

# HR Practices and Competitive Strategies: The Case of LIC of India

## Abstract

*A set of effective HRM practices can influence company performance and help the company in achieving a sustainable competitive advantage. The Life Insurance Corporation of India (LIC), established in 1956, is among the world's largest life insurers. With magnificent performance, at enormous scale, LIC dwarfs the other 23 life insurance players in India. LIC is fully owned by the Indian government; and given the popular perception that privately-managed organizations perform better, LIC's sustained success and dominating growth is intriguing. This study inquires into HR and management practices at LIC and attempts to link such practices to past research on competitive strategies to understand and explain the contributing factors for its exemplary performance. This paper examines the counterintuitive practices adopted by LIC, which a typical organization would not normally do, and how far it is in line with the competitive strategies in line with the earlier research findings.*

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## Introduction

In an era of heightened competition, effective human resources management (HRM) can no longer be content with simply executing a standard set of practices. There is a need constantly to develop and implement improved HR practices so as to remain competitive. The ability to gain and retain competitive advantage is crucial for organizational performance and human resource is recognized as a crucial source of sustained competitive advantage.

To achieve a competitive advantage from human resource, there is growing importance to perceive HRM from strategic point of view and to relate human to resource management systems (HRM systems) with overall corporate strategies. In spite of a growing body of evidence to support the enormous financial performance obtained through effective people management, organizations are still moving in the opposite direction by utilising practices that are contrary to what is known regarding sound people management (Huselid, 1995; Huselid, Jackson & Schuler, 1997; Pfeffer, 1998). The result of effectively managing human resources is an enhanced ability to attract and retain qualified employees who are motivated to perform, and the results of having the right employees motivated to perform are numerous. They include greater profitability, low employee turnover, high product quality, lower



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production costs, and more rapid acceptance and implementation of corporate strategy. These results if coupled with competitors who do not have the right people motivated to perform, can create a number of competitive advantages through human resource management practices (Schuler & MacMillan, 1984).

## **Competitive Strategy**

### **Strategy**

In the literature on and for capitalist management, the notion of strategy has become increasingly popular. The strategy concept is extracted from the Greek word 'strategos', a general, which in turn comes from roots meaning 'army' and 'lead' (Legge, 1995: 96); but the Greeks provided no clear description. Conventionally, strategy is assumed to involve the planning and directing of the organization towards some goals and objectives. In any business, there are certain, market-related issues, which are strategic and there are also certain, market-related decisions, which are strategic. These sets of strategic decisions are interrelated. We need a theory of strategy, which

acknowledges both and does not downplay one or the other. Schermerhorn, 1993 defines strategy as a comprehensive plan of action that sets critical direction for an organisation and guides the allocation of its resources. Child, 1972 defines strategy as a set of fundamental or critical choices about the ends and means of a business.

### **Competitive Advantage**

When a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors, then it is said that the firm has a competitive advantage. And when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy, then we can say the firm has a sustained competitive advantage (Barney 1991).

### **Competitive strategy**

Porter (1985) defines the competitive strategy as, the positioning of a company in its competitive environment. Porter argues that the fundamental basis for above average performance in the long run is a sustainable competitive advantage; without a sustainable competitive advantage, all a company can do is "harvest" the windfall i.e. skim off the largest profits it can for as long as it is able to do so. Porter postulates two basic types of competitive advantage: Cost Leadership Strategy and Differentiation Strategy

### **Cost Leadership Strategy**

the primary focus of a cost leadership strategy is to achieve low costs relative to competitors. Lowering costs lead to lowering prices, which can increase demand for products or services, but if the product or services cannot be produced at a lower cost it also reduces profit margins. Often, lowering costs requires additional investment in automated facilities, equipment and employees skill.

### **Differentiation Strategy**

The primary focus of a differentiation strategy is creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. In other words, the focus is on creativity and innovation which have long been recognized as necessary for bringing the required change to obtain the competitive advantage (Dean 1998). Schuler and Jackson (1987) have contributed

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from Porter's discussion of competitive advantage, three strategies that organizations can use to gain competitive advantage: Innovation, Quality enhancement and Cost reduction:

### **Innovation strategy**

the primary focus here is developing products or services different from those of competitors or offering something new and different. A vital component of any innovation strategy is getting employees to broaden their skills.

### **Quality enhancement strategy**

the primary focus here is enhancing the product and/or services. Quality enhancement often means changing the processes of production in ways that require workers to be more involved and more flexible.

### **Cost reduction strategy**

firms typically attempt to gain competitive advantage by being the lowest cost producer.

This paper examines the counter-intuitive HR practices adopted by LIC, which may not be novel but are distinctly different from the practices being adopted by the private players and tries to link it with the differentiation strategy as suggested by Porter and the Innovative strategy as suggested by Schuler & Jackson to the HR and management practices

### **Link between HR Strategies in LIC and Porter's Differentiation Strategy**

The primary focus of a differentiation strategy is creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. The HR practices adopted by LIC can be clearly distinguished from those of its competitors. The areas of differentiation in LIC are as follows:

#### **● Structural Characteristics at LIC**

Most management scholars and business strategists advocate specialization and division of labour as the means to building efficiencies of scale. The industrial revolution is a prime example of large businesses achieved through division of labour; and this strategy of specialization remains dominant even today. However, LIC has done quite the opposite: large-scale success at LIC is engineered, not by specialists, but by generalists - who are products of the counter-intuitive HR practice of managing large-scale risk through generalization. Each year, about 10% of its workforce is relocated to new roles and/or functions via transfers and/or promotions and much of this mobility is effected during April and May each year.

The success of this strategy is dependent on the ability of LIC to retain its workforce over several years, even decades - which it does. The success of a HR practice is judged by its ability to retain the workforce. There are many advantages of generalization. If specialization is overly stressed it may have a propensity to sub-optimize performance in one field or area, which may not contribute to overall objectives of an organization. In addition, in motivating staff it may be necessary to have a variety of tasks performed rather than specialization.

The greatest challenge faced by the private players is attrition, both in terms of the employees as well as agents, which was about as high as 35- 40 % in the previous years.

#### **● Recruitment**

The recent trend in recruitments adopted by all the leading Insurance companies ranges from head hunting, poaching, employee referrals to e-recruitments. A strikingly opposite trend is seen in the Life Insurance Corporation of India. LIC still goes through a strenuous procedure of selecting

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people and does not do lateral hiring - a popular approach to talent acquisition and growth – instead, it invests significant sums over 8 to 10 years to shape officer-recruits into generalists-cum-entrepreneurs, who acquire deep understanding of its overall business and inter-dependent needs of multiple stakeholders.

Besides getting the right people in the door, recruiting has an important symbolic aspect. If someone goes through a rigorous selection process, the person feels that he or she is joining an elite organization. High expectations for performance are created, and the message sent is that people matter (Peffer,2005)

- **Socialisation**

Dominant HR perspectives about on-the-job coaching indicate that it is the role of a manager to coach his/her subordinates. However, the culture at LIC is embedded with the wide-spread practice of junior officers coaching senior executives. Most transferees and promotees at LIC, learn their new jobs from their junior managers. This practice of coaching from the bottom-up is another reason why LIC is a rare entity. What is even more fascinating is that such coaching occurs without any official policy or pressure. This is a practice of people freely sharing knowledge to make the boss independent and successful. In preparation for their new roles, LIC offers a five-day induction and that too for people at select career levels only.

- **Technology**

LIC is also a technology pioneer, in that, it has adopted advanced computing technology (enabling efficient processes) during more than 50 years when it has practiced mobility and generalization. It removes the preconceived notions of how government organizations function. It is interesting to see how a government-owned corporation like LIC manages to outperform a competition that has adopted the “proven” path of specialization.

- **Customer focus**

LIC has started Customer Contact Programmes for loyal customers who have a single premium of more than 5 lakhs Sum Assured or paying more than 50 thousand premiums annually. LIC introduced a Gold Club for such customers with an objective of delivering superior service to the gold club customers by having gold club desks in each branch offices and arranging meetings with such members each year. The gold desks are yet to be made functional in branch offices. It is a popularly held perception among the customers that insurance companies give more importance to the new customers and ignore the existing ones. This initiative of LIC proves that it is highly responsive and is striving hard to create the differentiation in terms of the service provided to the customers.

### **Link between HR strategies in LIC and Innovative strategy**

Schuler and Jackson 1987 have contributed from Porter discussion of competitive advantage, three strategies that organizations can use to gain competitive advantage: Innovation, Quality enhancement and Cost reduction. They have pointed out a set of needed role behaviours for each of the three strategies that the firms’ members exhibit as well as a typology of HRM practices and linked them with each of the strategies.

The likely characteristics pointed out by them for firms pursuing innovative strategy are being linked to the characteristics existing in LIC basing on the secondary sources available. They are as follows:

- **Jobs that require close interaction and coordination among group of individuals**

LIC basically is a marketing organization. The jobs in LIC are moderate sized of the overall piece of work. One person does not work on a particular job from beginning to end. However the result of ones

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activities can be easily seen in the end. So the process requires co-ordination among people performing parts of the overall job and hence facilitates close interaction among group of individuals.

- **Performance appraisals that are more likely to reflect longer term achievements**

LIC in contrast to other private players still uses Confidential Report for appraising majority of its employees. It uses DOPA (Development Oriented Performance Appraisal) for employees belonging to Class 1 and uses 360 Degree Performance Appraisal for senior level managers only. The commonality in all of these appraisal techniques is that they focus on long term achievements rather than short term. For instance, an officer who is consistently rated excellent for 5 consecutive years is considered eligible for promotion to the next higher level. Similarly, a person who for some reasons is not able to perform well does not have to face the repercussions immediately. They are given considerable time to improve and if the performance level still remains to be low, then a series of steps are being taken like restricting their benefits, stopping their increments, decrements and the final resort being termination which happens after a minimum period of 5 years that too taking into account their cost ratio. The company also takes into account their previous performance and loyalty. If an employee has completed 7 years in the organization then demotion is taken as a resort before termination. These clearly indicate that the organization does not take into account short term achievements for appraising employees.

- **Broad career paths to reinforce the development of a broad range of skills**

As discussed above LIC follows a system of job rotation. Each year about 10-15 % of its employees are being relocated to a new position or role. Job rotation enhances in skill development of the employees and renders them fit for a variety of roles.

- **Compensation systems emphasizing internal equity rather than external or market based equity**

There is a considerable difference between the pay offered by private companies to their employees to that of LIC. LIC's compensation system is characterized by low basic pays. The pay structure of LIC is not market driven or in other words it does not aim at maintaining external equity. In order to build a climate of equity and fairness, it strives to focus on internal equity in paying its members than external equity and believes in a transparent approach when it comes to compensation.

- **Jobs that allow employees to develop skills that can be used in other positions of the firm**

An analysis of the jobs gives a clear picture that the employees have to exhibit a variety of skills other than only those required to get their jobs done. For example, the jobs of the development officers involve developing business through the agents. Their jobs are not just to bring business for the organization but to recruit suitable agents and see that they are trained in the required areas. It also develops the team management and the leadership skills of the officers which in turn helps them to function to their best in jobs involving higher responsibilities. The officers are appraised not just on a single criterion of their contribution to the overall business but on all of the aspects stated above.

## **Conclusions**

The link between the competitive strategies and the HR and management practices adopted by LIC is very strong as most of the practices are in line with the two strategies considered in the paper. However this study is only based on the secondary data, the information from primary source would have further substantiated this findings. LIC being a government organization, which are marked by formalization,

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has taken an off-beat path, while functioning within the given framework of rules and regulations. The insurance sector was open to the private players since 2001. It has been almost 10 years now but LIC still maintains itself as a leader among the 23 other private players in the market. With the many counter-intuitive practices that it adopts, and the culture of trust that it initiates among the employees is self explanatory of the exemplary success it achieves making it one of the rare companies which has maintained its position over the years. It is not only the policies and practices that can make or break an organization but also the people and their reliance on the organization.

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