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Concept based notes

Strategic Human Resource Management

(MBA-III)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

CHAPTER- ONE

Understanding SHRM

Contents:

Traditional vs. Strategic HR Activities, “Best Fit” Approach vs.”Best Practice” Approach, HR Strategy and the Role of National Context, Sectoral Context, and Organizational Context on HR strategy and Practices, Investment Perspective of Human Resources.

Key Terms:

- Strategy- How organizations react to their environment and adopt a course of action to deal with it. This course of action is strategy.
- Policy-Standing answer to recurring problem.
- Mission-The reason and justification for the existence of a firm, it tells about what a company does to meet customers’ expectations.
- Goals -A goal is a desired result person or a system envisions, plans and commits to achieve.
- Objectives-Benchmarks against which actions are evaluated.
- Human Resources Management (HRM) - A process of bringing people and organizations together so that the goals of each one are met effectively and efficiently.
- SHRM- The linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility.
- Human Capital- A measure of the economic value of an employee's skill set.

Questions:

- 1) What is strategy?
- 2) What is Strategic Human Resources Management (SHRM)?
- 3) Discuss the importance of SHRM.
- 4) Differentiate Traditional and Strategic Human Resources.
- 5) Best Fit & Best Practice are two major perspectives that dominate.
- 6) Discuss the role of HR strategy and practices in National, Sectoral and Organizational context.
- 7) Discuss Investment perspective of SHRM.
- 8) Discuss porter’s 5ps model.

Q1 What is Strategy?

Ans The term strategy is derived from Greek word *strategus*, which means ‘commander –in-chief’, was first used in the English language in 1656. The development and usage of the word suggest that it is composed of stratus (army) and agein (to lead). In management

context, the word 'strategy' has now replaced the more traditional term-'long-term planning'- to denote a specific pattern of decisions and actions undertaken by the top level of organization in order to accomplish performance goals.

Strategy is; a plan or course of action or a set of decisions and rules that make a pattern or create a common thread, the pattern related to an organization's activities, related to the pursuance of those activities which move an organization from its current position to desired future state, concerned with the resources necessary for implementing a plan, and connected to the strategic positioning of a firm.

Strategy operates at several levels. Mainly, strategies are formulated at the corporate level, SBU (or business) level, and functional level. Besides these, societal strategies on the top and operational strategies at the bottom are also sometimes specified. While explaining the different levels at which strategies may operate.

Q2) What is Strategic Human Resource Management?

In today's flattened, downsized and responsive organizations, highly trained and committed employees –not machines- are often a firm's best competitive key. Many successful conglomerates frequently report that 'people are the key' to their success. In line with this view most companies believe that HR rather than financial or technological resources can offer a competitive advantage. That is, sources of competitive advantage have shifted from financial resources to technological resources and now to human capital.

To gain a competitive advantage from the human capital, there is a growing importance to think HRM from strategic point of view and to relate HR strategy with the overall corporate and business strategy.

Therefore Strategic HRM has been defined as the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility.

According to Jeffery A. Mello, "The development of a consistent, aligned collection of practices, program and policies to facilitate the achievement of the organizational strategic objectives."

According to Schuler, "Strategic human resources management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources(HR)management is fully integrated with strategy and the strategic needs of the firm;(2) HR policies cohere both across policy areas and across hierarchies; and (3) HR practices are adjusted , accepted and used by line managers and employees as part of their everyday work."

According to Truss &Graton, "SHRM is defined as the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility."

Thus, SHRM, in general can be defined as the process of linking the human resource functions with the strategic objectives of the organization in order to improve performance. Some theorists describe SHRM as 'the process by which organizations seek to link the human, social, and intellectual capital of their members to the strategic needs of the firm'.

Q3) Discuss the importance of SHRM.

- Identifies & analyzes external opportunities and threats that may be crucial to the company's success.
- Provides a clear business strategy and vision for the future.
- Supplies competitive intelligence that may be useful in the strategic planning process.
- Plays vital role in recruiting, retaining and motivating manpower.
- Ensures that people development issues are addressed systematically.
- Supplies information regarding the company's internal strengths and weaknesses.
- Meets the expectations of the customers effectively.
- Ensures high productivity.
- Ensures business surplus through competency.

Q4) Differentiate Traditional and Strategic Human Resources.

Or

Assume the position of a consultant, hired to assess the approach towards human resources management taken by a client organization. What factors might you evaluate whether an organization uses a traditional or strategic approach to manage its human resources?

Strategic HR differs radically from traditional HR in a number of ways.

Bases of Differences	Traditional HRM	SHRM
Responsibility of HR	Staff personnel in the HR department.	Line managers, all managers responsible for people are HR managers.
Focus of activities	Employee relations	Partnerships with internal customers
Role of HR	Transactional, change follower and respondent	Initiator and transformational, change leader
Initiative for change	Slow, reactive, fragmented	Fast, proactive, integrated
Time Horizon	Short-term	Short, medium, long term (as necessary)
Control	Bureaucratic control through rules, procedures and policies.	Organic control through flexibility, as few restrictions on employee behavior as possible
Job design	Tight division of labor, independence,	Broad, flexible, cross training teams

	specialization	
Key investments	Capital, products	People, knowledge
Accountability	Cost center	Investment center

(Adopted from: Page-9, Human Resources Management, V S P Rao, IIInd edition, Excel Books)

Q5) “Best fit” & “Best Practice” are two major perspectives that dominate.

The **Best Fit Approach/Contingency Model** emphasizes on the importance of ensuring HR strategies which are appropriate to the circumstances of the organization, including its culture, operational processes, and external environment. HR strategies should bridge both organizational needs and its people. Vertical fit occurs where HR strategies are congruent with business strategies; match the firm’s stage of development, take care of organizational dynamics, and are in the line with the characteristics of the organization.

i) **Congruence with business strategies** - The whole concept of strategic HRM is predicted on the belief that HR strategies should be integrated with corporate or business strategies. Miller believes that for this state of affairs to exist, it is necessary to ensure that management initiatives in the field of HRM are consistent- consistent with those decisions taken in other functional areas of the business, and consistent with an analysis of the product-market situation. The key is to make operational the concept of ‘fit’ - the fit of human resource management with the strategic thrust of the organization. The development of operational links is an important characteristic of strategic HRM. **Tyson and Witcher** consider that human resources strategies can only be studied in the context of corporate and business strategies.

Congruence with business strategies may mean aligning HR strategies to the strategic orientation of the firm. Different orientations establish the need for different types of people and require changes in approaches to investing in the firm’s human capital.

ii) **Matching firm’s development stages** - Matching the stage of the firm’s development means aligning HR strategy to the business strategies appropriate at each stage of the life cycle of the business- introduction, growth, maturity, and decline.

iii) **Dynamics** - The dynamics of organizational change exert a market influence on HR strategies. A transformational program in any part of the life cycle will indicate what specific organizational development and culture management strategies the organization should adopt. Managing the transition between the present state and a future state will mean the development of change strategies and , possibly, new strategic approaches to the employment relationship. HR strategies may have to be developed to support business initiatives in such areas as total quality, customer care, organizational re-structuring, process re-engineering, product/market development, and require the introduction of new technology or production systems, e.g., computer-integrated manufacturing or just-in-time production.

iv) Organizational Characteristics - An alternative way of determining HR strategy requirements is to relate them to the overall characteristics of the organization. The most familiar classification is that produced by Miles and Snow who distinguishes between defenders, who seek stability and believe in strict control, prospectors, who seek new opportunities, focus on continuous development and believe in flexibility, analyzers, who seek to incorporate the benefits of both defenders and prospectors.

Problems in practicing Best fit/contingency model

Vertical integration (strategic fit between business and HR strategies) may be desirable but for a number of reasons it is not easy to achieve. Such reasons include:

- The diversity of strategic processes, levels and styles.
- The complexity of the strategy formulation process.
- The evolutionary nature of the business strategy.
- The absence of articulated business strategies.
- The qualitative nature of HR issues.
- Differing definitions of what there is to integrate with.

The **Best-Practice Approach** is based on the belief that there is a set of best HRM practices and that adopting them will lead to superior organizational performance. It is often associated with the high-performance model. Perhaps the best known set is Pfeffer's list of seven HR practices of successful organizations

- i) Employment security
- ii) Selective Hiring
- iii) Self-managed Teams
- iv) High Compensation Contingent on Performance
- v) Training
- vi) Reduction of status differentials
- vii) Sharing information

Problems in practicing Best Practice Approach

- i) Few Best Practices
- ii) Ambiguity on Goals
- iii) Lack of Adaptation

Q6) Discuss the role of HR strategy and practices in National, Sectoral and Organizational context.

HR strategy plays different roles at Organizational levels. The nature of HR strategy at National level focuses on the role of government in shaping HR strategies at National level. At sectoral level, HR strategy differs in different sectors of economy. At organizational level, HR strategies play a different role in the success of organizational policies.

HR strategy and Role of National context-

The development of human resources within an organization is strongly linked to the national context within which the organization operates. The relative importance of national context and organizational characteristics has been fiercely debated by many theorists. One side of

the debate states that organizations are 'culture free'. Competitive forces from, for example, markets, and industrialization and new technology override differences in national context. On the other hand, there are those who argue that organizations are 'culture bound'. National contextual factors determine management practice. These factors include institutional structures such as trade unions, educational establishments, legislations and economy, in addition to an individual's values and belief system.

Single country studies which have focused specifically on HR systems have recently reported links between HR and successful organizational performance. One part of the human resource system, namely that of training and development, has been promoted as a key strategic lever in the attainment of competitive advantage. Research suggests that investment in training and development is linked to positive organizational outcomes. Such studies highlight the role of strategic human resource management in shaping organizational practice.

HR strategy and Role of Sectoral Context-

At sectoral level, HR strategy differs according to the sector in which it operates. HR strategy varies in different sectors; strategy in consumer goods industry is different from service industry.

HR strategy in consumer goods industry

HR strategy in consumer goods industry will focus on issues such as the following:

- 1) Organizational Transformation: Restructuring and organizing to manage growth.
- 2) Cultural Change: Developing global mindsets and growth-oriented cultures.
- 3) Leadership transformation: Developing the leadership required to ensure growth and lead complex organizations while meeting local market needs.
- 4) Performance Management: Designing performance frameworks that combine a focus on results and accountability with employee development
- 5) Brand Talent: Creating competency frameworks to enable the identification and development of the best brand leaders.
- 6) Sales Force Development: improving the performance and motivation of sales forces.
- 7) Reward Planning: Providing policies and frameworks for remuneration of all employees.

HR strategy in service industry

HR strategy in service industry focuses on internal Marketing. The services are predominantly people-based. The companies that practice internal marketing most effectively will:

- 1) Compare aggressively for talent market share,
- 2) Offer a vision that brings purpose and meaning to the workplace,
- 3) Equip people with the skill and knowledge to the workplace,
- 4) Bring people together to benefit from the fruits of team play,
- 5) Leverage the freedom factor,
- 6) Nurture achievement through measurement and rewards, and
- 7) Base job-product design decisions on research.

HR strategy and Organizational Context-

According to Purcell and Ahlstrand, set out the nine core activities that HRM departments should engage in to become fully influential in an organization. They believe these to be applicable to most, but not all, medium to large organizations but it will depend on the nature of the business and the way the organization is directed.

- Corporate culture and communications.
- HR planning in strategic management.
- Essential Policy formulation and monitoring.
- 'Cabinet Office' Services.
- Senior management development and career planning
- External Advocacy.
- Information Co-ordination.
- Internal Consultancy and Mediation Services.
- HR for Small Units.

At organizational level, key strategic HR strategies will be:

- Create change.
- Develop principled leaders.
- Promote economic literacy.
- Centre on the customer.
- Maximize service/minimize staff.
- Steward the values.

7) Discuss Investment perspective of SHRM & factors influencing it.

According to Lawler, "These investments will become increasingly important due to forecasts of shifts in skill needs from manual to cerebral."

Developing an effective strategy to manage an organization's human assets requires considering employees as investments. Such an approach helps to ensure that HR practices and principles are clearly in sync with the organization's overall strategy, forces the organization to invest in its best opportunities, and ensures that performance standards are met. Instead of having a conflict as to how profits should be allocated (bonuses to employees or reinvested in the business), both can be achieved simultaneously. This in turn, has the goal of gaining more commitment from employees and encouraging them to adopt a long-term focus toward the organization; this is after a shortcoming/deficiency of American organizations that are concerned with short-run indicators of performance. Employees, who now intend to stay with the organization longer, given their vested ownership rights, provide organizations with an incentive to incur the short-term costs involved with investing in human assets for the long-term financial gains that can result from such investments.

An investment perspective of HR is often not adopted because it involves making a longer term commitment to employees. Because employees can "walk" and because

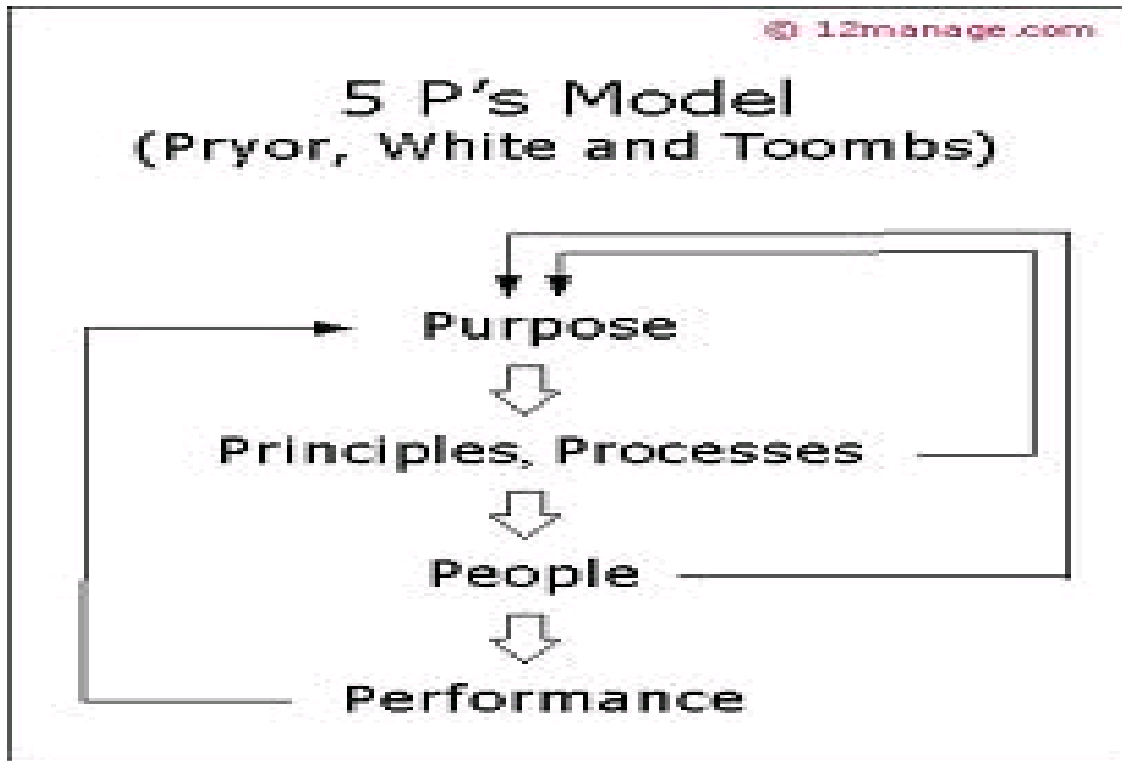
American organizations are so infused with short-term measures of performance, investments in human assets, which tend to be longer-term investments, are often ignored. Organizations performing well financially may feel no need to change their investment strategies. Those not doing well usually need a quick fix to turn things around and therefore ignore longer-term investments in people.

However, while investments in HR are longer term, once an organization gains a competitive advantage through its employees, the outcomes associated with the strategy are likely to be enduring and difficult to duplicate by competitors as such programs and values become more firmly entrenched in the organization's culture. The commitment that an organization makes to its employees through its investments in them is often rewarded with the return of employees making a long-term commitment to the organization. Although investments in human assets may be risky and the return may take a long time to materialize, investment in people continues to be the main source of sustainable competitive advantage for organizations.

Not all organizations view human assets from an investment perspective. Mello identified five major factors that affect how investment-oriented a company is in its management of human resources.

- Management Values.
- Attitude towards risks.
- Nature of skills.
- Bottom-line Perspective.
- Availability of Outsourcing.

8) Discuss porter's 5ps model.



The contents of Porter's 5 P model:

1. Policies
2. Programs
3. Practices
4. Processes
5. Philosophy

1. Policies: Policies are basically the guidelines management of the people and it has a great impact over the immediate and future success of the organization.
2. Programs: Programs are the coordinated human resource efforts to initiated and sustain strategic organization change. Programs are always made or match up with the policies.
3. Practices: Practices includes 3 types of roles which are as follows:

Interpersonal role.

Operational role.

Managerial role.

4. Process: A process is a collection of inter-related work tasks initiated in response to an event that achieves a specific result for the customer of the process.
5. Philosophy: It is the study of general and fundamental problems, such as those connected with existence, knowledge, values and language.



Test Your Understanding**A. True/False Questions.**

- It is no better to pay employees too little than to pay too much.
- Competitive pressures have very little impact on the strategies of many companies.
- Until recently, organizations have never been concerned with the personnel problems of their employees.
- The one –bread winner household rapidly disappearing in the 21st century, especially in developed countries.
- Lifetime employment will reduce the manager's power to exact compliance through the threat of termination.
- Competent employees will remain competent forever.
- Higher productivity is what makes an organization thrive.
- Personnel departments are mainly health and happiness departments.
- Economic resources, by definition, are scarce.
- Getting and keeping good people is critical to the success of every organization.
- People are a source of competitive advantage when they improve the efficiency or effectiveness of the company.
- Technology and globalization are the only forces driving change in organization.
- Human capital can be managed the way organizations manage jobs, products and technologies.
- Meeting customer expectations essential of any organization
- Downsizing is the planned elimination of jobs.
- People have never been central to organizations.
- Many organizations have restructured in the past few years in order to become more competitive.
- Productivity at national, organizational and individuals levels is critical to organizational success.
- People are a source of competitive advantage when their skills, knowledge and abilities are easily available to competitors.
- A well designed strategy can fail if sufficient attention is not paid to the HR dimension.

B. Key Terms Exercise

Match the term below with its appropriate definition. Place the letter of the correct definition in the space to the left of the term.

- Productivity a) The process of integrating the employees' needs and aspirations with organizational needs
- Effective b) The process of bringing people and organizations together so that the goals of each are met.
- Efficient c) A method by which an organization collects, maintains and reports information on people and jobs.
- Employee welfare d) One's skills, abilities in meeting the needs of the job which one is holding currently.
- Career planning e) Act of increasing the knowledge and skills of an employee for doing a particular job.
- Human resource information system f) The ratio of an organization's output to its inputs.
- Performance g) The efforts to make life worth living for workmen.
- Training h) Using the minimum amount of resources needed to produce goods and services.
- Objectives i) Producing the right goods or services society deem appropriate.
- Human resource management j) Benchmarks against which actions are evaluated.

Case Situation: I

Mr. "X" was the HR director of ABC Company. The HR department was not involved in the decision-making process of the company's corporate office. Of late, the HR department started operating from the heart of headquarters. When asked about the changes in the role of the HR department, the CEO of the company replied that the HR manager's role has changed from managing industrial relation to a strategic one in company affairs. What changes in the modern day business do you think have prompted the CEO to include HR in the strategic management process?

Give the suitable title to the case situation.

Case Situation: II

Ryan Corporation was a major software firm operating in Canada. As the company planned to expand its operations to other parts of the world, it realized the importance of hiring a diverse workforce to gain competitive advantage. The company's staffing process soon concentrated on hiring diverse workforce not only to gain advantage in the various areas of operations but also to manufacture innovative products. But it soon became difficult for the company to operate with such a diverse workforce, as there were differences in cultures, and employees were unable to adjust with others on their teams. What steps should Ryan take to manage a diverse workforce?

Give the suitable title to the case situation.

(Taken from SHRM-Goswami&Sitlani, pg.no.23-24 case study section, RBD publication)

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CHAPTER-II**Aligning HR Systems with Business Strategy**

Contents:

Aligning HR Systems with Business Strategy: Sustained Competitive Advantage. How HR Adds value to the Firm, HR as scarce resource, Non-substitutable resource. Linking HRM practices to organizational outcomes; Assessing and Reducing Costs, Behavioral Impact of HR practices, Marginal Utility Models, Auditing HR practices and Department. Linking strategy to HRM practices; Corporate HR philosophy and companywide HR standards. HRM leading strategy formulation. Alternative HR systems; universalistic, contingency, configuration, congruence and integrated HR systems.

Key terms:

- Alignment- Bridge up between two or more factors.
- Sustained competitive advantage – Competitive advantage which can be sustained in long term.
- Scarce resource- Resources which are not easily available, scarce in nature.
- Non Substitutable Resource.

Q1) Discuss alternative HR system.

Q2) Explain the role of HRM in the strategy formulation?

Q3) What is corporate HR philosophy and HR standards.

Q4) Write notes on:

- Assessing and Reducing Costs.
- Behavioral Impact of HR practices.
- Marginal Utility Models.
- Auditing HR practices and department.
- Five-P's model.

Q5) How does a company achieve a sustainable competitive advantage?

VRIS Model.

Q6) Why aligning HRM activities with Business Strategy is necessary?

Q1) Discuss alternative HR system.

The different alternatives of HR systems are as follows.

Universalistic Perspective - Universalistic or “best-practice” approaches assert that certain independent – dependent variable relationships hold across whole populations of organizations- i.e. ,some HR practices are always better than others, and all organizations should adopt them. Under universalistic approach, “strategic HR practices” are those viz; found consistently leading towards the higher organizational performance, independent of an organization’s strategy. Examples are formal training systems, profit sharing etc.

Contingency Perspective – The contingency perspective goes beyond the simple, linear, casual relationships explored in universal theories and allows for interaction effects and varying relationships, depending on the presence of a contingent variable-most often, firm strategy. The task of the researcher is to select a theory of firm strategy and then specify how individual HR practices will interact with that strategy to result in higher organizational performance. Effectiveness of HR practices is contingent on how well they mesh with other aspects of the organization(e.g., what discrete HR policies would be most appropriate if an organization were to pursue a low –cost strategy or wanted to encourage new product innovation).

Configurational Approach - Configurational theories differ from universal and traditional contingency theories because configurationally theories are guided by the holistic principles of enquiry and explicitly adopt the systems for achieving organizational goals. General configuration theories are concerned with the relation between patterns of multiple independent variables and dependent variables. **Wright and McMahan** suggested that the Configurational perspective was an appropriate approach for strategic HRM as it is concerned with the pattern of planned human resource developments and activities intended to enable an organization to achieve its goals. For **Lundy and Cowling**, strategic HRM consists of environmental analysis (both internal and external) in which an HR perspective can be introduced into the strategic process.

Congruence and Integrated Human Resource Systems – The congruence or ‘fit’ between HR practice and business strategy has been emphasized in SHRM. IT is the primary logic of melding the HR function into the strategy of a firm. A great deal of conceptual illustrations assert that the employment of effective HR practices and the design of a HR system compatible with the firm strategy are imperative for the successful implementation of business strategies.

As a fundamental characteristic of SHRM, fit denotes the utilization of human resources to help with the achievement of organizational goals. According to Wright and McMahan fit means “the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goal.” Scholars suggested that there are two kinds of fit: horizontal fit

and vertical fit. Horizontal fit refers to the congruence among the various HRM practices and vertical fit refers to the alignment of HRM practice with the strategic management process of the firm.

For congruence in Human Resources systems, an **integrated Human Resource System Model** is proposed by **Rao**.

As proposed by Rao, this model has development at its core, which suggests that the development of motivated, dynamic, and committed employees is a means to achieve better organizational performance.

Integrated HR Systems-This perspective views HRM as process, and not merely as a set of practices, mechanisms, or techniques. Human resource practices such as performance appraisal, training, rewards etc., are used to initiate, facilitate, and promote this process in a continuous way. These subsystems are designed to work together in an integrated system. Although any one of these practices may exist in isolation in an organization that does not have long-term plan, in isolation, these subsystems lack the synergistic benefits of integrated systems.

On the basis of years of work in the field of Human Resources Development (HRD), Pareek and Rao developed a systems framework that is useful for an in-depth understanding of HRD/HRM. The component systems of HRD, according to them, are the career system (manpower planning, recruitment, retention, continuous potential appraisal, and career planning, and development activities), work-planning system (helping individual understand organizational needs, plan, and improve their work), development system (training, counseling and other development mechanisms), self-renewal system (team building, survey feedback, research), and culture system (a climate that sets norms, values, and culture, and ensures a high level of motivation for employees). It is not necessary for a firm to use all the systems at the same time.

Q2) Explain the role of HRM in the strategy formulation?

The field of HRM has changed dramatically over the last few years. The HRM concepts and practices of today are significantly different from those of the past. Planners and practitioners who understand these changes in HRM policies and practices will provide their organizations with a strategic competitive advantage. The creation of this competitive advantage will provide the basis for the survival of future organizations which can move ahead with the competitive environment. For strategic HRM to be successful, its goals should be aligned with the strategic goals of the organizations. The above points emphasize the importance for HR department to involve itself in the process of corporate or business level strategic

planning.

The HR department can involve itself in the process of strategic planning. For example, in recruiting candidates the organization has to analyze whether the candidate's goals are in alignment with the organizational goals. This will ensure that employees put in their maximum concentration towards their work. Thus, HR department has come a long way in involving itself in the process of strategic planning.

Q3) Discuss corporate HR philosophy and HR standards.

The HR philosophy consists of management's values and beliefs about its approach to the employee relationship. Both the HR philosophy and business strategy are key components to the development of an HR strategy. HR strategy consists of the organization's overall plan for recruitment, retention, and talent management of employees. HR philosophy provides strategic direction to a firm's HR practices. It is written list of HR standards.

A human resource development philosophy could be expressed in the following terms/

- i) Human resource development makes a major contribution to the successful attainment of the organization's objectives and that investment in it benefits all the stakeholders of the organization.
- ii) Human resource development plans and programs should be integrated with and support the achievement of business and human resource strategies.
- iii) Human resource development should always be performance related-designed to achieve specified improvements in corporate, functional, team and individual performance and make a major contribution to bottom-line results.
- iv) Everyone in the organization should be encouraged and given the opportunity to learn – to develop their skills and knowledge to the maximum of their capacity.
- v) Personal development processes provide the framework for individual learning.
- vi) While it is recognized that need to invest in learning and development and to provide appropriate learning opportunities and facilities, the prime

Q4) Write notes on:

- **Assessing and Reducing Costs**

The main emphasis is delivering administrative efficiency in HRM practices to ensure that costs are reduced while quality is maintained. For decades, HR professionals have been tagged as administrators. In their new role as administrative experts, however, they will need to shed their traditional image of rule-making policy, while still making sure that all the required routine work in companies is done well. In order to move from their old role as administrators into their new role, HR staff will have to improve the efficiency of both their own function and entire organization.

Within the HR functions there are dozens of processes that can be done better, faster, and cheaper. Finding and fixing those processes is part of the work of the new HR. Some companies are already practicing these tasks, and the results are impressive. One company has created a fully automated and flexible benefits program that employees can manage without paperwork, another has used technology to **screen resumes** and reduce the cycle time for hiring new candidate; and a third has created a **electronic bulletin board** that allows employees to communicate with senior executives. In all three cases, the quality of HR work improved and costs were lowered by removing steps or leveraging technology.

But decreases costs aren't the only benefit of HR's becoming the organization's administrative expert. Improving efficiency will build HR's credibility, which, in turn, will open the door for it to become a partner in executing strategy. HR executives can also prove their value as administrative experts by re-thinking how work is done throughout the organization. For example, they can design and implement a system that allows departments to share administrative services.

Another way of accessing and reducing costs is estimation of financial cost associated with employee behaviors. For example employee absenteeism, employee turnover, etc. Employee turnover is inevitable, but when it is excessive, employee turnover often puts a business into the red. The costs of turnover are easy to overlook or ignore – but ignoring them may cause problem.

- Behavioral Impact of HR practices
Theorists have found that the effectiveness of employees will depend on impact of HRM on behavior of the employees. HR practices in selection and training influence performance by providing appropriate skills. The stress was on importance of training as complement of selection practices through which the organizational culture and employee behavior can be aligned to produce positive results.
HRM practices like training program account for the change in performance. Training is the important subsystem of human resource development. Training is a specialized function and is one of the fundamental operative functions.
- Marginal Utility Models
- Auditing HR practices and department

Q5) How does a company achieve a sustainable competitive advantage?

The most prevalent practice in the business world is to develop business strategies based on the areas of strength that an organization has. The creator concept of core competencies opined that it is core strength that gives the competitive advantage or an edge to an organization. A core competency is a unique capability in the organization that creates high value and that differentiates the organization from its competition.

It is certain that organization's human resources differentiate them from their competitors. Many organizations enhance its value in the business and create an edge by

focusing on the human resources. Organizations which follow this principle are as diverse as federal express, Shoppers' Stop and Infosys, Tata group, CNBC. Some ways that human resources become a core competency are through:

- 1) Attracting and retaining employees with unique professional and technical capabilities.
- 2) Investing in training and development of those employees, and
- 3) Compensating them in ways that keep them competitive with their counterparts in other organizations.

Recent research in the strategic management area has focused on the heterogeneous firm resources in achieving and sustaining competitive advantage. This emerging paradigm is called the resource-based view of the firm and has become increasingly popular for explaining why firms differ in performance. According to the view, the internal resources of the firm are responsible for competitive advantage and are the source of sustained competitive advantage.

VRIS Model

While it has been demonstrated that resources in and of themselves contribute positive returns to organizations, it is the interaction of resources and strategy that seem to form the basis of sustainable competitive advantage. Jay Barney developed a model that demonstrates that, for a resource to be the source of sustained competitive advantage it must create **Value (V) for the firm; it must be Rare®; it must be Imitable(I);and it must be non-Substitutable(S).**

HR (defined as the total pool of human capital under the control of the firm) have the highest probability (among all resources) of being the source of sustained competitive advantage for the firm. This is because human resources are more likely than other resources to be inimitable and non substitutable, as well as being valuable and rare. We use this argument, to support our first point that a firm should focus on its entire pool of human resources. We distinguish between human resources as individuals (or an elite group of individuals such as top management teams) and human resources as the total pool of human capital. Barney emphasized that human capital resources refer to the characteristics of both managers and workers in the firm, and speculated that the managerial team might constitute a source of competitive advantage. Theorists, however, argue that the larger pool of human capital that constitutes the entire organization is more likely to be a source of sustained competitive advantage.

- 1) Human resources as Valuable (How HR adds Value to the firm)

According to the resource-based view, a resource must first be valuable. In order to provide a source of sustainable competitive advantage. Firm specific Human Capital Theory provides an explanation of the conditions under which human capital can create value for the firm. According to this theory, when the demand for labor is heterogeneous (i.e.; when the jobs of firms differ and these jobs require different skill), then human capital can create value for the firm. Theorists provide evidence that, in fact, the demand for and supply of labor are heterogeneous across most industries.

The demand for labor is more heterogeneous across countries than it is within countries, due to difference in capital availability, labor practices, and social and cultural norms relating to work. Labor supply is also more heterogeneous across countries than within countries, due to differences in such things as nutrition, sanitation, health care, and training, and educational opportunities. Therefore, there is more opportunity for creating value through human resources as becomes more global.

Empirical evidence also supports the idea that the demand for and supply of labor are heterogeneous, at least with regards to skill levels of individuals. For example, virtually all of the work with regard to personnel selection, training and utility analysis has demonstrated that more highly skilled individuals outperform lower skilled individuals, and that these performance differences provide value to firms. Human resources must have power, information, knowledge, and rewards (PIKRs) to be a source of competitive advantage. Clearly, more skilled individuals are more likely to possess these.

2) Human Resources as Rare (HR as Scarce Resource)

A resource must also be rare if it is to be a source of sustained competitive advantage. Because human skills are normally distributed in the population, human resources with high skill levels are, by definition, rare. That is, only a relatively small proportion of individuals in any human resource pool will have high skill levels. Thus, to the extent that jobs require skills that allow for variance in individual contributions, firms with high average skill levels relative to their competitors possess rare resource. In addition, firms that, because of their international operations, can draw from more than one labor pool have a greater potential for developing this valuable and rare resource. Therefore, firms that, because of their international operation, can draw from more than one labor pool has a greater potential for developing a human-resource-based sustainable competitive advantage than domestic firms that can draw from only one labor pool. Transnational organizations by virtue of transnational representation and a transnational process are particularly able to draw upon the rare components of their multiple labor pools, and are, more likely to develop sustainable competitive advantages.

3) Human resources as inimitable

Unless a resource is difficult to imitate, it cannot be the sources of a sustainable competitive advantage. Barney argues that resources will be more difficult to imitate, in the presence of casual ambiguity and social complexity. Casual ambiguity exists when

the link between a firm's resources and its competitive advantage is imperfectly understood. In the case of human resources, if competing firms cannot identify the human resources that are responsible for the competitive advantage, or the way in which human resources create the competitive advantage, they cannot imitate the advantage. Human resources often lead to causal ambiguity because of team production. With team production, it is difficult to isolate and identify the particular human resources (individuals) that produce the superior performance of the team.

Social complexity may arise from transaction-specific relationships, and the competitive advantage these relationships create may be due to transaction-specific human capital, i.e. human capital, such as knowledge sales representatives and agents will develop overtime and become part of a network that includes a larger group of personnel such as design and marketing staff, production, and distribution workers, and management, as well as final consumers. A very complex social situation may result and this may constitute competitive advantages for the firm. Although the relationship may be too complex to dissect, it is reasonable to speculate the values of the relationship may be due to transaction-specific human capital, i.e., the knowledge and trust that are developed overtime by the focal personnel and which have value only in the focal relationship. Human resources and social complexity are intrinsically linked because social complexity, by definition, must result from human interaction.

For firms involved in global markets, causal ambiguity and social complexity may be particularly important barriers to imitation. Differences in customs and norms of behavior may make it impossible for outsiders to understand and therefore imitate, a competitive advantage, based on human resources. Additionally, religious, cultural, and political alliances may create strong webs of social complexity that makes imitation of an advantage virtually impossible. On the other hand, differences in religion, culture, and politics, may prevent the creation of relationships, that could otherwise, lead to a competitive advantage. Thus, causal ambiguity and social complexity strongly influence the inimitability of human resources, especially in a global marketplace. Transnational organizations by emphasizing transnational and by developing transnational processes are better able to exploit these local phenomena in achieving sustainable competitive advantage.

4) Human Resources as Non-Substitutable (Non-Substitutable Resource)

A resource must also pass the test of having no good substitutes, if it is to be the source of a sustainable competitive advantage. This raises the question of whether or not other resources, such as technology, have the potential for offsetting any competitive advantages obtained from human resources. Good substitutes are unlikely, because human resources are one of the few firm resources which have the potential to be transferable across a variety of technologies, products and markets, and to not become obsolete.

Many human capital resources are quite generalizable. For example, general human capital resources, such as learning capability, are transferable across a wide variety of technologies, products, and markets. In addition, if a firm has obtained individuals with high levels of learning capability, then constant training in state-of-the-art technological skills, ensures that the resource does not become obsolete.

While it might be possible to substitute other resources, in the short term it is highly unlikely that such substitution would eliminate the advantage of the human resources for long. This stems from the fact that, to the extent, that the resource offsetting the advantage of human resources will once again constitute a competitive advantage. For example, consider a firm, Firm A, which has high ability individuals who are highly committed to the organization, thus constituting a source of competitive advantage. What happens if a competitor, Firm B, develops a new technology, which provides productivity increases, greater than the productivity differences stemming from Firm A's workforce? If the technology is imitable, then Firm A will also install the new technology and Firm A's human resources will once again constitute a competitive advantage.

It is worth noting here that technology is becoming increasingly internationalized. Transnational firms are likely to have R&D facilities in more than one country, and technology advances by one company in one country are likely to increase the rate of technological advance and productivity of other firms in other countries, because of the globalization of competition. Technology may be easier to imitate (or substitute around) as competition becomes more global for a number of reasons:

- i) The number of companies with comparable R&D resources increases as an industry becomes global.
- ii) The amount of knowledge available to build on increases as the number of firms increases.
- iii) Property rights to intellectual capital become increasingly hard to protect. This argues that, as competition becomes increasingly global, technology is increasingly imitable, which in turn, argues for the increasing importance of human resources of sustainable competitive advantage.

Q6) Why aligning HRM activities with Business Strategy is necessary? How it can be aligned?

The changing business environment has made it mandatory for organizations to align human resources with the strategic goals of the organization. HR's emerging role in the formulation and implementation of strategy.....private sector has recognized that it is not just financial and technological capital that provide companies with the competitive edge, but PEOPLE or HUMAN CAPITAL.

What is Alignment?

HRM alignment means to integrate decisions about people with decisions about the results an organizations trying to obtain.

- Decisions about people.
- Decisions about goal attainment or agency mission accomplishment.

Create a mission statement that outlines the business strategy. The mission statement should be no longer than a few pages and effectively summarize the goals of the company (short-, medium-, and long-term) and the philosophy of the CEO and/or board of trustees (e.g. the values that guide the company such as doing social good first or making money first). This mission statement will be the template from which the concept model of the "ideal" employee set will be crafted. Determine the type of employees that are most suitable for fulfilling the mission statement. For example, if your company is an investment bank working primarily in emerging markets, then you prioritize how important certain qualities of a candidate are in relation to that business interest (e.g. foreign language skills, experience abroad, a standard MBA degree, class rank and/or GPA (grade-point average, etc.). Create a full file explaining what HR ought to prioritize when hiring certain candidates (e.g. the ideal candidates for a research department, marketing department, etc.).

Distribute the company mission statement and "ideal candidate" sheet to HR. Send a memo throughout the office, email everyone, and/or hold a meeting to ensure that the message is clear throughout HR. Consult with HR during the first set of initial hiring to check whether HR's choices are consistent with the business strategy. Thus, initially, you should take a hands-on approach with HR to ensure you and they are on the same page regarding what attributes a candidate suitable for the business strategy has. Let HR take full control of the hiring, with only the occasional review, once you feel their hiring are consistently in line with the business strategy

CHAPTER-III**HR Strategies in Workforce****Utilization**

Contents:

Efficient Utilization of Human Resource- Cross Training and Flexible Work Assignment, Work Teams- Non Unionization, Strategies for Employee Shortages, Strategies for Employee Surpluses. Strategies for Performance and Development: Typology of Performance Types, Marginal Performers, under achievers, stars, solid citizens, Managing Employee Ability, Recruitment and Selection Strategy Typology, Incentive Alignment, Psychological Contracting.

Key Terms:

- Cross Training -Cross training is training someone in another activity that is related to their current work. It saves you money and makes them happier.
- Flexible Work Assignment- Flexible Work Options are a valued tool for supporting employee efforts to balance the demands of work and personal life.
- Work Teams- A group of employees that works semi autonomously on recurring tasks. Work teams are most useful where job content changes frequently and employees with limited skills and a specific set of duties are unable to cope.
- Non Unionization- An organization culture where there is no union.
- Employee Shortages- As the name suggests, the stage of employee shortage, where there are less number of employees are there, than, required.
- Employee Surpluses- It is the stage of surplus, in a sense there are more number of employees recruited than required.
- Psychological Contracting- A psychological contract represents the mutual beliefs, perceptions, and informal obligations between an [employer](#) and an [employee](#). It sets the dynamics for the relationship and defines the detailed practicality of the work to be done

Questions:

- Q1) Explain the techniques of efficient utilization of Human Resources.
Q2) Discuss strategies for the employee Shortage and employee surpluses.
Q3) Write a note on Performance and Development.
Q4) Explain different typology of performers.
Q5) Discuss different methods of managing employee ability.

- Q1) Explain the techniques of efficient utilization of Human Resources.

HR strategy is the way the organization plans to utilize its human resources, develop them, and provide opportunities and better working conditions to ensure the maximum integration of these resources. Of all the resources of an organization, the human assets are probably the most critical and difficult to manage. The human resources are the most critical because these are the only active resources and the effective use of all other resources directly depends on efficient utilization of these. Renis Linkert rightly observes that all the activities of any enterprise are initiated and determined by the people who make up that institution. Potential of human resource can be utilized effectively by following methods.

Cross-Training and Flexible work assignment – An effective training technique which results in motivation is **cross-training**, when implemented horizontally, upward and downward. Cross training is also known as **circuit training**. Department heads, assistants and employees can cross-train in different departments or within the department itself. With background support, employees can have one day training in the role of department head (“King for the Day”).

When a general manager is away, department heads can take roles replacing him, which is a form of cross-training. Cross training should be carefully planned and presented as learning opportunity. Sending people to work in another department at a moment’s notice is not what cross-training is about. This has to be an effective planned process. Departmental communications meetings can be used to share lessons learned. Cross training can be used to “shake up” supervisors or employees who have lapsed into poor performance.

A more sophisticated form of cross training is job rotation, which usually involves extended periods (from one month to six months). With job rotation, the employee’s role is of a different nature.

Flexible work assignment may be an option that can meet the needs of both the organization and the employed. Organizations are strongly encouraged to be as flexible as possible in allowing for alternative work schedules.

Flexible work options offer alternative approaches to getting work done through non-traditional work hours, locations, and/or job structures. They offer creative approaches for completing work while promoting balance between work and personal commitments. Typical flexible work options are flextime (flexible start, stop and lunch times), flex place (work away from the office, typically at home), compressed work schedules (compressing standard work week hours into fewer days), and part-time and job sharing assignments (less than full-time work, either for a reduced assignment, or a shared one).

Work teams- Teams have increasingly become the primary means for organizing work in contemporary business forms. In the organization an important function of the manager is to create team spirits among subordinates. The word ‘team’ is generally used in group games. A group is able to work together as a team only after all the persons in the group know the roles of all others with whom, they will be interacting. All members must be qualified to do their jobs. When there is such understanding, the desire to cooperate with them, may become effective in real cooperation. Persons are able to act as team members in all working conditions, depending upon the needs of that situation without looking at someone to give orders.

According to Bennis, “Though all these teams were extraordinary in their own way, there were some principles that were common to all and these principles apply to all the organizations where these teams worked”.

The principles are: Shared Dream, Mission is Bigger than Ego, Protection from leaders.

Non Unionization – In order to gain flexibility in their operations, companies like to operate as non union firm. Accordingly, as non union firms have become more common, **Guest and Hoque** have proposed a way of classifying new, nonunion establishments, which recognizes their diversity. This is necessary since in practice, it seems unlikely union establishments, which recognizes their diversity. This is necessary since in practice, ‘it seems unlikely that non-union establishments are either all good or all bad as had been argued by some observers.

Q2) Discuss strategies for the Employee Shortages and Surpluses.

Human resource shortage poses a challenge for organizations. Organizations employ a number of strategy prevent from employee shortages. Some of them are:

Creative Recruiting – A shortage of personnel often means that new approaches to recruiting must be used .The organization may have to recruit in different geographic areas than in the past, explore new methods, and seek different kinds of candidates.

Compensation Incentives – Firms competing for workers in a high-demand situation may have to rely on compensation incentives. Premium pay is one obvious method; however, this approach may trigger a bidding war that the organization cannot sustain for an extended period. More subtle form of rewards may be required to attract employees to a firm; such as five days workweeks, flexible working hours, telecommuting, part-time employment, and child-care centers.

Training Programs – Special training programs may be needed to prepare previously unemployable individuals for positions with a firm. Remedial education and skills training are two types of programs that may help to attract individuals to a particular company.

Different Selection Standards – Another approach for dealing with shortages is lowering employment standards. Selection criteria that screen out certain people may have to be altered to ensure that enough people are available to fill jobs. For example, instead of designing extensive work experience, a firm may be willing to hire an inexperienced one and train the individual to do the job.

Recruiting minorities and women – Organizations should formulate comprehensive plans for attracting and retaining these groups , plans that words, organization should formulate comprehensive plans for attracting and retaining these groups , plans that may include re-evaluating personnel policies, developing flexible work options, redesigning jobs, and offering flexible benefit plans .

Outsourcing- Outsourcing simply means hiring someone from outside the company to perform tasks that could be done internally. Companies often hire the services of accounting firms, for example, to take care of financial services. They may hire advertising firms to handle promotions, software firms to develop data- processing systems, or law firms to handle legal issues. Types of outsourcing are **Professional Employer Organization (PEO), Business Process Outsourcing (BPO), Application Service Providers (ASP), E-services, Legal Process Outsourcing (LPO), Knowledge Process Outsourcing (KPO).**

Human resource surplus also poses a challenge for organizations. Organizations employ a number of strategies to deal with employee surplus. Some of them are:

Restricted Hiring – When a firm implements a restricted hiring policy, it reduces the workforce by not replacing employees who they have left. New workers are hired only when the overall performance of the organization may be affected.

Reduced Hours – A company can also react to a reduced workload requirement by reducing the total number of hours worked.

Redeployment and Retraining – With the increased rate of technological change and potential for skill obsolescence, retaining may become more important. As a result, many companies provide retraining for managers whose skills have become obsolete. A critical determinant in the success of such programs is manager's self-efficacy beliefs, or expectations that they will be successful in mastering the new skills.

Early Retirements – When a company decides to downsize its operation, its first task is to examine alternatives to layoffs, as mentioned earlier, one of the most popular of these methods is early retirement.

Termination Strategies – Companies should develop approaches regarding termination which assure employees the cause for termination. Performance appraisal, coaching, and counseling systems should be designed to show the real picture about their performance.

Q3) Write note on Performance and Development.

Performance and Development can be defined as a process or set of processes for establishing shared understanding about what is to be achieved, and of managing and developing people in a way which increases the probability that it will be achieved in the short and long term.

According to Armstrong “ Performance and Development is a mean of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It is a process to establish a shared understanding about what is to be achieved, and an approach to manage and develop people so that it will be achieved.”

Performance appraisal process comprises of following.

- Objectives of Appraisal
- Establish job expectations
- Design an Appraisal Program
- Appraise Performance
- Performance Interview
- Use Appraisal Data for appropriate Purpose

Q4) Discuss different types of performers.

Low Potential- Low Performance (Marginal Performers) - These are the functionally ineffective workers; those who have hired or assigned into the wrong job, or those with a bad attitude, a poor work ethic or a victim mentality that causes them to resist necessary changes and to feel entitled to awards they have not earned. Though they are minority of workforce, they account for majority of errors, absenteeism, thefts and accidents. These employees are categorized as marginal performers. The company asks such employees to improve their performance levels. Failure to improve performance would result in their planned separation.

High Potential – Low Performance (Under Achievers) – These are the problem children, in order to help them improve their performance; these employees are shifted to new locations to work and are closely monitored. If performance levels do not improve, these employees are reclassified as question marks and the separation process initiated.

High Potential- High Performance (Stars) – These star performers are most valuable employees of organization. They continuously exceed organization and consumers

expectations. Organizations count on them to lead the charge toward the attainment of organizations objectives. They have to be kept engaged with complex assignments all the time and groomed to take up the top positions. Otherwise, they might quit.

Low Potential – High Performance (Solid Citizens) – These are called solid citizens and constitute seventy or seventy –five percent of the total number of employees in any organization. They have skills but lack the potential to grow beyond their current job-profile. The organization has to constantly recognize their limitations and take care of their needs.

Q5) Discuss different methods of managing employee ability.

Managing employee ability/performance is the key to an effective performance development system. Setting goals, making sure expectations are clear, and providing frequent feedback help people perform most effectively. Employee ability can be managed by following methods:

Recruitment and selection Strategy Typology

Recruitment and selection strategy of an organization has an important bearing on employee's performance. The aim of a recruitment and selection strategy is to decide how quality people can be attracted to the business. **According to Pearce and Robinson** the recruitment and selection strategy should answer some basic questions. These are:

- What key people are needed to support the business strategy?
- How can the firm recruit the needed the business strategy?
- How sophisticated should the selection process be?

The general relationship can be illustrated simply using Porter's typology of cost reduction, innovation, and quality enhancement strategies.

"Cost reducers" will attempt to compete on price and so will hire according to narrow specialized job requirements usually junior levels at minimal cost. This is likely to exclude expensive external recruitment and selection efforts. **"Innovators"** will tend to favor external selection in order to maximize workforce creativity and long-term sustainability of the company, searching for qualities such as propensity for risk-taking and tolerance for ambiguity. Finally, quality enhancement strategies suggest internal selection and promotion in order to encourage employee loyalty, low risk –taking and a concern for quality.

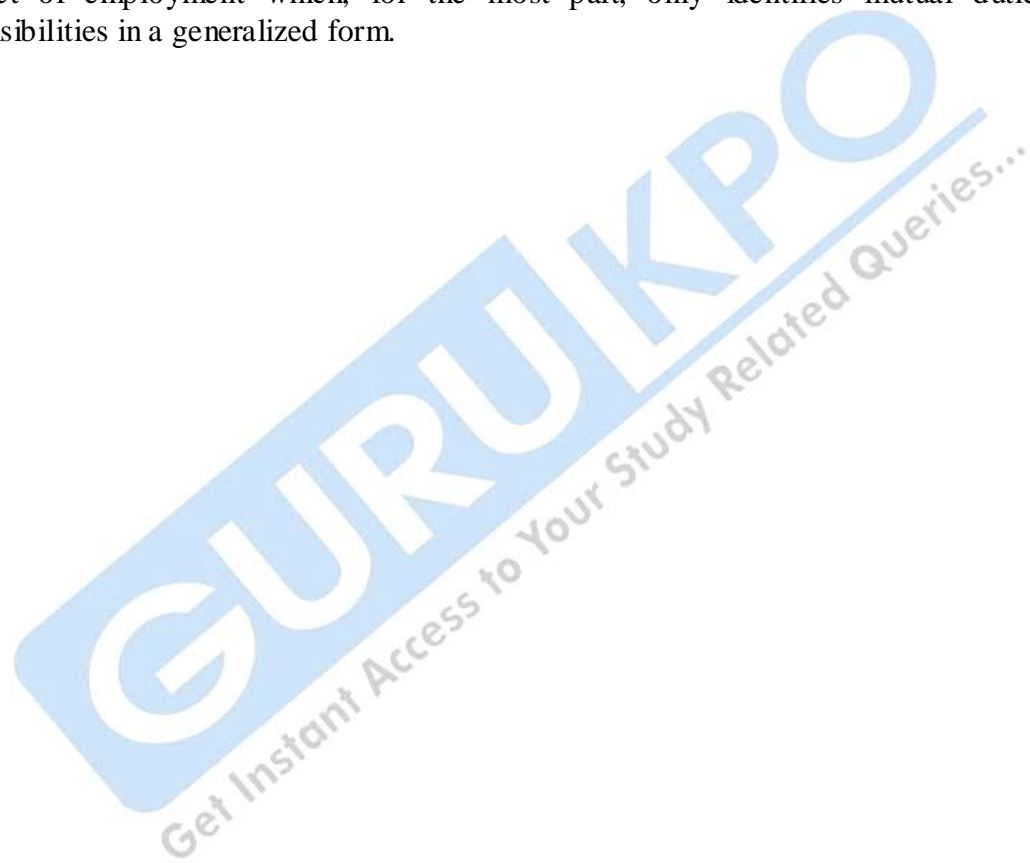
Similar distinctions can be drawn between Miles and Snow's strategic types of **defenders, prospectors, analyzers, and reactors.**

Incentive Alignment Rewarding CEO's with long-term forms of compensation (e.g. stock options, performance plans, and restricted stock) has become more popular than using year-end pay adjustments. The concept of incentive alignment can be understood by Agency theory. Agency theory has been used to understand situations in which an individual delegates responsibility for a task to other persons. The person delegating the work is called the principal, and the individual to whom tasks are assigned is referred to as the agent. Agency theory is used to explicate alternative ways of controlling behavior in order to reduce conflicts of interest that inevitable arise when principals delegate responsibility to agents. The theory suggests that agency costs are minimized when the firm is controlled by the owners. When this is the case, conflicts of interest are eliminated, and agency costs are reduced. However, as ownership becomes more dispersed (i.e. the CEO relinquishes control), firms make choices between bureaucratic control and incentive alignment in order to keep

agency costs to a minimum. Thus , incentive alignment is a compensation plan that aligns the interests of the principal and agent.

Psychological Contracting The concept of a psychological contract was introduced in 1960 by Argyris. Over the next five years the new concept got much attention from various researches. It received little attention thereafter until the 1990's. The economic downturn led to the restructuring, downsizing, mergers and takeovers in many organizations. That was accompanied by changes in how personnel felt and acted towards their employers. The psychological contract helped explain those changes and therefore regained attention.

A psychological contract represents the mutual beliefs, perceptions, and informal obligations between an employer and employee. It sets the dynamics for the relationship and defines the detailed practicality of the work to be done. It is distinguishable from the formal written contract of employment which, for the most part, only identifies mutual duties and responsibilities in a generalized form.



Case Situation-I**DEVELOPING EMPLOYEE POTENTIAL**

A National seminar on the topic “Developing Employee Potential” was organized in City College Jabalpur. Various experts put their ideas and views. The concluding themes are summarized as follows:

- i) Sunil Grover, CEO of JCT, says, “You best lead by serving the needs of your people. You don’t do their jobs for them; you enable them to learn and progress on the job.”
- ii) Chaitanya Choudhary, vice president of Grasim, stated: “A mentoring programme in which diverse employees are given the opportunities to work closely with organizational leaders can be a powerful tool to develop employee potential.
- iii) Dr. Hamir Hashmi suggested that a good way for managers to develop the potential of their diverse employees is to offer developmental work assignments that provide a variety of learning experiences in different organizational areas.

Questions:

- 1) Which idea would you prefer most? Why?
- 2) What can managers do to ensure that their diverse employees have the opportunity to develop their potential? Give your own suggestions.

Case Situation –II

Acker Communications does not believe in imposing rigid office timing on its employees. It has given them the freedom to work from home. It extensively uses technology for remaining in contact with its employees. What is the concept underlying the principle of ‘**working from home**’?


What are the advantages and disadvantages of adapting this concept?

Case Situation-III

Indian Steel is one of the largest iron and steel manufacturers in India. Its factory workers have often complained about boredom and the monotony of the work system. With an aim of reducing boredom and making the work more fulfilling for workers Indian Steel has embarked upon a job rotation program. What are its advantages? What are the issues that need to be kept in mind before implementing job rotation?

(Hint: The article in next page.)



***Work from  too....**
professionalism.

"DEMANDS"

SHRADDHA was working at good post in the multinational company. But after her delivery had to take the break from work for certain time. As she was eminent employee, boss asked her to work from home only. She started working from home but was not being able to maintain professionalism like earlier.

This is not only the problem of Shraddha, but it's common of all those who work from home. It sounds good and easy "WORK FROM HOME" but demands lots of balance between different activities at a time. There are certain things by keeping them in mind one can give the best to work from home too.

- 🏠 **Create separate Office Space** - The major hurdle in working from home comes when there is no prominent space for office work. While gossiping, watching television if office work is done, the concentration affects and so as the work. These things distract and disturb. So, it is better if one wants to work from home should create separate office space so that can be worked professionally from home even.
- 🏠 **Schedule** - When one work from home, no doubt has to finish other tasks too but if make proper schedule of the work then both the tasks will be accomplished in time.
- 🏠 **Boss for self watchdog** - No two opinions that while when one is working from home there is no eyes to watch the deadlines and work done. So, one has to be boss for own self. The honesty towards work from home even has to be maintained.
- 🏠 **Self development time to time** - It's very true, if one gets the work from home flexibility, means company trusts the skills and ability of the person. But one should not overestimate own self. Rather has to enhance and brush up the skills, qualities and abilities time to time which is very necessary from skill development and grooming aspect.
- 🏠 **Integration and feedback** - Working from home reduces the personal contact of an employee with its company. There are very few incidents like reporting regarding assignments and getting assigned for work etc for which employee contact with company. But while working from home demands more integration and feedback in employee's part from company. It is prerequisite for every good professional to fulfill their organization's need.

* *Extracted from ME NEXT (Rajasthan Patrika), July 14 '2012.*

CHAPTER-IV

Evaluating HR Function

Contents:

Evaluating HR Function: Overview of Evaluation, scope, strategic Impact, level of Analysis, Criteria level of constituents. Ethical Dimensions; Approaches to evaluation; Audit approach & Analytical approach. Quantitative and Qualitative Measures; Outcome and Process Criteria, Balanced score card perspective, Bench Marking, Accounting for HRM, purpose of measuring cost and benefits of HRM, Approaches to HRM performances; Approaches to HRM performances, Employee wastage and turnover rates, cost of absenteeism, measuring Human resource cost.

Key Terms:

- Benchmarking - **Benchmarking** is the process of comparing one's business processes and [performance metrics](#) to industry bests or [best practices](#) from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking,
- Strategic Impact- Decisions or plans designed to impact favourably the key factors on which the desired outcome of an organization, game, system, venture
- Cost of Absenteeism- The loss of organization due to the irregularity of employees.

Q1) Describe the following:

- i) Overview of evaluation.
- ii) Scope of evaluation.
- iii) Strategic impact of evaluation.
- iv) Level of analysis.
- v) Evaluation criteria.

Q2) Describe the different approaches of evaluation.

Q3) "HRA is important to organization." Justify.

Q4) Discuss different techniques of measuring Human resource cost.

- Q1) Describe the following:
- i) Overview of evaluation.
 - ii) Scope of evaluation.
 - iii) Strategic impact of evaluation/linkage
 - iv) Level of analysis.
 - v) Evaluation criteria.
 - vi) Ethical Dimensions.

i) Overview of Evaluation - The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organizational objectives. Thus, strategic evaluation could be defined as the process of determining the effectiveness of a given strategy in achieving the organizational objectives and taking corrective wherever required.

During the two preceding phases of the strategic management process, the strategists formulate the strategy to achieve a set of objectives and then implement the strategy. Strategic evaluation, therefore, performs the crucial task of keeping the organization on the right track. In the absence of such a mechanism, there would be no means for strategists to find out whether or not the strategy is producing the desired effect. In this manner, through the process of strategic evaluation, the strategists attempt to answer two sets of questions, such as, the ones below.

- 1) Are the premises made during strategy formulation proving to be correct? Is the strategy guiding the organization towards its intended objectives? Are the organization and its managers doing things which ought to be done? Is there a need to change and reformulate the strategy?
- 2) How is the organization performing? Are the time schedules being adhered to? Are the resources being utilized properly? What needs to be done to ensure that resources are utilized properly and objectives met?

ii) Scope of Evaluation – Evaluation of HR may be directed towards overall HR effectiveness more narrowly towards the effectiveness of the HR function. Measures of overall HR effectiveness include turnover, worker's compensation claims employee satisfaction, etc. An evaluation of the HRM function, on the other hand, includes measures related to the efficiency in administering an HR programme, such as benefits and recruiting applicants overall HR outcomes and influenced by the performance of the line managers of the firm, In a narrower evaluation, on the other hand measures of HR affected only, by the performance of the HR staff or personnel. Such an evaluation may be misleading and suggest that HRM is the sole responsibility of the HR department and personnel. This is, however far from the truth. All line managers and departments affect the quality of HRM. Most HRM activities are shared between HR personnel and line managers. Hence, evaluation of HR function is not a simple issue.

The scope of evaluation also incorporates a time perspective, that is, the time it takes for an HR practice to have an impact on performance. Depending on the

nature of the program, the time lag between implementation of a program and its impact on performance can vary. Moreover, the impact of an HR program may remain stable or increase or decrease over time.

- iii) **Focus** – The decision related to HRM evaluation needs to be clear about who or what is being evaluated. Is the HRM department being evaluated, or the HR personnel or HR practices? It is imperative that the scope of evaluation includes all three.
- iv) **Strategic impact of evaluation/Linkage** – The HRM function changed from having a reactive approach to having a proactive approach. This change is accompanied with a change in the focus of HRM evaluation; there has been a shift from a focus on how well a problem has been solved (reactive) to a focus on the impact of HRM practices on the organization and on the employees (proactive). In the past, evaluations focused on criteria such as the number of self-appraisal forms filled or the turnover rate. Now, evaluations focus on finding out whether appraisals result in training need identification, whether the firm is losing high performers, etc.
- v) **Level of analysis** – Another important aspect of HRM evaluation relates to the level of analysis. Human resource management may be evaluated at three levels: (1) strategic; (2) management; and (3) operational. At the strategic level, the objective of HRM evaluation is to determine the consistency between HR policies and company strategy. At the management level, the focus of HRM evaluation is on control, for example, cost effectiveness of a benefit programme. At the operational level, it is the quality of HR services and programme that are in focus, for example, satisfaction with the services of the HR department relates to the operational level of HRM evaluation.
- vi) **Evaluation Criteria** – The determination of criteria for evaluating the effectiveness of the HR functions is another significant issue. These criteria may range from the responsiveness of the department; to how proactive they are, to the quality of their training and development activities. An important issue related to evaluation concerns whether the evaluation criteria will involve outcomes or processes. Outcomes are the end results or products of work. Processes are the behaviors the activities performed to reach the outcomes. Productivity ratios of the workforce of a firm, turnover rate, etc are examples of outcome criteria. However, outcome criteria may be contaminated by factors external to the HR activity being evaluated.

Q2) Describe the different approaches of evaluation.

There are several approaches to human resource evaluation. The most prominent of them are:
Audit Approach – Like any audit, the Human Resource Audit is also a systematic formal process, which is designed to examine the strategies, policies, procedures, documentation, structure, systems and practices, with respect to the organization's human resource management. It systematically and scientifically assesses the strengths, limitations, and developmental needs of the existing human resources, from the larger point of view of enhancing organizational performance. There are different approaches for human resources

audit. Like; **Comparative approach, Outside authority approach, Compliance approach, MBO approach.**

Analytical Approach – The second approach to HRM evaluation is the analytical one. The analytical approach relies on cost-benefit analysis, also called the Utility analysis. Utility analysis seeks to express evaluations in economic terms, which are more useful for decision makers. Several HR activities have been evaluated with utility analysis, including appraisal systems, employee hiring, training and turnover. Although utility analysis has wide applicability and represents quantitatively superior means of evaluating HR activities, there is no two opinion the process is difficult. Because of this difficulty, and the amount of resources and effort required for analysis, its use has been limited to only certain specific situations. The different types of analytical approach are; **Asset Method, Expense Model, Economic Profitability & Cost Benefit Ratio.**

Quantitative and Qualitative Measures – A number of quantitative and qualitative measures can be constructed to measure the effectiveness of a company's human resources. Quantitative measures can sometimes be combined in the form of composited indices, and weighting schemes necessary for such indices can be developed through policy capturing approaches. Further, the human resource function can also be evaluated as a cost centre. Additionally, the benefits resulting from human resource management programs, such as reduced turnover or improved percentages of good hires can sometimes be determined in dollar values. In such case, the effectiveness of the function can be measured as a profit centre. It is worth nothing that an inordinate emphasis on quantitative evaluation measures can become dysfunctional. This occurs when the focus on goals or objectives, as operationalized in terms of such measures, does not contribute to accomplishment of strategic goals. Changes in the attitudes of an organization's workforce also can provide a partial indication of the effectiveness of the human resource function. These indicators, although inherently more qualitative than many other organizational characteristics can be captured in measures that allow them to be subjected to statistical analysis.

Outcome and Process Criteria – A final evaluation issue is whether the criteria will involve outcomes or processes. The distinction between the two types of criteria is that outcomes are results or end products of work while processes concern behaviors or how activities are performed. An example of an outcome criterion might be productivity ratios for a company's workforce. In spite of the appeal of their link to production activity, ease of measurement and objective nature, outcome or output criteria are often contaminated by external factors unrelated to the activity being evaluated. For example, high turnover rates could be more indicative of low unemployment rates in the local labor market than weaknesses in a company's selection or compensation systems.

Balanced Scorecard Perspective – The HR Balanced Scorecard is a framework developed by Kaplan and Norton in Harvard USA which balances the value of strategic inputs (**“leading indicators”**) with financial outputs (**“lagging indicators”**) to enable an organization to improve the way it plans, measures and communicates success. It is now being applied by hundreds of successful organizations, in the public and private sectors, to align people, strategy and performance. The balanced scorecard framework and its information foundation can be created using the following steps:

- i) Building the business case.
- ii) Identifying strategies.

- iii) Identifying Tactical Objectives.
- iv) Identifying performance measurements.
- v) Identifying data Sources.
- vi) Creating the data warehouse.
- vii) Selecting information technology.
- viii) Creating the Balanced scorecard
- ix) Managing the strategy
- x) Refining and Reusing

Benchmarking – Benchmarking involves employees learning and adopting the so-called “best practices” by comparing their HRM practices with those of other (more successful) organizations. Benchmarking essentially involves that employees study the practices followed in competing firms and evaluating own practices with those thus collected. Besides evaluation of own HR practices, benchmarking enables managers to learn from other firms and adopt effective HR strategies. In addition, benchmarking can help create and initiate the need for change because it identifies what an organization needs to do to improve relative to the HR strategy in excellent companies.

Q3) “HRA (Human Resources Accounting) is important to organization.” Justify.

The past few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lies in the very nature of their assets. In the former, the physical assets like plant, machinery, material etc. are of utmost importance. In contrast, in the later, knowledge and attitudes of the employees assume greater significance. For instance, in the case of an IT firm, the value of its physical asset is negligible when compared with the value of the knowledge and skills of its personnel. Similarly, in hospitals, academic institutions, consulting firms etc., the total worth of the organization depends mainly on the skills of its employees and the services they render. Hence, the success of these organizations is contingent on the quality of their Human Resource- its knowledge, skill, competence, motivation and understanding to the organizational culture. In knowledge –driven economies therefore, it is imperative for human to be recognized as an integral part of the total worth of an organization.

However, in order to estimate and project the worth of the human capital, it is necessary that some method of qualifying the worth of the knowledge, motivation, skills and contribution of the human element as well as that of the organizational processes, like recruitment, selection, training etc., which are used to build and support these human aspects, is to be developed.

Human resource accounting (HRA) denotes just this process of accounting /measurement of the human resources.

- **According to American Accounting Association**, “HRA (Human Resource Accounting) is the process of identifying and measuring data about human resources and communicating this information to interested parties.”
- **According to Davidson and Well**, “It is the process of measuring and reporting the human dynamics of an organization. It is the assessment of the condition of human resources within an organization and the measurement of the change in the condition through time.”

From the above definitions the objectives of HRA can be sketched, viz as follows.

- 1) Provide cost value information about acquiring, developing, allocating and maintain and maintaining human resources of as to meet organizational goals.
- 2) Enable management to effectively monitor the use of human resources.
- 3) Find whether human assets are appreciating or depreciating over a period of time.
- 4) Assist in the development of effective management practices by classifying the financial consequences of various practices.
- 5) In the decision making process about employment, allocation and utilization of such resources properly.
- 6) Better human resource planning, enabling long-term opportunity for planning and budgeting.
- 7) To attract good, competent and efficient personnel to work for the organization.
- 8) In taking decisions regarding promotion, transfer, training, retirement and retrenchment of such resources.
- 9) For fixing right person for the right job.
- 10) In evaluating the expenditure, if any, incurred by the organization in giving further tainting and to evaluate the return on such investment in human resources.
- 11) To motivate individual persons in the organization to increase their worth by training.
- 12) In planning physical resources vis- a –vis human resources by giving valuable information.

Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business. Human resource accounting also involves accounting for investment in people and their replacement costs, and also the economic value of people in organization. Following are the advantages or the significance of HRA.

- 1) It can foresee the changes in value, aptitude and attitude of human resources and accordingly change the techniques of interpersonal management.
- 2) It provides the different methods of testing to be used, interview techniques to be adopted in the selection process based on the level of skills, qualifications, values etc., of human resources.
- 3) It helps to take steps to improve human resources' contributions in the form of increased productivity.
- 4) It aims to see that the human involvement in the organization is not wasted and brings high returns to the corporate unit.
- 5) It helps individual employee also to aspire for promotion, better benefits, etc.
- 6) It provides scope for advancement and development of employees by effective training, development, etc.
- 7) It throws light on the strengths and weaknesses of the existing workforce in an organization.
- 8) It helps potential investor to judge a company better on strength of human assets utilized there

Q4) Discuss different techniques of measuring Human resource cost.

There are several methods suggested for valuation of human resources. They are briefly stated here.

A) The Cost Approach –

- i) Historical Cost Method** - Human resources are valued at the unexpired portion of the cost of recruiting, training and development of employees. This is very simple and meets the tests of traditional principles of accounting. It simply involves an extension of the concept of proper matching of cost and revenue. However, this cannot fulfill the requirement of developing a system of HRA based on systematic valuation of internal as well as external human resource, which may improve the quality and utility of accounting reports from the view point of rational decision –making.
- ii) Replacement Cost Method** – This requires an estimation of the cost of replacing the existing personnel under existing organizational conditions. Renis Likert has suggested determination of the value of total human organization on the basis of the assumption that you want to create a similar organization from scratch and then estimate the cost required for this purpose. This serves as the basis of valuation of human resources from time to time. It is difficult to find identical replacement of the existing human resources in actual practice. The determination of such a value will be affected by subjective consideration to a marked extent and therefore, the value will differ widely from person to person. Further, it lacks verifiability.
- iii) Standard Cost Method** - To avoid complication of calculation under the replacement cost, standard cost of recruiting ,hiring ,training and developing per grade of employee are developed .The standard cost for all human being are treated as the value of human resources for accounting purpose. Besides providing easy implementation, the variances produced should be analyzed and would form a useful basis for control.
- iv) Present Value Method** – The present value of human resources would represent the discounted value of the estimated net contributions of personnel to the earnings of the company. This basis of valuation is quite complicated. It requires use of assumptions regarding probable stay of the employees with the firm at different stages of their service.
- v) Current Purchase Power Method (CPPM)** – Under this method, the historical cost of investment in human resources is converted into current purchasing power of money with the help of index numbers. The standard cost method and the current purchase power method also suffer from all drawbacks of the replacement cost except that they are simpler in calculation.
- vi) Opportunity Cost Method** – Under this method, the value of an employee in his or her alternative use is determined. The value is taken on the basis for estimating the value of human resources employed by the organization. If the employee can be hired easily externally, there is no opportunity cost form them. To determine the opportunity cost the competing bidding method is used. IT excludes the value of employees of the type who can be hired .
- vii) Economic Value Approach** – The present value of a portion of the firm’s future earnings attributable to human resources will be the value of human resources.

B) The Economic Value Approach – The value of an object, in economic terms, is the present value of the services that it is expected to render in future. Similarly, the economic value of human resources is the present worth of the services that they are likely to render in future. This may be the value of individuals, groups or the total human organization.

i) **Measurements of individual's Value** -The methods for calculating the economic value of individuals may be classified into monetary and non-monetary methods.

Monetary measures for assessing individual value

- Flamholtz's model of determinants of individual value to formal organization.
- Flamholtz's stochastic rewards valuation model.

Non-Monetary measures for assessing individual value The non-monetary methods for assessing the economic value of human resources also measure the Human Resource but not in monetary terms. Rather they rely on various indices or ratings and rankings. These methods may be used as surrogates of monetary methods and also have a predictive value. The non-monetary methods may refer to a simple inventory of skills and capabilities of people within an organization or to the application of some behavioral measurement technique to assess the benefits gained from the Human Resource of an organization:

- Skills or capability inventory.
- Performance evaluation.
- Assessment of potential.
- Attitude measurements.

ii) **Measurements of Group Value** –

- The Likert and Bowers Model
- Brummet, Flamholtz, and Pyle's Economic value Model
- Hermanson's Unpurchased Goodwill Model
- Human Organizational Dimensions Method
- Methods for valuation of expense centre groups

Case Situation – 1

Henry and Co. was into manufacturing electronic goods. In the past one year, the profits were not as expected. An analysis done by the management showed that the human resources were not being used effectively. For the efficient use of human resources and more accurate human resource planning, the company felt the need to conduct a human resource audit. What should the company take to do so?

Case Situation – II

Pierre & Pierre were large manufacturing unit and a leading company in France. It had more than five thousand employees. The company was into making electronic appliances which included consumer durables. But slowly the employees' performance began to decrease. One reason cited was that the employees were not satisfied with the way the managers were evaluating them. As a result the company planned to implement 360-degree performance appraisal. The main idea was to know what the subordinates thought about the superiors and also to give a clear view to employees of how their peers evaluated them.

- What steps would you suggest for Pierre & Pierre to implement an effective 360-degree appraisal system?
- Give the suitable title to the case.



CHAPTER-V

HR Score Cards

Contents:

HR Score Card: HR as a Strategic Partner and Measurement Challenge, seven step model for implementing HR Strategic Role, Creating an HR Score Card, Measuring HR Alignment, Assessing Internal and External Alignment - Systems Alignment Map.

Key terms:

- Strategic Partner- Decisions or plans designed to impact favourably the key factors on which the desired outcome of an organization, game, system, venture.
- HR alignment- The bridging between business and HR strategy
- Systems Alignment Map- Map with clear vision of internal and external alignment.

Questions:

- Q1) Explain the role of HR as a strategic partner?
- Q2) Explain seven-step model for implementing HR's strategic role?
- Q3) Write a note on HR score card.
- Q4) Explain the dimensions of HR alignment?
- Q5) Why alignment is important for Strategy?

Q1) Explain the role of HR as a strategic partner?

The new economic paradigm is characterized by speed, innovations, quality and customer satisfaction. The essence of the competitive advantage has shifted from tangible assets to intangible ones. The focus is now on human capital and its effective alignment with the overall strategy of organizations. This is a new age for HR. The entire system of measuring HR's contribution to the organization's success as well as the architecture of the HR system needs to change to reflect the demands of succeeding in the new economy. The HR scorecard is a measurement as well as an evaluation system for redefining the role of HR as a strategic partner. It is based on the balanced scorecard framework developed by Kaplan and Norton and is set to revolutionize the way business perceives HR.

Based on various studies, it can be concluded that firms with more effective HR management systems consistently outperform the competition. However, evidence that HR can contribute to a firm's success doesn't mean it is now effectively contributing to success

in business. It is a challenge for managers to make HR a strategic asset. The HR scorecard is a lever that enables them to do so. Implementing effective measurement systems for intangible assets is a very-difficult task and demands the existence of a unified framework to guide the HR managers. It is the difficulty that has been the prime reason why managers tend to avoid dealing with intangible assets as far as possible. In the process firms under-invest in their people and at times invest in the wrong ways. Another difficulty is , managers cannot foresee the consequences of their investments in intangible human assets in a well-defined measurable manner and they are not willing to take the risk. Thus, the most effective way to change this mindset is obvious- to build a framework just like the balanced scorecard, which has sound measurement strategies and is able to link HR functions, activity and investment with the overall business strategy. The HR score card framework was specifically designed for these purpose.

Q2) Explain seven-step model for implementing HR's strategic role?

Ulrich discuss a seven step model for formalizing the strategic role of HR. They are summarized below:

- I) **Defining Business Strategy** – HR managers should focus on implementation of strategy by doing so; they can facilitate discussion about how to communicate the firm's goals throughout the organization. When strategic goals are not developed with an eye towards the implementation detail, they tend to be too generic and abstract. These vague goals will tend to confuse employees and they would not know how exactly to implement the strategies. The important thing for HR managers is to estate the goals to such a way, that the employees understand what exactly their role in the organization is and thus the organization know how to measure success, in achieving these goals.
- II) **Building a case HR as a strategic asset** – Once a firm clarifies its strategy, HR professional need to build a clear for the strategic role of HR. In concrete terms, they must be able to explain how and why HR can support the strategy. It is important to look at as much of case histories and internal as well as external research, while going through this phase. Although it is not wise to imitate others, one can learn a lot by looking through past experiences of others. Basically, the direct impact on the HR systems' high performance characteristics is non-linearly related to the increase in market value. This is making mistakes it used to make in the past. It is almost like it is getting out of the way and avoids blunders and wrong practices that worsen the situation. In the middle range of performance. HR starts consolidating its efforts. It is learning from its mistakes and in the process does not actually add much to the market value of the employees and the company, but once a certain threshold is crossed indicating that the firm has adopted the appropriate HR practices and implemented them effectively, the market value soars exponentially. This is mainly because the HR systems start getting integrated into the overall strategic system of the firm. Basically, the firms must consolidate the appropriate HR policies and practices into an internally

coherent system that is directly aligned with business priorities and strategies that that are most likely to create economic value. This can lead to significant financial returns to the company. In this plan that must be made concrete and shown as a strong case, to make senior management believe in HR's potential.

- III) Creating a strategy Map** – The first two steps clarify the firm's strategy. This paves the way for the implementation process. But, before this is done, the firm must get a clear understanding of its value chain. The value chain is the complex cumulative set of interactions and combinational effects that create the customer value in the products and services of the firm. It is important that the firm's performance management system must account for each of the links and dependencies in the value chain. The balanced scorecard framework refers to this process and creates a strategy map. These are basically diagrams that show the links in the value chain. It shows how different components in different layers interact. It is what provides managers and employees the big picture of how their tasks affect the other elements in the firm and how it affects overall strategy. This process should involve managers from all over the organization, not just HR. The broad participation is required to improve the quality of the strategy map. It also allows each member of the team, who is an expert in his or her domain, to provide his or her own insights into what is accomplishable.
- IV) Identifying HR deliverables within the strategy map** – HR creates much of its value, at the points of intersection between the HR system and the overall strategy implementation system of the organization. Thus, to leverage this to the maximum possible extent, it is important, that there is a clear understanding of both sides of this intersection.
- In the past, HR managers lacked the required amounts of knowledge about the business side and general managers did not fully understand the HR side. It is HR's responsibility to depict HR deliverables including performance drivers as well as HR enablers in the strategy map of the firm. Performance drivers such as employee competence, motivation, and availability are very fundamental and so it might be difficult to locate these, precisely on the strategy map. It is important to identify those HR deliverables that support the firm level performance drivers on the strategy map. The focus should be on the kind of strategic behaviors that depend on competencies, rewards a, and work organization. For example, employee stability improves R & D cycle time, the later being a firm-level performance driver. Thus, employee stability becomes an important HR enabler. Once, this enabler is identified, the firm can design policies such as bonus schemes, etc., those encourage R& D staff, to continue working for the firm.
- V) Aligning the HR architecture with the HR deliverables** – The above –mentioned steps encourage the top-down thinking approach, whereby strategy decides what

HR deliverables, the firm needs to focus on. It is also important to consider how the HR system made up of the rewards, competencies; work organization, etc., needs to be structured, to provide the deliverables that are identified in the strategy map. This step enhances the value creation aspect of the firm, by aligning the HR system with the firm's larger strategy implementation system. For this, internal alignment and external alignment are important. Internal alignment refers to the aligning components within the HR system. External alignment refers to the alignment of the HR system with the other elements in the firm's value creation process. These two are not isolated processes. They are closely related internal alignment is necessary but not sufficient in itself for external alignment to occur. Basically, highly cohesive HR strategies will work as long as they are aligned well with the overall strategy of the company. It will fail if it is not periodically reshaped, so as to align it with the overall strategy. However, for a particular fixed overall strategy, all firms need an internally aligned HR strategy, in order to achieve the overall goals, Misalignment between the HR system and the strategy implementation system can destroy value. In fact, the wrong measurement system can have the exact opposite effect, than intended.

VI) Designing the Strategic HR measurement system – The above steps guide the development of the HR architecture and lay the groundwork necessary, to measure the performance relationship between HR and the firm's strategy. The next step is to design the measurement system itself. This requires a new, modern perspective on measuring HR performance. It also requires HR to resolve several new technical issues that it might not be familiar with accurately measure the HR–firm performance relationship, it is imperative that the firm develops valid measures of HR deliverables. This task has two dimensions:

- a) **Firstly**, HR has to be confident that they have chosen the correct HR deliverables. This requires that HR have a clear understanding of the causality in the value chain, for effective strategy implementation.
- b) **Secondly**, HR must choose the correct measures for those deliverables. During this process of developing the HR scorecard, the firm might go through several stages of increasing sophistication. The first stage is normally the traditional category of measures. These mainly include operational measures such as cost per hire, activity counts, etc. These are not exactly strategic measures. In the second stage, HR measures have a strategic importance but they don't help much in making a case for HR as a strategic asset. Firms may declare several people measures such as employee satisfaction as strategic measures and these might be included directly into the reward systems. In this stage, there tends to be a balance between financial and non-financial measures but there is less of an

agreement on how exactly they combine together to implement the strategy. These are normally hasty decisions and the firms might have not gone through all the previous steps mentioned earlier.

VII) Implementing the strategy by using the measures: The previous step completes the HR scorecard development process. The next step is to use this powerful new management tool, in the right way. This tool not only helps the firm measure HR's impact on firm performance, but also helps HR professionals have new insights into what steps must be taken, to maintain HR as a strategic asset. It helps the HR professionals dig deeper into the causes of success and failure and helps them promote the former and avoid the later. Implementing the strategy, using the HR scorecard, requires change and flexibility as well as constant monitoring and re-thinking. The process is not a one-time event. HR professionals must regularly review the measures and their impacts. They must review the HR deliverables, identified as important and see to it, that the drivers and enablers are internally as well as externally aligned. Special reviews of the HR enablers must be conducted, as these have the maximum direct impact on specific business objectives. Enablers' that do not tend to play a positive role should be replaced.

Q3) Write a note on HR Score Card.

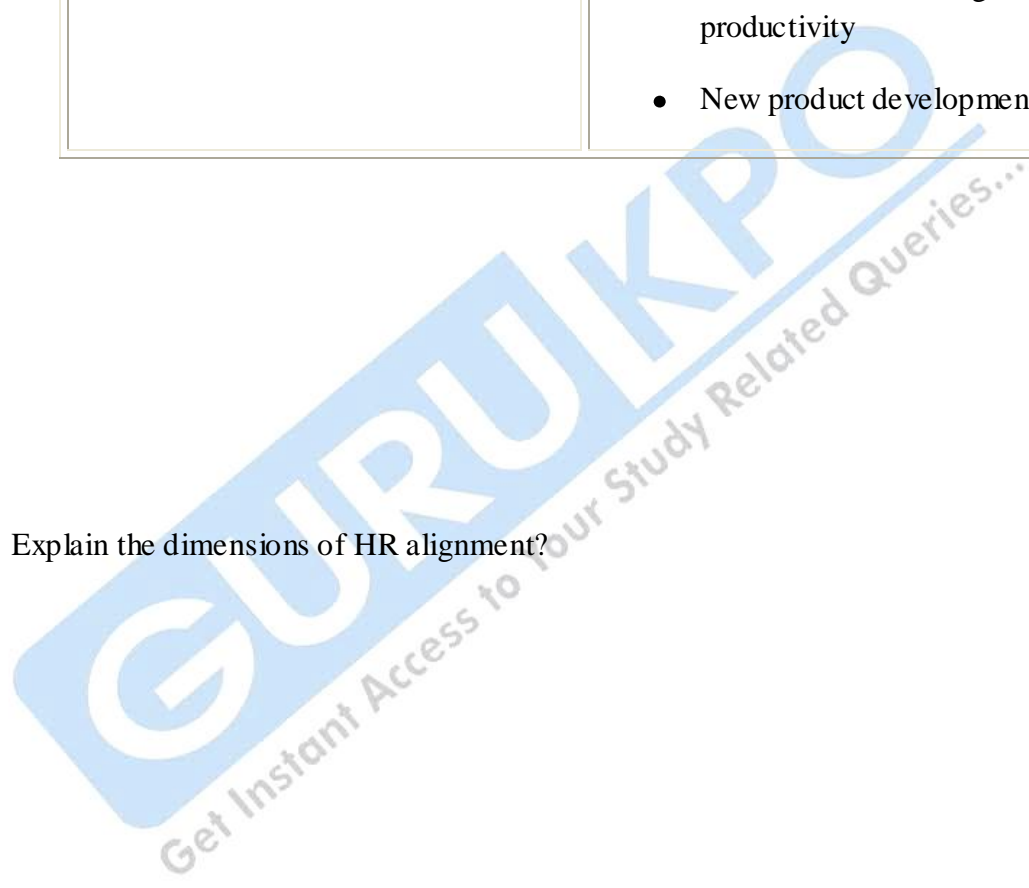
The balanced score card a new approach to strategic management was developed in the early 1990's by Robert Kaplan & David Norton. Recognizing some of the weakness & vagueness of previous management approaches the balance score card approach provides a clear description as to what organizations should measure to achieve effectiveness & efficiency. HR score card is a management process involving four main steps.

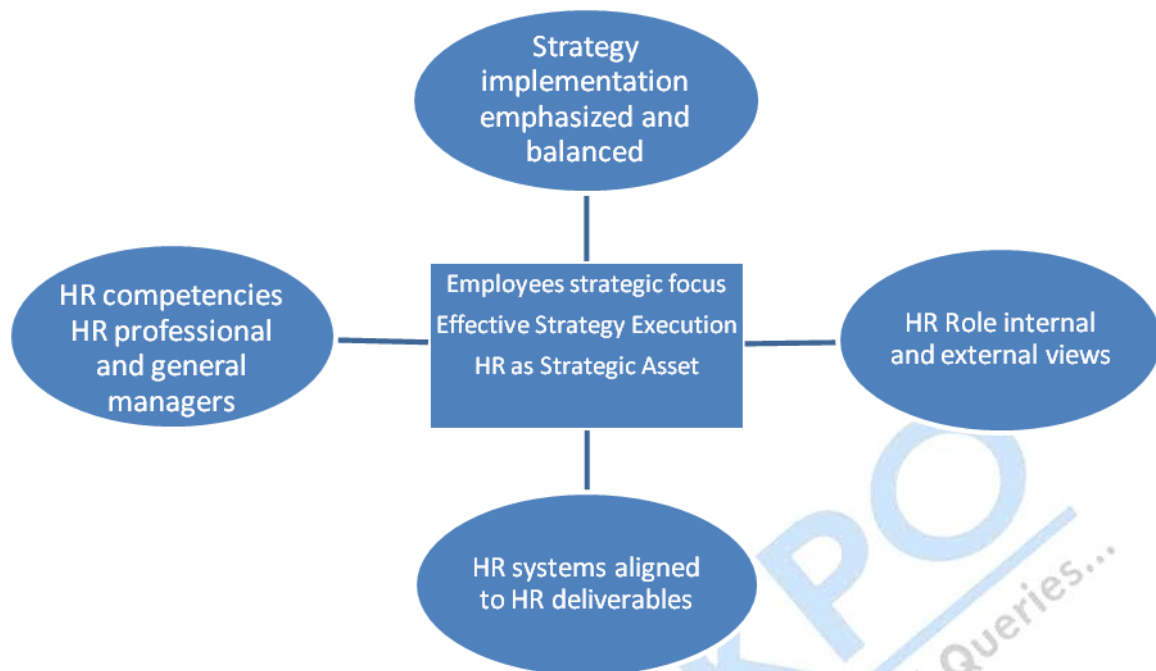
- i) Determining the version of the organization.
- ii) Determining how vision can be turned into a competitive advantage.
- iii) Determining how the four perspectives financial perspective, Customer perspective, learning growth perspective and internal business perspective help to improve the performance of an organization.
- iv) Determining the critical elements for ascertaining how far the organization has proceeded on the path of success.

Learning & Growth Perspective	Customer Perspective
<ul style="list-style-type: none"> • Technology & leadership. • Employee Motivation. • Knowledge Management. 	<ul style="list-style-type: none"> • Developing new products. • Choosing right supplies. • Providing on time delivery.

<ul style="list-style-type: none"> • Innovation & learning. 	<ul style="list-style-type: none"> • Promoting customer partnership.
Financial Perspective	Business Process Perspective
<ul style="list-style-type: none"> • Increase in cash flow. • Quarterly sales growth & operating income by division. • Increased market share. 	<ul style="list-style-type: none"> • Technological capabilities • Improving manufacturing excellence • Innovative design in productivity • New product development

Q4) Explain the dimensions of HR alignment?





The above figure depicts the two dimensions of alignment that HR architecture must achieve, in order to become a strategic asset. These dimensions provide the foundation and focus for developing actual alignment metrics.

The first, and perhaps most critical, of these two dimensions, is alignment between strategy implementation and the HR system. This dimension can be seen, on the vertical axis of the figure. To achieve this alignment, organization must emphasize strategy implementation and recognize it as a source of competitive advantage. To use Kaplan Norton's term, one need to be a "strategy-focused organization".

The strategic HR system is designed not from the bottom up (i. e. "best practices") but from the top down. In the figure, HR deliverables represent those products of the HR architecture that are integrally linked to the successful implementation of the firm's strategy. The unique requirements of an organization's strategy implementation, determine the particular HR deliverables, which in turn, shape the HR system.

The horizontal axis depicts a dimension of alignment, within the HR architecture, that influences the overall development of human resources as a strategic asset. This is the alignment between the strategic role the HR function can play and the level and mix of human resource competencies available among HR professional and line managers. In the figure, "HR Role" designates the degree to which HR professionals in and organization perceive themselves as strategic partners and the extent to which managers outside HR share the same view. Alignment requires that human resource and line managers outside HR share the same view. Alignment requires that human resource and line managers develop a shared view of HR's role. HR can then crystallize that shared view, by developing a business case for its part in value creation, throughout the company.

In sum, figure above gives two ways:

- 1) **External Alignment:** The first is the alignment between the HR system that produces key HR deliverables and the requirements of the firm's strategy implementation system.
- 2) **Internal Alignment:** The second is the alignment between the role expectations for the HR function and the individual competencies, required to put that role into action. Together, both types of alignment produce a strategically focused workforce, which drives superior strategy execution and, ultimately, shareholder value.

Q5) Why alignment is important for Strategy?

The alignment measures explored so far are based on very simple principles of measurement. Their advantage lies not so much in their degree of sophistication, but in their ability to help focus on the activity of measurement in general. All of these tools prompt to think about how company's HR system is aligned with the unique demands of the firm's strategy implementation process. Most important, these simple measures "align" attention, with strategic rather than operational matters.

A systematic perspective is essential for figuring out how to change the system, in order to improve alignment. There is a myriad of interrelationships both within the HR system and between the HR system and the firm's strategy. Whenever one starts fine-tuning any system, one has to think through the possible unintended consequences of changes and the ways in which adjustments may ripple through the system and beyond.

To address these concerns, a measure, that is called the **Systems Alignment Map (SAM)**. This metric offers several important benefits viz; as follows.

- 1) **It allows visualize alignment:** SAM features a measurement process that let to create a "picture" of firm's HR system and its alignment with the company's strategic goals. Visualizing strategic alignment allows seeing exactly where changes are required and what's the nature of those changes might be. Visual depictions of multi-dimensional phenomenon have long been understood to have two key advantages.
 - i) First, they make it easier for the observer to see patterns in the data. This is particularly important of managers who are not familiar with more traditional data- analysis techniques.
 - ii) Second, when data are portrayed in this fashion, they are simply more accessible to the human eye and, therefore more interpretable.
- 2) **It incorporates perspectives from the entire organization:** Alignment is more a matter of perspective. It is very difficult for HR professionals to understand the influence of entire HR system on employees at different levels in the organization. SAM incorporates all of those perspectives and allows designing alignment measures for specific employee groups, divisions, or processes.
- 3) **It measures alignment systematically and yield realistic action steps:** The SAM methodology incorporates all of the links that make up the external and internal alignment of the HR system. As a result, it allows simulating how changes in one element in the system will affect the alignment of the whole system. More

- importantly, SAM helps us identify ways, to bring a single element into alignment – without generating unintended consequences.
- 4) **It is relatively easy to administer:** The SAM methodology does not require employees to think outside to their own organizational experience. As a result, the tool gives an aggregation of individual perceptions about alignment, from every facet of the organization. The data –collection process is no more intrusive than traditional employee surveys. Indeed, it is probably less threatening than typical surveys, because it does not require sensitive evaluations.
 - 5) **It is based on best scientific principles of measurement:** The SAM technique relies on a well-developed, multi –dimensional scaling technique called Galileo. Galileo allows managing some very difficult measurement challenges, yet producing actionable result.

Case Situation – I

Sears, one of the best retailers, radically improved its profitability using the Balanced Scorecard's four perspectives. For Sears, sustaining the Balanced Scorecard's initial improvements required the senior management to alter the company's overall vision and incorporate a new perspective into the company's scorecard.

- What are the steps management should take to effectively implement the Balanced Scorecard?
- Give the suitable title to the case.

Case Situation –II

The Balanced Scorecard: Murugappa Group.

The new compensation structure that has been put in place in the Murugappa Group is part of the overall endeavor to transform this Group into high performing organization. It reflects the culture and ethos of the Group, a culture based on four pillars: Ethical, Indian, Performance Driven, and Merit Based. IT reflects the core values of the group, embodied in the following quotation from Arthashastra, “the fundamental principle of economic activity is that no man you transact with will lose; then you shall not”.

The Groups compensation has the following components: Basic salary, Allowance, Incentives. Basic salary is based on the rating that you receive in a year. This rating primarily takes into account your consistency in performance, your potential and the certain predefined percentage of the basic salary that would have been notified to you. Incentive is that part of your compensation package which is variable and which is based on the following criterion:

- Improvement in Company's financials.
- Achievement of Company scorecard.
- Achievement of SBU scorecard.
- Achievement of Personal objectives.

Improvement in Company's financials - To achieve the weightage under this parameter, the company needs to qualify. The qualifier for the year 1998-1999 is earning per share (EPS). To qualify for any incentive, under this criteria, the company's EPS must be equal or better than the EPS recorded during the last financial year. If EPS is equal or better, the relative performance (on the last year) on three further financial parameters is to be assessed. Incentive payout is based on the average improvement on all these four (Qualifier+ 3 other) financial parameters.

Achievement of Company Scorecard/SBU Scorecard – For the purpose of measuring the incentives, we have introduced a concept called the balanced scorecard. The balanced scorecard is a unique list of strategic indicators developed for reviewing the performance of a company/SBU. There are

- i) The customer perspective-how do customers see us?
- ii) The internal perspective- what must we excel at?
- iii) The innovation and learning perspective – how can we continue to improve and grow?
- iv) The financial perspective – how do we create value for shareholders?

Within each broad parameter, each company must work out clearly quantifiable sub-criteria of performance. There would be a minimum of three sub-criteria and a maximum of four sub-criteria within each parameter. Thus, the balanced scorecard would have a minimum of 12 sub-criteria and a maximum of 16 sub-criteria. For achievement of incentive under the scorecard, the following steps must be noted:

- (a) For each sub-criterion the target is either achieved or not achieved.
- (b) To be eligible for any incentive on the balanced scorecard, at least one sub-criteria within each parameter has to be achieved.
- (c) All the sub-criteria that are achieved are counted and the percentage of achievement vis-à-vis the total number of sub-criteria is calculated.

For instance, if 12 items are achieved in a total of 15 items, then the percentage achievement is 80 percent.

Achievement of Personal Objectives – These are subjective parameters and have to be decided at the beginning of the year between the SBU head and individual employee. Personal objectives are those personality traits that an organization requires from its

employees. These could include items like punctuality, discipline, cost, consciousness, communication, cleanliness, leadership etc.

The items that appear under the parameter and affect your incentive would be clarified and intimated by your reporting officer. These personal objectives should be confused with your functional responsibility as articulated in your key tasks and principal accountabilities.

Total payout is based on the summation of achievement on each of the above four criteria. The total incentives at stake applicable to your grade would be adjusted for the level of total achievement.

MULTIPLE CHOICE QUESTIONS

- 1) An organization that regards people as assets, encourages their development and invests in their training can be called
 - a. Risk-oriented
 - b. Employee-oriented
 - c. Investment-oriented
 - d. Return-oriented
- 2) Who first used the "Human asset accounting?"
 - a. Rensis Likert
 - b. Shaun Tyson
 - c. Flamholtz
 - d. Storey J
- 3) Which of the following is not an environmental challenge facing human resource department?
 - a. Changing workers.
 - b. Global competition
 - c. Governmental regulation
 - d. Competition for organizational funds

- 4) Which of the following is not an example of a process taken up by a human resource department?
- a. Training
 - b. Career counseling
 - c. Line supervision
 - d. Performance appraisal
- 5) This of the following is not an example of a process taken up by a human resource department?
- a. Analysis of organizational mission and goals
 - b. Analysis of organization strengths and culture
 - c. Analysis of organizational strategies
 - d. Analysis of the environment
- 6) The overall strategy related to business interests is termed as
- a. Corporate strategy
 - b. Business strategy
 - c. Differentiation strategy
 - d. Growth strategy
- 7) Who proposed the five competitive forces that shape the business strategy of a firm?
- a. Porter.
 - b. Maslow.
 - c. Kurt Lewin.
 - d. McGregor.
- 8) The reasons for the evolution of a diverse workforce are
- a. Shift from manufacturing to service economy.
 - b. Globalization of the markets.
 - c. Mergers and acquisition.
 - d. All of the above.
- 9) Which one of the following is a tool for enhancing vertical integration in organizations?
- a. Management information systems(MIS)
 - b. Liaison officers
 - c. Task forces
 - d. Cross-functional teams
- 10) Functional and divisional forms are superimposed on a organizational..... structure?
- a. Hybrid
 - b. Functional
 - c. Network
 - d. Matrix
- 11) Which of the following is a disadvantage of the Delphi method of forecasting?
- a. Unreliable
 - b. Secrecy is compromised
 - c. Time consuming and expensive
 - d. Both b and c
- 12) According to the Big Five Framework, the extent to which one is comfortable dealing with people is called
- a. Extraversion
 - b. Openness
 - c. Conscientiousness
 - d. Agreeableness
- 13) What personality should a salesperson have, according to the Big Five Framework, to be successful at his work?
- a. Openness
 - b. Extraversion
 - c. Negative Emotionality
 - d. Agreeableness

- 14) Which of the following is not a level under needs assessment?
- Organizational
 - Group
 - Task
 - Individual
- 15) Which of the following is not an advantage of the 360 degree appraisal process?
- It is an effective means for managing the workforce.
 - It enables employees to compare by peers, subordinates, superiors etc.
 - It provides a formal communication link between employees and their customers.
 - It requires training and significant effort from the whole organization.
- 16) Managers are likely to benefit from using all the following tools to conduct performance appraisals accurately except
- Rating scale format
 - Memory aids
 - Multiple raters
 - Nonmonetary compensation
- 17) Which of the following governs the compensation strategy of an organization?
- Business strategy
 - Functional strategy
 - Corporate strategy
 - None of the above
- 18) Which one of the following is an element of executives' compensation?
- Ratan Tata
 - Rahul Bajaj
 - Kumarmangalam Birla
 - Dhirubhai Ambani
- 19) Which one of the following is a job evaluation technique?
- Job grading
 - Hays plan
 - Point Method
 - All of the above
- 20) Which CFO of PepsiCo Inc. was voted as one among the 50 most powerful women in the US by *Fortune* magazine?
- Purna Prasad
 - Indira Nooyi
 - Rebecca Mark
 - Caroline Joseph
- 21) is the technical term for the work from work concept?
- Telecommuting
 - Flexi-work
 - Cross commuting
 - None of the above
- 22) Appraisal on the basis of information from direct subordinates, peers, customer, supervisors and clients, is known as
- 180 degree performance
 - 360 degree performance appraisal
 - 90 degree performance appraisal
 - 69 degree performance appraisal
- 23) An individual who focuses on an employee in an organization and guides him to perform effectively keeping in view the employee's personal goals is called a

- a. Guide
 - b. Coach
 - c. Consultant
 - d. Trainer
- 24) According to Balanced Scorecard, the perspective designed to keep the company focused on creativity product development and improvement is
- a. Customer perspective
 - b. Learning and growth perspective
 - c. Financial perspective
 - d. Business process perspective
- 25) Problem solving, negotiations and third party mediation are all examples of
- a. Interpersonal communications
 - b. Conflict management
 - c. Trust and cooperation
 - d. Building consensus
- 26) Under which type of career transitions do voluntary retirement schemes (VRS) come?
- a. Unplanned transitions
 - b. Demotions
 - c. Relocations
 - d. Planned transitions
- 27) A cross-trained workforce can be achieved by which of these?
- a. Self-assessment
 - b. Succession planning
 - c. Job rotation
 - d. Career planning
- 28) Which of the following practices do not help firms match their requirements with the career need of its employees?
- a. Separation initiated by employees.
 - b. Separation initiated by unions.
 - c. Separations initiated by employers.
 - d. Retirement.
- 29) What costs does an Organization incur when there is high turnover?
- a. Hiring costs
 - b. Training costs
 - c. Costs incurred due to loss of man- hours.
 - d. All of the above
- 30) What is the strategy that aims at maintaining the quality of work force by reducing the rate of turnover called?
- a. Corporate strategy
 - b. Retention strategy
 - c. Functional strategy
 - d. Retrenchment strategy
- 31) The extent and intensity of an organization's relationship with its customers is termed as
- a. Customer Capital
 - b. Human Capital
 - c. Structural Capital
 - d. Organizational Capital
- 32) The element of intellectual capital that refers to the organization's capabilities to meet market requirements is called
- a. Human capital

- b. Customer capital
 - c. Structural capital
 - d. Employee assets
- 33) The tool that helps evaluate the cultural, functional and organizational aspects of companies is known as
- a. Diligence reports
 - b. HR Audit
 - c. Culture change plans
 - d. None of the above
- 34) The role played by a HR manager in guiding and managing transition teams during mergers is that of a
- a. Facilitator
 - b. Educational
 - c. Integrator
 - d. Disciplinarian
- 35) Which one of the following is not an HR best practice?
- a. 360-degree performance appraisal
 - b. HR outsourcing
 - c. Human resource information system(HRS)
 - d. Management by objectives
- 36) An advertisement campaign run by a liquor company highlighting the ill effects of consuming liquor while driving is an exercise in creating.....
- a. Goodwill
 - b. Brand ambassadorship
 - c. Image
 - d. Employee Turnover
- 37) A company secretly checks the emails sent by its employees, which aspect of ethics is violated in the case?
- a. Employee rights
 - b. Employee privacy
 - c. Gender bias
 - d. None of the above
- 38) Which of the following is not a strategic staffing alternative for avoiding overstaffing?
- a. Employee layoffs
 - b. Hiring part-time employees
 - c. Hiring temporary employees
 - d. Outsourcing
- 39) Which of the following is not a major reason for employee separation?
- a. Lack of motivation
 - b. Desire for better income
 - c. Better alternatives on hand
 - d. Desires for a better work environment
- 40) Cross training can also be said as
- a. Flexible

- b. Circuit
- c. Corporate
- d. Calculative



Question Paper Strategic Human Resources Management**2009****Section- A**

- 1) Should organizations view human resources from an investment perspective? Discuss the factors that determine the extent to which an organization is investment oriented in the management of its human resources.
- 2) Sustainable competitive advantage stems from resources or capabilities that are valuable, rare, difficult to imitate and non substitutable. How can HR strategies help on organization to create competitive advantage?
- 3) Explain the universalistic and contingency approach to SHRM? Which of the two approaches according to you is best suited to the following subsystems of HR?
 - Performance Management
 - Training & Development
- 4) Write short notes on the following:
 - i. Psychological Contracting.
 - ii. Flexible work assignment.
 - iii. Marginal performers are under achievers.
 - iv. Strategies for employee surpluses.
- 5) Examine the balanced score card approach for measuring a firm's performance. Identify and discuss the employee measures included in a balanced scorecard method?
- 6) Write short notes on the following:
 - i. Dimensions of alignment
 - ii. Lost of absenteeism
 - iii. Incentive alignment
 - iv. Integrated HR systems

Section- B

- 7) Robin Ray is the newly appointed hotel manager of a famous resort located in Goa called Sea Star. Ray has received a mandate to ensure that the resort remains a destination of choice for foreign tourist. He has also been directed to reduce the operating cost of the resort without harming the strategic goals of Sea Star. Ray recently participated in an executive development workshop on accountability in human resource management. He put this item on the agenda for the management meeting scheduled for the following month. He has also attached data regarding the indices of HRM effectiveness of the major hotels in the region. The indices of HRM effectiveness of 20 major hotels in the region. The indices of HRM effectiveness called from 20 hotels are presented in Table below:

Indices of HRM effectiveness of 20 major hotels in the region

Indices	Score on HRM Effectiveness (no. of hotels =20) Score of 1 = very low; Score of 6=very high.
Customer satisfaction	4.50
Employee commitment	2.1
Employee satisfaction	3.9
Absenteeism	4.2
Turnover	5.1
Overall Productivity	3.8

Sea Star Employs 1100 during the peak season. The HR department hires and trains employees, administers salary and benefits, and maintains trade union relations. There were six managers including Ray in the monthly management meeting. When Ray spoke about the accountability of HRM, the members responded as follows.

Sanath (Assistant general manager) HR should be outsourced if the HR function cannot do its job better and more cheaply.

Rohit (Front desk manager) Does HR follows best practices? How does HR help the resort reduce operating expenses? How does our HR compare with the main competitors?

Natasha (Food services manager) I appreciate the work done by HR, Training conducted by the HR department has resulted in an increase in sales and revenue.

Akshay (HR manager) It is good to evaluate the contribution of HR to the hotel's bottom line but it is too difficult and time-consuming.

Nakul Sarin (Corporate vice president, HR) think Ray, here has a point.

1. Do you think there is a need for measuring the value added by HR department?
2. What are the pros. & cons. In measuring the contribution of HRM to the hotel's performance based on various HR evaluation approach?
3. Whether HR department should be made accountable and the HR evaluation approach should be adopted by the Sea Star Resort, Give reasons.

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Web resources:

www.shrmindia.org The society for Human Resources Management. Provide job listings and other resources for HR professionals.

www.strategy-business.com The publication prints a variety of thoughtful articles, interviews and case studies focused on strategic management and general business.

www.smsweb.org The Strategic Management Society (SMS), has member representation from more than 50 countries and an international executive committee. SMS organizes annual international conference, and smaller, special issue conferences every year. Its publications include the Strategic Management Journal (SMJ) and a book-length series, published by John Wiley and Sons, covering selections from major conferences and workshops of SMS.

www.aom.pace.edu Academy of Management Online is a professional association for management research and education in the United States. www.aom.pace.edu/bbs/hps.html. Its Business policy and Strategy Division is interested in “the roles and problems of general managers- those who manage multi-business firms or multi-functional business units.”