

STRATEGIC MANAGEMENT NOTES
KOSHYS INSTITUTE OF MANAGEMENT STUDIES
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UNIT – I

The term “strategic human resource management” is used broadly to signal the view that human resource management activities should contribute to business effectiveness. This linkage between HRM activities, the needs of the business, and organizational effectiveness is the core of the area called strategic human resource management.

Two guiding assumptions of strategic human resource management are that

- (1) Effective human resource management requires an understanding of an integration with an organization’s strategic objectives, and
- (2) Effective human resource management leads to improved organizational performance.

In essence, strategic HRM is conceptual; strategic human resource management (SHRM) is an approach to the development and implementation of HR strategies that are integrated with business strategies and enable the organization to achieve its goals.

STRETEGIC HUMAN RESOURCES MANAGEMENT

Introduction:

In any business, we face everyday lots of challenges which are sometimes from external environment or sometimes within the internal environment. Any business cannot go long without effective human resource management. To effectively manage HR traditionally personal management has been performing administrative functions like hiring, record keeping payroll etc.

Due to the consequences of liberalization, privatization, and globalization, competition, quality, low cost high speed in delivery, customization and customer relationship, made the CEOs Of various companies to include the human resource aspects in the strategic management process and manage human resource based on the company’s strategies. Moreover the vital aspect in strategic management is the human resource management. As such, strategic human resource management gained its significance in the post liberalization period.

What is Strategy?

Strategy, in simple terms is a unified course of action to achieve the goal. Glueck defined the strategy as, unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved.

Strategic management:

A continuous, iterative, cross-functional process aimed at keeping an organization as a whole appropriately matched to its environment. – Samuel and peter

The set of decisions and subsequent actions used to formulate and implement strategies that will optimize the fit between the organization and its environment in an effort to achieve organizational objectives. – John & Richard

Looking up to the meaning of strategy & strategic management there is needed to align strategic approach of human resource management. Strategic HRM includes working with employees in a collaborative manner to boost retention, improved the quality of work experience and maximize the mutual benefit of employment.

Meaning of SHRM:

SHRM is largely about integration and adoption, it concern with strategy and strategic needs of the firm. Strategic HRM is a branch of human resource management that gives direction on how to build the foundation for strategic advantage by creating an effective organizational structure and design, culture, employee value proposition, system thinking, an appropriate communication strategy and preparing an organization for a changing landscape. SHRM implies a concern with the ways in which HRM is crucial to organizational effectiveness.

Definitions of SHRM:

According to Miller SHRM practice as the decisions and actions, which concern the management of employees at all, levels in the business, and is related to the implementation of strategies directed towards sustaining competitive advantage.

According to Wright and Snell, SHRM deals with those HR activities used to support the firms competitive strategy.

According to Wright and McMahan, SHRM as the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals.

Essential Elements of SHRM:

- Change in structure
- Change in culture
- Organizational effectiveness
- Organizational performance
- Matching resources to future requirements
- The development of distinctive capabilities
- The development of knowledge management
- The management of change
- Human capital requirements
- Development of process capabilities
- The ability to get things done effectively
- People issues that are affected by the strategic plans of the organization.

Important factors of SHRM

- ☒ Integrating HR into the strategic planning
 - Transforming HR staff
 - Transforming the organization structure
- ☒ Enhancing Administrative efficiency
- ☒ Linking HR practices to business strategy and to one another

- ☐ The strategic fit proposes that if an organization seeks to maximize its competitive advantage
- ☐ It must match its internal resources & skills with opportunities available in the external environment
- ☐ Best fit approach

HR Practices corresponding to the stages of an organization's life cycle:

Life Cycle Stages	HR Practices
Start-up	<ul style="list-style-type: none"> • Flexible patterns of work • Recruitment of highly motivated & committed employees. • Competitive pay • Little formality
Growth	<ul style="list-style-type: none"> • More sophisticated recruitment & selection • Training & development • Performance Mgmt process • Reward systems • Developing stable employee relations
Maturity	<ul style="list-style-type: none"> • Attention to the control of labour cost • Focus on increasing productivity • Control compensation
Decline	<ul style="list-style-type: none"> • Emphasis on rationalization of workforce & downsizing • Retraining & career consulting services

Role of SHRM:

- ☐ SHRM focuses to gain competitive advantage
- ☐ SHRM practice is coupled with business strategy
- ☐ SHRM elevates micro level (individual personal level) to the macro level (business strategy level)
- ☐ SHRM takes global business and social trends
- ☐ SHRM analyzes human resources against current and future business strategies
- ☐ SHRM is intended to assist management in the best use of internal labor market

- ☐ SHRM includes organizational analysis and design
- ☐ Benchmarking against successful internal and external organizations

Planning & implementing HR policies :

- ☐ Staffing: Staffing includes the development of a strategic plan to determine how many people you might need to hire. Based on strategic plan HRM performs the hiring process to recruit and select the right people for the right job.
- ☐ Basic workplace policies: Development of Policies help to reach the strategic plans goals is the job of SHRM. Communicating of these policies on safety, security, scheduling, vacation times, and flextime schedules should be developed by the HR department. HR manager work closely with supervisors in organization to develop these policies.
- ☐ Compensation & benefits: Plans in addition to paychecks, health benefits & other perks. Implementing all strategies as per the plans.
- ☐ Retention: Assessment of employees & strategies on how to retain best employees is a task that HR manager oversee. Other managers will also provide input.
- ☐ Training & developing: Helping new employees develop skills needed for their jobs and helping current employees grow their skills are also tasks for that HRM department is responsible. Determination of training needs and development and implementation of training programs are important tasks in any organization.
- ☐ Regulatory issues and worker safety: Keeping up to date on new regulation relating to employment. Health care and other issues is generally a responsibility that falls on the HRM.

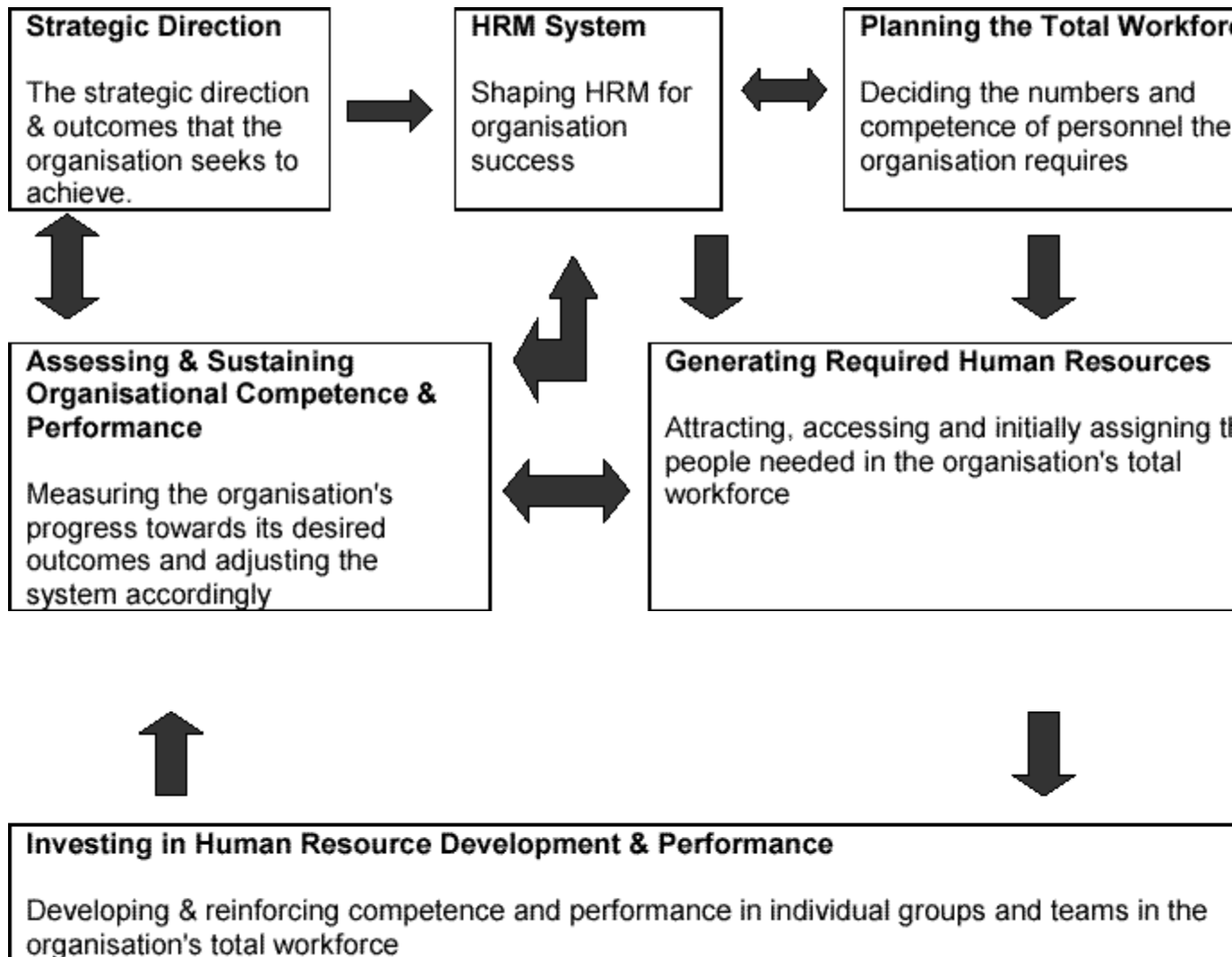
HR strategies to increase firm Performance:

- ☐ Make it applicable:
- ☐ Be a strategic partner
- ☐ Involve people
- ☐ Understand how technology can be used.

3. A strategic human resource planning model

There is no single approach to developing a Human Resources Strategy. The specific approach will vary from one organisation to another. Even so, an excellent approach towards an HR Strategic Management System is evident in the model presented below. This approach identifies six specific steps in developing an HR Strategy:-

1. **Setting the strategic direction**
2. **Designing the Human Resource Management System**
3. **Planning the total workforce**
4. **Generating the required human resources**
5. **Investing in human resource development and performance**
6. **Assessing and sustaining organisational competence and performance**



Source: A Strategic Human Resource Management System for the 21st Century. Naval Personnel Task Force, September 2000

The six broad interconnected components of this system consist of three planning steps and three execution steps.

The top three components represent the need for planning. Organizations must determine their strategic direction and the outcomes they seek. This is usually accomplished with some form of strategic planning. Classic strategic planning is a formal, top-down, staff-driven process. When done well, it is workable at a time when external change occurs at a more measured pace.

However as the pace and magnitude of change increases, the approach to strategic planning changes substantially:

- First, the planning process is more agile; changes in plans are much more frequent and are often driven by events rather than made on a predetermined time schedule.
- Second, the planning process is more proactive. Successful organizations no longer simply respond to changes in their environment, they proactively shape their environment to maximize their own effectiveness.
- Third, the planning process is no longer exclusively top-down; input into the process comes from many different organizational levels and segments. This creates more employee ownership of the plan and capitalises on the fact that often the most valuable business intelligence can come from employees who are at the bottom of the organizational hierarchy.
- Lastly, the strategic planning process less reactive and more driven by line leadership.

Once strategic planning is under way, a process must be undertaken by the organization to design and align its HRM policies and practices to provide for organizational success. The remaining step in planning is to determine the quality and quantity of human resources the organization needs for its total force.

The rest of the HR strategic system exists for and is guided by these plans, policies, and practices. These execution components contain mechanisms that generate the correct skill sets, invest in staff development and performance, and productively employ them in the organisation. The last component provides a means to assess and sustain the competence and performance of the organization and the people in it with regard to outcomes that the organization seeks.

Approaches to SHRM:

1. Best Fit Approach

- Focus on the linkage of HR strategies with business strategies.
- Also called external fit or vertical fit
- Different business strategies create the need for different types of HR strategies
- Different life cycle stages create the need for different set of HR practices
- Different types of organizational cultures require different types of HR strategies

Limitations

- There is a danger of mechanistically matching HR policies and practices with strategy
- Best fit models tend to be static and don't take account of the processes of change.

2. The Best Practice Approach

- This approach is based on the assumption that there is a set of best HRM practices that are universal
- in the sense that they are best in any situation, and
- that adopting them will lead to superior organizational performance.
- Superior management practices are readily identifiable and are transferable across organizations
- All organizations can attain performance improvements if they identify and implement the best practices or benchmark
- A number of lists of 'best practices' have been produced, the best known of which was produced by Pfeffer (1994), namely
 1. employment security;
 2. selective hiring;
 3. self-managed teams;
 4. high compensation contingent on performance;
 5. training to provide a skilled and motivated workforce
 6. reduction of status differentials;
 7. sharing information.

Limitations

- list of desirable practices varies significantly
- the notion of a single set of best practices has been over-stated: distinctive HR practices lead to distinctive and core competencies
- what works best for one company may not work well with others

3. The 'HR Bundles' Approach

- *Bundling* is the development and implementation of several HR practices together so that they are inter-related, internally consistent
- Each HR practice complements and reinforces the other.
- Also called internal fit or horizontal integration
- The purpose of bundling is to bring about coherence between HR practices
- Coherence between HR practices leads to effective contribution to strategic goals
- Coherence is achieved when the firm has an overriding driving force or strategic imperative like – quality, high performance, development of competencies
- Such strategic initiatives need to be supported by bundles of high commitment HR practices such as performance based compensation, incentives for acquiring skills, flexible work environment, employee empowerment & education, a reduction of status barriers between managers and workers, and investment in building worker skills.

Limitations

- The problem with the bundling approach is that of deciding what is the best way to relate different practices together.
- There is no evidence that one bundle is generally better than another.

Barriers to SHRM

All too often, 80 per cent of the time spent on strategic management is devoted to designing strategies and only 20 per cent is spent on planning their implementation. It should be the other way round. It is necessary to plan with implementation in mind.

Too often there is a gap between what the strategy states will be achieved and what actually happens to it because of the following reasons

- Short-term mentality/focus on current performance – rewards based on short-term performance
- Inability of HR to think strategically – insufficient knowledge of GM or other functional areas, cannot influence strategic decisions
- Lack of appreciation from senior management of what HR can contribute to strategy – HR regarded as administrative, bureaucratic, inflexible, rule-oriented, compliance driven, adversary role
- Failure of other functional & line managers to discharge HR responsibilities- failure to assume HR role for their own team.
- Difficulty to quantify many HR outcomes – many programs unable to show tangible and measurable benefits
- Perception of human assets as high risk investments – employee turnover high in knowledge economy
- Resistance to change initiative – strategic approach to HR may involve drastic changes in how work is organized.
- inadequate assessment of the environmental and cultural factors that affect the content of the strategies,
- and the development of ill-conceived and irrelevant initiatives, possibly because they are current fads or because there has been an ill-digested analysis of best practice that does not fit the organization's requirements.

Unit-2

Introduction:

A strategy is a course of action planned to be undertaken to achieve desired goals. SHRM can be regarded as an approach to dealing with longer term people issues as part of the strategic management thrust of the business. It aims to provide a sense of direction in an often turbulent environment so that organizational and business needs can be translated into coherent and practical policies and programs. Investment in employment practices need to be examined in relation to the accomplishment of strategic objectives. Several practices that enhance retention and reduce the turnover of employees need to be identified.

Investment consideration:

Several factors will be considered in strategic human resource investment decisions. These will include management's value, views of risk, the economic rationale for investment in training, utility theory and alternatives to human resource investments. Strategists have found that having superior production facilities or a superior product are usually not enough to sustain an advantage over competitors, organizations will need to invest heavily in their human resources in order to be competitive now a days.

Management scholar Edward Lawler has described these investment requirements as follows:

- 1) To be competitive, organizations in many industries must have highly skilled, knowledgeable workers.
- 2) They must also have a relatively stable labour force.

Factors affecting Human Resource Investment Decision:

1. **Managerial values:** Fundamental values must be addressed in many human resource issue, particularly those involved in major strategic initiatives. When senior managers formulate and implement strategies, their values and philosophies are communicated to members of the organization through HR policies & practices.
2. **Risk & Return on investment:** there are number of important benefits to invest in human resources, such investments contain an element of risk. Investing in HR is inherently more risky than investing in physical capital because the employer does not own the resource. Employees are free to leave, although contractual arrangements may limit their mobility. In order for investments in human resources to be attractive, the returns must be great enough to overcome the risks.
3. **The economic rationale for Investment in Training:** HR investment frequently involves training. It may be general or specific. The decision whether to invest in training and development depends in part, on whether the education imparts skills that are specific to the employee organization or are general and transferable to the other employers.
4. **The investment analysis approach of utility theory:** considering investment in HR in terms of hiring or development of current employees in order to pursue given

strategies. These task may be accomplished by determining the returns for such investment through cost – benefit analytical approaches such as utility analysis. Utility theory attempts to determine the economic value of human resource programs, activities and procedures.

5. **Outsourcing as an alternative to investments in human resource:** instead of building capabilities that provide competitive advantage, rationale decision is to outsource specialized services rather than investment. Strategic outsourcing is advocate where, world class capabilities can't be developed, excessive dependency on supplier can be avoided.
6. **Investment in T&D:** the companies are now investing in their HR by providing developmental experiences that make employees much more employable should the employment relationship end. This development investment includes the provision of growth opportunities, a learning environment, training, & retaining.
7. **On the job training:**It is another way in which an employer may invest in human capital needed for strategic advantage. Such investments made so that employee learn while they work. Eg. Employees' skills may be increased by learning how to perform new tasks or to operate new equipment.
8. **Management development :** the continuous development of managerial personnel is a critical strategic issue in most organizations and particularly difficult challenge given the massive shifts in strategy. Organizations are becoming less hierarchical & middle management positions are eliminated. Large number of workers are better educated and many are professionals , they expect to participate more in decision making.
9. **Prevention of skill obsolescence:** Technologic change is often a cause of skill obsolescence in engineering, science and the professions. Because of technological obsolescence can limit an organization's strategic alternatives, in this area can be devastating and companies should have a strong incentive to invest in its prevention.
10. **Reduction in career plateauing:** Career plateaus occur when employees have occupied job in an organization for some period of time, have mastered all aspects of the job and have low prospects for promotion. As a result, there may be reduction in productivity. It is natural consequence of lack of organizational growth or change. Investment in HR will reduce such reduction.

INVESTMENT IN TRAINING & DEVELOPMENT

- **Investment in Employability:** While there have been dramatic declines in the prevalence of employment security policies, some companies are now investing in their human resources by providing developmental experiences that make employees much more employable should the employment relationship end. These developmental investments might include the provision for growth opportunities, learning environment, training and retraining. Having a workforce that is characterized by its employability is probably a necessary prerequisite for corporate survival. Eg. GE's experiences provide the new employability approach.

It is hard to argue against a position that says individuals have a responsibility to be the best they can be to improve their employability, and employers have a responsibility to ensure they are getting the best results from each employee before terminating them. Training programs provide the opportunity to improve existing skills and/or acquire new ones.

- **ON –THE-JOB TRAINING:** It is another way in which an employer may invest in human capital needed for strategic advantage. Such investments may be made by structuring a job so that employees learn while they work. For example, employees' skills may be increased by learning how to perform new tasks or operate new equipment. Employers may structure jobs so that these skills may be learned from other employees. They may also give employees time to learn new procedures or how to operate new equipment through self-instruction, such as by reading technical manuals, or by learning new software through self-instruction. Employers may also absorb the costs of lower productivity while workers lacking relevant skills learn through interaction with skilled employees or through trial-and-error processes.

The contribution of on-the-job training to productivity has also been hypothesized to vary according to occupation as a result of differences in such factors as the rapidity of skill obsolescence and difficulty of job tasks. The contribution to worker productivity of on-the-job training has been verified in an empirical analysis of governmental employees.

- **INVESTMENT IN MANAGEMENT DEVELOPMENT:** The continued development of managerial personnel is a critical strategic issue in most organizations and particularly difficult challenge given the massive shifts in strategy. Larger numbers of workers are better educated and many are professionals. As a result they expect participation in decision making. Further more work is expected to be performed task force or Project teams, power will be shared, managerial status will be emphasized, leadership responsibilities may be rotated.

Because of the participative aspects of these empowerment trends, many professionals' highly educated employees may have more exposure to managerial responsibility and may develop related skills as a natural part of their work. An important management development approach has been to rotate managers through successively more challenging assignment. From a strategic perspective, a major advantage is that such programme develop a pool of managers who have been exposed to an area of the business who can then provide management talent in the event that there is an unexpected or sudden increase in the level of business in that area.

- **PREVENTION OF SKILL OBSOLESCENCE:** Technological change is often a cause of skill obsolescence in engineering, science and the professions. As everyday there are so many changes taking place,

Technological change appears to affect individuals differently, as some grow and develop along with new technology while others fall behind. Because of technological obsolescence can limit an organization's strategic alternatives, in this area can be devastating and companies should have a strong incentives to invest in its prevention.

there are few theories has been developed to prevent such obsolescence, which identifies motivation, along with individuals will develop the skills needed for new technology . employees' expectations of their ability to acquire new skills.

- REDUCTION IN CAREER PLANNING : Career plateaus occurs when employees have occupied a job in an organization for some period of time, have mastered all aspects of the job, and have low prospects for promotion. Eliminating such plateaus is important because they have the potential to create a sense of utility. As a result there may be reduction in productivity. As consequence of lack of organizational growth or change. so as a organization they should invest in human resource to reduce turnover ratio. To avoid such plateaus companies are investing in development programs .

INVESTMENT FOR IMPROVED RETENTION: Companies invest in their workforces when they pursue practices and develop programs that increase retention. To retain their employees, employers can follow below given practices.

- Job Enrichment and Job satisfaction: Practices that enhanced job altitude & job satisfaction will have positive impact on employee retention. Meaningful work, knowledge of how assigned tasks contribute to the greater activity, skill variety, has found less reduction in turnover. However high performing employees feel undervalued, then they tend to have higher turnover rates.
- Practices providing work life balance: Another practice to retain employee is to provide balance between work and home life. alternative work schedules, child care services and provision for family leave also facilitate retention.eg. flipkart, google
- Retention of technical employees: retention of IT professional and other technical employees is a particular concern for many employers. Ex. Alcon Laboratories offers very attractive compensation and benefits packages and gives employees "red carpet" treatment. Allow casual dress, innovative work schedule like 80 hours in nine days.
- Organizational cultures emphasizing interpersonal relationship values: By investing in HR practices that ultimately affect the organization's culture, like relationship with superiors, absence of conflicts, information sharing, less emphasis on formal authority etc. building interpersonal values among employees like respect for people or team orientation is the medium to retain employees. "fearless culture" has found higher retention.
- Effective selection procedure: Careful selection is most widely used method for retaining employees in organization. In addition, the use of better selection

procedures like valid tests, interviewing process obtain better job matches between employee job qualification also increase retention.

- Compensation and benefits: Fair & equitable compensation improves retention. Equitable ratio of input to output and exclusion of politics in compensation decisions, fair compensation structures and communication of compensation procedure. Performance based compensation, incentives, benefits increase the retention.
- Organizational direction creating confidence in the future: If organization' future direction is giving sign of growth then employee would like to stay with the organization. Setting clear direction for the future builds confidence in the vision which helps improve retention.
- Liberal transfer policies: liberal transfer policies tend to reduce employee turnover.

INVESTMENT IN JOB SECURE WORK FORCES: Companies also invest in their human resources when they keep employees on the payroll through business downturns. However companies differed in the extent to which they resorted to downsizing or layoffs as many of the best ones did little or no downsizing. Although some companies provide employment securities to enhance their chances of remaining union free, others provide such security for other workforce advantages. In many such environment, greater employment security helps companies obtain the commitment, flexibility and motivation needed from their work force.

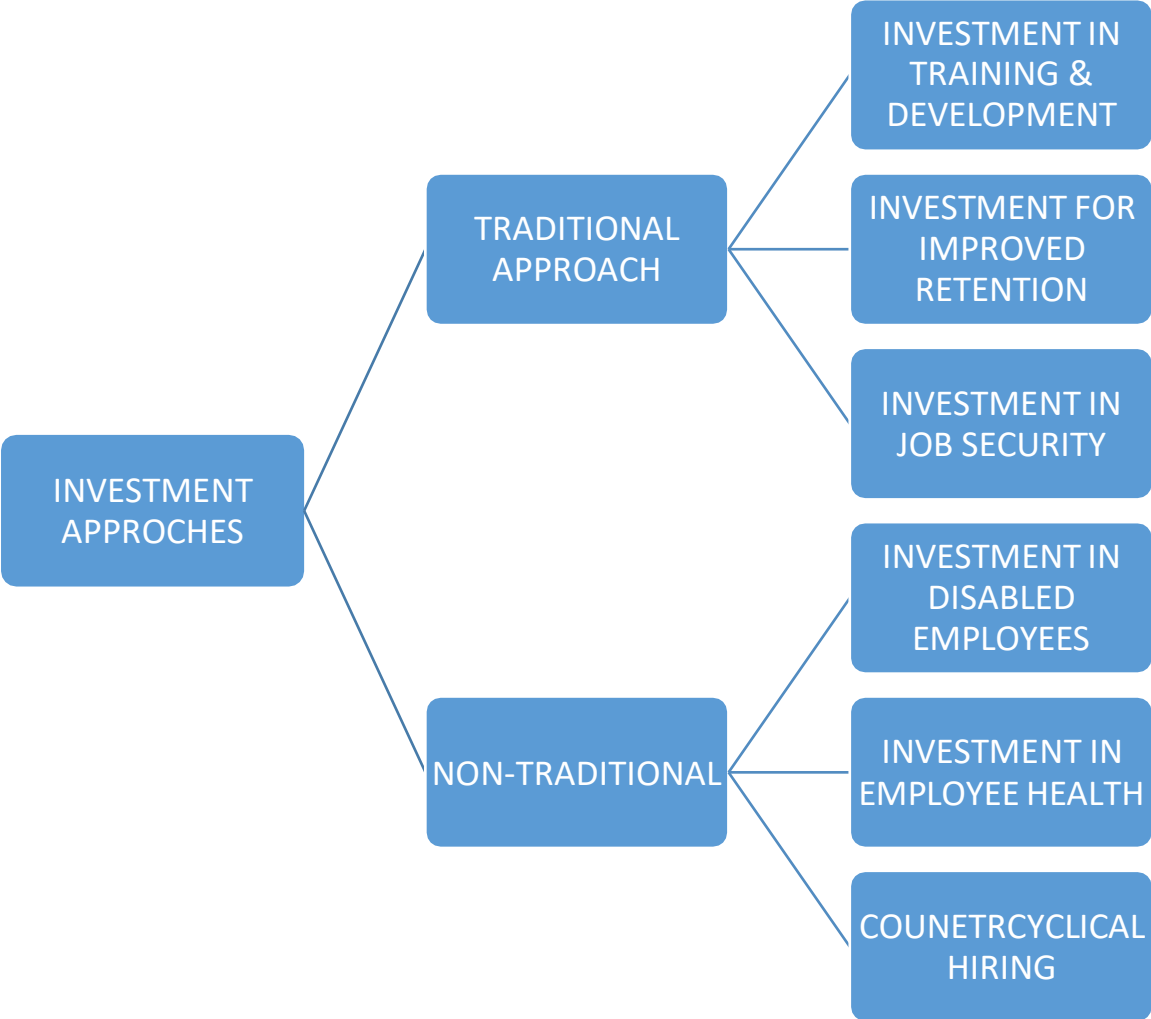
- 1) **Recognition of the costs of downsizing & layoffs:** downsizing is commonly linked to competitively driven structural changes in organizations, although it is also triggered solely by attempts to cut costs. For example, a study of approximately 100 surplus workforce situations revealed that it would have been more cost effective not to have laid off workers in 30 percent of the situations and to have laid off fewer workers in 20 percent. Layoffs have been criticized on the ground that they are sometimes inefficient, relative to other cost-reduction strategies.
- 2) **Avoiding business cycle based layoffs:** The advisability of laying off workers during economic downturns has been questioned by some companies & management scholar. The no lay-off policies of such companies as southwest airline, Lincoln electric are well known, there have been another example provided by Sony corporations. Sony's refusal to lay off employees in its San Diego Plant after a decline in sales paid off in increased employee commitment and increased performance in following years.
- 3) **Alternatives to layoffs:** In contrast to period of permanent structural change when a downturn is expected to be relatively short duration, alternatives to layoffs are often feasible. When company avoid layoffs, they preserve their investment in employee's skills and are able to avoid the expense and delay of hiring & training new employees once the recovery began.
- 4) **The work effort and job security relationship:** Some companies have learned hard lessons that employees may not be willing to be sufficiently flexible in their work assignments when their employers have employment security policies. Many times high standard companies provided the security may have endangered their

adaptability and survival through these enlightened human resource practice. HR investment policy are that there may be trade-offs between the benefits of employment security policies & the costs to include the amount of effort that may be expected from employees.

- 5) **Employment guarantee:** It means “oral agreements to move heaven and earth to avoid layoffs”. Employee guarantee made feasible by many of the same actions as no layoff policies. They have been given Temporary employee, subcontracting or employees contracted on a short term basis. A second tactic is flexibility in job assignments, third tactic, work sharing, involving sharing the available work by reducing the number of hours for each employee.

NON-TRADITIONAL INVESTMENT APPROACHES:

- 1) **INVESTMENT IN DISABLED EMPLOYEES:** A nontraditional area of human resource investment involves providing support for the programs that return disabled employees back to the workforce. Frequently, companies deal with employees who have become disabled by relying on the company's long term disability insurance policy to provide economic support. There is little emphasis on facilitating the employee's return to the job, in contrast such as 3M have developed programs that enabled disabled workers to return to work. According to 3M "returning an employee to work makes good economic sense" apart from this the law provided additional incentives by Americans with Disabilities Act of 1990.
- 2) **INVESTMENT IN EMPLOYEE HEALTH:** Another nontraditional investment approach involves improvement of employee's health. Such investment increase the productivity of employees. For ex. In underdeveloped countries, increasing the quality of nutrition and providing basic medical care can increase the productivity of employees and would thus constitute investments in human resources. Companies operating in Mexico have learned that they must furnish two meals a day to ensure that their workers are receiving sufficient nutrition. Some employers have adopted hard line policies against smoking.
- 3) **COUNTERCYCLICAL HIRING:** companies may pursue countercyclical hiring strategies of hiring a limited number of managers during economic downturns. In essence companies would be stockpiling a limited number of high quality key personnel for future use in pursuing strategies requiring certain personnel capabilities. One benefit might be a more regular age distribution, as a result dramatically increased health insurance costs, age distribution have become a concern to employers that have disproportionate number of older workforces.



Unit 3

Organizational change

It implies the creation of imbalances in the extent pattern or situation. It is the process by which organizations move from their present state to some desired future state to increase their effectiveness. Select, train, and organize employees previously focused on the training and management development methods. Concepts and skills you need to more successfully implement organizational changes. Change could be both reactive and proactive.

Targets of change

STRUCTURAL CHANGE Reorganizing-redesigning the organization's departmentalization, coordination, span of control, reporting relationships, or centralization of decision making is a relatively direct and quick method for changing an organization.

TASK REDESIGN the tasks and authority assigned to individuals and teams within the organization are often changed as well. For example, traditional assembly-line jobs were abolished at Saturn. Instead, the work is now organized around work teams.

TECHNOLOGICAL CHANGE Technological changes are modifications to the work methods the organization uses to accomplish its tasks. They may include new production technologies, new selection and screening procedures, and new performance appraisal techniques, for instance. The compensation plans and appraisal systems instituted by Fuji-Xerox illustrate HR-based technological changes, in this case implemented to support cultural and strategic changes.

Human resources

HR is most important asset. Ultimately, an organization's distinctive competencies lie in the skill and abilities of its employees. Typical kind of change efforts directed at human resources include – new investment in training and development, changing organizational norms to motivate and diversify the employees, improving organizational learning and decision making and ongoing examination on employee promotion and reward system.

Strategic Change

Organizational change often starts with strategic change, in the change in the firm's strategy, mission, and vision. Strategic change may then require other changes, for instance, in the firm's, production technology, structure, and culture.

Leading Change: Lewin's Process Actually implementing and leading an organizational change can be a tricky matter, even for a CEO with lots of clout. The change may be complex and require dozens or even hundreds of managers and supervisors to do their parts; resistance may be considerable; and the change may have to be accomplished while the company continues to serve its customer base. Psychologist Kurt Lewin formulated the classic explanation of how to implement a change. To Lewin, all behaviour in organizations was a product of two kinds of forces- those striving to maintain the status quo and those pushing for change. Implementing change thus meant either reducing the forces for the status quo or building up the forces for change.

Lewin's process consisted of these three steps:

1. **Unfreezing.** Unfreezing means reducing the forces that are striving to maintain the status quo, usually by presenting a provocative problem or event to get people to recognize the need for change and to search for new solutions.

2. **Moving.** Lewin's second step aims to shift or alter the behaviour of the individuals in the departments or organization in which the changes are to take place. Moving means developing new behaviours, values, and attitudes, sometimes through organizational structure changes and sometimes through the sorts of HR-based organizational change and development techniques explained later in this chapter.

3. **Refreezing.** Lewin assumed that organizations tended to revert to their former ways of doing things unless the changes were reinforced. This reinforcement is accomplished by refreezing the organization into its new state of equilibrium, Lewin advocated instituting new systems and procedures (such as compensation plans and appraisal processes) to support and maintain the changes that were made.

Resistance to change

Resistance to change is the act of opposing or struggling with modifications or transformations that alter the status quo in the workplace.

Managing resistance to change is challenging. Resistance to change can be covert or overt, organized or individual. Employees can realize that they don't like or want a change and resist publicly and verbally. Or, they can just feel uncomfortable and resist, sometimes unknowingly, through the actions they take, the words they use to describe the change, and the stories and conversations they share in the workplace.

However resistance to change happens, it threatens the success of your venture. Resistance affects the speed at which an innovation is adopted. It affects the feelings and opinions of employees at all stages of the adoption process. It affects productivity, quality, and relationships.

Reasons or Factors for resistance to change

A. Economic Reasons

1. Fear of reduction in employment – Due to change in technology, methods of work quantity or quality of work etc. this fear leads to resistance to change on part of people opposition to automation is an example.
2. Fear of demotion – Employee may fear they may demoted if they do not possess the new skills required for their job, after introduction of their change hence they prefer status quo.

3. Fear of work load - change in technology and methods may lead to the fear that work load will be increased while there will not be any corresponding increasing in their salaries and benefits. This feeling creates resistance to change.

B. Personal reasons

1. Need for training - change in technology and work organizations necessitates training and relearning on the part of the part of employees , it may lead to resistance as all do not like to go for refresher and retraining courses off and on.
2. Boredom and monotony If the proposed change is expected to lead to greater specification resulting in boaredom monotony it may also be resistance by employees.
3. No participation in change – Some employees resist any change as they are critical of the satisfaction and they are not being given any part of the decision making for change. When they do not understand fully the implication of change, they resist it.

c. Social reasons

1. Need for new social adjustments – organizational change requires new social adjustment with group, work situation, and new boss etc. All individuals are not ready to accept this challenge. Some people refuse transfer and promotions for this reason only.as they have to break their present social ties.

2 Taking change as imposed from outside.

3. Other considerations – some employees may consider that every change brought about is for the organization and not for them, their fellow workers or even the general public, hence they resist the change.

D. Group Level resistance to change

Much of organizations work is performed by groups and several groups' characteristics can produce resistance to change.

1. Group cohesiveness – the attractiveness of group to its members, also effects the group performance. Although some levels of cohesiveness promotes group performance, too much cohesiveness may actually reduce performance because it stifles opportunities for group to change and adapt.

2. **Group think** – is a pattern of faulty decision making that occurs in cohesive groups when members discount negative information in order to arrive at a unanimous agreement.

Approaches to organisational change

Management is said to be an agent of change. It means that management has to introduce to change successfully in its organization. It has to overcome the resistance make it a successful venture. Management has to take the following steps to implement the change successfully.

1. **Participation of employees:** Before introducing any change, the employees should be fully consulted and they must be made a party to any such decision. The meaning and purpose of the change must be fully communicated to those who will be affected by it. Enough time should be allowed for discussion pros and cons of the change should be explained, in detail, to employees.
2. **Planning for change:** Before implementing a change management should plan for it. Employees should get an opportunity to participate both in planning the change and installing it. This will help group the employees to recognize the need for change and thus prepare them for receiving it without any fear.
3. **Protecting employee's interest:** Management should ensure that employees are protected from economic loss, loss in status and personal dignity. If those things are protected the degree of resistance to change will be lowest ebb.
4. **Group Dynamics:** It refers to ever changing interactions and adjustments and the mutual perception among members of the groups. Such group interactions are the most powerful instruments which facilitate or inhibit adaption to change. Adaption is a team activity if these could be positively articulated by management the results are like to be more successful and durable.
5. **Cautious and slow introduction:** The management should not introduce any change suddenly and abruptly. It must be objective for the management to build in the organization an awareness of change and ability to forecast it and also construct an attitude of welcoming change. Change must be introduced in sequential parts, if possible the result must be reviewed and required adjustment made in it.
6. **Positive motion:** The management should use the policy of positive motivation to counteract negative resistance. It should be the attempt of the management to make job easier and less exerting. The leadership style should also be supportive and human oriented. This policy also brings down the resistance to change.

7. **Sharing the benefits of the change:** Any change whether technical, social or economic will be least resisted by the employees if the management permits the employees to share benefits which arise out of the change. So management must see that employees are not only assured of it, they are given due to advantage of it as well.
8. **Training and Development:** Management should plan for change, based on change plan the job should be redesigned. Management should train the employees beforehand and prepare the employees to invite change. Normally trained developed employees will not resist change as they cannot keep quiet with enriched skill and knowledge.
9. **Career planning and Development:** Organization on the basis of change plans and redesigned jobs should plan for careers of employees, possibilities to move the employee's higher levels and develop them. The developed employees for further careers demand the management to implement change.
10. **Organization Development:** It aims at moulding and development of employees in the psychological and behavioural areas with a view to achieve organizational effectiveness. Employees with enrich behaviours welcome the change.

Organizational development (OD) is a special approach to organizational change in which the employees themselves formulate the change that's required and implement it, often with the assistance of a trained consultant. Particularly in large companies the OD process (including hiring of facilitators) is almost always handled through HR, whose staff has the special knowledge and networks required to implement this approach. As an approach to changing organizations, OD has several distinguishing characteristics:

1. It is usually based on action research, which means collecting data about a group department, or organization and then feeding the data back to the employees so they can analyze it and develop hypotheses about what the problems in the unit might be.
2. It applies behavioral science knowledge for the purpose of improving the organization's effectiveness.
3. It changes the attitudes, values, and beliefs of employees so that the employee themselves can identify and implement the technical, procedural, structural, or other changes needed to improve the company's functioning.
4. It changes the organization in a particular direction-toward improved problem solving, responsiveness, quality of work, and effectiveness.

TYPES OF OD APPLICATIONS

The number and variety of OD applications (also called OD interventions or techniques) have increased substantially over the past few years. OD got its start with what were called *human process interventions*. These were generally aimed at enabling employees to develop a better understanding of their own and others' behaviors to improve that behavior for the benefit of organization. Today, a much wider range of applications is available. Indeed, the once-clear lines between OD and other types or

organizational change efforts (such as reorganizing) are starting to blur. This is happening because OD practitioners have become increasingly involved not just in changing participants' behaviors but also in directly altering the firm's structure, practices, strategy, and culture. There are four types of OD applications: human process, techno structural, human resource management, and strategic applications. All are based on getting the employees themselves to collect the required data and to create and implement the solutions.

Sensitivity Training

Sensitivity laboratory, or t-group training (the *t* is for training) was one of the earliest OD techniques; although its use has diminished, it is still found today. Sensitivity training's basic aim is to increase the participant's insight into his or her own behavior and the behavior of others by encouraging an open expression of feelings in the trainer-guided t-group. Typically, 10 to 15 people meet, usually away from the job, and no activities or discussion topics are planned. The focus is on the here and now (specifically, the feelings and emotions of the members in the group). Participants are encouraged to portray themselves as they are in the group rather than in terms of past experiences or future problems. The t-group's success depends largely on the feedback process and in particular on participants' willingness to tell one another how their behavior is being perceived.

Team Building

The characteristic OD stress on action research is perhaps most evident in **team building**, which refers to the following process of improving team effectiveness. Data concerning the team's performance are collected and then fed back to the members of the group. The participants examine, explain, and analyze the data and develop specific action plans or solutions for solving the team's problems. This is another example of a human process OD application.

According to experts French and Bell, the typical team-building meeting begins with the consultant interviewing each of the group members and the leader prior to the meeting.¹⁸ They are all asked what their problems are, how they think the group functions, and what obstacles are keeping the group from performing better. The consultant might then categorize the interview data into themes and present the themes to the group at the beginning of the meeting. The themes are ranked by the group in terms of their importance, and the most important ones become the agenda for the meeting. The group then explores and discusses the issues, examines the underlying causes of the problems, and begins working on some solutions.

Techno structural Interventions

OD practitioners are also increasingly involved in changing the Structures, methods, and job designs of firms. Compared with human process interventions, these techno structural interventions (as well as the human resource management interventions and strategic interventions described in the following sections) generally focus more directly on productivity improvement and efficiency.

OD practitioners use a variety of techno structural interventions. For example, in a *formal structure* change program the employees collect data on the company's existing organizational structures; they then jointly redesign and implement a new one, usually answering to HR.

Human Resource Management Applications

OD practitioners increasingly use action research to enable employees to analyze and change their firm's personnel practices. Targets of change here might include the firm's performance appraisal system and reward system, as well as installing diversity programs.

Strategic Applications

Among the newest OD applications are *strategic interventions*, organization wide programs aimed at achieving a fit between a firm's strategy, structure, culture, and external environment. *Integrated strategic management* is one example of how OD can be used to create or change strategy.

This intervention consists of four steps:

1. ***Analyze current strategy and organizational design.*** Managers and other employees analyze the firm's current strategy, as well as its organizational design.
2. ***Choose a desired strategy and organizational design.*** Based on the OD consultant assisted analysis, senior management formulates a strategic vision, objectives, and plan and an organizational structure for implementing them.
3. ***Design a strategic change plan.*** The group designs a strategic change plan, which "is an action plan for moving the organization from its current strategy and organizational design to the desired future strategy and design." The plan explains how the strategic change will be implemented, including specific activities as well as the costs and budgets associated with them.
4. ***Implement the strategic change plan.*** The final step is actually implementing the strategic change plan and measuring and reviewing the results of the change activities to ensure that they are proceeding as planned.

INSTITUTING TOTAL QUALITY MANAGEMENT PROGRAMS

What Is Quality?

Quality can be defined as the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs. To put this another way, "quality measures how well a product or service meets customer needs." The basic consideration is thus always the extent to which the product or service meets the customer's expectations.

Quality standards today are international. Doing business in Europe often means the firm must show it complies with ISO 9000, the quality standards of the European Community (EC). If required to do so by a customer, the vendor would have to prove that its quality manuals, procedures, and job instructions all comply with the **ISO 9000** standards. As this suggests, improving quality is a necessity to companies all over the world. Globalization of competition has done more than just force firms to become more efficient; it has raised the quality bar too, by forcing competitors in industries ranging from cars to computers to phone service to meet and exceed the quality of the firms with which they compete. HR plays a central role in improving product and service quality.

Total Quality Management Programs

Total quality management (TQM) programs are organization wide programs aimed at maximizing customer satisfaction through continuous improvements. In the United States, this approach often goes by the name continuous improvement, zero defects, or six sigma (a reference the statistical unlikelihood of having a defect); in Japan it's known as Kaizen.

HR AND BUSINESS PROCESS REENGINEERING

Michael Hammer and James Champy, the fathers of reengineering, define reengineering as "The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service, and speed." One of **business process reengineering's (BPR)** basic assumptions is that the traditional way of organizing departments and processes around very specialized tasks is inherently duplicative, wasteful, and unresponsive to the firm's customers. In reengineering a company and its departments and processes, the reengineers, therefore, need to ask themselves: "Why do we do what we do?" and "Why do we do it *the way we do?*"

Management competence

Management competence is the core part of HRM it means upgrade the competencies of staff of the HRM department and by making the HR team efficient, the further work force will also be motivated and enhanced Management competency plays a vital role in the effectiveness of BPR. As identified from the literature, BPR will be successful after removing certain barriers from the organization otherwise it will lead the organization towards the risky stage.

Team work

Team work as defined above is effective for implementing BPR successfully. It also comes under the dimensions of HRM that how much the organization is successful in making the teams and enabling them to work efficiently. As the workforce is dynamic and the global business has given the opportunity of labours to work outside the boundaries, so building the teams will be effective for the organization where different individuals and team member pool different and innovative ideas. And this team building technique is very much effective during bringing such radical changes i.e., BPR.

Organization structure

Organization structure is responsible for almost all the activities done in the organization. It includes supervision, task allocation, workforce environment, rules and regulations and in short the overall culture of the organization. It depends on the structure of the organization that how much it is making its workforce competent. It includes the approaches and the styles of its operation which depends upon the objectives of the organization. It can be virtual, networking or in the form of team.

In making the BPR successful, this variable plays a significant role as the flow of information depends on the structure which leads towards communication between all the members of the organizations, similarly hierarchy system is responsible. The vertical and horizontal hierarchies are responsible for developing the pattern of flexibility with in all the team members and they accept the change willingly.

Effective Communication

Communication is the key factor in the success of any organization and similarly at the time of bringing dramatic and radical changing's in the organization, communication becomes necessary. In every organization, different types of barriers are there which make the

communication ineffective. It can be emotional, language, psychological, cultural, physical or any. The organization and the top management is responsible for establishing such a culture where the environment is relax and everyone is free to communicate.

At the time of implementing change in the organization, whether it is TQM or any other management tool such type of barriers should be eliminated and especially in BPR where the level of risk is high and processes are going to change totally so employees and all level members have different queries and by providing the clear path and giving the reliable and authentic information, the level of reluctance will be reduced.

Information technology (IT)

As the use of IT is essential for almost every organization and the advancement of the technology enables the organization to use many software and other programs which enables the organizations to save their time, as well as cost. In BPR, the role of IT is also essential. It can be in the form of transforming the manual systems into IT based methods or taking the use of IT and change the processes.

Flexi work arrangement

Concept

Flexitime allows an employee to select the hours he or she will work. There are usually specified limits set by the employer. Employees on a flexible schedule may work a condensed work week or may work a regular work week. Those working a condensed week may work four ten hour days, rather than five eight hour days. Those who work a five day week may work hours other than the typical "nine to five."

How it works

In all flexible schedules, the employer expects a full-time employee to work the required hours or more. A flexible schedule involves either a compressed work week or flexible starting and stopping times.

In a *compressed work week*, the most common flexible schedule is a four day work week in which employees work four ten-hour days. Variations on this flexible schedule exist. This flexible schedule allows employees to have an additional day for any activity that affords the employee more [work-life balance](#).

A *daily flexible schedule* enables employees to come to work early and go home early or stay late and arrive late, or take extra time at lunch that is made up. In this schedule, employers may require that employees work core hours, from 10 a.m.–3 p.m., as an example. Or, the employer may allow a flexible schedule that becomes the employee’s regular schedule, 7 a.m.–4 p.m. every day, as an example.

Even in the most flexible schedule, that allows employees to come and go at will, or [telework](#), employers must believe that the employee is putting in his time and accomplishing his [goals](#). In a flexible environment, [trust](#) is a significant factor. [Measurable goals](#) and clear expectations are also significant so the employer is comfortable with the employee’s ongoing contribution.

Benefits

Advantages to the employer

The obvious benefit to an employer is the ability to accommodate employees who have trouble balancing their jobs and their families. In order to retain those employees it would be in the company's best interests to allow their staff to have a flexible schedule.

A less obvious benefit would be a decrease in overhead costs. Employees working flexible schedules can share expensive equipment such as computers, and even desk space, as long as their schedules don't overlap. Employers benefit from this type of scheduling because it tends to increase employee satisfaction and retention, making the company a better and more productive place to work.

In addition, flexitime can allow companies to serve clients for a greater portion of the day, as employees will be around at varying hours to answer phones, attend meetings, and so forth. A company which offers flexitime might be able to answer phones from six in the morning until nine in the evening, for example, with the same number of employees as a company which only has the phones staffed from nine in the morning until five in the evening.

In addition, the employer has the following benefits of flexitime:

- Increased [employee morale](#), engagement, and commitment to the organization.
- Reduced absenteeism and tardiness.
- Increased ability to recruit outstanding employees.
- Reduced turnover of valued staff.
- Extended hours of operation for departments such as customer service.
- Develops image as an [employer of choice](#) with family friendly flexible work schedules.

Advantages of Flexible Work Schedules for Employees

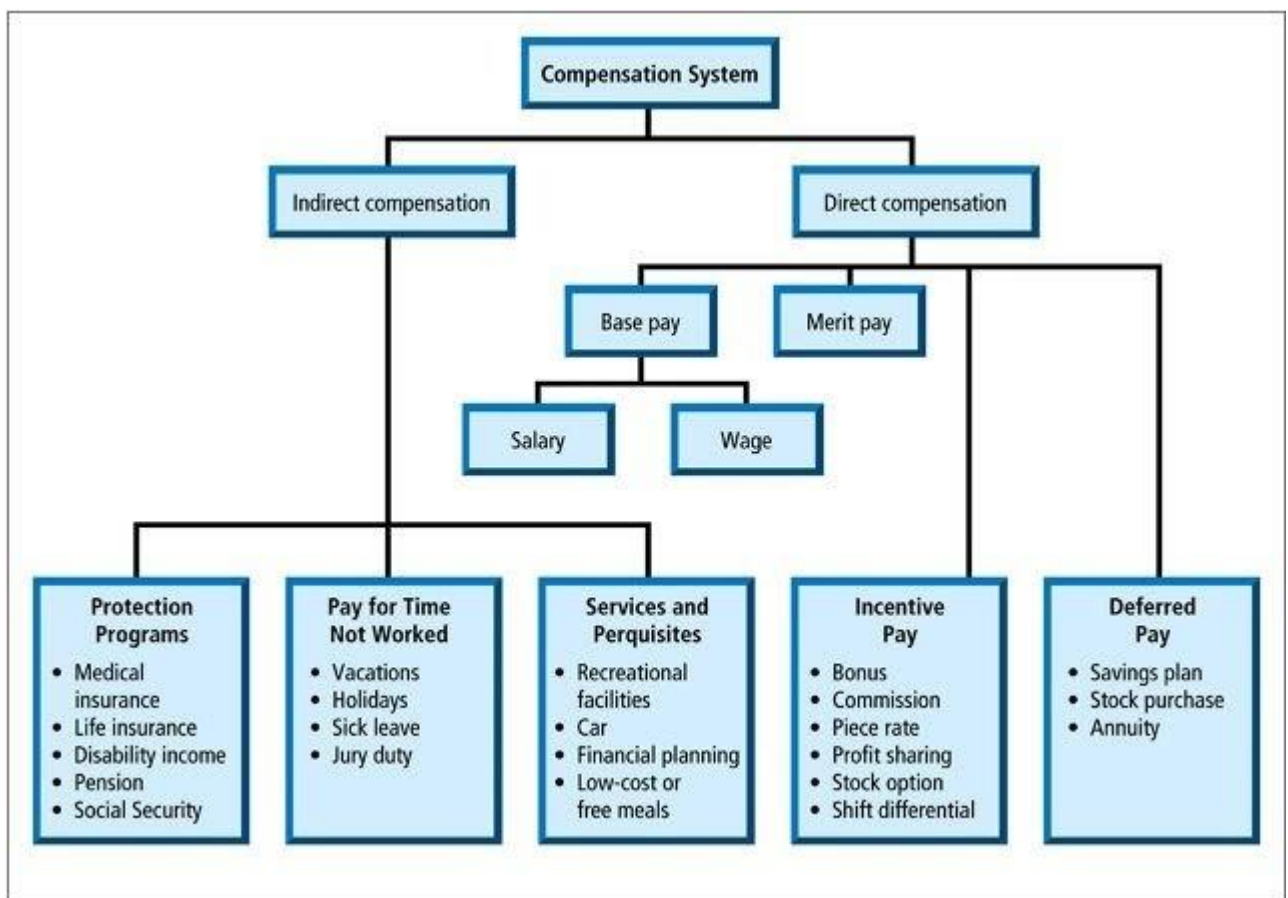
With flexible work schedules, employees experience these benefits:

- Flexibility to meet family needs, personal obligations, and life responsibilities conveniently.
- Reduced consumption of employee commuting time and fuel costs.
- Avoids traffic and the stresses of commuting during rush hours.
- Increased feeling of personal control over schedule and work environment.

- Reduces employee burnout due to overload.
- Allows people to work when they accomplish most, feel fresh, and enjoy working. (E.g. morning person vs. night person).
- Depending on the flexible work schedule chosen, may decrease external childcare hours and costs.

Flexitime is good for the environment too. With some workers commuting four days each week, not five, fewer cars are out on the road. Fewer cars equals less air pollution, and less congestion on the roads. Staggered schedules also help eliminate traffic problems.

Compensation



- According to R. Wayne Mondy “ compensation Is the total of all rewards provided to employees in return to their services. The overall purposes of providing compensation are to attract, retain, and motivate employees”.

Other objectives of compensation are:

- ❖ **Attract talent and Retain talent**
- ❖ **Ensure equity**
- ❖ **New and desired behavior**

- ❖ **Control costs**
- ❖ **Comply with legal rules**
- ❖ **Ease of operation**

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, Pf/Gratuity, etc. They are given at a regular interval at a definite time.



Basic Salary

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services.

House Rent Allowance

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees. This is done to provide them social security and motivate them to work.

Conveyance Organizations provide for cab facilities to their employees. Few organizations also provide vehicles and petrol allowances to their employees to motivate them.

Leave Travel Allowance

These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

Medical Reimbursement

Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bills reimbursements.

Bonus Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one month's salary of the employee.

Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity.

INDIRECT COMPENSATION

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Leave Policy, Overtime



Overtime Policy

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

Hospitalization

The employees should be provided allowances to get their regular check-ups, say at an interval of one year. Even their dependents should be eligible for the medi-claims that provide them emotional and social security.

Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

Leave Travel The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots. The organizations make sure that the employees do not face any kind of difficulties during their stay in the guest house.

Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

Types of Compensation and Benefits

There are three types of Compensation and Benefits namely;

- Base Compensation
- Variable Compensation
- Supplementary Compensation

Base Compensation and Benefits

Base Compensation is one type of Compensation. It refers to the basic salaries and wages given to the employees. It is normally constant at a given amount irrespective of the difference in work performance.

Factors influencing Base Compensation and Benefits

One factor that influences Base Compensation is demand and supply of labor in the market. Labour union pressure is also another factor influencing Base Compensation. This is because unions always try their best to fight for their members' rights.

Nature of job as determined by the job description, each employee deserves a different compensation package.

Size of the organization and its ability to pay its employees.

Product market compensation is yet another factor influencing Base Compensation.

Psychological and social factors like employee satisfaction and security.

Salaries paid by similar firms are also a factor affecting Base Compensation.

Government policies on wage determination

Cost of living of the employees. When the employees' cost of living is very high then they need a higher compensation benefit.

Increase in productivity of labour

Firms in general; whether competing firms or not.

Variable Compensation and Benefits

This type of compensation as by its name is variable. It means that one gets compensation as per the work done. If one does a remarkable job then he or she deserves a higher compensation package than one whose work is of poor quality.

Supplementary Compensation and Benefits

Supplementary Compensation is compensation given by an employer when he or she wishes to. It is not compulsory or a routine once one is given the compensation that one will be awarded another time. In this type of Compensation the employer has a right to add, deduct or even withdraw the benefits when he or she wishes to.

Conclusion on Compensation and Benefits

As seen above Compensation comes in three different types that are base compensation, variable compensation and supplementary compensation and Benefits.

Establishing Pay rates

Steps in Establishing Pay Rates

1. Conduct a salary survey of what other employers are paying for comparable jobs (to help ensure external equity).
2. Determine the worth of each job in your organization through job evaluation (to ensure internal equity).
3. Group similar jobs into pay grades.
4. Price each pay grade by using wave curves.
5. Fine-tune pay rates.

Salary survey

Surveys collecting information about employee compensation, including salary and benefits, are commonly called salary surveys. Salary surveys are conducted with numerous employers to determine pay levels for specific job categories and are generally conducted either by region, sector or job classification for the purposes of comparability. In conjunction with other tools, salary surveys can provide useful information to attract, support and retain employees within the context of an overall HR and organizational plan. When designed and used properly, salary surveys can provide useful benchmarking information for comparing salaries and benefits.

Identification of key Jobs : Organization need to identify the jobs for which they want to collect salary data. Ideally they should collect these jobs that are essential for an organization growth.

Selecting organisations for surveying: the organizations selected for survey should be similar to the organization conducting their survey in terms of all the conditions. Job duties and responsibilities not just job title when deciding if salary survey information is comparable. To be comparable the jobs must have a similar level of responsibility and range of duties. Appropriate salary comparisons will come from agencies with a similar geographic focus: local, regional, provincial or national. At the local level, the best salary comparisons will come from other organizations in the same city or town. Good salary comparison may come from a different city or town with similar labour market characteristics and a similar cost of living.

The workers employed by the organizations being compared should also be similar in terms of education, experience and skills etc.

Collecting data: Labour market forces can result in significant changes in salaries in a short period of time. More recent data will be more useful in establishing current salaries. The data collection is on-going basis and is updated when is required. As the people collecting and tabulating data are professionals , the data is generally error free.

Determine the worth of job

Organization employ various job evaluation techniques to determine the worth of each job. Some of those techniques are :

Job Evaluation involves determination of relative worth of each job for the purpose of establishing wage and salary differentials. Relative worth is determined mainly on the basis of Job Description and Job Specification only. Job Evaluation helps to determine wages and salary grades for all jobs. Employees need to be compensated depending on the grades of jobs they perform. Remuneration must be based on the relative worth of each job. Ignoring this basic principle results in inequitable compensation and attendant ill effects on employees' morale.

The compensable factors are skill, efforts, responsibility and working conditions.

Compensable factors are certain basic factors the jobs have in common that are used to establish how the jobs compare to one another, and that determine the pay for each job.

Group similar jobs into pay grades

Job ranking The ranking method is the simplest form of job evaluation. In this method, each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked. All jobs are ranked in the order of their importance from the simplest to the hardest or from the highest to the lowest. The importance of order of job is judged in terms of duties, responsibilities and demands on the job holder. The jobs are ranked according to "the whole job" rather than a number of compensable factors.

Job Classification Grading method is also known as 'classification method'. This method of job evaluation was made popular by the U.S. Civil Service Commission. Under this method, job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis.

The grades or classes are created by identifying some common denominator such as skills, knowledge and responsibilities. The example of job grades may include, depending on the type of jobs the organisation offers, skilled, unskilled, account clerk, clerk-cum-typist, steno typist, office superintendent, laboratory assistant and so on. Once the grades are established, each job is then placed into its appropriate grade or class depending on how well its characteristics fit in a grade. In this way, a series of job grades is created. Then, different wage/salary rate is fixed for each grade.

Point system This is the most widely used method of job evaluation. Under this method, jobs are broke down based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibility, etc. Thereafter, points are allocated to each of these factors.

Weights are given to factors depending on their importance to perform the job. Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades. The sum of points gives an index of the relative significance of the jobs that are rated.

Price each pay Grade The Wage Curve Shows the pay rates paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation. Shows the relationships between the value of the job as determined by one of the job evaluation methods and the current average pay rates for your grades.

Fine tune Pay rates

Developing Pay Ranges Flexibility in meeting external job market rates Easier for employees to move into higher pay grades Allows for rewarding performance differences and seniority

Correcting Out-of-Line Rates Raising underpaid jobs to the minimum of the rate range for their pay grade

Freezing rates or cutting pay rates for overpaid (—red circle their pay grade

||) jobs to m axim

Pricing managerial and professional trends

Developing compensation plans for managers or professionals is similar in many respects developing plans to any employee.

CEO pay is set by the board of directors taking into account factors such as the business strategy, corporate trends, and where they want to be in the short and long term. CEOs can have considerable influence over the boards that determine their pay. CEOs are paid based on complexity of the jobs they fill. Shareholder activism and government oversight have influence on what companies pay top executives. Boards are reducing the relative importance of base salary while boosting the emphasis on performance based pay.

Executive Compensation

Many organizations, especially large ones, administer executive compensation somewhat differently than compensation for lower-level employees. An executive typically is someone in the top two levels of an organization, such as Chief Executive Officer (CEO), President, or Senior Vice-President. As Figure shows, the common components of executive compensation are salaries, annual bonuses, long-term incentives, supplemental benefits, and perquisites.



International Compensation

Meaning and Definition of International Compensation Introduction Compensation is the amount of remuneration paid to an employee by the employer in return to the employee's services to the company. Compensation is extrinsic reward for an employee. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc. Almost all the employees accept jobs in MNC's take-up assignments in various countries, & take-up the risk, bear inconveniences & discomforts in foreign assignments mostly based on the compensation package.

Objectives

- Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.
- Compensation provided to employees can be direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc.
- Compensation does not include only salary but it is the sum of all rewards and allowances provided to the employees in return for their services.
- Compensation is extrinsic reward for an employee. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc.
- Almost all the employees accept jobs in MNC's take-up assignments in various countries, & take-up the risk, bear inconveniences & discomforts in foreign assignments mostly based on the compensation package.

Approaches

Three Expatriate Compensation Approaches A good compensation package is one that is considered fair by an expatriate, but it must also be cost-effective for the organization. It should be planned to achieve the mobility and staffing goals of the organization. There are a few methods commonly used to determine global compensation. These include: home-based approach (also known as the balance sheet approach), the host-based approach, and the global market approach. And one of the greatest challenges is determining which method is best for your organization.

Home-Based Approach The home-based, or balance sheet approach, is the most popular of these approaches and used by more than 85% of U.S. multinational companies. The balance sheet approach provides international employees with a compensation package that equalizes cost differences between the international assignment and the same assignment in the home country of the individual or the organization. The balance sheet approach is based on some key assumptions and is designed to protect expatriations from cost differences between their home and host countries.

Host-Based Approach The host-based approach means the assignee transfers to the host country payroll and receives base and incentive pay based on host country compensation practices and regulations. There are limited, if any, assignment related allowances. The host payroll typically delivers base pay and incentive pay and above-base allowances. With organizations looking for cost-cutting opportunities, they have looked to localize assignees. The host-based approach may be a cost-effective option to the traditional home-based approach, including local plus policy components.

Difficulties can occur in repatriating assignees, if applying this approach, because it integrates employees into the local host salary structure. It can make it very difficult to move the assignees to another destination or back to their home country.

Global Market Approach Unlike the balance-sheet approach, a global market approach to compensation requires the international assignment be viewed as continuous, even though the assignment may be for various periods of time and the employee may be in various countries. All assignees are on the equivalent compensation scale, regardless of their home country. This approach is much more inclusive. Regardless of which country the assignee is assigned, the main benefits are provided.

There are benefits and drawbacks to each approach. The objectives of each assignment, among other issues, should be measured before choosing the right compensation approach. Variations in laws, living costs, tax policies, and other factors all must be considered in establishing the compensation for expatriates. You want to maintain equity and consistency among the expatriate group. Many organizations look for a company specialized in this practice, as it is clear that international compensation is very complex.

Compensation trends

Skill based pay

Skill-based pay refers to a pay system in which pay increases are linked to the number or depth of skills an employee acquires and applies and it is a means of developing broader and deeper skills among the workforce. Such increases are in addition to, and not in lieu of, general pay increases employees may receive. The pay increases are usually tied to three types of skills:

- horizontal skills, which involve a broadening of skills in terms of the range of tasks
- vertical skills, which involve acquiring skills of a higher level
- Depth skills, which involve a high level of skills in specialised areas relating to the same job.

Reasons For Skill-Based Pay
More than ever before in industrial relations history a commonality of interests in the skills of employees has developed between employers and employees. Skills provide employees with a measure of protection against unemployment, as well as opportunities for higher earnings. At the same time, skills provide employers with an important means of achieving competitiveness.

Advantages Of Skill-Based Pay

Among the advantages of skill-based pay are the following:

- ❖ It contributes to job enlargement and enrichment y breaking down narrow job classifications.
- Flexibility is increased by encouraging the performance of multiple tasks. It enables job rotation, and filling of temporary vacancies due, for instance, to absenteeism. It therefore contributes to a leaner workforce.
- It enhances productivity and quality through better use of human resources.
- It facilitates technological change, which may meet with resistance in a purely job-based system.

- The higher pay levels, continuous training, and job enlargement through the broadening of skills, tend to reduce staff turnover.
- Elimination of unnecessary jobs can result from a workplace having broad, rather than narrow, skills. It also reduces the need for supervision.
- Job satisfaction is engendered through employees having greater control over the planning

Broad banding is defined as a strategy for salary structures that consolidate a large number of pay grades into a few "broad bands."

In a broadband pay structure, the numbers of salary grades are consolidated into fewer, but broader, pay ranges. In broadbanding, the spread of the pay ranges is wider and there is less overlap with other pay ranges.

Broadbanding evolved because organizations want to flatten their hierarchies and move decision-making closer to the point where necessity and knowledge exist in organizations. In flattened organizations, fewer promotional opportunities exist so the broad banding structure allows more latitude for pay increases and career growth without promotion.

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range.

Benefits

- ❖ Broadbanding has been successfully implemented in large, hierarchical organizations which attempted to flatten their organizations and remove levels of management. For example, organizations that had eight levels of management could eliminate four levels, widen the salary ranges of the remaining four levels, and simply slot each manager into one of those ranges.
- ❖ With broad banding, a manager can more easily encourage his/her employees to broaden their skills and abilities. This is valuable to organizations because employees with broad skills and abilities are critical for the success in a total quality/continuous improvement environment. In contrast, the jobs in traditional organizations are narrow and specialized. In order for employees to advance in pay and responsibility, they have to further develop their specialized skill. Thus a bias exists against the broadening of skills.

Compensation trends in India: Central government employees draw more salary along with benefits than state government employees, compared with private sector employees. There is a particular pay structure fixed for every government employee in India which is not in private companies. The pay structure of government employees in India is as follows

Employee salary : Basic pay + Grade pay + Dearness Allowance (DA) + House Rent Allowance (HRA) + City Compensatory Allowance (CCA)

The details of above said components of salary of government employees are as follows.

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- Recruitment Cost
- Base salary
- Bonuses
- Administrative
- Office Space
- Technology
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Components of CTC

- **Salary** like Basic, DA, HRA, Allowances
- Perquisites and **Reimbursements** given to employees (i.e.) - bonus, incentives, reimbursement of conveyance/medical/telephone/, benefits extended through various schemes like housing/vehicle/furniture/ Air-conditioners etc.
- **Contributions** that the company makes for the employees like PF, Super Annuation, Gratuity, Medical Insurance, etc.
- Reasonable estimates of Leave Encashment, Stock Option Plans and Non cash concessions
- **Tax Benefit** on Stock Option plans only.

Two important ways organizations **measure their performance** are in terms of their **profits** and their **stock price**. In a competitive marketplace, profits result when an organization is efficiently providing products that customers want at a price they are willing to pay. Stock is the owners' investment in a corporation; when the stock price is rising, the value of that investment is growing. Rather than trying to figure out what performance measures will motivate employees to do the things that generate high profits and a rising stock price, many organizations offer incentive pay tied to those organizational performance measures. The expectation is that employees will focus on what is best for the organization.

These organization-level incentives can motivate employees to align their activities with the organization's goals. Linking incentives to the organization's profits or stock price exposes employees to a high degree of risk. Profits and stock price can soar very high very fast, but they can also fall, as witnessed by many wary investors. The result is a great deal of uncertainty about the amount of incentive pay each employee will receive in each period. Therefore, these kinds of incentive pay are likely to be most effective in organizations that emphasize growth and innovation, which tend to need employees who thrive in a risk-taking environment.

1. Profit Sharing

Under profit sharing, payments are a percentage of the organization's profits and do not become part of the employees' base salary. Organizations use profit sharing for a number of reasons. It may encourage employees to think more like owners, taking a broad view of what they need to do in order to make the organization more effective. They are more likely to cooperate and less likely to focus on narrow self-interest. Also, profit sharing has the practical advantage of costing less when the organization is experiencing financial difficulties. If the organization has little or no profit, this incentive pay is small or nonexistent, so employers may not need to rely as much on layoffs to reduce costs.

An organization setting up a profit-sharing plan should consider what to do if profits fall. If the economy slows and profit-sharing payments disappear along with profits, employees may become discouraged or angry. One way to avoid this kind of problem is to design profit-sharing plans to reward employees for high profits but not penalize them when profits fall. This solution may be more satisfactory to employees but does not offer the advantage of reducing labour costs without layoffs during economic downturns.

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An employee share ownership plan ("stock option" or "stock ownership", abbreviated to "ESOP") is the practice of companies giving staff members shares in their company as part of their salary and "stock option" plan converts an employee in to a shareholders of an organisation. Today, employee stock option plan has become an employee retention tool/strategy for the organisations, especially in the information technology sector.

Example

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experts feel that stock option is showing positive influence on retention of employees and termed it as a "**Golden Handcuff**".

The stock option is the most popular long-term incentive. A stock option plans grant to employees the right to purchase a specific number of shares of company stock at a specific price during a period of time. The price at which the employee can buy the stock is equal to the market price at the time the stock option was granted. The assumption is that the price of the stock will go up, rather than go down or stay the same. Several trends have increased the attractiveness of stock options as a long-term executive incentive and retention tool.

Double taxation is the levying of tax by two or more jurisdictions on the same declared income (in the case of **income taxes**), **asset**(in the case of **capital taxes**), or **financial transaction** (in the case of **sales taxes**). This double liability is often mitigated by **tax treaties** between countries.

The term 'double taxation' is additionally used, particularly in the USA, to refer to the fact that **corporate** profits are taxed and the shareholders of the corporation are (usually) subject to personal taxation when they receive dividends or distributions of those profits. **India** has comprehensive Double Taxation Avoidance Agreements (DTAA) with 88(signed 88 DTAA's out of which 85 have entered into force)^[6] countries. This means that there are agreed rates of tax and jurisdiction on specified types of income arising in a country to a tax resident of another country. Under the **Income Tax Act 1961 of India**, there are two provisions, Section 90 and Section 91, which provide specific relief to taxpayers to save them from double taxation. Section 90 is for taxpayers who have paid the tax to a country with which India has signed DTAA, while Section 91 provides relief to tax payers who have paid tax to a country with which India has not signed a DTAA. Thus, India gives relief to both kinds of taxpayers.

A large number of foreign institutional investors who trade on the Indian stock markets operate from **Singapore** and the second being **Mauritius**. According to the **tax treaty** between India and Mauritius, capital gains arising from the sale of shares are taxable in the country of residence of the shareholder and not in the country of residence of the company whose shares have been sold. Therefore, a company resident in Mauritius selling shares of an Indian company will not pay tax in India. Since there is no **capital gains tax** in Mauritius, the gain will escape tax altogether.

The Indian and Cypriot tax treaty is the only other such Indian treaty to provide for the same beneficial treatment of capital gains.

Interestingly, Singapore's investment of \$5.98 billion has over taken Mauritius's investment of \$4.85 billion as the single largest investor for the year 2013-14.

Flexi timing

Concept

Flextime allows an employee to select the hours he or she will work. There are usually specified limits set by the employer. Employees on a flexible schedule may work a condensed work week or may work a regular work week. Those working a condensed week may work four ten hour days, rather than five eight hour days. Those who work a five day week may work hours other than the typical "nine to five."

How it works

In all flexible schedules, the employer expects a full-time employee to work the required hours or more. A flexible schedule involves either a compressed work week or flexible starting and stopping times.

In a *compressed work week*, the most common flexible schedule is a four day work week in which employees work four ten-hour days. Variations on this flexible schedule exist. This flexible schedule allows employees to have an additional day for any activity that affords the employee more work-life balance.

A *daily flexible schedule* enables employees to come to work early and go home early or stay late and arrive late, or take extra time at lunch that is made up. In this schedule, employers may require that employees work core hours, from 10 a.m.–3 p.m., as an example. Or, the employer may allow a flexible schedule that becomes the employee's regular schedule, 7 a.m.-4 p.m. every day, as an example.

Even in the most flexible schedule, that allows employees to come and go at will, or [telework](#), employers must believe that the employee is putting in his time and accomplishing his [goals](#). In a flexible environment, [trust](#) is a significant factor. [Measurable goals](#) and clear expectations are also significant so the employer is comfortable with the employee's ongoing contribution.

Benefits

Advantages to the employer

The obvious benefit to an employer is the ability to accommodate employees who have trouble balancing their jobs and their families. In order to retain those employees it would be in the company's best interests to allow their staff to have a flexible schedule.

A less obvious benefit would be a decrease in overhead costs. Employees working flexible schedules can share expensive equipment such as computers, and even desk space, as long as their schedules don't overlap. Employers benefit from this type of scheduling because it tends

to increase employee satisfaction and retention, making the company a better and more productive place to work.

In addition, flexitime can allow companies to serve clients for a greater portion of the day, as employees will be around at varying hours to answer phones, attend meetings, and so forth. A company which offers flexitime might be able to answer phones from six in the morning until nine in the evening, for example, with the same number of employees as a company which only has the phones staffed from nine in the morning until five in the evening.

In addition, the employer has the following benefits of flexitime:

- Increased employee morale, engagement, and commitment to the organization.
- Reduced absenteeism and tardiness.
- Increased ability to recruit outstanding employees.
- Reduced turnover of valued staff.
- Extended hours of operation for departments such as customer service.
- Develops image as an employer of choice with family friendly flexible work schedules.

Advantages of Flexible Work Schedules for Employees

With flexible work schedules, employees experience these benefits:

- Flexibility to meet family needs, personal obligations, and life responsibilities conveniently.
- Reduced consumption of employee commuting time and fuel costs.
- Avoids traffic and the stresses of commuting during rush hours.
- Increased feeling of personal control over schedule and work environment.
- Reduces employee burnout due to overload.
- Allows people to work when they accomplish most, feel fresh, and enjoy working. (e.g. morning person vs. night person).
- Depending on the flexible work schedule chosen, may decrease external childcare hours and costs.

Flexitime is good for the environment too. With some workers commuting four days each week, not five, fewer cars are out on the road. Fewer cars equals less air pollution, and less congestion on the roads. Staggered schedules also help eliminate traffic problems.

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Employee referrals

Employee referral is an internal [recruitment](#) method employed by [organizations](#) to identify potential candidates from their existing employees' [social networks](#). An employee referral scheme encourages a company's existing employees to select and recruit the suitable candidates from their social networks. As a reward, the employer typically pays the referring employee a referral bonus.

Recruiting candidates using employee referral is widely acknowledged as being the most cost effective and efficient recruitment method to recruit candidates and as such, employers of all sizes, across all industries are trying to increase the volume of recruits through this channel.

How it works

It is necessary to add some structure to an employee-referral program, communicate the benefits to employees, track the success of referred candidates, reward successful referrals and discourage low-quality referrals.

Generally, successful employee-referral programs offer some kind of monetary [bonus](#) for referrals who are hired and retained for a certain period of time (often 90 days). The reward amount should be sufficient to [motivate](#) employees to make referrals but not so large that they offer referrals who are unqualified for the positions.

Some companies limit the number of bonus-qualifying referrals that each employee can make per year. The purpose of this strategy is to encourage employees to reserve their scarce referral opportunities for the highest-qualified candidates that they know. Rather than pay cash bonuses, some companies offer their own goods or services to employees in exchange for referrals.

Requests for employee referrals should be specific, including mandatory qualifications and qualifications that an above-average candidate should have. Most employment departments are awash with candidates, the majority of whom are under qualified. Employee referrals should add to the quality of the candidate pool. To measure the effectiveness of an employee-referral program, it is important to track such metrics as the cost of employee referrals versus other [recruitment](#) channels, performance and [retention](#) of employee referrals, employee attitudes toward referral programs, and the percentage of new employees who are hired via referrals.

Benefits of Referral Programs

The benefits that will accrue to the business and to hiring managers include:

Higher candidate quality – data shows that referral candidates can be five times more likely to get hired than other candidates. This is because educated employees know that their role is to seek out individuals with superior skills and experience. And because referral candidates are proactively sought out and pre-screened by existing employees who know the job and the company, the candidate pool is a higher quality than most sourcing pools that are made up of “active candidates” who found the firm on their own. Having the candidates pre-screened by employees saves on recruiter time and costs. New hires from well-designed referral programs routinely produce the highest on-the-job performance of any recruiting source. In addition, referral new-hires have significantly higher retention rates than hires from other sources.

High impact hires – because the best ERP programs prioritize and focus on high-impact and revenue-generating jobs, they produce fast quality hires in the specific business areas where they are needed the most.

Rapid hire capability — Referral processes that are proactive (i.e. they seek out individual employees for referrals) and that contain “alert processes” can notify a select group of employees about an immediate job need. These targeted “special need” alerts generally result in rapid referrals and fast hires.

Less wasted management time – because these programs generate fewer weak applicants, managers have to spend less time interviewing weak candidates and sorting through less-than-optimal resumes. And because of the quality of the candidates, managers are generally highly satisfied with requisitions filled through the ERP.

Reduction in Recruitment Expenditure - Employee referral scheme’s allows existing employees to screen, select and refer only the best candidates to the recruitment process. This eliminates the often considerable cost of third parties service providers who would have previously conducted the screening and selection process

The costs of operating an employee referral scheme extends to the cash bonus’ paid to employees and internal promotion and administration, the total of which is considerably

lower than the expense of recruiting using traditional recruitment consultants, headhunters and online recruitment methods

As candidate quality improves and interview to job offer conversion rates increase the amount of time spent interviewing decreases meaning the company's [Human Resources](#) headcount can be streamlined and be used more efficiently. Marketing and advertising spend decreases as existing employees source potential candidates from the existing personal networks of friends, family, acquaintances and associates.

Source of passive candidates- One benefit of an employee-referral program is that it can provide the employer with a source of passive candidates — those workers who are not actively seeking new jobs. This not only expands the employer's pool of potential candidates but also tends to produce higher-quality candidates.

Candidates are a better fit – well-designed referral programs produce a high percentage of candidates that fit the culture. This is because existing employees know the corporate culture and they are able to screen out those who are a weak fit. This means that hiring managers waste less time on candidates with the right skills but the wrong “fit.” New hires who are a better fit may require less on-boarding time, less training, and they may reach minimum productivity levels faster because they are instantly a better fit with the team.

Faster time to initial productivity – higher quality hires mean that new hires get up to speed faster. In addition, because many employees will mentor, guide, and assist the individuals who they have referred, often the time to productivity will be even faster.

Low termination rates – because employees add a layer of skill pre-screening and fit assessment, some referral programs have data that prove that referral hires have as much as a 350% reduced chance of having to be fired.

Added diversity — well-designed referral programs have no negative diversity impacts, and targeted ones with an emphasis on diversity can actually increase diversity.

Expanded global hiring capability — with global economic growth and widespread access to the Internet, employee referral programs now work effectively to attract top prospects in most countries around the world. And because the social and professional networks of your employees are now likely to be global, referrals can provide the firm with an important supplement to its current global recruiting capability.

A morale indicator — if employees don't like a firm or their boss, they will not refer others for a job. As a result, employee referral rates closely mirror employee morale, so managers and HR can use referral rates as an indication of good or bad morale in a function or unit.

Social network growth makes referral programs even more effective — the tremendous growth of social networks now makes it even easier for your employees to make contacts and to build networks and recruiting relationships.

Additional employee learning – referral programs cause employees to proactively seek out numerous other professionals as potential recruits. A side benefit of this process of interacting

and asking questions of other professionals is expanded benchmarking, added competitive intelligence, and employee learning.

A stronger employer brand and superior messaging – because your employees “live the job” every day, what they say to candidates is likely to be viewed as more authentic and believable than messages on your corporate website or even sales pitches by individual recruiters. In addition, because they know the job and the managers better, your employees can often provide more detailed and current information about the job and the team than standard recruiters can. All combined, this will greatly strengthen your employer brand while simultaneously increasing the percentage of prospects who are willing to apply for and eventually accept jobs.

Fewer legal issues – referral programs themselves generate few complaints or legal issues. And the resulting better quality hires, fewer turkeys, and lower turnover rates together help to minimize any potential legal issues after hiring.

Less recruiter time required — whenever recruiters are overburdened, any new recruiting program should minimize the use of their time. Employee referral programs leverage the time and the networks of your employees, so for referral candidates a significant portion of the finding, screening, and candidate selling is done by someone other than recruiters. And since nearly 50% of all hires at top-performing firms come as a result of employees’ time spent on networking and social media, recruiters’ time can then be focused on the remaining 50% of the positions. Fewer weak applicants also means that recruiters waste less time on those who have little chance of getting hired.

High-volume capability – across corporations, referral programs routinely produce the highest volume of hires, a larger percentage than from any other source.

An increased appreciation of the role of recruiting – effective referral programs make recruiting highly visible, and as a result, the program can make recruiting a continuous topic of conversation and focus throughout the organization. Well-designed programs cause employees to develop a feeling of ownership for the hiring process. Once involved, employees see both the difficulties and the benefits of recruiting, and as a result, their understanding of and their respect for the function almost always increases.

Improved employee retention rates - When significant individual referral bonuses are used, they have the added impact and benefit of putting more dollars into your employees’ pockets, aiding retention.

The one-to-one direct relationship between the candidate and the referring employee and the exchange of knowledge that takes place allows the candidate to develop a strong understanding of the company, its business and the application and recruitment process. With this information the candidate is ideally placed to assess their own suitability and likelihood of success at the company and make an informed decision, with the support of the referring employee as to whether to apply. This is the start of the company’s recruitment process where, at no cost to the employer, candidates and employees remove unsuitable and poor

quality candidates, from the recruitment process ensuring a consistently high quality of applications

Candidates who are interviewed are thoroughly prepared resulting in superior [interview](#) to job offer conversion rates. In addition, successful candidates get up to speed faster compared to other recruitment methods. Candidate 'fit' to the company's culture, departments and teams is improved as the expectations of candidate and employer match. This significantly increases the level of staff retention and builds a loyal and committed workforce - ultimately reducing the company's future recruitment requirements

Improved college recruiting — because referral programs can be successfully applied to college students (alumni networks) who are extremely well-connected, your college recruiting results could improve significantly.

Effective for specialized positions - Employee-referral programs are especially effective in the case of highly specialized positions that might be difficult to fill through conventional channels. People tend to associate with others in their professions, which gives them access to specialized or rare talent.

Function successful across borders in global organizations. Few recruiting programs can function across global borders without tweaks to tune the program to the local environment. Employee referral programs are one of the shining exceptions. Numerous global companies with operations in the United States, Europe, Asia, and the Middle East have deployed referral programs that function identically in nearly every location. The source has become so popular that within many companies operating in India, it has become the predominate source. The India Times reports that Indian firms often hire as many as 40 percent of their new hires via employee referral. Companies there have noted that such programs produce higher quality candidates, higher offer acceptance rates, and hires compatible with the work environment.

Unit 5

Global HRM

With the advent of globalization, organizations - big or small have ceased to be local, they have become global! This has increased the workforce diversity and cultural sensitivities have emerged like never before. All this led to the development of Global Human Resource Management.

Even those organizations who consider themselves immune to transactions across geographical boundaries are connected to the wider network globally. They are in one way or the other dependent upon organizations that may even not have heard about. There is interdependence between organizations in various areas and functions.

The preliminary function of global Human Resource Management is that the organization carries a local appeal in the host country despite maintaining an international feel. To exemplify, any multinational / international company would not like to be called as local, however the same wants a domestic touch in the host country and there lies the challenge.

We may therefore, enumerate the **objectives of global HRM as follows:**

1. Create a local appeal without compromising upon the global identity.
2. Generating awareness of cross cultural sensitivities among managers globally and hiring of staff across geographic boundaries.
3. Training upon cultures and sensitivities of the host country.

- Multinational
- International
- Transnational
- Global
 - **Multinational Strategy :**
 - Under this, a firm's subsidiaries in the foreign countries enjoy strong local autonomy of business decision-making.
 - **Global companies** have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets. Generally one corporate office that is responsible for global strategy. Emphasis on volume, cost management and efficiency.
 - **International companies:**
 - The parent company deploys innovations and allocation of resources rapidly through foreign direct investment in different nations. The firm can maintain a differentiation strategy under this.
 - **Transnational companies**
 - Under this multinational, global and international strategies are rationally combined. It enables the firm to simultaneously achieve local flexibility while rapidly absorbing and differing parent company's innovations. Transnational strategy implies seeking

global integration, operational efficiency and excellency of performance on a continuous basis.

- 1. By choosing appropriate global strategies a business firm can locate its different operations in view of the consumer market, low-cost labour supply and availability of raw materials and other productive resources. For example, a country like India may choose on this count for software and R &D work because of easy availability of highly skilled technocrats of relatively lower salaries.
- 2. There are certain high-investment industries (e.g., commercial aircraft, pharmaceutical, etc.) in which minimum efficiency scale is desirable and the production costs recovery depends on worldwide operations.
- 3. Globalisation process creates interlinked and interdependent economies in the international business environment.
- 4. Globalisation is propelled by lowering or removal of trade and tariff barriers, thus, opening up of the national economies.
- 5. International global competition demands an outlook of new perspectives. A global firm needs to examine and audit its own competence as well as the position of its key suppliers, and present and prospective competitions.

Recruitment & Selection

While recruiting people for international operations, the international HR managers must identify the global competitiveness of the potential applicants at the time of the recruiting process. It is essential that the workforce of an international organization is aware of the nuances of international business. Understandably, the company must keep international knowledge and experience as criteria in the recruitment and selection process.

Approaches to Recruitment in IHRM Though the general aim of any recruitment policy is to select the right people for the right task at the right time, the HR department of international companies may adopt one of the following three specific approaches available for recruiting employees for global operations.

Ethnocentric approach

when a company follows the strategy of choosing only from the citizens of the parent country to work in host nations, it is called an ethnocentric approach. Normally, higher-level foreign positions are filled with expatriate employees from the parent country. The general rationale behind the ethnocentric approach is that the staff from the parent country would represent the interests of the headquarters effectively and link well with the parent country.

The recruitment process in this method involves four stages: self-selection, creating a candidate pool, technical skills assessment, and making a mutual decision. Self-selection involves the decision by the employee about his future course of action in the international arena. In the next stage, the employee database is prepared according to the manpower requirement of the company for international operations. Then the database is analysed for choosing the best and most suitable persons for global assignments and this process is called technical skills assessment. Finally, the best candidate is identified for foreign assignment and sent abroad with his consent.

Polycentric approach

When a company adopts the strategy of limiting recruitment to the nationals of the host

country (local people), it is called a polycentric approach. The purpose of adopting this approach is to reduce the cost of foreign operations gradually. Even those organizations which initially adopt the ethnocentric approach may eventually switch over to the polycentric approach. The primary purpose of handing over the management to the local people is to ensure that the company understands the local market conditions, political scenario, cultural and legal requirements better. The companies that adopt this method normally have a localized HR department, which manages the human resources of the company in that country. Many international companies operating their branches in advanced countries like Britain and Japan predominantly adopt this approach for recruiting executives to manage the branches." The geocentric approach uses the best available managers for a business without regard for their country of origin. In this example, the UK parent company uses natives of many countries at company headquarters and at the U.S. subsidiary.

Regiocentric Approach

Company's international business is divided into international geographic regions. The regiocentric approach uses managers from various countries within the geographic regions of business. Although the managers operate relatively independently in the region, they are not normally moved to the company headquarters.

The regiocentric approach is adaptable to the company and product strategies. When regional expertise is needed, natives of the region are hired. If product knowledge is crucial, then parent-country nationals, who have ready access to corporate sources of information, can be brought in.

One shortcoming of the regiocentric approach is that managers from the region may not understand the view of the managers at headquarters. Also, corporate headquarters may not employ enough managers with international experience.

The regiocentric approach places managers from various countries within geographic regions of a business. In this example, the U.S. parent company uses natives of the United States at company headquarters. Natives of European countries are used to manage the Italian subsidiary.

International Selection

Even though cultural differences influence the selection procedure to some extent, organizations tend to follow similar criteria and methods worldwide. This is due to the fact that the end objective of any selection process is to choose the most capable persons for the job. The selection criteria for international jobs usually revolve around the five core areas of behaviour, attitudes, skills, motivation and personality. More specifically, the focus of selection for international operations normally includes cultural adaptability, strong communication skills, technical competence, professional or technical expertise, global experience, country-specific experience, interpersonal skills, language skills, and family flexibility. Employers around the world usually rank personal interviews, technical competency and work experience in similar jobs as important criteria for selection. International firms, while choosing employees for overseas operations, usually prefer people

with

- highly developed technical skills
- good language and communication skills
- tolerance towards other culture, race, creed, colour, habits, and values
- high level of motivation
- stress resistance
- goal-oriented behaviour

Finally, at the time of selection for international assignments, an organization should consider the previous overseas experience, family circumstances and cultural-adaptability level of the candidates aspiring for the global jobs.

Competitive Advantage

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a **competitive advantage** over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two basic types of competitive advantage:

- cost advantage
- differentiation advantage

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Cost and differentiation advantages are known as *positional advantages* since they describe the firm's position in the industry as a leader in either cost or differentiation.

A *resource-based view* emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:

The relationship between resource endowments, strategies and sustained competitive advantage

Shape Firm's resources and capabilities	Strategies	Sustained competitive advantage
<input type="checkbox"/> Value		
<input type="checkbox"/> Rarity		
<input type="checkbox"/> Inimitability		
<input type="checkbox"/> Non-substitutability		

Characteristics of sustainable competitive advantage

1. Valuable

The organizational resources can be a source of competitive advantage only when they are valuable. Resources are valuable when they enable a firm to formulate and implement strategies that improve its efficiency and effectiveness.

2. Rare

For a resource to provide competitive advantage, it must be uncommon relative to other competitors. Competitors or potential competitors also possess the same valuable resources but they become a competitive advantage when the resources are unique to the firm.

3. Difficult to Imitate

A resource that competitors can copy easily generates only temporary value. Difficulty in imitating is a key to value creation because it restrains competition. There are four characteristics called as isolating mechanisms, that make a resource difficult to imitate. They are:

1. **Physical uniqueness:** These resources are inherently difficult to copy. In this material rights are one of a kind and are not possible to imitate.
2. **Path Dependence:** This simply means that resources are unique and scarce because of all that happened along the path followed in their development. So it's tough to competitors to copy that.
3. **Causal ambiguity:** It means that competitors cannot understand the causes which created the resources or the way which it can be recreated. Such resource is hard to imitate.
4. **Social complexity:** A wide variety of firm resources may be considered socially complex.

Difficult to substitute

The fourth requirement of a firm's resources to be source of sustainable competitive advantage is that there must be no strategically equivalent and valuable resource that can easily substitute resource.

Role of HR in providing competitive advantage

HRM played largely administrative role, in order to be source of competitive advantage, HRM function should be integrally involved in the formulation of strategy to identify the people related issues the company faces. This requires an entirely new set of competencies for strategic HR executives. HR professionals need four basic competencies to become partners in getting competitive advantage. They are

1. **Business competence:** HR executive must be able to calculate the cost and benefits of each and every HR practices in terms of its monetary impact and it should involve non-monetary aspect also.
2. **Professional / Technical knowledge:** HR executives must be able to critically evaluate the new techniques offered a state of art HR practices staffing, developing, communicating, performance appraisal methods, and incentive plans new HRM programs and use only those will benefit to the company.

3. **Management of change:** This involves diagnosing problems, implementing organisational change and evaluating results. The HR executives must have the skills to handle the change in a way that ensures the success.
4. **Integration competence:** This means the ability to ensure that all functions within hrm area that fit together to be effective in increasing the company's value. Thus the new strategic role of HRM presents both opportunities and challenges.

Conclusion

HR system qualify as a source of competitive advantage. Hr systems of selecting, developing, and motivating employees add value to the firm and provide advantage over competitors. It must be rare resource. HR cannot be imitated and substituted. A firms talent pool and system used to develop and motivate this talent pool can serve as a source of sustained competitive advantage.

Strategic alliance

Strategic alliances are agreements between companies (partners) to reach objectives of common interest. Strategic alliances are among the various options which companies can use to achieve their goals; they are based on cooperation between companies. Strategic alliances are agreements between companies that remain independent and are often in competition. In practice, they would be all relationships between companies, with the exception of

- (a) Transactions (acquisitions, sales, loans) based on short-term contracts (while a transaction from a multi-year agreement between a supplier and a buyer could be an alliance);
- (b) Agreements related to activities that are not important, or not strategic for the partners, for example a multi-year agreement for a service provider (outsourcing).

Strategic alliance can be described as a process wherein participants willingly modify their basic business practices with a purpose to reduce duplication and waste while facilitating improved performance.

Strategic alliances are more than simple instrumental means for achieving collective goals directly benefiting the collaborators. They also constitute each partner firms' corporate social capital, providing potential access to various assets controlled by other strategic alliance network members. Alliances provide opportunities for participants to tap into the resources, knowledge, and skills of their immediate partners in a portfolio of inter-firm agreements. Further, given latent reachability across strong ties and possibilities for activating brokerage efforts to interconnect the partners of partners, these complex patterns of social capital embedded within an organizational field-net of a strategic alliance offer enormous potential for significantly leveraging its member firms' resource capabilities. Theoretical conjectures and empirical investigations of strategic alliances over the past two decades reveal an accelerating proliferation of these inter organizational phenomena.

Stages of alliance formation

1. **Strategy development** It involves studying the alliance's feasibility , objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology and people. It requires align alliance objectives with the overall corporate strategy.
2. **Partner assessment** It involves analysing a potential partner's strengths and weaknesses, creating strategic accommodating all partners management styles, preparing appropriate partner selection criteria, understanding a partner,s motives for joining alliance and addressing resource capability gaps that may exist a partner.
3. **Contract Negotiation** It involves determining whether all parties have realistic objectives, forming high calibre negotiating teams, defining each partner's contributions

and rewards as well as protect any priority information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated or understood.

4. **Alliance operation** It involves addressing senior management commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.
5. **Alliance Termination** It involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or re allocates resources elsewhere.

Globally competent managers

The development of globally competent managers refers to organizational strategies and programs which equip managers with the flexibility on an organizational and sociocultural level to operate across national boundaries.

Many multinational enterprises have increased the scope and scale of their training and development programs, incorporating efforts to enhance communication skills and sharing of corporate values. These programs may be linked to the use of multicultural teams. The ability to work effectively in teams is often seen as vital for the development of organization-wide, cross-national effectiveness.

What is global competence? Global competence refers to the acquisition of in-depth knowledge and understanding of international issues, an appreciation of and ability to learn and work with people from diverse linguistic and cultural backgrounds, proficiency in a foreign language, and skills to function productively in an interdependent world community.

This definition contains four basic elements:

- **International awareness.** This constitutes the knowledge and understanding of world history, socioeconomic and political systems, and other global events. This awareness includes the understanding that local and national events can have international implications. An individual who is aware of the broader world environment also recognizes that an individual's actions can affect others beyond one's own borders.
- **Appreciation of cultural diversity.** This entails the ability to know, understand, and appreciate people from other cultures along with the capacity to acknowledge other points of view about pressing world issues. Awareness and appreciation of cross-cultural differences, and the willingness to accept those differences, opens doors for opportunities to engage in productive and respectful cross-cultural relations.
- **Proficiency in foreign languages.** The ability to understand, read, write, and speak in more than one language enhances cross-cultural communication skills. The knowledge of additional languages opens doors to the understanding of other cultures and people who speak those languages.
- **Competitive skills.** The ability to compete globally entails the acquisition of extensive knowledge of international issues. To be able to compete, students need high-level thinking skills that enhance creativity and innovation. Students who gain a thorough understanding of the economic, social, and technological changes taking place across the globe enhance their ability to compete in the worldwide marketplace.

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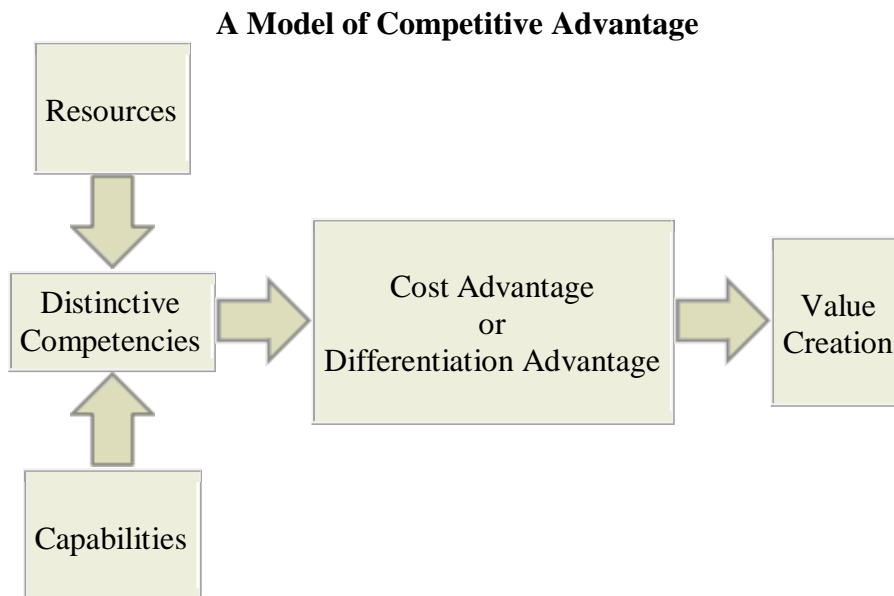
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A *resource-based view* emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:



Resources and Capabilities

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this

superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

The firm's resources and capabilities together form its **distinctive competencies**. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Cost Advantage and Differentiation Advantage

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy.

Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of [generic strategies](#) that the firm can pursue to create and sustain a competitive advantage.

Value Creation

The firm creates value by performing a series of activities that Porter identified as the [value chain](#). In addition to the firm's own value-creating activities, the firm operates in a *value system* of vertical activities including those of upstream suppliers and downstream channel members.

To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

A Model of Competitive Advantage

