock offers to the employees to enable them to share the benefits of the company’s performance30
- Crèche reimbursements for women employees, and mother’s room facility on the campus.

Performance Management

Microsoft India followed a candid process while evaluating the performance of employees and regarding their compensation packages. The process was transparent so as to enable employees to identify their performance levels and have a clear idea of what was required in terms of performance in order to reach to the next level.

Microsoft India identified high performers and offered them monetary as well as non-monetary rewards. These rewards were usually presented during team meetings. At MSGTSC, the ACE Awards (Architects of Excellence) were given to employees who contributed to customer satisfaction by enabling the optimal utilization of Microsoft products. Apart from this, every quarter, a group of high performers was invited to share their experiences with a large audience.31

Women’s Empowerment

Microsoft India conducted special recruitment drives exclusively for women in line with the overall IT industry’s aim of raising the female-male ratio in the workforce.32
Microsoft One-India Women’s Conference was held annually for all the women employees of Microsoft India to provide them a platform to share their experiences in overcoming the hurdles in their career growth path and in establishing a suitable work-life balance. Men were also encouraged to participate in this conference to increase awareness of these issues. The parent company (Microsoft Corporation) had been in the list of ‘100 Best Companies for Working Women’ by Working Mother Magazine for six times in a row by the end of the year 2008.

Work-Life Balance

In 2007, Microsoft India launched a program called ‘Bring Your Child To Work’ in a move to improve work-life balance among its employees. This program was initiated as a family-friendly HR policy and it helped the families of employees to see for themselves a typical working day of a Microsoft employee. More than 500 children of the Microsoft employees across various locations in the country participated in the program. Commenting on this initiative, Joji Gill said, “The other part of the motivation stems from the fact that children, as the harbingers and users of tomorrow’s technology, have always been important to Microsoft. This introduction is an opportunity to introduce them to the excitement of technology and the innovative work that Microsoft is doing.”

HR METRICS FOLLOWED BY MICROSOFT INDIA

In Microsoft India, metrics were developed to track and define the effectiveness of the HR function. Microsoft India HR policies aimed to maximize the value of human capital in achieving business growth by focusing on talent acquisition and development, management development, leadership development, and management of evolution of the Microsoft culture.

Microsoft India attempted to ensure positive returns on investments in HR by facilitating the development of the employees and their career growth in addition to providing a congenial organization culture. To assess the return on investment (ROI) from various HR initiatives, Microsoft India tracked the performance of its HR practices and compared them against the investments made.

Microsoft India evolved two important metrics that reflected its organizational readiness and talent management. One was the Succession Planning Indicator (SPI) and the other was Succession Planning Usage (SPU). SPI indicated the people who were ready to take lead roles and those who were one step away from taking the lead roles. This indicator clearly reflected the organizational preparedness to run the business without interruptions. SPU was used to assess the worth of the previous year’s succession plans at the same time to find out the organization’s efficacy in utilizing such plans while filling up the vacant lead roles. SPU indicated the percentage of leadership positions filled with those on the list of succession plans.

Video 1.10.5: Work Meets Life at Microsoft

Source: www.youtube.com/watch?v=JTQwcUuanXE
Community Work by Employees

Towards fulfilling its responsibilities as a corporate citizen, Microsoft India earmarked one of the months in a year for employees to work for a social cause of their choice, and the company covered a part of the expenses of such activities. The company claimed that these activities not only served the broader social cause but also made the workplace more enjoyable.

In 2000, MSIDC started a culture of contribution in which employees donated money to social service organizations and carried out awareness creation programs. The funds collected by way of employee contributions was supplemented by the company and then distributed to eligible nonprofit organizations. By May 2009, MSIDC and employees had contributed more than Rs 20 million toward the funding needs of nonprofit organizations.

Table I: HR Metrics Used at Microsoft India

<table>
<thead>
<tr>
<th>Area</th>
<th>HR Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
<td>Size of organization, vacant positions, ratio of headcount in HR function to headcount in line functions</td>
</tr>
<tr>
<td>Organization health</td>
<td>Workgroup Health Index, Microsoft Pulse Index, Microsoft Culture index</td>
</tr>
<tr>
<td>Staffing</td>
<td>Hiring statistics – nature of hiring, channel-wise hiring statistics, vacancies filled through internal employees, hiring expenditure, lead time, percentage of hiring plan, ratio of offers accepted, reasons for declining the offers</td>
</tr>
<tr>
<td>Talent management</td>
<td>Quarterly and yearly tracking of attrition rates, percentage of high positions retained, percentage of promotions, succession planning indicator, succession planning usage</td>
</tr>
<tr>
<td>Diversity</td>
<td>Ratio of women, number of women hired, percentage of women talent losses, percentage of women in leadership succession slate, percentage of managers and employees completing diversity training programs, percentage of other diversity hiring (differently abled)</td>
</tr>
<tr>
<td>Manager capability</td>
<td>Span of control, organization depth, percentage of managers to non-managers</td>
</tr>
<tr>
<td>Learning and development</td>
<td>Field Readiness Index, number of employees trained on employee development programs, number of managers trained through management excellence framework (that provides for management development through career events, continuous learning and building connections)</td>
</tr>
<tr>
<td>Leadership development</td>
<td>Percentage of leadership hires, percentage of leadership attrition, Succession Planning Indicator, Succession Planning Usage</td>
</tr>
<tr>
<td>Rewards</td>
<td>Cash consumed in budget for rewarding the employees</td>
</tr>
</tbody>
</table>

CONCLUSION

Though Microsoft India’s HR practices received accolades from many quarters, the ‘Best Employer Survey 2008’ released by Dataquest said that overall employee satisfaction at Microsoft India was below the industry average in India. Except for its compensation packages where it was above the industry average, in most of the parameters regarding employee satisfaction, it scored less than the industry average (Refer to Exhibit IV for employee satisfaction ratings at Microsoft India on various parameters). Keeping in mind the difficult economic environment due to the global economic slowdown and the scope for improvement on various parameters of employee satisfaction, was there a need for Microsoft India to re-align its strategic HR practices?

Exhibit I
Microsoft’s Mission and Value System

To achieve the company’s mission of “To enable people and businesses throughout the world to realize their full potential,” Microsoft sought ‘great people who are bright, creative, and energetic’ and expected them to abide by the following value system.

• Integrity and honesty
• Passion for customers, partners, and technology
• Open and respectful with others and dedicated to making them better
• Willingness to take on big challenges and see them through
• Self critical, questioning and committed to personal excellence and self improvement
• Accountable for commitments, results, and quality to customers, shareholders, partners and employees.

Source: www.microsoft.com
<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Operating Area</th>
<th>Description</th>
<th>Head of the Unit (as of June 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft India Development (MSIDC) Center, Hyderabad</td>
<td>Products Development</td>
<td>One of the main divisions contributing to Microsoft global product development and in producing future innovative products.</td>
<td>Srini Koppolu VP &amp; MD</td>
</tr>
<tr>
<td>Microsoft Global Services India (MGSI), Hyderabad</td>
<td>Enterprise solutions</td>
<td>Offered solutions for the enterprises worldwide based on Microsoft technologies and products.</td>
<td>Amit Sircar General Manager</td>
</tr>
<tr>
<td>Microsoft Corporation India Pvt. Ltd.</td>
<td>Sales and Marketing</td>
<td>Performed sales and marketing services for Microsoft products from offices in various locations in India.</td>
<td>Rajan Anandan Managing Director</td>
</tr>
<tr>
<td>Microsoft India Global Technical Support Center (MSGTSC),</td>
<td>Technical Support</td>
<td>Dealt with solving technical problems associated with Microsoft’s worldwide customers and its partner’s products.</td>
<td>Sashi Kumar General Manager</td>
</tr>
<tr>
<td>Bangalore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment and Devices Division</td>
<td>Hardware Products</td>
<td>Carried out marketing of Microsoft hardware products such as mouse, keyboards, web cameras, and gaming products.</td>
<td>Jaspreet Bindra Regional Director</td>
</tr>
<tr>
<td>Microsoft Research India Pvt. Ltd.</td>
<td>Research</td>
<td>Involved in innovating the technologies for Microsoft products by conducting research in the areas of computing, IT, and its related areas.</td>
<td>Dr P Anandan Managing Director</td>
</tr>
<tr>
<td>Bangalore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer and Online Microsoft India Private Limited</td>
<td>Online services</td>
<td>Managed Indian version of the global MSN services.</td>
<td>Hemant Sachdev Joint Managing Director</td>
</tr>
</tbody>
</table>

Compiled from [www.microsoft.com/india](http://www.microsoft.com/india)
Exhibit III
Microsoft India’s Mission and Strategic Initiatives

“As India moves towards a leadership position in the global knowledge economy, Microsoft continues to work in close partnership with all stakeholders, including the government at the state and national level, the Indian IT industry and academia, to ensure that technology is leveraged as a catalyst for enabling more and more individuals and communities to realize their full potential.

The following three strategic initiatives define Microsoft’s mission of ‘Realizing India’s Potential’ today:

1. **Creating a Digitally Inclusive Society**: Creating a digitally inclusive society implies a thrust on long-term investments for taking the benefits of IT to the grass root and reaching out to communities in rural and semi-urban India which are marginalized and are on the wrong side of the ‘Digital Divide’. Accelerating IT literacy, creating locally relevant content in Indian languages and ensuring affordable access to technology are the key levers for achieving this mission.

2. **The Local Software Economy**: Microsoft works with its partners and developers in creating a vibrant local software economy. Significant investments in skills transfer and joint go-to-market initiatives are planned with partners to enable them to tap domestic and global opportunities while delivering increased business value to customers. The Indian ISV community is encouraged to realize the opportunities in the software products space, and Microsoft empowers over 650,000 developers in India with tools, technologies and training required to develop high-end skills and compete in a global marketplace.

3. **Innovating from, for and with India**: Innovation at Microsoft focuses on innovating from India, innovating for India and innovating with India. These three aspects involve setting up facilities for Indian IT professionals to create an impact at a global level without leaving home; developing innovative products to overcome the language barrier and to increase the accessibility and appeal of the PC and creating a robust IT economy that’s geared to enable India retain its leadership in the knowledge economy.”

Source: [www.microsoft.com/india](http://www.microsoft.com/india)
Exhibit IV
Microsoft India’s Employee Satisfaction (as of September 2008 against Industry Average)

References and Additional Readings:


Video: 1.10.6: Want to align ourselves With India’s aspirations: Microsoft
Source: www.youtube.com/watch?v=mj8cGpolodM


47. www.cybermedia.co.in/press/pressrelease100.html.


Footnotes


2. Microsoft India is a subsidiary of Microsoft Corporation, world’s leading software products and solutions provider headquartered at Washington, USA.


7. Mercer is a subsidiary of Marsh & McLennan Companies, Inc., US and its portfolio of services included financial consulting, HR consulting, Investment management and consulting and outsourcing. It was started in the year 1937 and as of May 2009, it employed over 18,000 people to serve its clients in 40 countries. Source: www.mercer.com(Accessed on May 21, 2009)

8. Taylor Nelson Sofres (TNS) Global is a London based market research firm covering industries such as Finance, FMCG, Technology, Media, Healthcare and Media. As of May 2009, it offered market research services in 70
countries across the globe. Source: www.tnsglobal.com (Accessed on May 21, 2009)


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15. Fortune magazine is a biweekly business publication in English language from Time Inc, a group company of Time Warner. It was started in the year 1930 in US and as of May 2009, its worldwide subscriptions stood at nearly 850,000. Its online version of news publications is hosted by CNNMoney.com. Source: http://money.cnn.com (Accessed on May 21, 2009)


17. www.franchisebusiness.in

18. www.nasdaq.com

19. www.microsoft.com

20. Distributed product development refers to working on same software products from various locations across the country or countries.

21. www.microsoft.com

22. The Smart Workplace Award was instituted by The Economic Times, a leading Indian business newspaper, in association with IT companies The Acer and Intel to honor the companies in India that use technology to provide friendly working environment for their employees and follow smart workplace policies. Source: www.eandwgroup.com.


30. www.microsoft.com


33. www.microsoft.com

34. Working Mother’s Magazine publishes information for mothers pursuing careers to maintain work-life balance. It also publishes annually a list of companies that provide best amenities for the working mothers. It is published from New York. Source: www.workingmother.com (Accessed on May 21, 2009)

35. www.microsoft.com


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Human Resource Management at Work

Source: www.referenceforbusiness.com
Section 1

Line and Staff Aspects of HRM

Formal functions in an organizational context have been classified as line and staff functions. The departments or employees of a firm that perform the core activities and contribute to its business directly are called the line functions. Examples of line function are manufacturing and marketing. On the other hand, departments or employees that perform a support function and contribute indirectly to the firm’s business are termed the staff functions. Examples of staff function are human resource management and finance. The line and staff difference is characterized by functions and not by departments.

Line Versus Staff Authority

Authority is the right to make decisions, to direct the work of others, and to give orders. Line authority gives managers the right (or authority) to issue orders to other managers or employees. It creates a superior-subordinate relationship. Staff authority gives the manager the right (authority) to advise other managers or employees. It creates an advisory relationship. Line managers have line authority. They are authorized to give orders. Staff managers have staff authority. They are authorized to assist and advise line managers.

Line – Staff Conflict

There are organizations which even today experience severe line-staff conflicts. What causes such conflict? Where does the problem lie? Who is responsible? How can we avoid this?

To answer these questions, let us first try and understand the viewpoint of the line function. What are the expectations of the line managers and what are their complaints about the HR function?

i. The HR staff takes up line authority: The line managers perceive the HR people to be encroaching on their area of operations. HR people tend to enforce their own ideas even when it is the prerogative of the line managers. Besides, line managers also complain that the HR staff tries to assume line authority in case of union–management negotiations.
ii. **The HR function does not provide the right support**: Some line managers feel that HR managers do not offer sound and balanced advice. As the staff is not held accountable for the end results, the members tend to innovate and experiment without thinking of the consequences, at the cost of the line managers. The line managers allege that most of the time, the staff is not acquainted well with basic facts like the markets, the business, the products, and the production processes.

iii. **The HR staff tries to steal the limelight**: It is the general perception of line managers that the HR staff tries to take the credit for all the successes and to disassociate themselves from any failures. The HR staff shies away from taking the blame in case of any failure and tends to be opportunistic, according to this perception.

iv. **The HR staff does not see the whole picture**: Line managers complain that the staff usually fails to see the whole picture as they have a very narrow view of issues. The HR staff tends to work in terms of limited objectives pertaining to their own specialty, rather than adopting an integrated approach to the different aspects of business. This might be because of inadequate knowledge of other functions of business.

Let us see how the HR function responds to these criticisms and defends itself:

i. The line function is prejudiced and biased against the HR function.

ii. The line function does not understand the value and importance of the contributions from staff functions.

iii. The line function does not know how to make effective use of the HR function.

iv. The line function is averse to experimentation and is closed to new and innovative ideas.

v. The HR function is handicapped as it is not given enough freedom and power.

In modern day organizations, most of the progressive HR departments have been able to change this view of the line function and have succeeded in creating a conflict-free, amicable atmosphere. But we still come across employees and managers from the line function who resent the HR function. It is the responsibility of the new-generation HR professionals to change the perceptions and attitudes of the line function toward the HR function. This can be done by:

- Understanding the markets and the business better;
- Having a complete understanding of organizational processes;
- Being empathetic to the limitations of the line function;
- Building an atmosphere of trust and transparency;
- Trying to work toward a win-win situation rather than trying to gain the upper hand;
Being open to receiving bouquets as well as brickbats for their actions;

Taking an active role in designing the strategy of the organization.

These initiatives by the HR professionals can help change the perceptions of the line function about the HR function.

**Human Resource Management as Line Responsibility**

As observed earlier, line managers are responsible for achieving the goals of their respective departments through a balanced management of the resources, namely men, materials, machines, and money. Thus, line managers handle the 4Ms including the personnel in their respective departments. Since management means getting things done through people, the line managers are responsible for managing people and their work and eventually delivering the results. Therefore, every line manager can be called an HR manager as he/she manages the human resources of his/her department.

**Human Resource Management as a Staff Function**

Effective management of human resources is essential to the survival and growth of organizations. Therefore, it is the responsibility of HR managers to provide sound advice, valid information, useful assistance, and every other possible support to the line managers. This would relieve the line managers of the burden of managing personnel and allow them to concentrate more on their functional operations. HR managers handle various functions such as employment, training, development, wage and salary administration, motivation, grievance redressal, collective bargaining, etc. In the process, they perform various staff functions concerned with the management of personnel like advising, guiding, assisting, counseling, and making available vital information to line managers. Therefore, the HR function does play a staff role.
Quality of Work Life

“A great place to work is where you trust the people you work for, have pride in what you do, and enjoy the people you work with.”

Robert Levering

The business world today is changing at the speed of light and so is competition. If organizations are to survive and grow amidst this fierce competition, they have to adapt fast to the changing environment. This brings us back to Darwin’s theory of ‘survival of the fittest’. Organizations face a lot of pressure in this dynamic environment with global competition, increase in competition for a talented workforce, constantly improving methods of production, introduction of new technology and employees who are inclined to achieve a work-life balance. So what are the factors that help an organization survive in this kind of environment?

People are the key factor that any organization has to keep in mind if it is to survive in this global competition. The success of any organization is highly dependent on how it attracts, recruits, motivates, and retains its workforce. Organizations that adopt a ‘control’ approach may not be able to deliver only consistent results; however, today’s organizations need to be more flexible so that they are equipped to develop their workforce and enjoy their commitment. Therefore, organizations are required to adopt a strategy to improve the employees’ ‘quality of work life’ (QWL) to satisfy both the organizational objectives and employee needs. Exhibit 11.1 talks about how IBM provides work-life balance to its employees.

In this chapter, we shall discuss the definition and concept of quality of work life, and types of QWL programs. We shall also study the benefits associated with QWL programs and the challenges faced by organizations in implementing these programs. Finally, we shall examine the recent trends to get a picture of the future work world.

Source: www.claritasbcl.co.uk
Exhibit 11.1
Work-life Balance at IBM

With the increasing competitiveness in the business environment, employees are looking out for jobs that not only provide them with financial security, but also give them meaning, autonomy, and an opportunity for growth and progress. In addition to this, employees desire to pursue their interests and enjoy their life outside the organization.

International Business Machines Corporation (IBM) has been proactive in addressing the needs of employee well-being in the organization. IBM has developed a flexible and supportive working environment while providing services and benefits to its employees to enable them to enjoy themselves outside the workplace.

IBM started the first national corporate child-care initiative that progressed into a five-year, IBM Funds for Dependent Care Initiative worth US$ 25 million. With this initiative, IBM aimed to help its employees balance their needs in their personal and professional lives. The program has helped IBM establish 1,200 childcare and eldercare projects in around 66 communities.

The emphasis on child and elder care led to the creation of a five-year, Global Work/Life Fund with a commitment of US$ 50 million. This was the first of its kind to address employee issues on the global front. It laid emphasis on providing dependent care services. It also provided IBM computers with educational software to its childcare centers.

Since 1983, IBM has contributed over US$ 263 million to its dependent care services and programs across the world. It has repeatedly been recognized by the government, nonprofit organizations, and several business publications for its immense contributions toward enabling employees to balance their work and life.

IBM says it is committed to providing a flexible working environment to its employees in order to ensure that the employees have more control over and flexibility in their work. This is expected to give the employees a means to accomplish greater balance at the workplace and in turn enhance the productivity of the organization.

To address the needs of the employees and the business, IBM has developed six flexibility principles:

1. “Flexibility is a business imperative”: These programs help employees gain control over their personal life so that they can contribute better to serve the customers.
2. “Equity does not mean being the same”: Equity in IBM refers to identifying and managing differences of employees in order to give every employee a chance to contribute and achieve success.
3. “Presence does not equal performance”: Flexible Work Options (FWOs) strengthen the company’s commitment to the performance and contribution of the individual, thus enabling the company to provide value to its customers. The company also feels that long working hours do not result in superior performance at the workplace.
4. “FWOs are not an entitlement”: IBM believes that it is imperative to support employees in managing their responsibilities related to their personal and professional needs. It also emphasizes on managers working in conjunction with the employees to evaluate the opportunities and challenges in the working environment.
5. “It’s OK to participate . . . and it’s OK not to participate”: While the FWOs are applicable to all kinds of jobs, there are circumstances in which an FWO does not make sense because of the company’s commitment to its customers. The FWO has to be flexible enough to transform itself with the change in the business requirements or change in the personal or professional situations in an employee’s life.
6. “Participating in a FWO will not hurt career development”: IBM assures employees choosing an FWO that they will not be penalized in terms of promotion and career development. However, not all career development opportunities are compatible with the FWOs

Section 1

Definition and Concept of Quality of Worklife

Quality of work life is defined as “the quality of relationship between employees and the total working environment.” Quality of work life (QWL) programs can be anything from union-management efforts to bring about a decrease in the number of accidents and avoid health problems to painting the workplace walls, improving lighting facilities, and cleaning the workplace. They can include anything from providing a recreational center to the employees to paying their monthly bills.

The American Centre for the Quality of Work Life defines QWL as “Any activity which takes place at every level of an organization which seeks greater organizational effectiveness through the enhancement of human dignity and growth... a process through which the stake holders in the organization – management unions and employees – learn how to work together better...to determine for themselves what actions, changes and improvements are desirable and workable in order to achieve the twin and simultaneous goals of an improved quality of life at work for all members of the organization and greater effectiveness for both the company and the unions.”

According to Richard E. Walton, ‘QWL is a process by which an organization responds to employee needs for developing mechanisms to allow them to share fully in making the decisions that design their lives at work.’

Exhibit 11.1.1 explains strategies adopted by companies to create a psychologically healthy workplace. Let us examine the bases on which the QWL programs can be evaluated:

a. **Fair compensation and job security:** The economic interests of people drive them to work at a job and employee satisfaction depends at least partially, on the compensation offered. Many motivational theories conclude that fair and just compensation is a motivating factor for employees to perform better. Pay should be fixed on the basis of the work done, responsibilities undertaken, individual skills, performance and accomplishments. Organizations should design the compensation to match the increase in the cost of living index and the industry standards. Job security is another factor that is of concern to employees. When employees are taken on a temporary, casual, or probationary basis, insecurity
Exhibit 11.1.1
Strategies Adopted by Companies to Create a Psychologically Healthy Workplace

The American Psychological Association (APA) recognizes firms that adopt a hands-on approach in providing their employees with an opportunity to experience control in their personal and professional lives. This was expected to benefit the employee as well as the employer since it brought large dividends to the employer.

The APA's “Healthy Workplace annual awards” were based on criteria like employee growth and development, employee involvement, health and safety, work-life balance, and employee recognition.

The reasons cited for instituting a program that would lead to a psychologically healthy workplace include:

1. Around two-thirds of the employees, both men and women, felt that work had a major impact on the level of stress they faced.

2. Nearly one-fourth of the employees considered their job to be the biggest reason for stress in their lives.

3. Heavy productivity losses to the tune of US$ 225.8 billion per year were incurred by employers in the US due to the health problems of employees and their families.

4. For every dollar spent on enhancing the working environment, organizations could save nearly US$ 3.5 since a healthy and flexible workplace would lead to reduction in healthcare costs and absenteeism.

5. In 2001, employees had used nearly 8.8 million sick days because of neglected or untreated depression.

El Nuevo Dia (Dia), a Puerto Rico-based newspaper has adopted the concept of a psychologically healthy workplace. It provides its employees with Employee Assistance Program (EAP) services, health insurance, annual health fair, gym memberships, etc. According to Dia, the creation of a healthy workplace has resulted in the company reporting an employee satisfaction rate of 90%. The employee turnover had reduced by 3% and nearly half of its workers had been working with the company for over 10 years. It also reported an increase in financial performance and productivity. Moreover, the company could save on healthcare related costs.

Considering the benefits derived by other companies in creating a psychologically healthy workplace, Downtown Honda, an automotive dealership operation company based in Spokane, Washington, adopted strategies like conducting regular meetings with professional group facilitators to discuss ways to improve the team dynamics and employee morale and better the service quality it offered to its customers. These meetings encouraged workers’ participation in contributing ideas for development. The executives were open to ideas even from rank and file employees.

Other companies like Idaho-based healthcare company Healthwise Incorporated focused on recognition of employees as part of their strategy in creating a psychologically healthy workplace. In its monthly staff meetings, it recognized employees individually. The employees serving a longer term with the organization had their names displayed in the lobby. The employees were also offered gifts on holidays and birthdays. The employee focus resulted in creating a positive working environment and increasing levels of employee satisfaction. This resulted in increasing the performance levels of employees, higher profitability, and lower rates of employee turnover.

Experts felt that such programs adopted a holistic approach toward employees’ physical health and mental health and helped in reducing absenteeism at the workplace.

seeps in and the sense of belonging to the organization goes down. On the other hand, regular employment provides security to the employees and improves their QWL. For example, before the recession Texas Instruments (India) Development Centre (TI) made 150 offers to graduates from IITs. Later, when the software industry collapsed there was a pressure from the US office to withdraw these offers. However, the Indian branch officials convinced their US counterparts not to do that and recruited all the 150 graduates. Employees develop trust in their employers through such instances and work collectively with the management for the achievement of organizational objectives.

b. Healthy working conditions/ Healthy working environment: Organizations should realize that their true wealth lies in their employees and so providing a healthy work environment for employees should be their primary objective. To meet legal and humanitarian standards, organizations should maintain the physical and psychological health of the work environment for the workers. The developments made in Ergonomics (Human Engineering) in the 1950s paved the way for promoting the physical and psychological safety of workers through the better layout of plants and improved equipment design.

Occupational stress is an important concept for discussion under this topic of employee health. “Stress is a dynamic condition in which an individual is confronted with an opportunity, constraint or demand related to what he or she desires and for which the outcome is perceived to be both uncertain and important.” The outcomes of stress may be irritability, unstable behavior, heavy smoking, psychosomatic pains, depression, fatigue or drug abuse. Occupational stress may be due to the basic nature of work, hours of work, work environment, worker’s skills, or lack of resources to accomplish the tasks. Employee productivity is greatly affected due to occupational stress. Therefore, an HR manager should identify the factors that cause stress and find ways to eliminate them. In addition, organizations should also recognize the necessity for leisure in their employees’ life. In Texas Instruments (India) for example, employees can take a week or ten days off after meeting the deadlines of an important project.

Besides, an HR manager should design organizational health programs to educate employees on ways to improve and maintain their health. Diet control, stress release and relaxation techniques, physical exercise, etc., are examples of these programs. To encourage employees to adopt these programs in their day-to-day lives, organizations can even offer rewards. The other aspects that can be dealt with in this area are family planning, cardiovascular risk reduction, controlling hypertension, etc. The execution of health programs in the organization helps reduce absenteeism of employees and also brings down employee turnover. For example, Infosys Technologies has a gym and sports equipment on site to let employees re-charge themselves for their hectic schedules.

c. Provide personal and career growth opportunities: An organization should provide employees with opportunities for personal/professional development and growth and to
prepare them to accept responsibilities at higher levels. This includes career planning, training, upgrading skills required for promotion, and assigning challenging jobs with greater responsibilities that increase their abilities and knowledge. For instance, Wipro Spectramind (WSM) came up with a new program called SEED in April 2002, as part of the WSM Educational and Enhancement Initiative. SEED helps employees to enroll for distance learning classes.

The organization should also ensure that the work assignments that are given to an employee have a positive impact on the employee’s self-esteem, motivation, involvement, and autonomy. When promoting employees to higher levels the management should take extra care to encourage performance and talent. To avoid confusion, it should draw up clear promotional policies that match the organizational culture and foster healthy competition. Care should be taken to ensure that the promotional activities are executed fairly without any deviations. Deviations at the execution stage can lead to dissatisfaction among the employees and result in low QWL.

d. Participative management style and recognition: Flat organizational structures help organizations facilitate employee participation. For example, there are only two designations in Nokia India, namely executives and managers. A participative management style improves the quality of work life. Workers feel that they have control over their work processes and they also offer innovative ideas to improve them. Recognition also helps to motivate employees to perform better. Recognition can be in the form of rewarding employees for jobs well done, giving prestigious designations, through job enrichment, providing club memberships, and improving the work environment. When the management recognizes employees as a human resource rather than a commodity, it helps to improve their quality of work life. For example, Philips Software Centre (PSC) in India encourages employees to send in new ideas that can be patented. Every employee is rewarded by a cash prize of Rs. 5000 for an idea and with US$ 750 if the idea gets patented. PSC aims at developing people who can be innovative and creative in their thinking. Organizations can adopt these strategies to encourage employee participation within the budgetary constraints.

e. Work-life balance: Organizations should provide relaxation time for the employees and offer tips to balance their personal and professional lives. They should not strain employees’ personal and social life by forcing on them demanding working hours, overtime work, business travel, untimely transfers, etc. Alternative work schedules have been introduced in some organizations in recent times for the comfort and convenience of employees. These programs include working from home, reduced work-week, flexible working hours, telecommuting and part-time employment. These programs provide leisure time to the employees and give them the opportunity to balance their personal and professional lives. For instance, Eli Lilly India (ELI) conducts a ‘Health of the Organization’ survey to know the problems and views of
employees. One of these surveys showed that employees, particularly the sales and marketing team found it hard to strike a balance between work and personal life. Though it was a loss for the company, ELI opted to give two Saturdays off in a month to help its employees spend time with their families. Exhibit 11.1.2 explains Hewlett-Packard’s flexible work options.

Fun at workplace: This is a growing trend adopted by today’s organizations to make their offices a fun place to work. For example, NIIT has a ‘Chief Fun Officer’ who is responsible for arranging parties on Fridays. These activities may include fashion shows, conducting sports, and games, etc. The idea is to give the employees a break from their hectic schedule. Additionally, holiday packages, anniversary & birthday gifts, and dating allowances are given to the employees.

Exhibit 11.1.2
Hewlett-Packard’s Flexible Work Options

In 2002, Hewlett-Packard India (HP India), the Indian subsidiary of the US-based computer peripheral manufacturer, Hewlett-Packard Company, was ranked the third best employer in India by the Best Employers in India Survey. The survey studied the extent of employee satisfaction with regard to seven factors — the culture and purpose of the company, its work environment, relationships between the employees, the nature of work, rewards and recognition, work-life balance, and growth and development opportunities. What distinguished HP India from other best employers was its consideration of the personal needs of its employees, and the ‘flexible work options’ policy adopted by the company.

HP India offered its employees almost all forms of flexible work options (FWO). It allowed its employees to work part-time or for flexible hours, especially young mothers. HP India also allowed telecommuting, which allowed its employees to come to the office only for half a day and work from home for the rest of the day. Employees were also allowed to return to the normal schedule after working as per any of the flexibility options for a specified time period.

The company offered all types of FWOs – from flexi time to sabbaticals. It allowed its employees to start their day within two hours from 8 am on a regular 8-hour working day. The company allowed job sharing whereby any two employees could work for 20-40 hours per week on one job. Employees could even work half-a-day in office and the other half from any location. Sameer Wadhwan (Wadhawan), General Manager, HR, HP India, explaining the rationale behind this, said, “The issue is not control, but facilitation, and of motivating our independent, knowledgeable, and creative employees.”

HP India also provided reduced hours employment and various leave options. In addition to the statutory leave, the company offered marriage leave of 10 days, study leave for competitive exams for 10 days, eight weeks for legal adoption of a child, and five days each for paternity, and for bereavement. The company also offered leave beyond the specified time depending on individual requirements.

HP India treated both employees who worked for flexible hours and the regular employees equally. A senior executive of the company commented, “HP is an equal opportunities employer. There are many flexi-workers here, mothers with babies, and even others. But no one treats them as any less or thinks that they are not contributing.” Employees also had the option of switching from flexible work schedule to the regular work schedule.

Section 2

Methods to Improve Quality of Worklife

The concept of QWL aims at identifying and implementing alternative programs to improve the quality of professional as well as personal life of an organization’s employees. These programs motivate people by satisfying not only their economic needs but also their social and psychological needs. Exhibit 11.2.1 explains several initiatives taken by The New York State, Department of Taxation and Finance to improve quality of work life of its employees. Organizations have come up with a lot of innovative programs to improve the quality of work life of their employees. Flex time, job enrichment, job rotation, crèches and child-care centers, employee recreation centers etc. are just a few examples. The implementation of these programs results in improved productivity, satisfaction, enhanced morale, etc. as the employees enjoy a conducive work environment and find it easier to balance their personal and professional lives. Some of these programs are discussed below:

Alternative Work Schedule (AWS)

AWS programs allow employees to work in a schedule other than the traditional (eight-hour or nine-hour) work day schedule with fixed start and end timings. Employees are given the freedom to choose their own work schedules, thereby enabling them to balance their work and personal life more comfortably. This leads to definite improvement in their productivity and the quality of work. The primary objective of alternative work schedule is to allow the flexibility of designing the work-schedule to the employee provided that he/she takes up the responsibility of completing the job within the deadline. Such an arrangement requires a high measure of trust between the employee and supervisor.

Alternative work schedules may be categorized into: (a) Flexible Work Schedule (FWS)/ Flex time and (b) Compressed Work Schedule (CWS).

Flexible Work Schedule (FWS)/ Flex time

In a flexible work schedule, the work day is divided into two parts: core hours and flexible hours. Core hours refer to the select period of time when all employees must be present at the workplace. Flexible hours are that part of the work day when employees have the option of selecting and varying his/her arrival and departure time within limits or “bands” as laid down by the management. Under this
system, it is necessary that the employee works for a pre-decided number of hours, for example, a 40-hour week in the case of a full-time employee. The specific working hours can be decided in conformity to the organization’s operational requirements, the employee’s limitations, and any regulatory restrictions.

Flexible Work Schedule

Flexible work schedule is discussed in the keynote 11.2.1.

Keynote 11.2.1: Flexible Work Schedule

The New York State, Department of Taxation and Finance (DoTF) believes that a good quality of work life program is significant in the organization since it is the employees who generate results. Balance between work and personal life leads to improved morale, creativity, and commitment at the workplace. Thus the DoTF offers a flexible working environment to its employees that aims to support their professional and personal growth.

Some of the work life initiatives offered by the DoTF that helped it build and retain a high-class workforce are:

- A work week consisting of 37.5 hours
- A flexible working schedule
- High-tech facilities at the workplace
- A competitive benefits package
- Healthcare benefits
- Vacation, sick and personal leaves, and holiday packages
- A superior retirement plan
- Plans for payroll deduction savings
- A New York State Flex Spending Account
- Programs for tuition assistance
- Disability and life insurance
- Employee Assistance Program
- Employee Wellness Program
- Services related to childcare and eldercare

The DoTF also allows its employees to telecommute on certain workdays, so that they strike a balance between work and their personal life. The DoTF is dedicated to providing its employees with various means to balance their personal life, family life, careers, community involvement, and individual growth effectively.

Compressed Work Schedule (CWS)

Refer to the keynote 11.2.2 for the detailed explanation on compressed work schedule.

Keynote 11.2.2: Compressed Work Schedule

Source:ICMR
Section 3

Benefits of Quality of Worklife Programs

QWL relates to the extent to which employees of an organization can satisfy their personal needs through their association with the organization. QWL programs, when executed effectively will result in a number of benefits like productive, contented, and healthier employees; and helps in developing profitable, adaptable and efficient organizations. Some other benefits of QWL programs:

- Employees can balance their work life and personal life better. This results in stress reduction.
- QWL programs like flex time reduce employee turnover and workplace tardiness. They also improve the physical and psychological health of the employees, thereby bringing down the absenteeism rate.
- These programs improve employee morale, job satisfaction, and commitment to organizational goals as their personal work priorities are supported by the management.
- These programs also aim for the development and growth of the individuals in their personal and professional lives.

When the management conducts QWL programs in association with the union, it:

- Improves communication between labor and management and minimizes conflict between the two.
- Leads to effective negotiations that enable designing contracts that satisfy both parties.
- Improves the efficiency of the management and strengthens employee organizations. This results in improvement in the terms and conditions of employment.
- Encourages participative management and involves employees in decision making.
Effective Implementation of Quality of Worklife Programs

When implementing QWL programs, organizations face a number of challenges that arise as a result of various factors that are internal as well as external to the organizations. An example of internal factors is lack of cooperation from the top management in implementing the QWL programs. An example of external factors is the undesirable changes in the economy that have an impact on the firm’s bottomline. For example, in 2002-03, people who had expectations regarding the quality of work life were disappointed as a bad economy forced companies cut back on the quality of work life programs. The following points help in effectively implementing the QWL programs.

- There should be a change in the management’s attitude. Management should realize that for employees to work effectively and feel motivated, they should be provided with a good quality of work life. This brings the company benefits in the form of increased productivity and improvement in work quality.

- If employees are made to realize the benefits they can reap by adopting QWL programs, their cooperation in implementing the programs can be assured. For instance, the management might face union resistance in implementing part-time employment as unions perceive it as a threat to full-time employees during times of high unemployment. Therefore, the management has to clearly explain the benefits associated with the QWL programs to the unions as it is impossible to carry out any change program without union support.

- Last, the management should try to minimize the effects of conflicting principles of industrial engineering and the principles of QWL programs. Industrial engineering aims at work specialization and task fragmentation. In contrast, QWL programs aim at job rotation and participative decision making involving employees at every level of operation. These differences can be reduced by careful designing of the new plant, equipment placement and space layout.

Other challenges persist in the form of reducing recruiting costs and labor costs in part-time employment options, increasing communication between the partners involved in job-sharing and preparing their work schedules, and increased energy consumption costs during flex time programs.
Reference Questions:

1. Why is quality of work life gaining so much of importance now-a-days? Explain.

2. What are the different practices followed across industries with respect to work-life balance?

Footnotes:


Section 5

Case Study: SAS Inc.: Working the Good Life

This case was written by Monjori Samanta, under the direction of Debapratim Purkayastha, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Source: www.graphics8.nytimes.com

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“Working for a company that offers outstanding benefits are great, but it goes beyond that… Employees go that extra mile because SAS gives them the responsibility and accountability to perform their jobs. SAS believes that maintaining a work/life balance carries over to long-term customer relationships.”

– Suzanne Gordon, Vice President and Chief Information Officer, SAS, Inc., in July 2008.

HAPPY, HEALTHY EMPLOYEES FOR ORGANIZATIONAL HEALTH

In January 2010, SAS Inc. (SAS) the world’s largest private organization offering business analytics software, ranked topmost in Fortune magazine’s 100 Best Companies to Work For” annual survey (Refer to Exhibit I for Top Ten companies). SAS had secured a place on the list consistently for 13 years. It had been ranked seven times among the top ten and five times among the top five based on the survey conducted by Fortune in collaboration with Great Place to Work Institute (GPWI). Jim Davis (Davis), Senior Vice President and Chief Marketing Officer for SAS, said, “We’re honored to receive this award and this recognition of our commitment to our employees, and by extension, our customers.”

In addition to the sophisticated business intelligence products and services that SAS sold, the company was admired for its employee-centric policies that focused on health care, child care and the work-life balance of employees. Right from its inception, SAS’s corporate philosophy was “satisfied employees create satisfied customers”, a strategy that helped the company register increasing revenue in each year of its operation. Experts attributed this success to the company’s investment in its ‘creative capital’ i.e., its employees. They said that from the beginning SAS had pursued the practice of motivating its employees through its exceptional human resource management (HRM) practices to promote work-life balance – a tradition initiated by its founder and CEO Jim Goodnight. The campus at SAS headquarters located in Cary, North Carolina, boasted of several onsite privileges like a 66,000 sq ft big recreation center with fitness and swimming facilities, day care centers, an eldercare information and referral program, health center, restaurants, etc. All these services were free of cost and employees could use the recreational facilities even during work hours. Apart from the facilities on its campus, SAS provided a unique and comprehensive employee benefit program that included free and subsidized health care, child care, and other wellness programs. In addition, SAS was famed for the various unusual perks that the employees enjoyed. According to experts, the company’s employee turnover rates were significantly lower than the industry average, an indication that the employees enjoyed high levels of job satisfaction. In 2009, as compared to the industry average of 22 percent, the software developer had an employee turnover rate of only 2 percent. According to Ira S. Wolfe, expert on hiring and workplace trends, “SAS Institute has created an employment brand that says, “Come to work for us and enjoy a campus-like environment, and
have a life outside of work.”8 Over the years, the company kept upgrading the benefits package to sustain its HRM efforts as a key part of its operational strategy. In addition to the benefits packages, the company also guaranteed its workers a high level of job security and it did not resort to layoffs, even during the worst economic times.

Most analysts commended SAS for its employee-centric organizational culture and attitude and said that other industries should replicate its business model. Experts pointed out that most companies worked to satisfy their investors or shareholders. SAS, on the other hand, adopted an unconventional approach and stressed creating a satisfied and motivated workforce. A dedicated workforce resulted in higher productivity and innovations in products and services which in turn resulted in satisfied customers. But critics argued that employee perks were an unnecessary expense. To cover such costs, SAS would have raised its product prices and passed on the burden to customers, they said. However, SAS rejected the theory and said that a happy workforce meant a low employee turnover and knowledge retention. Since workers rarely left their jobs in SAS, recruitment and training costs were also minimized. Moreover, a longer employee working tenure helped the company to maintain a long-term relationship with customers and to maintain a competitive advantage over its rival software developers. The company’s claims were supported by the high levels of customer retention that SAS witnessed — almost 98 percent when measured by the number of times customers renewed their subscription of SAS’s software purchased.9 According to SAS, “SAS employees work in an environment that fosters and encourages the integration of the company’s business objectives with their personal needs. With enviable low employee turnover that has been consistently and significantly below the industry average, SAS reaps the rewards of employee loyalty and the benefit of the most talented minds in the software business.”10

Even during the global economic slump experienced during 2008-2009, when other software developers resorted to heavy layoffs, SAS did not cut down its workforce or the benefits packages offered to employees. Instead, it adopted alternative cost reduction techniques to increase profits like reducing travel expenses and conducting business meetings through video conference calls as well as stopping fresh recruitments. Analysts saw this as an indication of the company’s dedication in treating its employees as its most valuable resource. Jenn Mann (Mann), Vice President of Human Resources at SAS, said “In a tough economy, SAS did not waver from our commitment to our employees and the innovative culture that keeps them challenged and provides work-life balance. SAS’ continued success proves our core belief: Happy, healthy employees are more productive.”11

BACKGROUND NOTE

SAS Institute Inc., one of the largest privately-owned software companies, was founded by Jim Goodnight (Goodnight). Toward the end of the 1960s, Goodnight discontinued his studies in applied mathematics in North Carolina State University to join the Apollo space program in Florida. After working as a program developer for a year, he returned to North Carolina to complete his studies. As part of the doctoral
work in the Department of Statistics of the North Carolina University, Goodnight and his colleague Anthony James Barr (Barr), had to frequently develop programs to help students of the agricultural department from various universities situated all over South East America to analyze agricultural data. The programs helped in studying the impact of various factors like soil fertility, climate, and seed varieties on crop yield. To prevent their having to waste time and effort in designing new programs repeatedly to analyze the same kind of data, Goodnight and Barr designed a standard statistical program, which they named Statistical Analysis Software.

However, government funding for their research project ended in 1972. To finance their research work, they began leasing the analytical software to agricultural institutions as well as business customers from the insurance, banking, and pharmaceutical industries. As business expanded, the university asked them to move out. Fortunately, the university agreed to grant Goodnight and Barr the copyrights to the software they had developed during their research work in the statistical department in exchange for receiving an upgraded version of the software programs free of cost in future.

In 1976, Goodnight and Barr partnered with John Sall (Sall) and Jane Helwig (Helwig), to establish the SAS Institute. During his tenure in the Apollo Space research program, Goodnight had had to work under the pressure of stringent work hour rules. He felt that such rules were counterproductive as employees could not perform at their best under stress. Thus, right from the beginning, he initiated a tradition of an employee-friendly organizational culture in SAS. Goodnight began offering unique and attractive perks in the form of complimentary gifts like M&M\textsuperscript{12} on Wednesdays, breakfast on Friday, fresh fruits on Mondays, free drinks and snacks. In addition to this, the company arranged for various family events including a winter party, Halloween party, and spring picnic, where all the employees could enjoy themselves along with their families. Besides offering these perks, the company also permitted a flexible 35-hour work schedule. This allowed employees to adjust their timings and attend to other work related to family and home. SAS developed its own software package that could be employed for computational purposes in various business organizations. Within a short span of time, the small company which had had just seven employees, gained popularity among business clients and from 120 customers in 1976, the total number of customers increased to 600 in 1978\textsuperscript{13}.

In 1979, Barr sold his stake in the company and after some years Helwig too sold his shares. After Sall decided to retire from the company’s daily operations, Goodnight took over the reins of the company. He expanded the company operations to develop a diverse range of SAS programs needed in different kinds of businesses. The company headquarters were relocated to Cary, North Carolina, in 1980, where a huge 200-acre campus was established. To help employees fulfill
their personal duties without compromising on office work, a child care center was opened inside the company campus to help working employees manage their children when they were in office. The year 1980 also witnessed the international expansion of its business, with the opening of its European subsidiary in the UK. By 1981, SAS software had gained so much popularity that 150 products were being sold every month on an average and the software was being employed at 3000 sites. Besides focusing on employee welfare, the company also invested heavily in innovation and research and development. After 1980, the basic SAS software was improvised to create complex add-on modules by adding different statistical algorithms. In 1983, the product range had expanded to 6,500 and the company extended branches to Asia and some countries in Europe. In that year the company introduced another important on-campus facility. A health center providing free but basic medical facilities was opened for employees and their family.

Over the years, the company offered a plethora of software programs needed for data mining, data warehousing, business intelligence, financial intelligence, IT management, risk management, customer relationship management, sustainability management, and business performance management. At the same time, it remained focused on improving the work life of employees and accordingly introduced various facilities to enhance the quality of work life of employees (Refer to Exhibit II for a timeline of the employee friendly facilities initiated by SAS). In 1993, SAS reinvested a substantial amount — 34 percent of its total revenue — to boost its research and development (R&D) process. The company also established a huge 400,000-square foot building exclusively for the R&D department.

By 1994, the company had a presence in 29 countries and 12 offices in the US. In 1994, SAS products and services were being used by 3 million clients from 120 different countries. The company witnessed double digit percentage increases in annual revenue from 1976-1999 and the company revenues reached US$ 1.2 billion in 1999.14

Even during the economic recession in 2009, the company declared an annual revenue of US$2.31 billion15 and continued to have offices in 50 countries spread all over the world. More than its products and service, the company was recognized the world over as one of the best employers because of its unique work place environment as well as employee wellness programs.

HIRE HARD, MANAGE OPEN, FIRE HARD

From the beginning, Goodnight had been instrumental in promoting a culture that built "trust between employees and the company". The employee-centric business model the company adopted helped SAS to enjoy the highest levels of employee loyalty (Refer to Box I for SAS' business principles). SAS believed that committed employees helped improve employee productivity which, in turn, led to customer satisfaction. Thus the company was able to register a steady revenue growth for 34 continuous years (Refer to Exhibit III for Growth in Annual Revenue of SAS from 1976 to 2009).
SAS had always stressed two aspects of work culture – work-life balance and work-life benefits. According to it, these two factors were central to achieving employee productivity and creativity. SAS believed in the philosophy “treat employees as if they make a difference, and they will.” Over the years, the company initiated various programs and provided a range of benefits to employees to create an employee-friendly work atmosphere and enhance employee well-being. The company also strove to make working at SAS family-oriented so that disruption from work due to family-related responsibilities was minimized. Experts felt that by focusing on innovation and employee well-being, the company had ensured employee engagement as well as employee loyalty. This, in turn, had helped the company hold down employee turnover rates at between 2 and 5 percent when the software industry average was higher.

**Box I: SAS's Business Principles**

- Help employees perform best by removing disturbances to work
- Managers are responsible for motivating employees to come up with creative ideas and proposals
- No arbitrary distinctions between different organizational roles.
- Consider customers as creative partners and incorporate their requirements while introducing or upgrading products and services.


**Keynote 11.5.1: SAS Annual Revenue 1976-2011**

Source: www.decisionstats.com
was more than 20 percent. Speaking about their corporate culture, Mann said, “At SAS, we foster an environment that encourages creativity and innovation while allowing employees to balance work and life. Creating a good work environment is important because it drives employee satisfaction which, in turn, contributes to world-class products and close relationships with our customers.”

In addition to the variety of recreational facilities, work-based benefits, and family-related programs, SAS also fostered a culture which emphasized employee involvement. According to HR Director, Nina Morrison, “Fruit baskets, social events, and good benefits are what we call necessary elements which must be in place for us to be a good workplace. To be the best, we must offer more: involvement, challenging tasks and co-workers, and good leadership.” Every employee was given full creative freedom in their fields of work. This promoted a sense of involvement among employees and helped in increasing their job satisfaction. At SAS, employees enjoyed the freedom of directly communicating with the management and presenting their creative ideas or proposals. The company also helped its employees to improvise and acquire knowledge and skills about advanced techniques to stimulate creativity and encourage innovation. To encourage creative thinking, the company motivated the best employees by giving them opportunities to participate in skill development programs and by assigning more challenging roles to them. The company also ensured that employees were rewarded not according to their formal titles but according to their commitment toward creativity and innovation. Managers were expected to contribute as much as team members so as to encourage cooperation among team members. Liselotte Jansson, Country Manager at SAS Sweden, said, “At SAS, our non-hierarchical, open business culture ensures that employees’ responsibilities match their competencies, combining interesting work with a stimulating environment. It is critical that our employees understand how vital their input is to our success, and that they contribute to it actively. Being a great workplace involves a combination of excellent working environment plus challenging and stimulating work. That is what leads to great results.”

SAS followed a conscious strategy to prevent experienced human resources from leaving the company. It paid special attention to its best employees who were making vital contributions. To ensure career growth opportunities within the organization, it allowed internal mobility. Special programs were conducted to motivate employees to take on more challenging jobs within SAS. This was contrary to the policy observed by most other companies who stipulated a time period before which employees could apply for intra organization transfers. SAS encouraged employees from within the organization to apply for a vacant position before posting an external job ad for it. Jeff Chambers (Chambers), SAS’s Vice President of Human Resources, said, “Employees
can leapfrog around the organization to pick up the skills they need. If you're going down the hall rather than down the street, we can still call on you to help us understand why you did what you did.\textsuperscript{20} SAS believed that employee retention helped to reduce costs by retaining a critical creative resource and also saved on the costs that would have to be incurred on recruiting and retraining fresh people.

Due to its employee-focused culture, SAS also did not favor laying off people to improve profits. Keeping this in mind, the company had strict recruitment policies. It carefully selected the best minds in software development so that there would be no need to remove incapable persons. Once selected, SAS employees not only enjoyed the best working environment but also high levels of job security as the company had never resorted to lay-offs in its history. Even during crisis times like the IT bubble burst phase during 2000-2001 and the global recession in 2008-2010, the company did not opt for lay-offs, thus showing its commitment toward its employees. Goodnight summed up its employment policy as “Hire hard, manage open, fire hard”.\textsuperscript{21} Though SAS provided the best treatment to employees, it did not show any leniency while penalizing employees who were lax and negligent about their work obligations.

Instead of removing employees whose knowledge and skill sets were not up to the mark, the company appointed domain experts from among the employees as counselors. These counselors guided the employees regarding career enhancement programs they should participate in internally. The company’s dedication to improving its creative capital was evident from the fact that every year, SAS allocated a major portion, about 20-25 percent of its annual revenue, to finance R&D. Due to this, employees got ample scope for initiating technical innovations, giving shape to creative ideas, and also participating in training programs within SAS. The company conducted various training programs ranging from technical training and personal effectiveness to management development. “We work hard to maintain a culture based on trust between employees and the company – a culture that rewards innovation, encourages employees to try new paths, and does not punish them for taking chances. We care for the personal and professional development of our employees,”\textsuperscript{22} said Goodnight.

To promote the culture of equality, the company ensured that all employees enjoyed the same benefits irrespective of their formal designations. SAS also carried out annual surveys where employees had the option of suggesting what new employee benefits the company could provide. After that, the company weighed the advantages of introducing such a benefit against the costs the company would incur on providing it. The company also considered the number of people including employees and their family members who would benefit from the provision.

**WORK LIFE AT SAS – “THE GOOD LIFE”**

SAS offered its employees flexible work hours with a 35-hour weekly work schedule. The employees could work for 7 hours every day in a five-day week. They could also complete their personal work and work for fewer hours on one day and compensate for it by working for more hours another day. As long as employees delivered work on time, the company did
not bother about their work schedule. “What we don’t do is treat our employees like they’re all, you know, criminals,” said Mann. Other than security or maintenance staff, none of the employees were expected to come punctually at 9 am when office started. SAS also disapproved of a culture where employees worked for long hours till late night. In fact, SAS employees were encouraged to leave office after 5 pm. In addition to flexitime, the company also provided telecommuting and work from home options. Employees could also opt for the job sharing type of employment.

The company was also known for its unusual sick leave policy. The company allowed unlimited paid sick leave to employees. Though critics argued that such a policy could be misused, company explained that there was no need to supervise employees as they were mature enough and were fully aware of their responsibilities. Goodnight said, “If you treat adults like adults they will act as adults. Whether you are out sick for six days or six months it is not a problem.” The company gave the option of maternity/paternity leave to employees who needed to take care of their newborn children. In addition to this, employees could opt for leave without pay and casual leave. In the US, employees got 11 paid days of leave and also some days of special leave to perform jury and military duty or to attend funerals.

The company also had a liberal vacation policy for all its employees whether in the US or in other countries. The company allowed total vacation time of three weeks every year. This was in addition to a week of holidays given each year covering Christmas and New Year. Senior employees, who had worked for more than ten years with SAS, were allowed a total of four weeks of vacation time. Employees were also allowed to carry over the full or unused vacation time to the following year.

SAS believed that its policies regarding work hours or leave helped the company to increase employee productivity and also the employees to manage official work and personal work. The company argued that greater work flexibility increased the job satisfaction of employees and motivated them to work harder to complete assignments on time. According to SAS, this was one of the reasons behind the low attrition rates that the company enjoyed. In addition to this, it helped employees who were suffering from chronic ailments to adjust work timings with time needed for health care. It also helped employees to take care of family members who were sick or aged or needed special attention. The policy proved beneficial to employees who had to take care of children, particularly in the case of young parents. Women employees who were about half of the total employee strength in SAS, benefitted from such a policy as they could adjust house-related work with office work. The tele-working policy helped the company retain employees who needed to shift locations after their spouse had been transferred to another office. A flexible work schedule showed its employees that the company wanted employees to give adequate attention to

Video 11.5.3: SAS: A Great Place to Work
Source:www.youtube.com/watch?v=2yRXfVgpnVw&feature=related

iBooks Author
their families. Annukka Kaltiala, the HR Manager, SAS Finland, said, “What our employees seem specifically satisfied with is the fact that we strongly support that there remains a healthy balance between work and personal life. This shows especially for families with children. If an employee’s child is sick, the company prefers that the parent stays home instead of hiring help from outside to take care of the small patient. We strive to create a flexible working environment for our employees and offer interesting and motivating tasks as well as a possibility to learn and improve. I believe these are the facts that make our employees stick with SAS.”

WORK PLACE AS CLUB HOUSE

Experts felt that SAS’s employee-friendly working environment was best illustrated by the company’s campus at its headquarters in Cary. The campus offered its employees a plethora of recreation facilities including cafés, open landscaped campus gardens, tennis courts, a 36,000-square-foot gym or fitness room, a natatorium and swimming pools, and open roof meditation rooms (Refer to Exhibit IV for an image of SAS’s in-campus swimming pool). There were also onsite massage and hair care salons. The Recreation and Fitness Center (RFC) inside the campus was open to employees as well as their dependent family members (above 18 years of age) free of cost. Retired SAS employees also had access to all these facilities. Employees could avail of such facilities during work hours or lunch breaks or after work. The company stressed the need to ensure a better life for employees even after work hours. The center allocated timings during which only children and teens could use the sports or fitness facilities. So that employees did not feel awkward while exercising, the center had separate co-ed exercise rooms and same-sex exercise rooms. A variety of fitness programs on aerobics, water aerobics, Pilates, yoga, and tai-chi were conducted in the RFC. The center also held different sporting events such as basketball, billiards, soccer, softball, racquet ball, tennis, golf, volleyball, ping-pong, Frisbee, etc. all year round. To motivate employees to take part in sporting events as well as in fitness sessions, SAS initiated two different types of rewards program. Under the Incentive program, employees participating in sports and fitness activities were awarded RFC dollars. Employees could redeem these against goods like sports wear, movie tickets, sports gift certificates, or for services offered in the campus like haircuts, massage therapy, etc. As per the other reward program known as Sports Spectacular, employees as well as their dependents could collect RFC dollars after participating in various recreational activities for four months.

SAS also arranged ski trips to Europe for interested employees. Though campus facilities at other countries did not offer these options, the company tied up with local health clubs and either reimbursed membership charges or gave lavish discounts on membership fees to employees. The employees could go for leisurely walks during breaks along walking trails all over the campus. Employees also did not have to worry about washing sportswear or fitness wear after using them during workouts or games as the company got them washed free of cost. The service was so systematic that the cleaned clothes would be placed in their lockers the next day. Employees enjoyed other services like dry cleaning, car
Employers reportedly found the workplace lively and comfortable. There was no formal wear rule for employees and they could wear casual clothes every day. Unlike other software companies where most employees worked in an open dorm like cubicle spaces, at SAS, each employee enjoyed his or her own office room with doors (Refer to Exhibit V for an image of SAS Office Room). According to the company, this also showed that the company treated all its employees with respect. Besides making the employee feel special, it also ensured that the employee’s work did not suffer due to distractions as experienced in open office arrangements. According to Goodnight, “You are so much more productive in your own office than when you are being distracted by the people either side.”

So that employees could enjoy short breaks from work, every floor had a break room with vending machines for snacks and cold and hot beverages.

The campus offered a choice of three cafeterias. Here, employees relaxed from work by having subsidized gourmet meals and enjoying live music at the same time. There was even a library inside for the employees. To make the workplace and surroundings interesting and eye-catching, the company had landscaped gardens adorned with works of art throughout the campus. It employed two artists who worked exclusively for the company and created many of the paintings and sculptures installed in the campus. Around 5000 art pieces decorated office walls in SAS.

Experts opined that though many other companies provided similar in-campus facilities, these facilities remained largely unutilized as employees worked long hours to complete assignments and had no time to avail of such amenities. But they commended SAS for promoting a work culture where employees were encouraged to participate in fitness activities and sports even during work hours so that they stayed fit and healthy. In-campus facilities also made life easier for employees.

UNUSUAL PERKS

Besides the normal onsite recreational amenities, SAS became synonymous with the unusual perks that it provided employees. From its inception, it was known for offering complimentary goodies like free fresh fruits on Mondays, M&Ms on Wednesdays, and free breakfast items like pastries, crackers, juice, etc. on Fridays. Complimentary M&Ms had, in fact, become representative of its employee-friendly culture.

The company also funded clubs initiated by employees and each employee club was provided an annual sponsorship of US$3,000. Each club helped employees to interact among themselves and enhance knowledge or skills. For instance, John Shafeei an employee at SAS, who had emigrated from Iran, had joined the Toastmasters club to improve his English speaking ability and later himself started an immigrant club. This, according to him, helped him develop leadership skills and also to create that great connection with other employees. “We’re not competitors, but friends,” he said.
Employees were satisfied with the workplace benefits the company provided and opined that once in office the employees did not feel like leaving it. Since the campus facility also included a cemetery, employees referred to the campus as a ‘golden cage’ as after entering, no one could escape the attraction of working at SAS until his/her death. The employee-centric company did not withdraw its perks even when the company incurred losses during recessionary times. This showed the company’s dedication toward its employees, according to analysts. Goodnight also owned a country club, situated outside the campus, to which SAS employees got discounted memberships. Moreover, as part of its family initiatives, SAS arranged for family get-togethers on various occasions around the year like winter party, Halloween party, spring time picnics, etc. The employees also could avail of discounts on products from various vendors as well as claim group rates for events.

**WORK/LIFE BALANCE, HEALTH, & WELLNESS**

In addition to a flexible work schedule, SAS offered its employees several work life programs that helped them take care of their personal and family related responsibilities. Though most companies had started including work family initiatives in their HR practices in recent years, SAS had introduced them during its initial days. At that time, SAS had only a few employees of whom many were women who needed to take care of children at home. The company started losing valuable women employees, who did not rejoin work after maternity leave as they couldn’t leave the children alone at home. Goodnight thus started a day care facility in the company headquarters on the first floor of the office building with only five kids admitted initially. Employees with small kids did not have to worry about them when they were working and could also meet them whenever they wanted during work hours. This helped the company retain many young mothers, as well as parents of small kids who were valuable employees of the organization.

The facility was continuously upgraded and in 2010, the company provided a subsidized onsite day care facility through two state-of-the-art centers. One center was affiliated to the American Montessori Society. The other one was through Bright Horizon’s Children’s Center. Though the total capacity was large enough to accommodate about 700 children, the facility was so popular among employees that there was a long waiting list before a child could be admitted. Moreover, only employees who had been working at the company for over a year were eligible for that option. The facility was also available at a cost much lower than what employees had to pay for the same kind of facilities outside.
The company charged US$410 per month for a three-year-old, when similar services available outside could charge as high as US$1,000 as per prevailing market rates. According to industry observers, the facilities at the day care center were very good. Employees working at the regional offices of SAS were provided many childcare-related options at a subsidized value. Employees working in SAS and its subsidiaries all over the world got reimbursement for expenses incurred on child care facilities. According to the company, the benefit had become more important during recent years as more than half of the employees working in managerial posts were women.

In addition to the day center for small kids, employees got many other benefits that were useful for employees in bringing up children belonging to different age groups. Summer camps were arranged every year in the campus so that employees did not have to worry about children staying alone at home during the school vacation. This option was also beneficial to many parents. According to Mimi Stapleton, a 39-year-old curriculum specialist working at SAS, “It makes life easier for me because I know they are in a place where they are having fun and I don’t have to stress.” Employees were charged a minimum fee of US$ 135 per week for admitting their children in the camp. Moreover, the company allowed working parents to bring children admitted in the onsite day care center or pre nursery school over to the cafeteria during lunch hour. Employees were able to spend more time with their children even during work hours.

In addition to this, the company’s Work/Life center provided advisory guidance to parents managing special needs children or adolescent children. Seminars, workshops, or personal consultations were arranged for parents on related issues. Parents could get information from a library which had books and audio and video CDs on those subjects that helped them to take better care of such children. A similar advisory facility was also provided to parents regarding the college admission procedure.

As part of the work family initiative, SAS provided a comprehensive health care program to its employees (Refer to Box II for health benefits).

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<tr>
<th>Box II</th>
<th>Health Benefits at SAS</th>
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<tbody>
<tr>
<td>Medical, Dental, and Vision Plans provided to full-time and part-time employees</td>
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<td>Health Care Flexible Spending Account</td>
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<td>Short- and Long-Term Disability Plans</td>
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<tr>
<td>On-Site Health Care Centers at Cary, North Carolina, and Austin, Texas offices, offering a vast array of health care services and programs for employees and their family members covered by a SAS health plan</td>
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<tr>
<td>On-Site Recreation and Fitness Center at Cary headquarters and Fitness Center reimbursements for regional office employees</td>
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<td>Employee Assistance Program (EAP) for confidential assistance with personal matters</td>
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Employees had the option of getting primary treatment free of cost at the company’s onsite medical center. They also had
the option of getting primary or advanced treatment from any other doctor outside wherein they got full medical insurance coverage including dental, vision, and hearing treatments. In addition to this, family or dependents received maximum coverage for all ailments.

At the onsite health care center, employees and their dependents could avail of a range of primary health care services (Refer to Box III for health care services at SAS health center). In addition to four physicians and 10 nurse practitioners, the health center also had nutritionists, psychologists, lab technicians, and physio-therapists, among its staff. Since the clinic remained open all 24 hours, employees and their dependants could get treatment at the time of their preference, though they needed to take an appointment beforehand. However, to prevent misuse by employees, the company charged a penalty fee of US$10 in case employees failed to cancel an appointment one hour before the scheduled time. For cancellation of an appointment with specialist practitioners, the penalty fee was higher and the notice period was 24 hours before the appointment time.

All these health programs helped the company to ensure a fit and healthy staff which in turn helped to increase employee productivity. According to the company, a lot of office hours were saved as instead of going to outside clinics and waiting for long periods, employees could get treatment at the onsite medical clinic much faster and also reach office quickly. Employees benefited because they could get timely medical attention without even having to wait in line. Also, the medical facilities were much cheaper than those available outside campus. Regular medical check ups and fitness programs helped employees to remain fit and healthy throughout the year. As per 2008 company reports, on an average, an SAS employee fell sick only for 2.5 days in a year.

The company recognized the fact that lower rates of employee turnover meant that employees usually did not leave the organization till retirement. Since SAS had many middle-aged or higher-aged employees, the company encouraged the employees to undergo regular convenient health check ups inside campus, and to enroll for health

| Box III
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<th><strong>Health Care Services at SAS Health Center</strong></th>
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<tr>
<td>Allergy shots</td>
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<td>Blood drives</td>
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<td>Camp, school and sports physicals</td>
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<td>Counseling services</td>
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<td>Diabetes and pre-diabetes self-management programs</td>
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<td>Tobacco cessation program</td>
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<td>Travel immunizations and health advice</td>
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<td>Travel considerations</td>
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</table>

programs to manage the incidence of chronic illnesses. The various sport and fitness facilities available onsite also helped the employees remain fit for long-term wealth and wellness.

To reduce work stress, employees could enjoy various massage therapies at the health center at cheap rates. Physiotherapy, smoking cessation counseling, weight management, and psychological counseling were a variety of other programs offered at the center. Counseling was also provided to employees undergoing divorce and separation to reduce mental stress and anxiety. Retired employees were provided immunization doses, and lab test facilities at the campus health clinic free of charges. Regarding child care, SAS employees with children could avail of basic pediatric treatment at the center under the "well-child" program. Besides the primary health check up of the baby, the program also included immunization and advisory counseling to parents regarding the child's growth, nutrition-based diet, etc. Another important benefit that employees enjoyed was the Employee Assistance Program (EAP). Under this program, SAS partnered with a national agency to form a Work/Life team that provided counseling services to employees on various work life issues.

To ensure work life balance, and to reduce interruptions at work, various facilities were provided to assist employees to take care of their family members like elderly care, adoption, and fertility guidance. This reflected the company's dedication to providing all round support to employees who were dealing with family expansion issues, according to the company. Besides counseling on fertility-related problems, the company provided insurance coverage of fertility treatments and procedures. SAS supported employees going in for adoption and provided many benefits that helped employees in the adoption process (Refer to Box IV for Adoption care). Since the company did not want to discriminate between employees having adopted or biological children, it permitted paid leave even for employees adopting children so that they would be able to take care of their newly adopted children.

<table>
<thead>
<tr>
<th>Box IV Adoption Benefits at SAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assistance for the reimbursement of eligible, incurred expenses up to US$5,000 per adoption.</td>
</tr>
<tr>
<td>Up to four weeks (20 working days) of fully paid leave for new mothers and fathers who are full-time employees.</td>
</tr>
<tr>
<td>Free parenting resources for families with children through work/life facilities and programs, including short-term counseling and consultations with clinicians, financial specialists, and legal experts.</td>
</tr>
</tbody>
</table>


**COMPENSATION PACKAGE AND FINANCIAL BENEFITS**

In addition to the numerous perks the company gave its employees, it also paid an attractive salary package. The compensation package had a variable component based on profit sharing, bonuses, and individual performance. The profit sharing component sometimes was as high as 15 percent of the employee’s salary. The company believed that this helped the employees feel that they were contributing to SAS’s success and that this motivated them to work even harder. Another important pay related rule that the organization followed was with regard to when it hired a new person with a salary higher than his colleagues working in similar positions.
in SAS. As the company believed in treating the newer arrival the same as existing ones, all employees possessing the same set of skills were immediately compensated by a pay hike to match the level of the newly recruited employee. To prevent employees from leaving the organization due to lower salaries, the company kept upgrading its salary package annually commensurate with industry levels.

The company rewarded employees who had been working for a long time with it with a superannuation benefit. The amount was 15 percent of the annual basic salary and employees had the option of investing the amount according to their discretion in investment plans to earn an interest. SAS workers received an expert’s guidance on financial investment plans and finance management under the EAP program. Employees were also entitled to the Life Insurance Scheme, medical insurance plan covering dependents and parents, and a personal accidental insurance coverage funded by SAS.

**PROTECTING THE UNIQUE CORPORATE CULTURE**

Though SAS provided a wide range of perks, it did not offer stock holding options to employees like other software companies. This was because it was a privately held company and Goodnight consistently opposed the idea of going public. Critics argued that SAS had pursed the wrong path by not following the industry-wise trend of going public. According to them, SAS and its employees would have earned more profits if the company had become public and issued Initial Public Offerings (IPOs) and provided stock incentives to workers. However, many experts opined that the steady annual revenue growth experienced every year showed that company had followed a successful strategy. Experts attributed the growth of the company even during recessionary times to its strategy of remaining a privately held company. Being privately owned, SAS could pursue its own policies without interference from shareholders. Being debt free, it had no investors to regulate its operations. SAS could pursue an employee-friendly strategy and introduce various policies to ensure employee well-being and work life balance.

In this way, the company built up a happy and dedicated work force which was willing to contribute to the company’s well-being and give its best to satisfy SAS’s customers and bring in more profits, they said. Instead of working under the pressure of having to meet the expectations of shareholders as in other publicly owned software companies, SAS had the freedom to implement policies that it considered best for the company in the long term, even though it meant a huge burden on it in the short run. This belief was reiterated by Goodnight, “We are in a strong position because, as a private company, we have the luxury of thinking long-term. We can focus on building new opportunities, rather than worrying about pleasing shareholders with quarterly earnings reports. My thinking — and the thinking of many of my publicly traded peers — is that if you don’t need the money, don’t go public.” Moreover, he pointed out that going public meant a huge portion of profits going toward paying taxes to the government which otherwise could have been invested for the betterment of company or its employees.

However, in 2000 when the IT industry was witnessing a technological boom period, the company did consider the
option of going public. Almost all industry analysts recommended that SAS should issue IPOs to take advantage of rising stock values which would enable it to earn more and invest more. Many of its employees were also interested in the prospect of earning more. Some employees even left the company due to its deciding not to go public. The company started initiating the first steps of going public. It maintained that it wanted to go public not because of the profit motive but to retain its talented employees. Moreover, it wanted to enhance brand awareness which was getting diluted with an increasing number of competitors gaining visibility during the boom period. The company hired financial advisors from Goldman Sachs and an ex-Oracle Corp. executive Andre Boisvert who was knowledgeable about the workings and issues of public limited companies. Under Goodnight's careful supervision, Boisvert initiated a new financial reporting system and SAS started giving employees in the sales department commissions in addition to salary. But within a year, in 2001, the dangers of fluctuations in share value were exposed and holding stocks became a less reliable income earning option for most people. In 2002, Goodnight conducted an opinion poll among employees to understand their choice between going public or remaining private. A majority — about 87 percent of them — voted in favor of remaining private. After this, the company decided to drop the idea of issuing IPOs and going public.

According to the company, SAS employees were satisfied even if they did not get stock holding options as they were compensated by the long list of perks the company offered. Even during crisis times, the company was able to continue with its employee benefits though other companies had to drastically cut down on perks on top of reducing the work force to impress shareholders. But SAS had earned the reputation of never laying off an employee in 34 years. When others fired valuable employees from their organization as a cost-cutting measure during the 2001 recession, SAS took advantage of the situation and recruited promising employees keeping in view the long-term benefits of taking such a step. Though initially new recruitments meant an extra burden on revenue generation during crisis times, further lowering profits, in the long run, these experienced employees proved more productive and helped SAS to again generate higher revenues. Goodnight opined, "Being a private company, we can make that decision. If we were a public company I would probably be fired for this stance." Experts commended Goodnight’s tough stance of never going public and preserving the SAS culture of promoting employee loyalty. The employees too believed that had the company gone public then all the employee perks as well as job security would have gone, destroying the brand image of SAS as an employee-friendly organization. "We are firm believers that happy employees equal happy customers. If you disrupt that balance, you run the risk of disrupting our whole business model," said Davis.

RESULTS

SAS's insistence on preserving its creative resources, i.e. its talented workforce, guided the company in introducing various employee wellbeing policies and perks. According to Goodnight, "Ninety-five percent of our assets drive out the gate every afternoon at five. I want them to come back in the
morning. I need them to come back in the morning.” This in turn had enabled the company to keep the employee turnover rates to below 5 percent over more than three decades. Experts said that the company was also highly profitable. Refer to Table I for key statistics of SAS.

| Table I |
|-----------------|---|---|---|---|---|
| US employees | 5,487 | 5,381 | 5,153 | 5,239 | 5,118 |
| Employees outside US | 5,579 | 4,795 | 4,872 | 4,757 | 4,426 |
| Job growth (%) | 2 | 5 | -1 | 2 | 1 |
| Voluntary turnover (%) | 2 | 3 | 5 | 4 | 4 |
| Rank in ‘Best Companies to Work For’ List | 1 | 20 | 29 | 48 | 30 |
| Revenue (US$ millions) | 2,310 | 2,300 | 2,150 | 1,900 | 1,685 |


Lower attrition rates not only helped the company retain its valuable resource but also to reduce recruitment and retraining costs. Moreover, dedicated employees helped SAS understand and serve its customers better. Higher customer loyalty helped to bring about maximum subscription renewal rates for software (as high as 98 percent). Suzanne Gordon, Vice President and Chief Information Officer for SAS, said, “Employees excel in the atmosphere of trust and flexibility that SAS maintains. This is a knowledge business -- it’s important to SAS to sustain an environment that supports creativity and innovation. Ultimately, SAS customers reap the benefits.” SAS believed that such a high customer retention rate supported the theory that employee retention and customer satisfaction were interlinked. Davis opined, “All of our work-life initiatives originate with the core belief that if we create a positive work experience, we will attract and retain the best employees, people will be productive and satisfied, we’ll make better software, and our customers will be happy.”

SAS’s focus on employee wellbeing and family-friendly programs received considerable international recognition. For most of the countries or regions where SAS had its subsidiaries like in Canada, Mexico, Argentina, Europe, Portugal, Belgium, Germany, Norway, Sweden, China, India, and Australia, the company secured a ranking among the top 100, in the Great Place to Work surveys conducted for that region or country (Refer to Exhibit VI for rankings and recognition earned by SAS in US as well as internationally through the past decade). According to Goodnight, “The success of SAS on an international level shows how important it is to have our corporate philosophy and values play out at a local level.” Besides the numerous accolades the company got for its work environment, the company also won accolades for its family-friendly policies related to child birth and growth, infertility assistance, and adoption benefits. Davis said, “At SAS, we demonstrate our commitment to families through a comprehensive benefits package, including fertility, adoption, on-site parenting resources and substantially subsidized on-site child care. We are honored to be recognized again for the support we provide our employees in our efforts to help them balance work and family needs.” In 2008, Business Leader magazine and Rex Healthcare gave SAS an award for the comprehensive...
health benefits provided to SAS employees. The award was given on the basis of various options employees had as regards health check up, worksite exercise and sports facilities, advisory counseling, medical reimbursement.

**REACTIONS**

HRM experts applauded SAS as well as Goodnight as trendsetters in encouraging work life balance. According to industry observers, SAS had set an example for other companies on how to reduce employee attrition by providing a better work environment and following family-oriented policies. Many experts commended SAS’s policy of a flexible work schedule which enabled the employees to complete personal work by adjusting work hours. They considered work flexibility the prime reason for employee satisfaction and loyalty in SAS. Analysts opined that at SAS, employees knew that the company was not monitoring their work hours as long as they completed their assignments on time. This developed a sense of mutual trust between company and the employee and motivated the employee to work even harder. Experts opined that other companies had employed such a stand partially and permitted only a few employees with a history of good performance to avail of such options. This meant that new recruits who were women employees managing children at home, new mothers, or chronically ill persons, were not interested in joining that organization. These companies thus lost much valuable creative resource due to their strict work hour schedule. As SAS made no such discrimination and provided the benefit to every employee, it was able to enjoy a higher degree of loyalty and productivity in comparison to those companies as well as attract talented people who were interested in a flexible schedule. Industry observers opined that as per the recent global trend, employees gave work hour flexibility top priority as compared to other benefits in order to ensure a work life balance. Experts suggested this as the reason behind workers not leaving SAS even if they had plenty of job opportunities which offered higher salaries.

Critics, however, said that such an option could be exploited by some, leading to wastage of work hours. But analysts opined that SAS also ensured that workers delivered their assignments on time, which meant that employees could adjust their 35 work hours according to their preference and not work for fewer hours every day of the week. Jeffrey Pfeffer, professor, Stanford University, said, “It’s completely common sense to understand the trade off between time and money. If you take burdens off your employees so that they do not have to spend time sitting in doctors’ offices, and all this other stuff, then they will be more productive.”

Many analysts commended the unique work family initiatives introduced by SAS like health care, financial assistance, elder care, child care, etc. which showed the company’s dedication in providing a distraction free work life. Experts said these policies not only proved to be beneficial to the employees but also for the company as it helped to increase productivity.
Women employees were also happy with policies like telecommuting, paid sick leave, maternity benefits, paid leave after child birth, onsite child care center, etc. as these helped them to manage children as well as work. Experts said that the company was able to retain experienced employees who would have otherwise left SAS to take care of children. Analysts also commended the work environment employees enjoyed at SAS. Company cafeterias, subsidized food, swimming pools, work out areas, etc. helped SAS remove the monotony of the work place. Experts said that recreational facilities also helped workers to relax and relieved stress at work, which in turn, improved their productivity. Impressed by SAS’s work environment after visiting the SAS campus in Cary, Google Inc. introduced many of its employee-centric programs, to make Googleplex more work-friendly and interesting.

In view of the low turnover rates enjoyed by SAS, experts opined that the company had adopted the right approach to employee retention by concentrating on employee well-being benefits unlike other companies which believed in giving high salaries or extra compensation to retain employees. Analysts opined that SAS’s success in the employee retention technique could be measured by the fact that employee turnover rates were as low as 2 percent even during the dot.com boom period when employee attrition rates were at their highest levels in the software industry. According to industry observers, SAS had adopted a long-term approach and cultivated an employee-centric organizational culture. Analysts opined that the company pursued a different attitude toward employee benefits and did not consider them as expenses. Instead, it considered them as a long-term investment in creative human capital which helped it to build a dedicated and motivated workforce. Moreover, it had adopted balanced strategy in that rather than concentrating only on the pay package, it provided numerous other benefit programs to improve the work environment and work life. Industry observers opined that SAS considered its employees its most valuable asset and it continued with their benefits even during recessions and had not resorted to retrenchments to reduce costs. Despite the huge expenses on employee benefits and no lay-offs, the company was able to report positive revenue growth. Analysts attributed the success to the high level of employee productivity SAS enjoyed due to its employee-centric policies.

Still other analysts said that SAS’s business model that led to employee loyalty brought about customer loyalty and ultimately company prosperity. Suggesting that other companies imitate SAS’s business philosophy, Pfeffer said, “Your profits come from loyal customers who do business with you for reasons other than just price. Customer loyalty is a consequence of loyalty from employees who produce great products and offer great service. In the short run, with enough venture money and enough product demand, any business model may appear feasible. In the long run, those companies that actually run their businesses efficiently and produce sustainable results will be the ones you keep reading about.”

However, many critics were of the view that investing more on employee perks and benefits could lead to a drain on company resources. Many even felt that SAS was only
pampering its employees with excessive perks. But HR experts refuted their allegations and said that the employees were loyal to the company not only because of the perks but because they trusted that the organization would take care of them. According to analysts, the benefits of providing such perks far exceeded its costs. Apart from retaining talented resources, the company was able to save on recruitment costs. In addition to this, dedicated employees served the customers better. The positive, employee-friendly image of SAS also helped to improve brand reliability. Thus, despite stiff competition from rival software companies, SAS enjoyed good subscription renewal rates.

**SAS’S VIEW**

The company refused to agree with the critics’ opinion that the flexible work hour option might result in some employees working for fewer hours, and hence the work schedule of employees should be monitored. According to SAS, it had full faith in its employees and their dedication toward work. Instead of policing them, it encouraged employees to take breaks and rejuvenate themselves at the company cafeteria or enjoy other recreational facilities. This helped them to reduce work stress and complete assignments in less time. SAS also rejected critics’ argument that employee perks and programs were a cost burden. According to company assessment, these benefits had instead helped it to improve its business prospects. Goodnight said, “You can pay that money to employees in the form of benefits, or you can pay headhunters and corporate trainers to fund the revolving door of people coming in and out. To me, it’s a no-brainer.”

Pfeffer estimated that annually, SAS gained a huge amount ranging from US$85 million to US$100 million in terms of recruitment and retraining costs saved. In 2009, the health center alone helped them to save US$ 5 million measured in terms of man hours saved and health insurance costs the company would have had to cover if they went to clinics outside campus. Chambers opined that, “Because the value of services provided exceeds the overhead costs, the center is actually a profit generator.” SAS explained that the substantial amount saved in this way had been invested in providing more benefits to employees in future.

Moreover, the company said only satisfied employees could be motivated to introduce innovations, and develop customized software products or services as per customer requirements. The employee-friendly and family-oriented benefits helped to create a work environment in SAS where each and every employee enjoyed a high level of job satisfaction. Thus, employee loyalty resulted in more satisfied customers and more sales for the organization, SAS said.

SAS also disagreed with the critics’ version that many of the perks that it offered were excess benefits not really needed by employees. SAS explained that it never gave away unnecessary perks or wasted money. It had always followed a proper evaluation method before introducing a perk. Moreover, SAS stressed the fact that all these perks were not simple employee retention techniques but part of its greater business strategy. “No, we’re not altruistic by any stretch of the imagination. This is a for-profit business and we do all these things because it makes good business sense,” said Chambers.
SAS also mentioned that as the company had gained recognition for its M&Ms and other unusual perks, the analysts were misjudging the perks as being the sole reason behind SAS’s record low turnover rates. According to SAS, the real reason behind employees not wanting to leave the organization was SAS’s employee-centric organizational culture. Employees loved to work in SAS not only because of the perks but because of the company’s all-round efforts to ensure work-life balance for employees, it claimed. Moreover, employees were impressed by the company’s efforts to encourage employees to pursue career-enhancing goals within the organization itself. Employees also felt that SAS provided various work incentives which made working at SAS challenging and rewarding. The SAS organizational culture helped employees build a sense of mutual trust and respect as they had the freedom to communicate with everyone irrespective of their position in the company. All these reasons made employees understand that SAS’s true intention was to take care of employees in all respects, SAS said. Referring to its corporate culture, Chambers said, “We have to have a strong employment brand, we have to be the employer of choice, and we have to be known as a culture that engenders trust. And to keep people, we need to do all those things, and provide intellectually challenging work for employees.”

LOOKING AHEAD

In accordance with its tradition, SAS did not retrench its workforce even during the global economic recession of 2008-2010. Goodnight said that since SAS valued its employees as its most important asset, it would never resort to lay-offs to reduce costs and improve profits. Instead, it was willing to accept lower profits for that year. As an added advantage, being a privately-owned company it was not answerable for its decision to shareholders or investors. The company expected to reap more profits from the depreciation of dollar value as 65 percent of revenue came from the exports of software and services. Besides freezing salary and hiring, the company also adopted various other cost-cutting measures. SAS employees not only enjoyed job security but also the same level of benefits as the company also did not roll back any of the perks during the recessionary phase. The company believed that such short-term cost reduction methods would hamper employee loyalty and bring down productivity. Experts opined that Goodnight’s strategy had paid off as SAS’s global revenue for 2009 was US$2.31 billion, an increase of 2.2 percent as compared to 2008. Goodnight said, “Our continued growth in 2009 is further proof that investing in long-term relationships with customers and employees and maintaining a deep commitment to R&D pays. We not only weathered the downturn, we came out ahead.” In its international markets too, SAS witnessed a growth in sales in almost all regions. Experts attributed the success to SAS’s workplace environment and the company’s efforts to ensure employee wellbeing.

Video 11.5.7: Forbes Video Network

Buoyed by the accomplishment, SAS planned to continue with its business strategy of focusing on employee satisfaction. Goodnight announced, “For 2010, I make the same promise that I did last year – SAS will have no layoffs. Too many companies worldwide sacrificed employees and benefits to cut costs in 2009. SAS took the opposite stance, and we have been rewarded in employee loyalty and overall success of the business. Maintaining this position throughout the downturn puts us in the best position to meet the expected market upturn.” SAS said that other software organizations should follow its business ideology and focus on employee satisfaction. As human resources or creative capital were vital for software companies, they should initiate programs that kept employees motivated and should treat them as a long-term investment in intellectual capital rather than expenses. This was the key behind SAS’s strong growth since its inception, he said. According to Goodnight, “If there’s a secret to SAS’ success, that’s it. Follow common-sense rules: Make sure revenues are greater than expenses. Keep your customers happy. Value your employees, because they are the intellectual capital of your company. If you keep these things in mind, while you may not grow your profits every quarter, you will grow your business over time.”

### Exhibit I

**Top Ten Best Companies to Work For in 2010**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SAS</td>
</tr>
<tr>
<td>2</td>
<td>Edward Jones</td>
</tr>
<tr>
<td>3</td>
<td>Wegmans Food Markets</td>
</tr>
<tr>
<td>4</td>
<td>Google</td>
</tr>
<tr>
<td>5</td>
<td>Nugget Market</td>
</tr>
<tr>
<td>6</td>
<td>DreamWorks Animation SKG</td>
</tr>
<tr>
<td>7</td>
<td>NetApp</td>
</tr>
<tr>
<td>8</td>
<td>Boston Consulting Group</td>
</tr>
<tr>
<td>9</td>
<td>Qualcomm</td>
</tr>
<tr>
<td>10</td>
<td>Camden Property Trust</td>
</tr>
</tbody>
</table>

Source: [http://money.cnn.com](http://money.cnn.com)
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>Flexible work schedule and 35-hour workweek established.</td>
</tr>
<tr>
<td></td>
<td>Employee-friendly perks started like Friday breakfast goodies, Wednesday M&amp;Ms, fresh fruit on Mondays, Break rooms filled with complimentary drinks and snacks. Company holds winter party, family spring picnic, family Halloween party and numerous family activities throughout the year.</td>
</tr>
<tr>
<td>1980</td>
<td>SAS-sponsored on-site childcare established.</td>
</tr>
<tr>
<td>1982</td>
<td>First on-site training center, publications warehouse and video studio opened.</td>
</tr>
<tr>
<td>1983</td>
<td>On-site health care center having family nurse practitioners where employees and their covered dependents could get basic health treatments free of cost set up.</td>
</tr>
<tr>
<td>1984</td>
<td>On-site recreation and fitness center opens in campus with all programs and services free to employees and family members. Wellness program also initiated</td>
</tr>
<tr>
<td>1985</td>
<td>Company subsidized on-site café opens in Cary, NC.</td>
</tr>
<tr>
<td>1990</td>
<td>Employee Assistance Program established.</td>
</tr>
<tr>
<td>1992</td>
<td>Work Life Initiatives Department established.</td>
</tr>
<tr>
<td>1993</td>
<td>Generation to Generation elder care program established.</td>
</tr>
<tr>
<td>1995</td>
<td>Health Care Center employs two physicians.</td>
</tr>
<tr>
<td></td>
<td>Contd…</td>
</tr>
<tr>
<td>1997</td>
<td>HR announces paid time-off for regular and part-time employees</td>
</tr>
<tr>
<td>1998</td>
<td>Recreation and Fitness Center in Cary upgraded with the addition of 8,000 sq ft.</td>
</tr>
<tr>
<td>1999</td>
<td>The Recreation and Fitness Center upgraded again to include a 19,000 sq ft natatorium, housing a 10-lane swimming pool. More cafés opened inside campus.</td>
</tr>
<tr>
<td>2000</td>
<td>SAS’s fourth child care center opens in 2000, bringing the number of children served in day care to more than 850.</td>
</tr>
<tr>
<td>2001</td>
<td>The inaugural SAS Championship, a Senior PGA Tour event, held at Prestonwood Country Club in Cary.</td>
</tr>
</tbody>
</table>

Compiled from various sources.
Exhibit III
Growth in Annual Revenue from 1976-2009

Source: www.sas.com

Exhibit IV
SAS In-Campus Swimming Pool

Source: www.sas.com

Exhibit V
SAS In-Campus Swimming Pool

Source: www.sas.com
### Exhibit VI

**Awards and Recognition won by SAS for Being a Employee Friendly Organization**

<table>
<thead>
<tr>
<th>Year</th>
<th>Recognition Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>SAS is named in <em>Working Mother</em> magazine’s inaugural list of the “Best Companies for Working Mothers.”</td>
</tr>
<tr>
<td>1990</td>
<td>SAS is named in <em>Working Mother</em> magazine’s list of the “Best Companies for Working Mothers.”</td>
</tr>
<tr>
<td>1991</td>
<td>SAS is named in <em>Working Mother</em> magazine’s list of the “Best Companies for Working Mothers” and in the book, <em>Companies that Care</em></td>
</tr>
<tr>
<td>1992</td>
<td>SAS is named in <em>Working Mother</em> magazine’s list of the “Best Companies for Working Mothers.”</td>
</tr>
<tr>
<td></td>
<td>SAS is named in the book <em>100 Best Companies to Work for in America</em></td>
</tr>
<tr>
<td>1993-96</td>
<td>SAS is named in <em>Working Mother</em> magazine’s list of the “Best Companies for Working Mothers.”</td>
</tr>
</tbody>
</table>
| 1997 | *Mother Jones* magazine lists SAS as among the 20 Better Places to Work.  
SAS is ranked among the top 10 on Working Mother magazine’s list of the “100 Best Companies for Working Mothers” (the ninth consecutive year on the list and fifth top-10 ranking), No. 3 on FORTUNE magazine’s list of “100 Best Companies to Work for in America,” and No. 4 on *BusinessWeek*’s list of “Best Companies for Work and Family.” |
| 1998 | SAS is named in two business books recognizing companies with outstanding employee-friendly practices, *Contented Cows Give Better Milk* and *Good Company*. |
| 1999 | SAS places No. 3 on FORTUNE magazine’s “100 Best Companies to Work for in America” list.  
SAS receives the 1999 National Family Friendly Business Award from the international organization FEMALE (Formerly Employed Mothers at the Leading Edge).  
SAS is awarded the *Triangle Business Journal*’s Platinum Rule Award for Family Friendly Practices.  
SAS’s Recreation and Fitness Center receives the Eastwood Award for outstanding employee service from the National Employee Service and Recreation Association (NESRA). |
| 2000 | SAS ranks second on FORTUNE magazine’s 100 Best Companies to Work for in America list. |
| 2001 | SAS ranks No. 2 on FORTUNE magazine’s 100 Best Companies to Work For list  
For the 11th year, SAS is named to *Working Mother* magazine’s 100 Best Companies for Working Mothers. |

Contd...
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Working Mother magazine names SAS one of Best Companies for Working Mothers. SAS marks sixth straight year on FORTUNE magazine’s ‘100 Best Companies to Work For’ list.</td>
</tr>
<tr>
<td>2003</td>
<td>SAS marks seventh straight year on FORTUNE magazine’s ‘100 Best Companies to Work For’ list.</td>
</tr>
<tr>
<td>2004</td>
<td>SAS reaches No. 8 on FORTUNE magazine’s ‘100 Best Companies to Work For’ list. IDG’s Computerworld names SAS one of ‘Best Places to Work in IT’.</td>
</tr>
<tr>
<td>2005</td>
<td>SAS becomes member of FORTUNE magazine’s 100 Best Companies to Work For Hall of Fame.</td>
</tr>
<tr>
<td>2006</td>
<td>SAS again named to FORTUNE magazine’s list of 100 Best Companies to Work For. SAS ranks 6th on Computerworld’s Best Places to Work in IT annual list.</td>
</tr>
<tr>
<td>2007</td>
<td>SAS marks decade on FORTUNE magazine’s ”100 Best Companies to Work For” list. SAS is selected as a top employer in information technology by IDG’s Computerworld magazine. The Dave Thomas Foundation for Adoption named SAS among the top 100 adoption-friendly employers. SAS named one of Europe’s ten best places to work according to the Great Place to Work Institute. SAS Named Norway’s Best Place to Work as well as Sweden’s Best Place to Work. SAS Mexico among top 100 Great Places to Work in Mexico.</td>
</tr>
<tr>
<td>2008</td>
<td>SAS makes FORTUNE magazine’s Best Companies list for 11th straight year. SAS named one of the Best Adoption-Friendly Workplaces in America. SAS China ranked highest among China’s Top Employers 2009. SAS ranked No. 1 medium-sized company to work for in Sweden by the Great Place to Work Institute. SAS among topmost in Great places to Work in Mexico. SAS named among US’s top 50 family-friendly companies by conceive magazine for its generous fertility, adoption, and maternity leave benefits. SAS receives the REX UNC Health Care Healthiest Company award. SAS receives the 2008 Balanced Life Workplace Award for large legal departments from the North Carolina Association of Women Attorneys (NCAWA). SAS named to the list of Best Places to Work in the Triangle by Triangle Business Journal (TBJ). SAS ranked by Computerworld magazine as the No. 5 employer in IT.</td>
</tr>
<tr>
<td>Year</td>
<td>成就</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
</tr>
</tbody>
</table>
| 2009 | SAS ranks in top 20 on FORTUNE’s Best Companies to Work For list.  
SAS ranked 19th among the top employers in IT by Computerworld magazine.  
SAS again recognized as one of the Best Adoption-Friendly Workplaces in America.  
SAS ranked seventh in the Dataquest India survey of the top 20 IT employers.  
SAS Portugal ranked 19th among the 30 best places to work in Portugal in 2009  
SAS Norway selected as the second best place to work in Norway in the medium-sized company rankings and the same ranking in Best Place to Work in Belgium.  
The company secures topmost ranking in Germany’s Best Employers list.  
SAS secures topmost ranking among best employers in Australia.  
SAS Greater China secures first place in the Best Employers list in China in 2009 by Hewitt Associates.  
SAS once again features in the 2009 Great Places to Work in Mexico.  
SAS Canada ranks as Canada’s Top 100 Employers for eighth continuous year. |
| | 2010 | SAS is No.1 on FORTUNE magazine’s annual “100 Best Companies to Work For” list.  
SAS Argentina ranked fifth among companies with less than 200 employees  
SAS named one of the 20 TOP Employers by CRF Institute which recognizes French companies for excellence in human resources (HR) benefits and services.  
SAS ranked 13th among top employers in Germany, according to Germany’s Best Employer 2010.  
SAS earns first place on the annual Best Places to Work in Belgium 2010 list from the Great Place to Work Institute.  
SAS Institute once again ranked as Norway’s Best Place to Work by the Great Place to Work Institute |

Compiled from various sources.
References and Suggested Readings:


39. www.sas.com
Footnotes


2. Founded by Henry Luce in 1930, Fortune is a US-based global business magazine published bi-weekly by Time Inc.

3. The ranking is calculated on the basis of the weighted average scored by a company in two types of survey carried out by the institute. The first one with two-thirds weightage was named the Trust Index survey where employees are arbitrarily selected and asked to fill a questionnaire regarding their evaluation of the job satisfaction received, trustworthiness of management, and mutual relationship among workers in that organization. The second study, known as the Culture Audit, having one third weightage, required employees to answer questions about the hiring process, communication, and diversity among the workforce, pay and benefit programs, etc.


6. Employee Turnover rate refers to the frequency at which an employer gains and loses employees and is calculated by the ratio of the number of employees a company has replaced in a given time period to the average number of total employees in that time period.


12. M&M’s are small button sized colorful candies manufactured by Mars, Inc. It started selling in the US in 1941 and now has become popular all over the world.


30. IPO or an initial public stock offering refers to the shares floated by the company to become a publicly traded company.


32. Goldman Sachs is a leading global investment firm.

33. Founded in 1977, Oracle Corporation is a global IT company headquartered in California, USA.


35. “S A S W o r k e r s W o n W h e n G r e e d L o s t ,” www.usatoday.com, April 21, 2004.


42. Started in 1989, Business Leader is a monthly magazine that publishes news on businesses in Raleigh-Durham, US.

43. Started in 1894, Rex Healthcare is a private not-for-profit organization providing health care services in Wake county, US, and is a member of the UNC Health Care system.

44. Founded in 1891, by Leland Stanford, Stanford University is a private university situated in Stanford, California, US.


46. Google Inc. is a US-based Internet software firm. Its corporate headquarters located in Mountain View, Santa Clara County, California, USA, is called Googleplex.


In the previous unit, we discussed human resource planning (HRP). We have learnt that HRP ensures the availability of the right resources at the right place, to meet the future needs of organizations. The first step in HRP involves assessing the existing human resources in the organization. An extensive job analysis provides the necessary inputs for this assessment. In this unit, we will discuss job analysis and design.

Job analysis, as a basic exercise, can benefit and support many HR processes in the organization. Human resource planning, recruitment and selection, training and development, compensation management, and performance appraisal are some of the processes, which use the inputs provided by job analysis. Job specification and job description are the main outcomes of a job analysis.

This unit will discuss the concept and process of job analysis. We shall discuss the various job analysis methods and information tools required to conduct a well-planned and well-executed job analysis. We shall then move on to discuss the concepts of job description and job specification, and study the uses and issues involved in job analysis. Finally, we shall discuss the concept of job design, and study the modern management techniques.
In this chapter, the student should be able to understand the

- Concept of Job Analysis
- Process of Job Analysis
- Job Analysis Methods
- Job Analysis Information
  - Job Description & Job Specification
  - Uses of Job Analysis
- Issues in Job Analysis
- Concept of Job Design
- Modern Management Techniques
Section 1

Concept of Job Analysis

Job analysis is the process of determining and recording all the relevant information about a specific job, including the tasks involved, the knowledge and skill set required to perform the job, the responsibilities attached to the job, and the abilities required to perform the job effectively. It is also known as job review or job classification. The end products of this analysis help in compiling a detailed description of tasks, determining the relationship of the job to technology and to other jobs, and examining the employment standards and accountabilities.

Job description and job specification, the outcomes of a job analysis, are used as a basis for recruitment. They help in evaluating candidates against job requirements and selecting the most suitable one.

Job analysis provides the inputs/parameters based on which training can be provided to the employees. A comparison of the job specifications with the existing competencies of an employee helps in identifying his/her training needs.

Job analysis helps the management in evaluating the relative worth of each job. This is one of the basic inputs used in designing the compensation system.

Job analysis plays a key role in designing and managing the performance appraisal system in an organization. It helps in identifying the key responsibility areas (KRAs) for a position and then setting the goals or objectives for the appraisal period. This forms the basis for the evaluation of an employee's performance.

Thus, job analysis contributes either directly or indirectly to almost all the fields of human resource management.

Source: www.imgv2-4.scribdassets.com
Section 2

Process of Job Analysis

The four steps involved in the process of job analysis are shown in Table 2.1.1 below.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information gathering</td>
<td>This step involves observation and study to collect the necessary information pertaining to the organization structure, the role of the job, the class to which the job belongs, and the activities and responsibilities constituting a job.</td>
</tr>
<tr>
<td>Job-specific competency determination</td>
<td>This step involves identifying the competencies needed for a job, based either on observation or on inputs from employees doing the job.</td>
</tr>
<tr>
<td>Developing a job description</td>
<td>This step involves preparing a description of the tasks, responsibilities, duties, and functions of the job being analyzed.</td>
</tr>
<tr>
<td>Developing a job specification</td>
<td>This step involves providing a complete list of competencies and qualifications needed to match the job description. A job specification is also prepared based on study, comparison, or direct inputs from the jobholders.</td>
</tr>
</tbody>
</table>
Section 3

Job Analysis Methods

Refer to keynote 2.3.1 for the generic methods of job analysis.

Keynote 2.3.1: Job Analysis Methods

Apart from these methods, there are some others which are more formalized methods of job analysis. These highly specialized methods use standardized statements and terminology.

Functional Job Analysis

Developed by the US Department of Labor, this method involves the job analyst conducting background research, interviewing job incumbents and supervisors, making site observations, and then preparing a detailed document. Functional job analysis enables managers to group jobs into job families, which require a similar kind of worker behavior. The work functions of any job are categorized into data, people, and things which basically cover an employee’s handling of data, his/her relationship with colleagues, and the type of work that he/she does. These are, in turn, ranked according to their levels of difficulty. The greater the difficulty of a function, the lower is the number associated with it.

Position Analysis Questionnaire (PAQ)

Developed by Ernest J. McCormick, this method describes jobs in terms of worker activities. It generates job requirement information applicable to all types of jobs and allows scientific and quantitative grouping of interrelated job elements, into job dimensions. The PAQ procedure contains 194 job elements, distributed among...
six major job categories. Researchers analyzed 194 elements in the PAQ for five hundred different jobs and identified five dimensions on which jobs differed from one another. These dimensions are:

**Having decision-making/communications/social responsibilities:** This dimension reflects the activities, involving communication and interaction with people, and responsibilities associated with decision-making and planning functions.

**Performing skilled activities:** This dimension involves skilled activities which are performed using technical devices/tools and in which stress is laid on precision, recognition of subtle differences, and on manual control.

**Being physically active/related environmental conditions:** This dimension includes activities, which involve considerable movement of either the entire body or major parts of it, and by environments likely to be found in factories and shops.

**Operating vehicles/equipment:** This dimension involves activities that use vehicles or equipment. Such activities typically involve sensory and perceptual processes, and physical functions.

**Processing information:** This dimension involves activities that entail a wide range of information-processing exercises.

---

**Critical Incident Technique (CIT)**

According to the CIT proposed by John Flanagan in 1954, behaviors in specific situations, add to the success or failure of individuals or organizations. Compiling all the critical acts or behaviors provides a portrayal of the job, with the focus on both the action of the worker and the context in which the behavior was noticed. Required information may be compiled from the job incumbents by way of interviews and questionnaires. This technique is limited to jobs carried out by a few people, and is not applicable to routine jobs that are carried out at the lower levels of management. The CIT is more appropriate for the middle and top levels in management, as critical incidents are more likely to occur at these levels.
Section 4

Job Analysis Information

A well-planned and well-executed job analysis results in many effective tools for the HR function. Refer to the following keynote 2.4.1 for some effective tools of job analysis by tapping on each tool:

Keynote 2.4.1: Effective Tools of Job Analysis

Based on the information collected through job analysis, two documents, namely ‘job description’ and ‘job specification’, are prepared. While job description outlines the tasks and activities, the relationships, the responsibilities, the setting, etc., of the job, job specification outlines the qualification, knowledge, skills, experience, etc., required by the incumbent to perform the job successfully.

Figure 2.4.1: Job Analysis

Source: www.icmr.org

Source: www.managementstudyguide.com
2.4.1 Job Description

Job description gives a detailed description of the various aspects of a job like the tasks involved, the responsibilities of the job, etc. It also describes the specific setting and work environment. It is used in recruitment, training, performance appraisal, and wage and salary administration.

Drafting and Maintaining Job Description

The following are the guidelines which should be kept in mind while writing a job description.

- It should indicate the scope, nature of the work, and all the important relationships.
- It should state clearly the work and duties of the position.
- It should make use of specific words like analyze, gather, plan, confirm, deliver, maintain, supervise, and recommend to indicate the kind of work, the degree of complexity, the degree of skill required, the extent to which the problems are standardized, the extent of workers' responsibility for each phase of work, and the degree and type of accountability.
- Supervisory responsibilities should be explained to the incumbents using brief and accurate statements.

Job descriptions should be updated as and when the operations in an organization change due to changes in market demand and technology.

2.4.2 Job Specification

A job specification is a written statement of the minimum acceptable qualifications, knowledge, skills, traits, and physical and mental characteristics that are required in an incumbent to perform the job successfully. These specifications are explained in table 2.4.1. Also refer to table 2.4.2 for examples on job descriptions and job specifications.

<table>
<thead>
<tr>
<th>Specifications</th>
<th>Features/Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical specifications</td>
<td>These specifications change from job to job. They include physical features like height, weight, vision, hearing ability, ability to lift and carry weights, health condition, age, and capacity to use or operate machines, tools, etc.</td>
</tr>
<tr>
<td>Mental specifications</td>
<td>These specifications vary according to the level of the job and depend upon the tasks/responsibilities associated with the job. They include analytical ability, data interpretation ability, decision-making ability, etc.</td>
</tr>
<tr>
<td>Emotional and social specifications</td>
<td>These specifications are more broad based and are normally common across most jobs. Stability, adaptability, and flexibility are emotional specifications, while ability to work in a team, ability to lead a team, ability to maintain interpersonal relationships, etc., are social specifications.</td>
</tr>
<tr>
<td>Behavioral specifications</td>
<td>These specifications play a vital role in the selection of the candidates for top level jobs in the organizational hierarchy. Ability to make judgments, creativity, teaching ability, maturity, self-reliance, ability to be authoritative, ability to undertake research, etc., are behavioral specifications.</td>
</tr>
</tbody>
</table>
Table 2.4.2: Example: Job Description and Job Specification

Job Description: Assistant Librarian

Post title: Assistant Librarian
Responsible to: Librarian
Liaises with: Senior research staff in other departments
Job purpose: To assist the Information Manager in the effective delivery of a high quality library and information service, which will serve the business needs and objectives of the organization.

Duties and responsibilities
- Acting on behalf of the librarian in his/her absence
- Being responsible for the online services budget
- Taking overall responsibility for the organization’s website content
- Being responsible for structure and content of all library databases to ensure agreed standards of consistency are conformed to
- Advising the Librarian on new database developments
- Ensuring all library staff are fully trained to exploit online databases
- Organizing library induction programs for new library users
- Overseeing the provision of the enquiry service to ensure users’ information needs are fully met within a specified timeframe
- Taking responsibility for the selection and maintenance of materials which will ensure that the collection in all subject areas is current
- Maintaining awareness of current developments in the information sector

Job Specification: Assistant Librarian

Qualifications (Essential criteria): CILIP accredited library and information qualification

Skills (Essential criteria):
- Minimum 2 years post-qualification experience in a library or information department
- Experience in using automated databases
- Familiarity with web-based services
- Experience in undertaking complex enquiries
- Effective customer care skills
- Excellent communication and networking skills
- Experience in meeting deadlines whilst delivering a service of the highest standards

Personal attributes
- Outstanding interpersonal skills
- Good communication and networking skills
- Adept at working in teams
- Interest in continuing professional development

For further info on job descriptions refer to www.onetoonline.org

<table>
<thead>
<tr>
<th>HRM Function</th>
<th>Use of Job Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Job analysis is used in manpower planning, recruitment, selection, placement, orientation, and induction.</td>
</tr>
<tr>
<td>Organization Audit</td>
<td>Job analysis is used in identifying the loopholes (if any) in the organization, in terms of jobs, processes, organizational structure, workflow, etc.</td>
</tr>
<tr>
<td>Training and Development</td>
<td>Job analysis is used in identifying the training needs and designing training programs for employees.</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>Job analysis is used in providing inputs about competencies and/or tasks and responsibilities that form the basis for performance appraisal.</td>
</tr>
<tr>
<td>Promotion and Transfer</td>
<td>Job analysis helps in evaluating a candidate for transfer/promotion against the results of job analysis.</td>
</tr>
<tr>
<td>Preventing job Dissatisfaction</td>
<td>Job analysis is used in identifying and rectifying problems/shortcomings in job design so as to prevent job dissatisfaction.</td>
</tr>
<tr>
<td>Job evaluation and compensation management</td>
<td>Job evaluation is an outcome of job analysis and is used for analyzing the relative worth of a job in the organization. This in turn provides inputs for wage and salary administration in an organization.</td>
</tr>
<tr>
<td>Health and Safety</td>
<td>Job analysis is used for providing information about the hazards or harmful working conditions and the risk of accidents associated with the job.</td>
</tr>
<tr>
<td>Induction</td>
<td>Job analysis provides information about the job in the form of a job description, which helps a new employee understand his/her tasks and responsibilities.</td>
</tr>
<tr>
<td>Industrial Relations</td>
<td>Job descriptions are used to solve industrial disputes and maintain sound industrial relations, as any change in job description would affect relations with the employees’ union.</td>
</tr>
<tr>
<td>Career Planning</td>
<td>Job analysis is a useful tool in planning the careers of individual employees and aiding them to progress along their career paths.</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>Job analysis helps in identifying and grooming a successor for a vacancy that may arise in the future by providing details of the tasks and responsibilities pertaining to a post.</td>
</tr>
</tbody>
</table>
Video 2.4.1: O*NET Online
Demonstration for
Recruitment, Selection
and Development - Job
Analysis

Source: www.youtube.com/watch?v=M8j7yG0f4wY
Section 5

Issues in Job Analysis

In dynamic and turbulent business situations, employees tend to be suspicious of job analysis exercises. As the success of job analysis depends upon the support and involvement of the employees, management, unions, and the HR department of the organization, it is important to allay the fears of employees by communicating the details of the job analysis exercise in a simple and transparent manner.

Job analysis requires that the information gathered is regularly updated. Job descriptions and specifications may change, based on changes that take place in the organization. There are two methods which can be used to resolve this problem. These are:

- To ask the supervisors to make an annual review of changes that have occurred and incorporate these in the job analysis information
- To have managers communicate the proposed changes in jobs or reclassification to the employees.

Job analysis tends to become subjective and biased in situations where a job is held by just one or two employees. It is the responsibility of the analyst to maintain neutrality in the document.

A very detailed and elaborate job analysis, fixing employees’ responsibilities may induce employees to evade occasional extra responsibility. It is necessary to have a broad-based and flexible job description in a dynamic organizational environment.
Section 6

Concept of Job Design

The process of structuring work and designating the specific activities at individual or group levels is known as job design. Job design determines employees’ responsibilities, the authority they enjoy over their work, their decision-making power, and their satisfaction and productivity levels. Job satisfaction and productivity are inter-related and inter-dependent. Some of the crucial factors that should be taken into consideration in job design are organizational goals, employee aspirations, performance standards, and work environment.

Job content and job depth are the major elements of a job design. The job content or scope, includes the various tasks or activities that have to be performed by the jobholder, the responsibilities attached to the job, and the relationships with other jobs in the organizational set-up. Job depth is the authority enjoyed by the jobholder in planning and organizing the work attached to the job.

Different Approaches to Job Design

While the earlier approaches to job design focused on the ‘technical’ aspect of a job and ignored the ‘human’ aspect, the later approaches made an effort to include a ‘human’ touch.

Engineering Approach

The scientific management approach, developed by Frederick W. Taylor, gave rise to the engineering approach. The ‘task idea’ (that led to job specialization), i.e., the work of every workman being fully planned and laid out by the management, at least one day in advance, was the main element of this approach. Workers were given clear instructions on what was to be done, how it was to be done, and the exact time to be taken to finish the work. They did not have to use their mental or intellectual skills and did exactly what they were asked to do.

According to the principles of scientific management, the role played by the management in job design was to determine one best way of performing a job, employ individuals according to their abilities, which should match the needs of job design, and finally, undertake the planning, organizing, and controlling functions for a job. The workers were trained by the management to carry out the job in ‘one best way’.
The major advantage of this method was that the management could hire unskilled labor for most of the operative jobs, which were designed for people with limited skills. However, such overspecialization prevented the development of their inter-personal relationships with the managers and co-workers. The other disadvantages of designing jobs according to the engineering approach were:

- **Repetition**: Repeatedly performing the same task created monotony. The work carried out by the workers was mechanical, systematic, and did not allow them to use their mental capabilities.

- **Mechanical pacing**: Workers had to work continuously at a predetermined pace without any breaks or relaxation.

- **No end product**: As a result of overspecialization, employees manufactured only parts and not an identifiable, complete end-product; so they had little pride in their work.

- **Little social interaction**: Assembly line required continuous attention; therefore, workers had little scope for casual interaction with their co-workers.

- **No personal input**: There was no personal control over job, no scope for change, or improvement in the jobs; therefore, employees lost interest in their jobs.

**Human Relations Approach**

The human relations approach introduced a ‘human touch’ to job design in order to deal with the problem of over-specialized jobs. According to this approach, over-specialized jobs had to be redesigned so as to make them more satisfying and rewarding for the employees. There was an emphasis on flexibility in order to meet the social needs of the workers, enabling them to have casual interactions with supervisors and co-workers.

According to Herzberg’s theory of motivation, motivators and hygiene factors are the two factors affecting job satisfaction of employees in an organization. While the hygiene factors (working conditions, organizational policies, interpersonal relations, pay, job security) prevent dissatisfaction among employees, the motivating factors (achievement, growth, responsibility, recognition) help in winning employee commitment and enhancing performance on the job.

**Job Characteristics Approach**

According to the job characteristics approach proposed by Hackman and Oldham, employees work hard when they are rewarded for their work, and when they derive satisfaction from work. Thus, the three factors, namely motivation, satisfaction, and productivity, should be incorporated into job design. The core dimensions of any job are defined as:

- **Skill variety**: It is the extent to which a job requires the use of different skills for the various activities to be performed.

- **Task identity**: It is the extent to which the job requires completion of a work, from the beginning to the end. The output should be a complete and identifiable piece of work.
Task significance: It is the importance of the task and the extent to which it makes an impact on the lives or works of other people.

Autonomy: It is the extent of freedom provided by the job to the employee or the worker in scheduling work, and in determining its pace and progress.

Feedback: It is the degree to which objective, direct, and timely information about the progress and performance of work reaches the employee from the job itself, from the superiors, or from an information system.

The first three dimensions give satisfaction to the jobholder, autonomy gives a sense of responsibility and commitment, which enhances employee performance, and feedback helps in analyzing his/her performance and identifying his/her strengths and weaknesses. Jobs high on motivating potential should also be high at least in either skill variety or task identity or task significance. The motivating potential score (MPS) of a job is calculated using the following formula.

\[
MPS = \left( \frac{Skill \ Variety + Task \ Identity + Task \ Significance}{Autonomy \times Feedback} \right)^{3/2}
\]

A high MPS indicates a positive effect on the motivation, performance, and satisfaction of incumbents. It also reduces the likelihood of turnover and absenteeism.

Socio-technical Approach

The socio-technical approach was proposed as an alternative to both the scientific/engineering approach and the human relations approach. According to this approach, jobs should be designed by taking a holistic view of the physical and social environments. This approach aims at merging the technical needs of the organization with the social needs of the employees. As per this approach, there are certain basic characteristics which a job should have:

- It should offer challenging and demanding goals to the jobholder.
- It should offer something new to the employee to avoid monotony.
- It should offer social support and recognition to an employee’s achievement.
- It should offer a prospective future to the jobholder in terms of increased responsibility, pay, and status.
- It should provide the jobholder with decision-making authority.
- The job should correlate with the jobholder's family and social life.

Modern Management Techniques

Organizations have moved away from the traditional work schedules and policies toward new HR initiatives so as to motivate employees to perform more efficiently and effectively. These initiatives have helped in optimizing the human resources of an organization and enriching the quality of work life for the employees. Some of the recent trends in job design are:
Job Rotation

Job rotation increases employee motivation as it involves assigning alternative jobs to the employee from time to time. This helps the employee gain greater knowledge about the organization and its work processes, while helping managers deal with frequent absenteeism and high turnover of workforce. Job rotation also helps in developing management generalists at higher levels in the organization, as it exposes the employees to various operations. See below for an example (2.6.1) of job rotation at LG.

Job Enlargement

Job enlargement involves increasing the length and hence the operating time of each cycle of work for the jobholder. Different and continuous shorter cycles are integrated into a larger single cycle of operation. This lowers the number of repetitions of the operating cycle, increases the scope of work for the employee, and resolves problems of overspecialization. It also gives the employee a feeling of satisfaction, since the end product in the enlarged cycle is more significant, than the one in the shorter cycle. Modern organizations have supplemented job enlargement with a more sophisticated technique called job enrichment.

Job Enrichment

Job enrichment is the most well known technique for increasing employee motivation. This is done by redesigning jobs to increase their scope and depth. There is less supervision and the jobholder has sufficient freedom to plan, organize, and control his/her job. This, in turn, has an impact on the role of the supervisor. Managers and co-workers need to be counseled to adapt to a reduction in power and control. The support and commitment of the top management is crucial in job enrichment as it involves a complete change of the work culture.

Some of the job enrichment techniques are:

- Adding more responsibility to a job
- Providing wider scope, greater sequencing, and increased pace of work

Example 2.6.1: Job Rotation at LG

In the year 2003, LG Electronics India Pvt. Ltd. (LG) carried out a large-scale job rotation exercise in its manufacturing and R&D division. The main purpose of the exercise was to decentralize the company’s manufacturing and R&D functions to its five business units.

LG did not want to recruit people from outside. It believed that job rotation failed to work with fresh recruits, as they were not happy with the thought of being placed in various functions. The company, therefore, used an appraisal system to shortlist candidates who were fit for job rotation. The company’s appraisal forms had eight performance parameters (including functional skills, core skills, and leadership skills), which were all quantified. A candidate was considered for job rotation, based on the score achieved by him/her in the appraisal. A candidate with a high score in parameters like core skills and leadership skills was considered for job rotation.

During the decentralization process, LG picked out the best performers among its product heads, and provided them with training on costing and finance for more than a year. At the same time, the company also identified the next best performers in order to replace the product manufacturing heads.

Assigning a natural unit of work either to an employee or to a group of employees

Minimizing controls and providing freedom of work, when the employees are clearly accountable for attaining defined goals

Allowing the employees to set their own standards or targets, and monitor their own performance by providing the control information

Motivating employees to participate in planning and innovation

Introducing new, difficult, and creative tasks

Assigning specific projects to individuals or groups to enhance their skill set.

The steps involved in job enrichment are:

Selecting jobs that can motivate the employee and lead to improved performance

Providing scope for change and enrichment in job design

Making a list of changes that might enrich the jobs by brainstorming

Concentrating on motivational factors such as achievement, responsibility, self-control, etc.

Changing the content of the job, rather than changing the employees

Providing adequate training, guidance, encouragement, and help

Introducing the enriched jobs carefully to avoid resistance toward the implementation of job enrichment programs

Preparing specific programs for each project and ensuring access to information that helps the management to monitor the performance of workers.

Activity: Mr. Parvesh Kumar has been working as ‘team-lead’ of the Product Development department of an MNC for seven years. In order to increase the scope of his job, the company decided to get him involved in the process of designing the marketing strategies for a new product being launched by the company. What is this type of job design adopted by the company known as?

Answer:
Some More Modern Management Techniques

Refer to the keynote 2.7.1 for the modern management techniques used by organizations.

Keynote 2.7.1: Modern Management Techniques

Example 2.7.1: Telecommuting at IBM

IBM, based in Armonk, New York, introduced telecommuting as an alternative for its employees in 1993. The rationale behind introducing telecommuting was to reduce costs by implementing a concept called space-sharing. (In space-sharing, employees work at a communal office space reserved for a specific period of time. This is also known as 'hoteling'. The remaining work is done at home.) Telecommuting reduced the company's requirement of office space and saved $56 million per annum for the company.

By the end of 1994, IBM allowed its total sales force in the US comprising 10,000 employees to telecommute. This annulled the requirement for 2 million square feet of office space. According to a survey conducted in the year 1996, 87% of the telecommuters at IBM were believed to be 'more' to 'far more' productive because of telecommuting. Telecommuters were also the employees who planned to stay on with the company for the longest and were satisfied with their job. It also indicated that the average employees' individual productivity increased between 10% and 20% after the implementation of the telecommuting program. This was way above the targeted 0.1% increase in order for the program to be cost-effective.

The program was a success not only in the US but also in Canada, Europe, Asia, and Latin America. As a result, IBM planned to further expand the implementation of its telecommuting program as a work alternative to its employees worldwide.

Adapted from [http://www.planning.state.ri.us/publist/telecom.pdf](http://www.planning.state.ri.us/publist/telecom.pdf).

Source: ICMR

See 2.7.1 for an example of telecommuting (one of the modern management techniques) at IBM
Activity: Some of the employees of MindPro Technologies stay very far from the office and spend hours on traveling to work. The company felt it was spending a lot on the travel arrangements for these employees too. Suggest a few methods to reduce cost for the company and also to help the employees use time effectively.

Answer:
In the last unit of the previous block, we discussed international human resource management. In this unit, we will discuss the concept of human resource planning.

In recent times, organizations have come to accept the fact that a well-designed and comprehensive human resource planning (HRP) process plays a crucial role in the well-being of an organization. HRP ensures the availability of the right resources at the right place, to meet the future needs of organizations.

This unit will discuss the definition and objectives of human resource planning. We shall then move on to discuss the process involved in human resource planning, and study the various ways in which the forecasted demand or surplus of manpower can be changed. Finally, we would discuss the growing importance of human resource planning, and the current trends in the field.

In this chapter, the student should be able to understand the

- Definition & Objectives of Human Resource Planning
- Growing Importance of Human Resource Planning
- Managing the Forecasted Demand/Surplus

Human Resource Planning

Source: www.4.bp.blogspot.com
Section 1

Definition and Objectives of Human Resource Planning

**Definition of Human Resource Planning**

HRP is defined as the process of ensuring the right number of qualified people for the right job at the right time to deliver the results in an efficient and effective manner. The process of HRP begins with understanding the organizational objectives, and translating them into a schedule of employee requirements, over a period of time. The next step is to devise plans to make the right resources available, in order to meet these requirements.

The main purpose of HRP is to assess where the organization is, where it is going, and what implications these facts have on the future supply and demand of human resources. It is the responsibility of the HR department to match the supply of human resources, with demand, in order to meet future organizational requirements.

**The Objectives of HRP are**:

- To maintain the required quantity and quality of human resources for the smooth and efficient functioning of the organization.
- To predict the turnover/attrition rates.
- To make plans to meet the human resource needs of an organization, at the time of expansion or diversification.
- To foresee the effects of technological changes on the human resource requirement and make provisions for them.
- To develop the existing human resources, to match the human resource requirements of the future.
- To optimize staffing in the organization.
- To make contingent plans to deal with sudden requirements and situations of shortfall.
- To make effective and efficient utilization of human resources.
- To estimate the value of human resources and their contribution to the organization.
Section 2

Human Resource Planning (HRP) at Different Planning Levels and the Process of HRP

HRP is done at various levels in an organization in order to meet the resource requirements at these levels. The flow of communication about HRP has to be from top to bottom and vice versa. The different planning levels and the corresponding role of HRP at each of these levels are shown in Table 3.2.1. Also refer to example (keynote 3.2.1) for a strategic human resource planning model.

<table>
<thead>
<tr>
<th>Planning Level</th>
<th>Role of HRP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate-level planning (done at the macro level)</td>
<td>Determining the employment policy, welfare policy, development policy, etc based on changing markets, strategic plans of the organization, anticipated technological changes.</td>
</tr>
<tr>
<td>Intermediate-level planning (done at the strategic business unit level)</td>
<td>Determining the recruitment/layoff strategy, retaining strategy, etc., based on corporate level HR plan.</td>
</tr>
<tr>
<td>Operations-level planning</td>
<td>Making plans for recruitment, training and development of resources, etc., to match with the requirements laid out at a broader level.</td>
</tr>
<tr>
<td>Planning short-term activities</td>
<td>Handling day-to-day activities like grievance handling, etc. Planning taken up at this level is very critical as the success of corporate plans is dependent on the success or failure of these plans.</td>
</tr>
</tbody>
</table>

Example 3.2.1: A Strategic Human Resource Planning Model

The Process of Human Resource Planning

HRP involves formulating plans for the long-term needs of the organization. It takes into consideration the career planning for individual employees and succession planning in the organization. The basic steps involved in HRP are:
Making an analysis of the impact of organizational strategy and objectives on different units of the organization in terms of human resource requirements.

Involving the line managers for determining the human resource needs of their respective departments.

Predicting the quantity and quality of human resources required by different departments/divisions.

Matching the existing supply of human resources in the organization with the numbers required in the future.

Developing an action plan, in terms of additions or separations, in a planned and phased manner, to meet the future requirements.

Assessing Current Human Resources and Making an Inventory

Assessing the existing human resources in the organization is the first step in HRP. An extensive job analysis provides the necessary inputs for this assessment. After the assessment has been completed, an inventory of the resources can be compiled in terms of their jobs, qualifications, competencies, compensation, training requirements, etc., by using the Human Resources Information System (HRIS).

The next step in HRP can be taken up after an inventory report is prepared. The HR inventory and the job analysis together form the basis for the assessment of an organization's current human resource situation, in terms of the work that needs to be done and the resources available to do the work.

Forecasting

The strategic plans of an organization form the basis for its human resource plans. A proper and wise assessment of the human resource needs has to be made, based on these plans. The future needs of the organization have to be compared with the availability of resources at present, and action has to be taken based on whether there will be a deficit or a surplus in the future. This action plan also needs to take into consideration the position of the organization in terms of revenue.

Forecasting methods like time series analysis, regression analysis, and productivity ratios can be used to determine the future human resource needs of an organization. However,
these methods are only statistical tools and HR planning has to take into consideration some other aspects like the organizational objectives, market dynamics including the job market, organizational culture, technological environment etc., for forecasting.

**Matching the Inventory with Future Requirements**

After forecasting, the next step is to match the future requirements with the current inventory, so as to understand the HR position, and plan accordingly. The costs and the time involved have to be evaluated at every point, and the course of action has to be planned accordingly.
Section 3

Managing the Forecasted Demand/Surplus

The action plan prepared after matching the HR inventory with the future needs of the organization has to be properly phased out. The sources of supply/separation and the factors affecting such sources have to be considered, while analyzing the future requirements of human resources in comparison, with the current inventory. Some of these are:

- Addition of new employees from outside
- Transfer of employees that will change the employee strength of different units within the organization
- Employees going on leave or coming back after a long leave
- Effect of promotions and demotions on the human resource plan
- Separations from the organization due to retirement, resignation, disciplinary action, death, or sickness
- Influence of changing demographics on the external supply of human resources
- Influence of political, social, and legal environments on the external supply of human resources.

Managing Future Demand

If the net requirement indicates an additional requirement of human resources, a decision has to be taken on whether to employ permanent or temporary staff, whether to outsource the work, or whether providing training to the existing employees would be sufficient. The area of demand and the skill set required also needs to be taken care of while planning for recruitment.

Managing Future Surplus

Necessary action has to be planned out if the aim is to achieve a reduction in the employee strength due to surplus. Based on factors like the number of employees to be reduced and the time frame for such reduction, organizations can opt for natural attrition, a voluntary retirement scheme (refer to example 3.4.1) (or a golden handshake), or deploy the excess manpower in some other unit/project.
Dealing with Surplus Manpower

Dealing with surplus manpower is a difficult task because any step taken will have a direct impact on the organization and its employees. Some of the ways of handling a situation of surplus labor are described in Table 3.4.1.

Example 3.4.1: VRS in India

In India, voluntary retirement scheme (VRS) was introduced in the public sector undertakings in the early 1980s to reduce the surplus or redundant workforce. It gained much recognition after the introduction of the new economic policy in 1991. An organized industrial organization has to operate, within the existing legislative framework of the country, and this framework does not allow the organization to shed its redundant or surplus workforce, without providing them with adequate compensation. VRS is referred to as ‘golden handshake’ by the employers, ‘voluntary retrenchment scheme’ by the trade unions, and as ‘unstated exit policy’, by the government.

Free economy and trade liberalization have given rise to the need for the enterprises to have a competitive advantage over rivals. Economic forces have led to cost cutting, changes in production processes, delving into new markets, modernization and relocation of plants, downsizing and structural modifications. Over-manning had become a feature in almost all industrial units, due to their inability to adjust the workforce according to current and future needs.

Adapted from [http://www.indiainfoline.com/bisc/sibmpper02.html](http://www.indiainfoline.com/bisc/sibmpper02.html), December 19, 2005 (as retrieved on July 30, 2006)

### Table 3.4.1: Handling Surplus Manpower

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>VRS</td>
<td>Voluntary retirement scheme introduced in public sector undertakings in 1980s</td>
</tr>
<tr>
<td>New Economic Policy</td>
<td>Introduced in 1991, gained recognition after new economic policy introduced</td>
</tr>
<tr>
<td>Industrial Framework</td>
<td>Ultimate legislative framework of the country, does not allow shedding surplus</td>
</tr>
<tr>
<td>Golden Handshake</td>
<td>Refers to VRS by employers, voluntary retrenchment scheme by trade unions</td>
</tr>
<tr>
<td>Unstated Exit Policy</td>
<td>Referred to by government</td>
</tr>
</tbody>
</table>

### Video 3.4.1: HR Management: Planning & Forecasting

Source: [www.youtube.com/watch?v=sP7Q51zHp4I](http://www.youtube.com/watch?v=sP7Q51zHp4I)

### Video 3.4.2: HR Planning - Markov Analysis

Source: [www.youtube.com/watch?v=YCdUmIoP8w](http://www.youtube.com/watch?v=YCdUmIoP8w)

### Video 3.4.3: The Methods Used to Forecast and Assess Demand and Availability

Source: [www.youtube.com/watch?v=d00dvvrSl44](http://www.youtube.com/watch?v=d00dvvrSl44)
<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrenchment</td>
<td>Termination of the services of an employee due to his or her job becoming redundant. In this situation, either the employer cannot offer the employee any alternative position, or the alternative position offered by the employer is not to the employee’s liking. (Refer to example 3.4.2)</td>
</tr>
<tr>
<td>Outplacement</td>
<td>Employee-friendly organizations search for other employment opportunities for their displaced employees and provide assistance to them in getting new jobs. Such services are called outplacement services.</td>
</tr>
<tr>
<td>Lay-offs</td>
<td>Organizations resort to lay-offs, which may be temporary or permanent, when there is a fall in the demand for their products and/or services, and the supply cannot be maintained at the existing levels. Reduction in manpower due to lay-offs will have a negative effect on employee morale and commitment.</td>
</tr>
<tr>
<td>Leave of absence without pay</td>
<td>This method is used when organizations undergo some major changes. Employees have the option of either coming back to the same organization, after the leave period or looking out for another job during the leave period.</td>
</tr>
<tr>
<td>Loaning</td>
<td>This method is used by organizations during slack periods when they do not want their middle/top level managers to stagnate or leave the company. Organizations loan their managers for a specified period of time to other organizations. The employees work on projects with these organizations, but continue to be on the rolls of their parent organization. The terms and conditions during the ‘loan’ period are decided upon by mutual discussion and the employee returns to his/her parent organization at the end of the loan period.</td>
</tr>
<tr>
<td>Work sharing</td>
<td>In work sharing, loyal and dedicated workers are retained even during slack periods. Two workers share the job and the salary of one. This method is more suitable for employees working at the operational and lower levels of management.</td>
</tr>
<tr>
<td>Reduced work hours</td>
<td>In this method, the workers agree to be paid less and put in fewer hours of work to avoid their colleagues being retrenched/laid-off. This method is suitable for organizations that are cohesive and employee-friendly, and for employees working at the lower levels of management.</td>
</tr>
<tr>
<td>Early/voluntary retirement</td>
<td>Early/voluntary retirement is a technique for getting ageing employees (who are just a few years away from retirement) to leave and infusing fresh talent into the organization. Employees who opt for voluntary retirement get additional retirement benefits.</td>
</tr>
<tr>
<td>Attrition</td>
<td>Attrition refers to separation of employees from an organization due to resignation, retirement, etc. Downsizing can be taken up by freezing recruitment to fill up the vacancies arising from normal attrition. This will avoid additions to the workforce and the numbers get reduced. This method is adopted when the numbers to be retrenched are not high and the time available is long.</td>
</tr>
</tbody>
</table>

Activity: Since 2004, sales have been showing an upward trend for Jackson Trading Company. In order to be able to match the supply of its products with demand in the market, and to sustain the demand by improving its product, the company wanted to infuse fresh talent from outside. To meet the extra cost for this, it decided to retrench the ageing employees by offering them a voluntary retirement scheme. What does such a scheme entail?

Answer:

Example 3.4.2: Steps to Remember when Retrenching an Employee

Certain guidelines should be followed by the human resource manager when retrenching an employee. Some of these are listed out here.

- Before retrenching employees, managers should prepare them a few months ahead of the impending process.
- If the employee is being retrenched due his/her skills becoming redundant, he/she should be given hints about the retrenchment, before it becomes compulsory to terminate his/her service.
- A system should be created, which will enable employees to opt for voluntary retrenchment.
- The employee should be provided with adequate placement assistance, re-training opportunities, and sufficient time to look for a new job.
- The retrenchment process should be undertaken gradually.
- It is the responsibility of the human resource manager, to communicate the message of retrenchment to the employee, in a tone that is not harsh or hurting.


Activity: Claire Ltd, an oil and gas company was facing a severe funds crunch during a cyclical trough period in the market. At its board meeting held on April 01, 2005, Claire decided on certain cost-cutting measures of which downsizing of the workforce at the company’s installations worldwide, was one. Being an employee-friendly company, it decided on outplacement, leave of absence without pay, and loaning as options for its downsizing. Explain each of these options and suggest any other option(s) which the company may have used in agreement with its employees.

Answer:
Question 1 of 7
In an organization, there needs to be clarity regarding the current human resource situation in terms of the work to be done and resource available to do the work. Which of the following alternatives form the basis for the assessment of an organization's current human resource situation? i. Performance appraisal  ii. HR inventory  iii. Job analysis  iv. Recruitment planning

A. i and ii  
B. ii and iii  
C. iii and iv  
D. iv and i
Growing Importance of Human Resource Planning

HRP has been growing in importance in recent times. It helps in reducing costs by optimizing staffing. Through proactive planning, it also helps in handling different situations like expansion or divestment in the organization.

Following are some of the points that should be taken into consideration by the HR professionals in the process of HRP.

- The HRP process should not be very complicated.
- There is no necessity to employ the latest or most sophisticated techniques where simple methods are adequate.
- The HR manager should have a clear knowledge of all the areas of business to design and implement a good HR plan.
- There should be active participation of all managers, including those from the line functions.
- The support and contribution of the top management is essential for the acceptance and success of an HR plan.

Current Trends

In many countries including India, most of the downsizing methods are very difficult to implement due to restrictions in the legal and political environment. Many organizations thus look for softer methods like outplacement for lowering manpower. If outplacement is not feasible, they may resort to voluntary retirement schemes. It is important for the organization to consider the interests of the employees, and to create and maintain an employee-friendly culture in order to survive and compete with the help of the strength of their human resources.

Outsourcing is a method in which day-to-day routine activities, at the least, are delegated to ‘outsourcing’ firms. It is popular among firms as by this method, the problem of dealing with changes in the requirements for manpower, and letting go of workers can be avoided. Organizations keep their employee strength low, by outsourcing those activities, which would otherwise be performed by their own employees. Outsourcing would also help the organization to employ its human resources to perform more important and strategic jobs than the routine ones. Also, refer to example 3.3.1 below for the
**Example 3.3.1: Benefits from Outsourcing are Driving the Trend toward External Providers**

Although outsourcing was initially introduced as a cost-cutting measure, it is being increasingly viewed as a strategic planning and business outcomes tool. According to a survey of more than 800 executives in the United States and Europe, done by Accenture, it was found that the additional business controls resulting from outsourcing, were the reason behind the trend in favor of external providers, apart from major cost savings. “We found those levels of control increasing throughout the transition to outsourcing and stabilization periods. Over half had recorded perceptible improvements in the first six months of outsourcing,” said John Rollins (Rollins), Accenture’s products operating group partner.

On releasing the results of the survey, Accenture said that 25 percent of the respondents reported “first-day improvements in business processes”. According to the survey, “better ability to plan, higher levels of operational reliability, and more rapid implementation of new strategies and initiatives” were among the most frequently cited benefits.

IT services remain the most outsourced function. However, companies are gradually resorting to external sources for “supply-chain operations, learning and training, human resources, accounting and financial services as well as customer relationship management”. Supply-chain management was the fastest rising area for outsourcing, where 36 percent of the respondents surveyed replied in the positive. Initiating outside learning and training functions came next and had been undertaken by 31 percent.

With more than 80 percent of the survey respondents being committed to permanent outsourcing of one key business function at least, it seemed to be a long lasting trend. Outsourcing was seen to be a temporary solution for key function operations by only 14 percent. “Because the outsourcer is more involved with business outcomes, it’s important that both sides understand the alignment of outsourcer performance with business outcomes, and the approach needs to remain responsive as long as the outsourcing contract is in effect,” Rollins said.


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**Activity:** In January 2006, the HR department of Sheetal Textiles Limited in consultation with the top management, decided to outsource its recruitment function (with effect from April 2006), to Aditya HR, a leading consultancy firm. What, according to you, is the rationale behind the decision taken by the company?

**Answer:**
Case Study: Infosys Campus Connect – A Solution to Talent Crunch Challenge?

This case was written by Bhavika Reddy, R Muthukumar and Indu Perupu, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
“The Campus connect program developed by Infosys focuses on developing the competitive levels of the students. We aim to achieve this by training the faculty and also by organizing webinars and seminars for the students.”

— Srikantan Moorthy, Senior Vice–President and Group Head, Education and Research, Infosys, 2010

“There is a need for the Industry to take active interest in the educational institutions where their potential employees are groomed and be involved.”

— H.S Ballal, Pro Chancellor, Manipal University, 2010

The early 21st century saw India emerging as a global leader in the Information Technology (IT) sector. The growth rate of the IT industry in India from 1992-2001 was 50% — almost double that of the US. Moreover all businesses across the world as well as in India were completely dependent on IT applications for their operations. So, there were numerous employment opportunities in IT services in India. Since the IT industry was ‘people-centric’, the demand for quality manpower was high. For the IT companies to remain ahead of the competition in the global market place, manpower with product and research-based project knowledge was quite essential. So, educational institutions and the IT industry realized the need for increasing the number of industry-ready graduates to meet the growing demands of the IT industry. IT companies started to bank on engineering colleges for new employees, as they churned out several thousand graduates every year. But the IT majors noticed that the graduates from engineering colleges had several skill gaps while serving their customers and that the companies had to spend a lot of money on training them. For instance, Infosys on an average spent about US$ 170 million and six months to one year of time training newly joined graduates in 2007.

NASSCOM reported that only 25% of engineering college graduates could be employed immediately in the IT industry due to which organizations were not able to find skilled and immediately employable engineering graduates. In 2002-2003, out of 129,000 IT engineering graduates, only 32,250 were capable of competing with the global workforce. During 2003-04, the total numbers of IT students was 141,000; of them 80,000 were employed and in 2004-2005, the total number of IT graduates was 165,000. Of them, 94,000 were employed in various IT related jobs.

Infosys, the second largest software services company in India in 2011, understood that academic institutions required active co-operation and support from the IT industry to meet the manpower demand. This prompted Infosys to launch a program called ‘Campus Connect’ in 2004. The aim of this program was to increase the rate of employability of engineering graduates in the IT industry. Infosys Campus Connect was an Industry-Academia Video: Narayana Murthy Discussing Employability Among Freshers

Source: www.youtube.com/watch?v=hM_UVz5vXIo
interaction program intended to enhance the skills of engineering graduates and to create a pool of talented industry-ready engineering graduates in colleges itself. Many analysts opined that with the help of Infosys Campus Connect, relations between the IT industry and the colleges could be enhanced so that the requirements of the IT industry and academia could be met.

REASONS FOR TALENT CRISIS

Since India became a global hub for IT services export in the early 21st century, it had witnessed an exponential growth in employment opportunities. But IT companies were not able to find the required quality of manpower. Narayana Murthy (Murthy), Chairman Emeritus of Infosys said in 2003 that several graduates from engineering colleges across the country were not employable. The main reasons for their unemployability were their lack of exposure to industry; lack of skills required by the employers; and lack of standards in technical institutions. Experts said that only a few students had the basic skills required to execute jobs in the IT industry. They also pointed out to the absence of a proper regulating committee to ensure the maintenance of academic standards in colleges and universities. Most of the engineering colleges did not have qualified instructors or adequate infrastructure.

Srikantan Moorthy (Srikantan), senior vice-president and group head, education & research, Infosys opined that there were many reasons for the gap between the demands of the IT industry and skills of the engineering graduates. In an article in Education Times, Srikantan wrote that newly recruited graduates were not able to work on the projects efficiently as they lacked skills like critical thinking, communication, and team participation. Since assessment of a student’s academic excellence was based on theoretical knowledge and not on practical knowledge, skills like critical thinking and problem-solving were lacking in the students. He

Som Mittal, President of NASSCOM, opined that the process of selection of students for the engineering stream was qualitative but the reason for the talent crisis in organizations was the lack of trained faculty and the use of an outdated academic syllabus. Students who passed out from such colleges found it difficult to get through the recruitment process of the IT companies. A few students were unable to explain even the fundamentals of the subject during the interview.

Analysts said that most of the candidates lacked technical skills as well as the social and behavioral skills required by the organizations. Analysts opined that the common issue for all the employers was finding the right employees with the relevant skills. They said that a few candidates were knowledgeable theoretically, but were poor in practical knowledge. In addition to the lack of technical competency, students were also lagging behind in communication and interpersonal skills, problem solving ability, analytical ability, creativity, lateral thinking, and planning and organizing.

Video: Mr Narayana Murthy Advices to Students and First Job Seekers Through rangrut.com

Source:www.youtube.com/watch?v=E-r4sFne9i0&feature=relmfu
opined that the students should be encouraged to solve more problems and should get more acquainted to team work during their education and that team-based projects should be started earlier than in the final year. He also opined that special workshops would help students to get introduced to the real working world, while simulation techniques and case analysis would help them in improving critical thinking and problem solving skills. Srikantan opined that academia and industry should work closely in order to meet the supply demand gap of job ready professionals in India. He also added that the industry academia relations could help in meeting the demand gap.

Navyug Mohnot (Mohnot), CEO of QA, a software skills training company, said, “Apart from technical and soft skills, another critical pieces missing in the puzzle is that little or no exposure to the business side of the technology at the campus level.” Citing the lack of communication skills, he added that the communication skills of the students could be improved through debate competitions.

**INFOSYS CAMPUS CONNECT**

Against the backdrop of such a gap between the demands of the IT industry and the skills of the engineering graduates, Infosys came out with an innovative program called ‘Campus Connect’ in May 2004. The Infosys Campus Connect program was launched by Mohandas Pai (Pai), the then Head of Administration, Education & Research, Human Resources Development, Infosys. The initiative was for final year engineering students. As a part of the Campus Connect initiative, Infosys started working with a policy making body like AICTE from August 2004 to include Industry-centric electives in engineering colleges to make students industry-ready (Refer to Exhibit I for Infosys Campus connect Academic and Industry collaboration model) so that the Industry related knowledge and information could be included in the curriculum of the students. The goal of Campus Connect was to build a sustainable partnership between IT organizations and engineering colleges for mutual benefit. It also aimed at increasing the quality and quantity of the IT talent pool from the perspective of technical skills, soft skills, process orientation, analytical skills, and language fluency.

According to Murthy, “The platforms like Campus Connect will help interaction between the academia and industry and enhance the availability of talent, the ‘most important ingredient for India’s success’.” About Rs 250 million was spent by Infosys on improving the quality of education in...
selected engineering colleges through Campus Connect from 2004 to 2011. Of that, about Rs 100 million was used in the first phase for training students and the faculty, and also for including industry required knowledge in the curriculum of 30 engineering colleges across India from 2004. Sixty colleges were registered with the program. Campus Connect was organized as a 3-phase model of industry-academia collaboration (Refer to Exhibit II for the 3-phase model). It was initiated to bring the competency levels of the engineering students in par with the industry needs and to minimize the gap between educational institutions and industry. (Refer to Exhibit III for the Infosys Campus Connect program approach which helped in minimizing the gap between the industry and colleges.)

Infosys Campus Connect followed the strategic governance model. The model had well defined roles, responsibilities, core processes, and financial budget. (Refer to Exhibit IV for the Campus Connect Program team organization.)

Infosys started various training programs such as faculty sabbaticals through which experienced faculty members were sponsored for two to three months at one of the Infosys centers. Through seminars and workshops, the faculty got to understand the Industry perspective and their requirements. Infosys also sponsored various events that helped in establishing communities among students and faculty.

The Campus Connect program had several program components which facilitated effective, fast-paced learning. The components of Campus Connect were Conclaves, Road Shows, Faculty Enablement Programs (FEP), Industrial visits through Spark, Student Project Bank, Faculty Sabbaticals, Foundation Programs, Industry Electives, Technology Seminars / Webinars, Sponsorships for Research Paper Presentation, Soft Skills Capsule Roll-out, Campus Connect Portal, and Newsletter (Refer to Exhibit V for the Components of Campus Connect Program).

Industry electives in areas such as computer science, business intelligence, enterprise architecture, and soft skills were created with the help of the institutions. Infosys courseware was published in the Campus Connect portal. That courseware added value to the existing college curriculum and highlighted the college’s mode of approach toward various concepts. The same courseware was used by Infosys for the new recruits in its induction training to make them attain global Industry-ready standards. A bank of Industry projects and case studies was shared with the partner colleges so that students could access and work on those which would provide them with a clear approach and knowledge application to real life problems. Real time experiences were provided for the students and faculty by exposing them to Infosys practices and techniques. (Refer to Exhibit VI for the concepts delivery method followed Infosys Campus connect).

Foundation Programs (FP), which included all the fundamental concepts required for a software professional, were considered to be the heart of the Campus Connect Initiative. They were included as a part of the academics and as a regular subject in the partnered colleges.
OUTCOMES OF INFOSYS CAMPUS CONNECT

The major beneficiaries of the Infosys Campus Connect initiative were the students, as they were able to enhance their performance by participating in real projects. Campus Connect helped students not only in their academic skills enhancement but also in improving their practical applicability, teamwork, project management, cross functional networking, and effective communication. Industry-centric electives helped students in developing confidence in their own abilities and in improving their ability to contribute to their work, which in turn helped in the employer’s success.

Infosys also provided internships both domestically and internationally through the company’s In Step program. Through these internships, a few students were given full-time job opportunities.

By September 2011, more than 150,000 students and 6600 faculty members had benefited from the Campus Connect initiative. Infosys Campus Connect conducted about 600 programs during 2011 such as guest lectures, technical training programs, workshops, and company visits in more than 100 colleges including arts and science colleges. (Refer to Exhibit VII and VIII for the Statistics of Campus Connect Program Development from its Inception.) Industry insiders said through industry-academia initiatives, IT companies could reduce their training costs. In addition, they could also save time and assign projects to the new recruits after minimum training.

M P Ravindra (Ravindra), vice president, education and research, Infosys in 2004, said, with the launch of the Infosys Campus Connect initiative there was a possibility of reducing the training period from 16 weeks to 4 weeks. Besides, the company could achieve a savings of 40-50%. Infosys had spent $1.7 billion on training in 2007. It had spent approximately Rs 0.2 million for training each fresher to make industry ready.

He also added that the Campus Connect program would help in meeting the demand for IT professionals through improving the quality of the education so that the students could satisfy the industry requirements effectively. He said, “Through an effective partnership with academia, we believe that we can help our students gain an edge over their global counterparts and significantly enhance the quality of IT education in the country.”

With the success of the Campus Connect initiative in the engineering colleges, Infosys extended the program to recruit for BPOs in 2008. It included both engineering and non-engineering colleges under the Campus Connect program. Ravindra also opined that the long-term benefits of Campus Connect were a better curriculum in the engineering colleges and the employable students with better knowledge on the subjects. The engineering institutions would provide a competitive workforce.

In 2011, Infosys hired 33,201 graduates out of the 6 million engineering graduates in the country. IT companies including Infosys agreed that the job readiness of the engineering graduates had improved when compared to previous years.
They also opined that job readiness was most often witnessed among students who had passed out from colleges that had an active collaboration with software companies. Nandita Gurjar (Gurjar), HR head of Infosys Technologies, said that the students who took part in the Infosys Campus Connect program had the employable skill sets required by employers.58

For its Campus Connect program, Infosys won the 12th annual Corporate University (CorpU) Xchange Awards59 2011 in the category of Excellence and Innovation.60 Kris Gopalakrishnan, Chief Executive Officer and Managing Director of Infosys, said that the award was recognition for Infosys’ commitment to increasing the employability of engineering students through its quality education and learning initiatives. He said, “This award is recognition of our commitment towards increasing the employability of engineering students through our quality education and learning initiatives. This achievement is certainly a source of inspiration for us to further enhance our work in the area of corporate learning and talent development.”61

Companies like TCS and Wipro 62 also took initiatives to train students to make them industry ready. They offered summer internships and projects to students to help them get an exposure to the IT industry. They also conducted workshops and guest lectures for the students and the faculty to keep them updated with the latest technology.63

IBM64 in collaboration with QAI, designed a training program to improve the skills of the students to make them industry ready. These training modules were provided to colleges across India along with the courseware and faculty members were trained and certified to explain the modules.65 The training was provided to the students to improve their soft skills and subject knowledge. IBM hired students trained through the program if they met its requirements.

Cognizant66 designed the “Evolve” training module to make the students employable and industry ready. This training program was intended to improve the soft skills of the students. The training focused on making students culturally aligned with industry and the work environment. The Leadership skills, Decision making skills, Project management abilities, Interview skills, and Soft skills of the students were enhanced through the Evolve program. Cognizant professionals said that after completion of the training program, a few of the trained students were absorbed into the organization.67

Similarly, in order to overcome the talent crisis in other industry sectors, a few manufacturing, automobile, petrochemical, and pharmaceutical companies like Larsen & Turbo, Indian Oil Corporation, Reliance Industries, and Ranbaxy Pharmaceuticals provided training to the students in the form of internships and projects.

**TALENT CRISIS PERSISTS**

Aspiring Minds68, a consulting firm, conducted a standardized computer based assessment test in August 200969 to determine the employability levels of technical graduates in India. The report published in 2010 stated that the employability of the graduates with reference to the skills required in the IT field was low. (Refer to Exhibit IX for the
statistics related to the employability of technical graduates from various colleges). As per a 2010 NASSCOM report, there were 3.7 million graduates and out of them 0.497 million were engineering graduates. But only 72,777 were recruited in 2010. The report also stated that the employability rate of engineering graduates was 26% while for other graduates it was 10-15%. (Refer to Exhibit X for the recruitment levels from 2008-2011). As per the same report, to reduce the unemployability rate of engineering students, IT companies had to provide training to about 62% of the candidates. Zensar Technologies, an IT-BPO company, hired 599 candidates out of 5893 eligible candidates through a campus recruitment drive in 2010. But the actual requirement of the organization was 800 people. Gopali Mehrotra, Head Human Resources (HR), Zensar Technologies, said that an average of 70% of the applicants were not able to pass the company's qualifying aptitude test. But based on 2010, the supply trends NASSCOM reported that by 2020, the cumulative talent available to the IT Industry would be only 10 million. A shortage of about 2.3 million graduates was estimated.

The Aspiring Minds National Employability report, 2011, stated that “India has a sizable engineering talent pool. However, only 17.45% are fit to enter the IT services industry”. The report also focused on the quality of the student’s education and stated that “With regard to employability percentage in different states, it was found that employability decreases logarithmically with the number of colleges in the state. This clearly shows that opening more colleges is directly impacting the percentage of employable engineers graduating every year.” Dr H S Ballal, pro Chancellor of Manipal University, suggested a solution to the problem talent crisis in IT industry. He said, “There is a need for the industry to take active part in the educational institutions where their potential employees are groomed and be involved in their development process. This will cut down on the industry’s training costs and they will be able to get candidates who can deliver to their expectations from day one.”

The problem of non availability of skilled candidates prevailed not only in the IT industry but also in other Industry sectors. According to the National Skill Development Corporation (NSDC) report of 2010, manpower requirement in various industries would be 240 million by 2020. (Refer to Exhibit XI and XII for the Strike rate and Man power requirements in various sectors by 2020.) Because of the great workforce demand, many training companies were aiming to train millions of students in the fields of engineering, construction, manufacturing, retailing, insurance, banking services
including microfinance, accountancy, hospitality, healthcare, and other vocations in India.\textsuperscript{79}

The Infosys Campus Connect team had high hopes of its Campus Connect Initiative. Pai was confident that by 2021, Infosys would challenge IBM\textsuperscript{80} and would probably overtake Accenture\textsuperscript{81} and would be one of the top five companies in the world in IT space.\textsuperscript{82} He opined that talented employees were very crucial for Infosys to achieve this objective. So, the Infosys HR team had a tough task of recruiting the best available talent to take it ahead. But Pai said, “I am worried about the quality of higher education in India. I have some ideas that I want to work on.” \textsuperscript{83} Analysts expected that Infosys might come out with new innovations to improve the education standards in India and to help shape fresh talent.
### Exhibit II

#### 3 Phase Model of Campus Connect

<table>
<thead>
<tr>
<th>Engage – Enhance – Sustain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engage</strong></td>
</tr>
<tr>
<td>- Awareness Creation</td>
</tr>
<tr>
<td>- Formal Memorandum of Understandings (MoU)</td>
</tr>
<tr>
<td>- Governance Structure</td>
</tr>
<tr>
<td>- Stakeholder Engagement</td>
</tr>
<tr>
<td>- Pilots</td>
</tr>
<tr>
<td><strong>Enhance</strong></td>
</tr>
<tr>
<td>- Enhance the Offerings</td>
</tr>
<tr>
<td>- Performance Focus</td>
</tr>
<tr>
<td>- Globalization</td>
</tr>
<tr>
<td><strong>Sustain</strong></td>
</tr>
<tr>
<td>- Industry Electives</td>
</tr>
<tr>
<td>- Institutionalization</td>
</tr>
<tr>
<td>- Co-create</td>
</tr>
</tbody>
</table>

Exhibit IV
Team organization of Campus Connect Program

Education & Research
Dept, HR, Development Centre Head, Project

Core Group From Infosys

Core Group From College

Program Director,
Head of the Institution
TPO, faculty

Leadership, Ownership, Management

### Exhibit V

#### Components of Campus Connect

**CAMPUS CONNECT CONCLAVE**

The purpose of the Conclave was to bring together the management of the targeted engineering colleges to discuss the need and actions for Industry-Academia collaboration. The expected outcome was involvement of a large percentage of colleges under the Campus Connect program with a definitive action plan. From May 2004 to March 2011, a total of 22 Campus Connect Conclaves were conducted.

**CAMPUS CONNECT ROAD SHOWS**

Road Shows were intended to communicate the value and benefits of the Campus Connect program to the partner-college faculty and students. The expected outcome was that student and faculty should understand the portals and various programs offered by Infosys in their college. From May 2004 to March 2011, about 722 Road Shows were conducted.

**FACULTY ENABLEMENT PROGRAM (FEP)**

The Campus Connect program periodically conducted the Faculty Enablement Program (FEP) to train the partner college faculty. Course delivery and industry-oriented courses like Business Intelligence, Building Enterprise Applications, Mainframe systems, etc. were taught to the faculty. The purpose of the program was to bring all the registered engineering colleges together and make them understand the areas in which the IT industry was extending its support. The expected outcome of FEP was that the institutions should plan activities in the areas of elective courses, student projects, and applied research to improve the industry academia collaboration.

**INDUSTRIAL VISITS - SPARK**

The purpose of the Student Industrial Visit was to make students clear about the work they were likely to have in an IT business enterprise. The Infosys Spark Program was a one-day exploratory program for students of different age groups and segments from high school to degree and engineering colleges of urban and rural areas. Spark aimed at raising the aspirations of students. Through Spark, students were exposed to the corporate work culture, learning environment, Infosys background, and services offered to global customers and to learn about leading edge technologies through short lectures.

**STUDENT PROJECT BANK**

Student Project Bank, a collection of simple software projects, was useful for pre-final and final year engineering project works. The components included were system specifications, student kit for providing guidelines, and faculty kit for providing validation inputs. The documents were provided in MS Word file formats that were easily downloadable from the Campus Connect portal.

**FACULTY SABBATICALS**

The purpose of the Faculty Sabbaticals was to improve the leading-edge technology knowledge of specialist faculty members to develop state-of-the-art industry solutions. Professors from the Campus Connect registered colleges were invited to Infosys to pursue research on areas of their interest. Faculty members with good experience in teaching and interested in innovation were eligible for the Infosys faculty sabbatical. The faculty members were expected to work full time at the Infosys Development Center (DC) for a term of 2-3 months. They were hosted by Infosys for the duration of the project with expenses for travel and stay being taken care of. They were compensated for their effort.

*Contd…*
FOUNDATION PROGRAM (FP) ROLL-OUT
Foundation Program Roll-Out was the core of the Campus Connect program. The FP Courseware included the experience of Infosys in training thousands of entry level engineers from heterogeneous backgrounds and disciplines. The courseware was used to train freshers, and through this, the various methods followed at Infosys in delivering world-class projects to global customers were explained. The purpose of the FP Courseware was to make students industry-ready by providing them with a unique set of teaching aids and training material. The duration of the FP Rollout was 55-65 classroom hours inclusive of 25-32 lab hours for Integrated Project development. From May 2004 to March 2011, 1418 batches comprising 89219 students had completed the Foundation Program Roll Out. A total of 347 colleges had at least one batch that had completed the Foundation Program Roll Out.

Contd…

INDUSTRY ELECTIVES
The purpose of the industry electives was to co-design new academic courses to align the competencies of students with future workplace demands. Industry electives were based on the “learn and apply” strategy which enabled students to gain a special interest to round off their general education. Faculty members could access the learning channels of the industry. The following was the list of the electives running in various institutions across the country.
1. Fundamentals of Information Technology / Systems
2. Internet and Web Technologies
3. Business intelligence & its applications
4. Introduction to Mainframe systems
5. Introduction to Aircraft / Automotive design of systems
6. Building Enterprise Applications
7. Soft skills

TECHNOLOGY SEMINARS / WEBINARS
Seminars / Webinars on technology were one-day events. The purpose was to leverage the global project experience of Infosys and create awareness about the use of IT in different industries among students. Seminars and webinars helped in increasing the student’s ability to relate IT concepts to IT usage in business. This would serve the purpose of keeping the faculty informed about the latest developments in the area of information technology.

SPONSORSHIPS FOR RESEARCH PAPER PRESENTATION
The program was intended to encourage the faculty and students to enhance their learning in the field of Computer Science/ Information technology. The students and faculty were provided with financial assistance when their research paper was selected for presentation at a reputed conference or Industry forum. It was a motivating factor for the students and faculty. The solutions framed through their presentations were used in solving the business problems.

SOFT SKILLS PROGRAM
The Soft Skills Program of Infosys Campus was to bridge the gap commonly noticed among engineering students in the areas of communication, team work, corporate work culture, and so on. This was a program delivered in multiple modes which included collaboration with alliance partners at a cost. The Soft Skills team was integrated with the Global Business Finishing School (GBFS) team in Mysore and the content was developed by them. It was included in the curriculum of the Campus Connect partnered colleges. Version 2.0 of the Soft Skills content was called “STAR PRIME”. The term STAR stood for Savvy, Teamwork, Articulation, and Responsible. The syllabus included in STAR PRIME was Business Communication Skills, Intrapersonal and Interpersonal Skills, Campus to Company, Group Discussions, Presentations and Interviewing Skills, and Entrepreneurship Skills.
CAMPUS CONNECT PORTAL

The Campus Connect portal was introduced to provide a digital collaboration platform for industry-academia interaction on an anytime, anywhere basis. Through the Campus Connect Portal, students could access the Foundation Program and the Soft Skills courseware of Infosys. The digital availability of student project banks, discussion forum, soft-skills knowledge bank, monthly newsletter for students, and alumni connection was made possible through the CC Portal.

NEWSLETTER

Newsletter was another Campus Connect initiative. It was a common platform for students, the faculty, and college management where they could get updates of industry news. They could voice their opinions, send feedback, and submit articles and could win a lot of prizes in the process.

Exhibit VII
Statistics of Campus Connect Program Development

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Faculty registrations on Portal</td>
<td>1386</td>
<td>1172</td>
<td>7431</td>
</tr>
<tr>
<td>Student Registrations on Portal</td>
<td>34,419</td>
<td>25,405</td>
<td>1,98,166</td>
</tr>
<tr>
<td>Courseware Download (Technical)</td>
<td>44114</td>
<td>34193</td>
<td>611100</td>
</tr>
<tr>
<td>Courseware Download (Soft skills)</td>
<td>3542</td>
<td>6459</td>
<td>30764</td>
</tr>
<tr>
<td>Student Projects Downloads</td>
<td>10060</td>
<td>11889</td>
<td>158256</td>
</tr>
</tbody>
</table>

Source: “Campus Connect Program-Overview,” www.campusconnect.infosys.com, September 2010
### Exhibit IX
**Employability Percentage of Technical Graduates Into IT Industry in 2010**

<table>
<thead>
<tr>
<th>IT/ITeS Industry Sector</th>
<th>Tier 1 Campus</th>
<th>Other Campuses</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT services Company</td>
<td>29.4</td>
<td>16.4</td>
</tr>
<tr>
<td>IT product company</td>
<td>10</td>
<td>3.5</td>
</tr>
<tr>
<td>KPO</td>
<td>19</td>
<td>8.3</td>
</tr>
<tr>
<td>BPO</td>
<td>44.7</td>
<td>37.4</td>
</tr>
<tr>
<td>Technical Support/Networking</td>
<td>36.8</td>
<td>24.5</td>
</tr>
</tbody>
</table>

*Source: “National Employability Study IT/ITeS Sector,” www.aspiringminds.in, 2010*

### Exhibit X
**Statistics of Recruitment Levels of All Companies from 2008-2011**

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Strength of Final Year batch</td>
<td>428</td>
<td>465</td>
<td>503</td>
</tr>
<tr>
<td>Average No. of Students Placed</td>
<td>309</td>
<td>328</td>
<td>380</td>
</tr>
<tr>
<td>% of Students Placed</td>
<td>72</td>
<td>71</td>
<td>76</td>
</tr>
<tr>
<td>Average No. of Students placed in IT/ITes</td>
<td>208</td>
<td>216</td>
<td>276</td>
</tr>
<tr>
<td>% of Students Placed in IT/ITes</td>
<td>49</td>
<td>47</td>
<td>55</td>
</tr>
<tr>
<td>No. of Companies Visiting (Average)</td>
<td>52</td>
<td>62</td>
<td>72</td>
</tr>
<tr>
<td>No. of IT/ITes Companies Visiting (Average)</td>
<td>24</td>
<td>26</td>
<td>30</td>
</tr>
</tbody>
</table>


### Exhibit XI
**Man Power Requirement in various sectors by 2020**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto industry</td>
<td>35 million</td>
</tr>
<tr>
<td>Building and construction Industry</td>
<td>33 million</td>
</tr>
<tr>
<td>Textile and clothing</td>
<td>26 million</td>
</tr>
<tr>
<td>Organized retail</td>
<td>17 million</td>
</tr>
<tr>
<td>Transportation and Logistics</td>
<td>18 million</td>
</tr>
<tr>
<td>Real estate services</td>
<td>14 million</td>
</tr>
<tr>
<td>IT-ITES industry</td>
<td>12.5 million</td>
</tr>
</tbody>
</table>

Suggested Readings and References:


22. "National Employability Study IT/ITeS Sector," www.aspiringminds.in, 2010


25. "Infosys to Tie up with Other IT Cos to Train Graduates," www.articles.economictimes.indiatimes.com, August 13, 2008


33. "About The Foundation Program," www.ecb.ac.in


38. "Infosys Campus Connect," www.nsec.ac.in


40. "Infosys Recognized MIT For its Outstanding Performance," www.mit.asia
41. “SPARK – Where Empowerment Begins at 15 Years,”
   www.infosys.com

42. “Why Choose India- NASSCOM,” www.kpoexperts.com

Footnotes


3. Manipal University was established in 1993. The founder of the university was Dr Tonse Madhava Anantha Pai. Manipal University offered many courses relating to Management studies, Life sciences, Medicine, Nursing, Engineering, Humanities, and Pharmacy among others. Under affiliation from Manipal University there were 20 institutions offering about 270 courses.

4. “Growth Of India’s IT Industry,” www.economywatch.com, April 30, 2010

5. “Infosys Campus Connect,” www.nsec.ac.in

6. “National Employability Study IT/ITeS Sector,”
   www.aspiringminds.in, 2010

7. “Campus Connect - Fast Facts 2010-11,”
   www.techtamilnadu.com


9. “Infosys to Tie up with Other IT Cos to Train Graduates,”
10. NASSCOM stands for National Association for Software and Services Companies. It is a global trade body with over 1200 members.


15. Tata Consultancy Services (TCS) is the largest provider of Information technology in India. As of 2011, it was ranked as No.1 in providing IT services in India. Its headquarters is located at Mumbai and about 198500 employees are working in it. The revenue of TCS in 2011 was Rs 331.12 billion.


24. Education Times is a weekly supplement of The Times of India newspaper and was launched in 1995. This newspaper supplement caters to the ever-expanding student community as a career guide, counselor and adviser.


29. QAI stands for Quality Assurance Institute. The US-based organization is a leading consulting and work force developing organization addressing operational excellence in knowledge intensive service organizations.


34. The AICTE — All India Council for Technical Education — was established in 1945 by Government of India. It is an Advisory Body to conduct survey on facilities on technical education to promote and develop technical education in the country. The National Policy of Education (1986) defined AICTE as the statutory authority for planning, formulation, and maintenance of norms and standards, quality assurance through accreditation, funding in priority areas, monitoring and evaluation, maintaining parity of certification and awards, and ensuring coordinated and integrated development and management of technical education in the country.


36. “Infosys Campus Connect,” www.nsec.ac.in


39. Rupee (Rs) is the currency used in India. As of December 2011, US$1 was approximately equal to Rs. 53.13.


42. “Infosys Campus Connect,” www.nsec.ac.in

43. “Campus Connect Program Overview,” www.campusconnect.infosys.com, September, 2010

44. “What We Do,” www.campusconnect.infosys.com

45. “About The Foundation Program,” www.ecb.ac.in

47. Infosys Instep program was launched by NR Narayana Murthy in 1999. It was a global internship program for the talent of the top academic institutions. Students from management, technical, and liberal art backgrounds were considered for the program. The Instep program was intended to help in developing a multi-cultural environment within the organization and so high impact strategy and cutting edge research projects were provided.


53. Business Process Outsourcing (BPO) is a process of contracting the functionalities and responsibilities of an industry to the third party service providers. Through BPO, the flexibility of the companies was increased and the proportion of resources availability for the companies was optimized.


59. CorpU Xchange Awards are the longest running independent evaluation of corporate learning and talent programs. They recognize corporate and Government learning organizations that improve both business and employee performance through alignment, alliances, branding, launching, leadership development, and learning technology.
60. “Infosys’ Campus Connect Program Given the Honor at The Prestigious 12th Annual Corporate University (Corpu) Xchange Awards,” www.facebook.com, May 17, 2011


62. WIPRO is the abbreviation for Western Indian Products Limited. It is a Bangalore-based IT services and consulting company.


64. IBM is a global technology and innovations company with its operations spread over 170 countries. It is headquartered in New York, USA. The total revenue of the company in 2011 was US $ 106.91 billion. It was ranked as the 18th largest firm in USA in 2011 and also as the 7th most profitable organization.


66. Cognizant is a service provider to the world’s leading companies in terms of information technology, consulting, business process outsourcing services. Cognizant is ranked as one of the top performing and fastest growing companies in the world. It is headquartered in Teaneck, New Jersey.


68. Aspiring minds is a consulting firm which helps employers to candidates with the best skills suiting their job profile. They use multidimensional skill analyzing techniques for filtering the large pool of candidates. They conduct a nation-wide computer adaptive test to provide a statistically valid assessment test. The test helps in identifying the most appropriate set of candidates for an employer mentioned job profile instantly.


71. Zensar Technologies (Zensar) is a Software services company that was specialized in providing a complete range of software services and solutions. It has been ranked as one of the top 20 Software Services Companies in India by NASSCOM.


76. The National Skill Development Corporation India (NSDC) is one of the Public Private Partnering organizations in India. It aims to promote skill development by catalyzing the creation of large, quality for-profit vocational institutions. Its mandate is also to enable support systems such as quality assurance, and information systems and train the trainer academics either directly or through partnerships.

77. Tejasvi Mohanram and Ester Martinez, “Cover Story: India Skilling,” www.nsdciindia.org, July 1, 2010

78. The strike rate means the ratio of applied candidates to selected candidates.


80. International Business Machines Corporation or IBM is an American multinational technology and consulting corporation. It is headquartered in Armonk, New York, United States. IBM manufactures and sells computer hardware and software and it offers infrastructure, hosting, and consulting services in areas ranging from mainframe computers to nanotechnology.

81. Accenture is a global management consulting, technology services and outsourcing company. It is present in more than 120 countries. It was founded in 1989. It is headquartered in Dublin, Ireland. The net revenues of the company were US$25.5 billion for the year 2011.


Recruitment and Selection Process

Recruitment has acquired immense importance in today’s organizations. Organizations have realized the value of human capital and its role in their development. Recruitment is the first step in the process of acquiring and retaining human resources for an organization. In today’s rapidly changing business environment, organizations have to respond quickly to requirements for people. Hence, it is important to have a well-defined recruitment policy in place, which can be executed effectively to get the best fits for the vacant positions.

The magnitude of recruitment and the methods to be used are determined by the human resource plan (HRP). Depending on the HRP, the organization decides on the number of people to be recruited; the jobs for which they have to be recruited; and whether the recruitment is for permanent or temporary staff. Once these decisions are made, the modes of recruitment are finalized. All these decisions are taken in alignment with the recruitment policy of the company and the organization’s long-term goals. Then, the Selection process commences wherein appropriate candidates are chosen for the vacant positions. The selection process involves a series of steps which help in evaluating the candidates. The selection process in an organization has to be in accordance with the organizational requirements. Job analysis and job specifications, along with human resource planning provide the basic requirements, based on which the selection process has to be designed. Post selection, the candidate is offered a placement and on acceptance, the induction process begins.

Source: www.human-resource-solutions.co.uk
In this chapter, the student should be able to understand the
- Definition and concept of Recruitment and Selection
- Factors Affecting Recruitment and Process of Recruitment
- Sources of recruitment—Evaluation of a recruitment program
- Selection Process- Person Job Fit - Person Organization Fit, Elements of Selection Process - Steps in the Selection Procedure
- Various types of Tests – Competency testing systems
- Selection Interview- Methods and Process (including reference check and medical examination)
- Placement and induction

Source: www.careerealism.com
Section 1

Definition and Concept of Recruitment and Selection

Definition and concept of Recruitment and Selection

Byers & Rue define recruitment as “the process of seeking and attracting a pool of people from which qualified candidates for job vacancies can be chosen.”

According to Edwin B. Flippo, “Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organizations.” Effectively, recruitment is the process of getting the right kind of people to apply for the vacancies in an organization.

Recruitment is the process of inviting applications. It is calling the people to respond by applying to the vacant positions.

Though employment, recruitment and selection are used interchangeably, technically both have different meanings. In fact, recruitment and selection together constitute employment. Recruitment, as a process, starts with identification of the need for human resources and ends with getting the prospective employees to apply for the vacancies available. Selection starts where recruitment ends and deals with choosing the right candidates and getting the best job-fit.

The aim of an effective recruitment program is to attract the best people for the job and aid the recruiter by making a wide choice available. A good job description helps in attracting the right kind of candidates for the job. The recruitment efforts and the costs involved are generally in proportion to the criticality of the vacant position and the urgency of the need.

Selection is the process of choosing the best application(s) from the pool of applicants. It eliminates the unnecessary applications.

The process of choosing the most suitable candidate for a job from among the available applicants is called selection. It is the process of ascertaining the qualifications, experience, skill, knowledge, etc., of an applicant with the purpose of determining his suitability for a job. The selection process starts with gathering
complete information about the applicant from his application form and ends with inducting the candidate into the organization. As Yoder states, “The hiring process is of one or many ‘go, no-go’ gauges. Candidates are screened by the application of these tools. Qualified applicants go on to the next hurdle, while the unqualified are eliminated.”

The selection process can have four possible outcomes (See Figure 4.1.1). Two of the possible outcomes have a positive effect on the organization, whereas the other two have a negative impact. Let us first look at the positive outcomes. The first positive outcome is selecting the right candidate. It is obvious that the impact of this is going to be positive. The second positive outcome is rejecting an unsuitable candidate. This also has a positive impact because, had an unsuitable candidate been selected, he would not have performed successfully on the job.

The two negative outcomes are selecting an unsuitable candidate; or rejecting the right candidate. In the first case, the cost of having an unsuitable candidate in the job is high. He or she would not add any value to the organization; instead the person may create problems. The organization would incur costs in training the candidate; it would have to bear the cost of his non-performance; if he has to be replaced, the cost of separation and recruiting another candidate would also add to the cost of having hired the wrong person. In the last case, where the right candidate is rejected, the organization loses potential candidate who could have turned out to be an asset to the organization because of his positive contribution.

<table>
<thead>
<tr>
<th>Figure 4.1.1: Selection Decision Outcomes</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Accept</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Successful</td>
</tr>
<tr>
<td>Later Job Performance</td>
</tr>
<tr>
<td>Unsuccessful</td>
</tr>
</tbody>
</table>


Video 4.1.1: Google Recruitment

Source: www.youtube.com/watch?v=JcXF1YirPrQ

Video 4.1.2: MaRS Best Practices - Recruitment and Selection Strategies for Building a Strong Team

Source: www.youtube.com/watch?v=M58y-T0QV2U&feature=related
Section 2

Factors Affecting Recruitment and Process of Recruitment

There are many factors that affect the recruitment program. These factors can be classified as organizational or internal factors, and environmental or external factors.

Refer to the keynote 4.2.1 for organizational factors that affect the recruitment program.

Apart from the organizational/internal factors discussed above, some external environmental factors also determine the effectiveness of a recruitment program. Some of these are mentioned below in the keynote 4.2.2.

Keynote 4.2.2: Environmental Factors that Affect the Recruitment Program

Source: ICMR
RECRUITMENT POLICY

The recruitment policy of an organization would normally be in alignment with the objectives and policies of the organization. It lays down the objectives of recruitment and the channels and sources of recruitment.

According to Yoder⁴, ‘the recruitment policy is concerned with quantity and qualifications of manpower’. He also says that a recruitment policy establishes broad guidelines for the staffing process.

A good recruitment policy

- Complies with government policies on hiring.
- Provides optimum employment security and avoids frequent lay-offs or lost-time.
- Assures the candidates of the management's interest in their development.
- Prevents the formation of cliques (small exclusive groups) which result in employing the members of the same household or community in the organization.
- Reflects the social commitment of the organization by employing handicapped people and other underprivileged people of the society whenever there is a possibility of job fit.
- Is in alignment with the objectives and people-policies of the organization.

- Is flexible enough to accommodate changes in the organization.
- Is designed in such a way that it ensures long-term employment opportunities for its employees.
- Stresses and reflects the importance of job analysis.
- Is cost effective for the organization.

A good recruitment policy is based on the organization’s objectives, identification of the recruitment needs, preferred sources of recruitment, criteria for selection and preferences, the cost of recruitment, and other financial implications. It should reflect the reputation and image of the organization. Exhibit 4.2.1 shows the recruitment policy of C-DAC. Also, refer to figure 4.2.3 for the process of the recruitment.
Exhibit 4.2.1

Recruitment Policy of C-DAC

An organization is known by the quality of its people.

C-DAC (Centre for Development of Advanced Computing) follows all modes in the recruitment approach i.e., press advertisement, campus recruitment, search through consultants, special recruitment drives, and headhunting agencies. The basic qualifications of induction in the technical grade is BTech / BE, MSc (pure sciences), MCS, MCA, MTech & PhD, and for the administrative streams, qualifications like MBA and diplomas with specific specializations. The quality of academic inputs, level of competition faced to obtain the degree, relevant experience, and the demands of the role in C-DAC shall determine the suitability of a particular member at C-DAC. C-DAC also recruits specialists with experience at various levels from time to time to add value to specific areas and functions. Importance is given to specific qualifications and experience for fixing the grades and salaries at the time of induction, thus giving due recognition to member's qualifications and experience. Once on board, the employee progresses fast enough through a defined career path to higher positions.

Adapted from www.cdacindia.com

Figure 4.2.1 Process of Recruitment

1. Human Resource Planning
2. Identify the human resource requirements
   - Demand
   - Surplus
   - Retrench
3. Determine the number, levels and criticality of vacancies
4. Organizational recruitment policy
5. Choose the resources & methods of recruitment
6. Analyze the cost & time involved
7. Job Analysis
8. Start implementing the recruitment program
9. Select & hire the candidates
10. Evaluate the program

Source: ICMR Centre for Management Research
Section 3

Sources of Recruitment

The objectives of recruitment are more likely to be achieved if the recruiting sources used are suitable for the kind of position that is to be filled. The selection of recruitment sources should also be economically viable for the organization. For instance, if an organization is looking for a young, fresh technician, it would be better to advertise in the local newspapers than in a magazine like Business Today. Similarly, for an organization scouting for fresh, bright talent in large numbers, a visit to some of the best colleges around might perhaps prove to be more beneficial than advertising in newspapers or magazines.

Different sources of recruitment can be employed, depending on various factors like the level of the position, number of people required, time available and the funds allocated for recruitment. The different sources of recruitment are internal search, advertisements, employee reference, employment agencies, educational institutes, and interested applicants. The comparative strengths and weaknesses of these sources in attracting candidates for different levels in the organization are discussed below.

INTERNAL SOURCE:

Many organizations try and identify employees from within the organization, to be groomed to take on higher responsibilities. The human resource inventory, an outcome of human resource planning, forms the basis for internal search. This along with the personal information of the individual employee collected from his employee record, provides valuable information for internal search. In today’s technologically advanced world, many organizations depend on their HRIS (Human Resource Information System), which is a ready source for storing and retrieving information about their employees.

Organizations which go in for an internal search normally announce the vacancy through the displays on notice boards, circulars sent to different departments or through the company’s intranet. Candidates from within the organization respond to this ‘job posting’ by sending in their applications. It is the responsibility of the HR department to ensure that the information about the vacancy reaches all the prospective candidates in the organization. The management then evaluates all the applicants and makes the final selection.
The policy of developing employees from inside instead of searching for new talent from outside has various advantages.

- It helps in maintaining good employee relations.
- It boosts the morale of the employees as they feel important and valued.
- It encourages competent and ambitious individuals as their performance is rewarded.
- There is complete information about the individual’s performance and his credentials are established.
- The cost of recruitment is minimal.
- Time and resources are saved on the selection and induction processes.
- The return on investment on the workforce is increased for the organization.
- If carefully planned and well-executed, promoting from within can also act as a training and development device for middle and top level management.

There are also certain disadvantages associated with the process of internal search. An organization might miss out on talent that is available in the market. It is also possible that talent pool within the organization might stagnate without fresh inflows from outside. It is important for any business to have fresh flow of ideas and opinions. New employees recruited from outside would be in a position to rejuvenate the organization by providing fresh perspectives and ideas on systems and processes. If the organization is fast expanding, there may be an insufficient internal supply of qualified individuals above the entry level. This situation may result in people being promoted before they are ready or not being allowed to stay in a position long enough to learn how to do a job well.

The following are the sources of internal recruitment:

- **Promotion** is defined as advancement in position, responsibilities and compensation followed by status for an individual. There are two types of promotion, viz., promotion by merit and promotion by experience. The type of promotion depends upon the promotion policy.

- **Transfer** is movement of an individual from one place to another either due to promotion or for productivity reasons. Also transfers happen at the behest of employees often called as request transfer (change of place or department) and shift transfer (change of shift).

- **Demotion** is characterized by reduction of position, responsibilities, status, and compensation. This
happens either as a punishment or when the individual becomes physically incapable to handle higher responsibilities but needs employment.

EXTERNAL SOURCE:

An organization will have a much greater choice in human resources if it decides to go in for external recruitment. There are various methods of recruiting from external sources. Some of the popular methods are advertisements, campus recruitments, employee referrals, employment exchanges, private placement agencies etc. Each of these methods is discussed in detail in the following paragraphs. External recruitment brings in fresh air into the organization but too much emphasis on external sources would hamper the chances of growth for the internal candidates.

Advertisements

Advertisements have the widest reach and are quite effective for an organization in search of external talent. Different media can be used for advertising, depending on the cost, the need, and the reach desired, the nature of the job, its level and criticality in the organization, all together determine the mode and medium of advertisement.

For example, an advertisement for unskilled labour might just be displayed on the walls of the manufacturing unit. The advertisement for the position of a Manager in the same unit might find its way into the classified pages of popular regional dailies. However, the advertisement for the Vice President of the Operations division of the same company might be carried in the employment pages of a national daily or a business magazine. The costs involved would also vary with the changing importance of the position in question and the availability of manpower.

Organizations, while using the print media to advertise, sometimes resort to blind advertisements. They conceal their identity for two reasons. They do not want their competitors to know that a critical position in the organization is vacant or soon going to be vacant and at the same time, they would like to avoid the cumbersome task of responding to all the applicants for the position. Most organizations prefer to respond only to the candidates whom they feel could be suitable for the position, and try to avoid intimating the rejected candidates. There are other media for advertising like the television, the radio, the internet and posters.

Television and radio have taken a back seat in the recent times as media for job advertisements, with more and more private entertainment channels on the air. However, there are still some companies which dare to tread the path less traveled. For example, Bangalore based i-Flex solutions recently aired its recruitment advertisements on the local FM radio channel.

Job search and talent search have both benefited immensely with the onset of the internet era. Communication has become much easier and faster. Many internet portals like jobsahead.com, monsterindia.com and naukri.com cater exclusively to the needs of various companies which are in search of suitable people, and individuals who are in search
of a suitable job. Most of the large organizations today maintain their own websites which give information on vacancies in the organization to visitors to the website. Interested candidates can contact the organization through the internet itself. All these have made recruitment easier and faster.

The kind of information that has to be furnished to the candidates in an advertisement is determined by various factors. For example, some organizations would like to announce the pay package in the advertisement; others prefer not to do so, because the pay might vary over a wide range, especially for the middle and higher level management cadres, and they would like to finalize it only after determining the worth of the applicant. In some cases - for example in the case of most public sector units in India - where the company has a fixed pay policy, it would have no hesitation in disclosing the pay for a position. An advertisement that has all the relevant information displayed is called a display advertisement which attracts the right candidate.

The important information that has to be furnished in an advertisement includes:

- Nature of business and size of the organization
- The nature of the job
- Location or place of work
- Tasks and responsibilities attached to the position
- Reporting hierarchy and work culture
- Emoluments, benefits and other facilities available
- Requirements of the job in terms of qualification, knowledge, skills and experience
- Last date to respond
- Ways to respond – by e-mail, telephone or post

Some of these components of information are optional. For example, if an organization is proud of its work culture, it might talk about it in the advertisement. Information on the requirements of the job, the nature of work and location etc. Are however essential as the candidate would not have complete information about the job, in their absence.

Employee Referrals

Employee referrals (refer to exhibit 4.3.1) form a very good source of recruitment, especially for the lower and middle level management. Employees working with an organization suggest their friends or acquaintances for vacant positions in the organization. The reputation and credibility of the employee is at stake when he or she recommends or refers a candidate. Hence, the employee would take care to recommend good candidates. The second advantage of the referral system is that the candidate seeking employment has an insider’s view of the job as he has gathered information from the employee and is more realistic in his expectations from the company. Consequently, there will be a greater possibility of his continuing in the job. The employee would also feel that his contribution is valued, and his opinion
respected, when the candidate he has referred is selected by the organization. A more direct advantage of referrals is in terms of time and cost savings for the organization. Some organizations in competitive industries, where it is difficult to find suitable manpower, even pay their employees if the candidates referred by them are selected. This is called a Referral Bonus. This is less costly than hiring a private agency and at the same time, more rewarding for the existing employees. There are however some disadvantages to this system. Employees may sometimes refer relatives or friends, who may not be suitable for the job. It might also lead to the formation of cliques in the organization, with the members of the same group or caste getting together.

Employment Agencies:

Based on the type of clientele they serve, employment agencies can be broadly classified into public or state agencies, private agencies, and head hunters.

Public or state agencies – Till a few years ago, Employment Exchanges (state sponsored placement agencies) were extremely popular in India. Fresh graduates and technicians in search of suitable employment would first register themselves with the local employment exchange. It was and still is mandatory for any company, which is not exempted, to register its vacancy positions in the employment exchange. The exchange facilitates communication between the candidates it finds suitable, and the company. Employment exchanges were initially established to handle the problem of unemployment in the country. Today however, they have become somewhat outdated. With the changing market needs and demand for different skill sets, more and more companies and job-seekers are looking at other contemporary avenues for recruitment.

Private agencies – Private employment agencies do well in dynamic job markets, where companies scout aggressively for talent, and potential candidates constantly look out for
better jobs. Private agencies provide a meeting ground for both the parties and simplify the whole process of recruitment. Private agencies or ‘management consultants’ perform many of the jobs traditionally done by the HR department of the company. They invite applications from interested candidates, scan them for the first round of short listing, test them or interview them for a second round of short listing and finally arrive at the list of the most suitable candidates for the vacant positions in the organization. The HR department of the company has to conduct a final round of interviews to select the best fit. Private agencies normally cater to the recruitment needs at the junior, middle and top levels of management. They charge a percentage of the pay package offered to the candidate as fees for their services.

‘Head hunters’, a more specialized category of private agencies, cater mostly to top management level recruitment needs. They handle ‘executive search’ for organizations and usually charge high fees for their services.

**Educational institutions/Campus Placement:**

During the placement season, educational institutions, especially the reputed ones turn into hunting grounds for organizations looking for fresh talent. These institutions offer placement services to their students by trying to get some of the best companies in the market to their campus for recruitment. Organizations shortlist the institutions which can provide the kind of resources that they are looking for and visit them during the placement season. For example, a technology company would have most of the top engineering colleges on its list of institutes for campus recruitment. Similarly, an organization looking for management trainees would visit the top ranking management schools. Long-term relationships are built between organizations and educational institutions through this exercise of campus recruitment. Campus placements at some of the top institutions in the country reflect the condition of the economy and the industry.

**Unsolicited Applicants or Casual Callers**

One of the sources of recruitment for an organization might be unsolicited applications (i.e., not in response to any advertisement or announcement of a vacancy) of candidates interested in working with the organization. Such candidates send in their applications to the management either through post or e-mail or in person and express their interest in employment with the company. If the organization does not have a suitable vacancy at that time, it can store these applications in its data bank and use them whenever the need arises. It is important that these applications are categorized and maintained in a proper way so that they can be used when there are vacancies. For example, Tata Indicom (Tata Teleservices Ltd.) has the concept of CV drop boxes. They maintain these boxes at all their offices for interested candidates to drop in their CVs. These CVs are collected, sorted and stored in the CV databank on a monthly basis. Whenever there is a need for recruitment, the HR department checks its CV bank to find suitable candidates before proceeding with the selection process.
OTHER SOURCES

Organizations can consider non-traditional sources of recruitment while searching for certain types of applicants. For instance, recruiting from associations of the handicapped can provide a highly motivated workforce and also help the organization in building the image of a good corporate citizen.

Most of the organizations, especially the large ones, use a mix of various methods and sources of recruitment and do not rely on any one particular method. Changing needs and market dynamics also determine the source of recruitment. The organizational recruitment policy and human resource planning play an important role in defining the sources and methods of recruitment.

Notice at the Factory Gate:

This method is mostly used for unskilled and semi-skilled laborers. A notice is hung at the gate of the factory, for example, "Wanted 30 people to lift loads" and the people are chosen on first come first serve basis.

Labor Contractor:

This method is also popular for hiring semi-skilled and unskilled/manual laborers. This method is popularly seen in construction worker recruitment in India. Workers meet at a meeting point and the labor contractor comes and picks up the number of people he wants for a construction site.

Deputation/Lien:

This method is popular among government employees who wish to broaden their knowledge and skills and thus move to the private sector for a fixed period, acquire the skills and return to the home department.

Internet Recruiting/Online Recruiting:

This method has grown phenomenally over the past few years. Increasingly, companies are accepting applications over the Internet. Internet recruiting is less expensive and much faster than traditional methods. It is the most economical method to reach to local and global audience. Online Job Boards and Job portals are the popular sites for internet recruitment. The disadvantages of this method are: a) people living in remote areas where internet access is not available are likely to lose opportunity to apply b) Job sites are in English and non-English speakers may find it difficult to access and understand the information c) inundation of CVs d) website is poor e) security problems with CVs.

Organization are seeking services from applicant tracking firms to screen the deluge of CVs.
**Re-Recruiting Former Employees:**

Especially, in high tech, good individuals may be recruited away by a new challenge or more money. A few years later, they may again be willing to move and can bring their newly honed skills to a former employer. This requires companies to get over any hang-ups about ‘disloyal’ employees and face the new realities of career paths.

**Recruiting Retired Employees:**

Retired or older employees are often an alternative or a solution to the labor shortage. Also, individuals who retire from the defence services (Army, Air force, Navy) are also considered.

**Temporary Help Agencies:**

Temporaries are particularly helpful for covering peak demand periods especially in uncertain conditions when demand could drop precipitously. Temporaries may cost more per hour worked, but they are paid only for the time they actually work but there are easily and quickly available. Temporary help agencies provide trained employees thus organizations can reduce their training costs. Earlier this service was used only for jobs such as assembler, laborer, secretary, clerk, etc but now it is used for engineers, accountants, programmers, and other high-caliber jobs also.

**Employee Leasing:**

It is a way to obtain the services of individuals over a longer time period than would normally be the case with temporaries. An employee leasing firm recruits, hires, trains, and compensates employees, and the organization that leases them provides their work facilities, direct daily supervision, and duties. See below for the exhibit 4.3.2 that explains the strategic issue relevant to external recruiting.

**Exhibit 4.3.2**

Also, there is one strategic issue relevant to external recruiting and that is when to do it. Most firms recruit each year to meet that year’s needs. They attempt to hire many people in a boom year and hire very few during years when the industry, economy, or company is on a down cycle. But, during boom years, the competitors also recruit heavily and thus there is high demand for higher salaries and often the result is low quality hires. But, top graduates are willing to work for low salaries even during leaner times and are readily available because competitors are not hiring. Thus, organizations are able to maximize applicant quality while controlling their costs and this is called countercyclical hiring wherein organizations engaged on HRP to avoid shortages, strive to maintain a regular age distribution of managers, and value training and development.
Apart from the above, other innovative external recruitment methods are also followed such as, direct mail, point-of-sale recruiting messages, posters, door hangers, bill boards, hotline, information seminars, welcome wagons, event recruitment, etc.

**Discharge**

Refer to the keynote 4.3.1 for various forms of employee discharge in detail.

**Keynote 4.3.1: Various Forms of Employee Discharge**

![Image of Keynote 4.3.1: Various Forms of Employee Discharge]

Source: ICMR

**EVALUATION OF A RECRUITMENT PROGRAM**

Recruitment strategies, policies and objectives need to be evaluated from time to time to test their effectiveness and their conformance to the organizational strategies, policies and objectives. Similarly, the sources and methods of recruitment also have to be evaluated from time to time to match the recruitment policy and changing market and business needs and to check their effectiveness and efficiency.

The success of a recruitment program can be judged based on a number of criteria. Some of these are

i) The number of successful placements

ii) The number of hires

iii) The number of offers made

iv) The number of applicants

v) The costs involved

vi) The time taken for filling up the position

The number of successful placements is the most important criterion for determining the success or failure of a recruitment program. This is the bottom-line of the whole program. However, if a recruitment program has not met its objectives in terms of the number of successful placements, other factors like the number of applicants, the number of offers made and the number of hirings should be taken into consideration to understand the stage at which any discrepancy has occurred. For example, if the number of applicants is less, then there was probably a problem in attracting job-seekers. This might reflect a problem with the advertisement issued by the company, or a problem with the...
company's reputation. In case the number of applicants is high, and the offers made low, it could mean that the company failed in attracting the right kind of candidates. Similarly, in case the number of successful placements is low, the problem might be that the incumbent’s expectations were not satisfied or he was misled and misinformed about the job or the company.

The cost and time implications also have to be analyzed while evaluating a recruitment program. For example, if an organization has been successfully getting the required manpower and making successful placements, but at a high cost, then it may need to revamp its recruitment program.
Section 4

Selection Process

The selection process in an organization depends on the organization’s strategy and objectives, the tasks and responsibilities of the job and the qualifications, experience and characteristics required in an individual to perform these tasks and responsibilities successfully.

These elements of selection and their interrelationships are explained in Figure 4.4.1

Organizational objectives determine the recruitment policy and the job design. Job description and job specifications are arrived at, based on the job analysis. The next step is ‘Competency modeling’, which is a relatively new concept when compared to the concepts mentioned earlier. Competency modeling helps in identifying the knowledge, skill and attitude set that enables the individual to deliver the best performance in his job. Based on these, the selection criteria for a position can be identified. Once the criteria are established, the final step would be to determine the selection procedures and methods to ensure that these criteria are tested for and identified, so that the right candidate can be selected for the job.

Most of the organizations, especially the bigger ones, use a combination of selection instruments. For example, many organizations first ask for job applications, then conduct written tests and finally interview the candidates for selection. These three instruments are used at three different stages and rejection of unsuitable candidates.
happens at each of these stages. This is a process of elimination and at the end of the selection process, only the most suitable candidates remain, and they are hired.

The process of selection starts with a review of the applications. These applications can be either in a company specified format, or in the format submitted by individual applicants. At this stage, the company checks the basic qualifications and experience of the candidates. Applicants who do not match the required basic criteria are rejected at this stage. Some companies may also go in for an initial screening before accepting applications from the candidates. The applicants are called for a test or an interview, as the case may be, after the initial screening. Tests are normally conducted to analyze the skill levels of the candidates. These tests have to be in compliance with the law, validated by the organization and relevant to the job being offered.

Once the test results are analyzed and the unsuccessful candidates rejected, usually, the successful candidates are interviewed. Some companies have an interview panel consisting of representatives from HR department, and the department which will employ the selected candidate. Some other companies opt for a series of interviews starting with an interview by people from the HR department. The candidate might have to go through one-to-one interviews with representatives from the department concerned and some of the other departments which have to work in close coordination with the position. Finally the applicant will have an interview with the manager concerned. Based on these interviews and the feedback received, the organization

**Figure 4.4.1: Elements in a Selection Process**

- **ORGANIZATIONAL OBJECTIVES**
- **JOB DESIGN**
- **JOB DESCRIPTION**
- **JOB SPECIFICATIONS**
- **COMPETENCY MODELLING**
- **RECRUITMENT POLICY**
- **SELECTION**

Source: ICMR Center for Management Research
Figure 4.4.2: Steps in the Selection Process

- Resumes/CVs Review
- Initial Screening Interview
- Application Blank
- Tests and/or Group Discussion
- Preliminary Interview
- Core and Departmental Interviews
- Reference checks
- Job Offer
  - Acceptance by the candidate
  - Rejection by the candidate
- Medical Examination
- Placement

Source: ICMR Center for Management Research
decides whether to offer the applicant a job or not. This method of putting the candidate through a series of interviews is normally followed while selecting people for middle or senior level management positions. A common selection process is described in Figure 4.4.2. Rejection of the unsuitable candidates can take place after any step in the process.

Evaluating an applicant during selection involves understanding his emotional stability, attitude and value system apart from evaluating his knowledge and skill levels. An individual's inclination to learn, his interpersonal skills or his openness to suggestions etc. are more difficult to assess, when compared to his knowledge of machinery or analytical skills. It is however the responsibility of the employer to assess these traits of the applicant, as accurately as possible, without annoying the applicant and using legal means. For successful performance on the job, these are as important as - if not more important than - the knowledge and skills of the employee. This assessment has to take into account the organizational objectives and the work culture. The individual characteristics which are of importance in the context of the organization have to be assessed carefully, while those that are irrelevant can be ignored. The HR Manager has to use his discretion in assessing the individual as per the recruitment policy guidelines.

**Application Form and/or Application Blank:**

An application form, complete in all respects, filled up by the person seeking the job is normally the beginning of the selection procedure. An application form, also referred to as an application blank, is a formal record of an individual's appeal or intention for employment. Though traditional, it is the most widely used and accepted device for securing information about prospective candidates. Application forms are designed to help applicants provide pertinent information regarding their qualifications, experience and background.

Application Blank is a printed form with blank spaces in it for the candidate to fill in information as desired by the company.

This would help in the initial screening of the applicants. The application form also seeks information regarding the current job, the tasks and responsibilities being handled, the current salary, and reference checks, which help the selector evaluate the applicant's merits and his suitability for the job.

Some organizations use brief and concise application blanks, while some others have elaborate and cumbersome ones. In some cases, the applicants are required to write about their strengths and weaknesses, values, future goals, etc. which require considerable thought and time. For example, companies like HLL use a long and elaborate application form, even for their campus recruitments.
Some of the items that usually appear on the application form are:

- **Personal Information:** Personal information in an application form normally includes name, date of birth of the candidate, gender, marital status, details of his family, occupations of other family members, annual income of the family, address, etc. These details help form an idea of the socio-economic status of the applicant and his family background. This would also help assess his fit in the organization, in the job and in the team that he would be associated with.

- **Educational Qualifications:** This includes the list of schools, colleges, and institutions attended by the job applicant, the period of study, the various courses taken and the subjects studied, the percentage of marks scored and the class or grade secured by him. This part of the application blank provides relevant information to assess an applicant's academic background.

- **Work Experience:** This provides all the basic information on the applicant’s previous jobs. This includes the list of previous employers, the period of employment with each, tasks, activities and responsibilities of the applicant and the salaries drawn. In some cases, reasons for leaving each of the organizations are also included. This, when studied together, helps the prospective employer understand and evaluate the candidate’s suitability to the job, his working habits and his competencies in relation to the job.

- **Salary:** Here the applicant gives information on the salary drawn in his last job, including benefits. The salary structure is important because different companies have different salary structures. For example, a company might have a low ‘basic salary’ but a high percentage of other components. Looking at the basic salary in isolation might not give the complete picture about the candidate’s total emoluments. The applicant in some cases is also asked for the expected salary.

- **Personality Items:** This requires the applicant to provide information on his strengths and weaknesses, his professional goals - both long term and short term - and his hobbies and interests. This ‘extra’ information helps the employer understand the personality of the applicant, which would later help in motivating him and improving his performance on the job.

- **Reference Checks:** The names and addresses of the individuals who can be contacted for a reference check of the applicant are included in this section. This is one of the ways of checking the credibility of the applicant and getting information on his past record. This is a controversial subject as some organizations feel that the applicant might be offended if the information provided by him is cross-checked.

The relevance and validity of the application form also needs to be checked and evaluated from time to time. For example, while a company may have an application blank which is ten pages long, it is possible that no one in the company ever looks at some of these pages. Such information can be done
away with completely. Similarly, some information which is essential might get missed or be left uncovered; care should be taken to avoid such slips.

**Evaluation of Application Forms:**

Application forms are evaluated to analyse the information provided by the applicants, and select the suitable candidates. The following methods are used for evaluating the application forms.

- **Clinical Method**

  In this method of evaluation, all the information furnished by the applicant in the application form is analyzed and inferences are made about the applicant's personality. Based on this assessed personality, his success in the job is predicted. A well-designed application form facilitates an analysis of the job applicant’s leadership abilities, emotional stability, assertiveness, attitude towards his work and his superiors, etc. These predicted traits are then matched with the applicant's actual traits once he takes up the job.

- **Weighted Method**

  The weighted method of evaluation is a statistical technique. In this method, certain points or weights are assigned to each item in the application form. The weighted application form should differentiate between the characteristics of successful and unsuccessful employees. Assigning weights to these characteristics or traits in an application form, imparts objectivity to the method as the applicants are unaware of the weights attached. However, this approach requires a different application blank for each occupation group and hence most organizations tend to avoid using this method.

**Ethical Issues in Application Form Design**

The local laws of every country have some distinct features and it is the responsibility of the employer to abide by them while designing the application form. The most common principle of ‘equal employment opportunity’, has to be adhered to, and questions on the caste and race etc. of the applicant have to be avoided. The following are some of the questions that should not be asked in an application form:

- Questions that have no relevance in the context of the job;
- Questions that would invade, even remotely, the privacy of the applicant;
- Questions that might lead to discrimination on any ground;
- Questions leading to adverse affect on the employment of women, minorities, the disabled or senior citizens.
Section 5

Various Types of Tests

The selection criteria, based on which the candidates are evaluated and selected, have to be in accordance with the organizational objectives. The selection methods are designed so as to ensure that they evaluate the candidates on the specified criteria, in an objective and accurate manner. To ensure a more accurate prediction of the candidate's success in the future job, the selection methods should meet the generic standards of reliability, validity, generalizability, utility and legality. Tests are used to select the candidate. A test is designed to assess the personality of the candidate, the domain knowledge, the skill, the manual dexterity, or any other behavioral trait as desired by the organization.

Different types of test are used as selection methods to evaluate an applicant. Some of these tests assess the skill level of the applicant; others are psychometric tests that try to assess employee attitudes and personality. There are different tests designed to evaluate different aspects of performance, like intelligence, aptitude, attitude, etc. Some of the tests are discussed below.

Intelligence Tests

These were the first standardized tests developed by psychologists, and are the most widely used tests. Intelligence is defined in different ways by different psychologists. Alfred Binet and Theodore Simon, two French psychologists, explicitly defined the components of intelligence as “reasoning, judgement, memory, and the power of abstraction.” They measured intelligence as the “general mental ability of individuals in intelligent behaviours” and described intelligence testing as classifying, not measuring.

Thurstone, distinguished mental abilities from the general trait of intelligence and created more specialized intelligence tests based on reasoning, word fluency, verbal comprehension, numbers, memory and space. The Wechsler-Bellevue Intelligence Scale utilizes a multiple measurement of factors such as comprehension, vocabulary, performance, picture management, and object assembly.

An IQ (Intelligence Quotient) test usually measures several factors of intelligence, such as logical reasoning, analytical skills and general knowledge. It also measures a person’s ability to classify things, identify relationships and derive analogies. It does not take into consideration social or emotional intelligence.
Aptitude Tests

Aptitude tests measure an individual’s ability to learn a given job, when given adequate training. They do not test the knowledge or proficiency possessed by the individual; instead they test his ability to learn, or gain the required proficiency. Mechanical, clerical, linguistic, musical and academic abilities are some of the examples of job-related aptitudes. Motor capacities such as finger dexterity, hand dexterity, and hand-eye coordination, which can also be termed aptitudes, are tested using psychomotor tests. They are different from clerical aptitude tests which test spelling ability, comprehension, data processing etc.

Achievement Tests

Achievement tests are also termed proficiency or knowledge tests. These tests measure the job-related proficiency and knowledge of the applicants. Organizations use these tests to identify and select experienced applicants. These tests can be classified as ‘job knowledge’ tests and ‘work sample’ tests.

In a job knowledge test, the knowledge of the applicant in his area of experience is tested. In the work sample test, the ability of the candidate to perform the job he is experienced in is tested. Basically, the second one is a kind of an experiential test, in which the candidate might be asked to perform a few job-related tasks.

Situational Tests

Situational tests are generally used in middle and senior level management selection, to test the applicant’s likely responses to real-life business situations. The candidates are exposed to simulated business situations and their responses are recorded and evaluated. Situational tests include ‘group discussions’, ‘in basket exercises’ and ‘simulated business games’.

In a group discussion, the group members are usually left to interact on their own, without any leader or moderator being specified. The initiative, leadership qualities, negotiating skills, communication skills, decision-making skills of the candidates can be assessed by observing the group discussion. Many organizations use ‘group discussion’ as a selection tool as it can be completed quickly and the evaluation done on the spot. The objectivity of the exercise is also clear to all the candidates in the group. The other advantage of group discussion is that it drastically reduces the number of people going on to the next round, which in most of the cases, is an interview.

The ‘in-basket exercise’ tests the managerial and administrative skills of the candidate. The candidate is exposed to a simulated office situation where he has to respond to letters, clear important documents, schedule his meetings, meet his colleagues and make some important business related decisions – all activities which are normally a part of a day’s work. This exercise brings out the capabilities of a candidate in an office environment. In simulated business games, candidates play the role of a
simulated character and are evaluated within a group. These are used for a variety of executive activities, from capital asset management to marketing. The games vary from stock market simulations to battle simulations.

**Interest Tests**

If an individual is genuinely interested in a job, he is likely to perform better in that job. Interest tests help companies to identify and understand the degree of interest a candidate has in a job. For example, a candidate who looks for variety in his job might not be interested in doing a mechanical and monotonous job. These tests help in assessing an individual's genuine interest in a job and its profile. They are generally inventories of the likes and dislikes of candidates in relation to work, job, occupations, hobbies and recreational activities. These provide valuable information regarding the profile of the candidate and his suitability to a job.

**Personality Tests**

The personality of an individual plays a decisive role in his performance. Proficient and knowledgeable employees, who have excellent skills and intelligence sometimes fail to deliver because of personality problems. Personality tests help in understanding the basic job-related personality traits of an employee. These tests help in assessing an individual's value system, emotions, maturity and other personal characteristics. These characteristics are expressed in personality traits like self-confidence, tact, optimism, decisiveness, conformity, objectivity, judgement, dominance or submission and impulsiveness or stability.

Interest and personality tests sometimes draw fake responses from applicants who try to impress their prospective employer. The applicants may try to hide their actual personality traits and interests and project themselves differently just to gain employment and entry into the organization. The employer has to employ effective methods of scoring to prevent this. Testing methods like ‘Kuder Preference Record’ have proved to be good at evaluating the occupational interests of the applicants.

**Polygraph Tests**

Polygraph tests are conducted to test the validity and truthfulness of an applicant’s answers, by monitoring the physical changes in his body as he answers a series of questions. The law prohibits the use of such tests for normal employment. However, these tests are used in screening applicants for defence and high-profile security jobs where it is essential that an employee is completely trustworthy.

**Reliability of Tests:**

A selection method is considered to be reliable, if it produces consistent results across different situations and times. If a test produces significantly different results, when taken by the same individual at different times, the test is termed to be unreliable. The reliability of a selection method can be measured using one of the following methods:

**The Repeat or Test-Retest Approach**

In this approach, a group of candidates take the same test twice, with a gap of 2-3 weeks. The similarity in the pattern
of scoring by the group and an analysis of scores determines the reliability of the test.

**The Alternate-Form or Parallel-Form Method**

In this approach, two similar but separate forms are given at the same time to the candidate(s). The pattern of scoring determines the reliability. If the pattern is similar, then the test is reliable and if it is not, then the test is not reliable.

**The Split-Half Procedure**

In this approach, a test is divided into two parts and given to the candidate(s). The degree of similarity in scoring, in these two parts, determines the reliability of the test.

These methods of evaluation determine the reliability of a selection test. They can serve as a basis for redesigning the tests to make them more reliable.

**Validity**

The validity of a selection method is the degree to which success in the test reflects success in the job. A selection method must first be reliable to be valid, but it is not necessary that all reliable selection methods are valid. There are three general methods for determining the validity of a selection method.

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**Exhibit 4.5.1: Selection Methodology in HSBC**

HSBC has evolved its own unique selection procedure which they swear works for them. According to Ronald Sequeira, Senior Resourcing and Development Manager, "Our manpower selection is open and transparent. A string of competencies are identified which are crucial for the progress of the employee and the organization. These are tested several times at each step of the recruitment process by senior HR professionals and across functions for the specific job profile." According to him, they have the 'soft' bio-data questionnaire that brings out the candidate's profile beyond the conventional requirements of age, expertise, achievements and academic background. Then, there are about 50 questions estimating the candidate's relevant competencies to provide the right job fit. The format varies. The questionnaire applies to a diverse range of corporate functions ranging from customer service and sales to front-end operations like call centers. The candidate is accorded a score that determines his/her right fit. Those short listed are put through a process of assessment centers. Assessment centers test the whole range of competencies of the candidates, including their management styles, leadership skills, communication skills and commercial orientation. The evaluation process further passes through three stages: psychometric, intray and aptitude.

At the psychometric test level, there is an ‘occupations personality’ questionnaire where the candidate describes his own personality. The ‘Intray’ is the case study round, where the candidate is given a certain situation with constraints, opportunities and other inputs. This is customized to the job in question. The abilities are measured based on the kind of solution-centric feedback that the candidate delivers. At the aptitude level, the candidate is assessed for any special skills that he may have — like exceptional power point presentation abilities or gift of the gab.

The candidate is finally selected based on the performance in all these rounds.

Source: Tarul Bahl "Look before you hire", www.blonnet.com
**Criterion Validity**

Criterion validity refers to the correlation between scores on a measure in the selection method and the scores on the corresponding measure of job performance. If there is a substantial correlation between the test scores and the job-performance scores, then the selection method would be considered valid.

**Content Validity**

Content validity is the extent to which the content of a selection procedure or instrument is representative of important aspects of job performance.

**Construct Validity**

Construct validity is the extent to which a selection method measures the degree of identifiable characteristics in the candidates. These are the characteristics which have been determined to be important for successful performance in the job.

In evaluating a particular selection method, any combination of the three types of validity can be used depending on the job content and the organizational factors.

**Generalizability**

Generalizability of a selection method is defined as the degree to which its validity, established in one context, can be extended to other ‘primary contexts’. These primary contexts can be different jobs or organizations, different samples of people, and different time periods. A selection method must be valid to be generalized, but it is not necessary that all valid methods can be generalized.

**Utility**

Utility is the degree to which the value provided by the selection method enhances the effectiveness of an organization. The more reliable, valid, and generalizable the selection method, the more its utility. There are however some external factors like the job market condition, which might affect the utility of a selection method even if the three factors of reliability, validity and generalizability are held constant.

**Legality**

Legality is the basic standard that any selection method should satisfy. Every selection method should comply with the existing laws and legal precedents prevalent in the country. With the changing constitution of the workforce, this aspect has become more and more important. For example, multinational corporations must understand and conform to the legal requirements of selection in each of the countries in which they operate.
Section 6

Selection Interview

Most organizations use interviews as an essential step in the selection process. An interview helps in assessing the applicant’s profile and comparing it with the job profile for suitability. Some candidates may provide false information in their applications, just to gain employment. Interviews help in assessing the candidate and validating the information provided in his application. The other advantage of an interview is that it also forms a part of the recruitment process. The employer can sell his organization and the job to the candidate during the course of the interview.

The main disadvantage of an interview is perhaps its subjectivity. The opinion and perception of the interviewer becomes very critical in the selection process. Individual biases based on gender, religion, race, nationality, caste etc. can influence the decision of the interviewer. Some of the other reasons for bias might be the educational background, previous employer, etc. of the candidate. For example, an interviewer might be biased against all those who were ever employed with XYZ Ltd. So, faced with a candidate who has previously worked for XYZ Ltd., the interviewer may decide against selecting the candidate. The timing and the setting of the interview can also influence its outcome. For example, an interview conducted early in the morning while the interviewer is fresh and alert, could have a different outcome from an interview conducted late in the evening, even though the performance of the candidates may have been similar on both occasions.

There are several types of interviews and these are described below.

**Preliminary Interview**

Preliminary interviews are brief, first round interviews that aim to eliminate the applicants who are obviously unqualified for the job. These interviews are generally informal and unstructured and are conducted even before the candidates fill in the application blanks. Informal interviews can be conducted at any place by any person to secure information. For instance, the interaction between a job applicant and the personnel manager when the former meets the latter to enquire about existing vacancies or to seek additional information about the employment advertisement, is an informal interview. In an unstructured interview, the interviewer does not plan the course of the interview; instead the candidate is usually allowed to set the course of the interview.
Generally, preliminary interviews gather the more obvious facts and information. They enable the manager to quickly evaluate the interviewee on the basis of appearance and the quality of communication. However, it may be argued that forming an opinion so early in the selection procedure can prove to be erroneous and undesirable.

**Selection Interview**

A selection or core interview is normally the interaction between the job applicant and the line manager or experts, where the applicant’s job knowledge, skills, talent, etc, are evaluated and ascertained. The suitability of the candidate for the job is determined in this interview. A selection interview can be of the following types:

- **Formal and Structured Interview**

  A structured interview is very rigid in its structure and contents. It is based on a thorough job analysis, which directs the flow of the interview. The interviewer selects the questions to be asked and plans the interview in advance, to comprehensively cover all areas related to the job and the candidate. The main advantage of a structured interview is that there is no scope for subjectivity. The same questions are asked to all the candidates, which helps in better evaluation. The questions can be so framed as to cover all the pertinent aspects.

- **Unstructured Interview**

  An unstructured interview, as the name suggests, has no pre-determined framework of questions and takes its own course depending on the responses of the candidate and the interest of the interviewer. There are more open ended questions in an unstructured interview. The main advantage of this kind of interview is that the candidate remains comfortable during the course of the interview because the interaction tends to proceed naturally. The disadvantage, however, is that such interviews tend to be more subjective.

- **Stress Interview**

  The objective of a stress interview is to test the applicant’s ability to perform and deliver under stress. Interviewers put the interviewee under stress, by repeatedly interrupting him, criticizing his answers, asking him unrelated questions or keeping quiet for long periods after the interviewee has finished speaking. Such interviews must be handled carefully. However, stress interviews have become less popular these days as many organizations have come to believe that it is not the best way to assess an employee’s performance under stress.

- **Group Interview Method**

  In this method, all the candidates or a group of candidates are interviewed by a panel of interviewers or a single interviewer. This method is resorted to when the number of applicants is high and the time available for
interviewing is short. This method is more useful while recruiting for entry level and junior management positions. One advantage of this method is that the candidates can evaluate their own performances in comparison to the performances of others in the group.

**Panel Interview**

In today's organizations where all functions are interdependent and every job involves cross-functional interactions, it is imperative that people from different functions interview a candidate. More and more organizations are looking at either a panel interview or a series of interviews, where representatives from different departments get to meet and interview a candidate. This also reduces the subjectivity involved in the one-to-one interview. As experts, these interviewers evaluate the candidate and his suitability for the position.

**In-depth Interview**

In-depth interviews are more suitable for selection of candidates for high-end technology and high-skill jobs. Experts in the relevant area test the candidate's knowledge and understanding of the subject and assess his expertise. They determine the suitability of the candidate for the job in question, based on these evaluations.

**Decision-Making Interview**

After the applicants' knowledge in the core areas of the job is evaluated by experts, including line managers in the organization, the applicants are finally interviewed by the departmental heads and the HR function. These interviews are usually informal discussions where the applicant's interest in the job and the organization, his reaction/adaptability to the working conditions, career planning and promotional opportunities, work adjustment and allotment, etc. are evaluated and discussed. The HR manager also tries to find out the candidate's expectations regarding salary, allowances, benefits, promotions, and career opportunities. The departmental head and the HR manager together communicate their decision to the chairman of the interview board or the decision-making authority, who takes the final decision on selecting the candidate.

**The Interview Process**

Interviewing is a long process which is made up of a series of activities, some of which are conducted simultaneously. Some of the major activities are -

**Preparation**

It is not only the interviewee, but also the interviewer, who has to prepare for an interview. The interviewer has to go through the job description and the job specification to understand the requirements of the job. He has to scan the application of the candidate to understand his background and experience to form an idea of the kind of questions that can be asked. The candidate should not be made to wait, while the interviewer goes through the application or the job specification. Unfortunately though, many interviewers do just that. The interviewer should follow these steps when preparing for the interview:
Determine the objectives of the interview – for what position, what is the job specification etc.

Read the application of the candidate so that relevant questions can be asked.

Determine the mode of evaluation, the standards, the weights etc. – many companies have standard formats for this.

Plan one’s time so as to allocate equal time and attention to all the interviewees.

Be prepared to interview the candidates without any prejudice or bias.

**Setting**

The setting and the ambience for an interview can have a major effect on a candidate’s performance. Most of the candidates, no matter how confident they seem, experience tension and pressure when they have to go through an interview. Hence, it is the responsibility of the interviewer to make the candidate feel comfortable and relaxed. Firstly, it is important that the interview is conducted in a serene and soothing atmosphere. The interview room should be well lit and well ventilated, apart from having good acoustics. The seating arrangement should be appropriate and the ambience, pleasant. The interviewer has to avoid attending to phone calls, meeting colleagues, etc. during the interview, as they distract the candidate and only add to his tension. The psychological and emotional support provided to the candidate is perhaps more important than the physical atmosphere provided. It is the responsibility of the interviewer to make the candidate feel relaxed and at ease. A pleasant smile and an offer of a seat or a glass of water can make the candidate comfortable. Some interviewers however, are very rude to the candidates and go in for the so called ‘stress’ interviews. However, stress interviews, as mentioned earlier, are becoming unpopular nowadays.

**Conduct of Interview**

The actual process of the interview starts once the candidate settles down in front of the panel or the interviewer. Some basic guidelines to conduct a pleasant and fruitful interview are given below:

- The interviewer has to demonstrate a basic liking and respect for people. This makes the candidate feel comfortable and perform better.

- Open ended questions, that give maximum scope to the candidate to speak, should be asked. However, probing questions can be asked when some specific information has to be obtained from the candidate. Asking leading questions is a common mistake, which should be avoided by the interviewer. By asking leading questions, the candidate is given a hint as to what answer is expected. This might lead to the selection and hiring of wrong people in the organization.

- The questions should not invade the privacy of the candidate; nor should they be hostile. It should be remembered that the candidate’s right to privacy has to be respected and his dignity valued. Asking very private and
hostile questions can put-off a worthy candidate, which
would indeed be a loss to the company.

The interviewer should attentively listen to the answers of
the candidate. Further questions have to be based on the
leads provided by the candidate through his answers. In
some panel interviews, it may happen that that some of
the panel members start discussing among themselves,
while the candidate is answering another member’s
question. This shows disrespect to the panel member, to
the candidate and also affects the validity of interview as a
selection tool.

The interviewer should take notes and mark relevant
points during the conduct of the interview. Relying on
memory alone may not suffice as some important points
might be missed out. These notes come in handy while
evaluating the candidate at the end of the interview and
can also be used as a future reference.

**Closing an Interview**

The closing of the interview is as important as its
commencement. It should be done in a smooth manner,
avoiding any abrupt or awkward gestures and words.

The interviewer should make an overt sign to indicate the end
of the interview. This should be done in a subtle and smooth
manner, avoiding embarrassing situations. The interviewer
should also explain to the candidate, the expected course of
action, the expected date of intimation to the candidate
regarding the outcome, etc. The interviewer also has the
responsibility of answering any relevant queries from the
candidate. Table 4.6.1 explains the dos and don’ts of an
interview process.

<table>
<thead>
<tr>
<th><strong>Table 4.6.1: Dos and Don’ts of Interviewing</strong></th>
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<tbody>
<tr>
<td><strong>DO</strong></td>
</tr>
<tr>
<td>Prepare for the interview</td>
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<tr>
<td>Make the candidate feel comfortable and relaxed</td>
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<tr>
<td>Ask open-ended questions</td>
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<tr>
<td>Allow the candidate to talk and gather complete and relevant information</td>
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<tr>
<td>Ask more questions and probe only if necessary</td>
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<tr>
<td>Make a note of the relevant points during the interview for accurate assessment</td>
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<tr>
<td>Stick to the plan of the interview</td>
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</table>

*Source: ICMR Center for Management Research*

**Evaluation**

The evaluation of the candidate should take place as soon as
he leaves the room. If the interviewer decides to evaluate all
the candidates together at the end of all the interviews, he
might get influenced by the recency effect, which can distort
the evaluation results. While evaluating, it is the responsibility
of the interviewer to steer clear of any personal biases and
take the decision in the best interest of the organization. The
interviewers also have to evaluate themselves from time to time. It is important that they constantly work on improving their interviewing skills. Interviewing is an art that has to be practised to improve the standards. Workshops on interviewing skills and dummy exercises for interviewers can help in improving the whole process.

Reference Checks

Once all the candidates are evaluated and the final decision taken, the offer is made to the candidate. Before the candidate joins the organization, the HR function has a few more things to do before it can wrap up the selection process. The candidate may mention a few reference checks in his application or provide them on request. These are leads to understanding the work-related behavior of the would-be employee. Normally, former employers or professors or acquaintances of the candidate, who are in responsible positions in the corporate world or in the society, are mentioned as referrals. The information provided in the application form of the candidate can be confirmed by the employer, through these reference checks.

The individuals mentioned as referrals can be contacted through phone, through official letters, through e-mails or even in person, to establish the credentials of the candidate. Since this whole process might take some time to be completed, most of the organizations make the offer to the candidate even before the reference checks are made.

Medical Examination

Many organizations have made physical medical examinations mandatory for hiring. This is in fact often mentioned as a clause in the offer letter to the candidate, which says that the offer is conditional on the candidate being medically fit. This clearance of physical examination is mandatory to ensure compliance with the physical standards mentioned in the job specification and the organizational recruitment policy. In recent times, some companies have been having a problem with the appointment of candidates suffering from infections, such as persons who are HIV positive. Other employees in the organization may object to working with HIV infected people, although the law is against any kind of discrimination. This, being a highly sensitive issue, should be handled carefully in any organization. Special privileges to handicapped and under-privileged people are acceptable and encouraged in some organizations, many of which have their own medical standards for selection.

Video 4.6.1: Job Interview Tips - Job Interview Questions and Answers

Source: www.youtube.com/watch?v=epcc9X1aS7o

Video 4.6.2: Job Interview

Source: www.youtube.com/watch?v=3hC-MWwXrhw
Section 7

Placement

Once the candidate accepts the offer and joins, the organization has to place him in the job for which he has been selected. According to Paul Pigors and Charles A. Myers, placement is “the determination of the job to which an accepted candidate is to be assigned and his assignment to that job. It is a matching of what the supervisor has reason to think he can do with the job demands (job requirement), it is a matching of what he imposes (in strain, working conditions) and what he offers in the form of payroll, companionship with others, promotional possibilities, etc.” A proper placement of an employee results in low employee turnover, low absenteeism, and low accident rates in shop floor jobs and improved morale and commitment of the employees.

After selection, the employee is first inducted into the organization. This is the period of familiarization for the employee, with the organization, with his colleagues and with his job. Then, the employee is usually put on probation for a period ranging from six months to two years. The organization then decides the final placement after the initial probation period is over, based on the employee’s performance during the period and his aptitude and interest. If the employee’s performance is not satisfactory, the organization may extend the probation period or ask the employee to quit. If the employee performs satisfactorily during this period, he is usually made a permanent employee.

Source: www.careerxone.com
Review Questions:

1. What are the pitfalls of recruitment in contemporary organizations?

2. What are the disadvantages with tests? How reliable are the scores?

3. Do organizations follow P-J fit and P-O fit? If so, why some recruitments turn faulty?

4. What are the factors influencing recruitment across industrial sectors?

5. What are the different methods of interview? Is it possible to assess a candidate in a 30 minute interview?

6. Explain the relevance and reliability of tests used for selection.

Footnotes:


5. L. L. Thrustone and T. G.Thurstone “Factorial Studies of Intelligence”1941

6. Personnel Administration, Koga/Cusha, 1973
Case Study: Recruiting the Cisco Way

This case was written by Subhadra. K and A. Mukund, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmринdia.org
Cisco sources revealed that the company had a policy of attracting the ‘top 10-15%’ people in the networking industry. It believed that if it could get the best people in the industry and retain them, it would remain the industry leader. According to Cisco’s vision statement, “Attracting, growing and retaining great talent is critical to sustaining Cisco’s competitive advantage.” Thus, effective recruitment was used as a powerful strategic weapon by the company. The company began to use revolutionary techniques like the ‘build-the-buzz’ strategy, which was centered on the primary market for its products, i.e. the Internet.

Cisco’s recruiting team identified the candidates whom they felt the company ‘should hire,’ and then figured out the way those potential candidates did their job hunting and designed hiring processes to attract them to the company. Cisco recruiters targeted even passive job seekers – people who were happy and successful in their current jobs. Barbara Beck (Beck), Vice President, Human Resources said, “The top 10% are not typically found in the first round of layoffs from other companies, and they usually aren’t cruising through the want ads.” Since the most sought after employees were not accessible, Cisco devised a strategy to lure them.

As part of its strategy to attract the best talent, Cisco changed the way it used “wanted” advertisements in newspapers. Instead of listing specific job openings, the company featured its Internet address in its ads and invited prospective candidates to apply. This move helped Cisco to direct all job seekers to its website where it could inexpensively post hundreds of openings and provide information regarding them. It also advertised its website in cyberspace to reach candidates who surfed the net from around the world. The company was thus able to monitor and measure its recruiting programs through the number of visits to its site. Since most people visited Cisco’s website from their jobs, the company could identify their place of work.

Cisco worked towards removing some of the frustration associated with applying for jobs. The company learned to attract happily employed people through focus groups. The focus group’s exercise made Cisco realize that a candidate would approach the company if he had been informed by a friend about better opportunities at Cisco. This led to the launch of the friends program in April 1996. Cisco also reached out to potential applicants through a variety of routes, which were unusual in recruiting. It began frequenting art
fairs, beer festivals and certain annual events in which people from Silicon Valley participated. These places proved to be very ‘fruitful hunting venues’ as they attracted young achievers from various successful info-tech companies. Cisco recruiters mingled with the crowd, collected business cards from prospective candidates and spoke to them informally about their careers.

Cisco advertised the friends program in movie theaters in San Jose and received around 100 to 150 applications each week. By 1997, about one third of new recruitments were made through the Friends program. Cisco launched a tool called Profiler on the employment page of its website to accelerate and standardize online resume submission. The Profiler asked applicants to provide educational and employment information through appropriate selections from pull-down menus. The Profiler also asked a few questions regarding the applicant’s background. (Peak usage of Cisco’s employment page was between 10 am and 3 pm). To avoid applicants from being caught by their current employers while using Profiler, Cisco designed each screen with an escape button that opened webpage about gift suggestions for co-workers.

Cisco also found that applicants and recruiters were not totally comfortable with the time-consuming recruiting process. To speed up the hiring process, Cisco hired in-house headhunters to identify qualified candidates for managers.

Cisco also encouraged internal referrals for recruitment through a program called ‘Amazing People.’ This system allowed Cisco employees to refer their friends’ acquaintances for positions within Cisco. The system kept track of referrals, resumes and related information and forwarded them to Cisco’s recruiters and hiring managers around the world. Employees were given a bonus if the company hired the person they referred.

After streamlining its recruitment policies, Cisco conducted an employee survey to find out how the new recruits felt on their first day at work. This exercise stemmed from the company’s belief that new employees typically treated the first day as ‘the most important eight hours in the world.’ The survey showed that some new recruits felt lost on their first day – their phones did not work, their computers had no software and if it did they had no idea how to use it. It was also found that most of the employees did not get their email addresses for two weeks. To address the above problems, Cisco launched Fast Start, an employee-orientation initiative. Cisco installed computer software, which tracked the hiring process and alerted the team about the new recruit’s arrival. As a result, every new recruit started with a fully functional workspace and a whole day of training in desktop tools.

According to company sources, Fast Start not only eliminated all problems but it also enabled new recruits to know about ‘life inside the company.’ Every new recruit was assigned a ‘buddy’ who clarified all doubts and answered questions about Cisco and work in general. New recruits also had a two-day course called the ‘Cisco Business Essentials,’ which covered company’s history, its networking market and business units. The managers of the new recruits received an automatically generated email two weeks after their new recruits’ arrival. It reminded managers to review their departmental initiatives.
and personal goals. The above initiatives enabled the new recruits to get adjusted to the work environment fast.

Questions for Discussion:

1. ‘The changing dynamics of the global infotech industry necessitated Cisco’s decision to change its recruitment process.’ Comment on the above statement highlighting the company’s decision to adopt innovative recruitment methods.

2. The ‘Friends,’ ‘Amazing People’ and ‘Profiler’ initiatives were designed to integrate the Internet effectively with Cisco’s recruitment philosophy to attract the best talent in the industry. Analyze the various recruitment strategies adopted by Cisco.
Caselet 1: Recruitment and Selection

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmrindia.org
Matrix Enterprises (Matrix) is one of the growing firms in the telecom industry. Matrix had recently won the “Company of the Year – 2003,” award for excellence, which was sponsored by one of the leading business magazines. The award was given to Matrix for its Six Sigma initiative in its sourcing and recruiting activities. This initiative of Matrix helped the company add substantially to its bottom line.

While speaking to the media after receiving this award, Shalini Mehta, the CEO of Matrix, attributed the success of Six Sigma to the concerted effort of employees belonging to all the levels of the organization. Emphasizing on the long-term benefits that the Six Sigma initiative accrued to Matrix, Mehta said, “It has been five years since its inception and we expect more positive results as we extend this program to other aspects of management as well.”

In simple terms, Six Sigma is a process-improvement strategy or an initiative to analyze and improve any business function in an organization. It is a robust methodology that is data-driven and that aims at minimizing deviations from the set standards for the company. Six Sigma is not a new jargon at Matrix. This concept had first been implemented as a quality control measure in the production department. Having reaped the benefits of this methodology for process improvement, the company ventured into implementing this concept in the HR department too. The introduction of Six Sigma in sourcing and recruiting activities helped Matrix measure each step of the processes, analyze and make decisions based on the data collected, and evaluate the outcome of the processes. A basic understanding of the factors that result in deviations from the standards set, helps the company in minimizing the deviations and work towards improving the processes. Thus, the Six Sigma initiative at Matrix adopts the following stages of process improvement:

- **Define** – The goals of the initiative are defined at this stage. After identifying that recruiting could be a business process which can be improved through Six Sigma, the critical requirements of the initiative are defined, and linked to the business needs of the firm.

- **Measure** – In this phase, data regarding the characteristics of recruitment process is collected and measured for determining its effectiveness.

- **Analyze** – After studying the processes, the data collected is analyzed and the root cause for the defects is determined at this stage.
Improve – Having studied the root cause for the defects in the processes, an effort to work upon these defects and minimize them, is initiated by Matrix.

Control – This phase involves the documentation of process conditions with the help of statistical process control tools. Depending on the findings of the above stages, the necessity of revisiting any of the above processes is determined and the success of the eventual process is evaluated.

Thus by following the above stages of Six Sigma implementation, Matrix benefited immensely in terms of improving the effectiveness of recruitment and sourcing activities.

Matrix organized training programs for its managers to understand the concept of Six Sigma. These managers in turn, trained their employees in its implementation. The top management insisted that these people be trained well as the concept was based on a complicated statistical tool. The management also provided adequate resources, in terms of financial and knowledgeable manpower resources for the implementation of Six Sigma. Matrix in fact, hired an external consultant during the initial stages who guided the company during its implementation phase. Thus, the top management was committed towards the successful implementation of the program.

Thus, Six Sigma, which was started as a rough framework to improve the effectiveness of hiring in the company, brought the desired results of minimized deviations and an improved process at Matrix.

QUESTIONS FOR DISCUSSION:

1. Matrix initiated the Six Sigma methodology in its hiring process as a framework to improve the effectiveness of the hiring process in the company. Discuss the factors that determine the appropriateness of using this complicated statistical tool in the hiring process of the company.

2. Organizations in the present business scenario are introducing innovative techniques to improve the overall effectiveness of their hiring process. Six Sigma is one of them. Discuss the ways in which Six Sigma can help the organization improve its hiring process.
Section 10

Caselet 2: Recruitment and Selection

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Integrated Solutions was a growing organization in the telecom industry. Its phenomenal growth in the recent past led to a huge manpower requirement in the company. Recruiting the required resources was a challenging task for the HR department as there was a dearth of talent in human resources in the market with too many companies vying for the same talent. The CEO of the company called for a meeting of all the heads of departments to discuss ways in which the manpower requirement could be met. The CEO invited suggestions about innovative ways of recruiting top talent in the industry.

Anupama Roy, the HR manager had a point to make. She said, “This is a difficult task for us, as most of the openings in the company are in the middle and top managerial positions, for which we require experienced personnel. Unfortunately, most of them will be already employed and busy in their jobs. So, our job now is to attract this group of passive job-seekers.” At this point, one of the project leaders raised a doubt, “In such a competitive business scenario, how successful will we be in attracting the attention of skilled employees?” The CEO agreed and so did Roy. “Perhaps, we could conduct a study to identify ways of capturing this potential group of candidates,” suggested Roy. It was then decided that a team of members from the HR department will study the way employees in organizations sought for new opportunities in the job market.

Accordingly, a team of three members headed by Amit Bajaj set out to study ways in which passive job-seekers could be attracted. The survey conducted by Bajaj and his team dealt with issues like how the potential job seekers in the industry spent their free time, the websites they visited, their intentions of seeking a new job, their satisfaction levels in their present jobs, their expectations about an ideal work environment, etc. After a week, Bajaj was ready with the report and presented it in a meeting, which was also attended by the CEO, the HR manager and the Systems manager. The report found that a person already possessing a job would approach another organization if invited by a friend or associate working for the same organization. The report also brought to light, the fact that people desist seeking new opportunities elsewhere because of the long time wasted during the entire hiring cycle.

Based on the above report, Roy, in consultation with the CEO, Systems manager and Bajaj, drafted the following plan of action:

Integrated Solutions initiated a new scheme called, 'Invite a friend,' based on the finding that people approach organizations when advised by acquaintances already working for those firms. Accordingly, the Invite a friend scheme was introduced to encourage employees to bring in potential candidates from among friends and acquaintances for the various positions available in the organization. In case the candidate got selected, the
employee who referred him/her would be rewarded. Within a year of its introduction, it was found that around 40%-50% of the new employees were recruited through this scheme.

The company also hired in-house head hunters who were completely devoted to the process of hiring talented people. This reduced the cycle time involved during the entire hiring procedure, which in turn attracted potential candidates.

Integrated Solutions linked the corporate web-site to the sites that are more likely to be visited by a maximum number of potential candidates. This increased the number of hits by job-seekers to their web-site. This in turn, helped attract passive job-seekers.

The organizational members mingled with people belonging to other companies at various social gatherings and festivals and talked positively about Integrated Solutions.

Thus, the innovative ways of recruitment at Integrated Solutions helped the firm attract nearly 10% of the top talent in the industry. They also helped reduce the costs involved in the hiring process to a substantial extent. Soon, the company gained a strong competitive edge over its rivals in the industry through the strength of its human capital. This reinforced the belief that if an organization can manage to get the best talent present in the industry and succeed in retaining it, then it would remain the leader in the industry, merely on the strength of its human resources.

QUESTIONS FOR DISCUSSION:

1. Integrated Solutions initiated a number of steps to attract the top talent in the industry as discussed in the case. Briefly describe the factors that are to be considered by the company before framing its recruitment policy.

2. Evaluate the success of the recruitment process initiated by Integrated Solutions.
Section 11

Caselet 3: Recruitment and Selection

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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It was an important day for Abhay Mittal, a management graduate seeking an employment opportunity in the competitive business environment. He received an interview call from one of the nation's leading private sector banks for the post of Relationship Manager (RM). His selection as an RM would be just the right break for Mittal in terms of the exposure and experience he would get in this customer-oriented business environment. The responsibility of an RM includes providing important customers with complete and integrated investment advice. The select customers were those who made huge investments in the various products of the bank. The RM must also seek to attract prospective customers who had the potential to make heavy investments with the bank.

Mittal was excited as he had been waiting for a call from this bank for quite some time. He then prepared for his interview – by reading the company's performance and history, making a quick SWOT analysis of the bank, and getting his documents ready for the interview. He also organized a mock interview with his friend who was an HR Manager in a consultancy firm. Having brushed up the fundamentals in his areas of interest and study, Mittal was all set for the interview the following day.

However, the interview proved to be a nightmare. It started an hour behind schedule and Mittal was kept waiting with no intimation of the changed schedule. The reception could not provide him any relevant information. Mittal, however, kept his cool and waited patiently for his turn. Finally, after an hour, he was called in. He firmly knocked on the door before entering the interview hall. The hall was huge with the panel of members seated in a corner. The panel consisted of seven members, none of whom, according to Mittal seemed friendly and approachable. He was made to sit on a chair that seemed likely to break with the slightest jerk. He however, managed to sit, leaning forward slightly and tried to listen to the panel.

A long silence followed. Mittal then hesitantly ventured to initiate the conversation. “Here are the certificates in proof of my academic qualifications,” he said. This was followed by a quick response from the person sitting to his left. “It is not a bundle of certificates we are interested in, young man. They are no proof of how capable you are to handle the stress you would experience in case of your selection.” Mittal was taken aback for a moment. However, he gave a gentle smile and said that he was ready for the interview.

Mittal encountered a barrage of questions, most of which seemed irrelevant to the job of an RM. Although he could answer most of the questions, he was never allowed to answer them completely. He was constantly interrupted by the panel members while trying to answer the questions posed by each one of them. Most of the questions were sarcastic and cynical in nature. Mittal was given ambiguous instructions and asked to solve a situational case. He was then put through imaginative situations that required him to make tough decisions. Mittal could feel the tension creeping into him.

Video 4.11.1: The Interview: Types of Interviews

Source: www.youtube.com/watch?v=-KEYe3gO68k
Although he handled the questions well, he felt he could have done better if the panel had been more approachable. There was complete silence for some time.

The panel members inquired if Mittal had any questions to ask. By then, Mittal was exhausted and longed to leave the room. He kept his calm and said that there was nothing that he would like to ask, even though he had prepared a short list of questions the previous evening.

The members assured him that they would get back to him soon. Mittal thanked the panel and left the room in disgust.

QUESTIONS FOR DISCUSSION:

1. What kind of interview do you think Abhay Mittal had to face? Describe the basic features of such an interview.

2. Discuss the various other kinds of interviews that could be used by organizations to make their selection process effective. Also discuss the advantages and disadvantages of each of these methods of selection.
Section 12

Caselet 4: Recruitment and Selection

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Regal Attires is an upcoming garments manufacturer, which planned to expand its sales to around 15 new cities in the country by the end of the financial year. To achieve this, Regal had to increase its manpower substantially. It placed advertisements in all the leading newspapers and magazines stating its requirements. The HR department worked hard to attract the best resources. It undertook a massive recruitment drive that covered all parts of the country. In response to these advertisements, Regal received a large number of applications for each position.

Among the various openings that Regal had, the position of the sales executive was very important, not only in terms of the number of salesmen required but also the competencies they needed to possess. This was because the salesmen played a very crucial role in generating revenues for the company. Vishal Mehra, the HR manager, wanted only experienced candidates for this position. The key competencies that Mehra looked for in candidates included the initiative of the candidate, his willingness to learn, his love for traveling, his self-confidence, his ability to convince people, his communication and interpersonal skills, his ability to work in a team, his professionalism at work, etc. The interviews basically aimed at rating the candidates on these competencies.

Mehra was however not convinced about the effectiveness of the regular interviews as he felt that they do not succeed in selecting the candidates with the right skills and abilities. According to him, most of the traditional interviews comprised of questions that typically required the candidates to answer in ‘yes’ or ‘no.’ This, according to Mehra, was by no means enough to judge the candidate’s skills and abilities for the job.

The interviews conducted by Mehra, were a little different from the one discussed above. His interview model was a structured one that consisted of a specific set of questions which evaluated the candidates’ capabilities on the above competencies. Though structured, his questions made the candidates describe past and real-life situations that brought out specific job-related competencies. The interview would usually start off with questions like, “Describe a situation where...,” which allowed Mehra to understand how the candidate would behave in a particular business situation. Mehra firmly believed that questions like these brought out the true worth of the candidates and therefore, such behavior-based interviewing helped him select the right candidate for the right job. For example, in this case, where Mehra wants to select candidates...
for the position of salesmen, questions like, "Which was the most difficult sale that you have ever made? And how did you convince the customer to go for the product?" helped him to assess the convincing skills of the candidate.

Although Mehra’s interviews succeeded in selecting the right candidate in more than 50 percent of the cases, there were also some instances in which the candidates selected by him proved to be ineffective at their jobs.

The above case highlights the fact that even though past performance of a candidate might be effective in predicting his future behavior to a certain extent, it does not completely succeed in selecting the right candidate for a job. This is because, over a period, trends in selecting candidates have been changing and over-reliance on a particular type of interviewing process proves to be ineffective. It is therefore advisable that a combination of selection tools may be used to address the issues arising in the selection process.

QUESTIONS FOR DISCUSSION:

1. Vishal Mehra used the behavior-based interviewing technique to select candidates for the position of salesmen at Regal Attires. Briefly describe the characteristics of a behavior-based interview.

2. Although, Mehra succeeded in selecting the right candidate in more than 50 percent of the cases, there were instances of the selection tool’s failure in its objective. Citing the case of Regal Attires, discuss the various benefits and pitfalls of implementing the behavioral-interviewing technique of selection.
The performance of an organization is managed by monitoring and managing the performance of the individual employees in the organization. The objectives and goals of individual performance are determined based on the objectives and goals of the organization. The successful performance of an organization is a culmination of individual performances and contributions.

The measurement and evaluation of performance has been traditionally done using merit-rating and performance appraisal, which in very recent times has been replaced by performance management. Performance management is a dialogue-based joint process that involves a continuous review. In performance management, the focus is on values and behaviors and it is less likely to be linked to pay. It aims at looking forward at what needs to done to develop people to improve performance.

Performance appraisal has a more historical approach when compared to the broader concept of performance management. Performance appraisal has been conventionally connected to rewards and punishments but, of late, the concept of developing employees based on the appraisal has gained popularity. While a system of performance appraisal may be very carefully designed the problems in appraisal usually arise in its application and implementation. For a performance appraisal system to add value to the organization, it should be both well-designed and well-implemented.

In this chapter, we will study the concept and objectives of performance appraisal, its process, different appraisers and appraisal methods, how an appraisal interview is to be conducted, the pitfalls that should be avoided in the appraisal process and finally, the benefits of performance appraisal to the organization and to its employees.
In this chapter, the student will be able to understand

- Concept of Performance Appraisal
- Objectives of Performance Appraisal
- The Appraisal Process
- The Appraisers
- Performance Appraisal Methods
- The Appraisal Interview
- Pitfalls in Performance Appraisal
- Uses of Performance Appraisal
- Ethics of Performance Appraisal
Section 1

Concept of Performance Appraisal

Performance appraisal can be defined as the process of evaluating the performance of an employee and communicating the results of the evaluation to him for the purpose of rewarding or developing the employee. According to Michael Armstrong, “Performance appraisal is a formal assessment and rating of individuals by their managers at -usually- an annual review meeting.”

Performance can be defined as the degree of accomplishment of tasks by an employee in his job. In some organizations, it is a measure of the results achieved and targets accomplished whereas in others, it is a measure of employee efforts and behavior. However, most organizations use a combination of both efforts and results. Performance appraisal is also termed as performance review, annual review or annual appraisal.

The dictionary meaning of the verb ‘to appraise’ is ‘to fix a price for’ or ‘to value an object or thing’. The term performance appraisal is concerned with the process of valuing an employee’s worth to an organization, with a view to increasing it. Hence, most appraisal systems are linked to rewards systems as well as employee development systems. The commitment of the management and acceptance by the employees determine the success of an appraisal system in any organization. It is also important that the appraisal system matches the organizational culture.

Source: www.4.bp.blogspot.com
Section 2

Objectives of Performance Appraisal

A performance appraisal system facilitates optimization of employee performance and also helps in identifying areas for development. It is also useful for taking administrative decisions relating to payment of incentives, promotions etc. Table 5.2.1 explains the basic objectives of a performance appraisal system. Exhibit 5.2.1 explains the objectives and principles of the performance appraisal system at Zee Television Ltd. The performance appraisal system should provide for recognition of employee performance in the face of adverse external influences, if any. For example, the performance appraisal of a sales person should take into account the effects of a slump in the market or high inflation rate.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting targets and goals as performance standards</td>
<td>Performance standards and specific goals are set at the beginning of the appraisal period. These targets motivate the employee to perform better.</td>
</tr>
<tr>
<td>Evaluating employee performance</td>
<td>The evaluation of employee performance helps understand the strengths and weaknesses of the employee. This evaluation also helps to determine the achievement of pre-set goals and targets.</td>
</tr>
<tr>
<td>Identifying training and development needs</td>
<td>An employee’s areas of weakness are also the areas for improvement or development. These are the shortcomings in the individual’s performance, which need to be improved upon.</td>
</tr>
<tr>
<td>Rewarding performance</td>
<td>Rewarding a good performer and punishing a bad one encourages employees to perform better. As has been stated in the reinforcement theory, behavior is a function of its consequences.</td>
</tr>
<tr>
<td>Improving performance</td>
<td>Once the strengths and weaknesses are identified, the employee can be encouraged to overcome his weaknesses and leverage his strengths to optimize his performance.</td>
</tr>
</tbody>
</table>

Compiled from various sources.
Exhibit 5.2.1: Performance Appraisal System at Zee Television Ltd.

Performance appraisal and planning is significant in any human resource development system. The performance assessment system acts as a strategic tool that helps in the achievement of the organizational objectives. At Zee Telefilms Limited (Zee), performance appraisal is a prerequisite for employee training and development, compensation, promotion, and increments.

In a bid to nurture an organizational culture driven by performance, Zee implements a performance appraisal system that is object-oriented and is carried out annually. The appraisal system is common across all Zee’s group of companies.

Objectives of performance appraisal

- Helps in assessing the existing job performance of employees
- Recommends employees to deal with areas that need improvement
- Helps the organization evaluate the training and development requirements of employees
- Helps the organization identify potential employees for taking up higher responsibilities
- Builds a performance-oriented reward system

Principles of performance appraisal

- Cascades the objectives and goals of the organization
- Helps gain clarity on explicit objectives of each individual
- Involves all the levels of management in decision-making
- Explicitly gives a time period to the employees for achievement of the organizational objectives
- Evaluates employee performance and gives feedback

The Process of performance appraisal

The superiors and the subordinates jointly determine the performance objectives. The performance management system is developed based on these objectives. It periodically reviews whether the objectives have been attained or not and rewards employees based on their progress toward goal achievement. The performance appraisal system consists of the following steps:

- The superiors sets the objectives for subordinates for the year
- The superiors assess employee performance in the middle of the year in order to determine the progress
- At the end of the year, the superiors conduct an annual performance review to know whether the objectives have been achieved
- The superiors set objectives for the next year.

Section 3

The Appraisal Process

Refer to the keynote 5.3.1 for the process of performance appraisal.

Keynote 5.3.1: The Appraisal Process

Rainbow Information Technologies (RIT), a wholly-owned subsidiary of US-based Rainbow Technologies gives utmost importance to its employees. According to Rajesh Pathak, assistant HR manager, RIT, “Everything is an employee-driven effort at Rainbow, where HR just plays a support function facilitating the employees’ wishes.”

The company conducts brainstorming sessions with its employees, wherein employees suggest ways in which their productivity can be improved. At one of its brainstorming session, the employees suggested that the company should conduct monthly appraisals as opposed to annual appraisals. The employees felt that the feedback would not only help them in tapping their individual potential but would also have an impact on the growth of the company.

Thus, each month, employees set their own goals and their performance is evaluated at the end of the month. This benefits the employees since they can identify the gaps at an early stage and fix the problems and this has led to good results.


Exhibit 5.3.1 shows how Rainbow Information Technologies conducts monthly appraisals.

The ideal way to ensure maximum utility of performance appraisal is to link the performance standards to rewards system and the competency standards to training and development. The gaps in competency levels can be identified and necessary training be imparted to the
employee. Exhibit 5.3.2 describes the best performance appraisal practices at some companies.

Many organizations fail to receive acceptance and support from their employees for their performance appraisal system. The main reason for this is the lack of commitment of the top management. The exercise is a cursory and routine one in some companies, and the results are filed away and forgotten. This is when the employees get disenchanted with the exercise and lose interest in their jobs as well. The management has to ensure that the whole business of appraisal is taken seriously and the results put to effective use.

<table>
<thead>
<tr>
<th>Exhibit 5.3.2 : Best Practices in Employee Performance Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Larsen &amp; Toubro</strong></td>
</tr>
<tr>
<td>The engineering major, Larsen &amp; Toubro (L&amp;T), has built a competency matrix that consists of 73 competencies. These competencies vary across all levels of management and are used to measure the performance of employees and their development needs. Each of the competencies has a skill, knowledge, and attribute associated with it. The employees are appraised based on these competencies and subsequently, the company provides reinforcement to its employees. As the competency matrix is also linked to the company’s overall business strategy and training needs, strategic needs are developed by the development policies of the company, making the re-skilling and re-learning process more focused and easier.</td>
</tr>
</tbody>
</table>

| **National Panasonic** |
| National Panasonic (Panasonic), a Japanese white-goods company has built up a performance appraisal system based on Key Result Areas (KRA). These KRAs explain business, functional, and behavioral performance goals. Each goal has defined time-frames and is jointly decided by the manager and the employee at the commencement of the year. These KRAs are used as a tool to measure the progress of the employee and depending on the disparities in performance, training inputs are recommended to fill the gaps identified. Panasonic has given utmost importance to this process since it re-skilled its employees, which in turn, has helped the company promote its employees rather than hire expensive recruits from outside. |

| **Hughes Escorts** |
| Hughes Escorts (Hughes), a subsidiary of the US-based telecom company, Hughes Network Systems, uses competency as a basis for performance enhancement. The positions in the organization are defined based on 23 key competencies, which are in turn divided into four groups attitude-based, value-based, skill-centered, and knowledge-driven. These competencies are used by the company to assess shortfalls and recommend appropriate training. This method helps the company increase its productivity and also makes employees aware of their professional standing in the organization. |

Section 4

The Appraisers

Traditionally, appraisal has been the job of the supervisor with the employee himself having no role to play in the process. However, the whole concept has changed today and the appraisee has an important role in the process. He, in coordination with his superior, determines the performance objectives and standards. Again, at the end of the appraisal period, the employee assesses his own performance, in comparison to the pre-determined objectives. The supervisor offers his opinion at the end of the appraisal and together they finalize the appraisal results. The areas of development are identified and future action planned.

Keynote 5.4.1: Different Appraisers Involved in the 360 Degree Appraisal

Source: ICMR
Exhibit 5.4.1: Superiors’ Appraisal by Subordinates

With the changing HR policies, most organizations have realized that performance appraisals are necessary even for the bosses. Earlier, performance appraisal was a one-way system where employees were appraised by their superiors. However, organizations are now adopting a two-way system that requires employees to appraise their superiors. According to Robin Lloyd, vice-president and general manager, Lionbridge India, the appraisal of superiors by subordinates is not a means for employees to vent their anger on their superiors. Rather, “It is intended to be a team building and team strengthening process. Our company is a big believer of this method of appraisal but it is not considered a cribbing exercise for employees.”

Similar views were expressed by Aparna Ballakur (Ballakur), HR director, Adobe Systems. Ballakur believes that like employees, superiors too are not perfect and each subordinate may have a different opinion about his/her superior. She says that the two-way method of appraisal would enable the companies to discover and bring out new leaders from their existing staff.

GlobalLogic (Global), an HR consultancy, practices the two-way appraisal system. According to Ili Kumar, assistant vice-president, human resources, Global, “At all levels, we have devised a different kind of feedback method for our employees. It is carried out round the year, not just before the annual appraisal period.” He added that employees had to be “empowered to appraise their superiors, the managers or bosses tend to become insensitive to the needs of the juniors and the team suffers.”

A few organizations give anonymity to employees in order to ensure an honest feedback and to also prevent any negative feelings on the part of the superior toward his/her subordinate. Experts believe that this method will help superiors identify their weaknesses and take measures to overcome it.

On the other hand, a few companies have an open appraisal system wherein the superiors interact directly with their employees. For instance, AppLabs, a software company has an interactive and open method called the “skip method” where the superior and his/her subordinates in the presence of a senior HR executive together discuss the strong and weak points of the boss. According to Makarand Teje, CEO, AppLabs, “We use this method to ascertain the confidence levels of both the employees and the boss.”

Most organizations adopt the reverse appraisal method since it helps them curb employee turnover. Different methods used by these organizations include one-to-one interaction with the employee, the survey method, and the questionnaire. After gaining feedback from these methods, the superiors are informed about their weaknesses by the HR department. Subsequently, the superior draws up a plan of action in a bid to resolve the concerns of the employees.

Section 5

Performance Appraisal Methods

The different appraisal methods used by the organizations in India and abroad are discussed in this section. The most commonly used methods are listed here.

Traditional methods:
1. Management by Objectives or goal-setting
2. Graphic rating scale
3. Work standards approach
4. Essay appraisal
5. Critical incident method
6. Forced choice rating method
7. Point allocation method
8. Ranking methods
9. Checklist

Modern methods:
10. Behaviorally anchored rating scale (BARS)
11. 360 degree performance appraisal
12. Team Appraisals
13. Balanced scorecard method

Management by Objectives (MBO)

The main aspects of MBO are clear and well-defined goals, a definite time-span to achieve the goals, an action plan and finally, timely and constructive feedback. Also called the goal-setting approach, MBO is more commonly used for managers and professionals. The goals are set with the active participation of the employee and his supervisor. These goals have to be in alignment with the organizational goals and have to contribute to their achievement. For successful implementation of MBO, the following are required:

- Quantifiable and measurable goals that are neither too easy nor too difficult to achieve
A well-laid out action plan providing for contingencies

Employees who are suitably equipped and motivated to achieve these goals

Continuous and constructive feedback and guidance

Objective evaluation of the performance

Identification of areas for improvement and corrective action

**Graphic Rating Method**

This method of appraisal requires the rater to rate the employee on factors like quantity and quality of work, job knowledge, dependability, punctuality, attendance etc. Graphic rating scale includes numerical ranges as well as written descriptions. Table 5.5.1 gives some examples of items in a graphic rating scale.

There are two disadvantages to the graphic rating scale method. One is regarding the choice of employee behavior categories- the important ones might get missed out and the irrelevant ones may get included. The second disadvantage is that different people may interpret the written descriptions in different ways. This might lead to confusion and loss of reliability.

**Work Standards Approach**

This method of appraisal is more suitable in a manufacturing scenario, where the goals are pre-determined work standards. These work standards can be set based on the

---

**Table 5.5.1: Sample Items in a Graphic Rating Scale**

<table>
<thead>
<tr>
<th>On a scale of 1-5, rate the employee.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5 – Excellent, 4- Very Good, 3- Good, 2- Adequate, 1- Inadequate</strong></td>
</tr>
<tr>
<td>a. The communication skills of the employee can be rated as</td>
</tr>
<tr>
<td>(1) (2) (3) (4) (5)</td>
</tr>
<tr>
<td>b. The job knowledge of the employee is</td>
</tr>
<tr>
<td>(1) (2) (3) (4) (5)</td>
</tr>
<tr>
<td>c. Attendance – coming to work daily and conforming to work hours:</td>
</tr>
<tr>
<td>Is always regular and punctual ( )</td>
</tr>
<tr>
<td>Is usually regular and punctual ( )</td>
</tr>
<tr>
<td>Is usually regular but not very punctual ( )</td>
</tr>
<tr>
<td>Is lax in attendance and punctuality ( )</td>
</tr>
<tr>
<td>Is often absent and frequently late ( )</td>
</tr>
<tr>
<td>d. Initiative – needs no prodding and is self-driven to take new responsibilities</td>
</tr>
<tr>
<td>Always takes initiative without any prodding ( )</td>
</tr>
<tr>
<td>Usually takes initiative without any prodding ( )</td>
</tr>
<tr>
<td>Sometimes needs a little prodding to take the lead ( )</td>
</tr>
<tr>
<td>Normally does not take initiative ( )</td>
</tr>
<tr>
<td>Never takes initiative ( )</td>
</tr>
</tbody>
</table>

Source: ICMR.
average output of a typical employee in the organization or by benchmarking against the work standards of a competitor in a similar business. The advantage of this approach is that the goals to be measured are very objective and also quantifiable. The disadvantage however is that the work standards for different job categories cannot be compared.

**Essay Appraisal**

In the Essay Appraisal method, the appraiser prepares a document describing the performance of the employee. Questions or guidelines are provided to the appraiser, based on which he analyses and describes the employee's performance. The advantage of this system is that the appraiser can express all his views on the employee's performance, without any constraints imposed by the system. For example, the rating method can miss out on some of the performance factors relevant to a job. Such errors can be eliminated in an essay-appraisal method. However, if the appraiser concentrates on a single aspect or misses out an important aspect of performance, the appraisal will be incomplete or inadequate. Similarly, it is difficult to compare the performance of two employees, based on the descriptions of their performance provided by different supervisors. The writing skills, or the lack of it, of the appraiser can make an inadequate performance seem to be adequate or an excellent performance seem merely adequate.

**Critical Incident Method**

In this method of performance appraisal, the appraiser makes a note of all the critical incidents that reflect the performance or behavior of the employee during the appraisal period. These are recorded as and when they occur and can demonstrate either positive or negative traits or performance. At the end of the appraisal period, this record forms the basis for evaluation of the performance of the employee. This method of appraisal is rarely used because of the ambiguity involved and the effort required in recording the incidents. The employees might also be not happy with the manager ‘tracking' and ‘recording' their performance in this manner.

**Forced Choice Rating Method**

In this method, the appraiser is required to assign ranks to different attributes of the employee. These attributes are all seemingly positive, but have different weights which are unknown to the appraiser. Once the employee attributes are ranked, the human resource department applies the weights and arrives at a score which is the final appraisal score. The element of subjectivity in this method is minimized as the appraiser has to assign a unique rank for each of the attributes.

However, this might not be a very pleasant experience for the appraiser and it is not very easy to convince the employee of the rationale behind the ranking and that the ranks assigned are fair.

Refer to table 5.5.2 for an example of a forced choice rating method.
Table 5.5.2: Example of a Forced Choice Rating Method

<table>
<thead>
<tr>
<th>Description of Attribute</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>The employee is very sociable and normally gets along well with colleagues</td>
<td></td>
</tr>
<tr>
<td>The employee is a fast decision-maker</td>
<td></td>
</tr>
<tr>
<td>The employee is open to feedback and criticism</td>
<td></td>
</tr>
<tr>
<td>The employee is a good team-player</td>
<td></td>
</tr>
<tr>
<td>The employee is motivated by rewards</td>
<td></td>
</tr>
<tr>
<td>The employee takes initiative and is a problem-solver</td>
<td></td>
</tr>
<tr>
<td>The employee exhibits good leadership skills</td>
<td></td>
</tr>
</tbody>
</table>

Source: ICMR.

Point Allocation Method

In this method of appraisal, the appraiser has to allocate points to different members in his team. He has at his disposal, a specific number of points which he has to distribute among his team members, based on their performance during the appraisal period. The best performer gets the highest score and the last one in the group gets the least score. There are two disadvantages to this method. An appraiser who wants to play it safe can allocate equal points to everyone in the group, ignoring the differences in their performance. The second disadvantage is that the difference in point allocation might not reflect the differences in performances across groups. For example, the best performer in one group might get a score of 30, while the best performer in another group might get only 25. In such a case, how do we compare the performances of the two individuals involved?

Ranking Methods

There are three commonly used methods of ranking, namely alternation, paired comparison and forced distribution. The first two methods are used when there are only a few employees to be ranked, whereas the forced distribution method is used in large companies like GE, Microsoft and Wipro, which have thousands of employees.

In the first method, namely alternation, the appraiser ranks all his employees from the most valuable to the least valuable, based on their performance and contributions to the organization. In the paired comparison method, which is very similar to the alternation method, the appraiser ranks the employees, based on paired comparison. Every employee in the group is compared with every other employee in the group. The employee who is rated better in each pair the maximum number of times, is the best employee in the group and the one rated better the least number of times, the least valuable. The employees are ranked based on the number of times they emerge the winner in each paired comparison.

The last method of rating, the forced distribution method, is a very popular method of performance appraisal in many big organizations. In this method, the employees are categorized as ‘Top’, ‘Standard’ and ‘Bottom’ and placed under a forced-distribution curve. A certain percentage of employees have to be placed under each category. For example, GE has 20% of its employees in the ‘Top Performers’ group, 70% in the
‘Standard’ group and 10% in the ‘Non-performers’ group. This system of ranking helps the organization identify and get rid of the last group (i.e., the non-performers), which eventually improves overall productivity and performance levels in the organization.

Checklist

In this method, the rater has to respond ‘Yes’ or ‘No’ to a set of questions which assess the employee’s performance and behavior. Normally, weights are attached to each of these questions based on which the final appraisal score of the employee is calculated. Even though the weights are not known to the appraiser, the positive or negative connotation is evident in the question and hence the response may be quite biased. Another disadvantage of this method is that different checklists may have to be designed for different jobs or job categories, which might make the whole exercise very cumbersome and complex.

Behaviorally Anchored Rating Scale (BARS)

BARS concentrates on the behavioral traits demonstrated by the employees instead of his actual performance. Some of the other methods like graphic rating scale and checklist also measure the behavior, based on the assumption that desirable behavior results in effective performance.

There are three steps in implementing a BARS system. They are:

1. Determination of relevant job dimensions by the manager and the employee
2. Identification of behavioral anchors by the manager and the employee for each job dimension.
3. Determination of the scale values to be used and grouping of anchors for each scale value, based on consensus.

An example of a BARS system is given in Table 10.4.

The main advantage of BARS is that both the manager and the employees are actively involved in the appraisal process. This increases the relevance of the system to each job and also improves its acceptance by employees. However, one

<table>
<thead>
<tr>
<th>Scale Value</th>
<th>Anchor</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 [ ] Excellent</td>
<td>Develops a comprehensive plan, documents well, obtains approval &amp; distributes to all concerned.</td>
</tr>
<tr>
<td>4 [ ] Good</td>
<td>Lays out all plans and allows for slack. Satisfies customer time constraints and overruns are infrequent.</td>
</tr>
<tr>
<td>3 [ ] Average</td>
<td>Revises due dates as project progresses and investigates customer complaints. Does not report slippages in plan.</td>
</tr>
<tr>
<td>2 [ ] Below average common.</td>
<td>Poor plans and unrealistic time schedules are common. Cannot plan for more a day or two ahead.</td>
</tr>
<tr>
<td>1 [ ] Unacceptable</td>
<td>Seldom completes a project and does not bother. Fails due to lack of planning and is not interested in improving.</td>
</tr>
</tbody>
</table>

Source: ICMR.
drawback of this system is that it is cumbersome and needs considerable time and commitment to develop.

Table: Example of BARS System

360 Degree Performance Appraisal

A 360 degree appraisal system aims at a comprehensive and objective appraisal of employee performance. In a 360 degree appraisal system, the employee’s performance is evaluated by his supervisor, his peers, his internal/external customers, his internal/external suppliers and his subordinates. This system reduces the subjectivity of a traditional supervisor appraisal. It is also more comprehensive because the feedback is given not only by the supervisor but also by the peers, customers, suppliers and subordinates of the employee, who are more directly affected by his behavior and performance. More and more organizations are trying to implement this system of appraisal in India. However, the Indian culture, which advocates a strong hierarchical divide, may find it a little hard to accept this novel concept where even the subordinates evaluate their boss. However, in spite of the cultural barriers, 360 degree appraisal system is finding more and more takers in the Indian corporate world. Companies like Wipro, HCL Infosystems, Tata Infotech, Ashok Leyland and Asian Paints, have gone in for this system of appraisal. Exhibit 5.5.1 explains the 360 degree feedback system at Wipro.

Exhibit 5.5.1: Wipro’s 360 Degree Performance Appraisal System

Wipro Technologies (Wipro), an Indian IT company, was among the earliest to adopt the 360 degree feedback systems in India. Many IT companies in India have adopted the 360 degree appraisal or the multi-source feedback. In theory, feedback from 360-degree appraisals brings out the gap between how an employee evaluates himself/herself based on set criteria and the assessment by his/her manager, peers, and direct reports on the same criteria. The employee can overcome this gap through coaching, training, or counseling.

At Wipro, the feedback system is connected to the ‘Wipro Leadership Qualities’ initiative. It includes eight parameters such as global thinking and acting, customer service, team player, aggressive commitment, building star performance, orientation, self-confidence, commitment to excellence, and strategic thinking. The feedback is given on a scale that ranges from one to five and the employees are assessed based on the occurrence of qualities demonstrated. Through this feedback, the company selects the ‘Star Leaders’ which translate into the 25 best performing employees shortlisted based on the eight parameters. The star leaders are on a speedy track and are given opportunities to do even better. The star leaders are reviewed annually.

According to Bijay Sahoo, VP, Talent Engagement and Development, Wipro’s more than a decade-old feedback practice has helped them to consistently churn out leaders.

**Team Appraisals**

In the new economy era, where teamwork is essential for any venture to succeed, team appraisals have emerged as one of the best tools for performance management. In the team appraisal method, the individual team members evaluate their colleagues in the team and provide feedback. This helps in synergizing individual efforts and taking the group performance to higher levels. Digital Equipment Corporation uses this kind of a participatory performance appraisal system.

**Balanced Scorecard**

The balanced scorecard as a method of measuring performance channelizes the efforts of people to achieve organizational goals. The implementation of balanced scorecard involves formulating a strategy, and deciding what each employee needs to do to achieve the objectives based on the strategy. The HR Scorecard is a part of the balanced scorecard. Individual responsibilities are assigned based on the strategy. This assigning of responsibilities to individuals and tracking for achievement of objectives is called HR scorecard.

Each individual in his role will be assigned a set of initiatives and activities, which are his responsibility. These activities if done well, will contribute to the successful implementation of the company’s strategy. The HR scorecard seeks to give online feedback to the employees as to how they are faring. In some cases, their salaries could be linked to their performance.

The balanced scorecard can be used to evaluate the alignment of compensation and benefit plans with the strategic needs of employers and employees. Many top Indian companies like Infosys, i2 Technologies, Godrej Consumer Products, GTL, ITC Ltd. and Mahindra & Mahindra are using this method of performance management. Exhibit 10.6 explains the balanced scorecard method at i2 Technologies.
The Appraisal Interview

The appraisal interview plays a prominent role in the success of a performance appraisal system. A well-designed appraisal system also needs to be implemented well. As has been discussed earlier in the chapter, the appraisal procedure in most modern organizations starts with the employee himself. He evaluates his own performance on the various factors mentioned in the appraisal form and assesses his strengths and weaknesses. This will help him identify the areas that need training or development inputs. Then he discusses his appraisal form with his supervisor, who gives his own inputs and the two together finally reach an agreement on the future course of action. However, some organizations still follow the traditional method of appraisal where the supervisor evaluates the performance of his subordinates during the appraisal period. This is then conveyed to the employee. The supervisor and the employee together discuss the appraisal, identify the training and development needs of the employee and draw up an action plan. The interaction between the employee and the supervisor, in both the cases described above, is formally termed the appraisal interview. This is a critical and sensitive area and should be handled with care to avoid any unpleasant situations.

Challenges of Appraisal Interview

An appraisal interview is usually not a pleasant experience for the appraiser or the appraisee. The appraisee is apprehensive about receiving any negative feedback, while the appraiser is wary of giving such feedback. Therefore, the atmosphere in an appraisal interview is usually quite tense and not very comfortable. Some of the main challenges of an appraisal interview are:

The Organizational Culture

Absence of the right kind of organizational culture can lead to an ineffective process of performance appraisal. If the exercise is not valued by the management and not taken seriously by its employees, then it loses its sanctity and credibility.
The Relationship Between the Employee and Supervisor

The general relationship between the employee and supervisor is a big determinant of the nature of the interview. If they share a cordial and friendly relationship, the interview is more likely to proceed smoothly.

The Maturity Level of the Individuals

The maturity level of the individuals involved and their professional attitude play a major role in the conduct of an appraisal interview. If the supervisor gives a feedback saying that the employee needs to improve in a few areas, an immature or unprofessional individual might react in a defensive way, leading to unpleasantness.

An Apprehensive Employee

An apprehensive employee can change the mood of the interview by not being uncooperative. This might put off the appraiser and the whole process may turn into an unpleasant experience for both. This can happen for any appraiser-appraisee combination, irrespective of hierarchical levels.

A Wary Appraiser

An appraiser might not be very comfortable with the idea of judging and commenting on his colleague’s performance. This effect is more prominent in peer appraisals and subordinate appraisals. The appraiser, with a view to maintaining a cordial relationship with the appraisee, might restrain from giving any negative or constructive feedback. This can make the whole exercise futile.

A Biased Appraiser

In some cases, the appraiser might be biased in favor of or against the appraisee for various reasons (some of these reasons are discussed in the next section). This can lead to a completely positive or completely negative feedback, which again renders the exercise futile.

Inexperience

Inexperience or lack of any previous exposure to the process of performance appraisal can result in an ineffective and cursory exercise which might not benefit the individual or the organization.

How do we face the Challenges?

As the appraisal process is a critical component of human resource management, it is important to overcome the various challenges described here. Some of the steps required to overcome these challenges are at the organizational level whereas others are at the individual/interpersonal level.

i. The organization has to develop the culture wherein the process of appraisal is viewed as a productive and constructive contributor to the growth of the organization as well as the individual employees.

ii. Appraisal should be of two types - competency appraisal and performance appraisal - which are interlinked.
Attaching development to competency appraisals and pay to performance appraisals might be an effective way of dealing with some of the inherent problems in the appraisal process.

iii. Setting specific, measurable goals at the beginning of the appraisal period helps. The employee knows where he is heading and the appraiser knows what should be evaluated.

iv. Training on how to conduct an appraisal interview would be useful for those employees who are unfamiliar with the process.

v. The appraisee and the appraiser should both give each other a chance to reflect and respond on every debatable aspect.
Section 7

Pitfalls in Performance Appraisal

The performance appraisal system in any organization has to face some major challenges. These lead to potential errors in individual appraisals. It is the responsibility of the management in general and the human resource function in particular to take corrective actions and avoid these pitfalls. Some of the factors that affect the appraisal process at an individual level are discussed in the keynote 5.7.1.

Many other behavioral and perception errors distort the appraisal system and reduce its effectiveness. If these errors are taken care of in a suitable and well-executed appraisal system, it can add immense value to the organization. Exhibit 5.7.1 describes ten typical pitfalls in performance evaluations.

Keynote 5.7.1: Pitfalls in Performance Appraisal

Source: ICMR
Exhibit 5.7.1: Ten Pitfalls of Performance Evaluations

Many managers make typical mistakes during performance evaluation of employees. Some of the pitfalls in performance appraisals that managers/supervisors should guard against are:

1. Giving undue importance to recent incidents, whether favorable or unfavorable, while forgetting other past incidents. This leads to inconsistency. The rater is expected to document and file events for use in future. Moreover, the rater should emphasize evaluating behavior patterns of employees rather than focusing on isolated events.

2. Avoiding adverse ratings for fear of confrontation and discussion with the employee. This pitfall can be avoided by doing some planning prior to the assessment. The appraiser should state the problems without placing the employee in a defensive stance.

3. The ‘halo effect’. An employee who is liked is given favorable ratings as opposed to someone who is disliked. Appraisers are expected to focus on objectivity in order to eliminate the halo effect. The appraisers should evaluate only performance on the job as opposed to the personalities of individuals.

4. Appraisers should spend time with employees in order to evaluate their performance. Their unwillingness to spend time on analyzing the employee thoroughly could be a result of no documentation, absence of job description, lack of time, etc. This might result in the employee getting mediocre or poor ratings despite performing well in the organization.

5. Appraisers should give their employees specifics on how to improve their performance. The tendency to be vague or broad about description of employee behavior can confuse the employee and prevent him/her from improving.

6. Not having uniform criteria or standards of performance may lead to inconsistent rating and dissatisfaction among employees. The major problems that could erupt include discrimination, partiality, or co-worker resentment. The appraiser should clearly specify the duties in the job description.

7. Appraisers should avoid trying to achieve too much within a short span of time. For example, discussions about salary, planning, and training in one short meeting leads to miscommunication. They should have open communication with the employees to gain continuous feedback.

8. Appraisers have a tendency to inflate performance ratings, both positive and negative. This can be avoided by referring to past appraisals.

9. Appraisers could use the rating for personal gain such as preventing the employee from quitting the organization or making an attempt to win the favor of the subordinate.

10. Sometimes the supervisor views the situation egoistically and refrains from giving a poor rating to the employee thinking it will reflect on his/her capability as a manager. All individuals have their positives and negatives and the whole exercise should not be treated superficially.

Hence, it is critical for appraisers to be focused and consistent while evaluating an employee.

Section 8

Uses of Performance Appraisal

Apart from evaluating the performance of the employees for rewards/punishments and development, a good performance appraisal system has many other uses. Some of these are listed below-

- Training and development needs of the employees can be determined.
- Organizational effectiveness can be improved by improving the individual performances of the employees.
- The performance appraisal system forms the basis for compensation management in the organization, in addition to other methods like market surveys.
- Can be used as basis for transfers, promotions and other career planning activities of individual employees.
- An effective performance appraisal system also helps in succession planning in the organization.
- Cross-functional transfers and job enrichment exercises etc. can be taken up, based on inputs from the appraisal system.
- Human resources of the firm can be evaluated based on the competency and skill set and potential of the workforce. This provides the base for human resource planning.
- An assessment of the value of the human resources helps in organizational planning.
- The performance appraisal system also helps in evaluating and auditing the existing plans, processes and systems in the organization. Exhibit 5.8.1 explains the appraisal system at TCS.

However for all this to happen, it is essential that the performance appraisal system suits the organizational culture and is in alignment with the other HR systems like training and development, compensation, career and succession planning, etc. It is also important that the employees have faith and confidence in the appraisal system and its effectiveness. If the system fails to win the
confidence of the employees, it fails to serve its purpose, however good it might be.

**Exhibit 5.8.1: Performance Appraisal at TCS**

Tata Consultancy Services (TCS), an Indian IT company, conducts performance appraisals twice, one after the completion of the project and another at the end of the year. TCS uses the balanced scorecard (BSC) for appraising its employees. The BSC tracks the achievement of employees based on four targets such as internal, customer, financial, and learning and growth.

The ‘financial’ perspective measures the contribution of employees in terms of cost reduction, revenue growth, improved asset utilization, etc. The ‘customer’ perspective focuses on diverse value-propositions proposed by the employee. The ‘internal’ perspective includes the contribution of the employee in creating and sustaining value. The ‘learning and growth’ perspective focuses on the learning ability and growth of the employees. The importance given to each criterion depends on the job performed by the employee.

Employees are rated on a scale of one to five depending on their achievements. If an employee scores less than two consecutively in two appraisals, then he/she was given a warning flag. According to S Padmanabhan, executive vice president, global human resources, TCS, “If the poor performer continues getting low scores then the exit option may be considered.”

TCS found boredom to be a major cause for decline in performance and hence, as a policy, employees are shuffled between projects every 18 months. This policy has helped TCS maintain motivation and performance levels.

Section 9

Ethics of Performance Appraisal

Every performance management system needs the support of the top management and the acceptance of the workforce for its success. Without these, any system will be a failure. The employees of the organization have to be convinced about the effectiveness and importance of the appraisal system. They should have trust in the process of implementation of the system.

Performance appraisals systems turn out to be ineffective due to implementation errors, rather than design defects. According to surveys, most of the errors of performance appraisal committed by the appraisers are ‘intentional’ errors such as leniency. Unintentional errors can be rectified by appraiser training. However, as far as the intentional errors are concerned, more organizational level steps have to be taken. Some of them are:

- Making the ratings more measurable and quantifiable
- Reducing subjectivity by using multi-rater feedback
- Using instruments/methods which have hidden weights or keys attached to them

Having the feedback evaluated by a third party like the HR department

Training appraisers on how to provide negative feedback

Assuring and maintaining the confidentiality of the appraisal is a major responsibility of the HR function. An employee who has received an unfavorable appraisal would not like the details to be made public. In contrast, any appreciation of employee performance has to be in public, in the form of rewards, special incentives etc. Therefore, the HR department has a major role to play in the successful implementation of a performance appraisal system.

The organizational culture has to be open and transparent, and support the employees in delivering a better performance. Attaching pay and rewards to performance management has to be handled with care, as it is a very sensitive issue. Therefore, it is better to have ‘potential’ component linked to training and development and the ‘performance’ component linked to pay. If the performance
is measured through quantifiable targets and goals, unhealthy competition and some of the related problems can be eliminated.

Reference Questions:

1. Performance appraisal is not devoid of shortcoming in terms of estimating the worth of employees. Debate and discuss.

2. Develop a graphical rating scale for Engineers in manufacturing companies.

Footnotes:

1. Performance Management, Kogan Page, 2
   nd Ed., 2000
This case was written by Amrit Chaudhari, under the direction of Debapratim Purkayastha, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmrindia.org
“We start with the executives and director here at Scottrade. [They] get together once a year and set the strategic objectives for that year. We do a five-year strategy but we set specific objectives each year to reach that strategy, and after the objectives are set for the organization, every department and branch sits down and talks about what their goals will be to help us meet those objectives. Then after that, each individual sets goals in order to help the department reach their goals. So we row the boat all in the same direction so that we all have the same goals and the same desires to meet our performance for that year.”

- Jane Wulf, Chief Administrative Officer, Scottrade, Inc., in 2010.

INTRODUCTION

For the year 2010, US-based online brokerage firm Scottrade, Inc. (Scottrade) did reasonably well compared to its competitors who were hit hard by the turbulent environment in which the entire financial services industry found itself. Jane Wulf, (Wulf) who looked after the Human Resources, training, branch development, and national service center at the company, attributed the firm’s performance to the efforts of its workforce and the performance management activities the company had adopted. Scottrade had captured the attention of HR and performance management experts with its quick, targeted, and easily accessible performance management and reward systems.

Scottrade was a lean firm and the employees were said to put in a great deal of effort at the workplace. The employees were evaluated on the metric of customer satisfaction. The performance management system at Scottrade adopted a top-down approach: senior officers set the objectives for the entire organization. These in turn were translated into objectives for the various departments and branches, all the way down to the individual level. The company also had elaborate training and development systems in place that took care of induction and also ensured that the employees were continuously learning on their jobs. Scottrade had put in place a point-based reward system too which ensured that its employees always gave their best.

Over the years, Scottrade had been performing well and industry observers noted that the company had more or less remained unaffected by the economic downturn. According to them, the company’s performance management and reward system was responsible for the firms’ progress. The company had won various awards and recognitions for not only for its various HR and performance management initiatives but also for its business operations. For instance, in early 2010, Scottrade was ranked twenty seventh among Fortune magazines “100 Best Companies to Work For”. The firm had been able to make it into this esteemed list for three years in a row. During the same time, the company bagged the online brokerage award for customer loyalty given by the Brand Keys Customer Loyalty Engagement Index. It was the
fifth consecutive time that the company had bagged this award.4

As of mid-2010, the firm felt that it had made a mark for itself in brokerage, and it planned to extend its operations into banking. For this, Wulf was counting on Scottrade’s performance management and training systems to develop employees who could competently handle its banking operations.5

BACKGROUND NOTE

Scottrade, Inc. was founded by Rodger O. Riney (Riney) as Scottsdale Securities in 1980. Riney graduated in Civil Engineering in 1968 and subsequently did an MBA in 1969, both from the University of Missouri-Columbia.6 He then joined Edward D. Jones7 as an intern.8 Riney was also among the firm’s first manager trainees.9 With Edward Jones, he was involved in a variety of things that ranged from revamping its branch offices to conceiving of its personnel department.10 Riney progressed in his career and was made a General Partner in 1975.11 During his stint with the firm, Riney learnt the intricacies of the brokerage business working under the personal guidance of Ted Jones (Ted).12 Ted was a man of strong convictions: First, he believed that investors would prefer working face to face with a trusted professional. This had made him build a network of small offices each of which was manned by a Financial Advisor who was assisted by a full-time support person. Second, he resisted the temptation to go public, unlike other brokerage firms of the time.13 Third, Ted believed that the workers should have ownership in the firm, since a personal stake generally ensured commitment to service. Fourth, he believed in sharing rewards with the employees and ensuring their continued development.14 Last, Ted kept a check on the bottom line so that the costs of the business did not spin out of control.

By the late 1970s, Riney was convinced of the underlying business potential of the discount brokerage business and he ventured out on his own. He used his savings to establish Scottsdale Securities at Arizona in 1980.15

In the 1980s, the brokerage market consisted of large players that focused on advertising to attract and retain market share. In order to differentiate himself while competing against the established players, Riney thought that he would launch a low commission brokerage complemented by a wide local branch office network. He worked along with his employees to ensure customer service and support.16 Within two years, the firm had grown and it relocated from Arizona to St. Louis, Missouri. Scottsdale initiated brokerage services on the telephone in 1982.17 By 1990, the company had grown significantly and had established several offices across the United States. It ranked among Inc. magazine’s ‘500 Fastest Growing Private Companies in the US’ in 1994. In 1996, it became one of the first firms to offer online trading on its website.18 With more than 100 offices in the US and an online presence, the name of the firm was changed to ‘Scottrade’ in the year 2000 to reflect the firm’s focus on online trading.19 The firm stuck to its low commission-based strategy which attracted investors and it showed rapid growth.20 Riney had always believed in organic growth. He remarked, “We’re not going to be bought out, and we’re not going to buy anybody out...we are going to continue to open accounts one
at a time, growing our company organically, the slow and hard way." 21

Scottrade continued to be a privately held company. Riney, along with sixty-five other employees, were the major shareholders, with the controlling stake being held by Riney and his immediate family. According to experts, the private ownership, coupled with a limited management hierarchy, had enabled Scottrade to consistently focus on working toward continued growth of the firm instead of securing shareholder interest for return on investment. The experts maintained that the private ownership went a long way towards ensuring that the employees gave their best, since the employees were personally invested.22

During the 1990s when the Dotcom bubble23 burst, Riney had to steer the business through the tough times. He remarked, “As business dropped off, the value of our branch offices to our customers didn’t seem to vary. We continued to open offices, and continued to grow where those offices opened. We never really let up on expansion, even though we weren’t making as much money in ’99 and early 2000. We just kept going and adjusting to smaller profit margins…. but we didn’t lay anyone off, and we didn’t close any offices. It turned out to be, in retrospect, the right thing to do. Others took a different approach.” 24 Industry observers noted that the firm not only continued to retain its employees 25 but also stayed consistent with its business model and pricing structure throughout the downturn.26 Further, experts also felt that the firms’ combination of service and low cost had ensured that it was seen as a major challenger to its rivals.27 According to them, the firm maintained a consistent focus on cost control. Riney remarked, "I've always striven to keep overhead as low as possible to be a low-cost provider."28

Experts feel that it was Riney’s deep knowledge of financial technology that was instrumental in steering Scottrade’s entry and continued growth as an online brokerage firm.29 By 2005, the firm had garnered 11.5% of the market share which was at the expense of its rivals.30 The industry honored Riney and nominated him as a finalist for the Ernst and Young Entrepreneur of The Year award, 2008.31

As time went by, Scottrade had become well known for the low commissions it had initiated in 2005 – a flat US$7 for an unlimited number of transactions online.32 According to a report, the company had almost 1.4 million accounts and executed nearly 60,000 trades per day.33 Moreover, despite being a discount broker, it had made a name for itself for the excellent customer service provided through local branches spread all over the US.34 By 2007, it had the largest network of branch offices among all online brokers in the US with close to 300 branches. Its revenues had grown by 93% from US$ 432.4 million in 2005 to US$838.1 million by 2008.35 As of August 2010, the firm had 450 branches and nearly 3,200 employees.36 Its main competitors were E-Trade Financial Corporation,37 TD Ameritrade Inc.38, Charles Schwab Corporation39 and Fidelity Management and Research LLC40 (Refer to Exhibit I for a detailed comparison of Scottrade and its competitors).
A GREAT PLACE TO WORK

Scottrade was considered a special place to work and there were many reasons for this. According to some experts, perhaps its most significant accomplishment was the fact that it had not resorted to layoffs in its history. The human face of business at Scottrade prompted the following remark from a thankful employee: “Job security is priceless, not just for your pocket book, but also for your peace of mind.”

The firm worked like a big family: there were personalized ‘Thank-you’s’ and recognitions for the good efforts put in by employees. In fact, these small things were considered very important in Scottrade’s organizational culture. In this regard, Wulf remarked: “We’ve always been a company with a lot of passion for our customers and our employees… as we grow, we want to make sure we keep that small-company feeling. We want our people to continue to take the time to say ‘thank you’ and recognize others. And we want to make it fun and easy.”

According to other senior officers at the firm, the employees were encouraged to give helpful insights into any ongoing project. As Kim Wells (Wells), director of branding and website marketing at Scottrade commented, “People are not territorial here…when you get comments or suggestions, they are genuinely aimed at bettering the project.”

Employees had flexibility in their work timings. For instance, the firm gave some employees the option of starting their day early. This kind of flexibility was appreciated by employees who could attend to the requirements of their children after school such as their baseball games.

Scottrade was a lean firm. A branch on an average comprised three to five employees, consisting of a licensed branch manager, brokers and other assistants. The employees had to work as a part of lean teams. This work culture and synergistic effort had yielded remarkable results, according to the company. For instance, CIO Ian Patterson (Patterson) credited his team for its record twelve-month data center construction and migration effort. Patterson had contracted the vendors, particularly Cisco Systems Inc. and EMC Corp. to spend a few months in trying to learn the way business is done at Scottrade. As Patterson said “these guys lived and breathed this with us.”

Riney strove hard to keep the overheads as low as possible, so that the firm could be in a position of a low cost provider that offer cheap trades. For instance, the firm’s emphasis on controlling costs was reflected even in the furniture and décor used in its offices. Basic furniture was used all over, and even the headquarters at Des Peres, St. Louis, were frugally decorated with posters of cities where the firm had its branch offices. The firm had focused on ensuring long-term growth while taking care of employees. Riney remarked, “I’ve always striven to keep overhead as low as possible to be a low-cost provider….I also feel it’s important to be generous to our employees and customers by giving them more than they expect.” True to its word, the firm gave bonuses even in
difficult years like 2001 and 2002 when sales were sinking. Some experts were of the opinion that Scottrade was able to withstand the recession due to its commitment to lean teams and internal development practices. The firm had recognized that it was employee passion for service that had greatly contributed to its success. Wulf remarked, “Our associates’ dedication to customer service has been the foundation of our success for 30 years, and their passion for what we do has made Scottrade a great place to work” (Refer to Exhibit II for HR statistics on Scottrade).

PERFORMANCE MANAGEMENT

In the initial years of its operations, Scottrade did not have any formal talent management system in place. However, in the late 1990s, the company began to lay greater emphasis on this area. The performance management process at Scottrade began at the top of the organization, with the senior executives and directors setting the strategy of the company for a five-year period. Next, the goals were set on a yearly basis for the entire organization. After the organizational objectives had been set by the senior staff, every department and branch had to decide what they needed to do to enable the firm to reach the desired objectives. After the exercise was over at the branch level, each individual decided on the goals he/she should set in order to enable his/her department to reach the desired goals. This exercise ensured that the entire organization marched in one direction in order to achieve the strategic goals of the organization.

The performance management services at Scottrade had been provided through NICE SmartCenter since 2008 (Refer to Exhibit III for a note on NICE SmartCenter). The system enabled the firm to focus better on its customer service, create operational efficiencies and improve the level of employee performance – which ensured improvements in customer satisfaction and loyalty. All of these led to greater revenue and profitability. The system allowed the organization to handle the growing complexities of a rapidly expanding organization. It also enabled it to address performance management issues and then resolve them through targeted coaching and training. The analytics component of the suite provided an insight into the customer service experience of the firm by giving reports that had a unified view of the business.

According to the Wulf, the steady growth at the firm had ensured that it could always give above average salary increases along with bonuses that were linked to performance to its employees. Scottrade had quarterly reviews for its employees that were designed for specific job categories. This essentially meant that employees were being evaluated on things that were pertinent to their jobs and the competencies they had been able to develop. Thus, there were cases where almost 20% of a manager’s review depended on how well he/she could manage and develop people. For Scottrade, these reviews and the skill development were a crucial factor while deciding on promotion.

TRAINING AND DEVELOPMENT

At Scottrade, training and development was a key part of the talent management process. In the first 18 years of its
operations, the company did not have a training department. It relied on on-the-job training of the employees who would usually sit with someone to learn their job. This changed in the late 1990s, with the company setting up a training department. According to Wulf, the firm had identified individual development as one of its core values. As such, the firm ran various programs for training employees at all levels. The new staffers had to undergo a week-long ‘on-boarding’ session that, among other things, exposed the new employees to the organizational culture, the firm’s belief in the continued development of its employees and the various ways in which an employee could grow with the organization. After this, the employees were given classes to learn about the industry. According to Wulf, the learning process continued over the entire life cycle of the employee with the company.

Scottrade had a substantial number of interns given its unique internship program. The program took a long-term perspective in building the capabilities of an intern. The program permitted collegians to continue their internship as long as they were in college and could give desirable results. This was in contrast to other companies that only allowed twelve weeks as the internship period. Further, the nature of duties for the intern resembled that of the full-time associates, which ensured that the intern was always picking up critical skills. According to an intern with the firm, nearly 21% of the branch managers at Scottrade had been derived from employees who had started out as interns.

In order to ensure that the employees took an interest in learning, the training efforts at Scottrade used a variety of learning media — classrooms, online training, webinars, and simulations. The use of varied media ensured that the firm was able to deliver consistency in training while meeting training requirements as well as ensuring learner interest in self-development. For instance, the company had an internal training program for its IT employees under ‘Scottrade University’, which delivered content on several industry-specific topics.

There were various training programs for improving employee skills in business-critical operational areas. For instance, in order to improve the interaction skills of its branch associates, Scottrade audited hundreds of associate phone calls to develop a better training module. The firm had also deployed the services of consulting firms in order to audit its workings. These were in the nature of ‘secret shopper’ interactions. Along with this, the firm had hired consultants to create realistic simulations for a variety of scenarios – incoming and outbound prospect calls, customer enquiry, follow-up calls and consumer complaints. These simulations had the advantage of being deployed online as well while ensuring the desired level of fun and interactivity. They also allowed the learners to practice skills without compromising on prospective and existing customer relationships. After a program was prepared and launched, the branch managers had the responsibility of using the program and reinforcing it. The existence of specific goals allowed the use of key performance indicators like lead conversions and new account openings to gauge the success of the learning effort.

According to company, the Learning and Management System (LMS) at Scottrade had played a vital role in
documenting the skill sets that had been imbibed by the employees, as well as ensuring that they were tested in them. The training and development effort was coordinated through Scottrade’s internal website called Career Resources which gave a 360 degree view on the current status and developmental needs of the employee. The site was fed by various systems used by associates to enter information. The system updated the resumes by keeping track of the progress made by the associates as they took up various courses. It also kept a record of the goals, career plans and associate reviews. Further, the mentors could use the website to access updated resumes and career goals of the protégés under them. In addition to this, numerous surveys were done among associates to gauge the quality of the training programs in place. The firm regularly took suggestions from associates for improving the training programs. The customer services orientation of the firm was highlighted by the fact that Scottrade exposed even its internal staff at its headquarters to training programs. “How they service their co-workers, peers, or boss has an effect on how our customers are serviced,” quipped Wulf.

REWARDS AND RECOGNITION PROGRAM

In addition to providing a competitive compensation package and a quarterly bonus program that was linked to the review process of its employees, Scottrade had various reward programs that reflected the passion of its employees (Refer to Exhibit IV for benefit packages at Scottrade). For instance, the Wellness Reimbursement Program reimbursed qualified associates to the tune of nearly US$500 annually toward ‘wellness’ in a wide range of areas like joining a health club, purchasing home-fitness equipment to quitting smoking. The firm appreciated charity work and made donations that matched the efforts put in by employees. For instance, the Charitable Giving Program at Scottrade gave at the rate of US $20 per hour of volunteering done by its employees. The firm had a Diversity Council by the year 2005 for creating a professional environment of understanding and respect. Scottrade felt the concept of diversity did not stop with racial issues; it went beyond it to cover sensitive issues of sexual orientation, gender, disability, age and faith (Refer to Exhibit V for a note on diversity at the firm).

Scottrade had a recognition program under the name ‘Above and Beyond’. The program was meant to recognize employees that exemplified Scottrade’s culture and drove performance at the firm. The program touched on customer service, work quality, teamwork, initiative, innovation, learning and exemplifying Scottrade’s core values. The key drivers of the program were as follows:

i. An overall emphasis on communication existed in order to get the program rolling and to get top-of-mind recall. The communication strategy was all about fun elements, such as the ‘I Scream-You Scream – We all Scream for Ice Cream!’ socials where managers served ice-cream sundaes to employees. The social was followed by a voicemail from Riney himself to reinforce the goals of the rewards program.

ii. The firm had various web links where the employees could accumulate their online accounts and redeem them for merchandise that they liked. This entire process was
managed by Anderson Performance Improvement Company.70

iii. Electronic greeting-cards were used to recognize other employees who had met various parameters such as quality, teamwork, customer service etc. The employee would also get points for an e-card.

iv. Employees could be nominated by others for helping to streamline work processes or helping out other team members. Such recognition was considered a matter of prestige and employees were rewarded for it.

v. Scratch-off cards were used by managers for awarding employees. In case managers found associates ‘doing the right things right’, they awarded them scratch cards that could be redeemed online. These scratch-off cards added an element of excitement to the entire rewards and recognition program.

vi. To ensure continued emphasis on learning, Scottrade had a tradition of recognizing those who invested in learning. Various questions were posted online and awards were given to anyone successfully completing the quiz.71

According to experts, that the firm’s strategy was successful was evident from the fact that within a day of the inception of the system, 60% of the employees had logged on to the website. Within a week, almost 83% of the employees had earned recognition points. By the second week, close to 94% of the employees had logged on to the program and nearly 2,400 award opportunities were identified. The online system generated a high level of engagement which, analysts said, was testimony to Scottrade’s culture of supporting, rewarding and recognizing employee contribution (Refer to Exhibit VI on employee involvement in the rewards system). According to Wulf, “recognition is a real factor in engaging associates, and engaged associates are necessary to the company’s success.”72

**RESULTS**

Analysts noted that Scottrade had been performing well since its inception. A combination of online access and its local branch model had enabled the company to deliver a high level of customer satisfaction and had resulted in stiff growth in its customer base, according to industry observers.73 They also noted that the company had come out of the economic downturn relatively unscathed. For instance, for the year 2009, when the market was in turmoil, the company hired more than 1,000 associates and opened 58 new branches.74 This was at a time when other companies were resorting to lay-offs. Moreover, the business was able to generate substantial investor satisfaction and customer loyalty, as indicated by the numerous awards in this area. The Scottrade brand itself had become a name to reckon with, as it was placed among the most loved and top rated brands in the US. Riney’s vision and continuous efforts were well recognized by industry and he was placed among the list of the highest rated CEOs in America by the survey site Glassdoor.com75 Riney’s popularity with his employees was clear from the fact that in 2005, employees restored his vintage Corvette, contributing US$10 thousand out of their own pockets for its restoration effort.
The company on its part attributed its success to the hard work of its employees and indicated that its workforce performance management activities had had a role to play. "While this has been a tough year in our industry specifically and maybe our numbers are down a little, we're not down as much as some of our competitors, [and] we believe that our workforce is a direct effect of that," said Wulf in 2010. Scottrade's HR practices and training and development initiatives were recognized by experts. The firm was also awarded by the Incentive Marketing Association for the length to which it went to recognize employees' efforts (Refer to Exhibit VII for the awards won by Scottrade). The firm was placed on the Fortune 100 Best Companies to Work list three times in a row during the period 2008-2010. In the 2010 edition, Scottrade's ranking went up to 27 from 60 in 2009 (Refer to Exhibit VIII for the awards won by Scottrade in the area of Human Resources and Exhibit IX for its ranking in the 2010 best places to work for list).

The company benefited through greater employee retention. For instance, more than 50% of the executive team at Scottrade had been promoted from within and in the case of managers, the figure was as high as 86%.

**DECISIONS TO BE MADE**

Scottrade had depended on generating earnings through trading commissions at a time when other rivals had progressed into areas such as investment advice and banking. According to a report in 2005, the firm had 11.5% of the overall market. This was in contrast to the experience of other firms like Fidelity who had the same share – while having ten times the number of clients! Scottrade's after-tax margins exceeded 15% on revenue of US$350 million a year while Ameritrade's margins were around 30% on US$880 million. In this context, Ameritrade CEO Joseph Moglia felt that the potential of Scottrade's business could only be maximized through consolidation. The firm continued to be independently held even at a time when mergers and diversification had become the norm, to stop the erosion of profit during the financial downturn. At the same time, employee reviews showed that many of its interns felt that there was not much scope for them to grow in the firm, unless they wanted to progress and become branch managers. Moreover, brokers also felt that they were limited in what they could actually do for their clients.

Some analysts felt that that Scottrade was being viewed as a challenger that could disturb the established players in the brokerage business. Given that Riney and his family had decisive ownership of the firm, it gave them substantial independent control over its functioning. Though Riney had received many offers from investment bankers, he had declined their offers. Scottrade grew organically and had more than 450 branches as of August 2010. Its aim was to increase the number of branches to 500 by the end of the year.

Since July 2008, Scottrade had begun offering banking services under a program of transferring customer cash balances into FDIC insured accounts. However, the firm eventually hoped to provide the full spectrum of traditional retail banking services. As part of this foray into banking, the firm hired a new President and Executive Vice-President. According to Riney, the goal was to serve Scottrade's...
customers better. At the same time, the training department of the company was working hard to grow the knowledge of all its employees in the banking industry. The firm had shifted into the US$25 million IT facility located in a St. Louis suburb. The center represented the largest technology investment ever made by the company since it had been founded in 1980.

Being in the growth phase and having its employees were spread across the nation with just 3-5 people in each branch, the company faced a challenge in coming up with a talent management strategy that was fast as well as effective. With Scottrade’s plans of foraying into the banking industry, the challenges for Wulf had magnified. In her words, “We have a strategic objective this year to grow our associates’ knowledge across the banking and brokerage industry because we are foraying into the banking industry now and we believe that it's important for all of our people to have broad-based knowledge of our industry so that they can help to drive the productivity and the performance of the organization.”
# Exhibit I
## Detailed Comparison of Scottrade and its Competitors

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Adapted from www.online-stock-trading-review.toptenreviews.com
### Exhibit II

Some HR Statistics

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
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<tbody>
<tr>
<td>Total Employees</td>
<td>2,409</td>
<td>1,946</td>
</tr>
<tr>
<td>New Jobs Created</td>
<td>436</td>
<td>390</td>
</tr>
<tr>
<td>Percentage of Job Growth</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>Percentage of Voluntary Turnover</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>Applicants</td>
<td>72,722</td>
<td>55,960</td>
</tr>
<tr>
<td>Number of Job Openings</td>
<td>220</td>
<td>210</td>
</tr>
<tr>
<td>Branch Manager</td>
<td>US$80,118</td>
<td>US$85,748</td>
</tr>
<tr>
<td>Stockbroker</td>
<td>US$51,1224</td>
<td>US$51,479</td>
</tr>
<tr>
<td>Onsite fitness center</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Subsidized gym membership</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Minorities in workforce</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Women in workforce</td>
<td>33%</td>
<td>34%</td>
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<tr>
<td>Non discrimination towards sexual orientation</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Domestic partner benefits for same-sex couples</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Salaried Employees (Hrs./Yr.)</td>
<td>108</td>
<td>100</td>
</tr>
<tr>
<td>Hourly Employees (Hrs./Yr.)</td>
<td>108</td>
<td>75</td>
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*Adapted from [www.money.cnn.com](http://www.money.cnn.com)*

### Exhibit III

**NICE SmartCenter**

The NICE SmartCenter suite enables firms to achieve workforce optimization. It drives performance and generates operational efficiency while maintaining regulatory compliance. The suite uses interaction recording, workforce management, performance management and consumer feedback to improve performance of the firm. The suite aims to maximize the value of a business through customer dynamics through interacting with all communication channels, in a real time mode.

**The Suite has Various Features:**

1. **Real-Time process optimization:**
   - By analyzing customer interactions, the suite generates valuable insights about customers' wants and needs. It facilitates immediate action on the basis of these insights.
2. **Workforce management:**
   - The suite enables call centers to forecast staffing needs, schedule representative time and manage change. It enables an effective call center with productive and happy employees.
3. **Interaction recording:**
   - This enables capture of customer interaction while ensuring operational flexibility and a low cost of ownership. The existence of interaction analytics and quality management enables recording of customer interaction and generation of business insight.
4. **Customer feedback:**
   - To ensure effective use of customer feedback, the suite generates post-call survey data in a sensible way which enables correct decision making.
5. **Quality Monitoring:**
   - The suite allows the firm to positively impact the key performance indicators (KPIs) through its effective call center quality program.
6. **Cross-Channel interaction analytics:**
   - The suite combines chat, email and social media for creating new sources of insights and opportunities which can create a positive impact on customers and the company's bottom line. The suite employs powerful patented algorithms to analyze email, speech, and online chat conversations, along with agents' desktop activity, to give a unified view of the customer interactions taking place.
7. **Performance Management:**
   - The performance management system in the suite enables the business to perform at an optimal level by making the employees align with the strategic goals through employee engagement and feedback mechanism. It has pre - built in metrics, key performance indicators, dashboards that enable the firm to quickly take decisions which have an impact on performance.

*Adapted from [www.nice.com/smartcenter-suite](http://www.nice.com/smartcenter-suite)*
## Exhibit IV
**Benefits Package at Scottrade**

### Compensation:
The firm offered salaries that were on a par with the prevailing trends in the market and were also performance based. All associates were eligible for the firm’s quarterly bonus program. The bonus paid was a function of the overall performance of the firm along with the associate's job performance. While the firm did not guarantee bonuses, they did remain an important part of its compensation package.

### Medical:
The firm offered comprehensive coverage for full-time associates and their dependents. The benefits were operationalized through a Preferred Provider Organization (PPO) and utilized United Healthcare networks across the United States. The plan included prescription drug programs. Moreover, in order to induce employees to lead healthier lifestyles, associates received premium discounts if they completed a confidential health assessment and were tobacco free.

### Dental:
Scottrade’s dental program was for associates and their dependents. It gave a simplified dental coverage that reimbursed the associate or dentist directly for incurred dental expenses. Associates had the freedom to choose their own dentists without restriction.

### Vision:
The firm’s eligible full-time associates got coverage at no cost and could add family members at minimal cost. Each member had access to a large, diversified network of doctors and clinics.

### Time-off:
New associates were eligible for the following:
- Twelve days of vacation.
- Six days of sick leave
- Nine paid holidays during the year.

### 401(k):
The firm’s 401(k) Plan aimed at helping associates prepare for their future. Full-time and part-time associates could contribute up to fifty percent of their pay into a traditional pretax 401(k) plan. The firm also accepted rollovers from former employers’ qualified plans.

### Disability:
The firm had plans for short- and long-term disability. There were provisions to provide associates with an income that was sixty percent of their pre-disability earnings, in case they were disabled and unable to work. The firm also absorbed the cost of disability benefits.

### Tuition:
Educational assistance programs were available to associates if they wanted to ensure personal and professional development by furthering their education. Eligible associates could get up to US$5,250 each year in assistance.

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*Contd...*
Contd…

**Flexible Spending Accounts:**
The firm gave associates an opportunity to pay for out-of-pocket healthcare and dependent care expenses through pre-tax dollars through Flexible Spending Accounts (FSAs). Along with this, the firm offered a Qualified Transportation Benefit Plan and a Subsidy Program to assist associates with parking and transit costs.

**Wellness Reimbursement Program and Gym membership:**
Full-time associates got up to US$250 per calendar year for participation in a wellness program. For part-time regular associates, this was US$125. The wellness programs needed to be in areas such as weight loss, gym or health club memberships, licensed nutritionist fees, or smoking cessation.

**Charitable Giving Program:**
Scottrade gave its support for compassion and care through the development and implementation of programs which supported charitable organizations belonging to the areas from which the firm’s associates or customers came. This included the following:

- Through the Charitable Matching Program, Scottrade matched up to US$10,000 per year for each associate's donation to qualified non-profit organizations.
- Under the Cash for Champions Program, Scottrade donated US$20 per hour to a charity for every hour an associate volunteered to put in their time — for up to twenty hours. In case associate volunteers gave more than twenty hours a year, they were placed in a drawing at the end of the year which gave a US$1000 grant.

**Employee Assistance Program:**
The firm gave a free Employee Assistance Program (EAP) to all its associates. The EAP was in the nature of a confidential service that gave access to:

- Elder care and child care referrals.
- Legal advice.
- Consultations on various personal or work related issues.
- Financial planning information.

Scott was a branch manager with Scottrade at its Sugarland branch in Texas. A conversation with him on the issue of diversity among the employees at his branch was highly informative. For instance, he mentioned how the brokers at his branch come from Pakistan. There were employees from other Asian countries like China and India. He enjoyed working at the branch since he could enjoy the diverse lunches coupled with a chance of picking up languages like Hindi, Guajarati, and Chinese.

Another broker from the firm’s Miami branch discussed about his experience. Although he was of Spanish descent, he remarked that while working at Scottrade, he had never been reminded of his minority status. He noted how the entire staff at the Miami branch office was Latino. Even then, true to the culture of the company, they considered themselves as just Scottrade associates, instead of Hispanic Scottrade associates.

There were other instances of how this diversity at Scottrade enabled the firm to provide better service. According to an assistant from Anchorage, Alaska who was from Laos, the co-workers at the branch gave her courteous treatment and made her feel a part of the team. The employee used her background to bond better with the diverse clientele at Anchorage.

Adapted from scottrade.com/about_online_discount_broker/diversity.asp
Exhibit VII
Business Awards Received by Scottrade

September 2010: Expansion of mutual funds portfolio placed Scottrade among the top mutual fund providers in the brokerage industry. It also got a spot on the InformationWeek 500.

February 2010: Scottrade bagged the online brokerage award for customer loyalty. The award was given by the Brand Keys Customer Loyalty Engagement Index to the firm for the fifth consecutive time.

September 2009: Scottrade earned the Circle of Excellence award from the Incentive Marketing Association for its recognition of associates’ efforts.

August 2009: Scottrade got into Inc.5000 list for the second time.

March 2009: Scottrade got the highest rankings for customer loyalty among online investors for 2009 by the Brand keys customer loyalty engagement index.

November 2008: Rodger O. Riney was named finalist for the national Ernst & Young Entrepreneur of the Year 2008.

October 2008: J.D. Power and Associates gave Scottrade the highest rank for investor satisfaction for two consecutive years.

September 2008: Scottrade was ranked as an innovative user of information technology by InformationWeek week for the second consecutive year.

September 2007: Scottrade was ranked among the top 200 brands in the United States by Advertising Age.

May 2007: Scottrade got recognition as one of America's best-loved brands by winning the Brand Keys Customer Loyalty Engagement Index.


March 2006: Barron's magazine gave Scottrade's trading website as well as its trader platform the highest rankings for its ease of access, help, and usability.

February 2005: Scottrade was given the highest ranking by The American Association of Individual Investors.

July 2000: Riney won the Financial Services Entrepreneur of the Year given by Ernst & Young.

Adapted from www.scottrade.com/about_online_discount_broker/online_trading_awards.asp

Exhibit VIII
Human Resources Awards Received by Scottrade

January 2010: Scottrade was ranked twenty seventh among the Fortune magazines 100 Best Companies to Work, for the third consecutive year.

June 2009: Scottrade was placed among the top hundred best places to work for by Computerworld magazine.

February 2007: Scottrade was recognized by Training magazine for its excellence in professional training and development of its staff.

January 2007: Scottrade was declared as a Learning Leader by the research firm Bersin & Associates.

March 2003: Scottrade received the HR Services Excellence Award for recognizing the great services given by its Human Resources department.

Adapted from www.scottrade.com/about_online_discount_broker/online_trading_awards.asp

Exhibit IX
2010 Ranking of the Best Places to Work

<table>
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<th>Ranking</th>
<th>Firm</th>
<th>Growth in Jobs</th>
<th>Number of Employees</th>
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<td>1</td>
<td>SAS</td>
<td>2%</td>
<td>5,487</td>
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<td>2</td>
<td>Edward Jones</td>
<td>8%</td>
<td>37,079</td>
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<tr>
<td>3</td>
<td>Wedgeman's Food Market</td>
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<td>36,770</td>
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<td>4</td>
<td>Google</td>
<td>N.A.</td>
<td>N.A.</td>
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<td>5</td>
<td>Nugget Market</td>
<td>-16%</td>
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<td>6</td>
<td>DreamWorks Animation SKG</td>
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<td>NetApp</td>
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<td>Boston Consulting Group</td>
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<td>Qualcomm</td>
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<td>11</td>
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<td>22%</td>
<td>2,409</td>
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Adapted from www.money.cnn.com
References and Suggested Readings:


30. “Scottrade Awards,” www.scottrade.com/about_online_discount_broker/online_trading_awards.asp


35. www.money.cnn.com

36. www.nice.com/smartcenter-suite

37. www.online-stock-trading-review.toptenreviews.com

38. www.scottrade.com
Footnotes


2. “Scottrade Awards,” www.scottrade.com/about_online_discount_broker/online_trading_awards.asp

3. The Annual Brand Keys Customer Loyalty Engagement Index rates the brands in their ability to engage customers and create loyalty. The rankings began in 1997 and covered 518 brands in 71 categories in 2010.

4. “Scottrade Awards,” www.scottrade.com/about_online_discount_broker/online_trading_awards.asp


7. Edward D. Jones & L.P., provides financial services for individual investors and businesses. The company was founded in 1922 and is headquartered in St. Louis, Missouri.


11. “Rodger Riney, Executive Profile and Biography,” http://investing.businessweek.com

12. Ted Jones was the son of Edward D. Jones, Sr. the founder of Edward Jones.


23. This was a speculative bubble in the time period between 1995–2000 in which the stock markets of industrialized nations saw their equity value rise rapidly, with growth in the Internet and its related sectors. The bubble later collapsed, causing a fall in stockmarkets worldwide.


27. Adrienne Carter, “Scottrade: Not the Marrying Kind,” www.businessweek.com, August 1, 2005


31. “Scottrade Awards,” www.scottrade.com/about_online_discount_broker/online_trading_awards.asp


37. E-Trade Financial Corporation is a financial services company having a major interest in online stock brokerage that is targeted at self directed investors. It offers a variety of trading platforms.

38. TD Ameritrade Inc. is an online brokerage firm that has rapidly grown through a series of acquisitions. It offers a variety of services in shares, futures, options, and a variety of other instruments.

39. Charles Schwab Corporation is a traditional brokerage and banking firm. Though offering the same services as a traditional brokerage, the firm charges lower commissions. The firm began offering discount brokerage in 1975.
40. Fidelity Management and Research LLC is among the largest mutual fund groups in the world. Among other things, the firm provides a range of mutual fund services, investment advice, discount brokerage services and life insurance.


44. “Scottrade’s Grant Bourzikas Receives National Recognition for his Innovation in IT Security,” www.findarticles.com/p/articles/mi_m0EIN/is_2007_July_9/ai_n19345881/


47. Cisco Systems, Inc. is a US based multinational that designs and sells networking and communication technology equipment.

48. EMC Corporation is US based Fortune 500 firm providing information infrastructure systems, software and services that are being used by many large data centers.


57. NICE Smart Center is a suite of applications that includes performance management, workforce management, call
recording, call monitoring, analytics, and customer feedback.


64. “100 Best Places to Work in IT in 2010,” www.computerworld.com/spring/bp/detail/720


66. A Learning Management System is a software application which is used primarily for administering, documenting, and tracking training programs and learning content. The package includes a performance management system that enables appraisals, skills analysis, and multi-rater assessments.


70. Anderson Performance Improvement Company (APIC) is a performance improvement company founded in 1994. The firm advises a number of Fortune 1000 companies for improving the performance potential of organization through employee motivation and incentive programs. It is based in Hastings, Minnesota, USA.


75. Glassdoor keeps tabs on employee impressions of management and work conditions at major companies. The survey site has more than one million users who review over 70,000 firms.


77. The Incentive Marketing Association (IMA) is a group of companies who are leaders in the incentive industry. These companies focus on using recognition, rewards, and engaging employees and customers through structured programs. IMA provides education, resources, and research to promote the use of incentive programs to the business community. It operates out of Naperville, Illinois.


81. FDIC stands for Federal Deposit Insurance Corporation, an agency created by the US government to maintain stability of the banking system in the US.


Employee Training and Management Development

Tata Consultancy Services (TCS) invests substantially in its training center to give the best training and provide a learning environment to its employees. Nearly Rs. 5 billion was invested in building a state-of-the-art training center at Thiruvananthapuram in Kerala. Every new campus recruit of TCS is trained at this center before being posted to a project. Out of the four months of training, 40 percent is devoted to the soft-skills development, including general etiquette, teamwork, leadership and culture. The training program is unique in that the company’s offshore clients are brought at least once to the training center to interact with the trainees. This practice serves two objectives. First, the clients get a first-hand experience of the quality of the professionals they would be working with and second, the trainees get an opportunity to learn directly from the clients. The center also works closely with both the academic and the business world. The center believes that scaling up in terms of knowledge expansion is the key to becoming a better institution. Hence, the focus is on building a knowledge base within the organization.

Other companies have also been investing billions of dollars in training and other development facilities for their employees. Companies are realizing the importance of training and the role it plays in improving the overall performance of the organization. With the advancements in technology and the spread of business on a global scale, it has become important for organizations to concentrate on training their employees to meet global challenges. Merely selecting employees does not ensure that an organization will be successful. It has to train them to face the continuous challenges of a competitive business environment. Moreover, the ongoing trends of greater workforce diversity, flatter organizations, and increased global competition, have increased the significance of training and development in helping the employees take up greater responsibilities.
The chapter discusses the importance of training and management development for an organization. Starting with a discussion on training, the purpose of training and the areas of training, it moves on to discuss the various methods of training. Training and development are two different aspects; while training has a short term perspective; development is oriented towards the future needs of the organization. Hence it is important to distinguish between the two. Finally, the concept of management development, the different work roles of a manager and the methods of development are discussed.

In this chapter, we will discuss:

- Definition and Purpose of Training
- Assessing Training Needs
- Areas of Training
- Employee Training Methods
- Evaluation of the Training Program
- Training and Development
- Concept of Management Development
- Management Development Methods
- Evaluating a Management Development Program
Section 1

Definition and Purpose of Training

The above definitions suggest that training enhances the skills and capabilities of the individuals in an organization. For training to be successful, the employees have to be convinced of its utility and effectiveness. A successful training program improves the performance of an employee which in turn enhances organizational performance.

Training is an essential part of the orientation program for new recruits in an organization. If the selected employee is not trained appropriately, then the investment made by the organization in recruiting the employee might not give the expected benefits. Every organization, irrespective of its size or nature of operations, needs to provide training to its employees at various stages of their career.
Section 2

The Main Objectives of Training

**Improving Employee Performance**

When an employee is recruited by an organization, he might not have all the skills required to carry out his job. Training the employee at this stage helps him learn his job faster and ensures better performance. Training also helps in bridging the gap between the actual and the expected performance of the employees by enhancing their knowledge and skills. Further, it helps the employees improve their performance to meet organizational performance standards.

**Updating Employee Skills**

It is important for the management to continuously evaluate and adopt any technological advances that can help the organization function more effectively and efficiently. Technological changes may result in job changes in terms of the tasks and activities involved. Training enables employees to update their skills and helps integrate the technological changes successfully into organizational systems and processes.

**Avoiding Managerial Obsolescence**

Managerial obsolescence is the failure to adopt new methods and processes that can improve employee and organizational performance. Rapid changes in the technical, legal and social environments have an impact on the way managers perform their jobs, and those who do not adapt to these changes become obsolete and ineffective.

**Preparing for Promotion and Managerial Succession**

Training helps an employee acquire the skills required to assume greater responsibilities. It makes the transition from an employee’s present job to the next one, easier and smoother.

**Retaining and Motivating Employees**

One way to motivate and retain employees is through a systematic program of career planning and development. Employees feel cared for and consequently become more motivated and committed. Organizations should therefore
provide such training that helps in retaining promising employees.

Creating an Efficient and Effective Organization

A manager who has well trained and well equipped employees needs to spend less time supervising them. Accidents at the workplace can also be reduced by effective training of the employees. Organizational stability can also be improved by the creation of a reservoir of skilled employees who can help an organization sustain its effectiveness even in times of high attrition.
Section 3

Assessing Training Needs

Before an organization lays out the plan for training, it needs to analyze the organizational objectives, assess the employee needs and then train the employees accordingly. These training needs can be assessed by

- Determining the organizational goals
- Prioritising the tasks in meeting these goals
- Determining the skills required by the employees
- Identifying deficiencies in the skill and knowledge levels of employees

Training is a continuous process and the responsibility of a manager does not cease after a training program is over. He should analyze the performance of employees after the training, and continue to assess the training needs from time to time. This should always be done taking into consideration the organization’s objectives and the desired standards of performance. Any gaps between the desired and actual competency levels of an employee should be bridged through continuous and repeated training. Training should equip the employees of the organization to take up fresh challenges in a dynamic and competitive business environment. Once the training needs are determined, training goals have to be established. Management should clearly identify the results it seeks in the performance of each trained employee in the organization. Training goals should be tangible, verifiable, measurable, and clear to the management as well as the employees.
Section 4

Areas of Training

Training enhances the overall performance of an organization in various ways. Training imparted in one area can benefit the organization in many other areas. For example, training in managing interpersonal relationships in an organization can increase organizational productivity by improving teamwork. The major areas where employees are normally trained in an organization are discussed below in the keynote 6.4.1.

Keynote 6.4.1: Different Areas of Training

Source:ICMR
Section 5

Importance of Learning

Learning can be described as the process of developing new knowledge, skills, attitudes and values through participation in formally organized learning situations and natural social interaction. Learning is an essential ingredient of any training program and determines its success.

For any training and development program to be effective, the training methods should match the participant’s learning styles. Though learning cannot be actually observed, it is possible to measure its results. As training is a form of education, whether it occurs on-the-job or off-the-job, employees are expected to learn and apply the skills acquired from training in their job. Trainers may benefit by using certain principles of learning and learning styles while developing and implementing training and development programs. Exhibit 6.5.1 shows Motorola’s commitment to learning.

Neglect or improper application of the principles of learning on the part of the management or the employees may lead to the failure of the training and development programs. This makes it important for the trainers and the trainees to be familiar with the principles of learning, which are discussed below. However, blind adherence to these principles can sometimes cause more harm than good as they may not be applicable across the board to all training situations. One should exercise discretion by adopting those principles that are appropriate for the situation.

Motivation

Employees usually resist participating in training sessions as they either do not understand the benefits of training or are not convinced about its effectiveness. They may feel that it would not be of any use to them or that it would not be possible to apply the learnings in their job. It is the responsibility of the management to convince the employees about the benefits of training. The employees should also understand why they need to improve their performance in order to contribute to the achievement of organizational objectives. This would motivate them to undergo training and actively participate in various programs.
Participation

Active participation of the employees in a training program ensures its success. Employees learn better through direct experience. Training methods like class-room teaching minimize the direct involvement of employees whereas on-the-job training maximizes it. The latter method is often more effective than the former.

Feedback

Feedback during the training programs regarding employee progress brings down anxiety levels and helps employees improve their performance. This kind of employee feedback should be given in an informal manner and in a closed loop between the trainer and the trainee. Feedback on employee performance after the training also enables the employee to adapt and employ the newly acquired knowledge and skills.

Repetition

Behavioral research shows evidence that continuous practice during training and development helps in better learning. Practice plays a significant role, whether the skills to be acquired are technical or behavioral. Technical skills refer to operational skills while behavioral skills are interpersonal skills, communication skills, etc. Employees who have undergone training should be asked to recall or refresh their learning at regular intervals after the training program, so that their learning can be improved.

Exhibit 6.5.1
Motorola and its Commitment to Learning

When it comes to the market for communication and electronic products, Motorola has held a significant position for over 70 years. The company attributes its success to its commitment to quality and its corporate wide emphasis to learning through Motorola University, which was built in 1980. The university has expanded rapidly, introducing new courses, online learning systems, translation services, cultural training, and executive learning programs. The uniqueness of Motorola lies in its ability to connect education to business targets and thus its training program is considered a model in corporate circles. It extends training programs to each one of its employees.

The Motorola University, since its inception follows three principles of learning. These principles have an impact on the success of the business. These principles are described here:

• Learning and change should go together since Motorola’s earlier experience with training hardly resulted in any change in the operations of its business. The employees thought that change hardly mattered. However, the company has made the employees realize that unwillingness to change results in poor performance.

• Motorola emphasized that innovation occurs only when people make their contributions to solutions. The company expects everyone to contribute within their spheres. While the senior management has to participate in the change process by giving a strategic direction to the company, it remains too far removed from the daily operations of the company for dictating the changes required to achieve the strategic objectives of the organization.

• Motorola realized the significance of creating suitable tension between consistency of purpose inside the organization and a broader standpoint that extended beyond the company.

In its desire for continuous learning, Motorola University created a College of Learning Technologies (CLT) to provide innovative learning via classrooms, on-line experiences, and multimedia components such as video and satellite conferences.

Thus, we see that Motorola’s success was due to not only its learning and emphasis on quality but more importantly to its emphasis on continuous education and innovation.

Application

As has been discussed earlier, one of the main reasons for employee indifference towards training is the lack of conviction that the learning can be applied in their work. Training loses its meaning if the learning is not applicable at work. This transfer-of-learning problem is especially critical in off-site instruction. This problem is not very severe for technical training because similar technology is used on the job, as well as during training. The transfer-of-learning problem can be minimized by:

- Increasing the similarity between the training and the job
- Providing maximum experience with the task being taught
- Ensuring that general principles are understood
- Rewarding the application of the learning from training in the job
- Customizing training sessions to match the requirements of the participants
- Designing a training program that can win employee confidence
- Modifying training programs to incorporate the latest advancements in the area.
Section 6

Employee Training Methods

A number of factors determine the choice of the type of training methods used by an organization. These are:

- Organizational culture
- Learning principles
- Content of the program
- Time factor
- Cost effectiveness
- Appropriateness of the facilities
- Employee preferences and capabilities
- Trainer preferences and capabilities.

The importance of each of the above factors varies depending on the industry, the business, the job and the criticality of the training. For example when training a pilot, cost effectiveness could be the least important factor; the main emphasis of training is on the accomplishment of the task, taking care of the safety aspect. Every training method has certain learning principles associated with it. HR professionals need to have a thorough knowledge of the various methods and the learning principles.

The training methods used by organizations can be basically categorized into on-the-job methods and off-the-job methods. These methods are discussed below.

6.6.1 On-the-Job Training

On-the-job training takes place in a real job environment where the trainee is exposed to an actual work situation. The major advantage of this method is that the trainee will get hands-on experience. This form of direct learning helps the employee understand and imbibe the training lessons better. This will also help in better application of the knowledge and skills gained during training. On-the-job training methods can also be used if the organization does not have the resources to simulate the work environment. The disadvantage of on-the-job training is that, as the trainee is still going through the learning process, any mistake he commits on the job might result in a loss to the organization. Hence when choosing this method, the
organization should assess the damage that could be caused due to the mistakes by the trainees. Some of the widely used on-the-job training methods are job instruction training, apprenticeship and coaching, job rotation, and committee assignments (Refer Figure 6.6.1). Each of these methods is discussed below.

**Figure 6.6.1: On-the-Job Training**

![Image of on-the-job training](www.psychologyface.com)

a. **Job Instruction Training**

In this method of training, the trainee is given instructions by the trainer while performing the job on the site and any doubts of the trainee are cleared immediately. This method is very popular because the trainee can discuss his problems in performing the job immediately with the trainer. Job instruction training follows a systematic sequence of activities. These are:

- As the first step, the trainee is prepared for the training by giving him clear information about the training to be imparted, the job to be performed and the venue and time of training; any doubts regarding the training should be cleared at this stage.

- After the training is imparted to the trainee, in the form of instructions, the trainee is asked to demonstrate the job. This will help in assessing the trainee’s understanding of the instructions and his learning.

- After the trainer is satisfied with the performance of the trainee, the trainee is left on his own, with someone designated to be called upon when he requires any assistance or help.

Normally, a trainer/supervisor/co-worker acts as the instructor. Demonstrations by the trainer and repeated practice by the trainee, help the trainee to master the job. After some time, the trainee gains the skill and confidence to perform the job without the supervision of the trainer. However, the trainer should be available to clear his doubts and help him whenever required.
b. Apprenticeship and Coaching

Individuals seeking to enter skilled trades, like those of carpenters, electricians, etc, are required to go through formal apprenticeship under experienced employees, before they join their regular jobs. The apprenticeship period typically ranges from one year to five years. Apprentices are not ‘employees’ of the organization and are not governed by any of the laws that are applicable to regular employees. They do not even figure on the organization’s rolls.

Coaching is similar to apprenticeship where the coach acts as a model for the trainee to emulate. Typically, the supervisor, or the HR professionals function as coaches in training the employee. Coaching is less formal than an apprenticeship program because it is provided when needed, rather than being a part of a more planned, structured program. Participation, feedback and knowledge transfer to job are generally high in coaching.

c. Job Rotation

This is a training method where the trainee is placed on various jobs across different functions in the organization. The trainee gains cross-functional knowledge and is equipped to take up different jobs. The time spent on each of the jobs ranges from one or two days to several weeks. Under job rotation, the trainee moves from one job to another, and gains job knowledge and learns new skills from his trainers/supervisors in each of the different job assignments. This cross-functional knowledge helps the organization in times of acute need for manpower. For example, when the attrition rates in a particular trade/field are high, knowledgeable employees from other trades/fields in the organization can fill the vacancies temporarily. Job rotation also provides novelty and variety to the employees who are used to doing the same job.

d. Committee Assignments

Under the committee assignment method, a group of employees are given an actual organizational problem and are asked to find a solution. The trainees develop their team-management skills, interpersonal skills, communication skills, problem-solving skills and leadership skills while solving the problem as a group.

6.6.2 Off-the-Job Training

When training is performed on the job, any mistake by the trainee might result in damage to the organization, especially
if it involves a customer or something of value. To avoid such situations, off-the-job training is used. An advantage of off-the-job training is that the employee is free from distractions of his job requirements and would be able to concentrate better on learning the job rather than just performing it. Off-the-job training refers to training imparted away from the employee's immediate work area. The employee is separated from the job situation and his attention is focused exclusively on learning which can later lead to improved job performance. When considering off-the-job training, the organization should take into consideration the various facilities that have to be provided. They have to provide classrooms for lectures or venues for creating an artificial work environment. Refreshments and training materials have to be provided. The various techniques of off-the-job training are classroom lectures, simulation exercises, programmed instruction etc. Refer to the keynote 6.6.2 for off-the-job training methods.

**Keynote 6.6.1: Off-The-Job Training Methods**

Source: ICMR
Section 7

Evaluation of the Training Program

After a training program has been implemented, the organization should evaluate the program. This evaluation helps the organization identify the areas for improvement, which can help in designing future training programs. The basic yardstick to measure the success of a training program is the learning benefits that have accrued to the trainees. The factors that can be used to evaluate a training program are:

- Trainees’ feedback on the content and process of training.
- Knowledge or learning acquired by the trainees as a result of the training experience.
- Changes in job performance or behavior as a result of training.
- Measurable improvements or results seen in individuals or the organization like lower turnover, decreased absenteeism or fewer accidents.

The method to be used for evaluating the training program has to be determined at the planning stage itself.

Evaluation helps in auditing and redesigning a training program.

The various steps in evaluating a training program are explained in Figure 6.7.1. The process starts with setting the evaluation criteria, based on the objectives of the program. This is done before the beginning of the training program. The knowledge/skill level of the trainees is also tested before the program.

The results of this test are compared with the results of a post-training test to assess the learning from the training program. The learning of the workers and the knowledge transfer to the job determines the success of the training imparted. Follow-up studies after a few months help in assessing the retention and application of the knowledge gained in training. These assessments should be based on the evaluation criteria determined at the beginning of the training program.
Figure 6.7.1: Steps in the Evaluation of Training

- Setting Evaluation Criteria
- Assessing the Knowledge Prior to Training
- Training or Developing Workers
- Assessing the knowledge After Training
- Transfer to the Job
- Follow-up Studies


Video: Employee Training Process
Source: www.youtube.com/watch?v=p1jmpMHgOPg

Video: Get an ROI on Employee Training with the Aerospace Joint Apprenticeship Committee (AJAC)
Source: www.youtube.com/watch?v=6JOHXgnTZlC
Section 8

Training and Development

Though the distinction between training and development is often blurred, it is important to note the major differences between the two (See table 6.8.1).

<table>
<thead>
<tr>
<th>Training</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>The term training has been traditionally used to describe the acquisition of technical knowledge and skills.</td>
<td>Management development, refers to the methods and activities designed to improve the skills of managers or prospective managers.</td>
</tr>
<tr>
<td>Training helps employees to improve their performance in current jobs.</td>
<td>Management development grooms managers to handle future responsibilities.</td>
</tr>
<tr>
<td>Training programs concentrate on a limited number of technical skills. e.g: a training program for a software developer involves enhancing his technical skills</td>
<td>Management development activities generally focus on a broad range of skills. e.g: development program would involve a wide variety of interpersonal skills and managerial skills, like planning, organizing, leading, communicating, motivating and decision making</td>
</tr>
</tbody>
</table>

Exhibit 6.8.1 explains training and development initiatives at Infosys.
Exhibit 6.8.1
Training and Development at Infosys

At Infosys Technologies Ltd. (Infosys), a Bangalore-based IT company, training programs are conducted for new recruits as well as for experienced employees. When new recruits from college join Infosys, they are trained through fresher training courses. They are trained then on new processes and technologies. As they reach the higher levels, they are trained on project management and later sent for management development programs, followed by leadership development programs.

For experienced employees, the company has a competency system in place which takes into account individual performance, organizational priorities, and feedback from the clients. According to the system, every employee has to have a training plan based on the identified competencies. The training interventions are organized in four areas – technical training, managerial & skills training, domain training, and training on quality processes.

Most of the training is classroom based while limited use is made of training through the e-learning mode. Employees can nominate themselves for the training programs. For each of the streams – project management, customer interface, technical, program management, and domain consulting, the behavioral and technical competencies required are outlined. Training is also imparted in other streams including quality process training, personal effectiveness, and managerial development. Every quarter, over 100 technical training courses are offered. The technical training is imparted over eight days.

Infosys conducts over 160 middle level training programs. The training needs are determined depending on the business needs. The management determines the upcoming technology requirements and communicates these to the Education & Research (E&R) Department. The senior executives of E&R and other departments decide on the content and duration of the course. Another way of determining the training needs is during the process of planning. At the planning meetings, expected projects are forecast along with the skill requirements. The available skills are then considered along with the required skills to arrive at the training needs. Infosys also conducts several other training programs including soft skills, communication, building competency, and personal effectiveness.

In addition to providing such training initiatives, the company set up an Infosys Leadership Institute (ILI) in 2001 to nurture future leaders in the company and to effectively manage the exceptional growth that the company was experiencing. At the Institute, the executives are groomed to handle the changes in the external and internal environment. Most of the founders of Infosys were in their 50s as of August 2006 and planned to retire by the time they reached the age of 60.

In order to ensure the smooth transition into the next generation of leadership, Infosys identified 400 potential leaders on the basis of their performance throughout their tenure with the company. They were identified from several locations across the globe, where Infosys operated. The chosen employees were put through a three-year training program, which included personal development, interaction, resolving real time problems, and understanding the company better.

The top management selected candidates to participate in the leadership program based on their past performance and after an assessment of their leadership potential. Each of the individuals selected for the program had one faculty member from the ILI assigned to them. The faculty members guided the employees in becoming leaders, by creating and acting on the personal development plans of the employees. They also supported the individuals in implementing the change objectives. They helped the employees in determining the interventions they required to become future leaders.

Infosys follows a nine-pillar model for leadership development. The nine pillars are 360-degree feedback, developmental assignments, Infosys culture workshop, developmental relationships, leadership skill training, feedback incentive programs, system process learning, community empathy, and action learning.

Section 9

**Concept of Management Development**

Management Development relates to the development and growth of the employees in an organization through a systematic process. This development is future-oriented and prepares managers for a career of valuable contribution to the organization. It is concerned with the learning and development of the employees. It helps in the development of the intellectual, managerial and people management skills of managers. It trains managers to understand and analyze different situations, and to arrive at and implement the correct solutions.

Management development is a key component of an organization’s efforts to prepare its employees to successfully handle new challenges. Management development helps managers to understand new cultures and customs that have become an integral part of the global market. It helps managers equip themselves with the latest technologies, tools and techniques for improved quality and performance. Exhibit 6.9.1 details about Crotonville, the powerful organizational force driving each GE employee with an important reminder to never stop learning.

Source: [www.mainstreetmanagementgroup.com](http://www.mainstreetmanagementgroup.com)
General Electric Company (GE), one of the world’s biggest conglomerates, lays a lot of emphasis on learning. In 1956, it set up the John F. Welsh Leadership Center also called Crotonville with the stated aim of serving corporate learning. According to the company, “At GE, learning is a cultural force and Crotonville is its epicenter.”

For over 50 years, this center has been at the forefront of applications in the real-world for cutting-edge ability in thinking in areas such as leadership, organizational development, innovation, and change. In the 1980s and the ‘90s, Crotonville was a platform for bringing about a cultural change at GE. The company’s former CEO, Jack Welch, used this center to launch the Six Sigma initiatives.

In 2008, Susan Peters (Peters), vice-president and Head of Executive Development at GE, visited India to promote the Leadership, Innovation, and Growth course (LIG). GE introduced the LIG course in late 2006 as an actionable training and dialogue program to drive growth across the company. Peters was promoting the course for the first time outside the US — in Shanghai, Delhi, and Dubai. Peters promoted the LIG course to make GE’s leadership development initiatives more global. She felt that there was a lot of potential to be tapped in India now compared to what it had been earlier. According to her, “Opportunities within India make the biggest difference between then and now.”

In 2007, GE started offering education at the executive level at Crotonville. The LIG initiative marked the company’s first executive education program offered outside the US. In the same year, Crotonville’s management development class (MDC), a three-week labor intensive course, was held at Munich and Tokyo.

The company planned to extend its offering of leadership content to non-US locations. In India, the company provided a ‘Foundations of Leadership’ course to new recruits. The leadership and development program offered in India was the same program that the company offered worldwide, called the ‘Session C’ process. Around 5,000 to 6,000 GE managers attended the classes conducted by Crotonville each year. Through the Session C process, the company selected candidates to attend classes at Crotonville. The company selected the best talent based on a three-tier review process at the employee level, managerial level, and the supervisor level. This review was conducted from the point of business (healthcare, energy, consumer electronics, etc.), function (finance, technology, etc.), and region (India, Greater Asia etc.). This meticulous process helped the company build a ‘talent pipeline’. The Session C ensured that the best talent from every region and department was selected to be trained at Crotonville.

Section 10

Objectives of Management Development

The main objectives of management development programs are:

- Improving the performance of the managers.
- Enabling the senior managers to have an overall perspective about the organization and also equipping them with the necessary skills to coordinate the various units of the organization.
- Identifying employees with executive talent and developing them so that they can occupy managerial positions in the future.
- Motivating the managers to perform more effectively in accordance with the organizational goals.
- Updating managers from time-to-time about the latest changes and developments in their respective fields.
- Improving the analytical and logical skills of employees.
- Providing insights into conceptual issues relating to economic, technical and social areas.
- Improving human relations skills and encouraging creative thinking.
Section 11

Process of Management Development

The first step in the management development process is a review of the organizational objectives that provide a framework to determine the managerial development needs.

The second step involves an evaluation of the organization’s current management resources. On the basis of the information gathered from human resource planning, a managerial/executive inventory is prepared. This inventory, when matched with the future management needs of the organization, helps in identifying the areas for management development. This kind of an analysis reveals the inexperience or shortage of managers in certain functional areas, and the skill and knowledge deficiencies of managers that can affect the organization’s future plans. The methods of management development that can help the organization in overcoming these shortages and deficiencies, are then determined. Much of management development work focuses on changing attitudes and gaining new knowledge and managerial skills.

The developmental needs of the managers can be assessed by the use of assessment centers. These centers assess a manager’s ability to perform a job, and identify the areas requiring development. As a next step, the development activities that are essential to improve their performance are determined. Development programs must be designed to leverage the strengths and remove the weaknesses of each individual manager. It is important to note that no single development method is suitable across all managers/competencies.

After the managers complete the development activities, they have to be evaluated in terms of the observable changes in their behavior and managerial performance. This evaluation helps in determining the effectiveness of the development program, and brings out its weaknesses. It is then used to redesign and improve the program. The basic prerequisites for a successful management development program are given below:

- Management development should be identified as an important and continuous activity in the organization.
Managers must take up the responsibility of developing their subordinates for greater responsibilities.

Management development must match the needs of the organization and the individual.

Managers must be motivated to invest time in the development of themselves and their subordinates, using special reward systems.

Management development starts with the selection of the right candidates for managerial ranks. It is essential to ensure that good material is fed into the program at the entry levels.

There should be a realistic timetable in accordance with the needs of the company. This timetable should take into account the need for managerial personnel over a sufficiently long period. The resources which are available and the ones which have to be acquired should be estimated.

The management development program should be based on a definite strategy, which should spell out the type, coverage and objectives of the program. A multi-tier supervisory and management development program should start from the first line supervisor and go all the way up to the top management.
Management Development Methods

As in training, management development methods can also be divided into two types: on-the-job and off-the-job. Figure 11.4 shows the different types of management development methods.
6.12.1 On-the-Job Development Methods

The development methods which help the employee to improve his skills in the actual work environment, during the course of his work, are termed on-the-job development methods. The well-known on-the-job development methods are coaching, job rotation, under study assignments and multiple management.

Coaching

Coaching involves one manager playing an active role in guiding another manager. The coach observes, analyzes and attempts to improve the performance of the trainee. The coach gives guidance in the form of direction, advice, criticism and suggestions.

The coach/trainer teaches the trainee what to do, how to do it, and rectifies any mistakes committed by the trainee. At this juncture, it is important to make a distinction between coaching and counseling. Counseling refers to the interaction and discussions between the boss and the employee on areas related to emotional aspects like fears, aspirations etc. Coaching on the other hand, provides guidance to the employee on all job-related areas. Coaching has the advantage of high level of interaction and quick feedback on performance. Nevertheless, coaching has certain disadvantages too. Its success depends almost entirely on the coaching abilities of the coach/trainer. Though the trainer may be an outstanding performer, he may not necessarily be an effective coach. He may not be successful in creating the right kind of learning environment for his protégé. Another limitation of coaching is that the trainee normally cannot develop beyond the abilities of the coach/trainer.

Job Rotation

Job rotation plays an important role in developing the skill set of a manager. When a manager is posted to new jobs across various departments in the organization, he develops diversified skills and knowledge. Interactions with colleagues in different departments provide an enriching experience of various day to day problems. Another advantage of job rotation is that it helps in reducing the monotony of work and also improves inter-departmental cooperation. By broadening the manager’s experience and by giving him an opportunity to gather and absorb new information, job rotation stimulates the development of new and creative ideas.

One of the disadvantages of job rotation is that an ill-equipped employee in a new functional or work area can lower productivity in the organization. Frequent and short term job rotations do not allow for meaningful skill development, and can sometimes even demotivate employees who seek specialization. Though such a development program can result in long-term benefits for the organization, it can also create to some short-term difficulties. Inexperienced employees performing new tasks and taking decisions without adequate job knowledge, may create some day-to-day problems for the organization.

Understudy Assignments

In this method of development, a senior manager selects and trains a trainee manager from among his/her subordinates,
who at a future time will be capable of handling the senior manager’s responsibilities. This type of development ensures the availability of an immediate replacement when the senior manager has to take a break or leave the organization. The trainee manager can take up the responsibilities of the senior manager either temporarily or permanently, depending on the organizational needs. Since the understudy assignment involves a discussion of both daily operating problems and long-term strategic issues with the senior manager, the trainee manager learns the managerial skills required for the position.

One disadvantage of this method is the dissatisfaction and unhealthy competition that it may give rise to in the other subordinates, who have not been selected for the understudy assignment.

**Multiple Management**

This technique enables junior managers to participate in board and committee meetings, which are normally attended only by senior and top level managers. These sessions expose junior managers to discussions that take place in such meetings regarding organizational problems and future strategies. The junior managers are given an opportunity to understand and learn the way organizational problems are solved and are also encouraged to share their views. These types of development programs help the junior managers to interact with their seniors and improve their knowledge about the organization. In return, the senior managers get an opportunity to spot the right talent for management development. It is a relatively inexpensive method where a number of managers can be developed in a short period of time. But this method is suitable for developing only middle and senior level managers.

**6.12.2 Off-the-Job Development Methods**

Off-the-job development methods try to fill the gaps arising out of the limitations of on-the-job methods. There are various development techniques that employees can be involved in off the job. These include simulation exercises, sensitivity training, transactional analysis, and conferences and lectures.

**Simulation Exercises**

Simulations are widely used for management development. The popularly used simulation exercises are case studies, business games, role-plays, the incident method and the in-basket method.

a. **Case Study** – Case studies which are prepared based on the actual experiences of organizations, help the candidates understand the real problems faced by managers in organizations. The trainees study, analyze and discuss the case, identify the apparent or hidden problems, identify the root causes and try to suggest probable solutions from which they eventually select the most viable one.

The case study method is characterized by stimulating discussions among participants. It gives participants a good opportunity to sharpen their analytical, problem-solving and judgmental skills. The whole exercise aims at improving the decision-making skills of the participants.
b. **Business Games** – In this method, the trainees are divided into different groups or teams. They play the roles of competing firms in a simulated market. As the management team of a simulated firm, each team studies, discusses and arrives at decisions regarding production, advertising, pricing, etc. Each team member can assume a simulated role within the firm. The teams react to the decisions of their competitors and develop new strategies to beat the competition. The immediate feedback from other teams at the end of the exercise gives information about the relative performance of each team. This method improves interaction and cooperation among the participants, and tries to improve their strategic thinking, leadership skills and their ability to work under stress.

c. **Role Playing** – In this method, participants enact roles to solve problems that are common in real-life situations. They react to the situation and to one another, in the same way as they would do in their managerial jobs. The responsibility and the mental-setup of the role are described but no dialogue is provided. The entire play is recorded and the trainee is given the opportunity to see his own performance. Role playing helps a participant to gain a better understanding of people and business situations. It helps develop human relations skills through direct experience and practice. Some of the commonly enacted scenarios are those that depict a grievance discussion, management-union negotiation, an employment interview, a sales presentation, and so on.

d. **Incident Method** – This method aims to develop the intellectual ability, practical judgement and social awareness of the employees. Each employee is given a written incident which he analyzes, identifies the problems and the probable causes and suggests solutions. “Incidents” are based on actual incidents that occurred in different organizations. All the trainees in a group study the incident and make decisions assuming the role of the person who has to tackle the incident in the actual situation. Later, the group members interact with each other and after mutual discussions arrive at a final decision.

e. **In-basket Method** – This is a method of development that simulates the important aspects of a manager’s job. The individual takes on the duties of the manager and performs the exercise. At the time of the assessment, the individual receives background information, including the organization’s mission statement and the organization chart. He is given documents similar to the items normally found in a manager’s in-basket, such as memos, letters, and reports. During the given time, the individual must become familiar with the organization and the material in the in-basket, and respond to the items as if he was actually on the job, by writing memos and letters, planning meetings, preparing agendas, delegating tasks, etc. All actions or plans for action must be indicated and the approach to each issue explained in writing.

**Sensitivity Training**

Sensitivity training or laboratory training is a method of changing individual behavior through unstructured group interaction. The main objective of sensitivity training is to
develop among the group members, an understanding of themselves and of their relationships with others. In this method, a group of 10-15 employees assemble in an unstructured manner. The group does not have a leader or planned agenda or goal. A case study or a role-play is given to initiate interaction among the group members. After this familiarization and socialization, the members are asked to discuss the attitudes, reactions and behavior of each participant. The members are also encouraged to be introspective in assessing their own behavior and performance. At the same time, they openly discuss the behavior of other group members. However, they show restraint in giving their feedback and try to empathize with the group members. Sensitivity training is a very effective tool in changing employee behavior in organizations as it provides the following benefits:

- Employees have a chance to learn more about their weaknesses and emotions.
- They learn to be sensitive and empathetic toward others.
- They gain insights into how the other members of the group perceive them and how they have to amend their behavior to be more effective.
- Conflicts can also be reduced as each person speaks openly to others in the group.
- Every individual tries to empathize with the feelings of others and this can result in an amicable situation.

In addition to the above benefits, sensitivity analysis fosters greater openness, improves listening skills, increases tolerance for individual differences, and improves conflict resolution skills.

Some organizations are opting for the new tool of one-to-one sensitivity training to help prevent or correct harassment or other inappropriate behaviors by managers (as a pre-cursor to disciplinary action). This can also act as a safe-guard in case of future lawsuits by any harassed employee. In this method, the employee posing a problem to his colleagues and subordinates because of his behavior, is sensitized to their problems. However, this is done on a one-to-one basis and not in a group.

A major limitation of sensitivity training is that it does not directly deal with the business and financial goals, unlike the other development methods like simulation exercises. Also, since it results in a lot of emotional involvement by the trainees, it may result in psychological strain or disturbances. Hence, sensitivity training requires an experienced trainer, preferably a practicing psychologist.

**Transactional Analysis**

This is a theory of personality and provides an approach for defining and analyzing the interaction between people. The basic theory behind transactional analysis is that an individual's personality comprises three ego states, namely, the parent, the child and the adult ego states. These states in reality are not concerned with age; instead, they reflect different aspects of the human ego.
The parent ego state is characterized by a feeling of superiority and authority. A person in the parent ego state is dominating and authoritative. The child ego state includes all those impulses that are common in an infant. A person in the child ego state is either obedient or manipulative; charming at one point of time and repulsive at another. The third state – the adult ego state - is objective and rational. It adopts a more realistic or practical outlook and gathers information objectively. In the adult state, actions like processing of data, estimating of probabilities or alternatives, and making decisions are done systematically and logically. According to transactional analysis theory, the child and parent ego states feel and react immediately to situations, while the adult ego state thinks or processes data logically before any further action. In a number of situations, therefore, the ideal interaction is an adult stimulus, followed by an adult response.

This tool provides a framework for trainee managers to acquire an 'adult ego' state, which would help them perform well in a cross-cultural and diverse environment by enhancing sensitivity and awareness. It acts as a fundamental theory to strengthen the objectives of the trainees and the organization by providing a common strategy to address individual needs and to eliminate untoward behavior among employees.

Conferences

A meeting of people to discuss a topic of common interest is referred to as a conference. Participation of trainees in conferences is necessary because each one learns from, and builds up on, the ideas of the other. This method is the most useful when a problem has to be studied and analyzed from different viewpoints. Participants have the opportunity to express their views openly and hence, enjoy this method of learning. It enables the participants to develop the ability to exchange ideas and change their views and attitudes.

The conference leader plays a key role in this method of management development. He should ensure that the discussion does not deviate from the core issues. At the same time, he should encourage the active participation of all members, and avoid domination by a few members.

Lectures

A lecture is the simplest technique of presenting and explaining a series of facts, principles and concepts. The lecturer organizes the relevant information and presents it to the trainees in the form of a lecture. It helps managers acquire knowledge and develop their conceptual and analytical skills. Lectures offer many advantages in management development. They are direct means of communication and can be used effectively for a large number of people. The overview and scope of the subject can be presented clearly in lectures, in a relatively short period of time.
Section 13

Evaluating a Management Development Program

As firms spend a large amount of their time and resources in the training and development of their employees, it is important to evaluate these programmes for their effectiveness. A cost-benefit analysis helps in analyzing and evaluating any development efforts.

A cost-benefit analysis measures the benefits from the development program, against the monetary costs of development. These costs include the costs of materials, supplies, lost work time, travel expenses, consultant fees, and the like. Though it is easy to calculate these monetary costs it is difficult to translate the benefits into economic terms. For example, an improvement in an individual's leadership skills cannot be measured in monetary terms. Though the cost benefit analysis sounds appealing, it may not always be practically useful.

Another strategy to evaluate development efforts is to measure the extent to which the objectives of the program are met. Identifying the gap between actual and desired level of performance helps in measuring the level of success of the development program. However, this strategy depends on the quality of objectives set.

Unfortunately, many HR professionals do not set realistic and measurable objectives.

In the late 1950s, D.L. Kirkpatrick developed a model for evaluating workplace education programs, which had four levels of evaluation. Refer to Exhibit 6.13.1 for a description of the system. He proposed applying each level of evaluation to a program, which includes the participant's reaction, participant’s learning, change in participant’s behavior, and impact of the program on organizational effectiveness.
Reference Questions

1. Many employers believe that investing on training is encouraging employee turnover. Discuss

2. Prepare a training need analysis for front office staff of a premier branded jewellery store.

Exhibit 6.13.1

How to Evaluate a Workplace Education Program

Donald L. Kirkpatrick (Kirkpatrick), a professor at University of Wisconsin created the four levels of learning evaluation and it was first published in 1959 in the US Training and Development Journal. Thereafter, his model was widely published and had gained popularity as the most widely used model for evaluation of training and learning. Kirkpatrick’s four-level model was used as an industry standard across the HR and training communities. This model was further refined and updated in his 1998 book called ‘Evaluating Training Programs: The Four Levels’. The four levels of Kirkpatrick’s evaluation model measured the following:

- What the trainee thought and felt about the training program or his reaction?
- Was there an improvement in the trainees’ knowledge and capability or learning?
- What is the quantity of increase in the behavior and capability or behavior impact?
- What is the extent of progress in the organization's performance because of the employee training or the final result?

Although application of these measures broadly increases in complexity and cost, all the four measures were recommended to get a complete and meaningful evaluation of learning in organizations.

Section 14

Case Study: Training and Development: The Ge Way

This case was written by N. Ruchi Chaturvedi, under the direction of Sanjib Dutta, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
“Great people build great companies. Talent development is not a slogan at GE, it is a way of life.”


“Developing leaders, developing people takes three things. It takes leadership commitment, it takes disciplined processes and it takes commitment to people. It works for us.”

- Bob Corcoran, Chief Learning Officer, General Electric Co. in 2004.

“There is reason to believe that they are a better training ground than we are.”

- Nitin Nohria, Professor, Harvard Business School in 2003, commenting on GE’s ability to develop managerial talent.

INTRODUCTION

In 2005, General Electric Company⁴ (GE) was one of the world’s biggest conglomerates with a presence across 160 countries, 11 varied businesses and employee strength of around 307,000. Some of its businesses were large enough to make it to the Fortune 500 list on their own. GE had not only survived successfully for 133 years⁵ but had also consistently generated great value for its shareholders, despite its size. GE was the only company with a continuous listing in the Dow Jones Industrial Average ⁶ since the original index was constructed in 1896. GE had won many accolades as the world’s most respected company⁷ in appreciation of its people management and sustained profitability.

One of the factors that contributed to the company’s success was its ability to train and develop its multinational, diverse workforce in a successful manner. GE was one of the first companies to establish a management development center to train and develop its employees. During the 1980s, this center put the company on a growth trajectory that very few corporations could match. It inspired many other renowned companies like Boeing Co., Home Depot and Toyota Motors to model their training centers on the one at GE.

In the media, GE has been referred to as a “captain-of-industry university” or “the leadership factory” in recognition of its ability to produce exceptional leaders who went on to became CEOs at other Fortune 500 companies (Refer Exhibit I). Analysts acknowledged the fact that GE went far beyond imparting traditional training. It ‘nurtured talent’ to bring out the latent potential in its employees through proper grooming.

The Work-Out Program that GE developed to train its employees created such an impact that later other companies began to approach GE to try and develop similar programs for their employees. GE businesses like GE Consumer and Industrial were certified by professional associations as authorized providers of education and training for their respective areas of expertise. GE spent around $1 billion on
in-house Training and Development (T&D) every year. In addition, GE invested over $38 million annually for reimbursement of tuition fees for employees who enrolled for outside degree programs. GE was chosen as the best company for executive development in a survey conducted by Executive Development Associates for the year 2005 (Refer Exhibit II).

T&D INITIATIVES AT GE

World’s First Corporate University

Although on-the-job-training had been used at GE since the 1920s, formal corporate training took shape during Ralph Cordiner’s (Cordiner) tenure as CEO. On taking up this position in 1950, Cordiner started restructuring the company, decentralizing it by breaking it up into various departments. He felt decentralization would make the company more manageable in times of rapid growth. As a result of decentralization, GE had more than 100 divisions where earlier there were just eight major units. A general manager was appointed for each division, to oversee the division’s overall working.

As a result of the decentralized structure, the company faced another challenge. The new breed of managers needed to be trained to enable them to handle their divisions successfully. Therefore, establishment of a corporate training center for GE executives became the logical next step. Cordiner had envisioned a radically new approach to train executives for complex management responsibilities. To make this a reality, he sent a team of executives to look at business schools and universities around the world. However, the team found that none of these schools would be able to meet their requirements. So, finally, Cordiner decided that GE would establish its own facility. The management development center was set up in the year 1956, at Crotonville, in the village of Ossining, New York. It was the world’s first corporate university and a major milestone in the area of T&D for the company.

Since its establishment, the Crotonville centre (Crotonville) had trained thousands of GE employees to take responsibility for the operations of the divisions and to run them as profit centers. During the training, executives were instructed in the ‘Plan-Organize-Integrate-Measure’ (POIM) concept. A 3500 page “Blue Book” that contained the dos and don’ts of management was also given to the participants.

However, after decentralization was well established in GE, Crotonville began to be used more for imparting technical training or for communication in times of crises. During the oil crises of 1970s, the center was used by the then CEO, Reginald Jones, to train managers on successful management during inflationary periods. By this time, Crotonville’s earlier focus on leadership training had got lost.

Video 6.14.2: GE Crotonville

Source:www.youtube.com/watch?v=65igWa8yFHE
In 1981, Jack Welch (Welch) became CEO and began a major restructuring effort to cut red-tapism within the company, as part of which he cut more than 100,000 jobs – a fourth of GE’s workforce. Welch was quick to figure out that Crotonville could play an important role in his vision for an open culture at GE. Welch also made sure that the courses were attended by the best employees at GE who were nominated for the training by their bosses based on their superior performance. All nominations were reviewed in special annual performance review meetings that were referred to as Session C meetings. These top performing employees were called “A Players” and possessed the 4E’s — Energy, ability to Energize others, Edge and Execution, along with Passion. Welch wanted GE managers to come out of Crotonville as winners.

In 1983, Welch sanctioned $46 million to build a residential building at the center. He took this decision at a time when he was laying off people to cut costs. It was a tough decision to justify but he stood by it. Welch did not give much importance to the traditional payback calculations as he was convinced that the returns on T&D investments would be long-lasting.

By 1984, Welch himself began to teach at Crotonville. In 1985, Noel Tichy joined the team at Crotonville and brought in the breakthrough concept of “Action Learning”. Action Learning replaced the case-based approach at GE in a major way and later became the core of most of the courses at Crotonville. Welch used to send participants a prior note of what to expect in the Action Learning sessions. Through the note, participants were asked to step into the CEO’s shoes and probe questions like their vision for the company, how they would go about developing and selling it or things they would like the company to abandon. In addition problems they had experienced in their businesses in recent times were also open for discussions during these sessions. At this time, the centre was running three major courses (Refer Table I).

Table I

<table>
<thead>
<tr>
<th>Course</th>
<th>Duration</th>
<th>Frequency</th>
<th>Level / No. of Participants p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Development Course</td>
<td>Three weeks</td>
<td>Once a year</td>
<td>Highest potential managers (50)</td>
</tr>
<tr>
<td>Business Management Course</td>
<td>Three weeks</td>
<td>Thrice a year</td>
<td>Middle level managers (180)</td>
</tr>
<tr>
<td>Management Development Course</td>
<td>Three weeks</td>
<td>Six to eight times a year</td>
<td>Junior level managers (400-500)</td>
</tr>
</tbody>
</table>


Due to action oriented learning during the training, students got transformed into in-house management consultants doling out advice to top management without any inhibitions. By 1988, the number of employees being trained at Crotonville each year had risen to 5000. However, Welch realized that he was not achieving much success with training people for an open culture. Openness was visible in the classrooms at Crotonville but it was not making a difference back at GE. This got him thinking. He wanted a way through which he could ensure Crotonville openness throughout GE. He wanted the openness in the classroom to stay with the employees
even when they were at their workplace. It was at this point that he introduced the concept of “Work-Out”.

Work-Out referred to taking unnecessary work out of the system. Through this initiative, groups of 40-100 employees shared their views with facilitators from outside the company who were generally renowned University professors or consultants from the industry. By 1992, more than 200,000 employees at GE had undergone Work-Out training. Henceforth Crotonville became not just a training ground for GE executives but “an energy centre, powering the exchange of ideas.” It played a pivotal role as an agent in the transformation of GE into a “learning organization.”

Crotonville, in its new role, became a platform where GE employees, customers, and suppliers could discuss ideas and issues facing GE businesses and helped its leaders assess the future course of the company (Refer Exhibit III for Crotonville’s Mission).

In 1995, GE introduced the Six Sigma quality management program to make GE products practically defect-free. In-house training in the Six Sigma methodology was organized at Crotonville. This training gained more importance over other professional development programs during the next few years. GE asked each business unit to identify and develop employees as Champions, Master Black Belts, and Green Belts. In 1996, the company invested US$200 million to train 200 Master Black Belts, and 800 Black Belts. In March 1997, Welch asked every manager at GE to start Black Belt or Green Belt training by January 1998, and complete the training by July 1998. Training was linked to employee promotions. When the employees were convinced that some form of training was necessary for even a minimal advancement within the company, they began to sign up for training in greater numbers. Around 40 percent of each GE executive’s bonus was linked to Six Sigma implementation and was applicable to the top 7,000 executives. In 1997, GE invested US$250 million in training about 4000 Black Belts and Master Black Belts and more than 60,000 Green Belts (Refer Table II).

<table>
<thead>
<tr>
<th>Table II</th>
<th>Six Sigma Training Courses Offered at GE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Overview Seminars: Basic Six Sigma awareness.</td>
<td></td>
</tr>
<tr>
<td>Team Training: Basic tool introduction to equip employees to participate in Six Sigma teams.</td>
<td></td>
</tr>
<tr>
<td>Master Black Belt, Black Belt and Green Belt Training: In-depth quality training to prepare the team to use high-level statistical tools, basic quality control tools, Change Acceleration Process and Flow technology tools.</td>
<td></td>
</tr>
<tr>
<td>Design for Six Sigma (DFSS) Training: Prepares teams for the use of statistical tools to design it right the first time.</td>
<td></td>
</tr>
</tbody>
</table>

Compiled from various sources

By the year 2000, implementation of Six Sigma had produced annual savings of more than $2.5 billion for GE. In recognition of Welch’s contribution in the revitalization of Crotonville and the consequent growth that GE achieved under his tenure, Crotonville was renamed as the John F. Welch Leadership Centre (WLC) in September 2001. In 2004, over 10,000 students attended various programs at WLC.
Major Types of T&D Programs at GE

Although a majority of GE programs were run at WLC, many other programs were also offered at business training centers at Ohio, New York, and Wisconsin in the U.S., and in China, Belgium, France and India. All the programs were open for enrollment not only for GE employees but also for customers, suppliers and other partners. In addition, many of the GE businesses offered tailor made programs at their respective locations.

The programs at WLC were delivered at two main buildings - the Education Building and the Learning Centre. The Education Building had a unique architecture with three modern amphitheatres of different sizes instead of the traditional classrooms. The largest of these was called “The Pit” and could accommodate up to 100 participants at a time. The Learning Center could accommodate around 150 participants at a time and was aptly called “The Great Room”. It offered considerable flexibility for meetings. The room had three partitions that enabled employees to break into smaller work groups to discuss issues. It also had several rooms for break-out sessions. Both the Education Building and the Learning center had advanced audio visual aids to enable effective learning. Apart from these, WLC also offered a recreation center that served as a place for unwinding and networking. Since the length of courses at the center varied from one day to three weeks, a residence building with a capacity to house 200 people was also part of the campus.

In later years as GE expanded, several new courses were launched to meet new requirements. The faculty was a judicious blend of trainers and consultants, GE leaders or distinguished university professors. The company wanted to make sure it delivered the best training. The participants were also expected to do their best and take the programs with the “sail or sink” approach. Performance evaluation was rigorous for all the programs. All successful participants would be given promotions and raises based on their performance in the training programs.

As of 2005, the wide arrays of programs offered to GE employees focused on leadership and development aspects. They were divided into two levels. The entry level programs were meant for fresh recruits and the experienced level programs (Master’s Level Programs) were offered to employees with work experience. In addition, the company offered a combination of the above programs customized for specific businesses (Refer Exhibit IV for details). Nomination by the business CEO\(^\text{22}\) was essential for the experienced level programs. As Bob Corcoran\(^\text{23}\) (Corcoran), Chief Learning Officer, GE, remarked, “For most people coming to Crotonville is a huge event. It is recognition of their hard work and of their potential for the future.”\(^\text{24}\) Generally, the programs required a commitment of 50 hours per week or more, for coursework, depending on the area of specialization. The major leadership and development programs covered two broad categories:

**Entry Level Leadership Programs:** These programs aimed at developing individuals for leadership positions. The major programs were the Commercial Leadership Program for Sales & Marketing (CLP), Financial Management Program (FMP) (Refer Exhibit V for details) and Information

\(^\text{292}\)
Management Leadership Program (IMLP) (Refer Exhibit VI for details). These programs involved grooming employees across various locations and functions with the aim of developing them for top positions by the end of the program. In addition there were programs for operations and engineering areas called as the Edison Engineering Development Program (EEDP) and the Operations Management Leadership Program (OMLP) (Refer Exhibit VII & VIII for details).

FMP was started by GE way back in the year 1919. This program was one of the most highly recognized finance programs in the world. Numerous FMP graduates eventually became Chief Financial Officers (CFOs) at other companies (Refer Exhibit IX). This program was a two year, on the job training program in the area of finance for fresh college recruits. Around 350 fresh recruits were trained through the program every year. At GE, employees who went through programs like FMP could have accelerated career growth if they performed well. For instance, William Wang who joined GE in 1995, freshly out of college became the CFO at GE Medical Equipment, China, in just nine years.

As part of the FMP program, students took one course in finance like financial foundations, operations, controllership and strategy on a semi-annual basis. They also underwent training through four different rotating assignments throughout the year. The enrollees could not move forward to the next level until they cleared these assignments. They were also required to take the foundation of leadership course, through which they participated in round table sessions with company executives, to gain a deeper insight into what they were learning.

The unique feature of the program was that it was linked to other programs that extended to upper level finance programs like the Corporate Audit Staff and the Experienced Financial Leadership Program. Corporate Audit Staff enrollees moved across the various units of the company as internal auditors. It helped the participants develop their critical thinking and gave them an overall view of the business. “FMPs are taught
early on to be linked with operations, and to think of themselves as chief operating officers,”26 said, Brian Lutes, finance manager, GE Medical Systems. As of 2003, around 75% of GE business CEOs were FMP graduates. As Roshan Thiran, director - FMP, Asia, remarked, “We have always believed in driving financial leadership and creating a huge pipeline of financial talent within the company for GE.”27 In addition to the FMP, the company also allowed its employees to register for programs like the Certified Public Accountant Program (CPA),28 the leading accounting qualification in the US.

The company also offered paid internships and co-ops to students to gain practical experience. Co-ops were offered to fourth-year college students who could work for more than 12 weeks side by side with their college work. Around 65 percent of these students eventually became full-time hires. It gave students the opportunity to contribute to and learn from projects and also network with GE employees.

**Experienced Level Leadership Programs:** Two major programs offered under this category were the Experienced Commercial Leadership Program (ECLP) and the Human Resources Leadership Program (HRLP). These programs were offered to executives with 2-5 years of experience (Refer Exhibit X & XI for details).

ECLP was meant for high potential individuals seeking a career in sales and marketing. The program combined four six-monthly rotational assignments across selected GE businesses combined with intensive course work. Among the rotations offered, two focused on aspects of sales. The recruitment process for the program comprised four stages. In the first stage, a screening of the resume was undertaken. It was followed by an online assessment and a 45-minute on-campus interview (or off-campus for those not at school). The final stage required the applicant to appear for an interview at WLC.

HRLP prepared candidates to take up various roles in the human resource function of the company. It consisted of a two year program with three eight month rotational assignments. The courses covered various aspects of business and HR. The program groomed participants through two HR assignments and one cross-functional role in finance, quality or business development. It helped the participants expand their knowledge base through extensive contact with peers and also helped them build a professional network.

**FOCUS ON E-LEARNING**

GE had started implementing on-line training way back in the year 1998. While it was analyzing the return on investment for one of its courses at GE Aircraft Engineering29, the company discovered that the three-day course cost the company $47 an hour in terms of productivity loss per customer and $1,500 for travel and living expenses incurred on participants who had to be flown in from various locations to GE Transportation’s Cincinnati headquarters. The existing training facility also needed a revamp and was estimated to cost $4.5 million. It was at this point that the company decided to implement an online course instead. Later, when the company assessed the effectiveness of the online program, it turned out that employees were able to absorb nearly the same
learning in a three hour online course. It saved the time employees spent away from work. In addition, the company did not have to incur any additional costs for travel and related expenses. As Russ Mayer, vice president and CIO, e-business and technology solutions, GE Aircraft Engines, said, "The online system did lose some effectiveness because of the lack of in-person, face-to-face training but that the cost savings way make up for it." GE’s then CEO Jack Welch was so impressed by the substantial savings that a plan was launched to move 50% of GE’s training online by the end of 2001.

In 2003, GE implemented Learning Management Software (LMS) to power its e-learning website called myLearning@ge. It helped the company impart training to all its employees globally. As Corcoran explained, "A single-instance LMS enables us to provide real-time tracking and ‘global touch’ with all our employees and partners for purposes of training them in the skills they need. Utilization of a common catalog within this tool enables us to leverage core training throughout the organization." The site enabled students to sign on to a personal development page which had a description of their curriculum. It also had a list of courses from which they could choose courses suited to them. The company could also schedule the resources needed for running various T&D programs through this software. It also gave the company a handy repository of information on the best skilled personnel available in real time to handle a particular job.

In 2004, almost 200,000 GE employees took e-learning courses. The company had over 20,000 courses on offer. The courses were a blend of classroom (60%) and online coaching (40%). The e-learning component was scheduled before the classroom component began. For 2004, GE recorded approximately 2.6 million course completions. GE was also developing "virtual learning communities" to enable students to learn through business management simulation. Three to six months after their course was over, students would run virtual businesses through e-mail, phone calls and post-it notes and compete against each other, as if the business was actually in operation.

**THE IMPACT**

GE was recognized for its ability to maximize the value of the enterprise’s intellectual capital by producing exceptional leaders. Analysts observed that GE never experienced any dearth of good leaders to take over the reins as and when the need arose.

Experts pointed out that another key benefit of GE’s focus on training was that it brought global consistency to all its businesses. As Rick Kennedy, manager, media relations, GE Aircraft Engines, remarked, “Despite the company’s size, everyone has a common set of objectives to work from and it’s very

Video 6.14.7: Jack Welch On Leadership & Profits

Source:www.youtube.com/watch?v=AuL2wu7j7vs&feature=related
effective.” GE had been able to use its diversity to transform itself into a learning organization where employees could develop themselves continuously. The on-the-job rotational assignments that the company offered enabled employees to get tremendous exposure across its varied business segments and divisions and gave them unmatched practical exposure to sharpen their managerial capabilities.

Experts agreed that the company had demonstrated the long term benefits of employee training. They pointed out that GE had performed very well since the 1980s. The company’s net earnings between 1980 ($1.5 bn) to 2000 ($12.7 bn) increased more than 8 times even though the workforce was reduced drastically during the same period.

The company had also been able to generate additional revenues by providing professional training to other organizations in various areas like Six Sigma, Work-Out and various business specific skills. It was notable that most GE divisions generated huge revenues by undertaking training and development activities. For instance, GE Healthcare had built a $80 million state-of-the-art training center, to develop educational programs. It ran courses for various hospitals to train executives and doctors in handling specialized and advanced technology-based procedures for a fee ranging from $3,000 to $20,000.

However, analysts wondered why T&D wasn't as successful at other companies as at GE. It was argued that most companies could not afford to spend to the tune of $1 billion that GE spent every year on training. It was also difficult for other companies to spare their employees from work to attend training. Also, unlike GE, most organizations would also face a dearth of good trainers as few employees would have the aptitude for formal teaching. As Hellmut Schutte, dean, business education institution, INSEAD, Singapore, remarked, “If you’re a good manager, it doesn’t mean you are a good teacher.”

This challenge was however, successfully addressed by GE as it developed its leaders to inculcate the skill of coaching their team members from the beginning of their employment with GE.

Experts believed that an important reason for the immense success of T&D initiatives at GE was that real learning at GE occurred indirectly through the environment. According to them, the combination of formal and informal learning was a winning combination. As Corcoran, said, “GE’s training works because of a thousand different things, most of which have nothing to do with training. At best, studies show that only 10 per cent of leadership development is training, 20 per cent comes from mentoring, coaching and role models, and 70 per cent from on-the-job experience.”

Analysts observed that GE was able to maintain its extraordinary capability to churn out leaders because the company had become passionate about developing its employees. Explaining the quest that drove GE’s talent development, Corcoran remarked that GE worked to get the best employees for the company and provided the arena where they could live their dreams and do their best.
### Exhibit I
**GE’s Distinguished Alumni**

<table>
<thead>
<tr>
<th>GE Alumni</th>
<th>Company</th>
<th>Fortune 500 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Nardelli</td>
<td>Home Depot</td>
<td>13</td>
</tr>
<tr>
<td>Larry Johnston</td>
<td>Albertsons</td>
<td>35</td>
</tr>
<tr>
<td>David Cote</td>
<td>Honeywell</td>
<td>75</td>
</tr>
<tr>
<td>Jim McNerney</td>
<td>3M</td>
<td>105</td>
</tr>
<tr>
<td>Kevin Sharer</td>
<td>Amgen</td>
<td>212</td>
</tr>
<tr>
<td>Peter Cartwright</td>
<td>Calpine</td>
<td>242</td>
</tr>
<tr>
<td>Christopher Kearney</td>
<td>SPX</td>
<td>345</td>
</tr>
<tr>
<td>Matt Espe</td>
<td>IKON</td>
<td>415</td>
</tr>
<tr>
<td>Mark Frissora</td>
<td>Tenneco Automotive</td>
<td>453</td>
</tr>
<tr>
<td>Barry Perry</td>
<td>Engelhard</td>
<td>456</td>
</tr>
</tbody>
</table>


### Exhibit II
**Top Companies for Executive Development**

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Rank</th>
<th>Percentage Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric</td>
<td>1</td>
<td>67.7%</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>2</td>
<td>45.2%</td>
</tr>
<tr>
<td>Dell Inc.</td>
<td>3</td>
<td>38.7%</td>
</tr>
<tr>
<td>International Business Machines</td>
<td>4</td>
<td>38.7%</td>
</tr>
<tr>
<td>Weyerhaeuser</td>
<td>5</td>
<td>35.5%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>6</td>
<td>25.8%</td>
</tr>
<tr>
<td>Pepsi Co.</td>
<td>7</td>
<td>25.8%</td>
</tr>
<tr>
<td>UBS</td>
<td>8</td>
<td>25.8%</td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>9</td>
<td>22.6%</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>10</td>
<td>22.6%</td>
</tr>
</tbody>
</table>


### Exhibit III
**Crotonville’s Mission**

Crotonville’s mission is to develop leaders, introduce cultural change and spread key corporate initiatives throughout GE. It’s where our people come together to work, learn and share across boundaries — and where customers experience first-hand the culture and the partnership of GE. It’s a place of vital information exchange where we:

- Educate employees, focusing on leadership, change, Six Sigma, e-Business and other key corporate initiatives
- Communicate and strengthen our employee’s commitment to GE and the GE values
- Build bridges across boundaries by providing a setting for people to interact across businesses, functions and hierarchies
- Enhance our customer focus; build relationships with strategic customers and other key constituencies

Source: www.ge.com
### Exhibit IV
Various T&D Programs at Major Businesses of GE

<table>
<thead>
<tr>
<th>Programs</th>
<th>Entry Level Programs</th>
<th>Master’s Level Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE Businesses</td>
<td>CLP</td>
<td>EEDP EMLP ECLP HRLP</td>
</tr>
<tr>
<td>Advanced Materials</td>
<td></td>
<td></td>
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<tr>
<td>Commercial Finance</td>
<td></td>
<td></td>
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<tr>
<td>Consumer and Industrial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Finance</td>
<td></td>
<td></td>
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<tr>
<td>Corporate Components</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Asset Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Global Research</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
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<tr>
<td>Equipment Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
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<tr>
<td>Insurance solutions</td>
<td></td>
<td></td>
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<tr>
<td>Healthcare</td>
<td></td>
<td></td>
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<tr>
<td>NBC Universal</td>
<td></td>
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<tr>
<td>Transportation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


### Exhibit V
Financial Management Program

<table>
<thead>
<tr>
<th>Program Summary</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Intensive two-year entry-level program spanning four rotational assignments</td>
<td>• Cumulative GPA = 3.0 (no rounding)</td>
</tr>
<tr>
<td>• Hands-on experience may include: financial planning, accounting, operations</td>
<td>• Undergraduate degree only, no MBA or Master's degree</td>
</tr>
<tr>
<td>analysis, auditing, forecasting, treasury/cash management, commercial</td>
<td>• Less than 1 year full-time external work experience</td>
</tr>
<tr>
<td>finance and Six Sigma quality</td>
<td>• Demonstrated interest or competency in finance</td>
</tr>
<tr>
<td>• Combines coursework, job assignments and interactive seminars to equip you</td>
<td>• Mobility</td>
</tr>
<tr>
<td>with exceptional technical, financial and business skills</td>
<td>• Preferred criteria</td>
</tr>
<tr>
<td>• Led by senior GE professionals and mentors</td>
<td>• Leadership experience</td>
</tr>
<tr>
<td>• Develops world-class financial leaders for exciting positions</td>
<td>• Communication Skills</td>
</tr>
<tr>
<td>Source: <a href="http://www.ge.com">www.ge.com</a></td>
<td>• Finance or Business related internship</td>
</tr>
<tr>
<td></td>
<td>• Finance or business related major</td>
</tr>
</tbody>
</table>
### Exhibit VI
**Information Management Leadership Program**

<table>
<thead>
<tr>
<th>Program Summary</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A two-year program consisting of four six-month rotational assignments through different areas of a GE business</td>
<td></td>
</tr>
<tr>
<td>• On-the-job training in business dynamics, career strategies, communication skills, problem solving, decision making and project leadership</td>
<td></td>
</tr>
<tr>
<td>• Formal coursework in advanced information technology and systems, and their strategic application within GE</td>
<td></td>
</tr>
<tr>
<td>• Develops strong technical foundation, project management skills and process knowledge that cuts across functions to support GE’s boundless culture</td>
<td></td>
</tr>
</tbody>
</table>

Source: [www.ge.com](http://www.ge.com)

### Exhibit VII
**EDISON Engineering Development Program**

<table>
<thead>
<tr>
<th>Program Summary</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A two-year entry-level program providing three or more rotational assignments</td>
<td></td>
</tr>
<tr>
<td>• Assignments are engineering projects driven by real GE business priorities.</td>
<td></td>
</tr>
<tr>
<td>• Diverse experiences may include: Systems, Analysis, Design, Quality, Reliability, Integration &amp; Test</td>
<td></td>
</tr>
<tr>
<td>• Technical problem-solving skills developed via advanced engineering coursework, formal reports and presentations to senior leadership</td>
<td></td>
</tr>
<tr>
<td>• Business skills developed in corporate leadership courses</td>
<td></td>
</tr>
<tr>
<td>• Opportunity to earn credit towards an MS degree in Engineering and in real world application technology</td>
<td></td>
</tr>
</tbody>
</table>

Source: [www.ge.com](http://www.ge.com)
Exhibit VIII
Operations Management Leadership Program

Program Summary

• Intensive two-year entry-level program with at least three rotational assignments
• Possible assignments include: Manufacturing Shop Operations, Process Engineering, Six Sigma Quality, Materials Management, Supply Chain Management, Environmental Health & Safety
• Mentoring, teamwork, ongoing reviews and defined deliverables
• Technical training in Contemporary Manufacturing, Global Supply Chain Management, APICS Certification, Six Sigma Quality training, Environmental Health & Safety
• Business training and challenging experience in: Project Management, Team Leading, Negotiation, Manufacturing Finance

Eligibility Criteria

• **Academic excellence, business acumen and leadership ability**
• Strong communication and analytical problem-solving skills
• Geographic flexibility and global mindset; able to operate across cultures
• Degree in Engineering or a technical discipline and relevant internship/co-op experience preferred
• Minimum GPA 3.0/4.0

Source: www.ge.com

Exhibit IX
Distinguished FMP Graduates

<table>
<thead>
<tr>
<th>FMP Graduates</th>
<th>Years at GE</th>
<th>Later Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawrence Bossidy</td>
<td>1957- 1991</td>
<td>Retired; former AlliedSignal CEO</td>
</tr>
<tr>
<td>Robert Brust</td>
<td>1965- 1996</td>
<td>Eastman Kodak, CFO</td>
</tr>
<tr>
<td>Dennis Carey</td>
<td>1969- 1994</td>
<td>Home Depot, CFO</td>
</tr>
<tr>
<td>Chris A. Davis</td>
<td>1976- 1993</td>
<td>ONI Systems, CFO</td>
</tr>
<tr>
<td>Arthur Fatum</td>
<td>1974- 1990</td>
<td>CNET Networks, president of international media, former CFO</td>
</tr>
<tr>
<td>Andrew Hyde</td>
<td>1979- 1994</td>
<td>Salesforce.com, CFO</td>
</tr>
<tr>
<td>James Loree</td>
<td>1980- 1999</td>
<td>The Stanley Works, CFO</td>
</tr>
<tr>
<td>George Scimone</td>
<td>1968- 1995</td>
<td>Reader's Digest Association, CFO</td>
</tr>
<tr>
<td>Robert Swan</td>
<td>1985- 1999</td>
<td>Webvan Group, CFO and COO</td>
</tr>
</tbody>
</table>

Source: www.cfo.com
### Exhibit X
**Experienced Commercial Leadership Program**

<table>
<thead>
<tr>
<th>Program Summary</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• ECLP consists of 4 six-month, cross-business rotations within a Commercial Segment</td>
<td>• M.B.A with 2-5 years of marketing or sales experience, or</td>
</tr>
<tr>
<td>• Program members rotate between 2-3 different GE Businesses within a given segment</td>
<td>• Bachelor’s degree with 4+ years marketing or sales experience</td>
</tr>
<tr>
<td>• Two rotations are Marketing focused and two are Sales</td>
<td>• Demonstrated leadership, communication and analytical skills</td>
</tr>
<tr>
<td>• Program participants strengthen their commercial, business and leadership skills by completing an intensive curriculum consisting of: classroom and online training, in-residence symposiums at WLC</td>
<td>• Geographic mobility is required</td>
</tr>
<tr>
<td></td>
<td>• Unrestricted Work Authorization</td>
</tr>
</tbody>
</table>

Source: [www.ge.com](http://www.ge.com)

### Exhibit XI
**Human Resource Leadership Program**

<table>
<thead>
<tr>
<th>Program Summary</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A two-year program consisting of three challenging eight-month assignments</td>
<td>• Demonstrated academic excellence, business acumen and leadership ability</td>
</tr>
<tr>
<td>• Develop broad business skills via hands-on experience in two HR assignments, plus a third assignment in an area such as finance, quality or business development</td>
<td>• Self-confidence, strong analytic problem-solving skills and exceptional communication skills</td>
</tr>
<tr>
<td>• Formal classroom training in HR leadership and business skills and concepts</td>
<td>• M.B.A./M.A. in Business or an HR-related discipline plus several years work experience preferred</td>
</tr>
<tr>
<td>• Extensive contact with peers and senior business leaders from around the world</td>
<td>• Geographic flexibility and global mindset; able to operate across cultures</td>
</tr>
<tr>
<td>• Expansion of knowledge base, critical problem-solving skills and professional network</td>
<td></td>
</tr>
</tbody>
</table>

Source: [www.ge.com](http://www.ge.com)
Additional Readings & References:

Books:

Articles:
5. Lotte Chow, All in the Grooming, CFO Asia, October 01, 2003.

17. www.ge.com
18. www.finarticles.com
Footnotes


4. Headquartered at Fairfield, Connecticut, USA. GE had revenues of $152.4 billion and profits of $16.6 billion for the year 2004.

5. Thomas Alva Edison (Edison), the inventor of the incandescent light bulb set up The Edison Electric Light Company (EELC) in 1872, to conduct experiments on electricity. In 1879, he invented a carbon-filament lamp and direct current generator for incandescent electric lighting. The EELC comprised a number of smaller companies involved in different businesses ranging from power stations and wiring grids to electrical appliances. The EELC merged with The Thomas-Houston Electric Company in 1892, to form General Electric Co.

6. The Dow Jones Industrial Average (DJIA) a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The DJIA was invented by Charles Dow and is the oldest and single most watched index in the world.

7. Financial Times & Price Waterhouse Coopers have been drawing up the Financial Times /PricewaterhouseCoopers World's Most Respected Companies ranking annually since 1997. The survey adjudged GE as the No. 1 company from 1997 to 2004.

8. Executive Development Associates is a global executive development firm based at San Francisco, US. It conducts the survey annually to recognize companies for their strategies and programs aimed at cultivating the next generation of business leaders. Chief learning officers and human resources executives of more than 75 companies vote to choose the top companies for the survey.

9. Ralph Cordiner was CEO from 1950 to 1964.

10. The formal name of the place is Croton-on-Hudson, as it is situated near the river Hudson.

11. Reginald Jones was CEO from 1972 to 1981.

12. At GE all employees were categorized into A, B and C players. The four E’s were related to one P –Passion. It was passion that separated the A’s from B’s. The B’s were very important to the company and were encouraged to search every day for what they lacked as compared to A’s, so that they too could join the ranks of the A’s.

13. Noel M. Tichy, is a Professor of Organizational Behavior and Human Resource Management at the Graduate School of Business Administration, University of Michigan. He is the founder and editor-in-chief of the Human Resource Management Journal. He has authored
numerous books, including Control Your Destiny or Someone Else Will (Harper Business; 1994). He is also the author of Globalizing Management, The Transformational Leader and Strategic Human Resource Management. He was the Chief Learning Officer at GE from 1985 to 1987.


16. Peter Senge popularized the concept of learning organization in his book The Fifth Discipline (1990). He described learning organization as a place where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continuously learning how to learn together.

17. Six Sigma is a quality measure and improvement program that focuses on the control of a process to the point of ± six sigma (standard deviation) from a centerline, or 3.4 defects per mn items. It includes identifying factors critical to quality as determined by the customer, reducing process variation and improving capabilities, increasing stability and designing systems to support the six sigma goal.

18. Champions are individuals who lead Six Sigma within specific businesses in the organization and ensure that all the key functions of the organization were linked to Six Sigma.

19. Master Black Belts are people selected by the Champions to play the role of in-house experts responsible for spreading the Six Sigma knowledge throughout the organization.

20. Green Belts were employees who execute Six Sigma throughout the organization as a part of their jobs. Green Belts are made responsible for leading small-scale improvement projects.

21. Jack Welch’s formal name was John F. Welch.

22. As of June 22, 2005, each of GE’s eleven businesses was headed by a business CEO. The businesses were - GE Advanced Materials, GE Commercial Finance, GE Consumer Finance, GE Consumer & Industrial, GE Energy, GE Equipment Services, GE Healthcare, GE Infrastructure, GE Insurance Solutions, GE Transportation and NBC Universal.

23. Corcoran took over as Chief Learning Officer in May 2001 as a 25 year GE veteran from the HR function. He was the first WLC graduate to take over as CLO.


25. William Wang completed his undergraduate course in corporate finance from Fudan University, China and
joined GE Lighting as an FMP-China, program member in 1995.


28. CPA designation is awarded by The American Institute of Certified Public Accountants, USA.

29. GE Aircraft Engineering is a part of GE Transportation.


Managing Careers

In this chapter, the student will be able to understand:

- Concept of Career
- Career Anchors
- Elements of a Career Planning Program
- Career Development Cycle
- Succession Planning

Source: www.peacocktech.in
Section 1

**Concept of Career**

A **career** can be defined as a sequence of positions, roles or jobs held by one person over a relatively long time span. It can also be defined as a sequence of separate but related or connected work/life activities that provides continuity, order and meaning in a person’s life.

Career could cut across organizations and roles, all interrelated with one another. A career represents an organized path taken by an individual across time and space with a horizon. While for some people, the career is planned, for others it could just happen on account of circumstances, situation, current location and so on. The concept of career is meaningful for those who look beyond just a job and a salary.

**Career Development**

Career development is dynamic and not a static element of an individual’s life. Individual aspirations and career opportunities can change depending on various factors. The organization and the individual have to work in concert, to managing a satisfying career. *Career development programs* help in the achievement of career objectives.

**Career Path**

A **career path** is the sequential pattern of jobs that form a career.

Source: www.t2.gstatic.com
Career Goals

Career planning refers to the process by which an individual selects career goals and the path to these goals. The process whereby each employee personally plans career goals is known as individual career planning and the process whereby the organization plans career goals for its employees is known as organizational career planning.

Career Management

Career management is the process of designing and implementing goals, plans, and strategies that enable HR professionals and managers to satisfy workforce needs and allow individuals to achieve their career objectives.
Exhibit 7.1.1
Impact of Career Development on Employee Performance

- Most employees quit organizations for better growth prospects. Therefore, organizations should take the initiative to develop the careers of their employees. This would result in making the employees feel satisfied with the job and enable the organization to retain talent. However, there are concerns from organizations related to long-term viability of career development programs since this requires investment of time and resources. But others believe that such initiatives are crucial for long-term profitability. Vishwas Mahajan, CEO and MD, Compulink Systems, says, “Career development is a continuous process. Incidents such as employees quitting the organization should not stand as a barrier to this process. There is always a commitment of the top leadership towards such programs as they see long-term value addition to the organization.”

- According to Anand Talwar (Talwar), Vice-president, Talent Management, ITC Infotech (ITC), many employees have prospects to change their jobs, but it is vital for organizations to develop a career management framework in a bid to retain employees. Talwar adds, “In fact the lack of it impacts productivity. In ITC Infotech, we believe that individuals must be provided growth and career advancement opportunities as we look forward to building them into thoroughbred professionals.” ITC has developed a career management framework that focuses on career mentoring and personal development plans.

- To handle issues related to long-term productivity in an organization, Tarun Singh (Singh), Director, Kenexa Technologies (India), has proposed a three-pronged strategy. First, the employee should have clarity as to what he/she wants to accomplish and pursue in life. Once this is clear, the employee would be less likely to keep switching jobs. Next, the organization too should have a clear vision and achievable goals which should be communicated to the employees. This helps the employees gain confidence in the organization and their future prospects. Finally, career development is transformed from a goal into a plan for promoting and retaining employees who are essential for the success of the company.

Singh adds that the benefits of career development programs can be seen through the reduction in the rate of attrition, engagement surveys, and the productivity indicator. He says such programs are a win-win situation for both the organization and the employees. Singh adds, “The typical employee views a career development program as a path to upward mobility, the manager sees it as a retention and motivational tool, and the top management view it as a tool for succession planning.” Moreover, career development programs are aimed to unearth employees with high potential who can be prepared to undertake greater responsibilities in the future.

They act as a foundation – with deep roots of conviction, competence, and mental preparedness for pursuing a career path. These characteristics are composed of a combination of needs and drives and serve to “anchor” the person to a few related types of careers. Edgar Schein, a professor at MIT, developed the idea of career anchors and came up with 8 career anchors.

These are described below.

i. **Autonomy/Independence**

Those individuals who have this characteristic as a career anchor, desire to have freedom to operate and autonomy to take their own decisions. They want to be self reliant and do not like to be dictated to. They excel as entrepreneurs, professors, consultants, professionals and free-lancers.

ii. **Security/Stability**

Individuals who desire security and stability want to be free from any anxiety of uncertainty or insecurity. Therefore, they prefer to remain in the same kind of job and with the same employer, for life. This type of individuals might face a problem in a dynamic and fast-paced organization/occupation.

iii. **Technical/Functional Competence**

Those with a technical/functional competence anchor exhibit strong inclination to develop something which they can call their own. Engineers, scientists, technologists, entrepreneurs etc. come under this category. Their only drawback is that they might miss the bigger picture on getting into the tunnel of specialization.
iv. **General Management**

Those with management as a career anchor have good planning, organizing, managing and controlling skills. They have a broader view of things and play a facilitating role. They enjoy responsibility and revel in uncertainty.

v. **Entrepreneurial Creativity**

Creativity is a premium in this era where innovation drives competitiveness. Those with creativity as an anchor are more often successful as artists, free-lancers, entrepreneurs and innovators. They enjoy jobs where they are given enough freedom to ‘create’ and are not bound by organizational framework.

vi. **Service**

Service as a career anchor drives individuals to take up jobs in not-for-profit service organizations, NGOs, special schools for the disabled and hospitals for the underprivileged. The worthwhile causes they pursue can range from environmental protection to poverty alleviation.

vii. **Pure Challenge**

People with this career anchor just love solving difficult problems. They are attracted to challenges that do not follow any pattern or style.

viii. **Life Style**

For some people, nothing in life is more important than just enjoying life. They have a disinclination to sacrifice life style solely for career advancement. These type of people have ‘life style’ as their career anchor.

Career anchors are not unique and cannot describe the individual needs completely. Each employee might have a combination of two or more of these anchors, but has to identify the most predominant one to understand his career needs and aspirations. By analyzing employee needs, career planners can channel them appropriately instead of assuming that they all want to move up the managerial hierarchy or need monetary incentives.
Section 3

Elements of a Career Planning Program

There are four distinct elements of career planning. They are as follows:

i. Individual Assessment and Need Analysis

ii. Organizational Assessment and Opportunity Analysis

iii. Need-opportunity Alignment

iv. Career Counseling

Refer to keynote 7.3.1 that explains the process of career planning in detail.

Keynote 7.3.1: Process of Career Planning

Source: ICMR.
Section 4

The Benefits of Career Planning to an Organization

Well-planned and well-executed career planning programs are beneficial for employees as well as the organization. Exhibit 7.4.1 discusses HCL's career development program to develop the next generation of employees. A comprehensive and ideal career development program would enable an organization manage its human resources better. A well-designed career planning exercise and career development program provide the following positive results:

Exhibit 7.4.1: HCL’s ‘Campus to Corporate’ Career Development Program

In January 2008, HCL Technologies (HCL), an Indian IT company, signed a memorandum of understanding (MoU) with four Bangalore-based colleges for its campus engagement initiative. As part of this initiative, HCL launched ‘GoPro’ – HCL’s ‘Campus to Corporate’ career development program. With this program, HCL aimed to develop a corporate community. It also had tie-ups with women’s colleges to expand the representation of women and encourage them to take up a career in the corporate world.

‘GoPro’ was HCL’s attempt to equip the future generation with the necessary skills and qualities, so that they were prepared to stand up to the corporate challenges ahead of them.

In its training module, HCL included enhancement of behavioral and attitudinal skills, soft skills, etiquette, communication, creativity, and innovation.

In addition to the strategic tie-up with engineering colleges, HCL planned to extend this initiative to women’s colleges in arts and science streams in order to promote diversity and gender representation.

The company also planned to set up ‘Technology Labs’ to assist research and training work for students and ‘Faculty Enablement Program’ that would enable faculty interaction with professionals in the field of technology.

Thus HCL with its career development program aimed to develop its ‘next generation’ of employees.

Ensures Availability of Resources for Future

Career development in an organization should be in alignment with human resource planning. Human resource planning determines the changing resource requirements of an organization and career development helps in meeting the resource requirements. This is achieved by aligning the individual aspirations with the organizational needs to optimize resource use.

Enhances Organizational Ability to Attract and Retain Talent

In a competitive market environment, talented employees are valuable assets. These employees in turn, are trying to make the best of their career opportunities. Therefore, an organization that shows concern for the employees’ future by providing them the best opportunities can attract and retain talented people. As the number of people who seek challenging jobs, greater responsibility and better opportunities increases, career planning becomes all the more essential. Moreover, employees seek jobs that are compatible with personal and family interests and commitments. Career development results in lower employee turnover by matching individual aspirations with organizational needs.

Ensures Growth Opportunities for All

A comprehensive planning exercise by the organization ensures growth opportunities for all the employees. In the Indian context, the reservation policies to be implemented in Government and Public Sector Units (PSUs) can also be taken care of, by resorting to career planning in organizations. For example, career planning helps in maintaining the percentage of employees of different categories at each level in the organization.

Handles Employee Frustration

Today’s workforce is more knowledgeable and has greater expectations when compared to that of yesteryears. They desire more responsibility and greater challenges. A good career development program can help in handling the expectations of the employees, thereby reducing frustration levels. Career counseling, an integral part of career management, helps employees set more realistic and achievable goals for themselves.
Section 5

The Benefits of Career Planning to an Individual

Career planning offers the following benefits to employees:

- It helps the employee understand his own strengths and weaknesses vis-a-vis his objectives.
- It helps the employee to have a better knowledge of the career opportunities available to him.
- It enables him to choose a career that suits his lifestyle, preferences, self-development plans, family environment, etc.
- It helps him plan his career in a long-term perspective.
- It provides him an opportunity to change his career plans according to his changing needs or a changing environment.
- Success in achieving career objectives gives the employee a sense of satisfaction and achievement that motivate him further.
Section 6

Issues in Career Planning

Employees as well as organizations face certain issues or challenges in career planning. Exhibit 7.6.1 explains LG’s career planning initiatives and 7.6.2 explains how organizations handle career planning problems. Some of these problems are:

**Dual Career Families**

The proportion of women in professional occupations has increased dramatically in the recent years. Even though traditionally our society has been used to the idea of single-career families, it is now reorienting itself to the idea of dual-career families. With the careers of both the husband and wife becoming equally important, the emphasis is on looking at career development of both in unison. Organizations employing people whose spouses are working, must deal with the implications of dual-career planning. This is especially important if both the husband and wife are employed in the same organization. For example, in the government and in most of the Public Sector Enterprises, if both husband and wife are working in the same organization, they are usually posted at the same place. If one of them is transferred to another place, due consideration is given in transferring the spouse also to the same place.

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**Exhibit 7.6.1**

**LG’s Career Planning Initiatives**

In 2008, LG Electronics India (LG) adopted an innovative approach to curb attrition which hovered at 30% in the industry. LG, which hires between 300 and 400 employees each year in India, introduced a 5-year program to develop the career of its white-collar employees. Though LG had a low attrition rate of 6%, it launched a career planning program to enable its employees to grow with the organization. According to Yasho V Verma (Verma), HR Director, LG, “Traditionally, we have had low attrition rates but we are also aware of how to make our employees grow along with the company. The career planning program is aimed toward achieving that objective.”

The program was compulsory for all its 1900 white-collar employees. The employees had to go through an assessment process by experts to identify their weaknesses. In the course of five years, the employees were trained and assisted to overcome these weaknesses. The assessment was carried out in batches based on hierarchy. At one time, a batch of 12 people was sent for having their weaknesses identified and for training in those areas.

Verma added, “The senior employees will be assessed on the basis of their vision and leadership abilities. The young people will be assessed as per their functional capabilities.” He added that this program had helped in transforming factory workers into sectional leaders.

Verma said that LG had been able to maintain its attrition rate at a low level since it empowered even lower level employees. It tapped the potential of its employees by encouraging them to participate in decision making and that resulted in job satisfaction for the employees.

Low Ceiling Careers

Some highly specialized jobs have little room for advancement in career terms. Nonetheless, employees will still seek some form of career progression. It is difficult for employees to get promotions, despite their career plans in such jobs.

Declining Opportunities

Career opportunities for certain jobs or categories sometimes decrease due to technological and economic changes. A career shift is perhaps the only solution for such a problem. For example, career opportunities for statisticians have come down due to a high degree of computerization. Statisticians can switch careers as Analysts by learning computer skills.

Career Stages

Employees move through different career stages (as discussed in the model of career development) and their career needs change as they move from one stage to another. In such a situation, the career plan of the employee becomes dynamic and keeps changing with his changing personal needs.

Restructuring

The demands of a fast changing economy have been forcing organizations to restructure and reorganize themselves. The concept of lean and mean organizations and flat structures has forced employees to revamp their career plans. Organizations also have to redo the whole exercise in a completely changed scenario.

Exhibit 7.6.2
Handling Career Planning Problems

Most employees in organizations may reach a career plateau where productivity tapers off at some point. Combating a career plateau can be challenging for HR managers because of its implications for the organization. These managers have to handle the situation very carefully to avoid any drop in morale or loss of motivation in the employee. According to Rebecca Page-Tickell, senior consultant, Xancam, “To apply the wrong approach, employees who have reached a plateau could be quite detrimental, so HR’s role in diagnosing and treating the cause is of great importance.”

Almost all employees encounter performance plateaus during the course of their career. Therefore, it would be advantageous for HR managers to be aware of the following to tackle this.

HR managers should have a one-to-one conversation with individuals to find out the cause for his/her drift in performance. The manager should also make an effort to know whether the employee is aware of his/her decreasing productivity. The managers should encourage the employees to talk about their career as it would shed light on the cause of the problem which may or may not be related to work.

Once the problem has been identified, the manager can suggest a solution. He/she can encourage employees to take up projects that would reward them and give them the confidence that they can contribute to the organization.

Managers can revitalize employees by introducing job rotation or redefining roles to bring in renewed enthusiasm.

The managers can assure employees about the opportunities available for upgrading their skill sets through training and development. This would send a signal to the employees that they are important and thereby increase their level of commitment to the organization.

Managers can learn from their previous experiences and prevent this from happening to other employees. As a precaution, HR managers can train line managers to recognize symptoms and consult HR for advice at an earlier stage.

**Career Plateaus**

Employees reach a plateau in their career when they feel that there is nothing else left to achieve. Lack of motivation, high levels of stress, personal problems, lack of requisite knowledge and skill set, lack of opportunities or a slow moving business can lead to a career plateau. These challenges have to be taken care of, to avoid a plateau and put the career on a growth path.

**Work-family Issues**

Elderly parents, school-going kids, a sick relative or family member, are some of the many family issues that change the career path of an employee. These are constraints which most of the employees face in the pursuit of their career objective. These issues might sometimes lead to a plateaued career.
Career Development Cycle

Career development is the process by which employees progress through a series of stages, each characterized by a different set of developmental tasks, activities, and relationships. Refer to the keynote 7.7.1 for different stages of career development.

**Reference Questions**

1. What are the stages of career development? Explain
2. What are career anchors? How do they help an individual in making career based decisions
3. What is the difference between career planning and career development? What are the trends in organization based career planning?
Section 8

Succession Planning

Succession planning in an organization helps identify specific individuals to fill future vacancies in key positions. An organizational replacement chart forms the basis for the process of succession planning. It gives an overview of the present incumbents and the prospective replacements. Refer to exhibit 7.8.1 for the significance of succession planning programs.

Video 7.8.1: It took 15 months to select Cyrus P Mistry: Shirin Bharucha
Source: www.youtube.com/watch?v=BCxjSjJhF1M

Video 7.8.2: NDTV Truth vs Hype - The Cyrus Mystery (Ratan Tata Successor) Part II
Source: www.youtube.com/watch?v=Y6jm5872_wE

Video 7.8.3: NDTV Truth vs Hype - The Cyrus Mystery (Ratan Tata Successor) Part I
Source: www.youtube.com/watch?v=E8cL0TQBrh8&feature=related
Exhibit 7.8.1
Significance of Succession Planning Programs

In any organization, the middle-level managers play the most challenging role as they are the pivotal interface between the top management and lower level management. A growing concern in organizations is the lack of leadership skills among middle-level managers. Several reasons have been cited for this lack. According to Ranjan Acharya (Acharya), vice-president, corporate HR, Wipro Technologies, “Accelerated growth, multiple demands on time, remote global team management, not enough focus or time on developing the needed competencies could be some of the reasons. It is like the old story — no time to sharpen the saw. It takes more time to work with a blunt edge and that leaves no time for sharpening the saw.”

Other reasons cited were lack of adequate attention by the top management to the middle-level managers. This resulted in lack of opportunities and challenges at the middle-level management, leading to poor motivation and attrition.

According to Acharya, a leadership crisis at the mid-level of management could severely impact the organizational productivity and employee satisfaction.

According to Harish Govind (Govind), vice president of HR, Blue Star Infotech, lack of focus on middle-level managers could lead to chaos in the organization since they were also the main communication channels between the top level and lower level management. Govind added, “Even shortage of skills like grievance handling can in fact affect the finer aspects of project management.” Citing similar concerns, Manoj Mandavgane, general manager, HR, ICICI Infotech (ICICI), said, “The fallout can be very damaging. It will lead to low motivation, impact the stock and market standing, the customer will lose his confidence on the company, and the organization will lose prospective employees and customers.”

In view of these concerns, more and more organizations are adopting succession planning policies to address future leadership needs. It is the responsibility of organizations to train their employees to become effective leaders in the future.

ICICI has specific and different career paths and training programs for technical and managerial staff. Wipro has an explicit program called the New Leaders’ program and other programs such as 360 degrees appraisal for giving individual feedback, individual coaching initiatives, and new assimilation programs.

Similarly, Infosys Technologies Limited has the Education and Research (E&R) department and the Infosys Leadership Institute (ILI) which train employees in areas of management, technology, business, and leadership. According to a spokesperson at Infosys, “With the objective of leadership development to address business risk, especially in terms of succession planning, a new ‘three-tier model’ of leadership is being implemented in the company.” In its three-tier model, tier 1 consists of leaders including business unit heads while tiers 2 and 3 have potential candidates for the top management. A member of the board of directors coaches tier 1 while the other two levels are trained by the level above them. These employees are trained intensively and extensively and can be used to fill any new vacancy in the company.

Acharya added that organizations should continue training middle-level managers, which would help them curb attrition. He added, "Ironically, the more you train, the more you retain. People do not want to leave you and join another organization, where learning stops."
Compensation Management

Employee compensation is one of the major determinants of employee satisfaction in an organization. The compensation policy and the reward system of an organization are viewed by the employees as indicators of the management’s attitude and concern for them. It is not just the compensation in toto, but its fairness as perceived by the employees that determines the success of a compensation management system. Hence, it is very important for the management to design and implement its compensation system with utmost care and tact. A good compensation system should be able to attract and retain employees, give them a fair deal, keep the organization competitive and motivate employees to perform their best.

Traditionally, pay scales in companies reflected the importance of the work and the responsibility level. Today organizations try more to assess the worth of an individual in terms of his performance and contribution to the organization. With the growing demands of the workforce and the constant challenges in the business environment, organizations have to evolve an accurate system for evaluating jobs and assessing their worth. Job evaluation helps to determine the relative worth of a job in an organization in a systematic, consistent and accurate manner. It also helps in estimating the basic pay for each job in accordance with the importance of the job in the organizational hierarchy. Once the basic pay is determined, the rewards, incentives and benefits attached with the pay, position and performance are also determined. The basic wage, incentives and rewards and benefits, together form the compensation package of an employee.

Source: www.charitylawyerblog.com
In this chapter, we will study the concept of job evaluation, the process and techniques of job evaluation, the advantages and limitations of job evaluation and the factors that determine its success. After this, we study the concept of wage and salary administration, the concepts of minimum wage, fair wage and living wage and the different basic wage plans. We then discuss the concept of variable pay and the different variable compensation plans. Then, we proceed to study the concept of executive compensation plan and the steps involved in designing an effective executive compensation plan. Then, we move on to discuss the concept of wage differentials, the different theories and surveys that monitor wage and salary administration in India and the wage fixing institutions and authorities. The national wage policy and the hurdles in its implementation are studied following this. Then, the basic features and objectives of rewards and incentives, the short-term and long-term incentive plans, guidelines for effective incentive plans and the concept of non-monetary incentives are discussed. Finally, the terminology and meaning of benefits, the objectives of benefits and their history and evolution are discussed.

**In this chapter, the student will be able to understand**

- Definition and Objectives of Job Evaluation
- Process of Job Evaluation
- Techniques of Job Evaluation
- Advantages of Job Evaluation
- Limitations of Job Evaluation
- Concept of Compensation Administration
- Different Concepts of Wages
- Basic Wage Plans
- Variable Compensation
- Executive Compensation
- Wage Differentials
- National Wage Policy
- Theories and Surveys for Wage and Salary Administration
- Wage Fixing Institutions and Authorities
- Concept of Rewards
- Types of Incentive Plans
- Non-monetary Incentives
- Guidelines for Effective Incentive Plans
- Employee Benefits
- Objectives of Employee Benefits
- History and Evolution of Benefit Programs in India
Job evaluation is a systematic process of analyzing and evaluating jobs to determine the relative worth of each job in an organization. It forms the basis for designing the compensation management system in an organization. Since the compensation management and the perceived fairness of compensation administration have a big influence on employee morale and satisfaction, job evaluation assumes immense importance. Apart from job evaluation, the various factors that determine the compensation system are the size and structure of the organization and the industry in which it operates, the strength of employee unions, the position of the person and his importance to the organization, the demand for particular skill sets in the industry, and above all, the profitability of the company.

According to the Bureau of Labor Statistics (USA), "job evaluation is the evaluation or rating of jobs to determine their position in the job hierarchy. The evaluation may be achieved through assignment of points or use of some other systematic method for essential job requirements such as skill, experience and responsibility".

**Objectives**

The primary objective of job evaluation is to determine the relative worth of different jobs in the organization and provide the basis for the compensation management system. The other objectives are:

- to determine the position and place of a job in the organizational hierarchy.
- to clarify the responsibility and authority associated with each job.
- to manage internal (between different jobs in the organization) and external (between similar jobs in other organizations of the industry) consistency in the compensations.
- to maintain complete and accurate data relating to job description and job specification of various jobs.
- to ensure employee satisfaction with respect to the compensation.
to avoid discrimination of any kind in wage administration.

to provide the basis for classification of new or changed jobs.

**Principles of Job Evaluation**

The basic principles that govern and determine the successful implementation of a job evaluation program, are as follows:

- The job dimensions have to be properly selected and should be rated in accordance with the demands of the job.

- The dimensions selected for the purpose of rating should be clearly defined to ensure clear understanding by the employees.

- The evaluation program should be explained and illustrated to the employees at all levels. The employees as well as the supervisors should have confidence in the system of evaluation.

- The employees must be actively involved in the evaluation program. This helps develop a sense of trust in the whole exercise.

- Market factors should be taken into consideration while evaluating jobs. For example, if there is a scarcity of geophysicists in the job market, this fact has to be given due importance while evaluating the job of a geo-physicist.
Section 2

Process of Job Evaluation

The various steps involved in a job evaluation exercise are outlined below in the keynote 8.2.1:

**Keynote 8.2.1: Steps Involved in a Job Evaluation Exercise**

Source: ICMR
Section 3

Techniques of Job Evaluation

Quantitative and non-quantitative techniques are used to compare jobs in an organization for the purpose of classifying them and attaching monetary values to them. (Refer Figure 8.3.1).

Non-Quantitative Techniques

The two types of non-quantitative techniques are the ranking and the job grading methods.

Ranking

Ranking is one of the simplest and the oldest job evaluation methods. In this method, the jobs in an organization are assessed based on the knowledge, skills, effort and other job dimensions associated with each job. Ranking involves preparation of brief job descriptions and assigning ranks to the jobs in accordance with their worth in the organization. Though it is the simplest, it is not often used because this method does not have an objective and concrete basis of evaluation.

Several techniques of ranking are used in the process of job evaluation.

a. Relative ranking—Since it is difficult to rank all the jobs at a time under the simple ranking method, a method of relative ranking is adopted. In this method, a key or representative job is identified and its worth is...
determined. Subsequently, the relative importance of each job in comparison with the representative is determined and then ranked.

b. **Paired comparison** – In this technique, each job is compared with every other job in the organization. After this comparison in pairs, the jobs are ranked. This is similar to the paired comparison method of ranking employees in performance appraisal.

c. **Single factor ranking** – In this method of evaluation, the single most important factor/dimension of a job is identified and compared with the single most important factor/dimension of other jobs. This simplifies the exercise of job evaluation.

In all of the above methods, once the ranking of the jobs is complete, a monetary value is attached to each job.

**Advantages**

- This method of evaluation is very simple.
- It is most appropriate for small organizations.
- This system is a quick and inexpensive method of job evaluation.

**Disadvantages**

- This system is not suitable for a large organization as there are a lot of jobs to be evaluated and ranked.
- Even though the job dimensions are determined, no definite standard is used for ranking.
- Job specification and employee specification are not considered in evaluation.
- This method ranks the jobs but does not indicate the extent of difference between them.

**Job classification or job grading**

In this method of job evaluation, the jobs are classified and graded based on their significance and their worth to the organization. The jobs at various levels in an organization are placed under different grades, which are clearly defined. Grades are formulated on the basis of the nature of tasks and responsibilities of the jobs, the authority associated with them and the knowledge and skill required for the jobs. A single grade is assigned to the jobs across the company at the same level. For example, a grade may comprise jobs like Financial Accountants, Cost Accountants and Management Accountants. The steps in job grading are -

a. **Analyzing the organizational structure and its chief characteristics.** For example, determining whether the organization is a functional or a matrix organization.

b. **Determining the job dimensions/factors, for the purpose of defining grades.**

c. **Defining and determining the job grades as Grade I, Grade II and so on, based on the job dimensions and the organizational structure.**
d. **Classifying the jobs of the organization under different grades in accordance with the grade definitions.**

e. **Using inputs from employees and trade union representatives regarding the number of grades, grade description and job classification.**

f. **Freezing the grades and assigning monetary values to the key grades, and then to all other grades.**

**Advantages**

- Job evaluation using the grading technique is supported by the job description and the grade definition.
- It is a simple technique as is quite easy to understand, once the grade definition and job classification exercise is complete.
- It is inexpensive and provides a systematic understanding of the organization structure based on grades.
- After the grades are established, any changed job or new job can be easily evaluated.
- It is comparatively more comprehensive than the ranking method as it provides grades and grade description/definition for various classes of jobs.

**Disadvantages**

- It is a cumbersome method as the definitions of grades have to cover different jobs from different functions. For example, a grade covering the job of a human resources officer should also cover the job of a finance officer.

**Quantitative Techniques**

**Point rating method**

The point method or the point rating method is one of the most widely used methods of job evaluation. In this method, a quantitative point scale is developed to evaluate the jobs. However, different scales might be required to evaluate different jobs. For example, all the managerial jobs might be evaluated on one scale, all the operational/line jobs on another and all the clerical jobs, determined by the job evaluation analyst or the human resources function. The different steps in the point rating method are:

1. **Determine the job factors or compensable factors** – Job factors or compensable factors are those characteristics of a job which are deemed important by the organization and which are present in all the jobs to be evaluated. A significant sample of jobs is taken and their job description and specification prepared to determine the job factors.

2. **Determine the subfactors** – The job factors are very generic in nature and have a broad meaning. These are therefore subdivided into ‘subfactors’, which are specific to the job being evaluated. For example, engineering knowledge might be a job factor while dexterity might be a subfactor for the job of a maintenance engineer.

3. **Define the degree statements or profile statements** – Degree statements describe the specific requirements of
each subfactor. They are in the form of written phrases and determine the degree of importance associated with each subfactor. There are normally up to five degrees associated with each subfactor.

4. **Assign points to factors, subfactors and degrees**—On the basis of the importance of each factor, subfactor and degree in the job, points are assigned to them. For example, if “experience” is critical to a job, degree I might be 20 points (experience of less than 6 months), degree II might be 40 points (6 months to one year), degree III – 60 points (1–2 years), degree IV – 80 points (2–3 years) and degree V– 100 points (more than 3 years). The maximum points that can be allotted to each job are fixed and these points are distributed across different job factors.

**Preparation of a chart** - A chart is then prepared, with the values for each factor and subfactor, broken down into degrees present, with clear, agreed definitions of the subfactors and degrees. Refer Table 8.3.1 for an example of the chart.

5. **Applying the point system** - In the final stage, the experts compare the job description of each job with the description given in a standard point manual and determine the final points and level of each job. The points then help in determining the pay scale of each job. Total points should match the rank ordering of the key jobs according to pay.

After the points for each job are finalized, the jobs are ranked based on their points. These rankings are to be reviewed by the concerned department managers and the HR department to ensure their validity and utility.

### Table 8.3.1: Point Rating Method

<table>
<thead>
<tr>
<th>Compensable / Job Factor</th>
<th>Maximum Points</th>
<th>Job subfactors</th>
<th>Assigned Points per Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Knowledge</td>
<td>I</td>
</tr>
<tr>
<td>Knowledge / Skill</td>
<td>260</td>
<td>Knowledge</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Experience</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Initiative</td>
<td>10</td>
</tr>
<tr>
<td>Effort</td>
<td>240</td>
<td>Physical</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mental</td>
<td>40</td>
</tr>
<tr>
<td>Responsibility</td>
<td>360</td>
<td>Towards company</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Towards co-workers</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Towards customers</td>
<td>30</td>
</tr>
<tr>
<td>Job conditions</td>
<td>140</td>
<td>Working conditions</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hazards</td>
<td>15</td>
</tr>
<tr>
<td>Total possible points</td>
<td>1000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**Advantages**

- The system is accurate and dependable.
- It can be used for a relatively long time, with timely updates, if properly designed.
- Wage differentials are likely to be systematic and in accordance with the content of each job.

**Disadvantages**

- It is a complex and time-taking assignment.
This method involves high costs and a lot of clerical work.

**Factor comparison method**

This is a sophisticated and quantitative technique of job evaluation. It is based on the principles of point rating and ranking, and is similar to the point rating method. (Refer Table 8.3.2) The factor comparison method proceeds in the following steps:

<table>
<thead>
<tr>
<th>Job</th>
<th>Hourly Pay</th>
<th>Mental Requirements</th>
<th>Skill Requirements</th>
<th>Physical Requirements</th>
<th>Responsibility</th>
<th>Working Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory control Specialist</td>
<td>$13.65</td>
<td>$4.00</td>
<td>$4.40</td>
<td>$1.25</td>
<td>$3.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>Job Maintenance Electrician</td>
<td>13.40</td>
<td>3.00</td>
<td>4.40</td>
<td>1.80</td>
<td>2.30</td>
<td>1.90</td>
</tr>
<tr>
<td>Warehouse Stocker</td>
<td>11.10</td>
<td>2.25</td>
<td>3.00</td>
<td>1.80</td>
<td>2.30</td>
<td>1.75</td>
</tr>
<tr>
<td>Secretary</td>
<td>8.65</td>
<td>3.00</td>
<td>2.00</td>
<td>0.50</td>
<td>2.15</td>
<td>1.00</td>
</tr>
</tbody>
</table>


a. The first step is to determine and define the specific factors across different jobs. About four to seven broad-based factors are chosen.

b. The second step is to identify the key jobs or benchmark jobs, which are well known and have an established pay rate in the organization. These jobs should contain the factors determined in the previous step.

c. The factors in each benchmark job are compared and ranked, based on their relative importance. This is called factor comparison.

d. The factors are then assigned monetary values and the sum of the monetary values assigned should add up to the pay of the benchmark job. This is called factor evaluation. Any differences between factor comparison and factor evaluation should be properly reconciled.

e. The remaining jobs in the organization are then evaluated based on this evaluation of the benchmark jobs. The factors for each job are ranked and then evaluated as has been done for the benchmark jobs. An understanding of the emerging pattern of rankings and values makes the exercise faster and easier.

**Advantages**

- It is an analytical and quantitative method and is reliable.
- It is an objective and logical method in which the monetary values are assigned based on the factor ranking.
- It is easy to explain this method to supervisors, employees and unions.

**Disadvantages**

- It is a very cumbersome and complex method.
In case of a mismatch between the factor comparison and factor evaluation, the exercise has to be started from the scratch again.

There is a strong dependence on the benchmark or key jobs. These key jobs may not always be relevant. If the key jobs in the firm change, the base rate evolved for earlier key jobs cannot be used as standards for newer types of jobs.

**Decision Band Method**

The Decision Band Method or the DBM has been used successfully in public and private organizations throughout the world for over 25 years, but is not a conventional method of job evaluation. DBM is a unique approach to job evaluation, originally developed by Professor Emeritus Thomas T. Paterson in the 1970’s, and further developed and refined by other agencies for application in client organizations.

The basic premise of DBM is that the value of a job depends on its decision-making requirements. Decision-making is a logical and equitable basis for comparing jobs, because all jobs require the incumbents to make decisions of some kind in order to perform their jobs - whether they are line or staff, supervisory or non-supervisory, union or non-union.

The DBM distinguishes six levels of decision-making, or "decision bands," ranging from the most far-reaching decisions on organizational goals to the simplest decisions, such as how fast to key-enter data. Decision bands cover the entire spectrum of decisions that can be made in any organization. The DBM job evaluation process produces a decision-based structure. Organizational structure and the desired degree of differentiation will determine the number of grades and sub grades used, i.e. some organizations may find it appropriate for all jobs within the organization to fall into one of the six bands while other organizations may find the need to utilize all the potential value levels.
The following are the advantages of job evaluation:

a. Job evaluation is a logical and objective method of ranking and grading jobs for the purpose of compensation management.

b. It helps to prevent and remove discrepancies in the wage structure of an organization. This makes wage administration simpler and more uniform.

c. Job evaluation can explain logically any issue relating to wage differentials in an organization. This helps in maintaining high worker satisfaction levels and sound industrial relations.

d. Job evaluation facilitates the entry of new jobs into the organizational wage structure. The new jobs can be evaluated using appropriate evaluation techniques and their pay structure can be fixed accordingly.

e. Job evaluation helps in comparing the organization’s wage structure with the competitor’s wages and prevalent market rates.

f. The information collected for job evaluation can be used for decisions related to selection, transfer and promotion of employees.
Section 5

Limitations of Job Evaluation

The following are the limitations of job evaluation:

a. Changing technologies and systems bring about changes in jobs and therefore in job factors. These changes can render the job evaluation techniques outdated and irrelevant.

b. If not properly formulated or implemented, job evaluation can give rise to employee grievances. For example, if a job higher in the hierarchy is rated lower than a job lower in the hierarchy, the employees concerned might express their dissatisfaction.

c. Job evaluation introduces rigidity into the pay system and reduces opportunities for managers to exercise discretion.

d. Job evaluation takes a long time to implement, and may involve some formalization of rules. This may sometimes lead to a mismatch between the financial condition of the organization and the established wage structure.

e. Job evaluation committees sometimes have to compromise to accommodate the views and demands of different interest groups like the management, unions and employees.
Section 6

Concept of Compensation Administration

Base wages and salaries are defined as the hourly, weekly and monthly pay that employees receive for their work in an organization. It is on the basis of these that employees judge the fairness of the pay system. Base wage and salary are the foundation of employee pay structure, and total compensation is calculated after these are fixed. The total compensation of an employee includes other elements like incentives and benefits. The system of compensating employees in a fair manner, maintaining the principle of equity and matching employee expectancy, is called compensation administration.

Principles Governing Compensation Administration

a. The principles that govern the compensation administration in an organization are given below:
   a. **Maintaining equity** in the distribution of wages and salaries in the organization;
   b. **Maintaining competitiveness** in the wage market, in comparison to other players in the industry;
   c. **Matching employee expectations**;
   d. **Reinforcing positive employee behavior** and contribution to the organization;
   e. **Eliminating any discrepancies** in wage administration in the organization;
   f. **Devising a system that is the most efficient** for the organization;
   g. **Optimization of management and employee interests**;
   h. **Maintaining good industrial relations** and harmony, with respect to compensation.

Purpose of Compensation Administration

The basic purpose of compensation administration in an organization is to satisfy employees’ needs and to meet their expectations in order to motivate and retain them. The other purposes are explained below.

a. **Attracting talented resources** – A competitive compensation system helps in attracting good talent from the job market. Premium salaries can be offered to attract high performers from competing
organizations. A competitive salary is very useful especially when there is a high demand for a particular trade or skill.

b. **Retaining and motivating employees** – A fair and rewarding compensation can help in retaining employees and motivating them to perform better. The positive contribution of the employees should be reinforced through appropriate rewards.

c. **Financial management** – A rational compensation system helps the management reduce its costs in terms of employee turnover and ensures better returns on investment. The wage bill can also be kept reasonably low by judicious salary administration.

d. **Legal requirements** – Laws relating to employment require an organization to have a proper system to pay employees for their contribution. An organization spread over several countries or states, also needs to comply with the different laws in different parts of the world. For example, the minimum wage in one country might be different from the minimum wage in another. It is the responsibility of the organization to ensure equity in compensation administration while abiding to the laws of the countries it operates in.
Different Concepts of Wages

As discussed earlier, the base wages are the foundation of an employee’s pay structure. The various concepts of wages are discussed here.

**Minimum Wage**

It is the amount of remuneration, which is just sufficient to enable an average worker to fulfill all his/her obligations. It can be either the minimum-piece rate or minimum-time rate.

It is fixed by the government and enforced by the law with respect to all the scheduled employments, and is revised at least once in 5 years based on the consumer price index. The current minimum wage in India is Rs. 50 per day to all the workers in scheduled employment. It is applicable to workers across the country and is governed by the Minimum Wage Act, 1948.

“Minimum wages” are fixed on the basis of six norms or components, viz.

i. In calculating the minimum wage, the standard working class family should be taken to consist of 3 consumption units for one earner; the earnings of women, children and adolescents should be disregarded.

ii. Minimum food requirement should be calculated on the basis of net intake of calories, for an average Indian adult of moderate activity.

iii. Clothing requirements should be estimated at per capita consumption of 18 yards per annum which would give for the average worker’s family of four, a total of 72 yards.

iv. In respect of housing, the rent corresponding to the minimum area provided for, under Government’s Industrial Housing Scheme, should be taken into consideration in fixing the minimum wage.

v. Fuel, lighting and other miscellaneous items of expenditure should constitute 20% of the total minimum wage.
vi. Children’s education, medical requirements, minimum recreation including festivals/ ceremonies and provision for old age, marriages, etc., should constitute 25% of the total minimum wage.

The wage structure which provides for the above six components is nothing more than a minimum wage at subsistence level. As per the law, employees are entitled to a minimum wage at all times and under all circumstances. The law also states that an employer who cannot pay the minimum wage has no right to engage labor and no justification to run a firm.

**Fair Wage**

Workers performing work of equal skill, difficulty or unpleasantness should receive equal or fair wages. A fair wage is related to the earning capacity of the employer and the workload in the organization. Fair wages may be higher than minimum wage level but never lower than it. The following are the recommendations regarding fair wage, as proposed by the Committee on Fair Wages in India:

- The basis of fair wage is the minimum wage, within the capacity of the organization to pay.
- Fair wage should be related to the productivity of the labor.
- It should match the prevailing rates of wages in the same or neighboring localities.
- It should reflect the level of national income and its distribution.

**Living Wage**

The Committee on Fair Wages observed “Living wages should enable the male earner to provide for himself and his family, (not only) the bare essentials of food, clothing and shelter, but (also) a measure of frugal comfort including education for the children, protection against ill-health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age.”

The living wage is the highest in value, of all the three types of wages discussed above. The First Central Pay Commission introduced the new principle of “living wage” for Government employees. The Commission felt there was a need to award incentives to workers and to share the gains of the organization through provision of higher wages and a better standard of living for workers. Whenever the organization’s gains are made through the additional efforts of workers, they should receive a share in the resulting benefit. Out of the total share of the workers, a major part should be passed on to workers whose wages are below the living wage.

As stated in the Report of the National Commission on Labor, in India, ‘fair wage’ is not ‘living wage’. Fair wage usually lies between the minimum wage, which must be paid in any event, and the living wage, which is the target.⁶
Basic Wage Plans

There are different systems of wage payments, prevalent in different industries and in different countries. However, the traditional basic wage plans are based on the Time system and the Piece system.

**Time Wage Plan**

Under this plan of wage payment, employees are paid for the period of time for which they have been employed. When the quality of work is more important than the quantity and the nature of work is such that it cannot be easily standardized, a time wage system is preferred. Under this system, the worker is assured of a fixed amount of wages, irrespective of the output. For example, consider an organization that follows the time wage system. Among the workers, if one produces 100 units in 8 hours and another, 80 units in 8 hours, both of them still get paid the same amount of wages. They are basically paid for the 8 hours of work, and the number of units they have produced is not relevant to their pay.

Under the time wage system, given a fixed working schedule, the worker cannot normally earn more than a fixed amount. Since the worker's shifts and work schedules are pre-determined, he earns only for the number of hours of work put in, as per the schedule. The only way to earn more under this method is by working over-time or on extra shifts.

**Piece Wage Plan**

Under this wage plan, workers are paid for the work done. This method is usually employed when there is a need for production of large numbers and the units of work produced can be easily standardized. For example, if an organization produces phone panels and it needs to achieve a high production target, then the piece wage plan can be adopted. The number of panels produced by each worker can be easily measured and they can be paid accordingly. The basic premise is that the work done is measurable. The workers' earnings are in direct proportion to their output or productivity.

The piece wage system provides a direct incentive to workers and is hence conducive to maximizing production. However, one disadvantage of this system is that quantity
might be achieved at the cost of quality. Therefore, the management has to take enough precautions to ensure the quality of the work done. Consider an example of a call center, where the employees were being paid for the number of calls they would handle. After some time, the company started receiving complaints from their clients about the service being provided. On analysis, the management realized that the employees were not spending enough time on resolving customer grievances and were instead trying to end the call to take up the next one. The management had to immediately change its plan of wage payment.

In practice, these two methods are used together to gain the maximum benefit. Under the time-wage system, a certain level of productivity is expected and in piece-wage system, some time limit has to be adhered to. Another type of wage plan, which is exclusive to some industries, is the ‘payment by results’ system. Under this system, the wage for each piece of work is fixed and the workers are paid once the work is completed. For example, if a function hall is to be decorated, the workers are paid once the work is completed. Though a certain time limit is fixed, workers are not paid according to the time wage system or the piece rate system.

The narrow job descriptions and pay scales that worked well in the past, are no longer applicable to today’s workplace. The emphasis is on employee performance and on retaining and motivating good performers. Employees also look for growth opportunities and organizations that value them. Some of the modern approaches to wage determination are discussed below:

### Skill-based Pay

Under this system of wage payment, employees are compensated for their job-related skills. This is also called knowledge-based pay. Under a typical skill-based system, companies hire employees at below-market rates. Once they gain extensive knowledge and new skills, they are promoted and rewarded with an increased pay. According to the American Compensation Association, skill-based pay is one of the fastest growing concepts in the U.S. The same is true of Indian companies today, with more and more companies revamping their salary administration systems, to be competitive in the market.

According to H.R consultancy, Hewitt Associates, corporate India is all set to move towards skill-based pay. In this environment, “the hotter the skills, the better the pay.” John Davis, technical director of Hewitt's Hot Technologies says, “A hot skills market analysis gives the relevant information needed in a rapidly fluctuating market for specialized skills, while a benchmark survey would be more relevant for a manufacturing environment.” He stresses that market analysis helps us understand the most sought after skills in a dynamic market.

### Competency-based Pay

Competency can be defined as the knowledge, skills and behavior of an individual that contribute to a worker’s performance. The competencies of the best performing employee are identified vis-a-vis the job and the employee is compensated for these competencies that he/she brings to
the job. The other employees are also compensated based on these competencies. For example, to implement the competency-based pay system in a bank, the best officer is selected and the characteristics that contribute to his performance are identified. In this case, let us say, the officer’s knowledge of IT, his being customer-oriented and his ability to manage a crisis situation, set him apart. Once these competencies are identified, all the officers are compensated based on the extent to which they demonstrate these characteristics.

**Broadbanding**

Broadbanding as a base-pay technique, reduces the number of salary levels into broad salary bands. The bands normally have a fixed minimum and maximum, which overlap with other bands. For example, if the salary band for the entry level is fixed as Rs.10,000 – Rs. 18,000, the salary band for the next level can be Rs.12,500 – Rs. 22,000.

The major advantage of broadbanding is that it gives managers a free hand to fix the pay of individual workers, but within set limits. Broadbanding can help in reducing employee resistance to being shifted laterally in an organization or downgraded. It also helps the organization to avoid unnecessary distinctions in the organization, based on level or status. If we consider the pay bands in the example above, an employee at entry level can earn more than an employee at the next level, if the former has better qualifications or brings in new skills, for example.
Section 9

Variable Compensation

Variable compensation programs are designed to pay employees in accordance with their performance and not in accordance with their position in the organizational hierarchy. These programs are designed to motivate individuals and groups that contribute effectively, as they differentiate between performers and non-performers.

Many companies believe that a variable-pay program enhances productivity and motivates employees. The American Management Association, based on a study of 83 companies, concluded that grievances had dropped by 83%, absenteeism by 84% and lost-time by 64%, after variable pay programs were introduced in these firms. Variable pay program is also one of the employee involvement programs. Such programs make employees responsible for their own pay packages, through their performance and contribution. This motivates them improve their performance.

Some components of variable compensation plans are the production incentives, profit sharing, gain sharing, bonus, etc. These are different systems of rewarding an employee for his performance. Refer to the keynote 8.9.1 for variable compensation at different levels. Exhibit 8.9.1 explains the variable compensation scheme is implemented at Hindustan Unilever Limited.

Keynote 8.9.1: Variable Compensation at Different Levels

Source: ICMR
Exhibit 8.9.1: Variable Compensation at Hindustan Unilever Limited

In February 2009, Hindustan Unilever Limited (HUL), India’s leading fast moving consumer goods (FMCG) company, announced that it would introduce variable pay in a bid to offer performance-driven compensation. The shift also marked the company’s attempt to curb its fixed costs to variable costs in view of the economic slowdown. According to Nitin Paranjpe, CEO and managing director, HUL, “We see 2009 as a year of uncertainty and are trying to shift costs from fixed to variable and are structuring our compensation package to strengthen the performance culture. We are working on shorter horizons and gearing internal processes to manage things more dynamically to deliver competitive, profitable growth, even if the worst case scenario were to materialize. The idea is to remain flexible and not get committed too early, especially with costs.”

Since 2006, the company had been laying emphasis on establishing a link between pay and performance by changing its compensation structure from market-linked ESOPs to a performance-linked share grant structure.

The company planned to increase the proportion of its variable pay compared to the fixed pay offered to the employees. The bonuses given annually to employees were linked to individual contribution, growth in sales, and economic profit.

HUL initiated a ‘war on waste’ strategy and built teams to identify areas for cost-cutting in areas such as communication travel, consultancy, etc. Paranjpe added, “This will help us to sharply cut costs and create enough headroom to invest in brands in a challenging market.” The company also aimed to cut back low cost benefits in an attempt to increase its business competitiveness. It planned to alter its business strategy to make it flexible and receptive to short-term challenges.

Section 10

Executive Compensation

Executive compensation is the compensation paid to the CEO or the top executives of an organization and has been in the news in recent times for all the wrong reasons. Disquiet has been expressed at CEOs taking home “excessively high” compensations, including bonuses and stock value. Shareholders and the press have raised questions on the justification for executive compensation packages in some of these companies.

In this section, we look at the components of compensation packages at the highest corporate levels. Organizations design their executive compensation systems to attract and retain their chief executives. Given the size and complexity of today’s businesses, large corporations are not easy to run. It is only a few people who combine the competence, expertise and temperamental ability to lead an organization on its path to success, year after year.

Scarcity of qualified talent and the demand for executive accountability and long-term commitment to the organization are important elements in executive compensation design. Conventional techniques and systems of compensation management have become outdated and obsolete and there is a need for all organizations to develop new executive compensation systems to match their organizational needs and market demands. Executive compensation needs extensive planning in areas such as salary administration, organizational structure, short-term and long-term incentive plans, sales compensation, executive perquisites, and retirement benefits. An HR professional has to take care of all these things and also the market situation, in order to design an executive compensation plan that attracts, retains and motivates executives, but is also satisfactory to all the stakeholders of the organization. Exhibit 8.10.1 details the executive compensation at Oracle.

Source: www.scottmitchellonline.com
The following process can be adopted by an HR department to design an effective and efficient executive compensation plan.

1. Review the existing executive compensation plan. Try to identify the flaws in the plan that rendered it ineffective or inefficient. Parts of the plan that are good have to be retained while some others might have to be re-designed or completely done away with.

2. Analyze the organizational objectives. Design a pay system that is linked to organizational objectives. For example, different components of the compensation may be linked to different business objectives and their achievement targets. A long-term incentive like stock options might be linked to a long-term objective like sustained growth. Similarly, a short-term objective like a bonus can be linked to a short-term objective like pulling the company out of the red by the next fiscal.

3. The plan should provide for retaining a competent and successful executive for a longer period of time. For example, a ‘restrictive stock option plan’ (explained earlier) helps in retaining executives for a long time, as an abrupt exit might result in their forfeiting all the stock that they’ve earned.

4. The funding of the executive compensation and other factors should be taken care of. For example, a bankrupt company, hiring a top executive, to turnaround the company might not be in a position to fund his compensation.

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Exhibit 8.10.1: Executive Compensation at Oracle

Larry Ellison (Ellison), founder of Oracle Corporation (Oracle), who had been on the list of richest people in the world for a very long time, topped the Associated Press’ (AP) rankings of the highest paid CEO in the US, in November 2008.

Ellison established himself in this position by persuading Oracle to award him with a fiscal 2008 pay package valued at US$ 84.6 million, as per calculations made by AP.

According to AP’s calculations, the total pay consisted of the executive’s salary, incentives, bonus, above market returns on deferred compensation, perks, the estimated value of stock options and awards received during the year.

Ellison’s compensation for the fiscal year 2008 consisted of 7 million stock options valued at US$ 71.2 million. AP’s calculations did not include windfalls generated by executives by exercising stock options they had received in earlier years. Ellison topped the list since he cashed in his 36 million stock options, raking in around US$ 544 million in fiscal 2007. Moreover, his latest pay package showed an increase of 38% from fiscal 2007, when he had a compensation package valued at US$ 61.2 million.

At 64 years of age, Ellison had no plans of ending his 31-year rule at Oracle in the near future and Oracle’s board was more than willing to retain him. Oracle’s three-member compensation committee agreed that Ellison deserved the handsome compensation, due to the company’s 29% profit gained during fiscal year 2008 while its stock rose by 18%. Ellison has been a billionaire for two decades, though most of his wealth was tied to the company’s stock and he was the company’s largest shareholder with 22.6%. Commenting on the executive compensation received by Ellison, Steven Hall, managing director of executive compensation consultants Steven Hall & Partners, said, “When it comes to founders, we know we are usually going to see something odd. In some cases, they are exorbitantly paid and in others they are paid miserly.”

5. The final plan should be prepared, with all the various components, their range, the related targets to be achieved and the final compensation.

6. The executive compensation plan should be made known to all the stakeholders. Transparency increases the confidence of stakeholders in the company and its management. For example, Intel, in its annual report, reveals the compensations of its director and all the executives in the top management.

The bottom line is that executives are not super heroes and therefore shouldn’t be treated that way. Their reward should be as big as the challenge being posed to them and should be in accordance with their performance. It should also be remembered that it is not just the incentives, but also the challenges that can help in attracting and retaining executives.
Wage differentials can be defined as the difference in wages paid for same or similar work because of various reasons like differences in work schedules, hazards involved, cost of living, or other factors. Wage differentials can exist at various levels, i.e. individual, organizational, occupational or industry level, and regional level. At the individual level, wage differentials can arise because of personal characteristics like competence, experience, knowledge, gender, etc. Wage differentials at the organizational level can be a result of different organizational capabilities, their size, stage in business cycle, image, etc. Wage differentials at the industry level arise as a result of business trends. For example, in today’s market, employees in the IT industry are better paid than employees of other industries.

Wage differentials between India and the US and other developed nations is an example of regional/locational differences. The wage costs in India are significantly lower than in the US, and this has led to a lot of outsourcing to India by US companies. For example, leading Indian call center companies charge their clients at the rate of US$ 1.50 to US$ 2.75 per e-mail, while the comparative cost in the US is US$ 3.50 to US$ 4.50 per e-mail. Assuming that US salaries increase at 3 to 10 per cent CAGR and Indian salaries at 10 to 25 per cent CAGR, wage differentials between India and the US are expected to continue to be over 60 per cent for several years.

Source: www.theperfectpayplan.typepad.com
Section 12

National Wage Policy

India’s 8th Five Year Plan states that ‘it is felt necessary that a national wage policy is evolved towards the direction of removing irrational and iniquitous disparities in wage and salary levels and inducing efficiency in the wage system in the country’. This would also help to streamline institutional mechanisms for wage fixation and also help in dealing with wage-related problems in the unorganized sector.

Though it is desirable to have a National Wage Policy, it is difficult to conceive of the concept in practical terms. In the Indian scenario, because of the diversity across different regions and societies, it has not been possible so far, to evolve a common national wage policy. Though the 8th Planning Commission mentioned the need for a national wage policy, this has remained an unfulfilled ‘need’ in all the Five Year Plans in our country so far. The National Wage Policy has been discussed on many occasions in different forms. Because fixation of wages depends on a number of criteria like local conditions and the cost of living and since paying capacity also varies from state to state and from industry to industry, maintaining even broad uniformity in wages might prove very difficult.

The Indian Labor Conference, held in November 1985 expressed the following views:

“Till such time a national wage is feasible, it would be desirable to have regional minimum wages in regard to which the Central Government may lay down the guidelines. The Minimum Wages should be revised at regular periodicity and should be linked with rise in the cost of living.”

Accordingly, the Government issued guidelines in July 1987 for setting up of Regional Minimum Wages Advisory Committees. These committees, subsequently renamed Regional Labor Ministers’ Conference, made a number of recommendations which include reduction in disparities in minimum wages in different states of a region, setting up of inter-state Coordination Council, consultation with neighboring states while fixing/revising minimum wages, etc.
Wage and salary fixation in a country is based on wage theories like the wage fund theory and salary surveys like the Occupational Wage Survey (OWS). Wage theories like the Minimum Wage Theory still guide the fixation of minimum wages for daily laborers. The different theories have been discussed under ‘Concepts of Minimum Wage, Living Wage and Fair Wage’. The contemporary theories however discuss the role of the worker too in wage fixation. The Bargaining Theory of Wages states that the bargaining powers of the employer and the employee determine wage fixation. Behavioral scientists in fact suggest that the size, nature, culture and perception of the organization, the bargaining power of the unions, the local and social norms, desired employee performance etc., all have an impact on the wage and salary administration in an organization.

In the Indian context, different surveys are conducted by the government at varying time intervals, which determine the way the wages are to be fixed at different levels. For example, the Working Class Family Income and Expenditure Survey enables to revise the base of the consumer price index numbers for industrial workers and in the compilation of index numbers with the new year as base. This also helps to analyze the income and expenditure data to design centre-specific reports. Examples of other surveys are Occupational Wage Survey, Contract Labor Survey, Survey of Labor Conditions, Annual Survey of Industries, Survey of Socio-economic Conditions of Different Segments of Labor, etc. All these surveys assist the government authorities and institutions in determining the wages and salaries for different sections of workers in the society.

At the organizational level, the corporate policy and objective, job evaluation, industry competition, etc., determine the wage and salary administration of employees and workers. For example, the dearth of qualified employees and the high turnover rates have increased the salaries in the call center business.
Wage Fixing Institutions and Authorities

Most wage determinations are done through the process of collective bargaining or negotiation between the management and the workers. This is a very interesting exercise to watch as both the parties start their bargaining well beyond their expected goal. At the same time, they have a good estimate of the opposite party's settlement value. To illustrate, let us assume a scenario of pay fixation in an organization where the pay for a particular level is currently Rs. 4000 p.m. The union starts with an offer of Rs. 8000 p.m. even though their aim is Rs. 6000 p.m. and they know that the management will not agree to anything above that. Similarly, the management would initiate its bargain with Rs. 4500 offer, although they are willing to go up to Rs. 6000. They are also aware that the union will not accept any figure below Rs. 6000. Thus, the process of bargaining continues, with each party progressing step by step and, finally, reaching a compromise. The settlement is eventually made for Rs. 6000.

However, there are some government authorities which determine the minimum pay-scales that become the guidelines for wage and salary administration in different organizations. Examples of these government authorities are the Pay Commissions and the Wage Boards. They are constituted as and when the government feels the need for a wage revision. However, the wage board has now become an outdated concept. The pay commission recommendations form the general guidelines for wage fixation and the unions in different organizations use it as a base to build their demands on. Collective bargaining is normally adopted to negotiate an incremental change in wages, over and above the recommendations. The Fifth Pay Commission’s recommendations, released and accepted in 1997, have redesigned the pay packages of employees of the central and state governments and the public sector enterprises.

In the 1950s and 1960s, when the organized labor sector was at a nascent stage of development without adequate unionization, the government constituted various wage boards to help the workers in view of their low bargaining power. Wage boards are tripartite in character, where representatives of workers, employers and independent members participate and finalize the recommendations.
The role and contribution of such boards in the present context is very limited. Except for the Wage Boards for Journalists and Non-journalist Newspaper and News Agency Employees, which are statutory, all other Wage Boards are non-statutory in nature. Therefore, the recommendations made by these Wage Boards are not enforceable under the law.

The importance of the non-statutory wage boards has declined over a period of time and no non-statutory wage board has been set up after 1966, except the one constituted in 1985 for the sugar industry. The trade unions, having grown in strength in these industries, are themselves able to negotiate with the management. In the recent past, even the role of unions is being limited with individual bargaining power on the rise. The changing management attitude and business trends have also been in favor of the worker. This trend is likely to continue in future.
Organizational rewards are those that the employee earns as a result of his employment with the organization. Most organizations link their reward system to employee performance and commitment to the organization. Rewards can be both extrinsic and intrinsic. Extrinsic rewards are tangible in nature and are normally under the control of the organization. Examples of extrinsic rewards are a promotion or a bonus. Intrinsic rewards are intangible in nature and are internal to the individual. Examples of intrinsic rewards are a challenging assignment or informal recognition. The basic purpose of a reward system is to improve employee morale and job satisfaction. This would result in improved performance and loyalty to the organization. A good reward system helps in identifying the best performers and rewarding them to increase their job satisfaction.

Rewards can also be classified into financial and non-financial. Financial rewards are the rewards that employees receive in monetary terms. Examples are a bonus or an annual incentive. Non-financial rewards are intangible and are paid in kind. They can however be measured in terms of their value to the employee. For example, the employee reaps the benefits of a subsidized cafeteria, though he is not being paid in cash. The value that accrues to the employee, because of a subsidized cafeteria, can be calculated.

Incentives are the rewards to an employee, over and above his base wage or salary, in recognition of his performance and contribution. They can be termed as performance-based rewards. Examples of incentives are annual performance incentives (monetary) and ESOP (Employee Stock Option Plans). Benefits on the other hand are the rewards an employee receives for his employment and position in the organization. They can also be termed as membership-based rewards. Benefits include scholarships for employee’s children, reimbursement of medical expenses incurred by the employee and his family, or a paid vacation for the employee with his family. The base salary, the incentives and the benefits put together constitute the total compensation of an employee.
Section 16

Types of Incentive Plans

Incentive plans are of two types: short-term incentive plans and long-term incentive plans. Short-term plans are related to employee productivity over a short period of time, say a day, a week or a month. Long-term incentive plans have evolved more recently and are related to employee performance over a long period, normally a year, and in some cases, his entire tenure with the organization.

Short-Term Plans

Most short-term incentive plans are based on time rates or piece rates. Some of the incentive plans, based on these two methods, are discussed below:

1) **Halsey Plan**: This plan tries to eliminate the limitations of time and piece rate systems while trying to combine their merits. Under this plan, a certain amount of work is fixed as a standard output, which is to be completed in a prescribed time. A worker receives a percentage of wages as extra earnings, if he completes the work before the prescribed time. For example, consider a worker completing the standard output in 6 hours, where as the prescribed time is 8 hours. Let the hourly rate be Rs. 5 and the plan percentage of wages be fixed at 50%. Now, the extra wage that the worker would receive can be calculated as: Plan percentage \( \times \) Time Saved \( \times \) Hourly Rate.

Therefore in this case, it is

\[
\frac{1}{2} \times 2 \times 5 = Rs. 5
\]

So, the worker eventually earns Rs. 35 [including Rs. 30 at the hourly rate for 6 hours of work].

The worker works for only 6 hours instead of 8 hours and also earns more than what he would earn in 6 hours.

2) **Rowan Plan**: Under this plan, the worker is guaranteed a minimum wage on a time basis. Then, a standard time is fixed for the completion of work and if the worker completes it before time, he earns more for the time saved. Consider the earlier example. The extra earnings for the worker in the Rowan plan would be:

\[
\frac{(Time \ saved \times Time \ Taken \times Hourly \ Rate)}{Standard \ time}
\]
Therefore, the employee would earn a total of Rs. 37.50.

3) **Barth System of Wages:** In this system, the workers are not guaranteed of a minimum rate. Wages are calculated as

\[ Wages = \sqrt{\text{Standard time} \times \text{Timetaken} \times \text{Hourlyrate}} \]

Therefore, using the above example, wages =

\[ \sqrt{8 \times 6 \times 5} = 6.9 \times 5 = 34.50 \]

4) **Task Bonus System:** This method of incentive payment is generally used for groups. The emphasis is on teamwork and coordination. Under this method, the task of each group member is pre-determined and he has to achieve it to earn a bonus above his standard pay. Using the Gantt method in this system, a bonus is paid over and above the time wage, if the standard task is accomplished. Using the Taylor method in this system, the rate of piece wages is raised once the task is accomplished.

5) **Point-rating system:** Under this system, each job is rated in terms of a standard time. At the end of a specified period, a day or a week, the output of each worker is assessed. The worker is paid accordingly, at the appropriate time-rate for the standard-time value of the work done. For example, let an organization fix its standard time value as 10 units of production per hour. Let the number of working hours per day be 8 and the hourly rate be Rs. 5. At the end of the day, say a worker produces 100 units. This is equivalent to 10 hours of production as per the standard time value. Therefore, the worker is paid Rs. 50 @ Rs. 5 per hour. Normally, he would have received only Rs. 40 for working for 8 hours.

6) **Progressive Bonus:** Under this system of incentive payment, the earnings increase at a progressive rate once the output crosses the minimum or standard output. The Emerson efficiency system, a form of progressive bonus, adopts the same principle. The payment of bonus starts at a specified level of output, say 75% of the standard output. Workers who produce above this level are paid on a graduated scale, which increases slowly at first and then rapidly as the worker approaches 100 percent efficiency. Workers who do not reach the specified level of 75% are paid daily wages at the hourly rate.

### Long-Term Plans

Many organizations have taken up the idea of long-term incentive plans, in this highly competitive era. Long-term plans help in providing steady earnings, over a longer time period. Examples of long-term incentive plans are annual bonus, profit-sharing, gain sharing, ESOPs, etc.

1) **Annual bonus:** The most common type of annual incentive plan is the annual cash bonus. Most annual bonus plans are based on the annual performance of the company. The factors that determine the bonus are the company profits and the performance of the group/unit. The bonus is normally a one-time payment, made at the end of the financial year. However, in many organizations and in
government agencies in India, the bonus is paid at the time of a major festival. For example, employees of many firms and workers in government service get their ‘Diwali bonus’ every year before the festival.

The Payment of Bonus Act, 1965 states that “subject to the other provisions of this Act, every employer shall be bound to pay to every employee in respect of the accounting year commencing on any day in the year 1979 and in respect of every subsequent accounting year, a minimum bonus which shall be 8.33 per cent of the salary or wage earned by the employee during the accounting year or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus in the accounting year.” So, as per Indian law, employees are entitled for the payment of a minimum bonus every year.

2) **Profit-sharing:** In the profit-sharing incentive method, employees earn a share of the company’s profit, which is normally calculated as a percentage of the total profit. Walt Disney Corporation was the first company to employ this method. There are three major types of profit-sharing plans.

a. **Distribution plan** – In this plan, annual or quarterly cash bonus is paid according to a pre-determined formula and based on the company profits. Most Indian companies opt for an annual bonus and distribute the wealth to their employees immediately.

b. **Deferred plan** – Under the deferred plan, employees earn profit-sharing credits instead of cash payment, which are distributed when the employee parts with the organization. This is quite similar to a deferred income retirement plan.

c. **Combination plan** – This plan is a combination of the distribution and deferred plans. Under this plan, employees are allowed to receive a portion of each period’s profit in cash bonus, with the remainder put in a deferred plan.

3) **Gain-sharing:** This is a method of rewarding groups for their successful performance. In this method of incentive payment, the group is rewarded for its team-work, coordination and other characteristics that have determined its success. The external factors that have influenced the group are disregarded. A group is entitled for gain-sharing even if the firm has not recorded any profits.

4) **Employee Stock Plans:** This is a scheme in which employees are given a part of ownership at a price lower than market price, in consideration of their duration and/or meritorious performance on the job. The basic premise of employee stock plans is that, giving a stake in the company is the best form of rewarding employees and that they also put in their best performance when they have their own stake in the company. In fact, this can be used to enhance employee loyalty and accountability. Therefore, many organizations are making their employees partners in the ownership of the business.
The different types of employee stock plans are explained below.

**Employee Stock Purchase Plan (ESPP):** This is generally used in listed companies. The employees are given the right to acquire shares of the company immediately after they earn them (through duration of employment or performance), normally at a price lower than the prevailing market price. Shares issued by listed companies under ESPP will be subject to a lock-in-period during which the employee cannot sell them. This can help the organization in retaining employees.

**Restricted Stock Plan:** In this type of stock plan, the employees need not put in money. However, the shares are subjected to some restrictions. One of the major restrictions is that the shares may be forfeited if they are not “earned out” over a specific period of time. The employees are forced to continue their employment with the organization over this specific period.

**Employee Stock Option Scheme (ESOS):** Under this scheme, the company grants an option to its employees to acquire shares at a future date. The options are offered at a pre-determined price. Eligible employees are free to acquire shares on vesting within the exercise period. Employees are also free to dispose off the shares, subject to the lock-in-period clause.

**Stock Appreciation Rights (SAR)/Phantom Shares:** Under this scheme, the employee does not have to put in any money and has the right to relinquish the stock. The employee is given the appreciation in the value of shares from the date the option was granted till the date it was relinquished.

**Phantom stock:** Phantom stock is a special type of ESOP that protects the holder against any depreciation in the value of the stock. Under this plan also, the employee is not required to put in any money in the option plan.

**Premium-priced options:** These are also called performance-vesting options. These options are exercisable only if the market price of the stock reaches or exceeds the pre-determined exercise price, which is significantly higher than the current market price. If the market price does not reach the exercise price within the stipulated time, the option would be forfeited.

Employee stock plans have various advantages. They strengthen a company’s asset base, decrease the impact of corporate taxes and increase its equity. They also have other advantages like aligning the interests of the managers with those of the owners. The main advantage is that it gives the company an opportunity to reward its employees without affecting its bottomline.

Many home-grown companies like Infosys, WIPRO, Tata’s and ICICI are using ESOPs to retain talent both locally and abroad. Exhibit 8.16.1 talks about the introduction of ESOPs by major Indian companies to retain talented employees.
Exhibit 8.16.1: Introduction of ESOPs by Indian Majors to Retain Employees

In a bid to retain talented employees, Indian majors, Reliance Industries, Reliance Communications, and The State Bank of India introduced stock options for their employees in August 2008. This clearly indicates measures taken by employers to prevent talented executives from leaving them.

Stock options have been mostly used by IT companies since the early '90s as part of the compensation package they offer to their employees. After 2006, several manufacturing firms also introduced stock options for employees who performed exceptionally well. Considering the significance of ESOPs in retaining talented employees, banks like SBI too joined the bandwagon. Tanmay Kapoor, partner (human capital practice) at Ernst & Young, says, “Esops have now become an integral part of a compensation package with many companies stumpng up the FBT instead of passing it on to the employees. Employees expect fixed compensation and a variable component. They also expect Esops.”

SBI allotted and issued over 3.4 million shares as part of its stock options plan. Reliance Communications was in the process of covering 20,000 employees under one of the largest stock option schemes provided by an Indian telecom service provider. It had earlier approved over 17 million options to employees who qualified under certain criteria. The company had a three-tier model with multiple constraints to determine the number of options given to an employee.

The stock options at Reliance Communications were initially cleared by a committee and the grant date was then notified to employees. The shares were then vested in a corpus, wherein vesting could be done at one go or could be staggered over a couple of years. The employees had the choice of exercising their option to purchase the stock depending on the difference in stock price between offered price and market price at that time. If the difference was not large enough, he/she could choose to let it lapse.

Section 17

Non-Monetary Incentives

Giving non-monetary incentives to employees for their performance and contribution is one of the best methods of motivating them. Non-monetary incentives are as important as monetary incentives. Some of the non-monetary incentives are:

i. Recognition of an employee’s contribution. This can either be a social recognition or an informal recognition. But, it would certainly add to the self-esteem of the employee and improve his job satisfaction.

ii. A challenging assignment would assure an employee of the management’s confidence in his abilities. This would improve his self-confidence and boost his morale.

iii. Giving additional responsibility to an employee acts in much the same way as a challenging assignment and motivates the employee.

iv. Rewarding an employee for his performance through free gifts or free vacations can boost employee morale.

The vacation can also provide him a much-needed break after the completion of a challenging assignment. For example, companies send their best performers on a holiday to exotic locations like Bali or Mauritius.

iv. Awards, as a form of incentive, for exceptional performance and valuable contribution will add to the social esteem of an employee.
Section 18

Guidelines for Effective Incentive Plans

For an incentive plan to be effective as an employee retaining and motivating tool, it has to have the following characteristics.

i. The incentive plan should be linked to employee performance. This would improve the organizational performance and contribute to the employee morale too.

ii. The incentive plan should be communicated to the employees clearly. There should be transparency and the employees should view the system as being fair and rewarding performers.

iii. Employee suggestions and inputs should be valued and rewarded. The incentive should be proportional to the contribution of each employee.

iv. The incentive plan should be minimally affected by external factors like the stock market performance and the industry’s performance.

v. The incentive plan should be flexible enough to accommodate changes in external factors. Companies should upgrade their incentive plans as the environment changes.

vi. The incentive plan of an organization should provide a challenge to the employees to gear up their performance levels.

vii. The organizational incentive plan should also benefit the management with tangible savings in labor costs.

viii. The incentive plan should only add value and not have a negative influence on the bottom line of the company.

ix. The incentive plan should include both monetary and non-monetary incentives for employees.

x. It should be possible to measure the value of the non-monetary incentive plans.
Employee benefits have proven to be an excellent tool for employee retention and improving an organization’s bottom line. The quality of an organization’s employee benefits scheme determines and enhances its image as a caring employer. Employee benefits that an organization offers are a long-term investment that can result in a sustained competitive advantage for the organization.

Benefits have been defined as the fringe advantages that accrue to an employee over and above his salary, as a result of his employment with an organization and his position in the organization. They are normally not linked to performance. Some of the common employee benefits are:

- **Free or subsidized lunches** – Employees get a free or subsidized working lunch in the office. Most of the organizations offer lunches to their employees, with a wide variety to choose from. For example, Vanenburg Group is known for the sumptuous buffet lunch it provides to its employees.

- **Medical facilities to the employee and family** – Employees and their family members are provided medical facilities, free of cost. In case the employee avails of external medical facilities, reimbursement of the incurred expenses is made to the employee.

- **Paid holiday/vacation to the employee and family** – Employees get a paid holiday, normally every year. In some cases, the company even pays for the vacation of the employee with his family. The LTA (Leave Travel Allowance) scheme, which is applicable to all the employees and their families in all government organizations and many private sector organizations, is a benefit.

- **Retiral benefits like PF and gratuity** – It is mandatory for the organization to pay retiral benefits like PF and gratuity to the employee. Most employees are concerned about post-retirement benefits like pension, gratuity, etc. Some firms like ONGC provides its employees and their dependants, free medical facilities, even after their retirement.

- **Employee insurance** – Employees have to be insured for life and against accidents or illness, under the
Employee State Insurance Act. Many organizations offer the benefits of medical insurance, accident and disability insurance and life insurance to their employees.

**Maternity leave** – In India, it is mandatory for organizations to provide maternity leave of 90 days to expectant mothers. Organizations are increasingly offering extended benefits to expectant mothers and new mothers.

**Child-care centers** – With the number of working mothers increasing, organizations are providing day care centers for the children of their employees. Employees can perform better as their children are taken care of in these care centers.

**Educational allowance for employees’ children** – The organization provides a fixed educational allowance towards the school-related expenses of the employees’ children.

**Merit Scholarships for employees’ children** – Organizations encourage the children of employees to excel in their studies by awarding merit scholarships.

**Company accommodation** – Many organizations provide subsidized quarters for their employees. In case this is not feasible they either pay the lease amount or the rent that the employees have to pay.

**Company transportation facilities** – Many organizations provide transportation facilities to their workforce. These could be company buses or company cars, and serve to ease the difficulties associated with commuting to work. As many workers in urban and semi-urban areas have to commute long distances between their place of work and their homes, and with employees working late hours and night shifts, company transportation is often provided as a benefit.

**Cafeteria and rest rooms** – Companies provide cafeterias with free or subsidized coffee/tea/snacks for their employees. Companies also have rest rooms for employees working extra time or late hours or for employees feeling sick or tired.

**Study leave** – Many organizations encourage their employees to gain more knowledge and earn higher qualifications, by giving them study leave of 2-3 years. The employees rejoin the firm after completing their studies and get paid in full or in part during their studies.

**Company sponsored study** – Some organizations go a step further and sponsor the educational expenses of the employee. Companies which sponsor their engineers for MBA degrees and other post-graduate courses, often consider this an investment and also an employee retaining technique.

**Club memberships** – Some organizations offer exclusive club memberships to middle and senior level managers in the organization.

**Recreational facilities** – The recreational facilities provided by organizations can vary from a TV room to a well-
equipped gym and can include facilities for yoga, sports and games, weekend parties, etc.

Credit cards – Organizations tie up with credit card companies and help employees get credit cards at a subsidized fee.

Business and professional memberships – Organizations pay for the professional membership fee of their employees. Examples of professional/business bodies include IEEE (Institute of Electrical & Electronics Engineers), National HRD Network, etc.

Tax assistance – Organizations spare their employees from tax planning hassles by providing professional assistance to them. They help them plan their savings and file their tax returns.

Other assistance – Some organizations provide assistance to their employees in fulfilling their family responsibilities like admission for children in schools, payment of bills, getting helpers for care of elderly relatives, etc.

Interest-free loans – Many organizations lend their employees interest-free loans or nominal interest loans. For example, ONGC provided housing loans to its employees at a rate of 4% even when the market rates were as high as 12%.

The employee benefits at National Thermal Power Corporation and Google are explained in Exhibits 8.19.1 and 8.19.2 respectively.
Google Inc. (Google) has been ranked number one in Fortune’s “100 Best Companies to Work For” for the years 2007 and 2008. The company topped the list because of its unique practices and work culture. The company’s philosophy is to strive to be creative and different in the services they provide to both their employees and their customers. Moreover, the benefits the company provides to its employees were not comparable to those in other industries. Commenting on the employee benefits, Eric Schmidt, CEO, Google, said, “The goal is to strip away everything that gets in our employees’ way. We provide a standard package of fringe benefits, but on top of that are first-class dining facilities, gyms, laundry rooms, massage rooms, haircuts, carwashes, dry cleaning, commuting buses – just about anything a hardworking employee might want. Let’s face it: programmers want to program, they don’t want to do their laundry. So we make it easy for them to do both.”

Google’s employee benefits range from health and wellness, retirement and savings, vacation, maternity benefits, tuition reimbursement, employee referral program, food, and other benefits like health fair, roller hockey, credit union, discounts for products, gym, swimming facilities, laundry, spa, etc.

In 2009, Google announced its plans to offer its employees a new employee option exchange program under which employees had the option to exchange their existing options with new options. The employees exchanging their existing options with the new options received a strike price equivalent to the closing price of Google’s stock as on March 2, 2009. Commenting on the rationale behind the launch of this new employee option exchange program, Laszlo Bock, VP, People Operations, Google, said, “Recognizing that about 85% of our employees have at least some stock options that are underwater (i.e., have an exercise price higher than the current market price of our common stock), we plan to offer our employees the opportunity to exchange those options.” Through this program, it plans to reward its employees for their contribution to the company and encourage them to provide continued service to their users.

Objectives of Employee Benefits

The basic purpose of providing employee benefits is to ensure the employee’s commitment to the organization through social and personal security and comfort.

More and more organizations are implementing innovative employee benefit schemes to attract and retain talent.

Some of the objectives of a benefit program are:

- To provide employees special allowances to match the growing cost of living, to provide them social security and to improve the quality of their work life.
- To reward employees for their employment with the organization and grant them special privileges for holding a particular position.
- The unions expect some benefits from the management and satisfying the unions’ demands helps in maintaining harmonious industrial relations.
- From the organizational point of view, employee benefits attract and retain talent and enhance the organizational commitment of the employees.

The employers as well as the employees can derive some special benefits such as tax benefits.

Different organizations have different benefits to suit their needs and match their employee expectations.
History and Evolution of Benefit Programs in India

The concept of welfare and benefit schemes for employees in India dates back to the beginning of the 20th century. The Ahmedabad-based Calico Mills started the concept of medical services for its employees, including maternity benefits, way back in 1915. The Tatas, who are regarded as pioneers in the field of employee benefits, started a medical unit for their employees in 1918, in Mumbai. In 1920, housing and other welfare schemes for employees were initiated by Delhi Cloth Mills (DCM). This trend continued and many Indian companies like Birla Mills, Binny Mills, Empress Mills and TISCO started a number of benefits for their employees.

All these companies volunteered to start these benefit schemes and were not bound to do so. However, with the Indian parliament passing many laws like The Payment of Gratuity Act (1972), The Payment of Bonus Act (1965), The Employee State Insurance Act (1948) and The Factories Act (1948), the employer was assigned greater responsibility in implementing welfare and benefit plans. With trade unionism gaining momentum, more employers were forced to introduce various benefits for their employees.

As the business arena became more competitive, all companies were scouting for talent. Attracting and retaining talent became the mantra for survival and growth. In India, major changes arose in the post liberalization era. Till then, most companies had implemented welfare schemes because of union pressures and employee demands. However, the 1980s and the 1990s saw immense changes in the attitudes of employers and in their compensation policies for employees. Organizations started implementing innovative incentive and benefit schemes to attract and retain employees. Each organization wanted its employee schemes to be more attractive than its competitor’s. Today, after the boom in the IT and ITES sectors, we see varied employee benefit schemes being introduced. As the workforce is diverse, employee expectations are also correspondingly diverse. For example, a woman employee might prefer benefits like a long maternity leave, a child care center etc, which differ from the expectations of a male employee who might
prefer a club membership. Similarly, the younger generation prefers cash in hand to long-term benefits like gratuity and insurance, which are normally preferred by the older generation. Refer Exhibit 8.21.1 for employee preferences on perks.

**Exhibit 8.21.1 : Employee Preferences on Perks**

Employees consider a number of factors before accepting a new job. In addition to the monetary compensation, employees like to get fringe benefits and other perks. Though salary is the best motivator for a prospective employee, the offering of additional perks, which were once considered as an exclusive privilege meant only for the top management, is now being offered across all levels of employment. After the September 11, 2001 terrorist attacks in the US, companies began offering several benefits across all levels of management to attract new employees and more importantly, to keep the existing employees happy and productive even without giving them a raise.

According to the 2006 Benefits Survey conducted by the Society of Human Resource Management (SHRM), the most popular benefits based on the level of management include:

- At the executive level, employees were provided cellular expenses, relocation expenses, and supplemental life insurance.
- At the middle-level, employees were provided cellular expenses, relocation expenses, and supplemental life insurance. These benefits were similar to the executive-level benefits but served a limited percentage of employees at the middle-level.
- At the non-managerial level, benefits included supplemental life insurance, supplemental long-term disability insurance, and supplemental medical insurance or reimbursement.

While these benefits were common in most of the companies, several companies also provided incentives to their employees. Many others extended their benefits to healthcare and retirement plans. Companies tried to stand out by offering creative perks like on-site manicures, laundry, and daycare, so that employees could cut down on their errands drastically. Some companies also offered on-site massage chairs, yoga classes, and encouraged napping to reduce workers’ stress levels.


The future seems to be good for the Indian employee, who has become more discerning in evaluating the benefit schemes on offer. Organizations need to introduce flexibility into their benefit programs to benefit employees. A single program cannot satisfy every employee in the organization. Therefore, employees should be given the option of selecting from an array of benefits and putting together an arrangement that satisfies them individually.

The employee would be able to choose the schemes that suit his/her needs best. The total cost for the company can be fixed, and the employee can design his benefit program, within this limit.
Some Modern Concepts in Employee Benefit Schemes

A few innovative and customized employee benefit programs that have been introduced recently, are explained in the following paragraphs.

Golden parachute

The golden parachute is a provision in the employment contracts of the top management, which ensures the provision of compensation or lucrative benefits for the loss of a job following a change of control (i.e. acquisition by another firm). Under this provision, a lump-sum payment or payment over a specified period at full or partial rates of normal compensation is made. Golden parachutes help in minimizing conflict of interest between shareholders and managers in the event of a change of control. A golden parachute should not be confused with severance payments.

The golden parachute can take different forms:

- Continuation of the salary
- Bonus and/or certain benefits and perquisites
- Retirement benefits
- Accelerated vesting of stock incentives

Exhibit 8.21.2 explains how VLSI used a golden parachute arrangement to retain its employees in the face of a hostile take-over bid.

Cafeteria benefit plan

Many organizations have been adopting the flexible benefit plan or the cafeteria benefit plan to give employees a choice in selecting the most suitable benefit schemes. In this method, the management customizes the benefit programs
after assessing employee preferences and needs. These customized programs are retained within a broad framework, considering the rules and the costs involved. Oracle Corporation offers a cafeteria-style benefit program to its employees, as is explained in Exhibit 8.21.3.

<table>
<thead>
<tr>
<th>Exhibit 8.21.3: Benefits at Oracle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oracle Corporation offers excellent benefits for almost every health need. It offers a comprehensive benefits plan called OracleFLEX which provides fundamental benefits and further allows suitable employees to choose additional coverage and benefits that suit their individual and family needs.</td>
</tr>
<tr>
<td><strong>OracleFLEX:</strong> OracleFLEX is a unique and flexible “cafeteria-style” benefits plan which allows employees to customize their requirements. Employees are given flex credits that can be used toward purchasing benefits depending on their needs. This gives the employees control on the amount they spend on each benefit. If employees have credits remaining, they can divert them toward their taxable income or to 401(k) savings plan, dependent care reimbursements, or healthcare reimbursements.</td>
</tr>
<tr>
<td>Oracle 401(k): This savings and investment plan allows the employee to save for retirement and contribute to his/her long-term financial goals. The employee could contribute up to 40% of his/her cash compensation which includes salary, bonus, and commission on a pre-tax basis, subject to a limitation of annual Internal Revenue Service (IRS) dollar. The company may match some of the 401 (k) contributions and the employee could consider several investment options to invest his/her money. This contribution reduces the employee’s federal and state income-tax as he/she pays pre-tax dollars.</td>
</tr>
<tr>
<td>Employee Stock Purchase Plan: Oracle allows its employees to purchase common stock of the company at a discounted market price. The employee has to enroll prior to the offering period and make contributions of up to 10% of his/her cash compensation through deductions in payroll.</td>
</tr>
<tr>
<td>GoalPlanner: Oracle offers its employees a Fidelity GoalPlanner Automatic Investing Plan for investing their after-tax dollars into Fidelity mutual funds through direct deposit payments. This program is administered by Fidelity.</td>
</tr>
<tr>
<td>Employee Assistance Program (EAP): This service offers employees confidential services, referral services, and personal assessment. The EAP services enable employees to cope with stress, depression, personal problems like divorce, problems with children, marital problems, alcohol abuse, drugs, financial problems, job worries, or legal problems. The EAP staff consists of licensed psychologists, clinical social workers, and counselors, who were available 24 hours a day, 7 days a week. The services are free for up to three visits per family member per concern per year.</td>
</tr>
<tr>
<td>LifeWorks Family Resource and Referral Program: Oracle offers its employees a free benefit program called the LifeWorks Family Resource and Referral Program. This program is designed to help employees balance their family, work, and personal responsibilities. The LifeWorks Program enables employees to gather useful material, practical advice, and referrals on different kinds of topics.</td>
</tr>
<tr>
<td>Vacation: Oracle offers its employees vacation benefits, wherein a regular employee who works full-time i.e. 35 hours per week, is entitled to 13 days of vacation for the first three years and thereafter, 18 days per year.</td>
</tr>
</tbody>
</table>

Reference Questions:

1. Explain the significance of Job evaluation with appropriate examples of its usage

2. CEOs and sky-rocketing compensation, the order of the day! Does this create internal inequity problems at the top management level?

3. Explain the trends in compensation so as to retain a positive workforce.

Footnotes:


3. In a simple ranking method, all the jobs in the organization are ranked in an order, based on their significance and worth.

4. Minimum piece rate is the minimum wage payable for the amount of work done or the number of units produced by the worker.

5. Minimum time-rate is the minimum wage payable for the number of hours of work put in by the worker.


7. www.themanagementor.com

8. Under a deferred income retirement plan, employees divert a part of their earnings to their retirement fund, which provides them a regular income after their retirement.
Caselet 1: Compensation Management

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Employees of SVS Pharmaceuticals were a worried lot. With the news that the company was going to merge with Vindhya Pharma, all of them were worried about what would happen to their jobs, and the other benefits as a result of the merger. There were all kinds of rumors regarding layoffs and reduction in pay and benefits. Vindhya Pharma was a leading firm with operations spread across Asia and Europe. SVS Pharmaceuticals had a strong hold in marketing and distribution in India, and so it was considered to be a merger of equals. Amid all the confusion, the employees received a message that the CEO would like to address them regarding the merger.

The next day, the tensed staff assembled in the conference room. The CEO, Sharath Kumar started the proceedings by sharing with the employees the reasons for the decision, and the advantages for the firm, if the merger was completed. He felt that as a result of the merger, the firm would be able to explore various areas of research because Vindhya Pharma had the resources to finance such research and developmental activities. Even as Sharath Kumar was speaking, the employees had just one question in their mind, what would be the impact of this merger on their jobs and their pay packages.

To their relief Sharath made it clear that a benefits team would be formed that would have representatives of both the companies. He requested the employees to be patient as it would take some time to clearly decide and bring in an effective benefit plan. As per Sharath’s statement a benefit team was formed.

Later in the afternoon, a meeting of the benefits team was called. The team was headed by the VP-HR of the merged company, Vinod Sharma, who stated that since it was a merger of equals, they had to develop something that was the best for the new company, even if it were time-consuming. The team felt that the best way to go about it was to merge the best of both companies’ benefit plans or create a new benefit program that would reflect the culture the new company was trying to nurture. Sharma felt that the latter option would take a longer time. He also stated that their aim was not just to design a new benefits plan, but also to make sure that the employees were knowledgeable and comfortable about the changes in the benefits programs. Before concluding the meeting, the VP made it clear to the team that people were of paramount importance to them and if the benefits program did not help in retaining them, then the merger would serve no purpose.

QUESTIONS FOR DISCUSSION:

1. The benefits team has to devise a benefit program that would satisfy the employees of both the firms. Can you suggest some steps for the benefits team to function effectively?

2. The head of the benefits team stated that it would take the firm more time to create a new benefits plan than merging the benefits plan of both the companies. Why would creating a new benefit plan take more time? What should be the action plan for the HR team?
Section 23

Caselet 2: Compensation Management

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
Girish Pradhan is one of the many HR managers who have seen the ups and downs of retaining employees with stock options. In December 2000, at the peak of the IT boom, he joined the human resource department of Visiotech, one of the largest independent chip design firms. When Pradhan joined the firm, it was unlisted, but was on the verge of launching an IPO. The firm expected Visiotech’s stock to soar rapidly after the IPO, as it was one of the leading chip designers.

This gave Pradhan a terrific recruitment tool as the stocks attracted many prospective candidates. People were willing to join the firm at salaries that were 30-40% lower than their existing salaries because Visiotech was offering stock options as part of the total compensation package. But the dream was short-lived. In just a few months, as the stock market came crashing down, and the firm’s stock was no longer sought after in the market, its options turned worthless. Pradhan realized that the employees were no longer interested in stock options and it was difficult to attract and retain talented employees using the company’s stock options.

Even senior management employees in the 45-48 age group people with a greater risk-taking capacity were shying away from options. Pradhan planned to analyze the situation and identify the means of attracting and retaining employees. After considering the market situation and the existing trends, he came to the conclusion that the most common demand was for a performance cash bonus. From his analysis, he also found that with higher spending on lifestyle products and a greater need for free cash, employees seemed to prefer the cash based pay to ESOPs. Employees also felt that ESOPs took time to mature, and also that there was some risk involved in the returns.

But implementing a performance bonus plan based on cash would put Visiotech under enormous strain as the company’s manpower costs were already 40-50% of sales and any further increase would squeeze the margins. As it is, the tech meltdown had already shaved off a major chunk of the margins. Moving to a fully cash based compensation system would also have a major impact on the profit and loss accounts of the company.

Another option that Pradhan could consider was the move to a variable pay structure, under which the pay was now linked to company, individual and team level of performance. But when he planned to finally implement variable pay, one of his colleagues suggested that the system of options should not be written off as the market was catching up.

QUESTIONS FOR DISCUSSION:

1. What are the reasons for the declining role of stock options in Indian companies?

2. Pradhan seems to be in a confused state as to what kind of compensation packages he has to design to retain and attract employees. Can you suggest any guidelines to Pradhan for using compensation to attract employees?
Caselet 3: Compensation Management

This case was written by M. Aarthy and K. Shirisha, under the direction of A. Nirharika, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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The northern division of Gautam Appliances met every month to analyze its targets and the actual sales. Shravan Kumar, a jovial and friendly manager who was respected by all the sales personnel, headed the meeting. His suggestions and other contributions during the meetings always helped sales personnel exceed their targets. He also gave a patient listening to employee problems and suggestions. During one such review meeting, one of the sales executives, Pavan Kumar, raised the issue of the uniform compensation system being implemented by the management. He felt that despite their achieving a greater percentage of the sales target than the southern division, they were not being compensated appropriately. The incentives being received by the employees of both the regions were also the same. There were times when the northern division achieved double the sales of the southern division. But the management did not recognize or acknowledge this. Pavan felt that it was demotivating for them to work hard and put in extra effort when the other division was not matching their performance, but were getting the same compensation.

Shravan explained his inability to provide a solution to the problem as it was an organizational issue. He told the employees that despite his suggesting to the management that they adopt the performance-based variable pay system, they had not considered it. He said the management believed in the standard pay system based on the number of days the employees worked. However, he assured the employees that he would put forward this suggestion to the top management at the next meeting. The meeting was adjourned and the sales personnel left the room in a state of hope.

After a month, when the staff assembled again for the review meeting, Shravan was not his usual jovial self. The employees realized that the management had not reacted positively to the idea of performance-based compensation packages. Shravan tried to convince the employees that the management was looking into this issue and would resolve it as quickly as possible. However, even two months later the sales personnel did not receive any information from the management on this issue. The next two months saw a very high employee turnover rate in the northern division of Gautam Appliances. The employees who remained also did not put in their best efforts. Their sales performance came down drastically. At the monthly meetings, the top management questioned Shravan about the poor performance and the high employee turnover. Shravan made it clear to the management that even at this stage if they did not consider rewarding the employees for their performance, they would be losing a valuable employee base. He suggested that they should at least consider giving employees incentives to reward their performance. After two days, Shravan was called and asked to present his views on designing an appropriate performance-based compensation system for the organization.
QUESTIONS FOR DISCUSSION:

1. The organization was following the traditional method of compensation. What are these methods and how do they function?

2. Shravan requested the manager to provide the employees with at least incentives based on the targets being achieved. What are the various incentive schemes that can be implemented?
Section 25

Caselet 4: Compensation Management

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In a speech to the employees, the chairman of Praveen Metals said that to survive in the dynamic market, they must be able to switch gears and perform differently in response to change. According to him, traditional job titles and descriptions indicated a restricted set of work duties. Paying employees according to these structured duties led to rigidity during times of change. Paying employees according to their competencies seemed to be a more rational approach, allowing the organization to speedily change employee assignments and motivate their employees to gain skills and become more valuable. The workers would be motivated as they were being paid according to their skill sets.

The chairman felt that by doing this, the employees would gain some control over their pay. All in all, such a pay system had the potential of being more motivating as well as of retaining employees. More motivated and performance-oriented employees would be drawn to such a system because it allowed them to realize their potential. Such people were often the high achievers and effective employees.

The management initiated skill-based pay in the organization, replacing the earlier system of job grades based pay. During this transition, employees assisted in writing skill definitions and benchmarking skills. Jobs, based on job scope and complexity, defined the benchmarked competencies. The company conducted training sessions and made sure that employees understood the new system.

 Supervisors and team leaders assessed employee application of knowledge. If employees were applying skills beyond their designated skill base pay level, the supervisors initiated certification and approval processes to promote them to the next higher level. If employees’ performance was below the standard, their pay remained the same. However, the supervisor and the employee were required to establish a training plan of action.

After a year of operation, employees were asked to provide inputs in three areas: (1) access to training and job rotation, (2) how well they understood the new plan and (3) their view of advancement under the new plan. After the implementation, the following results were identified. Employees who had a positive perception of their access to training and job rotation during the first year of the new pay plan were also satisfied with their skill based pay in the second year. Employees who understood the new plan in year one were also satisfied with their skill based pay benefits in year two. Overall, these employees felt that the system was fair. So, from these findings, the management found that both employee understanding of the pay system and their being able to affect their pay through access to training and job rotation were important for the success of the skill-based pay plan.

**QUESTIONS FOR DISCUSSION:**

1. The chairman suggested the replacement of job grades. Can you suggest some of the modern approaches to wage determination?

2. According to the Chairman, employees do not have control over their pay by using the traditional approach. Is it possible for employees to have control over their pay?
Grievance Handling

Employees differ as individuals, in their needs, expectations and behaviour. When their needs are not satisfied or their objectives are not achieved, the result is employee dissatisfaction. It is not an easy task for the management to keep all the employees satisfied and motivated, all the time. There can be different reasons for an employee being dissatisfied. For example, failing to get a promotion or a pay hike, which the employee has been expecting, can lead to unhappiness and dissatisfaction. This dissatisfaction takes the shape of a grievance when it is formally brought to the notice of the management.

The grievance redressal procedure of an organization enables employees to air their dissatisfaction. It is important that an organization has an effective grievance redressal system. This helps the organization to solve problems at the level of an individual rather than have them result in industrial unrest. Keeping track of employee grievances also helps an organization check its policies and procedures to avoid similar problems in the future.

In this chapter, we will discuss:

- Concept of Grievance
- Causes of Grievance
- Need for a Grievance Redressal Procedure
- Effective Grievance Redressal
- Steps in a Grievance Redressal Procedure
- Grievance Redressal Procedure in Unionized Organizations
- Legislative Aspects of the Grievance Redressal Procedure in India
- Conflict Resolution
Section 1

Concept of Grievance

C B Mamoria brings out the difference between dissatisfaction, grievance, and complaint.

Dissatisfaction arises when an individual is not happy in his job and when the organization does not recognize the individual's goals. This dissatisfaction leads to complaints when an individual discusses it with another employee in the organization. When the dissatisfaction related to the work is brought to the notice of the management, the complaint becomes a grievance.

A grievance is a sign of an employee's discontent, either with the job or the organization. The gap between employee expectations and organizational rewards normally leads to a grievance. An unpleasant relationship with the supervisor can sometimes lead to a grievance.

Edwin B Flippo views grievance as "a type of discontent, which must always be expressed. A grievance is usually more formal in character than a complaint. It can be valid or ridiculous, and must grow out of something connected with company operations or policy. It must involve an interpretation or application of the provisions of the labor contact."  

The above definitions show that the cause for a grievance is the lack of congruence between employee and management goals. When an employee has a grievance and takes it to the management, the grievance redressal authority must analyze it to identify the root cause. If the management fails to take the necessary corrective action, the employee's morale and consequently his performance will get affected. In extreme cases, it can even lead to industrial unrest if more employees feel dissatisfied and discontented.

The management should show genuine concern and use a humanitarian approach while dealing with employee grievances. The grievance of an employee might have little significance to the management, but for the employee, it is of great significance as it concerns his
career and his future in the organization. Therefore, a
grievance should be analysed and settled using a humane
approach, along with procedural and legal approaches.
However, care should be taken to avoid any violation of rules
and regulations as this might result in future problems for the
management.
Section 2

Causes of Grievance

Grievances can also arise out of the day-to-day working relations in an undertaking. Relations with supervisors and other colleagues also determine employee’s job satisfaction. According to the National Commission on Labor, “the complaints affecting one or more individual workers in respect of their wage payments, overtime, leave, transfer, promotion, seniority, work assignment and discharge would constitute grievances.” Such grievances, if not dealt with immediately and in accordance with a procedure that secures the respect of all parties, can result in a climate of industrial conflict.

The different factors that can result in employee grievances are:

- Dissatisfaction of the employee with his compensation or different components of compensation like incentives or benefits;
- Employee disappointment resulting from denial of a promotion or a transfer;
- Unpleasant relationships with supervisor/s and other colleagues;
- Unhealthy or harmful working conditions;
- Job assignments that do not match employee aptitude or skill;
- Lack of adequate resources to achieve objectives of the job;
- Denial of leave, overtime or other benefits.
Section 3

Need for a Grievance Redressal Procedure

Let us study in detail the benefits that accrue to an organization because of its grievance redressal procedure.

In the absence of a grievance redressal system, an employee could either keep his dissatisfaction to himself or share it with his colleagues. If an employee has no means of expressing his dissatisfaction, he will get frustrated and this would affect his performance. If he chooses to share his grievances with his colleagues, it could lead to unpleasantness and an unhealthy work environment. It might even lead to industrial unrest.

If the settlement of the grievance at the first (supervisor) level does not satisfy the employee, he can approach the next level. The employee is given more than one opportunity in an effective redressal procedure.

Grievance procedures keep a check on arbitrary actions. As a result, supervisors usually do not indulge in biased decisions. They are apprehensive of the employees approaching higher levels of management in order to redress their grievances.

Grievance procedures help in upward communication. Employees are free to express their discontentment, problems or frustrations to the top management. By this, the top management becomes increasingly aware of the problems of the employees.

Previous knowledge and experience, captured in the grievance redressal system, helps the management when formulating major plans like plant expansion or installation of latest technology. The management can take into consideration the problems that may be encountered by the employees.

A good grievance redressal system helps to maintain harmonious industrial relations as employee grievances are settled before they turn into industrial conflicts.

It helps the management to win the trust and confidence of the employees. When employees know that they have an effective channel of redressal, they are more open to recommendations for settlement.
Section 4

Effective Grievance Redressal

The following conditions are necessary for a grievance redressal procedure:

1. Enjoy the trust, confidence and respect of all the employees and the management.

2. Identifies the root cause for employee grievance.

3. Resolves the issue at the lowest possible level.

4. Resolves the issue in an amicable manner.

5. Resolves the issue without any delay.

6. Does not result in any violation of organizational rules and policies.

7. Provides for data and information management of employee grievances.

8. Tracks the redressal procedure to provide the current status to the employee and the management.

9. Helps the management to identify the core issues, which need to be avoided in future.

10. Provides unbiased and objective redressal of employee grievances.

11. Is a short and simple procedure that can be easily understood by all the employees.

12. Considers the legal, social, financial and psychological aspects for an amicable settlement.
Section 5

Steps in Grievance Redressal Procedure

There are different stages in any grievance redressal procedure. An organization can design its own grievance redressal procedure, in consensus with its union. The National Commission on Labor has suggested a ‘model procedure for grievance redressal’. (Refer to Figure 10.5.1)

In the initial or the first stage, the employee conveys his grievance verbally to his supervisor (or the designated officer). In case the supervisor fails to respond within the prescribed time limit of 48 hours, the employee approaches the next level in the redressal procedure.

At this level, the employee fills up the grievance redressal form of the company and approaches the head of his department with it. The departmental representatives play a role in the redressal procedure, from this stage. The head of the department has 3 days to reach a settlement, failing which the grievance reaches the next level.

The third level in the redressal procedure is the Grievance Committee. The committee is given 7 days to discuss the issue with the employee and reach a settlement. In case of a unanimous decision, the management has to implement it. Otherwise, the management is given 3 days to communicate its decision. In case of a failure at this stage, the grievance is taken to the fourth stage.

In the fourth stage of employee redressal, the employee and the departmental representatives appeal to the management to review its decision. The management has a week’s time to revise its decision. In case there is no change in the decision, the issue may be referred to the union.

In the penultimate stage, the union discusses the issue and tries to reach a settlement between the grievant employee and the management. In case of the union’s failure to do so, the grievance reaches the last stage of the grievance procedure.

In the sixth and the last stage, a settlement is reached through voluntary arbitration by a third party, normally a Conciliation Officer from the state labor department. This process should be completed within 7 days.
Voluntary Arbitration

Committee of Union and Management

Manager

Foreman

Supervisor

Head of the Department

Departmental Representatives

Grievant Employee

Grievance Committee

Note: N.S. – Not Satisfied

The level at which the grievance is settled indicates the industrial relations atmosphere and the culture in the organization. The lower the level, the better is the relationship between the management and the employees. For example, if the organization has an open and healthy culture, more grievances will be settled at the lower levels of the grievance procedure. On the other hand, more grievances will be settled in the later stages of the procedure if the organization does not have a healthy relationship with its employees.
Grievance Redressal Procedure in Unionized Organizations

The grievance redressal procedure in a unionized organization is quite different from that in a non-unionized organization. The union plays an active role in settling employee grievances. The following are the different steps in the redressal procedure in a unionized organization:

i. The employee with a grievance first approaches his supervisor/manager and conveys his problem, verbally. This grievance may also be expressed in a conference or a discussion specifically arranged for this purpose. The grievance can be settled at this stage if the supervisor has the requisite people-management and problem-solving skills.

ii. If the employee is not satisfied with the settlement, the supervisor forwards this grievance to a higher-level manager or departmental head with a note mentioning the grievance of the employee and the failure in the first stage of redressal. The manager solving the grievance at this level may be a business manager, a superintendent or an industrial relations officer who checks the grievance and gives his verdict.

iii. If the decision at this level is also not acceptable to the employee, then the grievance is referred to the grievance committee, which consists of members from the union and the management. The committee can ask the employee to accept the proposed settlement of the employer. In some cases however, based on the severity of the issue the committee might ask the employee to submit the grievance for arbitration.

iv. The final step is when the grievance is referred to the arbitrator. The arbitrator should be acceptable to both the management and the employee. Both the parties can agree beforehand that the decision of the arbitrator is final and that they would abide by that.

Exhibit 10.6.1 explains the employee grievance redressal procedure at Marriott International.

The grievance redressal procedure in non-unionized organizations, especially the new economy sector organizations, is quite different from the procedure explained above. Exhibit 10.6.2 explains the grievance redressal procedure at Wipro & Infosys, two of the most successful IT companies in India.
In the mid-1990s, Marriott International Inc. (Marriott), a leading lodging company, had a comprehensive complaint resolution system known as the Guarantee of Fair Treatment (GFT), to ensure that employee grievances were addressed. Under GFT, the complaints passed through successive stages in Marriott’s hierarchy, starting with the immediate superior, depending on whether or not the concerned employee was happy with the redress response given at each stage. However, given the decentralized nature of Marriott’s operations, and with managers handling several tasks, resolution of complaints through GFT did not produce quite the desired results. Marriott therefore, decided to try new methods of complaint resolution while continuing with GFT. These methods included mediation, a toll-free hotline, and peer-review.

Under mediation, a neutral person was appointed to arrive at a mutually agreeable settlement. Unlike arbitration, in which a judgment was imposed on the parties, mediation tried to resolve the issue by bringing the parties together and discussing the problem. To ensure that the discussions were kept secret, the parties signed a confidentiality agreement. The agreement also absolved the mediator of the necessity to appear as a witness if the matter was taken to court. Mediation was an attractive dispute resolution mechanism, given that most work-related litigation was settled out-of-court.

Marriott also introduced a toll-free number – 800 — for accepting employee complaints at 300 food service places, which operated on a 24/7 basis. Complaints relating to possible wrongful discharge, discrimination, and harassment could be registered through this mechanism. These calls were attended by employee-relations representatives and senior executives during office-hours. During off-hours, complaints were recorded and attended to the following day. Investigations commenced within three days of the complaint being lodged.

To create awareness about the hotline, Marriott conducted training and provided printed material to all employees across all its units.

In peer review, the complainant could select a panel of peers, who comprised volunteers trained for the process, at random. The panel was authorized to pass final judgment on complaints. However, the panel had to operate within the purview of Marriott’s policy and work rules. The complainant’s immediate superior was taken into confidence. Marriott encouraged an employee with a complaint to first follow the GFT process. Starting with his/her immediate superior, the employee was assured that the complaint would be heard up to the level of senior executives.

If the employee still felt aggrieved, the option was to choose between a senior executive and a peer review panel. If the former was picked, the employee had to meet the panel facilitator of his/her unit, who was, usually, the unit’s HR director who oversaw the selected panel. Marriott identified and trained 10% to 15% of the workforce in each business unit as panelists for peer review. The chosen panelists’ names were put in a box, from which the complainant was asked to draw lots. He/she could draw six names of peers, narrow it down to three, and select two from four managers’ names. The panel ultimately comprised these five members. The peer review process was aimed at quickly solving grievances, as the panel was expected to meet within 10 days of receiving a complaint and pass judgment.

An open-door policy and free channels of communication characterize organizations in the new economy sector. Any employee of the organization can walk into the office of his superior to express dissatisfaction or a grievance that he has. The cut-throat competition for human resources makes the management strive to keep its employees satisfied and motivated. This also contributes to the design and implementation of a fast and effective grievance redressal procedure that settles employee grievances without any annoyance or delay. The informal culture and reduced bureaucracy facilitate a smooth grievance redressal procedure in these organizations.

Exhibit 10.6.2
Grievance Procedure at Wipro and Infosys

In April 2003, Wipro and Infosys created identical "whistle blower" policies wherein employees were permitted to complain against suspicious misconduct in the company without the fear of being punished. Though the procedures of both companies were different, the idea was the same, wherein an employee could anonymously complain about a fraud he/she suspected or harassment he/she faced.

Both companies’ policies mostly conformed to Section 806 of the Sarbanes Oxley Act since it dealt with whistle blower policies. Moreover, it was a new regulation under the Securities Exchange Commission. There were some basic differences in the policy of the two companies.

The procedure at Wipro was called the Ombudsprocess. It involved the appointment of ombudsmen, who were senior officials in different business units of the organization. Employees were required to register their complaints with the Ombudsmen who then investigated the matter and submitted a report to the compliance committee. The compliance committee had the responsibility of taking suitable action. On the other hand, Infosys encouraged its employees to communicate their problems to their direct superiors or to the superior’s superior. Unlike Wipro where employees were encouraged to disclose their identity, employees at Infosys also had the option of remaining anonymous. They could send emails to a specific whistle blower ID, and send anonymous letters to the corporate counsel. The employees could also write letters addressed to the corporate counsel. All the grievances filed were addressed by the company’s grievance redressal cell.

Both companies’ policies tackled a wide range of complaints from theft, physical, or psychological abuse to accounting discrepancies.

Section 7

Legislative Aspects of the Grievance Redressal Procedure in India

In India, until the enactment of the Industrial Employment (Standing Orders) Act, 1946, the settlement of the day-to-day grievances of the workers did not receive much attention. Though the clause 15 of the Model Standing Orders in Schedule 1 of the Act specifies that all complaints arising out of employment including those related to unfair treatment should be submitted to the manager or the specified person, the act has a limited applicability i.e. it applies only to those establishments that employ 100 or more workers.

It is important to lay down a detailed grievance procedure with mutual consent. In the absence of such grievances procedures, the complaints of the employees keep piling up and continue growing in intensity. As a result, minor problems may multiply and become major issues and at times can also lead to a situation of industrial conflict. Hence, there is a need to formulate a grievance redressal machinery. Realizing this need, the Indian Labor Conference in 1957 decided to formulate a proper and satisfactory grievance redressal procedure. A code of discipline was laid out according to which “the management and the unions should establish on a mutually agreed basis, a grievance procedure that will ensure a speedy and full investigation leading to a settlement.” The guiding principles that evolved from this code of discipline are:

**Conformity with Existing Legislation:** A grievance procedure should be acceptable to both the management and employees and should conform to the existing legislation of the firm. The grievance procedure should be designed to supplement the existing statutory provisions and it may, where practicable, make use of such machinery as is already provided by the legislation.

**Simple and Expeditious Machinery:** When a grievance arises, it has to be settled at the lowest possible level in the redressal procedure. Depending on the type of the grievance, it should be referred to the appropriate authority. A grievance should be addressed as quickly as possible, as a delay in the process would further demotivate the employee.

**Employee Knowledge of Grievance Procedure:** Employees should have thorough knowledge of the grievance procedure. They should know whom they have to approach with their grievance, the different stages involved, the time limits etc. Classifying the grievances
leads to simplification of the procedure and its understanding. Grievances can be classified as those that arise from interpersonal relationships and those that arise out of conditions of employment. Personal grievances (those arising out of interpersonal relationships) should be taken to the authority in the line management, immediately above the employee. If the grievance is not solved at this level, then the complaint can be taken to the grievance committee comprising of the representatives of management and workers. Other grievances should be taken up with the authority designated by the management and later on to the grievance committee in case of a failure at the previous stage.

**Constitution of the Grievance Committee**: If the organization has a recognized union, the grievance committee consists of two representatives from the management, and two representatives from the union. One union representative should be from the department in which the concerned employee works.

In case the organization does not have a recognized union, but has a works committee, then the grievance committee comprises two representatives from the management, a representative from the department in which the employee works, and a secretary or the vice president of the works committee. It is important to have a departmental head as the management representative along with the official who deals with the grievance at the first stage. The personnel officer who can act as an advisor may also be included in the management team, as an equally good alternative. The size of the grievance committee should be limited to a maximum of six members.
Conflict Resolution

Grievances result in conflicts if there is incompatibility in the goals and expectations of the management, the employees and the union. For an organization to work smoothly and effectively there is a need for goal congruence and expectation match between the organization and individual employees. When this is absent, a grievance arises. This grievance, if not resolved immediately, can hamper the work process in the organization, by leading to conflict.

Traditionally, any conflict that arose was suppressed or eliminated. However, behavioral scientists recommend that conflicts should be uncovered and ultimately worked through, for the benefit of the individual as well as the organization. According to the contingency approach to conflict management, a conflict can be both good and bad, depending upon the situation. In fact, it is believed that a constructive conflict can prove to be productive and advantageous for the organization. For instance, if no challenging questions are posed to the management, some of its decisions, which are perhaps counterproductive, might ultimately affect the organization and its performance. Thus, managers should accept the inevitability of conflict and recognize those grievances that might aid organizational renewal. However, at the same time, they have to minimize the reactions that interfere and block the attainment of legitimate organizational goals.

Although conflict is dealt with in different ways, there are seven primary ways people respond to it. They are discussed in the following keynote (10.8.1):
Table 10.8.1 briefly explains the different methods adopted in the face of a conflict and the eventual results of each method adopted.

<table>
<thead>
<tr>
<th>Methods</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Win-Lose</td>
<td>One party takes an upper hand</td>
</tr>
<tr>
<td>Withdrawal and retreat</td>
<td>The less dominant party withdraws from the conflict</td>
</tr>
<tr>
<td>(Avoidance)</td>
<td></td>
</tr>
<tr>
<td>Smoothing</td>
<td>A method where the differences are sorted out as the parties consider</td>
</tr>
<tr>
<td>(Accommodating)</td>
<td>the importance of the organization’s performance</td>
</tr>
<tr>
<td>Compromise</td>
<td>Bargaining is done to arrive at an intermediate acceptable position</td>
</tr>
<tr>
<td>Arbitration</td>
<td>An outside party involves itself in resolving the conflict and issues</td>
</tr>
<tr>
<td></td>
<td>a final decision on the conflict</td>
</tr>
<tr>
<td>Mediation</td>
<td>An outside party mediates and helps the two primary parties reach</td>
</tr>
<tr>
<td></td>
<td>conciliation. The mediator steers the two disputing parties towards</td>
</tr>
<tr>
<td></td>
<td>a settlement</td>
</tr>
<tr>
<td>Problem solving</td>
<td>An open exchange of information takes place so that differences</td>
</tr>
<tr>
<td></td>
<td>between both the parties can be resolved to result in a win-win</td>
</tr>
<tr>
<td></td>
<td>solution</td>
</tr>
</tbody>
</table>

Source: ICMR.

Reference Questions
1. Explain the process of grievance handling machinery in India
2. What is the difference between arbitration and adjudication?

Footnotes:
The management of industrial relations has been an important and sensitive issue in organizations for nearly a century. Between the 1920s and 1980s, industrial relations in India were affected by the rapid changes in the economy and the industry which led to turbulence in industrial relations. This, in turn, resulted in industrial conflicts, strikes and lock-outs. The last decade of the twentieth century, however, saw the start of a new era in the history of industrial relations in the country. The number of man-days lost due to strikes and lock-outs reduced considerably. This can be attributed to a complete change in the attitudes of the management and the employees. In a liberalized economy characterized by intense competition, the management and the workers strive together for the achievement of organizational objectives. Exhibit 9.1 is an example of the trust placed by the employees of Tata Steel on their management which believes in the basic philosophy of cooperation and not confrontation.

In this chapter, we will discuss the definition and concept of industrial relations, different approaches to industrial relations, the various parties involved in these relations and their roles, and the objectives of industrial relations. We will also examine the different machineries for prevention and settlement of industrial disputes and the concept of collective bargaining. We will conclude the chapter with a discussion on workers’ participation in management, its purpose and forms of workers’ participation in India.
Tata Steel celebrated 75 years of industrial harmony on February 13, 2004, since the last strike the company had faced was way back in 1928, when Netaji Subhas Chandra Bose was the President of The Labor Association (LA), Jamshedpur. The LA was formed in 1920, before any other trade union had been formed. On August 4, 1956, the management signed an agreement with the Tata Workers Union that granted them the position of a bargaining agent. The agreement resulted in joint consultations between the management and the union. This was considered to be a development that was “one of the most important landmarks in the development of modern management philosophy in India.” This system was based on mutual trust and partnership and it initiated a communication platform, where all issues related to the workers could be discussed.

Tata Steel set up joint consultation councils at different levels such as the management level, department level, and the works level. These councils were set up to ensure that the decisions taken were unanimous. Tata Steel involved all of its 17,000 workers in the process of decision-making, thus giving them a sense of belonging, involvement, and responsibility. Moreover, the participation made the workers feel that they had significantly contributed to an important activity in the organization. The company felt that its policy of cooperating with the workers had led to harmonious industrial relations at the workplace. Raghunath Pandey, President of Tata Workers Union, added, “Co-operation, and not confrontation, has been the underlying philosophy of the joint consultation system at Tata Steel. It is also the reason why there have been no strikes for nearly eight decades.”

With the advent of industrialization, it was believed that labor welfare measures and labor laws were necessary to protect the rights of workers. Trade unions were formed with the intention of confronting the management to ensure that the utmost benefits could be extorted from them. However, the workers’ experience with the management of Tata Steel was unlike other industrial organizations. The company had introduced numerous welfare measures for its workers even before they became obligatory under the law. For instance, the company introduced an eight-hour work schedule in 1912 while the Factories Act was passed in 1948. Free medical aid for the workers was introduced in 1915 whereas it was made obligatory by the ESI Act in 1948.

Thus Tata Steel was looked upon as a “welfare state kind of an entity” and not as just an additional corporate entity.

In this chapter, we will discuss:

- Definition and Concept of Industrial Relations
- Approaches to Industrial Relations
- Different Roles in Industrial Relations
- Objectives of Industrial Relations
- Industrial Disputes Prevention Machinery
- Concept of Collective Bargaining
- Features of Collective Bargaining
- Objectives of Collective Bargaining
- Collective Bargaining Process
- Concept of Workers’ Participation in Management
- Purpose of Workers’ Participation
- Worker Participation in India
- Forms of Worker Participation in India
- Definition and Concept of Trade Unions
- Characteristics of Trade Unions
- Functions of Trade Unions
- Types of Trade Unions
- Methods Adopted by Trade Unions
- Problems Faced by Trade Unions
- Trade Unions and Globalization
Section 1

Definition and Concept of Industrial Relations

Industrial relations can be defined as the relationship between the management and the employees of an industry. According to Dale Yoder industrial relations is a “whole field of relationship that exists because of the necessary collaboration of men and women in the employment process of an industry.”

The International Labor Organization (ILO) stated that “industrial relations deal with either the relationships between the state and employers’ and workers’ organizations or the relations between the occupational organizations themselves”.

V. B. Singh defined industrial relations as “an integral aspect of social relations arising out of employer-employee interaction in modern industries, which are regulated by the state in varying degrees in conjunction with organized social forces and influenced by prevailing institutions. This involves a study of the state, the legal system, workers’ and employers’ organizations at the institutional level; and that of patterns of industrial organization (including management), capital structure (including technology), compensation of the labor force and market forces at the economic level.”

According to Encyclopedia Britannica, “the concept of industrial relations has been extended to denote the relations of the state with employers, workers and their organizations. The subject, therefore, includes individual relations and joint consultation between employers and work people at their workplace; collective relations between employers and their organizations and trade unions and the part played by the state in regulating these relations.”

From the various definitions given above, we understand that:

- industrial relations is an outcome of employer-employee relationship in an organization
- industrial relations facilitates harmonious relationships in an organization by setting a framework for the management and the employees
- industrial relations is based on mutual compromise and adjustment, for the benefit of both the parties involved
the state and the legal system also have a role to play in the maintenance of a conflict-free industrial environment.

The different parties in the system with a well-defined role are the management, the employees and the unions.
Section 2

Approaches to Industrial Relations

Though there are different approaches to industrial relations, the basics of management of good relations remain the same across all the approaches. These different approaches help in viewing industrial relations from different perspectives. This in turn helps in better understanding and better management of industrial relations. The different approaches to industrial relations are:

- Psychological approach
- Sociological approach
- Human relations approach
- Socio-ethical approach
- Gandhian approach
- Systems approach

Psychological Approach to Industrial Relations

According to this approach, most of the problems in industrial relations arise because of the differing perceptions and attitudes of the management and the workers. In a study conducted, it was found that the perception of both parties (workers and managers) regarding a particular aspect varies and as a result, some minute issues aggravate into major problems. The result of the study found that each party looks at the other with suspicion and little regard. There is a basic lack of trust and neither party considers the other trustworthy. Even though a particular group gives an honest assessment of a particular situation, it is negatively perceived by the other group because of archaic and emotional thinking. Added to this, the differing personalities and strained inter-group and interpersonal relationships add fuel to the fire and increase the disharmony in the system.

Sociological Approach to Industrial Relations

This approach considers the industry as a social system and the various groups in the system as communities made up of individuals with differing attitudes, customs, perceptions, social status etc. These differences in the social system give rise to a number of conflicts. Though it is believed that problems arise because of wages, employment benefits and other regulating factors, this approach holds that social status, norms, attitudes and
perceptions of the management and the labor also play an important role in industrial conflict. The work behavior of individuals is closely influenced by social factors that impact an individual’s life in society. These differences among individuals, a result of their social upbringing and association, create conflict and competition among the members of an industrial society.

**Human Relations Approach to Industrial Relations**

This approach holds that the handling of human resources is different from handling material, physical or financial resources. It lays emphasis on the human aspect and the way human feelings influence the work relations and behavior of employees in an organization. Individuals differ in their personality and attitude and respond differently to a particular situation. Hence it is a challenging task to manage human resources effectively. The various human resource policies in an organization like compensation, motivation, appraisal and development play an important part in influencing an individual’s role and contribution in an organization. Maslow's hierarchy of needs clearly illustrates the importance of changing needs of an individual. When these needs are not taken care of at the right time, dissatisfaction sets in. This dissatisfaction leads to conflicts and might eventually result in IR problems. Though it is not possible to consider and satisfy all the individual needs of employees, their minimum requirements should be taken care of. The human relations approach emphasizes on integrating human relations with industrial relations where the workers are more likely to achieve greater job satisfaction and enjoyment in their work and the organization also benefits through improved productivity and employee loyalty.

**Socio-Ethical Approach to Industrial Relations**

This approach states that industrial relations, apart from having sociological ramifications, also has an ethical base. Hence the workers and the management should work in mutual cooperation and realize their moral responsibility toward the organizational objectives. Understanding each other’s problems and constraints can help in resolving conflicts peacefully. Each party should understand the other’s role in the growth and development of the organization and cooperate for maximum benefits. This approach emphasizes on laying ethical pressure on the parties for the maintenance of good industrial relations through peaceful settlement of disputes.

**Gandhian Approach to Industrial Relations**

According to this approach, industrial problems should be solved peacefully using non-violent methods. The approach follows the principles of Mahatma Gandhi. According to him, a peaceful way of resolving conflicts is through non-violence. In the same way, problems in the industry should be solved through satyagraha and non-violence rather than resorting to violent deeds and crimes. The workers’ right to strike is accepted but the emphasis is on peaceful strikes. According to this approach, a strike should only be for reasonable demands and as far as possible, should be avoided in industries which provide essential services to the public.
According to this approach, unions should not be formed in philanthropic organizations.

**Systems Approach to Industrial Relations**

This approach to industrial relations was developed by John Dunlop\(^4\). According to him, the basic elements of the systems approach are the participants, environmental forces and the output. There are three major participants namely, the workers, the management and their representatives (specialized government agencies like labor courts) (Refer to Figure 9.2.1 for Dunlop’s systems approach to industrial relations).

The context or environment is the ground on which the participants interact. Dunlop has identified three types of environment that are relevant to industrial relations: technological characteristics of the industry, market or economic constraints, and the locus of power existing in a society. When a problem arises in the interaction among the three significant participants and the three significant strata, a conflict ensues.

**Figure 9.2.1: Dunlop’s Systems Approach to Industrial Relations**

Source: C B Mamoria, *Dynamics of Industrial Relations*, Himalaya Publishing House, 5\(^{th}\) Ed.

The context or environment is the ground on which the participants interact. Dunlop has identified three types of environment that are relevant to industrial relations: technological characteristics of the industry, market or economic constraints, and the locus of power existing in a society. When a problem arises in the interaction among the three significant participants and the three significant strata, a conflict ensues.
Section 3

Different Roles in Industrial Relations

Industrial development in India led to the emergence of trade unions. A trade union is a representative body of employees, chosen by the employees themselves. In a productive enterprise, where employees do the work and the management takes decisions keeping in mind the interests of the employers, the interests of the employees are represented by the trade unions. These unions play a multifarious role in protecting the interests of the employees.

The important role played by the three parties in industrial relations, namely the management, the workers and the unions, is discussed in detail in the following paragraphs. All the three, have their own interests and that of the organization, at heart. The state also has a role to play in maintaining industrial relations.

Employees

The employees are the pillars on which the organization is built. They are the chief contributors to the organizational objectives, and are the organization’s most valuable resource. To maintain harmonious industrial relations, employees have to be satisfied with the organization, its policies and procedures and their jobs. Dissatisfied or unhappy employees can trigger industrial conflicts and disputes, disrupting organizational harmony and peace. Therefore, it is important that employee friendly policies and rules are framed to provide a conducive work environment and quality work life to the employees. This would also motivate them to perform better and contribute more to the organizational goals and objectives.

It can rightly be said that employees play a very major role in determining the industrial relations atmosphere/environment in an organization. It is the management’s responsibility to employ workers who suit the organizational culture and job requirements. Then, it has to invest in providing the benefits and incentives necessary to develop and retain them in the organization.

Trade Unions

Trade unions, as discussed, constitute the employee representative bodies in an organization. Though there is only one recognized trade union in an organization, there can be other registered unions that have a say in the various employee-related matters of the organization. The
Trade unions negotiate with the management, in the interests of the employees, at the organizational level or at the industry level.

In India, there are a number of central labor organizations like Indian National Trade Union Congress (INTUC), All India Trade Union Congress (AITUC), National Labor Organization (NLO), and Center of Indian Trade Union (CITU) to which a large number of organizational level trade unions are affiliated. These organizations represent and protect the interests of their members on all important issues that affect workers' interests. In the process of fighting for workers' demands, the unions sometimes resort to pressure tactics like threats of strikes.

In socialist countries, trade unions play the role of 'state agents'. They work in coordination with the management to improve employee productivity. They also take responsibility for welfare and conduct activities like administration of safety and welfare work, social insurance schemes, provision of sickness and disablement benefits, arranging holiday camps, etc. In a way, they propagate the policy of the state. They also play an important role in the decision-making of the organization which is effectively 'worker participation in management'. In India, worker participation in management is through Work Committees, Joint Management Councils and Worker Representatives on the Board of Directors.

Trade unions enjoy power and status based on the support of the employees. Their power is used as a weapon in regulating the organization's industrial environment and having their demands accepted by the management. These demands usually relate to increase in wages, improvement in working conditions, and additional benefits and welfare measures. In some cases, trade unions also have a political affiliation, which adds to their power.

The Management

Refer to the keynote 9.3.1 for the role of the management in industrial relations.

Keynote 9.3.1: Role of The Management in Industrial Relations

Source: ICMR

The Government

The government has a limited role to play in industrial relations. It provides a basic framework within which the management, the trade unions and the employees are expected to work for the common good of the organization.
The government comes into the picture only when the three players fail to do this and are unable to sort out their differences. The government then intervenes as a mediator through the process of conciliation, arbitration and adjudication.
Section 4

Objectives of Industrial Relations

The objectives of industrial relations are:

- To safeguard the interests of the labor and the management by preventing one of the players from getting a strong hold over the other.

- To develop and secure mutual understanding and good relationships among all the players in the industrial set-up.

- To maintain industrial peace and harmony by preventing industrial conflicts.

- To improve the standard of living of the average worker by providing basic and standard amenities.

- To increase productivity by minimizing industrial conflicts and maintaining harmonious industrial relations.

- To ensure discipline in the organization and in the industry.

- To provide a basic framework for the management and the employees to resolve their differences.

- To improve the bargaining capacity of the workers through trade unions.
Industrial Disputes Prevention Machinery

Organizations, over the ages, have realized that understanding and resolving workers’ grievances before they assume the complex shape of industrial disputes, is better than handling strikes and lock-outs.

The way in which organizations work has changed tremendously in the last 15-20 years. There has been a paradigm shift in the attitudes of both the management and the workers. Both are conscious that maintaining harmonious industrial relations would enhance productivity, and help the organization to survive and grow in an immensely competitive environment. Hence, there is an increased focus on preventing any kind of industrial disputes arising out of conflict of opinions and clash of interests between the management and the workforce.

There are various means of preventing industrial disputes and are discussed in the keynote 9.5.1.
The decision taken at this stage has a legal binding on both the parties. The different stages under adjudication are:

i. Labor Courts – It can be constituted by the state government for settlement of industrial disputes. It deals with matters related to standing orders application and interpretation, discharge or dismissal of a worker, withdrawal of customary benefits and a strike or a lockout.

ii. Industrial Tribunals – Industrial tribunals deal with all matters within the jurisdiction of labor courts and matters related to compensation, work hours and shifts, leaves and holidays, payment of bonus, provident fund and gratuity, discipline, retrenchment and closure of the establishment.

iii. National Tribunals – National tribunal is constituted when an industrial dispute affects more than one state in the country or when the firm in question operates in more than one state. They cover all the issues covered under the industrial tribunals.

An effective and efficient industrial disputes prevention machinery helps in avoiding conflicts and maintaining healthy industrial relations, for the well-being of the organization and its employees. However, other factors like degree of worker participation, management’s concern for employees, organizational culture and the long-term relationship between the management and the workers of an organization, also play a crucial role in maintaining harmonious industrial relations.
Section 6

Concept of Collective Bargaining

The term ‘collective bargaining’ was coined by Sydney Webb and Beatrice Webb, who believed that collective bargaining was the collective equivalent to individual bargaining, whose primary aim was achieving economic advantage⁵. This viewpoint of Sydney Webb and Beatrice Webb was popularly known as the ‘critical viewpoint’. Later, many definitions were given by experts in the field of industrial relations. Some of the important definitions of collective bargaining are:

According to J. H. Richardson “collective bargaining takes place when a number of work people enter into a negotiation as a bargaining unit with an employer or group of employers with the object of reaching an agreement on the conditions of the employment of the work people.”⁶

Seling Perlman stated, that “collective bargaining is not just a means of raising wages and improving conditions of employment. Nor is it merely democratic government in industry. It is, above all, a technique whereby an inferior social class or group exerts a never slackening pressure for a bigger share in social sovereignty as well as for more welfare, greater security and liberty for its members.”⁷

Effectively, collective bargaining is a managerial tool that facilitates an amicable and mutually acceptable agreement between the management and the employees, to solve all employment-related problems. In some cases, third-party intervention might be necessary to resolve these matters.

The following conditions favor collective bargaining:

- There should be a single union, or in case of multiple unions, a common agreement among them. Clash of interests among unions leads to chaos and uncertainty which would result in a loss to the employees.
- Management should be open to the requests of the trade unions and should identify the union representatives.
- The culture of the organization should foster the right spirit for collective bargaining to be successful.
- The role of a third party should be minimized and agreements should be based on bipartite bargaining.
- All the parties involved should aim at a win-win situation and not a win-lose situation. The common interests of the organization and its employees should be taken into consideration while reaching any agreement.
Section 7

Features of Collective Bargaining

The main features of collective bargaining are discussed in the following keynote (9.7.1):

Keynote 9.7.1: Features of Collective Bargaining

Source: ICMR
Section 8

Objectives of Collective Bargaining

Collective bargaining has benefits not only for the present, but also for the future. The objectives of collective bargaining are:

- To provide an opportunity to the workers, to voice their problems on issues related to employment
- To facilitate reaching a solution that is acceptable to all the parties involved
- To resolve all conflicts and disputes in a mutually agreeable manner
- To prevent any conflicts/disputes in the future through mutually signed contracts
- To develop a conducive atmosphere to foster good industrial relations
- To resolve issues through third party (government) involvement in case of conflicting interests of the parties involved
- To provide stable and peaceful industrial relations in the organization

To enhance the productivity of the organization by preventing strikes, lock-outs etc.

Prof. Butler, in his book ‘Labor Economics and Institutions’, viewed the functions of collective bargaining under three heads;

- **A process of social change** – Collective bargaining acts as a technique of long-run social change, leading to restructuring in the power hierarchy of competing groups.

- **A peace treaty** – It serves as a peace treaty between both the parties in case of continued conflict. However, as the compromise is a temporary truce, each party would like to modify the contract at the earliest opportunity.

- **A system of ‘industrial jurisprudence’** – It is a rule-making or legislative process, in the sense that it formulates terms and conditions under which labor and management will cooperate and work together for a specific period.

These views further acknowledge the importance of collective bargaining in maintaining healthy industrial relations, and establishing industrial peace and harmony.
Collective Bargaining Process

The procedure for resolving an industrial dispute is laid out normally, as a contract between the management and the employee unions. Issues that are settled during collective bargaining relate to wages, bonus and other benefits, employment

<table>
<thead>
<tr>
<th>Exhibit 9.9.1</th>
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<td>Recommendations of the National Commission on Labor</td>
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</table>

The National Commission on Labor (NCL), 1969, made the following recommendations after considering the problems that hampered the success of collective bargaining:

1. One of the significant recommendations by NCL was setting up of an Industrial Relations Commission (IRC) at the state and national level for dealing with labor-management issues instead of having industrial tribunals. The IRC would also serve other functions such as certifying representative unions and adjudicating and conciliating industrial disputes.

2. Another recommendation was setting up of State Labor Courts (SLC) at the Center and State to handle disputes related to unfair labor practices and ‘rights and obligations, interpretation and implementation of awards’.

3. The NCL recommended recognition of a representative union so that it could be the sole bargaining agent on behalf of the workers.

4. The NCL proposed that the National Employment Service (NES), responsible for the recruitment and selection functions, extend its services to towns which had a workforce of over 10,000. The NCL also recommended that the NES make its services free of cost. This was done through the Employment Exchanges Act, 1959.

5. NCL recommended that the industries should enforce the statutory conditions related to safety, factory inspection, and reducing the working hours.

Other recommendations included:

- Introduction of a statutory bonus for settlement of bonuses.
- Checking of malpractices in the payment of wages in small plantations, mines, etc.
- Restriction of government intervention in making tripartite decisions since they were to be made by the International Labor Organization (ILO).
- The functioning of joint management councils and works committees to continue only in units which had a recognized trade union.
- A simple grievance procedure to be introduced in units employing 100 or more than 100 workers.

Adapted from Arun Monappa, Industrial Relations, Tata McGraw-Hill, 1992, <http://books.google.co.in/books?id=1unGsrtyGgC&pg=PA365&lpg=PA365&dq=recommendations+of+the+National+Commission+on+Labor&source=bl&ots=BIMz2fL3nv&sig=xSGY1diCq1JyYHsTIcfn8uTYmM&hl=en&ei=0UJUSfm8KSgkAWwx9GXDw&sa=X&oi=book_result&ct=result&resnum=1#PPA365,M1>
conditions and grievance redressal procedure. The process of collective bargaining involves three steps – *preparation for negotiation, negotiation, and contract administration*. Refer Exhibit 9.9.1 for the recommendations of the National Commission on Labor, on effective collective bargaining.

**Preparation for Negotiation**

The first step in the process of collective bargaining is to make the necessary preparations to negotiate a contract. Both the parties should have a clear understanding of the problem at hand. They should understand and interpret the existing contract completely to identify the loopholes or problems, if any. This would help them to formulate the requirements of their respective parties, for incorporation in the next contract. They should be in possession of all the facts and figures required for making a strong case. Once the parties are ready with their evidence, they should construct a strong and logical argument, to be presented for negotiation. This case should be built in a strategic manner, after identifying the needs of the opposing party and intelligently predicting their arguments. A nearly accurate assumption of the arguments of the opposite party facilitates building a forceful and irrefutable case.

Information is acquired from both internal and external sources. The internal data usually comprises employee performance reports, overtime figures, reports on transfers, turnover and absenteeism, grievance and accident reports and copies of recently-negotiated contracts. The external data includes statistics related to the current economy at the local and national levels, data relating to the cost of living, terms of recently-negotiated labor agreements etc. This information enables the parties to frame their terms of negotiation and also anticipate the terms of negotiation of the other party.

**Negotiation**

The negotiation process begins with submission of the demands of the trade union to the management. The demands are usually on the higher side - a little more than what employees actually want. The management also employs the same tactics and starts the negotiation at a different level, i.e. offering something less than what it has in mind. Both the parties adopt this strategy to provide leverage for negotiating. The preparation done earlier helps them to foretell, though not accurately, each other’s proposals. Therefore, they start at different levels, negotiate and ultimately reach a mutually acceptable agreement. The union representatives lower their demands and the management increases its offer.

After a verbal agreement is reached a written contract is entered into.

If the management and the union representatives fail to reach an agreement, the involvement of a third party becomes necessary. The role of the third party can be that of a conciliator or an arbitrator. The conciliator plays a consultant’s role, helping the parties to resolve their differences and reach an agreement. In case the conciliation fails, the arbitrator hears the arguments of the two parties and gives his decision. If either or both the parties decline to abide by the decision of the arbitrator, then the conflict reaches the final stage, namely,
adjudication. This happens when the arbitration fails and the situation has led to an industrial dispute or strike or lock-out. The government or its representative intervenes to resolve the dispute. Both the parties are legally bound to abide by the judgment passed at the adjudication stage.

**Contract Administration**

Administration of the contract is the last step in the process of collective bargaining and is as important as reaching an agreement. The labor-management relations in the firm determine the success of administration of a contract. The administration is not as dramatic as the process of negotiation itself and therefore does not draw equal attention. However, it is the most important step in the process of collective bargaining as it determines the future of industrial relations in the firm by preventing any disputes.

The terms of the contract and the agreement reached have to be widely circulated among all the employees. The employees and the management should respect the contract and abide by the terms laid down in it. One of the key elements of a contract would be the procedure for handling industrial disputes. Both parties should follow the procedure scrupulously, whenever a conflict arises.
Section 10

Concept of Worker's Participation in Management

According to Keith Davis, “The concept of worker’s participation in management crystallizes the concept of industrial democracy, and indicates an attempt on the part of an employer to build his employees into a team which works towards the realization of common objectives.”

In the words of Tannenbaum R. and Massarik, the term workers’ participation implies “a formal method of providing an opportunity for every member of the organization to contribute his brain and ingenuity as well as his physical efforts to the improvement of organizational effectiveness.”

The concept of workers’ participation aims at providing an opportunity to the workers to take part in the management decision-making. Workers’ participation is adopted and practiced differently in different organizations while in some places, the employees might be required to just give their suggestions and the final decision-making authority vests with the management, in other places, the workers might be involved in taking only operational decisions. In some other places, however, workers might get to actively participate in all the decisions of the organization, including those at the strategic level.

According to Arun Monappa and Mirza Saiyadin, the degree of influence that workers are allowed to exercise, can be classified into five levels – from the minimum to the maximum degree of participation. These levels are discussed in the keynote 9.10.1.

Keynote 9.10.1: Various Degrees of Participation

Source: ICMR
Worker participation in management aids two-way communication which results in better flow of ideas and opinions. This helps the management design and implement employee-friendly policies with minimum resistance. As the workers themselves participate in the decision-making process, they cannot and do not oppose the decisions taken. Exhibit 9.10.1 displays how employee participation plays a key role in improving HTMT’s manual processes.

Worker participation in management also gives the employees a sense of belonging and commitment to the organization. They feel that they are contributing physically as well as intellectually to the organization, which boosts their morale and raises their self-esteem. Workers’ participation also helps the management maintain harmonious industrial relations as there is little scope for conflicts to arise. In fact, it is considered to be one of the industrial disputes prevention instruments.

Exhibit 9.10.1
Employee Participation in HTMT

In 2001, Hinduja TMT (HTMT), a division of the Hinduja Group, providing BPO, outsourcing, and information technology services was increasing the number of clients and its business. With the increase in business, the number of employees also increased. As a result, the pressing need to manage data arose. Thus the management at HTMT decided to set up a centralized system that would pay attention to the increasing need for intelligence within the organization. The solution proposed was automation and centralization of all the processes. Employee participation was a key requirement in carrying out this project. Ajay Bakshi (Bakshi), Head, Process Improvement & Automation, Hinduja Technologies, added, “With new businesses coming in from various domains, we found that employees joined us from various organizations at all levels. Everyone brought with themselves a unique way of process control, which was good as well as confusing. A typical characteristic of any BPO organization is that there are so many team leads and managers in process and being young, everyone is excited to create a workflow of their own.”

The employee participation brought with it an inimitable way of process control. However, some of the processes resulted in a little confusion among the management to understand the way it was being carried out. This resulted in employees taking a long time to adapt to every new process. Moreover, with their internal systems being manually handled, proper communication and effective implementation of policies was expected to consume a lot of time. In a bid to address this problem, HTMT implemented a system called the Global Information and Performance Management System (GIPMS). The main aim of this system was to implement a robust technology which was easy to expand and maintain.

The centralized system was connected to all locations using the Internet and a global portal was provided at different locations to access this system. Security was strictly observed at user and client levels and logs were maintained on what data was accessed by whom and when.

Since the company encouraged employee participation, a lot of divergent ideas kept coming in from the employees. For this, the company adopted a “waterfall methodology” to continuously improve the architecture/workflow as soon as the divergent got transformed into convergent ideas. Bakshi added, “Biggest challenge during implementation was frequent non-availability of business units heads. By the time we started implementation, they all got very busy with multiple processes within their own units as their business had expanded. Moreover our business being 24x7 basis, employees were operating in different time zones. To discuss any one idea in quick time had hit the time barrier.”

To combat this challenge, the company created sub-teams for each business, centralized functions, and had two or more members from every function. This resulted in the time intervals barrier being removed and generated adequate manpower in the execution team.

By encouraging employee participation, HTMT achieved improved quality in deliverables through hypothesis testing, just-in-time online feedback, and statistical inference. Moreover, the company was successful in reducing attrition by 8 percent and cutting down on expenses worth Rs. 5.4 million. The company planned to further expand this application to all its external and internal clients.

Section 11

Purpose of Workers’ Participation

Workers’ participation in management ensures that the capabilities of workers are properly utilized and that they are able to make a significant contribution to the effectiveness and economic welfare of the organization. The reasons for workers participation are as follows:

- It bridges the gap between the management and the workers by authorizing the workers to take part in managerial functions.
- Workers feel valued and, therefore are more committed to their work.
- They feel they have the ability to influence organizational decisions and this makes them more responsible in performing their duties.
- Since they are involved in the process of decision-making, any change in the organization can be implemented without resistance from them.
- Participation also ensures that each party (workers and management) understands the problems and constraints of the other. This helps in reducing industrial conflict.

- Participation enables equal distribution of power in industry so that it tends to be shared among all those engaged in organizational work.
- Participation facilitates effective communication between the workers and the management.
- The increased use of technology in industry has necessitated the growing co-operation of workers because of the complex operations of production.

To summarize, participation improves the progress and prosperity of the enterprise as workers put in their best efforts. Psychologically, it helps in fulfilling the non-monetary needs of the employees and, sociologically, it reduces the number of industrial disputes and creates a positive atmosphere and interest in the work being performed.
Section 12

Workers’ Participation in India

In India, according to the Industrial Policy Resolution, 1956, the aim of the government in advocating workers’ participation in management is to create a socialist society where workers share the managerial powers. In the second Five Year Plan, the purpose of workers’ participation was defined as follows:

- Increasing productivity for the general benefit of the enterprise, employees and community;
- Giving employees a better understanding of their role in the working of the industry and of the process of production;
- Satisfying the workers’ urge for self-expression, thus leading to industrial peace, better relations and increased cooperation.

On the recommendation of the Administrative Reforms Commission’s report on public sector undertakings, the Government of India accepted that the representatives of workers should be taken on the board of directors of public sector enterprises. This representation on the boards should be from those who are working in the organization. This scheme was intended for organizations employing 1000 or more workers. The worker director (representative of the workers) is to be elected by all the workers of the company through a secret ballot. The elected worker director should be trained in the business of the company, should participate in all the functions of the board and should review the working of the shop and plant councils.

Another tool that has become popular as a form of participative management in an organization is the Employee Stock Option Plan (ESOP). ESOPs offer emotional and financial ownership to the employees. It is also employed as a performance management tool for attracting and retaining talent.
Section 13

Forms of Worker Participation in India

Some of the more common forms of worker participation in India are discussed in this section. Table 9.13.1 presents an overview of the various forms of workers’ participation along with their composition, tenure and basic objectives.

Works Committees

Section 3 of the Industrial Disputes Act, 1947 provided for the setting up of works committees, comprising representatives from both the management and the workers. In accordance with the Act, works committees were set up in organizations employing 100 or more workers. The number of representatives in the works committee together with the representatives of the employer had to be not more than 20. Also the number of representatives of the employees was not to be below the number of representatives of the employer. The employees' representative was selected by the employees in association with the registered trade union.

The basic objective of setting up these works committees was to promote measures for maintaining harmonious relations in the workplace. These committees were to sort out differences on employment related issues, between the management and the workers.

The committees had a president, a vice president, a secretary, and a joint secretary. The president was nominated by the employer and the vice-president was a representative of the workers. The tenure for the president and the vice-president was two years. The works committee performed the role of a consultant. Its functions included a discussion of the working conditions such as ventilation, lighting, sanitation, temperature, etc., amenities such as supply of drinking water, canteen facilities, medical services, administration of welfare funds, safe working conditions, encouragement of thrift and savings, educational and recreational activities, etc.

The works committee also promoted measures to secure and preserve harmonious industrial relations in the organization by smoothing out differences between the management and the workmen. The implementation of the Joint Committees dated back to 1920 when joint committees were established in printing presses by the Government of India. Organizations like Indian Aluminum Works at Belur, Tata Iron and Steel Company, etc. had active works committees.
<table>
<thead>
<tr>
<th>Mode of Worker participation</th>
<th>Composition</th>
<th>Tenure</th>
<th>Office Bearers</th>
<th>Basic Objectives</th>
</tr>
</thead>
</table>
| Works Committee             | Employer and employee representatives from technical, managerial & supervisory cadres. | 2 Years | President (employer representative), Vice-president (employee representative), Secretary, Joint Secretary | • Discuss the working conditions and basic facilities for employees  
• Promote good employer-employee relations |
| Joint Management Councils   | Equal representation from management and workers | Will be decided by the council | Chairman (one of the council members) | • Promote cordial relations between the employer and employees  
• Promote measures which lead to substantial increase in productivity |
| Joint Councils              | Number of members is decided by the management and the workers together | 2 Years | Chairman (Chief Executive), Vice-chairman (nominated by workers), Secretary | • Improving the working conditions and developing workers  
• Resolving issues unresolved at the unit level |
| Unit Councils               | Number of members is decided by the management and the recognized union together | 3 Years | Chairman (Management representative), Vice-chairman (Worker representative) | • Improve safety, health & welfare measures  
• Tackling problems like pilferage & absenteeism  
• Ensure communication between the management & the workforce |
| Plant Councils              | 6-18 members with equal representation from the management & the workers. At least one woman representative if more than 15 percent of the workforce is women | 3 Years | Chairman (Chief Executive), Vice-chairman (nominated by workers), Secretary | • Improving quality and productivity of operations  
• Review of financial and personnel matters  
• Implementation of welfare schemes and environmental protection schemes |
| Shop Councils               | Equal number of representatives from the management and the workers | 3 Years | Chairman (Management representative), Vice-chairman (elected by council members) | • Maintaining discipline  
• Implementing cost reduction programs  
• Suggesting technological innovations |

*Source: ICMR.*
Exhibit 9.13.1 presents the functions of the works committee on the basis of the decisions of the 17th session of the Indian Labor Conference, held in 1959.

### Joint Management Councils

The Second Five-Year Plan (1957-61) made recommendations for the setting up of joint management councils (JMCs) that consisted of representatives of the management and the workers. The Indian Labor Conference (ILC) in its 15th session in 1957 accepted, in principle, the idea of setting up JMCs in India.

Based on the recommendations of the ILC, a tripartite subcommittee that visited France, West Germany, Yugoslavia, Belgium, Sweden, and the UK, agreed to the formation, administration, and functions of JMCs. In 1957, an all-India seminar was held that aimed to work out a model agreement that would assist the workers and the management in setting up JMCs. The draft working model was approved by the tripartite committee. The committee also agreed on the criteria to be followed in choosing the undertakings before establishing the JMCs. The criteria included:

- The undertaking planning to establish JMC should have strong and well-established trade unions.
- The JMC should be established after receiving cooperation from the workers, employers, and the trade unions.
- The undertaking should have at least 500 employees.

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Exhibit 9.13.1

**Functions of Works Committee on the Basis of the Decisions of the Seventeenth Session of the Indian Labor Conference, 1959.**

In the 17th session of the Indian Labor Conference, 1959, the tripartite sub-committee laid down certain items that were dealt by the works committee. These include:

1. Working conditions such as lighting, ventilation, temperature and sanitation, including latrines and urinals
2. Basic amenities such as drinking water, dining rooms, crèches, canteens, medical and health services, and rest rooms
3. Protective equipment, safety and prevention of accidents, and prevention of occupational diseases
4. Adjusting national and festival holidays
5. Administering fine and welfare funds
6. Educational and leisure facilities, such as reading rooms, libraries, shows, picnic parties, cinema, sports and games, community welfare and celebrations
7. Promotion of frugality and investments
8. Implementation and evaluation of decisions made at work committees' meetings

The sub-committee also listed a few items that were not handled by the works committee. These include:

1. Salary and other allowances
2. Incentive schemes
3. Bonus and revenue sharing schemes
4. Gratuity, provident fund, and other retirement benefits
5. Quantum of leave
6. Housing and transport services
7. Rationalization in setting up of workload
8. Fixation of a standard workforce
9. Retrenchment and lay-offs
10. Programs of planning and development
11. Persecution for trade union activities

In 1958, the JMCs were set up. They were entrusted with administrative responsibilities in matters related to vocational training, welfare, safety, and preparing the schedule of working hours and holidays.

Some of the organizations which have successfully implemented Joint Management Councils are Bharat Heavy Electricals Ltd. (BHEL), Tata Iron and Steel Company (TISCO), Indian Aluminum Company, and Aluminum Industries of Kundarr.

Joint Councils

In 1977, the Government of India introduced a scheme of participation for service and commercial organizations. The scheme led to the formation of joint councils. Joint councils are for the entire unit (organization, divisional/regional, or zonal branch) and their membership is confined to people who are engaged in the organization. The chief executive of the unit acts as the chairman of the council. The vice-chairman of the council is nominated by the worker-members of the joint council. The number of councils to be set up for different units/types of services has to be determined by the management in consultation with the workers or the recognized trade unions.

The members of the council are the employees of the organization, chosen by the management in consultation with the workers or the recognized trade unions. The tenure of the council is two years. However, if a member is nominated in the middle of the council’s term to fill a casual vacancy, he/she should continue in office for the remaining period of the council’s tenure. The joint council should meet at least once in four months and every decision taken by it should be based on consensus. Once a decision has been taken, the management and the workers should abide by it and implement it within a month.

The main functions of the joint council are settling matters related to optimum efficiency and production and unresolved matters stemming from the shop council, unit or plant level. It also arranges joint meetings for resolving inter-council problems. The council reviews the work of unit level councils and develops the skills of workers and improves the general conditions of work, thereby ensuring the health, welfare, and safety of the workers. Employees who provide valuable and creative suggestions are rewarded.

Unit Councils

The worker’s participation scheme introduced by the Government of India in 1977, also led to the formation of unit councils, in addition to the joint councils. Unit councils are formed in organizations employing 100 or more workers. The council discusses day-to-day problems and finds solutions at the unit level. If necessary, a composite council may be formed to serve more than one unit, or a council may be formed department-wise to suit the specific needs of the organization. The unit council consists of an equal number of representatives from the management and the workers. The number of members of the council is decided by the management, in consultation with the workers or their recognized trade unions, but it should not exceed twelve. The workers’ representatives should be experienced workers of
good caliber from various departments, irrespective of their cadre, affiliation, or status. The management's and the workers' representatives should belong to the unit. The management in conjunction with the workers or the recognized union or the registered trade union decides on the number of departments and the unit councils to be connected to each council of the service/organization. The decisions made by the unit council are based on consensus and not by voting, providing either party may pass on unsettled matters to the joint council for contemplation. The tenure of the council is three years. The chairman of the council is a nominee of the management and the vice chairman is selected by the workers' representatives from amongst themselves. The management also designates one of its representatives as the secretary, whose main task is to maintain a record of the meetings and report on the action taken on the council's decisions at subsequent meetings.

The main functions of the unit council are to achieve optimum efficiency, higher productivity and output, and efficient customer service, elimination of corruption and pilferage, higher productivity including wastage elimination and optimum utilization of manpower, and instituting awards to those who had proven their ability in these functional areas. It identifies areas where the service is bad and takes necessary steps to eliminate factors contributing to such inferior service and evolves improved methods of operation. The council studies and analyzes absenteeism at the workplace and makes recommendations to reduce it. It suggests improvements in the physical working conditions such as ventilation, lighting, cleanliness, layout, etc. and ensures a proper flow of two-way communication between the workers and the management.

**Plant Councils**

The amendment of the Constitution took place in 1975. This amendment notified the scheme of workers' participation in management. In 1975, the Government formulated a workers' participation scheme in industry. The scheme offered the formation of joint councils at the shop and plant level. It was to be implemented initially in the mining and manufacturing industries.

This scheme is applicable to all central public sector undertakings, except a few that are exempted by the government for certain reasons. There is one plant council for a whole unit or plant, and each plant council consists of a minimum of six members and a maximum of 18. It is mandatory to have a woman representative if the number of women workers is more than 15. The tenure of the plant council is three years and it is headed by a chairman who is the chief executive of the unit. In addition to the chairman, there is a vice-chairman and a secretary who are elected by the workers. Every decision of the plant council has to be on the basis of consensus and not by voting, and is binding on both the workers and the employer. Once the council arrives at a decision, it has to be implemented within a month, unless otherwise stated in the decision itself. All unsettled issues are placed before the board of directors for their decision.

The plant council usually deals with matters pertaining to operational, economic, and financial, personnel, welfare, and
work environment areas. The operational areas deal with productivity schemes that suit the local conditions and planning, implementing, achieving, and review of monthly targets and schedules and utilization of equipment, knowledge, and development of new products. Economic and financial areas are the profit and loss statements and review of the balance sheets, operating expenses, financial results, and cost of sales. Personnel areas deal with the initiation and administration of workers’ programs while welfare areas deal with the implementation of the safety, health, and wellbeing programs for the employees. Finally, environmental protection and community development programs are taken care of under environmental matters.

**Shop Councils**

The worker’s participation scheme introduced by the Government of India in 1975, also led to the formation of shop councils, in addition to the plant councils. A shop council is a kind of participative management which is established at the level of department or shop that employs 500 or more workers. The council has representatives of employees and employers in equal number. The representatives of the employer are nominated by the management and must include people from the concerned unit. All the representatives of employees are from amongst the workers who are actually employed in the concerned department or the shop. The number of shop councils and departments to be attached to each council of the undertaking or establishment can be determined by the management in consultation with the workers, or recognized union, or the registered trade union. The number of members in each council is determined by the management in consultation with the workers. The total number of workers should not exceed twelve. While the chairman is nominated by the management, the vice-chairman is elected by the workers from amongst themselves. A shop council, once formed, is to function for a period of two years.

The main function of the shop council is to provide assistance to the management in achieving production targets, improving production, productivity, and efficiency including wastage elimination and optimum utilization of manpower and machine capacity. It helps in creating a safe and healthy workplace for the workers, assists in the formulation of quality improvement programs, and ensures adequate communication between the management and the workers.

**Factors Contributing to the Limited Success of the Workers’ Participation Schemes in Management in India**

In India, workers’ participation has had limited success for different reasons, over the years. Some of the factors are:

- The differing perceptions and attitudes of the workers and the management regarding the degree of participation. While the management finds it important to restrict the participation of workers, the workers feel that participation should be extended to all levels.
- While the management considers the bipartite bodies as substitutes for trade unions, the workers see these as rivals.
A number of joint bodies such as works committee, joint management council, unit council and plant council exist, whose functions have not been clearly defined. This leads to confusion and duplication of efforts and results in waste of time and energy.

In a country like India, the trade unions are poorly fragmented and organized. Further, the inter-union rivalry and influences of different political philosophies have created conditions that are not conducive to workers’ participation in management.

Illiteracy among workers is a major reason for the failure of workers’ participation schemes in India. Workers do not participate actively as they lack a clear understanding of the concept, rationale and benefits of participation.

Delay in implementation of the decisions of the participative bodies creates dissatisfaction and frustration among the workers and results in low confidence and reduced interest in the participation scheme.

**Conditions Necessary for Effective Working of the Scheme**

For workers’ participation to be successful, there is a need to have:

- A healthy work atmosphere that motivates employees to participate in the decision-making process. Frequent conflicts in industries frustrate workers and they do not show interest in decision-making as they feel that the management is averse to proposals made by the workers.

- It is the responsibility of both the workers and the management to put in their best efforts, talents and resources for the realization of their goals.

- There should be total agreement between both parties regarding the functioning of the participation schemes. This will ensure the willingness of both the parties to participate in the progress and functioning of the schemes.

- Frequent meetings between the two parties will reduce the communication gap and help in implementing decisions at the right time.

- The participation schemes in an organization should be introduced at the shop floor and plant level. Until these are underway, the scheme of workers’ involvement at the board level should not be introduced.

- Workers’ training and education should be given importance so that the workers can understand the importance of their participation and its beneficial effects for the organization.

- The programs for training and development should be formulated comprehensively so that the workers are able to comprehend the various aspects of management.

- To make the employees participate actively, their suggestions should be taken into account and if the suggestions are good, they should be implemented immediately. This would increase employee contribution and cooperation.
The management and the workers should trust one another and work towards improving the system. They should be willing to contribute to the fulfillment of organizational goals.

Workers’ participation schemes should be based on mutual trust and confidence and not enforced by law or compulsion as this would defeat their very purpose.

Finally, it is important to evaluate the effectiveness of the worker participation programs from time-to-time and if required, necessary changes should be made to render them more acceptable and effective.

Footnotes:
2. Climate for industrial relations: A Study of Kanpur Textile Industry, Allied Publishers
3. Satyagraha means insistence and adherence to truth, in a non-violent manner. It is a concept of non-violence and peace, introduced by Mahatma Gandhi.
5. Industrial Democracy, Longman's Green & Co., 1920
6. An Introduction to the Study of Industrial Relations, George Allen and Urwin, 1961
Trade Unions

Trade unions play an important role in industrial relations. They are groups of worker representatives who fight for the betterment of the workers. The trade union movement in India dates back to 1850. With the emergence of the Indian working class, trade unions were formed to fight for better terms of employment. Many changes have taken place in the Indian trade union movement after Independence. Today, trade unions in India face many challenges such as continuous changes in the business environment, rapid technological developments and globalization.

In this trade unions, we shall discuss the definition and concept of trade unions, the characteristics and functions of trade unions and the types of trade unions. We shall also study the methods used by trade unions to achieve their objectives. Finally, we shall examine the issues faced by trade unions and the affects of globalization on the trade union movement.
Definition and Concept of Trade Unions

According to the Webbs, a trade union is “a continuous association of wage-earners for the purpose of protecting and advancing the conditions of their working lives.”

According to S.D. Punekar “a union is a continuous association of persons in industry – whether employer or independent workers – formed primarily for the purpose of the pursuit of the interests of the members of the trade they represent.”

The Indian Trade Unions Act of 1926 [Sec. 2(B)] defines a trade union as “any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen or between employers and employers or for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more trade unions.”

From the above definitions, we understand that

- formation of trade unions is largely a result of workers’ desire to protect their economic interests in an organization
- trade unions negotiate with the management and improve the working conditions of the workers at the organizational level or industry level
- trade unions try to improve the relations between workers and employers; or workers and workers; or employers and employers
Section 16

Trade Union Membership

Workers join trade unions for various reasons. Some join them as they believe that trade unions would offer them job security, whereas some join them just to have a sense of belonging to the worker community. In 2006, trade union membership had been increasing in India mainly from the unorganized sector. Exhibit 9.16.1 explains the increase in trade union membership in India.

Exhibit 9.16.1
Trade Union Membership on a Rise in India

According to a report by the Central Labor Commissioner in 2006, there has been a considerable increase in the membership of central trade unions in India. The rise in membership has been attributed to the increasing number of people from the unorganized sectors like plantation, agricultural and beedi workers, and cart-pullers joining trade unions.

The largest gainer has been the Rashtriya Swayamsevak Sangh (RSS)-backed Bharatiya Mazdoor Sangh (BMS), which increased its membership to 3.3 million in 2006 from 2.7 million in 1996.

While the Congress-backed Indian National Trade Union Congress registered 3.8 million members in its trade union, the CPI(M)-backed Center of Indian Trade Unions (CITU) reported 2.6 million members.

Some of the new unions that have sprung up are the Self-Employed Women’s Association, the DMK-associated Labor Progressive Front, and the CPI (ML)-backed All-India Central Council of Trade Unions.

While CITU has consolidated its position in Tripura, West Bengal, and Kerala, AITUC has gained spectacularly in Andhra Pradesh, Bihar, West Bengal, Rajasthan, and Jammu and Kashmir.


Source: www.referenceforbusiness.com
Some of the reasons for the dwindling trade union membership are discussed below:

- **Job security** is the primary reason that drives a worker to join a trade union. Workers believe that if the management ever takes unfair and autocratic decisions that would affect their employment, the trade unions would chip in to provide them job security. Unions generally try to protect workers’ jobs against management decisions to lay-off. Management resorts to a lay-off when it becomes imperative for organizational survival. Today’s worker is intelligent enough to understand and accept this and therefore needs no trade union membership. He has also realized that his performance can alone secure his job.

- Workers have always been and will ever be concerned about their wages and benefits. Every workman seeks a fair compensation that matches the industry standards and his personal worth. Workers believe strongly in the collective power of trade unions to improve and achieve higher levels of wages and benefits. They also expect protection from trade unions, in view of their membership, when unexpected financial needs arise in the form of illness, accidents, injury, etc. In today's organizations where workers are rewarded for their performance and the management takes care of workers’ needs, trade unions have lost their relevance.

- Workers want their work environment to be safe and healthy. Government legislation stresses the improvement and maintenance of health and safety at the workplace. However, workers feel more assured when trade unions become involved in these issues directly. However, the management of a modern day organization understands that a safe and healthy work environment benefits not only the workers but also the organization. Therefore, it takes care to ensure a comfortable and hazard-free work environment for every worker.

- Workers do not want the terms of employment to be dictated by the management. They want fair treatment, with respect and a chance to express their views. The efforts made by trade unions during the inception and growth stages of industrialization resulted in a shift from autocratic style of management to people-oriented style of management. These changes further attracted workers to believe in the strength of trade unions. However, in recent times, the management has realized the importance of fair treatment of workers and rarely leaves any scope for complaint.

- Earlier, most workers used to criticize the management for not including them in organizational decisions that had an impact on their work. Further, workers did not possess any powers to bring in changes that benefited them. Therefore, workers joined and used trade unions as a forum to communicate their ideas, opinions, goals, grievances, etc., to the management. The formation of work committees and quality circles, have alleviated these complaints of the workers.

- Workers generally believe that trade unions can achieve better results by using the collective voice, rather than
individuals fighting alone for their rights. By joining trade unions, the bargaining power of workers improves and they can resist and restrict the illogical and discriminatory actions of the management. They can also challenge management decisions related to promotions, transfers, and disciplinary issues. Though workers still take refuge in the shadow of trade unions, the changing perception with regard to trade unions is that power and authority, are vested in a few individuals (the trade union leaders) and the workers do not have much say.

Human beings strive to belong to a community or a family, either in their personal lives or in their professional lives. By joining trade unions, workers identify themselves with other members in the union and satisfy their need of belongingness. Trade unions bring people together and promote common job-related interests. They also promote programs, social events, and activities that help to create a strong bond among union members. This is still one of the main reasons why workers join trade unions even though declining membership is robbing them of their sheen.
Characteristics of Trade Unions

The general characteristics of trade unions can be outlined from the various definitions of trade unions. The core features of trade unions have remained the same over the centuries despite sweeping changes in some of their peripheral features. For example, the purpose of existence of a trade union has remained the same though its functions have changed over time. Some of these basic features are discussed below:

A trade union is an association between workmen and workmen or between workmen and employers or between employers and employers: In India, unions include employers’ associations like the Employers’ Federation of India, the All India Organization of Industrial Employers, the Bombay Mill Owners’ Association, etc. Further, there are the general labor unions and the friendly societies. Besides, associations of professional workers like the All-India Teachers’ Association; the All-India Bank Employees’ Association; the All-India Medical Doctors’ Association, etc. also exist to take care of the issues and problems of the members belonging to the respective professions. However, the associations of employers and professional bodies cannot be regarded as trade unions as their objectives are principally different from that of the workers’ organizations. Though the fundamental objectives of workers’ unions and employers’ unions are different, there were incidents where employers invited their workers to join their trade unions and vice versa. In the Indian context, these unions where the employers are members are known as quasi-unions.

The nature of labor unions is relatively permanent: As mentioned earlier, the definitions given by Webbs, Dale Yoder, and S.D. Punekar emphasize the continuous association of workers in the form of a trade union. The nature of a trade union is generally not temporary or casual. Moreover, unions reach their objectives and add new objectives over a period of time and not at a point of time. Trade unions frequently use the technique of collective bargaining to achieve their objectives, which are in the interest of all members of the group.

A trade union’s primary objective is to secure economic benefits for its members: A trade union aims at acquiring control over the supply of labor in a single market or more number of markets and also maintains this control to fix the price of labor. However, the
The objective of trade unions is not restricted to the economic interests of its members but also includes their social, political and cultural interests.

**Continuous changes in the character of trade unions:** Over a period of time, trade unions have changed their nature of existence from illegal and criminal associations to legalized and recognized federations. They have increased in size as well as in number. Earlier, their only aim was to secure the economic interests of their members but now they actively participate in the social, political and cultural development of the nation. It can be said that trade unions have adapted themselves to the changing environment which includes technological changes and management approach, which affect their existence.

**Ideologies all over the world have influenced the birth and growth of the trade unions:** Trade unions over the decades have been influenced by socio economic and political movements. The ideas proposed by Marx and Engels in their ‘Theory of Class War’ have led to a section of trade unionists who believe that labor organizations are necessary to bring about changes in the social order. In the capitalist era, trade unions fought for higher wages and improvement in the conditions of work. Later, socialists tried to achieve industrial democracy. Modern trade unions have become more practical and relevant. They consider issues like production problems of the industry and social issues like employment while putting forward their demands.
Refer to the keynote 9.18.1 for the detailed explanation on functions of trade unions.

**Keynote 9.18.1: Functions of Trade Unions**

Exhibit 9.18.1 explains the strike that broke out at Honda Motorcycle and Scooter India plant at Gurgaon.

**Exhibit 9.18.1**

**Labor Unrest at Honda Motorcycle and Scooter India Limited**

On July 25, 2005, the management of the Gurgaon plant of Honda Motorcycle and Scooter India Limited (HMSI) encountered violent protests from workers which disrupted production in the plant. The protest came after a job slowdown and labor unrest at the Honda factory over the previous six months (since December 2004 when the workers' demand for increase in wages was rejected by the management). The workers had tried to form a trade union and this resulted in a confrontation with the management. Fifty workers of the production team were suspended and four others were dismissed in December 2004. Other workers threatened that they would not return to work until their colleagues had been reinstated.

The management did not want to reinstate the dismissed workers. It asked the workers to return to work after signing an agreement that they would maintain discipline in the organization and ensure normal production at all times. The workers of the plant were demanding reinstatement of the suspended employees when some workers allegedly attacked policemen posted within the premises of the plant. This led to police intervention and a violent tussle ensued between the police and the workers in which workers protesting peacefully were also beaten up. The police were reported to have overreacted and to have been overzealous in protecting the interests of the HMSI management, even without any direct request from the company's management.

After the protests on July 25, 2005, HMSI's management said that it would wait for the third party inquiry into the dispute to be completed before taking any decision on reinstating the suspended employees. However, the workers who had gone on strike on July 25, 2005, were reinstated after they signed an undertaking that they would not go on strike in future.

On July 30, 2005, the management of HMSI said that it had taken “one-time measures” to normalize the overall situation and in the interest of the entire industrial region, the company would ensure betterment of working conditions. It also acknowledged that HMSI had been successful because of the hard work and efforts of its workers on the job. HMSI incurred a loss of over Rs. 1.3 billion due to the labor unrest. This had an impact on the company's sales for the month with its market share dropping to 39 percent for the month.

Adapted from “GuragaonWorkersNews No. 7,” October 6, 2007, [http://gurgaonworkersnews.wordpress.com/gurgaonworkersnews-no7/].
Section 19

Types of Trade Unions

The advent of industrialization has led to the evolution of many trade unions across the world. The basic differentiating factor for trade unions is their ideology. However, they are also classified on the basis of their purpose and membership structure for they are also classified on the basis of their purpose and membership structure for simpler and easy understanding. The classification of trade unions based on these two features is shown in the Figure 9.19.1. The predominantly used classification is, however, based on the membership structure as it is easier to comprehend. Unions would not prefer to be categorized as anarchist or guerilla unions.
Classification of Unions According to Purpose

Unions are classified into reformist and revolutionary unions based on the purpose of their existence.

R.F. Hoxie further classified reformist unions into business unions and uplift unions.$^3$

Classification of Unions According to Membership Structure

Unions can be classified on the basis of differences in the structure of their membership. The four types of unions recognized on this basis are craft unions, industrial unions, staff unions and general unions.

Keynote 9.19.1: Types of Trade Unions

Source: ICMR
Section 20

Methods Adopted by Trade unions

Generally, if they tend to rely on peaceful means, trade unions adopt methods of mutual insurance, collective bargaining and legal enactments to achieve their objectives. These methods are interdependent and assure the trade unions of their goals. Trade unions also use pressure tactics like strikes, lockouts, etc. to achieve their objectives. The methods adopted by a union depend on its economic views. For example, the unions might have a capitalist, socialist or communist view of the economy and their approach towards a settlement would reflect it.

Mutual Insurance

This method is based on various activities undertaken by trade unions for the welfare of their members and for the maintenance of good relations with employers. Under this method, all the members are required to donate towards the common fund created by the trade union. The money in this fund is utilized during strikes, for welfare activities and other schemes that serve the interests of the members. The advantages of this method are listed below:

- It attracts the people to join the union with its varied welfare activities;
- Under this method, members donate more if they need more benefits. This helps in improving the financial condition of the union and enhances its bargaining power when the need arises;
- In case a strike continues for a long time, it helps the members to stay united by offering the required financial assistance.

Collective Bargaining

This method aims at exploiting the advantages of the collective strength of workers in comparison to an individual's, by representing all the workers in an organization. Thus, it avoids the weaknesses of individual bargaining by workers and employees that gives the management an upper hand. A wide range of issues like wages and bonus, hours of work, gratuity, medical and welfare measures, etc., are dealt with by the unions during negotiations with the management. These negotiations may take place at the local, industrial, or national level. The benefits of collective bargaining are listed below:

- It is used as a device to decide on mutually agreeable wages and working conditions;
It can be used as a weapon for industrial peace;

It restricts outsider interference like that of political leaders and helps maintain friendly relations with the management. Exhibit 9.21.1 explains General Motors’ collective bargaining agreement with the United Auto Workers.

Legal Enactments

Legal enactments help unions to realize their objectives. These include labor laws related to working conditions, social security, trade unions, wages, industrial disputes, employment, etc. that protect children, women, and adult male workers against oppression and exploitation from employers.

Other Methods

Trade unions also use certain pressure tactics like strikes, boycotts, sabotage, go-slow tactics, passive resistance, tool-down strike and picketing etc. However, strike is the most important weapon used by these unions. Workers cease to work until their demands are fulfilled by the management. Unions resort to the more subtle methods like go-slow tactics, wearing black bands, etc. when the issues are not very critical and the employees do not want to disrupt the functioning of the organization.

Exhibit 9.21.1
General Motors’ Collective Bargaining Agreement with United Auto Workers

In November 2007, an agreement was signed between General Motors Corporation (GM), the world’s second largest automobile manufacturer, and United Auto Workers (UAW), one of the largest labor unions in North America, for providing healthcare benefits to workers. The agreement was reached after a strike by the workers of GM followed by a collective bargaining process. The prime objective of the contract was to reduce the company’s healthcare costs by forming a Voluntary Employees’ Benefit Association (VEBA) fund. Under the agreement, the UAW was entrusted with the responsibility of administering the healthcare benefits of workers.

The results of the GM-UAW deal were as follows:

VEBA trust: GM was to pass over its US$ 50 billion in future healthcare obligations to the UAW at a cost of about US$ 29.9 billion in cash and other assets. The VEBA would last for 80 years and protect retiree healthcare of all current retirees and current active workers when they retired.

Two-tier wage plan: As per this plan, GM could hire a second tier of lower-paid workers to do non-core jobs. Those workers would be paid between US$ 14 and US$ 16.23 per hour, which was about half the hourly rate of current assembly workers. These workers would also have fewer benefits.

Cost of living adjustments: As per the new labor contract, workers would divert a part of their cost-of-living adjustment (COLA) to pay for the escalating cost of healthcare, for both active workers and retirees. The diversions would amount to US$ 6,240 per worker over four years. The company would receive about US$ 270 million from the workers’ COLA to pay for the healthcare for active workers, while another US$ 180 million would be diverted from the workers’ COLA into the new VEBA.

Bonuses: Workers would receive a signing bonus of US$ 3,000, followed by a lump sum bonus of 3 percent or 4 percent for each year of the contract in lieu of a wage increase.

New hires: GM would make about 3,000 temporary employees permanent at the current assembly wage.

Product plans: GM and the UAW shared detailed product plans and future opportunities for many of its facilities in the US. The contract also called for a moratorium on outsourcing jobs.

The collective agreement with the UAW put an end to the problems GM had been facing with regard to the rising healthcare costs for its employees.

Section 21

Problems Faced by Trade unions

There are a large number of trade unions in India. However, these trade unions seem to have seen their peak and have not made any significant progress in recent times. The memberships of the trade unions are either dwindling or have reached stagnation. Some of the problems being faced by the trade unions are due to the environmental changes like the change in the management attitude where as some of them are self-created. The changing attitudes of the workers and the changes in the Indian economy have also contributed to the change in the image of trade unions in the Indian industry. The problems faced by Indian trade unions are discussed in detail here.

Uneven Growth of Unionism

Uneven growth has been a major problem for trade unions in India. Most trade union activities take place in large-scale industrial sectors involving manual labor and in the industrial centers of big states. They are restricted to the organized and non-agricultural sectors. Trade union activities are satisfactory in industries like textiles, printing presses, utility services, transport and communication and commerce. Small-scale industries and scores of workers in the unorganized sector have never seen the benefits of being members of large, recognized trade unions. The agricultural sector, which is the largest employer in the country, is another sector which has been completely ignored by the trade union movement in India. It is only recently that the big trade unions have started asking the government to design and implement some welfare measures for the workers in unorganized sector, especially agriculture.

Small Size of Unions

According to the Trade Union Act of 1926, any seven workers can form a registered union. This law has paved way for the formation of a large number of small unions.

The trade unions have ignored the increasing number of women in the workforce and restricted their participation in the union and its activities. Though the women constitute nearly 40 per cent of the Indian workforce, they have been ignored terminally by the trade unions. National Union for Working Women is one of the trade unions that caters to the needs of women workers and consists of women members.

The basis for the formation of a trade union organization in India is the factory or the employment
unit. Therefore, a number of small unions are formed whenever workers or employees in a particular unit or factory are organized.

The process of unionization started with the big employers and slowly spread to the smaller employers. This process brought down the average membership though the total number of unions and union membership is improving.

The average membership has further declined when multiplicity of unions occurred due to enmity between the leaders of the local trade unions and the Central Organizations.

**Financial Weakness**

Membership fee is a large part of the income of trade unions. The annual income of different trade unions has been very low in India.

The financial weakness of a trade union does not allow it to adopt pressure tactics to fulfill its demands, start welfare schemes for its members, provide financial assistance to members in sickness, etc. This financial weakness is largely due to the disinterest shown by workers in participating or donating liberally to the union.

Members do not show commitment to the union as they normally come into the picture only when a dispute arises.

When a situation of multiplicity of unions exists, though a union plans to increase the membership fee it ends up with irregular collection of the membership fee or charging low fee.

In order to solve this problem, recommendations were made to introduce ‘check-off system,’ wherein the employer in a collective agreement with the workers, deducts the membership amount due to the union from the worker’s pay and transfers it to the union funds directly. This is done for all employees who are union members. However, this did not materialize in some organizations due to the fear of loss of contact between the union and the workers.

**Multiplicity of Unions**

There are thirteen central trade unions in India. Indian National Trade Union Congress (INTUC); All-India Trade Union Congress (AITUC); Centre of Indian Trade Unions (CITU); and United Trade Union Congress (UTUC) are some of the Central Trade Unions. There are other associations in different industries and occupations that are not affiliated to any central union. The All-India Bank Employees’ Association, National Federation of Indian Railwaymen, and All-India Mine Workers’ Federation are a few examples. There are thousands of other smaller unions in the country that are either associated with the central unions or operate independently.

From this discussion, it can be seen that multiple unionism is a major problem faced by Indian trade unions. One of the main causes of multiple unionism is political interference in trade union activities. Politicians, involved in trade unions and their working, show more interest in increasing their influence
rather than the improvement of the trade union movement. The conflicting political views of rival trade unions are another reason for the poor growth of the movement. Caste differences among the union members also fostered multiple unionism in some cases.

The multiplicity of unions gave rise to inter-union rivalries, which further caused a decline in collective bargaining and a fall in workers' power to acquire what is lawfully theirs.

**Inter-union Rivalry**

Every industry in India has parallel trade unions. For example, the Indian Railwaymen’s Federation and the Indian National Federation of Railwaymen are the two parallel unions of Indian Railways. The basic reason for inter-union rivalry is the existence of multiple unions and non-existence of any formal legal code in the country to recognize a single union as the only bargaining agent. Politics in gaining union leadership, and the self-interests of the members are some of the reasons for intra-union rivalry.

To check growth of multiple unions and inter-union rivalry, the National Commission on Labor has given certain guidelines. Some of the suggestions are listed below.

- Avoid outsiders and political interference in union leadership by encouraging members to build strong internal leadership;
- Improve the system of recognizing unions;
- In case of unavailability of central organizations, Labor courts should be given powers to solve inter-union conflicts;
- Central trade unions should recognize and encourage single bargaining agents. This helps in improving the value and strength of collective bargaining in the country.

**Leadership Issue**

The Indian trade union movement has been closely associated with political parties from the beginning. Many unions in India are associated with some political party or the other, thus increasing the scope for outsiders to take over the leadership and interfere in the union matters. Besides politicians, many lawyers and social workers also tend to take over union leadership for their own personal gains. However, these leaders neither meet the workers nor visit the premises to understand the real problems of workers as most of them work for their own benefits. Following are the reasons behind the trend of outsiders assuming trade union leadership in the country:

- The illiterate and narrow-visioned workers require intelligent and dynamic persons to represent them during bargaining as they are no match for the management. They need outsiders like social activists and lawyers to present and win the case for them.
- Illiteracy and a wide gap in the social status between the workers and the management lead to a communication gap between the two parties. Workers are not confident enough to approach the management and the
management might feel that it can dupe the workers. This results in the unions opting for outsiders as their leaders.

Financial weakness necessitates workers to opt for outsiders who offer free services to the union. It is possible that these leaders are more interested in fighting for their cause or using the workers for political purposes rather than working for the benefit of the workers.

External leadership also leads to a host of other problems. Unions can solve the problem by encouraging education of workers, treating ex-employees of the industry as outsiders, training workers to improve their skills in union organization and restricting the number of outsiders to take part in the union leadership.

**Politics and Unions**

Before Indian independence, unions associated themselves with political parties and actively participated in the freedom struggle. However, after independence, unions split up due to the differences in the ideologies of the political parties they were associated with. On the other hand, the illiterate, backward and ignorant worker needed someone to represent him before the powerful management and political leaders were ready to offer help. However, in the later stages these political leaders used workers for their own benefits instead of working for their welfare. One of the important reasons for multiple trade unions and inter-union rivalry is the control exercised by rival political parties on these unions. Exhibit 9.23.1 shows how the government faces the power of trade unions and employees against the state.
### Exhibit 9.23.1
### The Right to Strike in Danger

The employees, teaching and non-teaching staff of government-aided and government-run schools and colleges in Tamil Nadu went on an indefinite strike on July 2, 2003, demanding restoration of benefits curtailed by the state government.

**Tamil Nadu Essential Services Maintenance Act (TESMA)**
This act was passed in May 2002, and took away the fundamental right of workers to go on strike. It gave the State legislature the power to enact restrictive laws. The Government had the right to declare any service as essential and thus avoid strikes. When a service was declared essential under TESMA, any strike called under that service was considered illegal. If anyone joined this strike or encouraged others to go on strike, they had to face three years of imprisonment and a fine of Rs. 5000.

**The Strike**
The state government passed an ordinance two days before the strike began, amending TESMA and giving more powers to the authorities to charge heavy penalties from the employees. According to this ordinance:

- Absenting oneself from duty during the strike period would be regarded as participation in the strike and committed ‘misconduct’. The government could dismiss the employees without any prior notice.

**Turning points**
- Jayalalitha, then chief minister, Tamil Nadu, passed an ordinance before the strike began, empowering TESMA to dismiss employees without prior notice.
- More than a million employees and teachers participated in the rallies despite government threats.
- Around 2,000 workers and teachers participating in the strike were arrested.
- Nearly 200,000 employees were dismissed.

**The law and the role of courts**
The unions approached the High Court and the Supreme Court to fight against the arrest of leaders, employees, and the dismissal of the employees. One of the unions challenged TESMA in the High Court. The High Court Bench ordered the government to release the arrested leaders but kept quiet on the dismissal of 200,000 employees. The High Court supported TESMA by accepting that the dismissal of 200,000 employees was not a ‘violation’ of fundamental rights. The leaders along with the ‘Progressive’ Labor Front of the DMK, the main opposition party in the state, approached the Supreme Court for rescue of the 31,000 employees against whom FIRs had been lodged.

**Results**
The Supreme Court ordered the government to reinstate all the employees excluding those whose names were in the FIRs. The Supreme Court stated that except for the 2,200 employees who were arrested and employees against whom FIRs were pending, others could be reinstated.

Nearly 160,000 employees whose names did not figure in the FIRs list were also allowed to resume duties after they tendered an unconditional apology that they would abide by ‘Rule 22 of the Tamil Nadu Government Servants Conduct Rules 1973’ which prohibited workers from going on strikes.

After the Supreme Court intervened, the Tamil Nadu government agreed to reinstate most of the employees who had been dismissed except for 6,072 employees against whom FIRs were pending. The SC, however, declared that "employees have no fundamental right to go on strike and hold the state to ransom."

Trade Unions and Globalization

When India opened its doors to foreign markets in 1991, many trade unions opposed the idea of trade liberalization. Several trade unions have shown their protest through strikes. For instance, a strike was called by trade unions in India in December 1998, when the government decided to allow foreign investment in the insurance sector and made plans for further privatization. Thousands of industrial and public sector workers participated in the strike. Similarly, a strike was called by AITUC, CITU, and HMS (Hind Mazdoor Sabha), in February 2000 to protest against privatization. These examples clearly show the mass opposition to globalization. Let us examine the positive and negative effects of globalization on trade unions.

The positive side of globalization is represented by an increase in worldwide growth of goods and services, with the reduction of trade barriers and increase in open world trade. Further, this increased the incomes, and raised the standard of living of most workers all over the globe. Earlier, globalization was restricted only to trade in goods. However in the recent times, it has expanded to include trade in financial services, information technology, telecommunications, etc. This means creation of more and new industries, increase in the number of job opportunities, and better pay for workers. Globalization of capital markets also helps in attracting foreign investment which creates jobs and helps developing countries to improve the standard of living of its people. Increase in the number of jobs, better pay, and improved standards of living are the positive aspects for trade unions in the context of globalization. Exhibit 9.24.1 discusses whether the IT industry needs trade unions.

Nevertheless, the hidden dangers of globalization are a concern for trade unions. When capital moves abroad there is a loss in output, trade, and employment in the home country. In order to cut down the costs of employing less-skilled workers in the developed countries, multinational companies move jobs to developing countries where they can offer lower pay to the employees. Globalization has led to skill-intensive jobs making it necessary to employ skilled workers in the concerned industry. This has led to an increase in unemployment. The workers and the trade unions in India have faced a lot of challenges due to the process of globalization. The Government has closed sick and non-profit making industries leaving countless workers without jobs. For example, Indian Railways has been asked to cut down the number of employees from 16 lakh to 9 lakh in seven years. In addition, when the pay was revised for
Central Government employees, the government recommended that jobs be cut by 30%. Decrease in workforce will result in work intensification.

Unions can fight for protecting their workers rights only if the union movement is not weakened. However, trade unions can improve the plight of workers by re-training them to fit in the jobs in the new skill-intensive industries, maintain equality in wages by increasing the skills of unskilled workers, and improving productivity. Trade unions can also protect the workers rights by keeping them together and by developing national, regional and international linkages.

Footnotes:
2. S.D. Punekar, Trade Unionism in India, 1948
3. Hoxie R.F., Trade Unionism in the United States, 1928
4. Mutual insurance is a method employed by trade unions to achieve their objectives
5. Speech by Aileen O’Carroll, a sociologist from Dublin, October 1991 at the WSM (World Solidarity Meeting)

Exhibit 9.24.1
Does the IT Industry Need Trade Unions?

In October 2005, the Center for Trade Union (CITU), the trade union of the Communist Party of India (CPI) proposed that the information technology (IT) industry should form a trade union. “A union for IT workers is the urgent need of the hour. I would call the IT professionals ‘the laborers of the information age’. They toil long hours; they work at night; and some of them still get meager salaries. So a labor union for them would help fight for their rights,” said M K Pandhe, President, CITU.

The CITU argued that while the IT and IT-enabled services (ITeS) sector contributed to around 4.5 percent of the national output of the country, they did not have a trade union that could help them in the protection of their jobs. For the fiscal year 2004 to 2005, the IT and ITeS industry contributed about US$ 5.2 billion. “The IT industry continues to chart remarkable double-digit growth. But isn’t it ridiculous that the IT workers are working hard without the backup of any labor laws?” added Pandhe.

Pandhe insisted that these white collar professionals urgently needed a union as they worked 10 to 14 hours a day without any fixed timings and were paid meager salaries despite the industry gaining double-digit growth. And if the employees got together and discussed their problems at work, the management targeted them and forced them to resign.

CITU in association with other trade unions like the All India Trade Union Congress (AITU) requested the Union government to pass a law that would take care of the labor-related issues of the IT industry. In addition to the support from the left leaders, the Union of Network International (UNI) in India also backed the IT industry to form a trade union. According to Narayan Ram Hegde, worker at UNI, “IT industry professionals in India are ‘cyber coolies.’ We are trying to organize them and convince them on the need to form a union to fight for their rights and jobs protection.”

On the other hand, trade bodies like the National Association of Software and Services Companies (NASSCOM), felt that trade unions were not required in the IT and ITeS industry. According to Kiran Karnik, President, NASSCOM, “Employees in IT and ITeS sector do not need any external intervention as they are looked after very well. It is not a good move and I don’t think it would succeed. The employees who think of themselves as the CEOs of the future may not support it.”

Section 23

Case Study: Labor Unrest at Honda Motorcycle & Scooter India (Private) Limited

This case was written by Mikkilineni Pushpanjali and Hadiya Faheem, under the direction of Debapratim Purkayastha, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmrindia.org
“The violence near the Honda plant at Gurgaon was instigated by outside forces who had misled the workers.”


“The incident was a disadvantage for India’s image as a foreign investment destination and also gave a negative image of Japanese management.”

Yasukuni Enoki, Japanese Ambassador to India, in 2005.

“This incident has brought to light the need to look at labor laws afresh. We cannot have archaic labor laws in a liberalized economy.”

Surinder Kapur, Chairman, Sona Group, in 2005.

INTRODUCTION

On July 25, 2005, the management of the Honda Motorcycle & Scooter India (Private) Limited (HMSI), a wholly-owned subsidiary of Honda Motor Company Limited (HMCL), encountered violent protests from workers that disrupted production at their plant in Gurgaon. HMSI workers were severely beaten up by the police, and newspapers and TV channels gave wide coverage to the violence of the action. The protest followed six months of simmering labor unrest at the HMSI factory in which the workers also resorted to job slowdown (since December 2004 when the workers’ demand for an increase in wages was rejected by the HMSI management).

With their demands being rejected by the management, the workers tried to form a trade union and this resulted in a confrontation with the management. Fifty workers of the production team were suspended and four others dismissed in May 2005. Apparently there was a show of strength between the management and the workers. While the management alleged that the workers were resorting to ‘go-slow’ tactics and were threatening not to return to work until their colleagues had been reinstated, the workers alleged that the management was using pressure tactics such as victimization of active union members and a ‘lock-out’ to break the back of the union.

On July 25, 2005, the workers of the plant were demanding reinstatement of the suspended employees when some workers allegedly attacked policemen on the plant premises. This led to police intervention and a violent tussle ensued between the police and the workers in which workers protesting peacefully were also beaten up. The police were reported to have overreacted and it was alleged that they had been overzealous in protecting the interests of the HMSI management, even without any direct request from the company’s management (Refer to Exhibit I for some images of violence during the HMSI protest). For companies, the
incident brought to the fore the need to maintain sound industrial relations to ensure productive and profitable operations.

BACKGROUND NOTE

HMCL

Soichiro Honda, a mechanical engineer, established the ‘Honda Technical Research Institute’ in Hamamatsu, Japan, in 1946. His idea was to develop and later produce small two-cycle motorbike engines. Honda’s first product, an A-type 50cc bicycle engine, was produced in 1947. In 1948, HMCL was incorporated with a capital of ¥ 1 million. Thereafter, the company started to design and produce lightweight motorcycles. Honda’s first motorcycle, the D-type two-stroke 98cc, was produced in 1949. In the early fifties, the headquarters of the company was shifted from Hamamatsu to Tokyo and the company was listed on the Tokyo Stock Exchange.

In 1959, the American Honda Motor Company Inc, (American Honda), a subsidiary of HMCL, was established in Los Angeles. The American venture started off modestly with a staff of six and a sales figure barely touching 200 motorcycles. In 1963, American Honda launched the “You meet the nicest people on a Honda” advertising campaign. It changed the face of motorcycling in the US. The campaign aimed to break the myth that motorcycles were mainly used by tough people. The campaign was highly successful and became an instant hit with mothers and young students. A few years later, Honda established motorcycle assembly plants in Germany and Belgium.

During the 1960s, HMCL expanded its product line by introducing light trucks, compact cars, outboard motors, power generators, and several new models of motorcycles and motor scooters. New production units were started in Thailand, the UK, and Malaysia and cumulative motorcycle production reached 10 million units by 1968. During the 1970s, HMCL entered the Philippines, Indonesia, and Brazil. In 1972, HMCL introduced a high-priced and more powerful car – Honda Accord. The Accord soon became one of the best-selling cars in the US. By the mid-1980s, Honda had emerged as the third-largest Japanese automaker behind Toyota and Nissan.¹¹

In 1984, HMCL entered the Indian two-wheeler market through a joint venture with Kinetic Engineering Limited¹² (KEL) for manufacturing scooters. This was followed by another joint venture with the Hero Group¹³ for making motorcycles. The venture with KEL named Kinetic Honda Motors Limited (KHML) revolutionized the Indian scooter market with the introduction of a scooter – Kinetic Honda that boasted of modern features like variomatic gearless transmission, self-start, auto choke and auto fuel cock, and several other user-friendly features. The models offered by the joint venture included Kinetic Zx Zoom¹⁴, Kinetic Style¹⁵, and Kinetic Marvel¹⁶.
The joint venture agreement between HMCL and the Hero Group resulted in the incorporation of Hero Honda Motors Limited (HHML) in 1984. HMCL held a 23 percent equity stake in the joint venture. The Indian motorcycle market was very sluggish at that time as many Indian consumers were of the opinion that scooters were much safer than motorcycles. Motorcycles were regarded as accident-prone and unsuitable for Indian roads. In 1985, HHML launched the Hero Honda CD-100 motorcycle, the first four-stroke bike in India. Its unique features such as a four-stroke engine, fuel efficiency (approximately 80 kmpl), and pollution control made the model a runaway success with Indian consumers.

Till the mid-1990s, India's two-wheeler market was largely dominated by scooters with Bajaj Auto Limited (Bajaj) holding a major market share. However, HHML altered the preferences of Indian customers radically. The company's famous advertising campaigns highlighting the user-friendly features of a motorbike, like "Fill it. Shut it. Forget it" resulted in its gaining a huge customer base of over 5 million customers. The joint venture became so successful that the Hero Group, the world's largest bicycle manufacturers, also became the world's largest two-wheeler company.

In 1998, HMCL divested itself of its equity stake in KHML in favor of KEL. However, KEL continued its technical collaboration with HMCL, which also included an export arrangement.

HMSI

HMSI was established on August 20, 1999, and a plant was set up at Manesar to manufacture two-wheelers for the Indian market. HMCL made an initial investment of Rs. 3 billion to establish the plant which had an annual production capacity of 200,000. The plant commenced production in April 2001. The parent company also proposed to invest an additional Rs. 1.83 billion and intended to sell six million two-wheelers in the first five years from 2001 to 2006. HMSI launched one new two-wheeler model for the Indian market each year between 2001 and 2004 (Refer to Table I for HMSI's product launches by year).

Honda Activa, the first scooter model of HMSI for the Indian market, was launched in 2001. It was specially designed keeping in view the needs and preferences of Indian consumers. After the introduction of Activa, the sales of gearless scooters in India increased considerably. This was considered remarkable as the market was favoring motorcycles at the time. HMSI sold 0.218 million units of Honda Activa, more than double the total sales of all other scooters put together in 2001.

HMSI's next model, Dio, was launched in 2002 as the first motoscooter in the Indian market. Dio was targeted at the youth and was named after the son of Venus, 'Dyonisiac', also known as Cupid, the God of Love. It was promoted as...
being a blend of the style and aggression of a motorcycle and the comfort of a scooter. With the success of Activa and Dio there were signs of a revival in the scooter market in 2002. HMSI launched ‘Eterno’, a 150cc four-stroke geared scooter in 2003. While Activa and Dio targeted the premium end of the market, Eterno was aimed at middle-income families. The name Eterno was chosen to symbolize ‘eternity’, the underlying message being that this bike would go on and on. It was designed to withstand the poor conditions of Indian roads. HMSI increased its production from 120,000 units in 2002 to 250,000 units in 2003. Compared to the fiscal period of 2001-02, HMSI reported a revenue growth of 300 percent in 2003-04 and emerged as the largest seller of scooters in India, surpassing market leader, Bajaj (Refer to Table II for scooter sales in India: 2002-2004). By 2005, HMSI accounted for 25 percent of HMCL’s global motorcycle output.

<table>
<thead>
<tr>
<th>Product</th>
<th>Year of Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honda Activa</td>
<td>2001</td>
</tr>
<tr>
<td>Honda Dio</td>
<td>2002</td>
</tr>
<tr>
<td>Honda Eterno</td>
<td>2003</td>
</tr>
<tr>
<td>Honda Unicorn</td>
<td>2004</td>
</tr>
</tbody>
</table>

**Table II**

<table>
<thead>
<tr>
<th>Company</th>
<th>2002-03</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Auto</td>
<td>3,21,846</td>
<td>2,25,393</td>
</tr>
<tr>
<td>HMSI</td>
<td>1,55,407</td>
<td>3,10,036</td>
</tr>
<tr>
<td>Kinetic Engineering</td>
<td>33,617</td>
<td>36,490</td>
</tr>
<tr>
<td>Kinetic Motor</td>
<td>92,479</td>
<td>87,003</td>
</tr>
<tr>
<td>LML</td>
<td>65,015</td>
<td>35,216</td>
</tr>
<tr>
<td>Majestic Auto</td>
<td>8,450</td>
<td>3,592</td>
</tr>
<tr>
<td>TVS Motor Company</td>
<td>1,48,834</td>
<td>1,87,308</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,25,648</td>
<td>8,85,038</td>
</tr>
</tbody>
</table>

Analysts attributed HMSI’s success mainly to its innovation and technological superiority. Scooter models were carefully designed to be different from competitors’ models, both externally and internally. Style and comfort were the major value propositions of its products and these were communicated to customers through creative marketing campaigns. In the financial year 2002-03, though the overall scooter market grew by 7.19 percent, the sales of gearless scooters grew by an estimated 20 percent. Another reason for HMSI’s success was that its pricing strategy focused on the cost-conscious Indian customer and considered the target customers’ expectations and purchasing capacities before pricing any model.

By mid-2004, HMSI’s production capacity had increased to 450,000 units. In September 2004, HMSI launched its first 150cc motorcycle named ‘Unicorn.’ It had a four-stroke 13.3 bhp engine with five gears. After the launch of the Unicorn, HMSI announced plans to introduce a 135cc motorcycle in 2005. HMSI planned to increase its capacity to one million units by 2006-07.

LABOR UNREST AT HMSI

The Gurgaon plant of HMSI had peaceful labor relations for the first few years after it was set up in October 1999. The management entered into labor contracts with individual laborers, which covered the basic wage structure and detailed parameters specifying the work conditions for workers. In December 2004, the workers at HMSI’s Gurgaon plant started demanding that the management increase their wages commensurate with the company’s growth in the market. According to a company spokesperson, “Workers demanded their wages to be on a par with those of shopfloor workers in Hero Honda. The average wage levels in Hero Honda are more than double than in HMSI, mainly because the former is an older organization.”

The management refused to accept their demand as a result of which the core workers of the production team decided to come together as a formal trade union in December 2004. The workers alleged that the management was not ready to recognize the union and was resorting to pressure tactics such as targeting active members and deterring individuals from forming the union. However, the union finally came into being in May 2005. With the management refusing to agree to their demands, the workers adopted ‘go slow’ tactics, which brought about a fall in production. The management responded by suspending 50 workers and dismissing four others who had tried to form a trade union. Two of the four dismissed workers, who played an active role in trade union formation, were affiliated with the All India Trade Union Congress (AITUC). While the management alleged that the workers had assaulted them, the workers charged that the management had used the services of policemen and goons to beat up their union president and another active member of the union on June 26, 2005.
As the fall in the production level started resulting in losses for the company, the management decided to negotiate with the other workers of the plant. As a result, a Tripartite Agreement was signed between the workers, the management, and the company’s trade union in the presence of the State Labor Commissioner in June 2005. The agreement stated that the workers would not go on a strike or resort to a slowdown. However, the workers later alleged that the management had used pressure tactics such as an ‘illegal lock-out’ to get them to sign the agreement. “We realized that refusing to sign meant staying out of the factory. To really fight, we have to be inside. Otherwise they would keep us out, break the union, and hire a fresh workforce,” said a representative of the union.

The workers alleged that though they had signed the agreement, they were not allowed to resume duty. In early July 2005, the management sought another separate undertaking of good behavior from the workers in which the workers promised to maintain discipline. The workers asked the management to reinduct the suspended workers, but the request was turned down. At this point, the workers decided to go back on the Tripartite Agreement signed in June 2005 and called for a strike on July 25, 2005. During a demonstration the same day, some of the workers apparently turned violent and set some vehicles ablaze. Sudhir Rajpal, Gurgaon Deputy Commissioner, said, “The administration was neither informed about the procession nor was any permission sought. When it became abundantly clear that their intentions were not of a peaceful protest, we had to take action.” However, many of the reports in the media suggested that it had been a peaceful protest. It was believed that, whatever the provocation, the police had certainly used excessive force to stop the group of 2,000 protesting workers. Around 400 people that included 350 HMSI workers protesting against the management were injured in the incident (Refer to Exhibit II for some more glimpses of the HMSI incident).

Daily production fell steeply from 2000 vehicles to 400 as a result of the strike. Admitting the loss of production, HMSI’s spokesperson said, “We had some associates who, after being misled by some outside forces with vested interests, began a process of indiscipline and insubordination. They started misleading hardworking employees, and their unwarranted pressure tactics led to some loss of production.” According to the company, the management asked the workers who went on strike to sign an undertaking and return to work. The workers refused to sign, following which the management suspended the employees. The management also threatened the workers with an imminent lock-out and hired temporary labor on a contract basis.

**THE BLAME GAME**

The management and the workers traded allegations and counter allegations on what the root cause of the dispute was. They blamed each other for the situation that ultimately took an ugly turn on July 25, 2005. The management held the workers responsible for indiscipline and for slowing down production, while the workers insisted that there had been no indiscipline on their part and that the management was bringing up this issue only to prevent the formation of a trade
union at HMSC. The workers also denied the management's allegations that they had staged a violent demonstration against the company's president on May 24, 2005.

The management claimed that it had had to suspend workers who had gone on strike as the production had been cut by 20 percent. But the workers said that they had gone on strike as the management had resorted to a lock-out and had refused to increase their wages. The HMSC management claimed that a verbal settlement had been reached with the workers through the mediation of the Labor Department. The workers, however, denied that any such settlement had been arrived at. However, both the management and the workers agreed that the violence on July 25 2005 had been engineered by outsiders.

Some analysts pointed out that the labor problems at HMSC had escalated because the company had only a weak machinery for resolving disputes and because the company's management had not sought the government's permission before laying off employees and hiring workers on a contract basis. Commenting on this, the AITUC's National Secretary, D L Sachdev said, "Central and state labor laws continue to be flouted. The implementation of these laws is very, very poor." 27

VIOLATION OF LAWS?

Some analysts charged that the incident was fallout of the long-term oppression and malpractices at the Gurgaon factory by the HMSC management. They alleged that HMSC’s management had violated certain laws relating to the welfare of workers (Refer to Exhibit III for laws related to welfare of workers in India). It was reported that a worker had allegedly been kicked by a Japanese manager on the shop floor in December 2004. The services of four other workers who had come to his rescue were allegedly terminated. In another incident, a Sikh worker was allegedly not allowed to attend duty wearing his traditional turban and his turban was forcibly removed.

The HMSC workers complained that they were forced to work under harsh and unhygienic conditions. They also alleged that they were allowed a toilet break only once every three and a half hours and even for that, they had to sign and take permission. The workers also complained about the poor condition of the canteen where the workers had their lunch. They added that they were ordered to complete lunch within a very short time.

The workers at HMSC also complained about the salaries paid to them. They said that the wages were not increased by more than Rs. 200 to Rs. 300 annually while the technical staff got hikes of Rs. 3000 in April 2005. 28 They also alleged that the company did not contribute its share of Provident Fund (PF) and the amount was completely taken from the workers' salary. Commenting on the economic grievances faced by them, one of the employees said, "In the beginning the company gave us..."
Rs 2,800, and when they offered Provident Fund, Rs 350 was cut from our salary and shown as the company's contribution to the fund. Employees' contribution being shown as employers' contribution is the biggest fraud done by the company to show higher wages. We were brought in here with the promise that after two years we would own our own Honda car, and today, after four and a half years of service, I cannot even afford to buy a bicycle. Two months back, they increased our salary. Nobody is getting Rs 10,000, and my take-home is Rs 7,500.”

There were also serious allegations about female workers being sexually harassed by the supervisors.

Commenting on the HMSI incident, noted social activist, Praful Bidwai, said, “…What happened at HMSI was not an aberration, except in the degree of violence, but part of the rule. The root causes of the trouble lie in unhealthy working conditions, including low wages (for example, Rs. 4,200 a month or less after deductions), harsh shop-floor practices with inadequate breaks, extreme job insecurity, employment of casual and contract labor for permanent functions, and cavalier resort to lockouts and closures. The discontent this produces is compounded by managements’ hostility to trade unionism and attempts to break unions by victimizing workers.”

Analysts stated that the HMSI management had also violated the Trade Union Act, 1926, which prohibits the management of any company from restraining its workers from forming a trade union. Representatives of the workers alleged that the HMSI management had initially resisted the formation and recognition of the trade union at the Gurgaon plant. After continuing unrest in the company and pressure from central trade unions, the management had to finally recognize the union.

The management of H MSI refuted the allegations that it was anti-union and put the blame squarely on the workers claiming that the workers created trouble and disrupted the work. One of the senior officials of the company claimed, “There is absolutely no reason why the company would try to thwart attempts at formation of the union... Unions are there in many Honda plants elsewhere in the world. What actually happened was that registration of the union took very long. And the workers started illegally demonstrating within the campus, started getting violent. Next came the go-slow, which adversely affected production, and the company was left with no option but to suspend the troublemakers.”

Supporters of the company contented that the workers’ allegations were false and that outsiders were instigating them to go on strike. J S Saroha, a management consultant on industrial laws, pointed out that the incident at HMSI demonstrated the adverse impact of politicizing union work. He said, “The Haryana government mandates a minimum wage of Rs 2,300 or so. But I don’t think any worker gets less than Rs 10,000 in HMSI. If the union leaders were responsible enough, they should have advised the workers to return to work and not take part in protests.”

By and large, analysts felt that the company had flouted the norms of the law as they did not approve of the workers forming a trade union and that they had made no attempt to resolve the dispute through collective bargaining or through a grievance procedure. They felt that regardless of whether the HMSI workforce had been justified in asking for a raise, they
should have had a forum at which they could raise this and other work-related issues. They also felt that the company could have respected the basic right of workers to form a union. Some analysts said that the company’s decision to hire temporary workers was unethical. Besides, they castigated the management for not providing medical facilities or compensation to workers injured during the protest, until directed by the Haryana state government to do so.

THE AFTERMATH

After the protests on July 25, 2005, HMSI’s management said that it would wait for the third party inquiry into the dispute to be completed before it took any decision on reinstating the suspended employees. An HMSI official said, “Even though today’s incident is unfortunate, we cannot take back any of the suspended employees till a third-party inquiry against them is completed.” However, the workers who had gone on strike on July 25, 2005, were reinstated after they signed an undertaking that they would not resort to strikes in future. Some analysts felt that the strong reactions from the public following the incidents had forced HMSI to negotiate with the workers and union members on July 30, 2005 (Refer to Box I for the tripartite agreement reached on July 30, 2005).

On July 30, 2005, the management of HMSI said that it had taken “one-time measures” to normalize the overall situation and in the interest of the entire industrial region, the company would ensure better working conditions for workers. It acknowledged that it was the hard work and effort of the workers that had made HMSI successful. The company also increased the salaries of the workers. An HMSI spokesperson said, “We raised salaries of all our line associates by 30 percent, making it among the best in the surrounding industry.” Production levels at the factory normalized after this salary hike.

The impact of the labor unrest on HMSI was clearly visible. HMSI incurred a loss of over Rs. 1 billion due to the labor unrest. HMSI’s production for June 2005 had been 4,500 units in comparison to the monthly production of 10,000 units. This had an impact on the company’s sales for the month with its market share dropping to 39 percent.

Analysts as well as the HMSI management feared that the unrest would have an adverse impact on the company’s brand equity as well. An analyst said, “The fact that the company’s
image had taken a beating following the incident cannot be ignored. It may take a few months for HMSI to not only straighten out its labor problems but also to restore its image in the consumer’s mind.  

HMSI has ambitious future plans for the Indian market. It planned to increase its own capacity to 1.2 million units by 2010. Apart from two-wheelers, HMSI also aimed to enter the three-wheeler market to pose a tough challenge to Bajaj, the market leader in the three-wheeler segment with a 70 percent share. Any further labor unrest could substantially affect the realization of these plans.

Some analysts felt that the impact of the incident at HMSI went beyond the company and put in jeopardy the future of Foreign Direct Investment (FDI) in the country. They expressed concern about the future of FDI flows into the country after the HMSI incident. They felt that, of late, labor relations in India had been taking an ugly turn and incidents like the one at HMSI would shake the foundation of the country’s image as a good destination for FDI. The Japanese Ambassador to India, Yasukuni Enoki, said that the incident could give India a bad image and prove to be a disadvantage in attracting FDIs.

However, some analysts pointed out that isolated incidents like the one at HMSI would not determine the course of FDI into the country in the future. They added that one should not judge the investment climate of a country based on such incidents. Reacting to the Japanese ambassador’s statement, a spokesman from the Indian External Affairs Ministry, said, “The country’s democratic institutions and its legal system provide an effective mechanism to deal with such incidents in a transparent manner.” He also added that the interests of the foreign investors in India would be completely safeguarded.

Analysts also pointed out that according to a study conducted by AT Kearney, a Chicago-based management consulting firm, India was ranked as the world’s second most attractive FDI location following China. India replaced the US, which had been in the second position in the 2004 ranking. The analysts opined that emerging markets such as India and China were too attractive for the foreign multinationals to ignore, given the fact that these markets provided them with the opportunity to grow their goods and services further. A few unfortunate labor unrest situations in those countries wouldn’t dissuade these multinationals from investing in these countries, they said.

COULD THIS UGLY SITUATION HAVE BEEN AVERTED?

Several factors can lead to a conflict between the workers and the management of any company, and as such, companies should be prepared to trace the root cause of the problem and solve it. Industry experts opined that with proper understanding of the industrial laws and causes of disputes, the management and the workers of any company could avoid incidents such as the one at HMSI (Refer to Exhibit IV for the Root Cause Analysis for Labor Unrest).

Many analysts accepted that the labor relations in India were deteriorating due to militant trade unionism in the country, which was widely being supported and fuelled by political
parties. The analysts also felt the need for liberalizing the labor laws in the country.

According to analysts, the incident at HMSI suggested the failure of the Japanese style of management in the Indian milieu. The existence of cultural differences between the Japanese and the Indians had resulted in the Japanese misunderstanding the Indian workforce. The Indian workforce was diverse in nature unlike the Japanese workforce. The Japanese labor laws allowed the formation of trade unions. However, their trade unions were less aggressive and politicized than the Indian trade unions. Moreover, the Japanese opposed the formation of trade unions by their workforce. According to an auto industry analyst, “Japanese companies resist their workers in forming a union and are very strict in adopting policies that dissuade unionism, including fair working environment and good wages.” The analysts opined that to have peaceful industrial relations in India, the Japanese management should first understand the Indian workforce and then deal with them accordingly. Conveying the futility of labor-management clashes and the importance of treating workers better, K. K. Swamy, Deputy Managing Director, Toyota Kirloskar Motors (TKM), said, “The work culture we have is not conducive to what is needed in an open economy. MNCs regard employees as assets. To be competitive, every bit of mind power is required.” The analysts also opined that the presence of a strong Indian management at the top would reduce such misunderstandings and labor unrest situations in the Indian companies.

Some economists and political analysts laid the blame for industrial disputes on the activism by left sponsored trade unions. They termed these incidents as “Red Rage” or “Red Alert” and opined that this incident had been aggravated by political parties. The two left parties, the CPI-M and the CPI being part of the ruling United Progressive Alliance (UPA) at the center, had considerable clout in the policy-decisions of the Indian National Congress-led Central Government. The Central Industrial Trade Union (CITU) and the AITUC, the trade union wings of the CPI-M and CPI respectively, had been actively seeking to gain an influence on the trade unions, which had previously operated on an independent basis. CITU, the largest trade union in India, had been able to achieve only a 4.2 percent growth in membership between 1999 and 2005. Both the CITU and the AITUC were thus aggressively trying to spread out into newer territories. They had an influence upon company trade unions and supported them in matters of industrial disputes. Often, such encouragement led to aggressive trade unionism, which resulted in a never-ending conflict between the management and the workers, analysts observed.

Analysts also sought a change in the labor laws in India, which according to them, were very rigid and outdated. They pointed out that according to the ‘Doing Business’ study conducted by the World Bank in 2005, China had less rigid labor laws than India. Among the emerging market economies, it was also a prospective destination for foreign companies apart from India. Industry experts felt that with such rigid laws, the foreign investors would prefer China to India for their investments. The chief of joint venture Toyota
Kirloskar Auto Parts\textsuperscript{45} (TKAP), Kiyomichi Ito, stated, “Indians should understand that the capital investor has varied choices and China still remains an attractive destination.”\textsuperscript{46} India was rated among the countries with the most rigid employment regulations (difficulty in hiring & firing workers and rigidity in hours) with an overall score of 62 whereas China scored 30 and Singapore scored zero.

Some industrialists contended that labor law reforms in India had not kept pace with the liberalization of economic policies. Indian labor laws were reported to be the most rigid in Asia as permanent employees could not be easily dismissed. Surinder Kapur, chairman, Sona Group, said that the incident at HMSI should prompt the Government of India to take a re-look at the labor laws prevailing in the country. He felt that the existing labor laws were not in tune with the times – when India was taking bold initiatives to liberalize its economy. “Compare China and India not just on infrastructure but also on labor laws. It is much more liberal there (despite the Communist regime). Liberal labor laws are not about hire-and-fire at will but about more room for contract labor with a tenure of, say, three years or so, and more temporary workers. If there is a feeling that minimum wages are low, the government must work toward increasing them,”\textsuperscript{47} he added.

Adapted from www.indianmba.com/Occasional_Papers/OP77/op77.html
### Exhibit II

![Image](image1.jpg)

**3 Snapshots**
1. Demonstrator being taken into custody, Gurgaon.
2. Relatives pointing an accusing finger at a demonstration outside a government hospital, Gurgaon.
3. Left party activist outside the Haryana Bhawan, New Delhi.


### Exhibit III

<table>
<thead>
<tr>
<th>Act</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Employment Act (Standing Orders) Act, 1946</td>
<td>The Act requires employers to define and standardize conditions of employment and make it known to workmen.</td>
</tr>
<tr>
<td>The Industrial Dispute Act, 1947</td>
<td>The Industrial Dispute Act, 1947, was enacted to secure industrial peace and harmony by providing machinery and procedure for the investigation and settlement of industrial disputes by negotiations instead of by trial and strength to both employers and employees and thereby promote industrial progress.</td>
</tr>
<tr>
<td>Fair Wages Act, 1999</td>
<td>Contains a provision that all persons employed by the contractor or subcontractor or any other person doing or contracting to do a whole or any part of the work of the contract shall be paid fair wages.</td>
</tr>
<tr>
<td>Worker’s Compensation Act, 1923</td>
<td>Compensation is provided by the Board from the accident fund to workers in case of personal injury or death arising out of and in the course of the employment.</td>
</tr>
<tr>
<td>Trade Unions Act, 1926</td>
<td>The Trade Unions Act, 1926, provides for the registration of trade unions with a view to rendering lawful organization of labor to enable collective bargaining.</td>
</tr>
</tbody>
</table>

Compiled from various sources
Suggested Readings & References:


29. www.honda.com

30. www.honda2wheelersindia.com

31. www.indianmba.com
Footnotes


2. As of 2005, Japanese investment in India was around US $ 2 billion and there were around 250 Japanese companies operating in India.


5. Sona Group is an India-based automotive component manufacturer.

6. HMCL, headquartered in Tokyo, Japan, was the largest manufacturer of two-wheelers in the world. As of 2005, it had more than 120 manufacturing facilities in 30 countries worldwide and its comprehensive range of business had brought the company over 17 million customers annually.

7. Gurgaon is a satellite town near New Delhi, India.

8. Job slowdown refers to slowing down of operations by employees.

9. In industrial relations, ‘go-slow’ is a term used to define a slowing down of production by a labor force during an industrial dispute or grievance, instead of disrupting production totally by resorting to a strike.

10. The withholding of work from employees and closing down of a workplace by an employer during a labor dispute. It is also called shutout.

11. By the 2000s, the range of automobiles introduced by HMCL included the 360 Cabriolet, the 1300 Coupe, Z, Ballade, Concerto, Legend, Avancier, Accord, Honda Passport, Honda City, Odyssey, and more.

12. Founded by H K Firodia in 1970, Kinetic Engineering Limited (KEL) is a leading manufacturer and exporter of two-wheelers. It was the first to manufacture mopeds in India. KEL manufactured a wide range of mopeds, scooters, and motorcycles and had three manufacturing plants at Ahmednagar (near Pune), Pitampur (Indore), and Goregaon (Pune). The company also exported these vehicles to countries like the US, Canada, Sweden, Latin American countries, Denmark, and countries in the Middle East.

13. The Hero Group of companies is a conglomerate of 19 companies. The group ranks among the top 10 Indian business houses and is one of the highly respected corporations in the country. It had a turnover of US$ 2.75 billion (FY 2005).

14. A scooter with a 110 cc engine and a mileage of 50+ in city conditions. The scooter was available in two variants – Kinetic AX and Kinetic DX with 100cc engines.

15. A scooterette with a 4bhp, 75cc engine.
16. A 110cc full size family scooter, considered ideal for urban commuting. It had the reputation of being the most luxurious scooter in India during its launch.

17. Bajaj was established in 1949 as a trading company. From 1948-59, it imported scooters and three-wheelers from Italy and sold them in the Indian market. The company started its own production in 1961 under the brand name 'Bajaj'. In 2004, Bajaj was one of the top 10 companies in India in terms of market capitalization and one of the leading companies in terms of annual turnover. The range of mopeds, scootertettes, scooters, and three-wheelers offered by Bajaj included Caliber, 4S Champ, Boxer, KB 125, Classic-SL, M-80, Rave, Sunny, Chetak, Legend, Bravo, and Pulsar.

18. The campaign emphasized the fuel efficiency of a motorbike. The promotions showed a rider filling up at a fuel station and then saying, fill the tank, shut it, and forget about refilling it for a long time.

19. HHML is the largest two-wheeler company in the world in terms of volume. This distinction was achieved in 2001 with its sales surpassing the one million mark in the first nine months of fiscal 2000. This performance was due to its model Splendor, launched in 1995, becoming the world’s largest-selling bike. By October 2004, the Hero Honda product range commanded a market share of nearly 48 percent in India. Their success was evident from the fact that the sales figure rose from 43,000 units in 1985-86 to 16,77,537 units in 2002-03. The models offered by the joint venture were Karizma, Ambition 135, CBZ, Splendor, Splendor Plus, Passion Plus, CD100ss, CD100, and CD Dawn.

20. Manesar (in Gurgaon) is a place in the Indian state of Haryana.

21. HMSI defined a motorscooter as a two-wheeler which combined the benefits of both scooter and motorcycle.


23. All India Trade Union Congress (AITUC) established in 1920 was the oldest trade union in India.


33. A third party inquiry is done by a mediator who solves the dispute between the management and the workers.

34. “Honda Workers Turn Violent, Cops Go Berserk,” The Indian Express, July 26, 2005.


38. HMSI accounts for about half of the domestic scooter market share.


40. The three-wheeler segment accounted for 27 percent of the revenues for Bajaj and was considered a cash cow for the company.


43. Established on October 6, 1997, TKM is a joint venture between Toyota and the Kirloskar Group. Toyota held a 74 percent stake in the joint venture while the remaining 26 percent stake was held by the Kirloskar Group. As of 2006, the company had a production capacity of 60,000 units.


45. TKAP is a manufacturer of auto parts in India. The company is a joint venture between Toyota Motor Corporation (TMC), Toyota Industries, and the Kirloskar Group. TMC holds a stake of 64 percent, Toyota Industries holds a stake of 26 percent, and the remaining 10 percent stake is held by the Kirloskar Group. For the fiscal year 2005-2006, it had revenues of Rs. 5 billion.

Section 24

Case Study: Honda Motorcycle and Scooter India Ltd: Labor Unrest in 2009

This caselet was written by Debapratim Purkayastha, ICMR Center for Management Research (ICMR). It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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www.icmrindia.org
Labor unrest, which attracted a lot of media criticism against Honda Motorcycle & Scooter India (Private) Ltd. (HMSI), the Indian subsidiary of the Japan-based Honda Motor Company Ltd., in 2005, again raised its head at the company’s Manesar plant in the year 2009. The unrest, sparked by the workers’ demand for wage revision, led to a disruption in production and reportedly resulted in huge losses for the company. While the labor dispute was resolved by the end of October 2009, HMSI began seriously considering options such as setting up another plant outside the state of Haryana in order to mitigate risks due to such labor unrest.

HMSI was established on August 20, 1999, and a plant was set up at Manesar to manufacture two-wheelers for the Indian market. The parent company made an initial investment of Rs. 3 billion to establish the plant, which commenced production in April 2001. By 2009, HMSI had invested Rs.10 billion in India and had an annual production capacity of 1,000,000. It had 1,872 workers, who were a part of a union, and another 2,500 workers who were on contract basis. The labor unrest in Manesar in 2005 took a violent turn and HMSI was pilloried in the press.

HMSI alleged that the workers had arbitrarily slowed down production in support of their demand for better wages. The company also alleged that when it had attempted to install a third production line at the plant, around 100 workers had tried to prevent it and even threatened its engineers and managers. HMSI threatened to shut down its plant and move to another location. It also sought the intervention of the Punjab and Haryana High Court to resolve the dispute so that the workers’ union did not disrupt normal production. It wanted the court to prosecute workers who had violated the law. According to the company, the labor unrest at HMSI had translated into losses of Rs. 3 billion. It estimated the production loss to be about 55,000 to 60,000 units. "Our production has come down to 50 per cent in the last two months due to go-slow strike by workers. No company can go on like this forever. We have requested the state authorities for help... In case things don’t improve we
will have no option but to shut the operations (at Manesar) and look for a more conducive place to do business,” said Mohan Deepak, Vice-President General Affairs, HMSI. The labor unrest reportedly resulted in the company only utilizing 30 percent of the plant capacity, disrupting supply.

The workers, however, denied that they were on strike. According to DL Sachdev, National Secretary, All India Trade Union Congress (AITUC), there was no strike at HMSI but there was unrest as the workers were demanding a wage revision that was on a par with the industry average. He added that HMSI had suspended around 17 workers and that the workers were also not happy with some of HMSI’s practices such as its use of contract labor after suspending regular employees. Ashok Yadav, HMSI Employees Union President, too denied that the workers were on strike and attributed the decreased production to the non-availability of components due to strikes in the plants of the suppliers.

HMSI, on its part, maintained that its workers were among the best paid in the industry and said that the management was already discussing the wage revision. It alleged that some workers backed by trade unions were resorting to undue pressure tactics in order to have their way. NK Rattan, Head – Marketing, HMSI, said, “We had suspended some people on grounds of indiscipline, but I believe under the name of unions, strong-arm tactics are being practiced... Some workers have stopped work on the third production line that we were going to start and are using this as a leverage to demand higher wages.”

In response to the petition filed by HMSI, the Labor Department of Haryana submitted its reply to the court saying that it was doing all it could but needed some more time to resolve the issue. Finally, the labor dispute was settled on October 17, with a new wage agreement being signed between the workers’ union and the management. As per the new LTS, workers’ fixed basic salary would increase by 50 percent to Rs. 4,400 per month. “The agreement specifies that their fixed wages will be stable for the next three years irrespective of HMSI’s performance, besides other perks,” said GS Thakur, Gurgaon’s deputy labor commissioner. In addition to this, workers were to get performance-related incentives. For every vehicle produced in a month, Rs. 4 was to be put in a fund, which would then be distributed equally among the permanent employees. This wage agreement was to be valid for three years starting August 2009.

With the labor dispute behind it, HMSI was confident of producing 4,700 scooter and bikes per day after the third assembly line became operational in November 3. With the third assembly line, HMSI’s production capacity increased to 1,500,000 units per annum. The company was hopeful of clearing its backlog of orders from around 160,000 customers by the end of January 2010. The company was also thinking of increasing production capacity further. For this, it was considering a set of options including the prospect of...
expanding the plant at Manesar. But the company also initiated a feasibility study to evaluate all the options related to setting up a new plant. Considering the labor problem it faced in the state, the company wanted to move out of Haryana. The move was viewed as an effort by the company to mitigate risks by moving out of single manufacturing location. Shinji Aoyama, president & CEO, HMI, said, “We do not rule out the possibility of moving to the south or west, but ideally, we should stick to north India where we have a fully developed supplier base and logistic set-up. Industrial unrest is widespread in India and we can face similar problems anywhere in the country.”

Questions for Discussion:

1. In light of this case, discuss the issues and challenges faced by organizations witnessing labor unrest. How can labor disputes be resolved?

2. Critically analyze HMI’s decision to set up a plant outside of Haryana. Do you think the company could benefit from such a move considering that labor unrest is widespread in India?

References and Suggested Readings:


Cases on Related Topic:


Footnotes

1. Honda Motor Company Limited, headquartered in Tokyo, Japan, was the largest manufacturer of two-wheelers in the world as of 2009.

2. Manesar (in Gurgaon) is a place in the north Indian state of Haryana.


4. On July 25, 2005, the management of HMSI encountered violent protests from workers that disrupted production at their plant. HMSI workers were severely beaten up by the police, and newspapers and TV channels gave wide coverage to the violence of the action. The protest followed six months of simmering labor unrest at the HMSI factory in which the workers also resorted to a job slowdown since December 2004 when their demand for an increase in wages was rejected by the HMSI management. The dispute was later resolved through a tripartite meeting between the workers, the union, and the management.

5. This belt had the plants of many automobile and auto component suppliers such as HMSI, Maruti Suzuki, Rico Auto, Sunbeam Auto, Sona Koyo Steering Systems, etc. The turnover of the belt was estimated to be in the range of Rs. 300-Rs. 400 billion per annum.

6. Hero Honda Motors Ltd is the world’s largest two-wheeler motorcycle company.
7. Maruti Suzuki India Ltd. is India’s leading passenger car company.


12. All India Trade Union Congress (AITUC), established in 1920, is the oldest trade union in India.


16. As of 2009, there were 1,900 permanent employees in the company’s 3,600-strong workforce.


Emerging Trends in Human Resource Management

Source: www.recruitingmetrics.files.wordpress.com
Section 1

Introduction

Talent Management - PCMM- Entrepreneurship (Intrapreneurship), QWL, E-HRM, GHRM, QHRM

Companies are increasingly doing business abroad. Multinationals like IBM and Sony have long done business abroad, of course. But, with the growth of demand in Asia, Africa, and other parts of the world, even small firms’ success depends on marketing and managing overseas. Dealing with global human resource challenges is not easy. The employer faces array of political, social, and legal and cultural differences among countries abroad. What works in one country may not work in another. Also, the vast distances add to the challenge, for example, how should Starbucks' Chief HR Officer, based in Seattle, keep track of his firms top management performers overseas? These issues can be addressed through another specialized domain of HRM called Global or International Human Resource Management.

The subject matter of IHRM generally focuses on three main topics: 1) managing human resources in global companies (selecting, training, compensating employees who work or are assigned work abroad.) 2) managing expatriate employees and 3) comparing HRM practices in a variety of different countries.

“The Jack Welch of the future cannot be me. I spent my entire career in the United States. The next head of General Electric will be somebody who spent time in Bombay, in Hong Kong, in Buenos Aires. We have to send our best and brightest overseas and make sure they have the training that will allow them to be the global leaders who will make GE flourish in the future” – Jack Welch, in a speech to GE employees.

The concept of ‘globalization’ has become popular in recent times. More and more organizations the world over have crossed domestic borders to enter the world of international business. International business is characterized by large companies, fierce competition, and greater challenges. The greatest challenge of an international business is to operate successfully in different economies and cultures in different parts of the world. Some Multi National Companies (MNCs) import raw...
material and machinery from one country, build their plants in another country, and export their product to a third. For all this, they employ people from other parts of the world. This explains the extent of complexity involved in international business.

Many international trade agreements like GATT (General Agreement on Tariffs and Trade) and WTO (World Trade Organization) have helped in removing trade barriers between countries and bridging the distance between them. We see McDonald’s thriving in the Indian market and Maruti exporting its cars to European markets. We also see GE building offices and employing people in India and China exporting electronic goods to the US. The world seems to have become a very small place. The concept of domestic business is disappearing and the concept of global business has gained importance. This has given rise to the concept of ‘glocal business’. Modern businesses need to have a global perspective and adapt themselves to the fast moving international business scenario. They cannot afford to restrict themselves to local markets and expect to flourish. However, they do need to customize their products and services to match the needs of local customers when operating in other countries.

An organization has to adopt decentralization if it wants to enter into and operate successfully in global markets. In fact, creating a global business or transforming a domestic business into a global one involves one of the most complex forms of decentralization. It involves managing human resources with varied backgrounds, a wide variety of customers and suppliers, and of course, adapting to the respective local demands and culture. The management of human resources in an international business is known as International Human Resource Management (IHRM). The countries that the firm chooses to operate in can differ from each other in terms of their culture, language, economic situation, and political and legal systems. Management style and conventions can also be different in each of these countries. Therefore, it is not easy for a firm to globalize its business.

QUANTITATIVE HUMAN RESOURCE MANAGEMENT

Employment related metrics range from broad, over all organizational measures down to measures that focus narrowly on specific human resource management functions and activities. Quantitative HRM is an emerging area which
Electronic Human Resource Management

People Capability Maturity Model

People Capability Maturity Model is a maturity framework that emphasizes on improving the management and development of the human resources of an organization. The People Capability Maturity Model (PCMM) is a structure that aids organizations to address their significant people issues, i.e., it helps organizations to portray the maturity of their workforce practices, set up a program of constant workforce development, prioritize improvements, combine workforce development with process improvement, and create a culture of excellence.

Reference Questions:

1. What is the significance of EHRM, QHRM, and IHRM in the contemporary world?
Appendix
The Workmen’s Compensation Act, 1923

The Workmen’s Compensation Act, 1923 aims to provide workmen and/or their dependents some relief in case of accidents arising out of and in the course of employment and causing either death or disablement of workmen. It provides for payment by certain classes of employers to their workmen, as compensation for injury caused by the accident.

**The main provisions of the Act are:**

- Ensure the payment of compensation to an employee injured during the course of employment
- Provide guidelines to the management and the employees regarding industrial safety
- Determine the liability of the employer
- Define and specify the duties of the employer and the employee in case of an accident
- Provide guidelines in determining and establishing the cause of an accident and responsibility for the same
- Maintain better safety standards in organizations.

**Employees entitled to Compensation**

Every employee (including those employed through a contractor but excluding casual employees), who is engaged for the purposes of employer’s business and who suffers an injury in any accident arising out of and in the course of his employment, shall be entitled for compensation under the Act.

The employer of any establishment covered under this Act, is required to compensate an employee who has suffered an accident arising out of and in the course of his employment, resulting in (i) death, (ii) permanent total disablement, (iii) permanent partial disablement, or (iv) temporary disablement whether total or partial, or who has contracted an occupational disease.
2. The Trade Union Act, 1926

The Trade Union Act, passed in 1926, was brought into operation from June 1, 1927. It was amended in 1947, 1960, 1962 and 1982. The Act was mainly enacted to provide for the registration of the trade unions and verification of their membership so as to help them acquire a legal and corporate status.

To summarize, the main provisions of the Act are:

- Registration of the trade unions
- Cancellation of the registration of the trade unions and appeals
- Re-registration of the trade unions
- Duties and liabilities of a registered trade union
- Rights and privileges of a registered trade union
- Amalgamation and dissolution of a trade union
- Submissions of returns
- Power to make regulations
- Penalties and procedures

3. The Payment of Wages Act, 1936

The Payment of Wages Act passed in the year 1936 was enforced in March, 1937 on the recommendations of the Royal Commission of Labor in India. The objective of the Act was to ensure regular and prompt payment of wages to the workers and to prevent the exploitation of a wage earner by prohibiting arbitrary fines and deductions from his wages.

The Act defines the term ‘wage’ as

- any remuneration payable under an award or settlement,
- any remuneration payable for overtime work, holidays or leave periods
- and any other remuneration payable under the terms of employment whether it is called a bonus or any other name.

The main provisions of the Act are:

- Responsibility of the employer for payment of wages.
- Fixing the wage period.
- Procedures for wage payment.
- Payment of wages to discharged workers.
- Permissible deductions from wages.
- Nominations to be made by employees.
- Penalties for contravention of the Act.
- Equal remuneration for men and women.
- Obligations and rights of employers.
4. The Industrial Disputes Act, 1947

The Industrial Disputes Act, 1947 came into effect from April 1, 1947. It provides the basic rules and procedures for resolving industrial disputes in the country even today, after subsequent relevant amendments.

**The main objectives of the Act are:**

- To promote measures for securing and preserving amity and good relations between the management and the workers
- To provide a suitable machinery for investigation and settlement of industrial disputes between employers and employees, between employers and workmen, or between workmen and workmen
- To provide the workers with a right of representation by a registered trade union or by an association of employees
- To give workmen, the right of collective bargaining
- To promote conciliation of disputes
- To get the dispute settled through adjudicatory authorities, if the two parties fail to resolve their dispute
- To prevent illegal strikes and lockouts
- To provide relief to workmen in matters of lay-offs, retrenchment, wrongful dismissals and victimization.

5. The Factories Act, 1948

The Factories Act, 1948 came into force on April 1, 1949. The Act provides for the regulation of the employment of labor in factories. The objective of the Act is to secure, health, safety, welfare, proper working hours, leave and other benefits for workers employed in factories.

**The main provisions of the Act are:**

- Regulate the working conditions of labor in factories
- Ensure basic minimum requirements for the safety, health and welfare of workers
- Enforce compulsory approval, licensing and registration of factories to regulate the establishment and growth of factories
- Provide guidelines on the health measures, safety measures and welfare measures to be taken by the management
- Regulate the working hours of employees to provide for adequate rest
- Regulate the employment of women and young persons
- Provide guidelines to the management for employee benefits like annual leave provision
- Provide guidelines to prevent and deal with accidents or occupational diseases and also for handling dangerous operations.
6. The Employee State Insurance Act, 1948

The Employees’ State Insurance Act, 1948, provides for certain benefits to employees in case of sickness, maternity or any injury. It is the responsibility of the employer to ensure that both the employer and the employee contribute to E.S.I. (Employee State Insurance) Account at the end of each wage period. As per the Act, the employer has certain obligations toward the employees and also toward the Employee State Insurance Corporation.

The Act provides the following benefits to the insured employees:

- **Sickness benefit** – Cash benefit is paid to employee if he falls sick during the benefit period.

- **Maternity benefit** – A periodical cash benefit is payable to an insured woman employee, in case of confinement, miscarriage, medical termination of pregnancy, premature birth of a child, or sickness arising from pregnancy, miscarriage, etc., occurring or expected to occur in a benefit period.

- **Disablement Benefit** – Disablement benefit is payable in the form of cash installments, to an employee who is injured in the course of his employment and is, permanently or temporarily, disabled, or contacts any occupational disease.

7. The Minimum Wages Act, 1948

The Minimum Wages Act, 1948 was intended as a measure to prevent exploitation of labor by payment of unduly low wages. It also regulates the working hours and specifies that no employee can be asked to work for more than 9 hours a day without being paid additional wages.

The main provisions of the Act are as follows:

- Fixing wages in certain sectors where there is prevalent labor employment and exploitation.

- Fixing a minimum time and piece rate according to the occupations and different classes of workers. The minimum wage that is fixed will include a basic rate of wage and special allowance.

- The Act requires the appropriate government to review the minimum wage rates so fixed at an interval of not more than five years.

- The appropriate Governments are empowered to appoint Committees to hold enquiries and advise in fixing the rates of minimum wages.

8. The Payment of Bonus Act; 1965

The Payment of Bonus Act is the outcome of the recommendations made by the tripartite commission which was set by the GOI way back in 1961. The Act was promulgated on May 26, 1965. Subsequently it was accepted by the Parliament and accordingly in the year 1965, the payment of the Bonus Act was enacted. The Act was

**The main objectives of the Act are:**

- To impose statutory obligation on the employer of every establishment defined in the Act, to pay bonus to all eligible employees working in the establishment
- To outline the principles of payment of bonus according to the prescribed formula
- To provide for the payment of minimum and maximum bonus and linking the payment of bonus with the scheme of “set-off” and “set on”
- To provide necessary machinery, to enforce the payment of bonus.

The payment of Bonus, Act, 1965 aims at providing for bonus (linked with profit & productivity) to employees of every establishment wherein 20 or more workmen are employed on any day during an accounting year. Every employee receiving salary or wages up to Rs. 3,500 p.m. and engaged in any kind of work, whether skilled, unskilled, managerial, supervisory or manual is entitled to bonus for every accounting year if he has worked for at least 30 working days in that year. The minimum bonus, which an employer is required to pay, even if he suffers losses during the accounting year is 8.33% of salary or wages during the accounting year.

If an employee has not worked for all the working days in an accounting year, the minimum bonus payable to him for that year shall be proportionally reduced. Bonus should not exceed 20% of the salary or wages of the employees.


The Employees Provident Fund and Miscellaneous Provisions Act, 1952 came into effect from November, 1952. The objective of the Act is to provide for the institution of provident fund, deposit-linked insurance fund, and family pension fund for employees working in factories and other establishments. Amendments to the act were made in 1996.

The Act applies to:

- Every factory establishment engaged in any industry and where 20 or more people are employed;
- Any other establishment employing 20 or more people specified by the Central Government by notification in the Official Gazette.

The Central Government could extend the application of this Act to any establishment with less than 20 people employed. For this, it has to give no less than 2 months notice by notification in the Official Gazette.

10. **The Payment of Gratuity Act, 1972**

The Payment of Gratuity Act, 1972 was enacted to introduce a scheme for payment of gratuity for certain industrial and commercial establishments. The Act came into force from September 16, 1972. As per the Act, ‘Gratuity’ will be payable to any salaried employee, on the termination of his
employment after he has rendered continuous service for not less than five years (a) on his superannuation, or on his retirement or resignation or death or disablement due to death or disease. In case of death, gratuity is payable, even if the employee has not completed five years of service.

It is the responsibility of the employer to pay gratuity to the employee, failing which he would be penalized accordingly.

11. **The Public Liability Insurance Act, 1991**

The Public Liability Insurance Act, 1991, provides for public liability insurance with the stated aim to provide immediate relief to workers affected by an accident occurring while handling any hazardous substance and for incidents related thereto or issues related therewith.