NATURE OF IR

Essentially, IR is concerned with the relationship between management and workers and the role of regulatory mechanism in resolving any industrial dispute.

"More specially, IR is concerned with the systems, rules and procedures used by unions and employers to determine the reward for effort and other conditions of employment, to protect the interests of the employed and their employers, and to regulate the ways in which employers treat their employees."[2]

IR is concerned with the relationship between management and workers and the role of regulatory mechanism in resolving any industrial dispute.

Specifically, IR covers the following areas:

1. Collective bargaining.
2. Role of management, unions, and government.
3. Machinery for resolution of industrial disputes.
4. Individual grievance and disciplinary policy and practice.
5. Labour legislation.
6. Industrial relations training.

Another related term is 'employee relations' or 'human relations'. This term is more comprehensive and includes all those aspects of HRM where employees are dealt with collectively. Human relations includes, in addition to IR, such aspects as participative management, employee welfare, employee development, employee remuneration, employee safety and health, and the like. We have covered all these activities in the previous sections of this book. The present section deals purely with IR activities. We, therefore, prefer the term 'industrial relations' to 'employee or human relations'.

IMPORTANCE OF PEACEFUL IR

As was pointed out in the beginning of this chapter, IR is key for increased productivity in industrial establishments. For example, at the Alwar plant of Eicher Tractor, productivity went up from 32 per cent between 1994 and 1996 to 38 per cent in 1997. The production of engine cylinders shot up from 29,390 (in 1995–96) to 32,501 (in 1996–97). This increase was possible because of peaceful IR.

IR has moral dimensions, too. It is unethical on the part of any management to take advantage of the helplessness of workers and exploit them. Unemployment compels workers—particularly illiterate and unskilled—to accept jobs, inhuman working conditions and niggardly wages, notwithstanding.

IR assumes relevance in this context. One of its objectives is to protect workers' interests and to improve their economic conditions.

IR seeks to protect the rights of managers too. Managers expect workers to observe codes of discipline, not to join illegal strikes, not to indulge in damage to company's property, not to assault supervisors or peers, and not to come inebriated to the workplace. Where a worker's behaviour deviates from expected lines, it is the management's prerogative to take action.

There is a set procedure for handling any act of indiscipline or indiscretion on the part of an employee and if the management satisfies the procedure, it is justified in taking action or even removing the employee from service.

Little do all of us realise that it is the people who create problems everywhere and it is only they who can find solutions too. If there is a problem from employees, there is a solution also. Viewing every problem seriously and resorting to manipulative style of IR which emphasise the need to keep labour in check by floating stooge unions, buying up union leaders, and striking clandestine deals with powerful politicians do no good to managers or to the organisations they represent. The field of IR needs a new look, a look which is free from suspicion, prejudice and ill will towards workers.

? Pause and Ponder

Do you think that IR is still an issue to be discussed in a book on HRM?

APPROACHES TO IR

The scenario of IR is perceived differently by different people. For some, IR is related to class conflict, others perceive it in terms of mutual co-operation and still others understand it in terms of competing interests of various groups. HR managers are expected to understand these varying approaches because they provide the theoretical underpinnings for much of the role of HRM.[3]

The three popular approaches to IR are unitary approach, pluralistic approach, and Marxist approach (*see* Fig. 22.1).

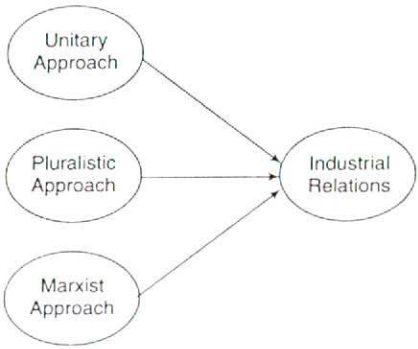


Fig. 22.1 Approaches to IR

Unitary Approach

Under unitary approach, IR is grounded in mutual co-operation, individual treatment, team-work and shared goals. Work place conflict is seen as a temporary aberration, resulting from poor management, from employees who do not mix well with the organisation's culture. Unions co-operate with the management and the management's right to manage is accepted because there is no 'we they' feeling. The underlying assumption is that everyone benefits when the focus is on common interest and promotion of harmony.[4] Conflict in the form of strikes is not only regarded as unnecessary but destructive (*see* Exhibit 22.1).

Exhibit 22.1 ***Goodbye to Strikes and Lockouts***

It is goodbye to strikes and an end to bitter negotiations at the Alwar factory of Eicher Tractors. The employees' union has given up its right to negotiate its wages, voluntarily. The management is now free to fix annual remuneration for workers. In return, workers can look forward to a fair treatment from the management.

Workers' productivity, as was stated above, has gone up considerably. Not just productivity, the work culture has undergone a metamorphosis. The workers are highly motivated and they who needed supervisors to meet targets do it without them. There is fair treatment, mutual trust, transparency and open communication.

The environment of the workplace is so pleasant that the union leaders have to work to earn their salaries, so uncommon in industries.

Source: Based on *The Economic Times*, 20th March, 1998.

Advocates of the unitary approach emphasise on a reactive IR strategy. They seek direct negotiations with employees. Participation of government, tribunals and unions are not sought or are seen as being necessary for achieving harmonious employee relations.

The unitary approach is being criticised as a tool for seducing employees away from unionism and socialism. It is also criticised as manipulative and exploitative.

Pluralistic Approach

The pluralistic approach totally departs from the unitary approach. The pluralistic approach perceives:

1. Organisations as coalitions of competing interests, where the management's role is to mediate amongst the different interest groups
2. Trade unions as legitimate representatives of employee interests
3. Stability in IR as the product of concessions and compromises between management and unions.[5]

Legitimacy of the management's authority is not automatically accepted. Conflict between the management and workers is understood as inevitable and, in fact, is viewed as conducive for innovation and growth. Employees join unions to protect their interests and influence decision-making by the management. Unions thus balance the power between the management and employees. In the pluralistic approach, therefore, a strong union is not only desirable but necessary. Similarly, society's interests are protected by state intervention through legislation and industrial tribunals which provide orderly process for regulation and resolution of conflict.

The theories on pluralism were evolved in the mid-sixties and early seventies when England witnessed a resurgence of industrial conflicts. However, the recent theories of pluralism emanated from British scholars, and in particular from Flanders and Fox. According to pluralists, industrial conflict is inevitable and it needs to be contained within the social mechanism of collective bargaining, conciliation and arbitration.

Marxist Approach

Marxists, like the pluralists, regard conflict between employers and employees as inevitable. However, pluralists believe that the conflict is inevitable in all organisations. Marxists see it as a product of the capitalist society.

Adversarial relations in the workplace are simply one aspect of class conflict. The Marxist approach thus focuses on the type of society in which an organisation functions. Conflict arises not just because of competing interests within the organisation, but because of the division within society between those who own or manage the means of production and those who have only their labour to offer. Industrial conflict is thus seen as being synonymous with political and social unrest.

Trade unions are seen both as labour reaction to exploitation by capital, as well as a weapon to bring about a revolutionary social change. Concerns with wage-related disputes are secondary. Trade unions focus on improving the position of workers within the capitalist system and not to overthrow. For the Marxists, all strikes are political.

For marxists, industrial conflict has wider meaning. For them conflict arises not because of rift between management and workers, but because of the division in the society between those who own resources and those who have only labour to offer. Industrial conflict is equated with political and social unrest.

Besides, Marxists regard state intervention via legislation and the creation of industrial tribunals as supporting management's interest rather than ensuring a balance between the competing groups. This view is in contrast to the belief of the pluralists who argue that state intervention is necessary to protect the overall interest of society. To Marxists, the pluralist approach is supportive of capitalism, the unitary approach is anathema. Consequently, enterprise bargaining, employee participation, co-operative work culture, and the like which help usher in cordial IR are not acceptable to Marxists.[6] Such initiatives are regarded as nothing more than sophisticated management techniques designed to reinforce management control and the continuation of the capitalist system.

PARTIES TO IR

The major parties to IR are the employees, employee representatives, employers, associations of employers, government, and courts and tribunals (*see* Fig. 22.2).

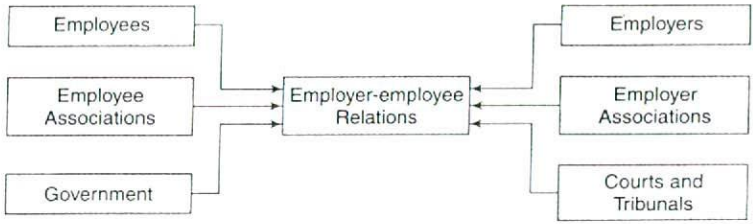


Fig. 22.2 Parties to IR

Employees

There are about 28.1 million employees working in the organised sector and 365.1 million in the unorganised sector in our country. It is, therefore, useful to make certain observations about Indian workers. (See Tables 22.1 and 22.2 for more details.)

Table 22.1 **Number of Employees**

Year	*Employees in the organised sector (million)*	*Employees in the unorganised sector (million)*	*Total (million)*
1983	24.0	278.7	302.7
1988	25.7	296.3	322.0
1991	26.7	315.2	341.9
1994	27.4	344.7	372.1
2000	28.1	365.1	393.2

(***Source:*** National Sample Survey Organisation and Directorate General of Employment and Training, Ministry of Labour, Government of India.)

Table 22.2 **Sector-wise Share of Employment**

	1983 (%)	*2000 (%)*
Primary	69.0	60.4
Secondary	13.8	16.8
Tertiary	17.2	22.8

(*Source:* Government of India, 2001)

1. Commitment to Industry Labour is committed to industrial setting, thus contributing to stable workforce. True, the worker might have his or her moorings in villages. But it is unlikely that he or she would go back to his or her village. He or she is settled in the industrial city, his or her children are put in schools in the city, and except himself or herself, no one else in his or her family has any nostalgic feelings to the village. Besides the present generation of young workers is mostly born and brought up in urban areas and has accepted industrial employment as a way of life.

2. Protective Legislation From time to time, the government has enacted a variety of labour acts. Perhaps, ours is the only country in the world which has so many acts to protect workers' interests. Thanks to the enormous protective legislation, wages, benefits, and working conditions, safety and health of workers have improved considerably.

3. Status of the Worker The economic and social status of today's workers has vastly improved. Industrial employment is no longer the undesirable alternative left for those driven out from villages. Improved skill contents of the jobs and increased emoluments have made industrial employment the first attraction among young job aspirants. Industrial employment is not restricted now to the socially low castes. The dynamic changes in the industrial sphere have, as the National Commission on Labour has observed, brought about a 'social amalgam'. The status of the industrial worker of today is enhanced as a result of the re-adjustment in the value system in favour of industrial employment, which is, in turn, the aggregate effect of his or her improved skills and his or her enlarged pay packet. The stigma once attached to factory life has disappeared.

4. Employment Pattern Another feature noticed in the industrial labour is the change that has come about in the employment pattern owing to changes in industrial activity, which has tremendously expanded and diversified, and has undergone a technical transformation. In the early days, unskilled work predominated in industrial employment, so long as traditional industries like textiles and mining were in the forefront. In the process of expansion and diversification, new avenues of industrial enterprises in engineering, chemicals, pharmaceuticals, and so forth assumed importance and changed the composition of industrial employment.

The improved technology of these new industries created new jobs with greater skill content, raising the minimum standard of education required. Industrial employment, inspite of being blue-collared in nature, is no more looked down upon as an inferior mode of earning a living. The employment pattern has further changed in the service industries and electronics wherein the employment has become more and more white-collared and sophisticated.

Now the employees perceive industrial relations in terms of the opportunity to:[7]

1. Improve their conditions of employment,
2. Voice any grievances,
3. Exchange views and ideas with management, and
4. Share in decision making.

The tendency of managers is to blame the workers whenever a dispute occurs. While it is true that workers are a party to a conflict, but to hold them responsible for stoking the fire may not be correct. The role of managers in igniting a conflict to serve their selfish interests cannot be overlooked as Exhibit 22.1 shows.

Exhibit 22.1

Managers complained against agitating workers to their patrons, and asked them to counsel the erring men. Loyal workers were brought from a sister concern thirty miles away under the pretext of visiting the plant and were inducted into the work-force. They counselled their friends and kinsmen among agitating workers to return to work and recruited additional hands from the surrounding villages to break the strike. The confidential documents of the company point to scores of workers having been recruited in this fashion, and to management's optimism about the beneficial impact of this strategy.

* * *

To deal with the situation, the company hired the services of a consultant reputed for his skill in bribing trade unionists and breaking strikes.[8]

Trade Unions

Unions have a crucial role to play in IR. Unions have broad objectives which are:[9]

1. To redress the bargaining advantage of the individual worker *vis-à-vis* the individual employer, by substituting joint or collective action for individual action,
2. To secure improved terms and conditions of employment for their members and the maximum degree of security to enjoy these terms and conditions,
3. To obtain improved status for the worker in his or her work, and
4. To increase the extent to which unions can exercise democratic control over decisions that affect their interests by power sharing at the national, corporate and plant levels.

The union power is exerted primarily at two levels—at the industry level, to establish joint regulation on basic wages and hours with an employer's association or its equivalent; and at the plant level, where the shop stewards' organisations exercise joint control over some aspects of the organisation of the work and localised terms and conditions of employment.[10] Unions are a party to national, local and plant level agreements which govern their actions to a greater or lesser extent, depending on their power, and on local circumstances (read the next chapter for more details on unions).

Employers

Employers too, are directly involved in any dispute between them and the employees. Employers are endowed with certain inalienable rights *vis-à-vis* labour. The management has the right to hire and fire any worker, notwithstanding union restrictions. It is not just firing a worker here or there, but the management's ability to control the economic destiny of the workers that matters.[11] The management has the right to relocate, close, merge, takeover or sell a particular plant—these actions affect workers' interests. The management has another powerful weapon—introducing or threatening to use technological change. Technological change can displace labour or annihilate skills.

Armed with these rights, the management resorts to several tactics to break a strike, some of them even unethical. The management is known to adopt dubious means to forego a strike, call off a strike, or tone down union demands. The management often breaks a powerful union, sets one faction against another, and favours the more satisfied and the less militant workers. Loyal workers from sister concerns are brought in, on the pretext of a factory visit, and are induced into the plant and advised to break the strike.

Managements have deep pockets and enormous clout. They employ several tactics to break a strike. For example, managements may

- set one faction against another
- gain loyalty of the employees

Another tactic employed by the management is to gain the loyalty of employees. The aim of this tactic is to convince the worker that the management has his or her interests at heart and can provide him or her with much the same benefits as the union. In part, this tactic is a revival of the 'Welfare Capitalism' of the 1920s. High wages, pension plans, profit-sharing plans, programmes of stock ownership by workers—all these schemes have been revived, though often in modernised form,[12] and with considerable effect if the resistance of the new industries to unionisation can be taken as an evidence.

Employee loyalty is sought to be gained through another method, a positive one. The management seeks to find out the sources of dissatisfaction and eliminates those irritants. Workers are encouraged to form informal small groups, psycho-therapy is conducted on a plant-wide scale, and interactions between the management and the employees and among the employees are structured and practised.

A militant but incorruptible union is co-opted in routine functions of the organisation. For instance, the union may be used as a channel of information to the employees. It may be used for meeting certain production problems. In some plants, the management has even brought union leaders into the process of decision making.

In general, managers tend to see employee relations in terms of the following activities:[13]

1. Creating and maintaining employee motivation.
2. Obtaining commitment from the workforce.
3. Establishing mutually beneficial channels of communication throughout the organisation.
4. Achieving high levels of efficiency.
5. Negotiating terms and conditions of employment with employee representatives.
6. Sharing decision making with employees.
7. Engaging in a power structure with trade unions.

Employers' Associations

Employers' associations operate at local, industry and all India levels. The Confederation of Indian Industries (CII) is a powerful body at the national level which is doing an admirable job in protecting and promoting the legitimate interests of owners of industries.

The major objectives of employers' associations include:[14]

1. Representing employers in collective bargaining.
2. Developing machinery for the avoidance of disputes.
3. Providing information on employee relations and to give advice.
4. Representing members on national issues.

The specific objectives of CII are:

1. Identifying and strengthening industry role in the economic development of the country.
2. Acting as a catalyst in bringing about growth and development of the Indian industry.
3. Reinforcing industry's commitment to society.
4. Working towards globalisation of Indian industry and its integration into world economy.
5. Providing up-to-date information and data to industry and government.

6. Creating awareness and support industry efforts on quality, environment and consumer protection.
7. Identifying and addressing special needs of the small-scale sector.
8. Promoting co-operation with counterpart organisations.

The other major all India employer's associations are ASSOCHAM, FICCI, AIMO, WASME, FASSI, NASSCOM, and FIEO.

Role of Government

In a sense, government intervention in IR is as old as the industry itself. However, till the 19th century, governments everywhere followed the *laissez faire* policy—they left IR to the managers and workers who were required to solve the problems themselves. Towards the end of the 19th century, the attitude of the governments changed, and intervention became a reality. The state, as of today, regulates the relationship between the management and the labour and seeks to protect the interests of both the groups. The government has set up wage boards, labour courts, tribunals and enacted laws to lay down norms and to enforce their compliance.

Judiciary and Employee Relations

The powers of the judiciary are of a dual type:

1. The authority of the courts to settle legal disputes;
2. Judicial review—the authority of the courts to rule on the constitutionality of a legislation.

As far as the second is concerned, the judiciary gets activated with the legislator passing laws repugnant to the Constitution and when the government implements the enactment approved by the legislature in a manner opposed to the provisions of the legislation. In other words, the courts of justice protect the citizens from unlawful acts passed by the legislature and arbitrary acts done by the executive.

It is the power of the judiciary to settle legal disputes, referred to them, that affect IR considerably. The judicial pronouncements will have a far reaching impact because (i) judicial errors do occur, though infrequent, (ii) possibility of wrong assessment of penalty, "Judges notoriously vary in the severity of punishment inflicted"[15], (iii) judges are known for pronouncing conflicting verdicts on the same or similar disputes, and (iv) confusion in terms.

Judicial intervention in resolving industrial disputes is significant because—

(i) Judicial errors do occur
(ii) Possibility of wrong assessment of penalty.
(iii) Conflicting judgements are pronounced
(iv) Lot of confusion in terms.

The role of the judiciary in IR has not been always positive.

The result is that indiscipline in the industry has spread like wildfire and sapped the national GDP and productivity. The classic case is the textile industry which has been wrecked by indiscipline.[16] The conflagration is continuing to engulf various industries one by one.

IR STRATEGY

It is necessary to have a clear-cut strategy for IR, although the management of IR is essentially a knee-jerk reaction to events and problems and is, therefore, far removed from the world of strategic thinking and planning. Since employer-employee relations are usually presumed to be satisfactory until they get out of hand, managers, rarely, feel the need to act before the trouble breaks out.[17]

But the reactive strategy cannot continue for long. Growing competition, difficult economic environment, rising labour costs, and low productivity compel business leaders to think and plan proactive strategies towards IR.

Where organisations have proactive strategies, the goal should be to ensure that corporate objectives can be achieved by gaining the maximum amount of co-operation from employees and by minimising the amount of industrial unrest.[18]

? Pause and Ponder

How do you align IR strategy with corporate strategy? Is it necessary?

Factors Affecting Employee Relations Strategy

Two sets of factors, internal as well as external, influence an IR strategy. The internal factors are:[19]

1. The attitudes of management to employees and unions.
2. The attitudes of employees to management.
3. The attitudes of employees to unions.
4. The inevitability of the differences of opinion between management and unions.
5. The extent to which the management can or wants to exercise absolute authority to enforce decisions affecting the interests of employees.
6. The present and likely future strength of the unions.
7. The extent to which there is one dominating union or the existence of multiple unions leading to inter-union rivalry.
8. The extent to which effective and agreed procedures for discussing and resolving grievances or handling disputes exist within the company.
9. The effectiveness of managers and supervisors in dealing with problems and disputes related to IR.
10. The prosperity of the company, the degree to which it is expanding, stagnating or running down and the extent to which technological changes are likely to affect employment conditions and opportunities.

The external factors affecting IR strategy are:[20]

1. The militancy of the unions—nationally or locally.
2. The effectiveness of the union and its officials and the extent to which the officials can and do control the activities of supervisors within the company.
3. The authority and effectiveness of the employers' association.
4. The extent to which bargaining is carried out at national, local or plant level.
5. The effectiveness of any national or local procedure agreements that may exist.
6. The employment and pay situation—nationally and locally.
7. The legal framework within which IR exists.

IR Decisions

A proactive IR strategy programme must cover the following decisions:

1. *Communication* How best can we convey our philosophy to employees?
2. *Relationships* How well can we improve our relationships with employees and unions?
3. *Competence* How to improve competence of managers and supervisors in dealing with IR matters?
4. *Discipline and conflict* How shall we deal with it?

Communication The core of an IR programme is the personnel manual. The manual sets out the rules and policies within which managers and employees must operate. The manual tells how the management awards recognition to the union and offers facilities, how it recognises the officer's association, how to handle a grievance, code of discipline in the industry and the like.

The manual needs frequent updating, must be publicised to all employees, and all supervisors must be familiar with it. HAL, Bangalore, has a well-drafted personnel manual running into 94 pages of printed matter. The manual covers, in addition to aspects of employee relations, other topics like welfare, medical facilities, and gratuity rules. All employees and supervisors are fairly familiar with the contents of the manual.

Relations Relationships with employees may be improved through joint consultations. Relationships with unions or staff associations may be developed through collective bargaining and other IR procedures or by improving the operation of existing procedures.

Competence Managers and supervisors need to develop competence in handling IR. Such competence may be developed by training managers and supervisors in IR. Suffice it is to say that a training programme must be conducted after assessing the training needs of the managers and supervisors. Each training programme must have specific objectives and the contents must help the trainees realise the goals.

Negotiating skills must form a part of the training offered to managers. Negotiating skills are best acquired by experience, but it is dangerous to allow inexperienced managers to meddle with negotiations.

Training in negotiating skills is most effective if it is through case analysis. A case study based on an actual problem of the company may be assigned to the managers who will be required to analyse the case and offer remedies.

Training should not be confined to managers and supervisors alone. Union leaders and employees also must be associated with the programme, as they are as much a party to a conflict as managers or supervisors.

Discipline and Conflict If both employees as well as employers adhere to well laid out norms, disputes will not occur. Where a conflict occurs, the management must resolve it. There are set procedures to resolve disputes.

ROLE OF HRM

What is the role of the HR manager in IR? The answer is obvious. If an organisation has a motivated, competent and trouble-free workforce, the credit partly must go to the HR department. The blame goes to the same department if the opposite occurs. Through better recruitment and hiring, induction, training and development, safety and health, remuneration, welfare, communication channels and other practices, the HR department can contribute to the quality of work life (QWL) of the employees. QWL refers to fair remuneration, safe and healthy environment, opportunities for growth, and the like. Better QWL leads to motivation and satisfaction. Motivated and satisfied employees have no reason to indulge in strikes or *gheraos*.

Motivated and satisfied employees have no reason to indulge in strikes or *gheraos*. It is the role of HR manager to keep employees motivated and satisfied.

SUMMARY

Industrial relations (IR) is concerned with the relationship between the management and workers and the role of regulatory mechanism in resolving any dispute. IR is significant as it has an impact on productivity and has ethical dimensions.

Employers, employees, their respective associations, government and judiciary are the parties which have stakes in IR.

Employees perceive IR as a method to improve their conditions of employment, to voice any grievances, to exchange views and ideas with management, and to share in decision making.

Trade unions look to IR in order to secure improved terms and conditions of employment and to obtain improved status for the workers in their work.

Employers have economic power in their hands and use it to affect worker's destiny. They understand IR as a means to motivate workers and to sustain their commitment to work.

The role of employers' associations is relevant inasmuch as they represent employers in collective bargaining and develop machinery for avoidance or settlement of disputes.

The government seeks to protect the interests of both employers as well as employees. Towards this end, it has constituted wage boards, labour courts, tribunals, and enacted a series of labour acts.

The judiciary is relevant as it has the authority to settle any dispute and to review any legislation, particularly when it is against the Constitutional provisions.

Managers have been adopting reactive strategies towards IR. In the changed scenario, there is a need for proactive strategy. A proactive strategy involves decision on communication of company philosophy, developing relationships with employees and unions; developing competence of managers and supervisors; and ways of dealing with a conflict as and when it occurs.

KEY TERMS

Employee relations
Employer associations
Human relations
Industrial relations
IR strategy
Judicial review
Personnel manual

REVIEW QUESTIONS

1. Define the term 'Industrial Relations'. Bring out its importance.
2. Bring out the parties and their roles in IR.
3. Describe an IR strategy.
4. Explain the different approaches to IR.

DISCUSSION QUESTIONS

1. "The role of judiciary in IR has been regressive." Give your viewpoint.
2. "The management has economic power which it uses to affect the life of a worker." Discuss.

Closing Case

A Worried CEO

Sudarshan, the Managing Director of M. Feeds, a Bangalore-based company, is a worried man. All his efforts to regain the lost market and to wipe out red in the company's balance sheet have proved futile. Sitting alone in his chamber, lighting up cigarette after cigarette and sipping cups of coffee, Sudarshan started recollecting events of 1987 which wrecked the fortunes of a once successful company.

Subbu and his team got defeated in the union election held in the beginning of 1987. Rivals, Gowda and his team, got elected with comfortable majority. The winning team had a leaning towards CITU, which was known for its militancy. The attitudes and actions of Gowda and his team were not to the liking of the management, particularly Setty, the Factory Manager.

The management was waiting for a way out to deal with the new team of unionists. Not reconciled to the loss of power, Subbu and his cronies started a cultural association with an apparent objective of promoting *Kannada*, the local language. Setty welcomed the formation of the association and, in fact, even encouraged its activities. The management too gave financial support to the cultural outfit.

Emboldened by the encouragement given, Subbu and his team demanded that the management should negotiate with them about all matters relating to employee welfare. This proposal was not acceptable to the management which turned it down. But Setty began hobnobbing with Subbu often to the consternation of the leaders of the recognised union.

One day Gowda and Subbu had a heated exchange of words which resulted in physical bout inside the plant. Sridhar, HRD Manager, placed the duo under suspension on grounds of indiscipline.

Enquiry was conducted in which Subbu was acquitted. But Gowda refused to appear before the enquiry officer. Having been acquitted, Subbu demanded reinstatement, which the management readily agreed. Subbu, with triumph writ large on his face, came to factory but the team led by Gowda protested by calling a strike.

The management assured Gowda that he too would be reinstated provided he was acquitted by the enquiry officer. Gowda was in no mood to listen to the management nor was he prepared to face the enquiry. Subbu demanded reinstatement which Gowda protested. The stalemate continued and the strike lasted three months.

Work resumed after prolonged talks. But the scars remained. Setty got a sack and Sridhar left and joined an Indo-French company. M. Feeds lost its customers and the efforts (setting up, for the first time, a marketing department) to regain their patronage did not succeed. The bottom line became red and it grew thicker as years went by.

Questions

1. What should Sudarshan do?

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CHAPTER 23

Trade Unions

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- The nature of trade unions and describe the reasons for employees' joining unions
- The evolution of the trade union movement in India
- The recent trends in the trade union movement in India
- The strategies which help plants remain union-free
- The main provisions of union legislation

Opening Case

CORPORATE SPURS

Trouble at the truck manufacturer's Pune plant had started brewing even before Ratan Tata entered the scene. It gradually developed into one of the bloodiest strikes in recent history. On April 7, 1988, the day Tata was appointed Telco's deputy chairman, everything appeared normal. By December 1988, when he formally took over the chairmanship from the fragile 82-year-old Sumant Moolgaokar (1906–1989), the tension was palpable.

Nonetheless, few expected the situation to snowball as it did. Most people had their eyes on Russi Mody, wondering how he would react to Ratan's stepping up the ladder leading to JRD's throne. Nobody anticipated that an assault on Ratan's position would come not from an autocratic Tata executive but an unknown trade union leader.

His name was Krishnan Pushparajan Nair, better known as Rajan Nair. The son of a trade union leader and the eldest in a family of eight, Nair worked in Philips before joining Telco as a machine miller in November 1976. Six years later he became the general secretary of the Telco Kamgar Sangathana (TKS). Though a Keralite, Nair was fluent in Marathi and was described as a 'first rate demagogue with a penchant for drama'. In March 1988, he was suspended for allegedly threatening to murder a security guard and a few months later he was sacked.

The day Nair was sacked, he left Telco vowing "to bring the Telco management down to its knees". He tried his best to keep to his word. The unresolved wage agreement became his rallying point with the

management. Nair insisted on Tata's recognition of his status as the workers' leader as a starting point for any negotiation. The management's view was that a dismissed worker with a criminal record could not be accepted as the leader, and while it was willing to talk with other members of the TKS on Telco rolls, Nair had no locus standi. At the time, there were 8,525 blue-collar workers at the Pune plant and two major unions. From November 1988, antagonism between workers and management worsened. Rumours of a lock-out fuelled the tension. Tata was not new to tackling labour problems, having warded off a sticky situation in his Nelco days. But this was hardly the sort of welcome he needed in Telco. As a strong believer in the principles of transparency and fairness, he was willing to negotiate, but Nair's ego had the better of him and he thought he could put it across to the new, amiable looking chairman of the company. He was mistaken. Behind the soft exterior of Tata was a determination toughened by many years of hard experience in the corporate world.

Matters reached a flashpoint on January 31, 1989. Tata's visit to the Pune plant was greeted on the shop floor with a strike. On the same day, the local authorities took Nair into preventive custody. On hearing this, the second shift workers hijacked buses which were supposed to take them to the plant at Pimpri (just outside Pune), and diverted them to the city where they besieged the district court. Nair was released. Tata says that he was unaware of what was happening in the city as he was huddled in a meeting at the plant with Powar, one of Nair's closest aides, and others. "Nair chose to make out that he was arrested because I said so, but I didn't get him arrested. It happened totally independently. If there was an issue of getting him arrested, I wouldn't be meeting his people. But that was the last time I met with them because when they went out they misrepresented the meeting."

All through the summer and monsoon, the situation inched inexorably towards a strike despite mediation attempts by then Maharashtra's Chief Minister Sharad Pawar and others. Nair was not interested in parleying for peace. On March 15, Nair's men selected about 22 managerial personnel and rival unionists and assaulted and stabbed them. Asked about this, Nair said "the provocation was from the management because the previous day one of the TKS members was slapped on the shop floor".

This was as much as Tata could take. From then on his resolve hardened and he refused to give in to any intimidatory tactics of Nair and his men. Meanwhile, Ratan launched measures to build bridges between the management and the workforce. Telco had been contributing silently to the development of the Pimpri-Chinchwad belt. Now, at the time of its worst industrial crisis, it needed the support of the local community to correct its image of an exploitative corporation which Rajan Nair's campaign had sought to project. Telco shed its conservative image for the first time and utilised the media to create a public opinion; the managers initiated a one-to-one contact with the workforce to convince them of the management's intentions and slowly the tide began to turn.

On September 19, in a shrewd move to woo away support from Nair, the management signed a three year retrospective agreement with TKS's rival, the Telco Employees Union (TEU), offering a wage hike of Rs 585 and a lumpsum arrears of Rs 7,000. There was a stick attached to the tempting carrot. Tata wrote to every Telco employee in the Pimpri and Chinchwad units warning that "the company would have to reconsider its plans for further investments in Pune if the trend of labour unrest continued". The management claimed that 1,570 workers had accepted the offer and more were expected to follow. Seriously worried, Nair mulled over his options.

Two days later, Nair announced that he and his supporters would go on an indefinite fast at the Shaniwarwada fort. With red bandanas tied round their foreheads, about 3,000 workers trooped into the fort to begin their fast. Significantly, the initials RNP (for Rajan Nair Panel) and not TKS were printed on the bandannas. Clearly this was not just a management-union issue, but one involving a personal agenda. A one-day bandh was organised in the Pimpir-Chinchwad area as a display of strength and to convey the impression of Nair's growing influence in the region. From Bombay, Datta Samant rushed to Pune to express his support.

By the third day, workers were fainting from hunger. At the end of a week, there was a real fear that a fatality could trigger off uncontrollable violence. Pawar stepped up the pressure on both sides to break the deadlock and meet. They agreed.

On the morning of Wednesday, September 27, Tata flew into Bombay from USA. Nair had arrived from Pune the previous evening. A tripartite meeting between Tata, Nair and Pawar was arranged for the afternoon at Varsha, the chief minister's official residence. Before that, Samant led a morcha to Bombay House while Nair held rallies and press conferences. These vitiated the already charged atmosphere. In an obvious bid to slight Tata, Nair and his team deliberately arrived very late. Scheduled for 4 pm, the meeting finally began at 5.30 pm. It proved to be inconclusive. Nair was unwilling to concede ground.

Meanwhile, Pawar was becoming increasingly worried about the strike's political repercussions. The Pimpri-Chinchwad area was a crucial vote bank, home of over 2,000 industrial units with an annual turnover of Rs 35 billion and nearly a quarter million workers. Opportunistic politicians of every hue had jumped onto Nair's bandwagon. The Janata Dal leader, Sambhajirao Kakade, was backing Nair. George Fernandes and Madhu Dandavate, socialist leaders, were in constant touch with the strikers. And in the shadow of the Lok Sabha elections scheduled for November 24, Pawar was getting flak from Delhi politicians and Pune industrialists for the state government's kid-glove treatment of Nair. Moreover, Telco was the largest company in the region and any prolonged dispute would have a tremendous economic fall-out. He had to do something.

Under cover of darkness, at 2.30 am on September 29, the State Reserve and Pune city police launched Operation Crackdown. Eighty buses stopped outside the Shaniwarwada fort's quadrangle. Pouring out of the buses, the police cordoned off the fort, stormed inside and rounded up the workers.

The evacuation went on in batches until 4 pm. While the workers were taken to police stations in Pune, a separate vehicle took Nair and his lieutenants to the nearby Ratnagiri jail where they were charged with attempting to commit suicide and defying prohibitory orders. Nair was released on bail the next day but it was clear to everybody that the strike had been effectively smashed[1].

Cases of the type described above have become almost extinct. But recollection of the trade union scenario prevailing then throws light on what attitudes unionists in general had and how managements reacted to them.

Employee associations constitute one of the stakeholders in IR. These associations are popularly known as trade unions. Trade unions are not confined to mere striking and negotiating on behalf of workers. Their role is much wider.

Unions, for example, may make their presence felt in recruitment and selection. They may also decide who is to be hired and under what conditions. Unions can also play an important role in deciding who is to be promoted, given a new job assignment, sent for training, terminated or laid off. Many programmes which contribute to QWL and productivity are undertaken by the management in consultation with and with the co-operation of the unions. Unions decide wage and salary structure and negotiate revisions once in three or five years. Major unions have political affiliations, too. And the role of unions in IR is too well-known. It is, therefore, essential that we discuss the nature of unions, why employees join unions, present status of unions, their trends and other related aspects.

NATURE OF TRADE UNIONS

Trade unions are voluntary organisations of workers or employers formed to promote and protect their interests through collective action. The Trade Unions Act, 1926 defines a trade union as a combination, whether temporary or permanent, formed **(i)** primarily for the purpose of regulating the relation between **(a)** workmen and employers or **(b)** between workmen and workmen, or **(c)** between employers and employers, or **(ii)** for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more trade unions.

Trade unions are voluntary organisations of employees or employers formed to promote and protect their interests through collective action. Though the terms employees and employers are used, when we say trade unions they generally refer to employees.

An analysis of the above definition reveals that a trade union must be:

1. A combination of workers or employers,
2. Such a combination could be permanent or temporary,
3. Could include federation of two or more unions, and
4. To regulate relations among workmen, between workmen and employers or among employers themselves.

STRATEGIC CHOICES BEFORE MANAGERS

Managers have to make several strategic choices regarding the role of unions in the organisation. The most important choices are as follows:

1. Managers must decide whether the organisation should remain union-free or allow unionisation.
2. If managers decide that the company should remain union-free, they must take steps to keep unions away from the organisation.
3. If unionisation should be allowed, managers must decide what type of union-management relationship they want. Once determined, they must take appropriate steps to make this type of relationship a reality.
4. The management must also choose the type of tactic to use while negotiating a new wage settlement.

WHY DO EMPLOYEES JOIN UNIONS?

Earlier, workers used to join unions to protect themselves against exploitation by the management, or by force. Hire and fire policies, inhuman working conditions, niggardly wage payments and long hours of work were common in the past, and workers joined unions to seek protection against such practices. Not that these practices are extinct now. They are still practised in the unorganised sector. Workers in the unorganised sector continue to suffer and do not join unions because none exists. The discussion here applies to the employees in the organised sector. The organised sector is, incidentally, highly unionised and consequently, exploitation of the kind witnessed in the past does not, by and large, exist these days.

Several union leaders in the past were goons who were forcing unwilling workers to join unions. Refusal to join led to use of muscle power. With a general increase in literacy, awareness and economic status on the part of the workers, violence is becoming irrelevant. Consequently employees joining unions under coercion are not witnessed nowadays.

Three reasons account for unionisation in any plant. They are—dissatisfaction, lack of power, and union instrumentality.

Plants get unionised for three reasons—dissatisfaction, lack of power and union instrumentality. Dissatisfied employees seek union membership to improve work situation. Employees believe unionisation fetch them power. Power, in turn, is believed to remove dissatisfaction. Employees take unions as instruments to remove dissatisfaction.

Dissatisfaction

When an individual takes a job, certain conditions of employment (security, wages, hours of work, and type of work) are specified in the *employment contract. A psychological contract* also exists between employer and employee, consisting of the unspecified expectations of the employee about reasonable working conditions, requirements of the work itself, the level of effort that should be expended on the job, and the nature of authority the employer should have in directing the employee's work. These expectations are related to

the employee's desire to satisfy certain personal preferences in the workplace. The degree to which the organisation fulfils these preferences determines the employee's level of satisfaction. Dissatisfaction with either the employment contract or the psychological contract will prompt employees to attempt to improve the work situation, often through unionisation.[2]

Thus, if the management wants to make unionisation less attractive to employees, it must consider making work conditions more satisfying. The management and the HR department often contribute to the level of work dissatisfaction by doing the following:[3]

1. Giving unrealistic job previews that create expectations which cannot be fulfilled.
2. Designing jobs that fail to use the skills, knowledge, and abilities of employees, and also fail to satisfy their personalities, interests and preferences.
3. Practising poor day-to-day management and supervisory practices, including unfair treatment and one-way downward communication.
4. Failing to tell employees that the management would prefer to co-operate without unions and that the organisation is committed to treating employees with respect.

Lack of Power

Unionisation may not be the first recourse a dissatisfied employee will take. *First*, the employee seeks to remove the dissatisfaction by his or her own effort. How far the employee shall succeed in removing dissatisfaction depends on the essentiality and exclusivity of the job. *Essentiality* refers to the importance of the job holder and *exclusivity* implies the ease with which the employee can be replaced. Power of the employee to remove dissatisfaction is high when his or her position in the organisation is extremely important and it is difficult to replace him or her. His or her power is less when the employee's services are not indispensable and it is easy to find a substitute too. In the latter case, the employee seeks other means, including unionisation, to influence the management.

In considering whether collective action is appropriate, employees are also likely to consider whether a union could obtain the aspects of the work environment not provided by the employer and to weigh those benefits against the costs of unionisation. In other words, the employees would determine union instrumentality.[4]

Union Instrumentality

Employees perceive unions as being instrumental in removing their dissatisfaction. The more the employees believe that a union can obtain positive work aspects, the more instrumental the union is for the employees. The employees then weigh the value of the benefits to be obtained, through unionisation, against its costs such as the lengthy organising campaign and the bad feelings among supervisors, managers, and other employees who may not relish unionisation. Finally, the employees weigh the costs and benefits against the likelihood of a union being able to obtain the benefits—the perceived union instrumentality. When the benefits exceed the costs and union instrumentality is high, employees will be more willing to unionise.[5]

Figure 23.1 summarises the reasons for deciding to join a union. In general, the expectation that work will satisfy personal preferences induces satisfaction or dissatisfaction with work. As the level of dissatisfaction increases, individual workers seek to change their work situation. If they fail, and if the positive consequences of unionisation seem to outweigh the negative ones, individual workers will be inclined to join the union.

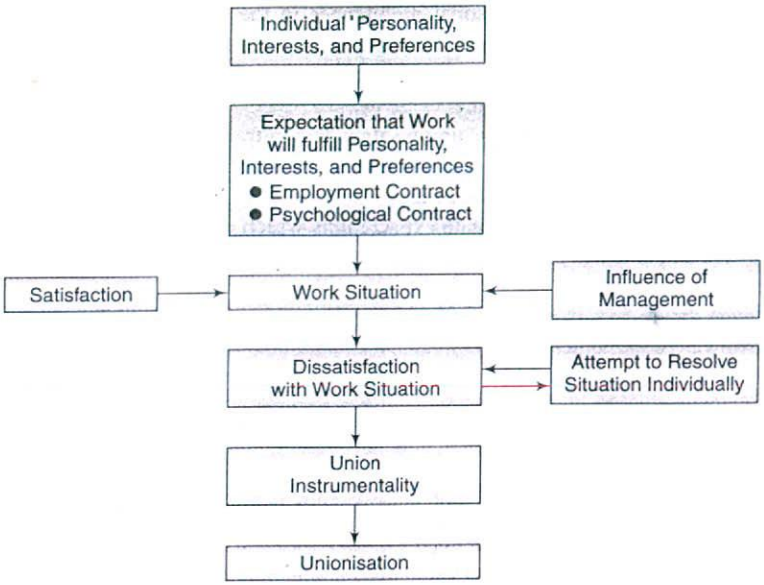


Fig. 23.1 Factors Leading to Unionisation

Source: Randall S. Schuler, *et al.*, *Effective Personnel Management*, p. 562.

STRATEGIC CHOICES BEFORE UNIONS

Just as employers are expected to make strategic choices, unions too should choose among alternative strategies. The major alternatives available before the unions are—bread and butter versus political objectives; adversarial versus cooperative role; and traditional labour services versus new services.

Bread and Butter versus Political Objectives

Unions differ in their objectives, but few classes of goals are prominent. First is the bread and butter issue—an economic issue, that includes wage rate, life and health insurance, and job security. Political objectives include support to political parties and active participation in political activities.

Unions engaged themselves actively in political activities during the freedom movement. The trend continued even after Independence. Major central trade unions were affiliated to political parties (*see* Table 23.1).

There has been a perceptible change in attitudes towards political involvement since the early 60s. Depoliticisation is the trend now.

Bread and butter issues are dominant as objectives of unions, but not fighting for wage revision, bonus payment or job security. The demands of unions now include empowerment, participation, productivity, competitive advantage and the like.

Table 23.1 **Membership and Other Details of Central Trade Unions as of Today**

Trade Union	*No. of Affiliates*	*Membership (lakh)*	*Political Affiliation*	*Year of Establishment*
Indian National Trade Union Congress (INTUC)	4,428	26.9	Congress	1947
All India Trade Union Congress (AITUC)	2,996	9.4	CPI	1920
United Trade Union Congress (UTUC)	413	7.85	RSP	–
Hind Mazdoor Sabha (HMS)	1,248	14.8	–	1948
United Trade Union Centre (UTUC)	231	8.4	SUCI	1948
Centre of Indian Trade Unions (CITU)	3,011	23.86	CPI (M)	1970
Trade Unions Co-ordination Centre	198	5.13	–	–
Bharatiya Mazdoor Sangh (BMS)	2,871	31.1	BJP	1955
National Front of Indian Trade Unions (NFITU)	132	7.61	–	–
National Labour Organisation (NLO)	356	6.61	–	–
Indian Federation of Free Trade Unions (IFFTU)	26	5.15	–	–
Indian Confederation of Labour (ICL)	23	8.46	–	–
Hind Mazdoor Kisan Panchayat (HMKP)	81	15.61	–	–

Adversarial versus Co-operative Role

In the past, the role of unions was adversarial in nature. Unions perceived their role as challenging management rather than co-operating with the management. The adversarial role is gradually being replaced by co-operative role. Recollect the incident when CITU called for a strike to protest against the entry of MNCs, and Eicher's Parwanu workers not only defied the whip but requested all employees to get ready to face the impending competition. What happened at Eicher's plant is not an isolated incident, it reflects, on the other hand, the prevailing trend at the industrial front.

Traditional Issues versus New Services

As will be seen later, unions are gradually losing their ground. In order to regain their base, they should give up old issues and focus on new services. Relevance of unions in future depends on their ability to cope with structural, economic and social changes; and their ability to accommodate changes in social attitudes without compromising their collective character.

UNION TACTICS

The tactics used by the management to handle unions were discussed in the previous chapter. Just as the management uses certain tactics against unions, employee organisations, too, employ tactics to deal with the management.

One of the major instruments of force that unions employ is the *organising drive,* which is nothing but forming a union where none exists. It is true that the organising drive is more often thought of as an aim of union organisation rather than as a union tactic. But it may also be thought of as a tactic because (i) the mere threat of its use may bring the management to terms, (ii) a successful drive may likewise bring the management to terms, and (iii) an organising drive may be part of a larger campaign against an entire industry.[6]

The organiser tries to capitalise on employee dissatisfaction and promises workers that their dissatisfaction would be removed if they join a union. The appeal to their economic interests, and to deep-lying resentments may arouse or crystallise anti-management sentiments which last long after the organising drive itself is over and the union has become a routine part of plant life.

Unions employ several tactics to deal with managements. Unionising, strike, invoking political, patronage, and blackmailing are the most common tactics used by unions.

By far the most important union tactic is *strike.* A strike is a concerted and temporary suspension of functions, designed to exert pressure upon others in the same unit. There are several reasons for the supremacy of strike as a weapon. The strike directly suspends production; cuts out the creation of profit; cuts off the employer from his market; sources of materials may be lost; and fixed charges such as interest, taxes, and salaries for officials continue to be incurred during the strike period.[7] Finally, the very existence of the company may be threatened by a prolonged strike.

Caution is necessary before calling for a strike. By its very nature, a strike is a test of strength, and if it succeeds in wrecking damage on the management, it does so only at the expense of the workers. Furthermore, strike is a weapon which can easily fail and which has often failed in the past, leaving strikers destitute and without jobs.

Unions often invoke *political patronage* to beat the management.

There are compelling reasons for unions to be political. With the government assuming the role of an arbiter in IR, the question before labour and the management often is not how to influence each other, but how to mount pressure on the government which is going to determine their fate.[8] Several unions owe their recognition and patronage to political parties and it is not surprising that employee organisations look to them for direction and sustenance.

Finally, unions often *blackmail* the management at a critical point of time to get their demands met (read Exhibit 23.1 for an illustration and the opening case to this chapter).

Exhibit 23.1 ***Sheer Blackmail***

The year was 1975 and it was February, one month before the Bangalore-based electric company closed its annual accounts. The company executed a prestigious foreign order worth Rs 50 lakh and the transformer

was ready for shipment. But the huge transformer could not be lifted out of the premises as the workers, indirectly backed by their union, refused to touch it. They had scores to settle with the management.

Workers in the dispatching section had demanded extra incentives based on the number of shipments but the management did not concede, nor the union could take up the issue as it would displease workers in other departments.

The management was in a dilemma. Four issues bothered them most:

1. Time was running out for dispatching the product. If the transformer was not shipped in February the order would be subject to cancellation.
2. The order was worth a fortune and the company could not afford to lose it.
3. Cancellation of the order would send wrong signals in the international market. No buyer would place an order in future.
4. The truck operator (hired from outside) would charge Rs 3,000 per day of waiting in the premises.

The management caved in. Demands of the workers in the dispatching section were met. All of them got extra remuneration, not as incentives, but as annual performance awards. It was a win-lose situation for the management.

TRADE UNION MOVEMENT IN INDIA

Trade union movement in our country has a century-long history. The first quarter of the last century saw the birth of the trade union movement, but the seeds of the movement were sown much earlier. In the twenties, soon after the First World War, working class in our country realised the effectiveness of strike as a means of obtaining concessions, higher wages and better working conditions. Many strikes were declared consequently and most of them were successful. This success led to the formation of several unions. The All India Trade Union Congress (AITUC) was set up in 1920 with the objectives of representing workers' interests, to co-ordinate the activities of all labour organisations in the country, and to spread the message about the need for union movement. Hundreds of unions came into being in big and small industries. Their number, as well as membership, increased considerably.

A landmark in the history of labour movement was the enactment of the Trade Unions Act, 1926. The Act gave a legal status to the registered trade unions and conferred on them and their members a measure of immunity from civil suits and criminal prosecution. Registration of unions gave them respectability before employers and the general public.

Towards the end of 1920s, there was a split in the union movement, the split being caused by the leaders' ideological differences. The AITUC was captured by the communists. The moderates formed a new organisation, called the All India Trade Union Federation. Ideological differences and splits had their effect on strikes too. Majority of the strikes failed.

Unlike 1920s, the 1930s were not favourable to the trade union movement. The prosecution of the communists involved in the Meerut conspiracy case and the failure of the Bombay textile strike of 1929 brought a lull in trade union activities. Economic depression of the period also added to the dull phase of union movement. Retrenchments and strikes were common, the latter being mostly ineffective. There were further splits in the movement, but just before the Second World War some unity was achieved.

The unity was shattered during the Second World War because of ideological differences and mounting cost of living. Industrial unrest increased and the government banned strikes and lockouts invoking the Defence of India Rules. Luckily, workers realised the need for an organised movement to secure relief. This realisation led to an increase in the number of unions.

The aftermath of Independence was not good for unions. The hopes of workers to secure better facilities and wages from the national government were not realised. There was large-scale unrest and strikes and lockouts multiplied. The disunity in the trade union ranks was aggravated by the starting of three central

labour organisations, namely, the Indian National Trade Union Congress (INTUC) in 1947; the Hind Mazdoor Sabha (HMS) in 1948, and the United Trade Union Congress (UTUC) in 1949.

As years went by, more unions and central organisations came into being. The movement became deeply entrenched.

As of today, there are more than 50,000 registered unions and most of them are affiliated to one or the other central trade union. Table 23.1 gives details about the central trade unions, their affiliates, political affiliation, date of establishment and membership claimed.

Table 23.2 shows number of unions and their membership upto 1997.

Table 23.2 **Union Membership**

Year	*No. of Unions Registered*	*Membership ('000)*
1990	52016	7,019
1991	53535	6,100
1992	55680	5,746
1993	55784	3,134
1994	56872	4,094
1995	57952	6,538
1996	58805	5,613
1997	59968	7,408

(*Source:* Various issues of Labour Year Book)

As Table 23.2 shows, there has been a steady increase in the number of registered unions, but their membership fluctuated from year to year. The figure slipped to all time low in 1993, but increased in the years that followed.

TRENDS IN TRADE UNION MOVEMENT

1. A major trend witnessed these days is the change in the attitude of unions towards management, industry, government and the economy.
   (i) Unions are becoming increasingly matured, responsive and realistic in their thinking and action. Gone are the days of cat-call strikes, *bandhs, gheraoes* and violence.
   (ii) Unions are reconciled to economic reforms. Their accent is on opposing the adverse impact of reforms and not the reforms *per se*.
   (iii) Discussion among trade union circles nowadays is on issues like productivity, total quality management, technology, competition, MNCs, exports and the like. Major unions like that of the telecom employees, for example, are on line with the corporation plans of the department. They are now talking about issues like gearing up for competition and inculcating a customer friendly approach.
   (iv) Unions have accepted that there is surplus labour everywhere and the fat needs to be shed. They are, therefore, extending co-operation to schemes like voluntary retirement, golden handshake and the like. For instance, 35,000 workers of National Textile Corporation alone have retired voluntarily.

2. Depoliticisation of unions is another trend witnessed these days. It is too well-known, that the federations of the unions are affiliated to one political party or the other (refer to Table 23.1). No surprise then, that the prominent national leaders in post-independent India were incidentally popular union leaders. Being affiliated to one or the other political party, the unions were more engrossed in toeing the lines of their political bosses than protecting workers' interests. Unions have realised the futility of such affiliations and are now insulating themselves against political influence. Many leading companies such as Telco, Philips, Voltas, Siemens, Hindustan Unilever, Blue Star, Pfizer, Tomco, Hoechst, and the like have unions but are not affected by political parties. The trend towards depoliticisation started in the 1960s and received further boost in the post-liberalisation era.

Days when unions were affiliated with political parties are gone by. As on today there is depoliticisation of unions.

The experience of politically free unions is pleasant, reinforcing the belief that farther the unions are from politics, more advantageous it is for them. Look at the achievements of the unions which have no affiliations:

(i) The Philips Employees' union successfully stalled the entry of the Tatas into the company. When the Philips management allegedly offered the Tatas a part of their rights-cum-preferential issue at an unusually low premium, the union demanded that it should be allowed to examine the agreement and successfully moved the Bombay High Court in settling the issue.

(ii) The internal union at the ailing Kamani Industries successfully took over the company and is now running it as a workers' co-operative.

(iii) Independent unions obtained a high-court order scrapping the ceiling on house rent allowance fixed by the Maharashtra government.

3. "Nature abhors vacuum", so goes the saying. Unions seem to relish affiliations. They are now formed on the basis of religion and caste. This is indicative of the sociopolitical realities after the *mandalisation* of the polity and heightened sectarian consciousness after the demolition of the disputed structure at Ayodhya.[9]

4. Workers' associations in our country are highly fragmented and the consequence has been the multiplicity of unions. Multiplicity is caused by ideological rifts, personal ambitions of leaders, craft divisions among workers, and the management's own myopia. The number of unions in some organisations is truly mind-boggling. The Bokaro Steel Plant has 68 of them; the Calcutta Corporation has the unique distinction of having about 100 unions; and the Singareni Collieries has 36 unions. The Collieries is gripped by labour problems almost everyday, where the trouble is started by one union or the other. SAIL has 240 unions and the Delhi Transport Corporation has 50.

The multiplicity of unions weakens the bargaining strength of employees. The management's position is no better. For example, the management of the Calcutta-based Dolphin Laboratories which had raised money in the capital market in May 1994, to start a second manufacturing base in Gujarat, was forced, two months later, to shift completely from West Bengal because of intra-union rivalry over the duration of wage agreement.

The futility of multiple unions is being realised by the government and the workers. The government proposes to amend the Trade Unions Act, 1926 to prescribe minimum strength for the formation of a union as 100 or 10 per cent of the total staff, whichever is less.

Union leaders too are conscious about the need for single union plants. Of late, unions have presented a common front on issues like industrial sickness. At the 31st session of the Indian Labour Conference held in 1995, unions of varying hues and affinities demanded better utilisation of the fund and felt that the amount should not be used merely for financing voluntary retirement schemes.

5. One of the defects of the trade union movement in our country has been the phenomenon of outside leadership. Individuals who were not connected with a factory would assume the leadership mantle of the union. A Bangalore-based electric company is an example to be quoted in this context. For a long time, a communist leader was the president of the workers' union, but he was neither a worker nor a supervisor in the company. In course of time, the workers decided against the practice, and in the election held the working president and his coterie were defeated, and insiders became the office bearers of the union.

   Partly, the fault for outside leadership lies with the Trade Unions Act, 1926, itself. The Act permitted outside participation to the extent of 50 per cent of the strength of the office bearers in a union. The government proposes to bring this down to one-third or two, whichever is less.

6. The clout of the central trade unions, which peaked during the post nationalisation years, has started waning. For example, the membership of the INTUC, which claimed to have enjoyed a strength of 54.35 lakh in 1989, had slipped to 54.05 lakh in 1993, a fall by 30,000. Same is the fate of the CITU.

   One of the reasons for this trend is the gradual realisation on the part of the workers, who are young and well-educated, that independent unions are more advantageous than all India federations.

   Thus, the trade unions are at the cross-roads. Their membership is declining, their political support is waning, public sympathy is receding, their relevance itself is at stake and instances of the like shown in Exhibit 23.2 are fortunately few and far between.

   The trend, particularly that of declining membership of unions, is universal. Fewer than 11 per cent of America's private sector workers, for example, are unionised, a percentage that has been falling for four decades. French and Australian union membership too, fell in the 1980s. In Japan, union membership has declined steadily since the 1970s. Unions have held up better in Scandinavia, but young people join only half as often as their parents. In all the OECD countries, service business accounts for a growing share of workforce. Except in government units, unions have largely failed in the service sector.

Exhibit 23.2 ***Illegal Strike and Violence at ITC Ltd, Tiruvottiyur: November 13, 2001***

1. The following workmen were chargesheeted on 17/11/2001 and after due processes of enquiry have been found guilty of misconduct under Factory Standing Orders. They were dismissed from service as follows:

   wef 22/12/2001:

A. Joseph Kennedy	M.S. Murthy	Movin Thomas	R. Veeramani
K. Paramasivam	R.J. Jude Adaikalaraj	V. Devanand	C. Karikalan
K. Ambrose	U. Alexander	K. ArulJothi	P. Joseph,
M. Ramakrishnan	B.G. Chandrasekaran	C.P. Bharathi	A. Sagayadoss
P. Karunanithi	S. Satish Kumar	B. Noor Mohammed	
A. Mohammed Ansari	R. Chandrasekhar	G. Dinagar	

   wef 28/12/2001: S.Balasundaram

   Anybody who deals with the above persons will be doing so at his own risk and the Company is not in anyway responsible for the same.

2. The following workmen have been sent letters on 27/11/01, 8/12/01 and 22/12/01 but have not replied or shown cause as to why action should not be taken:

T. Santhanam	A. Sagayaraj	A. ArunSundar	R. Sethuraman
D. Dhanasekhar,	S. Govindaraj	A. Edward Raj	V. Nambirajan

Justin A.Vedavaraj	D.Rajasekaran	M.N. Rajendran	P. Suresh Babu
S. Elumalai (7058)	S. Anand Kumar	C. Hemant Kumar	T. Jaisankar
C. Sakthivel	R. Rajkumar	D.G. Robinson	P. Rajan
K. Krishnamoorthy	H. Maria Susai Anto	C.M. Damodaran	M. Yoganathan
V. Premanandan	R. Senthil Kumar	G. Vijayakumar,	N. Satish Kumar
K. Saravanan	K. Vasantha Krishnan		

They are advised to respond immediately in writing and not later than close of hours on 31/12/2001, failing which it will be assumed that they have nothing to say in their defence.

SYNOPSIS

- Instigated and led by office bearers of the Union, workmen of our Tiruvottiyur factory illegally struck work from about 14:15 hrs on 13/11/2001. They unleashed violence, abused, threatened and assaulted 15 managers and resorted to sabotage damaging company property, machinery and vehicles of managers. Glass panes, computers and control panels of sophisticated machinery have been smashed; cars overturned and car windscreens broken. Workmen also broke fire protection equipment, surveillance systems and cut off communication lines and power supply plunging the factory into darkness. The damage is estimated at Rs 8.3 crore and has seriously jeopardised operations.
- This Union illegally and unjustifiably struck work from 15/3/2001 to 16/5/2001 and has again illegally struck work from 13/11/2001 onwards (and till date) even whilst there is a reference by the Government to a Tribunal for adjudication. Further the Union instigated workmen to resort to a prolonged and pernicious go-slow from May 2001 till Nov. 2001 despite signing a settlement on 16/5/2001 agreeing to restore normalcy and discipline. The Union has struck work repeatedly and instigated workmen to indulge in indiscipline and to flout the Factory Standing Orders.
- This Union has resisted all attempts at resolution through collective bargaining and has intimidated and prevented managers from carrying out their duties and seeking adherence to quality, cost and delivery schedules in a competitive context.
- As of date, workmen continue to be on illegal strike and have not reported for work from 13/11/2001 onwards. Nobody has reported for work or enquired at the factory gate about his attendance or indicated his willingness to work in a disciplined manner and abide by the Factory Standing Orders/Memoranda of Settlement.

Works Manager
ITC Ltd, Tiruvottiyur
29.12.2001

Managements, on the other hand, are on the offensive. They are able to force unions to accept terms and conditions and sign on the dotted lines across negotiating tables. Workers, officers and managers are mercilessly terminated from service in the name of restructuring, downsizing and similar other tactics.

Unions must come out with innovative ideas to regain their lost ground. To avoid self-decline, unions need to think harder about what they are good at and how to serve their services. This will mean moving beyond the collective wage bargaining that was once their main purpose. This shift is essential since non-pay concerns predominate the emerging workforce, a large portion of which comprises knowledge-based women workers who work part time or are based at home.

One way out for the unions is to extend unionism to non-traditional groups such as white-collar and professional workers and those who are languishing in the unorganised sector. Another way for the unions is to focus on services to their members. The relevance of trade unions, in future, depends on:

1. Their ability to surmount structural, economic and social changes, and
2. Their ability to accommodate changes in social attitudes without totally compromising their collectivist character.

7. Faced with the problem of declining membership and the fear of losing their relevance, trade unions are taking initiatives to fight unitedly. Many unions, including those affiliated to Left parties, have joined together to fight for such causes as disinvestments, closure and modernization. The merger between AICTU and HMS is on the cards. Union after union, in their respective annual conventions, is calling for united movement.
8. Professionlisation of trade union movement is yet another trend witnessed these days. To counter criticisms and to fight organised forces of employers, trade unions, through various institutions such as Ambedkar Institute of Labour Studies, Maniber Kara Institute and National Labour Institute, are trying to upgrade the leadership quality, personnel as well as the services rendered. Topics like IT, strategic planning, diversity, networking, OD techniques, productivity and the like now form inputs in training programmes organised for union leaders.

UNION-FREE COMPANIES

There are companies which are non-unionised. Nearly nine per cent of the companies are without unions (*see* Table 23.3).

Table 23.3 **Presence of Trade Unions**

Response	*No.*	*%*	*%*
No trade union	06	8.6	—
One	34	48.6	—
Two	10	14.3	—
Three	10	14.3	—
Four	03	4.3	—
More than four	07	10.0	—
Base: All respondents	70	100.0	98.6
No response	1	—	1.4
Total	71	—	100.0

Source: AIMA, *Human Dimensions of Liberalisation—A Survey Report*, 1993.

Employees of such plants realise the negative consequences of unionisation and prefer to stay away from unions. They may have misgivings about how effectively a union can improve unsatisfactory working conditions. Collective bargaining is not always successful. If the union is not strong, it will be unable to make an employer meet its demands. Even if an employer does respond to union demands, the workers may be affected adversely. The employer may not be able to survive when the demands of the union are met, and thus the company may close down, costing the employees their jobs. The organisation may force the union to strike, inflicting economic hardship on employees who may not be able to afford being out of work, or it may in some cases, attempt *reprisals* against pro-union employees.[10]

Beyond the perceptions of the ineffectiveness of unions in the pursuit of personal goals, there are other reasons why employees prefer to vote against unionisation. Employees may strongly identify themselves with the organisation and view unionisation as an attempt to weaken the company. They may object to the concept of seniority or even the political activities of the unions. Some employees do not want to depend on third parties for help, to satisfy their needs. These individuals feel that their value to the organisation should be judged on an individual basis and that everyone should not be treated equally. If their performance is superior, the rewards should be appropriate and direct. They believe that joining a union is an admission that others control their destiny. These individuals feel that joining unions would limit their opportunities for advancement.[11]

Employers also may discourage unionisation. Their fears about unions stem from:

1. Increased cost because of higher remuneration and other non-monetary benefits and services,
2. Loss of control over operations—erosion of management's authority,
3. Loss of freedom to reward superior performance, and
4. Lack of ability to adapt quickly to changing demands. ITI and BEML, the public sector giants, for example, are caught in the web. Their order books are empty but cannot lay off or retrench surplus workers.

? Pause and Ponder

Star performers like Wipro and Infosys are doing without unions. Have they lost anything? Do you suggest that their employees should unionise?

Strategies and Tactics for Remaining Union-Free Managers, therefore, develop long term strategies and effective tactics to prevent unionisation of their organisations. The more important of them are—(also *see* Fig. 23.2).

1. Effective supervision
2. Open communication
3. Effective personnel research
4. Healthy and safe working environment
5. Effective employer-employee relations

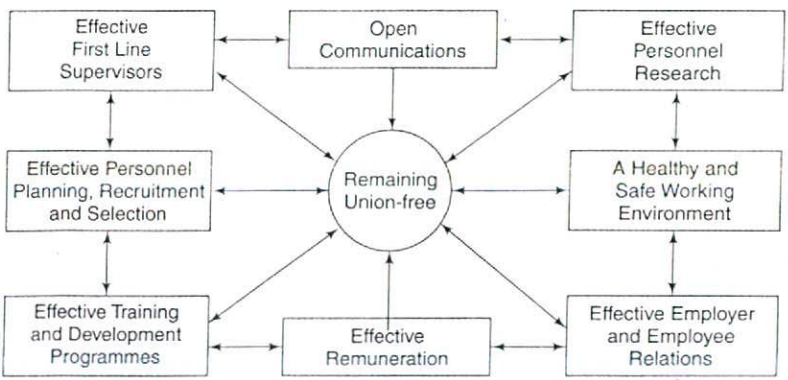


Fig. 23.2 Strategies and Tactics for Remaining Union-free

Source: Adapted from R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, p. 469.

6. Effective remuneration
7. Effective training and development programmes
8. Effective personnel planning, recruitment and selection

All these strategies and tactics, except personnel research, are self explanatory.

PERSONNEL RESEARCH

The purpose of personnel or HR research is to identify HR problems at an early date, so that remedial action may be taken before the problem gets magnified. Ignored problems stoke fire and unionisation is thought of as a remedy to extinguish the fire.

A wide range of topics are covered in the personnel research. Typical of such items are:

- Wage surveys
- Effectiveness of various recruitment sources
- Test validation
- Effectiveness of training efforts
- Supervisor's effectiveness survey
- Recent labour settlements
- Recent labour settlements negotiated by the union
- Job analysis
- Job satisfaction survey
- Survey of employee needs
- Performance appraisal validation
- Attitude survey towards reward system
- Areas of high accident frequency[12]
- Turnover analysis
- Customer complaints survey

The topics suggest the scope of personnel research. Survey on any of these topics reveals worker unrest, which is the root cause for unionisation.

Many employers consider themselves lucky when their employees are not unionised. But unions are not always bad. They play useful roles too. They can, for example, bring certainty and discipline to the workforce. Unions often facilitate introduction of new machines. Kirloskar Electric Company wanted to introduce CNC machines in its Bangalore works. There was the usual resistance from workers but the union leaders convinced the employees and they in turn co-operated with the management in installing the new machines.

HR Practices and Irrelevance of Unions

Strange but true that the best HR practices threaten the very relevance of unions. Two points deserve mention here: (i) individualisation of employment contract, and (ii) demise of union representation.[13]

These days managers seek to establish employment relationship with employees unilaterally rather than through bilateral-union-management negotiation-processes. Particularly, performance related rewards individualise the employment relationship because it isolates employment and personalises issues such as design and evaluation of work. Besides, by reducing the role of unions in pay determination, performance appraisal severes the link between increased rewards and collective action. Individual performance-related pay and pay-for-knowledge are the paradigm individualistic HRM techniques that symbolise attempts by management to move towards an 'individually oriented' rather than union-oriented organisational culture.

Second, the relevance of unions is challenged by other HR practices. HR professionals call for the 'socialisation of the workforce.' Work-based learning programmes that strengthen support for corporate culture and 'socialise' workers to accept the hegemony of managerial authority can undermine work place unions. Training programmes too are also designed to workers' attitudes towards pro-management. All attempts are made to enhance employee competencies. Emphasis is laid on merit and not on seniority while promoting an employee. Where merit is the criterion, one plays into the internal labour market forces undermining union influence. The HRM practice of communicating directly to the workforce information on quality and business practices can weaken the authority of union leaders. What business magazines write about 'best employers to work for' and 'best HR practices' aim at weakening union strength. Furthermore, team based work regimes (inventions by HRM), can also undermine collective union consciousness. Team practices try to engender a new corporate culture in which workers' identity with the symbols and values that managers communicate directly to them, in which deviant behaviour is managed by the workers themselves and in which relevance or usefulness of unions is not felt at all.

UNION LEGISLATION

Trade unions in our country are governed by the Trade Unions Act, 1926. The main objective of the Act is to provide for the registration of trade unions and to give registered trade unions a legal status, and immunity to their office-bearers and members from civil and criminal liability in respect of legitimate trade union activities.

The Act was passed on March 25, 1926 and was brought into force on June 1, 1927. The Act extends to the whole of India. Like any other legislation, the Trade Unions Act, 1926, too, was amended several times, the latest (proposed) being 1993.

Provisions of the Act

In pursuit of the primary objective, the Act contains 33 sections. The provisions can be broadly divided into eight sections, namely (*see* Fig. 23.3),

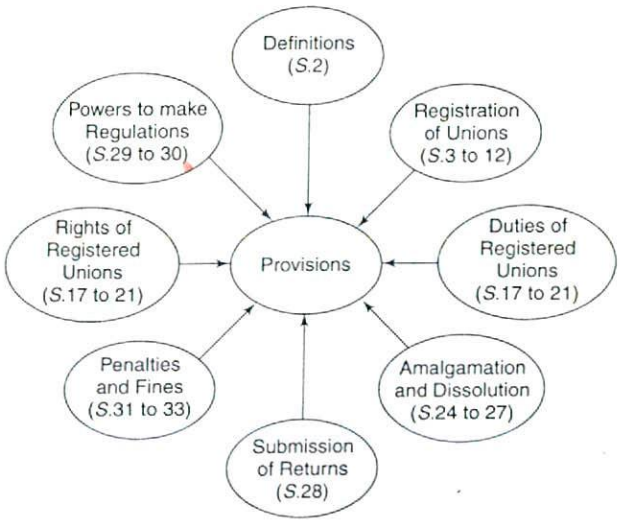


Fig. 23.3 Provisions of the Trade Unions Act, 1926

1. Definitions (*S*.2)
2. Registration of unions (*S*.3 to 12)
3. Duties and liabilities of registered unions (*S*.13 to 16)
4. Rights and liabilities of registered unions (*S*.17 to 21)
5. Amalgamation and dissolution of unions (*S*.24 to 27)
6. Submission of returns (*S*.28)
7. Penalties and fines (*S*.31 to 33)
8. Power to make regulations (*S*.29 to 30)

The Act is a central legislation, but is administered by state governments. Not that the central government has no role to play. It handles all unions which are not confined to one state. It also has the power to amend the Act.

Proposed Changes

Based on the Ramanujam Committee recommendations, the Government has approved the following amendments to the Trade Unions Act, 1926:

1. The law now permits an association of seven employees in an establishment to form a union. It is proposed that a union should have 10 per cent or 100 workers, whichever is less, to register. The government also proposes to register a union with seven members, if a unit has 70 workers, to protect the interests of workers in a small unit. The government's logic is to allow workers freedom, but reduce the number of unions.
2. To bring about discipline in unions, the government has decided to make it mandatory to hold elections of office bearers and members of the executive committee once in every three years or earlier if the members so desire.
3. At present, outsiders are permitted to the extent of 50 per cent of the strength of office bearers in a union. The government proposes to bring this down to one-third or two, whichever is less. The committee was of the view that if workers wanted to choose their leader from outside, the law should not come in their way. By attempting to reduce the number of outsiders, no substantial benefit will accrue. Even if outsiders are totally eliminated, there is no guarantee that inside leadership will not be subject to remote control by outsiders. Still the Committee recommended that the number of outsiders be restricted to one-third.
4. The government proposes to hike the membership fee from 25 *paise* to Re 1 per month.

SUMMARY

Trade unions are voluntary organisations of employees or employers formed to promote and protect their interests through collective action. Contrary to popular perception, unions are not meant only to organise strikes. Their presence is felt in all HR activities of an organisation. Unions have political affiliations.

Employees join unions because of job dissatisfaction and they perceive that the unions can remove such dissatisfaction.

Unions use at least three tactics to manage the managers. They are—(i) organising campaign, (ii) strike and (iii) political support.

The trade union movement in our country was started during the first quarter of the 20th century.

Six significant trends can be observed in the trade union movement. They are—(i) changing attitude of employees towards government, economy, industry and management; (ii) unions are

gradually disassociating themselves from political parties; (iii) unions are now formed on the basis of religion and caste; (iv) consolidation instead of fragmentation of unions; (v) no more outside leadership; and (vi) decreasing popularity of all India union bodies.

Most managers prefer their plants to remain union-free. To this end, they adopt strategies and techniques.

The Trade Unions Act, 1926, has 33 sections and they contain provisions starting from registration of unions to penalities for non-compliance of any clause. The government proposes to bring about amendments to the Act.

KEY TERMS

Depoliticisation
Employers' associations
Employment contract
Multiplicity of unions
Personnel research
Political affiliations
Psychological contract
Strike
Trade unions
Unionisation
Union-free plants
Union instrumentality

REVIEW QUESTIONS

1. Define a trade union. Why do employees join unions?
2. Bring out the tactics adopted by unions to influence the management.
3. Explain the strategies and techniques adopted by the management to keep their plants union-free.
4. Bring out the provisions of the Trade Unions Act, 1926.

DISCUSSION QUESTIONS

1. What impact do unions have on employers and employees?
2. Should companies be allowed to hire workers based on their attitudes towards unions?
3. Identify and discuss the factors that make unionisation attractive to employees. Are these factors different today than they were fifty years ago?
4. What lessons can you draw from the opening case of this chapter?

Closing Case

"Whose Side are you on, Anyway?"

It was past 4 pm and Purushottam Kshirsagar was still at his shopfloor office. The small but elegant office was a perk he was entitled to after he had been nominated to the board of Horizon Industries (P) Ltd., as workman-director six months ago. His shift generally ended at 3 pm and he would be home by late evening. But that day, he still had long hours ahead of him.

Kshirsagar had been with Horizon for over twenty years. Starting off as a substitute mill-hand in the paint shop at one of the company's manufacturing facilities, he had been made permanent on the job five years later. He had no formal education. He felt this was a handicap, but he made up for it with a

willingness to learn and a certain enthusiasm on the job. He was soon marked by the works manager as someone to watch out for. Simultaneously, Kshirsagar also came to the attention of the president of the Horizon Employees' Union who drafted him into union activities.

Even while he got promoted twice during the period to become the head colour mixer last year, Kshirsagar had gradually moved up the union hierarchy and had been thrice elected secretary of the union.

Labour-management relations at Horizon were not always cordial. This was largely because the company had not been recording a consistently good performance. There were frequent cuts in production every year because of go-slows and strikes by workmen—most of them related to wage hikes and bonus payments.

With a view to ensuring a better understanding on the part of labour, the problems of company management, the Horizon board, led by chairman and managing director Avinash Chaturvedi, began to toy with the idea of taking on a workman on the board. What started off as a hesitant move snowballed, after a series of brainstorming sessions with executives and meetings with the union leaders, into a situation in which Kshirsagar found himself catapulted to the Horizon board as workman-director.

It was an untested ground for the company. But the novelty of it all excited both the management and the labour force. The board members—all functional heads went out of their way to make Kshirsagar comfortable and the latter also responded quite well. He got used to the ambience of the boardroom and the sense of power it conveyed. Significantly, he was soon at home with the perspectives of top management and began to see each issue from both sides.

It was smooth going until the union presented a week before the monthly board meeting, its charter of demands, one of which was a 30 per cent across-the-board hike in wages. The matter was taken up at the board meeting as part of a special agenda.

"Look at what your people are asking for," said Chaturvedi, addressing Kshirsagar with a sarcasm that no one in the board missed. "You know the precarious finances of the company. How could you be a party to a demand that simply can't be met? You better explain to them how ridiculous the demands are," he said.

"I don't think they can all be dismissed as ridiculous," said Kshirsagar. "And the board can surely consider the alternatives. We owe at least that much to the union." But Chaturvedi adjourned the meeting in a huff, mentioning, once again to Kshirsagar that he should "advise the union properly".

When Kshirsagar told the executive committee members of the union that the board was simply not prepared to even consider the demands, he immediately sensed the hostility in the room. "You are a sell out," one of them said. "Who do you really represent—us or them?" asked another.

"Here comes the crunch," thought Kshirsagar. And however hard he tried to explain, he felt he was talking to a wall.

A victim of divided loyalities, he himself was unable to understand whose side he was on. Perhaps the best course would be to resign from the board. Perhaps he should resign both from the board and the union. Or may be resign from Horizon itself and seek a job elsewhere. But, he felt, sitting in his office a little later, "none of it could solve the problem."[14]

Questions

1. What should he do?

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CHAPTER 24

Resolving Disputes

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- The nature of industrial disputes and causes for industrial strife
- The different methods of settling disputes

Opening Case

EMPLOYEES' FUTURE BLEAK AS SUN SETS ON KIOCL

Few industrial or mining ventures have been launched in the State of Karnataka with such fanfare as the Kudremukh iron ore project. The sun has set on a project which only three decades ago had been hailed as a sunshine mining venture. It was a publicity blitz the project received in the mid-1970s which would have been the envy of some of the major information technology players today.

The project was launched under much publicity hype and the focus those days was on its Indo-Iranian joint venture aspect. The Shah's regime of Iran had committed financial assistance of Rs.500 crores for the project which would supply iron ore concentrates to that country. Till then raw iron ore was being exported to Japan and other countries. That the concentrates would be carried by slurry to the Mangalore Port was another novelty. The concentrates were to be shipped to the Iranian port of Abbgas in the Strait of Hormuz. The Metallurgical and Engineering Consultants were associated with the project.

The project was a star crossed one from almost the beginning. The overthrow of the Shah of Iran and the rise of Ayatollah Khomeini spelt doom for the project. The Government of India had to look for alternative sources of investment and buyers for iron ore concentrates.

However, it was not the environmentalists or the people of Chikmagalur district who were the first to draw attention to the harm the mining project would cause to the environment. Years before they came to interest themselves with protection of the ecology, a Director of Mines and Geology, Annaiah, had sounded caution about the project and questioned the claims being made about it.

The Kudremukh iron ore project is, perhaps, the third one to be closed down in the State. The first being Kemmangundi which was supplying ore to the Visvesvaraya Iron and Steel Ltd. (earlier Mysore Iron and Steel Ltd.) at Bhadravati. The other major mining project to be closed down is the fabled Kolar Gold Fields (called Bharat Gold Mines Ltd.) in recent decades.

Though the Kudremukh Iron Ore Company Ltd. (KIOCL) took up afforestation programme in the Western Ghats, it was not enough to convince the Supreme Court which ordered an end to mining.

The questions being raised now relate to the future of the employees of the mining company who have lost their jobs and the vast and modern infrastructure and the township built by it. A fear is also being expressed that the vacuum created by the closure of the mines would encourage increased naxalite activities in the region, where the extremists have already dug in.

The New Year has begun on a cruel note for the Kudremukh employees and the company. For them the environmentalists are an anathema.[1]

Disputes are common in industries. They manifest in the form of strikes, *bandhs* and lockouts. The consequences of disputes are loss of production, loss of profit, loss of market and even closure of the plant as stated in the opening case. What are these disputes? Why do they occur? How can they be resolved? These and other issues deserve a detailed discussion. Hence this chapter.

NATURE OF DISPUTES

According to the Industrial Disputes Act, 1947, industrial disputes mean any dispute or difference between employers and employers, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or terms of employment or with the conditions of labour of any person (*S* 2(K)).

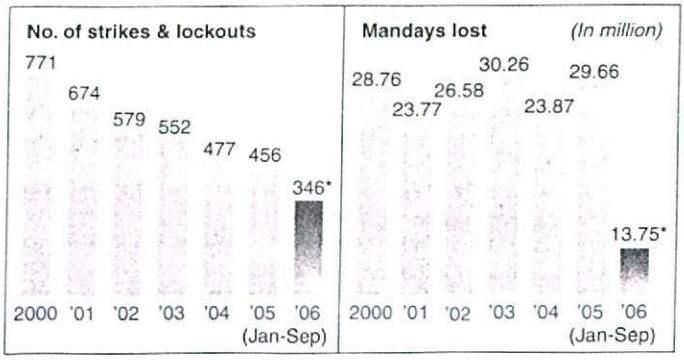
The definition is too broad and includes conflicts even among employers under the term 'dispute'. In practice, disputes mainly relate to the strife between employers and their employees.

Academically speaking, **industrial dispute** refers to any conflict between employees and employers, between employers and employers and between employees and employees. But in reality, dispute is understood as the conflict between employees and employers.

CAUSES OF DISPUTES

The causes of industrial disputes are many and varied. The major ones relate to wages, union rivalry, political interference, unfair labour practices, multiplicity of labour laws, and others. Table 24.1 gives details about the number of disputes and the loss of man-days.

Table 24.1 **IR Scenario**



Source: *Economic Survey* 2006-07

Wage Demands

By far, the most important cause for disputes relates to wages. The demand for wages has never been fully met because of inflation and high cost of living. High inflation results in increased cost of living resulting in never-ending demands from unions.

Managements and unions will have a wage agreement generally valid for three years. Each new agreement is preceded by a prolonged battle between managements and unions, often resulting in strikes and lockouts. Agreement reached in one company will inspire unions in other plants in the locality, and make them pitch tents demanding similar rise in wages.

Closely related to wages are bonus, incentives, and other allowances. Of all these, wages have been a major issue of contention that leads to disputes.

Union Rivalry

As was pointed out in the previous chapter, most organisations have multiple unions. Multiplicity of unions leads to inter-union rivalries. If one union agrees to a wage settlement, another union will oppose it. The consequence is never-ending disputes, as has been happening at the Singareni Collieries. The company had 445 strikes in 1990–91 resulting in a loss of production of 3.12 million tonnes and 34.19 lakh man-days. The reason is mainly union rivalry. One union or the other is always on strike and often the demands of rival unions on an issue are conflicting.

Multiplicity of unions poses peculiar problems to managers. One such problem relates to authenticity of memberships. Unions put up respective numbers of members in such a way that when added together the figure exceeds the total number of workers in the organisation. Another problem relates to the selection of a bargaining agent in the process of collective bargaining. Union rivalry leads to large-scale violence (read Exhibit 24.1).

Exhibit 24.1 ***Union Rivalry and Violence***

The Bangalore-based leader in automobile components has an experience which no rival should have. Upto 1978 the company had only one union headed by MSK, a veteran Communist leader and an outsider to the plant. But 1978 changed the IR scenario. In an election held, MSK's team was trounced by a group comprising all employees of the plant. The winning team however was headed by S, who was an outsider.

The management did not take kindly to union led by S. It started supporting another team headed by MDN who was also an outsider and who enjoyed the support of the then Chief Minister of Karnataka. MDN and his supporters, abetted by the police and the management, resorted to large-scale violence and the supporters of S were severely beaten inside the plant. S, who had 3/4th of the employees behind him, gave a call and the employees struck work. The strike lasted six months.

The general elections to state assembly were held in Karnataka in 1980 and there was a change in the state leadership. MDN too lost his clout. The new Chief Minister encouraged his own crony FMK who claimed himself to be a labour leader.

The management looked forward to FMK to browbeat S. It recognised the union led by FMK (who, like MDN, was an outsider) and the union was an affiliate of INTUC.

This led to another strike lasting three months. Management signed an agreement with the union led by FMK though S continued to enjoy majority support from employees.

Angered at the settlement reached, S took up the case to the High Court of Karnataka. Violence had its toll again. The management's advocate was assaulted and the HRD manager too was man-handled and was stripped naked inside the plant. There were stabbings too.

Continuous struggle and solidarity of the workers had the last laugh. The management was forced to recognise S as the union leader. FMK lost his clout among the workers. This followed the loss of power by the Chief Minister who had supported FMK.

Both the management and S let the bygones be bygones. The company has been enjoying cordial IR till today.

Political Interference

Major trade unions, as was mentioned in the previous chapter, are affiliated to political parties. Political affiliation is not peculiar to our country alone. Even a cursory assessment of labour movements around the world would show that trade unions are, by their very nature, political, and that politicisation of labour is the rule rather than the exception. This is so much the case that Flanders, an acknowledged British expert on IR, remarked:

Everywhere trade unions have been compelled to engage in political action to obtain enough freedom from legal restraint to exercise their main industrial functions. Freedom of association, the right to strike and to picket, the prevention of undue influence in their internal affairs, are familiar objectives which have demanded the use of political methods. Unions have also fought for legislation that would assist them in collective bargaining and the like. Much more could be said about this, but these indications should suffice to show that, as a minimum, trade unions must be involved in politics in order to establish and maintain the legal and economic conditions in which they can flourish ... It makes the term 'non-political union', taken literally, a non-essential description, there is no such animal.[2]

What happens when unions get politicised? In the *first place,* distant ideological issues divide and fragment unions on party lines. When unions multiply, inter- union rivalry erupts and the consequences are too obvious. *Second,* inspired by their political ideologies, certain unions refuse to sign an agreement even if it is favourable to all the workers and thus these perpetual dissenters manage to keep the issue alive. The communist led CITU is an example to be quoted.

The CITU follows a pristine model of trade unionism drawn from the theory of class conflict ... The communists love to fight, but hate to win. Victory for them appears to be defeat ... The general secretary of CITU had an answer to the accusation that they never signed a settlement: 'When we start discussions, we know what is a fair settlement. Others may be willing to accept unfair terms, but we cannot. We are also opposed to long-term settlements. Many settlements here are for four years. Anything can happen during this time. The cost of living could triple. Our position is that no settlement should be for more than three years'... In point of fact, the communists had managed to maintain their lily-white image by refusing to sign any settlement for fifteen long years.[3]

Third, every political party somehow engineers strikes, *gheraos and bandhs* to demonstrate its political strength. Invariably, the political party which is in power favours a union which is affiliated to it, and the result is endless disputes.

Unfair Labour Practices

Majority of disputes are management inspired. The following points[4] justify the assertion:

1. The management is generally not willing to talk over any disputes with the employees or the representatives, or refer it to 'arbitration' even when trade unions want it so, and this enrages the workers.
2. A management's unwillingness to recognise a particular trade union and the dilatory tactics to which it resorts while verifying the representative character of any trade union have been a source of industrial strife.

3. Even when representative trade unions have been recognised by employers, they do not, in a number of cases, delegate enough authority to their officials to negotiate with their workers, even though the representatives of labour are willing to commit themselves to a particular settlement.
4. When, during negotiations for the settlement of a dispute, the representatives of employers unnecessarily and unjustifiably take the side of the management, tensions are created, which often lead to strikes, go-slows or lockouts.
5. The management's insistence that it alone is responsible for recruitment, promotion, transfer, merit awards, and so forth and that it need not consult employees in regard to any of these matters generally annoys workers, who become uncooperative and unhelpful, and often resort to strikes.
6. The services and benefits offered by the management to its employees promote harmonious employer-worker relations. But a large number of managements have not taken any steps to provide these benefits and services for their workers.

The Industrial Disputes Act, 1947, is more specific about the unfair labour practices. According to the Act, the following constitute unfair labour practices:

1. To interfere with, restrain from or coerce workmen in the exercise of their right to organise, form, join or assist a trade union or to engage in concerted activities for the purposes of collective bargaining or other mutual aid or protection, that is to say,
   (i) threatening workmen with discharge or dismissal if they join a trade union;
   (ii) threatening a lockout or closure, if a trade union is organised; and
   (iii) granting wage increases to workmen at crucial periods of the trade union organisation, with a view to undermine the efforts of the trade union at organisation.
2. To dominate, interfere with or contribute support, financial or otherwise, to any trade union, that is to say,
   (i) an employer taking an active interest in organising a trade union of his or her workmen; and
   (ii) an employer showing partiality or granting favour to one of several trade unions attempting to organise his or her workmen or to its members, where such a trade union is not a recognised trade union.
3. To establish employer-sponsored trade unions of workmen.
4. To encourage or discourage membership in any trade union by discriminating against any workman, that is to say,
   (i) discharging or punishing a workman, because he or she urged other workmen to join or organise a trade union,
   (ii) discharging or dismissing a workman for taking part in any strike (not being a strike which is deemed to be an illegal strike under this Act);
   (iii) changing seniority rating of workmen because of their trade union activities;
   (iv) refusing to promote workmen to higher posts on account of their trade union activities;
   (v) giving unmerited promotions to certain workmen with a view to creating discord amongst the workmen or to undermine the strength of their trade union; and
   (vi) discharging office-bearers or active members of the trade union on account of their trade union activities.
5. To discharge or dismiss workmen
   (i) by way of victimisation;
   (ii) not in good faith, but in the arbitrary exercise of the employer's rights;
   (iii) by falsely implicating a workman in a criminal case on false evidence or on concocted evidence;
   (iv) for patently false reasons;
   (v) on untrue or trumped up allegations of absence without leave;

(vi) in utter disregard of the principles of natural justice in the conduct of domestic enquiry or with undue haste; and
(vii) for misconduct of a minor or technical character, without having any regard to the nature of the particular misconduct or the past record or service of the workman, thereby leading to a disproportionate punishment.

6. To abolish work of a regular nature being done by workmen, and to give such work to contractors as a measure of breaking a strike.
7. To transfer a workman *mala fide* from one place to another, under the guise of following management policy.
8. To insist upon individual workmen, who are on a legal strike, to sign a good conduct bond as a precondition to allowing them to resume work. (But if the workman who is on strike has also indulged in violence and sabotage, the employer may insist for a good conduct bond.*)
9. To show favouritism or partiality to one set of workers regardless of merit.
10. To employ workman as '*badlis*', casuals or temporaries and to continue them as such for years, with the objective of depriving them of the status and privileges of permanent workmen.
11. To discharge or discriminate against any workman for filing charges or testifying against an employer in any enquiry or proceeding relating to any industrial dispute.
12. To recruit workmen during a strike which is not an illegal strike.
13. Failure to implement award, settlement or agreement.
14. To indulge in acts of force or violence.
15. To refuse to bargain collectively, in good faith with the recognised trade unions.
16. Proposing or continuing a lockout deemed to be illegal under this Act.

Multiplicity of Labour Laws

Labour laws in our country, as in several other countries, have been enacted to create conditions for the protection of labour from unfair employment practices and to provide a legal framework within which IR is to be regulated.

Labour legislation is regarded as the most dynamic institution. From a simple restraint on child labour in 1881, labour legislation in our country has become an important agency of the State for the regulation of working and living conditions of workers, as indicated by the rising number and variety of labour acts. This rapid development of labour legislation is an integral part of the modern social organisation.

There are about 108 Acts, both Central and State, earning our country the dubious distinction of being one of the few highly labour legislated countries in the world. What has been the outcome of all these?

Surely, the result has been endless confusion, industrial strife, loss of production and exploitation of labour by the management and of the management by the labour (Read also Exhibit 24.2).

Exhibit 24.2 ***The Confusion in Labour Laws***

A study by a Delhi-based think tank underlines the diversity of labour laws and regulations in the states. Can India ever have a uniform approach to labour law? The prospects of this ever happening seem

* In a strike at Maruti Udyog, in early 2001, the management managed to get "undertakings of good behaviour" from its employees. The strike was triggered by a demand for hike in incentive payment.

The management offered Rs 30,000 but the union insisted on Rs 42,000. Management had the last laugh. Not only had the management got undertakings of good behaviour, it terminated the services of 59 employees and also did not pay salary to 3,000 striking workers for three months.

extremely dim, as the study on labour laws in the states argues. Titled 'Competitive Labour Policies and Labour Laws in Indian States', the report by C.S. Venkataratnam was commissioned by the Delhi-based LARGE (Legal Adjustments and Reforms for Globalising the Economy), a venture dedicated to overhauling laws and regulations.

The report underscores the sheer diversity of rules in the states. Consider the following. The states are allowed to set up labour courts. Some states have raised the upper age limit for labour court members from 65 to 67, and decreased the length of the prior judicial experience required for such appointments from five years to three or two years. Or consider the notice period that employers are required to provide state governments if they want to alter working conditions. The Industrial Disputes Act requires 21 days' advance notice, but Andhra Pradesh and West Bengal have doubled the length of the notice period that employers are required to provide to 42 days.

It does not help either. At the state level, the bureaucracy interprets regulations differently. In Maharashtra, for example, the minimum wages law is not applicable to the electronics industry. But labour inspectors in some districts sometimes classify electronics units as engineering enterprises, which are covered by the minimum wages law.

VARYING WAGES

Daily wages in Rs (April 1996)

State	Minimum	Maximum
Andhra	11.00	41.35
Assam	32.80	38.20
Bihar	23.00	39.70
Gujarat	15.00	48.00
Maharashtra	8.00	70.46
Haryana	51.57	52.00

Lending a further dimension to this picture of confusion is the IR position in the states. In West Bengal, trade unions affiliated to political parties are widespread, Maharashtra has several independent enterprise-level unions. In Bangalore, several firms that operate in the new high-technology industries have no unions at all. And Gujarat has seen the rise of the so-called footpath unionism—briefless lawyers mobilise seven employees in an organisation, register a union, pursue their individual grievances in court, and pocket a sizeable share of any compensation that workers obtain.

What is more, minimum wages vary widely across different states. The Minimum Wages Act of 1948 was enacted by the Centre, but the states are responsible for setting up tripartite minimum wage advisory bodies—and they unilaterally declare minimum wage increases in the pursuit of populism. The outcome is predictable. In Maharashtra alone, minimum wages for unskilled workers vary from Rs 8 to Rs 70 (see the Table above).

The report, therefore, calls for a thorough review of the Centre-State relations in the sphere of labour laws and labour administration. However, it warns that changes in labour laws alone won't be sufficient-the attitudes of the labour bureaucracy and the judiciary have to be harmonised, too.

Source: *Business World*, April 1–15, 1997.

What is strange is that in developed countries of the Western world, labour legislation followed the emergence of industrialisation and in response to a demand for economic and social betterment of the workers. In India, the emergence of labour laws preceded industrial growth. As a result, the persons who were benefited by such laws represent only a small percentage of the total workforce. We neither experienced an industrial revolution, in the true sense of the term, leading to the gradual emergence of a welfare state, nor a socialist revolution which binds the public sector with a sense of performance. Yet we have evolved the most advanced industrial jurisprudence in the world.[5]

Judiciary has not played a positive role either. During the last decade and a half, in the name of 'directive principles', 'social justice' and 'activist law making', the judiciary, instead of having a balanced and reasoned consideration of opposing interests, has given a volley of confusing statements, thereby undermining discipline. It has gone to the extent of saying that even an "illegal strike is justified". By those whose horizons are limited, trifles are easily confused with technicalities. The result is that indiscipline in industry has spread like wildfire and sapped the national production and productivity. The classic case is that of the textile industry which has been wrecked by indiscipline. The conflagration is continuing to engulf various industries one by one.[6]

The role of judiciary in resolving disputes has been regressive. By giving conflicting statements, (for example, declaring an illegal strike as justified) judiciary has aggravated indiscipline among workers.

In order to revamp the judiciary, the Government of India set up a Second National Commission on labour on October 15, 1999. The Commission was required to look into the following:

- To suggest rationalisation of existing laws relating to labour in the organised sector.
- To suggest an umbrella legislation for ensuring a minimum level of protection to the workers in the unorganised sector.
- In developing the framework for its recommendations, the Commission was to take into consideration the minimum level of labour protection and welfare measures, and the basic institutional framework for ensuring the same.

The Commission submitted its report on June 29, 2002. It recommended the following:

- No prior permission necessary for lay-off, retrenchment;
- No need for any wage board;
- Five holidays and 10 restricted ones a year;
- No contract labour for core production services;
- A trade union with at least 66 per cent membership to be single negotiating agent;
- Setting up a grievance redressal committee for organisations employing 20 or more persons;
- Creation of a high-power National Social Security Authority, preferably under the Prime Minister's chairmanship;
- Evolving a policy framework and enactment of law for unorganised sector workers to ensure generation and protection of jobs.

Others

As was stated in Chapter 22, IR managers themselves stoke the fire and then try to extinguish it—all to justify their own existence in organisations.

The intellectual background of IR managers may have much to do with the way the function has evolved. Predominantly, they have been trained in either social work or law, and sometimes in both. Social work as a discipline is strongly oriented towards welfare, which is not the best intellectual equipment for a man who has to face the fire and brimstone of trade unionism. Law trains the manager in methods of punishing the errant, not of motivating the average.

Neither discipline teaches the pupil to regard trade unionism as anything more than a necessary evil, nor IR itself has developed as an academic discipline, and there is just one university in this country which has a separate department for that subject. Sociology, political science and economics, which have far greater relevance, have never been major inputs.[7]

Some other causes are rampant industrial sickness resulting in lay-offs, retrenchment and other separations, and poor working conditions inside the plants.

SETTLEMENT OF DISPUTES

Whatever may be the cause of industrial disputes, the consequences are harmful to all stakeholders—management, employees, economy, and the society. For management, disputes result in loss of production, revenue, profit and even sickness of the plant.

Employees would be hard hit as the disputes may lead to lockouts and consequent loss of wages and even jobs. Industrial establishments are pillars of the economy and the economy is bound to collapse if industries are torn by industrial strife. The cumulative effect of all these is felt by society.

A dispute, therefore, needs to be settled as early as possible.

Various methods are available for resolving disputes. More important of them are (*see* Fig. 24.1):

1. Collective bargaining
2. Code of discipline
3. Grievance procedure
4. Arbitration
5. Conciliation
6. Adjudication
7. Consultative machinery

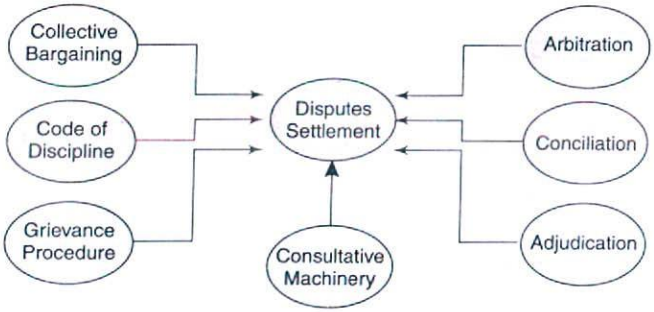


Fig. 24.1 Disputes Settlement Mechanisms

? Pause and Ponder

Which of these seven disputes-resolving methods, do you think is the ideal one? Why?

Collective Bargaining

Collective bargaining takes place when representatives of a labour union meet management representatives to determine employees' wages and benefits and to solve other issues. Collective bargaining is the most effective method of resolving industrial disputes.

Collective bargaining is probably the most effective method of resolving industrial disputes. It occurs when representatives of a labour union meet management representatives to determine employees' wages and benefits, to create or revise work rules, and to resolve disputes or violations of the labour contract.[8]

The bargaining is collective in the sense that the chosen representative of the employees (i.e. the union) acts as a bargaining agent for all the employees in carrying out negotiations and dealings with the management. The process may also be considered collective in the case of the corporation in which the paid professional managers represent the interests of the stockholders and the board of directors in bargaining with the union leaders. On the employer side, it is also collective in those common situations

in which the companies have joined together in an employer association for purposes of bargaining with a union.[9]

Approaches to Collective Bargaining Collective bargaining has been viewed from three perspectives:

1. As a process of social change,
2. As a peace treaty between the conflicting parties, and
3. As a system of industrial jurisprudence.

Process of Social Change Collective bargaining is understood as a technique of bringing about a change in the balance of power between employers and employees. It helps the inferior social class or group exert pressure on the powerful group for a bigger share in social, economic and political power, as well as for better welfare, security and liberty to individual members. This is the real spirit behind collective bargaining, though in its narrow sense, perceived as a tool for resolving industrial disputes.

Peace Treaty Collective bargaining is understood as a peace treaty in a continual conflict. But the peace is temporary as neither side is completely satisfied with the results. Each party would like to break the treaty at the earliest opportunity and come forward with new list of demands, including previously unsatisfied ones.

Industrial Jurisprudence Collective bargaining creates a system of industrial jurisprudence—a method of introducing civil rights into the industry requiring that the management deals with the labour by rules rather than by arbitrary decisions. It is this role of collective bargaining which helps resolve industrial disputes.

Collective bargaining benefits both employees as well as employers. This means that the basic interests of the management are protected and also the rights of the employees. The two sides have a responsibility towards each other. For example, unions should not expect the management to concede on issues which would ultimately impair the company's ability to stay in business. Likewise, the management must recognise the rights of employees to form unions and to argue for improved wages and working conditions.

Collective bargaining infuses democratic principles into the industrial world. Workers participate in decisions that affect their work and work life. Thus, collective bargaining may be viewed as a form of participative management.

Importance of Collective Bargaining In summary, collective bargaining offers the following benefits to both employers as well as employees:

1. It helps increase economic strength of both the parties at the same time protecting their interests.
2. It helps establish uniform conditions of employment with a view to avoid occurrence of industrial disputes.
3. It helps resolve disputes when they occur.
4. It lays down rules and norms for dealing with labour.
5. It helps usher in democratic principles into the industrial world.

Strategic Choices When faced with a collective-bargaining situation, managers are required to make many strategic choices. The more important of them are:[10]

1. Managers must decide when to open the negotiations. Sometimes it is advisable to open the talks long before the wage agreement expires if a strike will cripple the business. At other times, it may be advantageous to start negotiations after the agreement expires. Managers must interpret the situation appropriately and make the decision.

2. Managers must examine the possibility of a strike and decide on the ways of handling it, should it occur. For example, mangers must examine the necessity of building up inventory and ensuring that distributors have adequate stocks of goods.
3. It is also important for mangers to understand which issues to raise first and which to wait for. If the management knows that a particular issue will cause a problem, perhaps it would be advantageous to defer the discussion until progress is being made in the negotiation process.
4. Managers must decide upon the individuals who would represent their side at the negotiating table.
5. Finally, managers need to decide how closely they will follow the agreement, once it is signed.

Collective Bargaining Process Collective bargaining has two facets: **(i)** negotiating the work conditions that become the collective agreement (contract) describing employer-employee relationship on the job; and **(ii)** interpreting and enforcing the collective agreement (contract administration) and resolving any conflict arising out of it. Both these aspects are discussed here, though, contextually, the second is more relevant.

The process of collective bargaining involves six major steps (also *see* Fig. 24.2):

1. Preparing for negotiations
2. Identifying bargaining issues
3. Negotiation

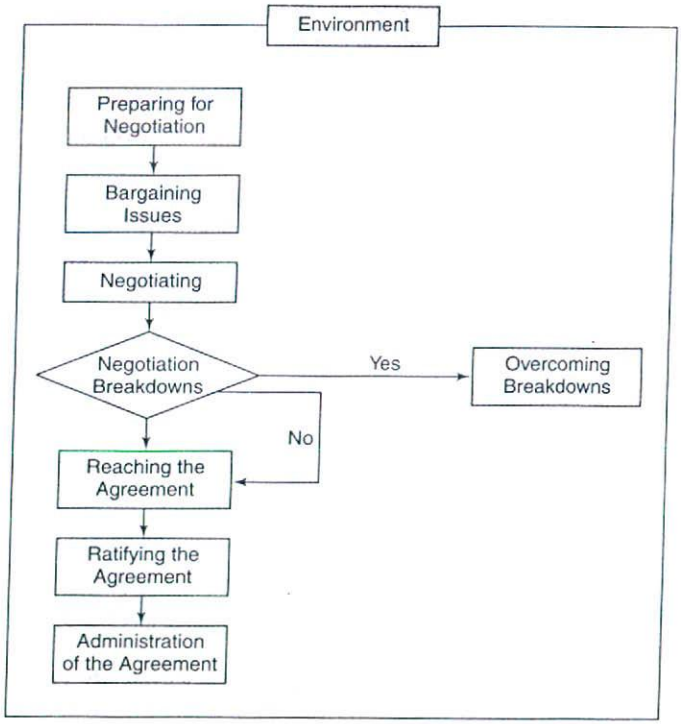


Fig. 24.2 The Collective Bargaining Process

Source: Adapted from R. Wayne Mondy and Robert M. Noe III, *Personnel: The Management of Human Resources*, p. 407.

4. Reaching the agreement
5. Ratifying the agreement
6. Administration of the agreement.

As seen in Fig. 24.2, the environment influences the collective-bargaining process. One environmental factor is the type of bargaining structure that exists between the union and the company. The four major types of structures are:[11]

(i) one company dealing with a single union, (ii) several companies dealing with a single union, (iii) several unions dealing with a single company, and (iv) several companies dealing with several unions. The bargaining process is simple and easy if the structure is of the first variety and becomes complicated and difficult in the remaining.

Another environmental factor influencing a collective-bargaining process is the type of union-management relationship which exists. The relationship may be marked by adversity or co-operation. Co-operative spirit facilitates collective bargaining, whereas non-cooperative spirit impedes the process.

Preparing for Negotiations Careful advance preparations by employers and employees are necessary because of the complexity of the issue and the broad range of topics to be discussed during negotiations. Effective bargaining means presenting an orderly and factual case to each side. Today, this requires much more skill and sophistication than it did in earlier days, when shouting, and expression of strong emotions in smoke filled rooms were frequently the keys to getting one's proposals accepted.[12]

From the management side the negotiators are required to:[13]

1. Prepare specific proposals for changes in the contract language,
2. Determine the general size of the economic package the company proposes to offer,
3. Prepare statistical displays and supportive data for use in negotiations, and
4. Prepare a bargaining book for company negotiations, a compilation of information on issues that will be discussed, giving an analysis of the effect of each case, its use in other companies, and other facts.

From the employees' side, the union should collect information in at least three areas:[14]

1. The financial position of the company and its ability to pay.
2. The attitude of the management towards various issues, as reflected in past negotiations or inferred from negotiations in similar companies.
3. The attitudes and desires of the employees.

The other arrangements to be made are selecting the negotiators from both sides and identifying a suitable site for negotiation.

Identifying Bargaining Issues The major issues discussed in collective bargaining fall under the following four categories:

1. *Wage-Related Issues* These include such topics as how basic wage rates are determined, cost of living adjustments, wage differentials, overtime rates, wage adjustments and the like.
2. *Supplementary Economic Benefits* These include such issues as pension plans, paid vacations, paid holidays, health insurance plans, retrenchment pay, unemployment pension, and the like.
3. *Institutional Issues* These consist of the rights and duties of employers, employees, unions, employees' stock ownership schemes, and QWL programmes.
4. *Administrative Issues* These include such issues as seniority, employee discipline and discharge procedures, employee health and safety, technological changes, work rules, job security, training, and the like.

While the last two categories contain important issues, the wage and benefit issues are the ones which receive the greatest amount of attention at the bargaining table.[15]

The memorandum of settlement reached by a Bangalore-based electrical company and its employees' association, which became operative from 1st July 1994, covered the following:

1. *Revision of wage structure of daily rated and monthly rated employees fitment*
2. *Dearness Allowance*
3. *House Rent Allowance*
4. *Weightage*
5. *Washing Allowance*
6. *Education Allowance*
7. *Transport*
8. *Leave Travel Assistance*
9. *Provident Fund*
10. *Retirement Benefit*
11. *Shift Timings and Shift Allowance*
12. *Hazards Allowance*
13. *Uniforms, Shoes and Stitching Charges*
14. *Festival Advance*
15. *Medical Reimbursement*
16. *Pension Scheme*
17. *Housing Loan*
18. *Promotion Policy*
19. *Vehicle Loan*
20. *Attendance Bonus*
21. *Service Award*
22. *Profit Sharing Bonus*
23. *Employment to next of kin of deceased and Retired Employees*
24. *National and Festival Holidays*
25. *Privilege Leave*
26. *Accommodation for Employees Association*
27. *First Aid Facility*
28. *Family Planning Benefit*
29. *Recognition of Kannada Hitha Rakshana Samithi*
30. *Settlement Period*
31. *All Other Prevailing Practices to continue*
32. *Retrospective Effect from 1-7-94*

Negotiating Preparations having been made and issues being identified, the next logical step in the collective-bargaining process is negotiation. The negotiating phase begins with each side presenting its initial demands. The negotiation goes on for days until the final agreement is reached. But before the agreement is reached, it is a battle of wits, playing on words, and threats of strikes and lockouts. It is a big relief to everybody when the agreement is finally signed by the management representatives and the union.

The success of negotiation depends on skills and abilities of the negotiators. Exhibit 24.3 contains guidelines for negotiations.

At times, negotiations may break down even though both the labour and the management may sincerely want to arrive at an amicable settlement. In order to get negotiations moving again, there are several measures that may be used:

1. Through third party intervention such as arbitration, and adjudication,
2. Unions tactics like strikes and boycotts, and
3. Management strategies such as lockouts, splitting the union, bribing union leaders, and using political influence.

Settlement and Contract Agreement After an initial agreement has been made, the two sides usually return to their respective constituencies to determine whether what they have informally agreed upon is acceptable. A particularly crucial stage is ratification. In this stage, the union-negotiating team explains and puts the agreement to the union members for a vote. If voted, this agreement is formalised into a contract. It is important that the contract must be clear and precise. Any ambiguity leads to grievances or other problems.

Administration of the Agreement Signing the agreement is not the end of collective bargaining, rather it is the beginning of the process. The agreement must be implemented according to the letter and spirit of the provisions of the agreement. But in day-to-day stress of the work environment, strict adherence to the provisions may not always be easy. Moreover, it may be difficult to draft a flawless agreement, notwithstanding the exacting efforts of the most experienced negotiators and lawyers specialised in IR.

Flaws are allowed to continue till the expiry of the agreement period. Faulty implementation or violation of any provision leads to disputes.

Exhibit 24.3 ***Guidelines for Negotiations***

The "Dos" of Negotiations:

1. Do seek more (or offer less) than you plan to receive (or give).
2. Do negotiate in private, not through the media.
3. Do let both sides win. Otherwise the other side may retaliate.
4. Do start with easy issues.
5. Do remember that negotiations are seldom over when the agreement is concluded. Eventually the contract will be renegotiated.
6. Do resolve deadlocks by stressing past progress, another point, or counter proposals.
7. Do enlist the support of the Federal Mediation and conciliation service if a strike seems likely.

The "Don'ts" of Negotiations:

1. Do not make your best offer first; that is so uncommon that the other side will expect more.
2. Do not seek unwanted changes; you may get them.
3. Do not say "no" absolutely, unless your organisation will back you up absolutely.
4. Do not violate a confidence.
5. Do not settle too quickly. Union members may think a quick settlement is not a good one.
6. Do not let the other side bypass your team and go directly to the top management.
7. Do not let the top management actually participate in face-to-face negotiations. They are often inexperienced and poorly informed.

Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, New York, McGraw-Hill, 1993, p. 574.

The management is primarily responsible for implementing the agreement, which must be communicated to all affected levels. This could include meetings or training sessions not only to point out significant features, but also to provide a clause-by-clause analysis. Supervisors, in particular, need to know their responsibilities and what to do when disagreements arise. Additionally, managers can be encouraged to notify the top management of any contract provisions that are causing problems so that they can be considered when preparing for the next round of negotiations.[16]

The HR manager plays crucial role in the day-to-day administration of the contract. He or she advises on matters of discipline and works to resolve grievances arising out of the agreement. In addition, he or she works, with the line management to establish good working relationship with all employees affected by the terms and conditions of the agreement.

Collective Bargaining as a Method of Settlement of Disputes Till now, collective bargaining has been taken as a means of arriving at an agreement. Its role in settling disputes deserves a mention in this context.

Collective bargaining creates, as stated earlier, a system of industrial jurisprudence. It establishes rules which the management is bound to implement. Specifically, collective bargaining is:

- A rule-making or legislative process, in the sense that it formulates the terms and conditions under which labour and management will cooperate and work together over a certain stated period,
- An executive process; both management (foreman and supervisory officials) and trade union officials share the responsibility of enforcing the rules.
- A judicial process, for in every collective agreement there is a grievance procedure to settle any dispute concerning the application of the agreement. Where the agreement does not specifically cover

the disputes, it may be settled according to the unwritten norms of shop practices. The decisions in these cases act as precedents in a manner similar to the common laws and interpretation of the legislation by the court.

After a dispute has erupted, collective bargaining acts as a peace treaty between the two warring groups. The treaty is invariably a compromise, but helps resolve the conflict nevertheless.

Status of Collective Bargaining Table 24.2 shows the status of collective bargaining in our country. The number of agreements signed between employers and employees dropped from 959 in 1988 to 787 in 1991. So far as the issues are concerned, personnel matters have been predominant in all bargains.

Table 24.2 **Status of Collective Bargaining**

Year	*No. of Agreements*	*Issues*		
		Monitory	*Health and Welfare*	*Personnel*
1988	959	225	74	620
1989	961	164	44	733
1990	886	243	104	766
1991	787	205	108	670

Source: *Financial Express*, July 3, 1993.

Code of Discipline

The code of discipline defines duties and responsibilities of employers and workers. The objectives of the code are:

1. To ensure that employers and employees recognise each other's rights and obligations;
2. To promote constructive co-operation between the parties concerned at all levels;
3. To secure settlement of disputes and grievances by negotiation, conciliation, and voluntary arbitration;
4. To eliminate all forms of coercion, intimidation, and violence in IR;
5. To avoid work stoppages;
6. To facilitate the free growth of trade unions; and
7. To maintain discipline in industry.

Just as there are codes of ethics, there are codes of discipline. A code of discipline defines duties and responsibilities of employers and employees.

The Third Five Year Plan document notes that the code lays down specific obligations for the management and the worker with the objective of promoting constructive co-operation between their representatives at all levels, avoiding stoppages as well as litigation, securing settlement of grievances by mutual negotiation, conciliation and voluntary arbitration, facilitating the growth of trade unions and eliminating all forms of coercion and violence in IR.

The code of discipline evolved by the Ministry of Labour and Employment is given below.

Code of Discipline in Industry as Evolved by the Ministry of Labour and Employment The code does not have any legal sanction. But the following moral sanctions are behind it:

1. To maintain discipline in industry: (both in Public and Private Sectors)

There has to be (i) a just recognition by employers and workers of the rights and responsibilities of either party, as defined by the laws and agreements (including bipartite and tripartite agreement arrived at all levels from time to time); and (ii) a proper and willing discharge by either party of its obligations consequent on such recognition.

The Central and State Governments, on their part, will arrange to examine and set right any shortcomings in the machinery they constitute for the administration of labour laws.

2. To ensure better discipline in industry:

(a) Management and Union agree:

(i) that no unilateral action should be taken in connection with any industrial matter and that disputes should be settled at appropriate level;

(ii) that the existing machinery for settlement of disputes should be utilised with the utmost expedition;

(iii) that there should be no strike or lockout without notice;

(iv) that affirming their faith in democratic principles, they bind themselves to settle all future differences, disputes and grievances by mutual negotiations, conciliation and voluntary arbitration; provided that the provision regarding voluntary arbitration as aforesaid shall not apply to cases involving security consideration;

(v) that neither party will have recourse to (a) coercion; (b) intimidation; (c) victimisation; or (d) go-slow;

(vi) that they will avoid (a) litigation; (b) sitdown and stay in strikes; and (c) lockouts;

(vii) that they will promote constructive co-operation between their representatives at all levels and as between workers themselves and abide by the spirit of agreements mutually entered into;

(viii) that they will establish, upon a mutually agreed basis, a grievance procedure which will ensure a speedy and full investigation leading to settlement;

(ix) that they will abide by various stages in the grievance procedure and take up no arbitrary action which would by-pass this procedure and;

(x) that they will educate the management personnel and workers regarding their obligations to each other.

(b) Management agrees:

(i) not to increase work-loads unless agreed upon or settled otherwise;

(ii) not to support or encourage any unfair labour practice such as (a) interference with the right of employees to enroll or continue as union members; (b) discrimination, restraint or coercion against any employee because of

recognised activity of trade unions; and (c) victimisation of any employee and abuse of authority in any form;

(iii) to take prompt action for (a) settlement of grievances; and (b) implementation of settlements, awards, decisions and orders;

(iv) to display in conspicuous places in the undertaking the provisions of this Code in the local language;

(v) to distinguish between action justifying immediate discharge and those where discharge must be proceeded by a warning, reprimand, suspension or some other form of disciplinary action and to arrange all such disciplinary action should be subject to an appeal through normal grievance procedure;

(vi) to take appropriate disciplinary action against its officers and members in cases where enquiries reveal that they were responsible to precipitate action by workers leading to indiscipline; and

(vii) to recognise the union in accordance with the criteria (Appendix) evolved at the 16th Session of the Indian Labour Conference held in May 1958.

(c) Unions agree:

(i) not to engage in any form of physical duress;

(ii) not to permit demonstrations which are not peaceful and not permit rowdyism in demonstration;

(iii) that their members will not engage or cause other employees to engage in any union activity during working hours, unless as provided for by law, agreement or practice;

(iv) to discourage unfair labour practices such as (a) negligence of duty; (b) careless operation; (c) damage to property; (d) interference with or disturbance to normal work; and (e) insubordination;

(v) to take prompt action to implement awards, agreements, settlements and decisions;

(vi) to display in conspicuous places in the union offices, the provisions of this Code in the local language; and

(vii) to express disapproval and to take appropriate action against office-bearers and members for indulging in action against the spirit of this Code.

1. The central employers' and workers' organisations shall take the following steps against their constituent units when they are guilty of breach of the code:
   (i) to ask the unit to explain the infringement of any provision of the code;
   (ii) to give notice to the unit to set right the infringement within a specific period;
   (iii) to warn, and in case of infringement of a more serious nature, to censure the unit concerned for its actions persisting in the infringement;
   (iv) to disaffiliate the unit from its membership in case of persistent violation of the code; and
   (v) not to give countenance, in any manner, to non-members who do not observe the code.

2. Grave, wilful and persistent breaches of the code by any party should be widely publicised.
3. Failure to observe the code would entail de-recognition, normally for a period of one year. This period may be increased or decreased by the concerned implementing committee.
4. A dispute may not ordinarily be referred for adjudication if there is a strike or lock-out without proper notice or any breach of the code as determined by an implementation machinery unless such strike or lockout, as the case may be, is called off.

According to the National Commission on Labour, the code has had only limited success and was obviously not the answer to the IR problems. The code began to rust and the parties were more eager to take it off. They developed an attitude of indifference. As regards the future of the code, the Commission was in favour of giving a legal form to its important provisions regarding recognition of unions, grievance procedure, unfair labour practices and the like. With the removal of these provisions from the code in order to give them a statutory shape, the code will have no useful function to perform.[17]

Grievance Procedure

Grievance procedure is another method of resolving disputes. All labour agreements contain some form of grievance procedure. And if the procedure is followed strictly, any dispute can easily be resolved.

In the meanwhile, a grievance may be understood as an employee's dissatisfaction or feeling of personal injustice relating to his or her employment relationship.[18] A grievance is generally well-defined in a collective-bargaining agreement. It is usually restricted to violations of the terms and conditions of employment. Other conditions which may give rise to a grievance are:

1. A violation of law,
2. A violation of the intent of the parties as stipulated during contract negotiations,
3. A violation of company rules,
4. A change in working conditions or past company practices, and
5. A violation of health and/or safety standards.

When an employee believes that the labour agreement has been violated, he or she files a grievance. The grievance needs to be resolved according to a set procedure.

Grievance procedures generally establish the following:

1. How the grievance will be initiated?
2. The number of steps in the process.
3. Who will represent each party?
4. The specified number of working days within which the grievance must be taken to the next step in the hearing.

A typical grievance procedure followed in a Bangalore-based public sector unit is as follows (also *see* Fig. 24.3):

1. ***First Stage:***

   The aggrieved employee shall, first submit his grievance in writing to his 'Sectional Head' (nominated by the management from time to time for this purpose) in the prescribed form. The sectional head should study the grievance carefully with the least possible delay and the aggrieved employee should be given an opportunity to present his case in person if he requests for the same. If the employee so desires, he may take the assistance of a co-worker or a union representative. A written reply shall be given to the employee before the end of the fifth working day, if reply is not given before the end of the fifth working day, the concerned officer should record reasons for the delay which should be communicated to the aggrieved employee.

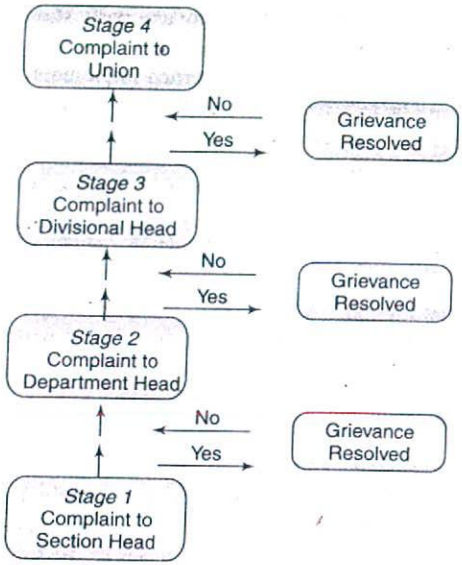


Fig. 24.3 Grievance Procedure

2. ***Second Stage:***
   In case the said employee is not satisfied with the reply of the sectional head, or if the Sectional Head fails to give a reply within the stipulated time as in First stage above, he shall be free to register his grievance in writing in the prescribed form with his Departmental Head (nominated by the management from time to time for this purpose). Departmental head shall, after careful study, give an opportunity to the concerned person to present his case before him, if the employee expresses a desire to be heard in person. The employee may be permitted to take the assistance of a co-employee or a Union representative of his choice at the time of personal hearing. The head of the department should study the grievance and the points brought out by the employee in the personal hearing and give a reply at the end of the fifth working day from the day of receipt of such complaint.
3. ***Third Stage:***
   If the employee is not satisfied with the decision of the departmental head or if the latter fails to give any decision within the stipulated period, the employee will be entitled to lodge an appeal to the Divisional Head or any other officer nominated by the management for this purpose. This officer should also follow the same procedure as prescribed in Stages I and II and a reply should be given before the end of the tenth working day. If the employee so desires, he may be permitted to take the assistance of a co-employee of his choice or an office bearer or Executive Committee member of the Union at the time of personal hearing.

   If the aggrieved employee is not satisfied with the decision of the divisional head, he can refer the case to THE EMPLOYEES' UNION within 10 days. The Union may discuss the subject if they deem fit, in the periodical management-union meetings which will be held within one month from the day, such reference is made by the Union to the management.
4. ***General:***
   (i) *If the employee intends to take his case from one stage to another, he shall do so before the expiry of five days at Stages I and II and 10 days at the Stage III. If the employee is not on duty for any reason for any period that period will not be reckoned for calculating the period.*

(ii) *If the employee has to leave the department during working hours on call from any officer with reference to the grievance, prior permission of his immediate superior shall necessarily be obtained.*

(iii) *Officers handling grievances at Stages I and II shall associate the concerned Personnel Officer of the Division during discussions on the grievance of the employees. The officer at Stage III shall associate Deputy Personnel Manager in the discussions and settlements.*

(iv) *Acknowledgement for receipt of grievances including complaint should be given to the employee at every stage.*

(v) *The decision given in Stages I, II and III in favour of an aggrieved employee will generally be implemented by the management.*

5. ***Schedule and Procedure for Grievance Handling—Guidance to Officers***

(i) *Try to avoid problems in your department before they cause grievances.*

(ii) *Be a good listener. Even though you feel that the aggrieved worker is wrong, listen patiently to his complaint. Find out what really is the basis of his dissatisfaction. Show interest in his problem.*

(iii) *Use a positive, friendly approach. Avoid either aggressiveness or a defensive attitude.*

(iv) *Have patience, pounding the table and shouting does not settle anything.*

(v) *Avoid personal consideration. What counts is not who is right, but what is right.*

(vi) *Remember that you and the employee will have to work together, to settle other issues in future.*

(vii) *Do not get upset or resort to threats. If you and the employee do not come to an agreement, there are further steps to settle the issue.*

(viii) *Appeal to the management's interest. It is in their interest also, to have grievances settled satisfactorily and to keep the morale high.*

(ix) *Settle each grievance on its merit. Do not give up one grievances case in order to get a favourable decision in another.*

(x) *Remember that the management too has its rights, that both the workers and the management must live upto the terms of agreement.*

(xi) *Keep the aggrieved worker constantly informed as to what is being done about his grievance.*

(xii) *Permit the employee to correct his mistake without loss of face or dignity. Present the facts and give the employee time to consider your arguments. An objective decision shall be taken on the facts and circumstances of the case within the framework of rules and regulations of the company.*

(xiii) *After a decision has been reached on a grievance by the management and the concerned employee, ensure that the decision is carried out expeditiously.*

There may be variations in the procedures followed for resolving employee grievances. Variations may result from such factors as organisational or decision-making structures or size of the plant or the company. Larger organisations do tend to have more formal procedures involving a succession of steps. Some general principles which should guide any procedure are:

1. Grievance must be addressed promptly.
2. Procedures and forms airing grievances must be easy to utilise and well-understood by employees and their supervisors.
3. Ego clashes should not be allowed to impede the resolution of disputes.
4. Occurrence of similar grievances must be avoided.

Arbitration

Arbitration is another method of resolving industrial disputes. It refers to a procedure in which a neutral third party studies the dispute, listens to both the parties and collects information, and makes recommendations which are binding on both the parties.

Arbitration is a procedure in which a neutral third party studies the bargaining situation, listens to both the parties and gathers information, and then makes recommendations that are binding on the parties.[19] Arbitration is effective as a means of resolving disputes because it is:

1. Established by the parties themselves and the decision is acceptable to them, and
2. Relatively expeditious when compared to courts or tribunals. Delays are cut down and settlements are speeded up.

Arbitration has achieved a certain degree of success in resolving disputes between the labour and the management. However, it is not without its weaknesses. Some weaknesses are:

1. Arbitration is expensive. The expenditure needs to be shared by the labour and the management.
2. Judgement becomes arbitrary if there is a mistake in selecting the arbitrator.
3. Too much arbitration is not a sign of healthy IR.

The labour union generally takes initiative to go for arbitration. When the union so decides, it notifies the management. At this point, the union and the company must select an arbitrator. When considering potential arbitrators, both the management and the labour will study their previous decisions in an attempt to detect any biases. Neither party wants to select an arbitrator who might be unfavourble to its position.

After the arbitrator has been selected and he or she has agreed to serve, a time and place for hearing will be determined. The issue to be resolved will be presented to the arbitrator in a document that summarises the question or questions to be decided, and any contract restrictions that prohibit the arbitrator from making an award that would change the terms of the existing contract.

Each side presents its case at the hearing. Arbitration is an adversary proceeding, so a case may be lost because of poor preparation and presentation. The arbitrator may conduct the hearing much like a courtroom proceeding. Witnesses, cross-examination, transcripts, and legal counsel may all be used. The parties may also submit or be asked by the arbitrators to submit formal written statements. After the hearing, the arbitrator studies the materials submitted and the testimony given, and reaches a decision within 30 to 60 days. The decision is usually accompanied by a written opinion giving the reasons supporting the decision.

Arbitration and the Industrial Disputes Act, 1947 Section 10-A provides that where any industrial dispute exists or is apprehended, and the employer and the workmen agree to refer the dispute to arbitration, they may do so by a written agreement. They can, however, do so at any time before the dispute has been referred to a labour court or industrial tribunal or national tribunal.

The arbitrator shall investigate the dispute and submit the report to the appropriate government.

Where a dispute has been referred for arbitration, the appropriate government may prohibit the continuance of any strike or lockout which may be in existence at the time of the reference.

Conciliation

Conciliation is a process by which representatives of workers and employers are brought together before a third party with a view to persuading them to arrive at an agreement by mutual discussion between them. The third party may be one individual or a group of people. The alternative name for the third party is mediators.

The Industrial Disputes Act, 1947 provides for the appointment of conciliators. Section 4 of the Act states that the appropriate government shall appoint such number of persons as it thinks fit as conciliation

officers. The main duty of a conciliation officer shall be to mediate in and promote the settlement of industrial disputes. The other duties are:

1. To hold conciliatory proceedings;
2. To investigate the dispute;
3. To send a report and memorandum of settlement to the appropriate government; and
4. To send a full report to the appropriate government setting forth the steps taken, in case no settlement is arrived at.

The conciliation officer shall submit his or her report within 14 days from the date of commencement of the conciliation proceedings. The Act prohibits a strike or a lockout when the conciliation proceedings are in progress.

It may be stated that the conciliator has no power to force a settlement, but can work with the parties separately to determine their respective positions, explains a position more fully to the opposition, points out bases for agreement that may not have been apparent previously, helps in the search for solutions, and generally facilitates the reach of an agreement.

In effect, mediators act as communications catalyst, and their effectiveness depends on their impartiality and on their capacity to win the trust of both parties.[20]

Adjudication

When the parties to a dispute fail to resolve their conflict through other methods, do they resort to adjudication? **Adjudication** means a mandatory settlement of an industrial dispute by a labour court or a tribunal.

Adjudication means a mandatory settlement of an industrial dispute by a labour court or a tribunal. Generally, the government refers a dispute for adjudication depending on the failure of conciliation proceedings. Section 10 of the Industrial Disputes Act, 1947, provides for reference of a dispute to labour court or tribunal. The Act also lays down rules regarding the composition and powers of labour courts and tribunals.

Disputes are generally referred to adjudication on the recommendation of the conciliation officer who had dealt with them earlier. However, the government has discretionary powers to accept or reject recommendations of the conciliation officer. It is obvious that once a dispute is referred for adjudication, the verdict of a labour court or tribunal is binding on both the parties.

The system of adjudication is the most significant instrument of resolving disputes. But, it has been criticised because of the delay involved in resolving conflicts. Continued dependence on adjudication deprives the trade unions of their right to recognise and consolidate their strength.

Consultative Machinery

Towards the end, it is essential to refer to the consultative machinery set by the government to resolve conflicts. The main function of consultative machinery is to bring the parties together for mutual settlement of differences in a spirit of co-operation and goodwill. A consultative machinery operates at the plant, industry, state and the national levels. At the plant level, there are works committees and joint management councils. Being essentially bipartite in character, works committees are constituted as per the provisions of the Industrial Disputes Act, 1947, and joint management councils are set up following the trust laid down in the Industrial Policy Resolution, 1956. At the industry level, there are wage boards and industrial committees.

Labour advisory boards operate at the state level and at the all India level there are the Indian Labour Conference (ILC) and the Standing Labour Committee (SLC). The bodies operating at the state and national levels are tripartite in character, representing government, labour and management. Important legislative proposals are discussed and recommended by the ILC and SLC.

? Pause and Ponder

There is a dispute between the Dean of a B-School and its Director on disciplining an errant student. Which method do you suggest to resolve the dispute between the Dean and the Director? Why?

SUMMARY

Industrial disputes essentially refer to differences or conflicts between employers and employees. Disputes arise because of wage demands, union rivalry, political interference, unfair labour practices, labour laws and others.

The number of disputes is ever increasing and the consequences will he harmful to the owners of industries, workers, economy and the nation. Hence, disputes need to be resolved soon. Settlement machinery comprises collective bargaining, code of discipline, grievance procedure, arbitration, conciliation, adjudication, and consultative machinery.

In collective bargaining, representatives of both management as well as employees meet, discuss, and arrive at mutually agreeable benefits. It is a delicate but effective method of resolving disputes and hence, needs to be planned and managed carefully.

Code of discipline defines duties and responsibilities of employers and employees. If these norms are strictly followed, scope for disputes shall be minimised. The Ministry of Labour has evolved a code of discipline for Indian industries.

A grievance occurs when the provision of any law is violated, or terms and conditions of employment are flouted by management. The aggrieved worker can seek redressal through a set procedure. If the grievance is not settled, recourse to arbitration is taken.

In arbitration, a third party intervenes and whatever recommendation, the party makes, is binding on the warring groups. While the arbitrator has power to enforce his or her decision, a conciliator cannot do so. The role of a conciliator, also called the mediator, is to bring the two feuding factions together, make them discuss the issue and enable them to arrive at a solution. Adjudication is a mandatory settlement of a dispute by a labour court or tribunal. It is the conciliator who recommends reference to adjudication.

Consultative machinery refers to bipartite and tripartite bodies operating at the plant, industry, state and the national levels. The purpose of these bodies is to bring the parties together for mutual settlement of disputes.

KEY TERMS

Adjudication
Arbitration
Bargaining issues
Code of discipline
Collective bargaining
Conciliation
Consultative machinery
Grievance procedure
Industrial disputes
Labour agreement
Unfair labour practices

REVIEW QUESTIONS

1. What is an industrial dispute? What are the causes for disputes?
2. Bring out the nature of collective bargaining. What is its role in resolving disputes?

3. What is arbitration? How does it help resolve industrial conflict?
4. What is grievance procedure? Bring out its merits and demerits.

DISCUSSION QUESTIONS

1. Describe and comment on:
   (a) Code of discipline
   (b) Unfair labour practices
2. Describe the major collective bargaining issues of today. What do you foresee as the major issues of the future? Elaborate.
3. How does arbitration differ from grievance procedure? Bring out the respective roles in resolving disputes.

Closing Case

Protest Over Job Losses

Bitter it may taste, shrill it may sound, and sleeplees nights it may cause, but it is true. In a major shake up, Airbus—the European aircraft manufacturer—has thrown a big shock to its employees. Before coming to the details of the shock, a peep into the company's resume.

Name: Airbus
Created: 1970
President, CEO: Louis Gallois
Employees: 57,000
Turnover (2006): 26 bn (Euro)
Total aircraft sold(Feb.2007): 7187
Delivered: 4598
Headquarters: Toulouse (France)
Facilities: 16
Rival: Boeing

Airbus announced on February 27, 2007, that it would shed 10,000 jobs across four European countries and sell six of its units. On the same day the hapless workers did what was expected of them—downed tools and staged protests. The protesting workers at Airbus's factory at Meaulte, northern France, were seen picketing outside the factory gate after holding up production a day earlier. To be fair to Airbus, its management entered talks with unions before the job loss and sale was formally announced. But the talks did not mollify the agitated workers.

Job shedding and hiring of units are a part of Power8 restructuring plan unleashed by Airbus to save itself from increasing loss of its ground to the arch rival, Boeing Co.

Airbus's Power8 strategy was first mooted in October 2006, but sparked a split between France and Germany over the distribution of job losses, and the placement of future ones. Later, the two countries agreed to share both job losses and new technology.

The Power8 plan, if finalised, would mean a 9 per cent reduction to Airbus's 55,000 employee strength.

Questions

1. Why should Power8 focus on shedding jobs to save on cost? Are there no alternative strategies?
2. Will the proposed shedding of jobs and sale of six units help Airbus survive the intense competition from Boeing?

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SECTION 7

List of Chapters

25. Managing Ethical Issues in Human Resource Management
26. Evaluating HRM Effectiveness
27. Contemporary Issues in HRM
28. International Human Resource Management
29. The e-HR

CHAPTER 25

Managing Ethical Issues in Human Resource Management

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- The nature, need and sources of business ethics
- The importance of ethics
- Ethical misconduct in personnel function
- How to manage ethics
- Ethical decision making

Opening Vignettes

QUESTION OF ETHICS

- A Japanese company's recent attempt to lay off one of its workers provides an example of the ethical issues of such an action in another culture. Japanese companies have traditionally offered lifetime employment and have set the example for employment security practices throughout the world. However, many Japanese companies have bloated work force, and lifetime employment has somewhat eroded, even though layoffs are opposed by Japanese culture and restricted by law. As a result some companies have attempted to get some of their lower-performing employees to quit.

  Sega Enterprises Ltd., the producer of video games, wanted to lay off Toshiyuki Sakai, one of its employees in Tokyo. Sega proceeded to inform Sakai that his performance was substandard and offered him a severance package. He refused to quit and rejected the package. The following account of the company's treatment of Sakai after he turned down the company's severance offer raises some important ethical concerns.

  Three days later, Sega told Sakai to take home all personal belongings, turn in all company property and report to an office dubbed the "Pasona Room," after the English word personnel. He arrived to find the room empty, except for a desk, three chairs, a bare locker and a telephone that couldn't make outside calls. Sakai was given no work to perform and allowed no diversions. He was being laid off, Japanese style, "I'm not going to be able to hold out for a day of this," Sakai recalls thinking. Months later, however, he was still clocking 40 hours a week there. Sakai had written orders to stay in the room every day from precisely 8.30 am to 5.15 pm. In late April, Sega announced a plan to cut its work force by one-quarter. By June, 750 employees had accepted severance packages. Sakai claims that Sega

used the Pasona Room to frighten others into taking its buyout offers. "Everyone's afraid they might be the next to be thrown into solitary confinement," he says.[1]

- In International business, both physical resources and capital cross national borders freely whereas labour is heavily restricted. In fact, it is very difficult in many countries to get a permit allowing you to be gainfully employed in that country. Thus, while companies are free to set up production in markets where labour is cheap, labour cannot move to markets where wages are higher.[2]
- MNCs often relocate factories from industralised nations with high labour costs to such low-wage countries as China, India, Mexico and the nations of Central America. These MNCs are charged of exploiting child labour, forcing women to work 75 hours a week and destroying family units.[3]
- Chung Mong-Koo, head of Hyundai Motors, the sixth largest car maker in the world, has been sentenced to three years in jail on charges of embezzlement and breach of trust, in an unusually harsh punishment for a business executive in South Korea. The idea behind the punishment is to eradicate illegal and anti-market practices and help build a robust S.Korean economy.

Though the above vignettes bring out ethical issues in international business, domestic business is not free from them. The HR manager of domestic business faces ethical dilemmas while managing people, as he/she needs to provide ethical leadership to his/her firm even on areas not connected with employee management. This chapter is devoted to a detailed discussion on the nature of ethics and the manner in which ethical issues relate to HR situations.

NATURE OF ETHICS

Ethics refers to a system of moral principles—a sense of right and wrong, and goodness and badness of actions and the motives and consequences of these actions. As applied to busine firms, ethics is the study of good and evil, right and wrong, and just and unjust actions of businesspeople.[4]

Business ethics does not differ from generally accepted norms of good or bad practices. If dishonesty is considered to be unethical and immoral in the society, then any business person who is dishonest with his or her employees, customers, shareholders or competitors is an unethical and immoral person. If protecting others from any harm is considered to be ethical, then a company which recalls a defective or harmful product from the market is an ethical company. To be considered ethical, businesspersons must draw their ideas about 'what is desirable behaviour' from the same sources as anybody else would draw. Businesspersons should not try to evolve their own principles to justify 'what is right and what is wrong'. Employees and employers may be tempted to apply special or weaker ethical rules to business situations. But the society does not condone such exceptions. People who are in business are bound by the same ethical principles that apply to others.[5]

Ethics refers to the study of good and evil, right and wrong, and just and unjust actions of business people. Business ethics is the same as the generally accepted norms of good or bad practices. If dishonesty is immoral in society, then any business person practising a dishonest act is treated as indulging in unethical actions.

Two theories are pertinent when one talks about the nature of ethics.

The *theory of moral unity* essentially advocates the principle that business actions should be judged by the general ethical standards of the society. There exists only one set of ethical standards which applies to business and non-business situations.

Opposite to this is the *theory of amorality*, which argues that a business can be amoral, and actions of businesspeople need not be guided by general ethical standards. Managers may act selfishly because the market mechanism distills their actions into benefits to shareholders and the society at large. Adam Smith argued that, "the invisible hand of the market assures that by pursuing his own interest (a merchant) frequently promotes that of the society more effectively than when he really intends to promote it". In this way, capitalism provides moral justifications to the pursuit of profit through a behaviour which is not purposefully ethical.[6]

However, the theory of amorality is not acceptable to anybody. Every one agrees that business actions should be subject to the same ethical standards as are applicable to the society in general.

SOURCES OF BUSINESS ETHICS

HR managers in every society are influenced by three repositories of ethical values—religion, culture, and law. These repositories contain unique systems of values that exert varying degrees of control over managers. A common thread—*idea of reciprocity or mutual help*—runs through all the value systems. This idea reflects the central purpose of all ethics, which is to bind the vast majority of individuals in the society into a co-operative whole. Ethical values constitute a mechanism that controls behaviour in HR situations and in other walks of life. Ethics-driven restraints are more effective than restrictive controls such as police, law suits, or economic incentives. Ethical values channellise the individual energies into pursuits that are benign to others and beneficial to the society.

Religion

One of the oldest sources of ethical inspiration is religion. More than 1,00,000 different religions exist across the globe. Despite doctrinal differences, the major religions converge on the belief that ethics is an expression of divine will that reveals the nature of right and wrong in business and other walks of life. The world's great religions are also in agreement on the fundamental principles, which are similar to the building blocks of a secular ethical doctrine. The *principle of reciprocity* towards one's fellow human beings is found in all major religions such as Hinduism, Buddhism, Christianity, Islam, Judaism, and Confucianism. The great religions preach the necessity for an orderly social system and emphasise social responsibility with an objective to contribute to the general welfare. Built upon such verities are many other rules of conduct.[7]

Cultural Experience

Culture refers to a set of values, rules and standards transmitted among generations and are aimed at modelling behaviours so that they fall within acceptable limits. These rules and standards always play an important part in determining values, because individuals anchor their conduct in the culture of the group in which they belong. Civilisation itself is a cumulative cultural experience in which people have passed through three distinct phases of moral codification. These phases correspond to the changes in economic and social arrangements.

Culture determines what is ethical and what is not. Cultural norms play important role in determining values because individuals anchor their conduct in the culture of the group in which they belong.

For hundreds of generations, during the *hunting and gathering stage* of human development, ethics was adapted to conditions in which our ancestors had to be ready to fight, face brutal foes, and suffer the hostile forces of nature. Under such circumstances, a premium was placed on pugnacity, appetite, greed, and sexual readiness, since it was often the strongest who survived. Brute force and violence were thus accepted norms of trade ethics in this early phase of civilisation.

Civilisation passed into an *agricultural stage* approximately 10,000 years ago, beginning at a time when industriousness was more important than ferocity, temperance paid greater dividends than violence, monogamy became the prevailing sexual custom and peace came to be valued over wars, which destroyed crops and animals. These new values were codified into ethical systems which guide the managers even today.

Two centuries ago, the society entered into an *industrial stage* of cultural experience and ethical systems, which once again began evolving to reflect the changing, physical, cultural, institutional, and intellectual environment. Large factories and corporations, growth of population, capitalist and socialist economic doctrines, and technology have all replaced the ethical standards of the agrarian stage. Industrialism has not created any distinct ethics, but it has created tensions with old ethical systems based on the values of agricultural societies. It has done this by changing values related to 'what is good and what is bad.' For example, the copious production of material goods from factories has encouraged materialism and consumption at the expense of older virtues such as moderation. Managers run an industrial enterprise on the cutting edge of cultural experience. The tensions that their actions create make businesses ethically more complex. For instance, the widespread use of computers for data storage and communication have raised security-related issues.[8]

The Legal System

Laws are rules of conduct, approved by legislatures, that guide human behaviour in any society. They codify ethical expectations and change as new evils emerge. But laws cannot cover all ethical expectations of the society. Law is reactive—new statute and enforcement always lag behind the opportunity for corporate expediency.

Whatever ethics the law codifies, it is binding on businesses. The society expects businesses to abide by the law. Obeying the law is presumed to be ethical behaviour.

Although the society expects businesses to be law abiding, seldom do the businesses adhere to the rules. Law breaking in business is common. Taxes are evaded, hundreds of employees die because of occupational diseases, many perish because of industrial accidents, and millions others receive disabling injuries on the job. The blame for these death and injuries had to be shared by careless employees and employers who fail to adhere to occupational health and safety laws.

Consumers suffer because of poor-quality and high-priced products supplied by businessmen. Businesses that degrade the environment by disregarding environment protection laws cause misery to the society.

MYTHS ABOUT ETHICS

Five myths about ethics prevail in literature on the subject. Some advocate its relevance in business education whereas others argue that "business ethics" is an oxymoron, or a contradiction in terms. The five myths are presented in Fig. 25.1 and are explained in next paragraphs in this section.[9]

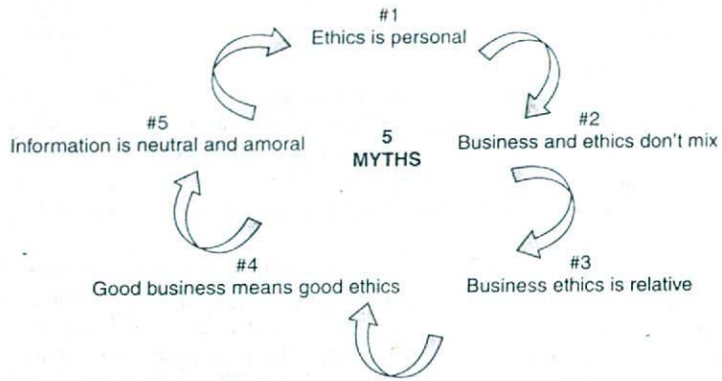


Fig. 25.1 Five Business Ethics Myths

Source: Joseph W.Weiss, *Business Ethics*, p. 16.

Myth 1: Ethics is Personal and Confined to Self An individual has a right to decide what is right and what is wrong—ethical or unethical acts are laid down by the culture of the society in which he or she is a part. The Constitution of India too recognises and confers rights on Indian citizens to make choices and behave.

But the individual's choice of right and wrong is not absolute. The right is constrained by public interest abuse. An individual cannot murder another merely because he or she believes it is the right act. A woman, similarly, cannot practise prostitution simply because she is of the belief that the act is not immoral. Public interest limits the individual's decision.

Extending to public life, freedom of the individuals to decide on ethically or the opposite of it is constrained by the demands of the organisation. Individuals are integral parts of organisational cultures, which have norms, values, rules of conduct, and standards to govern what is acceptable and unacceptable. To say that individuals have absolute rights independent of the organisation is to deny the impact of the latter on the attitudes and perceptions of the employees.

Organisational ethics are the summation of the moral beliefs of individual employees. In otherwords, commissions and omissions of employees become the onus of the organisation. Organisations do not commit crimes, individuals do.

Myth 2: Business and Ethics Do not Jell 'Honesty is the best policy—but not in business' is the accepted notion now-a-days. Businesses operate in a free and competitive market striving hard to earn profit. Management of a business firm is based on scientific and not on religious or ethical principles.

The above argument, though relevant decades back is not acceptable now. Business cannot operate in vacuum. It is an integral part of society and society's principles, norms and values apply to business also. If business people act amorally, result would be chaos. Employees would openly steal from employers; employers would recklessly fire employees at will; contractors breach agreements; and the like.

Myth 3: Ethics in Business is Relative The third and the most popular myth about business ethics is that it is relative. Right or wrong is in the eyes of the beholder. In otherwords, what is right or what is wrong is determined by what a culture or society says is right or wrong. What is right in one place may be wrong in another, because the only criterion for distinguishing right from wrong—and so the only ethical standard for judging an action—is the moral system of the society in which the act occurs, or the situation in which it has taken place.

Permissive sex is a taboo in Indian society but is acceptable elsewhere. Abortion is condemned as immoral in Catholic Ireland but is practised as a morally neutral form of birth control in Japan. According to the ethical relativists, permissive sex and abortion are unethical at some places but are permissible in some other societies. Likewise, polygamy, pedophilia, stealing, slavery, infanticide, and cannibalism have all been tolerated or even encouraged by the moral system of one society or another. What Adolph Hitler did in Germany was acceptable to his followers and therefore, it was ethical.

The relativist ethos are not acceptable to international business. How can contractual obligations across the countries be enforced, if some societies renege on their agreements as such acts are permissible in their societies? How can labour move across borders if travel by sea or air is not acceptable to some as was the belief held by Indians during the early years of the 20th century? How could interactions, communications, transactions, and negotiations be completed if relativism is carried to its logical extreme—where no one could argue or disagree with any one about moral issues, since each person's values would be right and true for him or her.

Myth 4: Good Business Means Good Ethics The argument here is that executives and firms that maintain a good corporate image, practise this and equitable dealings with customers and employees, and earn profits by legitimate, legal means are defacto ethical. Such firms need not be concerned explicitly with ethics in the workplace.

The assertion that good business is good ethics may not be correct. Corporations are like machines which pursue profit-making goals single mindedly, of course strictly following manuals, policies, systems, and codes of conduct. An organisation pursuing profit making cannot be expected to display such moral characteristics as honesty, considerateness, and sympathy. No correlation exists between "goodness" and material success.

Myth 5: Information and Computing are Amoral This myth holds the view that information and computing are only amoral. They are neither moral or immoral—they are in a questionable area of ethics. On the positive side, information and computing have productive and positive dimensions, such as empowerment and enlightenment through the ubiquitous exposure to information, increased efficiency, and quick access to online global committees. On the flip side, information and computing lend themselves as a form of control, power and manipulation.[10] In addition, open access to information results in such evils as questionable use of data bases, violation of privacy, children exposed to pornography and stalking, consumers targeted for fraudulent advertising and selling practices, and pirating of intellectual property. These gray areas have ethical implications. Information and computing are not doubt a boon but one should be aware of the dark side.

Why discussion on myths in this context? The purpose is to enable the HR manager obtain right perspective about ethics.

WHY IS ETHICS IMPORTANT?

Ethics is important to business in general, and HR in particular, for several reasons as stated below:

1. Ethics corresponds to basic human needs. It is man's basic nature that he desires to be ethical, not only in his private life but also in his business affairs where, being a manager, he knows that his decisions may affect the lives of thousands of employees. Moreover, most people want to be a part of an organisation which they can respect and be proud of, because they perceive its purpose and activities to be honest and beneficial to the society. Most HR managers would like to respond to this need of their employees, and they (managers) themselves feel an equal need to be genuinely proud of the company they are directing. These basic ethical needs compel the organisations to be ethically oriented.
2. Values create credibility with the public (also *see* Exhibit 25.1). A company perceived by the public to be ethically and socially responsive will be honoured and respected even by those who have no intimate knowledge of its actual working. There will be an instinctive prejudice in favour of its products, since people believe that the company offers value for money. Its public issues will attract an immediate response.
3. Values give the management credibility with its employees. Values are supposed to be a common language to bring the leadership and its people together. Organisational ethics, when perceived by employees as genuine, create common goals, values, and language. The HR management can have credibility with its employees simply because it has credibility with the public. Neither a sound business strategy, nor a generous compensation policy and fringe benefits can win employee credibility, but perceived moral and social uprightness can.
4. Values help better decision making. Another point of great importance is that an ethical attitude helps the management make better decisions, that is, decisions which are in the interest of the public, their employees, and the company's own long-term good, even though the decision making is slower. This is so because respect for ethics will force a management to take various aspects—economic, social and ethical—in making decisions.

5. Ethics and profit go together. A company which is inspired by ethical conduct is also profitable. Value-driven companies are most likely to be successful in the long run, though in the short run, they may lose money.
6. Law cannot protect the society, ethics can. Ethics is important because the government, law and lawyers cannot do everything to protect the society. Technology develops faster than the government can regulate. People in an industry know the dangers in a particular technology better than the regulatory agencies. Further, the government cannot always regulate all activities which are harmful to the society. Where law fails, ethics can succeed. An ethically-oriented management takes measures to prevent pollution and protect workers' health even before being mandated by the law. An ethically sound HR manager, who can reach out to agitated employees, will quell a trouble more effectively than the police.

ARE BUSINESS PERSONS ETHICAL?

Honesty is the best policy no doubt. But will it apply to business also? Answer seems to be negative. Transparency International, a Berlin based organisation, has rated (2006) the extent of corruption in different countries on a scale of 10 to 1, with 10 being the best—the least corrupt country and 1 being worst—most corrupt country. The organisation has rated 102 countries on the degree of corruption as perceived by risk analysts, academia and corporate executives. Table 25.1 brings out the least and the most corrupt countries.

Table 25.1 **The Least and the Most Corrupt Countries**

Clean Countries			*The Most Corrupt Countries*		
Sl. No	*Country Name*	*2006 CPI Score**	*Sl. No*	*Country Name*	*2006 CPI Score**
01	Finland	9.6	01	Haiti	1.8
02	Denmark	9.5	02	Myanmar	1.9
03	Singapore	9.4	03	Sudan	2.0
04	Sweden	9.2	04	Uzbekistan	2.1
05	Switzerland	9.1	05	Pakistan	2.2
06	Norway	8.8	06	Venezuela	2.3
07	Australia	8.7	07	Zimbabwe	2.4
08	Austria	8.6	08	Swaziland	2.5
09	Canada	8.5	09	Zambia	2.6
10	Hong Kong	8.3	10	Uganda	2.7
			11	**India**	**3.3**

*CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (Highly Clean) and 0 (Highly corrupt)

If the whole country is perceived to corrupt, businesses and business executives in such a country cannot be an exception.

Exhibit 25.1 ***Image of TISCO***

... adds "Laloo Prasad Yadav is my friend, and right in the beginning I made it clear what friendship stood for. I said to him: 'You have your rules and we have ours. We will do everything by your rules. We will not ask you to give a sales tax benefit here, or some short cut there. In return, don't ask us for any underhand thing and break our value system.' And to his credit, he has never made an indecent proposal. He asked us to clean up Patna, which we do as our social responsibility. He wanted a college to be built in Samastipur. We did that since we encourage education. He asked us to build a Tata ward for children in Patna hospital, which was in a very pitiable condition and we did that. Now we are doing a hospital in Hazaribagh. Laloo told somebody: 'Going for anything illegal to the Tatas is like going to an Udupi restaurant and asking for a *tandoori* chicken'. Sometimes people come to Jamshedpur with expectations and then find in a week or longer that the Tatas won't give money and they give up. If I find any of our officers has done underhand things, then I sack him instantly," says Irani. No wonder Irani has earned the sobriquet from some leading politicians of Jharkhand—"the prime minister of Jharkhand".

When we enquired as to the truth of these assertions from a prominent businessman in Jamshedpur, who is not "burdened" by any code of conduct, he said: "Of course, it is true. That is why TISCO takes three months to get something done from the government in matters which take me three telephone calls."

Source: *Business India*, July 23 to August 5, 2001, pp. 59–60.

Table 25.2 shows the number of frauds in the financial sector in India. These scams reinforce the assertion that many Indian businessmen are unethical. But corruption is not peculiar to any country, it is universal as Exhibit 25.2 shows.

Table 25.2 **Financial Scams**

Major Financial Scams	*Amount Involved (Rs in crore)*
Securities Scam, 1992	7,720
Indian Bank, 1997	838
Madhepura Cooperative Bank, 2001	137
UTI Scam (Cyberspace)	32
Mafcon Case, 2001	50
Premier Vinyl Case	115

? **Pause and Ponder**

Who are most corrupt and most honest—lawyers, teachers, politicians, business executives, or realtors? Substantiate your answer.

Exhibit 25.2 ***A World of Greased Palms***

The intrigue gets demystified by the classified US government report. A German electronics giant pays bribes to win export sales. France demands 20 per cent of Vietnam's telecommunications market in

exchange for an aid. An European aerospace company threatens to block European Union membership for Turkey and Malta unless their national airlines purchase its planes.

It is all a part of a nasty, multibillion-dollar war being waged over global markets. A secret Commerce Department study report, newly prepared with the help of US intelligence agencies, carries a tell-tale evidence of scores of incidents of bribery, aids, with strings attached, and other improper inducements by America's trading partners. In the case of strings-attached foreign aids, the deals may have violated international trade pacts. And the cost of such practices to the US economy appears enormous. In 1994, the US intelligence tracked 100 deals worth a total of $45 billion in which overseas outfits used bribes to undercut US rivals. The report has declared the result—foreign companies won 80 per cent of the deals.

Sanctimonious?—Among the main culprits are some of America's staunchest political allies—France, Germany, and Japan. The corporations involved are not cited by name in the study which have been in the works for months and key parts of which were reviewed by *Business Week*. But government sources have identified premier European hi-tech companies including Germany's Siemens, France's Alcatel Alasthom, and the European airframe consortium, Air Bus Industries as among the major practitioners. Foreign governments and companies have as usual raised a lot of hue and cry. They say that the Clinton administration has been doing lots of aggressive advocacy of its own to win deals for US business. "Each time we win a deal, it's because of dirty tricks," says an Air Bus official with bitter sarcasm. "Each time Boeing wins, it is because of a better product."

Indeed, many officials overseas view the holier than thou attitude of US about shady business practices as naïve and hypocritical as the contents of the report gradually leaked (some 50 copies were distributed recently to the Congress and other key agencies). US trading partners may become angry if they learn about the clandestine tracking of their dealings by American spies. Indeed the growing role of CIA and its sister ships in commercial information-gathering is controversial, with critics contending that the spies are inappropriately trying to justify a $28 billion budget in the post-cold war era. But former CIA general counsel Elizabeth J. Rindskopf says that the CIA is simply responding to demands from the US government agencies for information, to help level the global playing field.

There is more to it than that. "As the importance of geopolitical struggle has declined, conflict has found a new home", says Edward N. Luttwak, senior fellow at the Center for Strategic and International Studies. Economic trends tell the tale—the US is more dependent than ever on exports to fuel its economic growth. Europe and Japan are saddled by a slow growth. Heightened global competition has added to the temptation to seek advantages through questionable tactics, particularly in key sectors such as aerospace, where demand is weak. "Companies and governments are more willing to resort to unconventional methods to make a sale because any sale is precious", says Joel Johnson, the international vice-president for the Aerospace Industries Association of America. During the next decade, the pervasiveness of such practices might spell trouble for US companies preparing to compete for an estimated $1 trillion worth of overseas infrastructure projects. American business is already handicapped by the comparatively small spending on export promotion. The Commerce Report, which also reviews legitimate competitive practices such as trade missions and financial aid to exporters, reveals a stark gap.

Even so, Republican trade hawks in Capitol Hill want to slash funds for Commerce's trade programs. Commerce officials hope that the competitive-practice report will help derail those moves. It is certainly a timely showcase for Commerce Secretary, Ronald H. Brown to re-emphasise his role as a roving advocate of American business. "The findings are alarming", Brown told *Business Week*.

Wads of Cash. To some European executives, the Clinton Administration did not shy away from questionable arm-twisting. An Air Bus official calls president Clinton's 1993 phone call to King Fahd of Saudi Arabia to lobby for Boeing and McDonnell Douglas a blatant disregard for the rules. "The power of the American government is far greater than any European government", the official says. "Too bad", retorts one US official' "if we are going to provide a security umbrella for a country, it's reasonable to expect our companies to get treated fairly". Certainly, not all US companies have clean hands. In October, a former

vice-president at Lockheed Martin was sentenced to an 18 month imprisonment and a $ 125,000 fine for bribing a member of the Egyptian parliament to win an order for three C-130 cargo planes. The case is surprising because Lockheed Martin was at the centre of a bribery scandal in Japan nearly 20 years ago and had signed a consent decree to refrain from such practices. That paved the way for the Foreign Corrupt Practices Act, 1977 which bars US companies from paying bribes to win business.

Some US companies find creative ways to skirt the law. To secure a mining venture in a developing nation, an American company recently flew officials from that country to the US, put them up in a fancy hotel for a week, and gave them wads of cash for a shopping spree. An US intelligence source says that the trip is problematic—"what's the difference between giving an official shopping money and handing him an envelope containing cash in his office?"

But US and other trade experts have little doubt that overseas companies are more likely to offer bribes because their cultures and legal systems permit it. In France, foreign payments to middlemen are considered legitimate business tax deduction. Germany has similar rules, though officials in Bonn say they might have considered revoking them if there were an international accord to outlaw bribery.

Even so, there is little US support for easing anti-bribery laws. Instead, many American executives are urging the administration to mount an aggressive campaign to get foreigners to play more by US rules. US officials vow to fight for reform. And foreign trading partners may find that a good idea as long as everyone including US promises to play by the rules.

Source: *Economic Times*, November 19, 1995.

Unethical practices were found even in our ancient culture. Not only rates of interest were exorbitant (60 per cent, 120 per cent and 240 per cent) but were charged differently to different castes. *Manu* and some other law givers laid down a sliding scale of interest for unsecured loans, according to the class of debtors—Brahmins 24 per cent, Kshatriyas 36 per cent, Vaisyas 48 per cent, and Sudras 60 per cent per year.[11]

Unethical practices are not unique to modern times. They were found in ancient culture too. Manu and other law givers validated certain unfair practices such as charging differential rates of interest to different borrowers.

Debtors were imprisoned or enslaved by creditors until they paid off their debts. There were instances of debtors committing suicide who were unable to bear the harassment by creditors. We read stories about the atrocities committed by *Sresti* and *Setty*, the trader in his village. These stories may be mere tales, but they would have been inspired by real situations which existed centuries ago.

ETHICAL DILEMMAS

Several ethical dilemmas confront an HR manager. The ethical dilemmas arise from three sources—face-to-face ethics, corporate policy ethics, and functional-area ethics.[12]

Face-to-face Ethics

These arise mainly because there is a human element in most business transactions. For example, a purchasing agent of a company develops personal relationship with the sales representative who sells supplies to the company. They may address one another on first name basis, have lunch together, and talk often on the phone. A company's best customers may be well-known to people in the production department as it helps to ensure that the company's products fit the customer needs.

Because business is composed of these human transactions, it should not be surprising that face-to-face ethical dilemmas arise often.

It is likely that the quality assurance man overlooks a minor defect and approves a lot delivered by a supplier because of the personal relationship that the two enjoy. It is also not unlikely that a supervisor overrates the performance of an employee because of the similar relationship that exists between the two.

Corporate-policy Ethics

Companies are often faced with ethical dilemmas that affect their operations across all departments and divisions. Following conflicting situations are typical:

1. Your R&D department has modernised one of your products. It is not really *'new and improved'*. But you know printing these statements on the package and using it in advertisement will increase its sales. What would you do?
2. You are interviewing a former product manager who just left a competitor's company. You are thinking of hiring him. He would be more than happy to tell you the competitor's plans for the coming years. What would you do?
3. You have a chance to win a big account that will mean a lot to you and your company assistant recommends sending a colour television set to his home. What would you do?
4. You produce an anti-dandruff shampoo that is effective with one application. The purchasing agent hinted that he would be influenced by a gift. Your assistant says that the product would turn over faster if the instructions on the label recommended two applications. What would you do?
5. You work for a cigarette company and till now you have not been convinced that smoking cigarettes causes cancer. A recent report has come across your desk that clearly establishes the connection between smoking and cancer. What would you do?

Another issue relates to the consequences of employment contraction in labour intensive basic industries because of the improved methods of production. Modern technology has replaced older methods of production which has in turn resulted in hundreds being rendered jobless. The issue therefore is—global economic competitiveness or local social-psychological stability?

The ethical burden of deciding corporate policy matters normally rests upon a company's HR management. The HR managers and directors are responsible for making policies and implementing them too. The ethical content of their policies can have enormous impact throughout the company. It can set an ethical tone and send right signals to all employees as well as external stakeholders.[13]

Functional-area Ethics

Functional areas of a business are likely to confront ethical issues. Accounting is a critical function of any business. Accounting statements reveal to the manager and owners the financial soundness of a company. Managers, investors, regulating agencies, tax collectors, and trade unions rely on accounting data to make decisions. Honesty, integrity and accuracy are absolute requirements of the accounting functions. Professional accounting organisations have evolved generally accepted accounting standards (GAAPs) whose purpose is to establish uniform standards for reporting accounting data. When they are followed, these standards ensure a high level of honest and ethical accounting disclosures. Rarely are they followed in factories.

Ethical dilemmas crop up in purchasing departments where strong pressures are felt to obtain the lowest possible prices from suppliers and where suppliers too feel a similar need to bag lucrative contracts. Bribes, kickbacks, and discriminatory pricing are temptations to both the parties.

Ethical issues arise in all functional areas of business. Financial statements are expected to present true and fair picture about the business, but they do not do so. Marketing lends itself to several ethical issues. Pricing, promotions, advertising and product information are the areas of unethical practices.

Marketing is another area of ethical issue. Pricing, promotions, advertising, product information, relation between the ad agencies and their clients, and marketing research have potential areas of ethical dilemmas.

Then there is the area of today's sophisticated communication technology which is grossly abused or misused to realise one's ambitions.

HR ethical issues are aplenty as the next section shows.

HR ETHICAL ISSUES

Ethical issues abound in HR activities. Areas of ethical misconduct in the personnel function include employment, remuneration and benefits, labour relations, health and safety and others. (see Fig. 25.2)

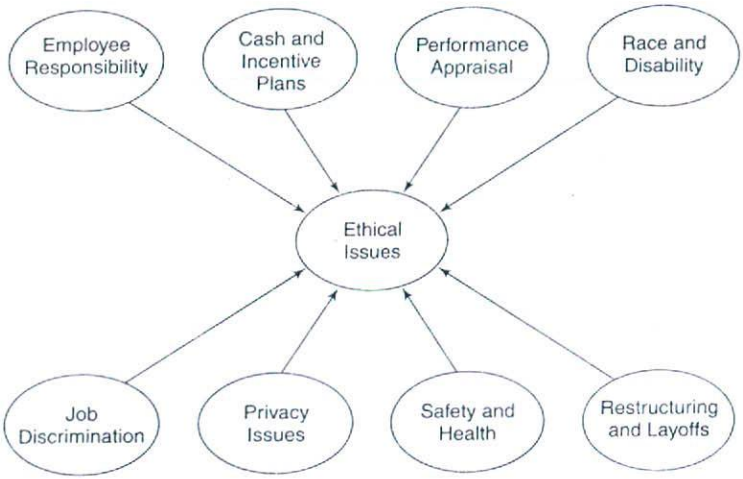


Fig. 25.2 HR Ethical Issues

Cash and Incentive Plans

These include base salaries, annual incentive plans, long-term incentive plans and executive perquisites.

Base Salaries The HR function is often presumed to justify a higher level of base salaries, or a higher percentage increase than what competitive practice calls for. In some cases, pressure is exerted to re-evaluate the position to a higher grade for the purpose of justifying a larger-than-normal increase.

Annual Incentive Plans The HR manager is often forced to design and administer top-management incentive plans, at higher rates than what the individuals deserve. A common rationale presented to the HR executive for bending the rules is the fear of losing the outstanding executives, if higher incentives are not paid.

Long-term Incentive Plans Just as with annual incentive plan, many HR executives have the responsibility of designing and administering the firm's long-term incentive plans, but in consultation with the CEO and an external consultant. Ethical issues arise when the HR executive is put to pressure to favour top management interests over those of other employees and investors.

Executive Perquisites Executive perquisites make the ethical stand of the HR executive difficult because their cost is often out-of-proportion to the value added. The responsibility of administrating these programs falls on the HR executives who must live with the excesses that often are practised.[14] Excesses often sound bizarre, as for example, the transport of a CEO's pet German shepherd as the sole passenger, carried on the manifest has "G. Shepherd". Another story relates to a Bangalore-based, loss-making public sector undertaking, whose CEO spent Rs 20 lakh to get a swimming pool built at his residence.

Performance Appraisal

Performance appraisal lends itself to ethical issues. Assessment of an individual's performance is based on observation and judgement. HR managers are expected to observe the performance (or understand the potentials) in order to judge its effectiveness. Yet, some HR managers assign performance rating based on unrelated factors (for example, the employee is not loyal to the rator, or the ratee belongs to a different caste or religion).

Ethics should be the cornerstone of performance evaluation, and the overall objective of high ethical performance reviews should be to provide an honest assessment of the performance and mutually develop a plan to improve the ratee's effectiveness.

Race, Gender, Age and Disability

The practice of treatment of employees according to their race, ethnic origin, sex, or disability have largely been stopped. A framework of laws and regulations has evolved that has significantly improved workplace behaviour. The threat of litigation and the attendant costs have spurred employers to introduce several programmes designed to train managers and supervisors to avoid discriminatory practices. No enterprise today would dare to publicly state that it denies minorities, women, and the disabled opportunities for employment, remuneration, and growth prospects different from those given to others.

In this environment the role of HR function is to:[15]

1. Monitor the principles and norms of the enterprise to ensure that they reflect the values of the society as expressed in its laws.
2. Monitor the selection, reward, development, and appraisal systems to ensure that they are consistent with the principles and norms.
3. Vigorously pursue violations and, when necessary, vigorously work to defend the enterprise against unfounded allegations.

A demanding ethical challenge arises when there is pressure to protect the firm or an individual at the expense of someone else during an investigation. Exhibit 25.3 contains typical questions posed to a victim during an investigation of a sexual-harassment case at workplace.

Exhibit 25.3 ***Harassment at Work***

"Do you know what sexual harassment is? It means physical contact and making advances; a demand or request for sexual favours; sexually coloured remarks; showing pornography; other unwelcome physical, verbal or non-verbal contact/gesture of sexual nature. Now that you know, start describing your experience in each category."

"How many people have raped you in the office? How many people have hugged and kissed you? How many people have touched the sensitive organs of your body? If these have not happened, then how do you say you have been sexually harassed?"

"Your complaint is imaginary. It is impossible that a man in such a high position would stoop to such a level as to touch you."

"Are you not ashamed of making complaint of sexual harassment? Have you looked at yourself in the mirror? Do you think you are young and beautiful? Do you expect people to believe that you have been sexually harassed?"

"Why do you prefer these complaints? As a woman you must learn to adjust and not complain. No other woman around you is complaining, so why are you doing it? You are reacting and being hyper-sensitive. It is better for your career to withdraw this complaint".

Source: *The Hindu*, March 4, 2001

Job Discrimination

Job discrimination refers to making adverse decisions against employees or job applicants based on their membership in a certain group. Three tests decide whether a decision is discriminatory or not:

(i) Decision is based on the group membership and not on individual merit,
(ii) Decision is the result of prejudice, or false stereotype, and
(iii) Decision somehow harms those it is aimed at.

The most common discriminatory practices having ethical implications are atleast four. First, individuals can intentionally discriminate out of personal prejudice or on the basis of stereotypes. For instance, request from women to work in production department may be rejected on the basis that they do not understand machines. Second, organisations can also discriminate. For example, a company has a policy not to place women in supervisory positions because "men in the company do not want to receive orders from females."

Third, discrimination on grounds of sex or race that violates people's basic moral rights and mocks the ideal of human moral equality. Finally, workplace harassment, particularly of women, is a workplace discrimination. We shall deal with sexual harassment separately.

Coming to the first three categories of practices, the question that crops up is—how are discriminatory practices unethical? Discrimination is unethical because it violates a person's basic moral rights. Kantian theory, for example, holds that human beings should be treated as ends and never used merely as means. Thus Kantian principle implies that each individual has a moral right to be treated as a free person equal to any other person, and that all individuals have a correlative moral duty to treat each individual as a free and equal person.

How to correct discrimination? Experts have suggested series of corrective interventions, popularly called affirmative actions. Affirmative actions include hiring people purely on job-related considerations giving due representation to reserved categories, equal pay for equal work, offering job promotions on the basis of performance and treating all employees fairly. Some of the affirmative actions are mandatory also. Hiring a minimum number of people belonging to disadvantaged sections, for example, is a legal requirement, so also equal pay for equal work.

The role of IHR manager in ensuring that affirmative actions are in place is better understood in the implication than making it explicit.

Privacy Issues

Privacy refers to protecting a person's private life from intrusive actions. Such intrusive actions include AIDS testing, whistle blowing, drug testing and genetic testing.

Privacy refers to protecting a person's private life from intrusive and unwarranted actions. The employee believes that his or her religious, political, and social beliefs as well as personal life-style, are private matters and should be safeguarded from being snooped or analysed. Exceptions are permitted grudgingly only when job involvement is clearly involved. For example, it may not be inappropriate to intrude into an employee's private matters if it is suspected that he or she discusses with a competitor, through e-mail messages, the specifications of a newly developed product not yet launched into the market.

At least five areas pose ethical dilemmas to employers pertaining to privacy of employees or job applicants. (See Fig. 25.3) The *first* relates to information technology. A firm's need for information particularly about employees while-on-work may be at odds with the employees' privacy. There are regulations prohibiting third-party interception of e-mails without prior authorisation, but interception by insiders is not covered by any law, and no absolute privacy exists in a computer-based system. Employees are viewed on close-circuit TV, phones are tapped, and computer files are read without his or her knowledge or consent. Such intrusions do breach the privacy of employees and constitute an ethical dilemma for the HR practitioner.

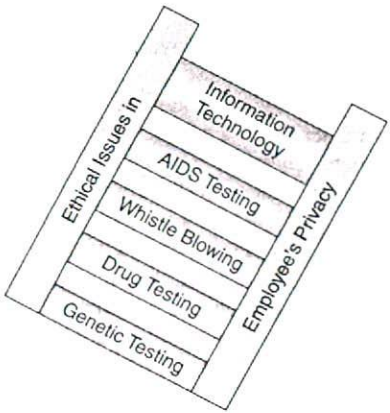


Fig. 25.3 Privacy and Ethical Issues

Another ethical conflict relates to AIDS testing. AIDS has become a major public health problem. Emerging first among homosexual males and drug users, the AIDS epidemic now affects all segments of the world population.

For the HR manager the disease raises two issues. Whether a new hire be subject to AIDS test? What treatment should be meted out to an employee who is affected with the disease? Opponents of AIDS testing argue that new hires should not be tested for the presence of HIV because it would be an invasion of privacy. They also argue that the available tests are frequently inaccurate and the tests do not reveal whether a person having AIDS antibodies will ever develop the disease. With regards to the issue, firms do not discriminate against the HIV positives. In 1990, the American Federal Government, for example, passed the strongest anti-AIDS discrimination legislation. More than 30 states in the country have laws that bar job discrimination against people with AIDS. It is generally understood that since AIDS cannot be contracted by casual and normal workplace contacts, employees with the illness should not be segregated from others, nor should they be restricted in performing jobs for which they are qualified.

The *third* area of ethical concern for the HR manager relates to whistle-blowing. Like the blowing of a whistle by a referee to indicate violations of the rules on a playing field, whistle-blowing in a business setting refers to disclosure by former or current organisation members of any illegal, immoral, or illegitimate practices involving their employers. Employees either make organisational misconduct public or inform it to top-level officials of the company.

Whistle-blowing has both defenders and opponents. Those defending whistle-blowing point to the crores of worth of fraudulent activities detected. Opponents of whistle-blowing however cite the hundreds of unsubstantiated cases, often used by disgruntled workers seeking to blackmail employers.

How is whistle-blowing an ethical issue? Generally, employees are not expected to speak against their own employers because there is public interest in allowing firms to operate without harassment from insiders. Company information is generally considered to be proprietary and private. If employees, based on their personal points of view, are freely allowed to expose issues to the public, the company may be thrown into turmoil and be unable to operate efficiently. On the other hand, there may be situations in which the society's interests override those of the company. So an employee may feel it obligatory to blow the whistle. The following sequence of actions morally justify whistle-blowing:[16]

1. An unreported act that would be serious and would cause considerable harm to the people.
2. Once such an act has been identified, the employee has reported the act to his or her immediate supervisor and has made the moral concern known.
3. If the immediate supervisor does nothing, the employee tries other internal pathways for reporting the problem.

Only after each of these conditions has been met, should the whistle-blower go public.

The *fourth* area of ethical concern relates to drug testing. Whether an employer tests its employees for drug usage requires a delicate balance between the right of the employer to protect its interests and the right of the employee to be free from wrongful intrusions into his/her personal affairs. As a rule, employer has a right to drug test if drug usage impacts employees' job performance. Otherwise, employer has no basis for testing.[17] Table 25.3 summarises the debate over employee drug testing.

How does drug testing assume an ethical dimension? If the information obtained from drug testing is relevant to the job, subjecting an employee to such a test assumes legitimacy and becomes an accepted component of employer–employee relationship. Where information obtained from drug testing is irrelevant to the job, it amounts to invading an employee's personal life. Such information may also be held against the employee's *concerned.*

Table 25.3 **Pros and Cons of Employee Drug Testing**

Arguments Favouring Employee Drug Testing
• Improves employee productivity
• Promotes safety in the workplace
• Decreases employee theft and absenteeism
• Reduces health and insurance costs
Arguments Opposing Employee Drug Testing
• Invades an employee's privacy
• Violates an employee's right to due process
• May be unrelated to job performance
• May be used as a method of employee discrimination
• Lowers employee morale
• Conflicts with company values of honesty and trust
• May yield unreliable test results
• Ignores effects of prescription drugs, alcohol and over-the-counter drugs
• Drug use is an insignificant problem for some companies

Source: William G. Frederick, et al, *Business and Society*, McGraw-Hill, 1992, p. 326.

The *fifth* dilemma stems from genetic testing. This testing is an attempt to use the science of genetics to understand the links between one's inherited characteristics and certain illnesses. Genetic testing can occur in two different forms: genetic screening and genetic testing. *Genetic screening* is used to identify persons who are susceptible to certain genetically based illness. The goal of screening is to single out individuals or groups of people who have certain genetic traits. *Genetic monitoring*, on the other hand, is used to identify substances that are capable of causing damage to the genetic make up of people. The goal of monitoring is to single out not people but harmful substances.[18]

Genetic testing can become an ethical issue if the result of such a test is held against an employee's interest. In addition, the social stigmatisation it gives adds to the ethical issue.

Genetic testing makes sense for businesses. Fewer disabled workers means reduction in costs caused by illness, absenteeism, health insurance, worker's compensation and turnover.

Genetic testing has ethical dimension in as much as it can be held against job seekers or discriminate against some employees. In addition, it gives way to social stigmatisation of people with genetic defects. When screening uncovers a genetic abnormality, the individual tends to feel morally defective, cursed or damned.[19] For instance, individuals in our society inflicted with leucoderma are being stigmatised though vitiligo is considered to be not a harmful disease. For a long time, such people were not permitted to enter restaurants. Even today a boy with white patches on his skin will not get a girl in marriage and a girl with such blots finds it almost impossible to make a boy accept her in marriage.

Safety and Health

Safety and health have both intrinsic as well as instrumental value. What is intrinsically good is one's health and safety. Except in the most extreme circumstances, life is better than death, health is better than illness and body integrity is better than injury. Safety and health have high instrumental value. They are useful for acquiring other things of value.

Chapter 20 dealt with the issues relating to safety and health. Suffice it is to state that much of industrial work is hazardous. This is because of the extensive use of high-speed and noisy machinery, production processes requiring high temperature, an increasing reliance on chemical compounds, and the nature of such works as construction, underground and under-water tunnelling, drilling and mining. Accidents, injuries, and illnesses are likely to occur under these circumstances.

Over the past decade, new categories of accident and illness have emerged, including the fast-growing job-safety problem of office injuries. Stress from the rising productivity pressure and escalating job demands can cause cumulative trauma and disorder, such as the wrist pain which is sometimes experienced by super-market checkers, meat cutters, or keyboard operators. The number of health problems attributed to the use of video display terminal and computer keyboards and to tasks requiring repetitive motion have increased by ten folds in the last decade.

Modern business establishments are obviously full of hazards to safety and health. At the same time there is controversy surrounding the issues relating to safety and health. It may be asserted that nobody, including an employer, has a right to cause injury to the physique of another or damage his/her health. This assertion stems from the fact that health and safety are the two things that are highly valued. If anything can be said to be intrinsically good, it is health and safety. Except in the most extreme circumstances, life is better than death, health is better than illness and body integrity is better than injury. Besides this intrinsic value, health and safety also have significant instrumental value. In other words, they are very useful for acquiring other things of value. Whatever one desires, being healthy and safe will improve one's chances for satisfying that desire.[20] Thus, safety and health have both *intrinsic* as well as *instrumental* value.

What are the ethical issues involved in safety and health? One issue relates to the risk assessment. Second issue relates to the role of government.

Assessment of risk apparently looks like a technical job that can be best handled by scientists and technicians. But here to make judgements on the magnitude or seriousness of the harm is involved. Take the case of the Bhopal gas tragedy, the worst ever industrial disaster occurred in Bhopal on the night of December 3, 1984 with the leakage of 40 tonnes of methyl isocyanate and other lethal gases, killing 4,000 people on the day of disaster. This figure swelled to 20,000 over the years. Several lakhs of people including unborn children suffered from multiple injuries. The Union Carbide paid $470 million as compensation. The money was not disbursed immediately because of legal disputes. It was deposited with the Reserve Bank of India. After a prolonged 20 years legal battle, the Supreme Court directed the Government of India to disburse the money (which came to Rs 1,503 crore with interest) to the gas victims. How was the compensation of $470 million determined? Does the compensation paid to the victims match the sufferings of people?

The second ethical issue relates to the role of government in safety and health. It needs no emphasis that people have rights that protect them from others who would enslave them or otherwise use them for their own purposes. Workers have an inalienable right to earn their living free from ravages of job caused death, disease and injury. Philosophers have offered strong defences of the right to be free of the infliction of cancer on the job. Behind this contention lies the idea that people need rights to protect them from unreasonable health hazards at places where they earn their living. If the market does not satisfy this right to safety on the job, then the government must intervene in order to protect it.[21]

Restructuring and Layoffs

Restructuring activities in the past several years, and the lay-offs that have resulted, cannot be considered unethical as such. Restructuring and consequent lay-offs have become relevant because of poor management, but incompetence does not become unethical.

However, there are ethical implications in the process by which termination decisions are made and actions taken. For example, if restructuring requires closing of a plant, the process by which that plant is chosen, how the news will be communicated, and the time-frame for completing the lay-offs are ethically important. If conducted in an atmosphere of fairness and equity and with the dignity of the affected individuals in mind, the action is ethical.

To start with, alternatives to lay-off may be tried before terminating services of employees. Following are the most straightforward choices:[22]

- Proportionally reducing work hours to spread the pain of reduced employment costs across the entire work-force.
- Reducing wages for all employees (possibly weighted to so that the highest paid take larger pay cuts) to reduce the wage bill.
- Taking work previously outsourced (such as maintenance or subcontracting) back into the organisation.
- Building inventory when demand is slack.
- Freezing hiring to avoid making overstaffing worse.
- Having people do other things, such as defer maintenance and repair, training courses and similar activities for which they were too busy when business was better.
- Refraining from hiring to meet peak demand, which makes reductions in employment almost inevitable when demand falls.
- Encouraging people to develop new products, services, or markets so that their skills can still be used by the firm.
- Putting production or staff people into sales to build demand.

Employee Responsibilities

Earlier we pointed the rights of employees. Corresponding to the rights are the responsibilities which employees owe to their employers. Responsibilities set ethical limits on their behaviour and rights establish limits of the ethical behaviour of others.

Employees owe responsibilities to themselves and their own moral integrity, to their families, to their profession, to the law and to society at large. Obviously, employees face many cases of conflicting responsibilities in the workplace, as for instance, responsibility to one's employer versus obligation to public safety, or responsibility to one's profession or to the employer. Conflict also arises when the responsibility to self or family clashes with the responsibility towards employer. There are established principles which help the employee resolve such conflicts. For example, public safety should override the interests of employer, and responsibility to one's profession is more sacred than loyalty to the employer. The issue relating to self versus employer is nothing but work-life balancing, an issue that is assuming increasing importance these days. We propose to throw more light on this issue in Chapter 27.

MANAGING ETHICS

In the past, it was assumed in most firms that ethics was a matter of individual conscience. But the scenario has changed. Today, many businesses are using managerial techniques that are designed to encourage ethical behaviour. Some of the managerial interventions to ensure ethical conduct are worth stating in this context. (Also see Table 25.4)

Table 25.4 **Means to Promote Ethical Conduct**

	India	*Asia Pacific*	*Global*
Ethics/Code of Conduct	72	73	64
Pre-employment Screening	54	37	50
Public Source Information	32	25	33
Whistleblowing System	28	18	28
Fraud Training	24	25	29
Others	23	20	27

Note: Figures indicate percentage responses from sample firms who have implemented the systems.
Source: Survey by Price Waterhouse Coopers, 2003.

Top Management

It is the CEO who should take the initiative in ensuring ethical standards in his or her organisation. The words of J.R.D. Tata are worth recollecting in this context. *".....has also worked against our growth. What would have happened if our philosophy was like that of some other companies, which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth".*[23]

In addition, the top management must avoid adopting business strategies, schedules and reward systems that place unreasonable pressure on employees.

Code of Ethics

Code of ethics has become popular. These codes vary from book-length formulations to succinct statements in one or two pages and express a general philosophy for managing conflicts. Nearly 95 per cent of the Fortune 500 companies have codes, and a trend is visible in the corporate sector in India also. Read Exhibit 25.4 for a typical code of conduct.

Exhibit 25.4 ***Code of Conduct in Tata***

For the Company	*For the Employees*
• To supply goods and services of the highest quality standards to ensure. total satisfaction of customers.	• Conduct themselves professionally with honesty, integrity, as well as high moral and ethical standards. To be fair and transparent and to be seen so by third parties.
• To engage only in activities beneficial to the national interest of the country they operate in.	• Not derive any benefit from any information about the company or group which constitutes inside information.
• To be fully transparent in accounting and financial reporting standards	• Report to the management any actual or possible violation of the code or an event that the employee becomes aware of, that could affect the business or reputation of the employee's company or any other company belonging to the Tata group.
• To fully strive for the establishment and support of a competitive open-market economy and to abhor unfair trade practices.	• Permits employees to pursue an active role in civic or political affairs as long as it does not affect the business or interests of the company or the group.
• To neither give nor take any illegal payment, remuneration, gift, donation, or comparable benefit to obtain business or favours.	—
• To comply with all regulations regarding preservation of the environment.	—
• To be a good corporate citizen and to actively assist in the improvement of the life of the community with the objective of making it self-reliant. These social activities are regarded as an integral part of their business plans and not optional.	—
• To co-operate and share physical, human, and management resources with other companies belonging to the Tata group so long as this does not adversely affects its business interests and shareholder value.	—

Industry associations too have evolved codes of conduct of their own. For example, the Council for Fair Business Practices (CFBP), established in 1916, by leading private sector industrialists in western India, adopted a code of fair business practices.

The code constitutes a primary-level, self-regulating character for enlightened citizenship amongst business entities. The CFBP has initiated a set of prizes and awards called 'Jamnalal Bajaj Uchit Vyavahar

Puraskar' (or Jamnalal Bajaj Prize for Fair Business Practices) to promote exemplary application of the above norms. The CFBP president claimed that sustained pressure from his council had resulted in the creation of the Advertising Standards Council of India (ASOI) and in the promulgation of the Consumer Protection Act (CPA), 1986.

The Federation of Indian Chambers of Commerce and Industry (FICCI, which also includes the MNCs) has recently issued a declaration on Norms of Business Ethics consisting of ten points. The Punjab, Haryana and Delhi Chamber of Commerce has also lately formulated a Code of Ethics.

Whoever evolves the code, its purpose is to provide guidance to managers and employees when they face an ethical dilemma. The most effective codes are those drawn up with the co-operation and widespread participation of employees. An internal enforcement mechanism, including penalties for violating the code, adds teeth to the code.

Ethics Committees

Many companies have ethics committees to advise on ethical issues. Such a committee can be a high-level one comprising the board of directors, chaired by the CEO of the company.

The committees field questions from employees, help the company in establishing policies in new or uncertain areas, advise the board of directors on ethical issues, and oversee the enforcement of the code of ethics.

Ethics Hot Lines In some companies, when employees are troubled about some ethical issue but may be reluctant to raise it with their immediate supervisor, they can call on the company's 'ethics hot line'. A member of the ethics committee receives the confidential call and then quickly investigates the situation. Elaborate steps are taken to protect the identity of the caller, so as to encourage more employees to report any such deviant behaviour. This technique is advantageous in as much as the matter is settled internally, which is better for a company than to have a situation where disgruntled employees take their ethical complaints to the media.[24]

Whistle Blowing

When an employee thinks that his/her firm is resorting to some act that is unethical or harmful to public, he/she "blows the whistle" by reporting alleged organisational misconduct to the public or to top executives. Whistle blowing refrains the firm from indulging in unethical and harmful practices. (See Table 25.5).

Table 25.5 **Whistleblowing in Action**

Sl. No.	*Name of the Organisation*	*Whistle blower*	*Consequences*
1	Enron	Sherron Watkins	Liquidation of the company
2	Kellogg India	Senior Executive (Name not known)	Sacking of two senior executives who were promoted for excellent performance a few months before.
3	Director FBI, US	Coleen Rowley	Attack on the World Trade Centre, US

(Contd.)

(*Contd.*)

4	World.Com	Cynthia Cooper	Company gone bust
5	Xerox	Name not known	CFO made to pay $5.5 million in fines and banned by the SEC from practising accountancy. Accounting system streamlined
6	Heinz India, Johnson and Johnson, Bayer India	Installed whistle blowing systems	No incident is reported
7	LG India	Names not known but 10–12 cases have been reported to head office, South Korea	Not known

Source: Economic Times, 1 August 2003.

Whistle blowing has its flip side. In most cases, the whistle blower faces grave harms (even physical elimination as it happened to Dubey, an engineer with Highway Transport Authority. He was murdered as he shot a letter to the Prime Minister highlighting an alleged irregularity), ranging from lost jobs and careers to lost friendships and resentment among co-workers. Whistle blowing also jeopardises the well-being of the firm, disrupting its work and in some cases resulting in lost contracts and lost jobs and even closure as has happened to Enron. It also involves one or more individuals asserting that their judgments are superior to those made by many other professionals and managers, sometimes without the full information available to others. As one critic of such an act has put it, "The whistleblower hopes to stop the game; but since he is neither referee nor coach and since he blows the whistle on his own team, his act is seen as a violation of loyalty."

Ethics Training Programmes

Nearly all companies, which take ethics seriously, provide training in ethics to their managers and other employees. In such training programmes, company personnel are made familiar with the official company policy on ethical issues, and it is shown how those policies can be translated into the specific everyday decision making. Often, simulated cases based on actual events in the company are used to illustrate how to apply ethical principles to on-the-job problems.

Generally speaking, training in ethics is most effective when it is conducted by the company managers themselves rather than external agencies. To make such a training effective, it is important that it is steered away from abstract philosophical discussions and focuses on specifics of the work environment of those attending.

? Pause and Ponder

How far does the Right to Information Act help promote ethical conduct in government departments and business firms?

ETHICS AND LAW

Law and ethics have a common aim—defining proper and improper behaviour. But the two are not quite the same. Laws are the society's attempt to formalise—that is to reduce to written rules—ideas about what is right and what is wrong in various walks of like. However, it is rarely possible for written rules to capture all the subtle variations that people give to ethics. Ethical concepts are more complex than written rules. Ethics deals with human dilemmas that frequently go beyond the formal language of law and the meanings given to legal rules.

The objective of ethics and law is same—defining proper and improper behaviour. However, in practice they differ. Law seeks to reduce to written rules. Ethics goes beyond the formal language of law and the meanings given to legal rules.

Similarities and differences apart, legal rules help promote ethical behaviour in organisations. Some of the acts which seek to ensure fair business practices in our country are the following:

- The Foreign Exchange Regulation Act, 1973, now replaced by FEMA.
- The Companies Act, 1956.
- The Monopolies and Restrictive Trade Practices Act, 1969, now replaced by Competition Act, 2002.
- The Consumer Protection Act, 1986.
- The Environment Protection Act, 1986.
- The Essential Commodities Act, 1955.

CORPORATE CULTURE AND ETHICAL CLIMATE

Corporate culture is a blend of ideas, customs, traditional practices, company values, and shared meanings that help define normal behaviour for every one who works in a company. Every organisation has a culture which exercises considerable influence on employee behaviour.

Hewlett-Packard is well-known for a culture that stresses on values and ethics. Called the 'HP Way' by employees, the most important values of the culture are confidence in and respect for people, open communication, sharing of benefits and responsibilities, concern for the individual employees, and honesty and integrity.

In some companies, one can feel the blowing of ethical winds. People pick up subtle hints and clues that tell them what behaviour is approved and what is forbidden. This unarticulated understanding among employees is called as *ethical climate*. It is that part of corporate culture that sets the ethical tone in a company.

One way to view ethical climate is given in Table 25.6. There are different types of ethical yardsticks, they are—egoism (self-centeredness), benevolence (concern for others), and principle (respect for one's own integrity, group norms, and society's laws). These ethical yardsticks can be applied to dilemmas concerning individuals, one's company, or society at large. For example, if a manager approaches ethical issues with benevolence in mind, he or she would promote friendly relations with employees, emphasise the importance of team-play and co-operation for the company's benefit, and recommend socially responsible courses of action. However, if the manager uses egoism to think about ethical problems, he or she would more likely to think first of self-interest, promoting the company's profit motive and would strive for efficient operations at all costs. A company's ethical climate depends on the combination it has of these nine possibilities.

Corporate culture and ethical climate can put pressure on people to channel their actions in certain directions desired by the company.

Table 25.6 **The Components of Ethical Climate**

Ethical Criteria	*Focus of Ethical Concern*		
	Individual	*Company*	*Society*
Egoism (self-centered approach)	Self-interest	Company interest	Economic efficiency
Benevolence (concerns for others approach)	Friendship	Team interest	Social responsibility
Principle (integrating approach)	Personal morality	Company rules and procedures	Laws and professional codes

Source: Fredrick, *et al.*, *Business and Society*, McGraw-Hill, 1992, p. 85.

IMPROVING ETHICAL DECISION MAKING

Ethical decisions are difficult to make. They cannot be programmed like production and inventory decisions. This section contains practical difficulties in decision-making and guidelines which help managers in making a choice.

Difficulties in Decision Making

There are at least nine reasons that can be attributed to decision-making in the ethical context.

First, managers face, as stated earlier, dilemmas in deciding on a course of action.

Second, managers confront situations where a distinction between facts and values has to be made while making ethical decisions. Facts are statements about 'what is' and values are statements about 'what ought to be'. 'What is' can never define 'what ought to be'. For example, the cost of researching, developing and producing a life-saving drug may necessitate fixing a high price, as far as the company is concerned. But the price may be perceived as exploitative by users.

Third, the good and evil exist simultaneously, in tandem, and are inter-related. Nestle's sales of infant formula in Kenya and Zambia have led to infant deaths as mothers mixed the powdered food with contaminated local water and their babies died of dysentery. But evidence also shows that the same formula has saved other infants. Evils should be minimised if not eliminated.

Fourth, knowledge about the consequences of an action is limited. One of the principles of decision-making is utilitarian. This implies that if an act results in the greatest good of greatest numbers, it is taken as morally acceptable. This principle assumes that the consequences of the act are defined. But in an uncertain environment, consequences cannot be easily predicted.

Fifth, antagonistic interests frequently use incompatible ethical arguments to justify their intentions. Thus, the ethical stand of an organisation is often based on entirely different premises from the ethical stand of critics. Animal lovers may argue against slaughter on the ground that animals are entitled to rights similar to those enjoyed by humans, including the right to live. Poultry growers, on the other hand, contend that raising animals for food ensures benefits to society.

Sixth, some ethical standards vary with the passage of time. Donations to political parties were forbidden earlier, but it is allowed now. In addition, certain bribes and payments are practised in the Asian, African, and Latin American countries but are not regarded as ethical in the US. Doing business with close friends and family is a standard practice in the Arab world, but is treated as nepotism in western Europe.

Seventh, ethical behaviour is moulded from the clay of human imperfection. Unethical practices abound everywhere (*see* Fig. 25.4 for different crimes). An honest HR manager finds himself or herself like a babe in the woods, not able to do anything, surrounded as he or she is, by dishonesty everywhere.

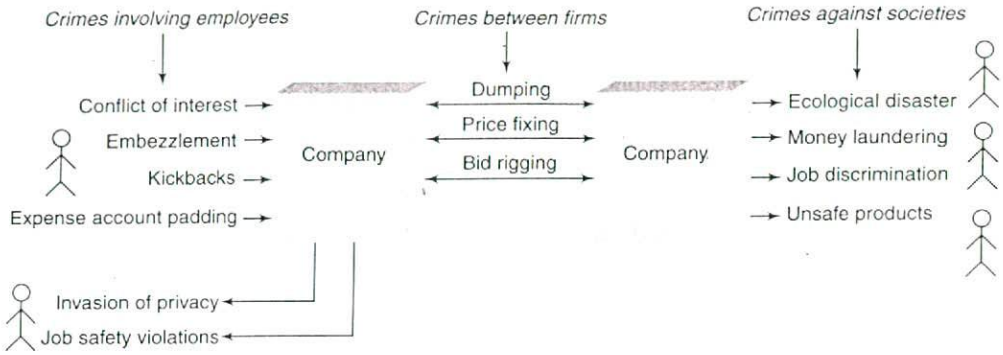


Fig 25.4 The Corporate Crimes

Source: Adapted from *Business and Society* by Frederic, Post and Davis, *op. cit.*, p. 70.

Eighth, the early 21st century presents managers with newer and emerging ethical problems that are not solved easily with traditional ethical guidelines. For example, modern ethical theory has not yet developed an adequate principle for weighing human life against economic factors in a decision. Cancer studies may predict that workers exposed to chemicals will become ill in small numbers far in the future. How should this information be balanced against costs of regulation, capital investment or job loss?

Finally, the growth of large-scale organisations in the 21st century gives new significance to ethical problems such as committee decision-making that masks individual responsibility, organisational loyalty versus loyalty to the public interest, and preferential hiring of disadvantaged sections of society.

Ways of Resolving Ethical Issues

The individual in business can take number of steps to resolve ethical problems.

First, he or she can consider three well-known principles to resolve an ethical issue: moral idealism, intuitionism and utilitarianism.

Moral idealism postulates that certain acts are good and others are bad. Pursue those acts which are good and avoid the bad ones. Moral idealism gives definite answer to ethical issues.

Intuition leaves it to the individual HR practitioner to sense the moral gravity of the situation. If he or she feels that his or her motives are good and that they do not intend to hurt anyone, he or she is taking an intuitive approach to morally difficult situations.

Utilitarianism seeks to establish the moral locus not on the act or the motives but on the consequences. If the consequences represent a net increase in the society's happiness, or at least not a decrease, the act is morally right.

Principles of the type described above help a manager in making a decision in ethically difficult circumstances.

Second, consider some decision tactics that illuminate moral choices. One such device is to engage in imaginary conversations with a hypothetical opponent as an antidote for certitude. Have a debate with an intelligent person who takes a different view. Seek out a more experienced, ethically sensitive person in the organisation to be your adviser. Alternatively, write an essay in favour of a stand and then a second, to

oppose it. Write a case study in the third person about your situation. Try to apply ethical principles in answers to questions raised by the case.

Third, write down pros and cons in the form of a balance sheet. The balance-sheet approach helps decision making by presenting information in an organised way.

Fourth, sort out ethical priorities before problems arise. Prioritisation shall help consider alternatives when one is not under stress.

Fifth, one should commit oneself publicly on ethical issues. He or she should identify potential areas of ethical conflict and make clear his or her opposition to padding expense accounts, stealing supplies from the company, bias in performance appraisal or unjust laying-off of employees. Once the stand is made clear, employees will be less tempted to approach with corrupt intentions.

Finally, ethical perfection is illusionary. We live in a morally complex civilisation with profuse rules, norms, obligations, and duties, like road signs that generally point in the same direction, but sometimes do not. No method of decision making ends conflicts, no principle penetrates unerringly to the good, and no manager achieves an ethical ideal.

But the HR practitioners cannot absolve themselves of their responsibility to ensure ethical conduct. In fact, the special role of the HR function has resulted in significant exposure to ethical challenges for the HR manager. As the function is integrated into the strategic management of the enterprise, and the HR executive is routinely involved in the process that deals with company-wide issues, the exposure to ethical issues grows.

As a result, the HR manager deals with more stakeholders than other functional managers: the interests of the company, as seen from management's perspective; the interest of the employees, where the HR manager historically has been expected to play the role of advocate; and the interests of shareholders and other stakeholders.[25]

The HR manager is often involved into an ethical dilemma particularly when employee's interests conflict with those of the organisation. His or her position becomes more embarrassing when the organisation's leadership engages in unethical actions or promotes unethical behaviours. The HR executive, who is a member of the top-management team, can influence and sometimes bring about changes in the ethical culture of the organisation. However, one who expects to substantially and positively influence an organisation's ethical behaviour is probably doomed to disappointment.

SUMMARY

Ethics, in general, refers to a sense of right and wrong, and goodness and badness of actions. The same meaning applies to business ethics too.

Business ethics stems from religion, cultural experience and the legal system.

Ethics is important as it corresponds to basic human needs, creates credibility with the public, helps management build trust with the employees, helps better decision-making, helps a firm earn profits in the long-run, and protects society even if law fails to do so.

With honourable exceptions, Indian businessmen are unethical. Unethical practices, however, are not confined to Indian businesses alone. They are universal.

An HR specialist faces certain ethical dilemmas. More important of them are: face-to-face ethics, corporate policy ethics, and functional area ethics.

Certain ethical issues are unique to HR function. Areas of ethical misconduct in the personnel function include employment, remuneration and benefits, labour relations, health and safety, training and development, and HRIS.

There are ways of managing ethics. Committing top management to ethical behaviours, evolving and enforcing codes of ethics, constituting ethics committees and conducting ethics training programmes are some of the ways of ensuring ethical conduct from organisational members.

Improving ethical decision-making is a difficult task for an HR manager. Difficulty arises from several sources but HR specialist should make decisions which are ethically correct, atleast relatively.

KEY TERMS

Codes of ethics
Corporate-policy ethics
Employment issues
Employee privacy
Ethics
Ethical climate
Ethical dilemmas
Face-to-face ethics
Functional-area ethics
Intuition
Managing ethics
Moral idealism
Utilitarianism
Whistle-blowing

REVIEW QUESTIONS

1. Define the term ethics. Trace the sources of ethics. Why is ethics important?
2. What are ethical dilemmas? Explain each.
3. Explain the various HR ethical issues.
4. Prepare a list of the guidelines for managing ethics.

DISCUSSION QUESTIONS

1. "Ethical behaviour is moulded from the clay of human imperfection"—give your viewpoint?
2. "An HR manager who hopes to substantially alter ethical conduct of an organisation is doomed to disappointment." Elaborate.
3. Why is ethical decision-making difficult? Discuss.
4. Placing yourself as the international manager, comment on each of the opening cases to this chapter.
5. How does HR function become involved with business ethics in the organisations?

Closing Case—1

When an Employee Says He is HIV Positive

Chemtech was a chemical firm employing nearly 1,500 people. Since the company was operating in a sheltered economic environment, the organisational focus for many years was on technology and manufacturing. There was little accent on marketing. But a liberal import regime heralded by the Government of India galvanised the management into sprucing up its sales and marketing team. A number of people were being hired from outside the company in a long overdue exercise of giving a customer-oriented focus to the company's operations. A few employees were also being promoted from within. In a professional career spanning over two decades in personnel function in different companies, Aparojit Das, Vice-president (HRD), was closely involved with the hiring interviews. And

he had always chosen well even while most of his contemporaries had been expressing disillusionment with the interview as a medium of getting the right candidate for the right job.

The secret of his success lay in a technique he had worked to perfection. As a candidate walked in for an interview, Das would quickly size him up for a first impression. Subsequently, the whole tenor of his questioning over the period of the interview would be aimed at destroying that impression. If the first impression was favourable and if it persisted till the end of an interview or if an unfavourable impression turned otherwise by the end, Das had an intuitive feeling that he had a good candidate on his hands. Of course, the assessment already made by the concerned divisional head regarding specific job requirements would be a major benchmark in the final selection of a candidate.

Das knew, however, that if he had chosen people well, it was not because of any particular skill but because he was simply lucky.

That morning, as he looked at the folder lying in his desk, Das wondered whether he was finally running out of luck. The folder contained dossiers of two candidates who have been interviewed at various levels over the previous month. As a part of the final assessment, Das himself had met them individually an hour ago. Both were internal candidates, presently working as sales executives and seeking promotion to the post of the sales manager to be based at the head office of the company. Both were highly recommended by the company's vice-president (sales) for the post.

The first dossier was of Prem Sagar who had been with Chemtech for five years. Sagar had worked his way up and understood the company's product and their markets. He was very keen to take on new responsibilities. The second was of Arvind Vardhan who had joined the company only the previous year. He seemed confident, sensitive to others' points of view, a self starter, and a good team player. Das's maiden impression was that Vardhan was a natural salesperson and it persisted, however hard he tried to disprove himself. He was clearly in favour of Vardhan.

It was when he was about to terminate the interview that Vardhan said "Mr Das, there is something that I think I must mention in all fairness. But before I do so, I need to have your word that what I tell you will remain between the two of us." "You have my word," said Das. "I have been declared HIV positive," said Vardhan, " the tests came last week."

If Das panicked, he did not show it. "I don't see how it can affect your chances of promotion," he said, in a voice that, much to his own surprise, lacked conviction. "I think we should talk about this separately," he continued, trying hard to retain composure. " I will get back to you. In the meantime, take care."

Later, alone in his cabin, Das found the burden of having to make a decision lying heavily upon him. The company's standing orders stated that no physical disability or even a chronic health problem should come in the way of a promotion 'as long as it does not interfere with performance directly.' But there were two major issues, as Das saw them. First, although the HIV infected people were known to work productively for years, the risk of developing active AIDS at any point of time was real. Recovery from even a temporary bout of illness such as pneumonia for example, would be longer, reducing the pace of work and affecting performance on the job. This was an angle which had to be borne in the mind while giving a promotion. Second, could the confidentiality of the information given by Vardhan be retained at all for long? It was important that two other persons be informed quickly—the company's managing director because this was the first-ever case of its kind in the history of the company, and the vice-president (sales) because he was Vardhan's functional head.

Das further thought that once it was leaked, everyone in the company would know quickly enough. Although there was no danger of contagion from casual contact, people would surely be prejudiced against Vardhan which in turn would affect his ability to deal with them. Das wondered whether in such a scenario Vardhan could be entrusted with a responsibility which in its very nature involved greater interaction with people and higher pressure of work. On the other hand, Vardhan deserved the promotion on sheer merit. To deny what was due to him would be unfair.

What should Das do?[26]

Closing Case—2

The Non-Plussed MBA Student

Vinod Agashe is an MBA IV semester student at CBSMS and is majoring in HRM. He has a pleasant encounter with Dinesh Singh who is an employee of a private firm located in Bangalore.
Listen to Vinod.

"It was a chance meeting with Mr Dinesh Singh the other day. He was in a leisurely and conversational mood. Having known that I am a student of HRM, Mr Singh went on talking about his experience 20 years back.

"Mr Dinesh Singh was an employee in a public sector undertaking located in Bangalore. He proved his mettle as a draughtsman and was obviously liked by his boss, peers, and subordinates. He served as a draughtsman for 10 long years in the PSU.

"Having come to know the competency of Mr Dinesh Singh, a private firm (located in Bangalore) wanted to poach on him. Attracted by higher pay and perks, Mr Singh quit the government-owned organisation.

"The trouble started now. Mr Vittal, the HR Manager of the private firm insisted on a fitness certificate from a doctor and advised Mr Dinesh Singh to get one. Mr Singh went to Dr Nandish, a general physician, who diagnosed a heart ailment and gave a report accordingly. Mr Vittal refused to take Mr Singh in.

"Mr Singh was on the street. He lost his secured government job. Nor was he acceptable to the firm which made him put in his papers to the government undertaking. He had dependants at home.

"On advice from friends, Mr Singh consulted Dr Bharath, a cardiologist and an approved government doctor for several firms in Bangalore. On examination, the doctor certified to the fitness of Mr Singh but advised him to see him (the doctor) after a couple of months.

"Fitness certificate being produced, Mr Singh was inducted into the firm. After two months, Mr Singh promptly met Dr Bharath who, after a thorough check-up, advised the former to undergo heart surgery.

"Mr Singh was hospitalised for two months and the entire medical and nursing bill was picked up by his employer.

"Who is right and who is wrong?"

"I am at a loss. Certain questions are bothering me: What ethical issues are involved in this? Was Mr Singh right? Dr Nandish wrong? Was Dr Bharat unscrupulous? Was Mr Vittal made a fool? Enlighten me."

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CHAPTER 26

Evaluating HRM Effectiveness

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

Nature of HR evaluation

- An evaluation framework
- Approaches to evaluation

Opening Case

HR FOCUSING ON HOW IT CAN ADD VALUE

Human resources professionals are in the midst of reinventing themselves—changing what they do for the companies that employ them and how they relate to those on the operations side. Their goal is to shoot for the corporate gold—a seat around the senior management table right alongside decision makers like the chief operating, information and finance officers.

The singlemost important tool they have in their uphill struggle is the intellectual capital held within any corporation. In the past, the profession has focused on winning the hearts of employees. Today their aim is to quantify and harness their minds. 'HR used to be the feel-good department,' says Michael Ford, president of the Human Resources Institute of Alberta. 'Now the focus is on value added. We are in the midst of a fundamental shift from being a cost item on the balance sheet to being, if not a profit centre, then to at least being able to justify return on investment.'

Granted, such a fundamental shift takes time and brings with it a certain measure of confusion. 'The main problem right now is figuring out just what HR is going to do within a corporation,' says Paul Juniper, president of the HR Professionals Association of Ontario. 'Historically we have performed administrative functions like payroll, pensions and benefits administration. 'We were the personnel department. We hired, we fired, and we took care of the details. We never added a lot of value to the company.'

That role changed with the advent of the technological age. In the past decade, many employers found that they could first automate most of those traditional functions and then become more effective by outsourcing them to third parties. For HR professionals, what seemed like a threat to their livelihood may actually have been a blessing. 'Suddenly, we were relieved of these humdrum tasks... That left the HR department free to devote its time to developing a new role, one that could help the company reach its strategic objectives.'

Success and a seat at the senior management table will depend on HR professionals looking beyond their traditional playing field, Mr.Juniper adds.[1]

Expectations from HRM are soaring, as the opening case indicates. HR professional is now expected to play roles of change agent, strategic partner, employee champion and transformaionalist. How far the HR professional has risen to the expectations is a question which needs to be addressed at this context.

This chapter is devoted to explain the model for HR evaluation and approaches to evaluation. Discussion on macro-level evaluation of human resource effectiveness also follows.

NATURE AND NEED FOR HR EVALUATION

HRM evaluation refers to the procedures and processes that measure, evaluate and communicate the value added of HRM practices to the organisation.[2] HRM evaluation assumes significance because of the intensive emphasis on cost control, need for efficient allocation of resources, contribution to the bottom line, and capability of human resources to provide a competitive advantage to the firm.[3] Specifically, HRM evaluation has been advocated for a number of reasons including:[4]

- Promotion of the HR function, through demonstration of bottom-line contributions through reduced turnover.
- The demonstration of accountability in utilisation of resources.
- Promotion of change by identifying strengths and weaknesses.
- Introduction of financial assessment as a decision tool in human resource programme selection.
- Highlighting key HR practices.
- Gauging the performance of HR function.
- Demonstrating the function's role in the accomplishment of firm's goals.

EVALUATION FRAMEWORK

Figure 26.1 provides a comprehensive framework for HRM evaluation. The model emphasises the overall relationship among three major elements: **(i)** HRM policies and practices, **(ii)** HR performance measures both at individual as well as group levels, and **(iii)** Organisational performance indicators.

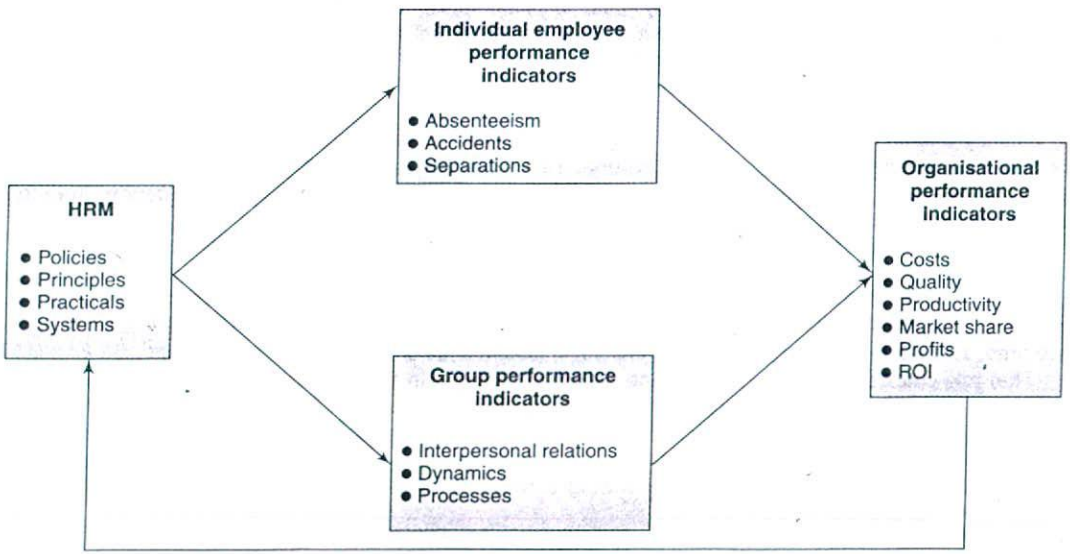


Fig. 26.1 Framework of Evaluation

HRM policies and practices include employee hiring, training and development, performance review and compensation systems. These will impact employee performance at both individual as well as group levels.

Employee performance seeks to emphasise on such outcomes as turnover, accidents, grievances and absenteeism. These indicators no doubt provide for objective assessment of performance but miss more meaningful indicators. HRM policies and practices should result in behavioural outcomes more than quantitable indicators. Behavioural outcomes include employee loyalty, commitment, hardwork, motivation and morale.

Organisational performance indicators include cost, quality, profitability and return on investment (ROI). These outcomes are the result of HRM policies and practices and can be conveniently used to evaluate HR function.

If employee and organisational performance falls short of desired limits, HRM policies and practices may need to be redesigned.

? Pause and Ponder

'What cannot be measured cannot be managed' so goes the saying. But how far this saying applies to work related situations where team work, knowledge work, potential for performance, intangibles and the like are predominant?

APPROACHES TO EVALUATION

There are several approaches to human resource evaluation. The most prominent of them are: audit approach, analytical approach, qualitative and quantitative approach, balanced scorecard perspective and bench-marking (See also Fig. 26.2).

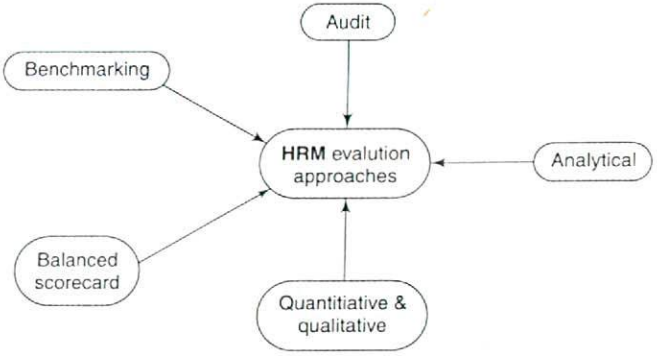


Fig. 26.2 Approaches to HR Evaluation

Audit Approach

HRM audit is a process of evaluating the effectiveness of the entire HR function. The HRM audit, as its financial audit counterpart, possesses the following elements:[5]

- independence from the subject being audited
- technical work in the form of a systematic gathering and analysis of data
- an evaluation of the HR activities, policies and systems based on the evidence

- a clearly defined object of the process
- action in response to audit findings.

HRM audit offers several benefits as outlined below:[6]

HR audit—

- provides verifiable data on the HRM function
- clarifies the HR function's duties and responsibilities
- identifies critical HR problems
- helps align HR strategy with organisational strategy
- improves the status of HR function
- helps reduce HR costs
- helps review and improve the HRIS.

Approaches to HR Audit Auditors may adopt any of the five approaches for the purpose of evaluation:[6] **(i)** comparative approach, **(ii)** outside authority approach, **(iii)** statistical approach, **(iv)** compliance approach, and **(v)** Management By Objectives (MBO) approach. It may be stated that irrespective of the approach, the data for assessment are provided by HR research.

In the *comparative approach*, the auditors identify another company as the model. The results of their organisation are compared with those of the model company. Often, the auditors use standards set by an outside consultant as benchmark for comparison of own results. This approach is called the *outside authority approach.* The third approach is the *statistical approach.* Here, statistical measures of performance are developed based on the company's existing information. Examples of such measures are absenteeism and turnover rates. These data help auditors assess the performance. In the *compliance approach*, auditors review past actions to determine if those activities comply with legal requirements and company policies and procedures. A final approach is for specialists and operating managers to set objectives in their areas of responsibility. The *MBO approach* creates specific goals against which performance can be measured. Then the audit team researches actual performance and compares it with the objectives.[7]

The audit programme comes to an end with the preparation of the audit report. The report may be clean or qualified. The report is qualified when the HR performance contains gaps. Where gaps are observed, remedial measures are suggested. The report is clean where the performance is fairly satisfactory.

Figure 26.3 shows the HR audit process. The audit covers four areas, and, to do so, one or more strategies are adopted. The audit is conducted with the help of data provided by HR research. The audit report provides feedback to the HR department.

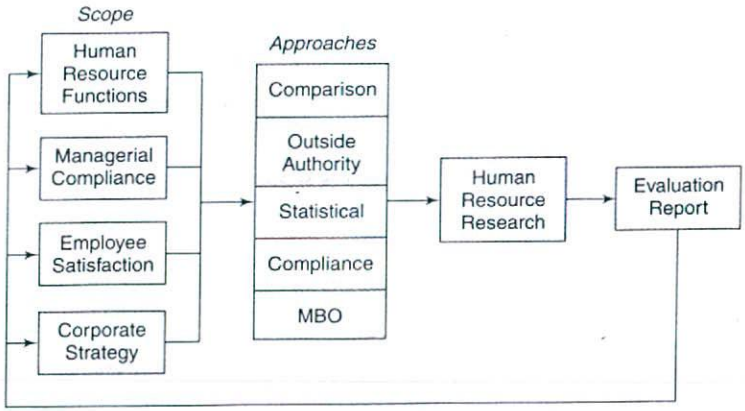


Fig. 26.3 Process of Human Resource Audit

HR Research HR auditors depend on personnel or HR research for data. Research is understood as the systematic and goal-oriented investigation of the facts to establish a relationship between two or more phenomena. Its purposes are varied. Specifically, research can lead to an increased understanding of and improvement in HR practices. The major topics covered in HR research are:

- Wage surveys,
- Effectiveness of various recruitment sources,
- Effectiveness of training efforts,
- Survey of supervisor's effectiveness,
- Recent industrial settlements,
- Job analysis,
- Job satisfaction survey,
- Survey of employee needs,
- Attitude survey towards reward system, and
- Areas of high accident frequency.[8]

Findings on the topics listed above and other related areas constitute the basis for HR audit.

Analytical Approach

The second approach to HRM evaluation is the analytical one. The analytical approach relies on cost-benefit analysis, also called the **utility analysis**.[9] Utility analysis seeks to express evaluations in economic terms, which are more useful for decision makers. Several HR activities have been evaluated with utility analysis, including appraisal systems, employee hiring, training and turnover. Although utility analysis has wide applicability and represents a quantitatively superior means of evaluating HR activities, the process is difficult. Because of this difficulty, and the amount of resources and effort required for analysis, its use has been limited to only certain specific situations.

Qualitative and Quantitative Indices

A number of quantitative indices are available to determine effectiveness of HRM. For example, one can calculate cost of turnover, absenteeism cost, cost of work-life programmes, training costs and the like. Sears, Roebuck and Co. applied behaviour-costing methodology to study the relationship between employee attitudes, customer behaviour and profits. In retailing, for example, there is a chain of cause and effect running from employee behaviour to customer behaviour to profits.[10] HRM department itself can be treated as a profit centre. These and other indicators, when calculated and compared with other firms, give a fair picture about the outcome of HR functions and activities. Excessive reliance on quantitative indices to evaluate HRM effectiveness, however objective they may appear, may be dysfunctional. Qualitative parameters too are highly useful for evaluation. Employee loyalty, organisational commitment, attitudes, morale and similar other soft indices help gauge HRM effectiveness.

Balanced Score Card

Developed by Robot Kaplan and David P.Norton, balanced score card helps evaluate HRM effectively. The balanced score card contains four dimensions: financial performance of an organisation, its customer service, its internal business processes, and its capacity to learn and achieve growth. Within these four areas, managers need to identify key performance indicators the organisation should track. The **financial** dimension reflects a concern that the organisation's activities contribute to improving short-term and long-term financial performance. **Customer service** perspective measures such things as how customers view the organisation, as well as customer retention and satisfaction. **Business process** indicators focus on produc-

tion and operating statistics, such as order fulfillment or cost per order. The final component relates to the human resource-its potential to learn and grow. This perspective seeks to focus on how well resources and human capital are being managed for the company's benefits.[11]

The balanced score card provides a balanced picture of current performance as well as the triggers for future performance. The score card helps managers align their business units, as well as their financial, physical and human resources, to the firm's overall strategy.

What needs emphasis is that the HR evaluation should not confine only to people dimension of the score card. The HR professional should be judged on all the dimensions of the score card. HR executives tend to believe that their success should be judged only by the extent to which they meet employee needs. As the score card indicates, employee commitment is only one criterion for effective HR performance, and HR professionals will be held accountable for all the dimensions as other managers. At AT&T, for example, HR Vice President is evaluated by the same balanced score card as the other executives of the company. This approach requires that HR professionals master the financial and customer issues and recognise their contribution to organisational effectiveness.[12]

Benchmarking

Benchmarking involves employees learning and adopting the so-called "best practices" by comparing their HRM practices with those of other (more successful) organisations. Benchmarking essentially involves that employees study the practices followed in competing firms and evaluating own practices with those thus collected. Besides evaluation of own HR practices, benchmarking enables managers to learn from other firms and adopt effective HR strategies. In addition, benchmarking can help create and initiate the need for change because it identifies what an organisation needs to do to improve relative to the HR strategy in excellent companies.[13]

Benchmarking involves seven sequential steps:[14]

1. Identify HR practices for benchmarking. Obviously, critical practices from organisation's perspective are identified for benchmarking.
2. Constitute a core or a project team to handle the benchmarking process.
3. Identify benchmarking partners—organisations from the same or different industry, competitors or non-competitors or international firms—who are known to have tried best practices successfully.
4. Collect data from each of the benchmarking partners (for example firms A, B and C).
5. Analyse and interpret the data.
6. Prepare a comprehensive report based on the data analysis and interpretation.
7. Develop action plans to improve HR strategy and practices (See also Fig. 26.4).

? Pause and Ponder

Identify the best practices for administering a university or running a college or a B-school. Which of the educational institutes around you follow such practices so that you can benchmark them?

Starting with harder and more objective aspects of business such as technology, systems and financial ratios, benchmarking has been employed to touch softer dimensions of organisations too. There are many takers of benchmarking and with some firms it has become almost a religion. Xerox, for example, studied the order fulfillment techniques of L.L.Bean and learnt ways to reduce warehouse cost by 10 per cent. GE deployed a core team to examine management practices in some of the best managed firms in the world to identify key processes for improving productivity. This team derived a set of principles and processes to help GE businesses become even more productive. These practices became institutionalised in a course entitled "Productivity/Best Practices" attended by over 1,000 GE managers. Digital Equipment Corporation benchmarked 12 companies and concluded that best practice in HR should focus less on a particular practice than on a set of general principles.[15]

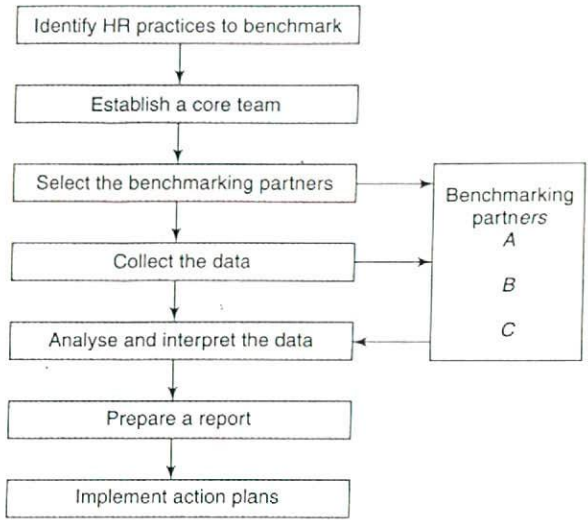


Fig. 26.4 Benchmarking Process

Source: John Bratton and Jeffrey Gold, *op.cit*, p. 449.

SUMMARY

HRM evaluation is the process of assessing its effectiveness and passing on the findings to the organisation to initiate corrective action. HRM evaluation seeks to serve number of causes, as for example, establishing accountability in using resources, promoting change and the like.

HRM evaluation model seeks to establish interrelationship among (i) HR policies and practices, (ii) employee performance, and (iii) organisational performance.

The five evaluation approaches that are increasingly being used to evaluate HRM are: auditing, analytical, qualitative and quantitative, balanced score card and benchmarking.

KEY TERMS

Balanced scorecard
Benchmarking
Cost of absenteeism
Cost of turnover
Employee performance
HR Audit
HR Audit
HRM evaluation
Organisational performance

REVIEW QUESTIONS

1. What is HRM evaluation? Why is it justified?
2. Explain the framework of HRM evaluation.
3. What are the approaches to HRM evaluation?
4. Define HR audit. Bring out its scope and approaches.

DISCUSSION QUESTIONS

1. Why should an organisation assess its own HRM function?
2. How can the effect of HR strategy on organisational performance be explained?
3. How effective is the benchmarking and balanced scorecard for measuring an HR strategy's contribution to the financial "bottomline" of a company?

Closing Case

Chairman and CEO Seeking a Solution and Finding It

Sitting on 50-plus year old ION Tyres, the Kolkata-based tyres and tubes manufacturing company with a turnover of more than Rs.1,000 crore, both A.K.Mathur, the Chairman and Raman Kumar, the CEO are searching for solutions to problems which their company started unfolding.

Financial performance of ION Tyres, is poor as reflected in its falling PBT. Performance gap between the top performer in tyres and tubes and ION Tyres ranges from 4 per cent to 5 per cent. The company has aging managerial people and equally old plant and equipment. High cost of production keeps the company in a disadvantaged position. "Boss is always right" culture has permeated the entire organisation killing initiative and innovatiness. There is slackness, laxity and complacency everywhere. Common thread binding all the departments is missing. Each department is a stand alone entity.

There are positives nevertheless. ION Tyres and tubes are famous world-wide for durability, and superior quality. The company offers a wide range of bias tyres and tubes catering to all user segments like heavy and light commercial vehicles, motorbikes, scooters, and autos. The firm has state-of-the-art radial plant. The client list of ION comprises several big guns in Indian corporate sector. Tata Motors, Hero Honda, TVS Motors, Mahindra and Mahindra, L&T, Eicher, Swaraj Mazda, Maruti Udyog and Bajaj are the regular patrons of ION. The company also has foreign presence with USA, UK, S.Africa and Asian countries regularly buying ION's tyres and tubes.

ION seems to have everything going in its favour. It is the market leader in the Indian market enjoying 19 per cent of the market share; manufactures 5.6 m tyres per year, has a network of 50 regional offices with over 4,000 dealers and 180 C&F agents.

Suddenly both Chairman and CEO have realised that there are too many road blocks ahead of them and the journey is going to be rough and bumpy.

Realisation dawned on Mathur and Raman Kumar way back in 2001 when they both attended a two-day seminar on "Enhancing Organisational Capability through Balanced Scorecard" organised by CII at Kolkotta. The duo had personal talk with Sanjeev Kumar, the then Chairman of CII. They are now convinced that Balanced Score card is ideal performance assessment tool that could be used in ION with greater benefits.

Mathur and Raman Kumar acted fast. They soon organised a workshop on "Balanced Scorecard" to educate in-house managers about the concept and the procedural aspects of its implementation. There was initial resistance to accept the scorecard as the managers felt that they were already burdened since they were busy implementing other quality improvement initiatives. Deliberations in the workshop changed them. They are now convinced and enthusiastic about the positives of the scorecard. They are ready to implement the system.

A two-member task force was constituted comprising Director—HRD and G.M.—Strategy and Planning. The task force travelled to all the three factories as well as zonal headquarters to unfold the implementation of the scorecard. The scorecard principles were implemented successfully from November 2002 and completed by March 2003. Figures 26.5 to 26.8 show the scorecards adopted by ION Tyres.[16]

Financial				
"To succeed financially how should we appear to our shareholders"	**Objectives**	**Measure**	**Target**	**Initiatives**
	To achieve turnover of Rs.1850 crs by FY05	• Sales turnover • PBIDT	• To achieve turnover of Rs.1850 crs by FY05 • PBIDT of Rs.150 crs (FY05) • Decrease in conversion cost from Rs.25 to Rs.21/kg in Bhopal plant and Rs.28 to Rs.25/ kg in Mysore plant	• Develop acceptable 1000-20 lug tyres • Increasing number of sales offices from 180 to 220 • 7 day work week to be introduced at the Bhopal plant • Improve fuel wastage and ensure lower power consumption • VP Technology and MD to initiate technology tie-ups

Fig. 26.5

Customer				
"To achieve our vision, how should we appear to our customers"	**Objectives**	**Measure**	**Target**	**Initiatives**
	Improvement in customer satisfaction	• Customer satisfaction survey (by external agency)	• To improve from 65% to 70% • Customer engagement at 30%	• Claim settlement to be reduced from 8 to 2 days • Improvement of casing value of used tyres, atleast by 15% • Cost per Kilometer of tyre comparable to competitors

Fig. 26.6

Outcomes of scorecard implementation have been very encouraging. PBT improved and the gap between ION Tyres and the toppers in the industry reduced by 50 per cent. A transparent and objective performance assessment system came to be kept in place. With inertia and the ennui being broken, both Mathur and Kumar felt galvanised and realised that the road ahead of them was no more bumpy and rough. Thus, solutions to the problems were found.

Learning and Growth				
"To achieve our vision, how will we sustain our ability to change and improve"	**Objectives**	**Measure**	**Target**	**Initiatives**
	Identification of "high-fliers"; Talents to be identified through development workshops	• Job enrichment, job enlargement, job rotation • Competency Assessment • Potential Appraisals	• Career planning for the "High-Fliers" (expected to be around 30 managers) • Succession planning for all key positions • 5 manday's training/manager/year	• Move people within the same functions, in the first two years and at the year two move them to another function • Variable pay component in the ratio 1:4 for the "high-fliers" • Non-financial rewards • Felicitation by company chairman in presence of family members for recognizing extraordinary contributions

Fig. 26.7

Internal Business Processes				
"To satisfy our shareholders and customers, what business processes must we excel at"	**Objectives**	**Measure**	**Target**	**Initiatives**
	Introduction of new products in the commercial tyre segment Reduction of development time Quarterly reconciliation of accounts receivables from dealers Annual increases on-time to employees	• Introduction of 3-4 new products per year in commercial tyre segment • Reduction of development time from 18 months to 6 months • Achieve 100% reconciliation • Annual increases by on time by 1st July	• Introduction of 3-4 new products per year in commercial tyre segment • Reduction of development time from 18 months to 6 months • Achieve 100% reconciliation • Annual increases by on time by 1st July	• Regular quarterly review of performance • KRA targets to be ready by 1st April • European certification for tyres

Fig. 26.8

Questions

1. Do you agree with the conclusion drawn at the end of the case that scorecard system has galvanised ION Tyres? In other words, does scorecard system deserve all the credit?
2. Will quality improvement initiatives clash with scorecard implementation? If yes, how to avoid the clashes?

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CHAPTER 27

Contemporary Issues in HRM

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- The major challenges ahead of HRM
- The HR responses to major challenges

Opening Case

Working women make tough choices every day.

- Bread and cheese or idly and sambar.
- A new sari or the electric bill.
- A sick child or a demanding boss.
- A parent-teacher meeting or 'that' all important conference at the office.

Whether your top concern is equal pay or flexible hours, childcare or elder care, training for a new job or respect for the one you do now, one thing is certain—working women face a challenge—what you ***feel*** invariably affects how you ***behave***.

Not very long ago, it seemed to me that as a working mother I was forever running out of the house to swipe my card into the office in time, be back home to cater to the little ones back from school with the home work done and daily lessons read, and not to take for granted the cooking of an attractive meal to please everyone. I would struggle relentlessly at keeping a spanking clean home, tastefully furnished and not a thing out of its corner, raving at the housemaids (I kept two of them just so that everything gets done) and landed up at bed most nights a 'rag' and bad tempered one at that!

It took me a long time to realise that I could not do everything. I wasn't a superwoman, I wasn't invisible, I was human, yet everyone else used me as their rock, their support. In the milieu of tasks I often asked myself 'what' success and support 'actually' meant.

My days of endless exhaustion and irritability had to cease. Why was this?

I didn't think looking like a zombie, with all the work completed in preparation for tomorrow, slouched on the sofa at the end-of-day even looked remotely supportive!

On many occasions I would reflect on my day in the office. What had I accomplished? Well, I had that highly successful meeting with the production managers; I had finally got approval and put in place a long pending policy, and I had that disagreement with a co-member of the team over work 'going behind schedule'. I had taken a breather in the 'café' next door with a colleague only to discover I knew so little

about the grapevine ripe with news of some office politics. It was shocking to realise how successful I'd been in professionally managing on the work-front as well as at home where things went with almost clockwork precision, while the softer, subtler and the 'gut-level' stuff always went unnoticed by me.

I came to the conclusion that there had been something out there for me. I was a reasonably intelligent woman, my brain wasn't totally frazzled by children's cartoons. So what skills have I got apart from making a good casserole or a wonderful presentation on the latest concepts? I could talk (too much apparently) and communicate, I had updated myself with the latest management jargons and considered myself a domain expert at 'application' of these concepts at work.

Taking the step towards self-enlightenment, as I'd like to call it, I woke up to the truth that most of us have foolish ideas about who we are, what makes 'success' in a role and that we have rigid rules about how life ought to be lived.

The other day I was reading a book *You can Heal Your Life* by Louise L Hay and found this very luring quote:

"In the infinity of life where I am,
all is perfect, whole and complete.
I believe in a power far greater than I am
That flows through me every moment
of every day."

Somewhere hidden in these lines I found a likeness to what I experience personally in the work-life balance that I constantly strive to achieve.

This didn't happen in a day, it took a long while and it was a steady process during which I often kept slipping into the old behaviour of a drawing-up long-winding 'to do lists'. Once I realised that I had a goal that involved the family as well as my career, I felt passionate about 'setting myself up' for 'true' success. Not the success that comes from a well planned set of physical activities, but the one that rewards the 'spirit'.

For close to 10 years since I donned the mantle of a 'working housewife', I carried the popular notion that being successful in this role meant 'managing expectations' till I realised that it was all about 'managing relationships'. No one cared much nor appreciated the 'number' of things I did, the variety of dishes I packed for lunch, the new recipes I struggled to shop for and cook, the amount of time I spent planning to make things happen in time, and at work the reports I prepared in time and the tasks and projects I completed to perfection. What mattered was the time I invested in meeting my own and the person's psychological and emotional expectations.

I discovered that taking care of oneself is the first step towards achieving balance. I had the support of my husband who suddenly found me behaving 'differently' (as he now recalls). When stress closes in and you feel overwhelmed, even the smallest tasks can seem impossible. I carried the stress of making the 'shift' and keeping it unobvious to others. I struggled to 'not' derive satisfaction from the 'to do lists' I still carried in my handbag and focused instead on balancing it with 'value time' I created for all those who mattered to me, both at work and at home.

To begin with I began to spend time 'sharing lighter moments' laughing and joking with the kids, with my husband and the team at work and it revealed in the sometimes puzzled look on their faces behind me when I left. The more I indulged the more I relished it and the more people around me accepted this change in my style.

It wouldn't be fair if I did not admit that often the sense of humour disappeared and impatience and frustration would take over and I'd fight with the urge to be critical and outright in expressing when I was peeved at things that did not happen on time and the way it could best be done. The person at the receiving end of it turned out to be the dearest 'husband', a college sweetheart I fell madly in love with and dote on as much today as I did 14 years ago!

Finally, it is a battle we fight together where we realise that the balance comes from a lot of sharing of common chores, of sharing responsibilities and of sharing understanding, most of all. When he's upset I calm my anger and when I'm upset he's the one who lends the patient ear.

The balance comes from the one that I strike with my 11-year-old son and the 6-year-old daughter in making the 'connection' and remaining 'connected' no matter where we are—at home together or at work/school. Cooking becomes fun time with all helping in and it was pleasant (and I must admit threatening too) to realise that the husband and son exhibited as much interest in acquiring cooking skills as did the daughter. I did experience the pinch as the turf-battle within me surged and ebbed, but it was not for long. Keeping home was as much everyone's responsibility as mine, and it was amazing to see the ideas the little ones came up with. I felt truly foolish but yes, proud and relieved too.

The balance at work comes from being sensitive—a simple word that means so much for me. The need to take matters less grievously at work helped work wonders. The need to rush, got replaced with a genuine concern to be steady and soft rather that rush and push to a conclusion. I was far more appreciated and welcomed now and office gossip, you bet, I know twice more that 5 of the others put together. I was popular, but more for the work I did rather than as a person, and today I've come a long way from that reputation. And what actually was my complete undoing was the success I continued to face in getting the work done, on time and to perfection.

The mindset I had to overcome in this balancing act was to stop seeing myself as walking the tight-rope suspended 100 meters above with the pole in my hand, all alone. Somewhere I'd assumed that being a working housewife was my responsibility instead of it being a shared responsibility. The shift all along was an effort no doubt, but definitely most rewarding.[1]

This is the story of a woman executive who struggles and finally succeeds in balancing work and life.

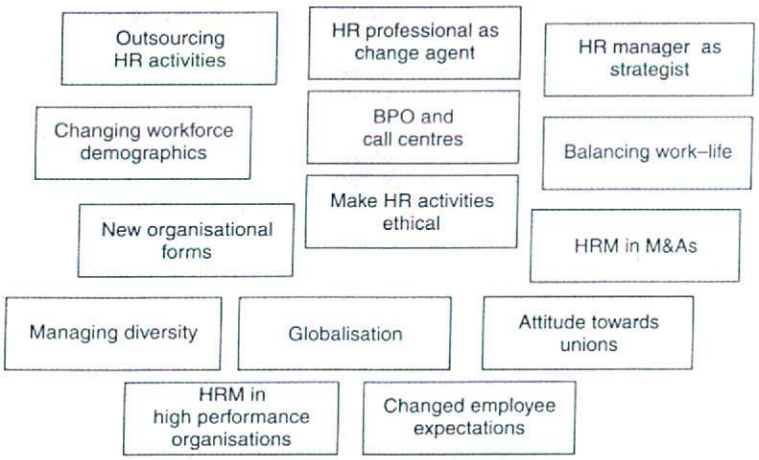


Fig. 27.1 Contemporary Issues in HRM

? Pause and Ponder

Read these HR challenges along with the paradoxes of HRM explained in Chapter 1. Do you find any paradoxes? Ponder.

Outsourcing HR Activities

Increasingly many large firms are getting their HR activities done by outside suppliers and contractors. Employee hiring, training and development and maintenance of statutory records are the usual functions contracted out to outsiders. P&G has signed a 10-year, $400 million deal with IBM to handle employee

services. IBM will support almost 98,000 of P&G employees in nearly 80 countries with services such as payroll processing, benefits administration, compensation, planning, expatriate and relocation services, and travel and expense management.

The trend towards outsourcing has been caused by several strategic and operational motives. From a strategic perspective, HR departments are divesting themselves from mundane activities to focus more on strategic role. Outsourcing has also been used to help reduce bureaucracy and to encourage a more responsive culture by introducing external market forces into the firm through the bidding process.[2]

At the operational level, outsourcing helps save money. National Highway Authority of India is handling projects worth Rs 45,000 crore with a human resource strength of just 570 people, working out to a ratio of one person per Rs 100 crore—thanks to outsourcing. Another reason for pursuing outsourcing is to gain increased efficiency and better service in the performance of functions. In addition, outsourcing has been used to obtain specialised expertise that is not available in-house.

Outsourcing has its negative side. The relevance of HR departments is at stake. If outsourcing is carried to the logical end, a firm can do without an HR department. Does it mean that a function so dearly held and cherished for decades, suddenly becomes irrelevant? Then, of what use are the specialised bodies advocating HR functions? Why then B schools run courses on HR specialisation? Why then is the present book on HRM? Sad to imagine answers to these questions.

In addition, apprehensions are expressed about the lost jobs in HR functions. Firms which outsource HR activities do not maintain or have only skeleton HR departments. Days when HR departments occupied huge space in factories and portrayed structures of the magnitude shown in Fig. 1.5 (see Chapter 1) are gone. Obviously, HR departments are no more job givers.

It is a big challenge before the HR manager to prove that his/her department is as important as any other function in the organisation.

BPO and Call Centres

Business Process Outsourcing (BPO) Several MNCs are increasingly unbundling or vertical deintegrating their activities. Put in simple language, they have begun outsourcing (also called business process outsourcing, or BPO) activities formerly performed in-house and concentrating their energies on a few functions. Outsourcing involves withdrawing from certain stages/activities and relying on outside vendors to supply the needed products, support services, or functional activities.

Indian firms benefiting from outsourcing are many. 250 engineers of Infosys develop IT applications for BOFA (Bank of America). Infosians also process home loans for Greenpoint Mortgage of Novato, California. At WIPRO, five radiologists interpret 30CT scans a day for Massachusetts General Hospital. 2500 College educated men and women are buzzing at midnight at WIPRO Spectramind at Delhi. They are busy processing claims for a major US insurance company and providing help-desk support for a big US Internet Service Provider—all at a cost upto 60 per cent lower than in the US. Seven WIPRO Spectramind staff with Ph.Ds in molecular biology sift through scientific research for western pharmaceutical companies. ICICI Infotech Services, Satyam Computers, TCS, Transwork, e-Service, Daksh, MsourcE, eFunds, and EXL Service are the other active Indian players in the outsourcing industry.

The outsourcing industry is growing from strength. Though technical support and financial services have dominated India's outsourcing industry, newer fields are emerging which are expected to boost the industry many times over.

Outsourcing of human resource services or HRBPO is emerging as big opportunity for Indian BPOs with the global market in this segment estimated at $40-60 billion per annum. HRBPO comes to about 33 per cent of the outsourcing revenue and India has immense potential as more than 80 per cent of Fortune 1000 companies are contemplating offshore BPO as a way to cut costs and increase productivity.

Another potential area is ITES/BPO industry. According to a NASSCOM survey, the global ITES/BPO industry was valued at around $773 billion during 2002 and it is expected to grow at a compound annual growth rate of nine per cent during the period 2002–06. Legal outsourcing is another attractive area in BPO.

BPOs—Cost Advantage BPO is based on sound economic reasons. Outsourcing helps gain cost advantage. If an activity can be performed better or more cheaply by an outside supplier, why not outsource it? Many PC makers, for example, have shifted from in-house assembly to utilising contract assemblers to make their PCs. Cisco outsources all production and assembly of its routers and switching equipment to contract manufacturers that operate 37 factories, all linked via the Internet.

Secondly, an activity not crucial to the firm's ability to gain sustainable competitive advantage and will not hollow out its core competence services, capabilities or technical know-how can be outsourced. Outsourcing of maintenance services, data processing, accounting, and other administrative support activities to companies specialising in these services has become common place.

Thirdly, outsourcing reduces the company's risk exposure to changing technology and /or changing buyer preferences.

Fourthly, BPO streamlines company operations in ways that improve organisational flexibility, cut cycle time, speed up decision-making, and reduce coordination costs.

Finally, outsourcing permits a company to concentrate on its core business and do what it does best.

HR Managers and BPOs What does BPO mean to HR managers? HR plays a key role in the development and execution of the business strategy of a BPO where the entire business model is people-centric. HR is fast evolving from a transactional support role to partnering in the BPO business strategy.

The major challenge faced by a HR manager relates to retention of employees. Various estimates suggest that the average time-to-profit-time period for a new hire in the BPO industry is about nine months suggesting that a fresher begins to break-even the investments made on him or her and earn profit for the firm only after nine months. Exit of an employee before the nine month period can cost upto five times of his or her paid salary.

The attrition rate varies between 40% and 50%. The oft cited reasons for frequent job-hopping in BPO industry are:

Compensation	10%
Night shifts	35%
Monotonous/Boring jobs	30%
Others	25%

Surprisingly, employees who quit BPO firms will land up in other firms but in the same industry. Obviously, better career prospects attract the employees to change organisations. Agents want to become team leaders. Team leaders want to become supervisors. And supervisors want nothing short of CEO's jobs.

HR managers need to be proactive and develop innovative employee interventions to retain talent. Some suggestions are worth stating in this context.

Supervision may be an old concept but its role in people management continues to be relevant today and in the days to come. Quality of supervision has its impact on employee motivation, productivity and loyalty to the organisation. It may be stated that people leave managers and not organisations. It needs no emphasis that the managers need to change their attitudes and approaches towards subordinates.

The perception of equity in rewards—both monetary and non-monetary—is an important variable in deciding how long an employee stays in an organisation.

The ability of the employee to speak out freely within the firm is another key factor in his or her retention. Having meetings atleast once a month, to share the company's vision, industry's growth and how employees see themselves in the changing scenario help a great deal.

Firms may enter non-poaching agreements. These kinds of agreements ensure that the companies involved do not hire people from another. Non-poaching agreements have their flip side. The freedom of an individual to move is curtailed. The market for a talented person shrinks as he or she can apply only to a limited number of firms.

Offering a salary hike is another strategy that can help retain talent. Some BPO firms offer bachelor accommodation to unmarried employees. A majority of firms hold party and fun games to hold the interest of the employees and keep them invigorated. At times these games are related to performance. Well performing employees are allowed to take part in motivating games.

Competency models may be implemented and integrated with HR activities like hiring, training, and performance and potential appraisal.

Opportunities for people may be provided to share their knowledge through training sessions, presentations and mentor team assignments.

Work-life balance initiatives serve as retention strategies.

Have exit interviews to get a realistic and unbiased feedback which will be a good source of information regarding the shortcomings in the systems and practices.

Review the hiring process to get people who can work during nights and handle the monotony. Select the right people in the first place through behaviour-based testing and competency screening mechanism.

Call Centres—Challenges

If an external company develops the software for a company, if someone else does advertising for the company's products and if some other firm administers benefits for the company's employees, it is BPO. Similarly, if some other company makes calls to the company's customers or receives their calls, it is call centre business—a part of BPO itself. But because of its high visibility, call centre business is treated independently.

Call centre business is booming, so are the human resource problems associated with it. Boys and girls (in their early 20s) working in call centres pose a challenge to HR manager and how effectively he or she tackles this challenge is a real test to the person. First let us take a look at the problems of these employees.

First, the boy or the girl has no identity of his or her own, particularly when the individual is working in a firm serving foreign clients. The name by which this employee is called is not his or her original name; the language and its accent are not his or hers; and the festival he or she is compelled to celebrate is alien.

Second, stress levels of call centre employee are high. Typically, the boy or the girl is glued to the earphone all through the working hours, either receiving calls or making calls. A receiving call is invariably about a faulty service or a defect in the product supplied earlier. Whatever the cause, the tone sounds scornful. The employee needs to be patient and balanced and should offer a convincing reply. A couple of calls of this type may not be stressful. But all the 100 calls the employee receives per day certainly turn out to be stressors.

Making a call to an unknown prospect introducing self and a product is no pleasant job either. For one thing, the contact person has no time to listen to the communication. Besides, the reply will be a firm 'no' which implies that the caller is ineffective. Then there is the risk of invading into one's privacy if the contact person happens to be a foreigner.

Third, besides being stressful, the job of a call centre employee is exposed to health hazards. When a day is a night and a night is a day (usually the case with any call centre employees), the body experiences difficulty in adjusting to the unearthly timings and it becomes worse when changes in shift timings are rotational. The typical demeanour of the boy or the girl is—sleepy, overeating, shabby, dry, and deviant in behaviour.

Fourth, drug addiction is common among youth working in call centres. Besides, they indulge in carnal pleasures early in age.

Fifth, the aspirational levels of call centre employees are low. At young age they get into the jobs and start earning and spending money. They believe that this is life and are at peace with themselves. The desire to study more, qualify better and expect higher things in life is lost.

Sixth, as stated above, these youngsters typically work by night and sleep by day. Their health is at stake, their social life is disrupted, their culture is westernised and jobs are never secured for them. Human side of them has been taken away by blazing lights, high security buildings, sports utility vehicles, laptops, e-mails, computers, cell phones and un-English like English language. How to make them lead a normal working like is a challenge before HR manager.

Finally, the boy or the girl tastes money and position and power quite early in life. He or she has no respect for value of money, no respect for compensation principles, no respect for organisational hierarchies, no respect for seniority, and no loyalty to the organisation. (See also Exhibit 27.1.)

Exhibit 27.1 ***Life Styles of Call Centre Employees***

- They party hard at five-stars, buy branded apparel, pick up the latest gismos, go on long drives, hang around multiplexes... and pay for it all on their own.
- They are in their early 20s, but they work in the world class environment and earn anything between Rs 8,000 and Rs 25,000. And never mind if the big bucks come at the cost of sleep!
- "I like to have a blast at the discs on weekends," says Deepika Pahwa, 20, customer care executive who works at a call centre firm called Saffron Global Ltd.
- "Transportation and food are provided at a very nominal cost by the company. My expenses only include house rent, the rest of the salary I spend on eating out and having fun with friends," she says.
- I don't hold a great professional degree. I'm a plain graduate but with excellent communication skills, and look where I'm going!
- When India sleeps, we are awake, buzzing with the day-time activities of Americans and Britons. I enjoy speaking with people from different countries and I even go back and browse on the net to find out more about the cities and towns that my customers call me from.
- Answering phones for global clients is a plum job indeed. Ninety-nine per cent of the BPO employees own cell phones and credit cards, and have a hip-hop lifestyle. Enough to pull youngsters from various corners of India to the metros in search of a quick buck, a trendy lifestyle and freedom.
- "There is a sense of independence. We enjoy a lot, with no one keeping an eye on us," said Rigvedi Sharma, 22, from Assam, a customer care executive at Daksh eServices.
- Going on outings with colleagues and team members to nearby hill stations is also common among India's BPO workers.
- "As soon as I get my salary, I go for shopping to the malls in and around Delhi," says Shweta Rajpal, 22, a customer care executive with Wipro Spectramind for more than a year.
- Some, of course, save up for parents and siblings. "I always aspired to present a car to family, and I did," said a proud Dhruv Kohli, 23, who has been a senior customer care executive with Daksh eServices for a year and a half.
- "I look forward to the quarterly performance rewards, I have earned a flat-screen colour TV, a Sony Camcorder and a DVD player last year," says a senior customer care associate at AOL, Bangalore.[4]

Given the problems stated above, what are the challenges before the HR manager?

First, attrition rate (40%) is high. Employees in call centres are known for organisational rootlessness. A typical employee in a call centre is prepared to job-hop provided he or she is offered a few hundreds more by a competitor. The nature of job itself permits high attrition among these employees. Unlike other jobs, the skill set required to become a call centre employee is minimal. The prerequisite to get in is the ability to

speak moderately accented fluent English. The tasks discharged by these employees are generic—whichever call centre the boy or the girl works for, attends to identical duties—receiving and making calls.

Other reasons for high attrition rate are—sense of alienation, confused career plans and uncertainty about future.

Second, logistics becomes a problem for HR manager. Employees need to be picked up and dropped at their respective homes. Arranging cabs is a problem. Providing safety to the boys who are required to stand at strategic points late in the nights before they are picked up by cabs is an additional responsibility. Too many cases of these boys being robbed are occurring frequently in Bangalore. Girls need extra safety measures when they are working during night shifts.

Third, and the biggest challenge before the HR manager is to answer and be accountable to the following:

- How long these boys and girls continue to work in call centres? Can a call centre job be a preferred choice for an individual to pick up, join, work and retire?
- How to destress these young men and women and prevent them from getting burntout by the time they reach their 40s?
- How to protect these youngsters from becoming drug addicts?
- How to restore values in them?
- How to prevent them from getting dehumanised and turn out to be robots?

How to Balance Work with Life?

Balancing work and life assumes relevance when both husband and wife are employed. Travails of a working housewife are more than a working husband, as the opening case to this chapter shows. Work-life balance is becoming a major challenge to HR manager as more women are taking up jobs to add to finances of their families or to become careerists (See Table 27.1). In India, working women now account for 15 per cent of the total urban female population of 150 million.[3] The number is likely to increase as more number of girls are coming out of colleges and universities with degrees in their hands.

Table 27.1 **Women Employees in IT Firms**

Company	*Employees*	*Proportion of Women (%)*
Wipro	43,880	24
TCS	43,681	21
Infosys	31,000	22
HCL Technologies	20,249	22
Satyam	20,000	20
Cognizant	13,000	28
Accenture	11,000	25
Patni	10,299	21
Polaris	5,980	19
i-flex	4,688	20

Source: *Business Today*, April 10, 2005, p. 36.

Organisations should undertake work-life balancing programmes, as in their absence both men and women will be exposed to stress, depression and anxiety. Programmes aiming at work-life balance include:

- Childcare at or near the workplace
- Job sharing
- Care for sick children and employees
- On-site summer camp
- Training supervisors to respond to work and family needs of employees
- Flexible work scheduling
- Sick leave policies
- Variety of errands from dry cleaning, dropping children at schools, making dinner reservations and the like.

The organisations that have developed work-life balance programmes have found happier and more productive employees. There are also many companies that still have not investigated, implemented or experimented with work-life balance programmes. These firms believe that the work–life balance is a personal problem and not an organisational issue.[5] Often, the individual herself balances her life at home and at work with her own attitude as the opening case shows.

There are some interesting revelations about the status of work–life balancing. Two separate global surveys conducted among senior executives by AESC, an association of executive search firms, reveal that 53 per cent of the executives agree that work–life balance has worsened in the last five years. Asia-Pacific executives are said to be worse off than their counterparts elsewhere in the world.

Making HR Activities Ethical

The HR manager's role in building an ethical climate in the organisation is significant. The HR manager needs to carefully screen applications for jobs, weed out those who are prone to indulge in misdemeanours and hire those who can build a value driven organisation.

Hiring ethically strong employees is only the beginning. The HR manager needs to institute mechanisms to ensure ethical conduct of employees. As stated in Chapter 25, whistle blowing, ethics hotline and ethics committee are some of the ways of ensuring ethical conduct by employees. Having established these, the HR manager needs to create an environment for effective functioning of such mechanisms.

The HR manager by himself/herself should set an example for ethical behaviour. Regrettably, HR managers are accused of being dishonest as they are known to accept bribe from hiring firms, caterers, transport operators and real estate developers. Dishonest people cannot make others honest.

Managing Diversity

As stated in Chapter 2, employees of organisations are becoming increasingly heterogeneous. As days go by, diversity is going to be an important issue for the HR manager for the following reasons:

- The number of young workers in the work-force is increasing.
- More women are joining the work-force.
- The proportion of ethnic minorities in the total work-force is increasing.
- Work-force mobility is increasing.
- International careers and expatriates are becoming common.
- International experience is becoming a pre-requisite for career progression to many top-level managerial positions.

? Pause and Ponder

How far your class contains diversity? How many of your are boys, girls? Which places you come from? What languages do you speak? What has been your experience while interacting with a boy or a girl who hails from some other place and speaks a different language?

Diversity, if managed effectively, offers competitive advantage to a firm in several ways. It can increase an organisation's productivity through several avenues, one of which is increased problem-solving ability. Such productivity may result from increase in creativity. Bilingualism and biculturalism result in divergent thinking which in turn leads to creativity.

In addition to diversity-related creativity and problem-solving advantages, organisations may also be able to tap gender and racially diverse markets better with a more diverse work-force. Firms having good records in managing diversity may also be able to attract better employees. Organisations that can manage diversity better tend to be more flexible because they have broadened their policies, are more open-minded, have less standardised operating methods and have developed skills in dealing with resistance to change.[6]

How to manage diversity effectively? Following are some guidelines:

- Top management commitment to value diversity is a pre-requisite.
- Organise diversity training programmes that provide diversity awareness and educate employees on cultural and sex differences and how to respond to these in the workplace.
- Have a support group set up by an employer to provide a nurturing climate for employees who would otherwise feel isolated or alienated.
- Accommodate female employee needs, such as child care and job sharing, to prevent their turnover.
- Create mentoring programme in which senior managers identify promising women and minority employees and play an important role in nurturing their career progress.
- Have apprenticeship programme in which promising prospective employees are groomed before they are actually hired on a permanent basis.
- Institute diversity audit to review the effectiveness of an organisation's diversity management programmes.[7]
- Have proper communication which includes speeches by senior executives, inclusion of diversity in corporate vision statements, the publication of diversity brochure and inclusion of diversity as a topic in new employee orientation. (See also Exhibit 27.2.)

Exhibit 27.2 ***Indian Companies Becoming Cosmopolitan***

Take the case of HUL. A majority of its customers are women but till 2000 women constituted just 5% of its management. Alarmed by that number, the company put in place a plan to aggressively hire more women. It looked at companies like ICICI and IBM, which had a far better representation of women in their workforce. HUL started several initiatives like a six-month fully paid maternity leave as well as a 5-year sabbatical. It also grants maternity leave in cases of adoption. The results are beginning to show; today the number of women in HUL has gone up to 16%. Says Leena Nair, GM, HR; HUL "There is more vitality in the workplace. HUL is a softer place, with less hierarchy." At IBM many women now have full time jobs working from home. Male managers at IBM are sensitised not to schedule meetings after 6.30 pm. IBM India now has 26% women in its workforce. DuPont makes sure that for every job opening there is at least one-woman candidate in the shortlist.

At Wipro, managing diversity means accommodating people of different backgrounds and work experiences. Wipro has 1,500 people of nationalities as diverse as Portugal, Austria, Sweden, and Finland in its workforce.

Source: *The Economic Times*, dated Jun. 23, 2007.

(See Appendix 2 for a glimpse of women as executives in MNCs)

Attitude Towards Unions

We made references to unions in Chapters 2 and 23. In Chapter 2, we highlighted how unions constitute internal environment of an organisation. Chapter 23 dealt with unions exclusively. Now, what are the attitudes of managements towards unions? General perception of managers is to avoid unionisation.

Contrary to the popular perception, unionisation is beneficial to the organisation. Unions provide a means for workers to express before the management conditions prevailing in the workplace. In situations where management is unreceptive to the concerns of individual workers and there is no union to provide a voice, the only alternative left to the dissatisfied employee is to go in search for greener pastures elsewhere. Because of the voice mechanism or the instrumentality role (refer to Chapter 23), unionised firms have lower turnover rate and encourage organisations to provide more rational and professional management.

Unionisation can have positive impact on a firm's performance under certain labour market conditions. This can occur in situations in which the employer has monopoly in the labour market. When unions negotiate higher wages under such conditions, the economically rational response of employers is to add more capital per worker and enhance the quality of labour. This leads to higher productivity.[8]

Unionisation is preferable because to remain union-free costs the organisations heavily. Pay raises, out of turn promotions, generous perks and other benefits need to be doled out frequently to appease workers.

Of course, the negative impact of unionisation is too familiar to all. Strikes, spoiled labour relations, lost production and lost revenues are the consequences of unionisation. Fearing the dark side of unions, managers seek to keep their plants union-free.

Managers need to realise that unions are inevitable part of organisations. Whether it is an old economy firm or the one belonging to the new economy, unionisation cannot be prevented. Take the case of BPO and call centre industry in the new economy. An organisation in South India, the IT Professionals Forum of India (ITPFI) has taken up the task of protecting interests of professionals in this sector from getting victimised by unfair HR practices. ITPFI is on its way to form an outfit called Centre for BPO Professionals (CBPOP) that is likely to be registered under the Trade Union Act. ITPFI is a part of Union Network International (UNI), Geneva, an international body that safeguards the interests of professionals in all sectors, including IT and BPO.[9] Unionisation in the old economy firms is too well known to need a recount in this context.

Globalisation

How to face competition from MNCs is a worry for Indian firms. As globalisation spreads, more foreign firms are entering Indian market and the challenge before domestic firms is going to be much more severe in the years to come. Many Indian firms are compelled to think globally, something which is difficult for managers who were accustomed to operate in vast sheltered markets with minimal or no competition either from domestic or foreign firms. The Internet is adding fuel to globalisation and most large MNCs are setting up green field projects in India or entering joint-ventures with local companies. The implications of a global economy on human resource management constitute the subject matter for the next chapter (also refer to Chapter 2). Some issues from global sector are:

- World class HR practices have found their application in Indian businesses. Hiring practices, motivational approaches, compensation packages, training and development methods and techniques, appraisal systems and capability development now being practised by HR managers include ideas and practices followed in US or Japanese firms. If company prayers, common uniform and shared canteens have come from Japanese firms, US corporations have helped Indian HR managers professionalise their activities.

- Indian firms have large number of foreign nationals working here or Indians are being sent as expatriates to other countries to work in home countries of MNCs. Either way, the task of HR manager becomes more challenging. Expatriates (home country nationals working in India or Indians sent abroad) need to be attracted, trained, compensated, promoted and motivated differently.
- As stated earlier, MNCs scout around for local firms to form strategic alliances. Joint ventures benefit MNCs no doubt, but local firms also stand to gain in terms of increased sales, expanded markets, sharing of technology and professionalisation of management. What is necessary is that the domestic company should become a potentially fit candidate to enter an alliance. No MNC ventures to have a partnership agreement with a local firm which is not known for competence. It is the task of every manager, more so of HR manager, to make the company competent so that it gains attraction of MNCs which are searching for prospective alliance partners.
- Indian firms need to move from one end of each continuum to the other end as shown below:

Rigid, hierarchical and tall structures	→	Flexible, flat and team based structures
Family centric, closed minded and secretive environment	→	Dispersed ownership, open minded and transparent environment
Caste ridden, superstitious, laid-back styles of management	→	Rational thinking and vibrant styles of management

It is the HR manager who can be the catalyst to move his/her organisation from the left side of each continuum to its right side.

- The HR professional needs to be aware of the fact that his or her own practices have undergone a change as Table 27.2 indicates.

Table 27.2 **Paradigm Shift in Key HR Practices**

Past Characteristics	*Future Characteristics*
Local practices	Global practices
Hierarchical organisations	Flattened organisations
Jobs/positions	Self-directed teams
Points	Broadbands
Skills	Core competencies
Salary	Total compensation
Tactical	Strategic
Data/information	Knowledge/intelligence
Data collection/reporting	Reporting/forecasting

Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, Wiley India, 2005, p. 267.

HRM in Mergers and Acquisitions

Firms seek growth through any or both of two routes: (i) organic, (ii) inorganic, or mergers and acquisitions (M&As). Organic growth is sought to be achieved through green field projects—setting up operations

newly. Organic growth is fraught with uncertainties. Investment involved is heavy, gestation period is long and business fortunes are not known. Merger or acquisition route involves combining with or taking over an existing business. Obviously, M&A route is relatively easy as an unit, already functioning, is being merged with or being bought over.

Indian businesses are on an acquisition spree—not just a local companies but of foreign firms as well. Tata Steel bought over Corus, the European steel maker. Hindalco bought over Novelis, an US-based aluminum manufacturer. Similarly, Videocon acquired Daewoo Electronics and Ranbaxy bought Terapia S.A. So also ONGC Videsh took over Petrobras's BC—10 block in offshore Brazil and Energy Brands (US), acquired by Tata Tea. Wal-Mart and Bharti are coming together so also Vodafone and Essar. The classic example of a merger at the international level is the coming together of Daimler-Benz and Chrysler.

Although M&As are easy routes for business growth, certain problems associated with them need to be taken note of. M&As will lessen competition and consequently oligopoly markets come into being. The combined firm may resort to job cuts and price hikes. There may also be skeletons in the cupboards of the target company—hidden liabilities. Besides, cultural integration becomes difficult.

What is the role of HR manager in M&As? Following are the typical tasks of the HR professional:

- Composition of new board
- Deciding who will occupy which job?
- Assessing culture
- Undertaking human capital audit
- Effective communication
- Retaining talent
- Aligning performance evaluation and reward systems
- Managing the transition.

New Board Composition The post merger or acquisition business needs a board for decision making and the board shall comprise members representing both the firms. Members of the new Board should be change agents so that they can carry out the change process dictated by the merger or acquisition. Often such top level change is both symbolic and a signal of the changes to be made at lower levels. Board level changes could also be inspirational for the rest of the organisation. This is particularly true where the merging partners had experienced performance problems, which triggered the merger.

Who will Occupy which Job In any merger, there will be rival claims for senior executive positions such as CEO, VP, CFO, COO, heads of divisions and heads of departments. The choice of the right person for the right job is crucial as otherwise, the success of the merger will be jeopardised. Besides, the choice shall be a signal about the style, culture and intent of the new management. Such choices based on predictions of the acquirer or on non-transparent processes will lead to perceptions of biases and lack of good faith. The disappointed managers may linger, nurturing resentment and grievance and slackening their commitment to the merged firms or may even leave. Accent on merit is as important as the integrity of the process of managerial appointments.[10]

Assessing Culture The purpose of cultural assessment is to evaluate the factors that may influence the organisational compatibility, to understand the future cultural dynamics as the deal takesplace, and to prepare plans of how the cultural issues should be addressed if the merger or acquisition goes through.

Cultural assessment is crucial as many partnerships failed because of the absence of cultural compatibility. Approximately 70 per cent of the mergers across the globe are said to have failed to produce the expected result. It is also observed that most often these combinations fail because of cultural problems rather than faulty business logic. Obviously, the cultural side of the business needs to be managed effectively.

Human Capital Audit Human capital audit needs to be focussed on two dimensions. One dimension is preventive, focussed on liabilities such as obligations, employee litigations and outstanding grievances. It also includes comparing the compensation policies, benefits and labour contracts of both the firms. The second dimension of human capital audit refers to the talent audit which, in the long-run would be critical for the success of a merger or acquisition deal. In most M&A deals talent audit is often ignored.

Effective Communication In M&As, communication plays a critical role in several ways. First, it seeks to alleviate tensions among employees, particularly of the acquired company. 'Merger syndromes' do occur among employees. Fears such as layoffs, relocations, big fish vs. small fish attitudes, superiority vs. inferiority complexes and victory—vanquished perceptions do cause stress to the employees. Communication should help acquire coping strategies to deal with the stress arising out of extraordinary organisational changes. Second, communication feeds the top management about the integration that should take place between the two marrying partners. Finally, senior management should communicate a vision throughout the company.

Retaining Talent Retention of talent assumes relevance as competent employees, particularly of the target company, tend to leave before or after the deal. It is all the more crucial if the deal is struck with a view to acquire unique knowledge of the employees of the target company.

The uncertainty during a merger or takeover often makes senior managers to leave. Others might leave because they regard the future envisaged by the merger or acquisition, in terms of culture, business model and compensation system with suspicion. A merger is also the time when competitors attempt to capitalise on uncertainty and wean away the 'stars'. After the merger between Smith Kline Beecham and Glaxo Welcome, for example, many leading scientists left the merged GSK to join rival firms.

What should HR manager do to retain talent? First, identify those employees with gifted skills and capabilities. Second, try interventions which would help hold back those talented individuals. Finally, all said and done, what melts any individual is one to one and heart to heart communication.

Aligning Performance Appraisal and Reward Systems Aligning performance measurement and reward systems is a challenging task particularly when the two firms have different policies and one of the parties is adversely affected by the change. When Daimler-Benz merged with Chrysler in 1998, there were glaring differences in the compensation arrangements between the American managers and the German counterparts. But parity between compensation systems needs to be brought out as that would help build united culture.

Managing the Transition Transition occurs immediately after the deal and before a new team of managers is in place. Integration managers (formed for the purpose) are expected to manage the transition. Following are the tasks cut out for the integration managers:

First, the integration manager is expected to guide the integration process, making sure that critical decisions are made and activities are put in place according to an agreed schedule. He or she should also champion norms and behaviours consistent with new norms, communicate key messages across the new organisation, and identify new value adding opportunities.

Second, the integration manager needs to educate the bought-out company to understand how the new management operates. He or she can also help forge social connections among the people of both the partners, enable acquired company's employees to understand the language of the parent and its way of doing things.

Third, the integration manager needs to act as an arbiter between the two companies and thwart the tendency of the parent to act big and enact 'big fish-eat-small-fish' syndrome. Often, alliances fail because of the tendency of the acquirer to act as a winner and treat the acquired as vanquished.

Finally, the integration manager and the transition team need to serve as a role model as to how the new organisation should function. They should disseminate the shared vision and make sure that the practices are appropriately aligned with the vision.

HRM in High Performing Organisations

Organisations are getting highly charged now-a-days. Globalisation and consequent competition are the compelling reasons why firms are performing better and better. Perform or perish is the slogan of corporate executives.

A high performing organisation is the one which has judicious mix of people, structure and technology to make use of resources and opportunities to reach its goals. The outcomes of high performance are: customer delight and employee satisfaction. Customer delight in turn results in increased sales, brand loyalty and higher profits. Similarly, low turnover, low absenteeism and high morale are the consequences of high customer satisfaction (see Fig. 27.2).

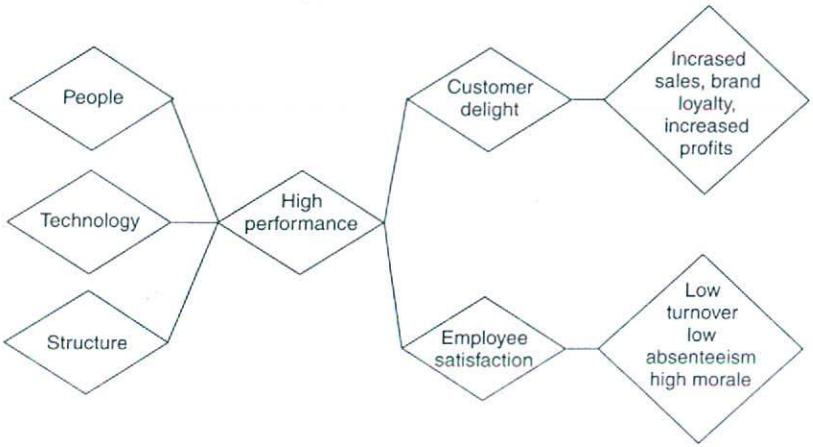


Fig. 27.2 Causes and Consequences of High Performance

What are HRM contributions to high performance? Table 27.3 outlines the various interventions that would help organisations achieves high performance. All these interventions have already been covered at different places in the book.

Table 27.3 **HRM Interventions for High Performance Organisations**

• HRM Practices match organisations goals	• Performance management system measures customer satisfaction and quality
• Individuals and groups share knowledge	• Organisation monitors employee satisfaction
• Work is performed by teams	• Discipline system is progressive
• Organisations encourage continuous learning	• Pay systems reward skills and accomplishments
• Work design permits flexibility in where and when tasks are performed	• Skills and values of a diverse workforce are valued and used
• Selection system is job related and legal	• Technology reduces time and costs of tasks while preserving quality

Source: Raymond A.Noe, et al., *Fundamentals of Human Resource Manangement*, TMH, 2007, p. 543.

New Organisational Forms

The practice of HRM is shaped by the organisational forms in which people are employed. Elsewhere, economies have been undergoing fundamental changes and the structures of organisations and the relationships between them have been transformed. Big organisations have grown bigger in the sense that the world economy is dominated by transnational organisations. Between a quarter and one-fifth of the total GNP of the world is, thus, accounted for by just 600 companies.

But the employment potential of these giant corporations is declining. Large production units have become increasingly a thing of the past, and large companies now tend to consist of business units managed relatively independently. 'Business process re-engineering', with its philosophy of hiving of ancillary and expensive tasks to suppliers and automating the remaining functions, is the latest contributor to this trend.

The consequence has been a higher profile of medium sized and small sized firms as employers. A majority of the population are employed in units with fewer than 200 employees.

This trend affects HRM functions in various ways:

1. Smaller firms and establishments mean a more personalised style—not necessarily more progressive, but more face-to-face.
2. Smaller units may require less complex and sophisticated systems of HR management, but may also be less able to sustain them in areas like management development.
3. Smaller units are less able to sustain a specialist HR management function.
4. On the other hand, the business and human challenges of operating in this kind of environment are becoming greater. The contribution of HRM will then be in facilitating the processes which support the development of the enterprise, rather than, as traditional personnel management has done, in administering systems for controlling people.

The basic challenge to HRM and enterprise management comes from the changing character of competition. The issue is not large firms or small firms but large firms, medium firms, and small firms. Competition in many sectors is no longer between individual firms, large or small, but between constellations of firms. In the international sphere, for instance, major companies operate through a complex web of strategic alliances of varying degrees of permanence.

The same pattern is seen in the domestic scenario in the increasingly close relationships which large (often transnational) corporations forge with their local suppliers. In the motor vehicle and electronics sectors, for example, buyer-supplier relationships have been transformed by the need for co-operation in the pursuit of reliability, continuous quality, product improvements, and shorter developmental lead times. Such a relationship depends on regular exchanges of people and information.

Often (for example, in the motor industry), a single large company is surrounded by suppliers in close geographical proximity. While this is obviously efficient from a delivery and communication point of view, and firms consider such factors in choosing a location, it also indicates that competition, especially international competition, is between clusters of firms in 'industrial districts'. As a result, the development of the single firm depends increasingly on the development of the locality and the sector as a whole. This includes the development of specialised skilled labour (technical and managerial) managed flexibly, within the local labour market.

These changes in economic structure and patterns of competition mean that managers generally, including HR professionals, will have to cope with the implications of networked relations more and more, in place of the more comfortable hierarchical relationships which dominated most people's experience of organisations until recently.[11]

Changing Demographics of Workforce

The major challenge that has resulted from changing workforce demographics concerns dual career couples, couples where both partners are actively pursuing professional careers. Organisations have been accustomed to using job moves and physical relocation as an important means of developing talent. Men or women moving through organisational ranks to upper-level positions need experience in a variety of roles in different organisational units. Frequently, physical relocation is required. The increasing number of dual-career professionals limits individual flexibility in accepting such assignments and may hinder organisational flexibility in acquiring and developing talent.[12]

Another change in the workforce demographics relates to the growing number of employees who are young. Companies which were set up in the 1940s and the 1950s have employees who are now superannuating. People who join to fill up the vacancies are obviously fresh college graduates or diploma holders. Enterprises which are newly established obviously prefer young men and women. The effect is that the average age of workforce is around 25 years. The Bangalore-based Infosys, for example, has employees whose average age is just 25 years. Employees of Infosys are taken to the office about 45 minutes away from the city by bus; and the day starts with breakfast, in consideration for the employees who are single. Recognising that people spend most of their working hours here, the company is doing everything it can to make it more than a 'desk and a telephone' set-up. Dormitories are provided for those who want to sleep over. A gymnasium is being built for breaks during the day. These are the type of facilities that need to be provided to the workforce which has more of young employees.

Exciting days are ahead for Indians at the global level. The country has the largest number of young people in the world today. China has curtailed the birth rate with its 'one child' policy while population policy sputtered in India. We have approximately 65 million children below 15 years of age, and as many as 400 million young people below the age of 23. These young people may join the ranks of workforce in the next few years, thus creating vast productive activities, incomes and savings. India's young people can be an asset to the global economy because while India's population will be growing younger in the next few decades, the population of all the developed countries will be getting older. The rich countries will face a shortage of working age people while India will have a surplus. Indians can, therefore, bring in more than $ 200 billion (Rs 8.8 lakh crore) of revenue every year from the rich nations and create 40 million additional jobs by providing a variety of services to the rest of the world.[13]

The other demographic changes in the workforce are: **(i)** increasing number of working mothers, **(ii)** a steady decline of blue-collar employees who are giving way to white-collar employees, and **(iii)** increasing awareness and education among workers. All these have their own implications for HR managers.

Changed Employee Expectations

With the changes in workforce demographics, employee expectations and attitudes also have shifted. Traditional allurements such as job security, attractive remuneration, housing and the like do not attract and motivate today's workforce.

Employees demand empowerment and expect equality with the management. Previous notions about managerial authority are giving way to employee influence and involvement along with mechanisms for upward communication and due process.

Empowerment results in redefining jobs, both on the shopfloors and in board-rooms. As workmen are given more control over their jobs, a whole class of inspectors may become redundant, not because they will do a bad job, but because there shall be no need for them. Empowerment also means that a worker can bring his or her sons or daughters to the workplace, so that they can look around and even can gain knowledge about work methods. This is the privilege, enjoyed till now, only by owners of enterprises whose children can even have access to vital documents.

Expectation of equality breaks up the traditional relationship between employer and employee, top and bottom. There is an emphasis on leading by example, instances like an MD instituting a waste-elimination programme but buying a car worth Rs 35 lakh for himself are not appreciated. Also, no longer does the employee relish the idea of waiting for hours at airports or bus stations to receive the executive, with his or her name-plate held aloft. This points to an expectation of equality, differences in salaries and status notwithstanding.[14]

Another expectation by the employee is that the electronic and telecommunication revolution will improve the quality of work life. Innovations in communication and computer technology will accelerate the pace of change, and as a result, lead to many innovations in HRM.

One possibility that is increasingly becoming a reality is the opportunity to work at home. Alvin Toffler estimates that the information revolution will shift millions of jobs out of the factories and offices back to the home front.

On the flip side, the home becoming an office has serious implications. Employees lose exclusivity and freedom. The pleasure of spending at least Sundays with their families is lost. Any time of the day, (holiday or working day) a message may be faxed to the employee's residence and he or she is required to go to some place or attend to some problem immediately. The employees virtually become bonded labourers, chained to the company 24 hours a day, and 365 days a year.

Also, today's average worker demands better treatment, challenging jobs and career advancement. Look at the workers' unions of Otis, Hindustan Unilever, ICI, TOMCO, Blue Star, Webel Electro, and Central Bank. They rewrite their agenda to include quality and better customer service and are even accusing the managements of malpractices. The HR manager must, therefore, redraw the profile of the worker and discover new methods of hiring, training, remunerating and motivating employees.

HR Professional as Change Agent

As was stated earlier, expectations on HR professionals are soaring. The HR manager is, among others, expected to play the role of a change agent. This demands that the people manager must move from playing transactional role to transformational role.

HR professional should play the role of a change agent in three areas: initiatives, processes, and cultural adaptations. **Initiative changes** focus on implementing new programmes, projects or procedures. Such initiatives (for example, cost reduction programme, quality improvement initiative, restructuring organisational design) take place routinely in any firm. Through strategic planning, specific initiatives are identified as necessary and are implemented effectively. **Process changes** within a firm focus on the ways in which work is being done. Firms first identify core processes and then try to improve those processes through work simplification, value added assessments and other reengineering efforts. **Cultural changes** occur within a firm when fundamental ways of doing business are reconceptualised. The identity of the firm is transformed both for employees and customers.[15]

HR professionals as change agents build a firm's capacity to manage all the three types of change. They ensure that initiatives are defined, developed, and delivered in a timely manner; that processes are stopped, started and simplified; and that fundamental values within the organisation are debated and appropriately adapted to changing business conditions.[16]

GE is one example where all the three types of change were implemented effectively and HR professionals were the major change agents. During early part of 1980s, change efforts focused on initiatives that restructured the business mix and reducing workforce. By the late 1980s, GE was strategically strong, with 13 major businesses, each lean, globally positioned, and number one or two in market share.

Since the latter part of 1980s, GE's management has focused on cultural change. Bureaucracies were dismantled, faster decision making was encouraged, faster customer service was insisted and unnecessary

work was shed. GE worked to incorporate the values of speed, simplicity and self confidence into the organisation's culture.[17]

HR Manager as Strategist

HR manager is expected to act as a strategist. Being a strategic partner, he or she must answer: How to create an organisation to accomplish business goals? Business objectives may be stated in several ways—as financial targets, balanced score cards, visions, intents, missions, aspirations, or goals. Regardless of the objective's form or content, an organisation must be created to make it happen. When HR professional acts as a strategic partner, he or she works with line managers to institute and manage a process that creates an organisation to meet business requirements.[18]

SUMMARY

Figure 27.1 contains the major challenges before HR managers. Outsourcing, attracting and retaining talent, work-life balancing, creating ethical climate, corporate reorganisation, globalisation, changed employee expectations, changing demography and the like are the major HR challenges. The survey conducted by AIMA revealed several other HR challenges which have been listed at the end of the chapter.

KEY TERMS

Corporate restructuring
Diversity
Ethical Conduct
Globalisation
HR Challenges
Outsourcing
Work-life Balance

REVIEW QUESTIONS

1. Bring out the challenges lying ahead of HRM.
2. How do changing employee demographics affect HRM?
3. Bring out the impact of corporate reorganisations on HRM.
4. How to manage diversity?
5. How to ensure ethical behaviour?

DISCUSSION QUESTIONS

1. In what way has increased international competition influenced HRM?
2. What do you think are the two most important challenges of the HR managers in future? Why do you think so?
3. Identify and discuss the major forces influencing HRM in future. In your answer, address how these challenges are likely to affect the practice of HRM.

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CHAPTER 28

International Human Resource Management

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- The need of international human resource management
- The differences between domestic and international human resources management
- The basic steps in IHRM
- The key issues involved in international labour relations

Opening Vignettes

1. Getting used to having a Friday rather than the usual Sunday as a weekly off was perhaps hardest to get used to for Arvind Kumar and his family when they moved to Dubai four years ago.

   After working in India for 20 years with companies like Asian Paints, Marico and Pepsi, Kumar moved to Dubai in early 2000 with International Foodstuffs Company (IFFCO), an FMCG player that owns the Tiffany brand of confectionary and chocolates. Bitten by the diversity bug, the IIM-A alumnus tried everything that came his way: moving to different companies, functions and industries. Moving overseas and getting global exposure was the next step. A year ago, he moved to Dabur International, a subsidiary of Dabur India, as CEO.

   "Dubai's very convenient. It's a progressive society and easy to acclimatise to, because 53 per cent are South Asians, half of whom are Indians," says Kumar, who moved there with his wife and two sons. "From school admissions to domestic help, ethnic stores to a mandir next door, it had it all and made it very easy to settle down."

   Being a special educator, Kumar's wife had no problems getting work given that Dubai is a more developed society than India. "Flexibility and opportunities like these require much more effort in India," says Kumar.

   The Kumars got a bit of a culture shock when they first arrived, and it took the family almost 7–8 months to get over it. "Different strata of society behave differently and one felt bewildered at fairly simple things like how to greet someone when visiting their house."

   The Arabs may seem a homogenous culture group to the outside world, but it's a different state of affairs internally. "It's actually as variegated as, perhaps, the different states in India. The Lebanese, for instance, are very different from the Emirati, who in turn are very different from the Saudi. These

differences manifest themselves in all areas of life including familial relationships, stature of women, work and business ethics, amount of transparency, even attitude to foreigners, more specifically Indians," says the St. Stephen's alumnus.

Language can prove to be an issue. Recalls Kumar: "A company wanted to launch a brand of rice popularly known as 'Mehfil'. In India, the word simply means a gathering of people. But in Dubai, there's a totally different interpretation of the word—a person who's the butt of all jokes at a party. The word actually has six different interpretations."

Given the influx of Indians and Pakistanis, people in UAE are quite conversant with Hindi, but outside of the six GCC countries, language becomes an issue. While the Dubai police may speak in Hindi, Kumar hasn't been able to pick up any Arabic.

"The holy month of Ramadan was an eye opener. It showed how an entire nation and community, including children, dedicated itself to a month of abstinence. The work schedules, cycle of business, work habits all change drastically and at the end of the month, it's all back to usual!"

Given that corporate Dubai is a melting point of nationalities and cultural idiosyncrasies, life got interesting for Kumar at various points in time. Here's one instance from his stint with IFFCO : "I was told to look at a Jordanian for a certain position. He had come through connections within the company. Working through an interpreter, I tried talking to him about areas where he was lacking and what progress needed to be made. I thought I was being considerate, but that fellow went back and complained bitterly about me, about how I didn't respect the position he came from, etc."

At another time, a subordinate of his—a British—refused to put in extra hours, sticking to the 9–to–5 requirement of his contract with the company. Kumar was under a lot of pressure to build up the business and needed him to work more, but the guy refused to budge from his position. So one day over lunch, Kumar asked him what the matter was and if he had another job offer in hand? The gentleman said he had no job offers and preferred to go back to the UK and drive a forklift, but would not compromise on his work-life balance. Kumar was bewildered at the reply, given that the guy had four kids and was the only earning member of his family.

In fact, the interesting part of his work in Dubai had been the different facets of various nationalities he'd come across. While his American associate was blunt and honest, those from other areas within UAE didn't react as well to direct feedback and criticism. "Europeans in general have the basic discipline of going all out during work hours, and forgetting all after work. They prefer black and white and hate grey areas," says Kumar.

Indians are respected for having good work ethics and coming up with a lot of positive enthusiasm in their jobs. Typically, Indians stick with other Indians while socialising. Initially, Kumar felt a void of having left behind 'age-old relationships' when he moved to Dubai. But things got better when a friend of Kumar from his management trainee days moved there too. They remain friends and neighbours.

2. Jacques Creeten, the 40-year-old managing director, Indian sub-continent, for FedEx certainly doesn't feel castaway in India. "This country grows on you." He says, "Typically for expats, the first two years are spent in complaining about the country and the next three years they're worried about having to go back home."

Creeten has worked with FedEx in the erstwhile Soviet Union, Africa, Scandinavia, Spain, Turkey, Italy, Poland, Germany and the Middle East before, so he's quite used to cultural diversity. He first visited India in 1995 on an orientation trip, when he was based in Dubai and again in 1996 to set up FedEx operations in India. Three years later, he moved to Mumbai where he loves everything but the weather. "I'd like to have the Mumbai life with the Belgian climate," he says.

Creeten is a Belgian. He lives in the suburb of Bandra with his wife and 11-year-old son Bruce, who studies at the American School of Mumbai and is now as Indian as Belgian. "He knows every dirty Hindi word." says Creeten, adding "He's a typical expat child. He thinks of taking an airplane like I take a bus."

It took a while to get used to the Indian culture of working late and coming in on weekends. He feels it's really the key difference between organisation cultures in Asia and Europe, where work and

personal time are clearly segregated: "In Asia the boundaries disappear." Work for Creeten means extensive travelling and meeting people in the field rather than getting holed up in the office. "You get your best ideas from people who do it every day," he says.

A perfect evening for Creeten would be one with a close circle of friends, which include other expats as well as Bollywood actors Sunil Shetty and Jackie Shroff, whose children too study in the American School of Mumbai. His favourite restaurants are Indigo and Celini, the new Italian speciality restaurant at the Grand Hyatt, Mumbai. "I'm a real fan of Italian food." Like most other expats, Creeten too is a curry convert and is fond of Indian cuisine, particularly spicy food. Mention Hyderabadi biryani and his eyes light up. "India is the only place where you can get such a variation of vegetarian food." He explains that Belgian food has a very young history, influenced by different cuisine like German and French. "It's typically meat or seafood, creamy sauces, vegetables like white asparagus and chicory, a very typical Belgian vegetable."[1]

Arvind Kumar and Jacques Creeten are typical expats who represent new generation of globe trotters. It is indeed a big challenge for international HR manager to manage —identify, train, compensate and relocate these expatriates. Managing expatriates is but one task of international HR manager. There are other functions too as subsequent pages in this chapter reveal.

Globalisation of business has probably touched the HR manager more severely than any other functional head. The HR executive needs to give international orientation to whatever he or she does—employee hiring, training and development, performance review, remuneration, motivation, welfare, or industrial relations. International orientation assumes grater relevance as businesses get increasingly interlinked across nations.

Chapters 1 to 27 covered domestic HR activities extensively. This chapter throws light on internationalisation of HR activities.

Just as the success of a domestic business depends on its human resources, so is the case with an international business. The type of people, the willingness with which they work and the commitment they exhibit towards the organisation determine the competitive edge of an MNC in the international market. The international firm may have the best of resources at its headquarters. The resources cannot be effectively utilised or transferred to foreign affiliates without using the human power.[2]

An international business must procure, motivate, retain, and effectively utilise services of people both at the corporate office and at the foreign plants. The process of procuring, allocation, and effectively utilising human resources in an international business is called international human resources management (IHRM).

IHRM is the interplay among the three dimensions—HR activities, types of employees, and countries of operation.[3] (*See* Fig. 28.1).

1. The three broad activities of IHRM, namely procurement, allocation and utilising cover all the six activities of domestics HRM. The six functions of domestic HRM are—HR planning, employee hiring, training and development, remuneration, performance management, and industrial relations. These six functions can be dovetailed with the three broad activities of IHRM.
2. The three national or country categories involved in IHRM activities are—the host country where a subsidiary may be located, the home country where the company has its headquarters, and 'other' countries that may be the source of labour or finance.
3. The three types of employees of an international business are—host country nationals, parent-country nationals, and third-country nationals. Thus, for example, IBM which employs Australian citizens in its Australian operations, often sends US citizens to Asia-Pacific countries on assignment, and may send some of its Singaporean employees to its Japanese operations.

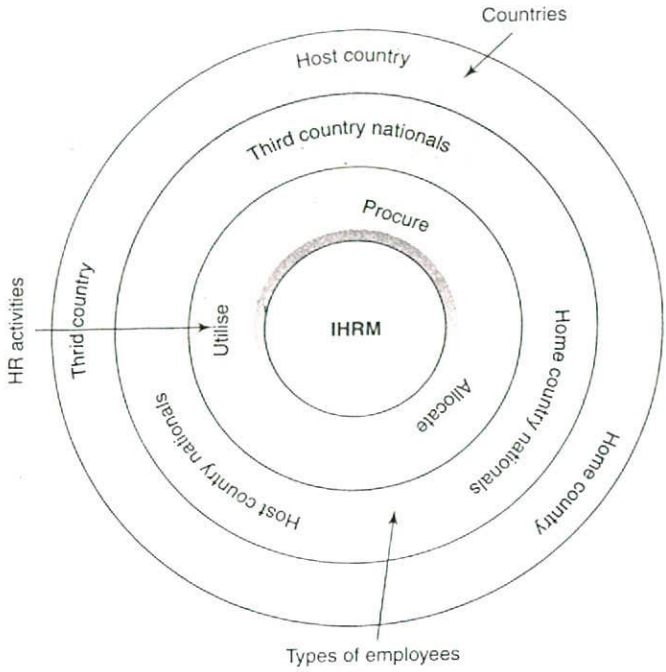


Fig. 28.1 Model of IHRM

DOMESTIC HRM AND IHRM COMPARED

Several factors differentiate IHRM from domestic HRM. The main characteristics of IHRM are:[4]

1. More HR activities,
2. Need for a broader perspective,
3. More involvement in employee personal lives,
4. Changes in emphasis as the workforce mix of expatriates and locals vary,
5. Risk exposure, and
6. More external influences.

More Human Resource Activities

The scope of IHRM is much broader than managing domestic HR activities. There are issues connected with international taxation, international orientation and relocation, administrative services for expatriates, host-government regulations, and language translation services.

Each function of HR has new dimensions in IHRM as shown below:

- Human Resource Planning:
  - (i) Difficulty in implementing HR procedure in host countries.
  - (ii) Difficulty in aligning strategic business planning to HRP and vice-versa.
  - (iii) Providing developmental opportunities for international managers.

- Employee Hiring:
  (i) Ability to mix with organisation's culture.
  (ii) Ethnocentric, polycentric or geocentric approach to staffing.
  (iii) Selection of expatriates.
  (iv) Coping with expatriate failure.
  (v) Managing repatriation process.
- Training and Development:
  (i) Emphasis on cultural training.
  (ii) Language training.
  (iii) Training in manners and mannerisms.
- Compensation:
  (i) Devising an appropriate strategy to compensate expatriates.
  (ii) Minimising discrepancies in pay between parent, host and third country nationals.
  (iii) Issues relating to the reentry of expatriates into the home country.
- Performance Management:
  (i) Constraints while operating in host countries need to be considered.
  (ii) Physical distance, time differences and cost of reporting system add to the complexity.
  (iii) Identification of raters to evaluate subsidiary performance.
- Industrial Relations:
  (i) Who should handle industrial relations problem in a subsidiary?
  (ii) What should be the attitude of parent company towards unions in a subsidiary?
  (iii) What should be union tactics in subsidiaries?

Thus, the list goes on. Be it employee selection, training or compensation, IHRM adds to new dimensions which are not being felt or being observed in DHRM.

Need for Broader Perspective

When compared to domestic HRM, IHRM requires a much broader perspective on even the most common HR activities. For example, while dealing with pay issues, the corporate HR manager must co-ordinate pay systems in different countries with different currencies that may change in relative value to one another over time. While handling fringe benefits too, complications tend to arise. It is a common practice in most countries to provide health insurance to employees and their families. The family in some countries is understood to include the employee's spouse and children. In other countries, the term 'family' may encompass a more extended group of relatives—multiple spouses, aunts, uncles, grandparents, nephews, and nieces. It is a difficult task for an intentional business to deal with the different definitions of family.

Any activity of IHRM needs a broader perspective because HR managers working in the global environment face the problem of designing and administering programmes for more than one country (*see* Exhibit 28.1).

Exhibit 28.1 ***HRM in the Asia-Pacific Region***

The *Far Eastern Economic Review* recently undertook an extensive survey of its subscribers in ten Asia–Pacific countries. There were some large differences between countries in which HR practices were seen as most legitimate. Some of the findings of most interest are highlighted below.

Gender-based pay About one-third of respondents agreed that a family man should be paid more for the same job than a single woman. This belief was especially strong in Korea, Singapore, Japan and Indonesia. However, the conviction seems to be weak and is almost uniformly opposed by female employees in Asia.

Nepotism Traditionally, hiring relatives has been an accepted practice, especially in smaller businesses. However, this is changing, especially in Hong Kong and Singapore, where non-relatives are seen as being easier to manage. As for romance at work, Koreans see it as a natural social development, while Indonesians, Malaysians, and Filipinos feel that becoming romantically involved with co-workers is inappropriate.

Overtime When the workload increases, Australian and Singaporean firms are most likely to add staff, while Korean and Japanese firms are most likely to insist that existing staff work longer hours.

Promotions Respondents were asked whether or not they agreed that promotions should be based on length of service, rather than on merit or other factors. the percentage of respondents agreeing with this statement in each of the ten countries is shown below:

4%	Australia
10%	Hong Kong
14%	Philippines
17%	Malaysia
22%	Singapore
28%	Indonesia
31%	Japan
34%	Thailand
36%	Taiwan
40%	Korea

In keeping with the Korean emphasis on seniority as the basis for promotion, 35 per cent of the Koreans also believed that employees should stay with the same employer for life. In contrast, only 3 per cent of western expatriates in Asia believed in this type of loyalty.

MNCs operating in these countries need to be aware of varied perceptions and they should consider modifying their policies to some extent to suit local sentiments.

More Involvement in Employee's Personal Lives

A greater degree of involvement in the employee's personal lives is necessary for the selection, training and effective management of both parent-country and third-country nationals. The HR department needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of remuneration packages provided for the foreign assignment. Many international businesses maintain an "International Human Resource Service" section that co-ordinates administration of the above programmes and provides service for the parent- country and third-country nationals such as handling their banking, investments, home rental while on assignment, co-ordinating home visits, and final repatriation.[5]

Involvement of the HR department in the personal lives of the employees is limited in domestic HRM. The firm may, for example, provide employee insurance programme, or when a transfer is involved, the HR department may provide some assistance in relocating the employee and his or her family. But in the international setting, the HR department must involve itself more and understand the personal lives of employees to provide the service and support needed by them. For example, some governments ask to submit a marriage certificate before granting visa to an accompanying spouse. Thus, marital status could become an important consideration in the selection process. In such a situation, the HR department should advise all candidates being considered for the positions of the host-country's visa requirement with regard to marital status and allow each candidate to decide whether he or she wishes to remain in the selection process. Apart from providing suitable housing and schooling in the assignment location, the HR department may also need to assist children left behind at boarding schools in the home country. These issues do not figure in domestic HR management.

Changes in Emphasis

As an international business matures, the emphasis placed on various HR activities change. For example, as the need for parent-company and third-country nationals declines and more trained locals become available, resources previously allocated to areas such as expatriate taxation, relocation, and orientation are transferred to activities such as staff selection, training, and management development. The latter activity may require establishment of a programme to bring high-potential local staff to corporate headquarters for development assignments. The need to enhance emphasis in HR activities, as a foreign subsidiary matures, is clearly a factor that broadens the responsibilities of local HR activities.[6]

Risk Exposure

Risk exposure is high in domestic HRM. Unfair hiring practices may result in a firm being charged with the violation of the Constitutional provisions and be liable for penalties. Failure to maintain cordial relations with unions may result in strikes and other forms of labour unrest. In IHRM, in addition to these risks, there are other hazards that are unique and more threatening. Depending on the countries where the MNC operates, the headquarters and subsidiary HR managers may have to worry about the physical safety of the employees. A student of the author who was sent to Moscow on an assignment, narrated his harrowing experience about how on a chilly night he and his friend were attacked in the apartment by armed gangsters and were robbed of the belongings completely. An American engineer Paul Johnson was beheaded in Saudi Arabia in June 2004. Two Indians—Kutty and Suryanaryana were kidnapped and killed in Afganistan in 2006. In many countries kidnapping and terrorism are common and the international HR managers must learn to live with them. Terrorism poses a great risk to international operations. The cost of kidnapping may run to $2 million to $3 million, and it is found that there are 10,000 to 15,000 kidnappings a year worldwide. Firms are, therefore, forced to spend 1 to 2 per cent of their revenues on protection against terrorism. These are not the problems usually confronted by domestic HR managers.

Companies maintain separate establishment to handle global workforce. TCS has a strong 450 HR team for the purpose. The IT major hires 100 people per day in its global offices. Wipro has 250 HR team.

The HR department may also be required to devise emergency evacuation procedures for highly volatile assignment locations. The invasion of Kuwait and the ensuring Gulf War in 1991 is an example of such a situation.

Besides these risks, it has been estimated that an average expatriate manager, with family, costs an MNC nearly $2,50,000 (US) per year and that rates for American Expatriate managers have ranged from 25 to 40 per cent between 1965 and 1985. If managers do not perform well and must be recalled to the home country, their failure represents huge financial losses for the firms. The risks associated with the poor selection decisions are high.[7]

Yet another risk is that of expropriation or seizure of MNC's assets in a foreign country. If HR policies antagonise the host-country unions or important political groups, the MNC may be asked to leave the country, have its assets seized, or find the local government taking the majority control of its operations. This is not the sort of risk that most domestic HR managers face.

External Influence

The IHRM activities are influenced by a greater number of external factors than are domestic HRM functions. Because of the visibility that the international businesses tend to have in host countries (particularly in developing countries), the subsidiary HR managers may have to deal with ministers, political figures, and a greater variety of economic and social interest groups than domestic HR managers would

normally encounter. A host-country government can dictate hiring procedures as is the case in Malaysia. During the 1970s, the Malaysian government introduced an injunction according to which foreign firms must comply with an extensive set of affirmative action rules designed to provide additional employment opportunities for the Malaysians.

In developed countries, labour is more expensive and better organised than in less developed countries, and governments require compliance with guidelines on issues such as labour relations, taxation, health, and safety. These factors shape the activities of the subsidiary manager considerably. The subsidiary HR manager also needs to spend time learning and interpreting the local ways of doing business and the general code of conduct regarding activities such as giving gift. It is also likely that the subsidiary HR manager will become more involved in administering benefits such as housing, education, and other facilities that are readily available in the local country.

Growing Interest in IHRM

The following reasons have contributed to the growing interest in IHRM:[8]

- Globalisation of business has added to the number of multinational enterprises across the globe resulting in greater mobilisation of human resource.
- The effective management of human resources is increasingly being realised as a major determinant of success or failure in international business.
- Underperformance or failure in overseas assignments is costly, both in human and financial terms, and the indirect costs of poor performance in international assignments such as damage to foreign customer relations may be particularly costly.
- The implementation of international strategies is often constrained by the absence of competent managerial personnel to man overseas assignments which results in decreased interest in setting up subsidiaries.
- The movement away from more traditional hierarchical organisational structures towards the network organisation has been facilitated by the development of networks of personal relationships and horizontal communication channels. It is no secret that HR plays a more significant role in network organisations.
- Finally, HR plays a significant role in implementation and control of strategies in an international business. It is the implementation of strategies that is more crucial than crafting them. Implementation of strategies is not possible through structural innovation but can be done with radical organisational cultures. Cultures are built by proactive HR policies and actions.

MANAGING INTERNATIONAL HR ACTIVITIES

Managing international HR activities is an elaborate and complex task. Figure 28.2 outlines the basic steps involved in international HR activities.

HR Planning

HRP assumes greater relevance in international businesses where efficient use of human resources is necessary to realise strategic global objectives. But the implementation of HRP procedures may be difficult in some host countries than in others. In cultures where people are viewed as being basically subjugated to nature, there is very little need for HRP. After all, why plan when people are unable to determine what happens? The implementation of extensive HRP systems in such cultures would be met with bewilderment

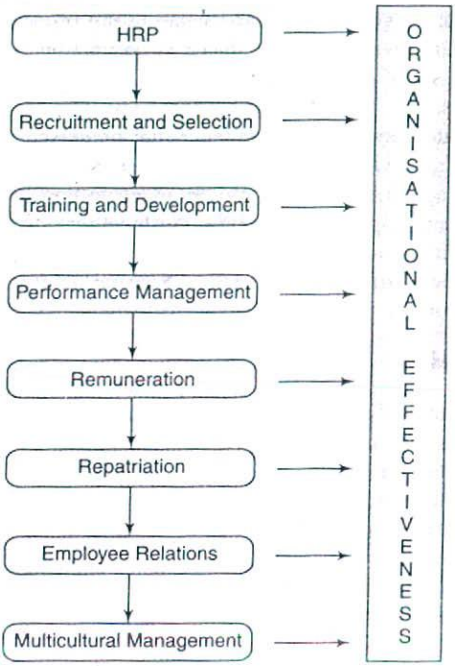


Fig. 28.2 Basic Steps in International HRM

at best and significant resistance at worst. Likewise, societies that are oriented towards the present would not view long-term planning as valuable. In societies oriented towards the past, planning would tend to focus on purely historical data and the use of these data in predicting future HR needs. Such an approach might be appropriate for firms that operate in relatively stable environments, but would not work well for firms operating in highly volatile environments, where the past has little to do with the future.

Six other key issues in international HRP are as follows:

1. Identifying top-management potential early.
2. Identifying critical success factors for future international managers.
3. Providing developmental opportunities.
4. Tracking and maintaining commitment to individuals in international career paths.
5. Tying strategic business planning to HRP and vice-versa.
6. Dealing with multiple business units while attempting to achieve globally and regionally focused (e.g. European or Asian) strategies.[9]

Recruitment and Selection

HRP, having done, the international HR manager must proceed with the job of hiring the right number of people of the right type. The international HR manager must not only select people with skills, but also employees who can mix with the organisation's culture. General Electric, for example, is not just hiring people who have skills required to perform particular jobs, it wants to hire employees whose styles, beliefs, and value systems are consistent with those of the firm.

International businesses are said to adopt three approaches to staffing—ethnocentric, polycentric, and geocentric.

Ethnocentric Approach In this approach, all key management positions are held by parent-country nationals. This strategy may be appropriate during the early phases of international business, because firms at that stage are concerned with transplanting a part of the business that has worked well in their home country. This practice was widespread at one time. Firms such as Procter and Gamble, Philips, NV, and Matsushita originally followed the ethnocentric approach. In the Dutch firm Philips, for example, all important positions in most foreign subsidiaries were at one time held by Dutch nationals who were referred to by their non-Dutch colleagues as the Dutch Mafia. In many Japanese and South Korean firms today, such as Toyota, Matsushita, and Samsung, key positions in international operations are still held by the home-country nationals. According to the Japanese Oversease Enterprises Associations, in 1996 only 29 per cent of foreign Japanese companies had presidents who were not Japanese. In contrast, 66 per cent of the Japanese subsidiaries of foreign companies had Japanese presidents.[10]

? Pause and Ponder

It is said that being ethnocentric is the basic propensity of human beings. List the areas (managerial as well as personal) where ethnocentricism is being observed.

Polycentric Approach The polycentric staffing requires host-country nationals to be hired to manage subsidiaries, while parent-country nationals occupy key positions at corporate headquarters. Although top management positions are filled by home-country personnel, this is not always the case. For example, many US MNCs use home-country managers to get the operations started, then hand them over to the host-country managers. Hindustan Uniliver Ltd (HUL), the Indian subsidiary of Uniliver, has locals as its chiefs.

Preference for home-country citizens for key positions does not fit into a pattern, unless government interventions dictated selection process. In Brazil, for example, two-thirds of the employees in any foreign subsidiary traditionally had to be Brazilians. In addition, many countries exert real and subtle pressure to staff the upper-management ranks with nationals. In the past, these pressures by host countries have led companies such as Standard Oil to change their approach to selecting managers.[11]

The Geocentric Approach This staffing philosophy seeks the best people for key jobs throughout the organisation, regardless of nationality. Selecting the best person for the job, irrespective of nationality, is most consistent with the underlying philosophy of a global corporation. Colgate-Palmolive is an example of a company which follows geocentric approach. It had been operating internationally for more than 50 years, and its products are household names in more than 170 countries. Sixty per cent of the company's expatriates are from countries other than the US. All the top executives speak at least two languages, and important meetings routinely take place all over the globe (*See* also Exhibit 28.2).

Exhibit 28.2 ***Global Human Resource Management at Coca-Cola***

Coca-Cola is one of the most successful multinational enterprises. With operations in about 200 countries and nearly 80 per cent of its operating income derived from business outside the US, Coca-Cola is typically perceived as the quintessential global corporation. Coca-Cola, however, likes to think of itself as a multi-local company that just happens to be headquartered in Atlanta but could be headquartered anywhere and that presents the Coca-Cola brand with local face in every country where it does business. The philosophy is best summarised by the phrase "think globally, act locally", which captures the essence of Coca-Cola's

cross border management mentality. Coca-Cola grants national businesses the freedom to conduct operations in a manner appropriate to the market. At the same time, the company tries to establish a common mindset which all its employees share.

Coca-Cola manages its global operations through 25 operating divisions that are organised under six regional groups—North America, the European Union, the Pacific Region, the East Europe/Middle East Group, Africa, and Latin America. The corporate HRM function is charged with providing the glue that binds these various divisions and groups into the Coca-Cola family. It achieves this in two main ways—(1) by propagating a common HR philosophy within the company; and (2) by developing a group of internationally minded mid-level executives for future senior-management responsibilities.

The corporate HRM group sees its mission as a developing one and providing a underlying philosophy around which local businesses can develop their own HR practices. For example, rather than having a standard salary policy for all its national operations, Coca-Cola has a common salary philosophy—the total compensation packages should be competitive with the best of the companies in the local market. Twice a year the corporate HRM group also conducts a two-week HRM orientation session for the HR staff from each of its 25 operating divisions. These sessions give an overview of the company's HRM philosophy and talk about how local business can translate that philosophy into HR policies. Coca-Cola has found that information sharing is one of the great benefits of bringing HRM professionals together. For example, tools that have been developed in Brazil to deal with a specific HRM problem might also be useful in Australia. The sessions provide a medium through which HRM professionals can communicate and learn from each facilitates other, which facilitates the rapid transfer of innovative and valuable HRM tools from region to region.

As much as possible, Coca-Cola tries to staff its operations with local personnel. To quote one senior executive, "We strive to have a limited number of international people in the field because generally local people are better equipped to do business at their home locations". However, expatriates are needed in the system for two main reasons. One is to fill the need for a specific set of skills that might not exist at a particular location. For example, when Coca-Cola started its operations in eastern Europe, it had to bring in an expatriate from Chicago, who was of Polish descent, to fill the position of the finance manager. The second reason for inducting an expatriate is to improve the employee's own skill base. Coca-Cola believes that since it is a global company, senior managers should have had international exposure.

The corporate HRM group has about 500 high-level managers involving in its global service program. Coca-Cola characterises these managers as people who have knowledge of their particular field, plus knowledge of the company, and who can do two things in an international location—add value by the expertise they bring to each assignment, and enhance their contribution to the company by having international experience. Of the 500 participants in the programme, about 200 move each year. To ease the costs of transfer of these employees, Coca-Cola gives those in its global service programme, a US-based compensation package. They are paid according to US benchmarks, as opposed to the benchmark prevailing in the country in which they are located. Thus, an Indian manager in this program who works in Britain will be paid according to US salary Benchmark, and not those prevailing in either India or Britain. An ultimate goal of this programme is to build a cadre of internationally minded high-level managers from which the future senior managers of Coca-Cola will be drawn.

Source: Charles W.L. Hill, *International Business*, p. 562–563.

International businesses have choices of hiring three categories of employees—parent country nationals (PCNs), host country nationals (HCNs) and third country nationals (TCNs). Table 28.1 brings out the advantages and disadvantages of each choice.

Table 28.1 **The Advantages and Disadvantages of Using PCNs, TCNs and HCNs**

	Advantages	*Disadvantages*
PCNs	• Familiarity with the home office, goals, objectives, policies and practices. • Easy organisational control and coordination. • Promising managers are given international exposure. • PCNs are the best people for assignment because of special skills and experiences.	• Difficulty in adapting to the foreign language and the socio-economic, political, cultural and legal environment. • Excessive cost of selecting, training and maintaining expatriate managers and their families abroad. • Promotional opportunities for HCNs are limited. • PCNs may impose an inappropriate HQ style. • Compensation for PCNs and HCNs may differ. • Family adjustment problems, especially concerning the unemployed spouses.
HCNs	• Familiarity with the socio-economic, political and legal environment and with business practices in the host country. • Lower cost incurred in hiring as compared to PCNs and TCNs. • Promotional opportunities to locals and consequently their motivation and commitment. • Responds effectively to the host country's demands for localisation of the subsidiary's operations. • Languages and other barriers are eliminated. • Continuity of management improves, since HCNs stay longer in positions.	• Difficulty in exercising effective control over the subsidiary's operations. • Communication difficulties in dealing with home office personnel. • Lack of opportunity for the home country's nationals to gain international and cross-cultural experience. • HCNs have limited career opportunity outside the subsidiary. • Hiring HCNs may encourage a federation of nationals rather than global units
TCNs	• Salary and benefit requirements may be lower than for PCNs. • TCNs may be better informed than PCNs about host country environment. • TCNs are truly international managers.	• Host country government may resent hiring TCNs. • TCNs may not want to return to their own countries after assignment. • Host country's sensitivity with respect to nationals of specific countries. • HCNs are impeded in their efforts to upgrade their own ranks and assure responsible positions in the multinational subsidiaries.

Pause and Ponder

Between PCNs and HCNs, which do you prefer? Why? What industry and subsidiary characteristics do influence your choice?

HCNs or PCNs

Keeping aside the TCNs, what is the choice between HCNs and PCNs for heading subsidiaries in foreign locations? Table 28.2 summarises the factors influencing the choice. The factors fall into four categories: Parent country, industry, subsidiary and host country variables.

Table 28.2 **Factors Favouring PCNs or HCNs**

A. Parent Country Characteristics	Cultural distance between parent unit and subsidiary, size of operations, research intensity.
B. Industry Characteristics	Financial institutions, need for control, need to customise
C. Subsidiary Characteristics	Age, acquired or green field project, performance, ownership pattern
D. Host Country Variables	Education levels, political risks, cost of living.

With regard to parent country characteristics, MNCs prefer home country nationals to head subsidiaries where culture distance is high. This is necessary to maintain united corporate culture. Size is positively related to the preference of PCNs. Larger MNCs have more PCNs as heads of subsidiaries since they have managerial resources and are more likely to have a formal management development programme around the world. Similarly, MNCs that are more research intensive tend to deploy talent from head office to subsidiaries so that locals may be trained.

With regard to industry characteristics, the tendency is to have more PCNs as heads of subsidiaries in banking, security brokering and publishing and printing industries. The need to exercise greater control and the need to understand local needs force the dominance of PCNs in banking and their low presence in advertising industries, respectively.

Subsidiary characteristics too influence the choice of PCNs or HCNs. A newly set up subsidiary tends to attract PCNs to establish systems and procedures. Where a subsidiary is acquired, tendency is to have more of HCNs. PCNs tend to dominate, if a subsidiary occupies a strategic role. Fully owned subsidiary occupies strategic importance and hence tends to attract more PCNs. Where subsidiary performance is slackening, headquarter's intervention through PCNs becomes a necessity.

PCNs need to be expatriated to staff subsidiary if education level in the host country is low and skilled people are not available. Besides, a high level of political risk in the host country is likely to make direct control through PCNs more important. Where cost of living in the host country is lower, it is advantageous to employ HCNs for top positions in subsidiaries.

THE EXPATRIATE PROBLEM

Of the three staffing policies we discussed above, two of them, namely, ethnocentric and geocentric approaches and two categories of employees, viz., PCNs and TCNs, rely on extensive use of expatriate employees working outside their home country with a planned return to that or a third country. As expatriates play a major role in international businesses, MNCs take great care in their selection process. Figure 28.3 is a model of the life-cycle of an expatriate assignment. It involves a process of determining the need for an expatriate assignment, identifying and then selecting likely candidates, pre-assignment training, departure, post arrival orientation and training, crisis and adjustment of crisis and failure, reassignment aboard, and/or repatriation and adjustment.

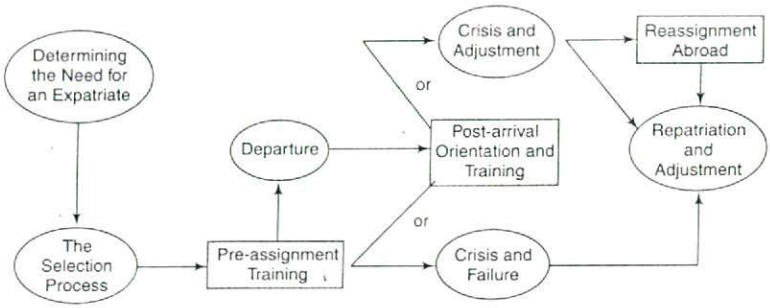


Fig. 28.3 The Expatriate Assignment Life Cycle

Source: Cynthia D. Fisher, *et al, Human Resource Management*, p. 781.

A major problem connected with expatriates is their premature return to their home country. Popularly called expatriate failure, the subject has assumed considerable importance in the literature on international business. As stated earlier, expatriate failure results in considerable losses to MNCs. Several reasons have been assigned to explain why people return home before the assignment period expires. Table 28.3 summarises the cause for expatriate failure.

Table 28.3 **Reasons for Expatriate Failure (in Descending Order of Importance)**

US Firms	*Japanese Firms*
• Inability of spouse to adjust	• Inability to cope with larger international responsibilities
• Manager's inability to adjust	• Difficulties with the environment
• Other family reasons	• Personal or emotional problems
• Manager's personal or emotional maturity	• Lack of technical competence
• Inability to cope with larger international responsibilities	• Inability of spouse to adjust

Source: Peter. J. Dowling, *et al., op cit.* p. 82.

One of the reasons for expat failure is his/her inability to adjust to host country culture. Expat's cultural adjustment typically comprises three stages (see Fig. 28.4). The U-shaped curve starts with a high suggesting that the expat enjoys a great deal of excitement, as he/she discovers the new culture. This stage is called the *tourist stage*. Business travellers, as compared with expatriates, often have the luxury of remaining at this stage. This initial phase is followed by a period of *disillusionment* (second stage) in which the expatriate's mood descends as the difficulties with the new culture become clear. These difficulties typically include an inability to converse well in the local language, problems in obtaining certain products and food supplies of personal preference, home sickness and so on. In this stage the curve hits bottom and is characterised by what is called *culture shock*.

Culture shock is explained in terms of its disruption to established routines of behaviour. The more routines that are disrupted, the more severe is the culture shock. In addition, the more critical the routine that is disrupted, the greater mental energy is required to adjust, and the greater the frustration, anxiety and

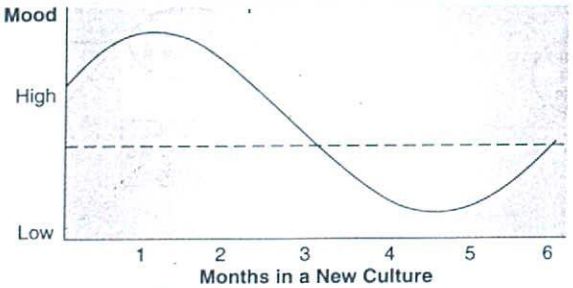


Fig. 28.4 Culture Shock Cycle

anger. Culture shock is a critical stage, and how the individual copes with the psychological adjustment in this phase has an important outcome in terms of success or failure.

If culture shock is handled successfully, the expatriate enters the third stage, which may be called the *adapting* or *adjustment* phase. He/she begins to feel more positive, works more effectively and lives a more satisfying life. Neither the highs of tourist stage nor the lows of culture shock phase usually mark this adaptive phase. If culture shock is not handled successfully, the expatriate's work performance deteriorates and he/she will eventually return home having not really done the job well or enjoyed the time spent abroad.

One way to reduce expatriate failure is by improving selection procedures to eliminate inappropriate candidates. The first step in this direction is to delineate the selection criteria for selecting expatriates. Figure 28.5 illustrates the factors involved in expatriate selection, both in terms of the individual and the specific demands of the situation concerned.

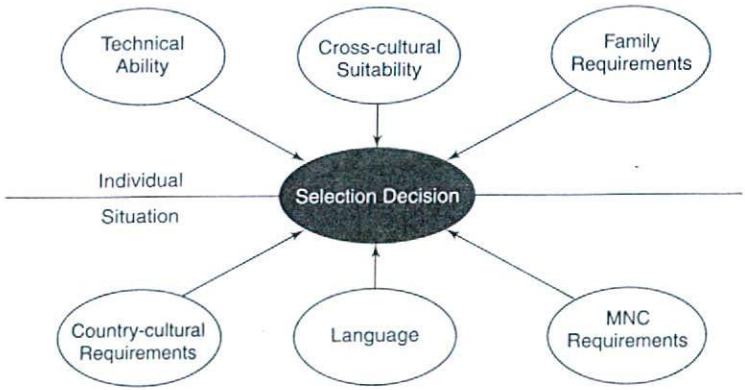


Fig. 28.5 Factors in Expatriate Selection

Source: Peter J. Dowling, *et al., op cit.*, p.85.

Technical ability refers to the ability of a person to perform the required tasks. International firms place heavy reliance on relevant technical skills during the expatriate selection process. *Cross-cultural suitability* includes adjustability of the expatriate to operate in a new environment. Cultural abilities required include cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability and maturity.

Another requirement for expat success is *family requirement*. This refers mainly to the adjustment of spouse. It is now clear (see opening case) that the success of Arvind Kumar, an expat, owes as much to his wife as his own capabilities. The host country is an important factor when we talk about *country/cultural requirements*. Certain countries or regions are considered "hardship postings"— remote areas away from major cities or modern facilities, or war-torn regions with high physical risk. There may be reluctance to select females for certain Middle East or South East Asian regions. Some countries do not issue work permit for a female.

MNC requirements influence expat selection. Duration of the assignment and philosophy of staffing are the two criteria that are crucial in this context. *Language* skills also decide on expat selection. When we say language, we refer to the language of the host country. Knowledge of the host country language adds to the performance of the expat.

The final step in improving the selection process of an expatriate is to use appropriate tests to select or reject aspirants. Generally, personality and psychological tests are used in the selection process, but the effectiveness of such tests is questioned. Many HR managers tend to equate domestic performance with overseas performance potential. But the two are not same. An executive who performs well in domestic settings may not be adept to managing in a different cultural environment.

Figure 28.6 contains selection criteria and selection methods used by international businesses. The figure also includes all those criteria which were listed in Fig. 28.5.

Broadly, the selection criteria include professional/technical skills, relational abilities, international motivation, family situation and language skills. Each of these carries with it several specific criteria as shown in Fig. 28.6.

Key Success Factors	*Selection Methods*					
	Interviews	*Standardised Tests*	*Assessment Centres*	*Biographical Data*	*Work Samples*	*References*
Professional / technical skills						
• Technical skills	✓	✓		✓	✓	✓
• Administrative skills	✓		✓	✓	✓	✓
• Leadership skills						
Relational abilities						
• Ability to communicate	✓		✓			✓
• Cultural tolerance and empathy	✓	✓	✓			
• Tolerance for ambiguity	✓		✓			
• Flexibility to adapt to new behaviours and attitudes	✓		✓			✓
• Stress adaptation skills	✓		✓			
International motivation						
• Willingness to accept expatriate position	✓			✓		
• Interest in culture of assignment location	✓					
• Commitment to international mission	✓					
• Fit with career development stage	✓			✓		✓
Family situation						
• Spouse's willingness to live abroad	✓					
• Spouse's relational abilities	✓	✓	✓			
• Spouse's career goals	✓					
• Children's educational requirements	✓					
Language skills						
• Ability to communicate in local language	✓	✓	✓	✓		✓

Fig. 28.6 Expatriate Success Factors and Selection Methods

Source: John B. Cullen, *Multinational Management*, South Western, 1999, p. 426.

International businesses use a combination of selection methods to identify people with the appropriate talent for overseas posting. Some popular techniques include interviews, standardised tests of intelligence or technical knowledge, assessment centres' biographical data, work samples and references.

Training and Development

After selection, the next step in IHRM is to train and develop new hires, particularly for those who are expected to be posted overseas.

A few commonly understood objectives of training in the multinational corporations are:

1. Bridging the cultural gaps between the host and the parent organisations.
2. Recognising that orientation/induction challenges are different for the parent and the host unit.
3. Ensuring that organisational success is critical in achievement of global objectives.
4. Building a united corporate culture across subsidiaries.

An expatriate needs pre-departure training before leaving for foreign assignment. As noted earlier, training is one of the ways of reducing expatriate failure rate. An expatriate needs cross culture training, language training, and practical training.

Cross Cultural Training (CCT) CCT seeks to foster an appreciation for the host country's culture. The belief is that understanding the host country's culture will help the manager empathise with the culture, which will enhance his or her effectiveness in interacting with host-country citizens. An expatriate should receive training in the host country's culture, history, politics, economy, religion, and social and business practices. If possible, it is also advisable to arrange for a familiarisation trip to the host country before the formal transfer, as this is likely to ease a likely cultural shock. Given the problems related to adaptation of spouse in the host country's, it is important that the spouse and perhaps the whole family, be included in the training programmes. Often, CCT includes counselling on return to home base to prevent reverse culture shock.[12]

CCT is receiving considerable attention now as more and more managers are required to travel around the globe frequently on business deals. In 1994 the Japanese spent $17 million in business etiquette training. Nearer at home, firms which have recognised the importance of CCT are Mafatlal, O.P Jindal Group, Reckitt & Coleman India, and Ranbaxy.

Table 28.4 bring out the benefits and problems of CCT.

Table 28.4 **Benefits and Drawbacks of CCT**

Merits	*Demerits*
• Increases chances of success in global assignment	• Develops a false sense of confidence among expatriates
• Provides a comprehensive global perspective for managers	• May not remove cultural biases and prejudices
• Instills a sense of confidence into people	• May not be taken seriously by the recipients
• Foreign employees can be managed better	• May not make a visible difference on business volumes
• Reduces culture shock	• Can never fully prepare an assignee to face real problems

Language Training Language training is a seemingly obvious and desirable component of a pre-departure programme. One weakness of many MNCs is that they do not give attention to the importance of language training. English is the primary language of international businesses, and most expatriates from all the countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English speaking countries like China. It may be reiterated that willingness to communicate in the host-country language will help build rapport with local employees and improve the expatriate's effectiveness. What Reliance has done is worth recollecting in this context. The company has hired 1800 Chinese engineers to lay their gas grid in India. It has started training Indians in Chinese language so that they can easily converse with the Chinese engineers. Hence language training is important.

Practical Training Practical training seeks to help the expatriate manager and family feel 'at home', in the host-country. Sooner the expatriate settles down, better are the prospects that he/she and his/her family will adapt successfully. One important need is for a support network of friends. Where an expatriate community exists, firms often try to integrate the new expatriate family quickly into that group. The expatriate community can be a useful source of support and information, and can help the family to adapt to an alien culture.

Training expatriates before their departure to overseas assignment cannot be over-emphasised. An extreme and tragic case highlights the importance of exposure and training for international assignments. Management staff of an oil company operating in the Pacific assigned young local workers to supervisory roles over considerably older workers. Within one week, all supervisors were discovered dead. They were murdered. The expatriate managers were unaware that status in this region was related to age. This tragedy could have been averted by training managers to re-orient their perspective when appointing locals in a foreign culture, and providing them with right orientation.[13]

Management Development and Strategy MNCs use management development as a strategic tool. This is particularly true in firms pursing a multinational strategy which is a common feature among firms these days. Such firms need a strong, unifying corporate culture and informal management networks to assist in co-ordination and control. In addition, MNCs need to be able to detect pressure to conduct business in a locally-responsive manner. This obviously demands knowledge about country culture.

Management development programmes help build corporate culture by encouraging new managers to socialise and imbibe the values and norms of the firm. In-house training programmes and intense interaction during off-site training can foster esprit-de-corps, shared experiences, informal networks, perhaps a company language of jargons, as well as competencies. These training courses often include songs, picnics, and sporting events that promote feelings of togetherness. These rites of integration may include initiation rites where personal culture is stripped, company uniforms are donned, and humiliation is inflicted. All these activities are aimed to strengthen a manager's identify with that of the company.[14]

Bringing managers together in one location for extended periods and rotating them through different jobs in several countries help the firm build an informal management network. An example in this context is Ericsson, a Swedish telecommunications company. Interunit co-operation is extremely important at Ericsson, particularly for transferring know-how and core competencies from the parent company to its subsidiaries, from subsidiaries to the parent, and among the subsidiaries themselves. To facilitate co-operation, Ericsson transfers large numbers of people back and forth between headquarters and subsidiaries. Ericsson sends a team of 50–100 engineers and managers from one unit to another for a year or two. This establishes a network of interpersonal contacts. This philosophy is effective for both giving shape to a common culture in the company and co-ordinating the firm's globally dispersed operations.[15]

HCN Training

It is not that an expatriate alone needs to be trained. A HCN who is tipped to head a subsidiary should also be trained. In selecting a host country national for a subsidiary, the focus is on ascertaining the technical and managerial fit for the role. In preparing a host country national for the assignment, the priority in training is the knowledge and the awareness of the parent company, beginning with the history and genesis of the organisation, connecting with its vision/mission, goals and the specific objectives of the subsidiary. Specifically, HCN training should focus on:

- gaining knowledge about the parent organisation and its global presence and objectives.
- acquisition of technical know-how specific to the organisation.
- role of the subsidiary in the MNCs road map both from the technological as well as corporate cultural perspective.
- general awareness of the parent country cultural norms.

Performance Management

One of the most challenging tasks of IHRM is managing the performance of a firm's various international facilities. While recruitment, selection, and training and development tend to focus on pre-assignment issues, performance management looks at post-assignment performance-related issues.

Performance management may be understood as a process that enables an MNC to evaluate and facilitate continuous improvement of individuals, subsidiary units, and corporate performance, against clearly-defined, pre-set goals and targets.[16] Obviously, performance management is comprehensive in as much as it includes assessment of the performance of not only individuals but the activities of the firm and its subsidiaries too. But we focus mainly on assessment of expatriate performance.

In the international context, expatriate performance management comprises several steps: linkage with organisational strategy, setting performance goals, identifying variables impacting performance, appraising the performance, providing feedback, offering opportunities for improvement and linking results with rewards (see Fig. 28.7).

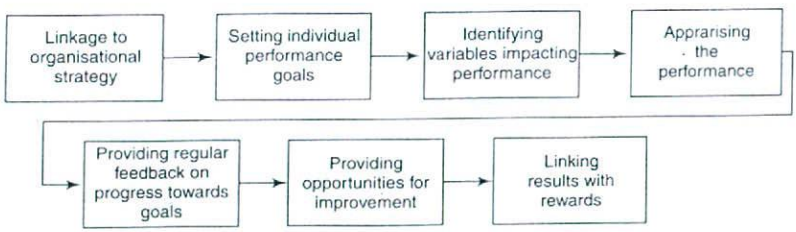


Fig. 28.7 Steps in Expatriate Performance Management

Linking with Organisational Strategy Performance management becomes an integral part of corporate strategy. Besides contributing to enhanced performance, performance management helps identify employees with high potentials, facilitates establishing performance—reward linking and delineates employee needs for development. All these offer vital inputs for formulation and execution of strategies.

Setting Individual Performance Goals It is critical, in the international context, to closely link unit goals to individual/team goals especially at the top and senior management levels. Goals are the future outcomes that individuals and organisations desire and strive to achieve. Popularly, goals seek to serve three specific purposes:

— guide and direct behaviour in the direction of the goal.
— offer benchmarks for employees to strive towards excellence.
— reflect what the employees and managers consider as important.

In order to serve the above purposes, goals must be specific, measurable, accurate realistic and timely (SMART). Specific and challenging goals serve to focus the individual attention on precisely what is to be accomplished and to arouse him or her to peak performance. In a wide range of occupations, people who set specific and challenging goals consistently outperform those who have easy or unspecified goals, as Fig. 28.8 shows.

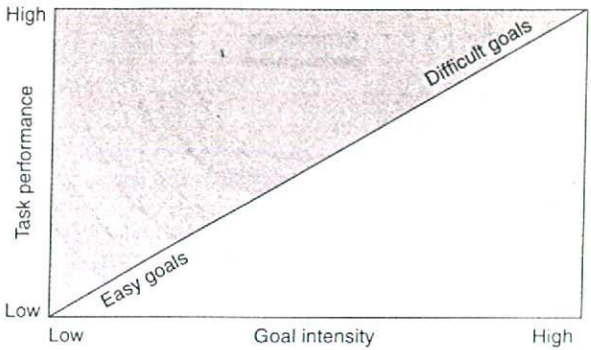


Fig. 28.8 Goals and Performance

Similarly, quantitative goals render themselves easy for measurement and time bound goals enhance measurability. Measurability and timeliness add to performance enhancement.

Variables Impacting Performance Performance of an expatriate depends on several variables which are distinct from the performance of an employee working in his or her home country. Performance of the non-expatriate is influenced by job extrinsic factors (for example, working conditions, company policy) and job intnisic factors (example, challenging job, career prospects). An expatriate's performance depends on several other variables (see Fig. 28.9) in addition to job extrinsic and job intrinsic factors.

Compensation packages contribute to performance considerably whether an employee is working in the home country or is an expatriate posted in a foreign location. Expatriate's performance is influenced by the type of **task** too. Home office **moral and physical support** is vital in expatriate performance. **Host environment**, as it is prevailing in Afghanistan and Iraq, hardly enhances performance. Finally, the ability of the expatriate to live comfortably in **an alien culture** is essential for his or her success. Multicultural adjustability refers to being sensitive to host culture, language fluency, diplomacy, adaptability, positive attitude, emotional stability and maturity.[17]

Appraising the Performance Appraising performance is a routine job but involves three key decisions areas: Specifying on performance criteria, identifying the appraisers, and deciding on the frequency of appraisal.

Generally, performance criteria in any organisation include outcomes and behaviours. Appraisers in an MNC include immediate managers/supervisors, team members and clients. Self appraisal is also in place. With regard to frequency of performance, MNC's have almost the same periodicity as domestic firms. Frequency shall be once in three months, six months or once in a year.

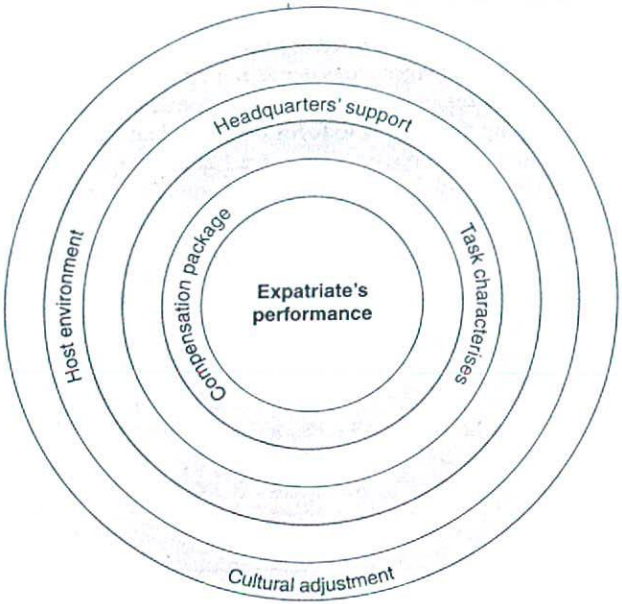


Fig. 28.9 Expatriate's Performance

Providing Feedback Feedback refers to the information provided to the assessee about work behaviour and outcomes. It helps control the work behaviour of employees by directing their behaviour through the provision of necessary feedback for corrective action.

The task of assessing performance and providing feedback in MNCs is compounded by time and distance. Physical distance between headquarters and subsidiary is long and time zones are different. But technological advancements have helped ease the difficulty to some extent. International managers do travel long distances and spend considerable time with subsidiary heads and employees, as part of assessment and feedback.

Opportunities for Improvement Performance feedback also helps in highlighting the need for training and development. Conducting appraisal, offering feedback and organising training and developmental programmes are all parts of performance management. These activities seek to provide opportunities to expatriates to improve, socialise, and adjust to local environment ably.

Linking Rewards and Results The final activity in expatriate performance management relates to establishing linkages between performance and compensation. Rewards must follow performance. Only then there is positive reinforcement to repeat performance.

Paying Expatriates

Yet another activity that receives considerable attention of the international HR manager is designing attractive remuneration packages for the expatiates. Any expatriate remuneration package needs to be designed to achieve the following objectives:

1. Attract employees who are qualified and interested in international assignments

2. Facilitate the movement of expatriates from one subsidiary to another, from the home country to subsidiaries, and from subsidiaries back to the home country;
3. Provide a consistent and reasonable relationship between the pay levels of employees at the headquarters, domestic affiliates, and foreign subsidiaries; and
4. Be cost-effective by reducing unnecessary expenses.[18]

Generally, the following problems crop up while designing an international remuneration package:

1. Discrepancies in pay between parent, host and third-country nationals.
2. The need to vary expatriate compensation, depending on the 'stage of life cycle' of the expatriate's family (e.g. young children, children in college, etc).
3. Remuneration issues related to re-entry into the parent-country organisation.
4. Remuneration issues to deal adequately with new waves of change in the international business environment.[19]

Expat compensation depends on internal as well as external factors as Fig. 28.10 shows. Internal factors include goal orientation, capacity to pay, labour relations, subsidiary role and the like. Parent nationality, local culture, industry type and the like constitute external factors of expat compensation. These variables are self-explanatory.

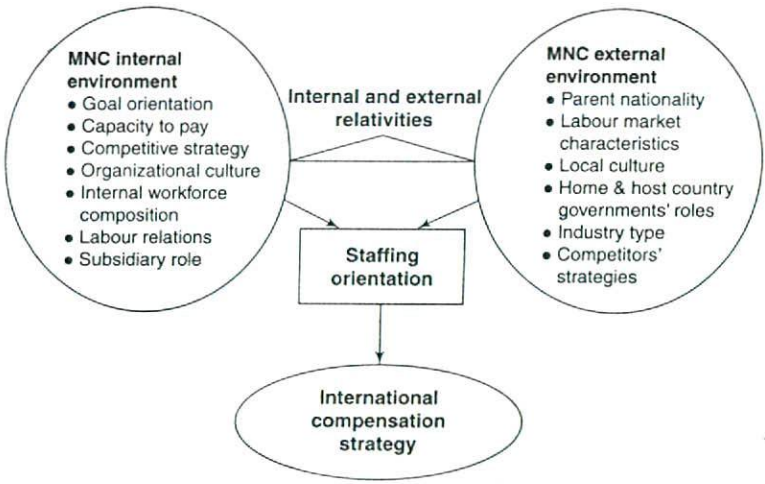


Fig. 28.10 Factors Influencing International Compensation

Source: Anne-WilHarzing, *et al., International Strategic Human Resource Management,* p. 311.

The expat remuneration package generally comprises salary, benefits, allowances, incentives and taxes. (see Fig. 28.11)

Base Salary The term base salary acquires a somewhat different meaning when employees go abroad. In a domestic setting, base salary denotes the amount of cash compensation that serves as a benchmark for other components (e.g. bonuses and benefits). For expatriates, it (base salary) is the primary component of a package of allowances many of which are directly related to the base salary (e.g. foreign service premium, cost-of-living allowance, housing allowance) as well as the basis for in-service benefits and pension contributions. It may be paid in home-country or host-country currency. The base salary is the foundation block for international remuneration whether the employee is a parent-country or third-country national.



Fig. 28.11 Components of Expat Compensation

Benefits Benefits constitute a major element of the remuneration of a regular employee. These benefits comprise a similar, or even larger, portion of expatriate remuneration. However, several thorny issues surround benefits package to expatriates. These include:[20]

1. Whether MNCs should maintain expatriates in the home-country benefits programmes, particularly if these programmes are not tax-deductible;
2. Whether MNCs have the option of enrolling expatriates in the host-country benefits programmes and/or making up for any difference in coverage;
3. Whether host-country legislations regarding termination of employment affects the employee benefits entitlement;
4. Whether the home or the host country is responsible for the expatriate social security benefits;
5. Whether the benefits should be subject to the requirement of the home or the host country;
6. Which country should pay for the benefits;
7. Whether other benefits should be used to offset any shortfall in the coverage; and
8. Whether home-country benefits programmes should be available to local citizens.

Allowances Allowance are an expensive feature of expatriate remuneration packages. One common allowance relates to the cost-of-living allowance—a payment for differences between the home-country and the overseas assignment. This allowance is designed to provide the expatriate with the same standard of living that he or she enjoyed in the home-country, and it may cover a variety of expenses, including relocation, housing, education, and hardship.

In any expatriate remuneration package what is unique is the *spouse assistance*. Many MNCs offer spouse assistance to help guard against or offset the income lost by an expatriate's spouse as a result of relocation abroad. Although, some firms may pay an allowance to make up for a spouse's lost income, the US firms are beginning to focus on providing spouses with employment opportunities abroad, either by offering job search assistance or employment in the firm's foreign subsidiary.

Incentives In recent years, some MNCs have been designing special incentives programmes for keeping expatriate motivated. In the process, a growing number of firms have dropped the ongoing premium for overseas assignment and replaced it with one-time lump-sum premium. For example, in the early 1990s, over 60 per cent of MNCs gave ongoing premiums to their expats. Today, the figures have come down to 50 per cent and the declining trend countinues.[21]

The lump-sum payment has at least three advantages. First, expatriates realise that they are paid this only once and that too when they accept an overseas assignment. So the payment tends to retain its motivational value. Second, costs to the company are less because there is only one payment and no future financial commitment. This is so because incentive is a separate payment, distinguishable from a regular pay, and it is more readily for saving or spending.

Taxes The final component of the expatriate's remuneration relates to taxes. MNCs generally select one of the following approaches to handle international taxation:[22]

1. **Tax equalisation** Firms withhold an amount equal to the home-country tax obligation of the expatriate, and pay all taxes in the host country.
2. **Tax protection** The employee pays up to the amount of taxes he or she would pay on remuneration in the home country. In such a situation, the employee is entitled to any windfall received if total taxes are less in the foreign country than in the home country.

Tailoring the Package Working within the components described above, MNCs seek to tailor remuneration packages to fit with the specific situation. For example, senior-level managers in Japan are paid four times more than their junior staff members. This is in sharp contrast to the US, where the gap is much higher. Many senior-level managers in Europe are paid much less than their US counterparts.

In designing an expat's remuneration, MNCs generally follow a number of approaches. The most common is the *balance-sheet* approach, which envisages a compensation package that seeks to equate or balance an expat's purchasing power in the host country with the purchasing power in his or her home country. In order to balance the compensation received for the international assignment with compensation received in the home country, MNCs usually provide additional salary. This increased salary includes adjustments for differences in taxes, housing, and the costs of basic goods and services. Goods and services include items such as food, recreation, personal care, clothing, education, furnishing, transportation and medical care. Figure 28.12 illustrates the balance sheet approach. This approach is most common and majority of MNCs use balance sheet approach to compensate their expats.

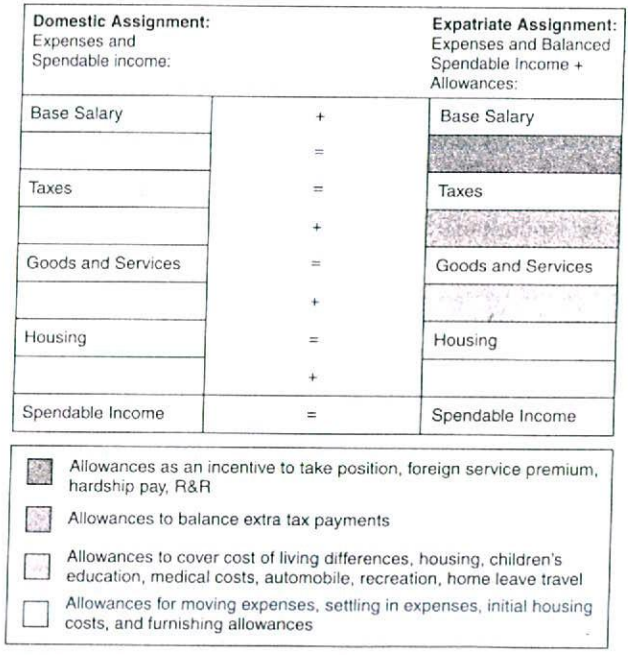


Fig. 28.12 A Balance Sheet Approach to Expatriate Compensation

Source: John B. Cullen, *Multinational Management* p. 442.

A second approach to expat compensation is the *going-rate* approach. In this, the expat compensation is linked to the salary structure in the host country. A third approach is *lumpsum* method, which involves giving the expat a predetermined pay and letting the individual decide about how to spend it. Fourth is the *cafeteria* approach, which entails giving expat a series of options and then deciding him or her how to spend the available funds. Last is the *regional* system, under which the MNC sets a compensation system for all expats who are assigned to a particular region. Thus, everyone going to Europe falls under one particular system and everyone going to South Africa falls under a different system.

Repatriation

In the previous sections, we described expatriate selection, training, remuneration, and performance appraisal. Any discussion on expatriates should include their repatriation—the activity of bringing the expatriate back to the home country. Repatriation needs careful handling, which has been realised lately. It has been the knowledge of practitioners and academics that re-entry into the home country presents new challenges as the repatriate (returning person) copes with what has been termed *re-entry shock*, or *reverse culture shock*.[23] While people expect life in a new country to be different, they may be less prepared for a possible problem of adjustment upon home-coming. As a consequence, it can be a traumatic experience for some, even more than what was encountered in a foreign location. An MNC may think that repatriation is the final phase in the expatriation process, but its ability to attract future expatriates depends on how well the firm handles its repatriation programmes.

Benefits from Returnees There are several reasons for repatriation. The most common reason for returning is that the period of posting got over. Before the assignee was sent, he or she was told that the assignment would be for a specific period and that the period expired now. A second common reason is that expatriates want their children in a home-country school, and the longer they are away, less likely it is that this will happen. The third reason can be that the assignees are not happy in their overseas assignments. Unhappiness can stem from one's inability to adjust to host country environment, spouse's or children's unwillingness to stay, and moral support from headquarters did not come when there was a crisis. Finally, expatriates return because of failure to do a good job. Such failure often spells trouble for the assignees and may result in demotion and termination.[24]

Repatrees offer several advantages to the company. Coke, Cisco, Ford, Whirlpool, Britannia, McKensey and GM are increasingly hiring foreign returned Indian executives. The reasons given are twofold: such returnees have imbibed global culture and also have understood local culture.[25] Second, having extensive understanding of how the company is perceived in other countries and being part of the global social network that can advance company's business around the world, repatriates are an important element in expanding the international operations of the company.[26] Third, repatriates understand both the operations of corporate headquarters and of overseas operations. They can also transfer important technology or information from foreign subsidiaries back to the home country, or provide critical coordination and control functions from the home office to local operations.[27]

Repatrees too have added value to their personal and professional life. During their stay overseas, the returnees have gained exposure and expertise. Their outlook is global, their vision is borderless, their skills are sharpened—in all they come back fully groomed to take on any challenges of domestic as well as global business. Their status in society is enhanced, others view the repatriates with awe and respect. Such glibs as "foreign returned," and "widely travelled" figure in their resumes and in welcoming speeches during conferences and seminars.

Repatriation Process Figure 28.13 shows the repatriation process. Before elaborating on the stages in the repatriation process, it is useful to understand that on completion of the overseas assignment, the MNC brings the expatriate back to the home country, although not all foreign assignments end with a transfer to home—rather the expatriate is re- assigned to another international assignment. Some employees are made to travel around the globe frequently in which case they form part of the MNC's international cadre of managers. Even with such managers, repatriation is essential, particularly at retirement.

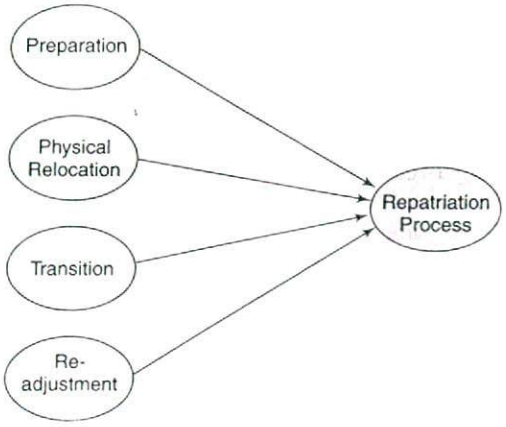


Fig. 28.13 The Repatriation Process

Source: Peter J. Dowling, *et al., op cit.*, p. 206.

? Pause and Ponder

Your B-School has a tie-up with a university in Cyprus. A few of the professors of your school need to go to that country to teach there for two years. Draft expatriation and repatriation policies.

1. *Preparation* involves developing plans for the future and gathering information about the new position. The firm may provide a checklist of items to be considered before the return to home (e.g. closure of bank accounts and settling bills) or a thorough preparation of the employee and his or her family for the transfer to home.
2. *Physical relocation* refers to saying good bye to colleagues and friends, and travelling to the next posting, usually the home country. Personalised relocation assistance reduces the amount of uncertainty, stress, and disruptions experienced by the repatriate and the family.
3. *Transition* means settling into temporary accommodation, where necessary, making arrangements for housing and schooling, and carrying out other administrative tasks such as renewing driving licence, and opening bank account.
4. *Readjustment* involves coping with reverse culture shock and career demands. Of all the steps in the repatriation process, re-adjustment is the most difficult one. The re-entry adjustment is a tough task because of multiple factors. First, there is anxiety experienced by the expatriate when he or she returns home, the apprehension being accentuated by the uncertainty about the placement in the firm, career prospects, and a sense of isolation; feeling of 'devaluating' the international experience; coping with new role demands; and probable loss of status and pay.

MNCs respond to the repatriation problem in several ways. Many firms have formal repatriation programmes. Some companies assign the expatriate a mentor, popularly called as the 'godfather'. The mentor is usually in a more senior position than the expatriate and knows him or her personally. The purpose behind the use of a mentor is to remove the sense of alienation through the provision of information (e.g. workplace changes) on a regular basis, so that the expatriate is better prepared for the conditions he or she is likely to face upon re-entry. The mentor should also ensure that the expatriate is not sidelined when important decisions are made regarding positions and promotions.[28]

Challenges of Re-entry Repatriation poses certain problems more intense than those encountered at expatriation. Infact, assignee views expatriation as sort of reward for impressed performance but repatriation is perceived as the end of a 'honeymoon' in his or her career. Challenges of re-entry relate to the individual assignee as well as the MNC.

Individual Perspectives Challenges from the assignee perspective include personal and professional. From a personal perspective, the assignee experiences 'reverse culture shock.' The returnee expects that the home country would remain the same when he or she had left. But after repatriation the assignee finds that things are not the same. Political, economic, social and cultural climate have changed. Moreover, the returnees themselves are not the same old individuals. The 'stay abroad' has brought changes in their perception, attitudes, habits and practices. These changes have created high expectations about the home country, but the hopes do not match with reality. They exhibit fussiness about everything and this separates expatriates from home country citizens. It is not the assignee alone facing the adjustment problem. Even the spouse has the same problem. Children too find re-entry difficult. Coming back to school, attempting to regain acceptance into peer groups and being out-of-touch with current slang, sports and fashion do cause problems.

Lowered social status, depleted spendable income, housing problem, problem of children's school, difficulty of club membership and the like add to the reentrant's problems.

Professional disappointments add to the returnee's woes. The repatree feels that his or her skills acquired while on foreign service are no more in use. The repatriate is of the opinion that job at home is lacking in autonomy, authority and significance, compared to his or her global assignment. He or she feels that the organisation is unfairly ignoring the global competence acquired by the returnee. Worst, organisations may not guarantee jobs to the returnees. Often, due to poor career planning, repatriates are placed in a 'holding pattern'—being assigned jobs that are available, without regard to the individual's abilities, capabilities and needs. Many returnees complain that, upon return, they are offered a limited number of career choices and are rarely considered for promotions—which makes them feel that they have been removed from the main stream of corporate advancement.

Challenges from Organisation Perspective From an organisation's perspective relating to the retention of reentries. As is too well known, majority of the returnees consider quitting the organisation. Considering the investment made on training, posting, and maintaining the assignee while on assignment, his or her quitting will adversely affect the MNC's bottom line. Often, loss of the multinational becomes gain for a rival. When an experienced assignee quits and joins a rival organisation, the latter tends to gain competitive advantage. In addition, high withdrawals by returnees may affect the company's ability to hire bright individuals in future.

Employee Relations

The last component of IHRM is labour or employee relations. From a strategic perspective, the key issue in international employee relations is the degree to which organised labour can limit the choices to integrate and consolidate its global operations. A firm's ability to integrate and consolidate its global operations to realise experience curve and location economies can be halted by organised labour, constraining the pursuit of a global strategy. An example to be stated here is General Motors which bought peace with labour unions by agreeing not to integrate and consolidate operations in the most efficient manner.[29] Another example is Daewoo, which went bankrupt because of resistance from labour to the management's move to trim the size of its labour force.

Key Issues in International Labour Relations

Who Should Handle Labour Relations? One issue relates to the responsibility of handling labour relations. Who should take up this responsibility—the headquarters or the subsidiary plant in the concerned country? Because national differences in economics, political, and legal systems produce different labour-relations systems across countries, MNCs generally delegate the management of labour relations to their foreign subsidiaries. However, a policy of decentralisation does not keep the corporate office away from exercising some co-ordination over labour-relations strategy. Generally, the corporate office becomes involved in overseas labour agreements made by foreign subsidiaries because these agreements may affect the international plans of the firm and/or create precedents for negotiations in other countries.

However, the involvement of the MNC headquarters in host-country labour relations is influenced by several factors. First the labour-relations function is centralised and is co-ordinated by headquarters when there is a high degree of inter-subsidiary production integration. Labour relations throughout a system become crucial to corporate headquarters when transnational sourcing patterns are developed, that is, when a subsidiary in one country relies on another foreign subsidiary as a source of components or as an user of its output. In this context, a co-ordinated labour-relations policy is one of the key factors in a successful global-production strategy.

Second, the nationality of ownership of the subsidiary has an impact on who handles employee relations. For example, there are differences between European and US firms in terms of headquarters involvement in employee relations. US firms tend to exercise a greater centralised control over labour relations than British or European firms. Finally, subsidiary characters also influence on the who should handle employee relations. For example, subsidiaries that are formed through acquisition of well-established indigenous firms tend to be given much more autonomy over labour relations than are green-field sites set up by an MNC. Similarly, greater intervention would be expected when the subsidiary is of key strategic importance to the MNC, particularly when it is young. Further, where a subsidiary depends more on its parent company for resources, there will be an increased corporate involvement in labour-relations and HR management. Again, a poor subsidiary performance tends to be accompanied by an increased corporate involvement in employee relations.

What should be the Union Tactics? Unions use several tactics to deal with international business. By far the most common union tactic is strike. A strike is a concerted and temporary suspension of functions, designed to exert pressure upon others in the same unit. Strike is a very powerful ploy as it suspends production, cuts out the creation of profit, cuts off the firm from its market, sources of materials may be lost, and fixed charges such as interest, taxes, and salaries for officials continue to be incurred during the strike period. The very existence of the firm may be threatened by a prolonged strike.

Unions should be cautions before resorting to a strike. An MNC enjoys formidable financial strength. It can absorb losses in a particular foreign subsidiary that is in dispute with a national union and still show an overall profit on worldwide operations. The bargaining power of an union may be threatened or weakened by the financial resources of a multinational. This is particularly evident where an MNC has adopted a practice of transnational sourcing and cross-subsidisation of its products or components across different countries.

An MNC has the ability to move the production facilities to other locations from the place of industrial dispute. Ford, for example, threatened British unions with a plan to move manufacturing to continental Europe unless British workers abandoned their demands. National relative advantages provide MNCs with the choice of location of units. Threats by MNCs, whether real or professional, to reorganise production facilities internationally, with the accompanying risk of plant closure or rationalisation will have serious impact on the ability of a union to organise strikes.

The second tactic used by labour unions is to form International Trade Secretariats (ITSs). There are 15 ITSs which function as a loose confederation to provide worldwide links for the national unions in a particular trade or industry (e.g. metals, transport, and chemicals) worldwide. The secretariats operate mainly to facilitate the exchange of information. The primary goal of each ITS is to achieve transactional bargaining with each of the MNCs in its industry.[30]

Next tactic sought by the labour unions is lobbying for restrictive national legislations. The motivation for labour unions to pursue restrictive national legislations is based on a desire to prevent the export of jobs via multinational investment policies.

Finally, labour unions seek intervention from the International Labour Organisation (ILO), the United Nations Conference on Trade and Development (UNCTAD), the European Union (EU), and Organisation for Economic Co-operation and Development (OECD). The ILO has identified a number of work-place-related principles that should be respected by all nations. These are—freedom of associations, the right to organise and collectively bargain, abolition of forced labour, and non-discrimination in employment. In 1997, the ILO adopted a code of conduct for MNCs. The code has been influential in drafting of the OECD guidelines for MNCs. These voluntary guidelines cover disclosure of information, competition, financing, taxation, employment and industrial relations, and science and technology.

Multiculturalism

Culture is understood as the customs, beliefs, norms and values that guide behaviour of people in a society and passed on from one generation to the next. Multiculturalism means that people from many cultures (read many countries) interact regularly.[31] Global firms are the repositories of multiculturalism. Not that domestic firms have only mono cultures. Domestic firms too will have employees with different nationalities. Infosys, for example, has foreigners representing nine per cent of the total employee strength, so also Wipro which has overseas citizens accounting for four per cent of its total number of employees. Domestic firms have multiculturalism may be by choice but it is by design with MNCs. Multiculturalism does not mean that each subsidiary of an international business has its own distinct culture. If this happens, subsidiaries might become stand-alone companies. International business, therefore, needs to maintain a united culture that knits all the subsidiaries together.

Multicultural management offers the following benefits:

- Greater creativity and innovation
- Awareness about the need to maintain sensitivity in dealing with foreign customers
- Possibilities of hiring the best talent
- Creating a 'superorganisational culture', using the best of all cultures
- Evolving universally acceptable HR policies and practices.

The IHR manager needs cross-cultural competence to manage multiculturalism. Specifically, the IHR manager needs to:

- Possess strong personal identity
- Have knowledge of beliefs and values of different cultures
- Display sensitivity to the affective processes of culture.
- Communicate clearly in the language of a given cultural group.
- Cultivate cosmopolitan outlook and attitudes.

Hofstede's Cultural Dimensions

The cultural dimensions proposed by Geert Hofstede are of immense help to the IHR manager in as much as they equip him or her with basic tools necessary to analyse the culture in which business operates.

Hofstede identified four cultural dimensions around which countries have been clustered with people in each group exhibiting identical behaviours. The four dimensions are: Power distance, uncertainty avoidance, individualism and masculinity.

Power Distance Power distance concerns how cultures deal with inequity. Hofstede suggests that a country can be high on power distance or low on the same. In the former, inequality is accepted and even taken as good.

Low power distance cultures are found in societies that seek to play down such inequities as much as possible.

Uncertainty Avoidance This relates to norms, values, and beliefs with regard to their tolerance for ambiguity. Again, societies may be high or low on this dimension. Members of high uncertainly avoidance societies place a premium on job security, retirement benefits, and career patterns. They also have a strong need for rules and regulations; the manager is expected to issue clear instructions and the subordinates shall simply carry them out. Low uncertainly avoidance cultures are charcaterised by a greater readiness to take risks and accept change.

Individualism The spirit of individualism focuses on the relationship between the individual and the group. Societies may be individualistic or collectivist. Individualistic cultures view people as unique. People are valued in terms of their own achievements, status and other unique characteristics.

Collectivist societies view people largely in terms of the group to which they belong. Social groups such as family, social class, organisation, and team take precedence over the individual. People believe that their identities are based on group memberships, group decisions are the best and groups protect individuals in exchange for their loyalty to the group.

Masculinity Masculinity represents the overall tendency of a culture to support the traditional masculine orientation. Here too societies can be high or low. High masculinity cultures have norms, beliefs and values such as men are assertive and dominant, exaggerated maleness in men is good, men are decisive, advancement and success are important, and gender roles should be clearly distinguished. In low masculinity societies (read feminine societies) sex roles are less sharply distinguished, and little difference is made between men and women in the same job.

How do all these are relevant to IHR professional? Hofstede's cultural model helps the IHR manager apply culture specific approach to HR practices. For example, in societies with high power distance culture, selection of executives is based on the social class to which the aspirants belong and their elite educational qualifications. In low power distance cultures, educational achievement is the main criterion. Leadership styles in high power distance societies are authoritarian but are participative in low power distance cultures.

Executives are hired on the basis of seniority and expected loyalty in high uncertainty avoidance societies but the criteria for such selections in low uncertainty avoidance cultures are education and past job performance. Leadership styles in the foreign societies are task-oriented and relations-oriented in the latter category of cultures.

Leaders, in general, tend to appeal to subordinates to perform in collectivist societies, but in individualistic cultures, leadership believes in rewarding achievers and punishing non-performers. In collectivist cultures, executive selection is based on group affiliation but it is geocentric in individualistic cultures. Similarly, managerial selection is independent of gender and leadership is participative in feminine cultures. In masculine cultures, men are mainly preferred for jobs, and leadership tends to be authoritarian.

In addition, staffing policies—ethnocentrism, polycentricism or geocentricism—depend on whether a host country is known for high power distance, low uncertainty avoidance, or feminine orientation. Where power distance is high, staffing is influenced by ethnocentric orientation, so also when a host country believes in high uncertainty avoidance.

SUMMARY

The process of procuring, allocating, and effectively utilising human resources in an international business is called IHRM. IHRM is the interplay among the three dimensions—HR activities, types of employees, and countries of operation.

Multiple HR activities, need for broader perspective, more involvement in employee personal lives, risk exposure, changes in the emphasis, and more external influences make IHRM different from domestic human resource management.

HRP, employee hiring, training and development, performance management, remuneration, repatriation and employee relations constitute the scope of IHRM.

KEY TERMS

Balance sheet approach
Ethnocentric approach
Geocentric approach
Host-country nationals
IHRP
Polycentric approach
Reverse culture shock
Tax protection
Union tactics
Culture shock
Expatriate
Going rate approach
IHRM
Parent-country nationals
Repatriation
Tax equalisation
Third-country nationals

REVIEW QUESTIONS

1. What is IHRM? How does it differ from domestic HRM?
2. Explain the different activities of IHRM.
3. Bring out the components of expat remuneration.
4. What constitutes an expat training?
5. What is reverse culture shock? How do MNCs cope with it?
6. How is expat performance assessed?
7. How are industrial relations of a subsidiary handled?
8. What is culture shock?

DISCUSSION QUESTIONS

1. Why do expat failures occur? How can MNCs minimise such failures?
2. Which staffing policy—ethnocentric, polycentric or geocentric—is preferable for an MNC? Why?
3. How is a remuneration package tailor-made to expats? Which approach, according to you, is more suitable for MNCs operating in India?
4. Supposing your company intends to set up a subsidiary in Thailand. Which country's nationals do you pick up to head the subsidiary—India, Thailand or any other country?
5. You are asked to draft a repatriation programme. How do you go about it?

Closing Case

The Office Equipment Company

Office Equipment Company (OEC) must identify a manager to help set up and run a new manufacturing facility located in the Palestinian-controlled Gaza Strip. The position will have a minimum duration of three years. OEC manufactures office equipment such as photo copying machines, recording machines, mail scales, and paper shredders in eight different countries. OEC's products are distributed and sold worldwide.

Currently, OEC has no manufacturing facility in the Middle East but has been selling and servicing products in Israel since the early 1970s. OEC sells its products in Israel through independent importers, but is now convinced that it needs to have a local manufacturing facility in order to take full advantage of the new, more peaceful situation in the region. Despite occasional turmoil that interrupts new moves towards peace, OEC's sales in Israel have been improving, with increase in profitability. OEC has recently been contacted by distributors in Jordan and Egypt about possible sales of OEC products. Incentives for foreign direct investment in Gaza Strip could help OEC develop extensive operations in the region at considerably reduced cost.

OEC hopes to begin constructing a factory in Gaza Strip within the next six months. This factory would import products and assemble them. The construction of the assembly plant would be supervised by an US technical team and a US expatriate would be assigned to direct the production. This expatriate manager would report directly to the headquarters of OEC at US.

The option of filling the position of managing director with someone from outside the firm is alien to OEC's policy. Otherwise the options are fairly open. OEC uses a combination of home-country, host-country, and third-country nationals in top positions in foreign countries. It is not uncommon for managers to rotate among foreign and domestic locations (in the US). In fact, it is increasingly evident that international experience is an important factor in deciding the persons who will be appointed to top corporate positions. The sales and service operations in Israel have been controlled through OEC's European regional office located in Podernone, Italy. A committee at the European regional office has quickly narrowed its choice to the following five candidates.

Tom Zimmerman Zimmerman joined the firm 30 years ago and is well-versed in all the technical aspects required for the job. Zimmerman is a specialist in start-up projects, and has supervised the construction of new manufacturing facilities in four countries. He has never been assigned to work abroad permanently. His assignments have usually been in developed countries and for periods of less than six months. He is considered to be extremely competent in the duties he has performed during the years, and will retire in about four-and-a-half years. Neither he nor his wife speaks any language other than English—their children have grown and are living in the US. Zimmerman is currently in charge of an operation about the size that the one in Gaza Strip will be after the factory

begins operating. However, as that operation is being merged with another, this present position will become redundant.

Brett Harrison At age forty, Brett has spent 15 years with OEC. He is considered highly competent and capable of moving into upper-level management within the next few years. He has never been based abroad but has frequently travelled to Latin America. Both he and his wife speak Spanish adequately. Their two children, aged fourteen and fifteen, are just beginning to study Spanish. His wife is a professional as well, holding a responsible marketing position with a pharmaceutical company.

Carolyn Moyer Carolyn joined OEC after getting her BS in engineering from Purdue University and an MBA from the prestigious Bond University in Australia. At the age of 37, she has already moved between staff and line positions of growing responsibility. For two years, she was the second-in-command of a manufacturing plant in Texas about the size of the new operation in Gaza Strip. Her performance in that post was considered excellent. Currently, she works as a member of a staff production planning team. When she joined OEC, she had indicated her eventual interest in international responsibilities because of a belief that it would help her advancement in career. She speaks French well and is not married.

Francis Abhrams Francis is currently one of the assistant managing directors in a large Mexican operation, which produces for and sells to the Mexican market. He is a Jewish New Yorker who has worked for OEC in Mexico for five years. He holds an MBA from New York University and is considered to be one of the likely candidates to head a Guatemalan operation when the present managing director retires in four years. He is 35, married with four children (ages two to seven). He speaks Hebrew adequately. His wife does not work outside the home and speaks only English.

Leon Smith At 30, he is assistant to the managing director at the Athens manufacturing facility, a position he assumed when he joined OEC after completing his under-graduate studies in the US seven years ago. He is considered competent, especially in production operations, but lacks in managerial experience. He was successful in increasing OEC's production output in Athens during his tenure in Athens. Leon travelled extensively in the Middle East. He went to the college with a number of students from Saudi Arabia, Jordan, and Egypt. These individuals came from prominent political and business families in their countries, and Leon has visited them during his travels. He thus has the advantage of being reasonably well-connected with influential families in the region. He is not married.

Questions

1. Whom should the committee choose for the assignment and why?
2. What problems might each individual encounter in the position?
3. How might OEC go about minimising the problems that the chosen person would have in managing the Gaza Strip operations?[31]

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CHAPTER 29

The e-HR

LEARNING OBJECTIVES

After reading this chapter you should have a good understanding of:

- Nature of e-HRM
- Different disscusions of e-HR

We had pointed out in the first chapter that people management has travelled a long way. From purely handling industrial disputes, it grew into personnel management with managers of personnel going beyond fire-fighting to such activities as welfare, wage administration, promotions, works councils, suggestion schemes and the like. Overtime, from personnel management the subject matured into human resource management elevating the status of HR professionals to strategic partners and change agents. Of late, HRM is transforming itself to human capital management.

What is to be underlined is that technology also travelled along with the management of people in organisations. If HR's role has been to deliver workforce support and management based on the needs of the business, the role of technology has been one of enabler. During the past years, HR processes and procedures have been supported by everything from complicated file-folder systems to automation, going from usage of multiple systems and databases to a single version of the whole system. These are the days of e-HR. HR professional needs to be aware of and knowledeagable enough to adopt the new technology for the benefit of his or her business.

NATURE OF e-HRM

When HR departments make use of the Internet and related technologies to support their activities, the process becomes e-HRM (where e stands for electronic). e-HRM is the complete integration of all HR systems and processes based on common HR data and information and on interdependent tools and processes. Fully developed e-HRM could provide the data gathering tools, analysis capabilities, and decision support resources for HR professionals to hire, pay, promote, terminate, assign, develop, appraise and reward employees in ways that fully engage them in managing their own outcomes, maximise the contribution of each employee, and support execution of firm's strategy.[1]

e-HRM has the potential to change all traditional HRM functions. Table 29.1 shows major implications of using electronic media in support of HR activities. For example, employees in different geographic

locations can work together. Use of Internet enables companies to search for talent cutting across time and distance constraints. Recruiting can include online job postings, applications, and candidates screening from the company's Website or the Websites of recruiting firms, such as *monster.com*, *naukri.com*., and *clickjobs.com*. Employees from geographic locations can all receive the same training over the company's computer network.[2]

Table 29.1 **Implications of e-HRM**

HRM Practices	*Implications of e-HRM*
Analysis and design of work.	Employees in geographically dispersed locations can work together in virtual teams using video, e-mail and the Internet.
Recruiting	Post job openings online, candidates can apply for jobs online.
Selection	Online simulations, including tests, videos, and e-mail, can measure candidates' abilities to deal with real-life business challenges.
Training	Online learning can bring training to employees anywhere, anytime.
Compensation and benefits	Employees can review salary and bonus details and seek information about and enroll in benefit plans.

Source: Raymond Noe, *et al*., *op.cit*., p. 52.

e-HR ACTIVITIES

Throughout the book we had referred, at appropriate places, to the use of technology to HR functions. We highlight some of them in greater detail here. Particularly, we focus on recruitment, selection, training, performance management and compensation.

? Pause and Ponder

"e-HRM may result in dehumanisation of HR function and irrelevance of the HR department itself." Give your point of view.

e-RECRUITMENT

Alternatively called online recruiting, e-recruitment is being widely used these days. Surveys show that 70 and 90 per cent of large firms now use e-recruiting systems, and it is anticipated that over 95 per cent of organisations plan to use them in the near future. Cisco Systems recruit employees only through e-recruiting.

e-recruiting offers several benefits to the firms practising it. Facility to apply online, wide reach often cutting across national borders, reduced cost, decreased cycle time and reduced burdensome administrative processes are some of the benefits of e-recruiting.

There are dysfunctional or unintended consequences of using electronic media for recruiting. Replacing traditional recruiters with computerised systems may make the recruitment process much more impersonal and inflexible leading to a negative impact on applicants' attraction and retention rates. In addition, the use of online recruitment may deny the opportunities to apply to people who have no access to computers and those who lack skills to make use of the electronic gadgets. Further, applicants may perceive that online

systems are more likely to invade personal privacy than other recruitment processes. Misuse of confidential information by companies is possible. Consequently, many applicants are less willing to use online recruiting.

The most common practices in e-recruitment are: (a) adding recruitment to existing organisational websites, (b) using special recruitment websites, (c) developing interactive tools for processing applications, and (d) using software for online screening of applications.[3]

Cautions while using e-Recruiting

The following guidelines regarding e-recruiting will be highly useful for recruiters:

- e-recruiting needs to be aligned with organisation's strategic goals. For example, if a firm has an innovation strategy that focuses on developing new information technologies, e-recruiting shall identify individuals with skills that can help meet these goals.
- Organisations that have reputation can benefit from e-recruiting.
- Firms need to use e-recruiting as one of the sources but not the only source of attracting talents.
- May attract frequent job hoppers.
- The websites should be designed for easy use, simple to navigate and attract candidates rather than simply screening them.
- Organisations should develop online screening systems based on job analysis and ensure that inferences made from the systems are reliable and valid.
- The system should give adequate information about the company and the positions to the candidates.
- Organisations should use websites to promote values that will be attractive to most employees rather than just select those that fit with traditional culture.
- e-recruiting should not be used as fad but should be measured in terms of successful placements made.
- Collect feedback from job applicants on the direct and indirect messages conveyed by the website regarding the climate of the organisation.
- Companies should use appropriate languages in the website for people with diverse background can use the website.
- The system should be simple and should not cause anxiety in the minds of job applicants while navigating the site.
- Should meet all legal requirements and without any bias based on caste and religion.
- Should attract disadvantaged sections of the society.
- Protect the privacy of individual. The web should have limited access to data and the data collected are relevant to the job.[4]

e-SELECTION

Next to e-recruitment is e-selection. e-selection includes such activities as 800 number scheduling, web based testing, face-to-face interviewing and job offering.

The purposes of e-selection are mainly three: (a) achieving cost reduction, (b) maximum utilisation of human capital, and (c) sustainability. Cost reduction is the main objective and infact, it is mainly for cost saving that organisations switch over to e-selection from conventional selection process. e-selection help cost reduction in several ways. Loss rates between events in the selection process are minimised, administrative costs involved in the selection process are reduced and costs of sourcing candidates into the employment process become less.

The second objective of e-selection is to achieve maximum utilisation of human capital. This is being achieved through high retention rates, increased percentage of candidates who meet employment requirements and improved productivity after the new hires.

Sustainability is the last objective of e-selection. Sustainability refers to the organisation's ability and willingness to maintain the e-enabled system and also progressively evolve the system to satisfy changing requirements.[5] Sustainability is necessary to ensure that the business continues to reap ongoing benefits from e-enabled system.

e-Selection Process Figure 29.1 is a typical flow chart to introduce e-selection system. Organisations planning to introduce e-selection need to consider a variety of procedural requirements, including process to design upfront, vendor selection and project steps, assessment steps and protocol for the test event, feedback to candidates and internal clients, method of processing after testing and management of candidates flow and testing itself.

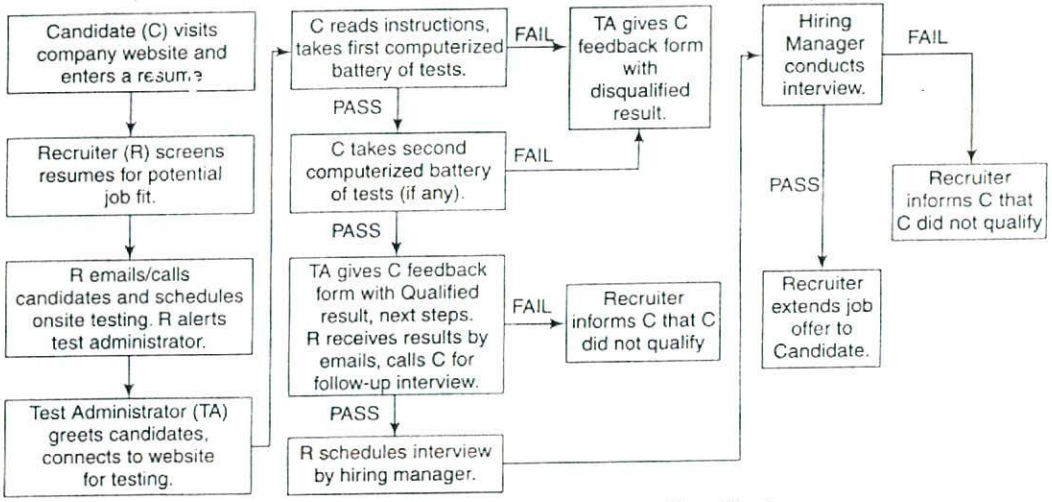


Fig. 29.1 Sample Employment Process Flow Chart

Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, p. 88.

Technology Considerations Which technology to use in selection is a criteria decision to be made by an organisation. One option is to implement technology as a new module within an existing company system (HRIS) or as an intranet application. For example, certain types of HRIS systems can be programmed to administer and/or score selection assessments. Alternatively, typical web-based assessment tool can be implemented on a company's intranet. The third implementation method is an Internet application administered via an application service provider (ASP) model by the testing vendor. This model is becoming increasingly popular for implementing e-assessments via computer. It allows the company to completely outsource the implementation, maintenance, and support of the assessments. Table 29.2 provides score of the key decision points that influence which of the alternative models to choose and also indicates where each method falls in terms of each. As can be made out, no single model is an answer to all the requirements.

Table 29.2 **e-Selection Decision Points**

Considerations	*PC-Based*	*Technology Alternatives*	
		Intranet (Internal to Company)	*Application Service Provider* (by Vendor)
Cost	Low	Moderate	High
Centralized Databasing	Low	High	High
Ease of Updating	Difficult	Easy*	Easy
Support	Difficult	Moderate	Easy
Implementation Timeline	Moderate	Moderate*	Fast
Integration with Other HT Systems	Difficult	Moderate-Easy	Moderate-Easy
Demands on Internal IT Resources	Moderate-High	High	Low

*Entries fluctuate depending on the ability to quickly and easily task IT resources within the organization.
Source: Hal G. Gueutal and Dianna L. Stone, *The Brave New World of e-HR*, Wiley India, 2005, p. 71.

e-PERFORMANCE MANAGEMENT

Performance management is another area which has been e-based. The use of technology in performance management tends to increase productivity, enhance competitiveness and motivate employees as Exhibit 29.1 indicates. This is possible through two ways: (i) technology may facilitate measuring an individual's performance via computer monitoring activities, (ii) technology become a tool to facilitate the process of writing reviews or generating performance feedback. Examples here include multi-raterappraising that supervisors or team members generate online, as well as off-the-shelf appraisal software packages that actually construct an evaluation for a manager. This particular technological approach occurs more often in the context of jobs that involves personal judgement and high discretion.

Exhibit 29.1 ***e-Performance and Motivation***

Motivating front line staff and restraining exits are two of the biggest challenge facing retail sector today. "People in the frontline are key to the brand's success," says Mr. Sandeep Kulhalli, Business Head, Retailing Services Group, Titan Industries. The company is in the fourth year of its 'Face of Titan' initiatives for sales staff, covering customer relationship officers, store managers and service receptionists. The programme assesses and recognises the webbased performance of over 1,200 frontline staff employed in 213 stores across 113 cities. Curbing attrition is a pressing need in the retail sector that's witnessing 80–85 per cent frontline employee turnover. "The programme has helped us here. In fact, last year, among our regional finalists, numbering about 150, we saw attrition dive down to about 12 per cent," according to Mr.Kulhalli. Normally, Titan witnesses a frontline staff attrition rate of 40 per cent in the metros and about 35 per cent in non-metros. The programme runs on customised software top ensure speed, accuracy, fairness and transparency in the evaluation process. Titan has real time access to database, training need analysis, talent

pool, and store and staff performance cad. "The assessment also helps us weed out poor performers, perhaps place them in other roles and in capability building," says Mr. Kulhalli. The current program, kicked off in January 07, is expected to conclude in June 07.

Source: *Business Line*, Feb.24, 2007

Technology can be applied in performance management in several ways. In the first place, routine or low discretion jobs can be subject to computerised performance monitoring (CPM) system that helps generate performance data. Second, softwares are available that help generate appraisal forms and their accompanying narrative. Third, performance management system can be integrated with an overall enterprise resource planning (ERP) software system. This approach helps HR professional to identify high performers, spot skill and competency gaps and to analyse pay relative to performance. With this information being available, HR manager can plan for training, coaching and education. Fourth, firm intranets and Internet may also help performance-management process. Fifth, stand-alone software packages are a great help in performance management system. Some of these packages are relatively inexpensive and easy to use. The greatest benefits of appraisal software are the elimination of paperwork and simplification of the logistics for evaluators, workers and administrators. Software packages facilitate the automation of the tedious parts of evaluation, enabling managers to focus on contents of the evaluation process rather than on forms. In addition, some programmes allow users to click buttons on a screen for each rating and simultaneously create sentences and paragraphs of text. Appraisal software may also include a coaching utility that provides information to evaluators about coaching individuals they evaluate.

Some packages contain psychometric features. Psychometric features help check evaluators from inflating ratings. Such built-in checks boost robustness and accuracy of ratings.

Thus, technology available to e-base performance-management process is enormous. But there is the dark side to the e-enabled ratings. It may be observed that performance appraisal is person centric and no machines can substitute one-on-one interaction. Face-to-face interaction is vital for objective assessment of anybody's performance. e-performance tends to forgo this important feature. Care should, therefore, be taken to ensure that technology intervention between an assesses and as assessee is confined to the extent it is essential.

e-LEARNING

e-learning refers to the use of Internet or an organisational intranet to conduct training on-line. E-learning is becoming increasingly popular because of the large number of employees, who need training. Take Wipro, for example, out of its 17,500 employees, 2,500 are on site and 15,000 employees are in off-shore centers at Bangalore, Hyderabad, Chennai, Pune and Delhi. How to organise training for all these? Wipro also has a policy of subjecting any employee for a two-week training every year. E-learning helps Wipro considerably. Similarly, at Satyam nearly 80% of the 9,000 employees are logged into the in-house learning management system for various courses. Infosys has almost 10% of its total training through e-learning.

e-learning has come a long way from its early days when it was used extensively for technical education such as learning new language and familiarisation with new technologies. Today, firms are introducing soft skill modules as well. Satyam uses e-learning modules on management provided by Harvard Manage Mentor Plus. Satyam has even tied up with Universitas 21 a consortium of 16 international universities and Thomson Learning—for an on-line MBA.[6]

It is not that e-learning replaces traditional training system. In fact, e-learning becomes more effective when blended with traditional learning methods. Many firms use e-learning as a prerequisite before classroom training popularly called *blended training*, a combination of e-learning with classroom approach.

Routine training such as orientation, safety and regulation compliance is best handled in classrooms. Learning that requires discussion, tutoring and team-work can go on-line though it might also stay in the classroom.

Requisites for e-Learning e-learning does not simply mean putting existing courses and materials on a website. Following requisites need to be provided before launching learning on-line.

- Sufficient top management support and funding needs to be committed to develop and implement e-learning.
- Managers and HR professionals need to be "retrained" to accept the idea that training is being decentralized and individualised.
- Current training methods (compared to e-learning) are not adequately meeting organisational training needs.
- Potential learners are adequately computer literate and have ready access to computers and the Internet.
- Sufficient number of learners exist and many of them are self-motivated to direct their own learning.[7]

Advantages and Disadvantages of e-Learning e-learning is advantageous in as much as it is self-paced, allows for consistency and incorporates built in guidance and help. There are problems nevertheless. e-learning tends to cause trainee anxiety, as many may not be ready to accept or have access to computers and Internet. Table 29.3 brings out the advantages and disadvantages more comprehensively.

Table 29.3 **Advantages and Disadvantages of e-learning**

Advantages	*Disadvantages*
• It is self-paced. Trainees can proceed on their own time	• May cause trainee anxiety
• It is interactive, tapping multiple trainee senses	• Not all trainees may be ready for e-learning
• Allows for consistency in the delivery of training	• Not all trainees may have easy and uninterrupted access to computers
• Enables scoring of services/assessments and the appropriate feedback	• Not appropriate for all training content (e.g. leadership, cultural change)
• Incorporates built-in guidance and help for trainees to use when needed	• Requires significant upfront cost and investment
• It is relatively easy for trainers to update content	• No significantly greater learning evidenced in research studies
• Can be used to enhance instructor-led training.	• Requires significant top management support to be successful.

Success Factors It is worth pointing out that organisations using e-learning exhibit a number of common success factors:[8]

- cultural change has taken place about how training and learning happens and is delivered;
- e-learning is closely aligned to the needs of the business;
- e-learning is closely "blended" with other types of training such as classroom activities and is not used to wholly replace other activities;

- learning needs that drive the technology rather than the other way around;
- e-learning has ongoing support from a senior level and is marketed effectively throughout the organisation;
- a range of people with different skills are involved, including expert trainers, facilitators, champions of e-learning and specialist web and graphic designers.

e-COMPENSATION

e-Compensation represents a web-enabled approach to an array of compensation tools that enable an organisation to gather, store, manipulate, analyse, utilise, and distribute compensation data and information. Using an Internet browser, the Internet and the world wide web, individuals access electronically distributed compensation software, databases, and analytic tools from anywhere—their office, their home, on vacation, and on the other side of the globe.[9]

HR professionals are able to gain access to knowledge management databases, best practices and competitive information. Web-enabled tools also enhance HR professionals' ability to distribute this key information and compensation metrics to employees and managers for critical decision making. In addition, web-based tools help increase HR managers' productivity through automating information access and distribution of transactional compensation administration responsibilities to line managers and employees.[10]

SUMMARY

e-HRM refers to the use of Internet and related technologies in support of HR activities. e-HRM has the potential to change all the traditional HR activities as Table 29.1 outlines.

Typical e-enabled HR activities include e-recruitment, e-selection, e-learning, e-performance management and e-compensation. All these have been covered in brief.

KEY TERMS

e-HRM
HRM portals
e-recruitment
e-selection
e-learning
e-compensation
e-performance management

REVIEW QUESTIONS

1. What is e-HRM? How do web-based HR activities differ from the conventional personnel management functions?
2. What is e-recruiting? Explain the typical e-recruiting model.
3. What is e-selection? What are its purposes?
4. What are the benefits and demerits of e-learning?
5. How does e-compensation help HR professionals in improving their productivity?

DISCUSSION QUESTIONS

1. Design e-selection model for an organisation having an employee strength of 2000.
2. Can e-enabled packages replace conventional methods of handling HR activities? Discuss.

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APPENDIX 1

Feedback on 360 Degree Feedback

The use of 360-degree feedback has grown dramatically in recent years. According to HR consulting firm William M. Mercer, 40 percent of the companies used 360-degree feedback in 1995; by 2000, this figure jumped to 65 percent.

The premise behind 360-degree feedback is logical: The people who work most closely with an employee see that person's behavior in settings and circumstances that a supervisor may not. And, in theory, the more complete insight into an employee's performance, the more likely he or she will understand what needs to be improved and how.

The theory is very promising. The reality, on the other hand, is another matter.

Watson Wyatt's 2001 HCI report revealed that companies using 360-degree feedback have lower market value. According to the study, companies that use peer review have a market value that is 4.9 percent lower than similarly situated companies that don't use peer review. Likewise, companies that allow employees to evaluate their managers are valued 5.7 per cent lower than similar firms that don't.

Taken together, these practices are associated with a 10.6 per cent decline in shareholder value.

Voices of Doubt

The HCI study is not only indicator that 360-degree feedback programmes may be failing to match their promise. Researchers and formerly strong advocates of 360-degree feedback have begun to raise questions. Jai Ghorpade, a professor of management at San Diago State University, wrote in the Academy of Management Executive that, "while it delivers valuable feedback, the 360-degree concept has serious problems relating to privacy, validity and effectiveness."

Ghorpade also reported that out of more than 600 feedback studies, one-third found improvements in performance, one-third reported decreases in performance and the rest reported no impact at all.

John Sullivan, professor of human resource management at San Francisco State University, says "there is no data showing that [360-degree feedback] actually improves productivity, increases retention, decreases grievances or is superior to forced ranking and standard performance appraisal systems. It sounds good, but there is no proof it works."

Roots of the Problem

Why is 360-degree feedback failing to live up to its potential? For starters, giving effective appraisals is a difficult task. Unless every one participating in a 360-degree programme is trained on the art of giving and receiving feedback, the process can lead to uncertainty and conflict among team members.

Another issue is that there may be gap between an organization's business objectives and what 360-degree feedback programme measures. Typical 360-degree feedback programme assesses competencies that are not directly related to business results or are so broad that they aren't relevant to the average employee.

The time and cost associated with 360-degree feedback also are stumbling blocks. By trying to capture every nuance of a worker's performance, many 360-degree feedback programmes have become so complex that they require a much greater investment in time and money than they can return.

Another common problem: Reviewers and those being reviewed fail to follow up after feedback. When there are no consequences for poor performance – which often is the case with 360-degree reviews – performance won't change.