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STRATEGIC HUMAN RESOURCE
MANAGEMENT



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BLOCK I : Unit-1

Unit Structure:

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Meaning of Human Resource Environment
- 1.4 Internal Environment
- 1.5 References
- 1.6 Model Questions

1.1 Introduction

Human Capital is the most crucial and important part of an organisation. Being a social being, it is influenced by various internal and external factors which again effect its work and life situation. For managing a contended workforce, the manager must study and relate the various environmental forces that influence work situation.

1.2 Objectives:

1.3 Meaning of Human Resource Environment:

Human Resource Environment is a **part of social environment** that may effect on the concept, viewpoints, work culture, attitudes, efficiency, skills, productivity, nature and behaviour of HR, employees' demand and supply, motivational aspects, compensation methods and industrial relation concerning of HR practices. The environmental forces have their bearing on working of the organisation system. The various societal and organisational forces that might be a decisive factor in work culture can be discussed as follows :

1.4 Internal Environment

The various human resource management factors that have profound influence at organisational context are unions, organizational culture and conflict, professional bodies, organisational objectives, polices, etc. Their role in human resources are stated below:

Unions:

Trade unions are the voluntary organisation of workers formed to safeguard the interest of its members/workers. Various HR activities like recruitment, selection, training, compensation, industrial relations and separations are carried out in consultation with trade union leaders.

The Trade unions being a middle body of Management and workers play both Protective Rights and Philanthropists role.

Organisational Culture and Conflict:

Organizations cultures are like personality of an individual which is unique and vary from person to person. Each organisational culture are distinct and followed by the organisers and the individual employees when enrolled. "Value for time" are the culture of Reliance Industries Limited. The culture of Tata conglomerate is "get the best people and set them free". But some times a conflict may arise on integrating personal goal with organisational goals. There is often conflict between organizational culture and employee's attitude. Conflict usually surfaces because of dualities such as personal goal vs. organisational goal, discipline vs. autonomy, rights vs. duties, etc. Such conflicts have their bearings on HR activities in an organisation.

Professional Bodies:

Management is now a days regarded as Profession have their own ethics like other professional subjects Like other professional bodies, the NIPM as the HR professional body regulates the functions of HR practitioners in India. For this the NIPM in of ethics which the HR practitioners are expected to declare their allegiance to the code Thus, professional bodies also influence HR functions of an organization.

External Environment:

External environment includes forces like economic, political, technological, demographic etc. these exert considerable influence on HRM. Each of these external forces is examined here.

Economic:

Economic forces include growth rate and strategy, industrial production, national and per capita incomes, money and capital markets, competitions, industrial labour and globalisation. All these forces have significant influence on wage and salary levels. Growing unemployment and reservation in employment also affect the choice for recruitment and selection of employees in organisations.

Political:

Political environment covers the impact of political institutions on HRM practices. For example, democratic political system increases the expectations of workers for their well being.

The total political environment is composed of three institutions viz. Legislature, parliament and judiciary system. The changes in political forces in terms of policy making, framing of various rules, objectives cause a great impact not only on human resource aspects **but in overall work situation** also

Technological:

Technology is a systematic application of organised knowledge to practical tasks.

Using Talent Management Software or **TMS** and learning management systems can help you streamline hiring, onboarding, training and retention processes: a. With TMS-driven data, you can make more strategic and informed decisions for setting and achieving long-term HR and talent acquisition goals

Technological advances affect the HR functions in more than one way In progressive countries labourers and other workers work together to voice their desire for better working condition. State playing its welfare role by enacting different Welfare Acts. Automation may act as a boon or distress industrial relation between employer and employees. Technological or mechanical changes in machines, tools and equipment create changes in the organisation. For example, automation may lead to displacement or replacement of people. Here, the organization may adopt steps like explanation and consultation inviting employers and members from union may be helpful in adapting to the changes .

At the broadest level, **automation** refers to the ways that machines replace work that was once done by humans. Automation is designed to be a **labour-saving technique**. This is just what it sounds like: companies use technology instead of hiring additional workers.

A good example of the automation process in the United States is in the agricultural industry. In the past, most of the labour in this industry was done by humans. Tilling, mowing, and fertilizing were done by people. However, the advent of new farming technologies has changed, and now many of these processes are done by machines.

Research has found that less than five percent of jobs can be totally automated. Basically, this means that it's very unlikely we could see total automation of most of our occupations. And, for example, even jobs that have an automated component still require a human being. Think about the self-scan aisle at the grocery store. Even though this technology is doing a job that a human can also do, you still have human beings there to help if something goes wrong or to check identification for choosing the required brand of our grocery item. Similarly in Tea Gardens of Assam, plucking of the tender leaves can be done only by manual labour as it needs proper selection among many in the small tea bush.

Automation is most likely to complement, rather than supplant, most human labour. For example, in very high-skilled jobs, machines can be developed that will help employees focus their attention and be more productive. This will help organizations become more profitable and efficient.

However, in high risk factory jobs like working with Revolving machine or Blending machine where only the experienced worker need to be placed, automated machines can help the supervisor or factory foreman by assisting them. The IT enabled services like Management Information System (MIS), Data Base Management System (DBMS) and company licensed software are useful in planning and scheduling routine and non strategic jobs.

Information Technology

Information technology (IT) has had a number of effects on organizations; so what exactly is it? Basically, IT refers to computers and computer networks, communication systems, telephones and cellular networks, and data storage and retrieval.

changed the face of the workplace, including a focus on two specific points of interest: automation and information technology.

First, let's talk about some of the broad ways that technology has impacted the workforce. Technology has a number of different impacts on organizations. For one thing, it can impact the structure of an organization. This means introducing new technology to employees through training. Often this requires that more information technology (IT) professionals are added to a workplace.

It can also mean changes to the physical lay out of an organization. For example, switching over to computers from hand filing might mean that file clerks are no longer needed. This changes the layout of an office.

These kinds of technological changes can also make organizations more efficient. While upgrading the technology might be initially expensive, it can help organizations save money in the long term.

Demographic change refers **to changes in the composition of a population** (Hoßmann and Münz, n.d.). This includes not just changes in population size, and in age and sex structures, but also changes in ethnic composition, regional distribution, and lifestyle (BMI 2011, 11).29-Aug-2020

Demographic changes brings challenges and opportunities for the organisation. The changes in composition of workforce may where there is a decline in older ,experienced staff may cause additional cost. There may be a need of providing in house training to new recruits as inexperienced staff may slower down the work process.Again ,the company has to spend more on medical and different compulsory insurance scheme if there is more middle aged staff personnel than younger ones. Demographic changes in terms of male -female composition also brings a new challenge to the human resource management .

Overcoming them will require a dedicated and ongoing effort by companies to **retain as much institutional knowledge as possible**; improve operational excellence by increasing efficiencies and reducing risk; develop succession and progression plans with learning and development opportunities that appeal to all generations.

Description of a Contract Employee

A contract employee is an individual retained by a company for a predetermined time, for a predetermined price. Following this approach, a company is not responsible for providing a variety of traditional employer benefits, including:

- Taxes
- Social security
- Workers compensation

- Unemployment benefits
- Health benefits
- Sick leave
- Vacation time
- Retirement or profit sharing

Employers are only responsible for issuing a 1099 tax form to the contract employee, in accordance IRS tax filling deadlines

Benefits of Hiring Contract Employees

Hiring contract employees may have many benefits, including:

- For any need based short term project the organisation may hire under contractual terms
- There may be a reduction in overhead operating cost as unlike permanent staff the employer need not have to spend much in maintaining them.
- Opportunity to hire highly skilled individuals for projects if existing employees do not possess requisite qualification to fulfill such obligations.

Many contract employees work remotely from a home office, so additional savings can be realized by not providing office space or equipment.

Disadvantages of hiring contract employees

Although using contract employees might save a company some money, many difficulties may arise

1. Contract employees often work for more than one company simultaneously, so there's no guarantee they will be available when you want or need them.
2. Teamwork can be tricky, as contract workers may not have a familiarity with in-house staffers, especially if they work remotely.
3. Contractors won't be able to build a rapport with customers in the same way in-house staffers might be able to.

4. When a new employee joins a company, there's a period of low productivity as the newcomer

Welfare of Contract Labour

The Contract Labour (Regulation and Abolition) Act 1970 sec 20 imposes liability to the Principal employer is required to provide amenities as specified in the Act viz. a canteen in every establishment employing 100 or more workers (sec 16), rest rooms or other suitable accommodation whereas the employee is to halt at night for work(sec 17), clean drinking water and facilities of washroom, latrines and urinals(sec 18), First aid box (sec 19)

Payment of wages to Contractual employees

The payment of wages and deductions of any shall be made by the Contractor accordance with the provisions of the payment of wages Act. The employer is required to nominate an authorised representative to be present at the time of disbursement of wages and also certify the amounts paid as wages by the contractor.

The contractual employees are mostly hired for casual, seasonal or irregular work. However, the Central Government or a State Government may prohibit any establishment for engaging such workers for performing any work after considering :

- Whether the conditions of work and benefits provided are satisfactory.
- Whether the work is incidental or necessary for the business .
- Whether it is of sufficient duration.
- Whether is done ordinarily through regular workmen.
- Whether it is sufficient to employ a considerable number of whole-time workmen.(sec 10).

Contractual vs temporary employees.

Let.us find the differences between Temporary and Contractual workers

Some of the major differences between these two types of work include:

- **Duration:** Typically, the duration of temporary work is not predetermined. However, contract work usually has a set duration.
- **Predictability:** Contract work is usually fairly predictable, as employees understand the terms of their contract. Temporary work, however, tends to be less predictable.

- **Payment:** Temporary employees typically receive payment hourly, while contractors usually get paid for an entire contract proud.

1.5 References

1.6 Model Questions

UNIT 3: THE CHANGED ROLE OF HR IN ORGANIZATIONS WITH RESPECT TO LEADING THE CHANGE AND OPERATING FROM THE “BOARD ROOM LEVEL”

Unit Structure:

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Need to study HR environment
- 3.4 Changing Human Resource Environment
 - 3.4.1 Workforce diversity
 - 3.4.2 Technological changes
 - 3.4.3 Globalization
 - 3.4.4 Organizational Restructuring
 - 3.4.5 Changes in the nature of work force
- 3.5 The role of HR in the changing environment
 - 3.5.1. Focus on strategic HR issues
 - 3.5.2. Proactive role of HR
 - 3.5.3. Integrated HR system
 - 3.5.4. Working as a change agent
 - 3.5.5. Marketing of HR’s potential contribution
- 3.6. Check your progress
- 3.7. Points to consider
- 3.8. Summing up
- 3.9. Answers to check your progress
- 3.10. Practice questions

3.1. INTRODUCTION

A part of social environment is human resource environment. Human resource environment includes work culture, attitudes of employees, their skills, productivity, nature and behavior, demand and supply of employees, motivational aspects, methods of compensation and industrial relations, trade union etc. The social and human resource environment has changed tremendously in the last two decades. Shift from manufacturing economy to service economy, transformation from manual process to machinery process, growing importance of knowledge workers, advancement of Internet Technology, workforce diversity are some of the changes that have taken place in the recent years.

3.2 OBJECTIVES

After going through this unit you will be able to know:

- The changes taking place in the human resource environment
- The changed role of HR in the present dynamic environment

3.3 NEED TO STUDY HR ENVIRONMENT

Efficient management of Human resource is the key to the success of any business organization. There are various factors relating to the human resource environment that affects the management of HR. Therefore the need to study HR environment arises in order to be able predict the changes to be taken place in future in respect of human resource environment and to deal with the challenges that comes with such changes.

The following aspects necessitate the need to study human resource environment:

1. to develop intellectual capabilities, learning and right kind of attitude among employees.
2. to interpret the business laws and regulations and to implement these laws effectively.
3. to strengthen the work plan so as to increase the productivity of the employees.
4. to create and develop a congenial and harmonious work environment in the organization.
5. to manage and incorporate the technological advancements in the work place and to make sure that such changes are well accepted by the employees.
6. to take rational and comprehensive decisions regarding the HR related issues.

7. to determine long term strategies for various internal and external aspects of human resource management.
8. to study, analyze and develop personal skills and enhance the efficiency.

3.4 CHANGING HUMAN RESOURCE ENVIRONMENT

The rapid changes that have been taking place in the human resource environment are making the role HR professionals more crucial in the organization. The changed environment includes workforce diversity, technological change, globalization, Merger and acquisitions and change in the nature of job. With the changed environment problems like replacement of manual jobs by machines, downsizing, increased cost of health care and resistance to change, etc. arises which demands HR professionals to play a proactive role.

3.4.1. Workforce diversity:

Workforce diversity means the differences in the employees due to factors like race, sex, age, Physical abilities, values and cultural norms. The present day workforce is getting more diverse due to increase in the number of women workers, members from different ethnic background, minority groups and older workers in the workforce. It is the challenge for the HR managers to recognize the differences among the workers and formulate policies that caters the need of diversified workforce. Increase in the number of women in the workforce has lead to the introduction of flexible working hours, maternity benefits and establishment of child care facilities, etc.

Despite the challenges, workforce diversity is necessary for an organization because diversified workers come with different sets of abilities and skills. Thus they can contribute more to the organization in terms of productivity. Diverse workforce generally consists of people across different age groups. They can help the organization to better understand different customers representing diverse demographics. It does not only help in understanding customer needs but also helps in interaction with different customer groups.

3.4.2. Technological changes

Technological advancements have brought about revolutionary changes in the industry, commerce as well as in the workplace. Along with raising the productivity level, technology and internet has brought change in the whole HR management system. Be it recruitment, selection or training, IT has great impact on the HR department. Use of online job portal for recruiting

people, Human Resource Information System (HRIS) developed with the help of IT can supply organization with information necessary for demand and supply forecasting of employees.

With the advent of technology, there can be seen a drastic change in different occupations. Technology has to a greater extent replaced many blue collar jobs. There has been a decrease in the labor intensive jobs and increase in the managerial jobs. The HR departments are redesigning jobs, introducing new employee selection, evaluation and training policies.

3.4.3. Globalization

With globalization, countries have opened its doors to foreign firms. Now firms are not only competing with local firms but also with international firms. MNCs are the result of globalization. MNCs are those business organizations which has production facilities in more than one country. Operating in different countries involve lot of challenges because MNCs are characterized by cultural diversities, intensified competition and differences in business practices. This has necessitated the study of International Human Resource Management (IHRM) because tapping global HR is different that of local human resource.

3.4.4. Organizational Restructuring:

Merger and acquisitions are two most popular form of organizational restructuring. In acquisition, one large company purchases another small company. Merger is when two firms of similar size gets merged and form a new company. Merger and acquisition pose different sets of challenges for the HR department. As in merger and acquisitions various duplicate positions are consolidated into one, there might be employee layoffs. Moreover the corporate culture of both the companies going for merger might be different which is one of the difficult aspect of merger and acquisitions.

3.4.5. Change in the nature of work:

There has been a shift of focus from manual work to knowledge work. Organizations are now focusing more on human capital- knowledge, education, trainings skills, expertise. The level of expertise required today is very different from what was required long back. The organizations of today are information based organizations where the actions of one employee are analyzed through organized feedback from colleagues, customers and headquarter. Managing knowledge workers is a challenge for the HR managers.

3.5 ROLE OF HR MANAGERS IN THE CHANGING ENVIRONMENT

In the changing environment of globalization and technological advancement, the role of HR professionals is also changing. In the following section we are discussing the focus areas of HR in the current ever changing environment.

3.5.1. Focus on strategic HR issues

Earlier HR managers used to focus only on functional or operational issues. Not much emphasis was given on strategic HR issues. The changing environment demands HR managers to focus on strategic HR issues. Retirement of aged employees, recruiting best talents, employee retention, managing workforce diversity, demand for work life balance and increase cost of health care are some of the important HR issues that have long term impact on the organization as a whole. To deal with these strategic issues Human Resource Management should be an important part of corporate strategic management. Aligning workforce strategies with business objectives is crucial for every organization of today. Aligning workforce strategies with business objectives requires attention of five key areas-

- a) Effective workforce planning
- b) Organizational capability assessment
- c) Organizational development and structure.
- d) Diversity and Inclusion.
- e) Change management.

Workforce planning includes- analyzing strategic goals, forecasting of employee demand for attaining the goals, conducting talent assessment of existing employees , supply forecasting of employees and determining gap between demand and current capabilities and taking decisions regarding whether to develop talent or buy talent.

Assessment of organizational capability helps the HR department to analyze strong and weak areas of the organization. The manager may find out that some departments may be overstaffed, some right team members may be in the wrong department, or some employees may be underperforming. The HR departments should decide their course of actions accordingly.

Assessment of organizational capabilities will lead to skill analysis, job design, role clarification which ultimately contributes to the achievement defined business goals. These measures benefit

all the interested parties of the organization. Another area that requires attention is the diversity in the workforce. The focus of the organization should be to reap the benefit of diversity and including everyone in collective decision making. The organization should learn to accept varied viewpoints of the diversified workforce.

Change management is the process of anticipating the change demanded by external and internal customers and facilitating such change. HR managers can play the role of change facilitator. HR managers should pave the way for change and motivate the workforce to handle change with enthusiasm.

3.5.2. Proactive role

In the current changing environment, the HR managers must be able to anticipate future events, i.e. they must be able to take proactive actions. Proactive HRs are able to think of plans before the actual issues come up. Proactive HRs will be able to efficiently predict situations where there might be high employee turnover, downsizing of workforce, redesigning of jobs and find out solutions to tackle these problems. Proactive HRs will successfully conduct demand and supply forecasting of employees so that organization is never in short of human resource at any point of time. Along with that proactive HR will take appropriate measures to motivate employees, retain the employees and design attractive compensation packages for them.

3.5.3. Developing integrated HR system

Integrated HR is the one stop solution for wide range of HR functions. It incorporates database management, time and attendance management, payroll management and recruitment management etc. Employees can get updates regarding their current leave status, attendance count in one system. As all the informations are stored in one place, it enhances data accuracy as well as improves work efficiency.

The function of HR also includes determination of cost of hiring, hiring cycle and measurement of their effectiveness. An integrated HR makes it easier for HR managers to analyze various data regarding employees and generate reports without any delay. Without the system the process would be time consuming.

3.5.4. Working as Change Agent:

The current dynamic environment demands HR professionals to be the flag bearer of change. The HR managers should be able to anticipate change and initiate change in the organization. Change has become recurring in nature and HR professionals should facilitate such change. Some changes might be minor occurring on a regular basis which can be easily handled by

internal personnel. On the other hand some changes might be major which requires the attention of external experts. In the second case HR managers should act as internal change facilitator and coordinate the activities of the organization with that of external consultants.

As a change agent HR manager should understand the short term long term goals of the organization, recruit the right kind of people and develop a creative positive work environment. Moreover an HR manager is in touch with all the departments of the organization. Therefore if there is resistance among the employees regarding change, the HR can prepare and motivate the employees for the change.

3.5.5. Marketing HR's Potential Contribution:

There has been a tendency of business houses to put more emphasis on activities that generates revenue and ignore HR related issues. There are basically two challenges faced by the HR professionals- a) Sometimes line managers do not consider the HR issues to be critical for the organization. b) Sometimes Managers may feel that HR professionals are well equipped to deal with the HR issues on their own, at most they can provide operational support.

Because of these challenges, marketing of HR's potential contribution is must. The HR professionals should work in partnership with line managers while dealing with HR related issues and provide practical solutions.

3.6. CHECK YOUR PROGRESS

1. What is work force diversity?
2. How does organizational restructuring influence the working of HR department?
3. Explain the role of HR managers as a change facilitator.
4. What are the benefits of having an integrated HR system to HR department?

3.7. POINTS TO CONSIDER

- **Downsizing:** Removal of unproductive workers which results in the reduction in the company's workforce.
- **HRIS :** Human Resource Information System (HRIS) is a centralized system of storing employee related data like name, address, age, salary, employment benefits, attendance and performance review etc.
- **IHRM:** International Human Resource Management is concerned with identifying and understanding the work system and employment practices in the global platform.

3.8. SUMMING UP

- The rapid changes that have been taking place in the human resource environment are making the role HR professionals more crucial in the organization. The changed environment includes- workforce diversity, technological change, globalization, Merger and acquisitions and change in the nature of job.
- Workforce diversity means the differences in the employees due to factors like race, sex, age, Physical abilities, values and cultural norms.
- Despite the challenges, workforce diversity is necessary for an organization because diversified workers can come with different sets of abilities and skills. Thus they can contribute more to the organization in terms of productivity.
- Along with raising the productivity level, technology and internet has brought change in the whole HR management system. Be it recruitment, selection or training, IT has great impact on the HR department.
- With globalization, countries have opened its doors to foreign firms. Now firms are not only competing with local firms but also with international firms.
- Merger and acquisitions are two most popular form of organizational restructuring. In acquisition, one large company purchases another small company. Merger is when two firms of similar size gets merged and form a new company.

- Organizations are now focusing more on human capital- knowledge, education, trainings skills, expertise.
- In the changing environment of globalization and technological advancement, the role of HR professionals is also changing.
- The changing environment demands HR managers to focus on strategic HR issues.
- Retirement of aged employees, recruiting best talents, employee retention ,managing workforce diversity, demand for work life balance and increase cost of health care are some of the important HR issues that have long term impact on the organization as a whole.
- In the current changing environment, the HR managers must be able to anticipate future events, i.e. they must be able to take proactive actions.
- Integrated HR is the one stop solution for wide range of HR functions. It incorporates database management, time and attendance management, payroll management and recruitment management etc.
- The current dynamic environment demands HR professionals to be the flag bearer of change. The HR managers should be able to anticipate change and initiate change in the organization.
- The HR professionals should work in partnership with line managers while dealing with HR related issues and provide practical solutions.

3.9. ANSWER TO CHECK YOUR PROGRESS

1. Workforce diversity means the differences in the employees due to factors like race, sex, age, Physical abilities, values and cultural norms. The present day workforce is getting more diverse due to increase in the number of women workers, members from different ethnic background, minority groups and older workers in the workforce.

2. Merger and acquisitions are two most popular form of organizational restructuring. In acquisition, one large company purchases another small company. Merger is when two firms of similar size gets merged and form a new company. Merger and acquisition pose different sets of challenges for the HR department. As in merger and acquisitions various duplicate positions are consolidated into one, there might be employee layoffs. Moreover the corporate culture of both the companies going for merger might be different which is one of the difficult aspect of merger and acquisitions.

3. The HR managers should be able to anticipate change and initiate change in the organization. Change has become recurring in nature and HR professionals should facilitate such change.

Some changes might be minor occurring on a regular basis which can be easily handled by internal personnel. On the other hand some changes might be major which requires the attention of external experts. In the second case HR managers should act as internal change facilitator and coordinate the activities of the organization with that of external consultants.

As a change agent HR manager should understand the short term long term goals of the organization, recruit the right kind of people and develop a creative positive work environment. Moreover an HR manager is in touch with all the departments of the organization. Therefore if there is resistance among the employees regarding change, the HR can prepare and motivate the employees for the change.

4. Integrated HR is the one stop solution for wide range of HR functions. It incorporates database management, time and attendance management, payroll management and recruitment management etc. Employees can get updates regarding their current leave status, attendance count in one system. As all the informations are stored in one place, it enhances data accuracy as well as improves work efficiency.

The function of HR also includes determination of cost of hiring, hiring cycle and measurement of their effectiveness. An integrated HR makes it easier for HR managers to analyze various data regarding employees and generate reports without any delay. Without the system the process would be time consuming

3.10. PRACTICE QUESTIONS:

1. “The rapid changes that have been taking place in the human resource environment are making the role HR professionals more crucial in the organization.” In this context explain the changes that has taken place in recent years`
2. Explain the changed role of HR in the present dynamic environment.

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Block I : Unit-4

Challenges of Sustainability with reference to Retention and Talent Management for Competitive Advantages, Learning organisations and organisation learning, collective learning

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- 1.4 Organisation Learning And Learning Organisations
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- 1.5 Collective Learning
- 1.6 Summing Up
- 1.7 References

1.1 INTRODUCTION

Competition is one of the most important factors shaping the world of business. It directly influences business strategies and thereby influences survivability. The entities that can survive can compete and earn profits. Every business enterprise should aim for achieving sustained competitive advantage. Competitive advantage is achieved when a firm consistently outperforms other firms in the same industry. Sustainable competitive advantage is achieved when competitive advantage is sustained for a longer period, it is called sustainable competitive advantage. Traditionally, three hotspots for competitive advantage are identified by business enterprises. These are Product Innovation, Production and Marketing (Ghemawat, 1986).

Product innovation is the introduction of a new or significantly improved good or service in terms of its characteristics or intended uses (Glossary of Statistical Terms, 2005). It provides a competitive edge to the business entity by serving a unique or better product to the

consumer. Innovation in the production system also creates an opportunity for a competitive edge. Production systems can be developed or innovated by incremental or radical improvements in productivity, cost, speed, quality, and/or flexibility of existing production processes or systems (Larsson, 2017). Marketing innovation is another area that provides a large number of opportunities for gaining a competitive advantage. Marketing innovation implies the adoption of a new marketing strategy that involves significant changes in product design or packaging, product placement, product promotion, or pricing (Glossary of Statistical Terms, 2005).

The above-defined areas largely provide opportunities for developing a competitive advantage. If a firm maintains a competitive advantage in any of these areas for a longer time gains a sustainable competitive advantage. When we talk about the competitive advantage in the above-identified three areas, the one common factors that come to mind is the people who are responsible for it. In every innovation that gives a competitive advantage, you will find the hard work and decisions of the people involved. In other words, it is the people working for the organisation who build a competitive advantage and sustained it for a longer period.

1.2 OBJECTIVES

The present unit aims at:

- i. Familiarising learners with Challenges of Sustainability concerning Retention and Talent Management for Competitive Advantages
- ii. Creating awareness among the learners on the different aspects of Learning organisations and organisation learning
- iii. Making learners aware of the importance of collective learning

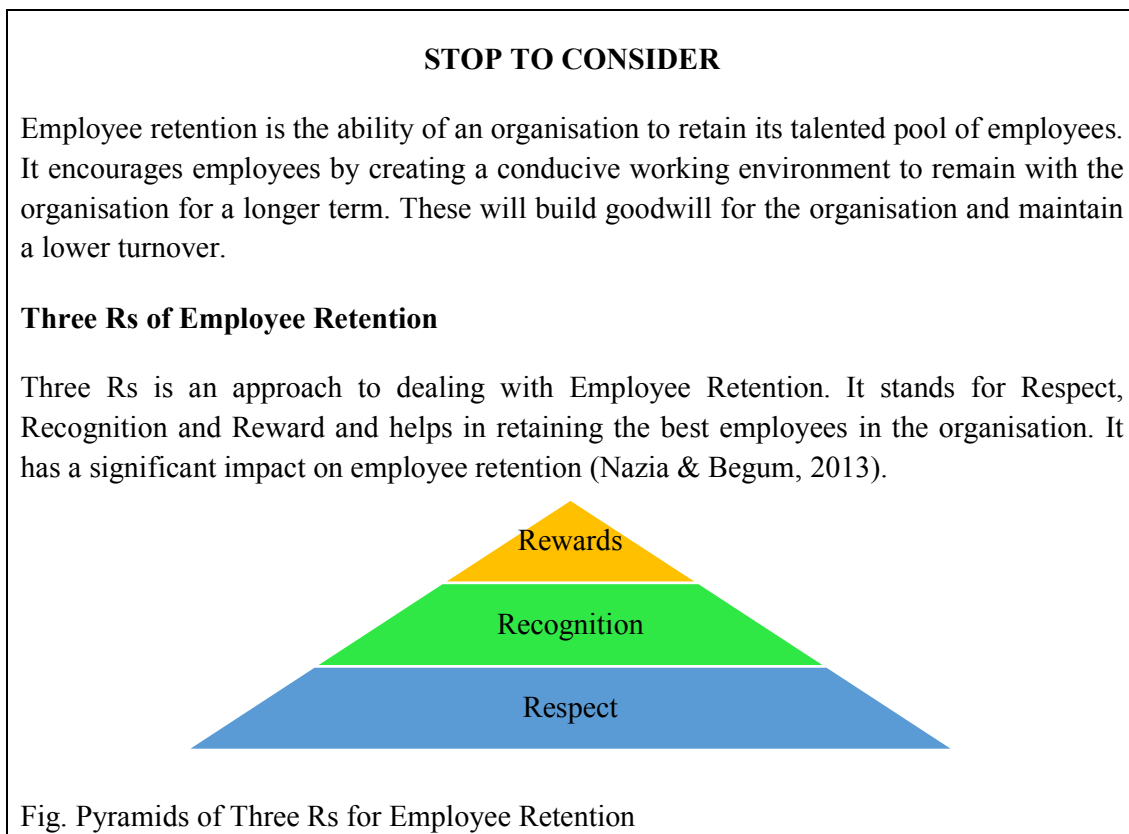
1.3 CHALLENGES OF SUSTAINABILITY CONCERNING RETENTION AND TALENT MANAGEMENT FOR COMPETITIVE ADVANTAGES

Human Resource Management (HRM) is a management function that deals with the people in the organisation. It is the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns (Dessler, 2011). Human Resources is the most important resource any organisation can have. Human resources represent skills, experiences, potentialities, and immense capabilities that can change the destiny of any enterprise employing them. Accordingly, Human Resource Management (HRM) function has attained strategic importance in the organisation. Strategic human resource management emphasises the importance of effective people management as a source of competitive advantage (Bratton & Gold, 2017). In the present context, retention

and talent management are gaining huge attention along with the different elements of Human Resource Management.

1.3.1 RETENTION

Employee turnover has created a unique challenge for the management. On one hand, they are losing their experienced employees, most of the time, to their competitors and on the other hand have to bear replacement costs including recruitment, selection, training and other costs associated with the employment of new employees. Therefore the most suitable option in the hand of management is to make an effort to retain valuable employees. Employee retention is a win-win situation for both the organisation as well as to the employees in question. Employee retention is the process of retaining valuable and critical people by maintaining a working environment that motivates them to remain with the organisation. Employee retention strategies aid in retaining those employees who are desired and preventing them from leaving the organisation for any reason, particularly to competitors (Browell, 2003). Most of the time it focuses on improving the job satisfaction of the employees. This results in the organisation retaining employees for a longer period and reducing acquisition costs to a great extent.



Respect: Respect is the foundation of the pyramid. If it is strong then it can carry the load next two Rs. Respect is esteem or special consideration bestowed upon the people. An organisation must give respect to its employees as well as their work.

Recognition: Recognition stands for acknowledgement or validation of the efforts of the individual. It plays a crucial role in retaining employees.

Rewards: Rewards are additional perks (financial and non-financial) given to employees over and above Respect and Recognition. It motivates employees to give their best effort in accomplishing the organisational goal.

1.3.2 IMPORTANCE OF EMPLOYEE RETENTION

Employee retention is very important to any organisation. Retaining employees successfully provides different benefits to the organisation. These are discussed below:

- 1) **Building Goodwill:** When employees get retained for a longer term in the organisation, it sends a message to outsiders about the employee-oriented work environment. This creates a positive image of the organisation in the minds of different stakeholders. Furthermore, it will attract more number solicited calls from qualified and talented prospective candidates.
- 2) **Reduces Employee Turnover:** The employer and customers are frequently left in the lurch as a result of high turnover, as employees take away a great amount of information with them. This proposition is not good for any organisation. Therefore, employee retention strategies help the organisation to stay away from the grimed situation by reducing employee turnover.
- 3) **High Cost of Replacement:** When an employee leaves, immediately create a requirement for replacement. However, the cost of employee replacement is very high. Employee retention aims at not creating such situations for the organisation.
- 4) **Time consumed by Recruitment:** Recruiting employees takes a lot of time and effort, and much of it is in vain. During this period, man-days are lost as well.
- 5) **Additional times are required for accomplishing the task:** When employees left, an organisation may not find an immediate replacement. Such a situation may require additional time to complete the existing work.

1.3.3 EMPLOYEE RETENTION STRATEGIES AS A COMPETITIVE ADVANTAGE

Employee retention strategies create a sound culture and suitable environment helping employees utilise their potential for the prosperity and growth of the organisation. This

strategy act as a competitive advantage by attracting and retaining the best minds in the industry. Skilled and innovative people are scarce resources. Every organisation wants to attract and keep the best individuals who will contribute to the success of the enterprise. An organisation with the best individual in the industry will always remain ahead of others.

Employee retention strategy is a holistic approach that perceives every HR action as a source influencing employee retention. To gain a competitive advantage through employee retention requires interventions in HR-related activities. The interventions can be made during Induction and Orientation, Training and Development, Compensation, Reward and Recognition, Employee Participation in Decision Making, Performance Management, Career Planning and Development, Quality of Work Life, and Organisational Culture (Mir & Mufeed, 2016). These are discussed below:

- **Induction and Orientation:** Because it is organised at the very beginning of an employee's association with the organisation, an induction and orientation programme is very important. The organisation must foster a positive environment in which recruits are socialised with existing employees and the work environment, as this will encourage mutual collaboration and trust. Introducing new employees to the organisation's systems and practices fosters a sense of belonging and boosts employee morale, resulting in increased commitment and satisfaction.
- **Training and Development:** Training and Development enhance the effectiveness of employees and help them in achieving excellence. The investment in training and development provides a competitive edge over the competitors.
- **Compensation:** Sound compensation plan act as a force that motivates the employees to give their best and help retain them. A good compensation plan increases employee commitment by reinforcing strong organisational values and creating a sense of emotional ownership to work among employees.
- **Reward and Recognition:** Reward and recognition play a very important role in retaining top-performing employees. Reward and recognition system should be such that recognises the excellence and performance. The organisation should facilitate an open and transparent reward system that creates an environment of collaboration and high performance. This system keeps performing employees highly motivated and encourages them to improve performance. Recognising individual performance and expressing gratitude to employees improves employee job satisfaction and give them the feeling that they are valued in the organisation.
- **Participation in Decision making:** Employee participation in decision-making is critical for cultivating a culture of creativity and rational thinking among organisation members. Creating such an environment increases employee commitment and loyalty to the company. Bringing all the employees to the decision-making table delivers satisfaction to employees.
- **Performance Management:** The performance management system is a powerful tool for motivating and retaining employees to achieve higher levels of performance. It is a method of establishing a common understanding of what needs to be accomplished and how it should be accomplished. It is a continuous process of identifying,

measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organisation (Aguinis, 2007). It is a system of managing people that increases the likelihood of achieving job-related success, thereby loyalty to the firm.

- **Career Planning and Development:** Career planning and development is very significant in enhancing the morale and motivation of employees and helps in reducing employee turnover and dissatisfaction. Career planning is the systematic matching of career goals and individual capabilities with opportunities available in the organisation. Career management in the organisation provides employees with a more fulfilling career, and the employer by reaping the benefits of improved employee relations, engagement, and retention (Dessler, Human Resource Management, 2013).
- **Quality of Work Life (QWL):**The term QWL refers to the favorableness and unfavorability of a work environment for the people who work in an organisation. The organisation should provide suitable and adequate working conditions to the employees. It will enhance QWL at the workplace. Enhanced QWL will deliver satisfaction and ensure commitment on the part of employees.
- **Organisational Culture and Climate:**Organisational culture and climate foster a positive attitude among employees that raises job performance. A strong culture shared by all members of an organisation leads to higher job satisfaction and lowers job turnover. Suitable organisational culture and climate increase employees' commitment to the organisation.

1.3.4 CHALLENGES OF SUSTAINABILITY CONCERNING RETENTION FOR COMPETITIVE ADVANTAGE

Employee retention is one of the factors that provide a sustainable competitive advantage to the firm. However, there are challenges to retention as a source of sustained competitive advantage. These challenges are described below:

- **Employee Poaching:** Employee poaching also called talent poaching or job poaching is the biggest threat to retention as a sustained competitive advantage. Many times it becomes difficult to protect most critical employees from the clutches of competitors.
- **Globalised Economy:** Today's economy is a globalized economy where employees have access to all employment opportunities at a global level. They have more excess to employment opportunities within as well as outside the country. The opportunities that are financially or otherwise attractive pose challenges to the company retention programme.
- **Stronger Economy:** When an economy of a nation gets stronger, it creates more job opportunities for skilled people. Newer enterprise joins the industry and existing players get larger. This results in more opportunities at all levels of management. Employees tend to look for a higher position. When such positions get opened, they

get attracted to them. Thus stronger economy along with opportunities brings challenges as well.

- **Changing Workforce:** A huge number of the workforce today is comprised of Millennials throughout the world. As of 2017 around 46% of the Indian workforce are comprised of Millennials (Morgan Stanley, 2017). A person born between 1981 and 1996 is considered a Millennial (Dimock, 2019). These Millennials have distinct characteristics from the earlier generations. They are tech-savvy, open to challenges, beliefs exploring newer things in life, unfazed by mistakes, fast learners, loyal to work but not the organisation, free minds and many more. These characteristics of Millennials creates another set of challenges to sustainable employee retention programmes.
- **Cost of Employee Retention:** Employee retention saves the firms from the cost of acquiring new employees. However, in the process, costs in other areas raises as well. Retained employees may require higher wages, not comply with organisation practices, and not interact well with their co-workers or comply with their managers' directions (Sigler, 1999). Thus, the cost associated with employee retention is another challenge for retention strategy as a source of competitive advantage.
- **Lack of information about the performance of employees:** The less sophisticated, medium-sized to small size organisation may not have a system to assess and identify the performing employees. When an organisation is not in a position to identify performing employees, the low performing employees remain and the high performing leaves the organisation.
- **Hobby based job opportunities:** Development in internet technologies, social media, communication devices and different technical gadgets have flooded newer types of employment opportunities especially concerning blogs. People are earning through online blogs, video blogs, photoblogs, including content writing etc. This has created opportunities for converting hobby as a source of earning especially for the youths. This is creating another kind of challenge for retaining critical employees.

STOP TO CONSIDER

Employee retention strategies aim at retaining critical employees for the long run. When an organisation successfully attract and retain the best employees, gains a competitive advantage. It is a sustained competitive advantage if the competitive advantage is gained for a considerable period. However, different factors challenge the sustained competitive advantage concerning retention. The factors are employee poaching, a globalised economy, a stronger economy, changing workforce, cost of employee retention, lack of information about the performance of employees, hobby-based job opportunities, etc. There is no one point answer to all these challenges. To face these challenges successfully, the organisation requires an approach covering all the points touching an employee. It begins with a sound recruitment and selection process, effective training and development programmes, sound compensation including incentive plans, and appropriate career development opportunities. Moreover, the organisation should measure employees' level of engagement, address their

needs, and develop a strong and cohesive organisational culture.

SELF ASSESSMENT QUESTIONS

- i. Does the Employment Retention strategy deserve the attention of the top management in the organisation?
- ii. Employee poaching is justified?
- iii. How Quality of Work-Life facilitates retention of valuable employees.

1.3.5 TALENT MANAGEMENT

Talent management is the process of attracting and retaining quality employees, developing their skills, and motivating them to continuously improve their performance. Gary Desler has defined “Talent Management as the holistic, integrated and results and goal-oriented process of planning, recruiting, selecting, developing, managing, and compensating employees” (Dessler, 2011, pg. 96). Based on the different literature, Lewis and Heckman (2006) have composed a definition of talent management as a mindset, a key component to effective succession planning, and an attempt to ensure that everyone at all levels works to the top of their potential. As an organisational talent management strategy, it is defined as activities and processes that involve the systematic identification of key positions which differentially contribute to the organisation’s sustainable competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organisation (Collings & Mellahi, 2009).

STOP TO CONSIDER

A manager who employs a talent management strategy is more likely to do the following:

1. He or she starts with the results and asks, “What recruiting, testing, training, or pay action should I take to produce the employee competencies we need to achieve our company’s goals?”
2. He or she treats activities such as recruiting and training as interrelated. For example, the manager knows that having employees with the right skills depends as much on recruiting and training as on applicant testing.
3. Because talent management is holistic and integrated, he or she will probably use the same “profile” of required human skills, knowledge, and behaviours (“competencies”) for formulating a job’s recruitment plans as for making selection, training, appraisal, and

compensation decisions for it.

4. He or she takes steps to actively coordinate/integrate talent management functions such as recruiting and training. For example, HR managers meet to make sure they are using the same skills profile to recruit as to select, train, and appraise for a particular job, or use talent management software like the following to do so.

Source: (Dessler, Human Resource Management, 2017, Pg. 96)

1.3.6 IMPORTANCE OF TALENT MANAGEMENT

Effective talent management strategies play an important role in consistently enhancing organisational performance and helping gain a competitive advantage. Moreover, it helps the organisation in many different ways that are discussed below:

- **Attract and retain critical talent:** A talent management programme helps in creating a strong brand for the organisation and thereby successfully attracts and retain top talents that are available in the market. Furthermore, the successful retention of talents helps in saving acquisition costs in long run.
- **Value Addition:** A talent management process identifies the potentials employees in the organisation and adds more value to their skills through training and development programmes. This process creates a pool of skilled and motivated employees.
- **Increased employee engagement and productivity:** The talent management process creates prospects for enhancing employee engagement through opportunities for expression and connection in the organisation. The more employees are engaged, the more they become productive thereby directly influencing the firm's net income.
- **Customer satisfaction:** Systematic approach to talent management results in better organisational integration, high employee motivation and satisfaction. All these improve customers' experience when they interact with the employees as well as with the organisation process. The whole experience enhances customer satisfaction to a higher level.
- **An investment:** Talent management is an investment for the future. If an organisation invest its resources in talent management appropriately, it will create a positive impact on the overall performance of the organisation in long run.

1.3.7 CHALLENGES TO TALENT MANAGEMENT AS SUSTAINED COMPETITIVE ADVANTAGE

Various studies have observed that talent management provides a competitive advantage to a firm (Ashton & Morton, 2005; Lewis & Heckman, 2006; Collings & Mellahi, 2009; Nisar, 2014). Firms that develop valuable, rare, and hard to imitate resources gain a long-term competitive advantage. These assets may include financial, physical, human, and

organisational assets that a company uses to create and deliver products or services to its customers. Talent is one such resource that is valuable, rare, and difficult to imitate. However, effective talent management as a source of sustained competitive advantage does face challenges. These challenges are:

- Difficulty in attracting and retaining the right people at right time(Cappelli, 2008). People have different talents, and attracting them at the right time is a challenge for any organisation.
- Another challenge an organisation may face is the deployment of appropriate human resource policies to ensure these individuals are strategically deployed and supported with appropriate HR policies (Collings & Mellahi, 2009).
- Many small to medium size organisations lack the required resources to effectively implement talent management strategies.
- Harvard Business Review has listed some more challenges concerning talent management as a source of sustainable competitive advantage (Erikson, 2008). A few of these are:
 - Attracting and retaining an adequate number of employees at all levels to meet the needs of organisational growth.
 - Developing a value proposition that appeals to a diverse range of generations employed in the organisation.
 - Creating a strong leadership pipeline.
 - Passing on critical knowledge and relationships to recruits.
 - Overcoming a norm of short tenure and frequent movement
 - Ealing with the executives who don't appreciate the challenge associated with talent management.
- Forbes Magazine has furthermore listed some more challenges to talent management (Loscos, 2022). A few of these are:
 - Properly interpreting and managing the balance of organisational and personal needs.
 - The conflict that exists between organisations' "limited supply of value" to people and employees' "insatiable demand for value."
 - Preventing the need for diversity from taking precedence over the need for the value of uniqueness, which is a set of unique and distinct values of each professional working in an organisation.

SELF ASSESSMENT QUESTIONS

- i. Is the result of talent management is overhyped?
- ii. What are the obstacles to talent management in a smaller organisation?
- iii. How the concept of retention strategy and talent management is related?

1.4 ORGANISATION LEARNING AND LEARNING ORGANISATIONS

Learning is a process of acquiring new knowledge or understanding that results in the change of behaviour of individuals and groups. According to Hall (2003) “Learning refers to the process by which an animal (human or non-human) interacts with its environment and becomes changed by this experience so that its subsequent behaviour is modified”. Learning is a continuous process that results in behavioural change which is more or less permanent in nature.

Learning is used metaphorically in an organisational context. It is assumed that like any living organism, an organisation that is made up of people, can learn and change its actions. An organisation learn from its interactions with different environmental elements and with its experiences modifies its behaviours to suit the requirement of time. The understanding of learning in an organisational context led to the use of two popular terms – Learning Organisation and Organisation Learning. Both the terms are associated with learning in an organisational context but are different in their interpretation and application. Organisational learning focuses on the knowledge and experience that employees gain from their day-to-day activities. In contrast, a Learning Organisation focuses on improving employees' competencies and capabilities. These two concepts are discussed briefly in the subsections below.

1.4.1 ORGANISATION LEARNING

Organisation learning is a process of learning through social interactions at the group as well as at the organisational level. It is a metaphor that incorporates two concepts, ‘learning’ and ‘organisation’, and enables the exploration of an organisation as if it were a subject that learns, processes information, reflects on experiences, and has a stock of knowledge, skills, and expertise (Gherardi & Nicolini, 2001). Metaphorically organisational learning can be understood as comprised of one source domain and another target domain. Individual learning represents the source domain and organisational learning the target domain. The target domain, i.e. organisational learning can be mapped from the source domain. Thus, the learning of individuals is mapped as organisational learning (Bratianu, 2015).

1.4.2 PROCESS OF ORGANISATION LEARNING

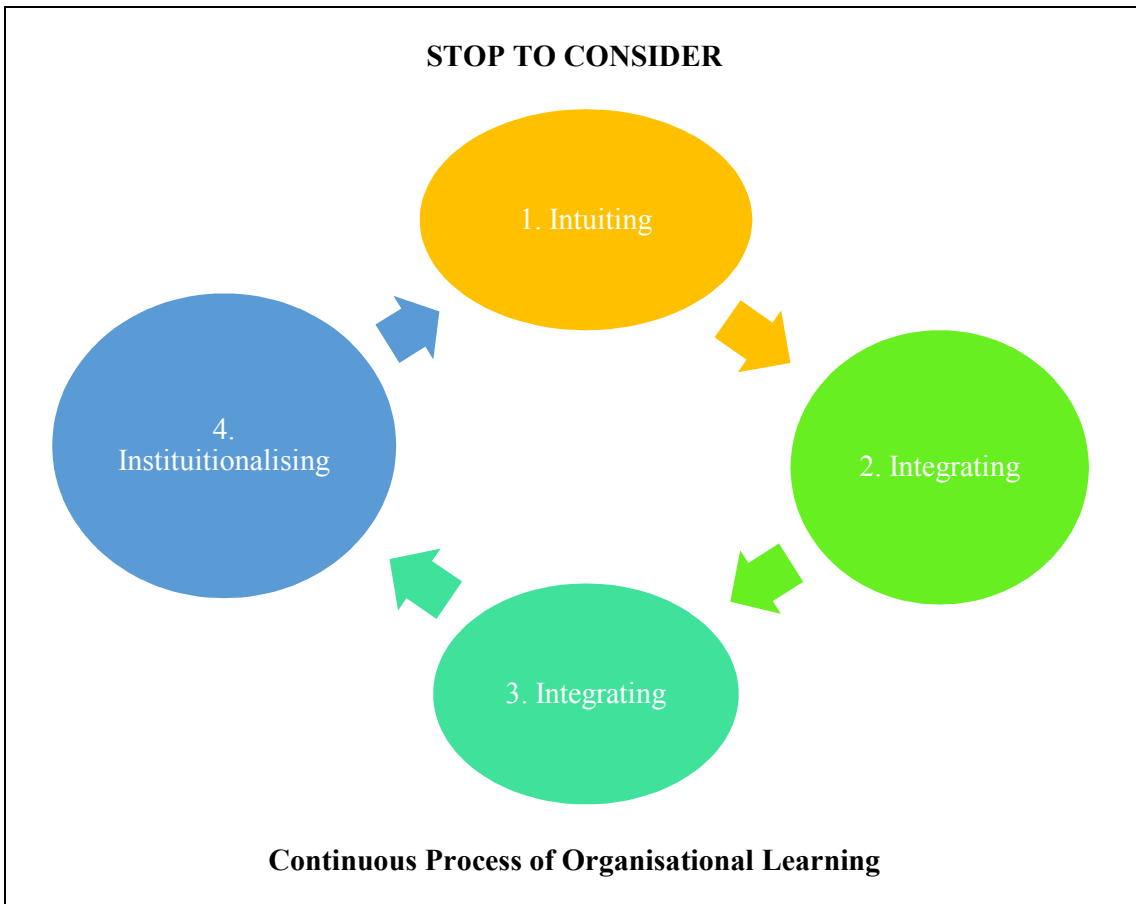
In an organisation, learning takes place at three levels. These three levels are individual, group and organisation and are regarded as a structure through which learning takes place. Learning occurs across these levels. These three levels are linked via the socio-psychological process of intuiting, interpreting, integrating, and institutionalising togetherly termed as 4Is. 4Is act as a glue that binds these levels (Crossan, Lane, & White, 1999). These processes are discussed below:

- **Intuiting:** Intuiting operates at the individual level as a subconscious process that relies on filtered experience and pattern recognition. That is, individual experience is

examined by the individual cognition unconsciously to find a solution to a relatively complex problem in a novel context, and the result is intuition. Individual experiences and images serve as inputs to this process, and metaphors serve as outputs.

- **Interpreting:** Interpreting occurs at the interface between individual and group levels. At this stage, individuals make an effort to explain their intuition to others. Interpreting is primarily a social process. At this stage, Individuals create cognitive maps about their area of interest and use these maps to interpret a new issue in a social setting with the help of a language common to all. This process helps groups to learn from interpreting individuals as well as from other groups.
- **Integrating:** Integrating operates at the group level. At this stage, interaction takes place between groups at the organisation level. This process helps in generating a shared understanding that can be converted into actions. In this process, shared understanding becomes input and interaction with others from the group and organisation is output. This process helps in converting potential ideas or knowledge into an operational idea.
- **Institutionalising:** Institutionalising operates at the organisational level. At this stage, the outcomes of the whole learning process are institutionalised, i.e. owned by the organisation. Even if the individual who was responsible for creating knowledge leaves the organisation, the knowledge so created will remain at the organisation. You can see learning being embedded throughout the organisation's practices. Like in the systems, structures, strategy, routines, prescribed practices of the organisation, investments in information systems and infrastructure, etc.

Organisational learning does not end at the institutionalisation of learning. The feedback on the final process, i.e. the process institutionalising becomes the input of the first three processes. Thus, resulting in a continuous cycle of learning. However, where each process starts and ends is difficult to define. Only a new intuition and institutionalised knowledge can be identified as the start and end of an organisational learning cycle, respectively (Bratianu, 2015).



1.4.3 LEARNING ORGANISATION

In the era of stiff competition, the organisation has to continuously revitalise itself to remain in the race. It has become pertinent for them to learn and adapt accordingly to compete. They have to imbibe the philosophy of learning organisation. Learning organisation facilitates the learning of all its members and thereby continuously transforming itself (Pedler, Burgoyne, & Boydell, 1998). Senge (1990) has defined learning organisations are those organisations 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 continually learning to see the whole together. A learning organisation is structured to search for information in its environment, to create information, and to encourage individuals to transform information into knowledge and to coordinate that knowledge among themselves to gain new insight (Jensen, 2005). In a nutshell, the learning organisation is a proactive organisation that believes in the continuous learning of employees.

1.4.4 THE ELEMENTS/COMPONENTS OF LEARNING ORGANISATION

Senge (1990) advocated five components of a learning organisation. He called these components disciplines. By the term discipline, he didn't enforce order or means a punishment, rather as a body of theory and technique that must be studied and mastered to be

put into practice. He believed discipline is a way towards earning certain skills or competencies. To practice, discipline is like being a life-long learner. These five disciplines are Personal mastery, Mental models, Building shared vision, Team learning, and System thinking. These are briefly elaborated below:

Personal mastery: Personal mastery denotes a high level of competence. People who have achieved a high level of personal mastery can consistently achieve the outcomes that are most important to them. They approach their lives in the same way that an artist approaches a work of art. They achieve this by committing to lifelong learning. Personal mastery is the spiritual foundation of a learning organisation(Senge, 1990).

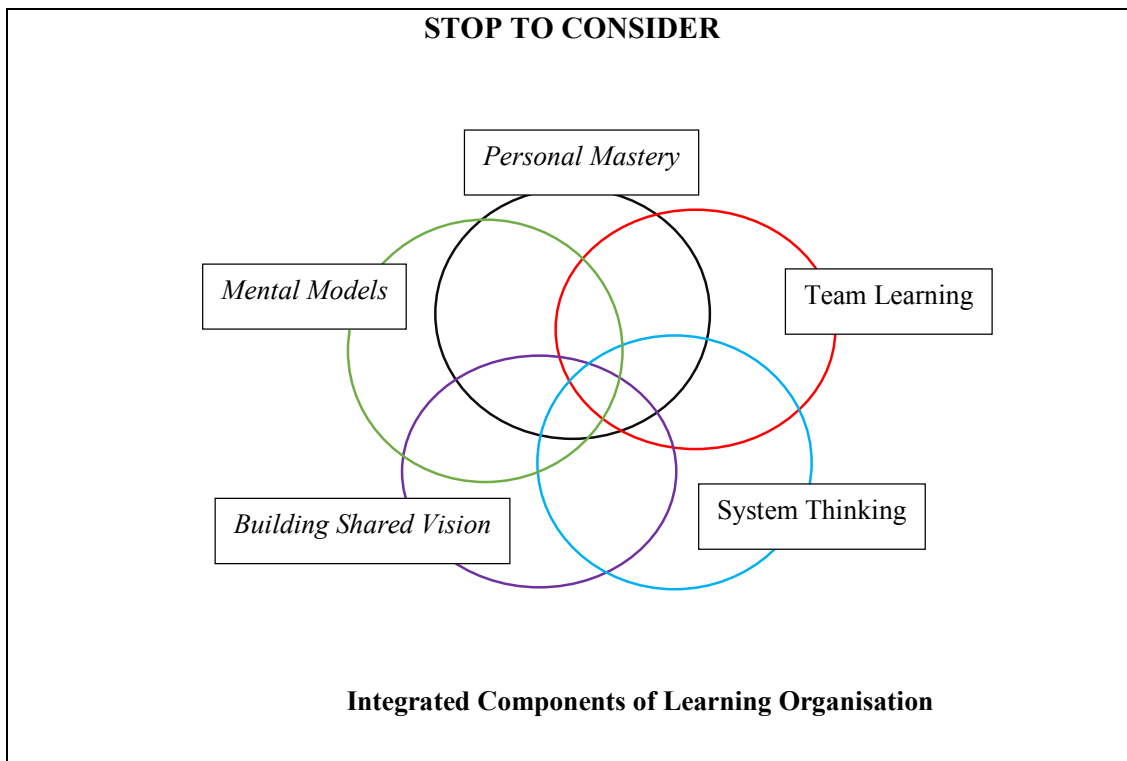
Mental models:Mental models are deeply ingrained assumptions, generalisations, or even pictures or images that shape individuals' perceptions of the world and how they act. Generally, people are frequently unaware of their mental models or the influence they have on their behaviour. Turning the mirror inward, learning to unearth internal pictures of the world, bring them to the surface, and hold them rigorously to scrutiny, is the first step in working with mental models. It also includes the ability to engage in meaningful conversations that balance inquiry and advocacy, in which people effectively expose their thinking while also allowing others to influence it. Mental models require people or organisations to challenge existing mindsets or perceptions continuously(Senge, 1990).

Building shared vision:If there's one thing that has inspired organisations for many years, it's the ability to hold a shared vision of the future that is all want to build. Without goals, values, and missions that become deeply shared throughout the organisation, it's difficult to imagine any organisation sustaining some measure of greatness. People excel and learn when they have a genuine vision not because they are told to, but because they want to(Senge, 1990).

Team learning:Where teams develop extraordinary capacities for coordinated action, the team's intelligence exceeds that of its members. When teams truly learn, they not only produce extraordinary results but also allow individual members to grow at a faster rate than would otherwise be possible. The discipline of team learning begins with "dialogue," or a group's ability to suspend assumptions and engage in genuine "thinking together." Learning to recognise the patterns of interaction in teams that undermine learning is also part of the dialogue discipline. Defensive patterns are frequently deeply ingrained in how a team functions. They sabotage learning if they go unnoticed. They can speed up learning if defensive patterns are identified and surfaced creatively. Because teams, not individuals, are the fundamental learning unit in modern organisations, team learning is critical(Senge, 1990).

System thinking:The fifth discipline is system thinking. It is the discipline that integrates the above four disciplines, fusing them into a coherent body of theory and practice. Systemic orientation motivates to look at how the disciplines interrelate. It constantly reminds us that the whole can be greater than the sum of its parts by enhancing each of the other disciplines. To reach its full potential, however, systems thinking requires the disciplines of shared vision, mental models, team learning, and personal mastery.

Building a shared vision encourages long-term commitment. Mental models emphasise the openness required to uncover flaws in our current ways of seeing the world. Team learning improves a group's ability to see the bigger picture, which lies beyond individual perspectives. Personal mastery also encourages personal motivation. to continually learn how our actions affect our world. Without personal mastery, people are so steeped in the reactive mindset that they are deeply threatened by the systems perspective. Lastly, systems thinking makes understandable the subtlest aspect of the learning organisation—the new way individuals perceive themselves and their world. At the heart of a Learning organisation is a shift of mind—from seeing ourselves as separate from the world to connecting to the world, from seeing problems as caused by someone or something out there to seeing how our actions create the problems we experience. A learning organisation is a place where people are continually discovering how they create their reality. And how they can change it(Senge, 1990).



1.4.5 ORGANISATIONAL LEARNING OR LEARNING ORGANISATION?

The concepts of organisational learning and learning organisation are both related to learning and organisation. It is a well-established fact that organisational learning exists before the development of the learning organisation concept. Sometimes, these are used interchangeably as well. However, these two concepts are distinct from the semantic point of view(Bratianu, 2015).The former is an activity in the organisation while the latter is the type of organisation itself.Organisational learning as a theory and practice may be developed in any organisation without the philosophy of learning organisation. However, learning organisation does involve the concept of organisational learning. Organisational learning is a fundamental nature of any

organisation, whereas learning organisation is a deliberate effort on the part of the organisation itself. To remain in the market, organisation learning is essential, but to gain a sustained competitive advantage, an organisation must have to transform into a learning organisation. Learning organisation consistently results in building core competence and dynamic capabilities. Thus, it can be concluded that the concept of a learning organisation is superior to organisational learning.

SELF ASSESSMENT QUESTIONS

- i. How does organisational learning take place at the individual, group and organisation level?
- ii. How do five components of a learning organisation interact with each other?

1.5 COLLECTIVE LEARNING

Collective learning is essential for harnessing the potential of human intelligence. Human intelligence in the organisation is synergised through collective learning. It is a process of effective people interacting, understanding and overcoming weaknesses in each other's thoughts and developing a collective thought which is more rational, consistent, harmonised, and shared by all. Collective learning requires all the participants in the interaction process to be sensitive to all the possible forms of incoherence. Incoherence may be revealed as contradictions or confusion.

Senge (1990) used the term dialogue specifically in place of interaction and revealed that David Bohm identified three primary conditions essential for dialogue in his epitomised book, *The Fifth Discipline: The Art & Practice of The Learning Organisation*. These conditions facilitate the free flow of meaning among the groups by weakening resistance to the flow. These conditions are:

- i. **All participants must "suspend" their assumptions.** Suspend here refers to just holding the assumptions and not suppressing or avoiding or throwing them out. Rather it is about being aware of our assumptions and holding them up for examination.
- ii. **All participants must regard each other as colleagues.** Seeing each other as colleagues is important as it encourages deeper understanding and clarity that is required in collective thinking. It sets a positive tone for the dialogue, to begin with. Moreover, with the progress in the dialogue, a feeling of friendship develops among the participants that will smoothen the dialogue process. Furthermore, treating each other as colleagues recognises the shared risk and create a sense of security in facing it. Collegueship does not imply that one must agree or hold similar viewpoints. Collegueship will create space for differences as well.
- iii. **There must be a "facilitator" who "holds the context" of dialogue.** Many times dialogue get deviated from its purpose in the absence of a skilled facilitator. It is more evident in the early phase of developing dialogue as a team discipline. The facilitator helps the participants to maintain ownership of the process and the outcomes. It is the facilitator's responsibility to keep the dialogue moving while not

acting as an expert so that attention is not diverted away from the team members and their ideas and responsibilities.

SELF ASSESSMENT QUESTIONS

- i. What are the essentials of effective collective learning
- ii. How collective learning is related to the learning organisation.

1.6 SUMMING UP

Retention and Talent Management has immense potential to be used as a source of competitive advantage. Strong retention and talent management strategy will help in attracting and retaining the best talents of the industry. This will ensure the organisation remains ahead in the competition than the challengers in the market. However, transforming the competitive edge into a sustained competitive advantage requires countering different challenges. Answers to different challenges lie in the proper identification of such challenges and countering them differently. In other words, different problems require different but appropriate solutions.

Learning is an important concept relevant to any organisation. Every organisation learns with experiences and reflects the characteristics of organisational learning. While learning organisation is a deliberate attempt to transform the organisation into a learning organisation. It represents a type of organisation that continuously strives for learning. Collective learning is one of the important characteristics of the learning organisation. It helps in synergizing individual intelligence in an organisation.

CHECK YOUR PROGRESS

- i. What do you understand by Retention Strategy? Why is it significant for any organisation in a competitive environment?
- ii. Elaborate upon challenges to Retention Strategy as a source of sustained competitive advantage.
- iii. Define Talent Management. Why Talent Management is attracting attention from Competitive organisations.
- iv. Highlight the challenges to Talent Management as a source of sustained competitive advantage.
- v. Explain the process of organisational learning?
- vi. How learning organisation is different from organisational learning?
- vii. Describe the elements of a learning organisation.
- viii. What are the three essentials for effective dialogue concerning collective learning in an organisation?

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BLOCK II : Unit-1

Performance Management- Strategies- An Overview

Unit Structure:

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Meaning of Performance Appraisal
- 1.4 Importance of Performance Appraisal
- 1.5 Performance Evaluation Methods
- 1.6 Summary
- 1.7 Model Questions
- 1.8 References and suggested readings
- 1.9 Answers to check your progress

1.1 Introduction

Performance appraisal is most significant tool of an organisation. It helps in planning for employees' career planning and making decision regarding various aspects such as promotion, training programme, transfer etc. it is important tool for personnel management. It is an effective tool for rating personnel by supervisors and helps them in self- assessment. Better employer- employee relation is maintained through mutual confidence.

1.2 Objectives

This unit is an attempt to analyse the ideas of performance appraisal and various techniques to measures performance of employees in the organisation. After going through this unit, you will be able to-

- a. Meaning and importance of performance appraisal
- b. Performance appraisal methods

1.3 Performance Appraisal

Performance appraisal is an important aspect in human resource management. It is necessary to evaluate the employees' performance after training and motivation. Management finds out the effectiveness of employees through performance appraisal. Three steps are involved in performance – a) Define the job, b) Appraise the performance, c) Feedback to the employees. As per Heyel, "It is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed, for purpose of administration including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the members of a group as

distinguished from actions affecting all members equally.’’ The word performance appraisal is interchangeably used as employee assessment, personal review, merit rating etc.

Prof. Beach showed the changes in the terminology of Employee Appraisal since 1920-

Item	Former Emphasis	Present Emphasis
Terminology	Merit Rating	Employee Appraisal Performance Appraisal
Purpose	Determine qualifications for wage increase, transfer, promotion and lay off	Development of the individual; improved performance on the job; and provide emotional security.
Application	For hourly-paid workers	For technical, professional, and managerial employees
Factors Rated	Emphasis on personal traits	Results, accomplishments, performance
Techniques	Rating scales with emphasis upon scales, statistical manipulation of data for comparison purposes	Mutual goal-setting, critical incidents; group appraisal; Performance standards; less quantitative
Post-Appraisal Interview	Superior communicates his rating to employee and tries to sell his evaluation to him; seeks to have employee conform to his view.	Superior stimulates employees to analyse himself and set own objectives in line with job requirements; superior is helper and counsellor

1.4 Importance of Performance Appraisal-

McGregor says, Formal performance appraisal plans are designed to meet three needs, one of the organisations and the other two of the individuals, namely:

- i) Provide systematic judgements for increase of salary, transfers, demotions or terminations.
- ii) Guiding a subordinate in performing their work, helping them by sharing knowledge, skills or maintaining attitude towards a given task.
- iii) Superior often coach their subordinate in overall increase of their productivity.

According to Cummings, “the overall objective of performance appraisal is to improve the efficiency of an enterprise by attempting to mobilise the best possible efforts from individuals employed it in. such appraisals achieve four objectives including the salary reviews, the development and training of individuals, planning, job rotation and assistance promotions.’’

As per Levinson, performance appraisal has three functions-i) it seeks to provide adequate feedback to each individual for his or her performance,ii) it purports to serve as a basis for improving or changing behaviour towards some more effective working habits, iii) it aims at

providing data to managers with which they may judge future job assignment and compensation.

Stop to consider

- “It is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed, for purpose of administration including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally.”

- Importance of Performance Appraisal-

McGregor says, Formal performance appraisal plans are designed to meet three needs, one of the organisations and the other two of the individuals, namely:

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ii) Guiding a subordinate in performing their work, helping them by sharing knowledge, skills or maintaining attitude towards a given task.

iii) Superior often coach their subordinate in overall increase of their productivity.

Check your progress

Question 1- write the concept of performance appraisal.

Question 2- explain the importance of performance appraisal.

1.5 Performance Evaluation methods-

1. Assessment Centre- The concept of Assessment Centre was applied to military situations by Simoniet in the German Army in the 1930s and the War Office selection Board of the British Army in the 1960s. It is used for top levels of management position for development of the organisation. It determines the needs of training and development of employees. Human resource planning information can be provided more accurately through this assessment centre. The candidates are tested in a social situation with number of assessors and various procedures. Many evaluators join together for judging the performance of employees by using variety of criteria under several situation. For successful use of assessment centre proper emphasised should be made on clear statement of goals, top management, job analysis, assessor training and programme audit and evaluation.

2. Management By Objectives (MBO)- Peter Drucker evolved the concept of MBO. It is described as, “ a process whereby the superior and subordinate manager of an organisation jointly identify its common goals, define each individual’s major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contributions of each of its members.”

McGregor points out, “under proper conditions, participation and consultative management provide encouragement to people to direct their creative energies toward organisation

objectives, give them some voice in decisions which affect them, and provide sufficient opportunities for satisfaction of social, egoistic and self-fulfilment needs.’’

Objectives of MBO-

- a) MBO increases motivation of employees as it increases the understanding of goals by the employees in the organisation.
- b) MBO helps in early identification of problems as frequent performance evaluation helps in quick problem identification and also solving it.
- c) MBO helps in planning, counselling, motivating, evaluating for the managers. Managers learn to respond positively in the changing environment.
- d) MBO identifies the deficiency of the employee’s performance and enables the managements to set individualised self-improvement goals.
- e) MBO helps in reducing conflict and ambiguity in the organisation.

3. 360 Degree Performance Appraisal- Under this method the feedback of employee’s performance is collected from superiors, subordinates, peers and other group related with the employees. This feedback will help in designing training and development programme for the employees in the organisation. On the basis of some common features the feedback is collected. Individuals are surveyed by supervisors, subordinates and peer group and at the end the feedbacks are compiled and the person is rated. the

4. Checklist- Under this method, performance of employee is not evaluated by the rater,; reports about the performance is supplied and personnel department rate the final performance. The concerning employee is presented a series of questions on the basis of his behaviour. The rater checks the answer to indicate whether the employee is positive or negative. An example of checklist is given below-

- a) is the employee really interested in his job? Yes/No
- b) is he regular on his job? Yes/No
- c) Does he maintain discipline on his job? Yes/No
- d) Does he respect his superiors? Yes/No
- e) Is he always willing to help other employees? Yes/No
- f) Does he follow superior instructions properly? Yes/NO
- g) Is he respected by his subordinate? Yes/No

5. Grading Method- The rater considers certain factors and rate them on the basis of those factors on a scale. The factors may be like- analytical ability, self-expression, job knowledge, judgement, leadership, co-cooperativeness, organising ability etc. The scaling may be like- A

– outstanding, B- very good, C- good, D- fair, E- poor etc. The employee’s performance is compared and then grading is allotted on the basis of his performance.

6. Paired Comparison Method- Under this technique, every employee is compared with other employee for every trait one at a time. It becomes easy to judge and a simple method to rank the employee. When the individual is compared with another employee each time it is tallied in a paper and these numbers yield the rank order of the entire group. For example, there are five employees to be compared, first A’s performance is compared to B’s and better performance is judged between them. Then A is compared to C, D, E. Then B ‘s performance will be compared with other employees. A similar comparison will be made in respect of other personnel. Thus, at the end of comparison, arrive at ten decisions, and only two are involved in each decision. The number of decisions is determined by the formula $N(N-2)$, N represents the number of persons to be compared.

For large group, this method is not suitable, the judgements numbers become excessively large.

FOR THE TRAIT “QUALITY OF WORK”

Person rated

As compared to	A	B	C	D	E
A		+	+	-	-
B	-		-	-	-
C		+		+	-
D	+	+	-		+
E	+	+	+		-

FOR THE TRAIT “CREATIVITY”

Person rated

As compared to	A	B	C	D	E
A		-	-	-	-
B	+		-	+	+
C	+	+		-	+
D	+	-	+		-
E	+	-	-	+	

Fig – Ranking Employee by Paired Comparison Method

7. Forced Choice Description Method-This, method was evolved after military service during World War II. This method was developed to maintain a correct approach for rating the employees. It calls for objective reporting and minimise subjective judgement. The rating

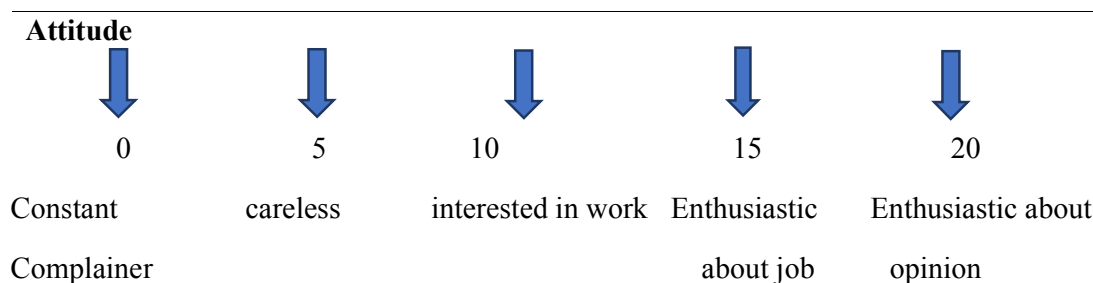
elements are several set of pair phrases related to the personal qualification and proficiency of the job. The rater is asked to indicate most and least descriptive four phrases of the employee.

The statements are like following-

- a) good organiser,
- b) is punctual and careful,
- c) is hard worker and co- operative,
- d) is dishonest and disloyal
- e) lack of ability in organising,
- f) is disinterested in work
- g) little effort and individual instruction.

Two of the above statements are relatively favourable and other two are relatively unfavourable. Plus, credit is given to favourable terms and unfavourable items get no credit. The employee gets plus credit if one of the negative phrases is checked as being least characteristics. Under this method, the rater is not able to introduce personal bias or halo effect as only one of the favourable and of the unfavourable phrases in each series is related to success or failure on the job.

8. Graphic or Linear Rating Scale- Walter D Scott introduced this technique of rating subordinates by the superior. The rating is done on the basis of characteristics of employees and their contribution to the organisation. Employee characteristics such as leadership quality, co- cooperativeness, loyalty, co- ordination, organising ability, attitude, decisiveness, creative ability, analytical ability, emotional ability etc. employee’s contribution includes- quality and quantity of work, responsibility assumed, punctuality, attitude towards superior and subordinate, goals achieved etc. these traits are evaluated on a continuous scale.



Stop to consider

- Management By Objectives (MBO)- Peter Drucker evolved the concept of MBO. It is described as, “a process whereby the superior and subordinate manager of an

organisation jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contributions of each of its members.'''

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- **Assessment Centre-** The concept of Assessment Centre was applied to military situations by Simoniet in the German Army in the 1930s and the War Office selection Board of the British Army in the 1960s. It is used for top levels of management position for development of the organisation. It determines the needs of training and development of employees. Human resource planning information can be provided more accurately through this assessment centre. The candidates are tested in a social situation with number of assessors and various procedures.

Check your progress

Question 3- Explain the various methods of performance Appraisal.

1.6 Summary- Performance appraisal is an important aspect in human resource management. It is necessary to evaluate the employees' performance after training and motivation. The criteria for evaluating performance are quality, quantity, timeliness, cost effectiveness, supervision, interpersonal impact and training.

1.7 Model Questions-

1. Define performance appraisal.
2. give the importance of performance appraisal.
3. Define MBO. Explain the importance of MBO.
4. Explain Graphic or Linear Rating Scale and Paired Comparison Method of performance evaluation.

1.8 References and suggested readings-

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1.9 Answers to check your progress

Question no 1 Ans- Performance Appraisal- Performance appraisal is an important aspect in human resource management. It is necessary to evaluate the employees' performance after training and motivation. Management finds out the effectiveness of employees through performance appraisal. Three steps are involved in performance – a) Define the job, b) Appraise the performance, c) Feedback to the employees. As per Heyel, "It is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed, for purpose of administration including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally." The word performance appraisal is interchangeably used as employee assessment, personal review, merit rating etc.

Question no 2 Ans- McGregor says, Formal performance appraisal plans are designed to meet three needs, one of the organisations and the other two of the individuals, namely:

- i) Provide systematic judgements for increase of salary, transfers, demotions or terminations.
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According to Cummings, "the overall objective of performance appraisal is to improve the efficiency of an enterprise by attempting to mobilise the best possible efforts from individuals employed it in. such appraisals achieve four objectives including the salary reviews, the development and training of individuals, planning, job rotation and assistance promotions."

As per Levinson, performance appraisal has three functions-i) it seeks to provide adequate feedback to each individual for his or her performance, ii) it purports to serve as a basis for improving or changing behaviour towards some more effective working habits, iii) it aims at providing data to managers with which they may judge future job assignment and compensation.

Question no 3 Ans- 1. Assessment Centre- The concept of Assessment Centre was applied to military situations by Simoniet in the German Army in the 1930s and the War Office selection Board of the British Army in the 1960s. It is used for top levels of management position for development of the organisation. It determines the needs of training and

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3.Checklist- Under this method, performance of employee is not evaluated by the rater, ; reports about the performance is supplied and personnel department rate the final performance. The concerning employee is presented a series of questions on the basis of his behaviour. The rater checks the answer to indicate whether the employee is positive or negative. An example of checklist is given below-

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- f) Does he follow superior instructions properly? Yes/NO
- g) Is he respected by his subordinate? Yes/No

4.Grading Method- The rater considers certain factors and rate them on the basis of those factors on a scale. The factors may be like- analytical ability, self- expression, job knowledge, judgement, leadership, co- cooperativeness, organising ability etc. The scaling may be like- A – outstanding, B- very good, C- good, D- fair, E- poor etc. The employee’s performance is compared and then grading is allotted on the basis of his performance.

BLOCK II : Unit-3

Seniority VS Merit based promotion, Leadership, Critical Role in managing conflict inside the organisation

Unit Structure:

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Meaning of Promotion
- 3.4 Purpose of Promotion
- 3.5 Promotion Policy- Seniority Vs Merit based
- 3.6 Meaning of Leadership
- 3.7 Characteristics of Leadership
- 3.8 Importance of Leadership
- 3.9 Qualities of a leader
- 3.10 Types of leadership style
- 3.11 Role of leader in managing conflict
- 3.12 Summary
- 3.13 Model questions
- 3.14 References
- 3.15 answers to Check your progress

3.1 Introduction

Promotion is the way of promoting the employees to a higher level with increase in status, duties and responsibilities. Promotion increases morale and loyalty of an employee which increase satisfaction level of employee. Organisation adopt two types of policy for promotion of employees. The traditional method is based on seniority basis. Another policy adapted by organisation is on the basis of merit. For recognising merit, organisation should adapt scientific way of evaluating performance of the employees.

3.2 Meaning of Promotion

Organisation can make changes in the workforce through promotion. Promotion is the way of promoting the employees to a higher level with increase in status, duties and responsibilities. Individuals are relocated in other jobs or department or jobs can be regrouped. Career planning is done by promotion and transfer of employees. Three formal policy- promotion,

transfer and separation are applied for providing flexibility in the work force. Promotion will make new ambitious employees anxious.

Promotion brings greater responsibilities, higher pay, better service opportunities, higher status. Promotion is advancement of employees to upward which will promote employees to a higher level in another position in an organisation. Promotion increases morale and loyalty of an employee which increase satisfaction level of employee.

3.3 Objectives

This unit is an attempt to analyse the ideas of promotion and role of leadership in an organisation. After going through this unit you will able to know-

- a. Promotion- Meaning, Purpose, Promotion Policy (Seniority Vs Merit based)
- b. Leadership- Meaning, Characteristics, importance, qualities of a leader, types of leadership style
- c. Role of leader in managing conflict

3.4 Purpose of Promotion

Promotion promotes morale, increase efficiency and provide opportunity for better production. Following are the purpose of promotion-

1. With promotion employee will get a higher position and his personal satisfaction will increase.
2. The fear of firing from the job or fear of demotion will reduce.
3. Promotion is a way of reward for recognising performance of employees.
4. Promotion will increase employee's loyalty and organisational effectiveness.
5. Employee will feel belongingness to the organisation and morality will increase through promotion.
6. If organisation provide proper career planning to the employees, new and competent individual will get attracted towards the organisation.

Edwin B Flippo, " A promotion involves a change from one job to another that is better of status and responsibilities."

In the words of Paul Pigors and Charles Myers, " Promotion is an advancement of an employee to a better job, better in terms of greater responsibilities, more prestige or status, greater skill and specially increased rate of pay or salary."

Scott & Spriegal, " A promotion is the transfer of an employee to a job that pays more money or that enjoys some better status."

3.5 Promotion Policy-

Organisation adopt two types of policy for promotion of employees. The traditional method is based on seniority basis. Seniority refers to the length of service of an employee. Length of service means the tenure the employee contributed in the current continuous employment. This method will reduce the rate of employee turnover as if they stay long, they can get promotion to higher position with more responsibilities, status and salary. Under straight plant wise seniority oldest employee in all jobs will promoted. Under this policy employee shall attained a specific length of service for qualify for promotion. Occupational seniority may be within the department, within the division and within the entire plant. Seniority is simple and easy to operate as employees are assured of getting promotion if they continue with the current job. It will lead better labour management relation which will increase co-operation and better environment in the organisation. Seniority based system also suffers from certain limitation. If there is lack of qualified employee, this system may be ineffective. The employee need value their position in their organisation if, their performance is not appreciated, their performance may get affected.

Another policy adapted by organisation is on the basis of merit. For recognising merit, organisation should adapt scientific way of evaluating performance of the employees. Generally, trade union opposed this method of promotion. Merit system brings rewards and competency. Mew and young employees are motivated through this method and get an opportunity for advancement in the organisation. If employees are satisfied and motivated, it leads to increased productivity.

There is always a controversy on the question of whether promotion should be on the basis of seniority or merit. Trade union prefer seniority-based promotion, while management prefer promotion on the basis of merit. It is important to use most effective promotion policy for organisation training period, previous work history, hard work, honesty, co-operation are influencing factors which should give due internet while selecting promotion policy.

Stop to Consider

- Promotion is advancement of employees to upward which will promote employees to a higher level in another position in an organisation. Promotion increases morale and loyalty of an employee which increase satisfaction level of employee.
- The purpose of promotion-
 1. with promotion employee will get a higher position and his personal satisfaction will increase.
 2. the fear of firing from the job or fear of demotion will reduce.
 3. promotion is a way of reward for recognising performance of employees.

Check Your Progress

Question 1. Write the meaning of promotion.

- Question 2. State four purpose of promotion
- Question 3. State two advantages of seniority-based promotion.
- Question 4. Write two advantages of merit-based promotion.

Self -Asking Question

Question 1 – Explain the promotion policy adopted by Tata Group in India

3.6Leadership- According to Keith Davis, ” Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goals.”

According to Stoner et al, ” Management leadership is the process of directing and influencing the task related activities of group of members.”

Wehrich and Koontz defined leadership as, ” Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals.”

Thus, leadership is the art to influence behaviour, activities and attitudes of people in achieving the goals of the organisation.

3.7Characteristics of leadership- The characteristics of leadership are discussed below-

1. Quality- of leader- Personal quality of a leader is very important to influence the people in accomplishing objectives of the organisation. Barnard stated that, “ Leadership is the quality of behaviour of individuals whereby they guide people or their activities.”
2. Leadership depends on acting- The success of leadership depends on performance in the organisation. According to Peter Drucker, “ Leadership has little to do with leadership qualities and even less to do with ‘Charisma’. It is mundane, unromantic and boring. It is work. Its essence is performance.”
3. Followers- There is no existence of a leader without followers. According to Koontz and O’ Donnell, ” the essence of leadership is followership. It is the willingness of people to follow that makes a person a leader.”
4. Common goals- Leadership is the art and ability to influence the behaviour, activities and attitudes of people to achieve common organisational goals. Terry and Franklin stated that, ” It is the activity of influencing people to strive willingly for mutual objectives.”
5. continuous process- leadership is the continuous process of influencing behaviour and attitudes of people to achieve common organisational goals. Two-way free flow communication is encouraged between group members.
6. formal and informal- The style of leadership can be formal and informal. It is flexible and dynamic process.

3.8 Importance of leadership- leadership is a dynamic process that influence in accomplishment of objectives in an effective manner. Newstorm and Keith Davis, " Without leadership, an organisation would be only a confusion of people and machines, just as an orchestra without a conductor would be only musicians and instruments. The orchestra and all other organisations require leaders to develop their precious assets to the fullest."

1. Motivates and inspires- according to Terry and Franklin, " Leaders trigger a person's 'will to do', show the way and guide group members towards group accomplishment."

2. Boost morale- according to Terry, " Leadership triggers a person's 'will to do', and transforms lukewarm desires for achievements into burning passions for successful accomplishment."

3. Potentiality into reality- According to Newstorm and Keith Davis, " leadership is the catalyst that transforms potential into reality."

4. Proper use of human resources- According to Peter F. Drucker, " leadership can lift man's vision to higher sights, raise man's standard to higher performance and build man's personality beyond his normal limitations."

5. Facilitate changes- according to Gordon, " In a world of change and uncertainty, business leader becomes a vital element in the very process of change itself."

6. Success of enterprises- according to McFarland, " Administrative leadership is vital to the survival and effectiveness of organisation." Glover rightly pointed that, " most failure of business concerns is attributable to poor leadership than to any other cause."

7. Better work environment- Albanese stated, " Leadership is necessary in organisations in order to create work environments that are productive and satisfying for human beings."

8. Resolve conflicts- leaders play important role in resolving conflicts within the organisation. Leaders can influence the behaviour and activities of group members. There is need not be formal relationship between the leader and his followers.

3.9 Leadership Qualities- According to Ordway Tead, leader possess some qualities such as- a. Physical and nervous energy, b. enthusiasm, c. sense of purpose and direction, d. technical mastery, e. integrity, f. technical skills, g. friendliness and affection, h. decisiveness, i. intelligence, j. faith

Terry and Franklin identified the following quality necessary to become leader- a. energy, b. emotional stability, c. knowledge of human relation, d. personal motivation, e. communication, f. teaching ability, g. social skills, h. technical competence.

Robert L. Katz identified the following qualities - a. technical skills, b. human skills, c. conceptual skills.

3.10 Types of leadership style-leadership style is the general way or pattern of behaviour of a leader towards his followers in order to influence their behaviour for achieving organisational goals.

1. Autocratic Leadership- Autocratic leaders centralise power and all decisions are made by himself. Followers are expected to follow the leaders without any questions. Following are the characteristics of autocratic leaders-

1. Each and every decisions are made by the leader himself.
2. The leader centralise the power in his hand.
3. He expects to be obeyed by the followers without any questions.
4. One way communication is motivated with the subordinates.
5. Close supervision and control over the follower's group is exercised by the leader.

2. Democratic Leadership- democratic leaders decentralise power and authority. Subordinates are given opportunity to involve in decision making process. Two- way communication is encouraged between leaders and subordinates. The features of democratic leadership are as follows-

1. The leader decentralise authority.
2. Subordinates are involved in decision making process.
3. Two- way free flow communication is encouraged.
4. The leader motivates group members through positive way/rewards.
5. He leads by mutual consent.
6. It encourages cooperation between leader and his subordinates.
7. It leads to higher productivity and reduce employee turnover, absenteeism and dissatisfaction.

3. Free- rein leadership-Under this style of leadership subordinates are given high degree of freedom in their operation. It depends on nature of subordinates. Leader completely delegates authority and decision-making process to subordinates and they can make own procedures, plans to achieve objectives. This technique is applicable when subordinates are highly competent, motivated and trained. The leader is passive but intervenes during the crisis. This style of leadership helps subordinates to develop independently and make their own decision by themselves.

4. Paternalistic Leadership- the leader performs the role of a father for his subordinates. He guides, helps and encourages subordinates to achieve the objectives as a member of the family. Personal communication is maintained with the subordinates. The leader is authoritarian in nature. Job security is felt by the subordinates. The problems and conflicts are solved sympathetically like elder member.

Stop to consider

- The characteristics of leadership are discussed below-

1. Quality- of leader- Personal quality of a leader is very important to influence the people in accomplishing objectives of the organisation. Barnard stated that, " Leadership is the quality of behaviour of individuals whereby they guide people or their activities."

2. Leadership depends on acting- The success of leadership depends on performance in the organisation. According to Peter Drucker, " Leadership has little to do with leadership qualities and even less to do with 'Charisma'. It is mundane, unromantic and boring. It is work. Its essence is performance."

3. Followers- there is no existence of leader without followers. According to Koontz and O' Donnell," the essence of leadership is followership. It is the willingness of people to follow that makes a person a leader."

- Importance of leadership-

1. Motivates and inspires- according to Terry and Franklin," Leaders trigger a person's 'will to do', show the way and guide group members towards group accomplishment."

2. Boost morale- according to Terry," Leadership triggers a person's 'will to do', and transforms lukewarm desires for achievements into burning passions for successful accomplishment."

3. Potentiality into reality- According to Newstorm and Keith Davis," leadership is the catalyst that transforms potential into reality."

- Leadership Qualities-

Terry and Franklin identified the following quality necessary to become leader-a. energy ,b. emotional stability, c. knowledge of human relation ,d. personal motivation, e. communication ,f. teaching ability ,g. social skills, h. technical competence.

- Types of leadership style-

1. Autocratic Leadership
2. Democratic Leadership
3. Free- rein leadership
4. Paternalistic Leadership

Check your progress

Question5. Write the types of styles of leadership.

Self- Asking Question

Question 2- " leadership is the process by which an executive directs, guides and influences the work of others." Discuss.

Question 3- " A good leader may not necessarily be a good manager, but an effective manager should possess several qualities of a good leader." Discuss this statement.

3.11Role of leader in managing conflict- leadership can lift man's vision to higher sights, raise man's standard to higher performance and build man's personality beyond his normal

limitations (Peter F. Drucker). In day-to-day life leaders have to deal with conflict. The leaders need to identify the sources of conflict. Diagnosing the conflict can be done by assessing the situation. It is important to not avoid the issue and make attempts to minimise conflict in the organisation. It is not always expected that the decision of leader will be always accepted by followers. The leader must gather information, develop their own awareness and try to resolve conflict organisational goals can be achieved by managing conflict and leaders must develop skill for management of conflict in the workplace through self-awareness, respect to others, effective communication.

Ty Howard, " Apart of effective leadership is caring for and supporting one another, even when there is conflict or a difference of opinion." Leadership is the ability to inspire trust, build relationship, encourage followers, leaders can turn conflict into positive opportunities and towards achieving goals. Leaders can convince the followers easily and introduce change by showing them the positive effects of it. Leaders can play crucial role in resolving conflicts in the organisation. The interest of group members in the organisation can be harmonise for resolving the conflict in the organisation.

3.12 Summary- leadership is a dynamic process that influence in accomplishment of objectives in an effective manner. leadership style is the general way or pattern of behaviour of a leader towards his followers in order to influence their behaviour for achieving organisational goals. The leader must gather information, develop their own awareness and try to resolve conflict organisational goals can be achieved by managing conflict and leaders must develop skill for management of conflict in the workplace through self-awareness, respect to others, effective communication.

3.13 Model questions-

1. Give the meaning of promotion. Explain the purpose of promotion.
2. Write different types of promotion policy followed by an organisation.
2. Write the importance of leadership in an organisation.
3. Explain the styles of leadership with examples.
4. State the four main qualities of a successful leader.
5. Explain the role of leaders in managing conflicts in an organisation.

3.14 References

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3.15 Answers to check your progress

Question no 1 Ans- Promotion is advancement of employees to upward which will promote employees to a higher level in another position in an organisation. Promotion increases morale and loyalty of an employee which increase satisfaction level of employee.

Question no 2 Ans- Purpose of Promotion- promotion promotes morale, increase efficiency and provide opportunity for better production. Following are the purpose of promotion-

1. With promotion employee will get a higher position and his personal satisfaction will increase.
2. The fear of firing from the job or fear of demotion will reduce.
3. Promotion is a way of reward for recognising performance of employees.
4. Promotion will increase employee's loyalty and organisational effectiveness.

Question no 3 Ans- Seniority is simple and easy to operate as employees are assured of getting promotion if they continue with the current job. It will lead better labour management relation which will increase co-operation and better environment in the organisation.

Question no 4 Ans- Merit system brings rewards and competency. Mew and young employees are motivated through this method and get an opportunity for advancement in the organisation. If employees are satisfied and motivated, it leads to increased productivity.

Question no 5 Ans-

1. Autocratic Leadership- Autocratic leaders centralise power and all decisions are made by himself. Followers are expected to follow the leaders without any questions. Following are the characteristics of autocratic leaders-

1. Each and every decisions are made by the leader.
2. The leader centralise the power in his hand.

2. Democratic Leadership- democratic leaders decentralise power and authority. Sub ordinates are given opportunity to involve in decision making process. Two- way communication is encouraged between leaders and subordinates. The features of democratic leadership are as follows-

1. The leader decentralise authority.
2. Sub ordinates are involved in decision making process.
3. Free- rein leadership- under this style of leadership subordinates are given high degree of freedom in their operation. It depends on nature of sub ordinates. Leader completely delegates authority and decision-making process to subordinates and they can make own

procedures, plans to achieve objectives. This technique is applicable when subordinated are highly competent, motivated and trained.

4. Paternalistic Leadership- the leader performs the role of a father for his subordinates. He guides, helps and encourages subordinates to achieve the objectives as a member of the family. Personal communication is maintained with the subordinates.

BLOCK 3: COMPENSATION & RETIREMENT PLANNING

UNIT 1

Unit Structure:

1.1: INTRODUCTION

1.2: OBJECTIVES

1.3.1: NATURE AND PURPOSE OF COMPENSATION MANAGEMENT

1.3.2: SIGNIFICANCE OF COMPENSATION MANAGEMENT

1.3.3: COMPONENTS OF COMPENSATION

1.3.4: APPROACHES OF COMPENSATION

1.3.5: TYPES OF COMPENSATION

1.4: THEORIES RELATED TO COMPENSATION MANAGEMENT

1.5: REPATRIATION

1.5.1: RATIONALE OF REPATRIATION

1.5.2: ISSUES IN REPATRIATION

1.5.3: THE PROCESS OF REPATRIATION

1.6: LABOUR RELATIONS IN ORGANISATIONS

1.6.1: SCOPE OF LABOUR RELATIONS

1.6.2: OBJECTIVES OF LABOUR RELATIONS

1.6.3: FACTORS AFFECTING LABOUR RELATIONS

1.6.4: CAUSES OF POOR LABOUR RELATIONS

1.6.5: EFFECTS OF POOR LABOUR RELATIONS

1.6.6: RECOMMENDATIONS FOR IMPROVING LABOR RELATIONSHIPS

1.7: SUMMARY

1.8: REFERENCES

1.9: MODEL QUESTIONS

1.1: INTRODUCTION

Keeping pace with the technological changes and meeting the needs of competitive advancement, it is very important for organisations to acquire the right pool of human resources who can contribute in enhancing the organizational performance at large. The employees should possess a wide range of skills, abilities and expertise which helps them in applying it on their jobs altogether. All the capabilities of individuals are heavily influenced by the compensation policy and structure of the organisation. To create a loyal and motivate workforce who will act as the asset of the organisation, companies of all sizes must create competitive compensation and benefits packages.

The term compensation represents the exchange between employees and organization, both gives something in return for something else. In the past, the compensation issues were often confidential and govern by individual employer's preferences and choices. However, in today's competitive world the compensation policies are more transparent and the employees take their own choices based on the compensation package. According to Flippo, "The function of compensation is defined as the adequate and equitable remuneration of personnel for their contribution to the organisational objectives." Compensation management is the act of providing monetary value to an employee for the work they do by means of a company process or policy. Some types of compensation include salary, bonuses, and benefit packages. Companies use compensation management in order to find, keep, and motivate employees to do quality work.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according to the business needs, goals, and available resources. In the words of Gary Dessler, "Employee compensation refers to all forms of pay going to employees and arising from their employment".

Compensation refers to a wide range of financial and non-financial rewards to employees for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees.

Compensation may be used to:

- ❖ Recruit and retain qualified employees.
- ❖ Increase or maintain morale/satisfaction.
- ❖ Reward and encourage peak performance.
- ❖ Achieve internal and external equity.
- ❖ Reduce turnover and encourage company loyalty.
- ❖ Modify (through negotiations) practices of unions.

The process of compensation management is to establish & maintain an equitable wage & salary structure & an equitable cost structure. It involves job evaluation, wage & salary survey, profit sharing & control of pay costs.

1.2: OBJECTIVES

This unit is an attempt to comprehend the basic notion of organisational compensation management. After completion of the unit, you should be able to:

- Understand the objective of Compensation Management.
- Describe the types, methods and approaches of Compensation, rewards, compensation structure and policy.
- Explain the definition, Meaning and Implications of Compensation
- Know the Framework of a Compensation Policy
- Analyse the repatriation process
- Examine the key issues of labour relations in an organisation

1.3: NATURE AND PURPOSE OF COMPENSATION MANAGEMENT

Compensation management's major goal is to create and maintain a fair incentive system. The construction and maintenance of an equitable compensation system, which is an optimal balancing of conflicting personnel interests where employee and employer satisfaction is maximised and disputes are avoided is the other goal. The financial aspects of needs, incentive, and rewards are all addressed by compensation management. As a result, managers assess and interpret their employees' needs so that rewards can be tailored to meet those needs. As a result, it is correct to say that people do what they do to meet some need. They look for a reward or pay-off before they do anything.

Compensation management may have one or many goals, which are frequently at odds with one another.

1. **Efficiency:** Efficiencies are measured by attempts to link a portion of a worker's pay to productivity or profit, group or individual performance, skill acquisition and application, and so on. Efficiencies can be perceived as equitable or inequitable, depending on how they are achieved.
2. **Equity:** There are three dimensions to the phrase equity. Internal equity refers to an employee's remuneration being proportional to the complexity of the job he or she is assigned. More challenging jobs should be compensated accordingly. External equity ensures that a worker is compensated fairly in contrast to other workers in the same field. Individual equity emphasizes equal pay for equal work, i.e., each person's wage is reasonable when compared to the pay of others doing the same or similar work.
3. **Retaining present employees:** The Corporation can keep its employees by paying competitively. Through strong employment numbers and low inflation, it can reduce the likelihood of employees resigning and promote employee loyalty. A too high minimum wage would have a negative influence on employment numbers, albeit at what level this effect would occur is up for debate.
4. **Efficient allocation of labour:** A successful pay and compensation administration aids in attracting skilled and dedicated employees by guaranteeing that all positions are equally compensated. It is, nonetheless, required for the organization's efficient labour allocation. This indicates that employees will relocate to wherever they gain a net gain; this movement could be from one physical location to another or from one

job to another, and it will be impacted by financial incentives offered or available. Workers may, for example, move from a labour surplus or low-wage area to a high-wage area, necessitating the development of new skills in order to benefit from the higher salaries available for skills.

5. **Reward desired behaviour:** Pay should reward desired behaviour and function as an incentive for such behaviour to happen again in the future. Performance, loyalty, experience, responsibility, and other traits are all rewarded in effective pay plans.

STOP TO CONSIDER

Compensation management's goals are to recruit, engage, and retain people by implementing competitive compensation plans that are in line with the company's budget, job market, and government rules. HR executives are critical in developing pay schemes that meet the requirements and desires of employees while also aligning with the company's strategy. Companies that provide competitive and life-enhancing compensation can increase employee motivation and improve work performance, resulting in increased corporate success.

1.3.1: SIGNIFICANCE OF COMPENSATION MANAGEMENT

A good compensation package is essential for any firm, since it gives employees an incentive to stay with the company.

- ❖ An excellent pay scheme will have a favourable impact on staff productivity and results. It will motivate staff to improve their performance and meet the set goals.
- ❖ It will improve the job evaluation process. It will also aid in the creation of an ideal work evaluation, with the established requirements being more realistic and feasible.
- ❖ A system like this should be well-defined and consistent. As a broad system, it will be applied to all levels of the organisation.
- ❖ The method should be simple and adaptable, allowing each employee to calculate his or her own remuneration. It should be simple to implement and should not result in worker exploitation.
- ❖ It will boost employee morale, productivity, and cooperation. It would offer satisfaction to the workers because it is right and fair.

CHECK YOUR PROGRESS

1. How does a fair and equitable pay scheme have an impact on staff productivity?
2. What is the role of compensation management in job evaluation?
3. How does compensation management enhance productivity of workers in an organisation?

1.3.2: COMPONENTS OF COMPENSATION

Employees receive compensation in the form of a combination of salaries, wages, and benefits in exchange for doing a certain job. It may consist of a yearly salary or hourly compensation, as well as bonuses, benefits, and incentives. Group health insurance, retirement contributions, and short-term disability insurance are examples of these. Several of these elements are generally included in a total compensation package.

1) Basic wages/salaries

The cash component of the wage structure on which additional forms of remuneration may be organized is referred to as basic wages / salaries. It is usually a set amount that is susceptible to vary based on annual increments or periodic pay increases. Wages refer to hourly rates of pay, whereas salary refers to the monthly rate of pay, regardless of the number of hours worked. Annual increments are applied to wages and pay. They vary by employee and are based on the nature of the work, seniority, and merit. The cash component of the wage structure on which additional forms of remuneration may be organized is referred to as basic wages / salaries.

2) Bonus

The bonus can be received in a variety of ways. It can be a set percentage of the annual basic wage or proportional to profitability. In addition, the government mandates a statutory minimum bonus for all employees and labourers. A bonus plan is also in place, which awards managers and employees depending on sales revenue or profit margin. Bonus schemes can also be based on piece rates; however, this is dependent on labour productivity.

3) Incentives

Incentives, sometimes known as 'payments by outcomes,' are paid in addition to wages and salaries. Productivity, sales, profit, and cost-cutting efforts are all factors that influence incentives.

There are two types of incentive schemes: (a) individual incentive schemes and (b) group incentive schemes.

Individual rewards are tied to specific employee accomplishments. When a task necessitates a cooperative effort to complete, the group as a whole is rewarded. The money is then split fairly among the members of the club.

4) Dearness Allowance

The payment of a dearness allowance enables employees and workers to cope with price increases or inflation in the goods and services they use. The assault of price increases has a significant impact on labor's living standards. The compensation is reduced to nil as prices rise, and the value of money is depreciated as inflation rises. Employees can cope with rising prices by receiving a dearness allowance, which can be a predetermined proportion of their base wage.

5) Non-monetary benefits

Even when a monetary advantage is not available, these perks provide psychological happiness to employees. Benefits include:

- i. Merit recognition by certificate, etc.
- ii. Providing challenging job tasks,
- iii. promoting career opportunities,

iv. Providing pleasant working circumstances

6) **Commission**

Managers and staff may be paid commissions based on the company's sales income or profitability. It's always a set proportion of the goal reached. Commission is once again a taxable component of compensation for tax purposes.

7) **Piece Rate wages**

In the Labour industry, piece rate pay is common. The labourers are given a pay for each quantity they create. The labor's gross earnings would be equal to the number of things they created. Piece rate wages boost productivity and are an absolute measure of productivity in relation to the wage structure. Compensation equity is solely determined by productivity, not by any qualitative factors.

8) **Mixed plan**

Employees and others may be paid a combination of wages and commissions by companies. This strategy is known as a combination or mixed strategy. Employees may be entitled for a specified percentage of commission in addition to their wages if they meet a specific sales or profit target.

9) **Fringe benefits**

Employees receive a wide range of benefits and services as part of their complete compensation package, which are known as fringe benefits. They are based on key job characteristics and performance. Fringe benefits are paid to employees in addition to their normal salaries at the expense of the business. Benefits such as paid vacation, pensions, health and insurance plans, and so on are included. Such benefits can be calculated in monetary terms, and the quantity of the benefit is usually not predetermined. Fringe benefits are intended to keep efficient and capable employees in the organisation for a long time.

10) **Profit sharing**

Profit sharing is seen as a first step toward industrial democracy. Employees receive a pre-determined percentage of profits under a profit-sharing agreement. Profit-sharing usually entails calculating an organization's profit at the end of the fiscal year and distributing a percentage of the profits to employees who are eligible to participate in the profits.

STOP TO CONSIDER

Compensation structure refers to the pattern or breakdown of the wage provided to employees in a given firm. While defining an employee's remuneration structure, other areas such as biology and psychology, in addition to mathematics, play a significant impact. Biology, the expansion of one portion of an organism or organ to compensate for the loss or dysfunction of another. Behavior that develops either consciously or unconsciously to compensate for a genuine or imagined lack, such as in personality or physical aptitude, is referred to as psychology. As a result, we can see that compensation management is an important aspect of labour market features for attracting skilled people.

SELF-ASKING QUESTIONS

- a) What are the factors that the employers need to consider while planning for bonus and incentives for employees?
- b) Explain the structure of mixed plan.
- c) How can the recruiters use non-monetary incentives as a tool for attracting the labour force in the organisation?
- d) Why is the provision of fringe benefits essential in an organisation?
- e) Explain the mechanism involved in setting piece rate wages?

1.3.3: APPROACHES OF COMPENSATION

Core compensation principles should find a balance between paying in a way that is outwardly competitive and internally equitable for the majority of firms. However, there are many different perspectives on what constitutes fairness. As a result, achieving clarity and agreement among key stakeholders on how the company should pay its employees is crucial.

There are two basic approaches to determine the international compensation package:

➤ GOING RATE APPROACH

This is based on current market rates in the area. It is based on pay package comparisons of local nationals, expatriates of the same nationality, and expatriates of all nationalities. Compensation is based on the specified survey comparison in this technique. Additional compensation for low-wage countries may be added to the base pay and benefits. The compensation plan should be in line with the company's overall goals. Compensation planning should be a part of your overall financial strategy.

➤ BALANCE SHEET APPROACH

The Balance Sheet Approach to foreign pay is a strategy that aims to equalize the spending power of individuals in equivalent positions living overseas and in their home country, as well as to give incentives to compensate for qualitative disparities between assignment locations. International organisations frequently utilize the balance sheet approach to determine expatriate compensation packages. The primary goal is to maintain the home country's living standards while also providing financial incentives.

1.3.4: TYPES OF COMPENSATION

Some of the types of compensation given to employees are:

I. Direct compensation

1. Basic salary

Salary is the money paid to an employee in exchange for the labour he or she has done for a set period of time, such as a day, a week, or a month. It is the compensation that an employee receives from his or her company for providing services.

2. Conveyance

Employees are provided with cab services by their employers. Few companies also provide vehicles and fuel allowances to their staff as a kind of motivation.

3. **House rent allowance**

Organizations either give housing or provide house rent allowances to their employees who come from distant states or countries.

4. **Leave Travel Allowance**

These stipends are given in order to keep the finest employees in the company. Employees are provided allowances to take their families to any location they like. The allowances are tiered according to the employee's status within the company.

5. **Bonus**

Employees are given bonuses over the holiday season to stimulate them and provide them with social security. In most cases, the bonus is equal to one month's compensation for the employee.

6. **Special Allowance**

Employees are given special allowances like as overtime, mobile allowances, food, commissions, travel costs, lower interest loans, insurance, and club memberships, among other things, to offer social security and motivate them, hence improving organizational efficiency.

II. Indirect Compensation

1. **Leave Policy**

Employees have the right to take as much time off as they need while working for the company. Paid leaves, such as casual leaves, medical leaves (sick leave), and maternity leaves, as well as statutory compensation, are provided by the organisations.

2. **Hospitalization**

Employees should be given allowances to have regular physicals, say once a year. Even their dependents should be able to get the Medi-claims that give them with emotional and social stability.

3. **Overtime Policy**

Employees should be supplied with suitable allowances and facilities during their overtime, such as transportation, overtime pay, and so on, if they happen to work overtime.

4. **Leave Travel**

Employees are given time off and travel allowances to spend with their families during the holidays. Some organisations organize a tour for their personnel. This is frequently done to relieve stress among staff.

5. **Insurance**

Employees are also covered by accident and life insurance provided by their employers. This provides them with emotional stability and makes them feel valued within the organisation.

6. **Retirement benefits**

Organizations establish pension schemes and other perks for their employees, which benefit them after they retire at a certain age.

7. **Holiday Homes**

Organizations provide pension schemes and other perks to their employees that benefit them after they retire at a certain age.

8. Flexible Timings

Employees who are unable to work during typical shifts due to personal problems or valid reasons are given flexible scheduling options by their employers.

CHECK YOUR PROGRESS

1. Distinguish between direct compensation and indirect compensation.
2. How is conveyance different from leave travel allowance?
3. What are the various retirement benefits provided to the employees?
4. What is social security?
5. Explain the process of leave policy.
6. Define the term 'statutory compensation'.

1.4: THEORIES RELATED TO COMPENSATION MANAGEMENT

A good conceptual framework, or theory, is essential to explain what sorts of compensation systems are most likely to be effective, and how their efficacy varies depending on situational factors including corporate strategy, national culture, competitive climate, and personnel characteristics. In reality, there is currently no grand compensation theory that incorporates these contingency aspects. When considering the repercussions, it's important to remember that efficiency is a multifaceted notion that might include, at the very least, cost, productivity, innovation, quality, finance, and attitude dimensions. In addition, the relative relevance of these characteristics will differ amongst organisations and business divisions. Theories have been utilised to explain how pay plans can be used to excite, direct, and manage employee behaviour at the individual level of study. The following are some of the most important compensation theories.

1. Traditional Theory of Wage Determination

According to this idea, salaries are determined by market forces such as demand and supply. Because computer programmers are in low supply, they can command higher pay.

2. Theory of Negotiated Wages

Employees who are members of a union have the ability to bargain for better pay. This is done through the normal collective bargaining procedure in any organisation; unions send memorandums to management on a regular basis, requesting wage increases to stay up with market standards and organisational profitability. Then, in a collective bargaining conference attended by unions and management nominees, wages are negotiated.

3. Subsistence Theory

The Subsistence Theory was promoted by David Ricardo. The first economic wage theory was built on the foundation of Thomas R. Malthus' population theory. According to the idea, population is constrained by means of subsistence: it grows geometrically while means of subsistence grow arithmetically. Malthus' thesis was converted into the wage subsistence theory by David Ricardo. According to this hypothesis, salaries eventually tend to match the cost of reproducing labour, or the labourer's subsistence. This idea, known as the iron law of wages, stated that little could be done to better the plight of wage earners because raising salaries only increased the number of workers beyond subsistence levels.

4. **Wage Fund Theory**

The wages-fund theory was a short-term variation of classical wage theory. This hypothesis explained short-term changes in the general wage level in terms of the number of available employees and the size of the wages fund, according to John Stuart Mill. The salaries fund was supposed to be derived from resources acquired by employers over the years and allocated by them to purchase labour in the present. For the payment of salaries, employers were assumed to have a fixed stock of "circulating capital."

5. **Surplus Value Theory**

Karl Marx is responsible for the creation of the surplus value theory of wages. According to this notion, labour was a commodity that could be acquired for the 'subsistence price.' The cost of anything was defined by the amount of labour and the amount of time it took to produce it. The labourer was not paid in accordance to the amount of time spent on the job; instead, he was paid significantly less, with the surplus going toward other expenses.

6. **Residual Claimant Theory**

The Residual Claimant Theory advocated by Francis Walker assumes that there are four factors of production/business activity-land, labour, capital, and entrepreneurship. Wages represent the amount of value created in the production, which remain after payment has been made for all these factors of production. In other words, labour is the residual claimant.

7. **Marginal Productivity Theory**

Francis Walker's Residual Claimant Theory implies that there are four factors of production/business activity: land, labour, capital, and entrepreneurship. Wages indicate the amount of value created in the production that remains after all of these factors of production have been paid for. To put it another way, labour is the lone claimant.

8. **Bargaining Theory of wages**

Wages are established by the interplay of management and labour in a collective bargaining process, according to the bargaining theory of wages. Although this theory does not provide an appropriate understanding of income sources in the long run, it does provide a useful basis for estimating salaries in the short term.

9. **Behavioural Theory of Wages**

Several psychologists were the first to propose this notion. We can identify the following area of interest in behavioural theories on salaries based on many research

studies: Acceptance of a salary level by the employee; Individuals value job security and desire to stay with the same company for as long as their income level allows. Other elements to examine are the company's size and prestige, the power of trade unions in the organisation, their degree of expertise and competencies, and so on. The wage structure inside the company: Internal pay fairness is important to employees. Journalist occupations, for example, have a high social status. Wages are set for various cross-sections of employees, taking into account compensation differentials, span or control norms, and demand for specialised skill sets. Employees are more motivated when pay is balanced with internal justice.

10. Recognition and Rewards

In today's competitive business environment, more entrepreneurs are seeking for ways to increase quality while lowering expenses. A healthy economy, on the other hand, has resulted in a tight labour market. As a result, while small firms require more from their employees, their employees want more from them. Employee incentive and recognition programmes are one way to get employees to improve their work habits and important behaviours in order to help a small business succeed. As a technique of aligning a company's greatest strategic asset – their workers – to the strategic direction of the organisation, rewards are said to indicate corporate values to employees.

SELF-ASKING QUESTIONS

- a) Explain the basic assumptions of subsistence theory propounded by David Ricardo.
- b) What is the role of recognition and rewards in modern organisation? Explain the advantages of a fair reward system.
- c) How do the theories help managers in resolving conflict amongst employees over compensation in a company? Give your view on it.
- d) Explain the essence of surplus value theory in compensation management of business organisations.

1.5: REPATRIATION

Repatriation is the process of returning from an abroad assignment to one's home country when the assignment has been completed or other issues have been resolved. The final step in the expatriation cycle is repatriation, which entails the readjustment and re-entry of international managers and their families back to their home country. Expatriation and repatriation are not two distinct processes; rather, the former is the start and the latter is the finish. As a result, repatriation is defined as the process of returning to one's place of birth or citizenship.

1.5.1: RATIONALE OF REPATRIATION

An employee of any company who successfully adjusted to the host culture and performed well on a foreign assignment would be highly valued. Here are some of the reasons why repatriated personnel are great assets from the standpoint of the repatriate:

- a. A successful abroad assignment provides them with a unique perspective on specific regions of the world or marketplaces in which the organisation operates.
- b. The expatriates could be valuable to other employees who will be moved to the same nation, if some way could be found to identify how they could serve as mentors to future expatriates. Technology transfer, cross-cultural management, negotiating in a specific culture, communicating effectively in a host culture, and understanding the history and culture of a country in dimensions that would be invaluable to future international assignees there are some of the skills they might have.
- c. As a result of being able to work cross-culturally effectively, they can bring new and unorthodox techniques to information collection, data analysis, and issue solving.
- d. In shifting conditions, they may have become more flexible or less rigid. Because diverse approaches have been tested in other situations, they may be able to bring new ideas and perspectives to the planning process that was not previously considered. This could boost their worth to the organisation by assisting with the transition from a domestic to a global perspective.
- e. Returning expatriates who have excelled in a host culture may bring a degree of confidence and competence to the organisation that will increase its value in a changing global market.
- f. Because he or she has worked outside of the company's and country's cultures, the repatriated employee may be able to provide valuable insights. That point of view should be respected and given a voice within the organization.
- g. Repatriated employees are more likely to have a higher tolerance for conflicting ideas and work in less controlled and tidy environments. Rather of being disheartened by such variables, he or she may be energized by the necessity to cope with them in day-to-day operations.
- h. The competent international employee may have learned how to motivate a more coordinated collective effort rather than focusing on individual achievement.

CHECK YOUR PROGRESS

- a. What is the role of expatriates in problem solving of a company?
- b. What is the relationship between mentoring expatriate and expatriate socialization?
- c. What are the ethical issues involved in expatriation?
- d. Distinguish between expatriation and repatriation.

1.5.2: ISSUES IN REPATRIATION

Following are some of the common issues of the repatriation process

1. Getting back into the swing of things at home

2. There are no jobs available for returning expatriates
3. There are few opportunities to put skills obtained abroad to use when they return.
4. Salary and perks may be reduced upon return.
5. Returning to a permanent post is a downgrade.
6. Loss of decision-making authority and autonomy
7. Loss of promotion prospects

1.5.3: THE PROCESS OF REPATRIATION

The adjustment for repatriation does not commence on the day the expatriate returns. Expatriation and repatriation are not two distinct procedures; rather, expatriation is the start of the process, and repatriation is the end. In actuality, the majority of activities that assure high repatriation retention take place throughout the expatriate assignment. The adjustment for repatriation does not commence on the day the expatriate returns. Expatriation and repatriation are not two distinct procedures; rather, expatriation is the start of the process, and repatriation is the end. In actuality, the majority of activities that assure high repatriation retention take place throughout the expatriate assignment. Only by effectively managing all stages of the expatriate life cycle will the expat, as well as the entire organisation, achieve success. The pre-repatriation stage must be properly planned and implemented before the expatriate's actual re-entry, as returnees like knowing what their next steps are and what to expect upon their return. Furthermore, the entire project must be viewed as a holistic process rather than a series of distinct processes.

Following are the steps involved in creating a repatriation process

- Mentoring programmes, which pair expatriates with a member of home office senior management and keep in touch with them throughout their assignment
- Keeping expatriates informed about developments in their home country
- Assisting expatriates with the repatriation process
- Inviting repatriates to participate in the development of repatriation programmes

Employees and their families should be offered re-entry training programmes as well as reverse culture shock support or counseling. Employees should be provided opportunities to tell their bosses about their overseas assignments. Employees should be encouraged to advance in their careers, and if that isn't possible, they should be assigned to a position with at least the same amount of responsibility and autonomy as their prior assignment. Employers should take advantage of an employee's capabilities when seeking for a job within the company that best utilizes the employee's unique knowledge, skills, and abilities gained during the international assignment.

STOP TO CONSIDER

Repatriation is a thorny issue in the foreign assignment of global firms' staff. The end of an assignment and the return of the employee and his or her family to the business and their home culture are frequently marked by high levels of anxiety. The situation is frequently compounded by the fact that many firms lack rules and procedures for preparing for expatriate returns, as well as a lack of understanding of repatriation time as a crucial part of the foreign assignment cycle. Global organisations frequently rely on expatriate personnel as a major source of information and skills.

Their distribution among subsidiary offices has the potential to transfer, absorb, and circulate organisational knowledge between offices, enhancing learning and expertise at overseas offices during the assignment, as well as at the headquarters office after the international assignment is completed. Expatriates, on the other hand, are frequently the most expensive employees in the firm, with the overall cost of the overseas transfer estimated to be three to five times that of their domestic counterparts.

1.6: LABOUR RELATIONS IN ORGANISATIONS

The word labour relations, sometimes known as industrial relations, refers to the system through which employers, employees, and their representatives, as well as the government, interact to establish the ground rules for the regulation of work interactions, either directly or indirectly. It also refers to a branch of research that focuses on such connections. The field sprang from the excesses of the Labour revolution, which led to the formation of trade unions to represent workers and the development of collective bargaining agreements. The state, the employer, trade unions, and employees are the major actors in a labour relations system. The goal of both management and labour to build an efficient and successful organisation lies at the heart of labour relations. When this occurs, management plans, organizes, and directs work so that people understand their roles and duties and are able to achieve the desired results. Everyone has a positive work atmosphere and solid working relationships. Employees have the opportunity to contribute, and each one feels appreciated as part of the unit's overall effort. Management and staff have a mutual respect for one another. Life is pleasant, and everyone appears to be content. Individual employment interactions between an employer and a worker under a written or implied contract of employment can also be included; however these are more commonly referred to as "employment relations." The phrases are used in a variety of ways, which reflects the changing nature of the field over time and space. Collective bargaining, other types of worker participation which includes works councils and joint health and safety committees, and means for resolving collective and individual issues are all included in the field. Because of the enormous range of labour relations systems around the world, comparative studies and type identification have to be accompanied by disclaimers regarding the dangers of overgeneralization and erroneous analogies.

Even the more traditional depictions of labour relations are far from static, as every such system evolves to suit new circumstances, whether economic or political. Traditional labour relations are being seriously challenged by globalization of the market economy, the

weakening of the state as an effective force, and the ebbing of trade union power in many developed countries. Changes in the substance and organisation of work have resulted from technological advancements, and these changes have a significant impact on the extent to which collective labour relations can develop and the direction they follow. Employees' conventional shared work schedules and common workspace have gradually given way to more flexible working hours and work performed in a variety of places, with less direct employer oversight.

1.6.1: SCOPE OF LABOUR RELATIONS

In current usage, the term "labour relations" refers to a wide range of issues that develop as a result of the ongoing connection between employers and employees. Its scope encompasses three aspects that are rarely separated:

- i. Managerial and individual worker relationships.
- ii. The collective bargaining agreements between companies and labour unions; and
- iii. The government's role in regulating these agreements.

Personnel management, collective bargaining, and labour laws are three closely related subjects that are frequently referred to as such. As a result, the following are the numerous domains that fall under the umbrella of labour relations:

- Relations between management and employees, often known as employer-employee relations.
- The involvement of various parties, such as employers, employees, and the state, in preserving Labour relations.
- The mechanism of handling conflicts between employers and employees, in case conflicts arise.

CHECK YOUR PROGRESS

1. What is labour-management relation? Explain its features
2. What is collective bargaining?
3. How labour-management disputes are settled in an organisation?
4. Define term 'Personnel Management'. Explain its objectives.
5. Explain the mechanism involved in organizing collective bargaining between labour and management.
6. What is the role of government in regulating the labour-management relations?

1.6.2: OBJECTIVES OF LABOUR RELATIONS

The basic goal of labour relations is to promote positive and healthy working relationships between employees and management. This core goal is the centre of all other goals. The following are some of the most essential objectives:

- a. To encourage positive labor-management relations.
- b. To increase productivity at a higher level, as is necessary today, and to contribute to the country's economic development
- c. To reduce labour turnover and absenteeism by delivering job satisfaction to employees.
- d. To preserve employees' interests as well as mutual understanding and goodwill among them.
- e. To facilitate and develop democracy at work places based on workers' participation in management.
- f. To reduce the number of strikes, lockouts, and gheraos through reducing Labour conflicts.
- g. To assist the government in enacting legislation against unfair labour practices by both unions and employers.
- h. To improve labour discipline and morale
- i. To promote collective bargaining as a tool for self-regulation.
- j. Encourage the use of collective bargaining as a tool for self-regulation.

1.6.3: FACTORS AFFECTING LABOUR RELATIONS

Various economic, social, psychological, environmental, political, technological, and historical elements influence Labour relations. The following are a few of them:

1. Labour Relations history

No enterprise can escape its good and bad history of Labour relations. A good history is marked by harmonious relationship between management and workers. A bad history by contrast is characterized by militant strikes and lockouts. The probability of peaceful relations is greater when mutual understanding is expected to continue as a part of standard operations.

2. Economic satisfaction of workers

The basic survival requirement is a human being's most important need. This urge governs much of man's behaviour. Man works to ensure his survival. As a result, worker economic happiness is a key prerequisite for successful labour relations.

3. Social and psychological satisfaction

Identifying workers' social and psychological desires is a critical first step in establishing positive labour relations. The employment connection is more than just a business transaction. It's a cooperative enterprise encompassing a climate of human and social interactions in which each member wants to feel like he's meeting his own needs while also helping others.

4. Off-the-job conditions:

A person's home life and professional life are inextricably linked, and his emotional state is inextricably linked to his physical state. Each has an impact on

the other. As a result, taking care of the workers' factory life is insufficient for excellent Labour relations. His working conditions should be upgraded as well.

5. Enlightened Labour Unions:

The most crucial single condition for healthy Labour relations is a robust and informed labour movement that can help to advance labor's status without risking management's interests. Employee contribution and accountability are usually the focus of man-enlightened unions, and they have reaped both social and economic benefits as a result of this strategy.

6. Negotiating skills and attitudes of management and workers:

In terms of training, education, experience, and attitudes, both management and workers' representatives in the field of Labour relations come from a wide range of backgrounds. These diverse backgrounds have a significant impact on the nature of labour relations. In most cases, well-trained and experienced negotiators driven by a desire for Labour peace create a negotiation environment conducive to the drafting of a reasonable and equitable collective bargaining agreement. Ignorant, inexperienced, and poorly trained individuals, on the other hand, fail because they fail to grasp that collective bargaining is a complicated human activity that involves people's emotions as well as their economic interests.

7. Public Policy and Legislation:

When the government governs employee relations, it joins the employer and the union as the third primary force in regulating Labour relations. In all countries, the government intervenes in management-union relations by enforcing labour rules and emphasizing that the goals of the entire society take precedence over those of either party.

8. Better education:

Workers' expectations in terms of compensation rise as their abilities and education improve. Workers in India are often illiterate and are misled by outside trade union officials, according to popular belief. A remedy to this problem could be better worker education. This alone can provide employees a healthy sense of duty toward the organisation in particular and the community in general.

9. Nature of Industry:

Direct and indirect labour costs account for a significant share of total costs in various industries. These industries are unable to provide liberal salary increases or fringe benefits to their employees, and their labour relations are distinct from those of other industries.

STOP TO CONSIDER

These factors are inter-related and interdependent and determine the texture of industrial relations in any setting. In fact, they act, interact, and reinforce one another in the course of developing the labour relations. As a result, industrial relations can be considered as a "Complex System" comprised of interactions between industry, government, and labour, all of which are influenced by existing and emerging social, economic, institutional, and technological elements. In fact, a trade union is one of the most crucial players in maintaining an organization's industrial ties. They can be a stumbling block in the resolution of labour conflicts. It is largely dependent on the mentality and approach of trade unions.

1.6.4: CAUSES OF POOR LABOUR RELATIONS

Different scholars understand the causes of poor labour relations in different ways. Economists will see the scenario through the lens of market factors such as demand and supply, politicians will see it through the lens of ideologies and class warfare, and a psychologist will see it through the lens of competing interests, goals, and motives. Each analysis, in fact, only provides a partial explanation of the issue. A multitude of socio-economic, political and psychological variables contribute to poor labour relations, which are briefly discussed below:

1. **Uninteresting nature of work:**

People aspire to make a life rather than merely a living from their jobs. We cannot live a fulfilling life unless we are also fulfilled at work. Poor labour relations are mostly a result of large-scale production, which has reduced man to a slave to the machine. A worker performs only a minor operation in the entire production process due to extensive specialization.

2. **Political nature of unions:**

The politicization of labour unions by outside political leaders is another important barrier to effective labour relations. On the one hand, this leads to various unions, while on the other, it leads to inter-union rivalry. Outsiders who gain election as union leaders by making outrageous claims to members subsequently find it impossible to keep their commitments.

3. **Poor wages:**

Poor labour relations can also be caused by wages that are too tight or convoluted, as well as incentive and payment schemes. Wage and compensation disparities between jobs contribute to a sense of unfairness and are a sign of healthy labour relations.

4. **Occupational instability:**

Another major issue that can sabotage strong labour relations is a job transition that isn't always pleasant. Workers feel more secure in their careers when they have

occupational consistency. Workers who have been in the same work for a long time have a strong attachment to it and are resentful of any changes made to it.

5. **Poor behavioural climate:**

An organization's behavioural climate can be either favourable or unfriendly to its employees. A favourable climate is one that enables him to achieve his economic, social, and psychological goals. In his mind, it creates a positive impression of the company. On the other side, an unfavourable climate is one that stops him from achieving his varied needs and creates a negative image of the company in his mind.

SELF-ASKING QUESTIONS

1. What are the causes of monotonous nature of work in industrial units? Suggest some steps to reduce it.
2. How political parties affect the democracy of trade unions?
3. How wage and compensation disparities create a sense of unfairness among labourers in an organisation?
4. In what ways can companies improve their image so as to create goodwill?
5. What are the essential strategies that can be adopted by management in improving organisational instability?

1.6.5: EFFECTS OF POOR LABOUR RELATIONS

Poor labour relations have long-term consequences for a country's economy. It results in lower output and profits for businesses, higher prices and inconvenience for consumers, and a climate of mutual distrust and suspicion between workers and employers. The following are some of the negative consequences of poor labour relations:

1. **Multiplier effect:**

The modern economy and modern industry are inextricably linked. As a result, while the direct loss caused by industrial dispute in a single plant may not be significant, the total loss produced by the multiplier effect on the economy is usually significant.

2. **Fall in normal tempo:**

The modern economy and modern industry are inextricably linked. As a result, while the direct loss caused by industrial dispute in a single plant may not be significant, the total loss produced by the multiplier effect on the economy is usually significant.

3. **Resistance to change:**

A dynamic industrial environment necessitates change on a near-constant basis. Methodologies must be improved. It is necessary to have an impact on the economy. New items must be assigned, manufactured, and marketed. Each of these jobs necessitates a series of modifications, which are fiercely resisted in the event of industrial conflict.

4. **Frustration and Social cost:**

Every guy goes to work for more than just to make a living. He also wants to meet his social and egoistic requirements. He becomes frustrated when he is unable to meet these wants. Human impatience is high when it comes to disputes. They stifle friendship and exacerbate social friction.

1.6.6: RECOMMENDATIONS FOR IMPROVING LABOR RELATIONSHIPS

The following suggestions may be put forwarded to improve labour relations in an organisation:

- a) Both management and the union should cultivate **positive attitudes** toward one another. Harmonious labour relations cannot be expected if managers do not fully accept the union or if union leaders do not fully accept the corporate system. Workers must be treated as equal partners in a joint venture by management. It must acknowledge their union as the voice of their grievances and the guardian of their rights.
- b) Everyone in the organisation, including union leaders, should be aware of the basic labour relations policies and procedures. The human resource manager must ensure that line employees are aware of and accept these policies. Failure to follow these regulations in spirit and word might lead to avoidable misunderstanding and a deterioration of labour relations.
- c) The human resource manager should dispel any suspicions by persuading the company's union of the company's integrity, as well as his own sincerity and honesty. All suspicions, rumours, and uncertainties should be dispelled.
- d) The human resource manager should not compete with the union for the allegiance of employees. He should refrain from attempting to wean them away from the union. Workers believe that they may be loyal to both organisations, and they are correct. There is compelling evidence to refute the notion that one can only be loyal to one group.
- e) The correct kind of union leadership should be encouraged by management. While management should not interfere with union operations, its actions and attitudes will go a long way toward fostering the development of the right kind of union leadership. Management should establish conditions that encourage the development of capable and productive leadership.
- f) After a settlement has been achieved, the agreement must be properly implemented. This entails the application, interpretation, and enforcement of the terms and conditions that the parties have agreed to in both writing and spirit.

STOP TO CONSIDER

The essence of effective industrial relations is the establishment of healthy labour relations, which provide a venue for both parties (employer and employee) to fully understand each other. Creates a cooperative mindset and approach to achieving the organization's goals. A good industrial relations system boosts employers' morale and encourages them to give their all. Each party considers their mutual interests, which allows for the introduction of new methods, advancements, and the

adoption of contemporary technology. When built with their mutual interest and cooperation, this progressive manner builds various incentive propositions and creates an effective participators forum in management. Profits are shared, and employees receive their dues from the company, resulting in job satisfaction, which is necessary for successful relationships. A good industrial relationship boosts output, increases job quality, and boosts worker productivity.

1.7: SUMMARY

From the perspective of the employers, the money that they pay to the employees in return for the work that they do is something that they need to plan for in an elaborate and systematic manner. Unless the employer and the employee are in broad agreement the net result is dissatisfaction from the employee's perspective and friction in the relationship. It can be said that compensation is the "glue" that binds the employee and the employer together and in the organized sector, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee and the components of the compensation package. Since, this article is intended to be an introduction to compensation management, the art and science of arriving at the right compensation makes all the difference between a satisfied employee and a disgruntled employee.

Though Maslow's Need Hierarchy Theory talks about compensation being at the middle to lower rung of the pyramid and the other factors like job satisfaction and fulfilment being at the top, for a majority of employees, getting the right compensation is by itself a motivating factor. Hence, employers need to quantify the employee's contribution in a proper manner if they are to get the best out of the employee. The provision of monetary value in exchange for work performed forms the basis of compensation and how this is managed using processes, procedures and systems form the basis of compensation management. Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as creators and drivers of value rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent. If the right compensation along with the right kind of opportunities is made available to people by the firms in which they work, then work becomes a pleasure and the manager's task made simpler leading to all round benefits for the employee as well as the employer.

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1.9: MODEL QUESTIONS

1. Explain the concepts referring to wage levels.
2. What do you understand by 'Compensation Strategy'? What factors affect the formulation of 'Compensation Strategy'?
3. What are the various components of industrial wage structure?
4. Differentiate between 'Wage' and 'Salary'. How are wages determined in practice?
5. What are the factors to be taken into consideration while preparing a payroll?
6. What are the objectives of rewards?
7. Explain the reasons for executives being paid heavily.
8. Explain the factors MNCs consider for payment of salaries.
9. What are the challenges faced in designing a compensation programme?
10. Explain the benefits of well designed 'incentive pay system'. Also, discuss their limitations.
11. Discuss the 'Balance Sheet Approach' to International Compensation.

BLOCK 3: COMPENSATION AND RETIREMENT PLANNING

UNIT –III VARIABLE PAY

Structure

3.1 Introduction

3.2 Objectives

3.3 Concept of variable pay

3.4 Types of Variable pay

3.5 Evolution of variable pay in India

3.6 Significance of variable pay in compensation Management

3.7 Type of business for paying Variable Pay

3.8 Variable Pay: Advantages & disadvantages

3.8 .1 Advantages of Variable Pay

3.8 .2 Disadvantages Variable Pay

3.9 Differences between fixed pay and variable pay

3.10 Prerequisite for establishing a successful variable pay system

3.11 Summing up

3.12 References and Suggested Readings

3.13 Model questions

3.14 Answers to check your progress

3.1 Introduction

Compensation refers to a wide range of financial and non financial rewards given to employees both executives and non-executives for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance benefits, maternity leave, free travel facility, housing facility, retirement benefits,

profits sharing, bonuses, employee stock option etc. these components of employee compensation comprises of both fixed and variable pay components. In case of fixed pay a fixed pay salary is given to the employee at the end of each month as is mentioned in the offer letter and is not based on the employee's performance. On the other hand Variable pay is becoming as an important component of employee compensation. Also sometimes referred to as "pay-for-performance" or "at-risk pay", it provides some or all of a workforce's compensation based on employee performance or on the performance of a team. It is basically employee compensation that changes and is determined by employee performance. It is paid in the form of bonuses, incentives, commissions, and other cash compensations that is dependent on employee/team/organisational performance.

3.2 OBJECTIVES

After going through this unit you will be able to

- Explain the concept and components of executive compensation
- describe the objectives of executive compensation
- Explain the concept of variable pay
- Describe the types of variable pay
- Describe the advantages and disadvantages of variable pay
- Differentiate between fixed pay and variable pay
- Narrate the Evolution of variable pay system in India.
- describe the constitutional Perspective On Wages In India

3.3 Executive Compensation: Concept

An executive typically is someone in the top two levels of an organization, such as Chief Executive Officer (CEO), President, or Senior Vice-President. In most of the organizations Compensation or remuneration for the executive managers is different from compensation for other employees. Executive compensation refers to compensation given to the executives such as presidents of company, chief executive officers (CEOs), chief financial officers (CFOs), vice presidents, occasionally directors of the company, and other upper-level managers. These high level employees are paid executive compensation.

3.4 Objectives of Executive Compensation

A well-designed executive compensation plan focuses on a number of important objectives, such as:

- It attracts and retains the talent necessary to lead complex organizations to success. It aligns the interests of executives with those of shareholders.
- It focuses the efforts of executives on achieving the organization's business goals, both short- and long-term.
- Finally, it provides programs that are regarded as credible and responsible by investors and other stakeholders, and that meet legal and regulatory requirements.

While these objectives have not changed, the manner in which the companies are achieving these objectives is evolving rapidly over the period of time. An organization developing an executive compensation program will improve its chances of success by following five approaches:

- First, define the organization's short- and long-term strategies, objectives and key measurements.
- Second, vest responsibility for executive compensation in a compensation committee consisting of independent board members.
- Third, take a total rewards perspective by looking at each component of the compensation program as part of a portfolio of provisions rather than stand-alone items.
- Fourth, establish the executive compensation portfolio to provide an appropriate allocation of base and variable (at risk) compensation, short- and long-term programs and performance incentives versus retention and attraction incentives. The optimal mix will vary by company.
- Fifth, make the program as simple as possible.

3.5 Components of Executive Compensation

- Base salary
- Incentive pay, with a short-term focus, usually in the form of a bonus
- Incentive pay, with a long-term focus, usually in some combination of stock awards, option awards, non-equity incentive plan compensation
- Enhanced benefits package that usually includes a Supplemental Executive Retirement Plan (SERP)
- Extra benefits and perquisites, such as cars and club memberships
- Deferred compensation earnings etc.

Many organizations, especially large ones, administer executive compensation somewhat differently than compensation for lower-level employees.

The following Figure shows, the common components of executive compensation :

Executive Compensation Components



Executive Salaries

Salaries of executives vary by type of job, size of organization, region of the country, and industry. On average, salaries make up about 40-60% of the typical top executive's annual compensation total. At times organizations increase or reduce the salary of executive based on performance, approval may be needed from directors and shareholders .

Executive Bonus Plans

Because executive performance may be difficult to determine, bonus compensation must reflect some kind of performance measure if it is to be meaningful. As an example, a retail chain with over 250 stores ties annual bonuses for managers to store profitability. The bonuses have amounted to as much as 35% of a store manager's base salary.

Bonuses for executives can be determined in several ways. A discretionary system whereby bonuses are awarded based on the judgments of the chief executive officer and the board of directors is one way. However, the absence of formal, measurable targets is a major drawback of this approach. Also, as noted, bonuses can be tied to specific measures, such as return on investment, earnings per share, or net profits before taxes. More complex systems create bonus pools and thresholds above which bonuses are computed. Whatever method is used, it is important to describe it so that executives trying to earn bonuses understand the plan; otherwise, the incentive effect will be diminished.

Performance Incentives-Long Term Vs. Short Term

Performance-based incentives attempt to tie executive compensation to the long-term growth and success of the organization. However, whether the emphasis is really on the long term or merely represents a series of short-term rewards is controversial. Short-term rewards based

on quarterly or annual performance may not result in the kind of long-run-oriented decisions necessary for the company to continue to do well.

A **stock option** gives an individual the right to buy stock in a company, usually at an advantageous price. Different types of stock options have been used depending on the tax laws in effect. Stock options have increased in use as a component of executive compensation during the past few years, and employers may use a variety of very specialized and technical approaches to them, which are beyond the scope of this discussion. However, the overall trend is toward using stock options as performance-based long-term incentives.

Where stock is closely held, firms may grant "stock equivalencies" in the form of phantom stock or share appreciation rights. These plans pay recipients the increased value of the stock in the future, determined by a base valuation made at the time the phantom stock or share appreciation rights are given. Depending on how these plans are established, the executives may be able to defer taxes or be taxed at lower capital-gains tax rates.

Benefits for Executives

As with benefits for non-executive employees, executive benefits may take several forms, including traditional retirement, health insurance, vacations, and others. However, executive benefits may include some items that other employees do not receive. For example, executive health plans with no co-payments and with no limitations on deductibles or physician choice are popular among small and middle-sized businesses. Corporate-owned life insurance on the life of the executive is popular and pays both the executive's estate and the company in the event of death. Trusts of various kinds may be designed by the company to help the executive deal with estate issues. Deferred compensation is another possible means used to help executives with tax liabilities caused by incentive compensation plans.

Executive Perquisites

In addition to the regular benefits received by all employees, executives often receive benefits called perquisites. Perquisites (perks) are special executive benefits—usually noncash items. Perks are useful in tying executives to organizations and in demonstrating their importance to the companies. It is the status enhancement value of perks that is important to many executives. Visible symbols of status allow executives to be seen as "very important people (VIPs)" both inside and outside their organizations. In addition, perks can offer substantial tax savings because many perks are not taxed as income.

Check Your Progress

1. What is executive compensation?
2. What are the main components of executive compensation?

3.6 Concept of variable pay

Variable pay is employee compensation that changes with the change in performance. It is often used to recognize and reward employee contribution toward company productivity, profitability, teamwork, safety, quality, or some other metric deemed important by senior leaders. It is counter cyclical. It is more costly to the organisation performing well although the organisation performing well is better able to afford the expenses. It is less costly when the business is not doing well and is less able to afford variable pay.

This performance-based payment is common in the sales field where pay is limited only by the salesperson's ability to close deals. Variable pay can be used by any business that wants to incentivize its employees fairly based on some data point—such as units sold, sales revenues, customer service scores, number of clients, or any job-related criteria.

The variable pay given to the employees may be **peer-driven** wherein the employees of the organisation provide feedback and bonuses to co-workers based on their work—from high levels of workplace performance to demonstrating how they live the company values. This type of incentive can improve teamwork by inspiring employees to do the right thing on the job in hopes of earning bonuses or rewards from their peers.

The employee who is awarded variable compensation goes above and beyond their job description to contribute to the organization's success.

Employers are not mandated to pay the full variable pay mentioned in the CTC as it is linked to employee's performance, team's performance, or company's profit. The employee is eligible to receive full variable payment only if all the parameters are met.

Check Your Progress

3. What is variable pay?
4. Why variable pay is given to the employees ?
5. Is it mandatory to pay variable pay to employees?

3.7 Types of Variable pay

Variable pay can be based on many criteria, such as employee performance, performance of the team as well as the organisational performance. It can be paid in many forms to the employees. Here are some examples:

Pay for Individual Performance-Organizations may reward individual performance with incentives such as piecework rates, standard hour plans, merit pay, individual bonuses, and sales commissions. These alternatives are summarized below:

- a. **Piecework Rates:** As an incentive to work efficiently, some organizations pay production workers a piecework rate, i.e. a wage based on the amount they produce. This rate is often paid in addition to employees' base pay. The amount paid per unit is set at a level that rewards employees for above-average production volume.
- b. **Standard Hour Plans:** Another quantity-oriented incentive for production workers is the standard hour plan, an incentive plan that pays workers extra for work done in less than a preset "standard time." The organization determines a standard time to complete a task. If the worker completes the work in less than the standard time, the worker receives an amount of pay equal to the wage for the full standard time. Standard hour plan for payment of wages is mostly used in the field of construction, agriculture sector and in the areas where more manual labour is required.

In terms of their pros and cons, standard hour plans are much like piecework plans. They encourage employees to work as fast as they can, but not necessarily to care about quality or customer service. Also, they only succeed if employees want the extra money more than they want to work at a pace that feels comfortable.

- c. **Merit Pay:** Merit pay refers to the process of determining employee compensation (base salary or bonuses), in part, on the basis of how well each employee performs at work. In this scheme the employer rewards more productive employees for their increased contributions to the organization, and thereby tries to retain the best employees in a company. Merit pay is most common for management and professional employees.

A drawback of merit pay, from the employer's standpoint, is that it can quickly become expensive. This cost is one reason that some organizations have established guidelines about the percentage of employees that may receive the top rating.

Another drawback of merit pay is that it makes assumptions that may be misleading. Rewarding employees for superior performance ratings assumes that those ratings depend on employees' ability and motivation. But performance may also depend on forces outside the employee's control, such as managers' rating biases, the level of cooperation from co-workers, or the degree to which the organization gives employees the authority, training, and resources they need. Under these conditions, employees will likely conclude that the merit pay system is unfair.

- d. **Performance Bonuses:** Like merit pay, performance bonuses reward individual performance, but bonuses are not rolled into base pay. The employee must re-earn them during each performance period. In some cases, the bonus is a one-time reward. Bonuses may also be linked to objective performance measures rather than subjective

ratings. Bonuses for individual performance can be extremely effective and give the organization great flexibility in deciding what kinds of behaviour to reward.

- e. **Sales Commissions:** A variation on piece rates and bonuses is the payment of commissions, or pay calculated as a percentage of sales in addition to base salary.

Pay For Team Performance: Organisations may adopt variable pay plans like gain sharing and team bonuses and awards for team performance. A brief explanation of them are given below:

- a. **Gain sharing:** A gain-sharing plan is a popular type of organization-wide variable pay plan. The purpose of gain sharing is to tie the employee to the performance measures. This approach rewards outcomes that are direct measures of the success of the organization as opposed to the success of an individual employee. Organizations that want employees to focus on efficiency may adopt a gain sharing program, which measures increases in productivity and effectiveness and distributes a portion of each gain to employees. For example, if a factory enjoys productivity gain worth \$40,000, half of the gain might be the company's share. The other \$20,000 would be distributed among the employees in the factory. Knowing that they can enjoy a financial benefit by helping the company to be more productive, employees will look for ways to work more efficiently and will try to improve the way the factory operates.
- b. **Team Bonuses and Awards:** In contrast to gain sharing plans, which typically reward the performance of all employees, bonuses for team performance tend to be for smaller work groups. These bonuses reward the members of a group for attaining a specific goal, usually measured in terms of physical output. Team awards are similar to team bonuses, but they are more likely to use a broad range of performance measures, such as cost savings, successful completion of a project, or even meeting deadlines etc.

Both types of incentives have the advantage that they encourage group or team members to cooperate so that they can achieve their goal. However, depending on the reward system, competition among individuals may be replaced by competition among teams. Competition may be healthy in some situations, as when teams try to outdo one another in satisfying customers. On the downside, competition may also prevent necessary cooperation among teams. To avoid this, the organization should carefully set the performance goals for these incentives so that concern for costs or sales does not obscure other objectives, such as quality, customer service, and ethical behaviour.

Pay for Organizational Performance-Two important ways through which the organizations measure their performance are in terms of their **profits** and their **stock price**. In a competitive marketplace, profits result when an organization is efficiently providing goods and services that customers want at a price they are willing to pay. On the other hand, Stock is the owners' investment in a corporation. When the stock price rises, the value of that investment grows. Rather than trying to figure out what performance measures will motivate employees to do the things that generate high profits and a rising stock price, many organizations offer incentive pay tied to these organizational performance measures so that the employees will focus on what is best for the organization.

- a. Profit Sharing:** An important option for tying employees to the economic success of the organization is by granting them a share of the profits of the organization. This type of incentive is useful only in a profit-based organization. Profit-sharing may be the oldest form of an organization-wide variable pay plan. They were installed to deal with employee's grievances over low salaries and to combat the feelings that organizations made huge profits but paid workers very little of the gains. Organizations use profit sharing for a number of reasons. It may encourage employees to think more like owners, taking a broad view of what they need to do in order to make the organization more effective. They are more likely to cooperate and less likely to focus on narrow self-interest. Also, profit sharing has the practical advantage of costing less when the organization is experiencing financial difficulties. If the organization has little or no profit, this incentive pay is small or nonexistent, so employers may not need to rely as much on layoffs to reduce costs.
- b. Employee Stock Ownership Plans (ESOPs)/ Employee Stock Option:** An employee share ownership plan ("stock option" or "stock ownership", abbreviated to "ESOP") is the practice whereby the companies give the staff members shares in their company as part of their salary . It converts an employee in to a shareholder of the organization. A stock option plan grants to employees the right to purchase a specific number of shares of company stock at a specific price during a period of time. Employee stock option scheme is adopted by the companies as a long-term executive incentive and retention tool.

3.8 Evolution of variable pay in India:

Originally the variable pay is a western concept. But gradually it came into Asia and other emerging markets, migrating with the MNCs. The concept of variable pay started gaining

importance in the Indian market in the last decade. The Indian companies are now also including the variable pay components like the western companies and are trying to progress at par with the Western countries since the best part about variable pay is that it's performance-linked. In India besides the private sector firms the PSUs are also moving towards it. More and more organizations are replacing their annual salary increases and holiday bonuses with pay-for-performance plans. Sectors like E-commerce, IT, FMCG and consumer durables and Pharma have chalked out a large part of their pay as variable pay over the past year. Sensing the need to retain talent in a tough market, companies across sectors are tying the performance and fortunes of employees with their own, and are attracting mid to-senior-level employees with a substantial hike in variable pay in comparison to fixed pay, without taking a hit on immediate costs.

3.9 Significance of variable pay in compensation Management

In the present competitive Human Resource Management scenario the progressive organizations are seeking alternative pay methods to retain talented pool of employees as well as to maintain cost controls on overall compensation expenses and increase employee performance and productivity. In this regard one possible alternative is variable pay for performance, a method of paying employees for successful attainment of specific performance goals. Variable pay is an essential tool in retention, motivation, and talent recruitment in an organization. It is also useful for getting things done and bringing in new talent. Variable pay design can include incentives for achievement based on individual performance, group performance and/ or company performance.

Check Your Progress

6. What are the various types of variable pay?
7. Why profit sharing is installed as a form of variable pay ?
8. Whether the variable pay schemes are adopted by the Indian companies and why ?
9. What is the significance of variable pay in compensation management?

3.10 Type of business for paying Variable Pay

Variable pay is right for any business that wants to improve performance based on measurable productivity increases. Here are some examples:

- Sales organizations that want to increase units sold
- Food service establishments that want to increase sales of certain menu items
- Home service companies that want to get more referrals
- Business services that want to increase their client base
- Healthcare companies that want to reduce costs
- Marketing firms that want to increase their revenues
- Manufacturing firms that want to shorten their time to market etc.

3.11 Variable Pay: Advantages & disadvantages

On the pros side of variable pay, the organisation is likely to get more out of its employees than standard pay that provides no incentive for top performers. However, variable pay can be unwieldy if variable pay compensation program is too complex or causes issues and the employees feel it's unfair. Hence the scheme of variable pay carries with it both advantages as well as disadvantages.

3.11 .1 Advantages of Variable Pay

There are many positive benefits of paying employees with variable pay:

- **High performers will thrive** – Variable pay feels more “fair” to those who perform at a high level, since they have the chance to be compensated and acknowledged for the extra efforts and higher-level results they bring to the business.
- **Average performers will be inspired to work harder** – Once employees understand which behaviours (customer service, safety, quick turnaround time) the organisation value the most, they'll be focused more on those aspects of their job, and work harder to earn those rewards.
- **Talent attraction** –It is yet another advantage of variable pay. With the inclusion of variable pay in the pay package, the organization can compete with payments of other organizations and attract talent.
- **Payroll expenses will more closely match business results** – In months that employees don't earn sales, or the revenues are off, the payroll will also be lower as the employer won't be paying workers bonuses if they aren't bringing returns to the organisation.
- **High level of employee satisfaction** – Employees generally feel satisfied and motivated towards their work when they are awarded variable pay schemes.
- **Less Investment** – Variable pay helps stick the employees towards the organization for long tenure as they have been well awarded depending upon their performance which benefits the organization, thereby less investment of the organization in new employees training them. This results in stability to the organization

3.11 .2 Disadvantages Variable Pay

Variable pay has its downsides as well, mostly on the business / administrative side:

- **It can be complex to manage** – Unless one has a very simple system, tracking variable pay can be tricky. For example, if bonus is to be paid to sales staff on units sold each week, the organisation need to track units sold by each employee in order to calculate each employee's bonus weekly.
- **One has to budget for it** – The organisation may have a budget line item for payroll that's consistent in each pay period. It need to do the same for variable pay also. For example, if variable pay is expected to be about 25 percent of an employee's compensation, the organisation need to have that much extra in the payroll account ready to be paid out once it's earned—whether that's monthly, quarterly or annually. That requires the organisation to estimate and set the funds aside in advance.
- **It may backfire** – This is the most dangerous downside of variable pay. The employer need to be very careful about on what basis he/she has incented employees to do. For example, generally in the sales job the employees try to maximize their targets without even thinking about the end users. They may force their customers just to make huge profits, so that they get a large share of variable pay. This might result in the end users being cheated by the employees.
- **Less solidarity, More Competition** – Variable pays can lead to tremendous competition among the employees to reap the benefits which might even destroy their friendships and mutual trust amongst the colleagues.

3.12 Differences between fixed pay and variable pay :

In case of fixed pay a fixed pay salary is given to the employee at the end of each month as is mentioned in the offer letter. It is not based on the employee's performance but is based on the minimum amount to be paid to the employee.

On the other hand variable pay is part of the employee's salary package and varies from time to time.. The employee will get fixed pay at the end of every month but he/she will get variable pay once in a quarter/half-year/year (may differ from company to company). Thus,

The employee's salary package= Fixed Pay (X% of total package) + Variable Pay (100-X% of total package).

So Let us understand this with the help of an example.

Let's assume that a company is paying variable pay each quarter and the employee's total monthly salary is **Rs. 40,000**. Out of this he/ she gets **Rs. 30,000 as fixed pay** and **Rs. 10,000 as variable pay**. So the employee will always get Rs. 30,000 at the end of each month.

Now let's suppose that the company announces the percentage of variable pay to be **80%**, so they will get 80% of the variable pay which is **Rs.8000**.

Hence at the end of the quarter the employee will get: **Rs. 8,000 X 3= Rs. 24,000.**

We can differentiate between fixed pay and variable pay as given below :

Fixed pay	Variable pay
○ Guaranteed Payable to Employee.	○ Not Guaranteed Payable to Employee.
○ Usually payable on monthly basis	○ Generally payable on quarterly, half yearly or yearly basis.
○ Paid as per mentioned in the offer letter.	○ Depends on company performance, individual performance or company financials.
○ This may include Basic, DA, HRA, Special Allowances, EPF etc.	○ This may include commission, bonus , profit sharing etc.
○ It would be always 100% payable in lieu of employee service.	○ Variable pay may vary from 0% to 100%.

No single pay scheme alone can win over the other. A rigid approach, following only one of the two, would not reap benefits in all circumstances. Rather both the payment schemes are equally important for the organizations and hence the companies should adopt blended payments system i.e. a mixture of both fixed and variable pay. Therefore, companies should be constantly on the lookout to adapt according to the needs of the hour and take necessary actions whenever necessary.

Check Your Progress

10. For which type of organizations variable pay scheme is suitable?
11. What is the basic difference between fixed pay and variable pay?

3.13 Prerequisite for Establishing a Successful Variable Pay System

The implementations of the variable pay programs are more likely to be successful if the following conditions are fulfilled:

- Business goals must be clearly defined and adequately disseminated to employees, and they should be arrived at with their assistance.
- Performance must be measured regularly and reliably. A clear system of performance appraisal and feedback must be put in place.
- Employees must have control over their performance. If employees are overly dependent on the actions and output of other employees or processes, they may have little control over their own performance and may not be able to get the benefits of variable pay.
- Employers should use variable pay as a tool in reaching ambitious business goals. The targets should be set high so that extra effort is needed to reach them.
- Businesses should make sure that their variable pay plans reward employees for actions or skills that actually further the aims of the organization .

Self Asking Questions

1. Why the executives of an organisation are given higher compensation in comparison to non-executives? Give reasons in support of your answer.
2. According to you which system of pay should an organization adopt? Give reasons in support of your answer.
3. According to you to make variable pay system a success what measures should an organization adopt?

3.14 Constitutional Perspective on Wages in India

The Constitution of India, in its Preamble seeks to secure inter alia, to all its citizens: Justice, social, economic and political. The Preamble has been amplified and elaborated in part IV of the Constitution which deals with the Directive principles of State Policy. The provisions contained in this part even though not judicially enforceable but nevertheless fundamental in the governance of the country and it shall be the duty of the State to apply these principles in making laws. Some of these specify the goals and values to be secured by labour legislations for workmen. They are:

- (i) an adequate means to livelihood;
- (ii) prevention of the concentration of wealth and means of production;

- (iii) equal pay for equal work for both men and women;
- (iv) protection and preservation of the workers' health;
- (v) the right to work, the right to education, and the right to public assistance in cases of old age, sickness disablement and in other cases of undeserved want;
- (vi) just and humane conditions of work and maternity relief;
- (vii) a living wage,
- (viii) Participation of workers in management and a decent standard of life.

Article 39 inter alia specifically requires the State to direct its policy towards securing the following principles:

- (a) Equal right of men and women to adequate means of livelihood.
- (b) Distribution of ownership and control of the material resources of the community to the common good,
- (c) To ensure that the economic system should not result in the concentration of wealth and means of production to the common detriment.
- (d) Equal pay for equal work for both men and women.
- (e) To protect the health and strength of workers and the tender age of children and to ensure that they are not forced by economic necessity to enter avocations unsuited to their age or strength.
- (f) That children are given opportunities and facilities to develop in a healthy manner and in conditions of freedom and dignity and that childhood and youth are protected against exploitation and against moral and material abandonment.

Pursuant to Article 39 (d), Parliament has enacted the Equal Remuneration Act, 1976. The directive contained in Article 39 (d) and the Act passed thereto can be judicially enforceable by the court. *Randhir .Singh v. Union of India*, the Supreme Court has held that the principle of "Equal pay for equal work though not a fundamental right" is certainly a constitutional goal and, therefore, capable of enforcement through constitutional remedies under Article 32 of the Constitution. The doctrine of equal pay for equal work is equally applicable to persons employed on a daily wage basis. They are also entitled to the same wages as other permanent employees in the department employed to do identical work. However, the doctrine of 'equal pay for equal work' .cannot be put in a strait jacket. This right, although finds a place in Article 39, is an accompaniment of equality clause enshrined in Articles 14 and 16 of the Constitution. Reasonable classification, based on intelligible criteria having -nexus with the object sought to be achieved is permissible. Accordingly, it has been held that different scales of pay in the same cadre of persons doing similar work can be fixed if there is a difference in the nature of work done and as regards reliability and responsibility.

Article 41 provides that within the limits of its economic capacity the State shall secure for the Right to work and education.

Article 42 instructs the State to make provisions for securing just and humane conditions of work and for maternity relief.

Article 43 refers to a "living wage" and not "minimum wage". The concept of living wage includes in addition to the bare necessities of life, such as food, shelter and clothing, provisions for the education of children and insurance etc.

Part III of the Constitution contains the Fundamental Rights which represents the basic values cherished by the citizens of this country. The fundamental rights having bearing on wages may broadly be categorized in six heads as given below:

- I. The right to equality before law and equal protection of laws (Article 14).
- II. Prohibition of discrimination on the ground, inter alia of sex (Article 15).
- III. Equality of opportunity in matters of public employment (Article 16).
- IV. The right to practice any profession or occupation (Article 19).
- V. Right to Life and Personal Liberty: Article 21 which affords protection to life and personal liberty provides that "no person shall be deprived by his life or liberty except according to procedure established by law."
- VI. Right against exploitation: Article 23 which prohibits traffic in human being and forced labour inter alia, provides : Traffic in human beings and beggar and other similar forms of forced labour are prohibited and any contravention of this provision shall be an offence punishable in accordance with law.

3.15 Summing up

1. Compensation refers to a wide range of financial and non financial rewards given to employees both executives and non-executives for their services rendered to the organization.
2. The compensation given to the executives of an organisation is referred as executive compensation which includes components like base salary ,annual bonuses, long term incentives, supplementary benefits, perquisites etc
3. Variable pay is employee compensation that changes with the change in performance i.e. individual performance of the employee, team performance or organisational performance.
4. Variable pay is used to recognize and reward employee contributions toward company productivity, profitability, teamwork, safety, quality, or some other metric deemed important by senior leaders. It is counter cyclical.
5. Employers are not mandated to pay the full variable pay mentioned in the CTC to the employees as it is linked to employee's performance, team's performance, or company's profit. The employee is eligible to receive full variable payment only if all the parameters are met.
6. There are various types of variable pay such as individual employee performance based , team performance based and organisational performance based .
7. Organizations may reward individual performance with incentives such as piecework rates, standard hour plans, merit pay, individual bonuses, and sales commissions.
8. Organisations may adopt variable pay plans like **gain sharing** and team bonuses and awards for team performance.
9. organisational performance based variable pay schemes are profit sharing and Employee Stock Ownership Plans (ESOPs)/ Employee Stock Option.
10. Variable pay system is most suitable for those organisations which want to improve employee performance based on measurable productivity increases.
11. Variable pay system accrues both advantages as well as disadvantages.
12. The organizations should adopt blended payments system i.e. a mixture of both fixed and variable pay.
13. To make variable pay system a success certain precautionary measures should be adopted by every organization.
14. The Constitution of India, in its Preamble seeks to secure inter alia, to all its citizens: Justice, social, economic and political.

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3.17 Model Questions

Short –answer questions

1. What is executive compensation?
2. What is variable pay?
3. How do you calculate variable pay?
4. Is Variable Pay mandatory?
5. Why do employers use Variable Pay?
6. Who gets variable pay?
7. What is the most common variable pay for performance?
8. What is peer-driven variable pay?

Long answer questions

- 1) Describe the objectives of paying high compensation to the executives.
- 2) State in brief the approaches for the success of an executive compensation plan.
- 3) Explain in brief the various components of executive compensation.
- 4) Explain the concept of variable pay. Also explain how it is calculated.

- 5) Explain the various types of variable pay that the employees of an organisation may avail.
- 6) Explain in brief the pros and cons of providing variable pay to the employees?
- 7) Differentiate between fixed pay and variable pay.
- 8) Explain in brief the factors on which the variable pay depends?
- 9) What are the requirements for the success of the variable pay plans? Write in brief.
- 10) Describe the constitutional perspective on wages in India.

3.18 Answer to check your progress Self Asking Questions

1. The compensation given to the executives of an organisation is referred as executive compensation.
2. The main components of executive compensation are Base salary, Incentive pay, with a short-term focus, usually in the form of a bonus, Incentive pay, with a long-term focus, usually in some combination of stock awards, option awards, non-equity incentive plan compensation, Enhanced benefits package that usually includes a Supplemental Executive Retirement Plan (SERP), Extra benefits and perquisites, such as cars and club memberships, Deferred compensation earnings etc.
3. Variable pay is employee compensation that changes with the change in performance.
4. It is often used to recognize and reward employee contribution toward company productivity, profitability, teamwork, safety, quality, or some other metric deemed important by senior leaders. It is counter cyclical.
5. Employers are not mandated to pay the full variable pay mentioned in the CTC to the employees as it is linked to employee's performance, team's performance, or company's profit. The employee is eligible to receive full variable payment only if all the parameters are met.
6. Variable pay may be individual employee performance based , team performance based and organisational performance based .
7. Profit sharing is installed as a form of variable pay to deal with employee's grievances over low salaries and to combat the feelings that organizations made huge profits but paid workers very little of the gains.
8. In variable pay system employees are paid for successful attainment of specific performance goals set for them, which in turn help in maintaining cost controls on overall compensation expenses of the company. Hence variable pay is very important in compensation management.
9. The Indian companies both in the public and private sector are including the variable pay components like the western companies and are trying to progress at par with the Western countries as it is performance-linked and brings many benefits to the employers.
10. Variable pay is right for any business that wants to improve performance based on measurable productivity increases
11. In case of fixed pay a fixed pay salary is given to the employee at the end of each month as is mentioned in the offer letter which is not based on the employee's performance but variable pay is part of the employee's salary package and is performance-based which varies from time to time.
12. The organizations should adopt blended payments system i.e. a mixture of both fixed and variable pay.
13. To make variable pay system a success certain precautionary measures should be adopted by every organization.
14. Since the supply of talented executives is scarce and they are in high demand in most of the organisations, for the purpose of attracting and retaining them in the organisations they are paid more compensation than the non-executives.

BLOCK 3: COMPENSATION AND RETIREMENT PLANNING

UNIT –IV

International Labour Standards (ILS) and Norms for wage determination,VRS/CRS

Structure

4.1 Introduction

4.2 Objectives

4.3 International Labour Standards (ILS): An overview

4.3.1 Fundamental Conventions

4.3.2 Governance (priority) Conventions

4.4 Relevance of International Labour Standards to Business

4.5 International Labour Standards on Wages

4.6 Norms for wage determination

4.6.1 Legislative norms

4.6.2 External Factors

4.6.3 Internal Factors

4.6.4 Job Requirements

4.6.5 Employees Related Factors

4.7 VRS/CRS

4.7.1 Meaning of VRS

4.7.2 Features of Voluntary Retirement Scheme

4.7.3 Evolution of voluntary retirement scheme in India

4.7.4 Benefits received on VRS

4.7.5 Reasons for Offering VRS by Employers and by Employee

4.7.6 Advantages and disadvantages of VRS

4.7.7 Issues to be considered for Successful VRS

4.7.8 Overview on CRS

4.8 Summing up

4.9 References and Suggested Readings

4.10 Model questions

4.11 Answers to check your progress

4.1 Introduction

Among the various components of employee compensation wages have the most direct and tangible effect on the everyday life of workers. Although wages are necessary for the maintenance of workers and their families, in many parts of the world access to adequate

and regular wages is not guaranteed. Indeed, in certain countries, wage arrears continue to be a problem. In some cases, workers who have not received their wages are never paid due to the bankruptcy of the enterprise. Problems can also arise in cases where part of wages, and sometimes a large part, is paid in kind. Such situations push the workers concerned into poverty. In certain cases, these practices may even expose them to the risk of debt bondage or forced labour. Hence for the protecting and safeguarding the interest of the wage earners International Labour Organisation had drawn up certain International Labour Standards in the form of Conventions and Recommendations. Moreover, in our country employers are also required to follow certain norms for wage determination under the Code of Wages Act, 2019. Besides these, there are certain other factors too, which the employers have to take into account while fixing the wages of the workers.

VRS and CRS are the two important employee separation strategies adopted by the organisations. VRS stands for Voluntary Retirement Scheme and CRS stands for Compulsory Retirement Scheme. Under VRS an employee is offered to voluntarily retire from services before attaining the retirement date, subject to certain conditions and in case of CRS employee must retire compulsory on attaining the age of superannuation.

4.2 Objectives

After going through this unit you will be able to

- explain the international labour standards
- explain the fundamental and governance conventions
- discuss the relevance of ILS to business.
- discuss the International Labour Standards on Wages.
- narrate the norms for wage determination.
- explain the factors affecting determination of wages.
- through light on the concept of VRS and CRS etc.

4.3 International Labour Standards (ILS): An overview

International Labour Standards (ILS) are legal instruments, drawn up by the International Labour organization(ILO) constituents i.e. governments, employers and workers, that set out basic principles and rights at work. They are either **Conventions**, which are legally-binding international treaties that may be ratified by ILO Member States, or **Recommendations**, which serve as non-binding guidelines. In many cases, a Convention lays down the basic principles to be implemented by ratifying countries, while a related Recommendation can also be autonomous (not linked to any Convention).

Conventions and Recommendations are drawn up by representatives of governments, employers and workers and are adopted at the annual International Labour Conference. Once a standard is adopted, member states are required under article 19(6) of the ILO Constitution, to *submit* it to their competent authority (normally Parliament) within a

period of twelve months for consideration. In the case of Conventions, this means consideration for *ratification*. If it is ratified, a Convention generally comes into force for that country one year after the date of ratification. Ratifying countries undertake to apply the Convention in national law and practice and to report on its application at regular intervals. Technical assistance is provided by the ILO, if necessary. In addition, representation and complaint procedures can be initiated against countries for violations of a Convention that they have been ratified.

By the end of June 2018, the ILO had adopted 189 Conventions, 205 Recommendations and 6 Protocols covering a broad range of work issues.

Areas covered by International Labour Standards include: basic human rights, occupational safety and health, wages, working time, employment policy and promotion, vocational guidance and training, skills development, specific categories of workers, labour administration and inspection, maternity protection and social security, indigenous and tribal people, and migrant workers.

4.3.1 Fundamental Conventions

The ILO Governing Body has identified eight Conventions as “**Fundamental Conventions**”, covering subjects that are considered as fundamental principles and rights at work. As of 1st January 2019, there were 1,376 ratifications of these Conventions, representing 92 per cent of the possible number of ratifications. At that date, a further 121 ratifications were still required to meet the objective of universal ratification of all the fundamental Conventions. These fundamental conventions are:

- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87);
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98);
- Forced Labour Convention, 1930 (No. 29);
- Abolition of Forced Labour Convention, 1957 (No. 105);
- Minimum Age Convention, 1973 (No. 138);
- Worst Forms of Child Labour Convention, 1999 (No. 182);
- Equal Remuneration Convention, 1951 (No. 100); and
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

The principles of these Conventions are also covered in the ILO Declaration on Fundamental Principles and Rights at Work (1998). In 1995, the ILO launched a campaign to achieve universal ratification of these fundamental Conventions.

4.3.2 Governance (priority) Conventions

The ILO Governing Body has also designated another four Conventions as **Governance Conventions** (or priority) instruments, thereby encouraging member States to

ratify them because of their importance for the functioning of the International Labour Standards System. The ILO Declaration on Social Justice for a Fair Globalisation, in its Follow-up, emphasizes the significance of these Conventions from the viewpoint of governance.

The four governance Conventions are:

1. Labour Inspection Convention, 1947 (No. 81)
2. Employment Policy Convention, 1964 (No. 122)
3. Labour Inspection (Agriculture) Convention, 1969 (No. 129)
4. Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)

4.4 Relevance of International Labour Standards to Business

International Labour Standards are addressed to governments. Nevertheless, they are also relevant to business in the following ways:

- Business is affected by ILS through National Legislations. When a country ratifies a Convention, this instrument sets the framework for national law and practice on a certain subject. If existing national law or practice does not comply with the Convention, new labour laws, amendments of existing laws, or new implementation directives may result. As a consequence, business may be required to change its labour practices, which can involve significant administrative measures and costs.
- Even if ILS are not taken up by national law, the contents of collective agreements may be inspired by them.
- ILS can be a relevant source of practical guidance for business in areas not covered by national law or collective agreements. Many companies operating internationally have considered ILS, or the 1998 ILO Declaration, in developing their codes of conduct or other responsible business conduct initiatives.
- Global initiatives for voluntary business engagement, such as the UN Global Compact, draw on these sources in their labour principles and the Global Compact business stakeholders engage to work towards their realisation in their business strategies and day-to-day operations. International Framework Agreements (IFAs) negotiated between Global Union Federations (GUFs) and multinational enterprises usually make specific references to the ILO's fundamental Conventions.

Considering the above facts, the employers must play a key role in the ILO and at national level in formulating, implementing and supervising ILS, and in ensuring that due account is taken of the business perspective, including the needs of enterprises of all sizes operating in different geographical areas, economic sectors and social frameworks. Together with governments and workers, employers are responsible for making ILS and their implementation balanced, realistic and meaningful.

4.5 International Labour Standards on Wages

ILO standards on wages address the issues like reducing inequality, increasing demand and contributing to economic stability among the wage earners. They provide for the regular payment of wages, the protection of wages in the event of the insolvency of the employer and the fixing of minimum wage levels.

Few relevant ILO conventions on wages are:

Protection of Wages Convention, 1949 (No. 95) : Wages shall be paid in legal tender at regular intervals; in cases where partial payment of wages is in kind, the value of such allowances should be fair and reasonable. Workers shall be free to dispose of their wages as they choose. In cases of employer insolvency, wages shall enjoy a priority in the distribution of liquidated assets.

Minimum Wage Fixing Convention, 1970 (No. 131) : Requires ratifying states to establish a minimum wage fixing machinery capable of determining and periodically reviewing and adjusting minimum wage rates having the force of law.

Protection of Workers' Claims (Employer's Insolvency) Convention, 1992 (No. 173): Provides for the protection of wage claims in insolvency and bankruptcy by means of a privilege or through a guarantee institution.

Equal Remuneration Convention, 1951 (No. 100):Lays down the principle of equal remuneration for men and women workers for work of equal value.

Check Your Progress

1. What do you mean by International Labour Standards (ILS)?
2. Differentiate between ILS Conventions and Recommendations.
3. What is the relevance of International Labour standards on wages?

4.5 Norms for wage determination

4.5.1 Legislative norms

The norms for wage fixation are included in the Code on Wages, 2019. The Code on Wages, 2019 is an Act of Parliament which received the assent of the President on the 8th August, 2019. It is an Act to amend and consolidate the laws relating to wages and bonus and matters connected therewith or incidental thereto. As defined in the Chapter I of the Code On Wages Act, 2019 "wages" means all remuneration whether by way of salaries, allowances or otherwise, expressed in terms of money or capable of being so expressed which would, if the terms of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and includes,—

- (i) basic pay;
 - (ii) dearness allowance; and
 - (iii) retaining allowance, if any,
- , but does not include—

- (a) any bonus payable under any law for the time being in force, which does not form part of the remuneration payable under the terms of employment;
- (b) the value of any house-accommodation, or of the supply of light, water, medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the appropriate Government;
- (c) any contribution paid by the employer to any pension or provident fund, and the interest which may have accrued thereon;
- (d) any conveyance allowance or the value of any travelling concession;
- (e) any sum paid to the employed person to defray special expenses entailed on him by the nature of his employment;
- (f) house rent allowance;
- (g) remuneration payable under any award or settlement between the parties or order of a court or Tribunal;
- (h) any overtime allowance;
- (i) any commission payable to the employee;
- (j) any gratuity payable on the termination of employment;
- (k) any retrenchment compensation or other retirement benefit payable to the employee or any ex gratia payment made to him on the termination of employment:

Provided that, for calculating the wages under this clause, if payments made by the employer to the employee under clauses (a) to (i) exceeds one-half, or such other per cent. as may be notified by the Central Government, of the all remuneration calculated under this clause, the amount which exceeds such one-half, or the per cent. so notified, shall be deemed as remuneration and shall be accordingly added in wages under this clause:

Provided further that for the purpose of equal wages to all genders and for the purpose of payment of wages, the emoluments specified in clauses (d), (f), (g) and (h) shall be taken for computation of wage.

According to the Section 5 of the CHAPTER II of the Code of Wages Act, 2019, no employer shall pay to any employee wages less than the minimum rate of wages notified by the appropriate Government.

Again Section 6 of the CHAPER II states that for the purpose of fixation of minimum rate of wages under this section, the appropriate Government,—

- (a) shall primarily take into skill of workers required for working under the categories of unskilled, skilled, semi-skilled and account the highly- skilled or geographical area or both; and
- (b) may, in addition to such minimum rate of wages for certain category of workers, take into account their arduousness of work like temperature or humidity normally difficult to bear, hazardous occupations or processes or underground work as may be prescribed by that Government; and
- (c) the norms of such fixation of minimum rate of wages shall be such as may be prescribed.

Besides these legislative norms, wage determination is also influenced by certain other factors also. A brief summary on them is given below:

4.5.2 External Factors

Demand and Supply of Labour

Wage is a price or compensation for the services rendered by a worker. The firm requires these services, and it must pay a price that will bring forth the supply which is controlled by the individual worker or by a group of workers acting together through their unions. The primary result of the operation of the law of supply and demand is the creation of the going wage rate. It is not practicable to draw demand and supply curves for each job in an organization even though, theoretically, a separate curve exists for each job.

Cost of Living

Another important factor affecting the wage is the cost of living adjustments of wages. This tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index.

Labour Union

Organized labour is able to ensure better wages than the unorganized one. Higher wages may have to be paid by the firm to its workers under the pressure or trade union.

Government laws and Policies

To protect the working class from the exploitations of powerful employers, the government has enacted several laws. The laws enacted and the labour policies framed by the government have an important influence on wages and salaries paid by the employers. Wages and salaries can't be fixed below the level prescribed by the government.

Prevailing Wage Rates

Wages in a firm is also influenced by the general wage level or the wages paid for similar occupations in the industry, region and the economy as a whole. External alignment of wages is essential because if wages paid by a firm are lower than those paid by other firms, the firm will not be able to attract and retain efficient employees. For instance, there is a wide difference between the pay packages offered by multinational and Indian companies. It is because of this difference that the multinational corporations are able to attract the most talented workforce.

4.5.3 Internal Factors

Ability to Pay

Employer's ability to pay is an important factor affecting wages not only for the individual firm, but also for the entire industry. This depends upon the financial position and profitability of the firm. If the firm is marginal and cannot afford to pay competitive rates, its employees will generally leave it for better paying jobs in other organizations. If the firm is highly successful, there is little need to pay more than the competitive rates to obtain personnel.

Top Management Philosophy

Wage rates to be paid to the employees are also affected by the top management's philosophy, values and attitudes. As wage and salary payments constitute a major portion of costs and /or apportionment of profits to the employees, top management may like to keep it to the minimum. On the other hand, top management may like to pay higher pay to attract top talent.

Productivity of Workers

To achieve the best results from the workers and to motivate him to increase his efficiency, wages have to be productivity based. There has been a trend towards gearing wage increase to productivity increases. Productivity is the key factor in the operation of a company. High wages and low costs are possible only when productivity increases appreciably.

4.5.4 Job Requirements

Job requirements indicating measures of job difficulty provide a basis for determining the relative value of one job against another in an enterprise. Explicitly, job may be graded in terms of a relative degree of skill, effort and responsibility needed and the adversity of working conditions. The occupational wage differentials may be in terms of

- a) Hardship,
- b) Difficulty of learning the job
- c) Stability of employment
- d) Responsibility of learning the job and
- f) Change for success or failure in the work.

These factors form a basis for job evaluation plans and thus, determine wage levels in an industry.

4.5.5 Employees Related Factors

Several employees related factors also influence his remuneration. These include:

- i) **Performance:** high performers are rewarded with a pay increase. Rewarding performance motivates the employees to do better in future.
- ii) **Seniority:** Unions view seniority as the most important criteria for pay increases whereas management prefer performance to affect pay increases.
- iii) **Experience:** Experiencemakes an employee gain valuable insights of the work and is generally rewarded.
- iv) **Potential:** Organizations also pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience.

Thus theemployees wage determination is influenced by a couple of norms and factors. In the present competitive scenario the employees have started asking for their rights

and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees. Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Hence the compensation committee or the concerned authority should formulate the competitive compensation strategy taking into consideration the norms for the wage fixation. . It depends on both internal and external factors as well as the life cycle of an organization

Check Your Progress

4. What is Code on Wages,2019?
5. Name few employee related factors which influences wage fixation.

4.6 VRS/CRS: VRS and CRS are the two important employee separation strategies adopted by the organisations. A brief overview on these two strategies is given below:

4.6.1 Meaning of VRS

VRS stands for voluntary retirement scheme, whereby an employee is offered to voluntarily retire from services before attaining the retirement date, subject to certain conditions. VRS is one of the strategies introduced in the early 1980s in central public sector undertakings (PSUs).In the present globalised scenario, right sizing of the manpower employed in an organization has become an important management strategy in order to meet the increased competition. The voluntary retirement scheme (VRS) is the most common technique to provide overall reduction in the existing strength of the employees. It is a technique used by companies for trimming the workforce employed in the industrial unit.

Employers refer to VRS as 'golden handshake', trade unions call it 'voluntary retrenchment scheme', and for the government, it is 'unstated exit policy' which means that an exit policy which may not exist on paper. The benefits of the Voluntary Retirement Scheme for the organization and the flexibility it offers to employees make it a win-win decision for both parties. It is also known as a '**Golden Handshake**' between the parties. For trade unions it is 'voluntary retrenchment scheme' as VRS is strictly voluntary i.e. one can neither compel the workers to accept it nor apply it selectively to certain individuals. One can however choose the levels, units and age groups among whom one wants to offer VRS. The company can always accept or reject the application for the VRS.

VRS is also known as '**Early retirement buyout**' because the organization buys the retire-ment of an employee before superannuation by paying for it .

4.6.2 Features of Voluntary Retirement Scheme

- Employee must have completed 10 years of service or must be above 40 years of age to avail VRS.
- It applies to all employees, including workers and executives of a company or of an authority or of a co-operative society, excepting directors of a company or a co-operative society.

- Companies clear Provident fund (PF) and gratuity dues at the time of retirement under VRS.
- The compensation paid under VRS is income tax-free up to Rs. 5 lakhs under section (10C) of the Income Tax Act. One must claim it in the same assessment year as that of receiving compensation.
- Employees can benefit from rehabilitation, tax consultation, and counseling, etc. Companies offer assistance to facilitate smooth retirement.
- Retiring employees must not join any other organization belonging to the same industry or management.
- Companies cannot refill the vacancies created by implementing VRS.

4.6.3 Evolution of voluntary retirement scheme in India

Indian labour laws do not allow direct retrenchment of employees under a union. According to the Industrial Disputes Act, 1947, employers cannot reduce excess staff by retrenchment. In fact, any plans of retrenchment and reduction of staff and workforce are subject to strong opposition by trade unions. Hence, VRS was introduced as an alternative legal solution to solve this problem. It allowed employers including those in the government undertakings, to offer voluntary retirement schemes to off-load the surplus manpower and no pressure is put on any employee to exit. The voluntary retirement scheme was not vehemently opposed by the Unions, because it is 'voluntary' in nature and not compulsory. It was introduced in both the public and private sectors. Public sector undertakings, however, have to obtain prior approval of the government before offering and implementing the VRS.

4.6.4 Benefits received on VRS

The normal benefits that an employee gets on accepting the VRS are Provident fund , Encashed accumulated leave , Gratuity , Salary for the notice period , Cost of transfer to the hometown etc. The amount receivable on account of voluntary retirement of the employee does not exceed the amount equivalent to three months' salary for each completed year of service, or salary at the time of retirement multiplied by the balance months of service left before the date of retirement on superannuation of the employee. It is the last salary drawn which is to form the basis for computing the amount of payment.

4.6.5 Reasons for Offering VRS by Employers and by Employee

A. Reasons for Offering VRS by Employers:

- (a) Recession in the economy forces the organization to opt for VRS in order to survive.
- (b) Globalisation has forced the organizations to recruit fresh management and techno-workers who can adapt to the latest developments easily. Hence, the old workforce is asked to retire.

(c) Every organization wants to merge or amalgamate to others to become more powerful and sustainable in the competitive environment. These ventures keep lean structure and want to be more cost competitive. hence the adopt VRS.

(d) At times, a constant decline in the productivity may also compel the organization to get rid of the inefficient staff by adopting VRS.

B. Reasons for Offering VRS by Employee:

(a) When the Employees want a strategic shift in their careers and want to go in for new career, they may ask for VRS.

(b) When employees sense the threat of retrenchment coming in their organization, in order to look for better opportunities, they may opt for VRS.

(c) When the employees are not satisfied with their growth and advancement in the organization they may ask for VRS.

(d) On account of bad health, some employees find it difficult to keep up with their responsibilities. They find it very fair to resign and live a comfortable retired life.

(e) Sometimes the ambition of the employees also forces them to opt for VRS to start with their own enterprises or indulge in certain other organisation.

(f) Many employees take VRS to meet their liabilities and join other organizations in the evening of their careers.

Employees' Reasons for Accepting VRS:

(1) Since in case of VRS a hefty compensation is paid upfront by the employer, the employee feels tempted to seek early retirement.

(2) Sometimes bad health condition may compel an employee to opt for VRS and utilize the compensation amount on health improvement and leading a healthy life thereafter.

(3) No or low level of work satisfaction is an important driving factor for employees to quit their jobs and take advantage of VRS.

(4) Employees anticipating complete or partial downturn in company's business may think it wise to seek early retirement with immediate financial gain under VRS.

(5) If an employee finds himself inadequate to perform the duties and meet the demands of his current job, he may decide to leave the organization and take advantage of VRS.

(6) An employee having a better alternative employment opportunity may find the time opportune to quit the present job by accepting VRS and enter into the alternative field of work.

4.6.6 Advantages and disadvantages of VRS: VRS accrues advantages as well as disadvantages both to the employees as well as the employers. Some of them are highlighted below:

Advantages on Employees

- Lump sum amount is received at a time
- The employees have the right to accept or reject any offer for VRS

- The retiring employee avails Income Tax benefits on the compensation received.
- Pension and Gratuity benefits are also provided to the retiring employee.

Advantages to Employers

- VRS is a more humane way to reduce surplus workforce than terminating services of employees. The firm's reputation remains intact.
- Trade unions also do not object to VRS as it is voluntary in nature.
- Retirement benefits may give a recruiting advantage of fresh talent.
- Achieving benefits of technological advancement
- Improves efficiency and productivity
- Responding to decline in sales and increase in cost
- Despite of heavy initial upfront costs in the form of heavy compensation package, VRS reduces payroll costs or wage bills significantly over time. The firm is saved from paying monthly wages or salaries to the employees opting for VRS.
- Payment of heavy compensation to retiring employees prevents resentment on their part.

Disadvantages to Employees

- There may be down grade in stacher both at home and outside.
- It may lead to depression in long run.
- VRS might create a sense of insecurity in the minds of employees not opting for VRS and deciding to stay with the firm.

Disadvantages on Employers

- The efficient employees may leave the company while the inefficient may stay back
- VRS might increase the workload of existing employees if it is used to cut the pay bill.

4.6.7 Issues to be considered for Successful VRS

To achieve the desired results from VRS, organizations must consider the following issues thoughtfully before the voluntary retirement scheme is put on offer:

(1) Identifying the Need for VRS

VRS should be put on offer only when the management is convinced that the sur-plus staff will remain unutilized over a long period of time and the organization will not greatly ben-efit by retaining them. To deal with temporary phase of surplus workforce, VRS should not be opted for.

(2) Designing the Scheme:

After having established the need for VRS, the management should design the scheme incorporating the following aspects:

(a) Employees to be covered under VRS:

Generally those employees are covered under VRS who are unproductive for the organization and for that the management can lay down conditions in terms of age limit, categories of employees, etc.

(b) Compensation Package to be offered:

Depending upon the financial position of the organization and the general expectations of the employees likely to be covered under VRS, a suitable compensation package can be offered.

(3) Role of Employees' Unions in VRS:

VRS, although, is a voluntary scheme and it works on the mutual agreement between the employer and the employee. Nonetheless, cooperation from the employees' unions is still desirable and may even be necessary if the management-union agreement stipulates. The influence of unions is so powerful on employees that they can influence employees to accept or reject VRS. However, unless the VRS package is patently against the interests of employees, unions generally do not oppose the scheme. Responsible unions perceive VRS as a painless method of trimming surplus labour.

It is important to explore as many options as possible before introducing VRS in the organization. If reliable workforce is lost due to VRS, it will be an irreparable loss to the organization. The professional organizations identify the workers who are becoming a liability and use this weapon of VRS to bid them goodbye. VRS, therefore, should be taken up as the last measure to reduce the workforce. The workforce which needs to be shown the door has to be first prepared with caution to accept the VRS. Any lapse in this regard may lead to endless troubles for the organization. But if all the above mentioned issues are taken into consideration by the management of an organization, VRS would work successfully across all divisions of the organization.

4.6.8 Overview on CRS

The full form of CRS is Compulsory Retirement. It is an important employee separation strategy which is adopted by the organisations without the unwillingness of the employee. CRS is a tool used to get rid of dead woods and unproductive employees construed to be liability to the organisation. Employee must retire compulsory on attaining the age of superannuation. In Central government Offices, the age is 58 whereas in 'private firms, employees may be given extension up till they are suitable to do work.

Check Your Progress

- 6. What is VRS?
- 7. What is CRS?

8. Who can apply for VRS?
9. To which categories of employees VRS is applicable?

Self-asking Questions

- Differentiate between VRS and CRS?
- Why VRS is called as Golden Handshake?
- Why VRS is also known as ‘**Early retirement buyout**’?

4.8 Summing up

- For the protecting and safeguarding the interest of the wage earners International Labour Organisation had drawn up certain International Labour Standards in the form of Conventions and Recommendations.
- **Conventions and Recommendations** are drawn up by the ILO constituents i.e. representatives of governments, employers and workers and are adopted at the annual International Labour Conference.
- The **Conventions**, which are legally-binding international treaties that may be ratified by ILO Member States, on the other hand Recommendations, serves as non-binding guidelines.
- International Labour Standards include areas like basic human rights, occupational safety and health, wages, working time, employment policy and promotion, vocational guidance and training, skills development, specific categories of workers, labour administration and inspection, maternity protection and social security, indigenous and tribal people, and migrant workers etc.
- The ILO Governing Body has identified eight Conventions as “**Fundamental Conventions**”, covering subjects that are considered as fundamental principles and rights at work. The ILO Governing Body has also designated another four Conventions as **Governance Conventions**.
- **ILO standards on wages** address the issues like regular payment of wages, the protection of wages in the event of the insolvency of the employer and the fixing of minimum wage levels, equal remuneration for men and women workers for work of equal value etc.
- According to Section 6 of the CHAPER II of the Code of Wages,2019 for the purpose of fixation of minimum rate of wages under this section, the appropriate

Government shall primarily take into skill of workers required for working under the categories of unskilled, skilled, semi-skilled and account the highly- skilled or geographical area or both; their arduousness of work like temperature or humidity normally difficult to bear, hazardous occupations or processes or underground work as may be prescribed by that Government; and the norms of such fixation of minimum rate of wages shall be such as may be prescribed.

- Besides the legislative norms, wage determination is also influenced by certain other factors also such as internal factors, external factors, job requirements and employee related factors.
- VRS refers to voluntary retirement scheme, whereby an employee is offered to voluntarily retire from services before attaining the retirement date, subject to certain conditions. The benefits of the Voluntary Retirement Scheme for the organization and the flexibility it offers to employees make it a win-win decision for both parties. Hence, it is also known as a 'Golden Handshake' between the parties.
- The normal benefits that an employee gets on accepting the VRS are Provident fund , Encashed accumulated leave , Gratuity , Salary for the notice period , Cost of transfer to the hometown etc.
- CRS refers to Compulsory Retirement Scheme. Under CRS employee must retire compulsory on attaining the age of superannuation.

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4.10 Model questions

Short answer questions

- What do you mean by International Labour Standards?
- What do you mean by Conventions and Recommendations?
- What are the various areas covered under ILS?
- How Conventions and Recommendations are drawn up and adopted?
- How many Fundamental Conventions and Governance Conventions are identified by ILO?
- Why International Labour Standards on wages are formulated?
- What benefits does an employee receive on VRS?

Long answer questions

- Explain the international labour standards
- Explain the Fundamental Conventions identified by ILO.
- Explain the Governance Conventions identified by ILO.
- Discuss the relevance of International Labour Standards to business.
- Discuss the ILO conventions on Wages.
- Narrate the norms for wage determination.
- Explain the factors affecting determination of wages .
- What do you mean by VRS? State in brief its features.
- Narrate the evolution of voluntary retirement scheme in India
- Narrate the reasons for offering VRS by employers and employees.
- Explain the advantages and disadvantages of VRS.
- Explain in brief the issues to be considered for successful VRS.

4.11 Answer to check your progress and Self Asking Questions

1. International Labour Standards (ILS) are legal instruments, drawn up by the International Labour organization(ILO) constituents i.e. governments, employers and workers, that set out basic principles and rights at work.

2. The **Conventions**, which are legally-binding international treaties that may be ratified by ILO Member States, on the other hand **Recommendations**, serves as non-binding guidelines. In many cases, a Convention lays down the basic principles to be implemented by ratifying countries, while a related Recommendation can also be autonomous (not linked to any Convention).
3. International Labour standards on wages address the issues like reducing inequality, increasing demand and contributing to economic stability among the wage earners. They provide for the regular payment of wages, the protection of wages in the event of the insolvency of the employer and the fixing of minimum wage levels.
4. The Code on Wages, 2019 is an Act of Parliament which received the assent of the President on the 8th August, 2019. It is an Act to amend and consolidate the laws relating to wages and bonus and matters connected therewith or incidental thereto.
5. Few employee related factors which influences wage fixation are employee performance, seniority, experience, employee potential etc.
6. VRS stands for Voluntary Retirement Scheme. Under VRS an employee is offered to voluntarily retire from services before attaining the retirement date, subject to certain conditions.
7. CRS stands for Compulsory Retirement Scheme. Under CRS employee must retire compulsory on attaining the age of superannuation.
8. The employee who has completed 10 years of service or is above 40 years of age can apply for VRS.
9. VRS applies to all employees, including workers and executives of a company or of an authority or of a co-operative society, excepting directors of a company or a co-operative society.
10. VRS and CRS are the two important employee separation strategies adopted by the organisations. VRS stands for Voluntary Retirement Scheme and CRS stands for Compulsory Retirement Scheme. Under VRS an employee is offered to voluntarily retire from services before attaining the retirement date, subject to certain conditions and in case of CRS employee must retire compulsory on attaining the age of superannuation.
11. VRS is called as '**Golden Handshake**' because the benefits of the Voluntary Retirement Scheme for the organization and the flexibility it offers to employees make it a win-win decision for both parties. VRS is strictly voluntary i.e. one can neither compel the workers to accept it nor apply it selectively to certain individuals. One can however choose the levels, units and age groups among whom one wants to offer VRS. The company can always accept or reject the application for the VRS.
12. VRS is also known as '**Early retirement buyout**' because the organization buys the retire-ment of an employee before superannuation by paying for it.

BLOCK 4: HRM PRACTICES IN VARIOUS SECTORS

UNIT 1

HRM Policies and Practices in India: in Service Sector(Banks, Insurance and I.T. and Retail Sector)

Submitted by: Sasanka Bujar Baruah

4.1.1: Introduction

4.1.2: Objectives

4.1.3: Meaning and Role of Policy in HRM

4.1.3.1: Relevance of policy in Business Organisations

4.1.3.2: Role of Human Resource Management through Policy

4.1.4: Service Industry in India

4.1.4.1: Banking and Insurance Industry in India

4.1.4.2: IT Industry in India

4.1.4.3: Retail Industry in India

4.1.4.4: Discussion on Recent Developments in Service Industry in India

4.1.5: Classification of Human Resource Management Policies

4.1.6: Conclusion

4.1.7: Reference and Suggested Readings

4.1.8: Model Questions from the Lesson

4.1.9: Answers in Brief

4.1.1: Introduction

This unit is an introduction to some of the large scale service sector industries in India which are growing substantially fast over a decade. The unit will take you through on how potentially the human resource management plays a vital role in contributing the growth of these industries through partnering with the top management by making their strategies convert into action through effective business policies in place.

4.1.2: Objectives of this unit:

- i. To know the meaning of policy in terms of business and human resource management.
- ii. To understand the present scenario of financial service industry in India such as Banking and Insurance.
- iii. To understand how the global changes has influenced on these industries in India.
- iv. To become aware of various human resource policies for better management of the firms.
- v. To understand the significance of these policies for the organisations and for the employees as well.

4.1.3 Meaning and Role of Policy in Business Organisations

Policy means a set of prescribed principles or measures with regard to a particular governance or field of work. Likewise, human resource management policies (also known as HRM Policies) refers to prevailing regulations, procedural instructions and guidelines imposed by authorities in their dominion for engagement and management of work and conduct of their subjects in action. Policies act as guiding instructions to frame rules and order, they are the directive measures which supports strategy, planning and placing remedy mechanisms into practice. As such, every governance or authority owns their own set of policies or measures to guide them to

undertake decision making and build control on their establishment. Policies are placed as guidelines for administrative procedures aligned to organisational goals and the laws governing them. These guidelines are built to work as the standards for all organisational activities in consideration to organisational vision and moral and legal conduct. According to Koontz & O'Donnell, "Policies were identified as guides to thinking in decision-making. They assume that when decisions are made, these will fall within certain boundaries." In management, a policy refers to a general statement coined by an organisation to guide its own personnel in decision making and carry out their duties as per the organizational goals and objectives. The term policy is derived originally from a Greek word '*Politicia*' which basically relate to citizens or the residents. Thus, policies are the instructions derived out of an organization's strategy to streamline the general actions of its employees towards achieving of its goals. However, unlike Rules, the policies provides broader flexibility of interpretation and implementation of course of action. Well known management experts from University of California, Los Angeles Prof Harold Koontz and Cyril O'Donnell classified sources of organizational policies into four types as: (a) Originated policy, which refers to policies which originates from the top level management of an organisation aiming at guiding all the department managers in their decision making and form a base for code of conduct throughout the organisation. (b) Appealed policy, which are formed out of the requests from the lower management levels as to manage certain exceptional cases faced in due course of action by the executives of an organisation. (c) Implied policy, these are formed out of existing policies of the organisation in areas where the policies are not yet directly enforced and subsequently become a way of practice unconsciously for the executives. And (d) Externally Imposed policy, meaning those policies which are generally summoned by external bodies responsible for regulation of organisations such as associations or cartels or even the legal or government agencies.

4.1.3.1 Relevance of Policy in Business Organisations

Policies hold a significant role for the sound management and overall conduct of every organisation. Almost every formal organisation in the world have their own set of policies framed and communicated as a formal directive to ensure a degree of discipline in the conduct of its activities. Apart from its role as standard guidelines for the normal course of action, the policies provides alignment of workforce conduct to the industrial laws and governing regulations. Policies aid as a medium for directing the action of executives as per the wants of the top level management of the organisation for attaining definite organisational character and culture. They also serve as a tool for monitoring the workplace climate to a large extent throughout the organisation. Thereby extending a roadmap for the employees of different departments of the organisation integrated as one single entity. Furthermore, policies provides avenues for the workers to communicate with the top level management to question nonfulfillment of their requirements in case of adverse situations. Policies reflects inherent characteristics of the organisation indicating its true values and openness for redressal of its limitations for its workers and environment as a whole.

4.1.3.2 Role of Human Resource Management through Policy

Business policies are the safeguards on the road to reach organisational mission, acting as stepping stones to ensure the course of its strategy. Every company's strategy and their business policy always goes hand in hand as policies are made out of a great game plan for moving forward with an established framework for guiding the workers to reach the set goals. Where, human resource management is aimed at managing of labour in its best possible manner to meet organisational excellence, and it plays a substantially important role in placing organisational policies among the workers. As we have discussed above that organisational policies are generally framed to guide employees in their conduct of duties and decision making directed by the higher management to ensure a standard in employee performance. All these directs towards Industrial Relations, Management style, Leadership, Performance management, Coordination and maintaining sound Organisational practices and culture in every organisation. And all these facets are predominantly owned by Human resource management as their agency service to the

organisation. Also, the HRM department in every organisation is concerned with providing Staff-authority support to the entire organisational structure by playing liaison between the departments and also between different levels of management to ensure sound communication and coordination throughout. In the process, the HR department plays the bearer role for educating and implementation of organisation policies across the organisation. And even in disputes, the HR advocates as a liaison between the management and the workers for mediating appeals for revamp of the organisational policies. Apart from this, the HR teams also runs inspection check and reports on employee contraventions for management. As for the legal implications are concerned, the HR team also reports out periodically to the statutory bodies in terms of its policies and standard practices in place for the workers of the firm. In present scenario, with increasing global business presence and ever raising competition in the market, the business environment has become very sensitive and rapidly changing. Accordingly, the regulatory agencies have also kept their regulations revised, demanding rigorous updates and imposing higher restrictions and penalties against breach in conduct. Thereby making business policy and strategy more challenging than ever!

As a result, business policy management has become a crucial part of every organisation; and thereby, policy making is entrusted by every top management on their human resource management team to carry it out across all the departments of the organisation as a part of the strategic game-plan. This nature of practice in the organisations has put Business policy in the ambit of Strategic Human Resource Management. Depending on the type of industry, nature of business activities, size of the organisation, enforced regulations, and market conditions, organisational policy making has taken its due course of development in every economy. In India also business policy has come a long way and has developed itself to accommodate with the changes in its evolving economy. Sectors like Retail, Information Technology, Banking, Insurance and other MNCs which has seen a tremendous growth in the country in last two decades. Surging potential business in these segments of the industry has led to drastic changes in the market, work environment, workforce as well in their technology, revenue and in business practices too. This leaves them with need for higher regulation, competency, risk and resource management, and market capture, which led to better engagement of their business policies to attain the surging business demands.

STOP TO CONSIDER

- Policies are guidelines built to work as the standards for organisational activities.
- Organisational policies are classified into four categories: Originated policy, Appealed policy, Implied policy and Externally Imposed policy.
- HR department in every organisation plays the bearer role in implementing of policies.

4.1.4 Service Industry in India

Indian market has grown substantially over the years, and since liberalization and further changes in the restricting laws made by the Indian government has further led to the influx of foreign business organisations in our Indian soil. Investments from abroad through Indian companies as well as from foreign company branches and joint ventures has penetrated deep in India rapidly since last two decades. India has one of the fastest growing service sector in the world and it contributes to about two-third of the country's GDP. And, it is the second largest employer in the country right after agriculture.

4.1.4.1 Banking and Insurance Industry in India

Banking industry of India is one of the oldest yet fastest growing industry in India. It engulfs around 25% of the total employment (<http://blog.ficci.com/archives/7814>) of the entire financial sector of the country. Resembling a huge number of people being engaged as employees for the banking service. With both private and public players as employers in this segment, along with the developmental agency players like RBI, IDBI, IFCI, SIDBI and NABARD etc. and some

smaller grassroots level cooperatives like rural and cooperative banks running throughout the length and breadth of the country. This segment involves a huge mix of professionals from different social and economic class engaged in performing various specialized as well as general activities. And in case of services like Banking and Insurance, the employees directly interact with their customers. Almost the employees of the sector (predominantly at the executive levels) are mostly engaged at the Point of Sale (POS) position, making it extremely necessary for the management to train and facilitate their lower level executives to remain motivated and prepared to bring more business for the firm. This causes organisations in banking and insurance to substantially spend their resources to develop and maintain a quality staff at their shop floor for thorough execution of their business in normal course, and these costs mark as one of the major expense for all these institutions. After liberalization, the Indian market opened up for the foreign players for business and started competing with the Indian contenders, changing the entire business environment of the Indian market. The Indian players accordingly geared up with their competencies to claim victory in this newly emerging market condition. In Indian Insurance industry, (which accounts for around 15% of the workforce engaged in the financial sector of the country) saw a massive change in the industry when the Govt. of India came allowing up to 49% of foreign investment in the year 2015. With these rapid changes, the whole banking and insurance sector of the country took a sudden turn towards steep competitiveness. Furthermore, emergence of IT industry has also deeply impacted upon banking and insurance alike, advantages of Data science, Artificial intelligence and robotics has taken the financial services sector to another level of magnitude. Hence, adapting to newer techniques for better resource management and focus on improving their services through manpower engagement and evolving strategies to accommodate these brand new changes in the industry. All these called for better suited policies in organisations embarking on superior human resource management skills and tactics. Some of these major changes in the Banking and Insurance sector in recent times has led to a slew of changes in terms of HR related strategy, HR policies as well as practices.

4.1.4.2 IT Industry in India:

IT Industry in India is undoubtedly one of the fastest growing industries in the country which is also responsible for raising the balance of payment for the economy and also in absorbing a huge amount of Indian youths of the country. In the last two decades, India saw a major transition of business activities coming to the country from other nations due to availability of skilled resources and infrastructure for setting up of IT firms. Renowned global giants in IT have invested substantially in India for knowledge transfer and developing resources in India to outsource many of their operations from India to benefit in terms of cost as well as contribution for the development of their business processes. For example, companies like Microsoft, Google, IBM, Dell, Amazon, Facebook, Thomson and Reuters all have their campuses on lease on Indian soil to carry out a significant amount of their business activities from this country. With the advance of these international giants, some of the Indian companies also ventured into providing IT solutions to the national as well as international business houses and many of them have made notable success in the providing quality service. These companies have made IT solutions possible even for the smaller business across the globe and in India also, such as Infosys, Wipro, TCS, HCL and Tech Mahindra, etc. The Indian IT industry continues to remain one of the largest employers in the country and also has become the third largest start-up hub in the world. It has developed significantly enough to draw investors from around the world to partner with the Indian IT firms for IT support and for investment purposes also. These blooming businesses equipped with modern technology and know-how also need modern solutions for managing their human resources. And, the presence of a large number of IT firms sprouting out rapidly in the industry makes it a chase for the human resource management to develop and retain the best in the industry to their benefit. A series of newly established laws governing this recent industry with aggressively expanding global market for their products and growing new entrants makes it quite a horrid challenge for the human resource experts to deliver a balanced growth for the firms. A subtle situation in the industry like this compels for a devious set of policies to accommodate a smoother work environment for consistency in service delivery.

4.1.4.3 Retail Industry in India:

Rapidly growing population, investments, industries, internet, promotion, liberalization, globalization and consumerization has substantially put an impact upon the Indian retail industry in the recent times. Accordingly, the Indian retail industry has changed excessively in many aspects since last two decades. In terms of investments, a large number of Indian and global investment houses has changed the face of retail outlets by a great margin. Customers nowadays undertake shopping as a complete different experience altogether as a social and personal activity. Shopping has not only become a social status symbol, a recreational and leisure activity but also an engagement for learning and know-how. Super markets, shopping malls, departmental store, exclusive showrooms nowadays try to provide a distinct experience to their customers to make them feel completely delighted and enriched by their shopping. In India, retail industry encompasses a large variety of outlets ranging from individual vendors and mom-and-pop stores to large size company owned supermarkets and malls like the Future group, Reliance group, Lulu group, Blackstone group etc. All these businesses involve a huge number of adult population of the nation in its supply chain. Currently around 40 million people are engaged in the retail sector in India, and with the growing on-line retail giants, the share is expected to grow around half of its current size by 2030. This growth in the industry in terms of number of people, investors, investment, investment patterns, types of business models has led to development of complex conditions for sound human resource management. And augment of multi-brand corporate outlets (off-line as well as on-line) has led to a need for development of sophisticated mechanisms for progressive management of the resources in retail platforms too.

Check Your Progress

- ➡ What are the different types of policies in business based on origin of their formation?
- ➡ What are the similarities in market conditions in Banking and Insurance sector in India?
- ➡ Do you think that all the sectors in the service industry in India are affected by globalization?

4.1.4.4 Some of the recent developments in Indian service market can be discussed as follows:

1. **Introduction of Information Technology:** Almost all the business firms engaged in Banking and Insurance have undergone a massive structural as well as operational change due to onset of computers and information technology in the sector. With most of their activities going on 'online mode' has led to deployment of their resources into undertaking of computerized activities and truncations rather than manually as before. Also, it has led to a centralized system connecting all the outlets of the organisation unified as one single platform having mobile accessibility from any part of the world for their customers.
2. **Market expansion:** The financial sector in India has never been as expanded as it has in recent times, growing physically as well as on the internet in terms of its outlets and in service points. Geographically reaching out to out most hinterlands of the country and also to the most distant cities of the world. Most of the major financial organisations of Indian are now able to provide better services to its customer almost all over the world. This has called for a turnaround change in their POS (point of sale: the time and place where a retail transaction gets completed) and in terms of user (customer) interface as well. To meet such challenges, the organisations have undergone a lot of structural changes and adopted newer business models to categorically focus on different classes of potential customers. Which demanded completely new agency services, newer contracts, third party interventions, liaisons and freelancing for developing niche for their products at affordable costs. Engagement of newer parties in businesses imposed the need for new

set of policies and also the transformation of the existing company policies for inclusion of the adaptations.

- 3. Foreign interventions:**with liberalization of Indian economy, a lot of foreign investors jumped in for exploring their chances of opportunities in this not-so-open market.It was an avenue for exploitation their technology and know-how by capturing new markets for their existing products. This brought-in newer competition in terms of end products and as well as for the supply of manpower as well. Since the global players could afford better liquidity, pay packages, training and knowledge with advanced technology, they posed a considerable threat for the domestic firms. As a result, the domestic firms also had to restructure their plans and policies to accommodate competitive management practices to their competitive advantage.Even the foreign investments through venture capitalists have influx a sizable amount of capital through a bunch of petty sized business firms in India to provide subsidiary banking services by offering convenient payment appliances for the users. This has substantially changed the end game of the bankers in customer relationship management.
- 4. Mergers and Take-overs:** Onset of foreign entries and digitalization has seen a lot of mergers and take-overs in Indian industries, and the financial sector is also not an exception to this. A lot of public enterprises (especially banks) have undergone a major mergers in the recent past with a lot of smaller players being merged with the larger ones to remain competitive and draw from their synergies.For example, the lesser influential banks like the Dena Bank and Vijaya Bank were merged with the Bank of Baroda; while the Oriental Bank of Commerce and the United Bank of India were merged with Punjab National Bank. This practice is seen commonly among the public as well as the private enterprises like regional players being brought under national level organisations for better sustainability and performance. Subsidiaries and Parent company mergers like the State Bank of India taking over the smaller regional banks such as the State bank of Hyderabad, State bank of Travancore, State Bank of Bikaner and Patiala etc. In the very same way the Insurance companies from the private realm also ventured with the multinational giants to command grip on the Indian market. Many Indian firms partnered with foreign ventures for risk diversification and technology transfer for sustainability and higher market capture, for example the Aditya Birla Group with Sun Life Group, ICICI Bank with Prudential Life Insurance, ICICI Bank with Lombard Group for selling general insurance, and even between SBI and French financial institution BNP Paribas Cardiff to launch SBI Life insurance in India. All these acquisitions has led to a major change in policy making and challenged traditional human resource management practices, as the larger firms proves protection to the smaller ones from closing down through mergers, and thereby they smaller ones had to be accommodated within the existing structure of the larger company. Hence leading to aggressive penetration of policy change in the entire newer entity.
- 5. Newer Players and Products:**Arrival of new firms in the market came with a range of new financial products for the customers. These products are equipped with more features to address more kinds of customer needs and they are also offered at better accessibility of their purchase and service. A large number of hybrid products were made available to the customers to address a larger number of customer demand. This not only attracted new class of customers, but also pushed the existing customers to demand more.Most of the new products in the market are basically the blended variation of existing products to provide a mix of more utilities from every product. These products usually known as Hybrid Instruments bearing characteristics of both equity and debt investment. Moreover, the entry of large number of investors from India and abroad in Indian Exchange Markets has led to diversified penetration of investments in multi-lateral industries, leading to an all-time high industrial conglomeration in the country.

- 6. Regulatory norms and laws:** India is going through a lot of changes in terms of its laws and regulations to control over its changing economic condition. A number new laws were enacted and came into force to reciprocate for quality corporate governance over recklessly growing players in the market. Also, with change in climate, technology, infrastructure, finance, demographic conditions and emergence of new international laws and trade policies, the regulatory norms are also needed to be put accordingly to suite the demands of the external stakeholders and the country at large. All these macro level changes also infused a considerable amount of changes in the organisational policies to balance their own expectations, results and sustainability.

All these major changes in the market demanded break through change in human resource management and in strategy formulation in the organisations across India. From human resource planning to personal well-being the human resource management department has to streamline the entire activities in pursuance to organisational strategies and compliance to governmental laws. And for this purpose, they work closely with the top management in designing organisational policies to direct employee conduct remains aligned to business goals.

STOP TO CONSIDER

- ➔ Banking industry engulfs around 25% & Insurance sector holds around 15% of the total workers working in Indian financial sector.
- ➔ Retail sector expected to grow further upto 50% of its current size by 2030.
- ➔ Govt. of India allowed up till 49% of FDI in Insurance sector in the year 2015.

4.1.5 Classification of Human Resource Management Policies:

Human resource management policies are essential for the sound functioning of the workforce in every organisation. Though these policies varies from one organisation to another. Depending upon the organisational needs and laws enforced by the government, firms resort to implement them as disciplinary guidelines and instructions for the workforce to adhere with. Most of the important HR policies in the service industry concentrates around certain core HR activities, some of these policies can be categorized into different heads based on their domain of action. Such as the following are some of the common classification of HR Policies based on their area of exercise:

- 1. Policy for hiring of professionals:** Most of the organisations follow a standard selection procedure for the recruitment of their manpower. They mostly hold a recruitment policy to select personnel with certain professional qualifications and experience in specific domains from related industries. The degree of professional knowledge, background verification, intelligence test, measure for emotional quotient, reference check etc. are generally held rooted in the company policy to check on the individuals before their absorption to the workforce. Recruitment drives are usually result oriented and aims at fishing out the best talents available in the labour market.
- 2. Holding policy:** The organisations nowadays also follow a holding policy to elevate their efforts to retain much of their employees. Since this results to reduce the rate of attrition the business and thereby provides a better return on investment from their employees. This not only leads to increase in profits through cost reduction in the run, but also helps in maintaining a balanced work culture and better employer image in the market.
- 3. Training and development policy:** Almost all the companies aims at hiring the best available individuals and developing them to suit their needs. Continuous training and learning are the key priority for the firms to engage their employees for enhancing their business understanding, skills, communication and coordination to

bring competitiveness, innovation, leadership, work autonomy and career development. Organisations have different policies for the induction and learning of their employees based on their level of management, technology usage, business expansion, need for innovation, and duration of tenure, etc. And time to time these policies change based on change in organisational strategies and structure to make their workforce competent for the changes.

- 4. Policy for code of conduct:** These are the most important of the policies for any organisation which governs the basic etiquettes of the entire workforce. It involves aligning the general behaviour of the employees to the vision, mission, and ethics of the organisation to bring discipline on the shop-floor. This includes instructions related to punctuality, dress-code, media policy (showcasing the requirements for organization's social media use), policy for usage of company property, noise policy (loudness, phone etiquettes, use of music), work culture policy (flexibility at work in terms of working hours and remote access, communication, employee engagement activities) etc.
- 5. Grievances and redressal policies:** These policies are related to providing a mechanism to seek fairness and justice for any mishaps or unfair conduct faced by the employees at workplace. They provide guidelines and instructions to the employees about the procedure and the circumstances for which they can call out a complain about. This the process through which the employees can seek for redressal of their grievances in case of sexual abuse, corruption or any kind of unethical or injustice they had bear while performing their duties at work. Even the legal system of India compels organisations to form local committees to check sexual harassment at workplace.
- 6. Policy for performance appraisal:** Performance appraisal system has attracted a lot of importance in the recent times with growing workplace complexities in terms of problem-solving abilities, scope for innovation, career development, work-life balance, business sustainability, competency building etc. Organisations have evolved various appraisal mechanisms in place to evaluate the performance of the employees using different tactics based on the skills, knowledge, aptitude, stress and risk-taking needed to perform different kinds of jobs at work. These evaluation mechanisms uses numerous methods to calculate the contribution of the workers while carrying their job in different conditions. For which, different types of data are systematically recorded in distinct formats to analyse and articulate the contribution of the workers in situations on specific parameters as to arrive at certain measurement of their performance. These policies distinctly specifies the methods for recording of worker activities in particular manner on the basis of the degree of difficulty level and the required skillsets to undertake such duties so that their performance at work could be measured distinctively for further evaluation. Organisations use both quantitative and qualitative methods are used to measure the performance of their workers and also provide mechanism for performance review as well. Some of these well-known methods of performance appraisal are: 360 degree feedback, Goal Review based appraisal (Management by Objectives), Performance Matrix, Behaviorally Anchored Rating Scales (BARS), Psychological appraisals, and Human Resource Cost Accounting Methods.
- 7. Policies for Compensation and Benefits:** This is one of the most important aspect of Human Resource Management department as this not only engulfs the interests of the employees in terms of their livelihood, satisfaction and other workplace facilities, but also determines the image, profitability and sustainability of the firms. And moreover, it also encompasses the legal aspects pertaining to labour welfare and wages acts enacted by the government. It involves providing fair wages to the employees, monetary and non-monetary rewards for appreciation, wellness programs, fringe benefits, insurance cover, and post-retirement benefits as well. These policies covers company directives in

terms of benefits offered to the employees in return of their association and services to the firm. some of the examples of these policies are: Leave policy, Gratuity policy, Wage policy, Employee care policy, Fringe benefits policy, etc.

- 8. Termination Policy:** Organisations also make policies for review and termination of their workers. These policies lay down terms and conditions which specifies the circumstances when an employee can be terminated. In case of certain unaccepted type of conduct at the workplace (either in terms of employee's behaviour or performance), the employer reserves his right to terminate the employment with the workers if the employer finds it suited for. These policies also lays down the terms on the employer in case the employees seek resignation from their jobs. And they also guide the employees on the process for applying for the resignation. Further, these policies also hold guidelines for the management in case of lay-offs and retrenchments.

STOP TO CONSIDER

- Globalization has impacted over different industries alike.
- HR policies are built for strategic advantage of the organisations.
- Most of the core HR activities circulates around implementation of organisational policies.

4.1.6 Conclusion:

Human resource policies are the guiding factors which instructs the organisation and its employees to conduct their activities in such a way which ensures a safer environment for all with due consideration for growth and sustainability to all the stakeholders associated.

4.1.7 Reference and suggested readings:

1. Strategic Human Resource Management by Jefferey A. Mello, 5th edition, Cengage Learning, 2018.
2. Strategic Human Resource Management: Formulating and Implementing HR Strategies for a Competitive Advantage by Ananda Das Gupta, 1st edition, Routledge, 2020.
3. "Innovative Human Resource Practices In Indian Banks: A Study from HR Manager's Perspective" by TejuKujur and Mushtaq Ahmad Shah, International Journal of Engineering Research and Application, Vol.6, Issue 3, Mar 2016, pp.40-48 weblink: https://www.ijera.com/papers/Vol6_issue3/Part%20-%201/G6301040048.pdf
4. 12 crucial HR policies that companies should implement by Shalini L, March 2022, website: <https://www.betterplace.co.in/blog/hr-policies/>
5. Policy in Management: Features, Purpose and Considerations by Venkatesh, website: <https://www.yourarticlelibrary.com/management/policy-in-management-features-purpose-and-considerations/53205>
6. Indian Brand Equity Foundation. Website: <https://www.ibef.org/industry/services>

4.1.8 Model Questions from the unit:

- Q1. The word policy originates from which Greek word?
- Q2. Which is the fastest growing sector in India?
- Q2. What do you mean by a policy in management?
- Q3. Why policies are important in business organisations?
- Q4. What are the recent developments in Indian service industry in last two decades?

Q5. Mention six common Human Resource Management policies in Banking and MNC sector in India.

4.1.9 Answers in brief:

Ans1. *Politicia.*

Ans2. *Service Sector.*

Ans3. *In management, a policy refers to a general statement coined by an organisation to guide its own personnel in decision making and carry out their duties as per the organizational goals and objectives.*

Ans4. *Policies provides alignment of workforce conduct to organisational goals, industrial laws as well as to the government regulations.*

Ans5. *Introduction of Information Technology, Market expansions, Foreign interventions, Mergers and Take-overs, Entry of Newer Players and Products and Regulatory norms and laws.*

Ans6. *Policy for hiring of professionals, Holding policy, Training and development policy, Policy for code of conduct, Grievances and redressal policies, Policy for performance appraisal, Policies for Compensation and Benefits, and Termination Policy.*

Answers to 'Check your Progress':

Ans a. *Originated Policy, Appealed Policy, Implied Policy and Externally imposed Policy.*

Ans b. *Service based, Financial market, Large size, Regulatory interference, Inter-related services*

and Professional manpower.

Ans c. *True.*

BLOCK 4: HRM PRACTICES IN VARIOUS SECTORS

UNIT 2

HRM Policies and Practices in India: in MNCs and Large Business Houses & SME Sector

Submitted by: Sasanka Bujar Baruah

4.2.1: Introduction

4.2.2: Objectives

4.2.3: Meaning of Policy and its Role in Business Organisation

4.2.3.1 Relevance of Policy in Business Organisations

4.2.3.2 Role of Policy for Better Human Resource Management

4.2.4: Large and Small Industries in India

4.2.4.1: Multi-National Corporations in India

4.2.4.2: Large Business Houses in India

4.2.4.3: Small and Medium Enterprises in India

4.2.4.4: Challenges prevailing in SME Sector in India

4.2.5: HRM Policies in MNC and Large Business Houses

4.2.6: Common HRM Policies followed in SME sector in India

4.2.7: Conclusion

4.2.8: Reference and Suggested Reading

4.2.9: Questions from the Unit

4.2.10: Answers in brief

4.2.1: Introduction

This unit is an introduction to some of the large scale as well as small scale industries in India which have seen a potential growth in the near future. The unit will take through on how potentially the human resource management plays a role in contributing the growth of these industries through partnering with the top management by making their strategies convert into action through effective business policies in place.

4.2.2: Objectives of this unit:

- i. To know the meaning of policy in terms of business and human resource management.
- ii. To understand the present scenario of large and small scale industries operating in India.
- iii. To understand the type of changes these industries have undergone recently.
- iv. To become aware of various human resource policies for better management of these firms.
- v. To understand the significance of these policies for the organisations and for the employees working in these organisations.

4.2.3: Meaning of Policy in Business Organisations

Policy means a set of prescribed principles or measures with regard to a particular governance or field of work. Likewise, human resource management policies (also known as HRM Policies) refers to prevailing regulations, procedural instructions and guidelines imposed by authorities in their dominion for engagement and management of work and conduct of their subjects in action. Policies act as guiding instructions to frame rules and order, they are the directive measures which supports strategy, planning and placing remedy mechanisms into practice. As such, every

governance or authority owns their own set of policies or measures to guide them to undertake decision making and build control on their establishment. Policies are placed as guidelines for administrative procedures aligned to organisational goals and the laws governing them. These guidelines are built to work as the standards for all organisational activities in consideration to organisational vision and moral and legal conduct. According to Koontz & O'Donnel, "Policies were identified as guides to thinking in decision-making. They assume that when decisions are made, these will fall within certain boundaries." In management, a policy refers to a general statement coined by an organisation to guide its own personnel in decision making and carry out their duties as per the organizational goals and objectives. The term policy is derived originally from a Greek word '*Politicia*' which basically relate to citizens or the residents. Thus, policies are the instructions derived out of an organization's strategy to streamline the general actions of its employees towards achieving of its goals. However, unlike Rules, the policies provides broader flexibility of interpretation and implementation of course of action. Well known management experts from University of California, Los Angeles Prof Harold Koontz and Cyril O'Donnell classified sources of organizational policies into four types as: (a) Originated policy, which refers to policies which originates from the top level management of an organisation aiming at guiding all the department managers in their decision making and form a base for code of conduct throughout the organisation. (b) Appealed policy, which are formed out of the requests from the lower management levels as to manage certain exceptional cases faced in due course of action by the executives of an organisation. (c) Implied policy, these are formed out of existing policies of the organisation in areas where the policies are not yet directly enforced and subsequently become a way of practice unconsciously for the executives. And (d) Externally Imposed policy, meaning those policies which are generally summoned by external bodies responsible for regulation of organisations such as associations or cartels or even the legal or government agencies.

4.2.3.1: Relevance of Policy in Business Organisations

Policies hold a significant role for the sound management and overall conduct of every organisation. Almost every formal organisation in the world have their own set of policies framed and communicated as a formal directive to ensure a degree of discipline in the conduct of its activities. Apart from its role as standard guidelines for the normal course of action, the policies provides alignment of workforce conduct to the industrial laws and governing regulations. Policies aid as a medium for directing the action of executives as per the wants of the top level management of the organisation for attaining definite organisational character and culture. They also serve as a tool for monitoring the workplace climate to a large extend throughout the organisation. Thereby extending a roadmap for the employees of different departments of the organisation integrated as one single entity. Furthermore, policies provides avenues for the workers to communicate with the top level management to question nonfulfillment of their requirements in case of adverse situations. Policies reflects inherent characteristics of the organisation indicating its true values and openness for redressal of its limitations for its workers and environment as a whole.

4.2.3.2: Role of Policy for Better Human Resource Management:

HR policies are the written documents which provides guidance for the managers and to the employees as well on variety of organisational aspects. Policies helps employees and the management to provide transparency for all as to create a positive working environment throughout the organisation. Business policies are the safeguards on the road to reach organisational mission, acting as stepping stones to ensure the course of its strategy. They provide structure, control, consistency, reasonableness, and fairness to all employees engaged in the company, while keeping compliance with employment legislation. Through these policies, employees come to know about the company responsibilities and their individual responsibilities for which they are being hired for. Through these policies, employment terms can be clearly communicated to employees. Policies provide a better scope for dealing with workplace

situations and discrepancies by supporting a structural approach to common solve expected issues and anticipated difficulties in the work environment. They not only set benchmark for fair treatment of employees in the organisation, but also helps in managing employee expectation better by establishing standards for favourable supervision and control. Policies inherently provide the organisations with a structure or a roadmap to deal with the common problems in the shop-floor by ensuring a set of norms as general instruction of conduct for the employees. Every company's strategy and their business policy always goes hand in hand as policies are made out of a great game plan for moving forward with an established framework for guiding the workers to reach the set goals. The policies are also the mediums for effectively launching the mission and vision of the organisation to reflect on their employees' work behaviour. Where, human resource management is aimed at managing of labour in its best possible manner to meet organisational excellence, and it plays a substantially important role in placing organisational policies among the workers. As we have discussed above that organisational policies are generally framed to guide employees in their conduct of duties and decision making directed by the higher management to ensure a standard in employee performance. All these directs towards Industrial Relations, Management style, Leadership, Performance management, Coordination and maintaining sound managerial practices and culture in every organisation. And all these facets are predominantly owned by Human resource management as their agency service to the organisation. Also, the HRM department in every organisation is concerned with providing Staff-authority support to the entire organisational structure by playing liaison between the departments and also between different levels of management to ensure sound communication and coordination throughout. In the process, the HR department plays the bearer role for educating and implementation of organisation policies across the organisation. And even in disputes, the HR advocates as a liaison between the management and the workers for mediating appeals for revamp of the organisational policies. Apart from this, the HR teams also runs inspection check and reports on employee contraventions for management. As for the legal implications are concerned, the HR team also reports out periodically to the statutory bodies in terms of its policies and standard practices in place for the workers of the firm. In present scenario, with increasing global business presence and ever raising competition in the market, the business environment has become very sensitive and rapidly changing. Accordingly, the regulatory agencies have also kept their regulations revised, demanding rigorous updates and imposing higher restrictions and penalties against breach in conduct. Thereby making business policy and strategy more challenging than ever!

As a result, business policy management has become a crucial part of every organisation, be it an MNC, a Nationalized company or even at Small and Medium size enterprise ; and thereby, policy making is entrusted by every top management on their human resource management team to carry it out across all the departments of the organisation as a part of the strategic game-plan. This nature of practice in the organisations has put Business policy in the ambit of Strategic Human Resource Management. All depending on the type of industry, nature of business activities, size of the organisation, enforced regulations, and market conditions, organisational policy making has taken its due course of development in every economy. In India also, the business policy making has come a long way and it has developed itself to accommodate with the changes in this evolving economy. All the sectors in India has seen a tremendous growth in the country in last two decades almost in every size of enterprise. As in case of small and medium scale industries also, the influence of economic change is growing robust enough through easy finance and economic marketing platforms, which are nowadays are provided mostly through mobile web services. These surging potential business in various segments of the industry has led to a drastic change in their market, work environment, workforce as well in technology, revenue and in business practices. This led these industries for the need for higher regulation, competency, risk and resource management, and market capture, etc. which further led to striking engagement of business policies to attainment of surging business demands of these firms.

STOP TO CONSIDER

- Policies are guidelines built to work as the standards for organisational activities.
- Policies are made by the Top Management to guide decision making by the executives of the the organisation.
- Organisational policies are classified into four categories: Originated policy, Appealed policy, Implied policy and Externally Imposed policy.
- HR department in every organisation plays the bearer role in implementing of policies.

4.2.4: Large and Small Industries in India:

India is one of the largest economy, holding its rank at 7th position among all others in the world. With its huge population, resources and market size, India has potential for a large amount of industries to sprout within its borders. There are various kinds of kinds of industries large, medium or small from various sectoral backgrounds to usher within Indian soil. With the changing business environment, many foreign organisations have also participated and successfully flourished businesses in India. A few types of enterprise based on their size are discussed in this chapter.

4.2.4.1: Multi-National Corporations in India:

MNCs are those enterprises which own large amount of investments over their assets and business channels spread across more than a few international boundaries. Also known as Transnational Corporations (TNC) and Multinational Enterprises, they are business enterprises operating in different countries with their offices, units or outlets spread across without any territory restrictions. They might hold their head office in a different country but hold their manufacturing units and investments in other countries, yet distributing their products through their outlets established elsewhere. A common definition of MNC states that “An MNC is a company that has its facilities, plant and other assets in a country other than its home country or the country that it is incorporated in, having centralized headquarters for specific departments or domain responsible for coordinating the activities in their branches spread across different countries of the world.” [Source: <https://cleartax.in/g/terms/multinational-corporation-mnc>]. In simple words, the Multinational Corporations or Companies are corporate organizations those operate in more countries than limiting themselves to their home country only. This nature of these corporations to function simultaneously in many countries has assigned them the title of ‘MNC’. There are about forty thousand MNCs in the world which are controlling around 25% of the world’s economic activities. These are MNCs are further categorized largely into four distinct groups as: (a) Decentralized MNCs (mostly maintains presence in the home country with a few operations running around the world, e.g. SBI Group) (b) Centralized Global Corporation (Head office lies in the home country having production units in other countries for cost saving reasons e.g. Apple Inc). (c) International company (a corporation which utilizes the business know-how and technology of its home establishment to do business in other countries, e.g. Colgate-Palmolive, Bata, Cadbury, etc.) (d) Transnational enterprises (these business enterprises located in different countries are owned by a single entity yet they each of them function quite independently without any one particular location as a head office e.g. International hotel chains). However, whichever type of an MNC it is, all their branches follow similar work culture values and deliver similar standard of products and services. They all stand for same set of standards as offered in every country they operate in. And for this purpose, they usually follow very strict strategies for their human resource management. The human resource policies provides the backbone of their standards and organisational culture irrespective of their location in the world. It is quite an appreciable feat for their HR teams to be able to manage their employees from different backgrounds to deliver at company’s standards. Speaking about MNCs from India, there are more than a dozen of them who have acquired business in different continents of the world across different industries to grow and excel as renowned MNCs of the

world. For example, Reliance Industries, Tata Motors, Infosys Technologies, Bharat Forge, Ranbaxy, Hindalco, Dabur, etc.

4.2.4.2: Large Business Houses in India:

The dictionary meaning of large business house means business enterprises which owns large amount of assets and operates in bigger size in terms of business volume, market size and usually ventures into more than one type of product or services through different channels of distribution. MNCs are also a type of Large Business House, however not all large business needs to be an MNC. It is because in large countries like US, India, China and in few others, there are quite a number of business houses which deal in a variety of products limited to their domestic markets through huge investments. They mostly focus on developing products for national consumption through investments from domestic portfolios. For example Unilever, Amul etc. The government of India has revised the definition of Micro, Small and Medium Sized Enterprises on May 2020, thereby declaring any enterprise those have investments more than Rupees 50 crore and/or with a turnover of more than Rupees 250 crore are to be deemed as Large Scale Industries in India. Most of the large businesses end up becoming international conglomerates to reap technical, cost, market and risk management advantages, however there a certain amount of large business houses in India who have still limited themselves within the country's borders. Though with time, this scenario is changing with increasing number of MNCs due to rise of foreign competitiveness across the globe. Nevertheless, these domestic large business houses also runs quite a large volume of business transactions in variety of markets and are very much competitive to the MNCs for their part of market share. In case of this type of enterprises also, the Human Resource Management practices remains equally challenging due to the presence of company operations in distant locations with workers coming from different backgrounds and challenges and varying government laws from one state to another.

4.2.4.3: Small and Medium Enterprises in India:

The Government of India has defined Micro, Small and Medium Enterprises over time to time. The latest version of MSME Act of 2020 by Govt. of India defines these industries as follows:

Updated Definition for MEMEs in India			
<i>Sl. No.</i>	<i>Type of Enterprises</i>	<i>Investment (in Rupees)</i>	<i>Annual Turnover (in Rupees)</i>
1.	Micro Enterprises	Rs. 1 Crore.	Rs. 5 Crores.
2.	Small Enterprises	Rs. 10 Crores.	Rs. 50 Crores.
3	Medium Enterprises	Rs. 50 Crores.	Rs. 250 Crores.

The above table explains the criterion for demarcation of enterprises as micro small and medium enterprises in India by the governmental rules. Any enterprise with an investment on plant and machinery from rupees 1 crore to rupees 10 crores and/or generating a turnover between rupees 5 crores to 50 crores are to be classified under the category of Small Industry in India. And, any enterprise with an investment on plant and machinery between rupees 10 crores to 50 crores and/or generating a turnover between rupees 50 crores to 250 crores are to be classified under the category of Medium Industry in the country. Here, the investment and turnover figures have been further changed to larger values resulting to larger inclusion of medium size enterprises. Hence, opening newer possibilities for these enterprises to benefit governmental support extended towards small and medium size enterprises.

However, these small and medium sized industries in India are expose to certain kinds of demerits. These limitations to these smaller SME sector are mainly due to their lack of accessibility of higher funding for adequate investment on technology, infrastructure, man power as well as for certain expert and professional services required for quality enhancement, research & development,, promotional activities, market entrance, competitiveness and risk mitigation.

STOP TO CONSIDER

- MNCs are also known as Transnational Corporations (TNCs) and Multinational Enterprises.
- All MNCs are Large Business Houses, however not all Large Business Houses are MNCs.
- Small & Medium Enterprises are easier to start but harder to remain competitive in the market.
- HR department in MNCs & Large National Companies bridges the communication between the head office and its branches situated in other locations.

4.2.4.4: Challenges prevailing in SME Sector in India:

- i. Inadequate managerial, technical and regulatory know-how for the SME startups.
- ii. Insufficient funds to support for the training and development of the workers working in the SME sector.
- iii. Lack of adequate knowledge for using sophisticated machinery for operational purposes.
- iv. Lack of knowledge of governmental initiatives to avail various grants and support from the state which are specially extended for the SME sector.
- v. Challenges for facilitating quality labour for extensive services to these smaller industries.
- vi. Challenges faced for ensuring steady supply of required raw materials from the suppliers due to liquidity or credit issues.
- vii. Inadequate funds to support a sound distribution channel for on-time market delivery.
- viii. Lower avenues for risk mitigation through diversified investments.

These are some of the limitations commonly faced by the small and medium sized enterprises in their course of business. Though it is comparatively easier to start with a small or medium size enterprise, but they are marginally less sustainable due to excessive competition in the market. That is why the government has time to time provided various aids to these industries for augmentation of their technical, financial, managerial, labour-base and marketing scenario.

Check Your Progress

- a. Do Small enterprises also have dedicated HR department for HRM activities like the larger enterprises?
- b. What is the main distinction between MNCs and Large National Companies?
- c. Do you think that MSE sector has been affected by the surge of foreign MNCs in India?

4.2.5: HRM Policies in MNC and Large Business Houses:

Human Resource Management Policies in Multi-National Corporations and Large Business Houses (which also includes large scale national companies) remains very much similar. Due to the size of investments, operational and marketing activities, number of workers employed and governing regulations. Globalization has touched almost all the industries alike, and made them strategize their policies to manage their resources to develop competencies to face international level challenges. Some of the common human resource management policies seen across these large business houses, be it the MNCs or the national-level enterprises stands common in practice. These can be discussed as follows:

1. **Policy for hiring of professionals:** Most of the large business organisations follow a standard selection procedure for the recruitment of their manpower. They mostly hold a

recruitment policy to select personnel with certain professional qualifications and experience in specific domains from related industries only. The degree of professional knowledge, background verification, intelligence test, measure for emotional quotient, reference check etc. are generally held rooted in the company policy to check on the individuals before their absorption to the workforce. Recruitment drives are usually result oriented and aims at fishing out the best talents available in the labour market. In case of MNCs though, the recruitment of regional heads are usually done through 'head-hunting' technique where the top level management also intervenes for the selection of such personnel, which might also involve positioning of a foreign national in such places. Some of the MNCs also entertain knowledge transfer through transfer of personnel from one country to another.

2. **Holding policy:** The organisations nowadays also follow a holding policy for retention of their employees to elevate their efforts. As this results to reduction in the rate of attrition the business and thereby provides a better return on investment from their employees. This not only leads to increase in profits through cost reduction in the run, but also helps in maintaining a balanced work culture and better employer image in the market.
3. **Training and development policy:** Almost all the companies aims at hiring the best available individuals and developing them to suit their needs. Continuous training and learning are the key priority for the firms to engage their employees for enhancing their business understanding, skills, communication and coordination to bring competitiveness, innovation, leadership, work autonomy and career development. Organisations have different policies for the induction and learning of their employees based on their level of management, technology usage, business expansion, need for innovation, and duration of tenure, etc. And time to time these policies change based on change in organisational strategies and structure to make their workforce competent for the changes.
4. **Policy for code of conduct:** These are the most important of the policies for any organisation which governs the basic etiquettes of the entire workforce. It involves aligning the general behaviour of the employees to the vision, mission, and ethics of the organisation to bring discipline on the shop-floor. This includes instructions related to punctuality, dress-code, media policy (showcasing the requirements for organization's social media use), policy for usage of company property, noise policy (loudness, phone etiquettes, use of music), work culture policy (flexibility at work in terms of working hours and remote access, communication, employee engagement activities) etc.
5. **Grievances and redressal policies:** These policies are related to providing a mechanism to seek fairness and justice for any mishaps or unfair conduct faced by the employees at workplace. They provide guidelines and instructions to the employees about the procedure and the circumstances for which they can call out a complain about. This the process through which the employees can seek for redressal of their grievances in case of sexual abuse, corruption or any kind of unethical or injustice they had bear while performing their duties at work. Even the legal system of India compels organisations to form local committees to check sexual harassment at workplace.
6. **Policy for performance appraisal:** Performance appraisal system has attracted a lot of importance in the recent times with growing workplace complexities in terms of problem-solving abilities, scope for innovation, career development, work-life balance, business sustainability, competency building etc. Organisations have evolved various appraisal mechanisms in place to evaluate the performance of the employees using

different tactics based on the skills, knowledge, aptitude, stress and risk-taking needed to perform different kinds of jobs at work. These evaluation mechanisms use numerous methods to calculate the contribution of the workers while carrying their job in different conditions. For which, different types of data are systematically recorded in distinct formats to analyse and articulate the contribution of the workers in situations on specific parameters as to arrive at certain measurement of their performance. These policies distinctly specify the methods for recording of worker activities in particular manner on the basis of the degree of difficulty level and the required skillsets to undertake such duties so that their performance at work could be measured distinctively for further evaluation. Organisations use both quantitative and qualitative methods to measure the performance of their workers and also provide mechanism for performance review as well. Some of these well-known methods of performance appraisal are: 360 degree feedback, Goal Review based appraisal (Management by Objectives), Performance Matrix, Behaviorally Anchored Rating Scales (BARS), Psychological appraisals, and Human Resource Cost Accounting Methods.

- 7. Policies for Compensation and Benefits:** This is one of the most important aspects of Human Resource Management department as this not only engulfs the interests of the employees in terms of their livelihood, satisfaction and other workplace facilities, but also determines the image, profitability and sustainability of the firms. And moreover, it also encompasses the legal aspects pertaining to labour welfare and wages acts enacted by the government. It involves providing fair wages to the employees, monetary and non-monetary rewards for appreciation, wellness programs, fringe benefits, insurance cover, and post-retirement benefits as well. These policies cover company directives in terms of benefits offered to the employees in return of their association and services to the firm. Some of the examples of these policies are: Leave policy, Gratuity policy, Wage policy, Employee care policy, Fringe benefits policy, etc.
- 8. Termination Policy:** Organisations also make policies for review and termination of their workers. These policies lay down terms and conditions which specify the circumstances when an employee can be terminated. In case of certain unacceptable type of conduct at the workplace (either in terms of employee's behaviour or performance), the employer reserves his right to terminate the employment with the workers if the employer finds it suited for. These policies also lay down the terms on the employer in case the employees seek resignation from their jobs. And they also guide the employees on the process for applying for the resignation. Further, these policies also hold guidelines for the management in case of lay-offs and retrenchments.
- 9. Culture Adoption Policy:** Most of the MNCs have these policies for integration of their employee's workplace conduct at all their sites across the globe. These policies are basically meant to ease stress and build better coordination between people working in different parts of the world with different work etiquettes.

These policies mentioned above are the most critical of the Human resource management policies for all, though not exclusive, but inclusive of some other vital policies as well. Since the number of HR policies are endless and it is not possible to provide a complete list of all the human resource management practices across all the organisations.

4.2.6: Common HRM Policies followed in SME sector in India:

It is usually not possible for the small industries to have a dedicated human resource management team to exclusively carry out for the human resource activities only. However, due to legal mandate and to ensure basic necessary guidelines to their employees, these small industries also have a very few HRM policies in-place. Some of these HR policies which are

necessarily seen in SME sector industries are discussed below. This list of policies showcases those policies which are implied within the smaller industries at their bare minimum possibilities.

1. **Disciplinary Policy:** This usually includes the general workplace instructions common to all the employees of the organisation. These policies generally illustrates the standing orders from the management regarding the shop-floor conduct for the workers and the penalties to be born in case of violation if any. Shift timings, Dress codes, Attendance registration process, Briefing process, and general Code of Conduct etc. are usually being declared through organization's disciplinary policy.
2. **Grievance Policy:**These policies are mostly related to misconduct and harassment behavior found in workplace. They declare the pattern of behaviour or the activities which are to be considered as workplacenuisance, and they allocate appropriate punishments for such unacceptable behaviour for prevention. These policies also encompasses deliberate mechanism made for seeking redressal of unfair practices or behaviour by the employees.
3. **Health and Safety policy:**This is one of the primary policy to be in practice for all the types of organisations in the world. This policy offers directives for passing necessary instructions to be followed at workplace for the workers to avoid any kind of accidents while performing their duties. They also provides instructions for the necessary actions in case of emergency situations. Further, they release statutory warnings against health hazards and communicate necessary information to advice the workers on good health practices. The various initiatives taken by the organisations for mitigation of mental and physical health are also extended to the workers' reach through these policies.
4. **Leave Policy:**This policy explains the terms related to leaves available to the workers. They clarify about the holidays, weekends, vacation leaves, and leaves needed for maternity or out of sickness or other health issues by the workers. This policy also explains the requisites and the number of leaves that can be availed by the employees working at different job position in the organisation.
5. **Succession (Promotion) Policy:** This policy is basically a part of succession plan or the plan for the career development of the employees. Here, the employees are guided in terms of enacted regulations acting to help decision making for promotion and or job position transfer of the workers. It lays down conditions todetermine the requisites and the thresholds for deciding upon the eligibility of the employees for their promotion in the organisation. This policy provides a clear cut road map for the employees to plan for their career movements accordingly.

4.2.7: Conclusion

Human Resource Management plays a strategic function in every organisation through its functions like human resource planning, recruitment, training & development, performance appraisal, disbursement of compensation and benefits, communication and through labour relations. Wherein, the HR policies all these functions of HRM in relation to overall organisational goals and strategies. This discussion showcases how policy stands as an indispensable tool for affective human resource management in every organisation. Despite the size of business or investment, all organisations (large or small enterprises) use policies as a medium to align the efforts of entire workforce towards the attainment of organisational goals. It also shows how prominently the HR department in the organisations also performs its role as an agent to the top management by representing, communicating, and leading the instructions across the lower levels of management.

4.2.8: Reference and suggested reading:

1. International Human Resource Management: Policies and Practices for Multinational Enterprises by Tarique, Briscoe & Schuler, 5th edition, Routledge, 2022, Weblink: https://www.researchgate.net/publication/279851022_International_Human_Resource_Management_Policies_and_Practices_for_Multinational_Enterprises_5th_Edition
2. Human Resource Management in Small Business by Cary Cooper and Ronald Burke, 1st edition, Edward Elgar Publishing, 2012.
3. Human Resource Management Importance in Small Business by Paul Dunn and Larry Short, University of Louisiana, Small Business Institute Journal, Vol 02, 2008. Weblink: https://www.researchgate.net/publication/308944812_HUMAN_RESOURCE_MANAGEMENT_IMPORTANCE_IN_SMALL_BUSINESS
4. 15 Essential HR Policies by SpriggHR, weblink: <https://sprigghr.com/blog/hr-professionals/15-essential-hr-policies/>
5. Essential HR Policies for small businesses by Charliehr, weblink: <https://www.charliehr.com/blog/how-to-run-a-small-business/why-you-should-worry-about-hr-policies/>
6. Top 13 HR Policies for Small Businesses by CloverHR, weblink: <https://www.cloverhr.co.uk/hr-policies-for-small-businesses/>

4.2.9: Model Questions from the unit:

- Q1. Define Policy in terms of business organisations.
- Q2. How do policies provide for better human resource management in organisations?
- Q3. What does MNC stand for? Define.
- Q4. Define Medium scale Enterprises as per the regulations defined by Govt. of India.
- Q5. What are the common problems faced by Small enterprises in doing business in India?
- Q6. Which common HRM policies are practiced by Indian enterprises belonging to SME sector?

4.2.10: Answers in brief:

Ans1. According to Koontz & O'Donnel, "Policies were identified as guides to thinking in decision-making. They assume that when decisions are made, these will fall within certain boundaries."

Ans2. Policies provide a better scope for dealing with workplace situations and discrepancies by supporting a structural approach to common solve expected issues and anticipated difficulties in the work environment.

Ans3. MNC stands for Multinational Corporations. Commonly, "An MNC is a company that has its facilities, plant and other assets in a country other than its home country or the country that it is incorporated in, having centralized headquarters for specific departments or domain responsible for coordinating the activities in their branches spread across different countries of the world."

Ans4. According to Govt. of India (as per its latest mandate on MSMEs), enterprises with an investment of more than rupees 10 crores to rupees 50 crores on its plant and machinery, and/or earning an annual turnover between rupees 50 to 250 crores are deemed to be medium sized enterprises.

Ans5. Inadequate managerial, technical and regulatory know-how; Insufficient funds for the training and development of workers; Lack of knowledge for using sophisticated machinery and government grants and aids; Lack of funds, quality labour and market accessibility.

Ans6. Disciplinary policy, Grievance policy, Health & Safety policy, Leave policy and Succession policy.

Answers to 'Check your Progress':

Ans a. No, generally they don't have separate department solely for undertaking HRM activities.

Ans b. All MNCs own business operation undertakings in more than one country.

Ans c. Yes, absolutely.

BLOCK V : Unit 1

HR in International context

Unit Structure:

- 1.1 Introduction
 - 1.1.1 Reasons for growing interest in IHRM
 - 1.1.2 HR in international context
- 1.2 Objectives
- 1.3 Issues that change the context
 - 1.3.1 Culture
 - 1.3.2 Legal aspects
 - 1.3.3 Approaches to Staffing
 - 1.3.4 Associated industries
 - 1.3.5 Reliance on home country market
 - 1.3.6 Attitude of the senior management
 - 1.3.7 Economic systems
 - 1.3.8 Expatriate management
 - 1.3.9 Repatriation
- 1.4 Differences between HRM domestic and international perspectives
- 1.5 Linking HR to international expansion
 - 1.5.1 Recruitment
 - 1.5.2 Complying with legal provisions
 - 1.5.3 Managing the payroll
 - 1.5.4 Compensation management
 - 1.5.5 Handling cultural concerns
 - 1.5.6 Training facilities
 - 1.5.7 Planning the communication
- 1.6 Summing Up
- 1.7 References and Suggested Readings
- 1.8 Model Questions

1.1 Introduction

The rising internationalisation of businesses has thrown up different dimensions of managing these entities. The terms and conditions of handling the resources associated with a domestic business no longer work the same in the context of international boundaries. Human resources are more likely to be influenced and impacted by this changing scenario of work. Global business decision making inherently depend on the role to be played by human resources. Finding the right human resources to execute tasks at an international level has become more challenging today. The typical facets of human resource management get a new dimension in the global context thereby creating the concept of International Human Resource Management. There are significant issues that highlight the difference between managing human resources at the domestic and at the international level. As simply defined

by Aswathappa (2013), international human resource management comprises of the process of 'procuring, allocation, and effectively utilising human resources' in an international business.

1.1.1 Reasons for growing interest in IHRM

Some of the reasons that have led to the growing interest in IHRM:

- Globalisation of businesses have led to an increasing mobilisation of HR
- The success or failure of an MNC is increasingly being realised as the outcome of effective management of HR
- Huge costs are associated with the performance of the HR in an international setting, and underperformance is likely to cost a firm not just in tremendous financial perspective but also in terms of international customer relations.
- Absence of competent managerial personnel to man overseas enterprises reduces the interest and possibilities of expansion through setting up of subsidiaries.
- Implementation of strategies is much dependent on how the HR functions in the global setting. Proactive HR policies facilitate convenient implementation of the business strategies.

1.1.2 HR in international context

The complexities of functioning in different nations and employing different nationals to work for the organisation gives human resource management an identity distinct from the domestic set up. Three significant aspects and the interplay between them define the milieu for international human resource management. These aspects are namely:

- a) *Transition of the conventional HRM activities* The major functions of human resource management at the domestic level namely HR planning, recruitment, training and development, remuneration, performance management and industrial relations get narrowed down to three broad categories of human resource activities at the international level such as procurement, allocation and utilisation of HR.
- b) *Involvement of three country categories* IHRM comprises of involvement from three categories of countries namely the host country where the subsidiary is located, the home country where the firm is headquartered and the other countries, which may be the source of finance, labour, etc.
- c) *Employment of different nationals* IHRM process recruits its employees from the pool of host country nationals (HCNs), parent country nationals (PCNs) and third-country nationals (TCNs).

1.2 Objectives

This unit is an introduction to the concept of human resource management at an international level. After going through this unit, you will be able to -

- *explain* the concept of international human resource management
- *discuss* the significant issues that change the context
- *differentiate* between domestic and international human resource management
- *explain* the areas where HR can be linked to in case of international expansion of businesses

1.3 Issues that change the context

There are several concerns that have an impact on the setting for managing human resource internationally.

1.3.1 Culture

In regard to global human resource management, culture plays a major role in drawing the boundaries of performance. The shared values, attitudes and behaviour that get transmitted through generations shape the identity of the people in a society and their comfort level. With the association of different nationals having diverse cultural backgrounds, this comfort level gets interrupted thereby resulting in what is known as culture shock. Culture shock is a state of confusion experienced by people when they are introduced to or get exposed to a culture distinctly different from their own. People who need to travel to different countries for work face a serious challenge of acclimatizing themselves with changing cultures which has a direct impact on their work performance. Tremendous adjustments are required in case of values, habits, likes, and dislikes, food, clothing and language. This leads to corresponding adjustments in management practices among a company's subsidiaries. The mix of cultures in the subsidiaries of a multinational corporation and the extent of cultural differences determine the approach taken for managing international HR.

Check Your Progress 1

The state of confusion experienced by people when they are introduced to a distinctly different culture is known as

Stop to Consider

Domestic HRM activities transition into three specific categories at the global level namely procurement, allocation and utilisation of HR. Do you think it narrows down the significance of IHRM?

1.3.2 Legal aspects

Global human resource management gets regulated by the government policies and legal conditions in the host country. A comparison of industrial relations systems across national boundaries is very difficult because a particular notion regarding labour relations may change altogether in a different nation. Further, an appreciation or understanding of the historical origin of the industrial relations system is a must to practice fair labour relations.

1.3.3 Approaches to Staffing

IHRM adopts different approaches to staffing namely ethnocentric, polycentric, regiocentric and geocentric. In case of the ethnocentric approach, the key positions are managed by personnel from the home country, and the HR policies too are adopted for the concerned subsidiary. Polycentric approach comprises of consideration for the locals for managing the firm in the concerned foreign country. The regiocentric approach may on the other hand emphasise the regional grouping of subsidiaries and hiring of staff from any of the countries within the region. Geocentric refers to staffing with a global approach.

1.3.4 Associated industries

The association of the MNC with the industries at a global or domestic level influences HR decisions and the concerned department's orientation. Integration of the activities on a worldwide basis in order to capture linkages among countries becomes the priority of a firm in a global industry.

Stop to Consider

According to the Japanese Overseas Enterprise Association, in the year 1996, only 29 percent of foreign Japanese Companies had presidents who were not Japanese. In contrast, 66 percent of the Japanese subsidiaries of foreign companies had Japanese presidents.

Self-Asking Question 1

Can the ethnocentric approach of staffing be considered as the best approach?

1.3.5 Reliance on home country market

Determination of international strategies for a multinational firm depends on its performance in the home country market. The HR policies and every other organisational activity of an MNC together with the attitudes of the management get influenced by the domestic market conditions.

1.3.6 Attitude of the senior management

The attitude of the senior management to a large extent has an impact on the HR function and activities because if the senior management does not have a strong international orientation, the international operations may not get adequate focus. This may further disturb the international operations.

1.3.7 Economic systems

The differences in economic systems get reflected in differences in HR practices. Differences in labour costs differ substantially between developed and developing nations. Even the rights of employers regarding hiring or discharging of employees are attached with restrictions depending on the economic system of the country.

1.3.8 Expatriate management

Expatriates represent people who live in a country other than their country of citizenship, often temporarily and for work purpose. Global HRM centres around handling of these expatriates in terms of assignments as well as their successful completion or failures. Expatriate problems emerge from their premature return to their home country and are known as expatriate failure. One of the primary reasons for expatriate failure is the inability of the individual to adjust to host country culture. The expat's cultural adjustment comprises of three specific stages namely the tourist stage, disillusionment and culture shock. Tourist stage is a comparatively enjoyable stage where the individual has new experiences like that of a tourist. Disillusionment on the other hand comprises of a realisation of the realities of the new culture and the mood responds in a downward direction. Finally the stage of culture shock dawns wherein the individual experiences home sickness due to difficulty in coping with language or any culture issue. Owing to these issues, the context of managing HR totally changes in comparison to domestic scenario.

Check Your Progress 2

The premature return of an expatriate to his/her home country results in expatriate

1.3.9 Repatriation

The final stage of expatriation process is referred as repatriation. It is the return of an expat to his/her home country. A crucial aspect that needs attention while discussing repatriation is the circumstances under which the repatriation occurs. Whether it is on successful completion of an expatriate assignment or due to failure marks the significance of repatriation. Even though culture stands as a difficult issue for expatriates, the feeling of having to return home on failure becomes all the more challenging leading to immense psychological pressure for the individual concerned. From the perspective of HRM, the settling processes under both circumstances have to be well administered. All necessary support services or facilities for readjustment process of the repatriate have to be managed by the HR department accordingly.

Stop to Consider

Pattanayak (2005) mentions the following reasons for expat failure across US firms, Japanese and Indian firms:

US firms	Japanese firms	Indian firms
Inability of the spouse to adjust	Inability to cope with larger international responsibility	Homesickness, home country hangover
Manager's inability to adjust	Difficulties with new environment	Adjustment problem in a new culture
Other family reasons	Personal or emotional	Difference in work habits

1.4 Differences between HRM domestic and international perspectives

Managing of human resources at the international level is quite different from managing it at the domestic level. Expansion of business organisations beyond the national boundaries brings forth several distinguishing factors such as:

a) Expansion of human resource activities

Due to the increasing proliferation of organisations internationally, the typical HR activities have equally expanded to include newer activities comprising of international taxation, relocation and orientation of international employees, expatriate related administrative services, host government relations and language translation services.

b) Perspective change

Domestic HR is about the conventional human resource management functions right from recruitment to compensation. However, international HRM has to exercise a change in this perspective to a much widened outlook, especially in terms of operating in multi government scenarios and handling of expatriate issues and cross cultural work dynamics.

c) Increased involvement in personal lives of employees

Since international HR involves different nationals, it becomes an issue of obvious involvement in their personal lives. Multinational organisations have their HR department manage the expatriate's housing, health care, work culture, compensation and all other matters with the view of making them comfortable in the new work environment. Domestic HR does not require getting involved in the personal lives of employees to such an extent.

d) Shift of focus based on varying workplace mix

The changing workplace mix of expatriates and locals tend to shift the emphasis or focus from certain HR activities like expatriate taxation, relocation and orientation to other types

such as local selection, training etc. This happens mostly due to the transition that occurs in regard to need for expatriates to local staff requirements.

e) Exposure to risks and failure management

In case of international businesses, the consequences of failure are comparatively more severe than in case of domestic functions. Failure of an expatriate to perform or his premature return from the assigned job has tremendous implications for the costs, market share and international customer relationship. Further, the threat of terrorism has amplified the urgency of risk minimisation while dealing with international assignments, which was comparatively less of a concern in case of domestic operations.

f) Newer external influences

Global expansion of businesses throws up new external influences in the form of different governments, economic states and business policies on the HR professionals. HR policies are influenced by the attitude of the government, or economic regulations that have a major impact on value of labour or any decision related to it.

Check Your Progress 3

IHRM has interest in employees' personal lives compared to domestic HRM.

Self-Asking Question 2

What impact do you think the September 11 tragedy in USA has on IHRM?

1.5 Linking HR to international expansion

Human resources represent a core resource for any organisation since it is the only animate resource that can work with and control other inanimate resources. With the expansion of businesses beyond national boundaries, the need for strengthening and diversifying the human resources multiplies. Together with this need arise newer considerations and challenges for HR. Global expansion tends to redefine human resource management in the following ways:

1.5.1 Recruitment

It is one of the foremost areas of concern for an organisation because finding the right pool of talent to yield the desired performance can determine the organisation's capacity to sustain in the new business environment. Recruiting for an international firm requires consideration of the issue of hiring local resources or from global sources. Beyond focussing on choosing

between the ethnocentric, polycentric or geocentric approaches to staffing, HR department also has to deliberate on the concerns as follows:

- *Researching upon the skills and academic qualifications of applicants.* It is imperative to have a proper understanding of the fact that candidates belonging to different nations will have different backgrounds in the context of skill and education. Gap in the expected level of skills and existing level may prove to be a challenge in recruiting the desired talents.
- *Familiarizing with the conditions of the relevant labour market.* Human resources for a global enterprise have to be drawn keeping in mind the current conditions of the concerned labour market. Employment scenario in the country and labour market conditions determine the cost of labour.
- *Determining a suitable recruitment strategy.* The criteria of recruiting talents or hiring candidates differ from country to country. One policy may not hold equally good in all nations. It is essential to identify a strategy that respects the conditions prevailing in the country concerned.

1.5.2 Complying with legal provisions

In terms of recruitment for global organisations, another concern is in regard to compliance with legal provisions. Any law related to employment or recruitment has to be considered for hiring candidates for firms operating internationally. International environment consists of diverse associations and bodies for regulating the terms and conditions of employment over and above the state dictated procedures. HR in case of expanded businesses have to ensure the protection or securing of their rights. Working hours, pay and allowances, leave rules, safety and security etc. are some of the similar but important issues that needs to be taken care of in regard to employment. Compromising on any provisions or non-compliance may result in further legal consequences today. A thorough understanding of these rules is a must for global success of the organisation.

1.5.3 Managing the payroll

Global expansion of business throws up another challenge and responsibility in regard to the payroll. Showing international employees in the payroll of an organisation may have legal complications or restrictions. Deductions for tax, method of payment of salary, benefits and social security issues and timing or frequency of payment needs to be well determined while managing the international payroll. Local customs and currency also matter in the case of payroll decisions. Paying the employees through the company clients or outsourcing the payroll also acts as other alternate options for managing payroll.

1.5.4 Compensation management

Designing a fair and competitive compensation package for international recruits after all necessary negotiations is of prime significance in case of international businesses. Considerations for minimum wages, pension benefits, cost of living, and local customs based

benefits and industry rules. Consultations with local experts for planning and creating a feasible compensation package helps bringing in fairness in the process and outcome.

1.5.5 Handling cultural concerns

HR department has an added responsibility of carefully looking into the culture associated aspects of international employment. Cross cultural teams test the capacity of the organisation in terms of harmonious relationships and team spirit. Culture represents a way of life for people and in a cross cultural set up, there is every possibility of these ideas of a way of life getting jeopardized. It becomes the job of HR department to ensure harmony within the organisation and strengthen the cross cultural relationships. Healthy human relations and conflict management can help to nurture a happy work environment and trust among the employees.

1.5.6 Training facilities

Training provides with a surety of high performing and result oriented employees. At a global level, the very purpose of training shifts from mere technical skill up gradation to enhancement of soft skills. Skill gaps or skill shortages can turn out as the biggest block in global business performance. Academic qualifications alone do not contribute to optimum output or efficient performance. Soft skills amount to a major factor in maximising work productivity and performance. Human resource management demands adequate measures to nurture both technical and soft skill up gradation in order to succeed internationally.

1.5.7 Planning the communication

Communication plays an important role in every organisation. Human resources at an international level need to interact and communicate within a diverse lingual set up. Language differences may not overtly cause difficulties, however knowledge of the local language helps in convenient and speedy execution of the business transactions. In addition to the language, the channel of communication also matters optimally. In an age of advanced technology and cut throat competition, usage of advanced modes of communication ensures survival capacity of the business firm. Virtual modes of communication may also have certain challenges, but emerging technological innovations may facilitate with solutions to such concerns.

Check Your Progress 4

The purpose of global training shifts from mere technical skill up gradation to enhancement of

Self-Asking Question 3

Your institute has a tie up with a German university for faculty exchange programs. As a result four of your faculty members have to visit Germany for a two years teaching program. What expatriation and repatriation issues will you take into account for executing this new program?

1.6 Summing Up

The process of managing HR at a global level is essentially a significant concept in the modern world today, and distinctly different from the domestic method. The whole perspective of IHRM differs from domestic HRM in the sense that the conventional focus on recruitment and selection actually shifts to newer issues like international taxation, expatriate management, repatriation and more involvement in personal lives of employees. Culture shock wins over as a new area of concern in case of IHRM since it is quite natural for individuals to experience a struggle with a new culture when they occupy a position as an expat. IHRM centres around three crucial activities namely procuring, allocating and utilising HR effectively. Managing HR internationally is basically interplay between three dimensions – HR activities, types of employees and countries of operation. Several important aspects like culture, attitude of management, economic systems, expatriation process and repatriation etc. set the background for IHRM. Any form of expansion of an MNC necessitates linking of HR activities in the form of recruitment, legal provisions, payroll, compensation, culture, training and communication.

1.7 References and Suggested Readings

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1.8 Model Questions

- Q1. What is IHRM? How is IHRM different from domestic HRM?
- Q2. What is culture shock?
- Q3. What are the issues that change the context for managing HR at the global level?
- Q4. Discuss the linkage perspective of HR in case of expansion decisions of an MNC.

Q5. Explain briefly the international staffing policy for MNCs.

1.9 Answer to check your progress:

Ans. Q1. culture shock

Ans. Q2. failure

Ans. Q3. increasing

Ans. Q4. soft skills

BLOCK VI : Unit-1

Re-Engineering HR- Functions and Processes, Implementing Re-Engineering Changes.

Unit Structure:

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Re-Engineering HR
 - 1.3.1 Who will reengineer?
 - 1.3.2 Role of technology in HR Reengineering
 - 1.3.3 Employees role in Reengineered firms
 - 1.3.4 People role's changes- from controlled to empower
 - 1.3.5 Job preparation changes- from people to work
- 1.4 Functions and Processes
- 1.5 Implementing Re-Engineering Changes
- 1.6 Case Studies on Re-engineering
- 1.7 Key Terms
- 1.8 Summing up
- 1.9 References and Suggested Reading
- 1.10 Answer to “Check Your Progress”
- 1.11 Possible Answer for Self-Asking Questions

1.1 Introduction:

In 1990, Michael Hammer, former professor of computer science at the Massachusetts Institute of Technology (MIT), published an article in the *Harvard Business Review*, in which he claimed that the major challenge for managers is to obliterate non-value adding work, rather than using technology for automating it.

Hammer and Champy (1993) defined re-engineering as “*The fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical contemporary modern measures of performance, such as cost, quality, service, and speed*”.

Business process Re-engineering, although a close relative, seeks radical rather than merely continuous improvement. It escalates the efforts of Collaborative Manufacturing, Just-in-time (JIT) and Total Quality Management (TQM) to make process orientation a strategic tool and a core competence of the organization. Business Process Reengineering concentrates on core business process, and uses the specific techniques within the JIT and TQM ‘toolboxes’ as enablers, while broadening the process vision for organization development. For achieving major business improvements, Business Process Reengineering, the change of structural organizational variables, and other ways of managing and performing work is often considered as being insufficient. For being able

to reap the achievable benefits fully, the use of information technology, policy changes in human resource functioning, strategy are considered as major contributing factors.

Re-engineering Human Resources is an important business process of an organization. Unless, HR management is given much importance, it will curtail the growth of the organization. Re-engineering as a way of organizational change security of the institutional and strategic vision in light of the current environmental conditions. Human resource dimension deals with aspects such as education, training, motivation and rewards systems. Re-engineering human resource is the radical redesign of workflow processes, using information systems, technology i.e., computer or smartphones, and competent people who are empowered to do whole job for their customers or themselves to achieve dramatic improvements in quality and productivity. Basically, re-engineering means rethinking whether work should be done at all or eliminated, whether work, product or services should be provided by the firm or outsourced. Thus, reengineering is for work if it is essential and strategic on the contrary, a firm should not reengineer a business it is not familiar with. Reengineering is new beginning i.e., search for new models for organizational work. The new process generates fewer errors and misunderstanding, the firm does not need additional people to find and fix them. Employees involved in the reengineering process assume responsibility for making sure the customers demand are met on time and with no defects, they need less supervision.

The key ingredients in reengineering are information systems technology, process and people. Reengineering is enabled by extensive use of networked, integrated personal computers, which make possible to process virtually HR paperwork electronically and automate the delivery of most human resource services. As a result, information can be communicated to any other at potentially faster speed.

1.2 Objectives:

This unit is an attempt to know the reengineering of human resources, process and its implementation for change in business. After going through this unit, you will be able to know:

- ✓ Meaning of reengineering in human resource.
- ✓ Role of Information Technology in Reengineering.
- ✓ Employees role in Reengineered firms.
- ✓ Functions of human resource reengineering.
- ✓ Process of human resource reengineering.
- ✓ Implementation of reengineering for change in the business.

1.3 Re-Engineering HR:

The vision for reengineered human resource in future is that *“All human resources services available instantaneously, on demand, at the place most convenient to an employee: his or her workstation, anywhere in the world”*.

Human resource management plays a significant role in the whole system of a business functioning. When the business is getting bigger, a need in human resource

arises as the business process gets more complicated. HR re-engineering is all about optimization and continuous improvement. It is the fundamental rethinking and radical redesign that leads to an increase in productivity and sustainable improvement in the HR department. HR professional rethink the way they operate and ensure the best use of technology, systems, communication and focus on innovating new ways for problem solving. HR needs to revisit, evaluate, update its process and provides high value-added services to the HR department. HR department implements new policies regarding selection, appointment and training staff in such a manner that the performance appraisal of the employees will reach to an optimum level. This can be better achieved by introducing changes in information technology, paperless work, screening employee performance, providing health care benefits etc. Apart from all other resources like-material, financial, intellectual; human resources are treated as the asset of the business and are equally important for its survival and growth. The success of reengineering programs is dependent on concurrent with effective organizational and human resource change.

Re-Engineer cycle:

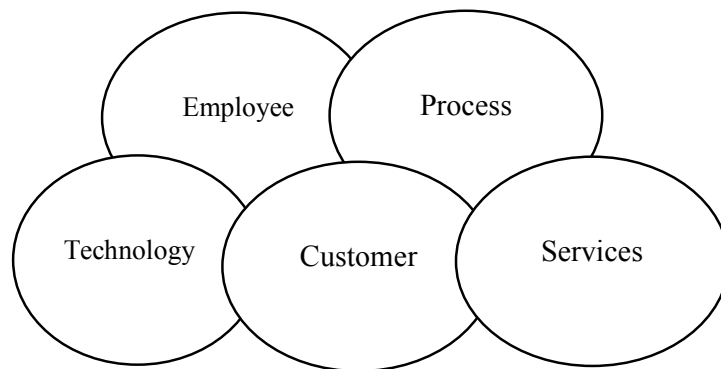


Fig:Re-Engineer Cycle; adapted from Michael Hammer and James Champhy, 1994, “Reengineering the Corporation”

Re-engineering cycle involves redesigning people, process and technology. It is the art of changing in the organization’s way of thinking and consequently doing things in the radical way. The ultimate aim of reengineering is to provide customer satisfaction by efficient and effective service. Rapid technological changes require more adaptive and sophisticated workforce. There is a pressing need to cultivate n a new workforce of electronic resource libraries,information managers, system integrators, training and education providers to conceive, build and implement a wide range of user-oriented applications using innovative information technology. The vision of HR in future is that all human resource services should be available instantaneously on demand, at the place of convenient to an employee, his or her own work station, anywhere I the world with radical re-design of workforce process. This will make people to do the whole job for the customers. It builds better lines of communication between functional teams, information is passed faster and making the company more resilient to market changes

STOP TO CONSIDER

- HR re-engineering is all about optimization and continuous improvement. It is the fundamental rethinking and radical redesign that leads to an increase in productivity and sustainable improvement in the HR department.
- HR professional rethink the way they operate and ensure the best use of technology, systems, communication and focus on innovating new ways for problem solving.
- Re-engineering cycle involves redesigning people, process and technology.

1.3.1 Who will reengineer?

Companies don't reengineer processes; people do. Before we investigate more deeply into the "what" of the reengineering process, we need to attend to the "who." How companies select and organize the people who actually do the reengineering is key to the success of the endeavor. The following roles emerge, either distinctly or in various combinations, during the work with companies that are implementing reengineering.

- *Leader*: A senior executive who authorizes and motivates the overall reengineering effort.
- *Process owner*: A manager with responsibility for a specific process and the reengineering effort focused on it.
- *Reengineering team*: A group of individuals dedicated to the reengineering of a particular process, who diagnose the existing process and oversee its redesign and implementation.
- *Steering committee*: A policy-making body of senior managers who develop the organization's overall reengineering strategy and monitor its progress.
- *Reengineering czar*: An individual responsible for developing reengineering techniques and tools within the company and for achieving synergy across the company's separate reengineering projects.

1.3.2 Role of Information Technology in HR Reengineering:

Information technology (IT) has historically played an important role in the reengineering concept. It is considered by some as a major enabler for new forms of working and as collaborating within an organization and across organizational borders. In mid 1990s, workforce management systems were considered as a significant contributor to improved process efficiency. Enterprise Resource Planning (ERP) vendors such as- SAP, JD Edwards, Oracle, PeopleSoft, positioned their solutions as vehicles for business process redesign and improvement. The work can be performed better by the following ways-

- Shared database, making information available at many places.
- Expert systems, allowing generalists to perform specialist tasks.

- Telecommunication networks, allowing organizations to be centralized and decentralized at the same time.
- Decision-support tools, allowing decision-making to be a part of everybody's job.
- Wireless data communication and portable computers, allowing field personnel to work office independent.
- Interactive video disk, to get in immediate contact with potential buyers.
- Automatic identification and tracking, allowing things to tell where they are, instead of requiring to be found.
- High performance computing, allowing on-the-fly planning and revision.

1.3.3 Employees role in reengineered firms:

In a reengineered firm, employees must hold believe on the following-

- Since their salaries are paid by the customers, the employees need to do what it takes to please the customers.
- Every job in the firm is equally important and hence the employee need to make the difference and understand their duties.
- Showing up is not accomplishment. The employees get paid for the value they create.
- The employees need to accept ownership of problems and get them solved.
- Nobody knows what tomorrow holds. Thus, constant learning is a part of employees' job.
- The managers change from supervisor to coaches. The managers need to spend less time on pieces of papers moving around departments but spend more time on helping the employees to do richer and more demanding work.

1.3.4 People role's changes- from controlled to empower:

A task-oriented traditional company hires people and expects them to follow the rules. A reengineered company don't want employees to follow rules, rather they want people who will make their own rules. As the management invests teams to complete the entire process with responsibility; it must also give them the authority to take decision to get the work done effectively. Teams of one person or several, performing process-oriented work are self-directing. Within the boundaries of their obligation to the organization- agreed-upon deadlines, productivity goals, quality standards, etc.- they decide how and when the work is to be done. If they have to wait for supervisory direction of their task, they are not process team. Empowerment is an unavoidable consequence of reengineered process; process can't be reengineered without empowering process workers. Consequently, firms that reengineered must consider additional criteria in their hiring. It is no longer enough to look at prospective employees' education, training, skills and character. But to check whether they are self-starter, self-disciplined and are motivated enough to do whatever pleases a customer.

1.3.5 Job preparation changes- from people to work:

Job in the reengineered process require that people not follow rules rather exercise judgement to do things right. Thus, employees need sufficient education to discern themselves what is right. Reengineered firms emphasize shifts from training to education-or to hiring the educated. Training increases skills and competence and teaches employee the 'how' of a job. Education increases their insight and understanding and teaches the 'why'. The firms want people who can figure out what the job takes and do it, people who can create the slots that fits them. Since the environment is changing, it is impossible to hire people who already know everything i.e., continuing education over the lifetime of the job becomes the norm of

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STOP TO CONSIDER

- A senior executive authorizes and motivates the overall reengineering effort.
- In a reengineered firm, employees must need to know that since, their salaries are paid by the customers, the employees need to do what it takes to please the customers. The managers change from supervisor to coaches.
- A reengineered company don't want employees to follow rules, rather they want people who will make their own rules. Thus, people's role changes from controlled to empowered.
- Reengineered firms emphasize shifts from training to education-or to hiring the educated.

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CHECK YOUR PROGRESS

- 1) What do you mean by HR Reengineering?
- 2) Who will reengineer?
- 3) Discuss the role of Information Technology in HR reengineering.
- 4) Discuss the role of employees in reengineered firms?
- 5) In reengineering, how people role's changes from control to empower?
- 6) In reengineering, how job preparation changes from people to work?

1.4 Functions and Process:

Functions of HR Reengineering:

Reengineering Human Resources function may set strategies and develop policies, standards, systems and process. To implement these strategies in a whole range of areas for which the following would be typical for a wide range of organizations:

- i) **Recruitment and selection (resourcing)**-Employment recruitment forms a major part of the company's overall resourcing strategies which seek to identify and secure the people needed for company's success. Technology such as Applicant Tracking System (ATS) acts as enabler by integrating with social media, online referral programme, and dive into mobile marketing and need to be visible online everywhere. Reengineering with the backbone of technology will bring different teams on same platform and minimize transmission loss by automating the recruitment and selection workflow.

EXAMPLE

- ✓ Create a LinkedIn group and be accessible through instant message on website.
- ✓ Create free whitepapers, eBooks, PPTs, host an online video and talk about employer branding on YouTube.
- ✓ Run referral online programs and use company blogs to drive talent specially on twitter, automated the sourcing efforts through web crawlers, conduct virtual job fairs and stay active in specific industry online groups, host free webinars on hot topics.
- ✓ Then pool the CV and enhance people experience and finally start recruitment and selection process.

- ii) **Organizational design and development**- Reengineering organizational design and development brings changes in the organization. The members rethink about work schedule and how it is to be done and how to implement this decision. In result jobs are combined and enlarged and employee's job are made more interesting and challenging where the team members are responsible for collective result and target.
- iii) **Business performance and changed management**- Business performance comes from analyzing and re-engineering work processes to eliminate unnecessary steps and save time that could be used for other productive purposes. Innovative process is the focal point to bridge time and enhance productivity. HR can send a mini-review, yearly feedback to employees about their team or peers on their performance or critical skills, seek advice on what should be improved for the next work. Remainder e-mail every morning regarding the time allocated for completing tasks, minimize employee onboarding process etc. are needed for better performance and changed management.
- iv) **Industrial and employee relations**-Enhanced manpower information system to provide relevant and timely manpower information to policy makers, employers, training providers and individuals. Re-allocate company workers from low to high

value-added sectors, collective bargaining of employees, regulation of trade unionism, grievance redressal mechanism, setting up research and development for supporting the development and management of workforce. It promotes and maintains industrial peace and stability by providing legal framework to balance the interest of employers and employees.

- v) **Human resources (or workshop) analysis and the management of workforce personal data-** Human resource analysis is needed to access the employees and what things are influencing them to exit or remain in the company. Reengineering HR is the combination of employee-related matrices, to measure the performance level and the employee from the record of their daily work data. This help to have a clear picture of the current situation and make further improvement in HR strategies resulting in optimization of the company.
- vi) **Compensation, rewards and benefits management-** These are the monetary and non-monetary benefits passed on by a firm to its employees and it is an important motivational factor of the employees. Reengineering the wages and salary rates based on the market opinions is essential. This is a consequence of better profitability and increase the demand of workforce, adoption of new technology. Also, different allowances, rewards, compensation and fringe benefits meant for competitive advantage to the company.
- vii) **Training and development (learning management)-**Rethinking the training function in rapidly changing business environment create new needs for globalization, human resource development, new technologies and learning. Reengineering training enables the HR and the team to hit the ground running and produce actionable results quickly. Reengineering training provides a cohesive best practice approach to reengineer human resource or the workforce into 360^oi.e., vertically and horizontally across the company. It will help to achieve break-through results in organizational effectiveness and operational efficiency.

STOP TO CONSIDER

- Reengineering Human Resources function may set strategies and develop policies, standards, systems and process.
 - ✓ Recruitment and selection (resourcing)seek to identify and secure the people needed for company's success.
 - ✓ Organizational design and development will make people to do more challenging jobs with confidence.
 - ✓ Business performance and changed managementis to eliminate unnecessary steps and save time that could be used for other productive purposes i.e., innovative.
 - ✓ Better industrial and employee relationsis necessary to re-allocate company workers from low to high value-added sectors.
 - ✓ Human resources (or workshop) analysis and the management of workforce personal datais needed to access the employees and what things are influencing them to exit or remain in the company.
 - ✓ Suitable compensation, rewards and benefits managementis an important motivational factor of the employees.
 - ✓ Training and development (learning management)enables the HR and the team to hit the ground running and produce actionable results quickly.

Process in HR Reengineering:

HR process reengineering is all about optimization and continuous improvement. Its main process is to improve the level of process performance in order to achieve significant sustainable improvements in the performance of HR department. The procedure involves six steps-

- i) Identify HR process-**Although the senior management builds the general guidelines and directing the reengineering effect, the HR manager play a major role in determining whether the organization will succeed.HR makes the selection criteria for members of steering committee, take interview and evaluate the candidates. Moreover, HR determines how to select the team leaders and its members. An automated and technology driven steps is absolutely necessary to identify the errors and delays that uphold the free flow of process.
- ii) Creating job statements and role descriptions that reflect the new corporate order-** Reengineering requires serious inspection about the company's goal and what role and responsibilities will help in achieving the goal.The management needs to create a whole new way of thinking. The HR needs to write job statements instead of job description, needs to outline roles instead of tasks and lastly the work should be structured around customer benefit rather than a specific function in the department.
- iii) Working out compensation issues-** Pay scales, rewards, incentives, bonus must be structured in such a way so that it creates the desired results. The company in order to retain customer must prove customer services and needs to measure and compensate the workforce base on this criterion. Moreover, HR must decide whether to pay employees based on their specific tasks i.e., 9 to 5 job, or to pay based on their knowledge and skill.There is often disconnect between the basic strategy and what the HR actually does.
- iv) Training the new work force-** It is necessary to provide plenty of training programs on specific skills to employees in a newly reengineered company. Along with it, teamwork, decision making and trust building must also be heavily emphasized over a period of time. Informing every employee about the new process and proceed ahead after educating them how the new process works and also constantly monitor their performance.
- v) Modifying the new corporate culture-** Human resource can alter thinking by helping to form a new ethnography. Stories, ceremonies, awards, informal parties and rituals have a major impact on how people behave. It must be consistent throughout the organization and creates a symbol of better work environment. The

change cannot occur overnight, it may take weeks or months before a real breakthrough in thinking takes place.

- vi) **Facilitate communication in the work force**-A good communication can help workforce understand how reengineering may be beneficial to them in future. As workforce are always afraid to accept the change, newsletters, videos, letters, E-mail messages and companywide and departmental meetings are useful tools in

CHECK YOUR PROGRESS

- Explain the various functions of Human Resource Re-engineering?
- Discuss the Human Resource Re-engineering process?
- How to modify the new work culture?
- How is business performance takes place in a changed management?

suppressing nervousness and anxiety among the employees.

STOP TO CONSIDER

- HR process reengineering involves six steps-
 - ✓ Identify HR process and makes the selection criteria for members of steering committee, take interview and evaluate the candidates.
 - ✓ Creating job statements and role descriptions reflects the new corporate order where the HR needs to outline roles instead of tasks
 - ✓ Working out compensation issues related to preparing the pay scales, rewards, incentives, bonus must be structured in such a way so that it creates the desired results
 - ✓ Training the new work force helps in building teamwork, decision making and trust.
 - ✓ Modifying the new corporate culture is providing opportunity for ceremonies, awards, informal parties and rituals to understand people's behavior.
 - ✓ Facilitate communication in the work force can help workforce understand how reengineering may be beneficial to them in future.

1.5 Implementing Re-Engineering Changes:

Implementing change management is people-oriented as its studies effect brought by the change. Readiness of the employees to accept the change and moving forward with it. The ultimate success of reengineering depends on people who do it, how

well they can be motivated to be creative and to apply their detailed knowledge to redesign business process.

Following are the steps in implication of re-engineering change-

- i) **Policy for redesigning work-** The policy decision makers who took decisions on company recruitment, employee relations, pay and benefits, training and development, health and safety and manpower planning had to ensure that the policy implementers must support and understand the change. It requires longer implementation time, costs more, has high risk factor but yields drastic results for organizational upliftment.
- ii) **Changing recruitment and selection procedure and inclusion of right person-** HR manager have greater responsibility for authorizing vacancy, job description, short listing, selection and end of probation interview. It is the line manager who sets the skills required for job. Manpower requirement in the respective departments will be guided and helped by the HR department. The original process was designed by the HR manager and improvement is done by the line manager which leads to process reengineering. Thus, recruiting the right person to contribute their insights on how to go about the transformation and provide direction from senior manager who have high level knowledge of current business process.
- iii) **Building employee relations-** The HR manager is primarily to support and guide the line manager. Except for employee welfare, the relationship between HR department and line managers are shared fairly. Employee grievance handling mechanism enables the line manager to take more responsibility. This reengineering employee relations is helpful in reducing the time taken to deal with employee grievance and solve it. Moreover, this will have a positive effect on higher employee retention.
- iv) **Redesigning training and development-** HR reengineering process is incomplete if there is no value addition in HR practices. Training and development improve the skills of employees while rendering services. HR is heavily involved in training programs while the line managers keep a track on the trainees and assure their participation and learning.
- v) **Redesigning pay and benefits-** Cost cutting became the most important issue in HR reengineering. This effect the value addition of employees. HR had the sole responsibility for pay and benefits, except for individual pay increase where there is no clear trend towards either HR or line manager. The pay and benefit comparison are external in the organization and not internal. For optimization line manager always consulted for annual pay awards. Performance related pay is based on staff appraisal makings by line managers and employees, HR usually provide framework, guidance and monitoring, leaving the decisions on individual pay increase to the line managers.
- vi) **Moving from controlled to empowered jobs-** A reengineered company don't want employees to follow rules, rather they want people who will make their own rules. Teams of one person or several, performing process-oriented work are self-directing. Firms that reengineered must consider additional criteria in their

hiring. It is no longer enough to look at prospective employees' education, training, skills and character. But to check whether they are self-starter, self-disciplined and are motivated enough to do whatever pleases a customer.

- vii) **Organizational transformation-** Organizational transformation and reengineering HR process is the key to achieve success in the new customer driven market. Re-centralization of systems is necessary to achieve integration of information system. Awareness of the financial situation will convince people the required impetus for changes. Organizations are going through tremendous change where employees contribute their best, customers expectation exceeds, efficiency, effectiveness, productivity, quality, customer satisfaction and competition are taken seriously by the HR department. Market research, practical work experience helps the organization to overcome the impediments involved in reengineering.
- viii) **Ongoing continuous improvement-** Reengineering HR initiative are ongoing procedures that need to be continuously reviewed and updated. How frequently a company update its documentation and communication within the organization is crucial for continuous improvement.

Implementation of such policies, processes, or standards may be directly managed by the HR function itself, or the functions may indirectly supervise the implementation of such activities by managers, other business functions or via third party external partner of the organization

STOP TO CONSIDER

- Implication of re-engineering change-
 - ✓ Policy for redesigning work includes company recruitment, employee relations, pay and benefits, training and development, health and safety and manpower planning.
 - ✓ Changing recruitment and selection procedure and inclusion of right person requires HR manager with great responsibility for authorizing vacancy, job description, short listing, selection and end of probation interview.
 - ✓ Building employee relations will have a positive effect on higher employee retention.
 - ✓ Redesigning training and development improve the skills of employees while rendering services.
 - ✓ Redesigning pay and benefit effect the value addition of employees.
 - ✓ Moving from controlled to empowered jobs make people self-starter, self-disciplined and are motivated enough to do whatever pleases a customer.
 - ✓ Organizational transformation leads to market research, practical work experience and helps the organization to overcome the impediments involved in reengineering
 - ✓ Ongoing continuous improvement means how frequently a company update its documentation and communication within the organization.

CHECK YOUR PROGRESS

- Discuss the implication of Human Resource Re-engineering change in an organization.
- What is organization transformation?
- What is the policy for redesigning work?
- Is continuous improvement in organization is necessary? Explain in brief.

1.6 Case Studies on Re-engineering:

Reengineering if implemented properly can give huge returns. It helped giants like- Ford Motor Company and Procter and Gamble Corporation succeed after financial drawbacks due to competition.

Ford Motor Company

Ford reengineered their business and manufacturing process from just manufacturing cars to manufacturing quality cars, where the number one goal is quality. This helped Ford save millions on recalls and warranty repairs. It has accomplished this by incorporating barcodes on all their parts and scanners to scan for any missing parts in a completed car. This helped them guarantee a safe and quality car. They also implemented Voice-over-IP (VOIP) to reduce the cost of having meetings between branches. Moreover, the accounts payable department was not efficient as it could be. It consisted of 500 people as compared to Mazda's have 5 people only. Though Ford was 5 times bigger, it figures out reengineering initiative for overstaffed human resource. So, reduced the number of clerks working in accounts payable by a couple of 100 employees. The new process cuts count by 75 per cent and accuracy improved.

Procter and Gamble Corporation

A multi-billion-dollar corporation like Procter and Gambler Corporation, with 300 brands and growing has a strong grasp in reengineering. The chief technology officer, G. Gil Cloyd, explains how a company which carries multiple brands has to content with the classic innovator's dilemma- most innovations fail, but companies that don't innovate die. His solution innovating innovation helped the company grow to \$5.1 billion by the fiscal year 2004 and raise the volume by 17 per cent. The challenge we

face is the competitive need for very rapid pace of innovation. P&G focus on improving consumer value by eliminating non-value-added process. Electronic Data Interface (EDI) is used to transmit the data from retailer to P&G on warehouse product shipments to each store. Moreover, it outsourced its operation upgrading InformationTechnology with International Business Machine (IBM) that allowed the retailers to interact with multiple vendors in a common format. Thus, reengineering P&G leads to increasing

SELF ASKING QUESTIONS (SAQ)

** SAQ: Do you think re-engineering human resource is beneficial for the organization? Give reasons in support of your answer. (20 + 80 words)*

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productivity, reduce errors, and adopting new technology for more success.

1.7 Key Terms:

Business Process- Business process is a collection of activities that takes or more kinds of input and creates an output that is of value to the customer.

Dramatic- Reengineering isn't about making marginal or incremental improvements but about achieving quantum leaps in performance.

Radical redesign- It is derived from the Latin word radix, meaning 'root'. Radical redesign means getting to the root of things: not making superficial changes or fiddling with what is already in place, but throwing away the old.

Re-engineering- The fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical contemporary modern measures of performance, such as cost, quality, service, and speed.

Re-engineering human resource- It is the radical redesign of workflow processes, using information systems, technology i.e., computer or smartphones, and competent people who are empowered to do whole job for their customers or themselves to achieve dramatic improvements in quality and productivity.

Collaborative Manufacturing-It refers to collaborative manufacturing e-manufacturing. This is about re-thinking traditional process and relationships with suppliers and customers, and enhancing them with technology in order to collaborate with trading partners in real time.

Just-in-time (JIT)-JIT is away of producing products on order, not before anybody has ordered the product. It also means that the product should be delivered in time.

Total Quality Management (TQM)-TQM is the continual process of detecting and reducing or eliminating errors in manufacturing, streamlining supply chain management, improving customer experience, ensuring employees to speed up with training and digitization. It aims to make production process accountable for the overall quality of the final product or service. It is also known as long-term success management approach.

1.8 Summing up:

- HR re-engineering is all about optimization and continuous improvement. It is the fundamental rethinking and radical redesign that leads to an increase in productivity and sustainable improvement in the HR department.
- HR professional rethink the way they operate and ensure the best use of technology, systems, communication and focus on innovating new ways for problem solving.
- Re-engineering cycle involves redesigning people, process and technology.
- A senior executive authorizes and motivates the overall reengineering effort.
- In a reengineered firm, employees must need to know that since, their salaries are paid by the customers, the employees need to do what it takes to please the customers. The managers change from supervisor to coaches.
- A reengineered company don't want employees to follow rules, rather they want people who will make their own rules. Thus, people's role changes from controlled to empowered.
- Reengineered firms emphasize shifts from training to education-or to hiring the educated.
- Reengineering Human Resources function may set strategies and develop policies, standards, systems and process.
- Training the new work force helps in building teamwork, decision making and trust.
- Modifying the new corporate culture is providing opportunity for ceremonies, awards, informal parties and rituals to understand people's behavior.
- Facilitate communication in the work force can help workforce understand how reengineering may be beneficial to them in future.
- Creating job statements and role descriptions reflects the new corporate order where the HR needs to outline roles instead of tasks
- Redesigning pay and benefit effect the value addition of employees.
- Policy for redesigning work includes company recruitment, employee relations, pay and benefits, training and development, health and safety and manpower planning.

- Changing recruitment and selection procedure and inclusion of right person requires HR manager with great responsibility for authorizing vacancy, job description, short listing, selection and end of probation interview.
- Organizational transformation leads to market research, practical work experience and helps the organization to overcome the impediments involved in reengineering
- Ongoing continuous improvement means how frequently a company update its documentation and communication within the organization.

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1.10 Answer To “Check Your Progress”

Short Questions-

- 1) Define Human Resource Re-engineering.
- 2) Who are involved in Re-engineering cycle?
- 3) Who will Re-engineer?
- 4) Discuss the role of Information Technology in HR reengineering.
- 5) Discuss the role of employees in reengineered firms?
- 6) In reengineering, how people role's changes from control to empower?
- 7) In reengineering, how job preparation changes from people to work?
- 8) How to modify the new work culture?
- 9) How is business performance takes place in a changed management?
- 10) What is organization transformation?
- 11) What is the policy for redesigning work?

12) Is continuous improvement in organization is necessary? Explain in brief.

Long Questions-

- 1) Explain the functions of Human Resource Re-engineering.
- 2) Explain the process Human Resource Re-engineering.
- 3) Discuss the implication of Human Resource Re-engineering change in an organization.

1.11 Possible Answer for Self-Asking Questions:

**SAQ: Do you think re-engineering human resource is beneficial for the organization?*

Give reasons in support of your answer. (20 + 80 words)

Ans: Yes, I think re-engineering human resource is beneficial for the organization.

The main reason of re-engineering human resource is organizational transformation and reengineering HR process is the key to achieve success in the new customer driven market. It is the radical redesign of workflow processes, using information systems, technology i.e., computer or smartphones, and competent people who are empowered to do whole job for their customers or themselves to achieve dramatic improvements in quality and productivity, speed up business process, reduce errors and prepare for unforeseen business risks.

UNIT 2: HRD ACCOUNTING

UNIT STRECTURE

- 2.1 Introduction
- 2.2 objectives
- 2.3 Meaning and Definition of HR Accounting
- 2.4 Objectives of Human Resource (HR) Accounting
- 2.5 Need and Importance of HR Accounting
- 2.6 Methods / Models of Valuation HR Accounting
- 2.7 Benefits of HR Accounting
- 2.8 Limitations of Human Resource Accounting
- 2.9 Summing Up
- 2.10 References and Suggested Readings
- 2.11 Model Questions
- 2.12 Answer to ‘Check Your Progress’

1.1 INTRODUCTION

The past few decades have witnessed a global transition from manufacturing to service based economies. Human elements are becoming more important input for the success of any corporate enterprise. It helps the management to frame policies for human resources. Human resource accounting is a process of identifying and measuring data about human resources. It means accounting for people as an organizational resource. It involves measuring the cost incurred by an organization to recruit, select, hire, train and develop human assets and also involves measuring the economic value of people in the organization. It is concerned with measurement of cost and value of people in the organization.

1.2 OBJECTIVES

After going through this unit, you will be able to:

- Know the concept and importance of Human Resorce accounting
- Know the various methods of valuation of human resource
- Identify the benefits and limitations of Human Resource Accounting

1.3 MEANING & DEFINITIONS OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to the interested parties. In other words, Human resource accounting is the measurement of cost value of people for organization. HR Accounting is a systematic recording of the transactions relating to the value of human resources. The importance of people in the organization as productive resources is ignored by the management, but now-a-days it has received increasing attention and widespread interest in developing the system of Human Resource Accounting. The productivity of a company's investment is known for the rate of return, which is calculated on the basis of physical asset investment only. There is a need to find out productivity of investment on human begins in any organization.

Some eminent body or authors defines Human Resource Accounting in following manner:

According to **American Accounting Society Committee** "Human Resource Accounting" means-"Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties." In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms."

Stephen Knauf defined Human Resource accounting as " the measurement and quantification of human organizational inputs, such as recruiting, training, experience and commitment"

M.N. Baker defines Human Resource Accounting as-"Human resource accounting is the term applied by the accountancy profession to quantify the cost and value of employees to their employing organisation"

Eric Flamholtz defines "Human Resources Accounting" as- "It is an accounting for people as an organizational resource. It involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to organization."

STOP TO CONSIDER

Human resource Accounting as an accounting branch , concerned with recognizing and measuring information about human resources working in an organization.

1.4 OBJECTIVES OF HUMAN RESOURCE ACCOUNTING

The objectives of Human Resource Accounting are as follows:

1. It is the best way to measure the expenses done by an organization on human resources and return on investment on human resource.
2. The Human Resource Accounting system helps the management of any organization to judge the employee on the basis of their performance and their standards and provide them incentives accordingly.
3. The Human Resource Accounting as a part of accounting system considers humans as an assets of an organization and controls the appreciations and depreciations of every human resource.
4. It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.

One of the earliest supports of human resource accounting, Prof. Rensis Likert , has point out the following points as an objectives of Human Resource Accounting:

- I. It helps the management to efficiently monitor the use of human resource in the organization.
- II. To furnish cost value information for making management decision about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness.
- III. It helps in the development of management principles by classifying the financial consequences of various practices.
- IV. It provides sound and effective basis of human assets control.

CHECK YOUR PROGRESS

- Q1. Human Resource Accounting measures the_____ value of people in the organization.
Q2. Write any one objective of HRA suggested by Prof. Rensis Likert.

1.5 NEED AND IMPORTANCE OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting (HRA) involves accounting for expenditures related to human resources as assets as opposed to traditional accounting which treats these costs as expenses that reduce profit. Interest and contributions to growth in HRA have been evident in a number of countries. Since the beginning of globalization of business and services, human elements are becoming more important input for the success of any corporate enterprise. It helps the management to frame policies for human resources. The various other need and importance of human resource accounting are discussed below:

- a. A business manager has to use resources carefully to achieve immediate and long-term goals for the organisation. This necessitates valuable information about resources. The human beings constitute an important asset for an organisation. Without people in the

organisation, other resources physical and financial cannot be effectively used. In conventional accounting, not much information is available about human resources.

- b. The levels of income shown in the conventional statements in profit and loss accounts do not accurately reflect the level of business performance.
- c. Expenses on human resources are charged to current revenue instead of being treated as investments to be amortised over the economic service of the employees with the result that the figures of net income shown are significantly distorted. The result in the conventional balance sheets fail to reflect the value of human assets, hence there is distortion in value of organisation and the rate of return of investment. Distorted measures render assessment of organisation and inter-organisation comparison difficult.
- d. Traditional accounting involves treatment of human capital and non-human capital differently; the recorded value of other assets is indicated as non-human capital. There is no such record of human assets corresponding to the human capital of the organisation although the productivity and profitability depend largely on contribution by human assets.

To make it more explicit, two firms engaged in the same business line, use identical physical assets under similar market conditions, may have different end results in terms of their profitability and growth due to differences in their human assets. It is, therefore, not possible to assess the total value of the firm, since the value of human capital (i.e., human assets) is not taken into consideration while assessing the total valuation of the firm's assets.

- e. Expenses incurred by a firm on recruitment, training and development of human resources, employees are at present as per practice, treated as current costs and written off against current revenue in the conventional accounts. Similarly, other employee related expenses such as welfare expenses, incentives, benefits are treated under the present system of accounting.

But all such expenses are in reality, expenses in the nature of investment in human resources and, the benefits of such investment on human resources are often derived or accrued over a longer period than the 'one year' in which these expenses are debited to the current revenue in the year a balance sheet is prepared.

- f. The impact of management decision on human assets of the firm cannot be clearly perceived if the value of human resources is not reported in the profit and loss account and balance sheet.

SELF ASKING QUESTION

Discuss the importance of Human Resource accounting in present day context.

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1.6 Methods / Models of Valuation HR Accounting

Sir William Petty was perhaps the first person to make an attempt to signify the HR accounting in around 1691. He treated the labor as the generators of wealth. Even Adam Smith had recognized the investment on human resources. The post 1960's witnessed a significant development of business people joining hands with the academics to evolve suitable methods to account for human resources. Consequently, a number of models or approaches have been developed and suggested for the measurement and valuation of human resources. These approaches may broadly be classified into two types:

- Human Resource Cost Accounting (HRCA)
- Human Resource Value Accounting (HRVA)

I. Human Resource Cost Accounting (HRCA)

Cost is a sacrifice incurred to obtain some anticipated benefit or service. Human Resource Cost Accounting method generally measures the cost incurred to acquire and develop the manpower in an organization. This method deals with accounting and reporting of cost involved in acquisition, development of human resource and it also measure the replacement cost of human resource presently employed. The various methods of measurements of costs and valuation of human resources under HRCA are Historical cost method, Replacement cost method, Standard cost method, Opportunity Cost Approach.

A. Historical Cost Approach:

Historical Cost Approach was developed by Brummet, Flamholtz and Pyle. This approach was first adopted by R.G.Barry Corporation, a leisure footwear company in Columbus, Ohio, USA in the year 1969. According to this approach cost incurred on human resource by an organization can be classified in to two categories viz. acquisition cost and learning cost. Acquisition cost is the expense incurred on recruitment, selection, and placement. While calculating the cost of recruitment and selection, entire cost is taken into consideration including incurred on those who are not selected. Learning cost involves expenses incurred on training and development.

This approach argues that, human resource should be treated as assets like any other physical asset and expenses incurred on acquisition, training and development of the same should be capitalized. The human resource assets should be amortised and the amortization should be done in the same way as that of the other physical assets. The value is amortised annually over the expected length of the service of individual employees and the unamortised cost is shown as Investments in the Human Assets. If an

employee leaves the firm (i.e. Human Assets expire) before the expected service life period, then the net value to that extent is charged to the Current Revenue.

Merits of Historical Cost Approach:

- a. This method is easy to understand and implement.
- b. This approach follows the principle of matching cost and revenue.

Demerits of Historical Cost Approach:

- a. It is hard to determine how long employee will carry his/her job.
- b. As the historical costs are sunk costs and are irrelevant for decision making, this model was severely criticised as it failed to provide a reasonable value to the human resources.
- c. This method of HR Accounting capitalises only the Acquisition, Training and Development Costs incurred on the employees and ignores the future expected costs to be incurred for their maintenance.
- d. It is difficult to determine a fixed rate of amortization of human resource.

B. Replacement Cost approach:

Replacement cost approach was developed by Rensis Likert and Eric G. Flamholtz. As against historical cost method which takes into account the actual cost incurred on employees, replacement cost takes into account the notional cost that may be required to acquire a new employee to replace the present one. According to this approach, the replacement cost are divided into two categories such as, individual replacement cost and positional replacement cost. Cost of recruiting, selecting, training and development and familiarization cost are considered individual replacement cost. When an employee replaces present position to another or leaves the organization, then the cost of moving, vacancy carrying and other relevant costs reflect in individual replacement cost. Positional replacement cost refers to the cost of filling different position in an organization and this model is highly subjective in nature.

Merits of Replacement Cost Approach:

- a. In times of inflation it provides more realistic value.
- b. It has the advantage of present oriented.

Demerits of Replacement Cost Approach:

- a. It is not always possible to find out proper replacement of employee.
- b. As per this approach the determination of replacement cost of an employee is highly subjective and often impossible.

C. Standard Cost Approach:

Instead of using historical or replacement cost, many companies use standard cost for the valuation of human assets just as it is used for physical and financial assets. Standard Cost method of Human Resource Accounting involves determining the total cost of recruiting and hiring each employee and the cost of any training or development. According to Standard Cost Approach, the economic value of an employee is the total of these expenditures and the annual economic value of the entire workforce is equal to the total amount of money spent on recruiting, hiring, training and developing all employees during the year.

D. Opportunity cost Approach:

This approach was advocated by Hekimian and Jones in the year 1967 for a company with several divisional heads bidding for the services of various people they need among themselves and then include the bid price in the investment cost, therefore this approach is also known as the Hekimian and Jones Competitive Bidding Method.

This method of measuring Human Resources is based on the concept of opportunity cost i.e. the value of an employee in its alternative best use, as a basis of estimating the value of human resources. The opportunity cost is linked with scarcity. There is no opportunity cost to those employees that are not scarce and also those at the top will not be available for auction. As such, only scarce people can compromise the value of human resource. The value of a human resource is based on the value of an individual employee in alternative use. If an employee is hired from external source, then there is no opportunity cost to him.

Drawbacks of Opportunity Cost Approach:

- a. One of the serious limitations of this method for Human Resource Accounting is that it excludes employees of the type which can be hired readily from outside the firm.
- b. Under this method, valuation on the basis of opportunity cost is restricted to alternative use within the organization. In real life such alternative use may not be identifiable on account of the constraints in an organizational environment.

CHECK YOUR PROGRESS

- Q3. According to Historical Cost Approach method cost incurred on human resource is classified into _____ and _____.
- Q4. Who suggested the Replacement Cost Approach of human resource valuation?
- Q5. Opportunity Cost Method of human asset valuation is also known as _____.

SELF ASKING QUESTION

What Do You Mean By Cost Accounting Method of HR valuation? Critically analyze any two method of HR valuation under Human Resource cost Accounting Method?

II. Human Resource Value Accounting (HRVA)

It includes methods based on the economic value of the human resources and their contribution to the company's gains. This approach looks at human resources as assets and tries to identify the stream of benefits flowing from the asset. The value of an object, in economic terms is the present value of the services that it is expected to render in future. The methods for calculating the economic value of individuals are Lev and Schwartz (1971) model, Eric Flamholtz (1974) model, Jaggi-Lau's model.

A. The Lev and Schwartz model:

In the year 1971, Lev and Schwartz has developed an economic model to determine the value of human resource. Under this method valuation of human resource is based on future earnings of an employee till his retirement. According to the model value of human assets is estimated for a person at a given age which is the present value of his remaining future earning from his employment and this represented by the following formula:

$$V_{\tau} = \sum_{t=\tau}^T \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V_{τ} = the value of human capital of a person at τ years old.

T = the age of retirement.

$I(t)$ = the annual earning of a person upto retirement.

r = the discount rate of cost of capital.

This model identifies an individual's expected economic value to the organization to his future earnings for his remaining active service life. His future expected income stream is discounted by an appropriate rate to arrive at the present value of his services. Thus, the model identifies an individual's expected economic value to the organization to his future earnings for his remaining active service life. His future expected income stream is discounted by an appropriate rate to arrive at the present value of his services. In India some reputed companies like Infosys, Bharat Heavy Electrical Limited (BHEL), Steel Authority of India Limited (SAIL), Minerals and Metals Trading Corporation of India Limited (MMTC), Southern Petrochemicals Industries Corporation of India, ONGC etc. use this method for valuing their human resource.

Although this model of valuing human resource is considered as one of the most popular economic model, but this model suffers from following limitations:

- a) This model implies that the employee does not alter his contractual position, and its working condition remains unchanged over time.
- b) The approach does not consider the possibility of an employee leave the organization before his death or retirement.
- c) This model ignores the possibilities of promotion of employees.

B. Stochastic Reward Model

This model was suggested by Eric G. Flamholtz (1972), represents as an advance model in relation to the Lev and Schwartz model (1971) of valuing Human Resource. In fact the model considers the hypothesis of an employee move around from one function to another in managing his career, and also leave the organization beforehand, namely by death or retirement. Eric G.Flamholtz suggested different approaches to assess the value of HR of the company in this model. In order to quantify human resource value the period any employee work in the organization, role of employee and value of present position are determined and discounted expedited service rewards.

To be precise an employee value is the product of individual conditional value and the profit that the individual offers to the organization in his/her service life. The conditional value comprises of productivity, transferability and profitability, skills and activation levels are also the determinants of an individual's conditional value. In order to measure the expected realizable value of an individual Flamholtz has suggested the following formula:

$$E(RV) = \sum_{i=1}^n \left[\sum_{i=1}^n \left(R_t \times \frac{P(R_t)}{(1+r)^t} \right) \right]$$

Where,

E(RV)= the expected realizable value

R_t= the value derived by an organization in each possible state

n = state of exit

P(R_t)= probability that the organization will have R_t

t= time

r= discount rate

i= 1,2,3,....

Some limitations of Stochastic Reward Model are as follows:

- i. The major drawback of this model of Human Resource Accounting is that it is difficult to estimate the probabilities of likely service states of each employee.

- ii. The application of the model becomes very expensive and time consuming, especially when trying to predict changes in the career of each employee and the probability of turnover of an employee in the organization.
- iii. Since the analysis is restricted to Individuals, it ignores the value added element of Individuals working as groups.

C. Jaggi and Lau Model:

Jaggi and Lau has proposed this model of valuing human resource. According to them, valuation of human resource should be done on group basis rather than on individual basis. Group under this model implies homogeneous employees who may or may not belong to the same department or division. . An Individual’s expected service tenure, chances of getting promotion, future stay in the organisation is difficult to predict but on a group basis it is relatively easier to estimate the percentage of people in a group likely to get promotion and/or leave the organisation in the future. In order to consider the movement of employees within the organization a Markov Chain representation can be used. This model required the determination of Rank transitional Matrix and the expected quantities of service for each rank of service. The matrix can be prepared from the historical personnel records of the employees available in the organization. For the purpose of measurement of quantities of services, certain service or performance criterion is used. The equation for the computation of value of huan resources of an organization using Jaggi and Lau model is given below:

$$TV = \sum (N) r^n (T) n (V)$$

Where,

TV= represents the current value of all current employees in each rank.

(N)= indicates the number of employees currently in each rank.

r= discount rate

n= time period

(T)= Rank transitional matrix the probability that an employee will be in each rank within the organization or terminated in the next period given his current rank.

(V) indicates economic value of employees.

D. Hermenson’s Model:

Roger H. Hemarson in the year 1964 has suggested two distinct models for measurement of Human Resource viz. Unpurchased Goodwill Model and Adjusted Discounted Future Wage Model.

According to **Unpurchased Goodwill Model** the super normal profit in a firm are the indicators of presence of human resource. The model require computation of the ratio of net income after taxes (EAT) to total assets excluding human assets of

each firm. This in turn is compared with the ratio for the industry as a whole. The value of human resource of a firm is then measured with the help of differential rates.

The **Adjusted Discounted Future Wage Model** uses compensation as a surrogate measure of person's value to the firm. Compensation means the present value of future stream of wages and salaries to employees of the firm. The discounted future stream is adjusted by an "efficiency ratio" which is weighted average of the ratio of the return on investment of the given firm to all the firms in the economy for a specific period. The weights are assigned in the reverse order i.e. 5 to the current year and 1 to the preceding fourth year. The formula used for calculating efficiency ratio(ER) is as follows:

$$\text{Efficiency Ratio} = 5 \frac{RF(0)}{RE(0)} + 4 \frac{RF(1)}{RE(1)} + 3 \frac{RF(2)}{RE(2)} + 2 \frac{RF(3)}{RE(3)} + \frac{RF(4)}{RE(4)}$$

Where,

RF =the rate of accounting income on owned assets for the firm for a period of 5 Years.

RE = the rate of accounting income on owned assets for all the firms in a economy for the same period.

The efficiency ratio has also been criticized because it measures the rate of effectiveness of the human resource operating in the given entity over a five year period and also subjective in nature.

E. Morse Model:

In the year 1973 Samuel Morse suggested "Net Benefit Model" for measurement of human resource asset. According to this model, the value of human resource is equivalent to the present value of net benefit derived by the organization from the services of its employees. As per this model, valuation of human resource involves following four steps:

1. The gross value of services to be rendered in future by the employee in their individual as well as their collective capacity is determined.
2. The value of future payments (both direct and indirect) to the employee is determined.
3. Estimation of the excess of the value of future human resources over the value of future payment representing the net benefit to the enterprise because of the employment of human resource.
4. Determination of the present value of human resource to the enterprise by applying a predetermined discount rate to the net benefit.

CHECK YOUR PROGRESS

- Q6. Which model of human resource valuation is considered as most economic model?
Q7. As per Jaggi and Lau human resource valuation should be done on _____basis rather than _____basis.
Q8. Who suggested Net Benefit Model of human resource valuation?

SELF ASKING QUESTION

According to you, why “The Lev and Schwartz model”of valuing Human Resource is popular in Indian Companies as compared to other methods of valuing HR- Discuss.

.....
.....

1.7 BENEFITS OF HUMAN RESOURCE ACCOUNTING

The benefits of human resource accounting are as follows

- A. **Manpower Planning:** Human Resource accounting helps the managers of an organization in planning and managing their human resources. It measures cost and value of human resources and also determines their strength and weakness. . All this information helps the managers in better planning and making the right decisions at right time about human resources.
- B. **Proper utilization of Human Resources:** In order to get success, it is important for every business to utilize their manpower in an efficient manner.HRA aims at increasing the efficiency and productivity of human resources. It also helps in monitoring the activities of manpower by supplying relevant information to managers. By using these information managers takes various steps to improve their performance.
- C. **Designing Training and Development Programs:** Human Resource Accounting HRA helps the organisation to design a suitable training and development program for its employees. It helps in detecting inefficient employees and provides them training and education according to their skills and experiences.
- D. **Formulate personal Policies:** Human Resource Accounting helps in formulating suitable and better policies for human resources. It assists managers in making strategic personal policies related to promotion, favorable working environment, job satisfaction of employees, etc.
- E. **Proper Placements:** HRA helps the organisation to place the right man in the right post depending on his skills and abilities. It offsets uncertainty and change, as it enables the organisation to have the right person for the right job at the right time and place. It aims

to see that the human involvement in the organisation is not wasted and brings high returns to the organisation.

- F. **Increase morale and motivation:** Human resource Accounting helps in taking necessary steps for the growth and welfare of its employees. It shows the organization about employees role, affairs and condition which helps in formulating various programmes that can improve employees morale and satisfaction level. By this, employees feel that the organization cares about them which boost up their morale and they feel motivated to achieve the organizational goal.
- G. **Attracts Best Manpower:** Generally, reputed and big enterprises follow the human Resource Accounting system. So, competent and capable people want to join these organisations. Therefore, it attracts the best employees and managers to the organisation.
- H. **Provides valuable information:** Human Resource accounting provides valuable and important information to interested parties. Reports prepared by Human resource Department depict the present and future status of human resource of an organization. These reports describe the productivity of human resource and also useful for various interested parties like investors, researcher etc.

1.8 LIMITATIONS OF HUMAN RESOURCE ACCOUNTING

Even though, many benefits have contributed by HRA, yet it suffers from some limitations. Some of these limitations are discussed below:

- a. **No clear-cut guidelines:** Human Resource Accounting lacks clear cut guidelines on how to differentiate the “cost” and “value” of human resource. There are many drawbacks present in the system used currently for valuing human resources. Life of a human is uncertain and therefore valuing them like assets under such foggy conditions is improper. The human resources like other physical assets cannot be owned, retained, and used as per the pleasure of organizations. Also, human resources may leave the organization after getting valued. It is not an easy task to value human resources under such conditions.
- b. **Measurement Problems:** Another major drawback in human resource accounting is the presence of numerous measurement problems. There is no agreement in between the finance professionals and accountants with regard to the method of measurement. The method in which human resources should be valued and shown in balance sheet is not specified. In addition to this, problems are further compounded due to questions of amortization/ recovery rate.
- c. **Absence of standardized Procedure:** The HRA does not have any standardized procedure of valuation. It lacks universal acceptability of principles unlike conventional system of accounting. Moreover, the principles are based on various assumptions that may prove wrong at any point of time.

- d. **Dehumanize Human Resource:** The valuation of human resources may result in dehumanizing and manipulating the employees. Persons who are given low values are demotivated or discouraged which adversely influence their competencies in work. A feeling of jealousy may erupt among employees when they came to know the differences in relative values leading to disturb the team solidarity.
- e. **No evidence:** there is no clear cut evidence available till yet to prove the utility of HRA. It is a hypothesis that HRA acts as managerial tool which facilitates the effective and better management of employees.

1.9 SUMMING UP

- Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.” In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.
- The objective of human resource accounting is to measure the expenses done by an organization on human resources and return on investment on human resource. Further it also helps to evaluate the employees on the basis of their performance and their standards and provide them incentives accordingly.
- Human Resource Accounting as a branch of accounting considers humans as an asset and involves accounting for expenditures related to human resources as assets as opposed to traditional accounting which treats these costs as expenses that reduce profit.
- The methods of measuring and valuation of human resource can be broadly classified into two categories viz. Human Resource Cost Accounting (HRCA) and Human Resource Value Accounting (HRVA).
- Human Resource Cost Accounting method deals with accounting and reporting of cost involved in acquisition, development of human resource and it also measure the replacement cost of human resource presently employed. This method considers human resource as an asset and helps to find out the economic value of human resource through the contribution made by them to earn profit for the organization.

1.10 REFERENCES AND SUGGESTED READINGS

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- Ratti,Mamta.(2012).“An analytical study of human resource accounting Practices –An Indian Experience”. Integral Review - A Journal of Management.

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1.11 MODEL QUESTIONS

➤ **Short Answer Type Questions**

1. What do you mean by Human Resource Accounting?
2. Write down the objectives of Human Resource Accounting?
3. What do you mean by Human Resource Cost Accounting?
4. Explain briefly the Lev and Schwartz model of valuing Human resources.

➤ **Long Answer Type Questions**

1. What do you mean by HRA? Write down the advantages and disadvantages of human resource accounting?
2. Explain the importance of Human Resource Accounting in present day context.
3. Explain the various methods of valuing human resource under cost value method.
4. What is Human Resource Value Accounting? Explain briefly the models of valuing human resource under this method.
5. Explain the Historical Cost Approach model of valuing human resource. Also, mention merits and demerits of this model.

1.12 ANSWER TO “CHECK YOUR PROGRESS”

Q1. Cost.

Q2. It helps the management to efficiently monitor the use of human resource in the organization.

Q3. Acquisition Cost and Learning Cost.

Q4. Rensis Likert and Eric G. Flamholtz.

Q5. Hekimian & Jones Competitive Bidding Method.

Q6. Lev and Schwartz model

Q7. Group and Individual

Q8. Samuel Morse

BLOCK VI : UNIT-3

HUMAN RESOURCE DEVELOPMENT AUDIT

Unit Structure:

- 3.1 Introduction
- 3.2 Objective
 - 3.2.1 Meaning Of HRD Audit
 - 3.2.2 Objectives Of HRD Audit
- 3.3 Methodology
- 3.4 Issues
- 3.5 Audit Instruments
- 3.6 HRD Audit Scorecard
- 3.7 HRD Audit Report
- 3.8 Key Terms
- 3.9 Summing Up
- 3.10 Suggested Readings And References
- 3.11 Model Questions
- 3.12 Answer To Self-Asking Question

3.1 Introduction

Audit, in general means the examination or inspection of the various completed transactions that takes place in an organization so as to ensure that there is no misrepresentation or fraud being conducted. It is the verification of the various books of accounts and records. Meanwhile, Human Resource Management (HRM) has undergone a significant transformation. It is vital to analyze the results created by the design and implementation of personnel policies in order to offer meaningful information to managers.

The purpose of the human resource audit is to look at two separate analyses and valuations: human resource policies and their level of alignment with the company's strategy, as well as human capital characteristics. Different Human Resource policies have been evaluated using a variety of criteria. Nonetheless, determining the value that human capital adds to a corporation is a difficult task. As a result, various models are being presented in order to appropriately tackle this problem.

A human resource audit is a useful tool for determining the efficacy of a company's human resources. A valuable tool for evaluating the performance of an organization's Human Resource management strategies is a Human Resource Development Audit (HRD Audit). One of the most difficult areas of organisational performance to quantify is human resource performance. HRD audit is a useful technique for evaluating the performance of human resource functions that takes place inside a business.

HRD audit provides for systematic verification of an organisation's employee and executive compensation, employee motivation and morale, participative management, inter-departmental communication, safety and health, welfare and social security, industrial relations, trade unionism, disputes as well as their resolutions, recruitment and selection practices, job design and analysis, training and development, orientation and placement, performance assessment and job evaluation, employee and executive compensation, participative management, inter-departmental communication, safety and health, welfare and social security, industrial relations. Moreover, HRD audits provide critical information on the human resource department's actual contribution to the firm. It aids in improving employee engagement and lowering total human resource costs, as well as meeting regulatory requirements on time. Another advantage of conducting a thorough human resource audit is the ability to quickly adapt to changing employee mindsets.

3.2 Objectives

This unit shall familiarize students with the concept and significance of HRD Audit. After completion of the unit the students shall be able to-

- ❖ Understand the meaning and objectives of HRD Audit.
- ❖ Explain the significance of HRD Audit.
- ❖ Comprehend the methodology and issues relating to HRD Audit.
- ❖ Understand the various audit instruments.
- ❖ Understand HRD Scorecard and preparation of HRD Audit Report.

3.2.1 Human Resource Development Audit (HRD Audit)

HRD audit is a functional audit. Within the framework of Human Resource Management, it entails diagnosing, analysing, evaluating, and reviewing future action plans (HRM). HRD auditing is a basic tool for a company's management because it methodically verifies the numerous HR practises, rules, records, and processes in a company. It also contributes to the organization's employees' professionalism.

HRD auditing has two primary objectives. Firstly, it serves as a MIS (Management Information System), providing feedback on the situation to aid the growth of various HR activities. Secondly, it is a method of monitoring and analysing the policies and procedures in place across the organisation. Thus, we can define HRD audit as a thorough examination of an organization's Human Resource Development procedures and their suitability for achieving both short and long-term business objectives.

According to Storey and Sisson :

"HR audit is concerned with the gathering, analyzing information, and then deciding what actions need to be taken to improve performance".

3.2.2 Objectives of HRD Audit

HRD Audit is performed for achieving various objectives. These are enumerated as under:

- To review the management programmes which facilitate management to develop, allocate and monitor human resources in order to determine the effectiveness of these programmes.
- To analyse the factors responsible for deviations, irregularities, lapses in the implementation of various HR policies, programmes and procedures and suggest remedies for the same.
- To evaluate all of the company's functions and look for areas where cost-cutting is necessary. Such functions may include selection and staffing of new personnel, training, holding-on of potential employees etc.
- To check the extent to which the managers have complied with the HRD policies.
- To study or evaluate the current manpower inventory and identify the reasons for any shortages or excesses.
- To get an understanding of the elements that contribute to the non-implementation or incorrect implementation of planned programmes and activities.
- To assess the personnel staff and employees in light of the performance appraisal reports and make appropriate recommendations for enhancing employee efficiency.
- To assess if Human Resource managers, executives, administrative officers, executive officers, and recruitment officers have implemented the instructions and guidelines for successful human resource management in their respective departments by looking at their job descriptions.

Stop To Consider

Management Information System(MIS) is an information system which is used for decision-making, information generation, identification of problem and communication. An MIS gathers data from multiple online systems and reports the same in a timely manner to help the management in its decision-making process. It helps in coordinating, controlling and analyzing the information in an organization. Management cannot succeed without continuous appraisal of its performance and MIS by providing timely and meaningful information can prove to be helpful in this regard.

Check Your Progress

1. What is meant by HRD audit?
2. What are the aims and objectives of HRD audit?
3. How HRD audit serves as an Management Information System?

Stop To Consider

Need/Importance of HRD Audit

1. **Promotes Critical Business Plans:** Every organization follows certain strategic plans in order to achieve organizational goals. It is the responsibility of the HR auditor to convince the management to communicate such plans to the employees of the organization so that they can participate in the decision-making process of the business. The aim is to encourage employees to contribute their point of view regarding these plans and involve themselves actively.
2. **Checks the feedback system of the organisation:** HRD audit helps in checking and reviewing the feedback system of the organisation. It checks whether the leaders or supervisors are providing quality feedback to the employees and documenting the same in the employees' files.
3. **Improves Organizational Competency:** HRD audit helps in identifying the strengths and weaknesses of the present administrative system. In the presence of any drawbacks HRD audit tries to develop certain techniques so as to improve the efficiency and thereby increase the productivity of the organisation.
4. **Evaluates the performance of HR functions:** HRD audit plays a very crucial role in evaluating and analyzing the functioning of the HR department. By continuously reviewing the performance of the HR department, it tries to augment the leadership qualities of the supervisors, assesses the existing skills gaps and if necessary re-designs the development system of the HR department.
5. **Ensures fair remuneration:** HRD audit helps in ensuring that the employees are being fairly paid. It communicates about fair pay and compensation to both the employers and the employees.

Self-Asking Question

1. Define the scope of HRD Audit?
2. What in your opinion are the benefits that can be derived from conducting HRD audit in an organization?

3.3 M
et
ho

dology of HRD Audit or Techniques of HRD Audit

For an effective HRD audit it is advisable to use a combination of the following methods:

1. **Individual Interviews**

The auditors/consultants generally make it a point to interview the top and senior managers on a one-to-one basis. Such individual interviews enable the auditors to understand the thinking of the top and senior managers about the future plans and opportunities that can be availed by the company. Individual interviews are also essential when information on sensitive matters needs to be obtained. Union leaders, heads of departments, some strategic clients and informal leaders are all interviewed on a one-to-one basis or individually.

2. Group Interviews

In case of large organisations having thousands of employees, it is not feasible to interview everyone individually for the purpose of auditing. In such situation, auditors may opt for group interviews. Group interviews is a good mechanism of collecting information and feedback about the effectiveness of existing systems. Group interviews are conducted normally for groups of four to eight individuals. The groups maybe selected on the basis of random sampling method or stratified sampling method. One more advantage of conducting group interviews is that sometimes some individuals might show inhibitions in providing feedback, in such cases group interviews prove to be quite helpful in obtaining the feedback.

3. Workshops

Individual and group interviews are sometimes replaced by large-scale workshops. A large group of people, ranging from 30 to 300, could be gathered in a room for the session and requested to do an HRD audit. In a typical workshop, participants work in small groups on various subsystems of HRD or different dimensions of HRD, do a SWOT analysis, and present their findings.

The HRD audit, if done in a participative manner, may be enough to initiate the change process. Even if it doesn't, it's a potential diagnostic tool that may give top management a lot of information about human processes and help them plan future interventions.

4. Questionnaire Method

T.V Rao Learning Systems Pvt. Ltd (TVRLS) has created a detailed questionnaire that must be given to a company's management. This survey includes about 250 questions and takes about 90 minutes to complete. This survey can be completed individually or in a group setting. It was found to be beneficial to summon groups of respondents at random to a room and explain the goals and method of the HRD audit, as well as administer the questionnaire there and then. This guarantees that the questionnaire is completed in a timely manner and allows for the collection of more reliable data thanks to the auditors' personal explanations.

Since Dr. T.V. Rao and Dr. Udai Pareek published the first comprehensive HRD audit questionnaires, a number of other questionnaires have been developed. These questionnaires

try to analyse many aspects of HRD, such as HRD staff competency, line management styles, and the application of various HRD systems, among other things.

5. Observation

Observation is another effective way to collect information. Auditors make it a point to inspect the workplace, including the plant, machinery, canteen, restrooms, training rooms, hostels, hospital, school, and living colony, among other things. The purpose of these trips and observations is to determine how conducive and supportive the company's human welfare climate is. Employees are less likely to provide their best if they do not live in a pleasant environment, their health and education are neglected, they lack adequate communication and other facilities, and their working circumstances are deplorable. The observations can be conducted using a check list of questions.

6. Analysis of Secondary Data

Secondary data analysis can provide a wealth of information about a company's HRD assets and liabilities. In a company with about 50 HR employees, for example, only two had the needed technical training in HRD. When the training programmes attended by the others were examined, it was discovered that a considerable percentage of them had not participated in any HRD programme in the previous five years. Secondary data analysis like this can provide a wealth of information. Analyses of employee age profiles, trainings attended, minutes of meetings held, and other factors aid in assessing the assets and liabilities. The costs incurred by the corporation in maintaining the HRD should also be considered in such a study.

7. Analysis of Reports, Records, Manuals and other Published Literature

Annual reports, marked handouts, training calendars, personnel manuals and other company publications such as circulars produced from time to time, are all likely to be quite useful in measuring the strengths and weaknesses of the HRD.

Check Your Progress

1. Explain the need of conducting HRD audit?
2. What are the various techniques or methodology of conducting HRD audit?
3. State the contribution of Dr T.V. Rao and Dr Udai Pareek towards HRD audit?

Stop To Consider

Types of HRD Audit

- 1) **Compliance Audits**-Most HR departments undertake compliance audits to ensure legal conformity with current demands and adherence to all regulations.
- 2) **Function Specific Audits**- The audits that focus on one or more specific human resource management areas, such as compensation or training and development, are called function specific audits.
- 3) **1-9 Audit**- It checks that all 1-9 forms for employees are available and that they are filled out accurately and thoroughly.
- 4) **Handbook or policy Audit**- In general, it looks for policy modifications that need to be made in order to ensure that policies are consistent and that nothing in them is illegal.
- 5) **Wage and hour practices Audit**: It aims to uncover any potential issues with wage and hour practises.
- 6) **Job description Audit**: It examines and updates job descriptions for accuracy and compliance.
- 7) **Exemption Audit**: This examines whether employees who are exempt from overtime pay are indeed qualified for the exemption.
- 8) **Safety Audit**: It evaluates the company's safety procedures.
- 9) **Training and development Audit**: This examines the company's personnel development programmes, attempting to identify gaps and determine whether all mandatory training has been completed.
- 10) **Hiring Process Audit**: This examination ensures that the hiring processes are efficient, non-discriminatory, and consistent.
- 11) **Compensation and Benefits Audit**: This is one of the types of HR audits that can take several forms depending on the need of the organisation. It checks whether all compensation and benefits are in line with the company goals.

3.4 HRD Audit Issues

The HR Audit procedure is not without issues and difficulties. A human resource audit is a time-consuming process that ensures that everything that needs to be examined is covered. Outlined below are some of the issues and challenges in HR Audit:

1. Auditing Independence

One of the most important issues in a human resource audit is auditing independence. Companies' auditors or the business with whom they work must be able to function

independently. Companies should collaborate with a trustworthy auditing firm to ensure that the results are truly representative of what your company requires.

The audit outcome must be trustworthy. It must be the result of an unbiased and independent review. After all, even if any flaws are discovered, the company will benefit from the experience.

Companies must also distinguish between self-assessment and audit. A third-party agency must conduct the audit.

2. The Scope and Audit Method

No two businesses are alike. As a result, various auditing techniques would be used. These auditing approaches must be adjusted to the organisational peculiarities of the enterprise.

In addition, both parties must agree on the scope of the audit. Because auditing large organisations takes a long time, there must be a well-planned programme in place to avoid disrupting operations.

3. Auditor/s Capacity

The auditors you choose must be capable of carrying out the auditing process. They must have sufficient knowledge and experience to make meaningful recommendations based on the findings.

A skilled auditor can assist in identifying processes that can be improved. They can also make helpful suggestions for resolving the issues that have been found.

A human resources audit, as previously said, is a time-consuming procedure. Companies, on the other hand, must recognise the importance of HR auditing because maintaining efficient management of an organization's human resource capital is a critical aspect in the company's success.

4. Employment Applications

An HR audit may uncover legal difficulties with the company's recruitment and selection process, particularly the type of employment application used. Questions on the applicant's age, sex, national origin, or other non-work-related qualities should not be included in job applications. Many applications also include an employment-at-will disclaimer, which safeguards the company's interests in the event that terminated employees file a wrongful termination lawsuit.

5. Workplace Problems

Employers reduce their risk of being held liable for workplace discrimination and harassment. An HRD audit of employee relations procedures may or may not disclose unresolved legal issues. Instead, the audit looks to see if the firm is taking the appropriate precautions and proactive actions to safeguard its interests in the event that legal issues occur as a result of HR departmental activities. An audit, for example, looks

at how the company handles employee complaints, how complaints are investigated, and when employee complaints are submitted to in-house counsel or an outside attorney.

6. Lack of Objectivity

For managers conducting audits, objectivity and other critical abilities are required in order to appropriately interpret the data obtained. The audit is hampered by the lack of objectivity. Many businesses, on the other hand, use independent auditors with experience in HR audits.

Experts in general undertake an audit of the HR department. While auditing, the senior audit expert should be aware of several common interpreting errors that may arise while assessing the results of employee opinion.

These may include the following:

- Based on the report, making a single observation;
- Assuming agreement based on the views of a small group of people;
- Rejecting observations without further investigation;
- Considering reports to be valuable without first considering their ramifications; and
- Situations that are complicated by the majority's perspectives while the minority's viewpoints are ignored.

7. Absence of Established Metrics

In most firms, HR audits are rarely reviewed using established metrics or other performance standards. This is one of the organization's primary issues. As a result, senior managers should avoid conducting audits without the proper metrics and performance requirements in place. A meaningful audit process can be used to create measures and performance standards.

8. Audits are viewed as a threat by managers

Managers in some firms may be concerned about the HR audit. This is because managers believe they will be detected doing wrongdoings, if any, and will be severely penalised as a result. Some unethical supervisors utilise an HR audit to compel staff to obey them.

Audit ratings are not used to directly judge any manager's performance, which reduces the dread of audit. Managers' evaluations should take into account the implementation of corrective measures to limit the number of wrongdoings discovered during HR audits. In any scenario, no punishment should be imposed as a result of the HR audit.

STOP TO CONSIDER		
<u>Differences Between Human Resource Accounting and Human Resource Development Audit</u>		
Basis	Human Resource Accounting	Human Resource Audit
1. Meaning	HR accounting is a measurement-based procedure.	HRD audit determines what should or should not be done in the future.
2. Sequence	HR accounting is done before HR audit.	HRD audit is done after the accounting process is over.
3. Activities	The systematic tracking of actions linked to the value of a human resource is known as HR accounting.	An HRD audit is a thorough examination of all facets of the HR department.
4. Cost effectiveness	HR accounting records the cost for the acquisition and development of human resources.	HRD auditing determines how effective and efficient human resources are.
5. Objective	The fundamental goal is to make it easier to manage people as human resources.	The main objective is to provide feedback for measuring the achievement of HRM objectives.

3.5 Audit Instruments

HRD audit tools assist in conducting a complete evaluation of HR effectiveness. These tools assist in gaining a better understanding of the HR processes and operations that need to be improved. Compensation System, Policies & Procedures, Performance Appraisal System, and Health & Safety Practices are some of the most commonly audited sectors. Some of the important HRD audit instruments are listed below:

1. Employee Satisfaction Survey

Employee satisfaction is critical to the growth of any firm. This survey assists top management and authorities in determining how satisfied employees are with their job roles, what improvements they require, what challenges they face in carrying out their roles and responsibilities in an organisation, which factors are preventing them from achieving their objectives, what improvements a department or management can make to make the employees' tasks easier, and so on. A scoring system is included in the employee satisfaction survey so that employees can express their opinions without revealing their identities. This aids HR in lowering attrition rates as well as training and recruitment expenditures. It allows HR to listen to employee requirements and respond with a suitable solution.

2. Observations

Observation is best practised in the workplace; taking a close look at each individual's activity, understanding how well they adhere to an organization's policies and procedures, employees' use of systems, the need to assess the adequacy of training programmes, assessing the organisational culture which aids in individual job analysis. Assisting staff in understanding the organization's culture as well as the points on which they are observed so that they do not engage in any unprofessional or unexpected activities at work. Employee observation is most effective when employees are unaware that they are being observed at the time; otherwise, they may alter their actual conduct.

3. Questionnaires and interviews

Employee input is obtained through interviews and surveys, which are beneficial to both HR and senior management. This aids in conducting a thorough examination of each employee's work, such as the difficulties they are encountering in performing their duties, resource inadequacy, software/hardware issues, the level of burden the employee feels in performing their duties, the general work environment, and other issues that your employees face. You might also look into departmental communication gaps. Interacting with employees aids in obtaining the employee's expectations from the company, which HR may then execute in the firm.

4. Key Performance Indicators

Key Performance Indicators (KPIs) are a collection of standard values developed by an employer or senior management to assess an individual's, department's, or organization's performance. KPIs vary by role and responsibilities, such as how quickly a salesperson responds to a customer query, the rate of positive or negative feedback from customers, the rate of client conversion, the number of queries handled in a day, the number of projects handled in a year, and overall performance in a year. One may measure an employee's productivity and

competency levels using this data, and design a compensation system that is in line with HR strategy. The same points can be used to indicate an organization's progress toward its mission, vision, and objectives.

Check Your Progress

1. What are the various issues related to HRD audit?
2. Distinguish between HR Accounting and HRD Audit?
3. Describe the various audit instruments?

3.6 HRD Scorecard

The HRD scorecard is a tool that allows one to track the performance of the Human Resources team. In addition, it provides the HR department with a comprehensive overview of all Human Resources metrics at one glance. It makes it very easy to compare departments or even individual employees. And since it's based on accurate data, it gives valuable insight into how any department or employee is performing, especially when compared to management's strategic goals, objectives, and benchmarks.

This tool is part of a strategic HR measuring system that can assist in making informed decisions about where to spend more time and money. It also gives a clear picture of the department's strengths and shortcomings, as well as areas where one can make the most progress.

The HRD Scorecard tool can be used by HR managers and human resource management to:

- Evaluate and assess the efficacy of various Human Resources functions. Allocate funding wisely for human resources initiatives.
- Provide clear guidance on which Human Resources activities should be prioritised, and establish realistic Human Resources goals.
- Determine who requires Human Resources assistance and make smart resource allocation decisions.
- This technique can also be used to identify individuals who require particular attention, according to excellent HR practises. To better manage Human Resources activities, provide feedback and development opportunities. It is also used to perform annual reviews in order to identify skill shortfalls.

Steps to Creating an HRD Scorecard:

The steps involved in creating an HRD Scorecard are explained below:

1. Establish objectives and goals:

Depending on the sort of HR scorecard an organization is using, the objectives may be different. These objectives, however, must be consistent with the company's overall strategy and principles. Assuming that as part of its transformation efforts, the organization has adopted lean concepts. If that's the case, the scorecard could include the following HR deliverables and objectives-

- To improve the effectiveness of operations.
- To enhance the quality of customer service.
- To reduce inventory.
- To engage in cost-cutting to improve business success
- To avoid unnecessary expenses.

2. Determine Benchmarks:

Once the goals have been defined, it's important to benchmark the department against them. Specific and measurable benchmarks are required. They shouldn't only talk about "industry standards" or "best practises." Instead, they should be quantitative indicators of important outcomes. For example, to achieve a 10% reduction in cost per unit sold over the following 12 months, one would set six benchmarks. These could include-Achieving \$5,000 savings over last year through improved quality and reduced waste, eliminating overtime hours for specific staff members,improving delivery times for customers from five days to three days.

3. Make a Spreadsheet

It's time to start collecting data once the goals, objectives, and benchmarks have been identified. For this, one may use any spreadsheet tool such as Microsoft Excel, Google Sheets, or Apache OpenOffice Calc. To ensure accuracy, the HR team will need to manually enter all necessary data into the scorecard in most circumstances. For optimum results, it is better to prepare a draft beforehand. One can check for faults this way before submitting the final version. It's also a lot easier to fix problems at this point.

4. HR system alignment

An effective strategy for certain firms includes synchronising their staff management system. EIS (Executive Information System) is a central repository for all employee information, such as payroll, attendance records, leave requests, and so on. To put it another way, it's similar to your own database. However, an excellent EIS is useless unless it supports your organization's objectives.

5. HR Analytics Implementation

The term "HR analytics" refers to software that is used to calculate statistics. The goal of this choice is to provide managers with information without disclosing too much

personal details. One can upload current personnel files once it is selected who will have access to data. However, it must be kept in mind that all contents must be reviewed by HR specialists before they are made available to anybody else.

6. Making Use of External Applications and Integrations

Another important aspect of current business technology in HR activities is integration. Unfortunately, establishing linkages between HR software and other apps has not always been simple. Integrating HR solutions, on the other hand, is now almost effortless. It implies that the entire staff will be able to stay up to date on crucial information from external sources.

If one works in a sector that primarily relies on CRM, for example, one can link data from the HR platform directly into the CRM without having to manually enter data. Another benefit of combining data from several sources is that your managers will not overlook important information. They'll be notified whenever a new lead comes into play, and they'll be able to gather crucial information straight away. As a result, they will be able to optimize.

7. Making use of Big Data Analytics

Big Data is one of the most popular tech topics nowadays. It allows businesses to store enormous amounts of unstructured data. Big data analytics, on the other hand, isn't only about storing data; it's also about analyzing it effectively. As a result, companies are increasingly turning to data scientists to assist them in identifying connections between various elements and ensuring maximum performance.

A well-designed system can produce useful results in minutes, but it necessitates a lot of manual data entry. A poorly constructed system, on the other hand, can generate hundreds of false positives over the course of several hours. It's worth mentioning that not every office staff is capable of conducting significant data analysis. Rather, those who are experts in specialized fields should be chosen.

When we discuss HR functions and solutions, we aren't implying that there aren't any feasible options. There are a plethora of platforms with similar features. The issue is that most businesses are still utilizing old software because it was the first to arrive when they started implementing the finest HR initiatives and practices.

3.7 HRD Report

After reviewing all facets of HRM, the HR auditor puts his or her observations, analyses, findings, and recommendations into a report.

The reports may include the following:

- Table of contents
- Preface explaining the background of the evaluation
- Objectives of audit, methodology of audit programme
- Analysis of data and information

- Findings
- Summary and conclusions
- Recommendations
- Appendix.

Structure of HRD Audit Report:

1. **Introduction** - The HR auditor must provide a summary of the organization's profile, objectives, audit purpose, methodology used, current HR practises, and future plans.

2. **Current scenario** – This section of the report discusses the HR function's staffing, objectives, policies, and programmes, as well as the HR segment's strengths, weaknesses, opportunities, and difficulties.

3. **General observation** – In light of information collected from the organisation, the auditor examines the organization's SWOT, future potential, competitors, and numerous aspects influencing organisational structure, culture, and competence.

4. **HR system** – This article discusses HR strategy, recruitment, selection, remuneration, performance management, training and development, and various HR efforts to improve organisational competitiveness and employee happiness, as well as findings and recommendations in these areas. The information should be based on data that has been collected and analysed.

5. **Recommendation** –The results and recommendations for improving the organization's HR development policies, programmes, practises, and strategies should be outlined in the report.

Check Your Progress

1. What is meant by an HRD Scorecard?
2. Explain the steps involved in creating an HRD Scorecard?
3. What do you mean by an HRD audit report?
4. Enumerate the elements included in an HRD audit report.
5. Outline the structure of an HRD audit report.

3.8 Key Terms

➤ **Human Resource:**

In the success of every business, five M's Man, Money, Material, Methods, and Machinery/minutes play a crucial role. Human resource is an essential element of an organization. It includes all the employee and the people whosoever is contributed to

the organisation through their services. Specifically, employees are considered as human resources of the business.

➤ **Human Resource Management:**

The practise of recruiting, hiring, deploying, and managing an organization's personnel is known as human resource management (HRM). Human resource management (HRM) is a term that is frequently used interchangeably with the term "human resources" (HR). The HR department of a corporation or organisation is normally in charge of developing, implementing, and managing policies that regulate workers and the organization's interaction with its employees. The word "human resources" was first used to describe the individuals who work for an organisation in the early 1900s, and then became more extensively used in the 1960s.

➤ **Audit:**

An audit is when an auditor examines or inspects various books of accounts, followed by a physical inventory check, to ensure that all departments are following a prescribed procedure of recording transactions. It is done to ensure that the financial statements presented by the organisation are accurate.

➤ **Auditor:**

An auditor is a person who is allowed to examine and verify financial documents for accuracy and to guarantee that businesses follow tax rules. They guard firms against fraud, point out inconsistencies in accounting methods, and, on occasion, operate as consultants, assisting businesses in identifying ways to improve operational efficiency. Auditors operate in a variety of positions in a variety of industries.

➤ **HR Policies and Procedures:**

Human resource policies are the written rules and guidelines that companies use to manage their staff. HR procedures, on the other hand, are step-by-step instructions that detail how to comply with these regulations. One of the basic functions of human resource management is to define these rules and procedures.

3.9 Summing Up

- HRD audit is a systematic verification of the various HR policies, practices and programmes in an organisation. It is a useful tool in measuring the efficacy of an organisation's human resources.
- There are various methodologies or techniques of conducting HRD audit, namely- Individual interviews, Group interviews, Workshops, Questionnaire method, Observation, Analysis of secondary data, Analysis of reports, records, manuals etc.
- The importance of conducting HRD audit include- promotion of critical business plans, checking the feedback system of the organisation, enhancing the competency of the employees, ensuring fair remuneration etc.
- Although a number of benefits can be derived from conducting HRD audit, still it suffers from certain limitations. The managers of an organisation can consider HRD auditing process to be a threat, HR auditors may lack independence in conducting the

audit process, capacity of the auditors can also impact the audit process, lack of objectivity in conducting the audit are some of the issues related to HRD audit.

- A number of audit instruments can be used in conducting HRD auditing. They are- Employee satisfaction surveys, questionnaire and interviews, observations and key performance indicators.
- HRD Scorecard is a tool that allows one to determine the efficiency of the HR department of the organisation. It provides clear guidelines on which HR practices should be prioritised and helps in establishing realistic HR goals.
- HRD report is a report that is prepared by an HR auditor after reviewing all the aspects and dimensions of the human resource management of an organisation. The auditor makes observations and analyses, presents the findings and gives recommendations in the report.

3.10 Suggested Readings And References

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3.11 Model Questions

1. What is the meaning of HRD audit?
2. Who is responsible for conducting HRD audit?
3. What is meant by HR policies and practices?
4. Briefly explain the various types of HR audit.
5. Explain the significance of preparing HRD audit report.

6. What according to you is the best technique of conducting HRD audit? Give reasons in support of your answer.

3.12 Answer to Self-Asking Questions

➤ Scope of HRD Audit:

A comprehensive scope of HRM audit includes all aspects of HRM which are as follows:

1. HR strategies and policies:

An HRM audit should begin with a review of HR strategies and policies, as well as how they align with the organization's goals. The objectives of HRM functions must be clearly stated in order to formulate HR strategies and policies. The audit may assess the extent to which various HR strategies and policies have been developed, as well as the characteristics of those strategies and policies.

Various HR strategies and policies can be scrutinised by looking at their:

- a. Adherence to the organization's goals, plans, and policies
- b. Environmental compatibility.
- c. Appropriacy in relation to organisational resources.
- d. Suitability in light of the time horizon.
- e. Workability.

2. HRM Functions:

HRM audits focus on evaluating and reviewing various HRM functions such as acquiring and employing human resources, developing human resources, compensation management, human resource integration and maintenance, and labour relations.

These functions should be measured and evaluated in the following context:

- a. The types of HRM functions that are carried out;
- b. The extent to which these functions are linked to HRM goals; and
- c. The efficiency with which these functions are carried out.

3. HR Compliance:

HR compliance refers to line managers' adherence to various HR initiatives and policies, as well as legal requirements.

In this case, evaluation is centred on the following:

- a. The extent to which line staff follow various HR policies while dealing with subordinates;
- b. The extent to which the legal requirements set forth in various legislation Acts pertaining to human resource management are followed.

4. HR Climate:

The HR atmosphere has a significant impact on employee motivation, job satisfaction, morale, and performance.

The following outcomes can be used to assess the HR climate:

- a. The percentage of employees that leave.
- b. Employee absenteeism rate.
- c. The severity of the mishap.
- d. Grievance status and disciplinary actions
- e. Survey results on attitudes and morale.

➤ **Benefits Of Conducting HRD Audit:**

The HR audit's key value is that it elevates HR to the next level, aligning it with the company's goals, strategy, and financial performance. An HRD audit can provide various benefits to a firm, but the following are the most important ones:

Advantages On a Strategic Level

- a. Identifies the contributions of the HR department to the firm.
- b. Makes the HR function more business-driven and shows methods to improve its influence on attaining corporate goals.
- c. Ensures objective data and information for company strategic planning.

Advantages On Operational level

- a. Assists in the alignment of HR goals with corporate strategy and objectives.
- b. Develops and improves the HR department's professional image.
- c. Clarifies the HR department's roles, responsibilities as well as identifies significant HR issues and causes of low productivity.
- d. Encourages HR department staff to take on more responsibility and professionalism as well as increased self-confidence in carrying out HR functions.
- e. Encourages company-wide identification and alignment of HR policies and practises.
- f. Reduces HR expenditures by increasing the use of forecasting and planning functions.

Advantages On Administrative Level

- a. Provides precise, measurable, and verifiable information about the function's current state.
- b. Ensures that legal obligations, company and required laws, and professional standards are met on a timely basis.
- c. Examines the files, records, registers, and information of personnel.
- d. Examines the HR data system.