

**STRATEGIC ALIGNMENT OF HR
PRACTICES
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CHAPTER # 1

Introduction

“The successful organizations will be those that are able to quickly turn strategy into action: to manage processes intelligently and efficiently: to maximize

employee contribution and commitment; and to create the conditions for seamless change.”

ULRICH, 1998

1.1 STRATEGIC ALIGNMENT

Strategic alignment is a highly desired and a productive state within an organization where the energies of people are focused on achieving Strategic Goals and carrying out Strategic Initiatives.

The contemporary business or service organizations consider human resource management (HRM) as the anchor of managing their people within their employer-employee relationship. It is now a-days termed as '*strategic human resource management*' (SHRM). In short, the SHRM focuses on the efficient and effective management of people in achieving the organization's vision or purpose.

HRM is an essential part of any organization's existence and management no matter whatever its size and nature. It is that part of management dealing directly with people. It is crucial to other functions such as information management systems, technology, marketing or public relations, research and development, procurement, and accounting or finance. But it is the HRM, which serves as the bridge to all other areas of management and functions. More dynamic is the organization's people management when it is built strategically to further its organizational purpose. It is a fallacy to construe and regard people management as something disconnected in its function. The HR as human resource's job is only a myth now.

HR's role in linking HRM practices with the strategic goals of the organization includes practices that are developed and implemented to facilitate the achievement of organizational business strategies; linking HR to strategy practices that fit the strategy, and fit with each practice that is developed and implemented for synergistic effect - so that the effect of the whole system is greater than the sum of its parts.

Strategic Alignment is a high level, customer-driven method for developing strategy. The process starts by describing customer needs in a way that enables the alignment with organizational Strategy, Culture and Leadership to be compared. The better the alignment, the more effective the organization.

The real power of Strategic Alignment lies in its intuitive and pragmatic approach to strategy development and implementation. The process delivers more than just a plan; it develops a common vocabulary, understanding and, most importantly, a shared commitment to the resulting strategy.

“A strategy without a metrics is just a wish, and metrics that are not aligned with strategy are a waste of time”

Strategic Goals are a picture of what an organization will look like at a specific point in the future as it struggles to better the way it serves its markets, stakeholders and community. Strategic goals must evolve as the world changes.

Attracting, motivating and retaining talent is a key challenge facing today's organization in the highly competitive global market for knowledge workers. What human resource practices are most effective in doing this? How can organizations restructure and redesign work processes in the face of huge cost and market repositioning challenges? How can we develop and implement high performance human resource practices aligned to business objectives and strategies? What are the measurable HR deliverables in addressing both global and local challenges in managing people, including mergers and acquisitions, performance improvement, diversity, employment equity, and co-operative employment relations? How can we facilitate the vital change management challenge needed? What are the latest trends and practices to achieve best HR performance and how is the human resource contribution to firms changing? What value adding competencies will the human resource practitioner need in the future? How does new technology impact on the HR delivery?

The most significant aspect that needs to be addressed includes the following question: What is the relationship between the business strategy of a company and its human resource strategy: Is there a strong relationship or do strategies emerge? What is the link between espoused human resource strategy and the reality of day-to-day human resource activities?

1.2 RESEARCH QUESTION

The main research question around which the whole discussion aims to revolve is:

“ Why do companies align their Practices and Strategy, How they attain it, and What do they do to sustain it?”

1.3 OBJECTIVE OF THE STUDY

The objective of the study is to gain an understanding of as to what is strategic alignment? The key aspects that are to be addressed involve:

- ❑ How companies achieve the alignment?
- ❑ How companies dilute and destroy innovations when there is misalignment of the practices and the strategy?
- ❑ And what are the benefits of this alignment and what can be done to improve and sustain the alignment?

1.4 SCOPE OF STUDY

The scope of the research revolves around two multinational companies and one global company. The scope covers and discusses in detail the operations of each of the organization selected.

1.5 ORGANIZATIONS SELECTED

The organizations selected are:

- **Johnsons & Johnsons**
- **Microsoft**
- **Kentucky Fried Chicken**

1.6 METHODOLOGY

The methodology adopted consists of:

- ❑ Internet search
- ❑ Articles from magazines/newspapers
- ❑ Case studies
- ❑ Reference books

CHAPTER # 2

LITERATURE REVIEW

Corporate alignment is the conscious and systematic coordination and alignment of organization strategy, culture and structure so that all contribute as efficiently and effectively as possible to achieve organizational survival and success. It operates at both the strategic and the operational level.

In a global business arena, companies that organize and manage people with strategic precision have a distinct advantage. They are better able to seize new opportunities, adapt quickly to changing conditions, and deploy in-house talent to maximum effect.

The literature revolves around the research question, objectives of the research study and its practical importance. The questions that will be discussed and answered in the study are as follows:

- a. What is HR strategic alignment?
- b. Why companies need alignment?
- c. How they attain it? And
- d. What to do to sustain the strategic alignment?

The components of strategic alignment of HR practices (high performance work system) can be divided along two lines that include:

- The horizontal fit and
- The vertical fit

The horizontal fit includes:

- Work flow design
- Leadership
- HR practices
- Technology

The vertical fit includes:

- Strategy
- Competitive Challenge
- Employee concerns and
- Company values

There has been a noticeable increase in the number of companies that are developing HR strategies. Most of them, it appears, also start by spelling out the overall objectives of the business. Aligning the two, however, goes much further than an initial statement of intent.

Some researchers in this field suggest that business goals need to be at the center feeding traditional HR components like organizational structure, compensation, development and performance. Alignment with the business objectives centers on two areas - priorities and planned actions.

- **First, HR compares its current strategy with the overall business strategy to ensure the top priorities match up.**
- **Next, HR describes what strategic responses it will make to meet the business strategy needs using key headings - such as 'compensation' or 'development' - and check that these provide the required outcomes to support the business goals.**

Creating harmony between effective human resource practices consists of two major components: a thorough compliance review and aligning HR operations with the business strategy.

Successful employers create the infrastructure to not only recruit superior talent but to develop and train these resources. This infrastructure must allow a proactive response to a changing business strategy. When the compensation system, performance management strategies, recruitment practices, retention philosophy and employee development initiatives work in harmony with changing business objectives, profit improves.

The best HR strategies are those that are integrated with the overall corporate plans and not seen as a separate document. In practice, many organizations will find that the process of comparing and aligning has an impact on both HR strategy and the overall corporate objectives.

2.1 WHAT DOES HR ALIGNMENT TAKE?

Strategic Alignment requires:

- A clear understanding of the value chain: What kind of value the organization generates and exactly how that value is created.
- To be able to describe how ultimate financial goals are linked to key success factors at the levels of customers, operations, people, and IT systems.
- With this shared understanding of the value-creation process, the organization can design a strategy implementation model that specifies needed competencies and employee behaviors.

•The HR system can be geared toward the generation of these competencies and behaviors.

2.2 TYPES OF CORPORATE LEVEL STRATEGIES

The corporate level strategy includes:

- Related and unrelated diversification
- Growth - internal (e.g., new markets, new products) or external (mergers, acquisitions)
- Retrenchment/Turnaround

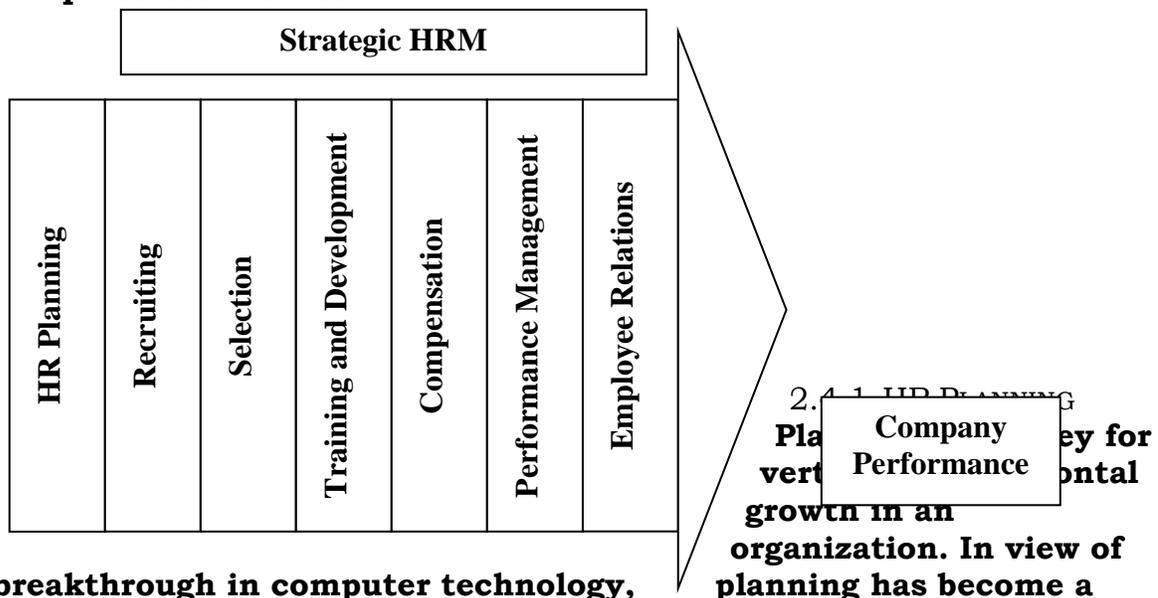
2.3 TYPES OF BUSINESS LEVEL STRATEGIES

The business level strategy includes:

- Differentiation
- Low cost leadership
- Focus

2.4 HR PRACTICES

The HR practices include:



- Forecasting labor demand and supply

- Forecasting labor surpluses and shortages through Job Analysis
- Goal Setting and Strategic Planning
- Program Implementation and Evaluation

2.4.2 RECRUITMENT AND SELECTION

Human resource recruitment is defined as any practice or activity carried in the organization with the primary purpose of identifying and attracting potential employees. It thus serves to serve as a buffer between planning and actual selection of new employees.

Personnel selection is a process by which companies decide who will and will not be allowed into other organizations. The competitive aspect of selection decisions becomes especially critical when organizations are confronted with tight labor markets or when competitors tap the same labor market.

2.4.3 TRAINING AND DEVELOPMENT

Training refers to a planned effort by a company to facilitate employees learning of job related competencies. Generally, the aim of all management-training techniques is to generate in department heads a deeper understanding of themselves and of others so that their decisions may take better account of the needs of the organization. Many methods are used, but all of them seek to develop managerial styles that are likely to build morale and motivate personnel for more effective work, to attain the objectives of the company.

2.4.4 PERFORMANCE MANAGEMENT

Performance appraisal is generally viewed as the primary means for managing employee performance. It is an administrative duty performed by the human resource function. There are a number of approaches used for this purpose. For

instance, attribute approach, comparative approach, behavioral approach, and result approach etc.

2.4.5 COMPENSATION

There has been a marked growth in cash as well as non-cash compensation during the past several years, affecting the salary budget of the organization. These benefits include:

- Medical Insurance
- Free Telephone
- Transportation
- Accidental insurance
- Old age benefit
- Provident fund

The cash benefits include:

- House rents
- Car maintenance allowances
- Bonus

2.5 LINK BETWEEN INTENDED BUSINESS STRATEGY AND INTENDED HUMAN RESOURCE STRATEGY

Over the last two decades there has been a profound shift in thinking about the role that people play in the success of the business, with a growing view that the management of people is a key organizational capability and one, which should be highly integrated with the strategic aims of the business.

A cornerstone of this notion of strategic human resource management is the creation of the linkage or integration between the overall strategic aims of the business and the human resource strategy and implementation. The strategic approach to human resource management emphasizes the delivery of business

strategy and the impact on bottom line performance through the way in which people are managed.

Integration occurs when the human resource strategy is 'matched' with the organization's stage of development or strategic orientation or management style. Start-up businesses require a different approach to human resource management from companies in decline. Similarly, multidivisional companies have rather different needs from those of less complex organizational forms. The key business strategies of innovation, quality enhancement, and cost reduction require specific sets of role behaviors, which in turn, suggest different HRM policies in relation to job design, employee appraisal, development, reward, and participation.

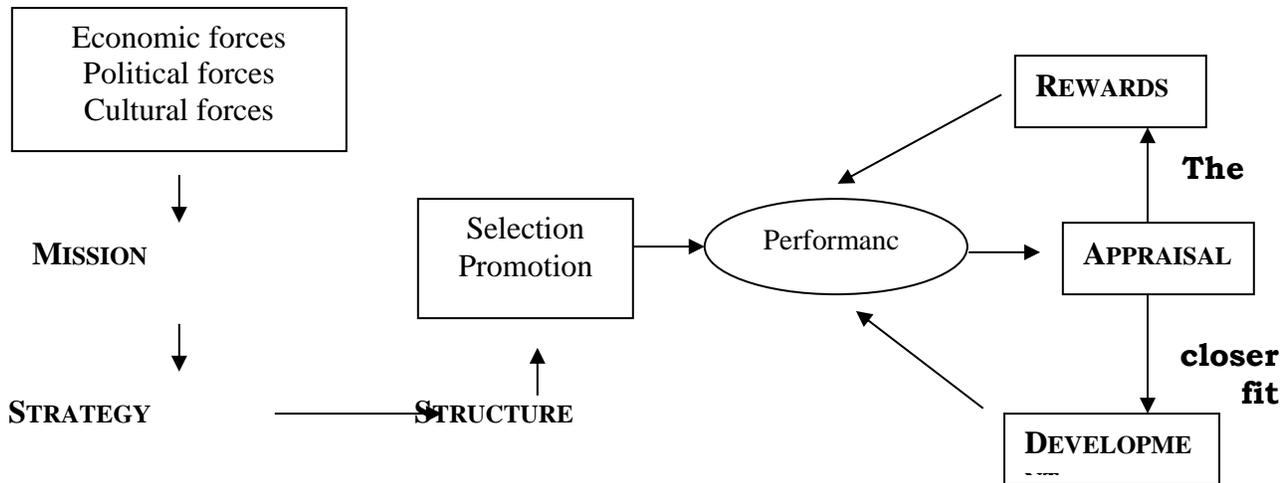
How realistic is the concept of integration between business strategy and human resource strategy? From a conceptual position it could be argued that a concept of a top down, unitarist planning process is overly simplistic, ignoring the political processes, the fact that organizations do not move sequentially from one predictable stage to another and that many pursue multiple rather than single strategies. It was discovered that majority of HR activities took place at the operational level, with hardly taking place at the strategic level.

2.6 'FIT' WITH BUSINESS STRATEGY

The Strategic Human Resource Management goes beyond a set of coordination functions and activities of an organization's human resources. One of the fundamental ideas underlying the SHRM theory is that the organization can create a strategic fit or synergy between its HR strategies and organizational strategies. In other words, the organization should be able to side with its HR strategies and policies with whatever their organization might exist for. SHRM if designed carefully can become the driving force for organizational success. For, it is the HR that stands in the key position to influence growth and development

of any organization. Variables such as customers and stakeholders, the quality of products or services, revenues or development outcomes are greatly determined by HR strategies and policies.

It is argued that there is a tight fit between the business strategy and Human Resource Management. For any particular organizational strategy, there will be a matching HR strategy.



between business strategy and organizational functions will result in organizational effectiveness that has been challenged in recent times. The principle of alignment is that every aspect of an organization's activities should be integrated and pulled in the same direction- to the achievement of corporate goals.

In an ideal world, the organization's mission and goals should be translated into its business and strategic plan. These need to reflect organization's values to prevent employees from being pulled in different directions. Systems and structures, which are created, need to reflect the values at a very detailed level. Achieving the strategy or vision relies on the performance of people within the organization, which in turn calls for high levels of motivation and commitment among employees. Employee performance needs to reflect the mission, goals and values and, if excellent performance is required, there must be opportunities for employees to gain ownership and satisfaction from what they do. Alignment needs to happen at an organizational, team and individual level.

2.7 REQUIREMENTS FOR ALIGNING HR STRATEGIES

In setting business strategies, line managers need to be fully in tune with what their customers say they want from the organization. The same is true for HR strategies, except that such strategies need to be attuned to

the needs of each organizational unit. HR and line managers need to think through the kind of culture needed in each unit if the people in that unit are to be able to deliver the business strategy.

HR needs to think through the behavioral character desired of employees. This includes both behaviors that the company wants to encourage and dysfunctional behaviors that the company wishes to stop. This will include issues such as recruitment, training, resources, and location, working environment etc. Working through these issues with line managers in a systemic way helps line managers to see the link between managing the cultural aspects of the organization and business goals.

2.8 CONTEXTUAL FEATURES THAT IMPACT HUMAN RESOURCE STRATEGY PROCESS

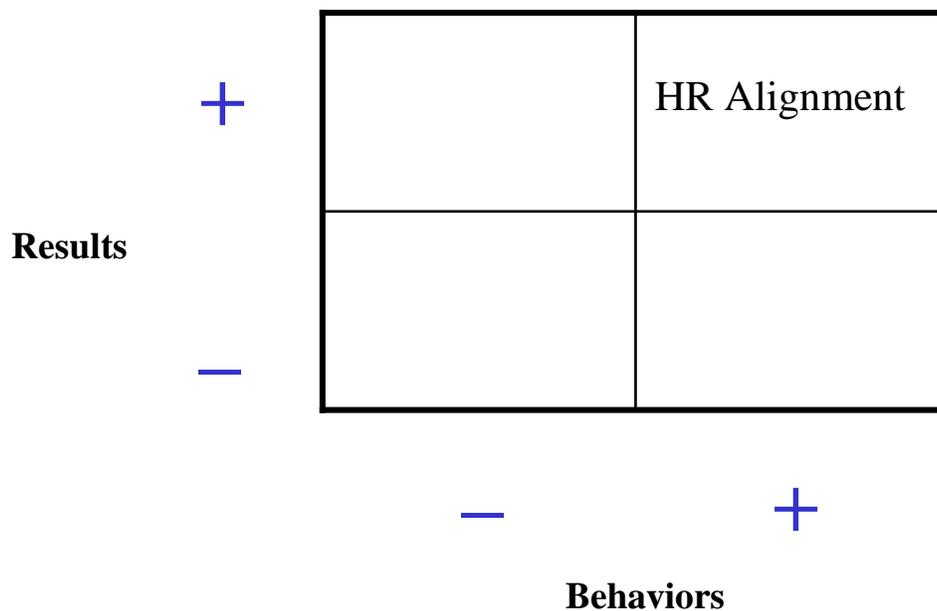
The significance of environmental and contextual factors has been long acknowledged in shaping human resource strategy, and in the ability of the company to realize these strategies. The growth of the concept can be attributed to rapid environmental changes that have taken place over the last decades. These environmental influences operate at a general level, and at a more specialized level concerned with the organizations own significant environment.

Apart from the environmental influences, it is these experienced relevant business conditions that impact the formulation and enactment of human resource strategy. These business conditions include 'stakeholders' in the organization, who can influence the strategy depending on their power. These stakeholders can include the organization's competitors, suppliers, the government, the media, environmentalists, local community organizations, and consumer advocates.

2.9 IMPORTANCE OF HR PRACTICES AND STRATEGY ALIGNMENT

Human resource alignment is the first step in the implementation of strategic alignment. It is a systematic assessment of how human resource work being done today is contributing to the organization achieving its business strategy.

Human resource practices and strategy can determine whether the work of HR function is adding value to the business bottom line. The best organizations align HR by first changing the paradigm by which they view the HR area. They stop seeing HR as a department with a budget, personnel and tasks. Instead they define it ***as an organization with resources, customers and services to deliver. ‘Strategic HR goes beyond best practices’.***



A good assessment of the strategic alignment helps:

- ❑ Identify the HR programs that are aligned with corporate strategy
- ❑ Provide a gap analysis indicating the current performance level and the desired state. The organization can compare its HR performance with an ideal state determined by the business objectives.
- ❑ Benchmark practices for continuous improvement
- ❑ Promote change and creativity
- ❑ Focus the attention of staff on HR and organization wide strategy.
- ❑ Bring HR close to the line functions of the organization.

2.10 WHAT CAN BE ACHIEVED?

- ❑ A strategic plan will address the HR issues related to key business processes and corporate improvement strategies.
- ❑ Employee commitment will increase through visible attempts to understand and manage the personal and wider implications of organizational change.
- ❑ HR activities will support employees in their jobs, leading to improvements in service delivery.
- ❑ Employees will have a better understanding of their role at work because they will clearly see how they contribute to the achievement of business outcomes.

The process of Strategic Alignment enables organizations to:

- ❑ **Understand customer needs for each segment (group of customers) served, as well as the implications of differences between segments**
- ❑ **Establish a preferred future for the organization**
- ❑ **Develop a tenable positioning**
- ❑ **Understand the current culture**
- ❑ **Identify the most powerful levers for cultural change**
- ❑ **Ensure that cultural change is durable**
- ❑ **Understand the impact of existing leadership behaviors**
- ❑ **Describe the most appropriate approach to leadership**
- ❑ **Identify critical strategic issues**
- ❑ Develop a plan around the issues, which delivers long-term sustainable competitive advantage.

Integrating HRM with business strategy will ensure that employees understand the rationale for change, managers have the capability to lead change and implement contemporary management practices, and people at all levels have the competencies to meet customer/user expectations.

This approach will ensure that HRM is strategically focused to support the business direction of the organization during a time of rapid change, leading to the achievement of business outcomes.

Findings

Chapter # 3

INTRODUCTION TO SOFTWARE INDUSTRY

3.1 INTRODUCTION TO SOFTWARE

The word software has been in widespread use since 1960, when programs were first sold separately from the computer hardware on which they ran. Implied a malleability lacking in

the machines themselves, the term refers to the instructions that tell the computer what to do. The replacement of one set of instructions by another can be produced protean changes, turning a tool for analyzing stock-market trends into a word-processor, or an architect's electronic sketchpad into a control panel for an entire factory. Without detailed orders from a program, a computer can do nothing at all.

3.2 APPLICATION OF SOFTWARE

Applications of software are plentiful, but so are the obstacles to making it. The slowness and labor-intensive nature of programming have been described as a crisis since the early 1950's. The alarm was first raised over the impracticality of addressing computers entirely in their native dialect of 1's and 0's, known as machine language. The sense of urgency of finding ways to produce software more quickly and reliably continued unabated through the 1960's and 1970's. By all account, the crisis continues to this day. In spite of all this, demand for new software continues to intensify. The population of professional programmers worldwide, which numbered in the vicinity of three million in the early 1980's now approaches eight million. Output has increased accordingly; in 1983, professional programming firm sold 6.5 billion lines of computer code. Today, the annual total is more than double the amount.



day.

code.

The sheer bulk of the programming load and the ever-rising expectations of computer users have left the software industry struggling to keep up. For all the contributions of software to society- in accelerating the pace of scientific research, in making business more efficient and daily life more convenient- it remains the single greatest restraint on widening the use of computers.

3.3 FRAGMENTED INDUSTRY

During its brief history, the industry has passed through two distinct phases. At first, the customers for software were limited primarily to government's and large corporations, which were the only institutions prosperous enough to lease the ponderous mainframe of the day.

Like the hardware, the software was originally leased rather than bought, and the programming was not notable for great variety. Computing time was so expensive and it was reserved primarily for vital business functions such as accounting, inventory and payroll. The companies producing the software- sizable firms competed not so much on the merits of their finished programs as on the quality of the ongoing services they could provide in tailoring systems, to the particular needs of the customers.

By 1980, however, the demand for personal computers had created a second and a very different market for software. In programming for PC's, the emphasis shifted from individualized services to packaged programs that were inexpensive and varied.

There are large and small participants in both spheres, but one of the distinct features of the software industry is its fragmentation. The upshot is that software companies tend to succeed either by doggedly laboring to please their customers or by being in the right place at the right time. No one company is large enough to overwhelm the competition with unmatched investments in research and development- the kind that might substantially advance the state of art in software.

3.4 CATEGORIZATION OF SOFTWARE

On the basis of development and complexity software is categorized as below:

1. **HIGH-TECH:** This category purely deals with the development of software.
2. **MEDIUM-TECH:** This category deals with re-engineering of software. It also deals with right sizing and downsizing like Y2K.
3. **LOW-TECH:** This category deals with data -entry, availability of capital, skilled manpower and dedicated connectivity are pre-requisite for this category.

Chapter # 4

Microsoft



4.1 INTRODUCTION TO MICROSOFT

It is hard to believe that Microsoft is already 28 years old. The company that made Redmond, Washington a household name was actually founded in another city, in 1975, by two young men from Seattle, one of who was a college dropout. From this inauspicious beginning came an equally improbable vision: A personal computer on every desk and in every home. Twenty-eight years later, it seems so obvious. But at that time, when only a handful of people knew what a personal computer was, it was a great leap of faith and daring.

This revolutionary idea not only made technology a powerful tool for all of us, it also created a new industry that changed the world. Today, we continue to expand the possibilities of personal computing by developing new ways to empower customers anytime, anywhere, and on any device.

Microsoft started as a small firm and found an early niche by licensing its product to a much larger company. Microsoft is well known for the best company in IT industry in the world. The products are something that is the result of creativity, uniqueness and innovation. It tries to analyze implementation strategies relating to human resource management for the company. Also, it tries to refer some differences between Porter's strategy types and real practices in companies by quoting a result of research.

At Microsoft, employees are motivated and inspired every day by how their customers use their software to find creative solutions to business problems, develop breakthrough ideas, and stay connected to what is most important to them.

It runs its business in much the same way, and believes in its seven-core business units that will offer the greatest potential to serve customers in the coming decade. They include:

- **Windows Client**, including the Microsoft® Windows® XP desktop operating system, Windows 2000, and Windows Embedded operating system.
- **Information Worker**, including Microsoft Office, Microsoft Publisher, Microsoft Visio®, Microsoft Project, and other stand-alone desktop applications.
- **Business Solutions**, encompassing Great Plains and Navision business process applications, and bCentral™ business services.
- **Server Platforms**, including the Microsoft Windows Server System™ integrated server software, software developer tools, and MSDN®.

- **Windows CE & Mobility**, featuring mobile devices including the Windows Powered Pocket PC, the Mobile Explorer microbrowser, and the Windows Powered Smartphone software platform.
- **MSN**, including the MSN® network, MSN Internet Access, MSNTV, MSN Hotmail® and other Web-based services.
- **Home & Entertainment**, including Microsoft Xbox®, consumer hardware and software, online games, and our TV platform.

It is committed long term to the mission of helping customers realize their full potential. Just as it constantly updates and improves its products, Microsoft wants to continually evolve its company to be in the best position to accelerate new technologies as they emerge and to better serve its customers.

4.2 MISSION STATEMENT OF MICROSOFT

‘ To enable people and businesses throughout the world to realize their full potential’

4.3 CORE VALUES

The tenets central to accomplishing the mission stem from some core company values:

4.3.1 Broad Customer Connection

Connecting with customers, understanding their needs and how they use technology, and providing value through information and support to help them realize their potential.

4.3.2 A Global, Inclusive Approach

Thinking and acting globally, enabling a diverse workforce that generates innovative decision-making for a broad spectrum of customers and partners, innovating to lower the costs of technology, and showing leadership in supporting the communities in which people work and live.

4.3.3 Excellence

In everything they do.

4.3.4 Trustworthy Computing

Deepening customer trust through the quality of products and services, responsiveness and accountability, and predictability in everything they do.

4.3.5 Great People with Great Values

Delivering on the mission requires great people who are bright, creative, and energetic, and who share the following values:

- Integrity and honesty.
- Passion for customers, partners, and technology.
- Open and respectful with others and dedicated to making them better.
- Willingness to take on big challenges and sees them through.
- Self-critical, questioning, and committed to personal excellence and self-improvement.
- Accountable for commitments, results, and quality to customers, shareholders, partners, and employees.

4.3.6 Innovative and Responsible Platform Leadership

Expanding platform innovation, benefits, and opportunities for customers and partners; openness in discussing the future directions; getting feedback; and working with others to ensure that their products and Microsoft's platforms work well together.

4.3.7 Enabling People to Do New Things

Broadening choices for customers by identifying new areas of business; incubating new products; integrating new customer scenarios into existing businesses; exploring acquisitions of key talent and experience; and integrating more deeply with new and existing partners.

At Microsoft, the employees are committed to their mission of helping their customers scale new heights and achieve goals they never thought possible.

4.4 CORPORATE CULTURE

Microsoft became the world's leading software producer through a lot of hard work, astute technological and business acumen, and careful management of organizational culture. Microsoft's founder and CEO, Bill gates, based the firm's culture on the principle of empowerment, a shared value about leadership and structure. Managers delegate power to developers, who write and design software. The firm is managed in such a way that managers interact as little as possible with the developers, although they do provide mentors for newly recruited developers to help them understand the firm's culture. In addition to the flexible and open culture, the downside of Microsoft's culture is that it requires employees to work 90-hours per week.

Microsoft has made some progress addressing work-life balance. In 2000, the company instituted a "partnership program" for top executives and software developers, removing caps on vacation time. And a survey conducted by Fortune Magazine for its annual "100 Best Companies to Work For" issue suggests that a cultural change is underway: in 1996, only 42% said that they were "encouraged to balance their work and personal life," while the 2000 figures showed 68% agreeing with that statement.

Nonetheless, anecdotal evidence suggests that life as a Microsoft employee is still mostly work—the parking lots are full seven days a week, vacation periods are

reportedly difficult to plan ahead, and project schedules are aggressively optimistic, leading to a culture of "constant crisis" when deadlines are missed.

4.5 ORGANIZATIONAL STRUCTURE

Behind the impressive growth and profit picture, is a highly complex organization that was being stifled by an antiquated organizational structure. After suffering some serious talent drains and placating several annoyed key customers, the leaders of Microsoft took the cue to divide and conquer. Today, Microsoft is composed of eight newly formed autonomous divisions. Each division is primed to concentrate on the needs of its unique customer base. In keeping with the metaphor of the software industry, the reorganization has been dubbed "Vision Version 2". Although the new organizational structure is meant to be flexible and responsive, the fact remains that Microsoft is a complex multifaceted organization.

The newly designed Microsoft has also given two long-term friends a chance to concentrate on what they do best. That is, CEO Bill Gates can focus his time and talent on orchestrating the future of technology while his co-pilot **Steve Ballmer plans for "Vision Version 3".

4.5.1 HR GENERALISTS

Microsoft Human Resources Generalists are charged with helping develop and retain the company's talented workforce. They provide resources that help build leadership and management capability, address people issues, and drive systemic improvements based on situational analysis.

Microsoft values the personal growth and development of its employees. For that reason, HR Generalists seek ways to provide growth opportunities and recognition, and make the work experience productive and fun.

The generalists optimize organizational performance through the application of human resources expertise, judgment, and ability. They balance multiple perspectives in order to advance Microsoft business objectives. HR Generalists seek ways to provide growth opportunities and recognition.

These generalists deliver human resource solutions that help clients meet business objectives through organization and leadership development, employee relations consulting, performance management expertise, and employee and manager coaching.

HR Generalists play a hands-on role in helping their business clients do their best, by building connections between people and issues across the organization. This means they have a close and active relationship with their business clients, serving as consultants in order to provide the HR perspective on business decisions.

4.6 DIVERSITY IN MICROSOFT

‘When you combine powerful minds from all types of backgrounds, you create one thing: unlimited potential!’

At Microsoft, the diversity inspires as it continues to expand the possibilities of personal computing and the Internet.

Microsoft values diverse ideas. Microsoft has established a number of initiatives to promote and integrate diversity at every level within the organization, and to demonstrate this commitment locally, nationally, and globally.

A DIVERSITY EDUCATION PROGRAMS

These programs reinforce the commitment to diversity and ensure that the employees have the tools and resources they need to grow professionally. The emphasis is on understanding and valuing differences, and leveraging them in order to compete effectively in an ever-changing marketplace.

B PEOPLE WITH DISABILITIES

Microsoft wholeheartedly supports the spirit of the Americans with Disabilities Act. In addition, they provide grants to innovative endeavors that address the technology needs of the disability community and support programs that use technology to increase employment.

C MICROSOFT OUTREACH

The company is committed to encouraging the next generation of technology leaders. For the 2002–2003 academic year, the company is excited to offer scholarships totaling \$540,000 to students in computer science and related disciplines, primarily to groups underrepresented in technology fields.

D WOMEN AT MICROSOFT

Microsoft has developed relationships with key minority and women's professional organizations across the country. Women participate in conferences and Career Fairs, facilitate workshops, and support annual events.

Commitment to diversity goes beyond recruiting and employing a diverse workforce. It is a vital component of an ongoing mission: to enable people and businesses throughout the world to realize their full potential.

4.7 TURNOVER RATE AT MICROSOFT

At Microsoft there is a very low turnover rate. The reason for low turnover rate is that at Microsoft, a developer who needs a computer simply writes e-mail to a particular address outlining the request and tacks a sticky note on the spot where he wants to put the computer. If the request is submitted before about 2 pm, the computer is in place waiting for him the next day. Faced with blows to worker morale, a continuing trickle of departing executives, and a sharp increase in employee attrition in the IT industry, Microsoft is trying to make itself a more appealing place to work. The company has taken the unusual step of granting

raises and new stock options in its February review, and has instituted some policies to help reduce burnout

However, Microsoft's attrition rates, while lower than industry averages, are rising when the rest of the industry's are falling. According to research by the Saratoga Institute, the median rate of voluntary employee separation of employees in the computer and software services industry has dropped from 14.7% in 1997 and 1998 to 11.4% in 2000. A report by human resources consultants Hewitt Associates also pointed to a drop in attrition among IT professionals with highly marketable skills—from 16% in 1999 to 12% in 2000.

CHAPTER #5

Strategy And Human Resource Management At Microsoft

People are Microsoft's greatest asset. Human Resources is responsible for identifying, hiring, and retaining this gifted intellectual talent, as well as developing and administering Microsoft's generous compensation and benefits programs in order to create a quality employee experience. HR helps maintain Microsoft's fulfilling work environment, which is a catalyst for great achievements.

Human Resource ensures that a diverse range of candidates is considered for opportunities. It is a common belief that hiring exceptional, diverse talent gives Microsoft unlimited potential. The result is enhanced product development and employee performance, as well as a connection with communities everywhere.

It is an important mission — bringing the right people in and taking good care of them. It plays a critical role in helping Microsoft generate technology that positively affects the lives of millions of people around the world.

This mission is also an opportunity, as a Microsoft Human Resources professional, to discover just how far the abilities, ideas, and skills can advance ones career. In Human Resources at Microsoft, ones big ideas matter — and the company want to see them take him/her far.

5.1 HUMAN RESOURCE PRACTICES

5.1.1 RECRUITMENT AND SELECTION

Typical recruiting and hiring process is well known for its grueling selectivity. In the early days, Bill Gates and co-founders would interview most new potential employees. Today, technical managers still perform all interviews after the initial screening process. Bill Gates is known to look for four important qualities in all-new hires;

- ❑ IQ,
- ❑ Ambition,
- ❑ Technical expertise and
- ❑ Business judgment,

With IQ being the most important. General intelligence or cognitive ability is the central feature that Microsoft screens for in evaluating 120,000 job applicants yearly. The procedure used to identify and recruit exceptional talent to achieve Microsoft's vision and business goals. Infact the goal of the entire selection and placement process is to find the smartest people and then

place them in the jobs best suited to their talents. General intelligence is often valued more heavily than experience. In many cases, Microsoft has turned away applicants with long resumes in the area of software development. Instead, it is likely to raid major universities mathematics or physics departments to obtain people who are highly intelligent—even if they have little direct programming experience.

Human Resources staffing professionals are charged with identifying high-caliber intellectual talent and attracting it to Microsoft. The nature of who is being hired during this growth period is of the major factors that have led to its success. This is a critical task, because the assets do not lie in equipment or processes — their assets are their people.

Staffing professionals are adept at spotting talent and potential, not just knowledge. They aim to hire people who are smart, work hard, and get the right things done. Doing so requires staffing professionals to take a long-term view — they look for people who demonstrate the potential for ongoing success at Microsoft, as opposed to simply filling an immediate and specific need.

Of the thousands of university students that are screened by Microsoft, only 10%-15% receive additional interviews. From that group, only 10%-15% are typically hired. That means only 2%-3% of all recruits expressing an interest in Microsoft are eventually hired. One of the other ways in recruiting technicians is mergers & acquisitions. Microsoft has utilized acquisitions as an effective way to gain of new technologies as well as talented employees. Microsoft purchased so many companies during last 1990ths including Hotmail, Cooper & Peters, Vxtreme, Linkage, e-Shop, aha!software, etc. Of course it is clear that Microsoft is strategically targeting companies to purchase, not only for their products, but also for their human capital.

Personnel selection and placement is seen as so central at Microsoft that Gates makes himself available to both recruit and interview prospective job candidates.

He feels that intelligence and creativity are reasonably innate so the company cannot do much to change people along these lines after they are hired.

Gates states: ‘ *take our 20 best people away, and I will tell you that Microsoft would become an unimportant company.*’ This confirms the central role of people to both Microsoft’s past success and its future competitive strategy.

As for the executive management, all to nine executive managers are white males. In addition, seven out of nine executive committee come from other technological companies like Intel, Apple, Banyan System and Borland International. Therefore, we can conclude that employees are recruited externally.

5.1.2 TRAINING AND DEVELOPMENT

Even though success of the company relies heavily on high skilled human resources, the company does not devote much of its resource to training, formal rules and procedures or product documentation. Rather, it depends heavily on *learning by doing*. Less-experienced employees learn from more-experienced employees and through trial and error. Microsoft seems to consider that this type of “training” is adequate because it hires people based on their intellect and ability to learn.

A career at Microsoft is more than a job. It is a path to improving skills, knowledge, and capabilities as one enhances his or her current role or, possibly, take on a new role within the company. Along the way, one finds the tools, resources, and support to help explore opportunities within Microsoft and realize the full potential.

Apart from learning by doing, Microsoft develops comprehensive training courses for professionals who develop and support real-world solutions using Microsoft technologies. Courses are offered by training partners, Microsoft Certified Technical Education Centers (Microsoft CTECs). A three-way partnership career and professional development at Microsoft is a partnership between the employee, their manager, and the company. The employee drives the career development plan, the manager assists

and coaches the employee, and Microsoft supports the efforts by providing a framework for the process and resources for the development.

The goal of Training & Development at Microsoft is to achieve an optimal match between each employee's professional growth and Microsoft's business objectives. One can benefit from having a career or professional development plan, whether he/she is at the beginning of the career, looking to make some changes in present position, or even if they already have their dream job and want to enrich the skills and knowledge.

As a Microsoft employee, one will find an abundance of resources and assessment tools to help the person clarify the business interests and improve competencies and skills. A few examples include technical education seminars, management and professional development courses, the IT learning site, and Microsoft Training and Certification programs. In addition, Microsoft encourages professional development by reimbursing tuition and textbook fees for approved work-related courses.

5.1.3 LEADERSHIP AND DEVELOPMENT

'Be a Leader in Creating Leaders'

Microsoft is dedicated to helping its employees do their best, both now and in the future. Leadership & Management Development spearheads the numerous training opportunities offered to Microsoft employees worldwide.

The goals are to:

- (a) Grow the skills that make leaders more effective in their current roles, while at the same time preparing them for upcoming challenges; and**
- (b) Create a pipeline of talent throughout the employee population.**

Achieving these goals require an educator's specialized training in effective learning techniques. It also takes the ability to recognize areas in which tech-industry professionals need to develop, and often involves identifying the leadership techniques and business knowledge that will

benefit Microsoft personnel, plus the creation of training tools — from classroom seminars to training materials — that help employees learn.

5.1.4 COMPENSATION

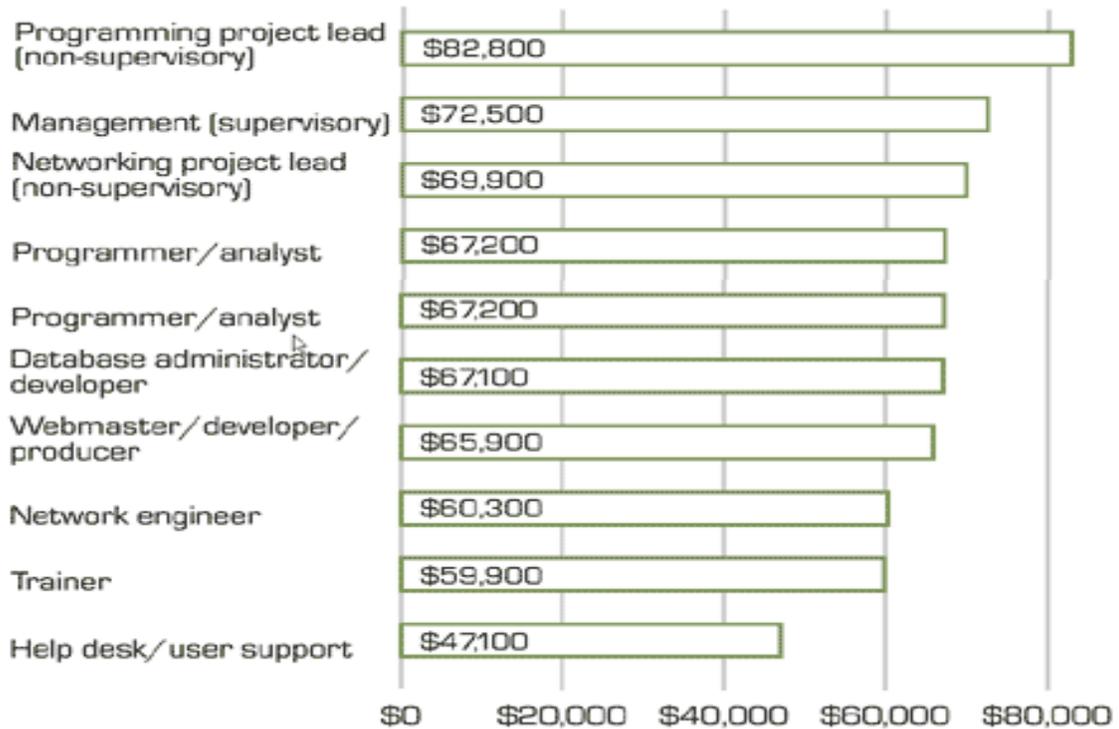
Microsoft follows Bill Gate's philosophy of "*Low base Salary for all employees, but high incentive compensation like bonus and stock options*" Its purpose is to motivate employees to achieve high levels of productivity. So, all employees, including executives, receive salaries that are fair, but on the low end of industry. While the stock option portion of compensation reaches nearly unbelievable heights. As a result of this bonus system, the company realized 23 billion dollars in profit in 1997 and it gave the same effect that employees received 1 million dollar per each employee by the stock option they received. The chart given in the report displays the salary structure according to the job title.

For the first time in three years, Microsoft Certified Professional Magazine reports a rise in salaries for certified IT professionals. Up nearly 11 percent, network professionals with the Microsoft Certified Systems Engineer (MCSE) on Windows 2000 credential reported an annual salary of \$59,400 compared to 2002's average salary of \$53,700. The average salary across all certifications is \$61,700. The study, conducted by Wilson Research Group, found an increase in salaries across nearly all Microsoft certification titles compared with last year. Developers top the salary chart with the Microsoft Certified Solution Developers (MCSD) on Visual Studio .NET bringing in \$82,300.

The software maker's struggle to keep good people is nothing new. The company admitted earlier this year that it raised compensation for its Silicon Valley employees by 15 percent because of intense recruiting competition and the high cost of living in the area. In early February, Microsoft instituted a 15 percent pay raise for full-time employees living in Silicon Valley. In the past, Microsoft's practice was to set salaries based on the cost of living in Redmond no matter

where the employee lived. Microsoft said that recent economic hot spots have justified setting salaries by region.

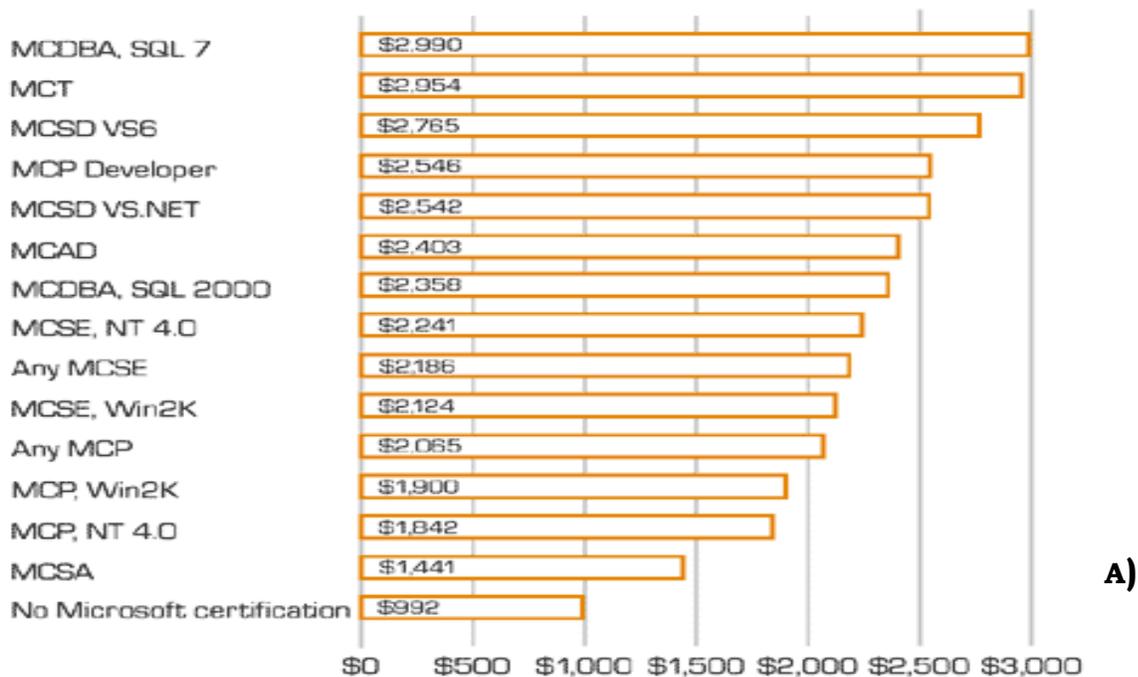
Salary by Job Title



Bonuses and stock option also form an important portion in the salary structure of the Microsoft personnel.

The following chart depicts the accrued bonuses that are to be provided to the employees for designing different programs.

Expected Bonuses for 2003



BONUSES AND BENEFITS

Microsoft is dedicated to a corporate culture that inspires and rewards its employees. Compensation, Benefits & Information Solutions play an important role in demonstrating the high value Microsoft places on all its employees, both personally and professionally.

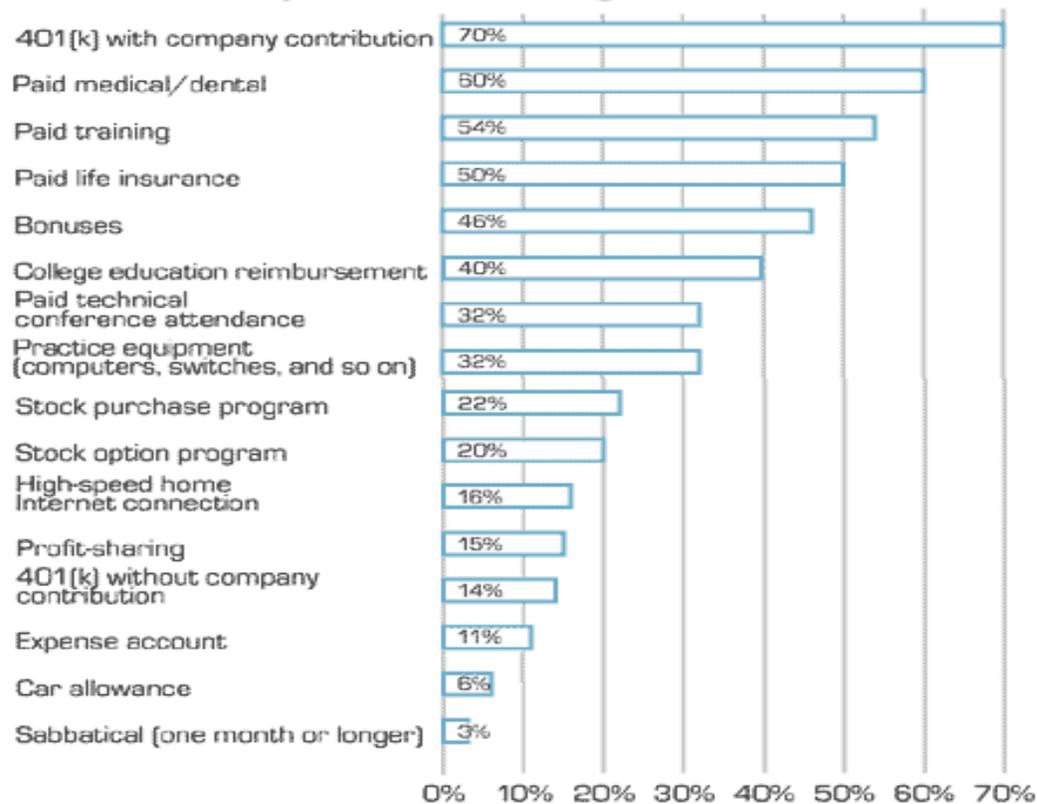
At Microsoft, people are the source of energy. Creative people from all types of backgrounds, bring passion and new ideas, meet challenges, and realize their potential. The benefits plan and resources are designed to keep the most important assets — the employees — healthy, happy, and moving ahead at optimal speed.

B) PROMOTIONS AND ADVANCEMENTS

Increased incentives include extra vacation time and huge stock-option grants--more than 200,000 shares in some cases--as well as increased promotions, which include generous increases in salaries. Recent promotions have added more than 30 vice presidents to Microsoft's management team.

C) A PERSONAL APPROACH TO BENEFITS

Additional Compensation Offerings



The philosophy of benefits is simple: empower people with the healthcare options, resources, and financial incentives that they need to be successful. It starts with a customized approach to healthcare. Microsoft employees can select the exact coverage they need to protect themselves and their loved ones. In addition, the company offers professional training and development seminars and assistance designed to expand employees' potential. And a variety of financial opportunities, from the Savings Plus 401(k) plan to an employee stock purchase plan, offer options for building a long-term portfolio.

D) HEALTHCARE

Medical and Hospitalization medical plans give you complete coverage through a network of preferred physicians. The Core medical plan offers almost 60-80 percent coverage after a deductible and 100 percent coverage of usual,

customary, and reasonable charges after the annual out-of-pocket amount has been reached, with an unlimited lifetime maximum.

The health care benefits include covers one annual eye exam and reimbursement for one pair of glasses or contacts per person, per calendar year. *Dental Care* basic plan or a plan pays a higher level of benefits, including orthodontia. Health Care Flexible Spending Account Lowers the taxable income by reimbursing eligible and out-of-pocket medical, dental, and vision expenses on a pretax basis — up to \$5,000 per year.

E) PERSONALIZED BENEFITS

Life Insurance Coverage ranges from a minimum of \$10,000 to a maximum of six times your annual base pay or \$1,000,000, whichever is less. Plans are available for spouse/same-sex domestic partner and eligible children. Excellent group rates are available for the employees.

Disability Includes short-term disability if you are unable to work for an extended period of time, long-term Disability after you are unable to work for more than 168 days. Coverage can equal up to 60 percent of your monthly base pay. Group Legal Plan Provides assistance with routine legal services such as real estate, adoption, divorce, bankruptcy, and wills.

F) FINANCIAL PLANS

Microsoft provides the following options to help develop a financially secure future.

SAVINGS PLUS 401(K) PLAN LETS ONE DEFER UP TO 25 PERCENT OF HIS/HER PRETAX SALARY DOLLARS. MICROSOFT MATCHES 50 CENTS ON EVERY DOLLAR UP TO 6 PERCENT OF THE CONTRIBUTION. ONE CAN ALSO CONTRIBUTE UP TO 7 PERCENT OF YOUR PAY ON AN AFTER-TAX BASIS.

Employee Stock Purchase Plan helps in using from 1 percent to 15 percent of your after-tax salary to buy Microsoft stock at a 15 percent discount.

Microsoft also provides flexible programs and tools designed to help employees create balance in their lives. These programs include:

- Adoption Assistance
- Backup Child Care (ages 6 weeks to 5 years)
- School's Out Child Care (school-age children)
- Employer-Sponsored Discount Program
- [Financial Planning](#)
- Parenting Resources
- [Reimbursement for Tuition](#)
- Resource and Referral Services

5.2 PERFORMANCE MANAGEMENT

In general, ranking employees in order of their performance is perfectly legal and may be helpful in the selection processes for promotions and layoffs. However, ranking systems can create challenges for companies that do not implement them properly. For example, ranking systems are potentially more open to claims of bias than other performance evaluation methods because managers are forced to compare employees, often without being provided with specific standards to make these judgments. As a result, ranking systems that are not implemented

properly may result in a lawsuit, usually on the basis that the impact of such a system falls disproportionately on a particular group.

Microsoft Corporation has implemented *forced distribution ranking system* for the evaluation of its employees. Similar to Ford, minority and female employees of Microsoft Corporation, sued their employers, claiming that their employer's forced ranking system disproportionately affected their protected class.

Chapter # 6

Introduction To Fast Moving Consumer Goods Sector

The Fast Moving Consumer Goods (FMCG) sector is the fourth largest sector in the economy with a total market size in excess of Rs 60,000 crore. This industry essentially comprises Consumer Non Durable (CND) products and caters to the everyday need of the population.

6.1 PRODUCT CHARACTERISTICS

Products belonging to the FMCG segment generally have the following characteristics:

- They are used at least once a month
- They are used directly by the end-consumer
- They are non-durable
- They are sold in packaged form
- They are branded

6.1.1 INDUSTRY SEGMENTS

The main segments of the FMCG sector are:

- Personal Care: oral care; hair care; skin care; personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; paper products (tissues, diapers, sanitary); shoe care.

Major companies active in this segment include Hindustan Lever; Godrej Soaps, Colgate-Palmolive, Marico, Dabur, Johnsons & Johnsons and Procter & Gamble.

- Household Care: fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellants, metal polish and furniture polish).

Major companies active in this segment include Hindustan Lever, Nirma and Reckitt & Colman.

- Branded and Packaged Food and Beverages: health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; processed fruits, vegetables and meat; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.

Major companies active in this segment include Hindustan Lever, Nestle, Cadbury and Dabur.

- Spirits and Tobacc Major companies active in this segment include ITC, Godfrey Philips, UB and Shaw Wallace.

6.2 GROWTH RATE IN FMCG INDUSTRY IN PAKISTAN

The size of the fabric wash market is estimated to be Rs 4500 crore; of household cleaners to be Rs 1100 crore; of personal wash products to be Rs 4000 crore; of hair care products to be Rs 2600 crore; of oral care products to be Rs 2600 crore; of health beverages to be Rs 1100 crore; of bread and biscuits to be Rs 8000 crore ; of chocolates to be Rs 350 crore and of ice cream to be Rs 900 crore.

In volume terms, the production of toilet soap is estimated to have grown by four per cent in 1999-2000 from 5,30,000 tonnes from 5,10,000 tonnes in 1998-99. The production of synthetic detergents has grown by eight per cent in 1999-2000 to 2.6 million tonnes. The cosmetics and toiletries segment has registered a 15 per cent growth in 1999-2000 as against an annual growth of 30 per cent recorded during the period 1992-93 to 1997-98.

In the packaged food and beverage segment, ice cream has registered a negligible growth and the soft drink industry has registered a six per cent growth in 1999-2000.

A ball for consumers: This is no doubt good news for consumers. It is a sign that they are finally reaping the benefits of healthy competition in the FMCG business.

Traditionally, key FMCG categories, such as toothpastes, soaps and detergents, have been dominated by just one or two large players which have dictated the selling prices by virtue of their strangle hold on the market. But a growing tribe of local and regional brands has seriously threatened the established giants. This has injected a healthy dose of competition into the business.

Near term dent: For the key FMCG players, the recent bout of price competition is likely to dent their near-term financial performance. The lower realizations resulting from price reductions could turn single digit sales growth figures into the negative territory over the next couple of quarters. Profit margins too can be dented, as they are not able to pass on input price increases.

Broadening the markets: But, over the long term, the recent price reductions may actually pan out in favor of the players. Some sacrifices on the price front may be just what the industry needs to broaden the market for some FMCG products and perk up usage for others.

For some time now, there has been an irreconcilable gap between the undoubted "potential" of the market, as captured by the penetration (reach) and per capita usage (consumption) numbers, and the actual sales notched up by the FMCG industry

Riding on low unit packs: Then, there is the success of the low-unit pack strategy. Over the past five years, the penetration of shampoos into households has moved up sharply, as consumers have taken to scaled-down sachet packs of the big brands.

6.3 DRIVERS OF FMCG SECTOR

The principal drivers that influence the underlying profitability of an FMCG business are:

- Those that drive growth, and
- Those that drive efficiency thus releasing resources for growth.

Growth drivers for any FMCG business would include:

- their existing advantaged brands
- new products
- new business
- as well as improved/enhanced presence and availability

Initiatives/activities in each of the above area would form the basic plan for any FMCG business.

For Driving Efficiency, any FMCG would need to look at are:

- Manufacturing costs, working capital, costs across the supply chain as well as people and indirect costs.
- Looking at ways to maintain efficiency while minimizing costs would obviously be the objective of any FMCG business.

6.4 MACRO AND MICRO LEVEL FORCES

At the macro level, the evolution of the FMCG industry would continue to be driven by a number of factors. These include economic growth, which would impact large proportions of the population thus leading to more money in the hands of the consumer. Changes in demographic composition of the population and thus the market would also continue to impact the FMCG industry.

For example: In a recent survey conducted by a leading business weekly, approximately 47 per cent of India's one billion people were under the age of 20, and teenagers among them numbered about 160 million. Together, they wielded INR 14000 Cr worth of discretionary income, and their families spent an

additional INR 18500 Cr on them every year. By 2015, Indians under 20 are estimated to make up 55% of the population - and wield proportionately higher spending power. Obviously, companies that are able to influence and excite such consumers would be those that win in the market place.

At the firm level, companies that are able to spot trends early and those that are committed to continuous innovation and those that endeavor to delight the consumer by meeting her changing needs will lead and prosper in the future. Product superiority married with a favorable price-value equation will form the basis of winning initiatives in the coming years.

As the retail environment changes and organized retail takes shape, the second potential opportunity for value creation is in the area of distribution & availability. Exemplar companies that have used distribution and availability differentially will achieve sustainable business growths. With an eye on the future, firms would need to take a leadership stance and invest in upgraded in-store infrastructure; in-shop and market level presence and thereby improve presence and availability.

CHAPTER # 7

Johnson & Johnson

7.1 INTRODUCTION TO THE COMPANY

The development of the first ready-made, ready-to-use surgical dressings by Johnson & Johnson in the mid-1880s marked not only the birth of a company, but also the first practical application of the theory of antiseptic wound treatment. A new product, based on a new surgical concept, led to a dramatic reduction in the threat of infection and disease, which claimed an appalling number of postoperative victims.

The story begins with the discoveries of Sir Joseph Lister, a noted English surgeon, who identified airborne germs as a source of infection in the operating room. He called them, with grim aptness, the "invisible assassins." Medical science was beginning to understand, however imperfectly, the need for greater care in protecting the wound area. Yet, this concept of myriad living organisms, unseen and deadly, remained beyond the grasp of many surgeons in the 19th century who were doubtful or even contemptuous of Lister's work.

One man who did not question his theory of antiseptics was Robert Wood Johnson, who heard Lister speak in 1876. For years afterward Robert Wood Johnson nurtured the idea of a practical application of Lister's teachings. What he had in mind was a new type of surgical dressing, ready-made, sterile, wrapped and sealed in individual packages and suitable for instant use without the risk of contamination.

Prior to Lister's discoveries, the postoperative mortality rate was as high as 90 percent in some hospitals. Surgeons could not bring themselves to believe they were contaminating their own patients by operating ungloved with unsterilized instruments.

Lister's methods required complex and cumbersome equipment suited only to the largest hospitals, of which there were few. A solution or a spray of carbolic acid bathed the operating room and the patient in a foggy mist. Still, it was a major advance over accepted procedures: unclean cotton, collected from sweepings on the floors of textile mills, was used for surgical dressings; surgeons operated in street clothes and wore a blood-spattered frock coat like a badge of honor.

Robert Wood Johnson concluded there ought to be a better way. Mr. Johnson joined with his two brothers, James Wood and Edward Mead Johnson, who had formed a partnership in 1885. Operations began in New Brunswick, N.J., in 1886 with 14 employees on the fourth floor of a small building that once was a wallpaper factory. In 1887 the Company was incorporated as Johnson & Johnson. With few hospitals in the United States in 1887 large enough to use Lister's methods of antiseptics, Johnson & Johnson entered the surgical dressings industry.

The first products were improved medicinal plasters containing medical compounds mixed in an adhesive. Then a revolutionary surgical dressing was

quickly developed and placed on the market. Recognizing the critical need for improved antiseptic surgical procedures, the Company designed soft, absorbent cotton and gauze dressing that could be mass-produced and shipped in quantity to hospitals and every crossroads physician and druggist. Johnson & Johnson also extensively promoted antiseptic surgical procedures. In 1888 the Company published a book, "Modern Methods of Antiseptic Wound Treatment," which for many years remained the standard text on antiseptic practices.

By 1890 Johnson & Johnson was treating cotton and gauze dressings by dry heat in an attempt to produce not only an antiseptic product but also a sterile one. In 1891 a bacteriological laboratory was established and, early in the following year, the Company successfully met the requirements for a sterile product through a continuous method of handling dressings so they were kept under aseptic conditions and subject to repeated sterilization during production. The new sterilization processes, first by dry heat and then by steam and pressure, were the genesis of the Company's slogan: "The Most Trusted Name in Surgical Dressings." In 1897 the Company developed another major contribution to surgery, an improved sterilizing technique for catgut sutures.

Among the dedicated people instrumental in these developments was Fred B. Kilmer, the Company's scientific director for 45 years beginning in 1888 and father of Joyce Kilmer, the poet-hero of World War I. A prolific and highly respected writer on scientific and medical subjects, Kilmer influenced the profession's attitude through articles in Johnson & Johnson magazines, which included "Red Cross Notes" and "The Red Cross Messenger."

In cooperation with several leading American surgeons, Johnson & Johnson in 1899 developed and introduced the zinc oxide type of adhesive plaster. Because of its greater strength and quick-sticking quality, this type of plaster became an important adjunct of surgery; it meant relief to patients because irritation to delicate skin was avoided.

In 1910 the first president, Robert Wood Johnson, died. Under his direction the Company had become firmly established as a leader in the health care field. James W. Johnson succeeded his brother and was president until 1932.

International growth, initiated in 1919 with the establishment of an affiliate in Canada, began in earnest in 1923 with an around-the-world trip by the two sons of Robert Wood Johnson. The young men, Robert Wood Johnson, who carried his father's name, and J. Seward Johnson, returned from their worldwide tour with the conviction that the Company must establish a strong international position. The following year, in 1924, Johnson & Johnson created its first overseas affiliate, Johnson & Johnson Ltd., in Great Britain.

Also during the 1920s the Company stepped up its program of product diversification, introducing in 1921 one of the best-known and most widely used of all Johnson & Johnson products – BAND-AID® Brand Adhesive Bandages – and a number of other new products, including JOHNSON'S® Baby Cream, both currently owned by Johnson & Johnson Consumer Products Company. Robert Wood Johnson, who later became known as General Johnson after his service as a brigadier general in World War II, took over direction of the Company in 1932. He brought a vigorous new approach and philosophy of business to the organization. Under his leadership, a firm policy of decentralization was initiated, giving to the ever-growing number of divisions and affiliates both the autonomy and the opportunity to chart their own futures.

General Johnson wrote a Credo that codified the Company's socially responsible approach to conducting business. The Credo states that the Company's *first* responsibility is to the people who use its products and services; the *second* responsibility is to its employees; the *third* to the community and environment; and the *fourth* to the stockholders. General Johnson and his successors in

managing the business have believed that if the Credo's first three responsibilities are met, the stockholders will be well served.

As individual portions of the Company's business grew, they were characteristically organized as individual divisions or subsidiaries. For example, Ortho, which began with one birth control product in the 1930s, became the Ortho Pharmaceutical Corporation. In the same manner, in 1941 a separate division was formed for the suture business and in 1949 it became Ethicon, which manufactures surgical sutures and related ethical surgical products. In 1992 Ethicon split into two separate companies: Ethicon Endo-Surgery, Inc., and ETHICON, INC. Ethicon Endo-Surgery, Inc., develops and markets advanced surgical instruments for less invasive and traditional surgery. ETHICON, INC., develops and markets innovative products for surgery in wound management, soft tissue repair and women's health; top products include sutures and suture anchor systems.

As new technologies emerged, the Company responded with new organizations. One of these, Ortho Biotech Products, L.P., formed in 1990, is the first biotechnology company developed and operated as a subsidiary of a major health care manufacturer. The Company also acquired established businesses that augmented its development in the health care field. In 1959 McNeil Laboratories, Inc., a producer of prescription pharmaceuticals, was acquired. In 1977, McNeil became two companies: McNeil Pharmaceutical and McNeil Consumer Products Company (now known as McNeil Consumer & Specialty Pharmaceuticals), best known for its TYLENOL® (acetaminophen) pain-relieving products. In 1993, Ortho-McNeil Pharmaceutical, Inc., was formed, retaining the business units McNeil Pharmaceutical and Ortho Pharmaceutical.

Frontier Contact Lenses was acquired in 1981 and became Vistakon - a Division of Johnson & Johnson Vision Care, Inc., and the leading contact lens company. Johnson & Johnson • Merck Consumer Pharmaceuticals Co., a 50/50 joint

venture, was formed in 1989 to develop and market a broad range of non-prescription products. In 1995, the company launched PEPCID AC® over-the-counter, the first OTC advancement for heartburn since the introduction of antacids more than 100 years ago.

Johnson & Johnson's skin care business was expanded with the 1993 acquisition of RoC, S.A., of France and the addition in 1994 of Neutrogena Corporation, two manufacturers of high quality skin and hair care products. In 1999 the Company purchased the AVEENO® line of colloidal oatmeal and other skin care products from S.C. Johnson & Son, Inc.

The 1994 acquisition of Clinical Diagnostics from Kodak expanded Johnson & Johnson's existing diagnostic businesses, which includes LifeScan, Inc., Ortho Diagnostics Systems and Clinical Diagnostics combined in 1997 to form Ortho-Clinical Diagnostics, Inc.

Johnson & Johnson and Cordis merged in 1996 to become Cordis Corporation – a leading company in cardiology and the treatment of circulatory diseases. In 1997, Biopsy Medical, Inc., which produces products for minimally invasive breast biopsies, was acquired and merged into Ethicon Endo-Surgery, Inc., and Gynecare and FemRx, which produces minimally invasive devices for treating uterine disorders, became part of ETHICON, INC.

When DePuy, Inc., was acquired by Johnson & Johnson in 1998, it signified a major strategic initiative. A leading manufacturer of orthopaedic products, this \$3.7 billion cash acquisition was the largest in the Company's history. By combining an existing, modest-sized orthopaedics business with the newly acquired DePuy organization, Johnson & Johnson was transformed into a leading player in the growing orthopaedics market.

Johnson & Johnson continues to make strategic, business-building acquisitions that range from large ones such as DePuy, Inc., and Neutrogena Corporation, to many smaller ones. From 1989-99, the Company made 45 such acquisitions of companies and product lines. During the same period, 18 businesses that no longer fit the Company's long-term growth strategies were divested.

In addition, to augment the growth that is generated through Johnson & Johnson's commitment to research and development, each year the Company enters into more than 100 third year party transactions that include licensing arrangements and research collaborations.

Johnson & Johnson also has kept pace with changing needs in a competitive marketplace. In 1989 the Company's consumer businesses, with the exception of sanitary protection products, were consolidated to form Johnson & Johnson Consumer Products Company. In the same year, Surgikos, Inc., and Johnson & Johnson Patient Care, Inc., were combined to form Johnson & Johnson Medical, Inc.

In 1994 Codman and Shurtleff, Inc., and Johnson & Johnson Orthopaedics combined to form Johnson & Johnson Professional, Inc., now part of DePuy, Inc.

The emergence of a new managed care market led to the 1994 formation of Johnson & Johnson Health Care Systems Inc. The organization, which includes the former Johnson & Johnson Hospital Services and Johnson & Johnson Advanced Behavioral Technologies, handles contracting and account management with managed care organizations, health maintenance organizations, large hospitals, physician networks, government and employers.

International growth has been accomplished both through the creation of new companies and the acquisition of existing ones. In 1961 the Company purchased Janssen Pharmaceutica in Belgium. Its U.S. division is currently called Janssen Pharmaceutica Products, L.P. Eventually, Janssen grew to become one of the most innovative pharmaceutical companies in the world. In 1974 Johnson &

Johnson acquired Dr. Carl Hahn Company in Germany, manufacturer of sanitary protection products for women, and in 1986 the Penaten Group, Germany's leading baby toiletries company.

Elsewhere, international affiliates of Johnson & Johnson were created in more than 50 countries. For example, companies were begun in Australia in 1931, Sweden in 1956, Japan in 1961, Greece in 1973, Korea in 1981 and Egypt in 1985.

The Company also expanded into new markets in the People's Republic of China and Eastern Europe. In 1990 Shanghai Johnson & Johnson Limited, a joint venture producing BAND-AID® Brand Adhesive Bandages, was opened in China, followed the next year by Johnson & Johnson China Ltd. As part of the Company's continuing interest in joint venture opportunities, Johnson & Johnson opened an administrative office in Moscow in 1990. The same year also saw the establishment of the Company's first offices in Hungary, Poland and the former Yugoslavia, and in the Czech Republic the following year.

General Johnson resigned as Chairman of the Board of Johnson & Johnson in 1963, but remained active in the Company until his death in 1968 at the age of 74. He was succeeded as Chairman by Philip B. Hofmann (1963-1973), Richard B. Sellars (1973-1976), James E. Burke (1976-1989), Ralph S. Larsen (1989-2002) and William C. Weldon, who was elected Chairman and Chief Executive Officer in 2002. The Company's steady growth has continued under their leadership.

Today Johnson & Johnson has become a worldwide family of 200 companies, marketing health care products in more than 175 countries.

The companies' more than 110,900 employees are engaged in producing products that serve a broad segment of medical needs. They range from baby care, first aid and hospital products to prescription pharmaceuticals, diagnostics and products relating to family planning, dermatology and feminine hygiene.

Johnson & Johnson is the world's most comprehensive and broadly based manufacturer of health care products as well as a provider of related services, for the consumer, pharmaceutical and professional markets.

Johnson & Johnson is the most comprehensive and broadly based health care company in the world. This means that among companies that focus on health care, the operating companies produce and market the widest range of products, spanning nearly every area of health.

7.2 SHARING CORE VALUES

Working at Johnson & Johnson may mean belonging to any one of 200 autonomous operating units around the globe. And within each operating unit, employees may perform different tasks in different job functions. But the diverse organization is unified by the fact that employees in each of the small-company environments share core values. The Credo and Standards of Leadership, which define these values and supporting behaviors, are evident in daily actions, interactions and decisions. The core values that are shared to attract people with the same fundamental characteristics include:

- They're passionate about their jobs
- They learn from and respect one another
- They behave with honesty and integrity toward others
- They place the customer first
- They're innovative thinkers and agents of change
- They thrive on mastering complexity
- They succeed through interdependent partnering
- They support the development of people
- They value diversity of personal and academic backgrounds
- They're sensitive to the need for maintaining work/life balance

7.3 CULTURE

The decentralized structure provides the means to offer one a small-company environment and culture that is inviting to work in, along with big-company opportunities for career development, advancement and impact. The atmosphere in each operating unit is characteristic of a small company — with the ability to adapt and respond easily to market changes. Because each operating unit has fewer management layers and little bureaucracy, critical decisions can be made quickly. For these reasons, small-company environments uniquely give one the opportunity to make a visible difference in a big company.

7.4 ENVIRONMENT

The language and customs may vary, the business segment and products may be different, but there is something unmistakable about the nature of any of its small-company environments that indicates that one is working in a Johnson & Johnson company. The physical work environment is aesthetically pleasing with comfortable settings for the fast-paced activity that takes place there. In a similar way, Johnson & Johnson's cultural environment provides a friendly, casual, and entrepreneurial setting, where one will:

- Be stimulated by talented colleagues
- Benefit from the ability to fully participate in the business and truly learn its many facets
- Have autonomy and flexibility
- Appreciate the opportunity to help bring about meaningful change
- Be challenged by developmental assignments
- Enjoy the genuine camaraderie that is always present, and the attitude of teamwork you sense in everyone with whom you work

7.4.1 Worldwide Headquarters Promotes Synergy and Efficiency

To help the autonomous operating units focus on their business, Worldwide Headquarters provides guidance and services in a number of critical areas, including human resources, finance, advertising, law and quality management. This arrangement enables it to leverage its size and influence to create outstanding synergy and efficiency.

7.4.2 PULLING IT ALL TOGETHER

The real key to success of J&J organization structure lies in how the company manages these separate parts to function as a single, cohesive entity. This is done by grouping its global affiliates into three business segments and then overlaying each segment and its affiliates with a transparent structure of alignment.

This unique organization structure, combined with shared values, unifies the global organization, and promotes the alignment the company needs to support its aggressive business strategy.

7.5 STRUCTURE

7.5.1 DECENTRALIZED ORGANIZATION STRUCTURE SUPPORTS BUSINESS STRATEGY

Since the company's founding more than 100 years ago, Johnson & Johnson's organization structure has evolved into one unlike any other company of similar size. Johnson & Johnson is comprised of 37 global affiliates with 200 operating units — each of which is highly autonomous and accountable for its individual performance. This unique organization structure allows the employees to effectively support the business strategy of remaining the world's most comprehensive and broadly based health care company. It helps each of its affiliates and autonomous operating units focus on that part of broadly based business where their accountability and expertise lie.

7.5.2 BUSINESS SEGMENT STRUCTURE

Group Operating Committee

Overseeing each business segment is a Group Operating Committee, which provides global leadership for all the franchises within the segment. This group makes relative investment decisions among and within franchises, selects lead geographic markets, and ensures that product portfolios are strategically aligned.

Franchise Management

The next level of business segment leadership is the global management of the franchises within the segment. The management of each franchise has responsibility for market positioning strategy and for selecting the product categories in which the franchise will compete. In addition, they establish relative pricing, deal with critical issues affecting product technology, identify success models whose accounts will be documented and shared across the organization, and track the vitality of the franchise over time.

Autonomous Operating Units

The foundation of each business segment is its autonomous operating units where the people are closest to the customer and the business. Each operating unit is responsible for helping to grow profitable brands. It develops and implements all activities within its scope, such as business plans, budgets, forecasts, resource allocation, product launches and performance tracking. Above all, the operating units are responsible for nurturing their employees and developing their careers in their small-company environment, while also ensuring a flow of future leaders for the organization as a whole.

7.6 THE INTERNET

Change means opportunity. And no development will change the way they do business more than the Internet. No part of its business will remain untouched by this technology. With more than 300 web sites already in existence, the operating units are embracing the Internet in new and novel ways, forging new relationships that are blurring the lines between e-commerce, strategic alliances, advertising and professional education. The company is committed to being seen by its customers not only as the world's most comprehensive and broadly based health care company, but also as the one best connected to this powerful new way of meeting their needs.

7.7 ORGANIZATIONAL AND OPERATIONAL IMPROVEMENTS

As part of the business strategy the company is dedicated to growing its business by continuously improving the way our organization operates. The goal is to develop each operating unit to function cohesively, contribute to the attainment of the business goals, and continue to improve its performance over the long term.

To help identify and implement improvements that will contribute to business growth, the company has instituted a number of special internal programs. Two key initiatives that serve as examples of the innovative approaches are *Learning Services Group* and *Process Excellence*.

The Johnson & Johnson Learning Services Group is an internal consulting practice that helps the autonomous operating units around the world address workforce performance issues related to business goals. This group addresses the total performance equation: skills and knowledge, systems and processes, workplace conditions and other factors. The group provides support and solutions that outside firms simply cannot offer. These solutions are drawn from shared organizational experience and delivered with big-company continuity and resources — but with a focus on improving each individual small-company

environment. In addition to acting as a conduit for shared knowledge among 200 autonomous operating units, the Learning Services Group also helps new member organizations as they assimilate into Johnson & Johnson's global culture.

The Process Excellence initiative was established to help autonomous operating units achieve world-class levels of performance and results. Its Competitiveness Assessment enables the units to compare their performance against international standards of excellence and identify opportunities for improvement. The Improvement component of Process Excellence adds the proven and powerful improvement methodologies of six sigma, lean thinking and design excellence, which often deliver breakthrough results. The combined impact of assessment and improvement is essential as Johnson & Johnson strives to be the best and most competitive health care company in the world.

7.8 DIVERSITY

The Company recognizes that individuality brings variety and value to workplace. It honors the differences among people and uses the unique gifts that each employee brings to the organization.

Diversity is naturally woven throughout the framework of an organization. It captures in one word the essence of an organization composed of nearly 110,300 individuals in 54 countries, serving customers across every age group around the world, with products covering nearly every facet of human health care.

Respecting employees as individuals by honoring their differences and similarities is a value deeply embedded in The Credo. And like all the other principles in the Credo, it is not only the fair and ethical thing to do, but also, it is good for business.

7.9 EMPLOYEE TURNOVER

Johnson and Johnson reduced their absenteeism rate by 15% within two years of introducing their wellness program. They also cut their hospital costs by 34% after just three years. (Human Resources Executive, April 1998)

Although not as easy to measure as a reduction in healthcare costs improved employee productivity can have a considerable impact on an organization and its profitability. **Corporate fitness programs** tend to improve overall morale, as participating employees feel better about both themselves and their company. Such programs lead to a **more energetic, positive and productive workplace**

Johnson & Johnson's philosophy is to make every place where they work better for the company having been there. This is a "win/win" position in line with CHF's development philosophy. As part of the company's commitment to social responsibility, Johnson & Johnson has donated capital so their employees could access the CHF home improvement loan program. The company paid an additional amount to lower the interest rate paid by their employees. After one year, dozens of their employees have benefited from loans to add rooms, bathrooms, kitchens, roofs, etc. Counting all the CHF corporate partnerships in Mexico, more than 500 employees have benefited.

Johnson & Johnson reports tangible benefits from its partnership with CHF. McKeegan said the program "helps retain employees and boost morale." In fact, at one plant—in an industry with 100% annual employee turnover rates—Johnson & Johnson retained 27 employees who had received loans, a notable result. In a survey of all participating organizations, the program boasts an 88% retention rate.

CHAPTER # 8

STRATEGY AND HUMAN RESOURCE MANAGEMENT AT JOHNSON & JOHNSON

8.1 STRATEGY

To reach beyond imaginations and assure the continued growth of Johnson & Johnson well into the 21st century, the management of J&J made a vigorous commitment to create an environment in which innovation flourishes throughout the companies around the world.

Products from Johnson & Johnson affiliates are sold in more than 175 countries, generating annual global revenues of more than \$33 billion. The operating companies produce and sell products to meet a wide range of human health care needs, including anti-infectives, orthopaedics, cardiology and circulatory diseases, urology, diagnostics, women's health, mental health, skin care and

many more. And in most of the markets in which affiliates participate, their products are market leaders.

The business strategy, simply stated, is to maintain this leadership position through aggressive plans for expansion in these fields, which is called "platforms for growth."

The company's business strategy includes aggressive plans for growth in a number of key focus areas, or "platforms for growth." Each platform embodies a distinct health care arena, containing a related group of products, technologies, pathologies, modalities and/or customers.

These platforms for growth define the evolving needs of the global marketplace and bring focus to identifying future opportunities, which can be pursued by one or more of the affiliate companies. Each platform has a substantial technological core and existing pool of talent. The platforms help in bringing synergy to a decentralized organization, acting as a staging area from which the management leverages knowledge, development skills, marketing expertise and global reach.

Just as they provide Johnson & Johnson with significant opportunities for growth, the platforms also provide employees with unique opportunities for career flexibility and growth.

8.2 GROWTH THROUGH INNOVATION

In addition to the platforms for growth, the goal pursued is the business strategy by focusing on growth through innovation, not only in the products that are developed, but also in everything they do. To succeed, the company needs committed, capable people by offering them an exciting breadth of career opportunities.

8.3 HR PRACTICES

8.3.1 RECRUITMENT AND SELECTION

Identifying and hiring the most qualified university graduates is critical to Johnson & Johnson's continuous development of leadership talent throughout its global organization. As with many of its business functions, recruitment and hiring of university students is managed in a highly decentralized manner by each of its companies. Johnson & Johnson's recruitment and hiring process differs depending on the world region for which the management is hiring.

For Positions Within the United States

The majority of the recruiting is done through targeted, on-campus interviews at selected universities across the United States (including Puerto Rico). For opportunities that arise outside of the traditional fall and spring recruiting seasons, Johnson & Johnson College Relations supports U.S. companies by identifying qualified university graduates.

For Positions Outside the United States

As a decentralized corporation, each of J&J companies around the world has the responsibility to staff its company through its own initiatives. Johnson & Johnson's International Recruiting & Development Program supplements those initiatives primarily through the recruitment of university students studying outside their home country. Selected individuals are typically offered positions in their home region, where they are likely to have the best knowledge of customers and markets.

University students are sourced for positions in Europe, Africa, Latin America, the Asia-Pacific Region and the Western Hemisphere excluding the United States, through a highly selective university recruitment process at top-ranked universities, predominantly at the MBA or master's degree level. This recruitment process takes place at universities within each region, as well as at select universities within the United States, for career assignments in the global regions. University students with undergraduate degrees can also contact

Johnson & Johnson companies within their home region to explore opportunities for undergraduate students

JOHNSON & JOHNSON HAD AN EMPLOYEE REFERRAL PROGRAM FOR YEARS, BUT IN YEAR 2002 THE EMPLOYER RE-ENERGIZED EFFORTS BY ROLLING OUT "EFFERAL." THE "E" STANDS FOR ELECTRONIC AND EMPLOYEE REFERRAL, SAYS ELLEN GILBERT, DIRECTOR OF RECRUITMENT MARKETING AT JOHNSON & JOHNSON IN RARITAN, N.J. "WE WANTED TO PROMOTE THE USE OF THE INTERNET BECAUSE A COMPANY GOAL IS TO BETTER LEVERAGE THE COMPANY'S INTRANET AND THE INTERNET."

Along with publicizing ER "success stories" on Johnson & Johnson's intranet and using banner ads and posters, the company designed Tylenol medicine boxes with the Efferal theme that were given away on kick-off day.

The company did not change the cash awards. "What has changed is the interpersonal communication and promoting the satisfaction an employee receives from connecting a friend with a great opportunity," says Gilbert.

Referral awards are paid two weeks after the new employee's start date. "We don't build time into the system. We have found that there is a real drop-off in interest if we wait 90 days," Gilbert says. "Employees get a real sense of gratification when the payout is immediate."

A unique feature of Johnson & Johnson's program is that practically all employees, regardless of their position level within the company, are eligible for the cash awards. "This includes vice presidents and higher," Gilbert says. "We also include HR people, as long as they are not directly involved in any part of the recruitment process for the specific job."

Keeping referral programs alive and fresh are the biggest challenges employers face. Informing participating employees of the status of their referrals and keeping the benefits of the program highly visible are key components to success.

INTERNATIONAL RECRUITMENT AND DEVELOPMENT

Success in today's global marketplace demands highly competent professionals with a broad range of skills. International Recruitment & Development (IR&D) within the Johnson & Johnson Family of Companies provides select advanced degree holders with the kind of international management experience that can only be found in a global organization like J&J. At the same time, it delivers the learning and development experiences that are hallmarks of their small-company environments throughout the Johnson & Johnson Family of Companies.

Eligibility

If one is completing or have recently completed a full-time master's level or higher university degree, have permanent work authorization in a country or region outside United States, and are fluent in English and the language(s) of that region, then the candidates are invited to explore IR&D career opportunities.

One may seek consideration for positions in multiple locations as long as one speaks the language and have permanent work authorization in all of the countries where he/she wishes to work.

In most cases, Johnson & Johnson companies do not offer visas or work permits. The only exceptions are those noted in job descriptions provided by the hiring companies.

The IR&D Experience

IR&D recruits high-potential MBA students for specific positions offered by Johnson & Johnson companies in the Consumer, Pharmaceutical, and Medical Devices & Diagnostics business segments throughout Asia-Pacific, Europe/Middle East/Africa and Latin America. Opportunities generally fall into the functional disciplines of Sales, Marketing, Finance, Operations/Logistics, Human Resources, and Information Management.

New IR&D participants begin with on-the-job development assignments that provide them with a deeper understanding of the business and prepare them for their new roles in the hiring companies. The development assignments typically cover the first 12 months of employment, and are designed to meet the specific objectives of the hiring company and the specific development needs of the individual. In all cases, these assignments involve substantive, hands-on responsibilities, and meaningful work experience as an integral team member.

Based on the needs of the hiring companies, development assignments may take place at either the regional or international level. Regional assignments take place within the hiring country, and international assignments typically take place outside of the country in which the hiring company is located. In some instances, there may be a blend of both regional and international assignments during the development period. During the first 12 months, IR&D participants stay in close contact with IR&D staff that help ensure the participants' successful acclimatization to their development assignments. The participants submit development plans and bi-monthly reports in order to ensure that training objectives are being met. IR&D participants are also assigned coaches to help with the integration process. Beyond the 12-month development period, IR&D "alumni" and staff keep in touch for several years to monitor individual and program performance and to provide career management advice and support as needed.

8.3.2 Training

The vast majority of learning to support development will come from the extensive on-the-job training that occurs in their small-company environments. But, characteristic of a big company, J&J also provides a full gamut of more formal training opportunities to assist one in reaching the development goals. These include classroom-based training; self-directed courses delivered through high-technology media, and advanced formal education through a liberal tuition reimbursement policy.

To supplement on-the-job experience, Johnson & Johnson offers a full range of training opportunities to help meet their personal development goals. The opportunities for training reflect the quality and scope that only a big company can provide — yet they are delivered with the individual attention that one expects from a small company.

Employees can choose from a broad offering of classroom-based training or technology-based training, or they can participate in our tuition reimbursement program for advanced formal education.

A CLASSROOM BASED TRAINING

Classroom training at Johnson & Johnson benefits from the big-company resources that enable the broadest and best-quality learning. Class sizes are small to enhance personal learning, and the participants typically represent a diverse mix of Johnson & Johnson's businesses. This promotes a cross-pollination of ideas that often results in learning far beyond the scope of the classroom curricula and enhances your perspective of the company.

Johnson & Johnson's Learning Services Consortium offers this training through classroom-based courses and seminars conducted throughout the U.S. and in Puerto Rico. While Johnson & Johnson experts teach many of these courses and seminars, most are taught by external experts under the sponsorship and monitoring of Johnson & Johnson. By coordinating and consolidating the training needs of the individual autonomous operating units and providing broad employee access to the courses, the Learning Services Consortium is able to attract the highest caliber instructors.

Employees can add course attendance into their personal development plans, or simply attend a course at any of the 13 locations throughout the continental U.S. and Puerto Rico. For those employees who find it inconvenient to attend the classroom-based courses and seminars, the company offers an increasingly vast

array of technology-based training to leverage learning across Johnson & Johnson worldwide.

B TECHNOLOGY BASED TRAINING

At Johnson & Johnson, the company empowers one to manage his/her own development, and is dedicated to providing the best means to help one achieve their goals. To deliver on this commitment, the company uses state-of-the-art communications technologies that make more options available to more employees than ever before. This includes the Internet, computer-based training, video conferencing, learning via satellite, and distance learning.

Using Learning Navigator, a Johnson & Johnson intranet Web site designed to support individual learning, development and job performance, employees worldwide can:

- Locate training that meets their specific development goals
- Download valuable learning aids and performance support tools
- Participate in online training

Employees can also use InfoNet, an online source of corporate information designed to help new and tenured employees gain a better understanding of their company. It provides a detailed background of the history, management and markets of the key businesses within the company, as well as the history, values and structure of the company as told by senior executives.

The technology-based delivery of training and development activities harnesses all of its big-company resources, and makes them available in every one of its small-company environments.

8.3.3 EMPLOYEE DEVELOPMENT

A LEADERSHIP DEVELOPMENT

Johnson & Johnson has become more geographically and culturally diverse. The Management recognizes the need to guide its employees around the world in exercising the personal leadership necessary to uphold The Credo values. Its Standards of Leadership serve as this common leadership philosophy. With Credo values as the core, these standards define specific competencies that are viewed as characteristic of leadership. Developing these leadership competencies in each employee is a value that is shared across Johnson & Johnson.

Navigating a business landscape where change is constant requires leaders at every level. The philosophy for developing leaders throughout the company is encompassed by its Standards of Leadership. These Standards combine their Credo values, business results and leadership competencies into a comprehensive, objective set of principles and behaviors that individuals and autonomous operating units can use to guide their ongoing development of leadership skills. These leadership competencies are:

- Customer/Marketplace focus
- Innovation
- Interdependent partnering
- Mastering complexity
- Organizational and people development

B TUITION REIMBURSEMENT

The small-company environments rely on the special skills of each of its employees. And because employees' growth as individuals fuels growth as an organization, the company puts its big-company resources behind their efforts.

In the U.S., Johnson & Johnson's Financial Aid to Education (FATE) program provides financial assistance to all active, full-time employees who pursue college courses to advance their careers. FATE finances undergraduate or graduate-level courses that are part of a degree program and have broad relevance to an employee's current or future role within Johnson & Johnson. Reimbursement covers tuition as well as other reasonable and customary expenses, such as registration, books and lab fees.

Employees outside the U.S. are also encouraged to pursue continuing study. The programs available to them vary geographically.

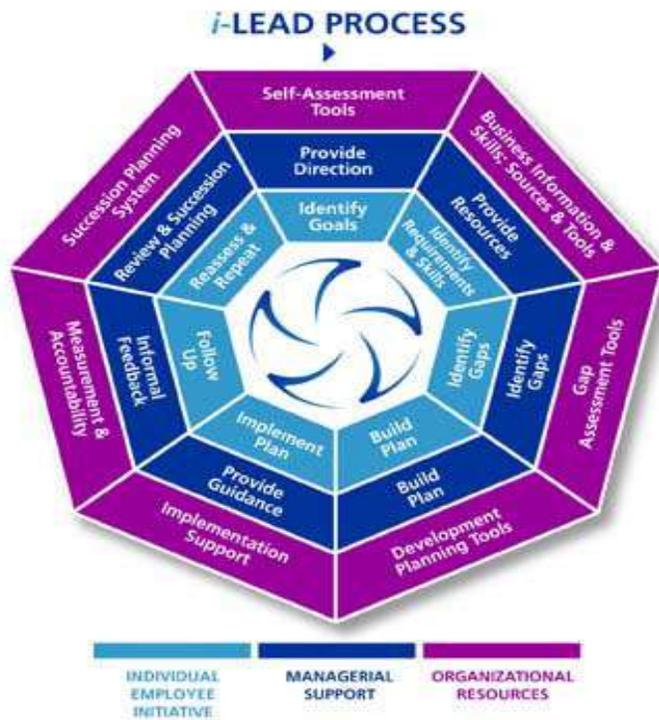
REALISTIC, FLEXIBLE STANDARDS

Although the principles and behaviors in the Standards are explicitly defined as a framework for entire organization, they must be interpreted locally as dynamic guidelines. The Standards enable the flexibility required for each of the autonomous operating units to interpret and apply them in ways that best fit their needs. For each employee, the Standards take on different meaning, based on where that employee is in the leadership development process.

THE STANDARDS OF LEADERSHIP IN PRACTICE

At Johnson & Johnson, the company uses these Standards to evaluate leadership potential in employee hiring, performance evaluation and advancement, and training and development to sharpen these skills. The company wants all of their employees to possess the vision and the skill necessary to transform ideas into productive strategies and actions that support the business strategy.

At Johnson & Johnson, the emphasis is on developing individuals as leaders because the company views leadership skills as critical to success for every person at every level of our organization.



It approaches the personal development and career growth of future leaders as one of their highest priorities. Through their *i*-Lead process, employees in each of the small-company environments work interactively with their managers to establish a career development path that is highly individualized to their particular strengths and goals. And to meet both the career aspirations of people and future business needs of Johnson & Johnson, the organization has in place a long-standing succession and development planning process to ensure a steady flow of leaders across the organization. It also offers leadership development programs to recent university graduates in certain disciplines and geographic regions. This conscientious, individualized approach to career development and progression is one that is not likely to be experienced at other big companies.

An employee plays a key role in driving the development at Johnson & Johnson. Its *i*-Lead Process helps by providing a model through which individuals work

with their supervisors to establish a development plan that is highly personalized and self-directed.

The model illustrates the interdependent roles of the individual, the manager and the organization in the development of leadership competencies as defined by our Standards of Leadership. In the *i*-Lead process:

- The *individual* drives the development process by seeking feedback and by demonstrating commitment to ongoing improvement
- The *manager* supports the commitment of the individual, leading by example and establishing an effective communication process
- The *organization* provides a culture that is supportive of leadership development at every level, while providing the systems, processes, tools and resources necessary to develop leadership skills

PERSONALIZED ATTENTION TO DEVELOPMENT

At Johnson & Johnson, establishing effective leadership skills is central to every employee's development. This approach to developing leaders is highly evolved and directs growth as an individual throughout his/her career. Each individual's development plan is set within his or her autonomous operating unit where it can receive the personalized attention one would expect of a small company. Yet an organization-wide framework that aligns the individual's abilities and aspirations with the big-company leadership competencies that the company requires, as well as the opportunities that are provided guide each development plan.

In each of the small-company environments, the employee works closely with the supervisor in directing the employee's development. Through ongoing dialogue, the employee shares career aspirations, while the supervisor shares expectations, and a development plan emerges.

A WIDE RANGE OF CAREER CHOICES

To think of a big company like Johnson & Johnson, one may envision highly structured and traditional career paths. In fact, many of its employees have established exciting careers through structured career path models like Scientific or Quality Career Ladders. Yet, as part of a global organization with 200 autonomous operating units, Johnson & Johnson employees enjoy access to career growth along non-traditional paths that other organizations would find difficult to offer.

It is not unusual for individuals to cross job functions, business segments and even geographic boundaries as their careers advance with Johnson & Johnson. A uniquely decentralized organization helps us offer greater flexibility as an individual's career advances. More importantly, flexible career paths help people acquire knowledge and experience in areas where they can have the greatest impact: on their careers, and on the business.

Succession and Development Planning

Process for Identifying and Advancing Leaders

The small-company environments and personalized attention to development allow every opportunity to demonstrate their leadership potential in what one does every day. The succession and development planning process provides a way to meet the personal growth and development needs of the employees, while ensuring that the future leadership requirements of the organization as a whole are met.

IDENTIFYING POTENTIAL LEADERS EARLY ON

The company identifies extraordinary leadership potential in employees based on their demonstration of the competencies. Through the succession and development planning process, the company can identify these individuals as early as possible in their careers. This process ensures that appropriate development plans and timetables are in place for them, and that senior

management is aware of the available high-potential leadership talent that exists throughout the organization. It also ensures that the talent represents a diverse pool of leaders with global perspective, and that this talent is spread equitably across the entire company.

This "bottom up" approach to identifying and advancing future leaders provides one an opportunity to demonstrate his/her potential in a supportive, small-company environment, while being assured that the potential for positions of increasing leadership in a big company will be recognized and acted on.

8.3.4 COMPENSATION AND BENEFITS

Competitive Compensation with Flexible Components

For compensation programs to be highly competitive with those of other big companies, the way they structure them is actually quite different at Johnson & Johnson. The compensation programs support many flexible and adaptable small-company environments that are fundamental to business strategy. As a result, they need to be flexible and adaptable as well. The components of the compensation programs vary across regions and affiliate companies, as each affiliate customizes performance targets and compensation structures to suit its specific business goals. At the same time, general guidelines are there to ensure equity across diverse businesses, and facilitate the movement of talent from one organization to another.

The compensation program includes:

- **Salary** — The salaries are continually benchmarked against 50 other high-quality growth companies to ensure we remain competitive in the search for top talent. Once a person joins Johnson & Johnson, commitment to a

long-term satisfaction means that personal salary growth will be driven by one's individual performance — not by conventional salary bands.

- **Bonus** — An annual cash incentive may be paid each year based on individual performance and, in some cases, affiliate performance.
- **Stock** — Many global firms rely on cash bonuses to supplement an employee's salary. At Johnson & Johnson, the company provides both cash and stock as annual incentives for eligible individuals. This allows the employees to have an equity position in the company, with the opportunity for capital appreciation through stock price growth.
- **Stock Options** — In order to retain top talent, the company awards stock options to eligible high-performing people with the potential to make significant contributions to a business in the future. Stock options do not pay out income when they are granted. Income opportunities are linked to future performance of the company.
- **Award Programs** — J&J recognizes extraordinary efforts that have a positive impact on their business through extensive awards and recognition programs, which may apply for individuals or teams. Many of these programs include a monetary component. For example, the Standards of Leadership Awards program, which applies worldwide, provides a lump-sum payment of up to 50 percent of an employee's salary for extraordinary contributions to business. Other awards with a monetary component include function-specific awards, such as the Johnson Medal for Research & Development, the Vice President's Research Award, and the Philip B. Hoffman Research Scientist Award. These awards recognize innovation — a key driver of our growth.

COMPENSATION BASED ON PERFORMANCE

At Johnson & Johnson, the company can recognize and reward achievement based on performance — not on an organization-wide, predetermined standard. Because of the unique, decentralized organization structure, the big-company compensation programs are designed and delivered with the flexibility needed to support every one of the small-company environments.

Benefits Designed to Promote Health and Well-Being

The company offers a breadth of health-related benefit options that only a big company can provide, combined with the customization and personalization expected in a small-company environment. These benefits are designed to provide the basic needs of more than 110,300 individuals and their families, throughout global organization.

Reaching Highest Potential

If one is an achiever eager to reach the highest potential, one will appreciate the many and varied opportunities that are offered for career advancement. The company also puts emphasis on continuous learning and growth to help reach individual goals more quickly.

Within each of the small-company environments, the management is dedicated to giving its employees personalized attention in their career planning and development. And with breadth of participation in health care, and 200 autonomous operating units around the world, Johnson & Johnson employees experience a greater range of career path opportunities than one can find with other big companies.

8.3.5 PERFORMANCE MANAGEMENT

In Johnson & Johnson, there is a bi-partite System of Appraisal that is 180 degree for Executives and the Senior Management is appraised with the 360-degree method. Both the systems revolve around the Company's statement, which is known as the 'CREDO' and also considers the Company's Business

Module 'The Standards of Leadership'. However, the 360-degree feedback is also with an addition of 'The Code of Conduct'. The amalgamation of these three forms the basis of the J&J System of Appraisal System. The 360-degree evaluation is sent confidentially to USA at the Company's Head Quarters and they evaluate the employee in a summarized fashion.

CHAPTER # 9

INTRODUCTION TO FAST FOOD INDUSTRY

According to the National Restaurant Association, food service sales increased by 5.4 percent, to \$ 358 billion, in 1999. More than 800,000 restaurants and food outlets made up the U.S. restaurants industry, which employed 11 million people. Sales were highest in the full service; sit down sector, which grew by 7 percent, to \$ 121 billion. Fast food sales grew at a slower rate, rising by about 5 percent, to \$ 110 billion. Fast food sales surpassed the full service sector during the mid 1990s, however, maturation of the fast food sector and rising income among many Americans helped full service restaurants again overtake fast food outlets as the largest sector in the restaurant industry. The full service and fast food segments were expected to make up about 65 percent of total food service industry sales in 2000.

9.1 MAJOR FAST-FOOD SEGMENTS

Eight major segments made up the fast food sector of the restaurant industry.

1. Sandwich chains
2. Pizza chains
3. Family restaurants
4. Grill buffet chains
5. Dinner houses
6. Chicken chains
7. Non dinner concepts and
8. Other chains

9.2 CHICKEN SEGMENT

KFC dominates the chicken segment, with sales of \$4.4billion in 1999. Its nearest competitor, Popeyes, ran a distant second, with sales of \$ 1.0 billion. KFC's leadership in the U.S. market was so extensive that it has fewer

opportunities to expand its U.S. restaurant base, which was only growing at about 1 percent per year. Despite its dominance, KFC was losing market share as other chicken chains increased sales at a faster rate. KFC's share of chicken segment sales fell from 71 percent in 1989 to less than 65 percent in 1999, a 10-year drop of 15 percent. During the same period, Chick-fil-A and Boston market would challenge KFC for market leadership. Boston market was a new restaurant chain that emphasized roasted rather than fried chicken. It successfully created the image of an upscale deli offering healthy, 'home style' alternatives to fried chicken and other fast food. In order to distinguish itself from more traditional fast food concepts, it refused to construct drive - throughs and it established most of its units outside of shopping malls rather than at major city intersections.

9.3 DEMOGRAPHIC TRENDS

A number of demographic and societal trends influenced the demand for food eaten outside the home. During the last two decades, rising incomes, greater affluence among a great percentage of American households, higher divorce rates, and the fact that people married later in life contributed to the rising number of single households and the demand for fast food. More than 50 percent of women worked outside of the home, a dramatic increase since 1970. This number was expected to increase to 65 percent by 2010. Double income households contributed to rising household incomes and increased the number of times families ate out. Countering these trends, however, was a slower growth in US population and an oversupply of fast food chains that increased consumer alternatives and intensified competition.

9.4 INTERNATIONAL FAST-FOOD MARKET

As the US. Market matured, many restaurants started expanded into international markets as a strategy for growing sales. Foreign markets were

attractive because of their large customer base and comparatively little competition.

McDonald's, KFC, Burger King and Pizza Hut were the earliest and most aggressive chains to expand abroad beginning in late 1950's. By 2000, at least 35 chains had expanded into at least one foreign country. Tricon global restaurant operated more than 20,000 U.S. and close to 30,000 non-U.S. KFC, Pizza Hut and Taco Bell restaurants in more than 85 countries. McDonald's, KFC, Burger King and Pizza Hut had all developed strong brand names and managerial expertise in international markets. This made them formidable competitors for fast food chains investing abroad for the first time. KFC had more success in Asia and Latin America, where chicken was a traditional dish.

Aside from cultural factors, international operations carried risks not present in domestic only operations. Long distance between headquarters and foreign franchises made it more difficult to control the quality of individual restaurants. Large distances also caused servicing and support problems. Transportation and other resource costs were sometimes higher than encountered domestically. In addition, time, culture and language differences increased communication and operational problems. As a result, most restaurant chains limited expansion to their domestic market as long as they were able to achieve corporate profit and growth objectives.

As companies gained greater expertise abroad, they turned to profitable international markets as a means of expanding restaurant bases and increasing sales, profit and market share. Worldwide demand for fast food was expected to grow rapidly during the next two decades, because rising per capita incomes worldwide made eating more affordable for greater number of consumers.

CHAPTER # 10



KENTUCKY FRIED CHICKEN

10.1 Introduction To KFC

KFC Corporation, based in Louisville, Kentucky, is the world's most popular chicken restaurant chain, specializing in Original Recipe®, Extra Crispy™, Twister® and Colonel's Crispy Strips® chicken with home style sides.

In 1952, fast food franchising was still in its infancy when Harland Sanders began his travel across the United States to speak with prospective franchisees about his 'colonel Sanders Recipe Kentucky Fried chicken'. By 1960, Colonel Sanders had granted KFC Franchise to more than 200 take home retail outlets and restaurants across the United States. He had also established a number of franchises in Canada. By 1963, the number of KFC franchises had risen to more than 300 and revenues topped \$ 500 million.

The Colonel stayed on as a public relations man and goodwill ambassador for the company. During the next five years, Massey and Brown concentrated on growing KFC's franchise system across the United States. In 1966, they took KFC public and the company was listed on the New York Stock exchange.

Every day, nearly eight million customers are served around the world. KFC's menu includes Original Recipe® chicken made with the same great taste Colonel Harland Sanders created more than a half-century ago. Customers around the globe also enjoy more than 300 other products from a Chunky Chicken Pot Pie in the United States to a salmon sandwich in Japan.

KFC has more than 11,000 restaurants in more than 80 countries and territories around the world. And in quite a few U.S. cities, KFC is teaming up with sister restaurants, A&W, All-American Food™, Long John Silver's, Taco Bell and Pizza Hut, selling products from the popular chains in one convenient location.

Over fifty years ago, Colonel Sanders invented what is now called "home meal replacement" selling complete meals to busy, time-strapped families. He called it, "Sunday Dinner, Seven Days a Week."

Today, the Colonel's spirit and heritage are reflected in KFC's brand identity – the logo features Colonel Harland Sanders, one of the most-recognized icons in the world.

KFC is part of Yum! Brands, Inc., which is the world's largest restaurant system with over 32,500 KFC, A&W All-American Food™, Taco Bell, Long John Silver's and Pizza Hut restaurants in more than 100 countries and territories.

KFC has a long tradition of quality food, a warm and inviting culture, and some of the best Restaurant General Managers in the business.

KFC has developed a support structure that celebrates the Restaurant General Manager. Among the best-rewarded Restaurant Managers in the industry, each is equipped to train and motivate with generous reward programs that assist them in creating unprecedented team environments. KFC has mastered the art of motivating teams - which can be fun for everyone and contribute to strong sales growth and great customer service.

10.2 THE FOUNDING MYTHS OF KFC

Corporations, like nations, develop their own mythologies of origin and engage in the "invention of traditions." The avuncular, quintessential Southern gent whose image beams down on us from thousands of KFC outlets was, ironically, neither from Kentucky nor a military man. Instead, the native Hoosier received the honorary title in 1935 from then Kentucky Governor Ruby Laffoon in recognition of his charitable works.

Although Colonel Sanders remains one of the advertising industry's most recognized icons, in 1991 Pepsico decided to replace the name Kentucky Fried Chicken with the KFC logo, ostensibly to "emphasize chicken variety" and to downplay to an increasingly health-conscious public the fact that their menu consisted almost entirely of fat-laden, calorie-rich fried items. (For instance, a single original recipe chicken breast contains 400 calories, 220 of which come from fat.)

This move also enabled them to develop a flock of new products such as the "rotisserie chicken" and the "chunky chicken pot pie." Just as the name change to KFC de-emphasized the manner of food preparation, so too it erased the national origins of the company at a time when KFC's expansion worldwide was at its height.

In 1995, the chicken giant launched its current retail slogan, "Everybody needs a little KFC," spending \$50 million on the campaign in attempting to replace

"tender loving care" or "tlc" with "KFC" in the well-worn adage "everyone needs a little tlc."

The company sought to underplay the Colonel in its advertisements. As one franchise owner stated, "We never wanted to use the Colonel as a pitchman."

Yet the company's promotional materials have been plagued by its ambivalence towards the "f word" ("fried"). At the 1995 KFC National Ad Co-op meeting, executives talked of re-emphasizing the chain's fried chicken heritage, downplayed in previous years. "We're not going to be afraid of fried anymore. It's a mindset among the new regime that we're in the chicken business and some of it is fried," declared one franchisee.

Interestingly, this owner's use of "heritage" and "new regime" echoes the invented tradition of language and images more commonly associated with the construction of national identity.

10.3 VALUES AT KFC

Customer Focus – 'We listen and respond to the voice of the customer.'

Belief in People – 'We believe in people, trust in positive intentions, encourage ideas from everyone and actively develop a workforce that is diverse in style and background.'

Recognition – 'We find reasons to celebrate the achievements of others and have fun doing it.'

Coaching and Support – 'We coach and support each other.'

Accountability – 'We do what we say, we are accountable, and we act like owners.'

Excellence – 'We take pride in our work and have a passion for excellence'

Positive Energy – 'We execute with positive energy and intensity...we hate bureaucracy and all the nonsense that comes with it.'

Teamwork – 'We practice team together, team apart.'

KFC is a people-focused restaurant company - geared to its customers, employees and franchisees. Here, the recipe for success starts with the belief that everything they do is about putting a "YUM" on people's faces, giving customers the food they crave at comeback prices, combined with customer-focused teams who deliver service second to none. The goal is to maintain a company where people come to work every day excited about their jobs, committed to outstanding results and with a sense of ownership in everything they do.

10.4 DIVERSITY AT KFC

At KFC the management finds reasons to celebrate the achievements of others and has fun doing it! Taking pride in work and having a passion for excellence is what it does best. It offers multiple career opportunities for "Customer Maniacs" who are looking for fast paced and rewarding positions in the growing food service industry. The company seeks outgoing and confident individuals from diverse backgrounds-people who enjoy both providing high quality food and the very best restaurant experience for their customers.

To spread the news of an exciting company and the world-class careers, the company participates in the **National Black MBA Association** and the **National Society of Hispanic MBAs** national conventions, along with other *diversity recruiting events*.

Great companies have process and discipline around what really matters, and growing people matters at KFC. They have built a culture around making sure their people grow to their highest potential. More importantly, it is the "belief in people", trust in positive intentions, encouraging ideas from everyone, and development of a workforce that is diverse in style and background, that makes KFC unlike others.

As it continues to grow the world over, so do the ranks of key business partners who reflect the diversity of the markets it serves. As a KFC, Pizza Hut, or Taco

Bell franchisee, one can enjoy the satisfaction and rewards that come from owning his/her own business, yet with the assurance that a global restaurant leader supports the efforts. KFC brand is committed to making sure that its franchisees represent their diverse customer base.

Partnerships with the **International Franchise Association's (IFA)**, for example, assist the company in educating and attracting prospective minority franchisees. Its franchisees are key to an overall business growth, and help it build thriving neighborhoods and provide economic opportunities for everyone.

10.5 SUPPLIER DIVERSITY

Small business remains at the very core of the American economy, proving the entrepreneurial spirit the fuels the free enterprise system. On March 1, 1999, KFC partnered with Unified Foodservice Purchasing Coop (UFPC) for purchases of restaurant products and equipment. UFPC operates independently and is jointly governed by representatives of KFC, Pizza Hut, and Taco Bell franchisee groups, along with Yum! Brands.

In an on-going effort to increase the number of minority and women suppliers, KFC is a corporate member of several national minority and women's business organizations, including the **National Minority Supplier Development Council, US Pan Asian Chamber of Commerce, and Women's Business Enterprise National Council**. These groups, along with regional purchasing councils and minority chambers of commerce, are key resources for identifying minority and women suppliers.

The mission of the Supplier Diversity Initiative is to develop and facilitate strategic relationships with minority and women-owned business enterprises (MWBEs). Through these efforts, the initiative works to advance the economic strength of communities where KFC does business, while acquiring the high-quality products and services needed to operate the business.

The Supplier Diversity Program is designed to:

- Actively and diligently seek-out qualified MWBE vendors for all possible company requirements;
- Provide essential links between diverse suppliers and corporate departments with purchasing needs;
- Implement practices that insure each qualified M/WBE supplier has an equal opportunity to compete and participate- according to established policies and procedures.

10.6 KFC CULTURE

KFC culture is an interesting one because it was dominated by a lot of KFC folks, many of whom have been around since the days of the Colonel. Many people at KFC are intimidated by the PepsiCo culture, which is a very high performance, high accountability, highly driven culture. People at KFC were initially concerned about whether they would succeed in new culture. Like many companies, KFC had a couple of downsizing, which further made people nervous. KFC's culture was built largely on Colonel's Sander's laid-back approach to management. Employees enjoy good job security and stability. A strong loyalty had been created among KFC employees over the years as a result of the Colonel's effort to provide for his employees' benefits, pension, and other non-income needs.

10.7 KFC ENVIRONMENT

KFC is committed to providing safe and healthy work environments and to being an environmentally responsible corporate citizen. It is the policy to comply with all applicable environmental, safety and health laws and regulations.

It is dedicated to designing, constructing, maintaining and operating facilities that protect its people and physical resources. This includes providing and

requiring the use of adequate protective equipment and measures and insisting that all work be done safely.

It is their belief that protecting the environment is an important part of good corporate citizenship. It is committed to minimizing the impact of its businesses on the environment with methods that are socially responsible, scientifically based and economically sound. It encourages conservation, recycling and energy use programs that promote clean air and water and reduce landfill waste

10.8 RESPONDING TO CUSTOMER NEEDS AND LIFESTYLES

KFC has responded to customer needs by developing menu items that adapt to a portable, on-the-go society and consumer's changing tastes. Popular menu items like Popcorn Chicken, Spicy BBQ Wings, Crispy Caesar Twister(R) and a more flavorful Extra Crispy(TM) Chicken have all been introduced to meet that need.

Side dishes are also being evaluated on a regular basis to ensure customer flavor and quality expectations are met. A new, consumer-tested coleslaw recipe is already in many KFC stores throughout the country. " We know that consumers seek more food variety and flavor than what most burger chains serve everyday," says Bachelder. "We will continue to offer new products that broaden KFC's appeal to a wider audience.

10.9 TURNOVER RATE AT KFC

With turnover rates of over 200% per year, training expenses cost the fast-food industry millions of dollars per year. The fast-food industry's revolving door, with its relentless recruiting and training costs, causes a considerable drag on earnings (The Wall Street Journal). Reducing turnover results in lower recruiting and training costs, improving the earning visibility of fast-food chains. Companies in a variety of industries are beginning to realize that gaining control

over labor expenses can result in improved profits for the future. Employees are reaping the benefits of this strategy with improved benefit packages and career paths in even unlikely industries like the "burger-flipping" fast-food industry. Burger King reduced its turnover rate to 210% last year, from 223% in 1999 and is projecting a rate of 205% this year. Pizza Hut brought its turnover down from 147% in 1997 to about 120% in 2000. Taco Bell has reduced its turnover rate from 243% in 1997 to 200% in 2000. So far this year, turnover is at 144%.

"Reducing turnover results in lower training costs, better service and better control of the entire labor expense item," says Peter Oakes, restaurant analyst at Merrill Lynch. "When companies are able to get their hands around labor that in turn improves earnings visibility which is what Wall Street is looking for."

KFC's program is one example of the measures operators are taking to hold on to employees as the pool of available hourly workers shrinks. With the national unemployment rate slipping below 5%—the lowest level since November 1973—the business of recruiting and keeping good workers has become a major challenge for foodservice, where the annual turnover rate in some segments brushes up against 100%.

According to one of the employees at KFC, "Most of my fellow employees were extremely abusive to the chickens. Our job was to pick up the chickens off of the belt and hang them upside down in the shackles. This could rarely be accomplished without problems, due to several reasons. We were extremely short-handed, due to the horrendous working conditions. This led to a high turnover rate with inexperienced, frustrated workers under pressure to keep the production numbers up. If production fell, it would mean overtime work, so that the belt speed was turned up. This resulted in the belt becoming overloaded in the area where the chickens awaited shackling, which ended up smothering hundreds of chickens a night. I heard Richard Frasier say, "I would rather smother a few hundred goddamned birds, than to lose time because of empty

shackles." (This was said in late July, 2002 when temperatures in the hanging cage were exceeding 100 degrees in the middle of the night.)

CHAPTER # 11

STRATEGY AND HUMAN RESOURCE MANAGEMENT AT KFC

11.1 MARKETING STRATEGY

Many of KFC's problems during the 1980s and 1990s surrounded its limited menu and inability to quickly bring new products to market. The popularity of its Original Recipe Chicken allowed KFC to expand through the 1980s without significant competition from other chicken chains. As a result; new product introductions were not a critical part of KFC's overall business strategy.

KFC suffered one of its most serious setbacks in 1989 as it prepared to introduce a chicken sandwich to its menu. KFC still experimented with its chicken sandwich concept when McDonald's test marketed its McChicken sandwich. By beating KFC to the market, McDonald's developed strong consumer awareness for its sandwich. This significantly increased KFC's cost of developing awareness for its own sandwich, which KFC introduced several months later. KFC eventually withdrew its sandwich because of its low sales.

By the late 1990s, KFC had refocused its strategy. The cornerstone of its new strategy was to increase sales in individual KFC restaurants by introducing a variety of new products and menu items that appealed to a greater number of customers. After the introduction of these products, one of the problems with these items, however, was that they cannibalized sales of its fried-chicken items; they were less expensive and easier for customers to handle. The latter was especially appealing to drive-through customers.

11.2 MANAGEMENT STRATEGY

Considerations other than profitability also factor into a company's decision to use what has been called "dual distribution" - the penetration of markets by a mix of company owned and franchised units. The company owned units test and stimulate market demand and brand identity, while developing system-wide standards and uniformity. The franchisee-owned units lead to rapid market penetration as well as innovation. Some of the best, new product lines in many chains originate from their franchisees, such as the Big Mac in the McDonalds chain. The dual distribution strategy produces a whole that is greater than the sum of its parts, allowing the entire network to quickly adapt to opportunities as well as threats.

11.3 REFRANCHISING STRATEGY

When Colonel Sanders began to expand the Kentucky Fried Chicken system in the late 1950s, he established KFC as a system of independent franchisees. This strategy helped the Colonel minimize his involvement in the operations of individual restaurants and to concentrate on the things he enjoyed the most-cooking, product development, and public relations. The franchise system resulted in a fiercely loyal and independent group of KFC franchises. By 2000, company-owned restaurants had fallen to about 27 percent of the total KFC system.

Their strategy is to focus company ownership in key countries, while expanding around the globe with the growth-ready franchisees. They have brands that translate well around the world; in fact, the Colonel is one of the most recognized icons. The company sees great opportunity internationally so it invests in key markets with substantial growth potential.

11.4 HR PRACTICES

11.4.1 RECRUITMENT AND SELECTION

KFC searches for a select group of men and women prepared to deliver on commitment to growth, quality and customer service. It is proud of its beautiful restaurants and the caliber of a management team.

Currently operating 3 KFC restaurants in Fort Wayne, Indiana and positioned for additional restaurant growth, KFC is serious about recruiting managers who are serious about success.

The requirements to be a team member include:

- Well groomed
- Enthusiastic
- A strong interest in food and customer service
- Able to work as a part of team
- Available to work flexible working hours
- No experience required

For management trainee, the requirements include:

- Minimum two years experience
- Available to work roistered shifts
- Current driver license
- Process excellent customer service skills
- A strong sense of reliability and responsibility

11.4.2 TRAINING AND DEVELOPMENT

“If we can attract younger people and we put in the training, we make the managers of the future. Training your own people is the way to go.”

For new employees, the company has well-established training in place. The training system is standard throughout all the KFC outlets. Every employee is required to complete a comprehensive induction and orientation process.

At the completion of the orientation, new employees need to undergo the STAR training program. This training is specific to the relevant position for which the new employee has been hired. This training involves reading workbooks, answering quizzes, and on the job relevant competency training. At the successful completion of the training, the employee is rewarded with a badge and a certificate indicating that they are STAR trained.

In addition KFC also provides employees with the opportunity to complete a nationally recognized qualification in retail operation. Employees are paid at the normal rate of the pay whilst completing their certificate, and generally, the traineeship will take one or two years to take. The majority of training and assessment is workplace based.

Proper training and development of managers is one key ingredient of their success formula. For the customers to enjoy the best dining experience, the managers must have effective managerial skills. KFC’s training programs not only provide managers the techniques to ensure customer satisfaction, but also provide the manager the skills necessary to meet their responsibilities successfully and prepare them for challenging positions in the company.

Corporate Training Classes include the following:

SHIFT LEADER

- Customer Service
- Introduction to Personal Computers & Restaurant Accounting
- Time Management
- Microsoft Outlook

ASSISTANT MANAGER

- Inventory and Food Cost Controls
- Coaching
- Microsoft Word
- Employee Training

OPERATIONS MANAGER

- Labor Scheduling
- Labor Control
- Microsoft Excel
- Recruiting, Interviewing and Selection
- Positively Outrageous Service

RESTAURANT GENERAL MANAGER

- Leadership Training
- Special Business Projects
- Training Manager

KFC/UNITED NEGRO COLLEGE FUND SCHOLARS PROGRAM

As part of KFC's ongoing commitment to diversity and the development of its associates, KFC will provide one scholarship per year over the next four years to eligible students attending UNCF schools. The KFC/UNCF Scholars Program is aimed towards employees, either corporate or franchise, who are entry-level college freshmen pursuing degrees in Business Management, Computer Science or Liberal Arts. Qualified applicants must have a minimum of one-year service with KFC, be an employee in good standing, have maintained a minimum 3.0 grade point average, and have an unmet financial need

The KFC/UNCF scholarship covers the average cost of tuition, fees, books, and room and board. It also covers the cost of a summer internship program for those interested in pursuing a six to eight-week internship program with the corporation or with a KFC franchisee

11.4.3 COMPENSATION AND BENEFITS

- Medical Coverage: For eligible dependents; PPO or HMO depending upon area; Discount drug programs; Prenatal programs.
- Dental, Vision and Hearing Coverage: For eligible dependents.
- Life Insurance: 1x annual eligible pay at no cost to you; Additional coverage available; Optional Dependent Life Insurance.
- Long-Term Disability: 35% of the eligible pay at no cost to the employee.
- Group Legal: For personal legal services such as wills, adoption, divorce, etc.
- Health Care and Dependent Care Reserve Accounts: Setting aside pretax money to pay out-of-pocket medical, dental, vision and day care expenses.

KFC provides its employees with:

On-going training
Excellent Health/Life
Insurance
Paid Vacation

Profit Sharing

401K Retirement Plan

The other reward and recognition includes:

- CHAMPS excellence recognition program
- Annual team challenge competition
- Attractive performance based salary and bonuses reviewed annually
- Store managers attending conference on the gold coast
- Manager of the quarter and manager of the year
- Annual championship club recognition
- Annual chairman's dinner recognition

Additional Company defined Benefits

Vacation: Receive 2 weeks after 1 year of service, 3 weeks after 5 years, and 4 weeks after 10 years.

Short-Term disability: Benefits available up to 26 weeks. No cost to salaried employees with at least 60 days of continuous service.

Educational Assistance: Reimbursement up to \$3,000 per calendar year for job-related degree program

Educational Loan and Scholarship Search Program: Low-cost loans for employee or dependents, up to \$25,000 per year.

Discount Referral Programs: For auto purchases and childcare.

Adoption Assistance: Reimbursement of up to \$3,000 for child adoption expenses.

Retirement and Saving Plan

The KFC 401k Plan provides an excellent way to save for retirement. Employees may save from 1% to 15% of their eligible pay, to a maximum of \$10,500 per year (\$11,000 in 2002). For every dollar the employee invests in the KFC 401k Plan, up to 5% of their pay, KFC adds a match. KFC matches \$1 for every \$1 invested in the Plan, up to 3% of eligible pay, plus 50¢ match on every \$1 invested in the Plan on the next 2% of eligible pay.

11.4.5 PERFORMANCE MANAGEMENT

Every employee performance is reviewed annually using a written performance appraisal. The form provides the employee with positive and constructive feedback, in order to assist them to further develop their skills.

To ensure KFC excellence throughout the store, various company scorecards are being used to measure quality and help positively impact the customer experience. One of the key techniques is CHAMPS (Cleanliness, Hospitality, Accuracy, Maintenance, Product and Speed), which offers monetary rewards and gratification to employees who successfully deliver a great customer experience in these areas. The system is used to perfect operational performance, drive field-level productivity and elevate customer satisfaction.

Chapter # 12

Analysis

Corporate strategy usually involves reviewing the business an organization is in, or wants to be in and its relative competitive positioning in the marketplace. This allows a strategic intent to be developed. A review later on is carried out of the human capabilities through which competitive advantage can be achieved, enabling the organization to compete in a distinctive and sustainable way. An organization development at the center of the organization has the challenge of helping to bring about the change, as well as creating greater coherence across the organization while not diminishing the autonomy of the business units. An alignment of the above mentioned strategies at the time of change with that of

the Human Resource practices is essential for organizations to compete in a global world.

12.1 MICROSOFT

Founded in 1975, Microsoft (Nasdaq “MSFT”) is the worldwide leader in software, services and Internet technologies for personal and business computing. The company offers a wide range of products and services designed to empower people through great software – any time, any place and on any device. The business strategy that Microsoft is following is ‘*differentiation strategy*’. Microsoft believes in introducing new innovative products for its customers. The products offered are unique and exclusive to its customers. Its mission statement emphasizes the fact that developers and employees realize the full potential within them through creative ideas and imaginative products.

The first and the foremost factor of success at Microsoft came from its intelligent and active leader, Bill Gates. Engraving this unique idea of developing differentiated products into the minds of its people is owed to Bill Gates. He himself served as a role model for his employees. He believed in learning by doing which can easily be depicted from his first invention. The desire to transform his vision into reality presented an example to the employees. Therefore, the emergence of differentiated business strategy was the outcome of the efforts of the initiator of Microsoft.

The second most important feature that is taken into consideration is the unique culture of Microsoft. Its culture is a key source of its competitive advantage. From the onset, Bill Gates led by example and emphasized frugality, empowerment, flexibility, customer service, and an open book policy. Microsoft’s culture focuses on building loyalty among associates and customers. Associates are seen as playing a critical role in the success of Microsoft and are given more responsibility and recognition than employees of competitors.

In order to introduce groundbreaking products as compared to the competitors, it allows freedom and empowerment to the employees. This empowerment further facilitates the employees to flexibly introduce new products. The culture therefore, supports the business strategy that is observed in the organization. But it may have to adjust its corporate culture, which fosters 90-hour workweeks, if it wants to retain top managers, particularly as they add families to their priorities.

For the purpose of evaluation of an organization's success rate in the industry, one needs to analyze the turnover rate of the specific company. Apart from providing a land of opportunities to a diverse group of people and providing a flexible environment, Microsoft must make efforts to manage its scattered business around the globe. Microsoft must also address nagging problems, such as a perceived lack of career opportunities and cross-departmental coordination, in order to alleviate the problem. Job burnout and stressful conditions due to extended working hours can be a source of job dissatisfaction and demotivation for a learned group of employees.

For the purpose of coming up with new initiatives, the company employs people from diverse backgrounds. Heterogeneous group of people have the ability to establish varied ideas into unique upshot. The company has successfully implemented different diversity programs for the growth of the organization and its employees. The diversity programs offer opportunities for wide-ranging group of individuals with the intention to initiate new ideas.

It can therefore, be stated that in order to support the differentiation strategy, Microsoft has provided the appropriate environment, culture and opportunities for people to grow, learn and offer their ideas to the organization, which requires minor adjustments to its culture and working hours.

Employees quit Microsoft for several reasons. While some of these reasons apply to any high-intensity firm, some are particularly important at Microsoft because of factors such as the company's size, reputation, and internal culture.

1. Burnout

Technology workers are notorious for working long hours and taking few vacations, and Microsoft is no exception. However, Microsoft, in contrast with old-guard technology firms like IBM, has historically had a very young workforce. Now this workforce is aging: in 1991, the average age of a Microsoft employee was 30; by 1999 the average had crept to 34. Many of its experienced employees are now starting families, leading to new conflicts between work and personal life that were not felt so sharply five or ten years ago.

It is assumed that the cultural change from a hyper-competitive startup mentality to a mature company where employees are encouraged to use up their allotted vacation time and take three-day weekends cannot simply come about through statements of good intentions in memos and speeches—specific policies about time off must be implemented and enforced from the top brass down.

2. Perceived Lack of Career Opportunities

In 1995, when attrition rates at Microsoft were decreasing year-to-year, consumer PC software was widely seen as the most interesting and potentially lucrative market in the computer industry, and Microsoft was the undisputed leader in the field. Since then, several high-profile markets have emerged in which Microsoft is not number one, including the much-hyped "dot-com" market of Web services, back-end web software and infrastructure, handheld computing, and wireless technology. Microsoft employees, seeing press coverage shift to other companies, may perceive that they are missing out on hot opportunities.

The problem of career development is particularly acute at higher levels. Many long-term Microsoft executives now have the funds and industry experience to create their own start-up companies. If these executives lose a fight over a particular technological implementation or proposed strategy move, it is easier than ever for them to walk away and test their ideas in the open market. Add in the possibility of receiving a subpoena for workplace e-mail records or being called to testify in the Department of Justice (DoJ) antitrust case, and the thrill of working at Microsoft drops even further. (Of the nine executives who testified in the DoJ case for Microsoft, only five still have active high-level positions in the company.)

The 2000 stock market drop and subsequent venture capital drought has somewhat diminished the appeal of starting or working for an unproven start-up, but Microsoft will need some key wins, and corresponding positive press coverage, to regain its former image as the most exciting and relevant place to work in the technology industry. Microsoft's core business remains rooted in operating systems and desktop applications: stronger signs of Windows 2000 adoption and positive reviews and strong sales of Whistler and Office 10 could lead to a renewed sense of Microsoft as a place where big things are happening. Aspects of its consumer strategy, particularly the MSN portal and the XBox, if wildly successful, should also lead to positive ink in the mainstream press—something that's been in short supply since details of the DoJ antitrust trial began hitting the wires in 1998. And of course, a favorable settlement or Microsoft victory in the ongoing antitrust case will help shore up morale. On the other hand, losses in any or all of these areas could have the opposite effect.

3. Lack of Companywide Coordination

Microsoft's scope is unusually wide for a technology company (only IBM springs to mind as a comparably diverse technology firm), yet it must still respond quickly to the rapidly changing computer industry. Often, as a result of this diversity, size, and competitive pressure, different groups within Microsoft work

on solutions to a similar problem with little centralized coordination. In addition, its aggressive acquisition strategy means that acquired employees and technologies must frequently compete against solutions germinated in house. These scenarios can lead to frustration as redundant projects are cancelled, meaning that the hard work and overtime were for naught.

A December memo from CEO Steve Ballmer to all employees, sent after Microsoft announced its first prospective earnings downgrade in 12 years, gave some hint that the company is aware of this problem. The memo specifically suggested eliminating "redundant technologies," and pointed to the decision to cut the Local Web Storage system from Office 10 and to focus development resources on the next version of SQL ("Yukon") as an example. (Both systems offer Web-accessible, indexed data stores for documents as a prime feature.) If the company continues to make these difficult decisions and narrow its focus, it could lead to fewer cancelled projects and focus more employees on activities that are the most crucial to the company's success, and therefore, the most satisfying to work on. Structural changes, such as eliminating dotted line reporting to managers in multiple groups, which can create conflicting loyalties and goals, could also help, although no reports have come out indicating that Microsoft is considering this as a companywide move.

4. Stock Options and Compensation

A large part of Microsoft's lure has been the possibility of becoming exceptionally wealthy thanks to the company's generous stock option grants. Unlike salary, however, the value of stock options is subject to the fluctuations of the market, leaving Microsoft vulnerable if they rise or fall too sharply. When Microsoft's share price was at all-time highs in late 1999 and early 2000, many long-timers chose to cash out and take early retirement, or used the funds to start dream businesses. Now that Microsoft's share price has plummeted, any options granted after mid-1998 are currently "underwater" (that is, their strike price is less than the current stock price, rendering them temporarily worthless), serving as little incentive to stick around until vesting time.

12.2 HR PRACTICES

Alignment of business strategy with that of the HR practices taking place in the organization is an important feature that needs consideration, in order for an organization to grow.

The element of change at Microsoft can be observed in the strategic alliances that have taken place in the organization. The research requires a thorough analysis on the effect and change in the HR practices after the strategic alliances, that is, mergers, acquisitions and other collaborations.

1 RECRUITMENT AND SELECTION

The emphasis on general reasoning and problem solving ability in its personnel reflects the need embodied in Microsoft's environment, business strategy and its business culture. That is, the world of software development is changing constantly, so possession of yesterday's skills means less than the ability to develop new skills. Thus, Microsoft's strategy is to "outsmart" the competition in terms of both recognizing and then quickly adapting to changing conditions. This leads to an organizational culture where intellectual debate is vigorously promoted. Those who lack mental agility are not likely to ever feel comfortable within this culture – a culture some have labeled elitist or even arrogant.

The recruitment and selection procedures at Microsoft support the business strategy. There is high validity in the selection procedure as the performance on the measure is related to performance on the job. The features observed in the interviews and other screening processes complement the differentiation strategy, as talented and intelligent people are the ones who are short-listed. The intelligence and talent is the main criterion for enhanced performance and improved outcome.

In other words, the core competency of the organization is its *people*. Referring to the statement of Bill Gates of taking their best people away would make it an

unimportant company, it can be analyzed that investment in its most important asset makes Microsoft stand alone from the rest.

Ensuring alignment relies on excellent performance management so that people are clear of what their roles are, what is expected of them and how they might change. Competencies are often defined as *'a particular attribute that people have to develop the capability of the individual and the organization.'* If the companies adjust competencies so that they are continually aligned to the business strategy, the likelihood of people's behavior being in line with what the business needs at any point in time is high. If these are reflected in the performance standards the organization is seeking to achieve, the link between skilled behavior and outputs is evident.

Another important aspect that indicates the perfect alignment of business strategy and HR Strategy is that after the collaboration of Microsoft with other software firms. The company ensures that it continues to maintain intellectual group of employees who are able to innovate and originate new solutions for its broad group of customers. Thus, even after undergoing a phase of change, Microsoft continues to maintain the alignment between its strategies.

After one of the successful alliances at Microsoft, Charles Johnson worldwide managing director of the manufacturing industry solutions group at Microsoft states, *"We believe this is going to be a successful alliance and a great example of how we're continuing to work with market leaders that use our platform to build solutions that focus on critical areas for our manufacturing customers, such as providing real-time visibility into their plant floors"*.

2 TRAINING

No formal training is provided to the employees at Microsoft. The reason behind this practice is that Microsoft believes in learning ability of its people. The

training procedure involves hit and trial method of coming up with a new and innovative idea. Experience is shared among people, as young ones learn from the knowledge of professional employees. The question as to whether this practice supports the business strategy is quite clear.

Microsoft is determined to form a learning environment for its people. Their commitment to learn and find new avenues of growth is an essential facet at the organization. It can therefore, be evaluated that in order to utilize the full potential of its employees, Microsoft has ingrained in its culture, the aspect of learning by doing. This leads to and fully supports the business strategy that the company has adopted.

However, on the other hand, the company, from time to time, conducts seminars, conferences and other opportunities where one can learn and enhance his/her skills and knowledge.

3 LEADERSHIP AND DEVELOPMENT

Career goals and development of leadership skills are important for individuals to grow and evaluate themselves. In a learning organization, where the employees are encouraged to undertake different activities in order to grow, enhancing leadership skills is another major component that motivates people to learn and become skilled at discovering new outcomes for its customers.

Microsoft, to align its strategies, develops its people in high tech industry. The development of its people serves to provide an edge to Microsoft as it has a firm belief in the capabilities of its exceptional group of people who help it differentiate its products from the rest of the software industry.

4 COMPENSATION

Microsoft, which is the differentiator, does not give much salary to the employees considering the average industry salary. For a company that is following an

innovation and differentiated product development strategy needs to retain its set of qualified people of the organization. High salaries as compared to the average industry are a source of motivation for the employees. Microsoft, however, fails to provide its people more than the industry average. The reason behind provision of low basic salary is to increase the productivity level of the employees. The motive behind this justification supports the strategy of the organization but it can be anticipated that talented people from around the world, if not paid at an equivalent level to the rest of the industry, would not be able to perform at an exceptional level. According to an employee, Microsoft has good reasons to increase incentives and bolster salaries, *"which tend to be below industry standards,"* said Gartner Group analyst Michael Gartenberg. *"The software maker has typically rewarded employees with stock options rather than fat paychecks. But given the stock decline and anticipated future performance, more is needed"*, he said

The organization though claims to provide its employees with other benefits and compensation packages such as, healthcare benefits, life insurance, stock options and other financial benefits. Yet it can be stated that for a company like Microsoft, to retain hardworking and ambitious people, it has to compensate them above average to be a leader in market pay system than being a follower in the industry. The job satisfaction level is evident from the statement of one of the employee who states that, *"If you've been getting paid below market salary, and you've been working 90 hours a week and doing this on the basis that Microsoft's stock is going to go up, and the stock price is going down, you suddenly discover you've been working very, very long hours for below market wages,"* he said. Similar incidences and statements clearly reveal the satisfaction level of the employees.

5 PERFORMANCE MANAGEMENT

The force distribution method uses a ranking format, where employees are ranked in groups. This technique requires manager to put certain percentages

of employees into predetermined categories. In some situations, distribution method forces managers to categorize employees based on distribution rules not on their performance. For example, even if a manager's employees are all above average performers, the manager is forced to rate some as 'Not Acceptable'.

For a company like Microsoft that encourages performance, it would be unable to retain employees if it continues to rate its employees based on forced distribution method. Following a differentiation strategy, a manufacturing company like Microsoft must rate its employees on their performance and learning ability.

Microsoft's biggest and most important asset is its people. Retention of this asset requires performance management process for strategic, developmental and administrative purpose. It can therefore, be stated that the business strategy does not align with the HR strategy for evaluating its employees, as this method of performance evaluation is unable to take into account the high tech abilities of an individual that are required for survival in such an this fast moving industry.

12.3 Conclusion

From the given analysis, it can be concluded that the business strategy of Microsoft is aligned with its Human Resource practices.

12.4 JOHNSON & JOHNSON

Johnson & Johnson's broad base in human health care is evident from its impressive roster of 37 primary global affiliates. These global affiliates develop, produce and market products, and offer the services that consumer and health care professionals have come to know and trust. Each has earned a position as a leader in its field. As the company expands its vision beyond their heritage consumer health care products, its businesses are being increasingly driven by

science and technology. Today, Johnson & Johnson is a research-based organization with a level of investment in research that places it amongst the top 20 companies in the world.

At Johnson & Johnson, the management has made a vigorous commitment to creating an environment in which innovation flourishes throughout its companies around the world in all functions. Central to its fundamental mission of improving people's lives, innovation through new products and technologies has a tremendous impact on its growth. Each year, more than one third of sales come from new products introduced during the previous five years, or from existing products launched in new markets. But their growth plans rely on more than new products; they require innovation in everything they do. They are determined not to miss any opportunities. Identifying and evaluating advancements in science and technology that parallel the health care interests can uncover exciting opportunities for growing its business and can help them bring innovative solutions to difficult medical problems that affect people around the world. Bringing health care advances to emerging markets where the needs are tremendous is key to its growth.

J&J's businesses are increasingly driven by science and technology. Recent innovations in these areas have resulted in a massive amount of new information coming out of its research laboratories, which holds the promise of scores of new pharmaceuticals and other therapeutics, medical devices, diagnostics and non-medical personal care products and toiletries.

The first and the foremost factor binding the people in the organization is a set of core values. The success of these shared values can be observed through the employees working in the organization. At Johnson & Johnson, its people define company's ethical character. It strives to attract people with strong, positive values, and they develop, reinforce and reward those values. The company's

special set of values is embodied in its credo that has guided the company for nearly 60 years. It can be seen that people at J&J choose to live those value, not because they are required but because they are right. A company's character is not derived from its buildings, its products or its business strategy. It is a reflection of its people. It can aspire to be an ethical organization only if it hires ethical people. It owns a specific plan, conscientiously applied, to represent and encourage a set of purposeful values among all of its employees

To attract ethical people for the company, it offers a unique culture to the people from all over the world. The ideals they uphold are woven into every aspect of their business that serves to bring unity to this decentralized organization. The attractive culture marks the second major component for success of the company.

Having people who think differently about problems is the surest way to foster innovative solutions — and innovation is the engine that drives their business strategy. Having a workforce that mirrors the makeup of society at large, including various and diverse customer groups, helps ensure that the products and messages are always on target, wherever in the world these products are sold. Giving people the opportunity to maintain their differences, as well as the aspects of their lives and personalities they share with one another, strengthens their bonds — and the company.

The coordination and synchronization of the widely spread global organization is another major factor contributing towards the success of the company. The flexible and autonomous organizational structure is a fundamental feature for an organization that is struggling to achieve growth through innovation. Innovation comes from the empowerment and freedom to discover and invent new things with sovereignty and with self-government. Therefore, the relaxing

decentralized organizational structure blends perfectly well with the business strategy of the organization working throughout the world.

The strategy of Johnson & Johnson to expand its position as the world's most broadly based health care company drives it to look aggressively for synergistic alignments outside its own organization. Each year, they enter into more than 125 external collaborations and alliances. For entering into new markets, the strategy thus, adopted by Johnson & Johnson is *Innovation* strategy in the field of health care segment.

Johnson & Johnson has introduced products that relate to health care field, that is, pharmaceutical industry, orthopedics; cardiology and other health care sectors. The company has expanded its network around the world. The company operates in different regions by adopting similar strategies and similar organizational structure for introducing global reach.

12.5 HR PRACTICES

The analysis of HR practices of Johnson & Johnson are described as follows:

1 RECRUITMENT AND SELECTION

The recruitment process varies from company to company and from region to region. The autonomous companies hire people according to their own requirements and needs. Due to the expansion in various firms, the organization has empowered its units to conduct its own recruitment and hiring procedures.

Though the company relies on specific recruitment and selection procedures but for continuing its business strategies, that is, differentiation, the company hires

intellectual and hardworking people from different universities. These students are selected from reputed universities of the world.

To support the screening and selection procedures at the units, J&J also supports its divisions through different programs. This indicates that to hire creative and ambitious people for its organization, the company selects best students from these universities for them to learn and grow. The criterion used for selection has content validation, as people are oriented about the content and situation that they are to about face at their jobs. Employees are constantly assessed for development and administrative purpose.

The other alignment to the strategy can be observed by offering everyone the opportunity to apply for a profession in J&J. The company for the sake of expansion into other regions relies on e-referrals. This is to ensure that the company welcomes everyone from around the world to pursue their career path with this company. Presence of J&J around the globe is an indication to employees that people across nations will be provided ample opportunities to enter into this dynamic field.

For management of businesses, the company recruits employees that have a master's degree in the relevant field. This supports the business strategy as business experience and knowledge is a prerequisite to manage a business.

2 TRAINING

In order to differentiate its products in the field of health care, apart from providing formal platform for learning, the employees are also provided with opportunities to learn on the job.

It is a significant feature for any organization adopting a differentiation strategy to train its employees so as to compete in future. Ideas are floated in different training sessions where diverse group of people interact and enhance the perspective of the company.

External consultants are made responsible to conduct these training sessions so as to bring an objective outlook to the formal gathering. It is a common belief around the world that external aid brings in new ideas with them. So to support the strategy of innovation where creativity and imagination is the name of the game, Johnson & Johnson utilizes outside support. Thus, aligning its Human Resource practices completely with that of its business strategy.

For retaining high caliber people in its organizations, the company also provides facilities to its employees to continue their studies. These amenities sustain innovation and ingenuity within the organization, which later serve as a competitive edge to the company.

3 EMPLOYEE DEVELOPMENT

To advocate the values prevalent in the company, employees are provided with developmental openings. The concept of leadership is engraved in the minds of the employees, as it is a part of shared belief across the organization. Alliances, innovation and organizational development all form a part of company values that are communicated across geographic boundaries.

The leadership aspect elicits the standards that are to be achieved by the employees. The standards set are flexible, achievable, and are a source of employee evaluation. These standards enable management to determine the performance of the employees. Therefore, to optimally reach a goal, the company has specific principles that lead employees towards more creations and developments.

For motivation of employees, these leadership programs also indicate and establish succession-planning process so as to enhance the productivity of capable employees. Interaction between an employer and employee for determining a career path is an essential component of the leadership process. Open communication allows employees to freely discuss the views with the supervisor and later on build upon their ideas. To and fro of ideas along with feedback enhances the organization effectiveness and operational performance.

4 COMPENSATION

The performance targets set at each unit are different from the other. Therefore, rewarding individuals according to the different targets set vary. However, standardization of compensation package can be seen in all Johnson & Johnson units. The standardized package comprises of salary, bonus, stock, stock options and award programs etc.

Equity approach can be observed when developing the compensation package at J&J. Comparison of pay structures with the market pay structures help J&J compensate their employees above average. Competitive pay structures help retains the talent at J&J. Bonuses, rewards, and other stock options are a source of motivation for the employees.

Another distinguishing factor that separates the practices of J&J from the rest of the industry is that due to its decentralized structure, individuals are paid according to their own performances regardless of the performance against set standards. Autonomous units pay employees according to their own small company environment.

Hence, it can be stated that for a differentiator, monetary and non-monetary compensation are an essential feature. Maintaining and sustaining the innovative edge within itself, one has to recompense its people according to their skills and abilities.

5 PERFORMANCE MANAGEMENT

Recent trend within the organizations is that multiple raters provide input into the evaluation of the employees. The major advantage of this technique is that it provides a mean for minimizing bias in an otherwise subjective evaluation technique. The performance appraisals system complies with the code of conduct or values shared as they are used for developmental and strategic purpose.

Strategic alignment is therefore, a significant feature at Johnson & Johnson. The performance management system links employee activities with organizational goals. The performance management system in the end describes the performance of an employee in a summarized fashion.

12.6 CONCLUSION

From the above analysis, it can be observed that Johnson & Johnson's business strategy is perfectly aligned with its human resource practices.

12.7 KFC

Fast food sector gained tremendous success in late 80s. New segments in the fast food industry emerged in the market. The reason behind the success of this industry is attributed to increase in the number of two-income families. Due to the rise of income, and change in the demographic trends, fast food industry appeared as one of the largest sector in the industry.

KFC gained achievement in the chicken segment due to its secret recipe of fried chicken. KFC has more than 200 outlets in the form of franchise outlets across United States. Outside United States, KFC has more than 11,000 restaurants around the globe. Elimination of its name from Kentucky Fried Chicken to KFC is an indication that KFC desires to expand its operations outside its original boundaries; underlining the fact that it would be available in every country of the world irrespective of its origin.

The success of KFC can also be ascribed to the warm and inviting culture of KFC. The popularity of KFC is also due to the icon it is famous for, that is, Colonel Sanders. Job security and permanence are unique features of KFC culture. Apart from providing safety and security to its employees, the restaurant also takes into consideration the convenience and security of its customers. This security need of customers is fulfilled through proper locations and healthy environment. However, the increasing turnover rate has been due to overtime and overload of workers. In spite of providing better locations and healthy environment to the employees, the employees are also made to work after hours because of inefficiency in some of the procedures, such as, chicken shackles etc. Intense competition from other fast food chains call for increased number of programs for retention of employees.

The learned and experienced management of KFC has also been a major factor in the attainment of its goal. Serving of traditional food at KFC restaurants is also able to attract the individuals of different countries.

Team spirit can also be observed in KFC Restaurants. The art of motivating teams and rewarding them according to their performance is an essential feature at KFC. Fun loving culture, qualified management and recognition of employees is a significant facet at the organization. The values and the shared beliefs at KFC are the guiding factors for the employees and company. The morals and principles emphasize that it is a people oriented company where people enjoy their work and work with zeal and zest. KFC operations and practices support these values and beliefs.

The diversity like most of the global organizations is maintained in KFC. KFC is involved in various diversity recruitment events that invite people from different backgrounds, religions and fields. Diversity level is also maintained at the suppliers' level as KFC is involved in diverse activities with minority groups to ensure the strategic affiliation with minority groups. The minority groups are

provided ample opportunities to compete with other supplier groups and to work in collaboration with YUM group.

The strategy followed by KFC is '*Differentiation and Low Cost Leadership*'. This strategy can be depicted through the variety of offerings available at KFC. Along with the variety of offerings, the servings are available at reduced prices due to reduction in overall costs. The product offerings are less expensive and easier for customers to handle. To minimize the cost of company owned restaurants, the company started relying on franchise outlets. This helped them lower their operational and management costs. These activities indicate that KFC along with introducing new products to its customers also believes in lowering its costs.

12.8 HR PRACTICES

The practices of KFC according to its business strategy are as follows:

1 RECRUITMENT AND SELECTION

KFC recruits and employs staff that is committed to its organizational goal of expanding into other regions and fulfilling the needs of its customers. Team players are especially welcome at the organization as working in teams is an essential criterion at KFC.

Element of change is visible when KFC enters into new countries with new needs of customers to serve. To fulfill the requirements of the newly targeted segment, the organization maintains the same standards for hiring people at franchised outlets. Customization of products is a significant feature of globalized organizations. It therefore, customizes the products according to the needs and wants. However, standard operations and activities help it maintain low costs.

It can be seen that innovation and creativity is not amongst the selection criteria set by the management. Thus, it can be stated there is no alignment between the business strategy and the recruitment of selection procedures.

2 TRAINING AND DEVELOPMENT

The company, in order to sustain the standardization of procedures has same training for all the outlets that are operational. The employees undergo a formal training process so as to get acquainted with the environment, culture and service techniques. These training and learning sessions are to ensure that the employees adhere to the principles and values laid down by the management. Standardization and maintaining low cost complement each other, indicating that the induction and orientation sessions align with the business strategy of low cost leadership.

Employees are later on trained and taught about their relevant fields. Employees at all levels are provided and educated about the skills to run a successful business. Starting from low management to top management, the employees undertake a training program, as preparation for future is a key constituent behind the success of KFC. The training sessions are also customized according to the relevant fields.

For the development of its employees, the organization provides ample opportunities in the form of scholarships and various learning avenues. This facility is available to either a franchise worker or a company owned worker.

It is therefore, analyzed that for a company to retain and motivate highly committed people, KFC offers considerable prospects for the development of its employees and employers. An important aspect for a company following a differentiation strategy is to arrange training opportunities for employees. These training sessions can be beneficial as employees learn about new ideas and techniques. Another important factor for training at KFC is to teach employees of the different standardized techniques for manufacturing purpose. These standardization method trainings help employees in lowering overhead expenses that form an essential feature of low cost leadership strategy.

3 COMPENSATION

The organization provides with monetary as well as non-monetary rewards. Monetary rewards include bonuses, medical coverage, insurances and profit shared due to the concept of profit sharing in the organization. The non-monetary rewards include recognition in the form of dinners, certificates, vacations and various recognition programs. These non-monetary programs and packages can also be used for retaining employees.

According to the business strategy of differentiation and low cost leadership, the compensation package at KFC helps it to retain highly efficient people at KFC. Profit sharing technique is also a source of motivation for the staff working at KFC. The company to increase the productivity level of the organization can introduce gain-sharing technique as it relies on working and operating in teams.

4 PERFORMANCE MANAGEMENT

Performance appraisal is a prominent part of HR practices at KFC. The performance appraisal is designed especially for a service sector company that takes into consideration different aspects of customer satisfaction. Cleanliness, accuracy, speed, hospitality and speed are all a major factor in customer service. The performance appraisal, therefore, supports the practices implemented in the organization.

It can also be viewed that strategy of low cost leadership is also observed through the concept of accuracy and speed. This indicates the standardization of procedures leading to reduced costs and overheads. Hence, it can be stated that the business strategy aligns with the performance appraisal that is specifically designed by the management.

12.9 Conclusion

The above analysis indicates that the business strategy is aligned with the Human Resource Strategy.

12.10 COMMON GROUNDS

From the analysis of the above companies, it can be stated that organizational fit is visible in all the three organizations. The business strategies adopted by the multinationals and the global firm indicates that the human resource practices align fairly well with the strategy followed.

For a company like Microsoft, differentiation strategy has an alignment with all the HR practices. It can however, be argued that the compensation packages do not support the organizational fit. But in terms of increasing productivity and for the purpose of innovating and creating new products, the company has designed a salary structure in such a manner that the basic salary given is lower than the competitors. In the short run, it may be a demotivating factor for the company but in the long run, this practice leads to higher productivity and efficiency.

Apart from the compensation package, another factor that restrains the workers from working at Microsoft is the unlimited working hours. Long working hours hold back the employees from optimally utilizing their abilities. Another practice that deviates from the ideal situation is the performance management system at Microsoft. The employees are rated according to a forced distribution system. Forced distribution system implemented in the organization is a weakness in the human resource system that overlooks the performance aspect of the employees showing that alignment is required when it comes to performance management system at the organization.

Johnson & Johnson has also adopted a differentiation strategy. For compliance with the business strategy at this organization, the positive aspect can be viewed in the regard that starting from recruitment till compensation, the human resource practices align with the business strategy. To sustain the core

competency through the differentiating and innovative feature, the company hires intelligent and hard working graduates from reputed universities. Training sessions are conducted in order to develop the skills of highly capable individuals. Compensation package in terms of monetary and non-monetary terms is highly satisfactory. It can therefore, be concluded that organizational fit is observed in the organization like Johnson & Johnson.

As for KFC, the strategy followed is that of differentiation and low cost leadership. Standardization of techniques and procedures is an indication that the company is following low cost leadership. The distinguishing feature is visible in the manufacturing process that is able to produce unique products. The company spends healthy budget in the staffing of competent employees and reduces its overall costs through the consistent practices.

It can therefore, be viewed that organizational fit is depicted in KFC that helps it hold a dominant position in the chicken segment.

In the end, it can be concluded that organizational fit is an important feature in the organizations that needs consideration and concern by the management of the organizations. Its importance is emphasized in sustaining core competency at the organizations and in gaining a competitive edge over the competitors.

CHAPTER # 13

CONCLUSIONS AND RECOMMENDATIONS

One of the key challenges for the leaders of any organization is to provide a sense of direction and a focus for the organization's activities. Ideally, strategic direction involves creating a situation in organizations where the present is being driven from the future, rather than simply being seen as an extrapolation from the past. In changing times there is a greater need for clarity of business direction than in more stable times when the status quo provides employees with guidance as to what is expected of them. If employees are able to contribute their skills in the most effective way in order to realize business aims, it helps if people know what these aims are. People need to know what they are expected to do and why.

Some organizations make clear their medium-term aspirations through vision and mission statements. In the absence of vision, people often gain their understanding of where the organization is going from statements about its purpose, however ill defined, from statements of business values and other broad ways of indicating what the organization is about and where it is heading. In some organizations, the business direction is made clear in strategic imperatives and the business plan.

Business strategies tend not to be made in isolation – they should take into account the changing needs of external stakeholder such as customers, the changing business environment, including markets, and the critical resources

needed to carry out the strategic aims. The strategic availability of critical resources includes such factors as capital and technology, but increasingly relies on people – their brainpower, access to information and ability to learn new approaches.

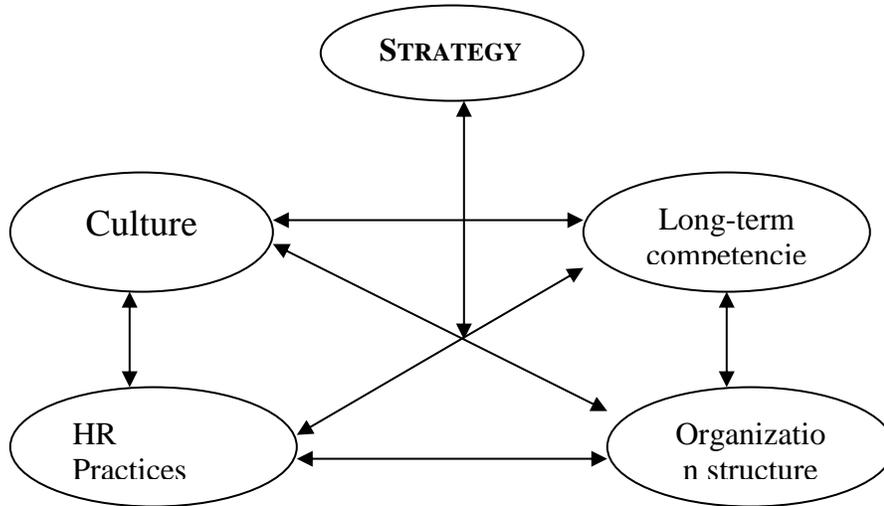
HR planning is critical to the effective development of strategy since it should identify gaps and surpluses in capabilities as well as issues of utilization of talents. Indeed so central is the identification of organizational capability considered by some researchers that they argue for an enhanced role for HR planning in overall strategic planning.

Many organizations are now grappling with the need to recruit and retain fresh talent. Finding good people is becoming difficult. Measuring the impact on the bottom line of retaining talent is always difficult, even with climate surveys and other forms of feedback. The cost of not retaining and having to recruit a new employee, is equivalent to two and a half times the person's salary, not to mention the loss of morale and money apparently wasted on training the departing individual. The company has invested heavily in management development from top down.

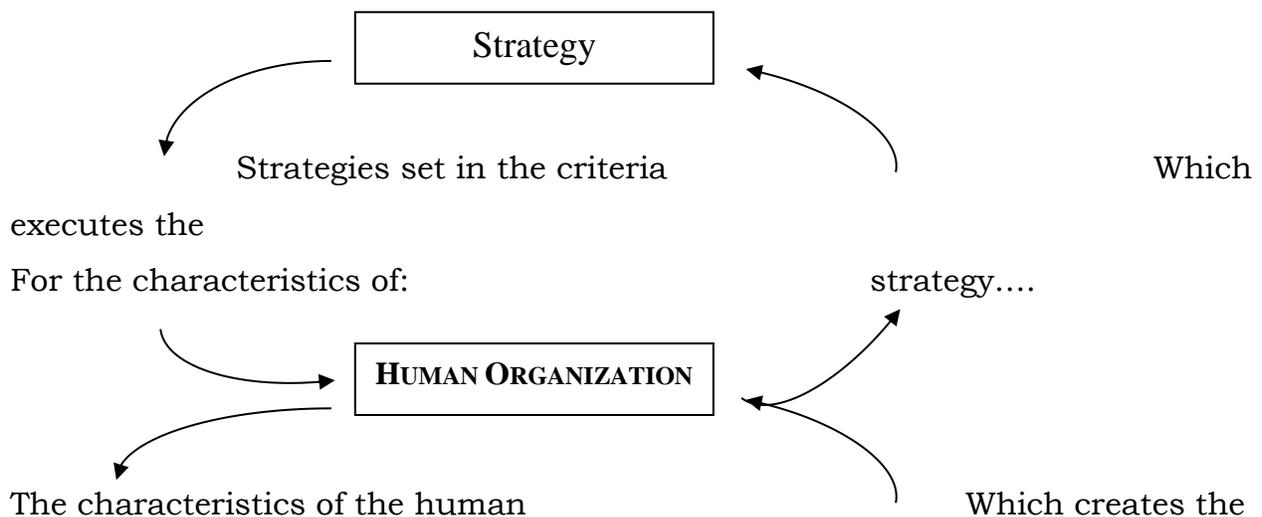
There is no one panacea for retaining people. Seeking to use reward as the means of motivating people is a waste of time. Blanket solutions to individual needs tend to backfire. A tailored yet strategic approach is most appropriate to the management of recruitment and retention.

From the research conducted, it can be concluded that the common grounds between the three companies analyzed is that whether a company belongs to a manufacturing sector or a service sector, strategic alignment plays an essential role. Companies try to align their Human Resource practices with that of the business strategies. Organizational fit can be determined in all the three companies. When following a differentiation strategy the manufacturing segment of the companies require innovative and creative personnel for their companies.

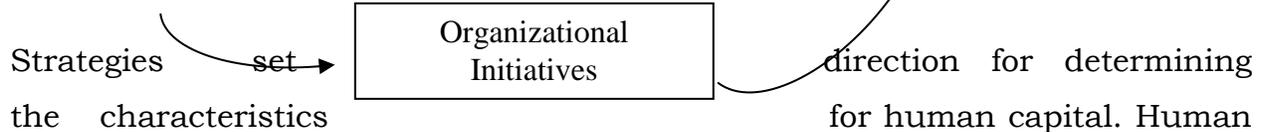
If however, the company follows a low cost strategy, the companies try to lower their operational costs through standardization. But the common grounds for strategy implementation are same for different companies.



The performance of a system and implementation of a strategy is not the sum of the performance of its parts taken separately, but the product of their interaction. In all types of organizations, linkage between business strategy and human resource management is important for assessing the alignment. The closer the alignment, the better the organizational responsiveness and hence the ability to adapt to customer needs and maintenance of competitive advantage. The basic framework for all organization is as follows:



organization set the criteria for:



capital later set the criteria for organizational initiatives. The interlinking of all these components lead to the development of strategy along with the development of human resource management.

If however, it is assumed that strategic alignment plays a vital role in the success of organizations, then considering the human resource practices of the organizations as mentioned above, following recommendations are given:

13.1 COMPANIES FOLLOWING A DIFFERENTIATION STRATEGY

For companies following a differentiation strategy, the selection and recruitment procedures require hiring of competent innovative workforce that is able to engrave new ideas in the product and operations of a company.

For companies like Johnson & Johnson and Microsoft, special consideration is given to those who are creative and bring in new ideas to the company. KFC, on the other hand, though relies on the differentiation strategy, yet its selection and recruitment procedures fail to take into account the aspect of differentiation.

It is therefore recommended that for an organization to compete in highly dynamic world, it must align its practice with the strategy it follows. Recruitment is one way of building intellectual capital. The companies, therefore, must follow and build upon intellectual capital in order to compete against the competitors. Employers can engage the potential commitment of young people by redefining work in terms of projects, which offer variety and learning.

The second most important feature that requires attention by the management of the companies is the aspect of training. Training plays a large part in changing attitudes and skill levels. On job training along with other formal training avenues are introduced by companies so as to prepare their workforce for future challenges. It is therefore, recommended that employees must undergo a training procedure that is aligned with the direction it has set. Links between training and development activity and the business strategy depend very much on whether training is an integral part of the HR strategy and whether this is fully aligned to business needs. Companies that focus on the competitive positioning through differentiation are likely to place a greater emphasis on process innovation and specialization of distinct skills. Similarly, strategies focused on realizing strategic intent are likely to lead to competencies, which help the organization to compete effectively.

The third important aspect is the aspect of compensation and reward management. If organizations require high levels of flexibility of employees, reward systems may also need to be flexible. Job grading, reward and development system must be linked up with future opportunities. The move towards more flexible reward strategies reflects the need to retain and attract key employees. Thus, for retaining people and motivating them require designing a compensation package that is better than the rest of the industry. Microsoft offers its employees with a salary package that is below the industry average. Microsoft does offer its employees with non-monetary benefits, but it is recommended that the company must offer the employees according to the effort they put in for differentiating their products.

Performance management is the mean to evaluate the performance of employees. Objective measure is the key to success for companies following a differentiation strategy. Microsoft should introduce a more objective measure for the evaluation of its employees rather than measuring them on a predetermined scale. In order to retain people and to lower the turnover rate, the companies must commence

their practices in a fashion that eliminates the element of subjectivity from the organization. The four key elements of performance management must be taken into consideration when designing the appraisal system:

- A common understanding of the organization's goals
- Shared expectations of how individuals can contribute
- Employees with the skill and ability to meet expectations
- Individuals who are fully committed to the aims of the organization.

13.2 COMPANIES FOLLOWING A LOW COST STRATEGY

At a practical level, to create the condition for high performance, HR processes need to be aligned to the ways of working. Companies that follow a low cost leadership strategy must undergo the following steps:

- Highly selective recruitment. This selective recruitment will in the long run prove beneficial for the company as low cost would be incurred on it.
- Emphasis is on the job training. Formal training activities lead to high overhead costs. Companies that follow a low cost strategy have standardized operations and procedure. One time training session for introducing the workforce to different procedures may result in higher profits at lower costs.
- Measurement of employee performance against a set standard can lower cost for the company.
- A company with low cost leadership strategy sets its pay structure lower than the rest of the industry. But in order to retain people, it is recommended that companies must match the pay level prevailing in the market rather than paying them below the market level or above it.
- It is recommended that the organization with low cost leadership as the business strategy must provide secure environment to the workforce with high level of job security.

CHAPTER # 14

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