

Unit 4 HR strategy

What is HR strategy?

- ❖ Human Resource strategy is a business's overall plan for managing its human capital to align it with its business activities.
- ❖ The Human Resource strategy sets the direction for all the key areas of HR, including hiring, performance appraisal, development, and compensation.
- ❖ The HR strategy is thus a long-term plan that dictates HR practices throughout the organization.

Nature of HR strategy :

- It requires an analysis of the organization and the external environment
- It takes longer than one year to implement
- It shapes the character and direction of Human Resources Management activities
- Helps in the deployment and allocation of organizational resources (i.e. money, time, personnel)
- Is revised on a yearly basis
- It incorporates the expert judgment of senior (HR) management
- It is number-driven
- It results in a specific behavior

PURPOSE OF HR STRATEGIES

- ❑ The strategy objectives is to meet Manpower requirements of the Organization in terms of approved Manpower Plan in addition to that to fulfil requirements of competent HR in terms of requisite capabilities, skills, qualifications, aptitude, merit and suitability with a view to fulfil Organization's objectives.
- ❑ To attract, select and retain the best talent available keeping in view the changing needs of the organization.
- ❑ To ensure placement of right man at the right job at the right time and finally to provide suitable induction points for intake and thereby achieve the desirable level of qualification, skill and age mix as required strengthening the Human Resource of the Organization.

TYPES OF HR STRATEGIES

There are two basic type of HR strategies

- 1) overarching strategies;
- 2) specific strategies relating to the different aspects of human resource management.

Overarching HR strategies

- Overarching strategies describe the general intentions of the organization about how people should be managed and developed, what steps should be taken to ensure that HRM processes the organization can attract and retain the people it needs, and ensure so far as possible that employees are committed, motivated and engaged.
- They are concerned with overall organizational effectiveness.

Overarching HR strategies

- According to Boxall and Purcell (2003) to explain overarching strategies it means , employing 'better people in organizations with better process', developing high performance work systems and generally creating a great place to work.

Example GlaxoSmithKline 'We want GSK to be a place where the best people do their best work.'

Specific HR strategies

Specific HR strategies set out what the organization intends to do in areas such as:

- *Talent management* – how the organization intends to ‘win the war for talent’.
- *Continuous improvement* – providing for focused and continuous incremental innovation sustained over a period of time.
- *Knowledge management* – creating, acquiring, capturing, sharing and using knowledge to enhance learning and performance.
- *Resourcing* – attracting and retaining high quality people.
- *Learning and developing* – providing an environment in which employees are encouraged to learn and develop.

Specific HR strategies

- *Reward* – defining what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders.
- *Employee relations* – defining the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization manages its relationships with employees and their trade unions.

Example: Nestle HR strategies on performance appraisals of Employees. They are done in order to understand each employee's abilities, competencies and relative merit.

- ☐ Formal assessment by Line Managers and HR once a year with feedback.
- ☐ Subordinate can question an unfair evaluation.
- ☐ Specific Key Performance Indicators have been enlisted by the HR department.
- ☐ Remuneration structure and promotion criteria take into account individual.

CRITERIA FOR AN EFFECTIVE HR STRATEGY

- An effective HR strategy is one that works in the sense that it achieves what it sets out to achieve. In particular, it:
 - ☐ will satisfy business needs;
 - ☐ be developed on detailed analysis and study, not just wishful thinking;
 - ☐ can be turned into actionable programmes that anticipate implementation requirements and problems;
 - ☐ is coherent and integrated, being composed of components that fit with and support each other;
 - ☐ takes account of the needs of line managers and employees generally as well as those of the organization and its other stakeholders

REWARDS STRATEGY

- A rewards strategy is a system implemented by a business that provides monetary, beneficial and developmental rewards to employees who achieve specific business goals.
- The strategy combines compensation and benefits with personal growth opportunities inside a motivated work environment.
- Designing and implementing a total rewards strategy requires a large-scale approach that drives organizational change.

REWARD STRATEGY DEVELOPMENT PROCESS

Developing a total rewards strategy is a four-step process consisting of:

1.Assessment: Activities that take place during the assessment phase of the process include surveying your employees on their opinions and beliefs regarding their pay, benefits and opportunities for growth and development as well as examining your current policies and practices.

The most important outcome of the assessment phase is the project team assessment report, which includes your recommendations for the new total rewards system.

REWARD STRATEGY DEVELOPMENT PROCESS

- The assessment report should include suggested solutions to questions such as:

- ☐ Who should be eligible for the rewards?

- ☐ What kinds of behaviors or values are to be rewarded?

- ☐ What type of rewards will work best?

- ☐ How will the company fund this?

2.Design :

- The senior management team identifies and analyzes various reward strategies to determine what would work best in their workplace . It decides what will be rewarded and what rewards will be offered to employees for those achievements. So pay rewards for achievement of goals will not be the only consideration other modes of rewards will also be considered.

REWARD STRATEGY DEVELOPMENT PROCESS

- HR strategists will also determine additional benefits (flexible work schedule, additional time off) or personal development opportunities (training or promotional) that employees will receive as a result of meeting the established company objectives.

3. Execution:

- The HR department implements the new rewards system. It circulates materials that communicate the new strategy to employees.
- Training also commences so that managers and decision-makers are able to effectively measure the achievement and employees are able to understand what they need to obtain to receive the rewards.

REWARD STRATEGY DEVELOPMENT PROCESS

- **Evaluation**: The effectiveness of the new plan must be measured and the results communicated to company decision-makers. Based on this, modifications can be proposed to the strategy for future implementation.

REWARD STRATEGY DEVELOPMENT PROCESS

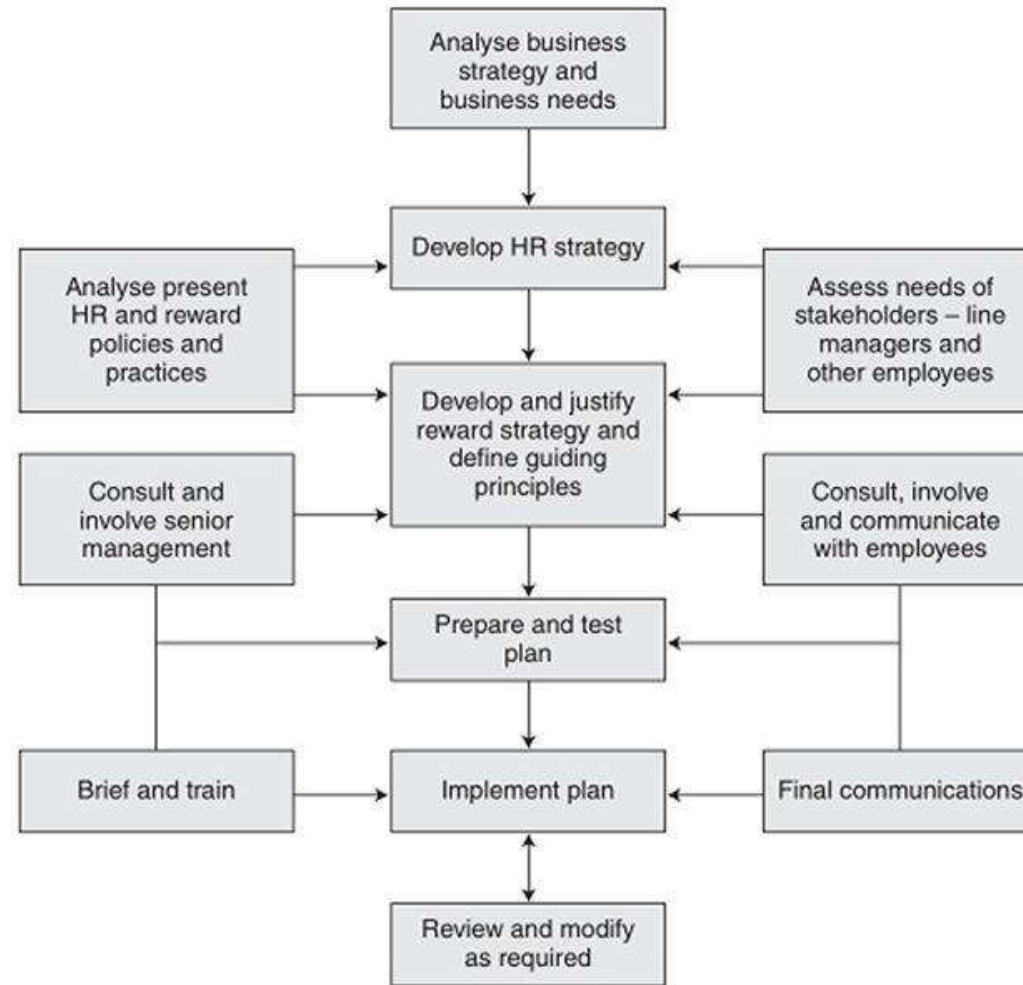


Figure A model of the reward strategy development process

Executive Compensation

Executive compensation is the monetary and non-monetary benefits which are given to the senior management & executives of a company.

Executive compensation includes salaries, perks, incentives, insurances etc. This includes high salaries for executive, insurances, company shares & other benefits.

Components of Executive Compensation

- In crafting the executive compensation program, companies need to determine where they want to position their compensation relative to the market. Most want to be at the market median, while a substantial minority seeks to be above market.
- The executive compensation portfolio can be made up of six elements.
- **Base Pay**
- **Non-Discretionary Cash Bonuses**
- **Discretionary Cash Bonuses**
- **Stock Options**
- **Stock Appreciation Rights**
- **Share Unit Plans**

Components of Executive Compensation

- **Base Pay:**

- This comprises a decreasing portion of executives' total compensation. Executives earn increases based on individual performance, internal equity and competitive market rates for comparable positions.

- **Non-Discretionary Cash Bonuses:**

- These are a significant element of executive compensation. They are the largest incentive compensation component in organizations.
- Non-discretionary bonuses are tied to the achievement of measurable targets.
- These bonuses are usually based on performance within a fiscal year.

Components of Executive Compensation

- **Discretionary Cash Bonuses:**
- These bonuses are not linked to specific performance measurements or targets.
- Discretionary bonuses may be appropriate where company performance is weak and where there is a need to provide additional compensation to key executives for retention purposes

Components of Executive Compensation

- **Stock Options:** Stock options, or other share-based instruments, are intended to align the interests of executives with those of shareholders by encouraging executives to increase share prices.
- A stock option program provides an executive with the option to buy shares.
- **Stock Appreciation Rights:** Stock appreciation rights (SARs) are a form of equity compensation tied to your company's stock performance over a specific period. If the stock's value climbs during that preset time, you receive a portion of the increase in either cash or stock.

Components of Executive Compensation

- **Share Unit Plans:** Under share unit plans, executives receive the full cash value of each share unit granted rather than just the appreciation of the share price.

There are three types of share unit plans:

- ***Restricted Share Units:*** These units vest under a predetermined schedule, typically at the end of a specified period such as three years.
- ***Performance Share Units:*** Performance share units vest depending upon the achievement of certain predefined and time-bound performance objectives.
- ***Deferred Share Units:*** method of stock payment to directors and executives of a company—are deposited into a locked account. The value of these shares fluctuates with the market and cannot be accessed by the beneficiary for the purpose of liquidation until they are no longer employees of the company.

Steps in Designing an Effective Executive Compensation Program

1. Analyze existing benefit plans and executive compensation arrangements

2. Establish primary plan objectives for executive compensation program

3. Identify optimal plan design features

4. Determine tax and distribution strategy

5. Select appropriate financing methodology

6. Establish guidelines for periodic review and evaluation