**HR drives strategy at XYZ Inc.**

XYZ is a welding major based in US with $1 billion in sales in the year 1995. The product portfolio is mainly industrial such as electric welding machines, welding consumables and automatic electrode position robots. XYZ has been a pioneer and leading player in US market for decades. The US steel and steel using industries were regulated till 70’s and no outside competition was allowed. The welding product market in US is stable and mature. It is also highly fragmented with low entry barriers, presence of local players, and medium level of technology. But consolidation has led to competition between 3-4 players only. XYZ has competed on account of **low priced and high quality products** all through. It has been able to keep its pricing policy of cost plus basis due to **low costs of production and sales**. The prices of its products have grown **only one fifth of inflation** growth after 1930. **Quality record** has been also immaculate and in certain sectors such as refinery and pipelines, where customers do not worry about price, XYZ has been the preferred choice. The **strategy performance drivers** are **low cost, high quality and close customer contact** and are driven by company’s unique manufacturing system and Human resource policies. On the manufacturing side, company has adopted **backward integration to maintain quality and costs in products like welding machines**. **The raw material supply** is almost **just in time**. Many of the machines have been old but have been **continuously upgraded by in-house innovations**.

**The productivity of the** XYZ workers is **atleast twice as high** as of any other manufacturing organization using steel and with more than 1000 workers in US. During 1993, XYZ was on the brink of defaulting on bank’s payment and was on the verge of failing to pay its employees yearend bonus for the first time, when workers raised their daily **production from $1.8 to $3.1millions**, against a target **of $2.1 million** that CEO had set. The sales people were able to sell it and company successfully paid bonus and honored its obligations. **The backbone of workers’ productivity** is **a piece rate and bonus system** that has existed from 1930’s onwards. The founder leader believed that productivity gains should be passed on to customers, **employee is an entrepreneur (employees held 70% of stock),** and outside shareholders are **absentee non -contributing stakeholders**. Organization was **egalitarian formally and culturally, reflected in CEO to worker’s compensation of 20:1**.

***Compensation, Performance Appraisal and Incentive system***: Basic wage levels are set by job evaluation and wherever possible **base wages are converted to piece rates**; all production workers are paid on piece rate basis. Employees are also appraised by supervisor on **four factors twice a year** on the appraisal cards shown in exhibit. The factors of evaluation are **quantity, quality, dependability, and cooperation/ suggestions**. The marks on the card were converted to numerical scores, which were forced to **average 100 for each specified group**, usually subordinates of supervisors. Employees get **yearend bonus** as a multiple of following **three factors**: **total annual earnings**, **marks they get in biannual performance appraisal**, and **share of company profits** (calculated as some % **age of base wage**). **This bonus has averaged 90% of the basic wage since** its inception in 1934. In order to maintain quality focus, only those pieces which are not rejected are counted for piece rate earnings. Once a warranty claim reaches factory, the component is traced back to worker and points are deducted. Result has been that **workers are the best paid among competitors, as much as more than twice**. **The effect of incentive scheme** has been **that workers and salespeople work like entrepreneurs to earn huge incentives**.

***Employee Ownership*:** **Financial involvement** is through stock ownership **upto $ 10,000 a**nd redemption at market rates without brokerage. There is a **strong advisory board** which has employee representatives and though it advises only, but its recommendations are taken seriously. Advisory board also analyzes the **employee suggestions** and recommends implementation. **The communication barriers** are few as any employee can walk in the doors of CEO and question about any management decision. Due to long associations between management and workers, these channels became strong. Another important feature of empowerment **is job security** in form of guaranteed employment of 30 hrs per week and 49 weeks per year for employees with minimum tenure of 3 years. In US, company has not laid off a single worker till date despite losses and recession. **Sense of ownership is reflected in the behavioral impact as XYZ has rarely felt the need for supervision**. **The supervisor worker ratio ranges from 1: 60-100**, which is very high. The employees have **not felt the need to unionize** in view of their satisfaction with the system, given that XYZ is not averse to the unions.

*Recruitment and training*: **To reinforce ownership, reduce costs**, jobs are advertised internally first and then employees are selected from outside. Due to long tenures, there is strong **internal labor market** with promotion from within, and most of the recruitment is conducted at entry levels. Another feature has been the **employment of the family members**. This again reinforces the working norms, as referent is always responsible for the new incumbent’s performance. The **selection process** is based on interviews by **personnel department followed by a committee of vice-presidents and supervisors and finally by the reporting superviso**r. For workers, **education/experience is not much emphasized** and **no psychological testing or aptitude test** was conducted. The selection to application ratio was **1:12**. For sales position engineering degree was a prerequisite till 1992, but not now. The role description of the sales job is ‘contact consultant’ to customer, and incumbent needs good knowledge of the product as well as the manufacturing process. Thus recruitment emphasizes the sense of ownership as well as need for salesman to develop close contact with customers. Training is mostly on the job (OJT), and class room training is conducted for very specific needs. Every new employee trains and works at the shop floor for one year before being posted in the designated job. This brings close understanding of the product and manufacturing, which helps in the job e.g. in sales and services. OJT emphasizes need to be efficient on ones work as well as knowledge of product and process for sales engineer. Probation is tough and only those fitting in the high production culture stay, as reflected in **high probation period turnover of 25%** compared to **1% post probation.**

Despite all these policies in place local newspaper described XYZ work pace as “…brutal pressure cooker in which employees are constantly graded and peer pressure borders on the fanatical”.