

# **Personnel Management Concepts**

**MBA Second Year  
(Human Resources)**

**School of Distance Education  
Bharathiar University, Coimbatore - 641 046**

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Produced and Printed  
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EXCEL BOOKS PRIVATE LIMITED

A-45, Naraina, Phase-I,  
New Delhi-110028

for

**SCHOOL OF DISTANCE EDUCATION**

Bharathiar University  
Coimbatore-641046

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# **PERSONNEL MANAGEMENT CONCEPTS**

## **SYLLABUS**

### **UNIT I**

Personnel Management, Definition, Concept, Objectives, Characteristics and qualities of a personnel manager, Role of personnel manager, System approach to personnel management, Emerging role of personnel management, Role of personnel managers of tomorrow, Personnel Management in India.

### **UNIT II**

Personnel policies, Aims and Objectives, Need for Personnel Policy, Principles of Personnel Policies, Types of Personnel Policies, Procedures and Programmes, Personnel records and reports, Personnel Audit, Personnel Research, Meaning and Characteristics, types of research, Objectives of Personnel Research, Methods and tools of Personnel Research, Research Procedure, Sources of Personnel Research Information.

### **UNIT III**

Human resource planning, need, benefits, process of human resource planning, man power plan component, determination of the quality of personnel, Job Diagnostic Survey, job analysis, technique of Job Analysis data, job description, Minnesota Job Description Rewards, role analysis and technique of Job Analysis data- job specification Management by Objectives, Work rules, recruitment process, sources of recruitment, methods, recruitment practices in India, Scientific selection, selection procedure and Process, HRIS, Human Capital Management, Human Resource Accounting.

### **UNIT IV**

Employee training, distinction between training and development, importance of training, training methods, implementation of training, training evaluation, purpose and objectives of management development, need for executive development in Indian context, techniques of management development, performance appraisal, methods of performance appraisal, performance appraisal in Indian Industries. Performance Measurement purpose, Employee feedback and Development, equal employment Opportunity.

### **UNIT V**

The wage determination process, wage administration rules, factors influencing wage and salary structure and administration, administration of wage and salaries, wage differential, wage differentials in India, determinants of incentives, types of rewards, wage incentive schemes in India - guidelines for effective incentive plans. Employee Benefits and Services, factors influencing Benefits and Services, Costs, Leisure, Employee Security, Old Age and Retirement Benefits, Safety Engineering.

# UNIT I

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## LESSON

# 1

## INTRODUCTION TO PERSONNEL MANAGEMENT

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### CONTENTS

- 1.0 Aims and Objectives
  - 1.1 Introduction
  - 1.2 Definition and Concept
  - 1.3 Objectives of Personnel Management
  - 1.4 Characteristics of Personnel Management
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  - 1.8 System Approach to Personnel Management
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  - 1.10 Lesson End Activity
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## 1.0 AIMS AND OBJECTIVES

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The purpose of this lesson is to provide an overview of personnel management. After studying this lesson, you will be able to:

- Explain the features and functions of personnel management
- Describe the important roles played by a personal manager
- Outline the qualifications and competencies needed to become a personal manager

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## 1.1 INTRODUCTION

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Personnel Management is an important branch in Management of any business enterprise. It holds a key to all actions and successful management. It is also concerned with human and social implications of change in internal organization and methods of working and of economic and social changes in the community. The main aim is to establish a better coordination between all the members from top level management to down below the subordinates to have better cooperation, better focus to bring out innovative ideas, their objectives, understanding in the enterprise. Co-operative relationship is achieved within the enterprise by creating harmonious relations, genuine consultation and participation and system of effective communication.

Personnel management should designed in such a way it will have the capability to respond to the changes. Maintain a good relationship within the organization; meet the enterprise social and legal responsibilities. Human relations have to be nurtured constantly in the enterprise. Only the enterprise, which is conscious of this need, can achieve their targets by efficiently handling their available resources for a particular process.

Management basically deals with all the persons working in the concern who are responsible for managing an organization. Everyone in the organization will have certain responsibilities and duties in the enterprise. Personnel management includes planning and directing the applications, development and utilization of human resource in the enterprise. Employees, unions, public relationship also plays a key role in personnel management. So there is a need for personnel Management and planning of the members play a vital role in the Enterprise.

Every manager/administrator deals with certain functions of personnel management. Whether it is a school, college or an office, the administrator has to devote a fair portion of his time and energy to the management of the personnel. Invariably the success or otherwise of the manager is determined to a very great extent by his capacity to maintain efficient, dedicated and co-operative staff. Hence the importance of personnel management can never be over emphasised.

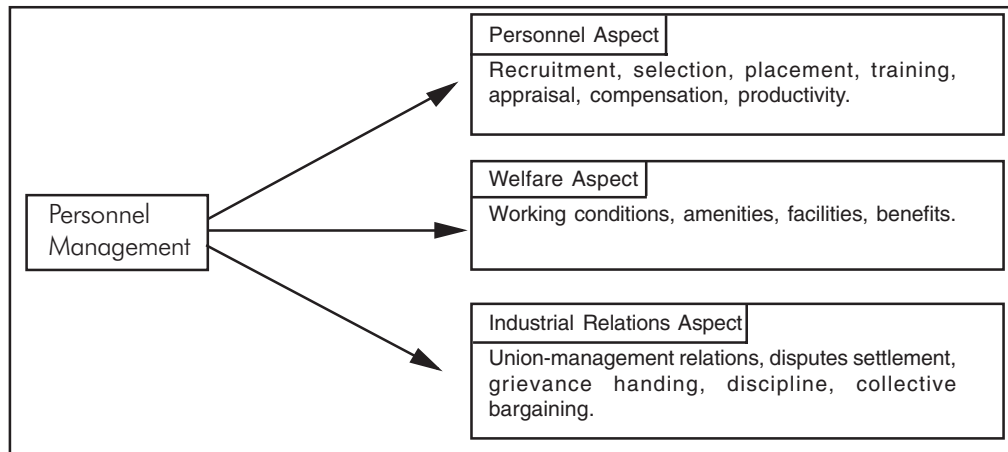
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## 1.2 DEFINITION AND CONCEPT

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Personnel Management is concerned with people at work and their relationships with each other. It may be defined as a set of programmes, functions and activities designed to maximise both personal and organisational goals. It ensures that the organisation attracts and hires qualified, imaginative and competent people. It involves the establishment of various policies to deal with employees and to retain them. To this end, it lays out the rules regarding working conditions, designs appropriate compensation plans, and

strengthens employer-employee relations. According to the National Institute of Personnel Management (NIPM) the three important dimensions of Personnel Management include:



**Figure 1.1: Three Dimensions of Personnel Management**

Personnel management is that aspect of management which deals with the people who constitute an organization. All organizations consist of people who choose to work primarily to satisfy some of their personal needs. These personal needs are not necessarily congruous with the needs and objectives of an organization. Sometimes, they can even be conflicting. But ordinarily a person works for an organization as long as the balance between his personal needs and those of the organization are favourable to each other.

Personnel Management deals with the following aspects relating to the people working in the organization:

- i. Job analysis and job description.
- ii. Wages and Salary administration.
- iii. Recruitment.
- iv. Placement and promotion. Transfers.
- v. Training and professional growth.
- vi. Performance assessment and report (ACR).
- vii. Discipline.
- viii. Trade Union Relation.
- ix. Welfare.

An ideal relationship between the working groups, between the employer and employee, is an indispensable part of the personnel management. This branch of management touches all types of management and is one of the major constituent key in managerial action and success. As there is a need for cooperation and cordial relationship amongst workers, effective management of employees or human resource in every organisation is a mammoth task. Thus, Personnel management is the nut and bolt of every organisation. Therefore personnel management has to cater two difficult tasks that requires coordination and efficiency and that is workers and work. On the effective cooperation of workers entirely depends on the successful management of the organisation. However man as a factor of production, has peculiarities unlike the physical factors which are subject to emotions, stress, desires and expectations.



Today personnel management is attaining more and more importance not only because of the special nature of the human factor of production but also due to the rapid change in the management process and other technological advancements. It plays a very vital role in building a sound structure of any organisation. Therefore Personnel management is referred to as "All Pervasive" that is it is so dynamic in nature that it is continuous, is born with the organisation, moves on with the organisation and comes to an end with the organisation, when the organisation itself gets dissolved or is wound up.

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### **1.3 OBJECTIVES OF PERSONNEL MANAGEMENT**

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The objectives of personnel management in any working organization are, to bring development of individuals, maintain a safe and effective environmental conditions, utilize the available resources, to ensure job satisfaction among workers. What are all the objectives to be focused?

- Social
- Personnel
- Enterprise
- Union

Social objective is concerned about how the enterprise creates new employment opportunities, how the productivity of the enterprise can be maximized, bring satisfaction to the work force, avoidance of wastage of resources and promote a healthy relationship between the human and the social welfare.

Personnel objectives specify the needs of the members by providing job security, maximizing the development of the members, provide proper working environmental conditions to workers. Enterprise objective is to bring a balance between demand and supply of the personnel and maintain competent workers in the enterprise. Union objective deals with formulation of personnel policies in consultation with unions and self-discipline within the enterprise.

Financial and physical resources required for a particular process to be done, and the members of the organization. Personnel Management is responsible for both the enterprise operating system and the workers. Other areas in which personnel management is expected to help the workers include maintenance of personnel records, determination of wage policy, methods and rates of remuneration.

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### **1.4 CHARACTERISTICS OF PERSONNEL MANAGEMENT**

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- a. Personnel management is concerned with employees, both as individuals and as a group in attaining goals. It is also concerned with behavioural, emotional and social aspects of personnel.
- b. It is concerned with the development of human resources. It optimises knowledge, capability, skill and potentialities towards attaining both employee- and organisational goals.
- c. Personnel management covers all levels (lower, middle and top) and categories (unskilled, skilled, technical, professional, clerical and managerial) of employees. It covers both organised and unorganised employees.

- d. It applies to the employees in all types of organisations in the world (industry, trade, service, commerce, economic, social, religious, political and government departments).
- e. Personnel management is a continuous process requiring constant reviewing, upgradation and integration.
- f. It aims at attaining the goals of an organisation, individual working therein and society in an integrated way. Organisational goals may include survival, growth and development in addition to profitability, productivity, innovation and excellence. Individual employee-goals may consist of job satisfaction, job security, high salary, attractive fringe benefits, challenging work, pride, status, recognition and opportunity for development. Societal goals include equal employment opportunity, protecting the disadvantaged and physically handicapped, minimising wage differentials and undertaking developmental activities.
- g. Personnel management is a responsibility of all line managers and a function performed by staff managers across the organisation.
- h. It is concerned mostly with managing human resources at work.
- i. Personnel management is the central sub-system of an organisation and it permeates all types of functional management viz., production management, marketing management and financial management.
- j. Personnel management aims at securing unreserved cooperation from all employees in order to attain predetermined goals.

### Check Your Progress 1

What are the objectives of Personnel Management?

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## 1.5 QUALITIES AND QUALIFICATIONS OF A PERSONNEL MANAGER

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In order to compete through people, HR managers have to do a good job of managing human capital – the knowledge, skills, and capabilities that add value to organisations. They must develop strategies for hiring, training, evaluating, compensating and retaining people in the most appropriate manner. They must be able to integrate technology, processes and people with corporate strategy and deliver cost-effective services to the satisfaction of customers. To perform these diverse roles, HR managers must possess excellent qualities of head and heart, in addition to having state of the art HR competencies, business competencies and change management competencies.

### 1.5.1 Qualities

- a. **Personal attributes:** The personnel manager, as in case of any other manager, must have initiative, resourcefulness, depth of perception, maturity in judgement and analytical ability. Freedom from bias would enable the personnel manager to take an objective view of management and workers. He must thus have intellectual integrity. Moreover, the personnel manager should be thorough with labour laws. An understanding of human behaviour is essential to enable him to be familiar with human needs, wants, hopes and desires, values and aspirations, without which motivating people can be an onerous task.

The personnel manager should possess other personal attributes like:

- i. **Intelligence:** This includes skills to communicate, articulate, moderate, understand, command over language, mental ability and tact in dealing with people intelligently, ability to draft agreements, policies, etc.
- ii. **Educational skills:** Personnel manager should possess learning and teaching skills as he has to learn and teach employees about the organisational growth, need for and mode of development of individuals, etc.
- iii. **Discriminating skills:** Personnel staff should have the ability and discretion to discriminate between right and wrong, between just and unjust, merit and demerit.
- iv. **Executing skills:** Personnel manager is expected to execute the management's decisions regarding personnel issues with speed, accuracy and objectivity. He should be able to streamline the office, set standards of performance, while coordinating, controlling and creating productive work spaces.

The personnel manager is expected to have leadership qualities, deep faith in human values, empathy with human problems, visualising future needs of employees, organisation, government, trade unions, society, etc.

- b. **Experience and Training:** Previous experience is undoubtedly an advantage provided the experience was in an appropriate environment and in the same area. Training in psychological aspects of human behaviour, labour legislations and more specifically in personnel management and general management is an additional benefit. Experience in an enterprise in some other executive capacity can also help towards an appreciation of the general management problems and a practical approach in tackling personnel concerns issues.
- c. **Professional Attitudes:** Professional attitude is relevant, particularly in the Indian context. The personnel manager's job, as in the case of other managers is getting professionalised. He should have patience and understanding and the ability to listen before offering advice. As mentioned earlier, he should have the knowledge of various disciplines like technology, engineering, management, sociology, psychology, philosophy, human physiology, economics, commerce and law. He must be able to combine social justice with a warm personal interest in people which must be secured by an uncommon degree of common sense, compassion and integrity.

### 1.5.2 Qualifications

The job of a personnel manager is complex. Meeting the ever-increasing needs, aspirations and expectations of employees is not easy. To complicate his role further, top management expects the personnel manager to:

- Convey its commands, instructions, policies and programmes to employees in an effective way;
- Liaison with line managers smoothly;
- Look after the safety and welfare of employees;
- Take care of the legal provisions governing the workplace;
- Offer expert advice on issues relating to human resource planning, recruitment, training, appraisal, compensation, etc.

In union-management relations, the personnel man is expected to absorb frayed tempers, notes of discontent and disagreement while creating a dialogue and bringing about peace. While discharging the above duties and responsibilities, he is not expected to lose sight of his moral and social obligations towards employees and the general public.

The question of prescribing a set of qualifications for a personnel manager, in view of the expanding list of tasks, makes the search for a suitable candidate rather challenging. Keeping the diversity and elasticity of the Personnel Manager's job in mind, the following educational qualifications may be necessary to achieve success, in addition to the personal attributes already mentioned.

- Degree from a recognised University
- Postgraduate degree/diploma in HRM/HRD/Labour Welfare/Social Work/Psychology/Industrial Relations/MBA with Specialisation in HRM.
- Degree in Law (desirable qualification)
- Knowledge of Local Language.
- More importantly possessing HR mastery, implying knowledge and understanding of areas such as staffing, development, appraisal, rewards, team building, and communication.

### 1.5.3 Business Mastery

HR managers need to know the business of their organisation thoroughly—its processes, products, customers, markets, people etc. This calls for an understanding of its technological, economic and financial strengths so that they can offer valuable advice and counsel to line managers while formulating and implementing strategies.

### 1.5.4 Change Mastery

Another important capability that HR managers need is to be able to influence others and guide changes in organisations. Given the multifarious HR-related changes influencing present-day organisations, HR managers must be able to influence others. This, calls for interpersonal and problem solving skills, in addition to creativity and innovativeness.

#### Check Your Progress 2

List the qualities of a Personnel Manager.

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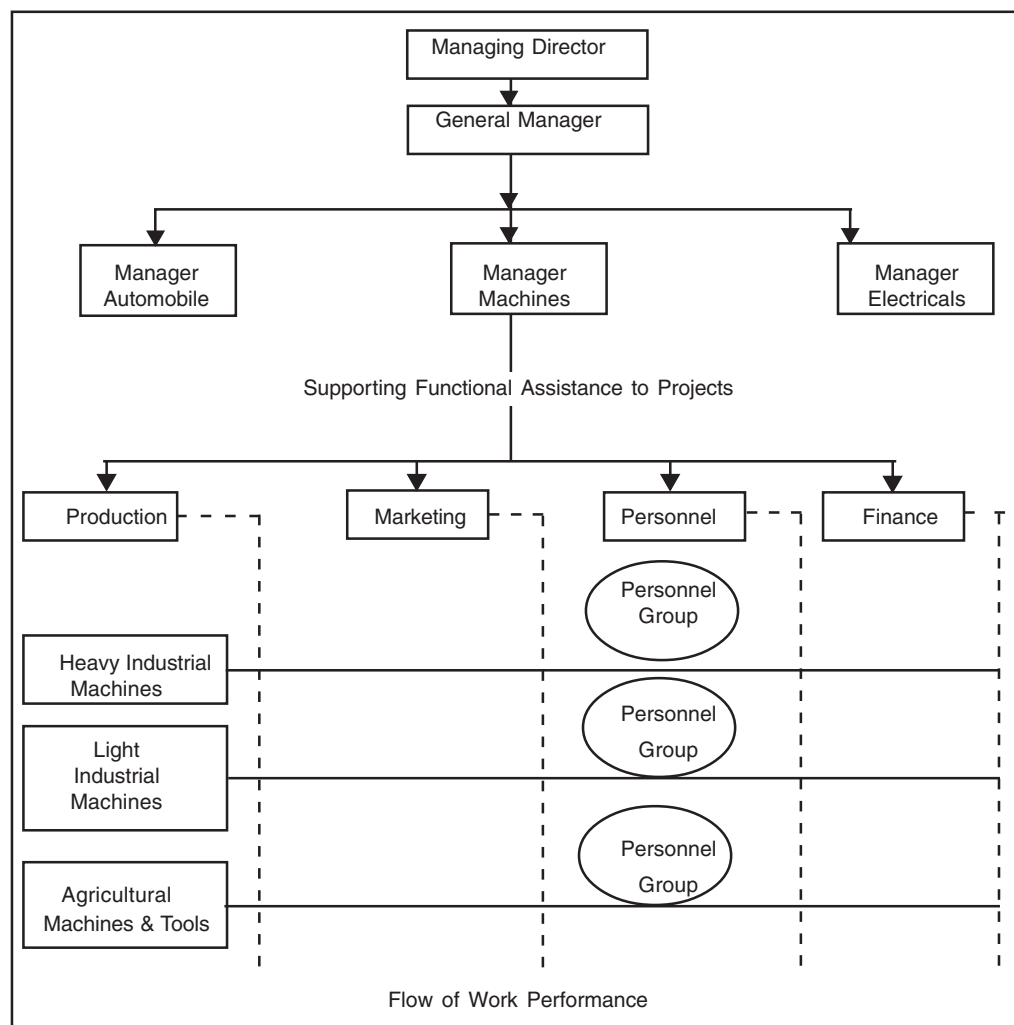
## 1.6 ROLE OF PERSONNEL MANAGER

Human Resource Managers, nowadays, wear many hats. They perform mainly three different types of roles, while meeting the requirement of employees and customers, namely administrative, operational and strategic.

### 1.6.1 Administrative Roles

The administrative roles of human resource management include policy formulation and implementation, housekeeping, records maintenance, welfare administration, legal compliance etc.

- **Policy Maker:** The human resource manager helps management in the formation of policies governing talent acquisition and retention, wage and salary administration, welfare activities, personnel records, working conditions etc. He also helps in interpreting personnel policies in an appropriate manner.
- **Administrative Expert:** The administrative role of an HR manager is heavily oriented to processing and record keeping. Maintaining employee files, and HR-related databases, processing employee benefit claims, answering queries regarding leave, transport and medical facilities, submitting required reports to regulatory agencies are examples of the administrative nature of HR management. These activities must be performed efficiently and effectively to meet changing requirements of employees, customers and the government.



**Figure 1.2: Personnel Department in a Matrix Organisation**

- **Advisor:** It is said that personnel management is not a line responsibility but a staff function. The personnel manager performs his functions by advising, suggesting, counselling and helping the line managers in discharging their responsibilities relating to grievance redressal, conflict resolution, employee selection and training. Personnel advice includes preparation of reports, communication of guidelines for the interpretation and implementation of policies, providing information regarding labour laws etc.

- **Housekeeper:** The administrative roles of a personnel manager in managing the show include recruiting, pre-employment testing, reference checking, employee surveys, time keeping, wage and salary administration, benefits and pension administration, wellness programmes, maintenance of records etc.
- **Counsellor:** The personnel manager discusses various problems of the employees relating to work, career, their supervisors, colleagues, health, family, financial, social, etc. and advises them on minimising and overcoming problems, if any.
- **Welfare officer:** Personnel manager is expected to be the Welfare Officer of the company. As a Welfare officer he provides and maintains (on behalf of the company) canteens, hospitals, creches, educational institutes, clubs, libraries, conveyance facilities, co-operative credit societies and consumer stores. Under the Factories Act, Welfare officers are expected to take care of safety, health and welfare of employees. The HR managers are often asked to oversee if everything is in line with the company legislation and stipulation.
- **Legal consultant:** Personnel manager plays a role of grievance handling, settling of disputes, handling disciplinary cases, doing collective bargaining, enabling the process of joint consultation, interpretation and implementation of various labour laws, contacting lawyers regarding court cases, filing suits in labour courts, industrial tribunals, civil courts and the like.

In some organisations, the above administrative functions are being outsourced to external providers in recent times, with a view to increasing efficiency as also cutting operational costs. Technology, is being put to good use to automate many of the administrative tasks.

### 1.6.2 Operational Roles

These roles are tactical in nature and include recruiting, training and developing employees; coordinating HR activities with the actions of managers and supervisors throughout the organisation and resolving differences between employees.

- **Recruiter:** “Winning the war for talent” has become an important job of HR managers in recent times in view of the growing competition for people possessing requisite knowledge, skills and experience. HR managers have to use their experience to good effect while laying down lucrative career paths to new recruits without, increasing the financial burden to the company.
- **Trainer developer, motivator:** Apart from talent acquisition, talent retention is also important. To this end, HR managers have to find skill deficiencies from time to time, offer meaningful training opportunities, and bring out the latent potential of people through intrinsic and extrinsic rewards which are valued by employees.
- **Coordinator/linking pin:** The HR manager is often deputed to act as a linking pin between various divisions/departments of an organisation. The whole exercise is meant to develop rapport with divisional heads, using PR and communication skills of HR executives to the maximum possible extent.
- **Mediator:** The personnel manager acts as a mediator in case of friction between two employees, groups of employees, superiors and subordinates and employees and management with the sole objective of maintaining industrial harmony.
- **Employee champion:** HR managers have traditionally been viewed as ‘company morale officers’ or employee advocates. Liberalisation, privatisation and globalisation pressures have changed the situation dramatically HR professionals have had to

move closer to the hearts of employees in their own self interest. To deliver results they are now seriously preoccupied with:

- ❖ Placing people on the right job.
- ❖ Charting a suitable career path for each employee.
- ❖ Rewarding creditable performance.
- ❖ Resolving differences between employees and groups smoothly.
- ❖ Adopting family-friendly policies.
- ❖ Ensuring fair and equitable treatment to all people regardless of their background.
- ❖ Striking a happy balance between the employee's personal/professional as also the larger organisational needs.
- ❖ Representing workers' issues, problems and concerns to the management in order to deliver effective results HR managers have to treat their employees as valuable assets. Such an approach helps to ensure that HR practices and principles are in sync with the organisation's overall strategy. It forces the organisation to invest in its best employees and ensure that performance standards are not compromised.

### 1.6.3 Strategic Roles

An organisation's success increasingly depends on the knowledge, skills and abilities of its employees, particularly as they help establish a set of core competencies (activities that the firm performs especially well when compared to its competitors and through which the firm adds value to its goods and services over a long period of time, e.g. ONGC's oil exploration capabilities and Dell's ability to deliver low cost, high-quality computers at an amazing speed) that distinguish an organisation from its competitors. When employees' talents are valuable, rare, difficult to imitate and organised, a firm can achieve sustained competitive advantage through its people. The strategic role of HR management focuses attention on how to enable ordinary employees to turn out extraordinary performance, taking care of their ever-changing expectations. The key areas of attention in this era of global competition include effective management of key resources (employees, technology, work processes), while delivering cost effective, value-enhancing solutions.

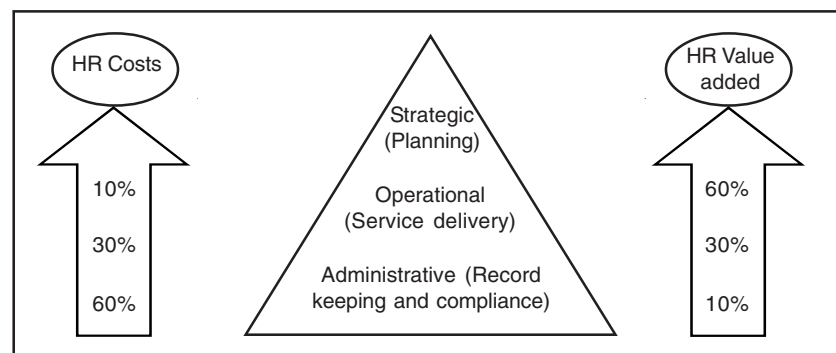


Figure 1.3: Cost of HR vs Value Added Services of HR

- **Change Agent:** Strategic HR as it is popularly called now aims at building the organisation's capacity to embrace and capitalise on change. It makes sure that change initiatives that are focused on creating high-performing teams, reducing cycle time for innovation, or implementing new technology are defined, developed and delivered in a timely manner. The HR manager in his new avatar would help



employees translate the vision statements into a meaningful format (Ulrich, 1998). HR's role as a change agent is to replace resistance with resolve, planning with results and fear of change with excitement about its possibilities. HR helps an organisation identify the key success factors for change and assess the organisation's strengths and weaknesses regarding each factor. It may not decide what changes the organisation is going to embrace, but it would certainly lead the process to make them explicit. In helping to bring about a new HR environment there needs to be clarity on issues like who is responsible for bringing about change? Why do it? What will it look when we are done? Who else needs to be involved? How will it be measured? How will it be institutionalised? How will it be sustained? How will it get initiated, developed and sustained?

- **Strategic Partner:** HR's role is not just to adapt its activities to the firm's business strategy, nor certainly to carry out fire-fighting operations like compensating employees. Instead, it must deliver strategic services cost effectively by building a competent, consumer-oriented work force. It must assume important roles in strategy formulation as well strategy implementation. To this end, it must identify external opportunities from time to time, develop HR based competitive advantages and move in to close the gaps advantageously (like excellent training centre, design centre, automation centre etc. which could be used by others as well). While implementing strategies, HR should develop appropriate ways to restructure work processes smoothly. (Such as outplacing affected employees.)

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## 1.7 FUNCTIONS OF PERSONNEL MANAGEMENT

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Personnel Management is concerned with two sets of functions, namely-managerial functions and operative functions.

### 1.7.1 Managerial Functions

The basic managerial functions comprise planning, organising, directing and controlling.

- **Planning:** This function deals with the determination of the future course of action to achieve desired results. Planning of personnel today prevents crises tomorrow. The personnel manager is expected to determine the personnel programme regarding recruitment, selection and training of employees.
- **Organising:** This function is primarily concerned with proper grouping of personnel activities, assigning of different groups of activities to different individuals and delegation of authority. Creation of a proper structural framework is his primary task. Organising, in fact, is considered to be the wool of the entire management fabric and hence cannot afford to be ignored.
- **Directing:** This involves supervising and guiding the personnel. To execute plans, direction is essential for without direction there is no destination. Many a time, the success of the organisation depends on the direction of things rather than their design. Direction then consists of motivation and leadership. The personnel manager must be an effective leader who can create winning teams. While achieving results, the personnel manager must, invariably, take care of the concerns and expectations of employees at all levels.
- **Controlling:** Controlling function of personnel management comprises measuring the employee's performance, correcting negative deviations and industrial assuring an efficient accomplishment of plans. It makes individuals aware of their performance through review reports, records and personnel audit programmes. It ensures that the activities are being carried out in accordance with stated plans.



### 1.7.2 Operative Functions

The operative functions of P/HRM are related to specific activities of personnel management, viz., employment, development, compensation and industrial relations. These functions are to be performed in conjunction with managerial functions.

1. **Procurement Function:** The first operative function of personnel management is procurement. It is concerned with procuring and employing people who possess necessary skill, knowledge and aptitude. Under its purview you have job analysis, manpower planning, recruitment, selection, placement, induction and internal mobility.
  - i. *Job analysis:* It is the process of collecting information relating to the operations and responsibilities pertaining to a specific job.
  - ii. *Human resources planning:* It is a process of determining and assuring that the organisation will have an adequate number of qualified persons, available at proper times, performing jobs which would meet their needs and provide satisfaction for the individuals involved.
  - iii. *Recruitment:* It is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
  - iv. *Selection:* It is the process of ascertaining qualifications, experience, skill and knowledge of an applicant with a view to appraising his/her suitability to the job in question.
  - v. *Placement:* It is the process that ensures a 360° fit, matching the employee's qualifications, experience, skills and interest with the job on offer. It is the personnel manager's responsibility to position the right candidate at the right level.
  - vi. *Induction and orientation:* Induction and orientation are techniques by which a new employee is rehabilitated in his new surroundings and introduced to the practices, policies, and people. He must be acquainted with the principles which define and drive the organisation, its mission statement and values which form its backbone.
  - vii. *Internal Mobility:* The movement of employees from one job to another through transfers and promotions is called internal mobility. Some employees leave an organisation due to various reasons leading to resignation, retirement and even termination. These movements are known as external mobility. In the best interest of an organisation and its employees, such job changes should be guided by well-conceived principles and policies.
2. **Development:** It is the process of improving, moulding, changing and developing the skills, knowledge, creative ability, aptitude, attitude, values and commitment based on present and future requirements both at the individual's and organisation's level. This function includes:
  - i. *Training:* Training is a continuous process by which employees learn skills, knowledge, abilities and attitudes to further organisational and personnel goals.
  - ii. *Executive development:* It is a systematic process of developing managerial skills and capabilities through appropriate programmes.
  - iii. *Career planning and development:* It is the planning of one's career and implementation of career plans by means of education, training, job search and acquisition of work experiences. It includes succession planning which implies identifying developing and tracking key individuals for executive positions

- iv. *Human resource development:* HRD aims at developing the total organisation. It creates a climate that enables every employee to develop and use his capabilities in order to further both individual and organisational goals.
3. **Motivation and compensation:** It is a process which inspires people to give their best to the organisation through the use of intrinsic (achievement, recognition, responsibility) and extrinsic (job design, work scheduling, appraisal based incentives) rewards.
- i. *Job design:* Organising tasks, and responsibilities towards having a productive unit of work is called job design. The main purpose of job design is to integrate the needs of employers to suit the requirements of an organisation.
  - ii. *Work scheduling:* Organisations must realise the importance of scheduling work to motivate employees through job enrichment, shorter work weeks flexi-time, work sharing and home work assignments. Employees need to be challenged at work and the job itself must be one that they value. Work scheduling is an attempt to structure work, incorporating the physical, physiological and behavioural aspects of work.
  - iii. *Motivation:* Combining forces that allow people to behave in certain ways is an integral aspect of motivation. People must have both the ability and the motivation if they are to perform at a high level. Managers generally try to motivate people through properly administered rewards (financial as well as non-financial).
  - iv. *Job evaluation:* Organisations formally determine the value of jobs through the process of job evaluation. Job evaluation is the systematic process of determining the relative worth of jobs in order to establish which jobs should be paid more than others within the organisation. Job evaluation helps to establish internal equality between various jobs.
  - v. *Performance appraisal:* After an employee has been selected for a job, has been trained to do it and has worked on it for a period of time, his performance should be evaluated. Performance evaluation or appraisal is the process of deciding how employees do their jobs. It is a method of evaluating the behaviour of employees at the workplace and normally includes both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating work-related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he or she is performing and ideally, establishing a plan of improvement.  
  
The appraisal process consists of six steps: (1) establish performance standards with employees; (2) set measurable goals (manager and employee); (3) measure actual performance; (4) compare actual performance with standards; (5) discuss the appraisal with the employees and (6) if necessary initiate corrective action.
  - vi. *Compensation administration:* Compensation administration is the process of dividing how much an employee should be paid. The important goals of compensation administration are to design a low-cost pay plan that will attract, motivate and retain competent employees-which is also perceived to be fair by these employees.
  - vii. *Incentives and benefit:* In addition to a basic wage structure, most organisations nowadays offer incentive compensation based on actual performance. Unlike incentives, benefits and services are offered to all employees as required by law including social security, insurance, workmen's

compensation, welfare amenities etc. Organisations have been offering a plethora of other benefits and services as well as a means of 'sweetening the pot'. (employee stock options, birthday gifts, anniversary gifts, paid holidays, club membership)

4. **Maintenance:** It aims at protecting and preserving the physical and psychological health of employees through various welfare measures.
  - i. **Health and safety:** Managers at all levels are expected to know and enforce safety and health standards throughout the organisation. They must ensure a work environment that protects employees from physical hazards, unhealthy conditions and unsafe acts of other personnel. Through proper safety and health programmes, the physical and psychological well-being of employees must be preserved and even improved.
  - ii. **Employee welfare:** Employee welfare includes the services, amenities and facilities offered to employees within or outside the establishment for their physical, psychological and social well being. Housing, transportation, education and recreation facilities are all included in the employee welfare package.
  - iii. **Social security measures:** Managements provide social security to their employees in addition to fringe benefits. These measures include:  
(a) Workmen's compensation to those workers (or their dependents) who are involved in accidents; (b) Maternity benefits to women employees; (c) Sickness benefits and medical benefits; (d) Disablement benefits/allowance; (e) Dependent benefits; (f) Retirement benefits like Provident Fund, Pension, Gratuity, etc.

### Check Your Progress 3

Fill in the blanks:

1. .... is concerned with people at work and their relationships with each other.
2. The basic managerial functions comprise ....., ....., and .....
3. .... are techniques by which a new employee is reinitiated in his new surroundings and introduced to the practices, policies and people.
4. .... is the process of dividing how much an employee should be paid.

5. **Integration function:** This tries to integrate the goals of an organisation with employee aspirations through various employee-oriented programmes, like redressing grievances promptly, instituting proper disciplinary measures, empowering people to decide things independently, encouraging a participative culture, offering constructive help to trade unions etc.
  - i. **Grievance redressal:** A grievance is any factor involving wages, hours or conditions of employment that is used as a complaint against the employer. Constructive grievance handling depends first on the manager's ability to recognise, diagnose and correct the causes of potential employee dissatisfaction before it converts into a formal grievance.

- ii. *Discipline:* It is the force that prompts an individual or a group to observe the rules, regulations and procedures, which are deemed necessary for the attainment of an objective.
  - iii. *Teams and teamwork:* Self-managed teams have emerged as the most important formal groups in today's organisations. They enhance employee involvement and have the potential to create positive synergy. By increasing worker interaction, they create camaraderie among team members. They encourage individuals to sublimate their individual goals for those of the group. Teams have inherent strengths which ultimately lead to organisational success at various levels.
  - iv. *Collective bargaining:* It is the process of agreeing on a satisfactory labour contract between management and union. The contract contains agreements about conditions of employment such as wages, hours, promotion, and discipline; lay off, benefits, vacations, rest pauses and the grievance procedure. The process of bargaining generally takes time, as both parties tend to make proposals and counter- proposals. The resulting agreement must be ratified by unions, workers and management.
  - v. *Employee participation and empowerment:* Participation means sharing the decision-making power with the lower ranks of an organisation in an appropriate manner. When workers participate in organisational decisions they are able to see the big picture clearly and also how their actions would impact the overall growth of the company. They can offer feedback immediately based on their experiences and improve the quality of decisions greatly. Since they are now treated with respect, they begin to view the job and the organisation as their own, and commit themselves to organisational objectives whole-heartedly.
  - vi. *Trade unions and employees association:* Trade union is an association either of employees or employers or independent workers. It is a relatively permanent a body formed by workers with the objective of countering exploitation and harassment. It strives towards providing economic and social benefits to the labour community. Trade unions have always played a powerful role in improving the lot of workers in India, using aggressive bargaining tactics. However since the 90's, the situation changed dramatically. Unable to fight the forces of competition, many employers have been forced to shutdown units and scale down operations. This has made both parties realise the importance of bargaining for their rights in an atmosphere of 'give and take'.
  - vii. *Industrial relations:* Harmonious industrial relations between labour and management are essential to achieve industrial growth and higher productivity. When the relationship between the parties is not cordial, discontentment develops and conflicts erupt abruptly. It is not always easy to put out the fires with the existing dispute-settlement-machinery, created by the government. Hence both labour and management must appreciate the importance of openness, trust and collaboration in their day-to-day dealings.
6. *Emerging issues:* Effective management of human resources depends on refining HRM practices to changing conditions. Hence the need to look at other important issues that can motivate people to give their best in a dynamic and ever-changing environment.

- i. *Personnel records:* Personnel records such as papers, files, cards, cassettes and films are maintained to have tangible record of what is actually happening in an organisation and to formulate appropriate HR policies and programmes (based on historical records, actual experience and future trends) from time to time.
- ii. *Human resource audit:* Human resource audit refers to an examination and evaluation of policies, procedures and practices to determine the effectiveness of HRM. Personnel audit (a) measures the effectiveness of personnel programmes and practices and (b) determines what should or should not be done in future.
- iii. *Human resources research:* It is the process of evaluating the effectiveness of human resource policies and practices and developing more appropriate ones.
- iv. *Human resources accounting (HRA):* It is a measurement of the cost and value of human resources to the organisation. Human resource management is said to be effective if its value and contribution in any organisation is more than its cost.
- v. *Human resource information system:* HRIS is an integrated system designed to improve the efficiency with which HR data is compiled. It makes HR records more useful to the management by serving as a source of information.
- vi. *Stress and counseling:* Stress is the psychological and physical reaction to certain life events or situations. At an organisational level, stress results in burn out, substance abuse in the form of alcohol or drug use/dependence reduced job satisfaction, increased absenteeism and increased turnover. Companies, therefore, are closely looking at what should be done to promote the physical and mental well being of employees through proper counseling and employee development programmes.
- vii. *International human resource management:* International business is important to almost every business today and so firms must increasingly be managed with a clear global focus. This of course, poses many challenges before managers including coordinating production, sales and financial operations on a worldwide basis. International HRM places greater emphasis on a number of responsibilities and functions such as relocation, orientation and training services to help employees adapt to a new and different environment outside their own country.

#### Check Your Progress 4

1. Define Personnel Management.

.....

.....

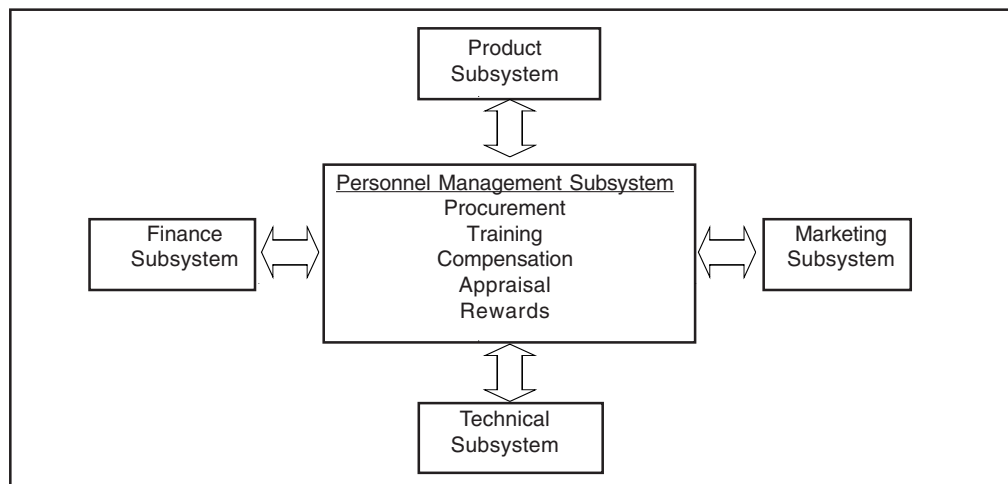
2. Mention the operative functions of personnel department in an organisation.

.....

.....

## 1.8 SYSTEM APPROACH TO PERSONNEL MANAGEMENT

A system is a set of interrelated but separate elements or parts working toward a common goal. A university, for example, is made up of students, teachers, administrative and laboratory staff who relate to one another in an orderly manner. What one group does has serious implications for others. So, they have to be communicating with each other in order to achieve the overall goal of imparting education. The enterprise operations, similarly, must be viewed in terms of interacting and interdependent elements. The enterprises procure and transform inputs such as physical, financial and human resources into outputs such as products, services and satisfactions offered to people at large. To carry out its operations, each enterprise has certain departments known as subsystems such as production subsystem, finance subsystem, marketing subsystem, Personnel subsystem, etc. Each subsystem consists of a number of other subsystems. For example, the Personnel subsystem may have parts such as procurement, training, compensation, appraisal, rewards, etc. If we were to view Personnel subsystem as crucial to organisational performance, an organisation presents itself thus:



**Figure 1.4: HRM as a Central Subsystem in an Enterprise**

The various internal subsystems, it should be noted here, of an organisation operate within the framework of external environment consisting of political, social, economic and technological forces operating within and outside a nation.

## 1.9 LET US SUM UP

Personnel management is concerned with the procurement and maintenance of a competent workforce and inspiring employees individually and in groups to give their most while realising organisational goals.

Personnel management is concerned with two sets of functions, namely managerial functions and operative functions.

Personnel management as a profession has reached respectable heights, over the years, thanks to an even growing body of literature, mushrooming growth of management institutes and lucrative career prospects which are available to competent and committed individuals.



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## 1.10 LESSON END ACTIVITY

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“Objectives of the Personnel management always contradict the objectives of the personnel.” Do you agree with the statement? Give reasons for your answer.

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## 1.11 KEYWORDS

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**Personnel Management:** A branch of management which is concerned with the people who constitute an organisation.

**Operative Functions:** These are related to specific activities of personnel management.

**Administrative Role of PM:** It includes policy formulation and implementation, housekeeping, records maintenance, welfare administration, legal compliance, etc.

**Competency:** Ability to perform exceptionally well and increase the stock of targeted resources with the firm.

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## 1.12 QUESTIONS FOR DISCUSSION

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1. Discuss the objectives of Personnel Management. Describe the functional and organisational role of personnel manager in achieving organisational goals.
2. The personnel manager is being paid by management. Is he/she therefore a representative of management or personnel? Discuss in detail.
3. Describe in brief the nature and scope of personnel function in an organisation. What are the indicators of its working in an organisation?
4. What are the functions of a personnel manager in an industry in a developing country? What steps would you take to ensure that he/she represents the aspirations of personnel while being paid by his/her employer?

### Check Your Progress: Model Answers

#### **CYP 1**

Objectives of Personnel Management:

- (a) Social
- (b) Personnel
- (c) Enterprise
- (d) Union

#### **CYP 2**

Qualities of a Personnel Manager

1. Personal Attributes
2. Experience and Training
3. Professional Attributes

#### **CYP 3**

1. Personnel Management
2. Planning, organising, directing, controlling

Contd....

3. Induction and orientation
4. Compensation administration

**CYP 4**

1. **Personnel Management:** It is that aspect of management which deals with the people who constitute an organisation.
2. **Operative Functions of Personnel Management**
  - (i) Procurement Function
  - (ii) Development Function
  - (iii) Motivation and Compensation
  - (iv) Maintenance
  - (v) Integration Function

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### **1.13 SUGGESTED READINGS**

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004



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## LESSON

# 2

## EMERGING ROLE OF PERSONNEL MANAGEMENT

### CONTENTS

- 2.0 Aims and Objectives
- 2.1 Introduction
- 2.2 Emergence of New HR Roles
- 2.3 Role of Personnel Managers of Future
  - 2.3.1 Managing Change and Large Group Facilitation
  - 2.3.2 Faster Response Mechanism
  - 2.3.3 Managing Stakeholder Conflicts
  - 2.3.4 Coaching Leaders
- 2.4 Personnel Function in Future
- 2.5 Personnel Management in India
  - 2.5.1 Present State of Personnel Management in India
- 2.6 Let us Sum up
- 2.7 Lesson End Activity
- 2.8 Keywords
- 2.9 Questions for Discussion
- 2.10 Suggested Readings

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### 2.0 AIMS AND OBJECTIVES

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After studying this lesson, you will be able to:

- Describe the emerging role of Personnel Management
- Know what changes have taken place during last two decades in the field of personnel/HR management
- Discuss the new roles of HR manager
- Describe futures role of personnel management
- Explain the present state of personnel management in India

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## 2.1 INTRODUCTION

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There have been notable attempts to capture the changing nature of personnel roles in response to major transformations in the workplace and the associated rise of 'HRM'. A decade ago having explored the emerging impact of workplace change on personnel practice in the UK found a new fourfold typology of personnel roles: 'advisors', 'handmaidens', 'regulators' and 'changemakers'. Have these four roles changed now that HRM has increasingly become part of the rhetoric and reality of organizational performance? Another study highlights that HR professionals must overcome the traditional marginality of the personnel function by embracing a new set of roles as champions of competitiveness in delivering value. Is this a realistic ambition? The new survey findings and interview evidence from HR managers in major UK companies presented here suggests that the role of the personnel professional has altered in a number of significant respects, and has become more multifaceted and complex, but the negative counter-images of the past still remain. To partly capture the process of role change, fourfold typology of personnel roles is re-examined and contrasted with Ulrich's prescriptive vision for the reinvention on the HR function.

Changes in the nature of managerial work over the past two decades have had a profound and often disconcerting impact on the roles of personnel managers and other functional specialists. New modes of organizational flexibility, the levelling power of information technology and relentless cost pressures have undermined occupational structures, middle management positions and functional roles, allowing managers to increasingly assume tasks once performed by the personnel function or to outsource them to external consultants. In addition, the emergence of 'HRM' as a panacea for integrating business strategy and people management has exposed personnel practitioners to a new set of role demands, professional challenges and managerial expectations that have underscored the gaps between HR rhetoric and reality. How have personnel professionals coped with these new pressures and what implications does this have for their role and future professional status?

Historically, a number of intrinsic factors that have influenced the way in which personnel professionals as an occupational status group have sought to cope with the exigencies of 'role change', defined as 'a change in the shared conceptions and execution of typical role performance and role boundaries'. Some of these factors are generic to all professions in their attempts to maintain their autonomy or power through 'jurisdictional claims' over the provision of specialist expertise. However, personnel professionals as a relatively weak occupational group, face some very specific challenges that relate to the inherent role ambiguities that have characterized their functional position. These include: (1) issues of 'powerlessness' or marginality in management decision-making processes, especially at a strategic level; (2) an inability to maintain or defend the boundaries of their specialist expertise from encroachment or control by managerial intervention; (3) lack of clarity or accountability in specifying the goals, business outcomes, or the contribution of the personnel function; and (4) tensions in sustaining an ethos of mutuality in the face of the opposing interests between management and employees.

Partly as a consequence of these role ambiguities personnel managers have been past masters at reinventing or reinterpreting their role in their efforts to maintain their credibility and status within a changing world of work. This has often resulted in their 'willingness to adopt different roles and rhetorics to suit the contingencies of the times and to exploit possible bases of power'.

The four roles were: (1) 'Advisors'; (2) 'Handmaidens'; (3) 'Regulators'; and (4) 'Changemakers'. Advisors assumed a facilitating role, acting as internal consultants offering expertise and advice to line management, while operating in an essentially non-interventionist manner.

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## 2.2 EMERGENCE OF NEW HR ROLES

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HR professionals must become champions of competitiveness in 'delivering value' or face the diminution or outsourcing of their role. To become paragons of competitiveness, there are four main roles for the HR professional along two axes: strategy versus operations, and process (HR tools and systems) versus people. The four roles are: (1) 'Strategic Partners' help to successfully execute business strategy and meet customer needs; (2) 'Administrative Experts' constantly improve organizational efficiency by reengineering the HR function and other work processes; (3) 'Employee Champions' maximize employee commitment, and competence; and (4) 'Change Agents' deliver organizational transformation and culture change. This model represents a sweeping attempt to overcome the negative counter-images of the personnel function and reinvent a new set of proactive roles for HR professionals.

The new survey findings and interview evidence from personnel and HR managers in major UK companies presented here suggest that the role of the personnel professional has gone through a significant process of role change. While this has resulted in a more multifaceted and complex set of roles, the old ambiguities and negative counter-images of the past still remain. The process of role change can therefore be partly conceptualized as an uneven and incomplete shift from a traditional personnel 'role set' to an apparently new and more comprehensive HRM role identity. To partly capture this process of reconfiguration, Storey's original fourfold typology of personnel roles is empirically re-examined and contrasted with Ulrich's pre-scriptive vision for the reinvention on the HR function. This provides a useful analytical counterpoint for examining the complexities of role change.

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## 2.3 ROLE OF PERSONNEL MANAGERS OF FUTURE

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There is a paradigm shift to align people to the business and so today there is a demand to have HR professionals as business partners. Dave Ulrich summarizes it beautifully by saying there are four basic roles as HR professionals. One as an administrator, two as an agent of change, three as a employee champion (as opposed to employer champion) and four as a business partner. Since there are different sets of people who have different expectations, there have to be newer roles and newer competencies of personnel managers.

### 2.3.1 Managing Change and Large Group Facilitation

Today there are methodologies to manage large scale facilitation and involvement of every individual in the company. Software like Futuresoft and Future search have completely different paradigms which concentrate on the people (employees) who are going to define the future for the organization as opposed to the CEO. Other methodologies like open spaces shun the conventional and consider speaker and audience pedagogies that most organizations utilize as completely ineffective in generating ideas. A HR professional should be a facilitator of change and should have every individual of the company involved while charting a new policy.

### 2.3.2 Faster Response Mechanism

The HR professional needs to respond faster to the people in his company and needs to apply newer concepts and technologies (e-HR applications) to achieve this.

### 2.3.3 Managing Stakeholder Conflicts

Today, shareholders are no longer just the owners of the company but an important part of the company. Since the organization itself is a stakeholder besides the management; it is important for the HR professional to manage stakeholder conflicts.

### 2.3.4 Coaching Leaders

People are talking about the next form of leadership where leaders become teachers. If a leader doesn't have a teachable view, he can no longer be called a leader since one has to have a view that can be communicable to the people around you. As a HR person, it is important to facilitate this teachable view in the organization.

#### Check Your Progress 1

1. Ulrich defines four main roles for the HR professional. What are these roles?  
.....  
.....
2. Mention some newer roles and newer competencies of personnel managers of future.  
.....  
.....

## 2.4 PERSONNEL FUNCTION IN FUTURE

The personnel function in future is going to evolve thus:

- **Job redesign:** The focus on job redesign will increase: Flexitime, job sharing and alternative work arrangements will come to occupy a centre-stage.
- **Career opportunities:** Apart from compensation, personal growth and self-development may become primary motives for working. HR managers may have to restructure work so that employees may find expression of their needs for creativity, autonomy and entrepreneurship (For example NIIT has already started the Netpreneur scheme in 2000 to encourage budding net consultants – either from its own ranks or outside) in their jobs.
- **Productivity:** “Productivity, efficiency, growth” are going to be the new mantras for corporate survival and growth.
- **Recruitment and selection:** Effective selection devices are likely to be used, giving premium to employee skills, knowledge, experience, ability to get along with people etc.
- **Training and development:** As technologies change rapidly, people need to update their skills continuously. A much broader range of abilities is required to keep pace with ever-present changes, forcing companies to spend increasing sums on training and development. (For instance pharmaceutical majors like Dr Reddy's Labs, Ranbaxy, Cipla, Sun Pharma have increased their Research and Development budgets in response to WTO conditionalities in recent years).
- **Rewards:** Rewards will be tied to performance. Benefits will accrue to those who show merit. Individually – designed packages recognising talent may out-number group compensation plans. Carrot and stick policies may not find a place in the new corporate lexicon in the days ahead.

- **Safety and welfare:** Increasing investments may have to be made by companies to improve the work atmosphere, climate and job satisfaction levels of employees.

## 2.5 PERSONNEL MANAGEMENT IN INDIA

Personnel management, over the years, has emerged as a highly respected profession in India. Prestigious management institutes have started imparting personnel management principles, techniques and practices in a meaningful way. The specialised knowledge, experience and expertise in this discipline has found expression in a growing body of literature represented by books, articles, research reports and surveys. The practitioners and academicians in the field have formed two representative bodies (Indian Institute of Personnel Managers Kolkatta and National Institute of Labour Management, Mumbai). Previously they regulated the affairs of the profession but are now a merged entity called National Institute of Personnel Management (NIPM). However, it does not regulate the profession of personal management on the same lines as the Institute of Chartered Accountants of India, ICWA, ICSI etc. However, it conducts a two-year post graduate programme which is accepted as an academic qualification from the post of personnel manager in various organisations. It also conducts training programmes, seminars, conferences and workshops in order to contribute to aspects relating to policy formulation, standardisation of terminology etc. It has also devised a code of conduct for its members.

### 2.5.1 Present State of Personnel Management in India

The gradual decline in the stature and role of the personnel manager in most corporates in India over the recent past is a matter of concern to management experts. When pink slips are the order of the day and employee retention has taken a back seat, it is only natural that personnel managers go down in the pecking order. Why have they lost their relevance in today's highly competitive liberalised industrial environment? How is that a recent unpublished survey conducted by a highly rated personnel management institute found that a number of them deserve psychiatric help? These are some questions plaguing the academics at some top management institutes; and the answers are not forthcoming probably due to the dysfunctional nature of the personnel manager's role in a corporate polity.

To any employee of a corporate body, personnel managers are usually the first line of communication to the management and vice-versa. Personnel managers serve as the bridge between the employees, both unionised and non-unionised, and the management, interpreting each other's views to ensure a seamless functioning of the corporate body. Personnel managers are usually the last court of appeal of a disgruntled employee who feels his contribution has not been recognised or his superiors have been biased in their appraisal of his performance. If this last court of appeal does not exist, where would the pent-up emotions of such employees find an outlet?

#### Check Your Progress 2

Fill in the blanks:

1. .... help to successfully execute business strategy and meet customer needs.
2. .... have started imparting personnel management principles, techniques and practices in a meaningful way.
3. NIPM stands for .....

Personnel management surveys indicate that in some well-known companies, there are no personnel policy manuals and more often than not, ad-hocism is the order of the day. It was rather amusing to hear a senior personnel manager define his company's policy on employee motivation with a cynical 'tell me the name of the employee and I will tell you what the company's policy is' which is an indictment of the very profession itself.

Motivation is the key buzzword in any personnel function as it keeps the management machine functioning efficiently. In companies where human resource department is given the importance it deserves, there is an annual valuation of the human resource, which is reflected in the annual report. This valuation is often considered as a barometer of efficiency of the company's human resource function. Unfortunately, not many Indian companies value their human resource.

It does not augur well for any company to accord primacy to the Human Resource function one day, and decry it, on another as a good number of companies did, especially in the aftermath of the economic crises, post-September 11. Human resource should not be treated in such a cavalier manner and it is the personnel manager's responsibility to ensure that the company wins the 'heart and soul' of the employees.

What is shocking is the abject state of some personnel managers who do not hesitate to crawl, to ensure their very survival in the cutthroat world of corporate politics. In the process, they execute without question instructions issued from the above, which sometimes border on the illegal - instigating unions to strike to avoid payment of wages during layoffs, bribing union leaders to reduce workforce with nominal VRS compensation, contriving situations to replace union leaders if they are not compliant, hiring musclemen to 'handle' recalcitrant workmen. Personnel management, once glorified as the 'pillar' of the corporate sector, has gone downhill.

Compounding the problem further are the corrupt practices that have set in. In many private sector companies, appointments to the lower order, especially workmen and clerical staff, are handled by personnel managers who demand a 'price' for each appointment. This has assumed larger dimensions with both managements and the Government labour departments totally helpless, not because documentary evidence is hard to come by, but because of the rampant corruption. In addition, use of contract labour has led to gross abuses with the labour contractor colluding with personnel managers to deprive the workmen under contract of their legitimate earnings.

Overall, the personnel management scene is so dismal that the chances of any improvement in terms of ethics and integrity are not bright, given the tendency of the industrial sector to pave the way for a 'hire and fire' approach in the guise of meeting the challenges of a market economy, a la US style. It is ironical that none of the MNCs operating in India have demanded flexible labour laws while deciding to invest in India. The toughest labour laws are in the European Union and this has not prevented both the US and Japan investing heavily there. It is conveniently forgotten that what matters most to a potential investor are infrastructure, political stability and market potential more than 'hire-and-fire' labour laws.

Only regulatory professional bodies or associations can arrest the decline in the status of personnel management in the corporate sector. The desire to implement any correctional process is absent from within as the decline is partly wrought by the top managements of the corporate sector that use personnel management as a tool to improve the bottomline. There are also negative practices at work: Siphoning corporate funds, fudging accounts, accounting practices designed more to conceal than to reveal, ripping off shareholders and employees are some of the games played within and mutely witnessed by personnel managers. In other words, the corrupting influences are imposed from the top.



The moral turpitude of many personnel managers leaves a lot to be desired. They prefer to use their access to the top management more for their personal benefit. "This is what the boss wants" is often the refrain one hears from this tribe.

Nothing affects the morale of the employees more than the degeneration of a personnel manager who ceases to be loyal to his profession. After all, it is universally recognised that any corporate body is primarily 'a company of people' and if their well being is sacrificed at the altar of expediency, there is nothing left but a lifeless shell.

When cost cutting measures are imposed, those related to personnel welfare are often the last choice. Jack Welch, the legendary former chairman of the world's most admired company, GE, disclosed during his visit to Bangalore that most companies prefer to adopt the easy options on cost cutting, rather than taking a hard look at reworking major inputs costs, getting into value engineering and cost analysis, reducing inventories, redeployment and retraining of labour in a substantive way, and so on. Human resources alone should not be seen as a panacea for reducing costs.

It will be difficult to find solutions to these problems until the top managements recognise that ethical conduct is paramount in any business - a truth hammered home by the Finance Minister, Mr Yashwant Sinha, at a public ceremony in Mumbai sometime ago.

It is widely acknowledged that the Indian corporate sector does not value integrity and probity to the extent its counterparts in the West do. Some of the most recognised names in Indian industry and commerce have indulged in highly unethical conduct and have got away with it primarily because laws are readily enacted but rarely enforced. This is the biggest bane of our democracy.

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## 2.6 LET US SUM UP

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Changes in the nature of managerial work over the past two decades have had a profound and often disconcerting impact on the roles of personnel managers and other functional specialists.

HR professionals must become champions of competitiveness in 'delivering value' or face the diminution or outsourcing of their role. Ulrich defines four main roles for the HR professional along two axes: strategy versus operations, and process (HR tools and systems) versus people. The four roles are: (1) 'Strategic Partners' help to successfully execute business strategy and meet customer needs; (2) 'Administrative Experts' constantly improve organizational efficiency by reengineering the HR function and other work processes; (3) 'Employee Champions' maximize employee commitment, and competence; and (4) 'Change Agents' deliver organizational transformation and culture change.

The gradual decline in the stature and role of the personnel manager in most corporates in India over the recent past is a matter of concern to management experts.

Personnel management surveys indicate that in some well-known companies, there are no personnel policy manuals and more often than not, ad-hocism is the order of the day.

It is widely acknowledged that the Indian corporate sector does not value integrity and probity to the extent its counterparts in the West do.

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## 2.7 LESSON END ACTIVITY

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Explain the factors inhibiting the growth of personnel management in India. Suggest measures to improve the situation.

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## 2.8 KEYWORDS

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**Personnel Management:** A way of managing people to work so that they give their best to the organisation.

**HR Management:** A process of bringing people and organisations together so that the goals of each one is met, effectively and efficiently.

**Role Change:** A change in the shared conceptions and execution of typical role performance and role boundaries.

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## 2.9 QUESTIONS FOR DISCUSSION

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1. Why was the HRM function increased in stature and influence in comparison to personnel management?
2. What are the important stages in the growth of personnel management?
3. Critically examine the evolution and present state of personnel management in India.
4. Discuss the changing role of personnel management in last two decades.

### Check Your Progress: Model Answers

#### CYP 1

1. **Role of HR Professionals (Ulrich)**
  - (i) Strategic partners
  - (ii) Administrative Experts
  - (iii) Employee Champions
  - (iv) Change Agents
2. **Newer roles and competencies of Personnel Managers**
  - (i) Managing change and large group facilitation
  - (ii) Faster response mechanism
  - (iii) Managing stakeholder conflicts
  - (iv) Coaching Leaders

#### CYP 2

1. Strategic Partners
2. Prestigious Management Institutes
3. National Institute of Personnel Management

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## 2.10 SUGGESTED READINGS

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004



## UNIT II

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## LESSON

# 3

## PERSONNEL POLICIES

### CONTENTS

- 3.0 Aims and Objectives
- 3.1 Introduction
- 3.2 Need for Personnel Policy
- 3.3 Objectives of Personnel Policies
- 3.4 Principles of Personnel Policies
- 3.5 Coverage of Personnel Policies
- 3.6 Formulation of Personnel Policies
- 3.7 Evaluating the Impact of Personnel Policies
- 3.8 Types of Personnel Policies
- 3.9 Personnel Procedures and Programmes
- 3.10 Obstacles in Administering Personnel Policies
- 3.11 Let us Sum up
- 3.12 Lesson End Activity
- 3.13 Keywords
- 3.14 Questions for Discussion
- 3.15 Suggested Readings

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### 3.0 AIMS AND OBJECTIVES

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After studying this lesson, you will be able to:

- Understand the nature and importance of personnel policies
- Distinguish between various types of personnel policy
- Know how to formulate personnel policies
- Evaluate the impact of personnel policies

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### 3.1 INTRODUCTION

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Personnel strategy is the pattern of decisions concerning policies and practices associated with the personnel system. A policy is a predetermined established guideline towards the attainment of accepted goals and objectives. Policies in the management of personnel cover a wide variety of subjects.

After the establishment of objectives of personnel management, personnel policies are to be formulated. Policies are general statements that guide thinking and action in decision-making.

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### 3.2 NEED FOR PERSONNEL POLICY

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Personnel policies guide action. They offer the general standards or parametres based on which decisions are reached. They serve as a road map for managers on a number of issues such as recruitment (the job for physically challenged only), selection (selection based on merit only), promotion (performance leads to promotion) and compensation. Important features of an effective personnel policy can be broadly outlined as:

- i. It is generally derived from the personnel objectives of an organisation.
- ii. It summaries past experience in the form of useful guidelines that help managers to speed-up the decision making process. It helps managers as well as subordinates to dispose of repetitive problems in a consistent manner without getting into trouble. It serves as a standing plan that can be put to use repeatedly while solving problems of a recurring nature
- iii. As a guide to executive thinking it permits managers to transfer some of the recurring problems to subordinates. In a way, a personnel policy is an important management tool that facilitates some transfer of decision making to lower levels of organisation.
- iv. It helps in achieving coordination of organisational members and help predict more accurately the actions and decisions of others.

#### Box 3.1: Tata Steel's Personnel Policy

The personnel policy of Tata Steel, as contained in the Statement of Objectives, is given below. The company tries to take care of its employees:

- by a realistic and generous understanding and acceptance of their needs and rights and by having an enlightened awareness of the social problems of the industry;
- by providing adequate wages, good working conditions, job security, an effective machinery for redressal of grievances and suitable opportunities for promotion and self-development through in-company and external programmes;
- by treating them as individuals, giving them a sense of self-respect and better understanding of their role in the organisation and satisfying their urge for self-expression through a closer association with the management;
- by creating a sense of belonging through human and purposeful activities as an integral part of human relations ensuring their willing cooperation and loyalty.

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### 3.3 OBJECTIVES OF PERSONNEL POLICIES

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Policies, as useful instructional devices, offer many advantages to the personnel working at various levels. These are:

- **Delegation:** They help managers operating at different levels to act with confidence without the need for consulting superiors every time.

- **Uniformity:** They increase the chances of different people at different levels of the organisation making similar choices, when independently facing similar situations. They make the actions of organisational members more consistent.
- **Better control:** As personnel policies specify the relationship shared between the organisation, management and its employees, they allow members to work towards achievement of the objectives of the organisation without friction/conflict, paving the way for better control.
- **Standards of efficiency:** Policies can also serve as standards in the execution of work. They enable the management to see if they have been translated into action by various groups in the organisation or not. In the light of actual performance, existing policies may be subjected to amendment/refinement.
- **Confidence:** Policies make the employees aware of where they stand in the organisation and create confidence in them while confronting routine and recurring problems. They reduce chances of misinterpretation, misrepresentation and friction.
- **Speedy decisions:** Policies can speed up decision making by providing a blanket framework within which personnel decisions can be made. They summarise past experience.
- **Coordinating devices:** Personnel policies help in achieving coordination. If organisational members are guided by the same policies, they can predict more accurately the actions and decisions of others. They ensure a steady course of action and prevent unwarranted deviations from planned operations.

In the absence of a policy, similar questions must be considered time after time. Lack of a policy means that the organisation has established no continuing position. Despite their usefulness, personnel policies are not always easy to formulate and implement. A number of hurdles come in the way.

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### 3.4 PRINCIPLES OF PERSONNEL POLICIES

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While developing sound personnel policies, management should pay attention to the following:

- **Related to objectives:** Policies must be capable of relating objectives to functions, physical factors and company personnel.
- **Easy to understand:** Policies should be stated in definite, positive, clear and understandable language.
- **Precise:** Policies should be sufficiently comprehensive and prescribe limits and yardsticks for future action.
- **Stable as well as flexible:** Personnel policies should be stable enough to assure people that there will not be drastic overnight changes. They should be flexible enough to keep the organisation in tune with the times.
- **Based on facts:** Personnel policies should be built on the basis of facts and sound judgement and not on personal feelings or opportunistic decisions.
- **Appropriate number:** There should be as many personnel policies as necessary to cover conditions that can be anticipated, but not so many that they become confusing or meaningless.
- **Just, fair and equitable:** Personnel policies should be just, fair and equitable to internal as well as external groups. For example, a policy of recruitment from within may limit opportunities to bright candidates from outside; and a policy of

‘recruitment from outside only’ would limit promotional avenues to promising internal candidates. To ensure justice, it is necessary to pursue both the policies scrupulously and to apply them carefully.

- **Reasonable:** Personnel policies must be reasonable and capable of being accomplished. To gain acceptance and commitment from employees, they should be ‘conditioned by the suggestions and reactions of those who will be affected by the policy’.
- **Review:** Periodic review of personnel policies is essential to keep in tune with changing times and to avoid organisational complacency or managerial stagnation. For instance, if the current thinking is in favour of workers’ participation in management, the personnel policy should be suitably adjusted to accommodate the latest fad, accepted by many in the organisation.

Personnel policies, to be sound, should also have broad coverage in addition to satisfying the above conditions. Hence, it would be appropriate to discuss the coverage of personnel policies here.

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### 3.5 COVERAGE OF PERSONNEL POLICIES

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The coverage of personnel policies has been classified on the basis of functions of HRM by Michael Armstrong and is outlined as:

- a. **Social responsibility:**
  - ❖ *Equity:* Treating employees fairly and justly by adopting an even-handed approach.
  - ❖ *Consideration:* Considering individual circumstances when decisions affect the employee’s prospects, seniority or self-respect.
  - ❖ *Quality of work life:* increase the interest in the job and organisation by reducing monotony, increasing variety of responsibilities avoiding stress and strain.
- b. **Employment policies:** Provision of equal employment opportunities involves – selecting the candidates based on job requirements and encouraging them to put in their 100%.
- c. **Promotion policies:** Promotion policies should reconcile the demands of employees for growth and the organisation’s demands for fresh and much more promising talent. Promotion policy should be fair and just to all.
- d. **Development policies:** Policies should cover the kind of employees to be trained, time span of training programmes, techniques, rewarding and awarding system, qualifications and experience of the trainer, encouraging the employees for self advancement, etc. These policies also cover areas like career planning and development, performance appraisal, organisational change and organisational development.
- e. **Relations policies:** Relations policies cover different aspects of human relations like: policies regarding motivation, morale, communication, leadership styles, grievance procedure, disciplinary procedure, employee counselling, etc. These policies also cover the areas of industrial relations like union recognition, union representation, collective bargaining, prevention and settlement of industrial disputes and participative management. In order to be effective they must be written on the basis of authentic information available from different sources.

### 3.6 FORMULATION OF PERSONNEL POLICIES

Policy formulation and implementation involves the following steps:

- i. **Identifying the need:** Initially important areas of personnel management (recruitment, selection, training, compensation, bargaining) must have a policy formulation which is clearly spelt out. Additional policy guidelines can come at any stage depending on the recurrence of a ticklish issue at various levels. (appealed policies).
- ii. **Collecting data:** Once priority areas are listed, steps should be taken to collect facts before formulating a policy. Various sources could be tapped for this purpose such as (i) company's records, (ii) past practices, (iii) survey of industry practices, (iv) experience of personnel handling various issues, (v) top management philosophy, (vi) organisational culture, (vii) employee aspirations and, (viii) changing economic, social and legislative environment etc.
- iii. **Specifying alternatives:** Policy alternatives should emerge clearly after collecting relevant data from various sources. These have to be evaluated carefully in terms of their contribution to organisational objectives. It is always better to involve people at various levels, especially those who are going to use and live with such policies. Top management should put the stamp of approval only when every thing is above board and the stated policy clearly reflects organisational priorities.
- iv. **Communicating the policy:** To gain approval at various levels, the formulated policy should be communicated through out the organisation. Policy manual, in-house journal and discussions with people at various levels may be used to reach out to employees quickly. Special coaching programmes can also inform people about the manner of application.
- v. **Evaluating the policy:** Personnel policies, to be effective, must be reviewed, evaluated and controlled regularly against certain established standards. Evaluation helps determine changes in existing policies. All the policies should be reviewed annually and some policies should be reviewed at specific times for example when there is collective bargaining or after strike/lock out, etc. Departmental policies may be reviewed through participation of all employees. Outside consultants or experts from other organisations may be engaged to review crucial policies. Adequate care should be taken to review the policies in the following situations when (a) employees offer suggestions; (b) employees express grievances; (c) unsatisfactory reports about employee performance and behaviour; (d) company plans for change like expansion, diversification, contraction, adoption of new technology and introduction of new methods. Personnel policies, to be effective, should have a favourable impact on the objectives and functions of P/HRM and help the parties concerned.

#### Check Your Progress 1

What are the steps involved in the formulation of personnel policies?

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### 3.7 EVALUATING THE IMPACT OF PERSONNEL POLICIES

The system and methods of human resource management are mostly based on personnel policies. Hence, appraising the impact of personnel policies is beneficial to the employees, organisation and society at large. The impact of personnel policies can be measured in terms of cost and benefit to employees, organisation and society.

HRM policies help the organisation in terms of attainment of organisational goals, increasing the efficiency, adaptability and achieving of long-run results. Further, organisational and human outcomes such as turnover, absenteeism and commitment are the result of human resource policies. They help the employees to have an awareness and a clear idea about the various programmes. HRM policies also affect the society. Some HRM policies affect commonly the individual, the organisation and the society. They relate to the employee's health, psychological and physical well being. Various HRM policies result in commitment, competence, cost effectiveness and congruence. These human resource outcomes lead to long term consequences like individual well being, organisational effectiveness and social well being as illustrated in Table 3.1.

**Table 3.1: Impact of P/HRM Policies**

P/HRM Policy Choices	Personnel/Human Resource outcome	Long-term consequences
Employee influence	Commitment	Individual well being
Human resource supply	Competence	Organisational effectiveness
Selection system	Congruence	Social well being
Reward system	Cost effectiveness	
HRD system		
Work environment		

**Source:** Modified version from S.K. Bhatia, "Assessing the overall Impact of HRM policies", The Hindu, 15th October 1987, p. 18.

The impact of human resource policies can be measured through their outcomes viz., commitment of the employee towards the organisation. Employee commitment, in turn, can be evaluated through the length of service of an employee (stability of employment), absenteeism, employee attitude towards the job, organisation, etc. The competence of an employee can be appraised through performance appraisal techniques. Congruence of an employee to policies can be identified through the nature and frequency of grievances, disagreement, discord and conflict. Cost effectiveness can be measured through human resource accounting techniques. However, assessing the impact of human resource management policies is highly difficult, but not impossible.

### 3.8 TYPES OF PERSONNEL POLICIES

These may be classified into several categories depending on (i) their source (originated appealed and imposed), (ii) scope (general or specific), and (iii) form (within or implied). These may be stated thus:

- **Originated policies:** These are established by top management deliberately so as to guide executive thinking at various levels.
- **Appealed policies:** These are formulated to meet the requirements of certain peculiar situations which have not been covered by the earlier policies. Such requests usually came from subordinates who fail to handle the cases based on guidance offered by existing policies.

- **Imposed policies:** These are formed under pressure from external agencies such as government, trade associations and unions.
- **General policies:** They reflect the basic philosophy and priorities of the top management in formulating the broad plan for mapping out the organisation's growth chart.
- **Specific policies:** These policies cover specific issues such as hiring, rewarding and bargaining. Such policies, however, should be in line with the basic framework offered by the general policies.
- **Written or implied policies:** implied policies are inferred from the behaviour of members ( such as dress code, gentle tone while talking to customers, not getting angry while at work etc.). Written policies, on the other hand, spell out managerial thinking on paper so that there is very little room for loose interpretation.

### Check Your Progress 2

Fill in the blanks:

1. .... is the pattern of decisions concerning policies and practices associated with the personnel system.
2. Special coaching programmes informs people about the .....
3. The system and methods of ..... are based on personnel policies.
4. .... are formed under pressure from external agencies such as government; trade associations and unions.

## 3.9 PERSONNEL PROCEDURES AND PROGRAMMES

Policies do not include detailed statements describing specifically how the policy is to be implemented. Policies are implemented by procedures. A procedure is a well thought out course of action. It prescribes the specific manner in which a piece of work is to be done. Procedures are called 'action guidelines'. They are usually derived from policies. Where policies define a broad field, procedures show a sequence of activities within that area. The emphasis is on chronological, step-by-step sequence of required actions. For instance, a student is required to complete several customised steps in order to register himself for courses in a university. The basic purpose of a procedure is to spell out clearly the way one has to go about doing something.

Further, personnel rules and programmes help in translating procedures into concrete action. They spell out specific required actions or non-actions allowing no discretion.

Personnel programmes are complex sets of goals, policies, procedures, rules, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action. As a single purpose 'metaplan', they show the major steps needed to achieve an objective, which will be responsible for each, and the appropriate time for carrying it out. A programme, thus is a comprehensive plan covering a large territory.

## 3.10 OBSTACLES IN ADMINISTERING PERSONNEL POLICIES

The factors which obstruct the implementation of personnel policies are:

- Many times managers are reluctant to follow policy guidelines, for they restrict the scope of managerial work and curtail executive freedom.



- Often conflicts erupt between implied and expressed policy statements especially on employment matters. For example, a policy of promoting employees on the basis of merit only (expressed) may be sabotaged by unscrupulous managers by promoting ‘yes men’ (implied).
- Personnel policies demand constant revision, modification and restructuring. However, they are characterised by considerable inertia. Once established, they persist and become unalterable. In the absence of review and appraisal, it would be difficult to break the cycle and effect a desirable policy change.
- Personnel policies are not easy to communicate. From the time policies are initiated to the time they are used, there is always the danger of falling into ‘generalities and pleasantries’.
- Since policies grant freedom to managers as to what is to be done in a particular situation, there is always the danger of some managers strictly adhering to the policy rhetoric and others deviating from the path excessively. A manager may be more liberal than was originally intended and vice versa. In general, ‘the extra margin’ of liberty may or may not prove to be an investment in the long run.

In order to overcome these obstacles, it is necessary to understand the basics in policy formulation and revision. It would be pertinent to look into the essentials of a sound personnel policy at this stage.

### Check Your Progress 3

1. Distinguish between personnel policies and procedures.

.....  
 .....

2. Mention different types of personnel policies.

.....  
 .....

## 3.11 LET US SUM UP

Personnel policies are guides to actions. They serve as roadmaps for managers on a number of issues such as recruitment, selection and promotion. They cover almost all functions of personnel management. A good personnel policy should be easy to understand, based on facts, equitable, reasonably flexible, precise and related to objectives. The personnel policy formulation is a five step process involving: need classification, data collection, specification of alternatives, communication of policy and evaluation.

## 3.12 LESSON END ACTIVITY

“Though the personnel policies guide all managers in attaining their goals, their administration is hindered by various factors.” Explain the statement.

## 3.13 KEYWORDS

**Personnel Policies:** A set of proposals and actions that act as a reference point for managers in their dealings with employees.

**Personnel Procedures:** Action guidelines governing the behaviour of employees at work.

**Appealed Policies:** These are formulated to meet the requirements of certain peculiar situations which have not been covered by the earlier policies.

**Implied Policies:** These are inferred from the behaviour of members.

**Specific Policies:** These policies cover specific issues such as hiring, rewarding and bargaining.

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### 3.14 QUESTIONS FOR DISCUSSION

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1. What is personnel policy? Describe the important personnel policies that affect the job of a personnel manager.
2. What is the purpose of a personnel programme? Is this solely in the interest of the organisation?
3. How does the personnel function change as a firm grows in size? Briefly describe each stage of its development.
4. Identify and discuss the managerial and operative functions of personnel management.
5. Explain the coverage of personnel policies. Describe the qualities of a sound personnel policy.

#### **Check Your Progress: Model Answers**

##### **CYP 1**

Steps involved in the formulation of Personnel Policies

- (i) Identifying the need
- (ii) Collecting data
- (iii) Specifying alternatives
- (iv) Communicating the policy
- (v) Evaluating the policy

##### **CYP 2**

1. Personnel Strategy
2. manner of application
3. human resource management
4. Imposed policies

##### **CYP 3**

1. Policies do not include detailed statements describing specifically how the policy is to be implemented. Policies are implemented by procedures. A procedure is a well thought out course of action.
2. Types of Personnel Policies
  - (i) Originated policies
  - (ii) Appealed policies

Contd....

- (iii) Imposed policies
- (iv) General policies
- (v) Specific policies
- (vi) Implied policies

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### 3.15 SUGGESTED READINGS

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004

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## LESSON

# 4

## PERSONNEL RECORDS, AUDIT AND RESEARCH

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### CONTENTS

- 4.0 Aims and Objectives
  - 4.1 Introduction
  - 4.2 Personnel Records and Reports
  - 4.3 Purposes of Records
  - 4.4 Fundamental Principles of Record Keeping
  - 4.5 Significance of Personnel Records
  - 4.6 Personnel/HR Audit
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    - 4.6.2 Need for Personnel Audit
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    - 4.6.4 Scope of Personnel Audit
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  - 4.7 Personnel Research
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  - 4.9 Objectives of Personnel Research
  - 4.10 Methods and Tools of Personnel Research
  - 4.11 Research Procedure
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  - 4.13 Let us Sum up
  - 4.14 Lesson End Activity
  - 4.15 Keywords
  - 4.16 Questions for Discussion
  - 4.17 Suggested Readings
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## 4.0 AIMS AND OBJECTIVES

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This lesson critically examines the usefulness of personnel records, research and audit reports in controlling the utilisation of personnels in an organisaitons. After studying this lesson, you will be able to:

- Explain why personnel records have to be maintained systematically
- Elaborate the principles of record keeping
- State the essentials of a good record and report
- Outline the objectives of personnel audit
- Explain the nature, scope and importance of personnel audit
- Specify the objectives, procedures and techniques of personnel research

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## 4.1 INTRODUCTION

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Managers require information on the general health of the organisation under their care from time to time. They require feedback that accurately reflects how well the parts of an organisation are moving. Personnel records and reports enable them to obtain the requisite information concerning the use of human resources in various departments and divisions. Personnel audit helps in finding out the usefulness of personnel programmes and practices followed by the organisation. The inadequacies and deficiencies in personnel programmes could thus be easily traced and rectified promptly.

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## 4.2 PERSONNEL RECORDS AND REPORTS

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A record is a piece of writing or a chart which provides ready information and which preserves evidence for future reference or use. Personnel records provide information relating to the use of human resources in an organisation, e.g., personnel history cards, training records, performance records, absence data, turnover records, wage and salary records, etc. Personnel records preserve information in files and documents like cards, papers, video files, audio cassettes, etc.

A report is a statement describing an event, a situation or a happening in a clear manner. It describes clearly as to what has happened or is happening. It provides both qualitative and quantitative information. Personnel records are generally prepared and compiled from reports and are meant for long-term use.

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## 4.3 PURPOSES OF RECORDS

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Records management is the planned control of records. It includes decision making regarding the retention, transfer, microfilming and destruction of records. More essentially, records management concerns itself with the creation, distribution, maintenance, retention, preservation, retrieval and disposal of records. As Littlefield et al. commented, “records management includes forms, reports, reproduction of written material, filing records, retention, microfilming and related services”. The purpose of records management are outlined hereunder:

1. ***To keep an orderly account of progress:*** Normally, the purpose of writing down and preserving documents, memoranda, statements – financial or otherwise – is to facilitate the company to assess its progress. This may be labeled as the ‘historical’ function of records, as the history of the business is recounted through records.

2. ***To facilitate the preparation of the statement of the true conditions:*** Information presented in the form of records enables the top management to prepare the statement of the true position of the organisation. By updating the records, exact/ actual conditions of the company can be revealed.
3. ***To enable the making of comparisons:*** Another essential function of records is to facilitate comparison of operations and events between one period and another period of time, between different product lines and different functions. This function is becoming increasingly important to improve the productivity and efficiency of business operations.
4. ***To facilitate the detection of errors and frauds:*** Proper records maintenance will go a long way in detecting mistakes, frauds and errors. A well-designed book-keeping system will root out the possibility of embezzlement of money through manipulation of figures. Similarly, wastages can also be detected by proper records management as standards are fixed in terms of unit costs for the items under consideration. Records also act as control devices (tools) in the hands of top management.
5. ***Legal requirements:*** Some records are to be maintained to satisfy legal requirements and various statutes. In our country, the Income Tax Act, the Companies Act, the Sales Tax Act, etc., impose obligations on companies to maintain certain records. For instance, the sales records have to be kept for several years under the Sales Tax Act and the receipts and payment vouchers are to be kept for purposes of income tax under the Income Tax Act.
6. ***Miscellaneous purposes:*** In addition to the above functions, records serve many other purposes such as:
  - a. records serve as a 'memory' of business and can be referred in order to make certain policy decisions.
  - b. records can be used in the hands of arbitrators to settle disputes on some specific issues.
  - c. records serve as an important tool in the hands of top management in controlling the affairs of the modern business and its activities.

#### Check Your Progress 1

Mention some of the purposes of maintaining personnel records.

.....  
.....

## 4.4 FUNDAMENTAL PRINCIPLES OF RECORD KEEPING

For effective records management, first of all, record keeping must be proper and accurate. The following are the noteworthy points about record keeping:

***Justification:*** The purpose of keeping and maintaining records must be justified. Sometimes, factory personnel try to record all information, assuming that the information will be useful at some future date. Such baseless assumption results in recording of unnecessary facts and figures which ultimately leads to a mass of voluminous records

that serve no purpose. The records must, therefore, be examined thoroughly in light of the 'principle of purpose' and all useless records must not be preserved at all, as they increase storage costs alarmingly.

**Verification:** Records must be subject to verification. Records should not be made just on hearsay evidence or rumour as they will then serve no purpose in future. Non-verifiable records, papers, files and documents will not be useful and they provide no evidence in a court of law. Non-verified records do not help in taking correct decisions.

**Classification:** Records must be properly classified so that they are useful to the management. All the facts regarding the business are to be recorded and classified chronologically according to the time and according to the subject. Without proper segmentation, records cannot serve any effective purpose. Bringing together in one place all the information available on any particular question, avoids a waste of time in an extended search for facts and data.

**Availability of required information:** The very purpose of maintaining records (i.e., to furnish information to the users) will be defeated if the desired information is not easily available. Records must be kept in such a form, type and shape so that they can be furnished within the shortest possible time. This does not mean that all the information must be available instantly to executives whenever and wherever they want but it implies that the information should be ready in form and shape and should involve little time in location. The required data and the degree of availability of records is generally governed by the purpose for which they are maintained.

**Reasonable cost:** Records must be produced and maintained at a reasonable cost. Some managers are hell-bent upon maintaining voluminous records of facts and figures. They justify it by saying that it is impossible to run a business without facts and figures. These managers probably ignore the costs involved in collection and preservation of records. They should realise that, though all the facts and figures are needed to run a business, some are definitely more important than others. Organisations should maintain the more valuable records and attempt to control costs involved in less valuable ones. Every personnel manager should be cost-conscious while managing records.

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## 4.5 SIGNIFICANCE OF PERSONNEL RECORDS

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Personnel records play a significant role in performing various personnel functions including audit and research. They are specially needed to:

- i. supply the information required by the management and trade unions to review the effectiveness of personnel policies and practices and develop them.
- ii. supply the information required by various agencies on the accidents, employment position, strikes, absenteeism, turnover, etc.
- iii. provide the information about manpower inventory for manpower planning and succession planning.
- iv. conduct research in personnel and industrial relations areas.
- v. identify training and development needs.
- vi. revise pay scales and benefits from time to time.

Obviously, managers cannot function effectively without the information on various areas of personnel and industrial relations.

**Table 4.1: Essentials of a Good Record and Report**

<b>Record</b>	<b>Report</b>
1. <b>Simple:</b> Record-keeping must be simple. It should, at the same time, meet the requirements of the organisation.	1. <b>Conformity:</b> Reports must conform to organisational objectives.
2. <b>Accurate:</b> Records should be error-free. They must be built around facts as far as possible.	2. <b>Unbiased:</b> Reports must be objective and prepared without prejudice or bias.
3. <b>Economical:</b> It should not cost a fortune to maintain records. The cost of maintaining records must not be high.	3. <b>Data based:</b> Reports must be built around facts. They must not only present facts but interpret them in a meaningful manner.
4. <b>Useful:</b> Records must provide information which could be put to use. They must facilitate managerial decision making. To this end they must be reviewed and kept up-to-date.	4. <b>Clarity and Simplicity:</b> The report must be clearly worded so that people could use it easily. To make it simple, some illustrative points could also be used.
	5. <b>Timely:</b> Reports must be submitted keeping the time limits in mind. The very purpose of preparing a report gets defeated once it exceeds the time limit.

## 4.6 PERSONNEL/HR AUDIT

Personnel records and reports provide information regarding the utilisation of human resources in an objective way. However, in most cases this is not sufficient. A critical evaluation of manpower programmes might be required to find out the areas where improvements are needed and to set things in order. In place of informal impressions gathered and summarised through records and reports, a systematic and analytical search is made to find out the effectiveness of personnel management. According to Seybold, personnel audit refers to an examination and evaluation of policies, procedures and practices to determine the effectiveness of personnel management. Personnel audit covers basically three things:

1. Measurement and evaluation of personnel programmes, policies and practices;
2. Identification of gap between objectives and results; and
3. Determination of what should or what should not be done in future.

### 4.6.1 Objectives of Personnel/HR Audit

“The basic objective of personnel audit is to know how the various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon; and to assist the rest of the organisation by identifying the gaps between objectives and results, for the end-product of an evaluation should be to formulate plans for corrections of adjustments” (Gray).

The objectives of personnel audit are:

- a. To review the organisational system, human resources subsystem in order to find out the efficiency of the organisation in attracting and retaining human resources.
- b. To find out the effectiveness of various personnel policies and practices.
- c. To know how various units are functioning and how they have been able to implement the personnel policies, and



- d. To review the personnel system in comparison with organisations and modify them to meet the challenges of personnel management.

### ***Types of Personnel Records***

Personnel records include the following:

- Job application and test scores
- Job descriptions and job specifications
- Interview results
- Employment history
- Medical reports
- Attendance records
- Payroll
- Employee ratings
- Training records
- Leave records
- Accident and sickness records
- Grievances, disputes records
- Contracts of employment
- Records to be kept under various statutes

### **4.6.2 Need for Personnel Audit**

Though there is no legal obligation to audit personnel policies and practices, some of the modern organisations have accepted it due to certain compelling reasons:

- i. Increasing size of the organisation and personnel in several organisations.
- ii. Changing philosophy of management towards human resources.
- iii. Increasing strength and influence of trade unions.
- iv. Changing human resources management philosophy and thereby personnel policies and practices throughout the world.
- v. Increasing dependence of the organisation on the human resources system and its effective functioning.

### **4.6.3 Benefits of Personnel Audit**

The benefits of a human resource management audit may be summarised thus:

- Identifies the contributions of the HR department.
- Improves the professional image of HR department.
- Encourages greater responsibility and professionalisation among members of HR Department.
- Classifies the HR departments' duties and responsibilities.
- Stimulates uniformity of personnel policies and practices.
- Finds critical personnel problems.

- Ensures timely compliance with legal requirements.
- Reduces human resource costs.

#### 4.6.4 Scope of Personnel Audit

The scope of personnel audit is very wide. It covers areas like personnel philosophy, policies, programmes, practices and personnel results. The major areas of personnel audit include programming, forecasting and scheduling to meet organisation and personnel needs. The areas of recruitment, selection, careers, promotions, training and development also come within the scope of personnel audit. Further, the areas of leadership, welfare, grievances, performance appraisal, employee mobility, industrial relations are also included within the scope of personnel audit. The areas and levels of personnel audit, according to Dale Yoder, are fairly exhaustive (See Table 4.2).

**Table 4.2: Personnel Audit—Areas and Levels**

Major Areas	Levels and Examples of Audit Data		
	Level I – Results	Level II - Programmes & Procedures	Level III – Policy
<b>Planning:</b> Forecasting & scheduling to meet organisation & needs.	Personnel shortages supplies, layoff, etc.	Time bound or network cost/benefit budget, etc.	Explicit statement to provide inclusive personnel plans for present & future
<b>Staffing &amp; Development:</b> Defined requirements & careers; sources, requirement, selection, training, promotions	Recruitment times costs; training times cost, labour turnover etc.	In house & out house training programmes;	Let cream rise; non- discrimination, etc. guidance in careers, etc.
<b>Organising:</b> Maintaining structures for co-ordinating, communi- cating, collaborating, etc.	Feedback, reader interest, extent of formal, organisation, reports, records, etc.	Job definitions for individuals, depart- ments, task forces, house organs, etc.	Encourage flexibility, reduce resistance to change, effective three-way communication, etc.
<b>Motivation &amp; Commitment:</b> Individual & group motivation, interest, effort, contribution	Productivity, performance norms comparative costs, etc.	Job enlargement; wage & salary administration; morale survey; exit interviews; fringe benefits, etc.	Gain high personal identification, ensure wholeman satisfactions.
<b>Administration:</b> Style of leadership and supervision; delegation, negotiation.	Suggestions, promotions, grievances, discipline, union- management cooperation.	Consultative supervision; collective bargaining, union-management committees, etc.	Style adapted to changing expectations; participative involvement, collective bargaining, etc.
<b>Research &amp; Innovation:</b> Experiments & theory testing in all areas.	Changes, experiments, research reports, publications.	R&D approach in all areas; suggestion plans, etc.	Test old & new theory; encourage creativity in management.

#### Check Your Progress 2

Write any three benefits of personnel audit.

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.....

### 4.6.5 Utility of Records

Several personnel records are used in the process of personnel audit. They include: payroll, total and unit labour cost, interview reports, test scores, training records, labour productivity, work stoppage due to strikes, lockout, layoff, accident reports, turnover reports, absenteeism reports, etc.

### 4.6.6 HR Audit Process

The personnel audit should probe much deeper, evaluating personnel policies, programmes, philosophy, practices and concepts comparing with standards and with those of the personnel records of the said organisation and other organisations. The level and the depth of the investigation should be decided in advance. The process of personnel audit, usually carried out through an attitudinal survey or by interpreting data, includes:

- i. Identifying indices, indicators, statistical ratios and gross numbers in some cases.
- ii. Examining the variations in time-frame in comparison with a similar previous corresponding period.
- iii. Comparing the variations of different departments during different periods.
- iv. Examining the variations of different periods and comparing them with similar units and industries in the same region.
- v. Drawing trend lines, frequency distributions and calculating statistical correlations.
- vi. Preparing and submitting a detailed report to the top management and to the managers at appropriate levels for information and necessary action.

Various personnel policies, procedures and practices can be evaluated by asking various questions of the following type:

1. What are they? (i.e., policies, procedures/practices).
2. How are they established?
3. How are they communicated to various managers and employers concerned?
4. How are they understood by individual employers, supervisors and managers at various levels?
5. Are they consistent with the managements' organisational philosophy and human resource management philosophy?
6. Are they consistent with the existing trends towards human resource management and research?
7. What are the controls that exist for ensuring their effective and uniform application?
8. What measures exist to modify them to meet the organisational requirements?

Most organisations that employ HR audit examine the employment statistics pertaining to a period—making use of ratios (given below):

#### *Effectiveness Ratios*

Ratio of number of employees to total output in general.

Sales in dollars per employee for the whole company or by organisational unit (business).

Output in units per employee hour worked for the entire organisational unit.

Scrap loss per unit of the organisation.

Payroll costs by unit per employee grade.

***Accident Ratios***

Frequency of accident rate for the organisation as a whole or by unit.

Number of lost-time accidents.

Compensation paid for accidents per 1,000 hours worked.

Accidents by type.

Accidents classified by type of injury to each part of the body.

Average cost of accident by part of the body involved.

***Organisational Labour Relations Ratios***

Number of grievances filed.

Number of arbitration awards lost.

***Turnover and Absenteeism Ratios***

Attendance, tardiness, and overtime comparisons by organisational unit as a measure of how well an operation is handling employees.

Employee turnover by unit and for the organisation.

***Employment Ratios***

Vacations granted as a percentage of employees eligible.

Sick-leave days granted as a percentage of labour-days worked.

Maternity leaves granted per 100 employees.

Educational leaves granted per 100 employees.

Personal leaves granted per 100 employees.

Employment distribution by chronological age.

Employment distribution by length of service with organisation.

Employment distribution by sex, race, national origin, religion.

Managerial distribution by chronological age, sex, race, national origin, religion.

Average age of workforce.

Average age of managerial workforce.

**4.6.7 Frequency of Audit**

Generally top management thinks of personnel audit only when serious crisis occurs like strikes, increase in the number and/or magnitude of grievances or conflicts, etc. This type of audit is just like post-mortem of the situation. But a regular programme of auditing helps the management to find out some significant trends. The probability of some serious incidents hitting the organisation could be visualised and some remedial steps could be initiated. This ensures smooth running of an organisation in addition to controlling stressful situations, crises and conflicts.

The management has to, therefore, arrange for regular annual audit of almost all the personnel policies and practices. Certain indicators like absenteeism and employees' grievances should be audited at the end of every month/quarter depending upon the magnitude of the issues.

**Types of Audit:** Personnel audit may be done either by internal people or by external people. Internal audit is done by the employees in the personnel department. This kind of audit is called internal audit. The audit may be conducted by external specialists or consultants in personnel management. This type of audit is called external audit.

**Audit report:** The audit has to examine the various personnel reports, personnel policies and practices. Then the auditor has to record his observations, findings, prepare a report compiling all these findings and advance useful recommendations for the improvement of personnel management practices. The auditor submits a written report of his findings, conclusions and recommendations. The most common elements of the report are given below:

- Table of contents
- Preface
- Statement of the objectives, methodology, scope and techniques used.
- A synopsis containing the summary and conclusions of the audit that has been carried out.
- A clear and in-depth analysis of the data and information, furnished area-wise or department-wise.
- Evaluation, discussions and analysis. This part covers findings and suggestions offered by the auditor.
- Appendix – this includes supporting data and information which is not necessary in the main part of the report.
- Bibliography – important books and journals which are necessary for future reading are also included at the end.

**Problems in personnel audit:** The rules, systems and regulations for financial audit are well developed. But it is very difficult to audit personnel policies and practices. Personnel audit involves comparison with past ratios, rates of turnover, expenditure etc., with those of other departments and organisations. The organisation by itself cannot be taken as standard for comparison and a decision arrived at. Hence, it is difficult to conduct the personnel audit. There may be a tendency to turn the survey into a fault-finding process. Every employee may then try to pass the buck. The audit may create more troubles than solutions. The audit has to be done carefully. It must evaluate things in an objective way, find out what has gone wrong and suggest improvements. The emphasis must be on rectifying things rather than fault finding.

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## 4.7 PERSONNEL RESEARCH

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### 4.7.1 Meaning of Personnel Research

Personnel Research is the task of searching for and analysing facts relating to the end that personnel problems may be solved or principles and laws governing their solution derived. It implies investigation into any aspect of personnel management in a systematic way.

### 4.7.2 Characteristics of Personnel Research

Personnel research, like any other research, is a rigorous scientific activity. It is a systematic development and acquisition of knowledge and is tailored to specific personnel

needs to answer specific questions within a given time frame. It is now a subject of study to understand how personnel departments are structured and function. Personnel decisions can be improved through personnel research because better information leads to better solutions. Good personnel management comes through analysing problems and applying experience and knowledge to particular situations.

Personnel research reveals causal connections between causal relationship is established, we can control the 'effect' variable to achieve our intended personnel goals and objectives. Personnel research is sometimes carried out for descriptive purposes also. However, the descriptive research are rarely of great interest.

For doing effective personnel research, it is necessary to explore knowledge and to gather and share information. This is done using the concept map.

Personnel being the ultimate source of competitive advantage for an organisations and have the strategic relevance, systematic personnel research at corporate level has now become very significant. Methodological issues for personnel are not very different from other management research, yet it is important for a scholar to understand the basics, keeping in view the specific requirements of personnel area. At corporate level, many personnel decision may be taken based on personnel research outcome.

### Check Your Progress 3

Fill in the blanks:

1. .... is the planned control of records.
2. .... encourages greater responsibility and professionalisation among members of HR department.
3. .... has to examine the various personnel reports, personnel policies and practices.
4. .... implies investigation into any aspect of personnel management in a systematic way.

## 4.8 TYPES OF RESEARCH

Commonly we find five types of personnel research. These are discussed below:

### 4.8.1 Pure Basic Research

This research intends to develop a basic discipline by resolving, illuminating and exemplifying a theoretical issue. Therefore, its basic purpose is to enhance knowledge and understanding. The results of such research become the source of knowledge for the practicing managers. Most of the core management concepts developed from pure basic research.

### 4.8.2 Objective Research

This research focus on how to overcome a general problem in application of an established knowledge. It is, however, not intended to solve a specific management problem. For doing such research, the researcher frames certain clear objectives and hypotheses and then tests the validity of established knowledge in a given situation.

### 4.8.3 Evaluative Research

This research, in contrast assesses some aspects of the organisational function by analysing the effectiveness of a given problem, like; effects of performance linked pay over fixed pay on workers' motivation, effects on change in organisational culture in post-merger situation over pre-merger, etc. This type of research is most common in organisations as it helps practising managers to develop 'scientific neutrality' to look into some issues and develops a framework for future management.

### 4.8.4 Applied Research

This type of research is more specific to solve a particular problem within an organisation by application of appropriate knowledge. To illustrate, we may apply our existing knowledge on leadership to identify most appropriate style for knowledge workers, suitably changing our existing style in organisation. Since it is more specific to solve a given organisational problem, we often allege such research do not add to our existing knowledge. However, others may emulate experience of one organisation, as 'best practice management' concepts now require every organisation to benchmark with others.

### 4.8.5 Action Research

In this research action (i.e., solution of a problem) is both an outcome a part of the research process. Its main purpose is to improve the stock of knowledge by tackling a problem, which has relevance to theory. However, the researcher in such a case being changing the research during the process, the outcome, it is often alleged, cannot be replicated, which put a constraint to test the validity of research in another situation. Thus it may prevent development of general knowledge.

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## 4.9 OBJECTIVES OF PERSONNEL RESEARCH

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The main objectives of personnel research are as follows (Jucius):

- Measure current conditions in human resource management.
- Evaluate effects and results of current policies and practices.
- Discover ways and means of strengthening the abilities and attitudes of employees at a high level and on a continuing basis.
- Provide an objective basis for revising current programmes and activities.

### Check Your Progress 4

What are the objectives of personnel research?

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 .....

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## 4.10 METHODS AND TOOLS OF PERSONNEL RESEARCH

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Personnel Research is necessary to answer questions about such factors as absence records, safety problems, grievances, wage and salary rates, training executives, recruitment methods, selection techniques, etc. There are many ways to research the



status of personnel management in an organisation. Some of the important ones are given below:

- **Historical studies:** Here past records are examined thoroughly. Exit interviews are conducted to elicit opinions of former employees. In an exit interview people who are leaving the organisation are asked to state problems that caused them to resign. This information is then used to correct problems so that others will not leave.
- **Case studies:** Certain individual situations are closely analysed to identify issues of importance. Based on the conclusions drawn from such an analysis, steps to be taken in future are indicated.
- **Survey method:** This method makes use of questionnaires that give employees an opportunity to voice their opinions about specific personnel management activities, e.g., performance appraisal process. Attitude surveys could be conducted to find employees' opinions about their working environments (such as jobs, supervisors, co-workers, organisational policies and practices). Organisational climate surveys could also be undertaken to determine how employees feel about the organisation or specific parts of it. Dimensions of organisation climate commonly measured include:

**Table 4.3: Dimensions of Organisational Climate**

1.	Structure – Feelings about rules, procedures and constraints.
2.	Responsibility – Feelings about the individuals' decision-making freedom.
3.	Reward – Degree to which employees perceive fairness in pay and other rewards.
4.	Risk – Sense of challenge and desire to take risks.
5.	Team spirit – Feeling of group friendliness and identification with the organisation.
6.	Standards – Emphasis on goal attainment and achievement of performance standards.

- **Statistical studies:** These studies include the collection, analysis, and interpretation of statistical data. The focus is on qualifications, statistical inference, mean, median, mode, measures of dispersion, trends, correlation, etc., to process the collected data.
- **Mathematical models:** These are used to explain simple as well as complex relationship among variables that are put to examination.
- **Simulation methods:** In this case, a statement of the hypothesis is prepared and a model to simulate the interactions of variables is employed. This method is used to study problems relating to training of personnel, inventory control, collective bargaining, etc.
- **Action Research method:** Personnel departments, consultants, academic institutions, government agencies are often used to collect information relating to various aspects of personnel management.

Personnel decisions can be improved through personnel research because better information leads to better solutions. "Good personnel management comes through analysing problems and applying experience and knowledge to particular situations".

## 4.11 RESEARCH PROCEDURE

For conducting personnel research, companies develop systematic procedures for collecting, recording and analysing data from primary and secondary sources to help



managers in making personnel decisions. In the process of research, companies collect a lot of different types of information.

Personnel research involves a systematic procedures of identification of research problem, design of data collection and evaluation techniques, design of a research execution plan, methods to collate, sort and analyze information and writing of research report. In brief the procedure of research can be summarised as follows:

1. Identifying the research problem
2. Developing research plan
3. Designing the research strategy
4. Collection of required information
5. Analyzing the collected information
6. Preparing the research report

The stages in personnel research process are highly interrelated and affect one another. For example, identification of research problem will have a bearing on the setting up of research objectives. The set of research objectives will influence the sample size and method of data collection and analysis. If the research objective is to find out problem, which is called exploratory research, the researcher is likely to follow qualitative research techniques like focus group, in depth interview for data collection. Contrary to this when he has to work on descriptive or conclusive research for generalizations of findings, he may choose a larger sample and different set of statistical techniques for reporting.

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## **4.12 SOURCES OF PERSONNEL RESEARCH INFORMATION**

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Academic research related information sources were used much less frequently than practitioner related sources. However, analyses suggested that only academic sources were significantly related to organisational profitability. The strength of the relationship between the use of academic information and profitability also varied across industry types.

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## **4.13 LET US SUM UP**

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Records management is the planned control of records. Personnel records are generally prepared and compiled from reports and are meant for long term use.

Personnel records and reports help management in obtaining the requisite information regarding the use of human resources in various departments and divisions.

For effective records management, record keeping must be proper and accurate. Also, the records must be produced and maintained at a reasonable cost.

Personnel audit is a systematic evaluation of personnel policies, procedures and practices. Basically, it aims to find how various units are functioning and how they are been able to implement personnel programmes.

Personnel audit can be carried out either by attitudinal survey or by interpreting data. Personnel audit can be undertaken at frequent intervals. It may be done either by internal people or by external consultants. Personnel audit, to be effective, should focus attention on rectifying things rather than fault finding.

Personnel research implies systematic investigation into any aspect of personnel/HR management in a systematic way.

Personnel research can be undertaken through historical studies, case studies, surveys, simulation techniques etc.

Personnel research can offer valuable insights for managers as they attempt to increase employee productivity and satisfaction while reducing absenteeism and turnover.

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#### 4.14 LESSON END ACTIVITY

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One of the important steps while carrying out HRM research is to formulate specific hypotheses. Develop three hypotheses for studies that could be undertaken by an HRM research specialist.

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#### 4.15 KEYWORDS

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**Personnel records:** Documents and files that offer information regarding the use of human resources in an organisation.

**Research:** A systematic and goal oriented examination of facts that tries to establish a relationship between two or more phenomena.

**Pure research:** Research undertaken with a view to further knowledge.

**Personnel research:** The analysis of data from HR records to determine the effectiveness of past and present HR practices.

**Attitude or opinion survey:** An attitude or opinion survey is a set of written instruments completed by employees (usually anonymously) expressing their reactions to policies, practices and job characteristics.

**Turnover:** It is the net result of the exit of some employees and the entrance of others.

**Secondary research:** A method using data already published by others and reported in books, articles or other sources.

**Applied research:** Research that seeks to find an answer to a specific current problem.

**Personnel audit:** A formal research effort to evaluate the current state of personnel management in an organisation.

**Exit interview:** Here people who are leaving the organisation are interviewed and asked to identify problems that caused them to resign.

**Climate survey:** It tries to determine how employees feel about the organisation or specific aspects of it.

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#### 4.16 QUESTIONS FOR DISCUSSION

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1. Define the term 'Personnel Audit'. Describe its objectives and importance.
2. What do you mean by personnel records? Describe their objectives and usefulness.
3. Outline the essentials of a good record keeping system.
4. State the techniques that can be used to carry out personnel research.
5. Write short notes on:
  - a. Types of Personnel Records
  - b. Personnel Research
  - c. Personnel Audit Process

6. Why would a manager want to do HRM research?
7. Explain the most popular and relevant primary research techniques for HRM problems (e.g., historical studies, surveys, controlled experiments etc.)
8. 'Research on HR activities answers questions with facts, not guess work'. Discuss.
9. What is the scope of HRD audit? What records need to be used for it?

### **Check Your Progress: Model Answers**

#### ***CYP 1***

##### ***Purposes of Records***

- (i) To keep an orderly account of progress
- (ii) To Facilitate the preparation of the statement of the true conditions
- (iii) To enable the making of comparisons
- (iv) To facilitate the detection of errors and frauds
- (v) To meet legal requirements
- (vi) Miscellaneous Purposes

#### ***CYP 2***

##### ***Benefits of Personnel Audit***

- (i) It identifies the contributions of the HR department.
- (ii) Management audit improve the professional image of HR department.
- (iii) It classifies the HR department's duties and responsibilities.

#### ***CYP 3***

1. Records Management
2. Personnel Audit
3. Audit report
4. Personnel Research

#### ***CYP 4***

##### ***Objectives of Personnel Research***

- (i) To measure current conditions in HRM.
- (ii) To evaluate effects and results of current policies and practices.
- (iii) To provide an objective basis for revising current programmes and activities.
- (iv) Discover ways and means of strengthening the abilities and attitudes of employees at a high level and on a continuing basis.

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## **4.17 SUGGESTED READINGS**

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004

## UNIT III

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## LESSON

# 5

## INTRODUCTION TO HUMAN RESOURCE PLANNING

### CONTENTS

- 5.0 Aims and Objectives
- 5.1 Introduction
- 5.2 Need of HRP
- 5.3 Benefits of HRP
- 5.4 Process of Human Resource Planning
  - 5.4.1 Forecasting the Demand for Human Resources
  - 5.4.2 Preparing Manpower Inventory (Supply Forecasting)
  - 5.4.3 Determination of the Quality of Personnel
  - 5.4.4 Formulating HR Plans
- 5.5 Job Diagnostic Survey
- 5.6 Responsibility for HRP
- 5.7 Effective Human Resource Planning
- 5.8 Let us Sum up
- 5.9 Lesson End Activity
- 5.10 Keywords
- 5.11 Questions for Discussion
- 5.12 Suggested Readings

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### 5.0 AIMS AND OBJECTIVES

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The purpose of this lesson is to enable the students to have a clear view of the process of human resource planning, as it is correctly practised in most organisations. After studying this lesson, you will be able to:

- Understand the meaning, objectives and importance of HRP
- Outline the HRP process
- Describe why an internal assessment of current jobs and skills is important to HRP
- Understand the factors to be taken into account while forecasting the supply and demand for human resources in an organisation

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## 5.1 INTRODUCTION

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Human resource is an important corporate asset and the overall performance of companies depends upon the way it is put to use. In order to realise company objectives, it is essential to have a human resource plan. Human Resource Planning (also called employment or personnel planning) is essentially the process of getting the right number of qualified people into the right job at the right time so that an organisation can meet its objectives. It is a system of matching the supply of people (existing employees and those to be hired or searched for) with openings the organisation expects over a given time frame.

Human Resource Planning (HRP) is a forward looking function. It tries to assess human resource requirements in advance keeping the production schedules, market fluctuations, demand forecasts, etc., in the background. The human resource plan is subject to revision, of course, and is tuned to the requirements of an organisation from time to time. It is an integral part of the overall corporate plan and reflects the broad thinking of management about manpower needs within the organisation. The focus of the plan is always on getting right number of qualified people into the organisation at the right time. To this end, human resource plans are prepared for varying time periods, i.e., short term plans covering a time frame of 2 years and long term plans encompassing a period of 5 or more years.

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## 5.2 NEED OF HRP

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The basic purpose of having a human resource plan is to have an accurate estimate of the number of employees required, with matching skill requirements to meet organisational objectives. It provides information about the manner in which existing personnel are employed, the kind of skills required for different categories of jobs and human resource requirements over a period of time in relation to organisational objectives. It would also give an indication of the lead time that is available to select and train the required number of additional manpower.

More specifically, HR planning is required to meet the following objectives:

- **Forecast personnel requirements:** HR planning is essential to determine the future manpower needs in an organisation. In the absence of such a plan, it would be difficult to have the services of right kind of people at the right time.
- **Cope with changes:** HR planning is required to cope with changes in market conditions, technology, products and government regulations in an effective way. These changes may often require the services of people with the requisite technical knowledge and training. In the absence of an HR plan, we may not be in a position to enlist their services in time.
- **Use existing manpower productively:** By keeping an inventory of existing personnel in an enterprise by skill, level, training, educational qualifications, work experience, it will be possible to utilise the existing resources more usefully in relation to the job requirements. This also helps in decreasing wage and salary costs in the long run.
- **Promote employees in a systematic manner:** HR planning provides useful information on the basis of which management decides on the promotion of eligible personnel in the organisation. In the absence of an HR plan, it may be difficult to ensure regular promotions to competent people on a justifiable basis.

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### 5.3 BENEFITS OF HRP

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Human Resource Planning is a highly important and useful activity. If used properly, it offers a number of benefits:

- **Reservoir of talent:** The organisation can have a reservoir of talent at any point of time. People with requisite skills are readily available to carry out the assigned tasks.
- **Prepare people for future:** People can be trained, motivated and developed in advance and this helps in meeting future needs for high-quality employees quite easily. Likewise, human resource shortages can also be met comfortably (when people quit the organisation for various reasons) through proper human resource planning.
- **Expand or contract:** If the organisation wants to expand its scale of operations, it can go ahead easily. Advance planning ensures a continuous supply of people with requisite skills who can handle challenging jobs easily.
- **Cut costs:** Planning facilitates the preparation of an appropriate HR budget for each department or division. This, in turn, helps in controlling manpower costs by avoiding shortages/excesses in manpower supply. The physical facilities such as canteen, quarters, school, medical help, etc., can also be planned in advance.
- **Succession planning:** Human Resource Planning, as pointed out previously, prepares people for future challenges. The 'stars' can be picked up and kept ready for further promotions whenever they arise. All multinational companies for example, have this policy of having a 'hot list' of promising candidates prepared in advance e.g., HLL, Proctor & Gamble, Godrej consumer products etc. Such candidates are rolled over various jobs and assessed and assisted continuously. When the time comes, such people 'switch hats' quickly and replace their respective bosses without any problem.

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### 5.4 PROCESS OF HUMAN RESOURCE PLANNING

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The process of HRP usually followed in a large organisation, consists of the following steps:

#### 5.4.1 Forecasting the Demand for Human Resources

Most firms estimate how many employees they require in future. The demand for human talent at various levels is primarily due to the following factors:

- a. **External challenges:** These challenges arise from three important sources:
  - ❖ **Economic developments:** Liberalisation, opening up of banking sector, capital market reforms, the on-line trading systems have created huge demand for finance professionals during 1990-1995 in India. The late 90s saw the rise of manufacturing, FMCG, Pharmaceuticals, Auto-components, Healthcare and Chemical Industries in a steady manner. Consequently, the demand for Engineering and Management graduates, Scientists and Healthcare professionals has picked up in recent times.
  - ❖ **Political, legal, social and technical changes:** The demand for certain categories of employees and skills is also influenced by changes in political, legal and social structure in an economy. Likewise, firms employing latest

technology in construction, power, automobiles, software, etc., have greatly enhanced the worth of technicians and engineers during the last couple of years. Technology, however, is a double-edged weapon and hence, its impact on HR plans is difficult to predict. For example, computerisation programme in Banks, Railways, Post and Telegraph Departments may reduce demand in one department (book keeping, for example) while increasing it in another (such as computer operations). High technology with all its attendant benefits may compel organisations to go lean and downsize workforce suddenly. Employment planning under such situations becomes complicated.

- ❖ **Competition:** Companies operating in fields where a large number of players are bent upon cutting each other's throat (with a view to enhance their market shares) often reduce their workforce. Competition is beneficial to customers but suicidal for companies operating on thin margins. Such companies have to necessarily go 'lean' by reducing their workforce. On the other hand, companies that are doing well and progressing smoothly will always look for people with critical skills.
- b. **Organisational decisions:** The organisation's strategic plan, sales and production forecasts and new ventures must all be taken into account in employment planning. If Britannia Industries Ltd expects higher demand for biscuits and bread, the long-term HR plan must take this into consideration. Likewise, if it tries to venture into other lucrative fields such as milk based products and confectionery items, the demand for people possessing requisite skills in those areas in the next couple of years should be looked into carefully.
- c. **Workforce factors:** Demand is modified by retirements, terminations, resignations, deaths and leaves of absence. Past experience, however, makes the rate of occurrence of these actions by employees fairly predictable.
- d. **Forecasting techniques:** The manpower forecasting techniques commonly employed by modern organisations are given below:
  - ❖ **Expert forecasts:** In this method, managers estimate future human resource requirements, using their experiences and judgements to good effect.
  - ❖ **Trend analysis:** HR needs can be estimated by examining past trends. Past rates of change can be projected into the future or employment growth can be estimated by its relationship with a particular index.

**Box 5.1: Trend Analysis (An Example)**

2001-02	Production of Units	:	5,000
2002-03	No. of Workers	:	100
	Ratio	:	100:5000
2003-04	Estimated Production	:	8,000
No. of Workers required		:	$8000 \times \frac{100}{5000} = 160$
If supervisors have a span of 20 workers, 8 supervisors are also needed in 2003-04.			

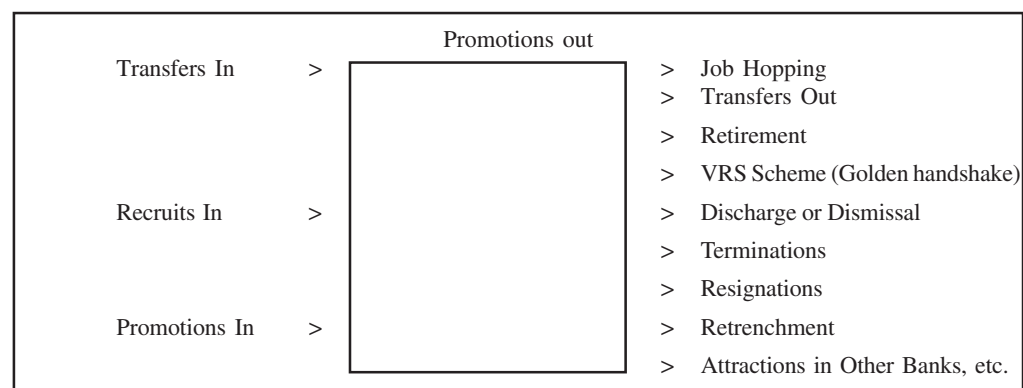
- e. **Other methods:** Several mathematical models, with the aid of computers are also used to forecast HR needs, e.g., regression, optimisation models, budget and planning analysis.



To proceed systematically, human resource professionals generally follow three steps. Let's examine these steps as applied in respect of, say a commercial bank.

- **Workforce analysis:** The average loss of manpower due to leave, retirement, death, transfer, discharge, etc., during the last 5 years may be taken into account. The rate of absenteeism and labour turnover should also be taken into account. The nature of competition say from foreign banks, other non-banking financial institutions may also be considered here to find out actual requirements in a year (Box 5.2).

**Box 5.2: Manpower Flows in a Bank**



While some of the interchanges and external supply could be predicted (growth opportunities, promotions, transfers, retirements, etc.) others are not so easy to predict. Past experience and historical data may help bank managers in this regard.

- **Work load analysis:** The need for manpower is also determined on the basis of work-load analysis, wherein the company tries to calculate the number of persons required for various jobs with reference to a planned output – after giving weightage to factors such as absenteeism, idle time, etc. The following example would throw light on this:

**Box 5.3: Work Load Analysis (An Example)**

Planned output for the year	10,000	pieces
Standard hours per piece	3	hours
Planned hours required	30,000	hours
Productive hours per person per year (allowing for absenteeism, turnover, idle time etc.)	1,000	hours (estimated on annual basis)
No. of workers required	30	
If span of control in the unit is 10 per officer, then 3 officers are also required.		

While determining manpower requirements through work load analysis, commercial banks may have to take the following factors into consideration: (i) the number of transactions to be handled by an employee; (ii) the amount of deposits and advances per employee; (iii) special requirements in respect of managing extension counters, currency chests, mobile branches, etc.; (iv) future expansion plans of the bank concerned. Managerial judgement – a study of the past trends – may serve as a useful guide in this regard. Statistical and econometric models may also be pressed into service, sometimes, depending on the requirement(s).

- **Job analysis:** Job analysis helps in finding out the abilities or skills required to do the jobs efficiently. A detailed study of jobs is usually made to identify the qualifications

and experience required for them. Job analysis includes two things: Job description and job specification. Job description is a factual statement of the duties and responsibilities of a specific job. It gives an indication of what is to be done, how it is to be done and why it is to be done. Job specification provides information on the human attributes in terms of education, skills, aptitudes and experience necessary to perform a job effectively.

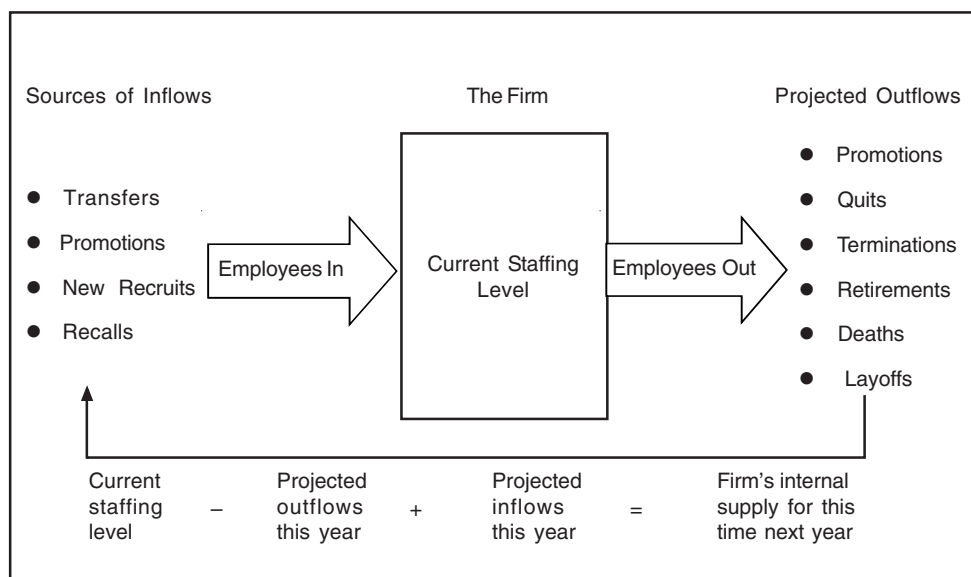
#### 5.4.2 Preparing Manpower Inventory (Supply Forecasting)

The basic purpose of preparing manpower inventory is to find out the size and quality of personnel available within the organisation to man various positions. Every organisation will have two major sources of supply of manpower: internal and external.

- (a) **Internal labour supply:** A profile of employees in terms of age, sex, education, training, experience, job level, past performance and future potential should be kept ready for use whenever required. Requirements in terms of growth/diversification, internal movement of employees (transfer, promotions, retirement, etc.) must also be assessed in advance. The possibilities of absenteeism and turnover should be kept in mind while preparing the workforce analysis. Through replacement charts or succession plans, the organisation can even find out the approximate date(s) by which important positions may fall vacant. Frequent manpower audits may be carried out to find out the available talent in terms of skills, performance and potential. (see Figure 5.1)

Some of the important forecasting techniques may be summarised thus:

**Staffing table:** It shows the number of employees in each job. It tries to classify employees on the basis of age, sex, position, category, experience, qualifications, skills, etc. A study of the table indicates whether current employees are properly utilised or not.



**Figure 5.1: Estimated Internal Labour Supply for a given Firm**

**Markov analysis:** This technique uses historical rates of promotions, transfer and turnover to estimate future availabilities in the workforce. Based on past probabilities, one can estimate the number of employees who will be in various positions with the organisation in future.

2003-2004	Store Managers	Asst. Store Managers	Section Heads	Dept. Heads	Sales Executives	Exit
Store Managers (n = 15)	80% 12					20% 3
Asst. Store Managers (n = 36)	11% 4	83% 30				6% 2
Section Heads (n = 94)		11% 11	66% 63	8% 8		15% 14
Departmental Heads (n = 288)			10% 29	72% 207	2% 6	16% 46
Sales Executives (n = 1440)				6% 86	74% 1066	20% 288
Forecasted Supply	16	41	92	301	1072	353

Figures in circles show the transition percentages

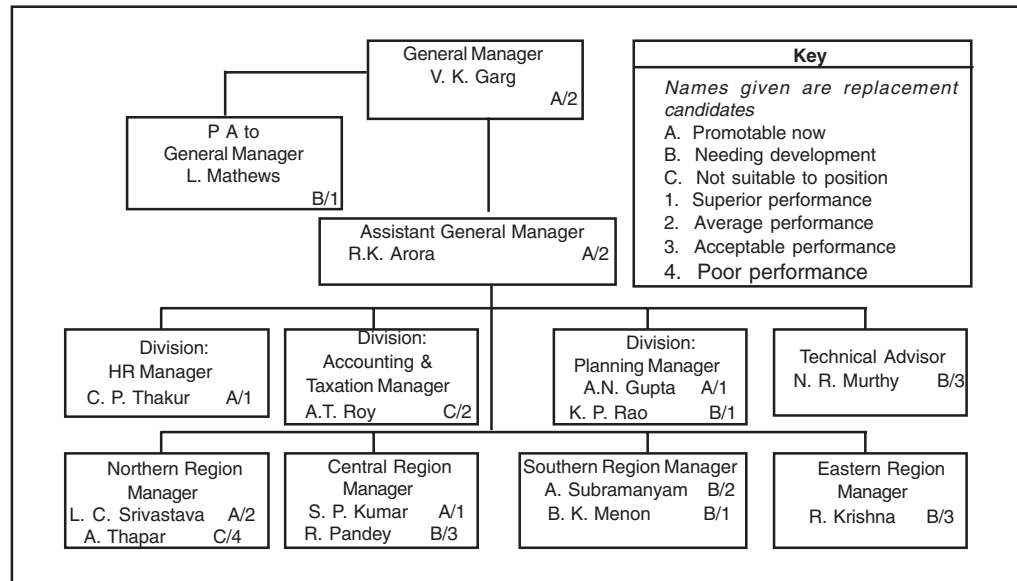
**Figure 5.2: Marcov Analysis for a Hypothetical Retail Company**

**Skills inventory:** A skills inventory is an assessment of the knowledge, skills, abilities, experience and career aspirations of each of the current employees. This record should be updated at least every 2 years and should include changes such as new skills, additional qualifications, changed job duties etc. Of course, confidentiality is an important issue in setting up such an inventory. Once established, such a record helps an organisation to quickly match forthcoming job openings with employee backgrounds.

<b>Name : A. K. Sen</b>				<b>Date printed : 1-4-2004</b>																															
<b>Number : 429</b>				<b>Department : 41</b>																															
<b>Keywords</b> <table border="1"> <thead> <tr> <th>Word</th> <th>Description</th> <th>Activity</th> </tr> </thead> <tbody> <tr> <td>Accounting</td> <td>Tax</td> <td>Supervision and analysis</td> </tr> <tr> <td>Book Keeping</td> <td>Ledger</td> <td>Supervision</td> </tr> <tr> <td>Auditing</td> <td>Computer records</td> <td>Analysis</td> </tr> </tbody> </table>			Word	Description	Activity	Accounting	Tax	Supervision and analysis	Book Keeping	Ledger	Supervision	Auditing	Computer records	Analysis	<b>Work experience</b> <table border="1"> <thead> <tr> <th>From</th> <th>To</th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>1998</td> <td>2000</td> <td>Tax clerk</td> <td>ABC Company</td> </tr> <tr> <td>2000</td> <td>2002</td> <td>Accountant</td> <td>XYZ Co.</td> </tr> <tr> <td>2002</td> <td>2003</td> <td>Chief Accounts Officer</td> <td>TT Bank</td> </tr> </tbody> </table>					From	To			1998	2000	Tax clerk	ABC Company	2000	2002	Accountant	XYZ Co.	2002	2003	Chief Accounts Officer	TT Bank
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Employees Signature _____ Date _____				HR Department _____ Date _____																															

**Figure 5.3: An Example of a Skills Inventory**

**Replacement chart:** It shows the profile of job holders department-wise and offers a snapshot of who will replace whom if there is a job opening. (See Figure 5.4).



**Figure 5.4: An Executive Replacement Chart**

- (b) **External labour supply:** When the organisation grows rapidly, diversifies into newer areas of operations (merchant banking, capital market operations, mutual funds, etc. in the case of a bank) or when it is not able to find the people internally to fill the vacancies, it has to look into outside sources. To the extent an organisation is able to anticipate its outside recruitment needs and looks into the possible sources of supply keeping the market trends in mind, its problem in finding the right personnel with appropriate skills at the required time would become easier. (see Box 5.4)

Organisations, nowadays, do not generally track the qualifications of thousands of employees manually. Details of employees in terms of knowledge, skills, experience, abilities etc., are computerised, using various packaged software systems. [There are over 300 computerised human resource informations systems now available].

**Box 5.4: Important Barometers of Labour Supply**

1. Net migration into and out of the area
2. Education levels of workforce
3. Demographic changes in population
4. Technological developments and shifts
5. Population Mobility
6. Demand for specific skills
7. National, regional unemployment rates
8. Actions of competing employers
9. Government policies, regulations, pressures
10. Economic Forecasts for the next few years
11. The attractiveness of an area
12. The attractiveness of an industry in a particular place

### Check Your Progress 1

Mention the two major of supply of manpower.

.....

.....

#### 5.4.3 Determination of the Quality of Personnel

The existing number of personnel and their skills (from human resource inventory) are compared with the forecasted manpower needs (demand forecasting) to determine the quantitative and qualitative gaps in the workforce. A reconciliation of demand and supply forecasts will give us the number of people to be recruited or made redundant as the case may be. This forms the basis for preparing the HR plan. Box 5.5 shows how demand and supply forecasts can be related over a period of three years.

**Box 5.5: Determining Human Resource Requirements**

	Year		
	1	2	3
1. Number required at the beginning of the year			
2. Changes to requirements forecast during the year			DEMAND
3. Total requirements at the end of the year (1+2)			-----
4. Number available at the beginning of the year			
5. Additions (transfers, promotions)			SUPPLY
6. Separations (retirement, wastage, promotions out and other losses)			
7. Total available at the end of year (4+5+6)			-----
8. Deficit or surplus (3-7)			RECONCILIATION
9. Losses of those recruited during the year			OF THE ABOVE
10. Additional numbers needed during the year (8+9)			MANPOWER NEEDED

#### 5.4.4 Formulating HR Plans

Organisations operate in a changing environment. Consequently, Human resource requirements also change continually. Changes in product mix, union agreements, competitive actions are some of the important things that need special attention. The human resource requirements identified along the procedure outlined in the above box need to be translated into a concrete HR plan, backed up by detailed policies, programmes and strategies (for recruitment, selection, training, promotion, retirement, replacement, etc.).

- **Recruitment plan:** Will indicate the number and type of people required and when they are needed; special plans to recruit right people and how they are to be dealt with via the recruitment programme.
- **Redeployment plan:** Will indicate the programmes for transferring or retraining existing employees for new jobs.
- **Redundancy plan:** Will indicate who is redundant, when and where; the plans for retraining, where this is possible; and plans for golden handshake, retrenchment, lay-off, etc.

- **Training plan:** Will indicate the number of trainees or apprentices required and the programme for recruiting or training them; existing staff requiring training or retraining; new courses to be developed or changes to be effected in existing courses.
- **Productivity plan:** Will indicate reasons for employee productivity or reducing employee costs through work simplification studies, mechanisation, productivity bargaining; incentives and profit sharing schemes, job redesign, etc.
- **Retention plan:** Will indicate reasons for employee turnover and show strategies to avoid wastage through compensation policies; changes in work requirements and improvement in working conditions.
- **Control points:** The entire manpower plan be subjected to close monitoring from time to time. Control points be set up to find out deficiencies, periodic updating of manpower inventory, in the light of changing circumstances, be undertaken to remove deficiencies and develop future plans.

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## 5.5 JOB DIAGNOSTIC SURVEY

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Job Diagnostic Survey (JDS) is intended to: (a) diagnose existing jobs to determine whether (and how) they might be redesigned to improve employee motivation and productivity, and (b) evaluate the effects of job changes on employees. The instrument is based on a specific theory of how job design affects work motivation, and provides measures of (a) objective job dimensions, (b) individual psychological states resulting from these dimensions, (c) affective reactions of employees to the job and work setting, and (d) individual growth need strength (interpreted as the readiness of individuals to respond to "enriched" jobs).

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## 5.6 RESPONSIBILITY FOR HRP

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Top level executives are responsible for HR planning as it is one of the important factors influencing the success of an organisation. The plans are usually prepared by the Human Resource Division in consultation with other corporate heads. The responsibility and accountability for manpower aspects of various divisions is on their respective heads. They should undertake their own appraisals of future needs in such a way as to provide a concrete basis for organisation-wide forecasting and planning. The Human Resource Division must offer counsel and advice to various divisional heads and coordinate the various manpower estimates from time to time. Prof. Geisler outlined the responsibilities of Human Resource Department in respect of HR planning thus:

- Assist and counsel operating managers to plan and set objectives.
- Collect and summarise manpower data keeping long-run objectives and broad organisational interests in mind.
- Monitor and measure performance against the plan and keep top management informed about it.
- Provide proper research base for effective manpower and organisational planning.

### Check Your Progress 2

Outline four responsibilities of human resource department in respect of HR planning.

.....  
 .....

### Limitations

The problems faced by human resource professionals while preparing or administering HR Plans may be summarised thus:

#### Box 5.6: Problems in HRP

- **Accuracy:** Projecting manpower needs over a period of time is a risky one. It's not possible to track the current and future trends correctly and convert the same into meaningful action guidelines. Factors such as absenteeism, labour turnover, seasonal trends in demand, competitive pressures, technological changes and a host of other factors may turn the best of manpower plans into fashionable, decorative pieces.
- **Support:** Planning is generally undertaken to improve overall efficiency. In the name of cost cutting, this may ultimately help management weed out unwanted labour at various levels. The few efficient ones that survive such frequent onslaughts complain about increased workload. Support from management is equally missing on more than one occasion. They are unwilling to commit funds for building an appropriate human resource information system. The time and effort involved - with no tangible, immediate gains - often force them to look the 'other way'.
- **Numbers game:** HRP, in the final analysis, may suffer due to an excessive focus on the quantitative aspects. The quality side of the coin (consisting of employee motivation, morale, career prospects, training avenues etc.) may be discounted thoroughly.

## 5.7 EFFECTIVE HUMAN RESOURCE PLANNING

A comprehensive survey of human resource planning practices in 45 companies covering a cross-section of the manufacturing industry has indicated the scant attention that is being paid to human resource planning.

Human resource specialists have pointed out the fact that most Indian organisations do not have adequate records and information on human resources. Proper retrieval systems also are not available in most cases. The computerised personnel information systems unlike their counterparts in the Western world, do not play an important role in India. Even the current technologies and knowledge in respect of HR planning is not put to use optimally. Such practices, inevitably, lead to ineffective HR planning.

To compound the problem further, there are unpredictable external influences on manpower planning such as changes in labour market conditions, technology, market conditions, economic cycles, changes in social and economic values, political changes, etc. In such a scenario, it becomes difficult to forecast the personnel available with an organisation at a future date. While vacancies caused by retirements can be predicted accurately, other factors like resignations, turnover, deaths, and competitive attractions are difficult to forecast. This problem becomes mainly acute in respect of important personnel (especially at the middle and top level) because their replacements cannot be arranged in a short span of time. At times, top management support may not be available to the HR planning efforts. These problems could be avoided, if certain guidelines are followed:

- a. **Objectives:** The HR plan must fit in with the overall objectives of the organisation. Important aspects such as people working in the organisation, working conditions, human relationships, etc., must be kept in mind while developing the plan.
- b. **Top management support:** The plan must meet the changing needs of the organisation and should enjoy consistent support from top management.



- c. **Employee skills inventory:** The organisation must have an up-to-date employee skills inventory showing previous jobs held, tenure on current job, educational and training qualifications, specific knowledge and skills, prior work performance, past and current compensation, mobility factors. Markov Analysis (an approach to forecast the internal supply of manpower, tracking past patterns of personnel movements) may be pressed into service while preparing the manpower inventory.
- d. **Human resource information system:** To manage employee skills inventories, organisations should maintain computerised human resource information systems containing data on: individual demographics, career progression, appraisals, skills, interests, training, target positions, performance ratings, geographic preferences, promotability ratings, etc.
- e. **Coordination:** A separate HR planning division must be created, especially in large organisations, to coordinate HR planning exercises at various levels. The various plans for procurement, promotion and retention of human resources must be integrated properly. The ultimate objective must be to make use of the human resources in an optimal manner by filling future vacancies with the right type of people.

The dotcom meltdown in the late 90s has taught many bitter lessons to knowledge based industries all over the globe. Subsequently, the services and manufacturing sectors have also taken a big hit. Many Indian Companies had to resort to 4-day or 5-day work weeks (Tata Motors, Ashoka Leyland), reduce excess staff (Public Sector Banks), consider demotions and or terminations in order to strike a proper balance between demand for and supply of labour force. Early retirements have become the order of the day. Big expansion plans have been put on hold in many cases and companies had to declare hiring freezes openly (of course, companies like Infosys Technologies did not declare any layoffs even when things were pretty bad) to ward off such serious imbalances in demand for and supply of labour force especially when recessionary trends set in. Many Indian Companies have invested heavy amounts in computerising most HR functions. The employee data banks and skill inventories are built up to fill vacant positions in a systematic way.

### Check Your Progress 3

Fill in the blanks:

1. .... is a forward looking function.
2. .... is beneficial to customers but suicidal for companies operating on this margins.
3. HR needs can be estimated by examining .....
4. .... helps in finding out the abilities or skills required to do the jobs efficiently.
5. A ..... is an assessment of the knowledge, skills, abilities, experience and career aspirations of each of the current employees.
6. .... is intended to evaluate the effects of job changes on employees.



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## 5.8 LET US SUM UP

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HR Planning is essentially the process of getting the right number of qualified people into the right job at the right time so that an organisation can meet its objectives.

Organisations use HRP as a means of achieving greater effectiveness.

HRP systematically attempts to forecast personnel demand, assess supply and reconcile the two.

The HR Planning process, it must be remembered, should be tuned to organisational objectives and strategies.

While developing HR Plans, managers should scan the external environment carefully to identify the effects of economic, social, competitive and governmental influences.

To overcome problems such as lopsided focus on quantitative aspects, lack of support at the top level, inaccurate estimates due to poor search efforts, planners should install HRIS and implement the same sincerely.

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## 5.9 LESSON END ACTIVITY

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Working individually or in groups, develop a forecast for the next three years of occupational market conditions for five occupations such as accountant, engineer, doctor, journalist and lawyer.

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## 5.10 KEYWORDS

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**Human resource planning:** It tries to assess human resource requirements in advance keeping the production schedules, market fluctuations, demand forecasts, etc., in the background.

**Staffing table:** A chart showing future employment needs for each type of job.

**Skills inventories:** Summaries of the skills and abilities of non-managerial employees used in forecasting supply.

**Replacement charts:** A portrayal of who will replace whom in the event of a job opening.

**Succession planning:** An executive inventory report showing which individuals are ready to move into higher positions in the company.

**Human resource inventory:** Describes the skills that are available within the company.

**Outplacement:** The process of helping unwanted present employees find new jobs with other firms.

**HR audits:** HR audits summarise each employee's skills, knowledge and abilities. Audits of non-managers are called skills inventories; audits of managers are known as management inventories.

**Job analysis:** A systematic exploration of the activities surrounding – and within – a job.

**Human resource informations system:** A computerised system that helps in the processing of HRM information.

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## 5.11 QUESTIONS FOR DISCUSSION

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1. Outline the steps involved in the Human Resource Planning process.
2. Why is HR Planning more common among large organisations than among small ones? What are the advantages of HR planning for large organisations?

3. Discuss the problems in HRP. How can you plan for human resources in an effective manner?
4. Define HRP. Describe its characteristics and objectives. Explain the reasons for the growing interest in HRP in recent years.
5. Write short notes on:
  - a. Markov Analysis
  - b. Staffing Tables
  - c. Skill Inventory
  - d. Replacement charts
6. Discuss the various factors that affect the supply of human resources.
7. Distinguish between the quantitative and qualitative approaches to forecasting the need for human resources.
8. Assume you have to develop an HR plan for a new-generation private sector bank having branches in major towns in India: What specific external factors would be important for you to consider. Why?
9. How can organisations develop accurate HR plans which, in turn, are impacted by a number of environmental factors over which managers have little or no control?
10. When employees possess transferable skills and indulge in job hopping, developing effective human resource plans proves to be a tough exercise? Do you agree? Why or Why not?

### **Check Your Progress: Model Answers**

#### ***CYP 1***

The two major of supply of manpower are

1. Internal labour supply
2. External labour supply

#### ***CYP 2***

Prof. Geisler outlined the responsibilities of Human Resource Department in respect of HR planning thus:

- Assist and counsel operating managers to plan and set objectives.
- Collect and summarise manpower data keeping long-run objectives and broad organisational interests in mind.
- Monitor and measure performance against the plan and keep top management informed about it.
- Provide proper research base for effective manpower and organisational planning.

#### ***CYP 3***

1. Human Resource Planning (HRP)
2. Competition

*Contd....*

3. Past trends
4. Job analysis
5. Skill inventory
6. Job Diagnostic Survey (JDS)

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## 5.12 SUGGESTED READINGS

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

P. L. Rao, *Comprehensive Human Resource Management*, Excel Books, New Delhi, 2004

D. K. Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

Robert L. Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2007

K. Aswathappa, *Human Resource and Personnel Management*, Tata McGraw Hill, 2007

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## LESSON

# 6

## JOB AND ROLE ANALYSIS

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### CONTENTS

- 6.0 Aims and Objectives
  - 6.1 Introduction
  - 6.2 Meaning and Nature of Job Analysis
  - 6.3 Uses of Job Analysis
  - 6.4 Process of Job Analysis
  - 6.5 Competency Approach to Job Analysis
  - 6.6 Methods of Job Analysis Data
    - 6.6.1 Position Analysis Questionnaire (PAQ)
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  - 6.7 Impact of Behavioural Factors on Job Analysis
  - 6.8 Job Description
    - 6.8.1 Problems with Job Descriptions
    - 6.8.2 Writing Clear and Specific Job Descriptions
    - 6.8.3 Mode of Writing
  - 6.9 Job Specification
  - 6.10 Minnesota Job Description
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  - 6.12 Job Analysis in a 'Jobless' World
  - 6.13 Management by Objectives (MBO)
  - 6.14 Work Rules
  - 6.15 Let us Sum up
  - 6.16 Lesson End Activity
  - 6.17 Keywords
  - 6.18 Questions for Discussion
  - 6.19 Suggested Readings
-

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## 6.0 AIMS AND OBJECTIVES

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The primary objective of this lesson is on collecting job analysis information. The importance of designing jobs and role analysis to meet organisational and individual needs is also emphasised. After studying this lesson, you will be able to:

- Describe nature, uses and process of job analysis
- Discuss the methods by which job analysis typically is completed
- Distinguish between job descriptions and job specifications
- Describe the importance of role analysis.

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## 6.1 INTRODUCTION

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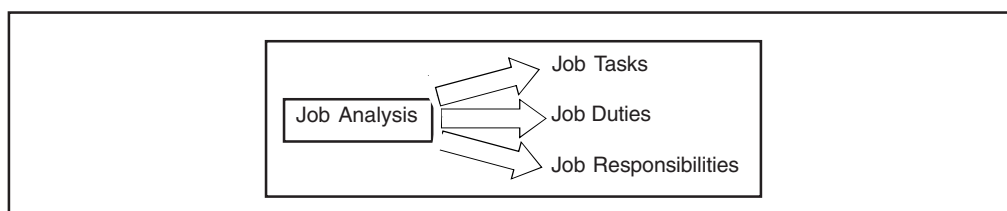
In a labour surplus and capital hungry country like India, jobs are very important to individuals. They help determine standards of living, places of residence, status and even one's sense of self-worth. Jobs are important to organisations also because they are the means of accomplishing organisational objectives. Traditionally, organisations used to define jobs in a rigid way. The popular view about a job was that what it requires does not change; it is designed to be immutable and unchanging, irrespective of the various incumbents who perform them. In reality, however jobs are not static. They are subject to change. Technological advances and competitive pressures may often force an organisation to put more emphasis on characteristics of successful performance rather than on standard job duties, tasks etc. Moreover, the same job might be handled differently at different times of the year (e.g., life guards, accountants, ski instructors, actors). The job incumbent might declare, "I do what I believe right on the job". The job is what the incumbent makes of it. To understand the dynamic nature of jobs, managers gather information about jobs from time to time.

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## 6.2 MEANING AND NATURE OF JOB ANALYSIS

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Job analysis is a formal and detailed examination of jobs. It is a systematic investigation of the tasks, duties and responsibilities necessary to do a job. A task is an identifiable work activity carried out for a specific purpose, for example, typing a letter. A duty is a larger work segment consisting of several tasks (which are related by some sequence of events) that are performed by an individual, for example, pick up, sort out and deliver incoming mail. Job responsibilities are obligations to perform certain tasks and duties.



**Figure 6.1: Nature of Job Analysis**

Job analysis is an important personnel activity because it identifies what people do in their jobs and what they require in order to do the job satisfactorily. The information about a job is usually collected through a structured questionnaire:

**Box 6.1: Partial Job Analysis Questionnaire**

JOB ANALYSIS INFORMATION FORMAT																								
Your Job Title_____	Code_____Date_____																							
Class Title_____	Department_____																							
Your Name_____	Facility _____																							
Superior's Title_____	Prepared by_____																							
Superior's Name_____	Hours Worked_____AM_____to AM_____																							
	PM                      PM																							
<p>1. What is the general purpose of your job?</p> <p>2. What was your last job? If it was in another organisation, please name it.</p> <p>3. To what job would you normally expect to be promoted?</p> <p>4. If you regularly supervise others, list them by name and job title.</p> <p>5. If you supervise others, please check those activities that are part of your supervisory duties:</p> <table style="width: 100%; border: none;"> <tr> <td><input type="checkbox"/> Hiring</td> <td><input type="checkbox"/> Coaching</td> <td><input type="checkbox"/> Promoting</td> </tr> <tr> <td><input type="checkbox"/> Orienting</td> <td><input type="checkbox"/> Counselling</td> <td><input type="checkbox"/> Compensating</td> </tr> <tr> <td><input type="checkbox"/> Training</td> <td><input type="checkbox"/> Budgeting</td> <td><input type="checkbox"/> Disciplining</td> </tr> <tr> <td><input type="checkbox"/> Scheduling</td> <td><input type="checkbox"/> Directing</td> <td><input type="checkbox"/> Terminating</td> </tr> <tr> <td><input type="checkbox"/> Developing</td> <td><input type="checkbox"/> Measuring Performances</td> <td><input type="checkbox"/> Other_____</td> </tr> </table> <p>6. How would you describe the successful completion and results of your work?</p> <p>7. Job Duties – Please briefly describe WHAT you do and, if possible, How you do it. Indicate those duties you consider to be most important and/or most difficult:</p> <p style="margin-left: 20px;">(a) Daily Duties</p> <p style="margin-left: 20px;">(b) Periodic Duties (Please indicate whether weekly, monthly, quarterly, etc.)</p> <p style="margin-left: 20px;">(c) Duties Performed at Irregular Intervals</p> <p>8. Education – Please check the blank that indicates the educational requirements for the job, not your own educational background.</p> <table style="width: 100%; border: none;"> <tr> <td><input type="checkbox"/> No formal education required</td> <td><input type="checkbox"/> College degree</td> </tr> <tr> <td><input type="checkbox"/> Less than high school diploma</td> <td><input type="checkbox"/> Education beyond graduate</td> </tr> <tr> <td><input type="checkbox"/> High school diploma or equivalent</td> <td><input type="checkbox"/> degree and/or professional license.</td> </tr> <tr> <td><input type="checkbox"/> College certificate or equivalent</td> <td></td> </tr> </table> <p>List advanced degrees or specified professional license or certificate required.</p> <p>Please indicate the education you had when you were placed on this job.</p>		<input type="checkbox"/> Hiring	<input type="checkbox"/> Coaching	<input type="checkbox"/> Promoting	<input type="checkbox"/> Orienting	<input type="checkbox"/> Counselling	<input type="checkbox"/> Compensating	<input type="checkbox"/> Training	<input type="checkbox"/> Budgeting	<input type="checkbox"/> Disciplining	<input type="checkbox"/> Scheduling	<input type="checkbox"/> Directing	<input type="checkbox"/> Terminating	<input type="checkbox"/> Developing	<input type="checkbox"/> Measuring Performances	<input type="checkbox"/> Other_____	<input type="checkbox"/> No formal education required	<input type="checkbox"/> College degree	<input type="checkbox"/> Less than high school diploma	<input type="checkbox"/> Education beyond graduate	<input type="checkbox"/> High school diploma or equivalent	<input type="checkbox"/> degree and/or professional license.	<input type="checkbox"/> College certificate or equivalent	
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<input type="checkbox"/> Less than high school diploma	<input type="checkbox"/> Education beyond graduate																							
<input type="checkbox"/> High school diploma or equivalent	<input type="checkbox"/> degree and/or professional license.																							
<input type="checkbox"/> College certificate or equivalent																								

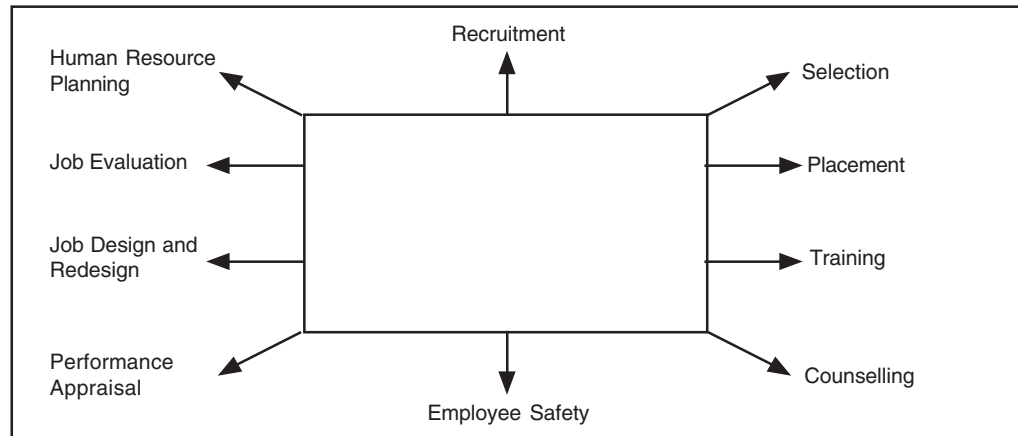
**Source:** Richard I Henderson, Compensation Management (Reston, Va.: Reston Publishing. 1976), pp. 98-99.

## 6.3 USES OF JOB ANALYSIS

Good human resource management demands of both the employee and the employer a clear understanding of the duties and responsibilities to be performed on a job. Job analysis helps in this understanding by drawing attention to a unit of work and its linkage with other units of work. More specifically, the uses of job analysis may be summarised thus:

- a. **Human resource planning:** Job analysis helps in forecasting human resource requirements in terms of knowledge and skills. By showing lateral and vertical relationships between jobs, it facilitates the formulation of a systematic promotion and transfer policy. It also helps in determining quality of human resources needed in an organisation.

- b. **Recruitment:** Job analysis is used to find out how and when to hire people for future job openings. An understanding of the skills needed and the positions that are vacant in future helps managers to plan and hire people in a systematic way. For example, a company might be traditionally hiring MBA students for equity research. A recent job analysis showed that the positions could be filled by graduates with an analytical bent of mind. Now, this would help the company hire equity analysts from a greater number of available graduates even by offering a slightly lower salary.
- c. **Selection:** Without a proper understanding of what is to be done on a job, it is not possible to select the right person. If a Super Bazaar manager has not clearly identified what a clerk is to do, it is difficult to ascertain if the person selected is to position stores items, run a cash register, or keep the account books.
- d. **Placement and orientation:** After selecting people, we have to place them on jobs best suited to their interests, activities and aptitude. If we are not sure about what needs to be done on a job, it is not possible to identify the right person suited for the job. Similarly, effective job orientation cannot be achieved without a proper understanding of the needs of each job. To teach a new employee how to handle a job, we have to clearly define the job.
- e. **Training:** If there is any confusion about what the job is and what is supposed to be done, proper training efforts cannot be initiated. Whether or not a current or potential job holder requires additional training can be determined only after the specific needs of the jobs have been identified through a job analysis.
- f. **Counselling:** Managers can properly counsel employees about their careers when they understand the different jobs in the organisation. Likewise, employees can better appreciate their career options when they understand the specific needs of various other jobs. Job analysis can point out areas that an employee might need to develop to further a career.
- g. **Employee safety:** A thorough job analysis reveals unsafe conditions associated with a job. By studying how the various operations are taken up in a job, managers can find unsafe practices. This helps in rectifying things easily.
- h. **Performance appraisal:** By comparing what an employee is supposed to be doing (based on job analysis) to what the individual has actually done, the worth of that person can be assessed. Ultimately, every organisation has to pay a fair remuneration to people based on their performance. To achieve this, it is necessary to compare what individuals should do (as per performance standards) with what they have actually done (as per job analysis).
- i. **Job design and redesign:** Once the jobs are understood properly, it is easy to locate weak spots and undertake remedial steps. We can eliminate unnecessary movements, simplify certain steps and improve the existing ones through continuous monitoring. In short, we can redesign jobs to match the mental makeup of employees.
- j. **Job evaluation:** Job analysis helps in finding the relative worth of a job, based on criteria such as degree of difficulty, type of work done, skills and knowledge needed, etc. This, in turn, assists in designing proper wage policies, with internal pay equity between jobs.



**Figure 6.2: Multifaceted Nature of Job Analysis**

### ***Who should Conduct the Job Analysis?***

It is always better to use supervisors, job incumbents or some combinations of these to obtain information about jobs in an organisation. The job incumbents offer a clear view of what work is actually done as against what work is supposed to be done. Further, involving job incumbents in the job analysis process might increase their acceptance of any work changes stemming from the results of analysis. However, on the negative side, job incumbents might exaggerate the responsibilities and importance of their work and, in the process, the whole effort might suffer due to lack of objectivity. External analysts help avoid such biased opinions. They tend to base their write-ups on a realistic view of the people, jobs and the total organisation system as a whole. To be effective, external analysts should have considerable knowledge about how work is actually processed within the organisation while offering a 'snapshot' of the job; present requirements and expected changes in future must also be taken into account. The choice of who should analyse a job depends on many factors, including the location and complexity of the jobs to be analysed, how receptive incumbents might be to an external analyst, and the ultimate purpose of the results of the analysis.

## **6.4 PROCESS OF JOB ANALYSIS**

The major steps involved in job analysis are as follows:

- a. ***Organisational analysis:*** First of all, an overall picture of various jobs in the organisation has to be obtained. This is required to find the linkages between jobs and organisational objectives, interrelationships between jobs and contribution of various jobs to the efficiency and effectiveness of the organisation. The required background information for this purpose is obtained through organisation charts and workflow charts.
- b. ***Selection of representative positions to be analysed:*** It is not possible to analyse all the jobs. A representative sample of jobs to be analysed is decided keeping the cost and time constraints in mind.
- c. ***Collection of job analysis data:*** This step involves the collection of data on the characteristics of the job, the required behaviour and personal qualifications needed to carry out the job effectively. Several techniques are available for collecting such data. Care should be taken to use only reliable and acceptable techniques in a given situation.



- d. **Preparation of job description:** This step involves describing the contents of the job in terms of functions, duties, responsibilities, operations, etc. The job holder is required to discharge the duties and responsibilities and perform the operations listed in job description.
- e. **Preparation of job specification:** This step involves conversion of the job description statements into a job specification. Job specifications is a written statement of personal attributes in terms of traits, skills, training, experience needed to carry out the job.

Job requirements keep changing with time. Technological advances may demand a new approach to handle job operations. Union agreements may give a greater say in handling certain other responsibilities. The employees' attitude might change. In the past, jobs were designed, taking the view that they would not change. There was no attempt to link changing job requirements with changing attitudes of employees toward work. It is only in late 70's many organisations realised the importance of carrying out frequent job analyses and tune the jobs in-line with the mental makeup of people who handle them – for achieving greater efficiency and higher productivity.

### Check Your Progress 1

List the major steps involved in job analysis.

.....  
.....

## 6.5 COMPETENCY APPROACH TO JOB ANALYSIS

Competency method in India being a recent phenomena is yet to reach maturity. The availability of theories, concepts, experiences in competency method is also limited in our country. Thus in this evolutionary process it is possible in some cases to mix up or equate competency mapping with job analysis and job descriptions. Job analysis being job centered essentially deals with identifying and prescribing the knowledge and skills required for effective performance of a job. But competency mapping is a person centred approach, where in the importance is to find out what leads a person to superior performance. Competency mapping goes beyond knowledge and skills of a person by touching the motives, attitudes, traits and self concept.

## 6.6 METHODS OF JOB ANALYSIS DATA

A variety of methods, are used to collect information about jobs. None of them, however, is perfect. In actual practice, therefore, a combination of several methods is used for obtaining job analysis data. These are discussed below.

1. **Job performance:** In this method, the job analyst actually performs the job in question. The analyst thus receives first-hand experience of contextual factors on the job including physical hazards, social demands, emotional pressures and mental requirements. This method is useful for jobs that can be easily learned. It is not suitable for jobs that are hazardous (e.g., fire fighters) or for jobs that require extensive training (e.g., doctors, pharmacists).
2. **Personal observation:** The analyst observes the worker(s) doing the job. The tasks performed, the pace at which activities are done, the working conditions,

etc., are observed during a complete work cycle. During observation, certain precautions should be taken:

- The analyst must observe average workers during average conditions.
- The analyst should observe without getting directly involved in the job.
- The analyst must make note of the specific job needs and not the behaviours specific to particular workers.
- The analyst must make sure that he obtains a proper sample for generalisation.

This method allows for a deep understanding of job duties. It is appropriate for manual, short period job activities. On the negative side, the method fails to take note of the mental aspects of jobs.

3. **Critical incidents:** The critical incident technique (CIT) is a qualitative approach to job analysis used to obtain specific, behaviourally focused descriptions of work or other activities. Here the job holders are asked to describe several incidents based on their past experience. The incidents so collected are analysed and classified according to the job areas they describe. The job requirements will become clear once the analyst draws the line between effective and ineffective behaviours of workers on the job. For example, if a shoe salesman comments on the size of a customer's feet and the customer leaves the store in a huff, the behaviour of the salesman may be judged as ineffective in terms of the result it produced. The critical incidents are recorded after the events have already taken place – both routine and non-routine. The process of collecting a fairly good number of incidents is a lengthy one. Since incidents of behaviour can be quite dissimilar, the process of classifying data into usable job descriptions can be difficult. The analysts overseeing the work must have analytical skills and ability to translate the content of descriptions into meaningful statements.
4. **Interview:** The interview method consists of asking questions to both incumbents and supervisors in either an individual or a group setting. The reason behind the use of this method is that job holders are most familiar with the job and can supplement the information obtained through observation. Workers know the specific duties of the job and supervisors are aware of the job's relationship to the rest of the organisation.

Due diligence must be exercised while using the interview method. The interviewer must be trained in proper interviewing techniques. It is advisable to use a standard format so as to focus the interview to the purpose of the analyst.

#### Box 6.2: Guidelines for Conducting Job Analysis Interviews

- Put the worker at ease; establish rapport.
- Make the purpose of the interview clear.
- Encourage the worker to talk by using empathy creativity.
- Help the worker to think and talk according to the logical sequence of the duties performed.
- Ask the worker only one question at a time.
- Phrase questions carefully so that the answers will be more than just “yes” or “no”.
- Avoid asking leading questions.

Contd....

- Secure specified and complete information pertaining to the work performed and the worker's traits.
- Conduct the interview in plain, easy language.
- Consider the relationship of the present job to other jobs in the department.
- Control the time and subject-matter of the interview.
- Be patient and considerate to the worker.
- Summarise the information obtained before closing the interview.
- Close the interview promptly.

Although the interview method provides opportunities to elicit information sometimes not available through other methods, it has its limitations. First, it is time consuming and hence costly. Second, the value of data is primarily dependent on the interviewers' skills and may be faulty if they put ambiguous questions to workers. Last, interviewees may be suspicious about the motives and may distort the information they provide. If seen as an opportunity to improve their positions such as to increase their wages, workers may exaggerate their job duties to add greater weightage to their positions.

5. **Panel of experts:** This method utilises senior job incumbents and superiors with extensive knowledge of the job. To get the job analysis information, the analyst conducts an interview with the group. The interaction of the members during the interview can add insight and detail that the analyst might not get from individual interviews.
6. **Diary method:** Several job incumbents are asked to keep diaries or logs of their daily job activities – according to this method – and record the amount of time spent on each activity. By analysing these activities over a specified period of time, a job analyst is able to record the job's essential characteristics. However, it is a time consuming and costly exercise in that the analyst has to record entries for a painfully long time.
7. **Questionnaire method:** The questionnaire is a widely used method of analysing jobs and work. Here the job holders are given a properly designed questionnaire aimed at eliciting relevant job-related information. After completion, the questionnaires are handed over to supervisors. The supervisors can seek further clarifications on various items by talking to the job holders directly. After everything is finalised, the data is given to the job analyst.

The success of the method depends on various factors. The structured questionnaire must cover all job related tasks and behaviours. Each task or behaviour should be described in terms of features such as importance, difficulty, frequency, relationship to overall performance, etc. The job holders should be asked to properly rate the various job factors and communicate the same on paper. The ratings thus collected are then put to close examination with a view to find out the actual job requirements.

The Questionnaire method is highly economical as it covers a large number of job holders at a time. The collected data can be quantified and processed through a computer. The participants can complete the items leisurely. Designing questionnaires, however, is not an easy task. Proper care must be taken to frame the questions in such a way that the respondents are unlikely to misinterpret the questions. Further, it is difficult to motivate the participants to complete the questionnaires truthfully and to return them.

Some of the standard questionnaires that are widely used are discussed below:

### 6.6.1 Position Analysis Questionnaire (PAQ)

The PAQ is a standardised questionnaire developed at Purdue University to quantitatively sample work-oriented job elements. It contains 194 items divided into six major divisions. The PAQ permits management to scientifically and quantitatively group interrelated job elements into job dimensions. These are explained below:

#### Box 6.3: Employees Activities in PAQ

1. **Information Input:** Where and how does the employee get the information he/she uses in performing his/her job.  
*Examples:*  
Use of written materials.  
Near-visual differentiation.
2. **Mental Processes:** What reasoning, decision making, planning and information-processing activities are involved in performing the job?  
*Examples:*  
Levels of reasoning in problem solving.  
Coding/decoding
3. **Physical activities:** What physical activities does the employee perform and what tools or devices does he/she use?  
*Examples:*  
Use of Keyboard devices.  
Assembling/disassembling.
4. **Relationships with other people:** What relationships with other people are required in performing the job?  
*Examples:*  
Instructing.  
Contacts with public, customers.
5. **Job context:** In what physical and social context is the work performed?  
*Examples:*  
High temperature.  
Interpersonal conflict situations.
6. **Other Job characteristics:** What activities, conditions, or characteristics other than those described above are relevant to the job?  
*Examples:*  
Specified work pace.  
Amount of job structure.

The activities shown above represent requirements that are applicable to all types of jobs. This type of quantitative questionnaire allows many different jobs to be compared with each other.

### 6.6.2 Management Position Description Questionnaire (MPDQ)

MPQD is a standardised instrument designed specifically for use in analysing managerial jobs. The 274 item questionnaire contains 15 sections. It would take 2 ½ hours to complete

the questionnaire. In most cases the respondents are asked to state how important each item is to the position.

**Table 6.1: Management Position Description Factors**

1.	Product, marketing and financial strategy planning.
2.	Coordination of other organisational units and personnel.
3.	Internal business control.
4.	Products and services responsibility.
5.	Public and customer relations.
6.	Advanced consulting.
7.	Autonomy of actions.
8.	Approval of financial commitments.
9.	Staff service.
10.	Supervision.
11.	Complexity and stress.
12.	Advanced financial responsibility.
13.	Broad personnel responsibility.

**Source:** W.W. Tornov and P.R. Pinto, “ The Development of a Managerial Job Taxonomy: A System for Describing, Classifying and Evaluating Executive Positions.” Journal of Applied Psychology 61(1976).

### 6.6.3 Functional Job Analysis (FJA)

FJA is a worker-oriented job analysis approach that attempts to describe the whole person on the job. It tries to examine the fundamental components of “data, people and things”. There are five steps to be followed:

- The first involves the identification of the organisation’s goals for the FJA analysis. This analysis describes what should be, as well as, what is.
- The second step is the identification and description of tasks, wherein tasks are defined as actions. The task actions may be physical (operating a computer), mental (analysing data) or interpersonal (consulting another person). The task statements developed in FJA must conform to a specific written format.
- The third step deals with analysis of tasks. Each task is analysed using 7 scales. These include three worker function scales (data, people, things), a worker instruction scale (degree of supervision imposed) and three scales of reasoning, mathematics and language.
- In the fourth step, the analyst develops performance standards to assess the results of a worker’s tasks.
- The final step deals with the development of training content needed by the job holder.

FJA is frequently used for government jobs. It provides a quantitative score of each job as a function of its complexity in relationship with people, data and things. The results are helpful in fixing wage rates and in developing employee succession plans. On the negative side, FJA takes a lot of time. Training in its use may mean considerable investment of money.

**Which Method to Follow?**

Experts agree that the choice of job analysis method depends upon the purposes to be served by the data. There is no one best way to conduct a job analysis. Wherever possible, multiple methods of job analysis must be followed. A quantitative approach like Position Analysis Questionnaire (PAQ) should be supported by a qualitative approach like Critical Incident Technique (CIT).

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## 6.7 IMPACT OF BEHAVIOURAL FACTORS ON JOB ANALYSIS

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While carrying out the job analysis, managers must take note of certain strong behavioural responses from the employees. Employees may not always like the idea of someone taking a hard look at their jobs. Let's examine the reasons behind such negative responses more closely.

- **Exaggerate the facts:** Employees and managers many exaggerate the importance and significance of their jobs during interviews. Because job analysis information is used for compensation purposes, both managers and employees hope that 'puffing up' their jobs will result in higher pay levels.
- **Employee anxieties:** Most employees fear that job analysis efforts may put them in a 'Strait-jacket', curbing their initiative and latitude to perform. Another reason for the negative attitude is the feeling that "as long as someone does not know precisely what I am supposed to be doing, then I am safe". A searching examination of jobs may uncover employee faults which might have escaped the employer's attention so far.
- **Resistance to change:** When jobs change in tune with changes in technology, there is an urgent need to revise job descriptions and job specifications – to make them more meaningful. This would have a significant impact on the safe and secure job worlds in which employees used to live comfortably. Employees resist such changes because when jobs are redefined, they may have to handle difficult tasks and shoulder painful responsibilities. To ward off such threats, managers must involve employees in the revision process, clearly stating the reasons for incorporating the latest changes.
- **Overemphasis on current efforts:** Job analysis efforts should not place heavy emphasis on what the employees are currently doing. Some employees may be gifted with unique capabilities and given a chance they may expand the scope of the job and assume more responsibilities. The company may have difficulty in finding someone like that person if he or she were to leave the company. Therefore, "the job description and job specifications should not be merely a description of what the person currently filling the job does".
- **Management 'Straitjacket':** Job analysis efforts may put managers in a 'Straitjacket', limiting their freedom to adapt to changing needs from time to time. To avoid this, they may even refuse to appropriately describe what an employee is supposed to do in the company – creating, of course, further confusion in the minds of employees.

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## 6.8 JOB DESCRIPTION

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A job description (JD) is a written statement of what the job holder does, how it is done, under what conditions it is done and why it is done. It describes what the job is all about,

throwing light on job content, environment and conditions of employment. It is descriptive in nature and defines the purpose and scope of a job. The main purpose of writing a job description is to differentiate the job from other jobs and state its outer limits.

Contents: A job description usually covers the following information:

- **Job title:** Tells about the job title, code number and the department where it is done.
- **Job summary:** A brief write-up about what the job is all about.
- **Job activities:** A description of the tasks done, facilities used, extent of supervisory help, etc.
- **Working conditions:** The physical environment of job in terms of heat, light, noise and other hazards.
- **Social environment:** Size of work group and interpersonal interactions required to do the job.

**Table 6.2: Specimen of Job Description**

Title	Compensation manager
Code	HR/2310
Department	Human Resource Department
Summary	Responsible for the design and administration of employee compensation programmes.
Duties	<ul style="list-style-type: none"> <li>● Conduct job analysis.</li> <li>● Prepare job descriptions for current and projected positions.</li> <li>● Evaluate job descriptions and act as Chairman of Job Evaluation Committee.</li> <li>● Insure that company's compensation rates are in tune with the company's philosophy.</li> <li>● Relate salary to the performance of each employee. Conduct periodic salary surveys.</li> <li>● Develop and administer performance appraisal programme.</li> <li>● Develop and oversee bonus and other employee benefit plans.</li> <li>● Develop an integrated HR information system.</li> </ul>
Working conditions	Normal. Eight hours per day. Five days a week.
Report to	Director, Human Resource Department.

### 6.8.1 Problems with Job Descriptions

Job Description serves as a valuable guide for both the employees and the employer. Employees know what they are supposed to do well in advance. Employers, on the other hand, can take collective steps when the duties covered by the job description are not performed as required. In actual practice, several problems crop up consciously or unconsciously while formulating job descriptions.

- It is not easy to reduce all the essential components of a job in the form of a clear and precise document.
- Job descriptions are sometimes not updated as job duties change.
- They can limit the scope of activities of the job holder, reducing organisational flexibility.



### 6.8.2 Writing Clear and Specific Job Descriptions

According to Ernest Dale, the following guidelines should be kept in mind while writing job descriptions:

- The JD should indicate the nature and scope of the job, including all important relationships.
- It should be brief, factual and precise; use active verbs such as collect mail, sort out 'mail', 'distribute' mail, etc. Avoid statements of opinion. Give a clear picture of the job; explain all the duties and responsibilities of the job in greater detail.
- More specific words be chosen to show (i) the kind of work, (ii) the degree of complexity, (iii) the degree of skill required, (iv) the extent to which problems are standardised and (v) the degree and type of accountability.
- The extent of supervision available should also be clearly stated.
- The reporting relationships must also be clearly indicated (e.g., who reports to whom, frequency, etc.).

### 6.8.3 Mode of Writing

The job analyst has to write the JD after proper consultations with the worker and the supervisor. The preliminary draft about the job must be discussed in the presence of both the worker and the supervisor to uncover gaps, deficiencies, etc. The following method is suggested by an expert in this connection:

- Firstly, get the questionnaire about the job filled in by the immediate supervisor of the employee.
- Secondly, the job analyst must observe the actual work done by the employee and complete the job description form.
- Thirdly, every effort must be made to involve the employee and the supervisor while finalising the JD.
- Finally, keep the JD up-to-date by keeping track of changing conditions and incorporating the relevant ones as and when needed.

#### Check Your Progress 2

1. What information a job description should must cover?

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.....

2. Mention some problems that crop up while formulating job description.

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## 6.9 JOB SPECIFICATION

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Job specification summarises the human characteristics needed for satisfactory job completion. It tries to describe the key qualifications someone needs to perform the job successfully. It spells out the important attributes of a person in terms of education, experience, skills, knowledge and abilities (SKAs) to perform a particular job. The job specification is a logical outgrowth of a job description. For each job description, it is



desirable to have a job specification. This helps the organisation to determine what kind of persons are needed to take up specific jobs. The personal attributes that are described through a job specification may be classified into three categories:

- **Essential attributes:** skills, knowledge and abilities (SKAs) a person must possess.
- **Desirable attributes:** qualifications a person ought to possess.
- **Contra-indicators:** attributes that will become a handicap to successful job performance.

A job specification can be developed by talking with the current job holders about the attributes required to do the job satisfactorily. Opinions of supervisors could also be used as additional inputs. Checking the job needs of other organisations with similar jobs will also help in developing job specifications.

Job specification is useful in the selection process because it offers a clear set of qualifications for an individual to be hired for a specific job. Likewise, a well-written job specification offers a clear picture to new recruits of what they will be doing in the organisation. A specimen job specification is given below:

**Table 6.3: Job Specification of Compensation Manager**

Education	<ul style="list-style-type: none"> <li>● MBA with specialisation in HRM/MA in social work/PG Diploma in HRM/MA in industrial psychology.</li> <li>● A degree or diploma in Labour Laws is desirable.</li> </ul>
Experience	<ul style="list-style-type: none"> <li>● At least 3 years' experience in a similar position in a large manufacturing company.</li> </ul>
Skill, Knowledge, Abilities	<ul style="list-style-type: none"> <li>● Knowledge of compensation practices in competing industries, of job analysis procedures, of compensation survey techniques, of performance appraisal systems.</li> <li>● Skill in writing job descriptions, in conducting job analysis interviews, in making group presentations, in performing statistical computations</li> <li>● Ability to conduct meetings, to plan and prioritise work.</li> </ul>
Work Orientation Factors	<ul style="list-style-type: none"> <li>● The position may require upto 15 per cent travel.</li> </ul>
Age	<ul style="list-style-type: none"> <li>● Preferably below 30 years.</li> </ul>

Preparing a job specification is not always easy. Regarding the human resource requirements of a job, there is scope for disagreement. For a clerical job, one bank may demand high school education, another bank may demand the services of graduates or even post graduates. Differences may also crop up when stating an attribute as a 'desirable' or 'essential' qualification. To avoid further confusion as rightly pointed out by Mathis and Jackson, while "writing any job specification, it is important to list only those SKAs essential for job performance."

## 6.10 MINNESOTA JOB DESCRIPTION

The Minnesota Job Description Questionnaire (MJDQ) is designed to measure the reinforcer (need-satisfier) characteristics of jobs along 21 reinforcer dimensions:

**Table 6.4**

Ability Utilization	Moral Values
Achievement	Recognition
Activity	Responsibility
Advancement	Security
Authority	Social Service

*Contd....*

Autonomy	Social Status
Company Policies	Supervision--Human Relations
Compensation	Supervision--Technical
Co-workers	Variety
Creativity	Working Conditions
Independence	

In typical applications of the MJDQ, a group of raters (e.g., supervisors, employees, or job analysts) are asked to rate a specific job. Composite scaling of the MJDQs completed by all raters results in an Occupational Reinforcer Pattern (ORP), which is the pattern of rated reinforcers or need-satisfiers on a given job. The MJDQ is the instrument used to create the ORPs in Occupational Reinforcer Patterns (1986) (see sample), and can be used to create ORPs locally. The MJDQ can also be used to obtain an individual's perception of jobs in terms of expected or perceived reinforcer patterns.

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## 6.11 ROLE ANALYSIS

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At operative levels, it is possible to write job descriptions that reflect what workers do while at work. At middle and higher management levels, a clear definition of expected and unexpected job-related behaviour is not possible. Certain aspects of a manager's job (e.g., whether to take decisions in the absence of clear cut information, how to react to situations where workers confront them on the shop floor, whether to hire a person related to the Managing Director, etc.) may defy clear conceptualisation. Job analysis, in such cases, may be woefully inadequate to uncover the subtle, informal ways of doing things. It fails to capture the behavioural expectations of various groups (unions, colleagues, superiors, subordinates, general public, etc.) that influence the actions of a job holder. Over a period of time, the roles to be played by a job holder may undergo a complete transformation. Identifying important job related behaviours that may lead to effective performance, under the circumstances, proves to be a difficult exercise.

Role analysis provides a satisfactory answer to this problem. A role is a set of expectations people have about the behaviour of person in a position. A position holder may perform three types of roles in day-to-day life; namely the expected role, the perceived role and the actual role. The expected role is what other people expect from a person. For example, a college teacher is expected by his role partners (principal, colleagues, students) to come to the college and teach properly. The perceived role is how the individual thinks he should behave to fulfil the expected role. The teacher may think that he may be able to complete the given course in about a month's time and it is a sheer waste of time to be in the college all through the year. The enacted role or the actual role is the way the person actually behaves in an organisation. The college teacher, giving shape to his thoughts, might visit campus only once a week to handle his classes!

Now look at the conflicts that surface when the expectations of role partners remain contradictory. Take the supervisor's job. As a part of the management team, he must have corresponding values and attitudes (oversee the work of workers; do not allow mistakes; punish the deviants, etc.). As a member from the workers' group, he should have their values and attitudes (carry the opinions of workers 'upstairs', redress grievances quickly, etc.). He is expected to wear both the hats gracefully. Such role conflicts occur because of divergent role expectations. To complicate issues further, job description of supervisory role could be dissimilar in two organisations. In one organisation supervisors may enjoy lot of freedom and in the other, their hands might be tied. The job description might be the same but the actual roles played by the supervisors in both cases might be totally different! Changes in management philosophy, industrial relations climate, corporate culture may also affect the roles to be played by job holders in a significant way. It is therefore necessary to supplement the job analysis process with the role analysis in order to have a clear picture of what the job actually demands.

### 6.11.1 Steps in Role Analysis

Role analysis involves the following steps:

- First, the objectives of the department and its functions must be identified.
- Second, the role incumbent is asked to state his key performance areas and his understanding of the roles to be played by him.
- Third, other role partners (boss, subordinate, peers, etc.) are asked to state their expectations from the role incumbent.
- Finally, the incumbent's role is clarified and expressed in black and white (called role description) after integrating the diverse viewpoints expressed by various role partners.

Role analysis brings about greater clarity in roles. The role incumbent knows what he is supposed to do on the job, keeping the perceptions of others about his job in mind. Role clarity, in turn, leads to improved performance on the job.

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## 6.12 JOB ANALYSIS IN A 'JOBLESS' WORLD

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Over the past few years, the concept of job has been changing quite dramatically. Employees do not like standardised, routinised operations. They do not like supervisors overseeing their work from close quarters. They want to be consulted on important aspects affecting their work. They want the work to be more meaningful, challenging and interesting. They like to work on jobs with "stretch, pull and challenge". So the concept of a job having well defined, clearly-delineated set of responsibilities is being increasingly questioned by present-day employees who are more knowledgeable and demanding.

### Box 6.4: A Close Look at the Jobs Inside India's Best Workplaces

- **Sasken Communication Technologies:** Employees enjoy considerable freedom to think and innovate and work in their own style. There is absolutely no monitoring of anybody. There are no attendance registers and there is no limit on sick leaves. Every employee is trusted and management is transparent. There is no perk that CEO Rajiv Modi enjoys that a junior employee does not.
- **Hughes Software Systems:** HSS makes sure that all its employees get interesting breaks - these may take the shape of personality development programmes, cricket matches, literature clubs, or adventure activities. One of the employees even commented "If I don't like my boss, I can change my section."
- **Monsanto India:** Monsanto India is a flat organisation (three to four levels). Even these levels are often cut short through an open culture. Everyone sits in an open office. The workstations are the same size. The travel allowances are the same so are the refreshments of course it sets stiff targets for employees, but trains them with a rare rigour so that they get a fair shot at those. People identified as future leaders are rolled over challenging positions.
- **Cadbury India:** Fun is serious business at Cadbury India. The HR manager's statement sums up the company's philosophy: "We believe that the day you stop enjoying work is the day you stop contributing. We make people stretch: but we make them stretch with a smile." The company firmly believes that a smile a day keeps the market blues away.

Contd....

- **Philips Software Centre:** The company's office in Bangalore, employees could have all the comforts in the world: a variety of cuisines, a creche, a gymnasium, bunker beds for naps, gym instructor, doctor, psychological counsellor, a dietician. It is a whole new world of work, play, study and rest. Not surprisingly, senior executives remain glued to their seats even after office hours. The company had to come out with an order recently stating that nobody should stay in the office after 9 p.m. without sufficient reason!

(Snapshots from the Business World's Great Places to Work Survey, 6.12.2004)

Certain techniques that have helped in redefining jobs in this manner may be worth mentioning here:

- Flatter organisations:** Most progressive organisations have opted in favour of trimming the 'flab' at the top level, reducing the traditional pyramidal structures to barely three or four levels. As the remaining managers are left with more people reporting to them, they can supervise them less, so the jobs of subordinates end up bigger in terms of both breadth and depth of responsibilities (Dessler, p. 83).
- Work teams:** Yesterday's jobs were dominated by the rigidity associated with them. Workers performed the same tasks daily. Now the situation is different. Work itself is increasingly organised around teams and processes rather than around specialised functions. Cross-functional, self-directed teams handle different jobs at different points of time. Individuals will work with other workers for a specified period of time and then take up another project. The project can be in the organisation as well as outside it. Workers will perform their duties as members of project teams, not necessarily as members of a particular department within the organisation.
- Boundaryless organisation:** In a boundaryless organisation, the boundaries that typically separate organisational functions (production, marketing, finance, etc.) and hierarchical levels are reduced and made more permeable. Cross-functional teams are created and used widely. Employees are encouraged to get rid of "It is not my job" kind of attitudes. The focus, instead, is put on defining the job in a flexible way, keeping the best interests of the organisation in the background.
- Reengineering:** Reengineering brings about a radical, quantum change in an organisation. It requires organisational members to rethink what work should be done, how it is to be done and how to best implement these decisions. Reengineering is achieved in several ways:
  - ❖ Specialised jobs are combined and enlarged.
  - ❖ Each person's job is made more interesting and challenging. Supervisory checks are reduced. Employees are allowed to oversee their own work.
  - ❖ Workers are made collectively responsible for overall results rather than individually responsible for just their own tasks.
  - ❖ The primary focus is on the customer and building an organisation structure that is production friendly. Workers are empowered to use more decision-making authority while carrying out work in small teams.

### Check Your Progress 3

- Which of the following is not offered in a job analysis?
  - worker attributes
  - performance appraisals

Contd....

- c. working conditions
- d. job specifications
- e. job description
2. The advantage of employing various methods of job analysis is
  - a. cost
  - b. complexity
  - c. accuracy
  - d. time
  - e. participation by job incumbents and managers
3. Job descriptions should be reviewed by
  - a. supervisors
  - b. job incumbents
  - c. human resource department
  - d. none of the above
  - e. all of the above
4. A job analysis questionnaire should include all but the following
  - a. job evaluation
  - b. performance standards
  - c. job duties
  - d. job status
  - e. working conditions

### 6.13 MANAGEMENT BY OBJECTIVES (MBO)

MBO requires the management to set specific, measurable goals with each employee and then periodically discuss the latter's progress towards these goals. This technique emphasises participatively set goals (that are agreed upon by the superior and the employee) that are tangible, verifiable and measurable. MBO focuses attention on what must be accomplished (goals) rather than how it is to be accomplished. It is, thus, a kind of goal setting and appraisal programme involving six steps:

- **Set the organisation's goals:** Establish an organisationwide plan for next year and set company goals.
- **Set departmental goals:** Departmental heads at this stage take the broader company goals (such as improving profits by 20 per cent, increasing market share by 10 per cent etc.) and, with their superiors, jointly set goals for their departments.
- **Discuss departmental goals:** The departmental goals are now put to discussion in a departmental meeting with subordinates. The departmental heads would require the subordinates to set their own preliminary individual goals, focusing mostly on what they can do to achieve the department's goals.
- **Define expected results:** In the next step, the departmental heads and their subordinates agree on a set of participatorily set short term, and individual performance targets.

- **Performance reviews:** Departmental heads compare each employee's actual and targeted performance, either periodically or annually. While periodic review is intended to identify and solve specific performance problems, the annual review is conducted to assess and reward one's overall contribution to the organisation. Because employees are evaluated on their performance results, MBO is often called a result-based performance appraisal system.
- **Provide feedback:** Both parties now discuss and evaluate the actual progress made in achieving goals, where things have gone off the track, how best to rectify the mistakes made in the past, and how the employee could meet the targets next time, focusing attention on his strengths.

However, setting clearly measurable goals is not an easy task. MBO demands a great deal of time to set verifiable goals at all levels of an organisation. In the race to define everything rigidly, some of the qualitative aspects might be ignored (such as employee attitudes, job satisfaction etc). Often the superior may set goals at a frustratingly high level, whereas the subordinate may wish to have it at a comfortable level. At times, the short-term goals may take precedence over long term goal. The only way to overcome these problems is to allow managers at all levels to explain, coordinate and guide the programme in a persuasive, democratic way. The jointly set targets must be fair and attainable. Both the superiors and the subordinates must be taught how to set realistic goals and be familiarised with the results for which they are finally held responsible.

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## 6.14 WORK RULES

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Work study literally implies study of human work. British Standards Institute 3138 : 1969 defined work study as:

*A management service based on those techniques, particularly method study and work measurement, which are used in the examination of human work in all its contexts and which lead to the systematic investigation of all the resources and factors which affect the efficiency and economy of the situation being reviewed, in order to effect improvement.*

Thus it is a generic term for two interdependent techniques, i.e., method study and work measurement. In the said British standard, methods study has been defined as: "The systematic recording and critical examination of the factors and resources involved in existing and proposed ways of doing work, as means of developing and applying easier and more effective methods and reducing costs." Work measurement on the other hand is defined by the British Standards Institute as "the application of techniques designed to establish the time for a qualified worker to carry out a specified job at the defined level of performance."

Contextual analysis of the agreed definition of work study given by the British Standards Institute, therefore, enables us to define the subject as a procedure for understanding and determining the truth about the activities of the people, plant and machineries, identifying the factors which affect their efficiency and achieving economy through their optimum utilisation. Most of the productivity improvement techniques involve major capital expenditure in plant or equipment. Work study being a management technique, on the other hand, ensures productivity by using existing resources. In work study, human element is emphasised and importance is given to operation rather than to the technical process. This, therefore, assists management in following three major ways, which are actually its primary objectives:

1. Effective use of plant and equipment
2. Effective use of human effort
3. Evaluation of human work



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## 6.15 LET US SUM UP

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Jobs are important to individuals as well as organisations. They are subject to change.

Job Analysis is a systematic investigation of the tasks, duties and responsibilities necessary to do a job.

Job analysis information is useful for a variety of organisation purposes ranging from human resource planning to career counselling.

Seven general techniques are generally used to collect job analysis data: job performance, observation, critical incidents, interview, panel of experts, diary logs and questionnaire method.

Behavioural factors such as the tendency to exaggerate facts, employee anxieties, resistance to change, overemphasis on current efforts etc., must be taken care of while carrying out a job analysis.

The end products of job analysis are: (a) Job descriptions, a written statement of what the job holder does, and (b) job specifications, which list the knowledge, skills and abilities (KSAs) required to perform a job satisfactorily.

In recent times, the traditional way of jobs having a clearly-delineated set of duties and responsibilities is being increasingly questioned. Trends such as flatter organisations, work teams, re-engineering efforts have virtually compelled employees to be prepared for playing multiple roles while at work.

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## 6.16 LESSON END ACTIVITY

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Working, individually or in groups, develop a job description for 'Head-Retail Banking in respect of a fast growing, new generation private sector bank operating in all major metros in India. Based on that, use your analytical skills and judgement to develop a job specification. Compare your conclusions with those of other students or groups. Were there any major differences? If yes, explain the reasons briefly.

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## 6.17 KEYWORDS

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**Job:** A group of positions similar in their significant duties such as technical assistants, computer programmers, etc.

**Task:** An identifiable work activity carried out for a specific purpose. For example, typing a letter.

**Duty:** Several tasks which are related by some sequence of events. For example, pick up, sort out and deliver incoming mail.

**Position:** A collection of tasks and duties which are performed by one person. For example, the P.A. to Principal receives visitors, takes dictation, operates computer, answers queries, attends to complaints and helps students.

**Job families:** Groups of different jobs that need similar skills. For example, sales jobs and clerical jobs in different departments.

**Job code:** A job code uses numbers, letters or both to provide a quick summary of a job and its content.

**Job classification:** The grouping of jobs on some basis such as the nature of work done or the level of pay. For example, skilled, semiskilled and unskilled; Grade I, II and III officers in a Bank.

**Job analysis:** The process of gathering information about a job.

**PAQ:** Position analysis questionnaire is a standardised form used to collect specific information about job tasks and worker traits.

**MPDQ:** Management position description questionnaire is a standardised form designed to analyse managerial jobs.

**Functional job analysis:** It is a systematic process of finding what is done on a job by examining and analysing the fundamental components of data, people and things.

**Job specification:** A profile of the human characteristics (knowledge, skills and abilities) needed by a person doing a job.

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## 6.18 QUESTIONS FOR DISCUSSION

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1. Distinguish between job analysis, job description, job specification and role analysis.
2. What is job analysis? Describe the techniques used for analysing jobs.
3. What is job description? Describe its features. How would you prepare a job description? Explain through an example.
4. Write notes on:
  - a. Uses of job analysis
  - b. Job analysis interview
  - c. Position analysis questionnaire
  - d. Functional job analysis
  - e. Job specification
5. Distinguish between job description and job specification. What precautions should be taken while preparing them?
6. Construct a form for a sample job description. Why is a job description necessary before developing a job specification?
7. Describe the process involved in conducting a job analysis.
8. Describe three methods of analysing jobs, including some advantages and disadvantages of each method.
9. Why is job analysis the foundation of many other HR activities?
10. Why is a competency-based job analysis more difficult to conduct than the traditional task-based approach?
11. In your opinion, what are some of the important reasons for the deep changes we are seeing in the way jobs are done?
12. Explain how you would carry out a job analysis in a company that had never had job descriptions.



### Check Your Progress: Model Answers

#### CYP 1

1. Organisational Analysis
2. Selection of representative positions
3. Collection of job analysis data
4. Preparation of job description
5. Preparation of job specification

#### CYP 2

1. A job description usually covers the following information:
  - ❖ *Job title:* Tells about the job title, code number and the department where it is done.
  - ❖ *Job summary:* A brief write-up about what the job is all about.
  - ❖ *Job activities:* A description of the tasks done, facilities used, extent of supervisory help, etc.
  - ❖ *Working conditions:* The physical environment of job in terms of heat, light, noise and other hazards.
  - ❖ *Social environment:* Size of work group and interpersonal interactions required to do the job.
2. Several problems crop up consciously or unconsciously while formulating job descriptions.
  - ❖ It is not easy to reduce all the essential components of a job in the form of a clear and precise document.
  - ❖ Job descriptions are sometimes not updated as job duties change.
  - ❖ They can limit the scope of activities of the job holder, reducing organisational flexibility.

#### CYP 3

1. (b), 2. (c), 3. (e), 4. (a)

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## 6.19 SUGGESTED READINGS

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- V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005
- P. L. Rao, *Comprehensive Human Resource Management*, Excel Books, New Delhi, 2004
- D. K. Bhattacharyya, *Human Resource Management Excel Books*, New Delhi, 2006
- Robert L Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2007
- K. Aswathappa, *Human Resource and Personnel Management*, Tata McGraw Hill, 2007

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## LESSON

# 7

## RECRUITMENT AND SELECTION

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## 7.0 AIMS AND OBJECTIVES

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This lesson begins with an explanation of various methods of recruitment. It also throws light on the importance of testing while selecting the right person for the right job and concludes with a discussion of the various methods of training operatives and developing executives. After studying this lesson, you will be able to:

- Describe meaning, constraints, sources and methods of recruitment
- Explain recruitment policies and procedures commonly followed in organisations
- Discuss meaning and process of selection
- Describe different types of testing and interview
- Explain the important issues in placement and promotion.

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## 7.1 INTRODUCTION

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The human resources are the most important assets of an organisation. The success or failure of an organisation is largely dependent on the calibre of the people working therein. Without positive and creative contributions from people, organisations cannot progress and prosper. In order to achieve the goals or the activities of an organisation, therefore, we need to recruit people with requisite skills, qualifications and experience. While doing so, we have to keep the present as well as the future requirements of the organisation in mind. Recruitment is a 'linking function' - joining together those with jobs to fill and those seeking jobs. It is a 'joining process' in that it tries to bring together job seekers and employer with a view to encourage the former to apply for a job with the latter.

The basic purpose of recruiting is to develop a group of potentially qualified people. To this end, the organisation must communicate the position in such a way that job seekers respond. To be cost effective, the recruitment process should attract qualified applicants and provide enough information for unqualified persons to self-select themselves out.

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## 7.2 SOURCES OF RECRUITMENT

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The sources of recruitment may be broadly divided into two categories: internal sources and external sources.

### 7.2.1 Internal Sources

These sources include the employees already on the payroll i.e., present work force. Whenever any new vacancy arises, people from within the organisation will be upgraded, prompted, transferred or demoted. The process of filling job openings by selecting from among the pool of present workforce can be implemented by the following methods:

- Reviewing the personnel records.
- Job posting and job bidding.
- Inside moonlighting and employee's friends.

Review of the personnel records and skills inventory provides adequate information for the personnel director to find suitable candidates for a particular position. Under job posting and bidding system, the organisation notifies its present employees of openings, using bulletin boards, and company publications, etc. This is a more open approach where every one gets the same right to apply for a job and bid for the same. If the labour shortage is of short-term nature and great amount of additional labour is not necessary, then organisation employs 'inside moonlighting.' It is a technique where organisation pays bonuses of various types to people not on a time payroll. Overtime procedures are, in many organisations, developed for those on time payroll. Furthermore, before going outside to recruit many organisations ask the present employees to encourage friends and relatives to apply.

### 7.2.2 External Sources

External sources lie outside an organisation. Here the organisation can have the services of: (a) employees working in other organisations; (b) job aspirants registered with employment exchanges; (c) students from reputed educational institutions; (d) candidates referred by unions, friends, relatives and existing employees; (e) candidates forwarded by search firms and contractors; (f) candidates responding to the advertisements, issued by the organisation; and (g) unsolicited applications/walk-ins.

#### Check Your Progress 1

List the two categories of sources of recruitment.

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.....

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## 7.3 METHODS OF RECRUITMENT

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The following are the most commonly used methods of recruiting people:

### 7.3.1 Promotions and Transfers

This is a method of filling vacancies from within through transfers and promotions. A transfer is a lateral movement within the same grade, from one job to another. It may lead to changes in duties and responsibilities, working conditions, etc., but not necessarily

salary. Promotion, on the other hand, involves movement of employee from a lower level position to a higher level position accompanied by (usually) changes in duties, responsibilities, status and value. Organisations generally prepare badli lists or a central pool of persons from which vacancies can be filled for manual jobs. Such persons are usually passed on to various departments, depending on internal requirements. If a person remains on such rolls for 240 days or more, he gets the status of a permanent employee as per the Industrial Disputes Act and is, therefore, entitled to all relevant benefits, including provident fund, gratuity, retrenchment compensation.

### **7.3.2 Job Posting**

Job posting is another way of hiring people from within. In this method, the organisation publicises job openings on bulletin boards, electronic media and similar outlets. One of the important advantages of this method is that it offers a chance to highly qualified applicants working within the company to look for growth opportunities within the company without looking for greener pastures outside.

### **7.3.3 Employee Referrals**

Employee referral means using personal contacts to locate job opportunities. It is a recommendation from a current employee regarding a job applicant. The logic behind employee referral is that "it takes one to know one". Employees working in the organisation, in this case, are encouraged to recommend the names of their friends working in other organisations for a possible vacancy in the near future. In fact, this has become a popular way of recruiting people in the highly competitive information technology industry nowadays. Companies (Citibank doles out a cool Rs 50,000; Hewlett-Packard pays a flat amount of Rs 4,000; Hughes Software Rs 5,000 to Rs 15,000, etc. See B.T. Sep. 2000) offer rich rewards also to employees whose recommendations are accepted - after the routine screening and examining process is over - and job offers extended to the suggested candidates. As a goodwill gesture, companies also consider the names recommended by unions from time to time.

### **7.3.4 Campus Recruitment**

It is a method of recruiting by visiting and participating in college campuses and their placement centres. Here, the recruiters visit reputed educational institutions such as IITs, IIMs, colleges and universities with a view to pick up job aspirants having requisite technical or professional skills. Job seekers are provided information about the jobs and the recruiters, in turn, get a snapshot of job seekers through constant interchange of information with respective institutions. A preliminary screening is done within the campus and the shortlisted students are then subjected to the remainder of the selection process. In view of the growing demand for young managers, most reputed organisations (such as Hindustan Lever Ltd, Procter & Gamble, Citibank, State Bank of India, Tata and Birla group companies) visit IIMs and IITs regularly and even sponsor certain popular campus activities with a view to earn goodwill in the job market. Advantages of this method include: the placement centre helps locate applicants and provides resumes to organisations; applicants can be prescreened; applicants will not have to be lured away from a current job and lower salary expectations. On the negative front, campus recruiting means hiring people with little or no work experience. The organisation will have to offer some kind of training to the applicants, almost immediately after hiring. It demands careful advance planning, looking to the placement weeks of various institutions in different parts of the country. Further, campus recruiting can be costly for organisations situated in another city (airfare, boarding and lodging expenses of recruiters, site visit for applicants if allowed, etc.).

### 7.3.5 Advertisements

These include advertisements in newspapers trade, professional and technical journals radio and television, etc. In recent times, this medium has become just as colourful, lively and imaginative as consumer advertising. The ads generally give a brief outline of the job responsibilities, compensation package, prospects in the organisation, etc. This method is appropriate when (a) the organisation intends to reach a large target group and (b) the organisation wants a fairly good number of talented people - who are geographically spread out - to apply for the advertised vacancies. Let's briefly examine the wide variety of alternatives available to a company - as far as ads are concerned:

- **Newspapers ads:** Here it's easy to place job ads without much of a lead time. It has flexibility in terms of information and can conveniently target a specific geographic location. On the negative side, newspaper ads tend to attract only those who are actively seeking employment at that point of time, while some of the best candidates who are well paid and challenged by their current jobs may not be aware of such openings. As a result, the company may be bombarded with applications from a large number of candidates who are marginally qualified for the job - adding to its administrative burden (Infosys Technologies Ltd., had to process 3 lakh applications for a few vacancies in the company during the year 2001). To maintain secrecy for various reasons (avoiding the rush, sending signals to competitors, cutting down expenses involved in responding to any individual who applies, etc.), large companies with a national reputation may also go in for blind-box ads in newspapers, especially for filling lower level positions. In a blind-box advertisement, there is no identification of the advertising organisation. Job aspirants are asked to respond to a post office box number or to an employment search firm that is acting as an agent between the job seeker and the organisation.
- **Television and radio ads:** These ads are more likely to reach individuals who are not actively seeking employment; they are more likely to stand out distinctly, they help the organisation to target the audience more selectively and they offer considerable scope for designing ads creatively. However, these advertisements are expensive. Also, because the television or radio is simply seen or heard, potential candidates may have a tough time remembering the details, making the process of applying for vacancies quite difficult.

### 7.3.6 Private Employment Search Firms

A search firm is a private employment agency that maintains computerised lists of qualified applicants and supplies these to employers willing to hire people from the list for a fee. Firms like Arthur Anderson, Noble and Hewitt, ABC consultants, SB Billimoria, KPMG, Ferguson Associates offer specialised employment-related services to corporate houses for a fee, especially for top and middle level executive vacancies. At the lower end, a number of search firms operate - providing multifarious services to both recruiters and the recruits.

### 7.3.7 Employment Exchanges

As a statutory requirement, companies are also expected to notify (wherever the Employment Exchanges Act, 1959, applies) their vacancies through the respective employment exchanges, created all over India for helping unemployed youth, displaced persons, ex-military personnel, physically handicapped, etc. As per the Act, all employers

are supposed to notify the vacancies arising in their establishment from time to time - with certain exemptions - to the prescribed employment exchanges before they are filled. The Act covers all establishments in public sector and nonagricultural establishments employing 25 or more workers in the private sector. However, in view of the practical difficulties involved in implementing the provisions of the Act (such as filling a quarterly return in respect of their staff strength, vacancies and shortages, returns showing occupational distribution of their employees, etc.) many organisations have successfully fought court battles when they were asked to pick up candidates from among those sponsored by the employment exchanges.

### **7.3.8 Gate Hiring and Contractors**

Gate hiring (where job seekers, generally blue collar employees, present themselves at the factory gate and offer their services on a daily basis), hiring through contractors, recruiting through word-of-mouth publicity are still in use - despite the many possibilities for their misuse - in the small scale sector in India.

### **7.3.9 Unsolicited Applicants/Walk-ins**

Companies generally receive unsolicited applications from job seekers at various points of time. The number of such applications depends on economic conditions, the image of the company and the job seeker's perception of the types of jobs that might be available, etc. Such applications are generally kept in a data bank and whenever a suitable vacancy arises, the company would intimate the candidate to apply through a formal channel. One important problem with this method is that job seekers generally apply to a number of organisations and when they are actually required by the organisation, either they are already employed in other organisations or are not simply interested in the position.

### **7.3.10 E-hiring**

The first step in e-hiring is to get a URL (Universal Resource Location) that people can conveniently guess and thus, not have to use a search engine. There is no point in being a famous company if people cannot find you without trouble on the net. Step two is to put out detailed job postings—spelling out your exact requirements. A separate web page would help potential applicants to find whether they fit into the announced job openings or not. You are likely to get a lot of surf-ins if the details of openings are listed category-wise. Allow people to apply on-line. Create an e-form which can be filled up on line, and then you do the calling-up. Finally, ask HR to maintain a data base on all applications. You may not have an opening today. But, remember tomorrow may be another desperate day for you to look for people with requisite skills, qualifications and experience.

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## **7.4 RECRUITMENT PRACTICES IN INDIA**

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The experiential guide brought out by Business Today, Jan 7-21, 1996, summarising the results of a path-breaking survey of Indian industries, commented thus about the recruitment function: “Woven into strategic planning, recruitment no longer involves short-term vacancy-filling measures or the annual ritual of campus recruitment. Translating corporate strategies into a manpower plan and developing a long-term hiring programme accordingly, corporations are tracking down people with the combination of knowledge, experience, skills and behaviour best suited to achieving the company’s objectives”.

What do Indian companies expect from job-seekers?



The expectations of recruiters are inextricably intertwined with the corporate culture in which they operate. They are in line with the overall philosophy of the company in question. Let's summarise these in capsule form thus:

**Box 7.1: Recruitment of Trainees: Expectations of Indian Companies**

**Pepsi:** Pepsi is a flat organisation. There are a maximum of four reporting levels. Executives here emphasise achievement, motivation, the ability to deliver come what may. As the Personnel Manager of Pepsi Foods remarked "we hire people who are capable of growing the business rather than just growing with the business". Recruits must be capable of thinking outside the box, cutting the cake of conventional barriers whenever and wherever necessary. They must have a winner's mindset and a passion for creating a dynamic change. They must have the ability to deal with ambiguity and informality.

**Reebok:** As Reebok's customers are young, the company places emphasis on youth. The average age at Reebok is 26 years. Employees are expected to have a passion for the fitness business and reflect the company's aspirations. Recruits should be willing to do all kinds of job operations. The willingness to get one's hands dirty is important. They must also have an ability to cope with informality, a flat organisation and be able to take decisions independently and perform consistently with their clearly defined goals.

**Indian Hotels:** The Taj group expects the job aspirants to stay with the organisation patiently and rise with the company. Employees must be willing to say 'yes sir' to anybody. Other criteria include: communication skills, the ability to work long and stressful hours, mobility, attention to personal appearance and assertiveness without aggression.

**Check Your Progress 2**

Multiple Choice Questions:

1. The best way of recruiting is always
  - (a) walk-ins
  - (b) advertisements
  - (c) search firms
  - (d) variable
  - (e) referrals
2. The most common constraints on recruiting include all but
  - (a) image of a firm
  - (b) budgetary support
  - (c) interviewing
  - (d) organisational policies
  - (e) government policies
3. The primary source of information for recruiting is
  - (a) managerial interviews
  - (b) testing
  - (c) recruiters themselves
  - (d) interviews with applicants
  - (e) job analysis
4. A good source of hiring technical staff would be
  - (a) private search firm
  - (b) vocational school
  - (c) employment exchange
  - (d) professional association
  - (e) rival firms
5. A negative aspect of promotion from within is
  - (a) lower morale
  - (b) employee turnover
  - (c) career prospects
  - (d) idea stagnation
  - (e) employee dissatisfaction



In a recent survey carried out by a leading search firm, Executive Access, recruiting companies demanded the following skills of the B-school graduates, in the following order of importance:

Skills Recruiters Want	
1.	Ability to work in a team
2.	Analytical and problem solving skills
3.	Communication and other soft skills
4.	Creativity and resourcefulness
5.	Leadership potential
6.	General Managerial skills
7.	Entrepreneurial skills

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## 7.5 SCIENTIFIC SELECTION

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To select mean to choose. Selection is the process of picking individuals who have relevant qualifications to fill jobs in an organisation. The basic purpose is to choose the individual who can most successfully perform the job from a pool of qualified candidates.

The purpose of selection is to pick up the most suitable candidate who would meet the requirements of the job and the organisation best and to find out which job applicant will be successful, if hired. To meet this goal, the company obtains and assesses information about the applications in terms of age, qualifications, skills, experience, etc. The needs of the job are matched with the profile of candidates. The most suitable person is then picked up after eliminating the unsuitable applicants through successive stages of selection process. How well an employee is matched to a job is very important because it directly affects the amount and quality of employee's work. Any mismatch in this regard can cost an organisation a great deal of money, time and trouble, especially, in terms of training and operating costs. In course of time, the employee may find the job distasteful and leave in frustration. He may even circulate 'hot news' and juicy bits of negative information about the company, causing incalculable harm in the long run. Effective selection, therefore, demands constant monitoring of the 'fit' between person and the job.

### 7.5.1 Process of Selection

Selection is usually a series of hurdles or steps. Each one must be successfully cleared before the applicant proceeds to the next. Figure 7.1 outlines the important steps in the selection process of a typical organisation. The time and emphasis placed on each step will, of course, vary from one organisation to another and, indeed, from job to job within the same organisation. The sequencing of steps may also vary from job to job and organisation to organisation.

1. **Reception:** A company is known by the people it employs. In order to attract people with talents, skills and experience a company has to create a favourable impression on the applicants right from the stage of reception. Whoever meets the applicant initially should be tactful and able to extend help in a friendly and courteous way. Employment possibilities must be presented honestly and clearly. If no jobs are available at that point of time, the applicant may be asked to call back the personnel department after some time.
2. **Screening Interview:** A preliminary interview is generally planned by large organisations to cut the costs of selection by allowing only eligible candidates to go through the further stages in selection. A junior executive from the Personnel Department may elicit responses from applicants on important items determining

the suitability of an applicant for a job such as age, education, experience, pay expectations, aptitude, location, choice etc. This 'courtesy interview', as it is often called, helps the department screen out obvious misfits. If the department finds the candidate suitable, a prescribed application form is given to the applicants to fill and submit.

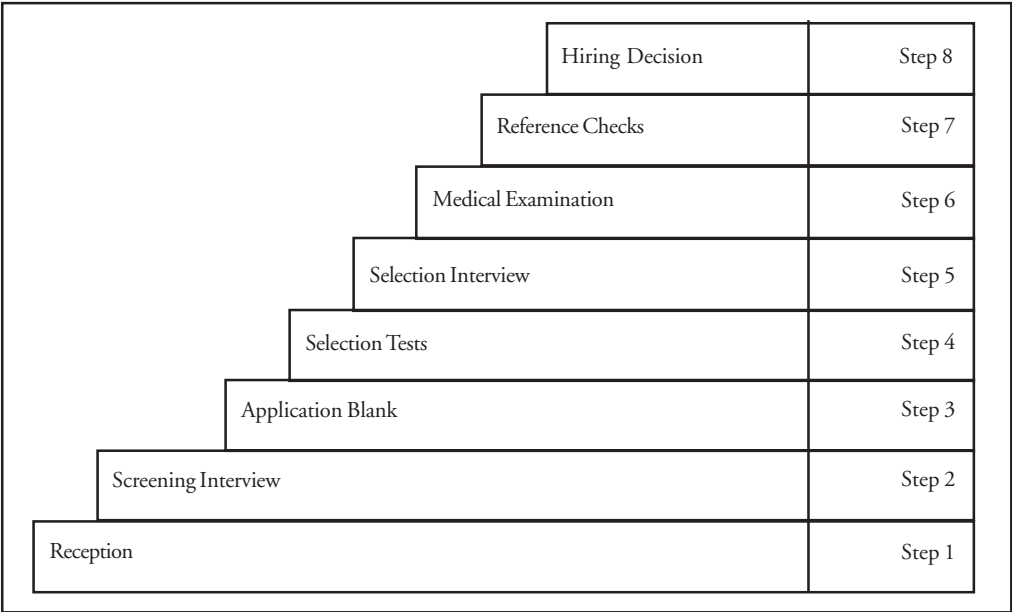


Figure 7.1: Steps in the Selection Process

3. **Application Blank:** Application blank or form is one of the most common methods used to collect information on various aspects of the applicants' academic, social, demographic, work-related background and references. It is a brief history sheet of an employee's background, usually containing the following things:

Table 7.1: Contents of Application Blanks

- |   |
|---|
| <ul style="list-style-type: none"><li>● Personal data (address, sex, identification marks)</li><li>● Marital data (single or married, children, dependents)</li><li>● Physical data (height, weight, health condition)</li><li>● Educational data (levels of formal education, marks, distinctions)</li><li>● Employment data (past experience, promotions, nature of duties, reasons for leaving previous jobs, salary drawn, etc.)</li><li>● Extra-curricular activities data (sports/games, NSS, NCC, prizes won, leisure-time activities)</li><li>● References (names of two or more people who certify the suitability of an applicant of the advertised position)</li></ul> |
|---|
- **Weighted Application Blanks (WABs):** To make the application form more job-related, some organisations assign numeric values or weights to responses provided by applicants. Generally, the items that have a strong relationship to job performance are given high scores. For example, for a medical representative's position items such as previous selling experience, marital status, age, commission earned on sales previously, etc, may be given high scores when compared to other items such as religion, sex, language, place of birth, etc. The total score of each applicant is obtained by summing the weights of the individual item responses. The resulting scores are then used in the selection decision. The WAB is best suited for jobs

where there are many workers, especially for sales and technical jobs and it is particularly useful in reducing turnover. There are, however, several problems associated with WABs. It takes time to develop such a form. The cost of developing a WAB could be prohibitive if the organisation has several operating levels with unique features. The WAB must be "updated every few years to ensure that the factors previously identified are still valid predictors of job success". And finally, the organisation should be careful not to depend on weights of a few items while selecting an employee.

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## 7.6 SELECTION TESTING

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A test is a standardised, objective measure of a person's behaviour, performance or attitude. It is standardised because the way the test is carried out, the environment in which the test is administered and the way the individual scores are calculated - are uniformly applied. It is objective in that it tries to measure individual differences in a scientific way, giving very little room for individual bias and interpretation.

Over the years, employment tests have not only gained importance but also a certain amount of inevitability in employment decisions. Since they try to objectively determine how well an applicant meets job requirements, most companies do not hesitate to invest their time and money in selection testing in a big way. Some of the commonly used employment tests are:

### 7.6.1 Intelligence Tests

These are mental ability tests. They measure the incumbent's learning ability and also the ability to understand instructions and make judgements. The basic objective of intelligence tests is to pick up employees who are alert and quick at learning things so that they can be offered adequate training to improve their skills for the benefit of the organisation. Intelligence tests measure not a single trait, but rather several abilities such as memory, vocabulary, verbal fluency, numerical ability, perception, spatial visualisation, etc. Stanford-Binet test, Binet-Simon test, The Wechsler Adult Intelligence scale are examples of standard intelligence tests. Some of these tests are increasingly used in competitive examinations while recruiting graduates and postgraduates at entry level management positions in banking, insurance and other financial services sectors.

### 7.6.2 Aptitude Tests

Aptitude tests measure an individual's potential to learn certain skills - clerical, mechanical, mathematical, etc. These tests indicate whether or not an individual has the ability to learn a given job quickly and efficiently. In order to recruit efficient office staff, aptitude tests are necessary. Clerical tests, for example, may measure the incumbent's ability to take notes, perceive things correctly and quickly locate things, ensure proper movement of files, etc. Aptitude tests, unfortunately, do not measure on-the-job motivation. That is why the aptitude test is administered in combination with other tests like, intelligence and personality tests.

### 7.6.3 Personality Tests

Of all the tests required for selection, personality tests have generated lot of heat and controversy. The definition of personality, method of measuring personality factors and the relationship between personality factors and actual job criteria have been the subject of much discussion. Researchers have also questioned whether applicants answer all the items truthfully or whether they try to respond in a socially desirable manner. Regardless of these objections, many people still consider personality as an important component of job success.

### 7.6.4 Achievement Tests

These are designed to measure what the applicant can do on the job currently, i.e., whether the testee actually knows what he or she claims to know. A typing test shows typing proficiency, a short hand test measures the testee's ability to take dictation and transcribe, etc. Such proficiency tests are also known as work sampling tests. Work sampling is a selection test wherein the job applicant's ability to do a small portion of the job is tested. These tests are of two types; Motor, involving physical manipulation of things (e.g., trade tests for carpenters, plumbers, electricians) or Verbal, involving problem situations that are primarily language-oriented or people-oriented (e.g., situational tests for supervisory jobs).

Since work samples are miniature replicas of actual job requirements, they are difficult to fake. They offer concrete evidence of the proficiency of an applicant as against his ability to do the job. However, work-sample tests are not cost effective, as each candidate has to be tested individually (Cascio, p. 212). It is not easy to develop work samples for each job. Moreover, it is not applicable to all levels of the organisation. For managerial jobs, it is often not possible to develop a work sample test that can take care of all the full range of managerial abilities.

### 7.6.5 Simulation Tests

Simulation exercise is a test which duplicates many of the activities and problems an employee faces while at work. Such exercises are commonly used for hiring managers at various levels in an organisation. To assess the potential of a candidate for managerial positions assessment centres are commonly used.

### 7.6.6 Assessment Centre

An assessment centre is an extended work sample. It uses procedures that incorporate group and individual exercises. These exercises are designed to simulate the type of work which the candidate will be expected to do. Initially, a small batch of applicants come to the assessment centre (a separate room). Their performance in the situational exercises is observed and evaluated by a team of 6 to 8 trained assessors. The assessors' judgements on each exercise are compiled and combined to have a summary rating for each candidate being assessed.

**Table 7.2: Simulated Exercises in the Assessment Centre Approach**

Initially, a small batch of applicants come to the assessment centre (a separate room). Their examples of the real-life but simulated exercises included in a typical assessment centre are as follows:

- a. ***In-basket:*** Here the candidate is faced with an accumulation of reports, memos, letters and other materials collected in the in-basket of the simulated job he is supposed to take over. The candidate is asked to take necessary action on each of these materials, say, by writing letters, notes, agendas for meetings, etc. The results of the applicant's actions are then reviewed by the evaluators.
- b. ***Leaderless group discussion:*** In this exercise, a leaderless group is given a discussion question and asked to arrive at a group decision. The evaluators then evaluate each participant's interpersonal skills, acceptance by the group, leadership and individual influence, etc.
- c. ***Business games:*** Here participants try to solve a problem, usually as members of two or more simulated companies that are competing in the market place. Decisions might include how to advertise and produce, how to penetrate the market, how much to keep in stock, etc. Participants thereby exhibit planning and organisational abilities,

*Contd....*

interpersonal skills and leadership abilities. Business games have several merits: they reduce time, events that might not take place for months or years are made to occur in a matter of hours. They are realistic and competitive in nature. They offer immediate feedback also.

- d. **Individual presentations:** A participant's communication skills are evaluated by having the person make an oral presentation of a given topic.
- e. **Structured interview:** Evaluators ask a series of questions aimed at the participant's level of achievement, motivation, potential for being a 'self-starter' and commitment to the company.

### 7.6.7 Graphology Tests

Graphology involves a trained evaluator to examine the lines, loops, hooks, strokes, curves and flourishes in a person's handwriting to assess the person's personality and emotional makeup. The recruiting company may, for example, ask applicants to complete application forms and write about why they want a job. These samples may be finally sent to a graphologist for analysis and the results may be put to use while selecting a person. The use of graphology, however, is dependent on the training and expertise of the person doing the analysis. In actual practice, questions of validity and just plain skepticism have limited its use.

### 7.6.8 Polygraph (Lie-detector) Tests

The polygraph records physical changes in the body as the test subject answers a series of questions. It records fluctuations in respiration, blood pressure and perspiration on a moving roll of graph paper. The polygraph operator forms a judgement as to whether the subject's response was truthful or deceptive by examining the biological movements recorded on the paper. Polygraphs, despite strong resistance by many applicants, are increasingly being used by companies which have problems with inventory and security of funds. Government agencies have begun to use the polygraph, especially for filling security, police, fire and health positions. Critics, however, question the appropriateness of polygraphs in establishing the truth about an applicant's behaviour. The fact is that polygraph records biological reaction in response to stress and does not record lying or even the conditions necessarily accompanying lying. Is it possible to prove that the responses recorded by the polygraph occur only because a lie has been told? What about those situations in which a person lies without guilt (a pathological liar) or lies believing the response to be true? The fact of the matter is that polygraphs are neither reliable nor valid. Since they invade the privacy of those tested, many applicants vehemently oppose the use of polygraph as a selection tool.

### 7.6.9 Integrity Tests

These are designed to measure employee's honesty to predict those who are more likely to steal from an employer or otherwise act in a manner unacceptable to the organisation. The applicants who take these tests are expected to answer several 'yes' or 'no' type questions, such as:

**Table 7.3: Typical Integrity Questions**

Typical Integrity Questions	Yes	No
<ul style="list-style-type: none"> <li>• Have you ever told a lie?</li> <li>• Do you report to your boss if you know of another employee stealing from the store?</li> <li>• Do you carry office stationary back to your home for occasional use?</li> <li>• Do you mark attendance for your colleagues also?</li> </ul>		

Often these tests contain questions that repeat themselves in some ways and the evaluator then examines the consistency in responses. Companies that have used integrity tests have reported success in tracking employees who indulge in 'theft'. However, these tests ultimately suffer from the same weaknesses as polygraph and graphology tests.

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## 7.7 SELECTION INTERVIEW

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Interview is the oral examination of candidates for employment. This is the most essential step in the selection process. In this step the interviewer matches the information obtained about the candidate through various means to the job requirements and to the information obtained through his own observations during the interview. Interview gives the recruiter an opportunity (Dessler, Chap 6).

- To size up the candidate personally.
- To ask questions that are not covered in tests.
- To make judgements on candidate's enthusiasm and intelligence.
- To assess subjective aspects of the candidate - facial expressions, appearance, nervousness and so forth.
- To give facts to the candidate regarding the company, its policies, programmes, etc. and promote goodwill towards the company.

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## 7.8 TYPES OF INTERVIEWS

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Several types of interviews are commonly used depending on the nature and importance of the position to be filled within an organisation.

- **Non-directive interview:** In a non-directive interview the recruiter asks questions as they come to mind. There is no specific format to be followed. The questions can take any direction. The interviewer asks broad, open-ended questions such as 'tell me more about what you did on your last job' – and allows the applicant to talk freely with a minimum of interruption. Difficulties with a non-directive interview include keeping it job related and obtaining comparable data on various applicants.
- **Directive or structured interview:** In the directive interview, the recruiter uses a predetermined set of questions that are clearly job related. Since every applicant is asked the same basic questions, comparison among applicants can be made more easily. Structured questions improve the reliability of the interview process, eliminate biases and errors and may even enhance the ability of a company to withstand legal challenge. On the negative side, the whole process is somewhat mechanical, restricts the freedom of interviewers and may even convey disinterest to applicants who are used to more flexible interviews. Also, designing a structured interview may take a good amount of time and energy.
- **Situational interview:** One variation of the structured interview is known as the situational interview. In this approach, the applicant is confronted with a hypothetical incident and asked how he or she would respond to it. The applicant's response is then evaluated relative to pre-established benchmark standards.
- **Behavioural interview:** The behavioural interview focuses on actual work incidents (as against hypothetical situations in the situational interview) in the applicant's past. The applicant is supposed to reveal what he or she did in a given situation, for example, how he disciplined an employee who was smoking inside the factory premises.



- **Stress interview:** In stress interview, the interviewer attempts to find how applicants would respond to aggressive, embarrassing, rude and insulting questions. The whole exercise is meant to see whether the applicant can cope with highly stress-producing, anxious and demanding situations while at work, in a calm and composed manner. Such an approach may backfire also, because the typical applicant is already somewhat anxious in any interview. So, the applicant that the firm wants to hire might even turn down the job offer under such trying conditions.
- **Panel interview:** In a typical panel interview, the applicant meets with three to five interviewers who take turns asking questions. After the interview, the interviewers pool their observations to arrive at a consensus about the suitability of the applicant. The panel members can ask new and incisive questions based on their expertise and experience and elicit deeper and more meaningful responses from candidates. Such an interview could also limit the impact of the personal biases of any individual interviewer. On the negative side, as an applicant, a panel interview may make you feel more stressed than usual.

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## 7.9 MEDICAL EXAMINATION

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Certain jobs require certain physical qualities like clear vision, perfect hearing unusual stamina, tolerance of hard working conditions, clear tone, etc. Medical examination reveals whether or not a candidate possesses these qualities. Medical examination can give the following information:

- (i) Whether the applicant is medically suitable for the specific job or not.
- (ii) Whether the applicant has health problems or psychological attitudes likely to interfere with work efficiency or future attendance.
- (iii) Whether the applicant suffers from bad health which should be corrected before he can work satisfactorily (such as the need for spectacles).
- (iv) Whether the applicant's physical measurements are in accordance with job requirements or not.

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## 7.10 REFERENCE CHECKS

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Once the interview and medical examination of the candidate is over, the Personnel Department will engage in checking references. Candidates are required to give the names of two or three references in their application forms. These references may be from the individuals who are familiar with the candidate's academic achievements or from the applicant's previous employer, who is well-versed with the applicant's job performance and sometimes from co-workers. In case the reference check is from the previous employer, information in the following areas may be obtained. They are: job title, job description, period of employment, pay and allowances, gross emoluments, benefits provided, rate of absence, willingness of the previous employer to employ the candidate again, etc. Further, information regarding candidate's regularity at work, character, progress, etc., can be obtained. Often a telephone call is much quicker. The method of mail query provides detailed information about the candidate's performance, character and behaviour. However, a personal visit, is superior to the mail and telephone methods and, is used where it is highly essential to get a detailed, first-hand information which can also be secured by observation. Reference checks are taken as a matter of routine and treated casually or omitted entirely in many organisations. But a good reference check, when used sincerely will fetch useful and reliable information to the organisation.

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## 7.11 HIRING DECISION

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The line manager concerned has to make the final decision now - whether to select or reject a candidate after soliciting the required information through different techniques discussed earlier. The line manager has to take adequate care in taking the final decision because of economic, behavioural and social implications of the selection decisions. A careless decision of rejecting a candidate would impair the morale of the people and they are likely suspect the selection procedure and the very basis of selection of a particular organisation. A true understanding between line managers and personnel managers should be established so as to facilitate good selection decisions. After taking the final decision, the organisation has to intimate this decision to the successful as well as unsuccessful candidates. The organisation sends the appointment order to the successful candidates either immediately or after sometime depending upon its time schedule.

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## 7.12 PLACEMENT

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After selecting a candidate, he should be placed on a suitable job. Placement is the actual posting of an employee to a specific job. It involves assigning a specific rank and responsibility to an employee. The placement decisions are taken by the line manager after matching the requirements of a job with the qualification of a candidate. Most organisations put new recruits on probation for a given period of time, after which their services are confirmed. During this period, the performance of the probationer is closely monitored. If the new recruit fails to adjust himself to the job and turns out poor performance, the organisation may consider his name for placement elsewhere. Such second placement is called 'differential placement'. Usually the employees' supervisor, in consultation with the higher levels of line management, takes decisions regarding the future placement of each employee.

Placement is an important human resource activity. If neglected, it may create employee adjustment problems leading to absenteeism, turnover, accidents, poor performance, etc. The employee will also suffer seriously. He may quit the organisation in frustration, complaining bitterly about everything. Proper placement is, therefore, important to both the employee and the organisation.

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## 7.13 INDUCTION/ORIENTATION

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Induction or orientation is the process through which a new employee is introduced to the job and the organisation. In the words of Armstrong, induction is "the process of receiving and welcoming an employee when he first joins a company and giving him the basic information he needs to settle down quickly and start work". Induction serves the following purposes:

- (a) ***Removes fears:*** A newcomer steps into an organisation as a stranger. He is new to the people, workplace and work environment. He is not very sure about what he is supposed to do. Induction helps a new employee overcome such fears and perform better on the job.
- (b) ***Creates a good impression:*** Another purpose of induction is to make the newcomer feel at home and develop a sense of pride in the organisation. Induction helps him to:
  - ❖ Adjust and adapt to new demands of the job.
  - ❖ Get along with people.
  - ❖ Get off to a good start.



Through induction, a new recruit is able to see more clearly as to what he is supposed to do, how good the colleagues are, how important is the job, etc. He can pose questions and seek clarifications on issues relating to his job. Induction is a positive step, in the sense, it leaves a good impression about the company and the people working there in the minds of new recruits. They begin to take pride in their work and are more committed to their jobs.

- (c) ***Acts as a valuable source of information:*** Induction serves as a valuable source of information to new recruits. It clarifies many things through employee manuals/handbook. Informal discussions with colleagues may also clear the fog surrounding certain issues. The basic purpose of induction is to communicate specific job requirements to the employee, put him at ease and make him feel confident about his abilities.

### Check Your Progress 3

Multiple Choice Questions (pick the most appropriate one)

1. Ultimately, selection decisions are based on:  
(a) personal whims and fancies (b) performance issues  
(c) turnover potential (d) human resource plans  
(e) nepotism
2. Inputs to the selection process include all but  
(a) job analysis (b) human resource planning  
(c) job applicants (d) economic environment  
(e) supervision
3. The most reliable and valid tests are generally  
(a) polygraph tests (b) attitude tests  
(c) intelligence tests (d) personality tests  
(e) performance tests
4. Interviewing mistakes include all but  
(a) halo effects (b) personal bias  
(c) leniency (d) realising that foreign nationals  
(e) talking too much may have different customs
5. The most reliable type of interview is  
(a) behavioural (b) stress  
(c) structured (d) situational  
(e) panel

#### 7.13.1 Induction Programme: Steps

- (a) ***Introduction:*** Induction training tries to put the new recruits at ease. Each new employee is usually taken on a formal tour of the facilities, introduced to key personnel and informed about company policies, procedures and benefits. The

training opportunities and career prospects are also explained clearly. Every attempt is made to clarify the doubts of the new recruits. They are encouraged, in fact, to come out with questions on various issues confronting their working lives. The company's manual is also handed over at the end of the programme.

- (b) **Socialisation:** Socialisation is a process through which a new recruit begins to understand and accept the values, norms and beliefs held by others in the organisation. HR department representatives help new recruit to "internalise the way things are done in the organisation". Orientation helps the newcomers to interact freely with employees working at various levels and learn behaviours that are acceptable. Through such formal and informal interaction and discussion, newcomers begin to understand how the department/company is run, who holds power and who does not, who is politically active within the department, how to behave in the company, what is expected of them, etc. In short, if the next recruits wish to survive and prosper in their new work home, they must soon come to 'know the ropes'. Orientation programmes are effective socialisation tools because they help the employees to learn about the job and perform things in a desired way.
- (c) **Follow-up:** Despite the best efforts of supervisors, certain dark areas may still remain in the orientation programme. New hires may not have understood certain things. The supervisors, while covering a large ground, may have ignored certain important matters. To overcome the resultant communication gaps, it is better to use a supervisory checklist and find out whether all aspects have been covered or not (covering organisational issues, employee benefits, job duties, introduction to supervisors and co-workers, etc.) Follow up meetings could be held at fixed intervals, say after every three or six months on a face-to-face basis. The basic purpose of such follow-up orientation is to offer guidance to employees on various general as well as job related matters - without leaving anything to chance.

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## 7.14 PROMOTION

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Promotion refers to upward movement of an employee from current job to another that is higher in pay, responsibility and/or organisational level. Promotion brings enhanced status, better pay, increased responsibilities and better working conditions to the promotee. There can, of course, be 'dry promotion' where a person is moved to a higher level job without increase in pay. Promotion is slightly different from upgradation which means elevating the place of the job in the organisational hierarchy (a better title is given now) or including the job in higher grade (minor enhancement in pay in tune with the limits imposed within a particular grade). A transfer implies horizontal movement of an employee to another job at the same level. There is no increase in pay, authority or status. Hence, it cannot act as a motivational tool. Promotion, on the other hand, has in-built motivational value, as it elevates the status and power of an employee within an organisation.

### 7.14.1 Purposes and Advantages of Promotion

Promotion, based either on meritorious performance or continuous service, has powerful motivational value. It forces an employee to use his knowledge, skills and abilities fully and become eligible for vertical growth. It inspires employees to compete and get ahead of others. Those who fall behind in the race are also motivated to acquire the required skills to be in the reckoning. Promotion thus, paves the way for employee self development. It encourages them to remain loyal and committed to their jobs and the organisation. The organisation would also benefit immensely because people are ready to assume challenging roles by improving their skills constantly. Interest in training and development programmes would improve. The organisation would be able to utilise the skills and abilities of its personnel more effectively.

### 7.14.2 Bases of Promotion

Organisations adopt different bases of promotion depending upon their nature, size, management, etc. Generally, they may combine two or more bases of promotion. The well-established bases of promotion are seniority and merit.

**Merit-based promotions:** Merit based promotions occur when an employee is promoted because of superior performance in the current job. Merit here denotes an individual's knowledge, skills, abilities and efficiency as measured from his educational qualifications, experience, training and past employment record. The advantages of this system are fairly obvious:

- It motivates employees to work hard, improve their knowledge, acquire new skills and contribute to organisational efficiency.
- It helps the employer to focus attention on talented people, recognise and reward their meritorious contributions in an appropriate way.
- It also inspires other employees to improve their standards of performance through active participation in all developmental initiatives undertaken by the employer (training, executive development, etc.).

However, the system may fail to deliver the results, because:

- It is not easy to measure merit. Personal prejudices, biases and union pressures may come in the way of promoting the best performer.
- When young employees get ahead of other senior employees in an organisation (based on superior performance), frustration and discontentment may spread among the ranks. They may feel insecure and may even quit the organisation.
- Also, past performance may not guarantee future success of an employee. Good performance in one job (as a Foreman, for example) is no guarantee of good performance in another (as a supervisor).

**Seniority-based promotions:** Seniority refers to the relative length of service in the same organisation. Promoting an employee who has the longest length of service is often widely welcomed by unions because it is fairly objective. It is easy to measure the length of service and judge the seniority. There is no scope for favouritism, discrimination and subjective judgement. Everyone is sure of getting the same, one day.

In spite of these merits, this system also suffers from certain limitations. They are:

- The assumption that the employees learn more with length of service is not valid as employees may learn up to a certain stage, and learning capabilities may diminish beyond a certain age.
- It demotivates the young and more competent employees and results in greater employee turnover.
- It kills the zeal and interest to develop, as everybody will be promoted without showing any all-round growth or promise.
- Judging the seniority, though it seems to be easy in a theoretical sense, is highly difficult in practice as the problems like job seniority, company seniority, zonal/ regional seniority, service in different organisations, experience as apprentice trainee, trainee, researcher, length of service not only by days but by hours and minutes will crop up.

### 7.14.3 Promotion Policy

Seniority and merit, thus, suffer from certain limitations. To be fair, therefore, a firm should institute a promotion policy that gives due weightage to both seniority and merit. To strike a proper balance between the two, a firm could observe the following points:

- Establish a fair and equitable basis for promotion i.e., merit or seniority or both.
- A promotion policy established thus, should provide equal opportunities for promotion in all categories of jobs, departments and regions of an organisation.
- It should ensure an open policy in the sense that every eligible employee is considered for promotion rather than a closed system which considers only a particular class of employees. It must tell the employees the various avenues for achieving vertical growth through career maps, charts etc.
- The norms for judging merit, length of service, potentiality, etc., must be established beforehand. The relative weightage to be given to merit or seniority or both should also be spelt out clearly.
- The mode of acquiring new skills, knowledge, etc., should be specified to all employees so that they can prepare themselves for career advancement.
- Appropriate authority should be entrusted with the responsibility of taking a final decision on promotion.
- Detailed records of service, performance, etc., should be maintained for all employees, to avoid charges of favouritism, nepotism etc.
- It should be consistent in the sense that it is applied uniformly to all employees, irrespective of their background.
- Promotion policy should contain alternatives to promotion when deserving candidates are not promoted due to lack of vacancies at higher level. These alternatives include upgradation, redesignation, sanctioning of higher pay or increments or allowances assigning new and varied responsibilities to the employee by enriching the job or enlarging the job.
- A provision for appeal against (alleged) arbitrary actions of management and its review should be there.
- Promotions initially may be for a trial period so as to minimise the mistakes of promotion.
- Promotion policy, once it is formulated, should be communicated to all employees, particularly to the trade union leaders. It should be reviewed periodically, based on the experiences and findings of the attitude and morale surveys.

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## 7.15 LET US SUM UP

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Recruitment tries to bring together job seekers and employer with a view to encourage the former to apply for a job with the latter. There are mainly two sources of recruitment: internal sources and external sources. Some of the popular ways of recruitment include: employee referrals, job postings, campus hiring, advertisements, using search firms, gate hiring, etc.

Selection is the process of picking individuals with relevant qualifications to fill jobs in an organisation. Selection is usually a series of hurdles or steps. Each hurdle must be successfully cleared before the applicant proceeds to the next. Tests are also conducted to objectively find how well an applicant meets the job requirements.

Placement is the actual posting of an employee to a specific job. HR professionals must ensure that a new hire is placed on a suitable job.

Induction is the process through which a new employee is introduced to the job and the organisation. Induction removes fears in the minds of a newcomer, creates a good impression about the company and acts as a valuable source of information.

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## 7.16 LESSON END ACTIVITIES

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1. If you were responsible for hiring someone for your job, which recruitment sources would you use? Why? Which recruitment sources would you avoid? Why?
2. RaGold India Ltd. (RIL) is one of the fast growing manufacturers of electronic goods in Hyderabad (Andhra Pradesh). Because of the recent downsizing in most state level public sector undertaking in Andhra Pradesh, each job opening in the State attracts five times more applications than it did just a few years ago. An engineering position (thanks to over 225 engineering colleges in the State) is likely to generate as many as 500 applicants. You would think that under the circumstances, finding employees would be easy, but the widespread layoffs made during the downsizing, and the need for people to seek new career paths, have created a glut of less-than-qualified applicants. What selection tools can RIL use to get the most qualified employees from its vast pool of job seekers? In general, which selection tools do you think are the best predictors of job performance?
3. Discuss the relative merits and demerits of internal and external sources of recruitment.

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## 7.17 KEYWORDS

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**Recruitment:** The discovering of potential applicants for actual or anticipated organisational vacancies.

**Transfer:** A lateral movement within the same grade, from one job to another.

**Promotion:** Movement of an employee from a lower level position to a higher level position with increase in salary.

**Executive search:** Hiring search firm/head-hunter to track candidates.

**Employee referral:** A recommendation from a current employee regarding a job applicant.

**College placements:** An external search process focusing recruiting efforts on a college campus.

**Campus recruiting:** Visiting specific-skill institutes to hire graduates.

**Internal advertising:** Informing employees of vacancies internally.

**Media advertising:** Inviting applications by placing ads in media.

**Job analysis:** A systematic investigation into the tasks, duties and responsibilities of a job.

**Inducements:** Positive features and benefits offered by an organisation to attract job applicants.

**Yield ratio:** Indicates the number of contacts required to generate a given number of hires at a point of time.

**Employee leasing:** Hiring permanent employees of another company on lease basis for a specific period as per the leasing arrangement.

**Temporary employees:** Employees hired for a limited time to perform a specific job.

**Outsourcing:** Letting outside vendors provide services.

**Selection:** Picking up suitable candidates by rejecting the unsuitable.

**Job posting:** It is a method of publicising job openings on bulletin boards, electronic media and similar outlets by a company.

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## 7.18 QUESTIONS FOR DISCUSSION

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1. Briefly, explain the steps involved in hiring human resources in an organisation.
2. What are the various sources of recruitment? How can an organisation evaluate the worth of these sources?
3. Discuss the relative merits and demerits of internal and external sources of recruitment.
4. What do you mean by selection? Explain the process of selection in a modern organisation.
5. Write short notes on:
  - a. Personality tests
  - b. Achievement tests
  - c. Application blank
  - d. Assessment centre
6. Explain the terms 'placement' and 'induction'. Outline their objectives.
7. What are the components of an employee induction programme? What measures should be taken to make the induction programme successful?

### Check Your Progress: Model Answers

#### **CYP 1**

1. Internal Sources
2. External Sources

#### **CYP 2**

1. (d), 2. (c), 3. (e), 4. (b), 5. (d)

#### **CYP 3**

1. (b), 2. (e), 3. (e), 4. (d), 5. (c)

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## 7.19 SUGGESTED READINGS

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VSP Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

P. L. Rao, *Comprehensive Human Resource Management*, Excel Books, New Delhi, 2004

D. K. Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

Robert L Mathis and John H. Jackson, *Human Resource Management*, Thomson, 2007

K. Aswathappa, *Human Resource and Personnel Management*, Tata McGraw Hill, 2007

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## LESSON

# 8

## HUMAN RESOURCE ACCOUNTING AND INFORMATION SYSTEM

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- 8.0 Aims and Objectives
  - 8.1 Introduction
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## 8.0 AIMS AND OBJECTIVES

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After studying this lesson, you will be able to:

- Define Human Resource Accounting
- Outline the objectives, and costs of HRA
- Describe the various approaches to HRA
- State the methods used to control manpower costs
- Explain the nature and importance of HRIS
- Elaborate the steps involved in setting up HRIS
- List the important subsystems of a computerised HRIS

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## 8.1 INTRODUCTION

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Human resources, along with financial and material resources, contribute to the production of goods and services in an organisation. Physical and monetary resources by themselves cannot improve efficiency or contribute to an increased rate of return on investment. It is through the combined and concerted efforts of people that monetary and material resources are harnessed to achieve organisational goals. Human resources, therefore, are the most important assets of an organisation. Unlike physical assets, human resources do not depreciate over a period of time. In fact, with additional training and experience gained over a period of time, they tend to do well on the job. This fact, however, is ignored when a firm's balance sheet is prepared. All expenses relating to recruitment, training and development of employees are charged against the revenues of a particular accounting period. In fact, as pointed out by Rensis Likert, the expenses on human resources are fixed in nature and do not offer any immediate return.

**Table 8.1: The Costs of Human Resources**

- |  |
|--|
| <ul style="list-style-type: none"> <li>● <b>Recruitment costs:</b> Include advertising, travel expenses, consultant's fee, incidental expenses.</li> <li>● <b>Selection costs:</b> Include costs of application forms, testing and interview expenses and other administrative costs.</li> <li>● <b>Orientation costs:</b> Costs incurred in offering orientation courses to new employees (about company policies, procedures, programmes, rules, regulations, etc.).</li> <li>● <b>Training costs:</b> Trainers' salary, facilities cost, trainees' time spent in the programme measured financially, low productivity during training.</li> <li>● <b>Development costs:</b> Costs incurred in enhancing employee skills and expertise.</li> </ul> |
|--|

The returns accrue to the firm over a long period, i.e., as long as the employee remains with the firm. Hence such costs should be capitalised and amortised over the entire period so that the balance sheet gives a 'true and fair' view of the state of affairs of a business. Since human resources are capable of enlargement over a period of time, there should be innovative ways of showing how the organisation makes investment in its people and how the value of people changes over a period of time. Human Resource Accounting is one such method which endeavours to measure both the cost and the value of people to an organisation. In India, several companies in the 1970s began to show the value of their human resources in their annual reports – such as BHEL, Engineers India, Associated Cement Corporation of India, ONGC, etc.



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## 8.2 THE CONCEPT

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Human Resource Accounting (HRA) is similar in principle to the preparation of an accounting statement. Just as financial accounting reflects the cost of assets such as buildings, land, machinery, HRA tries to place a value on organisational human resources by formulating a human resource balance sheet. Here human resources are presented as assets, not as expenses. HRA, thus, shows the investment the organisation makes in its people and how the value of these people changes over time. According to the American Association of Accountants (AAA), HRA is “a process of identifying and measuring data about human resources and communicating this information to interested parties”. Flamhoitz defined HRA as “accounting for people as an organisational resource. It involves measuring the costs incurred by organisations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organisation”.

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## 8.3 OBJECTIVES OF HRA

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According to Likert, the objectives of HRA are:

- Provide cost value information about acquiring, developing, allocating and maintaining human resources so as to meet organisational goals.
- Enable management to effectively monitor the use of human resources.
- Find whether human assets are appreciating or depreciating over a period of time.
- Assist in the development of effective management practices by classifying the financial consequences of various practices.

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## 8.4 ADVANTAGES

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HRA offers the following advantages:

- It throws light on the strengths and weaknesses of the existing workforce in an organisation. This, in turn, helps management in recruitment planning, whether to hire people or not.
- It provides valuable feedback to managers regarding the effectiveness of HR policies and practices. For example, high training costs may warrant a change in policy, additional recruitment expenses in respect of a particular category of employees may indicate the need for a better compensation package, high training costs may compel managers to look at the returns over a period of time, etc.
- It helps potential investors judge a company better on the strength of the human assets utilised therein. If two companies offer the same rate of return on capital employed, information on human resources can help investors decide which company to be picked up as an investment.
- It helps management in taking appropriate decisions regarding the use of human assets in an organisation, i.e., whether to hire new recruits or promote people internally, transfer people to new locations or hire people locally, incur additional training costs or hire consultants keeping the impact on the long-run profitability in mind.

## 8.5 LIMITATIONS

HRA suffers from the following limitations:

- ***It is not easy to value the human assets in an organisation:*** There are no guidelines differentiating the 'cost' and 'value' of human resources. After valuing human resources in a specific way, many of them may leave the organisation. Human life itself is uncertain and hence valuing the asset under such 'foggy' conditions is not proper. Like physical assets, human assets cannot be owned, retained and utilised at the sweet will and pleasure of an organisation. The so called 'asset' – after getting itself enriched within a company – may simply disappear, causing irreparable loss to the company.
- ***HRA is full of measurement problems:*** There is no agreement among the accountants and finance professionals regarding the measurement process. In what form and manner are the human assets to be included in the financial statements? To compound the problems further, there is the question of deciding the recovery rates. How should the HR costs be amortised? Should it be increasing, constant or decreasing? Should it remain the same or different for different classes of employees?
- ***Employees and unions may not like the idea,*** because HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to reasons beyond the control of management. The employees may resist the idea of being treated like second-class citizens, despite their useful contribution over a period of time. Unions may fight such manipulative practices on the part of management. They may even demand higher compensation and better rewards when things turn rosy and employees are valued at a 'premium'.
- ***There is no empirical evidence*** to support the idea that HRA is an effective tool to measure the economic value of people to the organisation. There is very little data to support the contention that it facilitates better and effective management of human resources.

### Check Your Progress 1

State whether the following statements are true or false:

1. Physical assets generally depreciate over a period of time.
2. Human Resource Accounting measures both the cost and the value of people to an organization.
3. It is quite easy to value the human assets in an organization.
4. Replacement cost includes the costs of recruitment, training and other costs involved in developing an employee.
5. Human Resource Accounting is the most effective tool to measure economic value of people to an organization.
6. Manpower costs are important elements of operating costs.
7. Productivity is a measure of the quantity and quality of work done, considering the cost of the resources it took to do the work.

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## 8.6 APPROACHES TO HRA

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The various approaches to the valuation of human resources may be broadly grouped under two categories: monetary measures and non-monetary measures.

### 8.6.1 Monetary Measures

These measures focus on cost or economic value. Such measures are needed to translate manpower resources into a common denominator on which many organisational decisions are taken. The monetary measures include the following:

1. **Historical cost method:** Rensis Likert developed this method. In this method, all costs of recruitment, training and other costs involved in developing an employee are capitalised. The amount so capitalised is written off over the period an employee serves the organisation. If the employee leaves before the expected service period, the remaining amount is written off completely in that particular year.
2. **Replacement cost method:** Replacement cost is the cost of replacing an existing employee. It is the cost of replacing a set of services provided by one person with an equivalent set of services provided by another. The underlying costs include the cost of recruitment, training and development, the opportunity cost during the intervening period till the new recruit attains the efficiency level of the old employee, the cost of lost productivity prior to the separation of an individual from the organisation if such tendencies were apparent, the higher wages that organisation is compelled to pay to hire the services of an equally competent person, especially where skill shortages (for example, software, telecom industry) prevail.
3. **Opportunity cost method:** Hekimian and Jones proposed this valuation method in respect of employees possessing certain rare skills. In this approach, all managers within an organisation will be encouraged to bid for any scarce employee they want and the one who is able to acquire his services puts the bid price as his investment base in respect of that employee. The bid price is supposedly arrived at by calculating the actual or expected rate for capitalisation of the differential earnings supposed to be earned by the employee. If an employee can be hired easily externally, there is no opportunity cost for him. However, this method suffers from the problem of valuation, i.e., the adoption of a procedure by which the manager is able to decide the amount of the bid (offer).
4. **Economic value method:** In this method human resources are valued on the basis of the contribution they are likely to make to the organisation during their continuance in the organisation. The payments to be made to the person by the employing organisation in the form of pay, allowances, benefits, etc., are estimated and discounted appropriately to arrive at the present economic value of the individual.
5. **Asset multiplier method:** In this method, the employees working in an organisation are classified into four categories: top management, middle management, supervisory management, operative and clerical staff. The salary bill of each category is multiplied with a suitable multiplier to calculate the total value of each. Multiplier is an instrument for relating the personal worth of employees to the total asset values of the organisation.
6. **Discounted present value of future earnings method:** The Lev and Schwartz model recognises humans as wealth producing sources of income and relies on measurement of such wealth as a present value of future earnings. The method involves three steps (i) First, employees are classified into homogeneous groups

based on age, experience, skill, nature of job, etc., into office/technical/managerial staff, skilled or unskilled, etc., (ii) Second, earnings of each group are estimated, and, (iii) Third, the present value of earnings of each group till retirement is taken as the value of human resources, using an appropriate discounting rate. The model has two built-in weaknesses: firstly, it ignores the possibility of employees leaving the organisation for reasons other than death and secondly, it discounts the possibility of role changes beyond ones' normal career path. Firms in the organised sector employ this method in India, (Such as ONGC, NTPC, BHEL, EIL ACC, MMTC etc.), using a 12% discount rate.

### 8.6.2 Non-monetary Measures

Taking note of the changes in the effectiveness of individuals, groups and the organisation, behavioural scientists have developed the following non-monetary measures in HRA.

- i. ***Expected realisable value method:*** The elements of expected realisable value such as productivity, transferability and promotability can be measured through personnel research, appraisal techniques and other objective methods. Productivity can be measured by objective indices and managerial assessment. Promotability and transferability can be measured in terms of the measures of potential such as psychometric tests and subjective evaluations. Attitude surveys can be used to measure satisfaction, motivation, rewards, etc.
- ii. ***Discounted net present value of future earnings:*** Rensis Likert proposed three sets of variables – causal, intermediate and output – which help in measuring effectiveness over a period of time. Causal variables such as leadership style and behaviour affect intermediate variables such as morale, motivation, commitment to goals, etc., which in turn, affect output variables such as production, sales, net profit, etc.

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## 8.7 HUMAN CAPITAL MANAGEMENT

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Manpower expenses are important elements of operating costs. Companies that are able to control manpower expenses through various steps often emerge as 'winners' in a competitive market. Some of the widely used approaches to analyse and control manpower costs are given below:

### 8.7.1 Management by Objectives (MBO)

According to Peter F Drucker the business of personnel should be judged in terms of goals. Employee feelings and attitudes are as important as assets, costs and profits. However, personnel measurement has remained a weak sport and there are very few guidelines available in this area. K.N. Randeria's (Cost of Employee, NIPM, 1982) prescriptions in this regard are worth mentioning here:

- a. Employee costs per unit of production/service shall be held at ..... (Base year) and indexed to ..... as a percentage of fixed and semivariable costs.
- b. At least 66.6 per cent of increased cost of improvements in the long term agreement with trade unions shall be met through employee productivity.
- c. During the next ..... years, there shall be reduction of ..... per cent in down time of plant and machinery ..... per cent in the avoidable waste of materials and ..... per cent in absenteeism beyond authorised leave.

- d. Ensure that one third of savings arising out of (c) above will be distributed to ensure improvement in the individual employees' earnings.
- e. An individual employee must move up ..... grades in his work span of ..... years through careful manpower and succession planning.
- f. At least 25 per cent of vacancies in the managerial cadre shall be filled from amongst the lower job holders through appropriate training and development programmes.

### 8.7.2 Ratio Analysis

In this approach important performance indicators concerning the personnel function such as cost of recruitment, training, etc., are used. These indicators – called personnel ratios – cover the following areas:

- i. **Cost of recruitment:** The costs of recruitment include: (a) cost of time spent by personnel in the hiring process, (b) cost of advertisement, (c) fees paid to the recruiting agency, (d) cost of conducting tests and interviews, (e) costs of medical examination, (f) administrative expenses such as telephone, stationery, etc. The cost per hire, is generally expressed thus:

$$\text{Cost per hire (in Rs)} = \frac{\text{Costs of recruitment}}{\text{No. of recruits hired/retained}}$$

- ii. **Recruitment cycle time:** It is the time taken from commencement to completion of recruitment process. It helps to determine the lead time needed to initiate and complete the hiring process. A careful analysis of time taken at each stage in the recruitment process will indicate the need for and steps required to reduce the cycle time. Clear job specification, computerisation of application blanks, standardising the screening procedures, etc. This will help reduce the cycle time in the recruitment process.
- iii. **Cost of turnover:** Turnover is expensive. Besides recruitment and selection expenses, the costs involved in creating new employee records in the HR department establishing payroll records in accounting, giving new employees training and providing them with safety equipment also are lost when employees leave a firm. There are indirect costs also in the form of low motivation and morale. It is not always easy to determine the exact cost per employee.

The following formula is generally used to calculate the cost of turnover:

$$\text{Turnover Rate (in \%)} = \frac{\text{No. of separations}}{\text{Average strength of employees}} \times 100$$

- iv. **Cost of Training:** The cost of training is usually expressed in the following ways:

$$\text{a. Cost of training per trainee} = \frac{\text{Training Costs}}{\text{No. of employees trained}}$$

$$\text{b. Cost of training per employee} = \frac{\text{Training costs}}{\text{No. of employees}}$$

$$\text{c. Training ratio} = \frac{\text{No. of Training}}{\text{No. of employees}}$$

It is not easy to evaluate training because of organisational constraints arising out of poor infrastructure, lack of a clear training policy and unwillingness on the part of managers to initiate changes based on the feedback given by employees. To complicate matters further, there is the problem of allocating and apportioning the fixed and variable costs in training such as cost of equipment, building, trainers' time spent in offering training, etc. The evaluation and allocation problems, however, should not come in the way of undertaking training programmes in an organisation.

### 8.7.3 Personnel Productivity

Productivity is the ratio of an organisation's outputs (goods and services) to its inputs (physical financial and human resources). Productivity increases as an organisation finds new ways to use fewer resources to produce its output. Through productivity gains, managers can reduce costs, save scarce resources and enhance profits. In turn, improved profits allow an organisation to provide better pay, benefits and working conditions. The result can be a higher quality of work life for the employees who are more likely to be motivated toward further improvement in productivity (Davis P.8). Firms can achieve significant productivity gains and control manpower costs through O & M studies, work simplification, quality circles, productivity-linked rewards and proper utilisation of manpower at various levels.

### 8.7.4 Personnel Reports, Budgets and Audit

Reports offer valuable information regarding manpower utilisation at various levels. Personnel budgets in key areas such as compensation, training, employee benefits, etc., help in checking deviations from budgeted costs promptly. Personnel audit, as pointed out previously, helps in examining personnel policies and practices closely and to initiate remedial steps whenever required.

#### Check Your Progress 2

Fill in the blanks:

1. .... incurred in offering orientation courses to new employees.
2. .... is a process of identifying and measuring data about human resources and communicating this information to interested parties.
3. .... is the cost of replacing an existing employee.
4. .... is an instrument for relating the personal worth of employees to the total asset values of the organisation.
5. Productivity is the ratio of an organisations' ..... to its .....

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## 8.8 HUMAN RESOURCE INFORMATION SYSTEM (HRIS)

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In order to conduct an audit properly, human resource professionals need considerable amount of data. Gone are the days when decisions about the future could be based on guesswork. Now you need to collect concrete information in order to make future events more manageable than before. Manpower planning, too, demands a lot of information about people and jobs. A comprehensive data system is, therefore, necessary to fulfil the HR informational needs of an organisation.



### 8.8.1 Definition

The Human Resource Information System (HRIS) is a method by which an organisation collects, analyses and reports information about people and jobs. It applies to information needs at macro and micro levels. HRIS is basically a data base system that offers important information about employees in a central and accessible location. When such information is needed, the data can be retrieved and used to facilitate human resource planning decisions.

### 8.8.2 Objectives

Computerised HRIS is designed to achieve the following objectives:

- to offer an adequate, comprehensive and on-going information system about people and jobs.
- to supply up-to-date information at a reasonable cost.
- to offer data security and personal privacy. Data security is a technical problem that can be dealt with in several ways, including passwords and elaborate codes. In the information age, personal privacy is both an ethical and moral issue.

### 8.8.3 Need

#### *Costly Exercise*

Personnel records, when kept manually, do not offer up-to-date information at short notice. It is difficult to make entries on forms and returns continuously and keep pace with on-going changes on a daily basis. The clerical work involved is quite labour-intensive and costly.

#### *Inaccurate*

The manual transfer of data from one record to another may increase the chances of errors. Entries may be made twice, data may be transferred to wrong documents – leading to confusion.

#### *Fragmentation*

Information is not available at a central, easily accessible place since records are kept at separate locations, handled by different persons in different departments.

#### *Difficult to analyse*

The manual analyses of data is time-consuming and quite often not readily available for decision making purposes. When the organisation grows in size, the manual systems fail to offer reliable, accurate data at short notice.

A computerised information system offers several benefits, as summarised below:

**Table 8.2: Benefits of HRIS**

- |   |
|---|
| <ul style="list-style-type: none"> <li>● HRIS can process, store and retrieve enormous quantities of data in an economical way.</li> <li>● The records can be updated quickly.</li> <li>● There is improved accuracy.</li> <li>● HRIS can greatly reduce fragmentation and duplication of data.</li> <li>● Information can be readily manipulated, merged and disaggregated in response to special and complex demands and presented promptly.</li> </ul> |
|---|

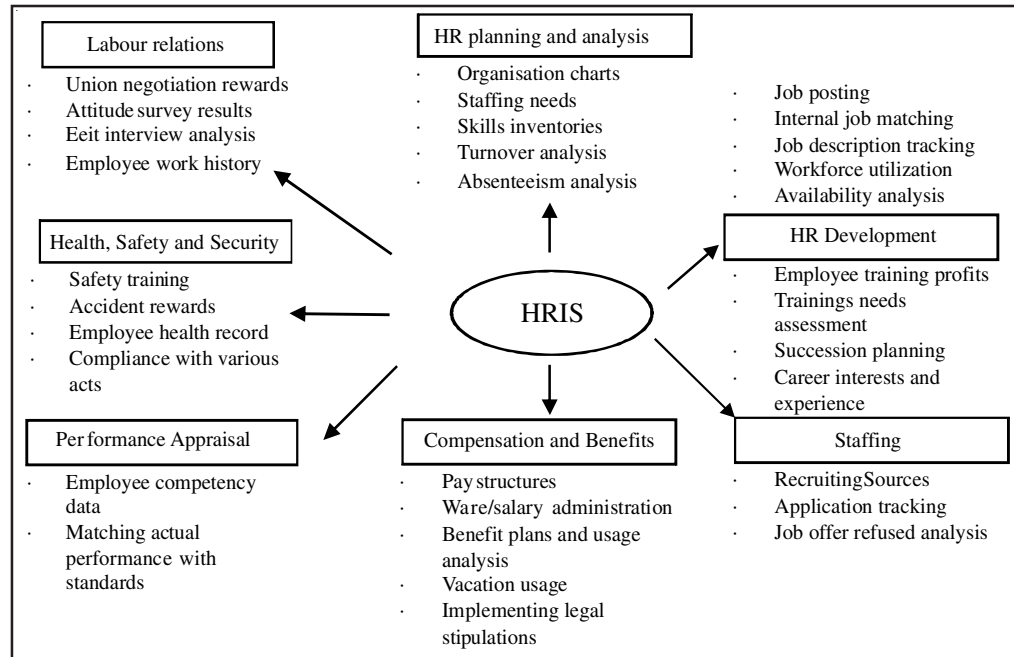


Figure 8.1: Important uses of a Human Resource Information System

#### 8.8.4 Setting up HRIS

HRIS requires consistent support and continued blessings of top management. Employees at various levels must extend their cooperation fully. The basic purpose of ensuring quality information should always be kept in mind, otherwise the famous GIGO (garbage in/garbage out) principle will be in operation at work. An organisation, which wants to set up HRIS, should:

- **Plan:** The information needs of an organisation should be spelt out initially. This involves a detailed study of the activities carried out internally, work patterns and relationships, constraints affecting the system etc.
- **Design:** At this stage the system analyst examines the flow of information, identifies gaps and outlines steps needed to organise the flow of information in an economical and effective manner.
- **Implement:** This step involves setting up of HRIS, taking the organisational needs into account. Adequate training is arranged for employees so that they can learn to handle the system comfortably. Facilities are upgraded; procedures are also streamlined with a view to integrate HRIS with various organisational components.
- **Evaluate:** It involves measuring the contributions of the system and identifying the gaps and undertaking remedial steps to ensure its smooth operation. The system is continually evaluated in the light of changes within and outside the organisation.

#### 8.8.5 Computerised HRIS

A computerised HRIS is designed to monitor, control and influence movement of people from the time they join the organisation till the time they decide to leave the organisation. It consists of the following subsystems.

- Recruitment information:** It includes advertisement module, applicants' profile, appointment and placement data.
- Personnel administration information:** It consists of personnel needs of an employee concerning leaves, transfer, promotion, increment, etc.



- iii. **Manpower planning information:** It offers data that could help human resource mobilisation, career planning, succession planning and inputs for skill development.
- iv. **Training information:** It provides information for designing course material, arranging need-based training and appraising the training programme, etc.
- v. **Health information:** It consists of data relating to health, safety and welfare of employees.
- vi. **Appraisal information:** It consists of performance appraisal information that serves as input for promotions, career and succession planning.
- vii. **Payroll information:** It provides data regarding wages, salaries, incentives, allowances, fringe benefits, deductions for provident fund, etc.
- viii. **Personnel research information:** It is a bank of historic and current data about employees attitude, turnover, absenteeism, which may be used for different types of analysis.

### 8.8.6 Personnel Inventory

Personnel inventory provides a list of personnel and their background (name, age, qualifications, experience, etc.). HRIS contributes to the development of the personnel inventory for manpower planning. The information needed for personnel inventory is obtained from job applications and questionnaires filled by employees from time to time. A typical personnel inventory offers the following types of information:

**Table 8.3: Personnel Inventory Data**

- |  |
|--|
| <ul style="list-style-type: none"> <li>● Name and address</li> <li>● Age, sex, marital status, dependents</li> <li>● SC/ST/BC/OBC data</li> <li>● Educational background</li> <li>● Languages known</li> <li>● Past experience, skills and abilities</li> <li>● Current career information</li> <li>● Transfer, promotion details</li> <li>● Training information</li> <li>● Leave, absence information</li> <li>● Salary, allowances, benefits</li> <li>● Seniority</li> <li>● Increment date</li> <li>● Rewards and distinctions</li> <li>● Grievances</li> <li>● Discipline, punishments</li> <li>● Career interests</li> <li>● Employee potential</li> <li>● Date for superannuation</li> <li>● Other aspects, if any</li> </ul> |
|--|

### Check Your Progress 3

1. The explosion of information technology has changed the nature of HR information usage.
2. An extranet is an organizational network that operates over the Internet.
3. An intranet is an Internet-linked network that allows employees access to information provided by external entities.
4. Forecasting uses information from the past and present to identify expected future conditions.
5. Outplacement is a group of services provided to displaced employees to give them support and assistance.
6. Many HR activities can be performed more efficiently and with less paper work if automated.
7. Any HRIS is no better than the accuracy of its data.
8. In most sophisticated forecasting approaches computers are rarely used.

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## 8.9 LET US SUM UP

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HRA endeavours to measure both the cost and the value of people to an organisation. It tries to place a value on organisational human resources by formulating a human resource balance sheet.

HRA throws light on the strengths and weaknesses of the existing workforce in an organisation. It helps management in taking appropriate decisions regarding the use of human assets in an organisation.

However, it is not easy to value human assets; HRA is full of measurement problems and employees and unions are generally against such valuation exercises.

Historical cost, replacement cost, opportunity cost, economic value added, asset multiplier and discounted present value are the principle monetary methods of measuring the value of human resources.

MBO, ratio analysis, personnel productivity, personnel budgets help in analysing and controlling human resources costs.

HRIS is a computerised system that assists in the processing of HRM information. It supplies up-to-date information about people and jobs in an organisation at a reasonable cost.

HRIS offers a wide range of HR uses, the most basic being the automation of payroll and benefit activities.

HRIS can be set up through a four step process: identifying the needs of a firm, organising flow of information, implementing the plan and evaluating the whole exercise to find gaps and to rectify things in time.

A computerised HRIS is designed to monitor, control and influence movement of people from the time they join a firm till the time they decide to leave the firm.

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## 8.10 LESSON END ACTIVITY

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Assume that as a result of HR planning, a hospital identifies a shortage of competent nurses but a surplus of doctors. Discuss the actions that might be taken to address these problems, and explain why they must be approached carefully.

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## 8.11 KEYWORDS

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**Human resource accounting:** It is a sophisticated way to measure the effectiveness of personnel management activities and the use of people in an organisation.

**Historical cost:** The expenditure incurred to recruit, train and develop an employee

**Opportunity cost:** The rate (actual or assumed) for capitalising the earnings expected to be earned by an employee.

**Replacement cost:** Cost of replacing an existing employee.

**Value:** The present worth of the services an object is expected to give in future.

**Value of human organisation:** Present worth of its expected future services to an organisation.

**Productivity:** The set of services a person is expected to provide while occupying his present position.

**Promotability:** The set of services the individual is expected to provide if and whether he occupies higher level positions in his present or different promotion channels.

**Human resource valuation:** The process of finding the value of people of an organisation.

**Human resource information system:** An integrated system designed to provide information used in HR decision making.

**Forecasting:** Identifying expected future conditions based on information from the past and present.

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## 8.12 QUESTIONS FOR DISCUSSION

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1. What is human resource accounting? Outline the different methods of measuring the value of human resources.
2. What is human resource cost? What are the main components of the original cost of human resources?
3. Briefly explain the merits and demerits of human resource accounting.
4. Write short notes on:
  - a. Personnel productivity
  - b. Personnel inventory
  - c. Present value of human resources
  - d. Replacement cost
5. Explain the concept and principal features of Human Resource Information System in an organisation.
6. Define HRIS. Explain its objectives and functions.

7. How will you design and develop a human resource information system in an industrial organisation?
8. Examine whether and how MBO approach can be extended to personnel matters.

### Check Your Progress: Model Answers

#### ***CYP 1***

1. T,      2. T,      3. F,      4. F,      5. F,      6. T,
7. T,

#### ***CYP 2***

1. Orientation Costs
2. Human Resource Accounting
3. Replacement cost
4. Multiplier
5. Outputs (goods and services), inputs (physical financial and human resources)

#### ***CYP 3***

1. T,      2. F,      3. F,      4. T,      5. T,      6. T,
7. T,      8. F

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## 8.13 SUGGESTED READINGS

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004

## UNIT IV

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## LESSON

# 9

## EMPLOYEE TRAINING

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## 9.0 AIMS AND OBJECTIVES

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The purpose of this chapter is make the student understand the basic principles, areas and methods of training currently in use in the corporate circles. After studying this lesson, you will be able to:

- Identify the need for training
  - Define the terms training and development
  - Discuss the relationship between training and development
  - Outline the areas and types of training
  - Describe the systems approach to training
  - List the various training methods that are currently employed
  - Evaluate the effectiveness of training programmes
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## 9.1 INTRODUCTION

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After employees have been selected for various positions in an organisation, training them for the specific tasks to which they have been assigned assumes great importance. It is true in many organisations that before an employee is fitted into a harmonious working relationship with other employees, he is given adequate training. Training is the act of increasing the knowledge and skills of an employee for performing a particular job. The major outcome of training is learning. A trainee learns new habits, refined skills and useful knowledge during the training that helps him improve performance. Training enables an employee to do his present job more efficiently and prepare himself for a higher level job. The essential features of training may be stated thus:

### Box 9.1: Features of Training

- Increases knowledge and skills for doing a particular job; it bridges the gap between job needs and employee skills, knowledge and behaviours
- Focuses attention on the current job; it is job specific and addresses particular performance deficits or problems
- Concentrates on individual employees; changing what employees know, how they work, their attitudes toward their work or their interactions with their co-workers or supervisors
- Tends to be more narrowly focused and oriented toward short-term performance concerns

Training is needed to serve the following purposes:

- Newly recruited employees require training so as to perform their tasks effectively. Instruction, guidance, coaching help them to handle jobs competently, without any wastage.
- Training is necessary to prepare existing employees for higher-level jobs (promotion).
- Existing employees require refresher training so as to keep abreast of the latest developments in job operations. In the face of rapid technological changes, this is an absolute necessity.
- Training is necessary when a person moves from one job to another (transfer). After training, the employee can change jobs quickly, improve his performance levels and achieve career goals comfortably.



- Training is necessary to make employees mobile and versatile. They can be placed on various jobs depending on organisational needs.
- Training is needed to bridge the gap between what the employee has and what the job demands. Training is needed to make employees more productive and useful in the long-run.
- Training is needed for employees to gain acceptance from peers (learning a job quickly and being able to pull their own weight is one of the best ways for them to gain acceptance).

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## 9.2 DIFFERENCE BETWEEN TRAINING AND DEVELOPMENT

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Training often has been referred to as teaching specific skills and behaviour. Examples of training are learning to fire a rifle, to shoot foul shots in basketball and to type. It is usually reserved for people who have to be brought up to performing level in some specific skills. The skills are almost always behavioural as distinct from conceptual or intellectual.

Development, in contrast, is considered to be more general than training and more oriented to individual needs in addition to organisational needs and it is most often aimed toward management people. There is more theory involved with such education and hence less concern with specific behaviour than is the case with training. Usually, the intent of development is to provide knowledge and understanding that will enable people to carry out non-technical organisational functions more effectively, such as problem solving, decision-making and relating to people.

**Table 9.1: Distinctions between Training and Development**

Learning Dimension	Training	Development
Meant for	Operatives	Executives
Focus	Current job	Current and future jobs
Scope	Individual employee	Work group or organisation
Goal	Fix current skill deficit	Prepare for future work demands
Initiated by	Management	The Individual
Content	Specific job related information	General Knowledge
Time-frame	Immediate	Long term

Thus, training is meant for operatives and development is meant for managers. Training tries to improve a specific skill relating to a job whereas development aims at improving the total personality of an individual. Training is a one-shot deal; whereas development is an ongoing, continuous process. The scope of training is on individual employees, whereas the scope of development is on the entire work group or the organisation. Training is mostly the result of initiatives taken by management. It is the result of some outside motivation. Development is mostly the result of internal motivation. Training seeks to meet the current requirements of the job and the individual; whereas development aims at meeting the future needs of the job and the individual. In other words, training is a reactive process whereas development is a proactive process. Development is future oriented training, focusing on the personal growth of the employee.

## 9.3 IMPORTANCE OF TRAINING

Training offers innumerable benefits to both employees and employers. It makes the employee more productive and more useful to an organisation. The importance of training can be studied under the following heads:

**Table 9.2: Importance of Training**

Benefits to the business	Benefits to the employees
Trained workers can work more efficiently.	Training makes an employee more useful to a firm. Hence, he will find employment more easily.
They use machines, tools, materials in a proper way. Wastage is thus eliminated to a large extent.	Training makes employees more efficient and effective. By combining materials, tools and equipment in a right way, they can produce more with minimum effort.
There will be fewer accidents. Training improves the knowledge of employees regarding the use of machines and equipment. Hence, trained workers need not be put under close supervision, as they know how to handle operations properly.	Training enables employees to secure promotions easily. They can realise their career goals comfortably.
Trained workers can show superior performance. They can turn out better performance. They can turn out better quality goods by putting the materials, tools and equipment to good use.	Training helps an employee to move from one organisation to another easily. He can be more mobile and pursue career goals actively.
Training makes employees more loyal to an organisation. They will be less inclined to leave the unit where there are growth opportunities.	Employees can avoid mistakes, accidents on the job. They can handle jobs with confidence. They will be more satisfied on their jobs. Their morale would be high.
	Thus, training can contribute to higher production, fewer mistakes, greater job satisfaction and lower labour turnover. Also, it can enable employees to cope with organisational, social and technological change. Effective training is an invaluable investment in the human resources of an organisation.

### Check Your Progress 1

Multiple Choice Questions (pick the most appropriate one)

- Learning principles include all but
  - Participation
  - Repetition
  - Repatriation
  - Relevance
  - Feedback
- Needs assessment should consider all but:
  - The person
  - Supervisor input
  - Changes in the external environment
  - Key changes
  - Training objectives

Contd....

3. Training objectives should be expressed in
  - (a) Employee behaviours
  - (b) Management desires
  - (c) Needs assessment
  - (d) Subjective judgement
  - (e) Employee reactions
4. Training evaluation criteria include all but
  - (a) Reactions
  - (b) Learning
  - (c) Behaviour
  - (d) Relevance
  - (e) Results
5. Technological obsolescence of engineers can be easily prevented by Repetition
  - (a) Behaviour modelling
  - (b) Lectures
  - (c) Coaching
  - (d) Laboratory training
  - (e) On-the-job training

## 9.4 TRAINING METHODS

Training methods are usually classified by the location of instruction. On the job training is provided when the workers are taught relevant knowledge, skills and abilities at the actual workplace; off-the-job training, on the other hand, requires that trainees learn at a location other than the real workspot. Some of the widely used training methods are listed below.

### 9.4.1 Job Instruction Training (JIT)

The JIT method (developed during World War II) is a four-step instructional process involving preparation, presentation, performance try out and follow up. It is used primarily to teach workers how to do their current jobs. A trainer, supervisor or co-worker acts as the coach. The four steps followed in the JIT methods are:

- i. The trainee receives an overview of the job, its purpose and its desired outcomes, with a clear focus on the relevance of training.
- ii. The trainer demonstrates the job in order to give the employee a model to copy. The trainer shows a right way to handle the job.
- iii. Next, the employee is permitted to copy the trainer's way. Demonstrations by the trainer and practice by the trainee are repeated until the trainee masters the right way to handle the job.
- iv. Finally, the employee does the job independently without supervision.

**Table 9.3: Job Instruction Training**

Merits	Demerits
<ul style="list-style-type: none"> <li>Trainee learns fast through practice and observation.</li> <li>It is economical as it does not require any special settings. Also, mistakes can be corrected immediately.</li> </ul>	<ul style="list-style-type: none"> <li>The trainee should be as good as the trainer. If the trainer is not good, transference of knowledge and skills will be poor.</li> <li>While learning, trainee may damage equipment, waste materials, cause accidents frequently.</li> </ul>

*Contd....*

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• The trainee gains confidence quickly as he does the work himself in actual setting with help from supervisor.</li> <li>• It is most suitable for unskilled and semi-skilled jobs where the job operations are simple; easy to explain and demonstrate within a short span of time.</li> </ul> | <ul style="list-style-type: none"> <li>• Experienced workers cannot use the machinery while it is being used for training.</li> </ul> |
|--|---|

### 9.4.2 Coaching

Coaching is a kind of daily training and feedback given to employees by immediate supervisors. It involves a continuous process of learning by doing. It may be defined as an informal, unplanned training and development activity provided by supervisors and peers. In coaching, the supervisor explains things and answers questions; he throws light on why things are done the way they are; he offers a model for trainees to copy; conducts lot of decision making meetings with trainees; procedures are agreed upon and the trainee is given enough authority to make divisions and even commit mistakes. Of course, coaching can be a taxing job in that the coach may not possess requisite skills to guide the learner in a systematic way. Sometimes, doing a full day's work may be more important than putting the learner on track.

When to use coaching usefully? Coaching could be put to good use when :

- an employee demonstrates a new competency
- an employee expresses interest in a different job within the organisation
- an employee seeks feedback
- an employee is expressing low morale, violating company policies or practices or having performance problems
- an employee needs help with a new skill following a formal training programme.

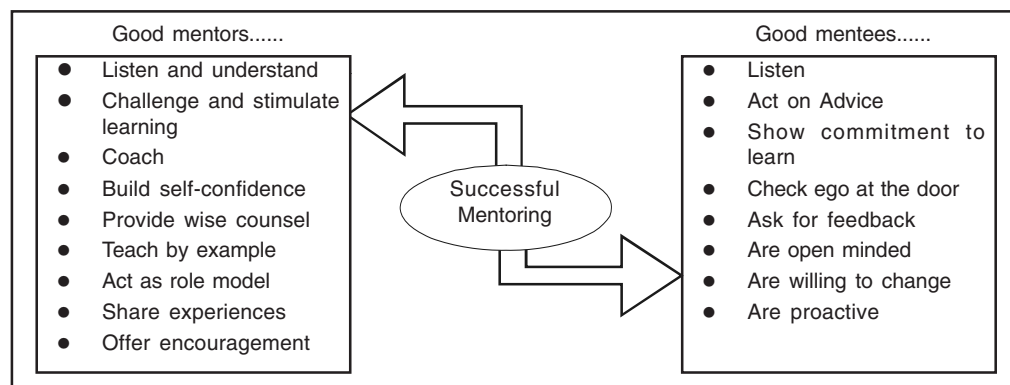
Effective working, obviously, requires patience and communication skills. It involves:

- explaining appropriate ways of doing things
- making clear why actions were taken
- stating observations accurately
- offering possible alternatives/suggestions
- following up

### 9.4.3 Mentoring

Mentoring is a relationship in which a senior manager in an organisation assumes the responsibility for grooming a junior person. Technical, interpersonal and political skills are generally conveyed in such a relationship from the more experienced person. A mentor is a teacher, spouse, counsellor, developer of skills and intellect, host, guide, exemplar, and most importantly, supporter and facilitator in the realisation of the vision the young person (protégé) has about the kind of life he wants as an adult. The main objective of mentoring is to help an employee attain psychological maturity and effectiveness and get integrated with the organisation. In a work situation, such mentoring can take place at both formal and informal levels, depending on the prevailing work culture and the commitment from the top management. Formal mentoring can be very

fruitful, if management invests time and money in such relationship building exercises. The important features/processes of mentoring may be presented thus (Figure 9.1):



**Figure 9.1: Mentoring Functions**

- **Career functions:** Career functions are those aspects of the relationship that enhance career advancement. These include:
  1. *Sponsorship:* Where mentors actively nominate a junior person (called 'mentee') for promotions or desirable positions.
  2. *Exposure and visibility:* Where mentors offer opportunities for mentees to interact with senior executives, demonstrate their abilities and exploit their potential.
  3. *Coaching:* Mentors help mentees to analyse how they are doing their work and to define or redefine their aspirations. Here mentors offer practical advice on how to accomplish objectives and gain recognition from others.
  4. *Protection:* Mentors shield the junior person from harmful situations/seniors.
  5. *Challenging assignments:* Mentors help mentees develop necessary competencies through challenging job assignments and appropriate feedback. Mentors create opportunities for their clients to prove their worth—to demonstrate clearly what they have to offer.
- **Psychological functions:** Psychological functions are those aspects that enhance the mentee's sense of competence, and identify effectiveness in a professional role. These include:
  6. *Role modelling:* Mentors offer mentees a pattern of values and behaviours to imitate.
  7. *Acceptance and confirmation:* Mentors offer support, guidance and encouragement to mentees so that they can solve the problems independently and gain confidence in course of time. Mentors also help people to learn about the organisation's culture and understand why things are done in certain ways.
  8. *Counselling:* Mentors help mentees work out their personal problems, learn about what to do and what not to do, offer advice on what works and what doesn't, and do everything to demonstrate improved performance and prepare themselves for greater responsibility.
  9. *Friendship:* Mentors offer practical help and support to mentees so that they can indulge in mutually satisfying social interactions (with peers, subordinates, bosses and customers)

**Table 9.4: Merits and Demerits of Mentoring**

Merits	Demerits
<ul style="list-style-type: none"> <li>• There is an excellent opportunity to learn</li> <li>• Constant guidance helps the mentee to be on track, using facilities to good advantage.</li> </ul>	<ul style="list-style-type: none"> <li>• It may create feelings of jealousy among quickly through continuous interaction. other workers who are not able to show equally good performance.</li> <li>• If mentors form overly strong bonds with trainees, unwarranted favouritism may result. This can have a demoralising effect on other workers, affecting their work performance in a negative way.</li> </ul>

Mentoring in India is based on the time-honoured guru-shishya relationship where the guru would do everything to develop the personality of the shishya, offering emotional support, and guidance. Companies like TISCO, Neyveli Lignite Corporation, Polaris, Coca-Cola India have used mentoring systems to good effect in recent times (Economic Times, 25 Oct., 2002). Organisations like General Electric, Intel, Proctor & Gamble have given a lot of importance to mentoring programmes, going even gone to the extent of penalising senior managers if they fail to develop leadership skills among subordinates. Of course, mentoring is not without its problems. Mentors who are dissatisfied with their jobs and those who teach or narrow or distorted view of events may not help a protégé's development. Not all mentors are well prepared to transfer their skills and wisdom to their junior colleagues. When young people are bombarded with conflicting viewpoints – about how things should go – from a series of advisors, they may find it difficult to get ahead with confidence. Mentoring can succeed if (i) there is genuine support and commitment from top management, (ii) mentors take up their job seriously and transfer ideas, skills and experiences in a systematic way, and (iii) mentees believe in the whole process and carry out things in an appropriate manner.

#### **9.4.4 Job Rotation**

This kind of training involves the movement of trainee from one job to another. This helps him to have a general understanding of how the organisation functions. The purpose of job rotation is to provide trainees with a larger organisational perspective and a greater understanding of different functional areas as well as a better sense of their own career objectives and interests. Apart from relieving boredom, job rotation allows trainees to build rapport with a wide range of individuals within the organisation, facilitating future cooperation among departments. The cross-trained personnel offer a great amount of flexibility for organisations when transfers, promotions or replacements become inevitable.

Job rotation may pose several problems, especially when the trainees are rolled on various jobs at frequent intervals. In such a case, trainees do not usually stay long enough in any single phase of the operation to develop a high degree of expertise. For slow learners, there is little room to integrate resources properly. Trainees can become confused when they are exposed to rotating managers, with contrasting styles of operation. Today's manager's commands may be replaced by another set from another manager! Further, job rotation can be quite expensive. A substantial amount of managerial time is lost when trainees change positions, because they must be acquainted with different people and techniques in each department. Development costs can go up and productivity is reduced by moving a trainee into a new position when his efficiency levels begin to improve at the prior job. Inexperienced trainees may fail to handle new tasks in an efficient way. Intelligent and aggressive trainees, on the other hand, may find the system to be thoroughly boring as they continue to perform more or less similar jobs without any stretch, pull and challenge.

To get the best results out of the system, it should be tailored to the needs, interests and capabilities of the individual trainee, and not be a standard sequence that all trainees undergo. Table 9.5 presents the merits and demerits of job rotation:

**Table 9.5: Job Rotation: Merits and Demerits**

Merits	Demerits
<ul style="list-style-type: none"> <li>Improves participant's job skills, job satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Increased workload for participants</li> </ul>
<ul style="list-style-type: none"> <li>Provides valuable opportunities to network within the organisation</li> </ul>	<ul style="list-style-type: none"> <li>Constant job change may produce stress and anxiety</li> </ul>
<ul style="list-style-type: none"> <li>Offers faster promotions and higher salaries to quick learners</li> </ul>	<ul style="list-style-type: none"> <li>Mere multiplication of duties do not enrich the life of a trainee</li> </ul>
<ul style="list-style-type: none"> <li>Lateral transfers may be beneficial in rekindling enthusiasm and developing new talents</li> </ul>	<ul style="list-style-type: none"> <li>Development costs may shoot up when trainees commit mistakes, handle tasks less optimally</li> </ul>

### 9.4.5 Apprenticeship Training

Most craft workers such as plumbers and carpenters are trained through formal apprenticeship programmes. Apprentices are trainees who spend a prescribed amount of time working with an experienced guide, coach or trainer. Assistantships and internships are similar to apprenticeships because they also demand high levels of participation from the trainee. An internship is a kind of on-the-job training that usually combines job training with classroom instruction in trade schools, colleges or universities. Coaching, as explained above, is similar to apprenticeship because the coach attempts to provide a model for the trainee to copy. One important disadvantage of the apprenticeship methods is the uniform period of training offered to trainees. People have different abilities and learn at varied rates. Those who learn fast may quit the programme in frustration. Slow learners may need additional training time. It is also likely that in these days of rapid changes in technology, old skills may get outdated quickly. Trainees who spend years learning specific skills may find, upon completion of their programmes, that the job skills they acquired are no longer appropriate.

### 9.4.6 Committee Assignments

In this method, trainees are asked to solve an actual organisational problem. The trainees have to work together and offer solution to the problem. Assigning talented employees to important committees can give these employees a broadening experience and can help them to understand the personalities, issues and processes governing the organisation. It helps them to develop team spirit and work unitedly toward common goals. However, managers should very well understand that committee assignments could become notorious time wasting activities.

The above on-the-job methods are cost effective. Workers actually produce while they learn. Since immediate feedback is available, they motivate trainees to observe and learn the right way of doing things. Very few problems arise in the case of transfer of training because the employees learn in the actual work environment where the skills that are learnt are actually used. On-the-job methods may cause disruptions in production schedules. Experienced workers cannot use the facilities that are used in training. Poor learners may damage machinery and equipment. Finally, if the trainer does not possess teaching skills, there is very little benefit to the trainee.



### 9.4.7 Off-the-Job Methods

Under this method of training, the trainee is separated from the job situation and his attention is focused upon learning the material related to his future job performance. Since the trainee is not distracted by job requirements, he can focus his entire concentration on learning the job rather than spending his time in performing it. There is an opportunity for freedom of expression for the trainees. Off-the-job training methods are as follows:

- a. **Vestibule training:** In this method, actual work conditions are simulated in a class room. Material, files and equipment – those that are used in actual job performance are also used in the training. This type of training is commonly used for training personnel for clerical and semi-skilled jobs. The duration of this training ranges from a few days to a few weeks. Theory can be related to practice in this method.
- b. **Role playing:** It is defined as a method of human interaction that involves realistic behaviour in imaginary situations. This method of training involves action, doing and practice. The participants play the role of certain characters, such as the production manager, mechanical engineer, superintendents, maintenance engineers, quality control inspectors, foreman, workers and the like. This method is mostly used for developing interpersonal interactions and relations.
- c. **Lecture method:** The lecture is a traditional and direct method of instruction. The instructor organises the material and gives it to a group of trainees in the form of a talk. To be effective, the lecture must motivate and create interest among the trainees. An advantage of lecture method is that it is direct and can be used for a large group of trainees. Thus, costs and time involved are reduced. The major limitation of the lecture method is that it does not provide for transfer of training effectively.
- d. **Conference/discussion approach:** In this method, the trainer delivers a lecture and involves the trainee in a discussion so that his doubts about the job get clarified. When big organisations use this method, the trainer uses audio-visual aids such as blackboards, mock-ups and slides; in some cases the lectures are videotaped or audio taped. Even the trainee's presentation can be taped for self-confrontation and self-assessment. The conference is, thus, a group-centred approach where there is a clarification of ideas, communication of procedures and standards to the trainees. Those individuals who have a general educational background and whatever specific skills are required – such as typing, shorthand, office equipment operation, filing, indexing, recording, etc. – may be provided with specific instructions to handle their respective jobs.
- e. **Programmed instruction:** This method has become popular in recent years. The subject-matter to be learned is presented in a series of carefully planned sequential units. These units are arranged from simple to more complex levels of instruction. The trainee goes through these units by answering questions or filling the blanks. This method is, thus, expensive and time-consuming.

### 9.4.8 Behaviourally Experienced Training

Some training programmes focus on emotional and behavioural learning. Here employees can learn about behaviour by role playing in which the role players attempt to act their part in respect of a case, as they would behave in a real-life situation. Business games, cases, incidents, group discussions and short assignments are also used in behaviourally-experienced learning methods. Sensitivity training or laboratory training is an example of a method used for emotional learning. The focus of experiential methods is on achieving,

through group processes, a better understanding of oneself and others. These are discussed elaborately in the section covering Executive Development Programmes.

### Check Your Progress 2

Fill in the blanks:

1. The major outcome of training is .....
2. Training is meant for ..... and development is meant for .....
3. .... is a kind of daily training and feedback given to employees by immediate supervisors.
4. .... is defined as a method of human interaction that involves realistic behaviour in imaginary situations.

## 9.5 IMPLEMENTATION OF TRAINING

Training is most effective when it is planned, implemented and evaluated in a systematic way. Unplanned, uncoordinated and haphazard training efforts greatly reduce the learning that can be expected. Table 9.6 shows three major components of a systematic approach to training.

**Table 9.6: A Systematic Approach to Training**

1. Assessment	2. Implementation	3. Evaluation
<ul style="list-style-type: none"> <li>• Determine training needs</li> <li>• Identify training objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Select training methods</li> <li>• Conduct training</li> </ul>	<ul style="list-style-type: none"> <li>• Compare training outcomes against criteria</li> </ul>

### 9.5.1 Training Needs Assessment

Training efforts must aim at meeting the requirements of the organisation (long-term) and the individual employees (short-term). This involves finding answers to questions such as: Whether training is needed? If yes, where is it needed? Which training is needed? etc. Once we identify training gaps within the organisation, it becomes easy to design an appropriate training programme. Training needs can be identified through the following types of analysis, as shown in Table 9.7.

- a. **Organisational analysis:** It involves a study of the entire organisation in terms of its objectives, its resources, the utilisation of these resources, in order to achieve stated objectives and its interaction pattern with environment. The important elements that are closely examined in this connection are:
  - ❖ *Analysis of objectives:* This is a study of short term and long term objectives and the strategies followed at various levels to meet these objectives.
  - ❖ *Resource utilisation analysis:* How the various organisational resources (human, physical and financial) are put to use is the main focus of this study. The contributions of various departments are also examined by establishing efficiency indices for each unit. This is done to find out comparative labour costs, whether a unit is undermanned or over-manned.
  - ❖ *Environmental scanning:* Here the economic, political, socio-cultural and technological environment of the organisation is examined.

- ❖ **Organisational climate analysis:** The climate of an organisation speaks about the attitudes of members towards work, company policies, supervisors, etc. Absenteeism, turnover ratios generally reflect the prevailing employee attitudes. These can be used to find out whether training efforts have improved the overall climate within the company or not.

**Table 9.7: Data Sources used in Training Need Assessment**

Organisational Analysis	Task Analysis	Person Analysis
Organisational goals and objectives	Job descriptions	Performance data or appraisals
Personnel inventories	Job specifications	Work sampling
Skills inventories	Performance standards	Interviews
Organisational climate analysis	Performing the job	Questionnaires
Efficiency indexes	Work sampling	Tests (KASOCs)
Changes in systems or subsystems (e.g., equipment)	Reviewing literature on the job	Customer/employee attitude surveys
Management requests	Asking questions about the job	Training progress
Exit interviews	Training committees	Rating scales
MBO or work planning systems	Analysis of operating problems	CIT
Customer survey/satisfaction data		Diaries
		Devised situations (e.g., role play)
		Assessment centers
		MBO or work planning systems

**Source:** M.L.Moore and P.Dutton, Training needs analysis: Review and Critique. Academy of Management Review.

- b. **Task or role analysis:** This is a detailed examination of a job, its components, its various operations and conditions under which it has to be performed. The focus here is on the roles played by an individual and the training needed to perform such roles. The whole exercise is meant to find out how the various tasks have to be performed and what kind of skills, knowledge, attitudes are needed to meet the job needs. Questionnaires, interviews, reports, tests, observation and other methods are generally used to collect job related information from time-to-time. After collecting the information, an appropriate training programme may be designed, paying attention to (i) performance standards required of employees, (ii) the tasks they have to discharge, (iii) the methods they will employ on the job and (iv) how they have learned such methods, etc.
- c. **Person analysis:** Here the focus is on the individual in a given job. There are three issues to be resolved through manpower analysis. First, we try to find out whether performance is satisfactory and training is required. Second, whether the employee is capable of being trained and the specific areas in which training is needed. Finally, we need to state whether poor performers (who can improve with requisite training inputs) on the job need to be replaced by those who can do the job. Other options to training such as modifications in the job or processes should also be looked into. Personal observation, performance reviews, supervisory reports, diagnostic tests help in collecting the required information and select particular training options that try to improve the performance of individual workers.

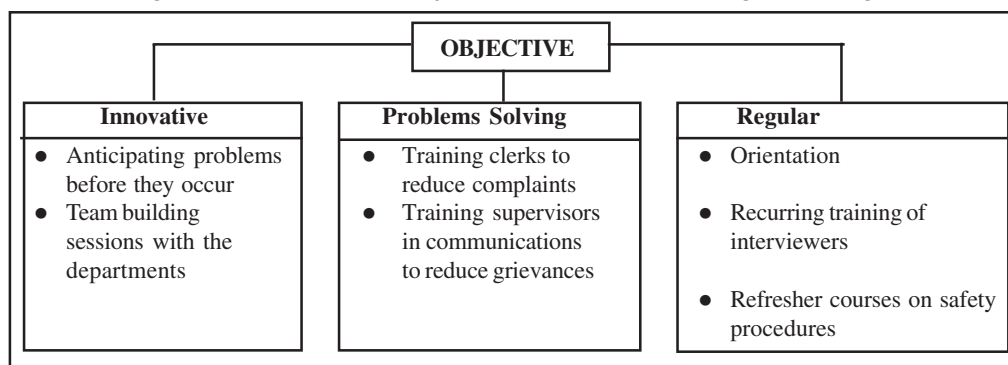
To be effective, training efforts must continuously monitor and coordinate the three kinds of analyses described above. An appropriate programme that meets the company's objectives, task and employee needs may then be introduced. Further, the training needs have to be prioritised so that the limited resources that are allocated to fill training gaps are put to use in a proper way.

**Box 9.2: Model Form for Conducting a 'Training Needs' Assessment**

<b>Conducting a Needs Assessment: A Model Form</b>	
Job _____	Title _____
Interviewer(s) _____	Date _____
<b>Part I Background Information on Interviewee</b>	
Years on the Job _____	Years in the company _____
Educational/Technical Qualifications _____	
<b>Part II Organisational Analysis</b>	
<ol style="list-style-type: none"> <li>1. In your view, what are the purposes of training ?</li> <li>2. Do you think the current training programmes in your firm serve the above purposes?</li> <li>3. What do you think would be the responses of your colleagues regarding training in your firm?</li> <li>4. Do you think trainees are motivated to attend training? Explain in detail.</li> <li>5. Do you think employees in your firm offer any resistance to training? Please advance suggestions to minimise this resistance.</li> <li>6. What positive consequences are associated with successful completion of training? (Like increased pay, recognition, greater promotional opportunities) Are there any negative consequences associated with training? (like loss of production, loss of status among co-workers)</li> <li>7. Do you think it is difficult for trainees to apply the skills they learned in training once they return to the job? Why or why not?</li> <li>8. For training programmes you have attended, are you asked to provide your reactions to the programme? Are you given training tests before and after training to assess a change in your training? If so, describe the types of measures that are used to assess your reactions and learning.</li> </ol>	
<b>Part III Task and Person Analysis</b>	
<ol style="list-style-type: none"> <li>9. Describe the major duties of your job. Rank them in terms of importance (1= most important)</li> <li>10. Think about a person who is very effective at your job. What knowledge, skills or abilities does this person possess? Can these skills be enhanced through training? If yes, explain the type of training that might be helpful.</li> <li>11. Do you foresee any additional job demands being added to the current responsibilities in your job in the next 5 years or so? If yes, what additional skills or abilities will be required to meet these demands?</li> </ol>	

### 9.5.2 Identify Training Objectives

Once training needs are identified, objectives should be set to begin meeting these needs.



**Figure 9.2: Objectives of Training**

As Figure 9.2 suggests, training objectives can be of three types. The most basic training takes place through orientation programmes. The second type of training objective is problem solving. The focus is on solving a specific problem instead of providing general information about a problem area. The final objective is innovation. Here the emphasis is on changing the mind set of workers, supervisors and executives working at various levels.

### Check Your Progress 3

State whether the statements are true or false:

1. Retraining is vital to retain people.
2. A little training is a dangerous thing.
3. Unstructured training is highly productive in terms of results.
4. Retraining is needed at lower levels only.
5. Practice makes a man perfect.
6. The methods and processes of training should not be related directly to the needs and objectives of an organisation.
7. Training offered to minimise accidents and damage to equipment is called refresher training.
8. Well-trained employees need less guidance and control.
9. Habitual ways of seeing and doing things are very difficult to shift.
10. Continuous success in a changing world requires an ability to explore new opportunities and learn from past successes and failures.

## 9.6 EVALUATION OF A TRAINING PROGRAMME

The specification of values forms a basis for evaluation. The basis of evaluation and the mode of collection of information necessary for evaluation should be determined at the planning stage. The process of training evaluation has been defined as “any attempt to obtain information on the effects of training performance and to assess the value of training in the light of that information.” Evaluation helps in controlling and correcting the training programme. Hamblin suggested five levels at which evaluation of training can take place, viz., reactions, learning, job behaviour, organisation and ultimate value.

1. **Reactions:** Trainee’s reactions to the overall usefulness of the training including the coverage of the topics, the method of presentation, the techniques used to clarify things, often throw light on the effectiveness of the programme. Potential questions to trainees might include : (i) What were your learning goals for the programme? (ii) Did you achieve them? (iii) Did you like this programme? (iv) Would you recommend it to others who have similar learning goals? (v) What suggestions do you have for improving the programme? (vi) Should the organisation continue to offer it ?
2. **Learning:** Training programme, trainer’s ability and trainee’s ability are evaluated on the basis of quantity of content learned and time in which it is learned and learner’s ability to use or apply the content learned.

3. **Job behaviour:** This evaluation includes the manner and extent to which the trainee has applied his learning to his job.
4. **Organisation:** This evaluation measures the use of training, learning and change in the job behaviour of the department/organisation in the form of increased productivity, quality, morale, sales turnover and the like.
5. **Ultimate value:** It is the measurement of ultimate result of the contributions of the training programme to the company goals like survival, growth, profitability, etc. and to the individual goals like development of personality and social goals like maximising social benefit.

An example of an assessment form to be completed by trainees is given in Box No. 9.2.

### 9.6.1 Decision Points in Planning Training Evaluation

John Dopyera and Louise Pitone identified eight decision points in planning training evaluation. They are:

1. Should an evaluation be done? Who should evaluate?
2. What is the purpose of evaluation? There are mainly two purposes of doing evaluation. They are justification evaluation and determination evaluation. Justification evaluations are undertaken as reactions to mandates, other purposes that will make evaluation efforts more fruitful. These purposes include training needs assessment, programme improvements and impact evaluation.
3. What will be measured? The focus of the evaluation will be on training and delivery, programme content, materials, impact of training on individuals through learning, behaviour or performance change. Learning can be measured through pre-test and post-test. Evaluate the effects of training after the trainee returns to the work place, using changes in between or the work results as indicators.
4. How comprehensive will the evaluation be? The scope or the duration and comprehensiveness of the evaluation is influenced by available support, communication and evaluation purpose.
5. Who has the authority and responsibility? Who has the authority and responsibility at different stages of evaluation will be determined by the factors like personnel, credibility of internal staff, communication, objectivity of internal staff to do an evaluation regardless of results.
6. What are the sources of data? The most common sources of evaluation data are reactions, opinions and/or test results of the participants, managers, supervisors, production records, quality control, financial records, personnel records, safety records, etc.
7. How will the data be collected and compiled? Data can be collected before training for needs analysis or pre-testing purpose, during training programme to make improvements along the way and after training for evaluation. Next step is selection of treatment or control groups and determination of nature of samples. Data can be compiled either manually or by computers.
8. How will the data be analysed and reported? First reporting issue is concerned with audiences like participants or trainees, training staff, managers, customers etc. Second and third issues are concerned with analysis and results and accuracy, policies and format respectively.

**Box 9.3: An Example of a Trainee Reaction Questionnaire**

Evaluation Questionnaire (Please return this form unsigned to Development Group)																																																																																																																				
<p>1. Considering everything, how would you rate this program? (Check one)  Unsatisfactory _____ Satisfactory _____  Good _____ Outstanding _____</p> <p>Please explain briefly the reasons for the rating you have given:</p> <p>_____</p> <p>_____</p> <p>2. Were your expectations: exceeded _____  matched _____ fallen below _____? (Check one)</p> <p>3. Are you going to recommend this training program to other members of your department?  Yes _____ No _____ If you checked "yes," please describe the job titles held by the people to whom you would recommend this program?</p> <p>_____</p> <p>_____</p> <p>4. Please rate the relative value (1 = very valuable; 2 = worthwhile; 3 = negligible) of the following components of the training program to you:</p> <p>Videocassettes _____  Role-playing exercises _____  Workbooks _____  Small group discussion _____  Small group discussions _____  Lectures _____</p> <p>5. Please rate the main lecturer's presentation (1 = not effective; 2 = somewhat effective; 3 = very effective) in terms of:</p> <p>Ability to Communicate _____  Emphasis on Key Points _____  Visual Aids _____  Handout Materials _____</p>	<p>6. Please rate the following cases, readings, and videocassettes by placing a checkmark in the appropriate column:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Excellent</th> <th style="text-align: center;">Good</th> <th style="text-align: center;">Fair</th> <th style="text-align: center;">Poor</th> </tr> </thead> <tbody> <tr><td>Overcoming Resistance to Change</td><td></td><td></td><td></td><td></td></tr> <tr><td>Reviewing Performance Goals</td><td></td><td></td><td></td><td></td></tr> <tr><td>Setting Performance Goals</td><td></td><td></td><td></td><td></td></tr> <tr><td>Handling Employee Performance</td><td></td><td></td><td></td><td></td></tr> <tr><td>Slade Co.</td><td></td><td></td><td></td><td></td></tr> <tr><td>Superior Slate Quarry</td><td></td><td></td><td></td><td></td></tr> <tr><td>McGregor's Theory X and Y</td><td></td><td></td><td></td><td></td></tr> <tr><td>Henry Manufacturing</td><td></td><td></td><td></td><td></td></tr> <tr><td>First Federal Savings</td><td></td><td></td><td></td><td></td></tr> <tr><td>Claremont Industries</td><td></td><td></td><td></td><td></td></tr> </tbody> </table> <p>7. Was the ratio of lectures to cases (check one); High _____ Ok _____ Low _____?</p> <p>8. Were the videocassettes pertinent to your work? (check one)  To most of my work _____  To some of my work _____  To none of my work _____</p> <p>9. To help the training director and the staff provide further improvements in future programs, please give us your frank opinion of each case discussion leader's contribution to your learning. (Place your checkmarks in the appropriate boxes.)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Excellent</th> <th style="text-align: center;">Above Average</th> <th style="text-align: center;">Average</th> <th style="text-align: center;">Below Average</th> <th style="text-align: center;">Poor</th> </tr> </thead> <tbody> <tr><td>DAVIS</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>GLEASON</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>LAIRD</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>MARTIN</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>PONTELLO</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>SHALL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>SOMMERS</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>WILSON</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>ZIMMER</td><td></td><td></td><td></td><td></td><td></td></tr> </tbody> </table> <p>10. How would you evaluate your participation in the program? (check)  Over workload: Too heavy _____ Too heavy _____ Top light _____  Case preparation: Too heavy _____ Too heavy _____ Top light _____  Homework assignments: Too heavy _____ Too heavy _____ Top light _____</p> <p>11. What suggestions do you have for improving the program?  _____  _____  _____</p>		Excellent	Good	Fair	Poor	Overcoming Resistance to Change					Reviewing Performance Goals					Setting Performance Goals					Handling Employee Performance					Slade Co.					Superior Slate Quarry					McGregor's Theory X and Y					Henry Manufacturing					First Federal Savings					Claremont Industries						Excellent	Above Average	Average	Below Average	Poor	DAVIS						GLEASON						LAIRD						MARTIN						PONTELLO						SHALL						SOMMERS						WILSON						ZIMMER					
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**Source:** K.N. Wexley and G.P. Latham, Developing and training human resources in organisations.

These decision points are intended to increase awareness of, and interest in, the evaluation of training, to improve planning skills and to encourage more systematic evaluation of training.

## 9.6.2 Methods of Evaluation

Various methods can be used to collect data on the outcomes of training. Some of these are:

- **Questionnaires:** Comprehensive questionnaires could be used to obtain opinions, reactions, views of trainees.
- **Tests:** Standard tests could be used to find out whether trainees have learnt anything during and after the training.
- **Interviews:** Interviews could be conducted to find the usefulness of training offered to operatives.
- **Studies:** Comprehensive studies could be carried out eliciting the opinions and judgements of trainers, superiors and peer groups about the training.
- **Human resource factors:** Training can also be evaluated on the basis of employee satisfaction, which in turn can be examined on the basis of decrease in employee turnover, absenteeism, accidents, grievances, discharges, dismissals, etc.



- **Cost benefit analysis:** The costs of training (cost of hiring trainers, tools to learn, training centre, wastage, production stoppage, opportunity cost of trainers and trainees) could be compared with its value (in terms of reduced learning time, improved learning, superior performance) in order to evaluate a training programme.
- **Feedback:** After the evaluation, the situation should be examined to identify the probable causes for gaps in performance. The training evaluation information (about costs, time spent, outcomes, etc.) should be provided to the instructors, trainees and other parties concerned for control, correction and improvement of trainees' activities. The training evaluator should follow it up sincerely so as to ensure effective implementation of the feedback report at every stage.

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## 9.7 LET US SUM UP

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Training is a planned programme designed to improve performance and to bring about measurable changes in knowledge, skills, attitude and social behaviour of employees.

Training makes employees versatile, mobile, flexible and useful to the organisation.

Development is future-oriented training, focusing on the personal growth of the employee.

In order to have effective training programmes, the systems approach is recommended. The systems approach consists of three phases: needs assessment, implementation and evaluation.

Needs assessment covers: organisation analysis, task and performance analysis and manpower analysis.

Formal training methods include (i) on-the-job training covering job instruction training, coaching, mentoring, job rotation, apprenticeship training, committee assignments and (ii) off-the-job training includes lectures, conferences, simulation exercises and programmed instruction.

Training can be evaluated at five levels: reaction, learning, behaviour, organisation and results.

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## 9.8 LESSON END ACTIVITY

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Think about a recent training programme at work. Was it delivered via the Internet/ Intranet. Would it have been better if it was? If you have not had such a programme, consider a course you recently took (what about this course?) Would it have been better over the Internet? Why or why not?

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## 9.9 KEYWORDS

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**Training:** A planned programme designed to improve performance and bring about measurable changes in knowledge, skills, attitude and social behaviour of employees

**Development:** Broadening an individual's knowledge, skills and abilities for future responsibilities

**Reinforcement:** A concept that people tend to repeat responses that give them some type of positive reward and avoid actions associated with negative consequences

**Mentoring:** An experienced employee offering guidance and support to a junior employee so that the latter learns and advances in the organisation.

**Job instruction training:** Training received directly on the job.

**Obsolescence:** A condition that results when an employee loses the knowledge or abilities to perform successfully due to changes in the field.

**Job rotation:** Moving a trainee from job to job so as to provide cross training.

**Role playing:** A development technique requiring the trainee to assume a role in a given situation and act out behaviours associated with that role.

**Vestibule training:** A training method involving the creation of training facilities separate from the regular production area but with the same equipment.

**On-the-job training:** Any training technique that involves allowing the person to learn the job by actually performing it on the job.

**Punishment:** Reinforcement that is aimed at reducing undesirable behaviour by associating that behaviour with a painful consequence.

**Counselling:** The discussion of an employee's problem with the general objective of helping the employee cope with it.

**Simulations:** Any artificial environment that tries to closely mirror an actual condition. These include case studies, decision games, role plays, etc.

**Apprenticeship:** A training method that puts trainees under the guidance of a master worker, typically for 2-5 years.

**Case:** An in-depth description of a particular situation an employee might encounter on the job.

**Task analysis:** Process of determining what the content of a training programme should be on the basis of a study of the tasks and duties involved in the job.

**In-basket:** A method where the trainee is required to examine a basket full of papers and files relating to his area and make recommendations on problems contained therein.

**Person analysis:** Assessment of employee performance and the knowledge and skill necessary to reach that level of performance.

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## 9.10 QUESTIONS FOR DISCUSSION

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1. What are the reasons for the growing usage of external training in present-day organisations?
2. What are the objectives of employee training? Explain the benefits of training.
3. What do you mean by 'training'? Distinguish between training, development and education.
4. Explain the various methods of training.
5. Distinguish between induction and training. Explain the importance of on-the-job training.
6. Briefly outline the steps involved in conducting a training programme in a systematic way.
7. How will you determine the training needs of an industrial organisation?
8. Write short notes on:
  - a. Types of training
  - b. Evaluation of training

- c. On the job training
  - d. Principles of training
9. Explain whether and how the effectiveness of training programmes can be evaluated.
10. What are the principles that should be kept in mind while designing a sound employee training programme?

### **Check Your Progress: Model Answers**

#### ***CYP 1***

1. c, 2. e, 3. d, 4. a, 5. b

#### ***CYP 2***

- 1. learning
- 2. operatives, managers
- 3. Coaching
- 4. Role playing

#### ***CYP 3***

1. T, 2. T, 3. F, 4. F, 5. T, 6. F, 7. F,  
8. T, 9. T, 10. T

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## **9.11 SUGGESTED READINGS**

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004

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## LESSON

# 10

## MANAGEMENT DEVELOPMENT

### CONTENTS

- 10.0 Aims and Objectives
- 10.1 Introduction
- 10.2 The Concept
- 10.3 Purposes and Objectives of Management Development
- 10.4 Need for Executive Development in Indian Context
- 10.5 Steps in the Organisation of a Management Development Programme
- 10.6 Methods/Techniques of Management Development Programmes
  - 10.6.1 Decision-making Skills
  - 10.6.2 Interpersonal Skills
  - 10.6.3 Job Knowledge
  - 10.6.4 Organisational Knowledge
  - 10.6.5 General Knowledge
  - 10.6.6 Specific Individual Needs
  - 10.6.7 Other Off-the-Job Methods
- 10.7 Selection of a Suitable Method
- 10.8 Let us Sum up
- 10.9 Lesson End Activity
- 10.10 Keywords
- 10.11 Questions for Discussion
- 10.12 Suggested Readings

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### 10.0 AIMS AND OBJECTIVES

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The purpose of this lesson is to throw light on the various executive development programmes that are currently in use in India. After studying this lesson, you will be able to:

- Define Executive Development
- State the differences between training and development
- Outline the steps in the organisation of an Management Development Programme
- Discuss the various methods of developing managers
- List the critical factors impacting the choice of a suitable method of Executive Development

## 10.1 INTRODUCTION

Managers are the indispensable resources, the priceless assets of an organisation. They generate creative ideas, translate them into concrete action plans and produce results. When they succeed, they are able to keep everyone in good humour – including shareholders, employees and the general public. They are hailed as ‘invincible corporate heroes’ and even treated as prized possessions of a country. When they fail, they destroy the scarce corporate resources and make everyone cry. The outcomes of managerial actions, thus, are going to be deep, profound and decisive. To get ahead in the race especially in a complex, dynamic and ever-changing world, managers need to develop their capabilities that go beyond those required by the current job.

## 10.2 THE CONCEPT

Development is an education process as it tries to enhance one's ability to understand and interpret knowledge in a useful way. Development is different from training in that it is often the result of experience and the maturity that comes with it. It is possible to train most people to drive a vehicle, operate a computer, or assemble a radio. However, development in such areas as judging what is right-and-wrong, taking responsibility for results, thinking logically, understanding cause and effect relationships, synthesising experiences to visualise relationships, improving communication skills, etc., may or may not come through over time. Training certainly helps in improving these types of skills. But when the intent is to enhance executives' ability to handle diverse jobs and prepare them for future challenges, the focus must shift to executive development. Executive development focuses more on the manager's personal growth. It is more future oriented and more concerned with education than is employee training.

**Table 10.1: Training vs. Development**

Training	Item	Development
Learn specific behaviours and actions; demonstrate techniques and processes.	Focus	Understand and interpret knowledge; Develop judgement; Expand capacities for varied assignments.
Short term	Time Frame	Long term.
Tries to improve a specific skill relating to a job (mostly technical and mechanical).	Process	Aims at improving the total personality of an individual (largely analytical and conceptual abilities).
Meet current requirements of a job; aims at improving employee performance on a currently held job.	Goal	Meet future challenges of the job and the individual; aims at providing learning opportunities designed to help employees grow.
Performance appraisals, cost-benefit analysis, passing tests or certification.	Effectiveness Measures	Qualified people available when needed, promotion from within possible, HR-based competitive advantage.

Executive or management development is a planned, systematic and continuous process of learning and growth by which managers develop their conceptual and analytical abilities to manage. It is the result of not only participation in formal courses of instruction but also of actual job experience. It is primarily concerned with improving the performance of managers by giving them stimulating opportunities for growth and development.

**Box 10.1: Features of Executive Development**

- It is a planned effort to improve executives' ability to handle a variety of assignments
- It is not a one-shot deal, but a continuous, ongoing activity
- It aims at improving the total personality of an executive
- It aims at meeting future needs unlike training, which seeks to meet current needs
- It is a long term process, as managers take time to acquire and improve their capabilities
- It is proactive in nature as it focuses attention on the present as well as future requirements of both the organisation and the individual

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### **10.3 PURPOSES AND OBJECTIVES OF MANAGEMENT DEVELOPMENT**

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Objectives of management development programmes can be better understood in the context of changing requirements of the environment which constantly interact with the business. Many Indian organisations have now been exposed to the problem of major restructuring to respond to the economic liberalisation programmes of the government. Such programmes of the government are now compelling the Indian managers to face the challenge of competition, survive under economic uncertainty, take decisions, move quickly, shoulder the risk, improve the quality of work-life, making their organisation more socially responsive and transparent, etc. Market globalisation is also compelling Indian Organisations to update their technology. Management philosophies also are constantly changing, particularly in the context of development of the concept of total quality management (TQM), which inter alia calls for employee empowerment, total participation, small group activities like quality circles, attitudinal change of the managers cutting across structural barriers, etc. Change in public policies, increased consumer awareness, increased social and institutional requirements (pollution control, etc.), labour relations, etc., are also compelling the organisations to introduce management development programmes for their managers and executives for renewing their knowledge and skills. The primary objective of management development programme, therefore, is to make the executives and managers vis-à-vis the organisations socially responsive and managerially competent to survive in an atmosphere of uncertainty.

In addition, management development programmes also aim at achieving the following objectives:

- To make available managers and executives with requisite knowledge and skill to meet the present and anticipated future needs of the organisations.
- To encourage managers to develop their full potentiality for handling greater responsibility.
- To improve the functional competence of the managers, making them more transparent and responsive to the changing needs of the organisation.
- To sustain good performance of the managers throughout their career by, not allowing them to develop managerial obsolescence.
- To develop managers for higher assignments, duly replacing the elderly executives.

## 10.4 NEED FOR EXECUTIVE DEVELOPMENT IN INDIAN CONTEXT

Executive Development has become indispensable to modern organisations in India in view of the following reasons:

- For any business, Executive Development is an invaluable investment in the long run. It helps managers to acquire knowledge, skills and abilities (KSAs) required to grapple with complex changes in environment, technology and processes quite successfully. They can have a better grip over market forces and get ahead of others in the race in a confident manner.
- Developmental efforts help executives to realise their own career goals and aspirations in a planned way.
- Executives can show superior performance on the job. By handling varied jobs of increasing difficulty and scope, they become more useful, versatile and productive. The rich experience that they gain over a period of time would help them step into the shoes of their superiors easily.
- Executive Development programmes help managers to broaden their outlook, look into various problems dispassionately, examine the consequences carefully, appreciate how others would react to a particular solution and discharge their responsibilities taking a holistic view of the entire organisation.
- The special courses, projects, committee assignments, job rotation and other exercises help managers to have a feel of how to discharge their duties without rubbing people (subordinates, peers, superiors, competitors, customers, etc.) the wrong way.

### Check Your Progress 1

Multiple Choice Questions (pick the most appropriate one)

1. Development
  - (a) is short term in nature
  - (b) focuses on the employee's current job
  - (c) is a luxury most organisations avoid
  - (d) aims at improving the total personality of a manager
  - (e) is an informal activity
2. The advantages of the lecture method include
  - (a) economy
  - (b) feedback
  - (c) participation
  - (d) transference
  - (e) all of the above
3. Programmed Instruction is low on
  - (a) feedback
  - (b) relevance

Contd....



- (c) participation
- (d) transference
- (e) repetition
- 4. Role playing is often used to
  - (a) model behaviour
  - (b) change results
  - (c) learn skills
  - (d) change attitudes
  - (e) offer feedback
- 5. Business Games
  - (a) improve fire-fighting skills
  - (b) promote cooperation among participants
  - (c) compress time
  - (d) are easy to develop
  - (e) encourage creativity

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## 10.5 STEPS IN THE ORGANISATION OF A MANAGEMENT DEVELOPMENT PROGRAMME

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The following are the important steps in the organisation of a management development programme:

- a. ***Analysis of organisational development needs:*** After deciding to launch a management development programme, a close and critical examination of the present and future development needs of the organisation has to be made. We should know how many and what type of managers are required to meet the present and future requirements.

A comparison of the already existing talents with those that are required to meet the projected needs will help the top management to take a policy decision as to whether it wishes to fill those positions from within the organisation or from outside sources.

- b. ***Appraisal of present management talents:*** In order to make the above suggested comparison, a qualitative assessment of the existing executive talents should be made and an estimate of their potential for development should be added to that. Only then can it be compared with the projected required talents.

- c. ***Inventory of management manpower:*** This is prepared to have a complete set of information about each executive in each position. For each member of the executive team, a card is prepared listing such data as name, age, length of service, education, work experience, health record, psychological test results and performance appraisal data, etc. The selection of individuals for a management development programme is made on the basis of the kind of background they possess.

Such information, when analysed, discloses the strengths as well as weaknesses or deficiencies of managers in certain functions relating to the future needs of the organisations.

- d. **Planning of individual development programmes:** Guided by the results of the performance appraisal that indicates the strengths and weaknesses of each of the executives, this activity of planning of individual development programme can be performed.
- e. **Establishment of development programmes:** It is the duty of the HR department to establish the developmental opportunities. The HR department has to identify the existing level of skills, knowledge, etc., of various executives and compare them with their respective job requirements. Thus, it identifies developmental needs and requirements and establishes specific development programmes, like leadership courses, management games, sensitivity training, etc.
- f. **Evaluation of results:** Executive development programmes consume a lot of time, money and effort. It is, therefore, essential to find out whether the programmes have been on track or not. Programme evaluation will cover the areas where changes need to be undertaken so that the participants would find the same to be relevant and useful for enriching their knowledge and experience in future. Opinion surveys, tests, interviews, observation of trainee reactions, rating of the various components of training, etc., could be used to evaluate executive development programmes.

## 10.6 METHODS/TECHNIQUES OF MANAGEMENT DEVELOPMENT PROGRAMMES

Management development programmes help in acquiring and developing different types of managerial skills and knowledge. Different types of techniques are used to acquire and develop various types of managerial skills and knowledge. They are (See Table 10.2):

**Table 10.2: Methods of Developing Managers**

1. Decision-making skills	(a) In-basket (b) Business game (c) Case study
2. Interpersonal skills	(a) Role play (b) Sensitivity training (c) Behaviour Modelling
3. Job knowledge	(a) On-the-job experiences (b) Coaching (c) Understudy
4. Organisational knowledge	(a) Job rotation (b) Multiple management
5. General knowledge	(a) Special courses (b) Special meetings (c) Specific readings
6. Specific individual needs	(a) Special projects (b) Committee assignments

### Check Your Progress 2

State whether the following statements are true or false:

1. Development is short term in nature.
2. Role playing is often used to learn skills.

Contd....

3. Behaviour Modelling offers reinforcement to the trainee.
4. On-the-job training should be relatively unstructured.
5. Development focuses more on the employee's personal growth.
6. Job rotation can be either horizontal or vertical.
7. Coaching involves a continuing flow of instructions, comments and suggestions from the manager to the subordinate.
8. T-Groups work on a specified agenda focusing attention on duties rather than behaviour.
9. The main job of a manager is to make routine decisions.
10. Executive development is a one-shot deal.

### 10.6.1 Decision-making Skills

The main job of a manager is to make both strategic and routine decisions. His ability to take effective decisions can be enhanced by developing decision-making skills through various techniques, as explained below:

- a. ***In-basket:*** In this method, the participant is given a number of business papers such as memoranda, reports and telephone messages that would typically cross a manager's desk. The papers, presented in no particular sequence, call for actions ranging from urgent to routine handling. The participant is required to act on the information contained in these papers. Assigning a priority to each particular matter is initially required.

If the trainee is asked to decide issues within a time-frame, it creates a healthy competition among participants. The method is simple and easy to follow. Trainees learn quickly as they have to list priorities, make assumptions, assign work to others and get things done within a time-frame. Since participants hail from various sections, it is easy to put out inter-departmental fires. On the negative side, the method is somewhat academic and removed from real life situations. The participants, knowing full well that they are handling an imaginary situation, may not be too excited about the whole exercise and may not fully commit themselves to the task.

- b. ***Case study:*** This is a training method that employs simulated business problems for trainees to solve. The individual is expected to study the information given in the case and make decisions based on the situation. If the student is provided a case involving an actual company, he is expected to research the firm to gain a better appreciation of its financial condition and corporate culture. Typically, the case method is used in the class room with an instructor who serves as a facilitator. Experienced trainers readily point out that the case study is most appropriate where:

- ❖ analytic, problem-solving and thinking skills are most important
- ❖ the KSAs are complex and participants need time to master them.
- ❖ active participation is required
- ❖ the process of learning (questioning, interpreting etc.) is as important as the content
- ❖ team problem solving and interaction are possible

**Table 10.3: Merits and Demerits of the Case Study Method**

Merits	Demerits
<ul style="list-style-type: none"> <li>• Improves problem-solving skills of participants.</li> <li>• Trainees can apply theory to practical problems and learn quickly. It is a way of learning by doing.</li> <li>• Trainees learn how others solve a situation in their own unique way. They get a feel of how others work at a problem and begin to appreciate each other's thinking.</li> <li>• Case studies can provide interesting debates among trainees, as well as excellent opportunities for individuals to defend their analytical and judgemental abilities.</li> <li>• If the case reflects a real life situation, participants take keen interest and examine the cross-currents with an open and inquisitive mind.</li> </ul>	<ul style="list-style-type: none"> <li>• Good case studies do not originate easily. They are costly and time-consuming (collect data, analyse, report, summarise) exercises.</li> <li>• Examining historical evidence may fail to develop the analytical and reasoning abilities of participants.</li> <li>• Cases, sometimes, are not sufficiently realistic to be useful.</li> <li>• Cases may contain information inappropriate to the kinds of decisions that trainees would make in a real setting.</li> <li>• Indiscriminate use of case studies may not help participants who are not mature enough to analyse and participate in discussions actively.</li> <li>• A trainee who is not skilled in this technique can undermine its usefulness.</li> <li>• The case study method have little or nothing in common with the trainee's workplace, which may limit its effectiveness.</li> </ul>

The success of this method is closely linked to the maturity and experience of the trainer who should facilitate the group's learning, keep participants on track and help them see the underlying management concepts in the case clearly. Further, it is also necessary to come up with good case material based on real life situations and present the same before trainees in an interesting manner. When cases are meaningful and are similar to work related situations, trainees can certainly improve their decision-making skills and problem-solving abilities.

**Box 10.2: When using Case Studies**

<ul style="list-style-type: none"> <li>• Be clear about learning objectives and explore possible ways to realise the objectives</li> <li>• Decide which objectives would be best served by the case method</li> <li>• Find out the available cases that might work or consider developing your own</li> <li>• Set up the activity – including the case material, the room and the schedule</li> <li>• Observe the principles that guide effective group interactions</li> <li>• Provide an opportunity to all trainees to participate meaningfully and try to keep the groups small.</li> <li>• Stop for process checks and get set to intervene when interactions go out of hand</li> <li>• Allow for different learning styles</li> <li>• Clarify the trainer's role as a facilitator</li> <li>• Bridge the gap between theory and practice</li> </ul>
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**Source:** Einseidel A.A., Case studies: Indispensable Tools for Trainers, Training and Development, August 1995.

- c. **Business games:** Simulations that represent actual business situations are known as business games. These simulations attempt to duplicate selected factors in a specific situation, which are then manipulated by the participants. Business games involve two or more hypothetical organisations competing in a given product market. The participants are assigned such roles as Managing Director, General Manager, Marketing Manager, etc. They make decisions affecting price levels, production

volume and inventory levels. The results of their decisions are manipulated by a computer programme, with the results simulating those of an actual business situation. Participants are able to see how their decisions affect the other groups and vice versa.

**Table 10.4: Merits and Demerits of the Business Game Method**

Merits	Demerits
<ul style="list-style-type: none"> <li>● Business games compress time; events that take painfully long time are made to occur in a matter of hours.</li> <li>● One can learn from mistakes, take a different course of action by looking at the consequences and improve performance.</li> <li>● They promote increased understanding of complex relationships among organisational units.</li> <li>● “They help trainees develop their problem solving skills as well as to focus attention on planning rather than just putting out fires.”</li> <li>● Prompt feedback facilitates quick learning.</li> </ul>	<ul style="list-style-type: none"> <li>● Difficult and expensive to develop and use good business games.</li> <li>● They are often far removed from reality. In real life, an executive may get unlimited chances to find his way through the jungle, depending on his mental make-up (instead of choosing from an imaginative list of alternatives).</li> <li>● Participants may become so engrossed in pushing others to the wall that they fail to grasp the underlying management principles being taught.</li> <li>● Creativity may take a back seat when unorthodox strategies advanced by innovative participants may not find acceptance from others in the race.</li> </ul>

### 10.6.2 Interpersonal Skills

A manager can achieve results only when he is able to put individuals on the right track. He must interact with people actively and make them work unitedly. Managerial skills in the area of inter-personal relations can be enhanced through various techniques, viz., Role Play and Sensitivity Training.

- a. **Role play:** This is a technique in which some problem – real or imaginary – involving human interaction is presented and then spontaneously acted out. Participants may assume the roles of specific organisational members in a given situation and then act out their roles. For example, a trainee might be asked to play the role of a supervisor who is required to discipline an employee smoking in the plant in violation of the rules. Another participant would assume the role of the employee. The individual playing the supervisory role would then proceed to take whatever action he deems appropriate. This action then provides the basis for discussion and comments by the groups.

Role play develops interpersonal skills among participants. They learn by doing things. Immediate feedback helps them correct mistakes, change, switch gears hats and reorient their focus in a right way. The competitive atmosphere spurs them to participate actively, listen to what others say, observe and analyse behavioural responses and improve their own performance by putting their textual learning to test.

On the negative side, realism is sometimes lacking in role-playing, so the learning experience is diminished. It is not easy to duplicate the pressures and realities of actual decision-making on the job; and individuals, often act very differently in real-life situations than they do in acting out a simulated exercise. Many trainees are often uncomfortable in role-playing situations, and trainers must introduce the situations well so that learning can take place. To this end, trainers should:

- ❖ ensure that members of the group are comfortable with each other
- ❖ select and prepare the role players by introducing a specific situation

- ❖ help participants prepare; ask them to prepare potential characters
  - ❖ realise that volunteers make better role players
  - ❖ prepare observers by giving them specific tasks (e.g. evaluation, feedback)
  - ❖ guide the role play enactment over its bumps (since it is not scripted)
  - ❖ keep it short
  - ❖ discuss the enactment and prepare bulleted points of what was learned
- b. **Sensitivity training:** This is a method of changing behaviour through unstructured group interaction. Sensitivity training is sought to help individuals toward better relations with others. The primary focus is on reducing interpersonal friction.

In sensitivity training, the actual technique employed is T-group (T stands for training). It is a small group of ten to twelve people assisted by a professional behavioural scientist who acts as a catalyst and trainer for the group. There is no specified agenda. He merely creates the opportunity for group members to express their ideas and feelings freely. Since the trainer has no leadership role to play, the group must work out its own methods of proceeding. A leaderless and agendum-free group session is on. They can discuss anything they like. Individuals are allowed to focus on behaviour rather than on duties. As members engage in the dialogue, they are encouraged to learn about themselves as they interact with others.

#### Box 10.3: Features of T-Group Training

- T-Group consists of 10-12 persons.
- A leader acts as a catalyst and provides a free and open environment for discussion
- There is no specified agenda
- Members express their ideas, feelings and thoughts freely and openly
- The focus is on behaviour rather than on duties
- The aim is to achieve behaviour effectiveness in transactions with one's environment

#### Benefit and Costs

The benefits and costs of sensitivity training have been summarised through Table 10.5.

**Table 10.5: Sensitivity–A balance Sheet**

Liabilities	Assets
1. The programme of sensitivity training is considered to be a waste of time. Even participants who are themselves favourably impressed cannot point out the specific benefits and neither can their associates.	1. A majority of the trainees feel that the experience gained during training is uniquely valuable, as it develops the personality.
2. T-Group leaders are considered to be amateur headshrinkers; they are like children playing with fire.	2. Practically speaking, there is no real hazard for the emotionally healthy participants; and sick participants are not admitted to the training.
3. The T-Group experience is an immoral and unjustified invasion of privacy, based on false assumptions about the nature of human relationship at work.	3. Even hardheaded business managers have a softhearted appeal for sensitivity training because they acknowledge the positive value of the training. Many organisations have started paying impressive amounts for training.

*Contd....*

4. The process of sensitivity training involves an emotional blood bath; emotional buffeting creates a frightening threat to an individual who is a trainee; it can shatter personal defences and damage future capabilities. Sessions of sensitivity training may – as happens quite often – result in suicide of the interests in the organisation. It may take months, if not years, to repair the damage caused by sensitivity training.	4. Research on sensitivity training also strongly attests to the benefits of training to employees in an organisation.
5. Sensitivity training has a tendency to result in undesirable behaviour of employees; for the trainee (who is immature) will find it easier to feel hostile without feeling guilty during training. The team work also gets adversely affected because of T-Group training.	5. Research on sensitivity training also reveals that participants have developed added realism and honesty in their relationships. Before-and-after tests indicate significant changes in attitudes and behaviour and in personal growth.

### 10.6.3 Job Knowledge

In addition to decision-making skills and inter-personal skills, managers should also possess job knowledge to perform their jobs effectively. Trainers acquire job knowledge through on-the-job experience, coaching and understudy.

- a. **On-the-job experience:** On-the-job techniques are most widely used. No other technique may interest the trainee so much as the location of the learner is not an artificial one in the classroom techniques. The success of these techniques depends on the immediate supervisor and his teaching abilities. On-the-job techniques are especially useful for certain groups like scientific and technical personnel.

Though the costs of training initially appear to be low, they may turn out to be high when wastages of all kinds are considered under this type of training.

- b. **Behaviour modelling:** This is an approach that demonstrates desired behaviour, gives trainees the chance to practice and role-play those behaviours and receive feedback. The basic behaviour modelling involves the following steps :

- ❖ **Learning points:** At the beginning, the essential goals and objectives of the programme are stated. In some cases the learning points are a sequence of behaviours that are to be taught.
- ❖ **Modelling:** Trainees watch films or videotapes in which a model manager is portrayed dealing with an employee in an effort to improve his performance. The model shows specifically how to deal with the situation and demonstrates the learning points.
- ❖ **Role playing:** Trainees participate in extensive rehearsal of the behaviours shown by the models.
- ❖ **Social reinforcement:** The trainer offers reinforcement in the form of praise and constructive feedback based on how the trainee performs in the role-playing situation.
- ❖ **Transfer of learning:** Finally, trainees are encouraged to apply their new skills when they return to their jobs.



Behaviour modelling can be effective. Several controlled studies have demonstrated success in helping managers interact with employees, handle discipline, introduce change and increase productivity. This method of learning in isolation may prove to be inadequate, but in combination with other off-the-job techniques may prove to be useful.

- c. **Coaching:** In coaching, the trainee is placed under a particular supervisor who acts as an instructor and teaches job knowledge and skills to the trainee. He tells him what he wants him to do, how it can be done and follows up while it is being done and corrects errors. The act of coaching can be done in several ways. The executive, apart from asking trainees to do the routine work, may ask them to tackle some complex problems by giving them a chance to participate in decision-making. For effective coaching, a healthy and open relationship must exist between employees and their supervisors. Many firms conduct formal training courses to improve the coaching skills of their managers.

In coaching, participants can learn by actually doing a piece of work and obtain feedback on performance quickly. However, there is no guarantee that supervisors will be able to coach in an effective way. It is easy for the 'coach' to fall short in guiding the learner systematically, even if he knows which systematic experiences are best. Sometimes doing the job on hand may score over learning and watching. Many skills that have an intellectual component are best learned from a book or lecture before coaching could take place. Further, in many cases, the learner cannot develop much beyond the limits of his own boss's abilities. Coaching would work well if the coach provides a good model with whom the trainee can identify, if both can be open with each other, if the coach accepts his responsibility fully, and if he provides the trainee with recognition of his improvement and appropriate rewards.

- d. **Understudy:** An understudy is a person who is in training to assume at a future time, the full responsibility of the position currently held by his superior. This method supplies the organisation a person with as much competence as the superior to fill his post which may fall vacant because of promotion, retirement or transfer. An understudy is usually chosen by the head of a particular department. The head will then teach him what all his job involves. The superior involves him in decision-making by discussing the daily operating problems as well.

Understudy assignments help the superior to lighten his workload by delegating some portion of his work to a designated person. The understudy, in turn, gets an opportunity to learn the superior's job and get ready for challenging roles at a later date. It is beneficial from the organisation's point of view also as it will not be at the receiving end when an executive suddenly leaves his job. On the negative side, the designation of a person as an understudy may spark off jealousy and rivalry among competing subordinates. Since the understudy has been specially picked up, others who are left out in the race may get a feeling that competition for promotions is over. This would affect the motivation level of both the one who is designated (who tends to breathe easy, take the assignment for granted and even relax for a while) and the other personnel (who tend to carry the bitter feelings for a long, long time). The whole exercise would be beneficial only when trainees get a real opportunity to deal with challenging or interesting assignments (instead of performing paper shuffling chores).

#### 10.6.4 Organisational Knowledge

In addition to job knowledge, managers should also possess knowledge of various jobs, products, markets, finances creditors of the organisation, etc. The techniques of imparting organisational knowledge are job rotation and multiple management.

- a. **Job rotation:** The transferring of executives from job to job and from department to department in a systematic manner is called job rotation. The idea behind this is to give them the required diversified skills and a broader outlook, which are very important at upper management levels. The management should provide a variety of job experiences for those judged to have the potential for higher ranks before they are promoted. Job rotation increases the inter-departmental cooperation and reduces the monotony of the work.
- b. **Multiple management:** Multiple management is a system in which permanent advisory committees of managers study problems of the company and make recommendations to higher management. It is also called a Junior-board of executives. These committees discuss the actual problems and different alternative solutions after which the decisions are taken. Multiple management technique offers several advantages: it helps board members to gain first hand experience in various important aspects of business; it becomes easy to spot people with talent; juniors get a chance to improve their problem solving skills; and more importantly it is an inexpensive way of training a good number of executives to do things on their own and develop fast.

### 10.6.5 General Knowledge

In addition to job knowledge and organisational knowledge, managers should possess general knowledge, as the external environment interacts with and influences the business. The general knowledge includes the knowledge about the economic conditions of the country and the world in general, in respect of major areas such as prices, GNP per capita income, various other industries, other sectors of the economy, political conditions, social factors, etc. General knowledge can be acquired through special courses, special meetings and specific readings.

- a. **Special courses:** Special courses – like the workshops or executive development programmes organised by the institutes, universities and colleges – help the trainees to acquire general knowledge.
- b. **Special meetings:** Special meetings organised in Consumers' Forums, Voluntary Organisations, etc., help the trainees develop their general knowledge.
- c. **Specific readings:** Specific articles published by various journals, specific portions of important books are provided to the trainees to improve their general knowledge.

### 10.6.6 Specific Individual Needs

Some trainees may be weak in some areas. Such trainees are provided with special facilities for development. These facilities include special projects and committee assignments.

- a. **Special projects:** In this method, a trainee is put on a project closely related to the objectives of his department. For example, a new recruit in a property evaluation firm may be asked to do a small project reviewing the prospects of selling commercial space in satellite townships (like Gurgaon, Rohtak and Ghaziabad) near Delhi. The project will give a first hand experience of the problems and prospects in space selling to the new recruit.
- b. **Committee assignment:** In this method, an ad hoc committee is appointed to discuss, evaluate and offer suggestions relating to an important aspect of business. For example, a group of experts may be asked to look into the feasibility of developing a Software Technology Park in an upcoming area by the Delhi Development Authority.

### 10.6.7 Other Off-the-Job Methods

- a. **Conferences:** The conference method is another commonly used method of executive development. Topics such as human relations, safety education, customer relations, sales training, are often discussed, debated, spoken about at conferences specially organised and designed for the purpose. A conference is a meeting of people to discuss a subject of common interest. The conference is structured around a small group meeting wherein a leader helps the group identify and define a problem, guides the discussion along desired lines and summarises the views that represent the consensus of the group in dealing with the problem. The participants exchange notes, opinions, ideas on the subject in a systematic, planned way. A conference may be divided into small groups for focused discussions. Participants are expected to air their opinions and thoughts freely. In order to ensure its success, (i) participants are expected to come prepared for the conference, (ii) the conference leader should conduct the sessions according to a plan, giving enough room for healthy interchange of different viewpoints, (iii) the discussion should proceed along desired lines, and (iv) the size of the group should not be too large.
- b. **Lectures:** Lectures are formal presentations on a topic by an experienced and knowledgeable person. The presentation is generally supported by discussions, case studies, audio-visual aids and film shows. It is a simple and inexpensive way of imparting knowledge on a topic of special importance to a large audience. There could be a speedy interchange of ideas on a specific topic. The method may often degenerate into a kind of one-way traffic where the presenter tries to get ahead without paying attention to the reactions of the audience. If the lecture is not interesting enough, the audience may not participate and offer any feedback. The listeners play a largely non-participatory role. They may ask questions but they never get the feel of what is being talked about. Moreover, participants do not share each other's experiences and hence the learning is confined to what the presenter has to say.

The method could be used effectively if the following things are kept in mind:

- ❖ The presentation should be interesting, lively and leave enough room for healthy discussions midway.
  - ❖ The presenter must possess excellent communication and interpersonal skills. Adequate preparation must precede the actual presentation.
  - ❖ To enrich the presentation, audio-visual aids, examples, cases, and real-life incidents should be used freely, encouraging the audience to participate freely. Better to set time limits to the lecture, since listeners tend to switch off completely beyond a point (say, one or two hours).
- c. **Group discussion:** In this method, papers are presented by two or three trainees on a selected topic, followed by a stimulating discussions. The topics for discussion are selected in advance and the papers concerning the same, written by various participants, are printed and circulated beforehand. It is a variant of the lecture method and is generally preferred where the intention is to give wide circulation and participation to a number of experts sharing their experiences with a fairly large group of individuals.
  - d. **Programmed instruction (PI):** It is based on certain behavioural laws, particularly dealing with reinforcement. Reinforcement means rewarding a correct response and punishing a wrong one. A major feature of PI is that it offers immediate feedback on whether the trainee has answered questions correctly or not.

PI is a learner-oriented technique which presents subject matter to the trainees in small, sequential steps, requiring frequent responses from the trainee and immediately offering him of their accuracy or otherwise. If the response is accurate, he takes up the next level; if not, he is asked to go back and start again. The instructions are carefully planned moving from the simple to complex ones in a smooth way.

A major plus point of the method is that it allows the trainee to learn in small steps at a pace and rate suitable to him. He takes active part throughout the programme. Printed instructions could be offered by experts, keeping individual differences in mind. Regular feedback helps the trainer to improve material continuously. A computer-aided format can be placed in the hands of trainers with an instruction manual for getting excellent results. On the negative side, the impersonal atmosphere may not be very stimulating. The cost of designing such programmes is generally high. It is not suitable for trying to bring about behavioural changes.

### Check Your Progress 3

Fill in the blanks:

1. .... are the indispensable resources, the priceless assets of an organisation.
2. .... consume a lot of time, money and effort.
3. .... help in acquiring and developing different types of managerial skills and knowledge.
4. .... is a training method that employs simulated business problems for trainees to solve.
5. Trainers acquire ..... through on-the-job experience, coaching and understudy.

## 10.7 SELECTION OF A SUITABLE METHOD

The success of any management development programme largely depends on the selection of the method. The objectives of the programme should be kept in mind while choosing a particular method. However, no single technique may prove to be sufficient, but only a suitable combination of techniques may yield results.

The following Table 10.6 may help in making a suitable choice:

**Table 10.6: Suitability of Executive Development Techniques**

Technique	Suitability
Job Rotation	To develop diversified skills and broaden the outlook of an executive
Understudy	To aid succession planning by developing the skills of juniors according to a pre-set plan
Multiple Management	To assist managers in expanding their outlook and knowledge in various functional areas
Case Study	To develop analytical, reasoning and problem-solving skills
Role Playing	To translate theoretical knowledge into action plans and to promote good human relations skills among trainees
Behaviour Modelling	To teach inter-personnel and cognitive skills
In-basket	To promote situational judgement and social sensitivity
Business Games	To develop smart thinking, quick reactions, initiative, organising and leadership skills

*Contd....*

Sensitivity Training	To promote self awareness and its impact on others
Conference	To improve and expand knowledge, attitudes and develop interpersonal skills
Lecture	To impart conceptual knowledge to a large audience within a short span of time.

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## 10.8 LET US SUM UP

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To be useful and productive, managers need to develop their capabilities at frequent intervals.

Management development is the process in which executives acquire not only skills and competencies in their present jobs but also capabilities for future managerial tasks of increasing difficulty and scope.

Management development, in contrast to employee training, is more future-oriented and concerned with education.

Analysing development needs, appraising current talents, preparing executive inventory, planning and establishment of individual development programmes, and evaluating the success are the main steps in the process of executive development.

Various methods are used to develop managerial skills and knowledge including in-basket, case study, behaviour modelling, role play, sensitivity training, business game, coaching, job rotation, multiple management, conferences, lectures, programmed instruction etc.

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## 10.9 LESSON END ACTIVITY

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You have just been hired as the new training and development manager in a large private sector bank. This is a new position in the bank and the senior executives have asked you to attend their executive meeting at the end of the week. You are supposed to give a presentation throwing light on how the training and development of employees would help reduce the increasing turnover the bank is currently experiencing.

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## 10.10 KEYWORDS

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**Executive development:** The process in which executives acquire not only skills and competence in their present jobs but also capabilities for future managerial tasks of increasing difficulty and scope.

**Management game:** It is a learning exercise representing a real-life situation where trainees compete with each other to achieve specific objectives.

**Simulation method:** It is a method employed to develop a situation that is close to reality where people learn by doing things – in a controlled environment.

**Programmed learning:** A kind of individual study where trainees learn through a series of small steps, e.g., Linear programming.

**Understudy:** A development method whereby potential managers are given the chance to temporarily relieve an experienced manager of part of his job and act as his substitute during the period, giving him vital insights into the overall job that would make him the automatic choice in the succession process.

**Behaviour modelling:** An approach that demonstrates desired behaviour and gives trainees the chance to practice and role-play those behaviours and receive feedback.

## 10.11 QUESTIONS FOR DISCUSSION

1. What do you mean by executive development? Discuss the methods of executive development.
2. Define Sensitivity Training. Discuss its merits and demerits.
3. Write short notes on:
  - (a) Business Games
  - (b) Multiple Management
  - (c) In-basket Exercise
  - (d) Job Rotation
4. Human Resource Development is nothing but looking at the development of manpower of an organisation in the light of its requirements. Do you agree? Give reasons for your views.
5. State the importance of executive development, keeping the Indian conditions in mind.
6. Explain the principal executive training methods and suggest a suitable training package for middle level executives in a large organisation.
7. Discuss the merits and demerits of case study as a method of executive development?
8. Differentiate between training and development. Why is executive development necessary?
9. Explain the merits and demerits of case study as a method of developing executives?
10. Describe the pros and cons of five management development methods.

### Check Your Progress: Model Answers

#### CYP 1

1. d, 2. a, 3. b, 4. d, 5. c

#### CYP 2

1. F, 2. F, 3. T, 4. F, 5. T,  
6. T, 7. T, 8. F, 9. F, 10. F

#### CYP 3

1. Managers
2. Executive development programmes
3. Management development programmes
4. Case Study
5. Job Knowledge

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## 10.12 SUGGESTED READINGS

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Management Development

V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004



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## LESSON

# 11

## PERFORMANCE APPRAISAL

### CONTENTS

- 11.0 Aims and Objectives
- 11.1 Introduction
- 11.2 Definition and Meaning of Performance Appraisal
- 11.3 Features of Performance
- 11.4 Performance Measurement Purpose
- 11.5 Performance Appraisal Process
- 11.6 Methods of Performance Appraisal
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- 11.11 Performance Appraisal in Indian Industries
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- 11.15 Lesson End Activity
- 11.16 Keywords
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### 11.0 AIMS AND OBJECTIVES

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The purpose of this lesson is to enable the students to have a firsthand view of the concepts, techniques and tools used in appraising performance in modern organisations. After studying this lesson, you will be able to:

- Describe meaning and objectives of performance appraisal
- Explain the steps involved in the performance appraisal
- Outline various methods of performance appraisal
- Discuss major problems of performance appraisal

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## 11.1 INTRODUCTION

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After an employee has been selected for a job, has been trained to do it and has worked on it for a period of time, his performance should be evaluated. Performance Evaluation or Appraisal is the process of deciding how employees do their jobs. Performance here refers to the degree of accomplishment of the tasks that make up an individual's job. It indicates how well an individual is fulfilling the job requirements. Often the term is confused with efforts, which means energy expended and used in a wrong sense. Performance is always measured in terms of results. A bank employee, for example, may exert a great deal of effort while preparing for the CAIIB examination but manages to get a poor grade. In this case the effort expended is high but performance is low.

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## 11.2 DEFINITION AND MEANING OF PERFORMANCE APPRAISAL

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Performance appraisal is a method of evaluating the behaviour of employees in the workspot, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work-related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he or she is performing the job and ideally, establishing a plan of improvement.

### Box 11.1: What is Performance Appraisal?

- **Identification:** Means determining what areas of work the manager should be examining when measuring performance - essentially focusing on performance that affects organisational success.
- **Measurement:** Entails making managerial judgements of how good or bad employee performance was.
- **Management:** Appraisal should be more than a post-mortem examination of past events, criticising or praising workers for their performance in the preceding year. Instead, it must take a future oriented view of what workers can do to realise their potential.

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## 11.3 FEATURES OF PERFORMANCE

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The main characteristics of performance appraisal may be listed thus:

- The appraisal is a systematic process involving three steps:
  - a. Setting work standards.
  - b. Assessing employee's actual performance relative to these standards.
  - c. Offering feedback to the employee so that he can eliminate deficiencies and improve performance in course of time.
- It tries to find out how well the employee is performing the job and tries to establish a plan for further improvement.
- The appraisal is carried out periodically, according to a definite plan. It is certainly not a one shot deal.
- Performance appraisal is not a past-oriented activity, with the intention of putting poor performers in a spot. Rather, it is a future oriented activity showing employees where things have gone wrong, how to set everything in order, and deliver results using their potential in a proper way.

- Performance appraisal is not job evaluation. Performance appraisal refers to how well someone is doing an assigned job. Job evaluation, on the other hand, determines how much a job is worth to the organisation and therefore, what range of pay should be assigned to the job.
- Performance appraisal is not limited to 'calling the fouls'. Its focus is on employee development. It forces managers to become coaches rather than judges. The appraisal process provides an opportunity to identify issues for discussion, eliminate any potential problems, and set new goals for achieving high performance.
- Performance appraisal may be formal or informal. The informal evaluation is more likely to be subjective and influenced by personal factors. Some employees are liked better than others and have, for that reason only, better chances of receiving various kinds of rewards than others. The formal system is likely to be more fair and objective, since it is carried out in a systematic manner, using printed appraisal forms.

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## 11.4 PERFORMANCE MEASUREMENT PURPOSE

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Performance appraisal could be taken either for evaluating the performance of employees or for developing them. The evaluation is of two types: telling the employee where he stands and using the data for personnel decisions concerning pay, promotions, etc. The developmental objectives focus on finding individual and organisational strengths and weaknesses; developing healthy superior-subordinate relations; and offering appropriate counselling/coaching to the employee with a view to develop his potential in future.

Appraisal of employees serves several useful purposes:

- a. **Compensation decisions:** It can serve as a basis for pay raises. Managers need performance appraisal to identify employees who are performing at or above expected levels. This approach to compensation is at the heart of the idea that raises should be given for merit rather than for seniority. Under merit systems, employee receives raises based on performance.
- b. **Promotion decisions:** It can serve as a useful basis for job change or promotion. When merit is the basis for reward, the person doing the best job receives the promotion. If relevant work aspects are measured properly, it helps in minimising feelings of frustration of those who are not promoted.
- c. **Training and development programmes:** It can serve as a guide for formulating a suitable training and development programme. Performance appraisal can inform employees about their progress and tell them what skills they need to develop to become eligible for pay raises or promotions or both.
- d. **Feedback:** Performance appraisal enables the employee to know how well he is doing on the job. It tells him what he can do to improve his present performance and go up the 'organisational ladder'.
- e. **Personal development:** Performance appraisal can help reveal the causes of good and poor employee performance. Through discussions with individual employees, a line manager can find out why they perform as they do and what steps can be initiated to improve their performance.

### Box 11.2: The Benefits of Performance Appraisal

#### Employer perspective [Administrative uses]

- Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.
- Documentation of performance appraisal and feedback may be required for legal defence.
- Appraisal offers a rational basis for constructing a bonus or merit system.
- Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.

#### Employee perspective [Developmental purposes]

- Individual feedback helps people to rectify their mistakes and get ahead, focusing more on their unique strengths.
- Assessment and reorganisation of performance levels can motivate employees to improve their performance.

## 11.5 PERFORMANCE APPRAISAL PROCESS

Performance appraisal is planned, developed and implemented through a series of steps.

- Establish performance standards:** Appraisal systems require performance standards, which serve as benchmarks against which performance is measured. To be useful, standards should relate to the desired results of each job. What about those appraisals which are carried out without any clear-cut criteria? Observe the following case:

Raju, who had just finished his first year as an office assistant was summoned to his manager's office for his annual performance review. Slightly uneasy, but confident that he has done a good job, Raju arrived at his manager's office at the appointed hour. After the initial exchange of pleasantries, Raju was given a copy of an appraisal form, which was completed as follows:

### Box 11.3: Yearly Performance Review

Name of the Employee:	Mr Raju
Date:	31.12.1999
Use the following scale to rate the employee	
(1 poor 2 below average 3 average 4 good 5 excellent)	
a. Absenteeism	1 2 3 4 5
b. Quality of work	1 2 3 4 5
c. Quantity of work	1 2 3 4 5
d. Attitude toward the job	1 2 3 4 5
e. Personality-related factors	1 2 3 4 5
f. Interpersonal relations	1 2 3 4 5
(Bold letters indicate the actual rating by the manager as on 31.12.1999)	
Supervisor_____	Employee_____

Raju got the shock of his life. Why did he not receive any negative feedback about his performance until now? How did the manager rate his personality and interpersonal behaviour so badly? Looking at his unhappy reactions, the manager proceeded to explain how he has failed to win the confidence of his teammates. He also advised Raju to talk to him directly instead of writing to the Director of the company. Speechless and dejected, Raju left the office, wondering as to what he must do to improve his performance and obtain better grades.

To avoid embarrassments of this kind, performance standards must be clear to both the appraiser and the appraisee. The performance standards or goals must be developed after a thorough analysis of the job. Goals must be written down. Just talking about them is not enough. They must be measurable within certain time and cost considerations. For example, the regional sales officer may be asked: “The sales of colour television sets in Ghaziabad must increase by 1000 per month in the next 6 months and the budget toward promotional expenses would Rs 5,000 per month.”

**Box 11.4: Criteria for Identifying and Writing Good Performance Goals**

- What is the task to be accomplished?
- What will it look like when it is accomplished?
- When must it be completed?
- What are the cost considerations?

- b. ***Communicate the standards:*** Performance appraisal involves at least two parties; the appraiser who does the appraisal and the appraisee whose performance is being evaluated. Both are expected to do certain things. The appraiser should prepare job descriptions clearly; help the appraisee set his goals and targets; analyse results objectively; offer coaching and guidance to the appraisee whenever required and reward good results. The appraisee should be very clear about what he is doing and why he is doing it. For this purpose, performance standards must be communicated to appraisees and their reactions should be noted down right away. If necessary, these standards must be revised or modified. As pointed out by De Cenzo and Robbins, “too many jobs have vague performance standards and the problem is compounded when these standards are set in isolation and do not involve the employee”.
- c. ***Measure actual performance:*** After the performance standards are set and accepted, the next step is to measure actual performance. This requires the use of dependable performance measures, the ratings used to evaluate performance. Performance measures – to be helpful – must be easy to use, reliable, and report on the critical behaviours that determine performance. Four common sources of information which are generally used by managers regarding how to measure actual performance are personal observation, statistical reports, oral reports and written reports.

Performance measures may be objective or subjective. Objective performance measures are indications of job performance that can be verified by others and are usually quantitative. Objective criteria include quality of production, degree of training needed and accidents in a given period, absenteeism, length of service, etc. Subjective performance measures are ratings that are based on the personal standards or opinions of those doing the evaluation, and are not verifiable by others. Subjective criteria include ratings by superiors, (knowledge about) overall goals,

and (contribution to) socio-cultural values of the environment. It should be noted here that objective criteria can be laid down while evaluating lower level jobs which are specific and defined clearly. This is not the case with middle level positions that are complex and vague.

#### Box 11.5: Measurement of Performance of a Telephone Operator

A telephone company supervisor, while measuring the performance of a telephone operator may observe the following:

- Use of company procedures such as staying calm, following company rules and regulations, etc.
- Pleasant phone manners such as speaking politely in a courteous tone.
- Call-placement accuracy: placing operated assisted calls accurately.

The rater's monitoring of an operator's calls is direct observation. The actual on-line performance is evaluated directly. For example, if a written test is held for telephone operators about company rules and regulations for handling emergency calls, international calls, etc., then the process of evaluation becomes indirect as it is based on a written report about the performance of operators in the test.

- d. **Compare actual performance with standards and discuss the appraisal:** Actual performance may be better than expected and sometimes it may go off the track. Whatever be the consequences, there is a way to communicate and discuss the final outcome. The assessment of another person's contribution and ability is not an easy task. It has serious emotional overtones as it affects the self-esteem of the appraisee. Any appraisal based on subjective criteria is likely to be questioned by the appraisee and leave him quite dejected and unhappy when the appraisal turns out to be negative.
- e. **Taking corrective action, if necessary:** Corrective action is of two types: one puts out the fires immediately, while the other destroys the root of the problem permanently. Immediate action sets things right and get things back on track whereas the basic corrective action gets to the source of deviations and seeks to adjust the difference permanently. Basic corrective steps seek to find out how and why performance deviates.

#### Check Your Progress 1

Fill in the blanks:

1. .... is a method of evaluating the behaviour of employees in the workspot.
2. It is a ..... way of evaluating both work-related behaviour and potential of employees.
3. Performance appraisal could be taken either for evaluating the ..... or for developing them.
4. Performance appraisal can help reveal the causes of ..... performance.

## 11.6 METHODS OF PERFORMANCE APPRAISAL

The performance appraisal methods may be classified into three categories, as shown in Figure 11.1:

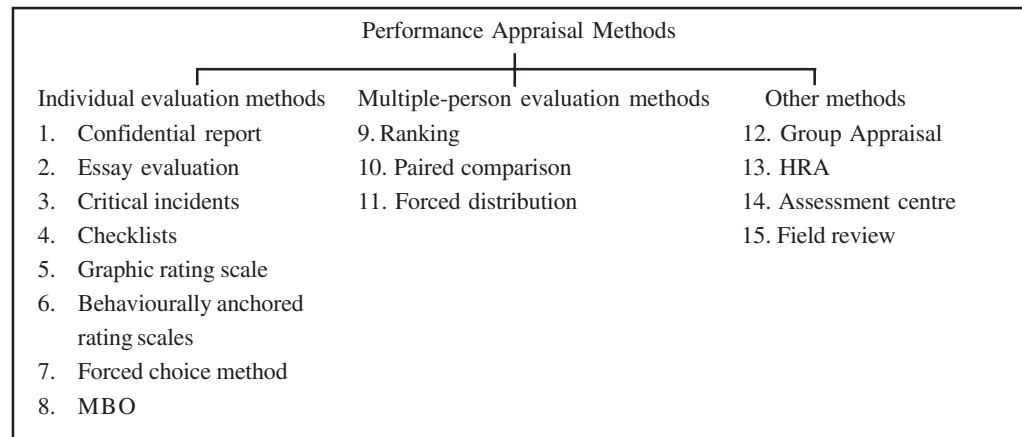


Figure 11.1: Performance Appraisal Methods

### 11.6.1 Individual Evaluation Methods

Under the individual evaluation methods of merit rating, employees are evaluated one at a time without comparing them with other employees in the organisation:

1. **Confidential report:** It is mostly used in government organisations. It is a descriptive report prepared, generally at the end of every year, by the employee's immediate superior. The report highlights the strengths and weaknesses of the subordinate. The report is not data based. The impressions of the superior about the subordinate are merely recorded there. It does not offer any feedback to the appraisee. The appraisee is not very sure about why his ratings have fallen despite his best efforts, why others are rated high when compared to him, how to rectify his mistakes, if any; on what basis he is going to be evaluated next year, etc. Since the report is generally not made public and hence no feedback is available, the subjective analysis of the superior is likely to be hotly contested. In recent years, due to pressure from courts and trade unions, the details of a negative confidential report are given to the appraisee.
2. **Essay evaluation:** Under this method, the rater is asked to express the strong as well as weak points of the employee's behaviour. This technique is normally used with a combination of the graphic rating scale because the rater can elaborately present the scale by substantiating an explanation for his rating. While preparing the essay on the employee, the rater considers the following factors: (i) Job knowledge and potential of the employee; (ii) Employee's understanding of the company's programmes, policies, objectives, etc.; (iii) The employee's relations with co-workers and superiors; (iv) The employee's general planning, organising and controlling ability; (v) The attitudes and perceptions of the employee, in general.

Essay evaluation is a non-quantitative technique. This method is advantageous in at least one sense, i.e., the essay provides a good deal of information about the employee and also reveals more about the evaluator. The essay evaluation method however, suffers from the following limitations:

- ❖ It is highly subjective; the supervisor may write a biased essay. The employees who are sycophants will be evaluated more favourably than other employees.



- ❖ Some evaluators may be poor in writing essays on employee performance. Others may be superficial in explanation and use flowery language which may not reflect the actual performance of the employee. It is very difficult to find effective writers nowadays.
- ❖ The appraiser is required to find time to prepare the essay. A busy appraiser may write the essay hurriedly without properly assessing the actual performance of the worker. On the other hand, appraiser takes a long time, this becomes uneconomical from the view point of the firm, because the time of the evaluator (supervisor) is costly.

3. **Critical incident technique:** Under this method, the manager prepares lists of statements of every effective and ineffective behaviour of an employee. These critical incidents or events represent the outstanding or poor behaviour of employees on the job. The manager maintains logs on each employee, whereby he periodically records critical incidents of the workers' behaviour. At the end of the rating period, these recorded critical incidents are used in the evaluation of the workers' performance. An example of a good critical incident of a sales assistant is the following:

July 20 – The sales clerk patiently attended to the customer's complaint. He is polite, prompt, enthusiastic in solving the customer's problem.

On the other hand, the bad critical incident may appear as under:

July 20 – The sales assistant stayed 45 minutes over on his break during the busiest part of the day. He failed to answer the store manager's call thrice. He is lazy, negligent, stubborn and uninterested in work.

This method provides an objective basis for conducting a thorough discussion of an employee's performance. This method avoids recently bias (most recent incidents get too much emphasis). This method suffers, however, from the following limitations:

- ❖ Negative incidents may be more noticeable than positive incidents.
- ❖ The supervisors have a tendency to unload a series of complaints about incidents during an annual performance review session.
- ❖ It results in very close supervision which may not be liked by the employee.
- ❖ The recording of incidents may be a chore for the manager concerned, who may be too busy or forget to do it.

Most frequently, the critical incidents method is applied to evaluate the performance of superiors.

4. **Checklists and weighted checklists:** Another simple type of individual evaluation method is the checklist. A checklist represents, in its simplest form, a set of objectives or descriptive statements about the employee and his behaviour. If the rater believes strongly that the employee possesses a particular listed trait, he checks the item; otherwise, he leaves the item blank. A more recent variation of the checklist method is the weighted list. Under this, the value of each question may be weighted equally or certain questions may be weighted more heavily than others. The following are some of the sample questions in the checklist:

- ❖ Is the employee really interested in the task assigned? Yes/No
- ❖ Is he respected by his colleagues (co-workers) Yes/No
- ❖ Does he respect his superiors? Yes/No

- ❖ Does he follow instructions properly? Yes/No
- ❖ Does he make mistakes frequently? Yes/No

A rating score from the checklist helps the manager in evaluation of the performance of the employee. The checklist method has a serious limitation. The rater may be biased in distinguishing the positive and negative questions. He may assign biased weights to the questions. Another limitation could be that this method is expensive and time consuming. Finally, it becomes difficult for the manager to assemble, analyse and weigh a number of statements about the employee's characteristics, contributions and behaviours.

5. **Graphic rating scale:** Under this method, a printed form, as shown below, is used to evaluate the performance of an employee. A variety of traits may be used in these types of rating devices, the most common being the quantity and quality of work. The rating scales can also be adapted by including traits that the company considers important for effectiveness on the job. A model of a graphic rating scale is given below.

**Box 11.6: Typical Graphic Rating Scale**

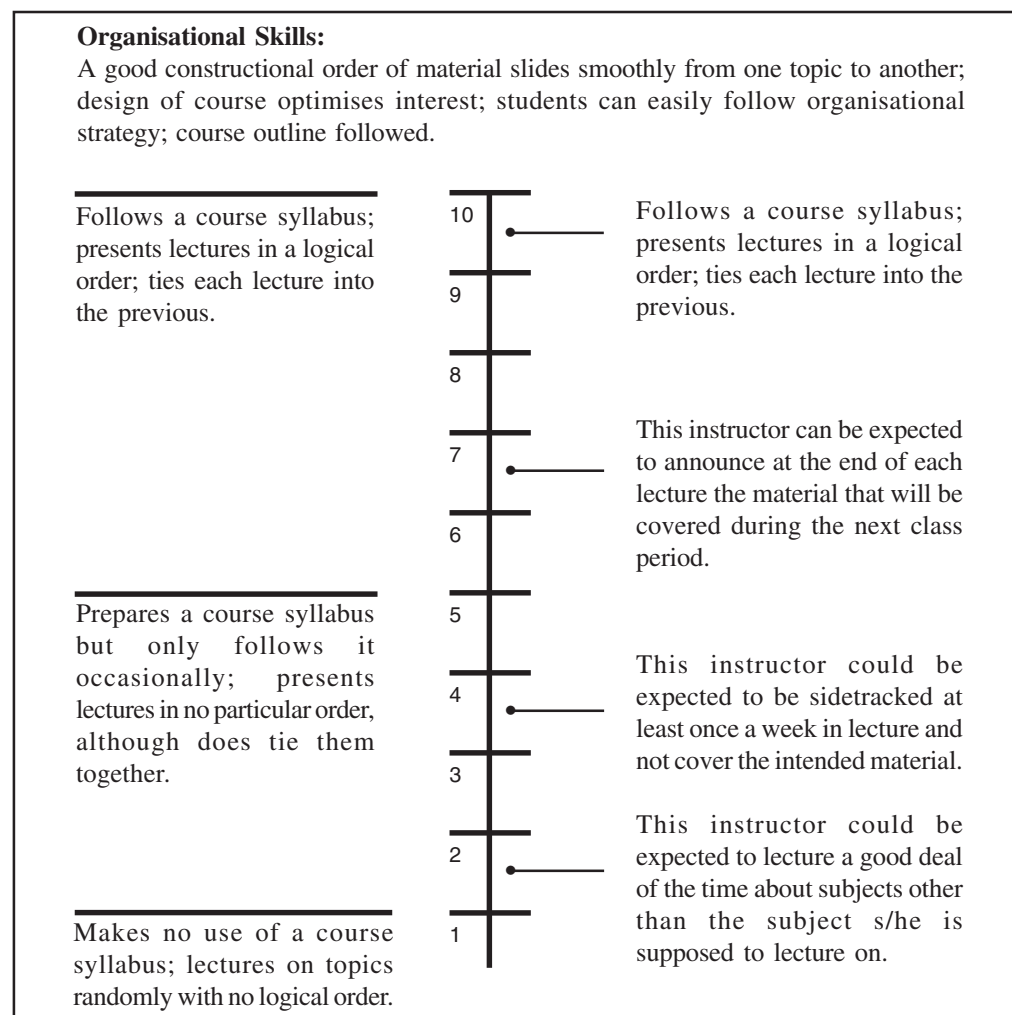
Employee Name..... Department ..... Data .....	Job title ..... Rate .....				
	<b>Unsatis- factory</b>	<b>Fair</b>	<b>Satis- factory</b>	<b>Good</b>	<b>Outstanding</b>
<ul style="list-style-type: none"> <li>● <b>Quantity of work</b> Volume of work under normal working conditions</li> <li>● <b>Quality of work</b> neatness, thoroughness and accuracy of work</li> <li>● <b>Knowledge of job</b> A clear understanding of the factors connected with the job</li> <li>● <b>Attitude</b> Exhibits enthusiasm and cooperativeness on the job</li> <li>● <b>Dependability</b> Conscientious, thorough, reliable, accurate, with respect to attendance, reliefs, lunch breaks, etc.</li> <li>● <b>Cooperation</b> Willingness and ability to work with others to produce desired goals.</li> </ul>					

From the graphic rating scales, excerpts can be obtained about the performance standards of employees. For instance, if the employee has serious gaps in technical-professional knowledge (knows only rudimentary phases of job); lacks the knowledge to bring about an increase in productivity; is reluctant to make decisions

on his own (on even when he makes decisions they are unreliable and substandard); declines to accept responsibility; fails to plan ahead effectively; wastes and misuses resources; etc., then it can safely be inferred that the standards of performance of the employee are dismal and disappointing.

The rating scale is the most common method of evaluation of an employee's performance today. One positive point in favour of the rating scale is that it is easy to understand, easy to use and permits a statistical tabulation of scores of employees. When ratings are objective in nature, they can be effectively used as evaluators. The graphic rating scale may, however, suffer from a long standing disadvantage, i.e., it may be arbitrary and the rating may be subjective. Another pitfall is that each characteristic is equally important in evaluation of the employee's performance and so on.

6. **Behaviourally anchored rating scales:** Also known as the behavioural expectations scale, this method represents the latest innovation in performance appraisal. It is a combination of the rating scale and critical incident techniques of employee performance evaluation. The critical incidents serve as anchor statements on a scale and the rating form usually contains six to eight specifically defined performance dimensions. Figure 11.2 represents a BARS scale for a college professor.



**Source:** Adapted from H. John Bernardin and Richard W. Beatty, Performance Appraisal: Assessing Human Behaviour at Work (Boston: Kent Publishing Company, 1984).

**Figure 11.2: A Sample Behaviourally Anchored Rating Scale for a college Professor**

How to construct BARS? Developing a BARS follows a general format which combines techniques employed in the critical incident method and weighted checklist rating scales. Emphasis is pinpointed on pooling the thinking of people who will use the scales as both evaluators and evaluatees.

**Step I:** Collect critical incidents: People with knowledge of the job to be probed, such as job holders and supervisors, describe specific examples of effective and ineffective behaviour related to job performance.

**Step II:** Identify performance dimensions: The people assigned the task of developing the instrument, cluster the incidents into a small set of key performance dimensions. Generally, between five and ten dimensions account for most of the performance. Examples of performance dimensions include technical competence, relationships with customers, handling of paperwork and meeting day-to-day deadlines. While developing varying levels of performance for each dimension (anchors), specific examples of behaviour should be used, which could later be scaled in terms of good, average or below average performance.

**Step III:** Reclassification of incidents: Another group of participants knowledgeable about the job is instructed to retranslate or reclassify the critical incidents generated (in Step II) previously. They are given the definition of job dimension and told to assign each critical incident to the dimension that it best describes. At this stage, incidents for which there is lower than 75 per cent agreement are discarded as being too subjective.

**Step IV:** Assigning scale values to the incidents: Each incident is then rated on a one-to-seven or one-to-nine scale with respect of how well it represents performance on the appropriate dimension. A rating of one represents ineffective performance; the top scale value indicates very effective performance. The second group of participants usually assigns the scale values. Means and standard deviations are then calculated for the scale values assigned to each incident. Typically, incidents that have standard deviations of 1.50 or less (on a 7-point scale) are retained.

**Step V:** Producing the final instrument: About six or seven incidents for each performance dimension – all having met both the retranslating and standard deviation criteria – will be used as behavioural anchors. The final BARS instrument consists of a series of vertical scales (one for each dimension) anchored (or measured) by the final incidents. Each incident is positioned on the scale according to its mean value.

Because the above process typically requires considerable employee participation, its acceptance by both supervisors and their subordinates may be greater. Proponents of BARS also claim that such a system differentiates among behaviour, performance and results and consequently is able to provide a basis for setting developmental goals for the employee. Because it is job-specific and identifies observable and measurable behaviour, it is a more reliable and valid method for performance appraisal.

Researchers, after surveying several studies on BARS, concluded that “despite the intuitive appeal of BARS, findings from research have not been encouraging”. It has not proved to be superior to other methods in overcoming rater errors or in achieving psychometric soundness. A specific deficiency is that the behaviours used are activity oriented rather than results oriented. This creates a potential problem for supervisors doing the evaluation, who may be forced to deal with employees who are performing the activity but not accomplishing the desired goals.

Further, it is time consuming and expensive to create BARS. They also demand several appraisal forms to accommodate different types of jobs in an organisation. In a college, lecturers, office clerks, library staff, technical staff and gardening staff all have different jobs; separate BARS forms would need to be developed for each. In view of the lack of compelling evidence demonstrating the superiority of BARS over traditional techniques such as graphic rating scales, decotis concluded that: “It may be time to quit hedging about the efficacy of behavioural scaling strategies and conclude that this method has no clear-cut advantages over more traditional and easier methods of performance evaluation”.

7. **Forced choice method:** This method was developed to eliminate bias and the preponderance of high ratings that might occur in some organisations. The primary purpose of the forced choice method is to correct the tendency of a rater to give consistently high or low ratings to all the employees. This method makes use of several sets of pair phrases, two of which may be positive and two negative and the rater is asked to indicate which of the four phrases is the most and least descriptive of a particular worker. Actually, the statement items are grounded in such a way that the rater cannot easily judge which statements apply to the most effective employee. The following box is a classic illustration of the forced choice items in organisations:

**Table 11.1: Forced Choice Items**

1.	Least		Most
	A	Does not anticipate difficulties	A
	B	Grasps explanations easily and quickly	B
	C	Does not waste time	C
	D	Very easy to talk to	D
2.	Least		Most
	A	Can be a leader	A
	B	Wastes time on unproductive things	B
	C	At all times, cool and calm	C
	D	Smart worker	D

The favourable qualities earn a plus credit and the unfavourable ones earn the reverse. The worker gets an overall plus rating, when the positive factors override the negative ones or when one of the negative phrases is checked as being insignificantly rated.

They overall objectivity is increased by using this method in evaluation of employee's performance, because the rater does not know how high or low he is evaluating the individual as he has no access to the scoring key. This method, however, has a strong limitation. In the preparation of sets of phrases trained technicians are needed and as such the method becomes very expensive. Further, managers may feel frustrated rating the employees 'in the dark'. Finally, the results of the forced choice method may not be useful for training employees because the rater himself does not know how he is evaluating the worker. In spite of these limitations, the forced choice technique is quite popular.

8. **Management by Objectives (MBO):** MBO requires the management to set specific, measurable goals with each employee and then periodically discuss the latter's progress towards these goals. This technique emphasises participatively set goals (that are agreed upon by the superior and the employee) that are tangible, verifiable and measurable. MBO focuses attention on what must be accomplished (goals)

rather than how it is to be accomplished. It is, thus, a kind of goal setting and appraisal programme involving six steps:

- ❖ *Set the organisation's goals:* Establish an organisationwide plan for next year and set company goals.
- ❖ *Set departmental goals:* Departmental heads at this stage take the broader company goals (such as improving profits by 20 per cent, increasing market share by 10 per cent etc.) and, with their superiors, jointly set goals for their departments.
- ❖ *Discuss departmental goals:* The departmental goals are now put to discussion in a departmental meeting with subordinates. The departmental heads would require the subordinates to set their own preliminary individual goals, focusing mostly on what they can do to achieve the department's goals.
- ❖ *Define expected results:* In the next step, the departmental heads and their subordinates agree on a set of participatorily set short term, and individual performance targets.
- ❖ *Performance reviews:* Departmental heads compare each employee's actual and targeted performance, either periodically or annually. While periodic review is intended to identify and solve specific performance problems, the annual review is conducted to assess and reward one's overall contribution to the organisation. Because employees are evaluated on their performance results, MBO is often called a result-based performance appraisal system.
- ❖ *Provide feedback:* Both parties now discuss and evaluate the actual progress made in achieving goals, where things have gone off the track, how best to rectify the mistakes made in the past, and how the employee could meet the targets next time, focusing attention on his strengths.

However, setting clearly measurable goals is not an easy task. MBO demands a great deal of time to set verifiable goals at all levels of an organisation. In the race to define everything rigidly, some of the qualitative aspects might be ignored (such as employee attitudes, job satisfaction etc.) Often the superior may set goals at a frustratingly high level, whereas the subordinate may wish to have it at a comfortable level. At times, the short-term goals may take precedence over long term goal. The only way to overcome these problems is to allow managers at all levels to explain, coordinate and guide the programme in a persuasive, democratic way. The jointly set targets must be fair and attainable. Both the superiors and the subordinates must be taught how to set realistic goals and be familiarised with the results for which they are finally held responsible.

### 11.6.2 Multiple-person Evaluation Techniques

The above discussed methods are used to evaluate employees one at a time. In this section, let us discuss some techniques of evaluating one employee in comparison to another. Three such frequently used methods in organisations are – ranking, paired comparison and forced distribution.

9. **Ranking method:** This is a relatively easy method of performance evaluation. Under this method, the ranking of an employee in a work group is done against that of another employee. The relative position of each employee is expressed in terms of his numerical rank. It may also be done by ranking a person on his job performance against another member of the competitive group. The quintessence of this method is that employees are ranked according to their relative levels of performance.



While using this method, the evaluator is asked to rate employees from highest to lowest on some overall criterion. Though it is relatively easier to rank the best and the worst employees, it is very difficult to rank the average employees. Generally, evaluators pick the top and bottom employees first and then select the next highest and next lowest and move towards the average (middle) employees. The long-standing limitations of this method are:

- ❖ The 'whole man' is compared with another 'whole man' in this method. In practice, it is very difficult to compare individuals possessing varied behavioural traits.
- ❖ This method speaks only of the position where an employee stands in his group. It does not tell anything about how much better or how much worse an employee is when compared to another employee.
- ❖ When a large number of employees are working, ranking of individuals becomes a vexing issue.
- ❖ There is no systematic procedure for ranking individuals in the organisation. The ranking system does not eliminate the possibility of snap judgements.

In order to overcome the above limitations, a paired comparison technique has been advanced by organisational scholars.

10. **Paired comparison method:** Ranking becomes more reliable and easier under the paired comparison method. Each worker is compared with all other employees in the group; for every trait, the worker is compared with all other employees. For instance, when there are five employees to be compared, then A's performance is compared with that of B's and decision is arrived at as to whose is better or worse. Next, B is also compared with all others. Since A is already compared with B, this time B is to be compared with only C, D and E. By this method, when there are five employees, fifteen decisions are made (comparisons). The number of decisions to be made can be determined with the help of the formulae  $n(n-1)/2$ . Ranking the employees by the paired comparison method may be illustrated as shown in the Table 11.2.

For several individual traits, paired comparisons are made, tabulated and then rank is assigned to each worker. Though this method seems to be logical, it is not applicable when a group is large. When the group becomes too large, the number of comparisons to be made may become frighteningly excessive. For instance, when  $n=100$ , comparisons to be made are  $100(100-1)/2 = 100(99)/2 = 9900$ .

Trait: 'Quantity of work'

**Table 11.2: Employee Rated**

As compared to	A	B	C	D	E
A		+	-	+	-
B	-		+	-	+
C	+	-		+	-
D	-	+	-		-
E	+	-	+	+	

11. **Forced distribution method:** Under this system, the rater is asked to appraise the employee according to a predetermined distribution scale. The rater's bias is sought to be eliminated here because workers are not placed at a higher or lower end of the scale. Normally, the two criteria used here for rating are the job performance



and promotability. Further, a five-point performance scale is used without any mention of descriptive statements. Workers are placed between the two extremes of 'good' and 'bad' performances. For instance, the workers of outstanding merit may be placed at the top 10% of the scale. The rest may be placed as – 20% —good, 40% —outstanding, 20% —fair and 10% —poor. To be specific, the forced distribution method assumes that all top grade workers should go to the highest 10% grade; 20% employees should go to the next highest grade and so on.

Apart from job performance as the criterion, another equally important factor in this method is promotability. Employees may be classified according to their promotional merits. The scale for this purpose may consist of three points – namely, quite likely promotional material, may/may not be promotional material and quite unlikely promotional material.

One strong positive point in favour of the forced distribution method is that by forcing the distribution according to predetermined percentages, the problem of making use of different raters with different scales is avoided. Further, this method is appreciated on the ground that it tends to eliminate rater bias. The limitation of using this method in salary administration however, is that it may result in low morale, low productivity and high absenteeism. Employees who feel that they are productive, but find themselves placed in a grade lower than expected feel frustrated and exhibit, over a period of time, reluctance to work.

### 11.6.3 Other Methods

Other methods of appraising performance include: Group Appraisal, Human Resource Accounting, Assessment Centre, Field Review, etc. These are discussed in the following sections:

12. **Group appraisal:** In this method, an employee is appraised by a group of appraisers. This group consists of the immediate supervisor of the employee, other supervisors who have close contact with the employee's work, manager or head of the department and consultants. The head of the department or manager may be the Chairman of the group and the immediate supervisor may act as the Coordinator for the group activities. This group uses any one of multiple techniques discussed earlier. The immediate supervisor enlightens other members about the job characteristics, demands, standards of performance, etc. Then the group appraises the performance of the employee, compares the actual performance with standards, finds out the deviations, discusses the reasons therefor, suggests ways for improvement of performance, prepares an action plan, studies the need for change in the job analysis and standards and recommends changes, if necessary.

This method eliminates 'personal bias' to a large extent, as performance is evaluated by multiple raters. But it is a very time consuming process.

13. **Human resource accounting:** HRA is a sophisticated way to measure (in financial terms) the effectiveness of personnel management activities and the use of people in an organisation. It is the process of accounting for people as an organisational resource. It tries to place a value on organisational human resources as assets and not as expenses. The HRA process shows the investment the organisation makes in its people and how the value of these people changes over time. The acquisition cost of employees is compared to the replacement cost from time to time. The value of employees is increased by investments made by the company to improve the quality of its human resources such as training, development, and skills acquired by employees over a period of time through experience, etc. When qualified, competent people leave an organisation, the value of human assets goes down. In

this method, employee performance is evaluated in terms of costs and contributions of employees. Human resource costs include expenditure incurred by the company in hiring, training, compensating and developing people. The contributions of human resources is the money value of labour productivity. The cost of human resources may be taken as the standard. Employee performance can be measured in terms of employee contribution to the organisation. Employee performance can be taken as positive when contribution is more than the cost and performance can be viewed as negative if cost is more than contribution. Positive performance can be measured in terms of percentage of excess of employee contribution over the cost of employee. Similarly negative performance can be calculated in terms of percentage of deficit in employee contribution compared to the cost of employee. These percentages can be ranked to 'Zero Level' as shown in the Table 11.3.

**Table 11.3: Zero Level**

Rank	Rating	Percentage of surplus/Deficit of contribution to cost of employee
1.	Extremely good performance	Over 200
2.	Good performance	150 – 200
3.	Slightly good performance	100 – 150
4.	Neither poor nor good	0 – 100
5.	Slightly poor performance	0
6.	Poor performance	0 to (– 50)
7.	Extremely poor performance	(–50) to (–100)

This technique has not developed fully and is still in the transitional stage.

14. **Assessment centre:** This method of appraising was first applied in German Army in 1930. Later business and industrial houses started using this method. This is not a technique of performance appraisal by itself. In fact it is a system or organisation, where assessment of several individuals is done by various experts using various techniques. These techniques include the methods discussed before in addition to in-basket, role playing, case studies, simulation exercises, structured in sight, transactional analysis, etc.

In this approach, individuals from various departments are brought together to spend two or three days working on individual or group assignments similar to the ones they would be handling when promoted. Observers rank the performance of each and every participant in order of merit. Since assessment centres are basically meant for evaluating the potential of candidates to be considered for promotion, training or development, they offer an excellent means for conducting evaluation processes in an objective way. All assessees get an equal opportunity to show their talents and capabilities and secure promotion based on merit. Since evaluators know the position requirements intimately and are trained to perform the evaluation process in an objective manner, the performance ratings may find favour with a majority of the employees. A considerable amount of research evidence is available to support the contention that people chosen by this method prove better than those chosen by other methods. The centre enables individuals working in low status departments to compete with people from well-known departments and enlarge their promotion chances. Such opportunities, when created on a regular basis, will go a long way in improving the morale of promising candidates working in 'less important' positions.

15. **Field review method:** Where subjective performance measures are used, there is scope for rater's biases influencing the evaluation process. To avoid this, some employees use the field review method. In this method, a trained, skilled representative of the HR department goes into the 'field' and assists line supervisors with their ratings of their respective subordinates. The HR specialist requests from the immediate supervisor specific information about the employees performance. Based on this information, the expert prepares a report which is sent to the supervisor for review, changes, approval and discussion with the employee who is being rated. The ratings are done on standardised forms.

Since an expert is handling the appraisal process, in consultation with the supervisor, the ratings are more reliable. However, the use of HR experts makes this approach costly and impractical for many organisations.

### Check Your Progress 2

Multiple Choice Questions (Select the most appropriate one)

1. The basis for performance standards is
  - a. Managers
  - b. HR plans
  - c. Employees
  - d. Compensation plans
  - e. Job analysis
2. One of the following is a future-oriented appraisal technique:
  - a. MBO
  - b. Rating scale
  - c. Checklist
  - d. BARS
  - e. Field review method.
3. Performance appraisals serve as building blocks of
  - a. Recruiting
  - b. Career planning
  - c. Manpower planning
  - d. Selecting
  - e. Job analysis.
4. Which of the following techniques is least susceptible to personal bias?
  - a. Forced choice
  - b. Critical incidents
  - c. Rating scales
  - d. Checklists
  - e. BARS
5. A disadvantage of rating scales is
  - a. Cost
  - b. Feedback
  - c. Time involved
  - d. Quantification of scores
  - e. Little training needed

## 11.7 360-DEGREE FEEDBACK SYSTEM

A 360-degree feedback system collects performance information from multiple parties, including one's subordinates peers, supervisor and customers. Corporations like GE, Reliance, Crompton Greaves, Wipro, Infosys, Thermax, NTPC, Thomas Cook, SBI, Aditya Birla Group, Mafatlal Group etc., are all using this tool to discover home truths about their managers. Although originally developed (by TV Rao and others in mid-eighties at IIM, Ahmedabad) as a fact-finding and self-correction technique, the 360-degree feedback is also currently used to design promotion and reward. A major advantage of this system is that the feedback comes from multiple sources. If a manager has six

subordinates, the manager does not know which subordinate said what, as the results are summarised and averaged. For example, one may criticise the boss for standing too close to people, another may comment on the boss's aggressive tone, the third may take objection to the boss's naughty ways of attending telephone calls and shuffling papers while a meeting is on. Since such feedback is offered anonymously, the subordinates may unburden themselves of negative ratings somewhat freely.

**Table 11.4: Merits and Demerits of 360-degree Technique**

Merits	Demerits
<ul style="list-style-type: none"> <li>• Evaluates methods applied to achieve targets.</li> <li>• Reveals strengths and weaknesses in management style.</li> <li>• Forces inflexible managers to initiate self-change.</li> <li>• Creates an atmosphere of teamwork and improvement.</li> <li>• Unearths truths about organisational culture and ambience.</li> </ul>	<ul style="list-style-type: none"> <li>• Ignores performance in terms of reaching goals.</li> <li>• Colleague's responses tend to be biased.</li> <li>• Assessee's deny the truth of negative feedback.</li> <li>• The system can be used to humiliate people.</li> <li>• Linking findings to rewards can prove to be unfair.</li> </ul>

In actual practice, the 360-degree system can be a very sensitive issue. The system may fail to deliver results, if it is not designed and implemented properly.

## 11.8 EMPLOYEE FEEDBACK AND DEVELOPMENT

The post appraisal interview is an essential part of the performance appraisal system. The employee gets useful feedback information about how effectively and efficiently he is able to discharge the assigned duties. It also gives the opportunity to the employee to explain his views about the ratings, standards, rating methods, internal and external causes for low level of performance. The appraiser gets a chance to explain the employee his rating, the traits and behaviours he has taken into account for appraisal, etc. He can utilise this opportunity to offer constructive suggestions, and help, guide and coach the employee for his advancement. The post appraisal interview helps both parties to review standards, and set new standards based on the experience gained. It, thus, serves to meet the following objectives:

1. to let employees know where they stand;
2. to help employees do a better job by clarifying what is expected of them;
3. to plan opportunities for development and growth;
4. to strengthen the superior-subordinate working relationship by developing a mutual agreement of goals;
5. to provide an opportunity for employees to express themselves on performance-related issues.

### 11.8.1 Feedback Defined

The term 'workplace feedback' implies two things; (a) Job performance – whether 'x' is capably performing specific tasks that have been assigned (b) work-related behaviour – the way 'x' performs his tasks, whether 'x' speaks politely to customers and works cooperatively with other team members. The appraiser and the appraisee need to follow certain things while giving and receiving feedback. These are discussed below: (Pareek, pp.127-146).

- a. **Adequate preparation:** The appraisal process should be a continuous one. Informal sessions could be held every now and then to put the employee on track. Formal meetings could take place on a fortnightly, monthly or quarterly basis depending on the progress shown by the employee from time to time. When ratees are rated on various jobs, the meetings could be held more frequently to clarify doubts. For holding performance-related discussions, the rater and ratee could select a location where they can relax and exchange notes with ease. Such one-to-one meetings must be conducted in an atmosphere of mutual trust, understanding and friendship. The hierarchical boundaries should be ignored and positional arrogance should be forgotten.
- b. **Describe behaviour:** The rater should give detailed feedback to the employee. This involves questions such as
  - ❖ What happened?
  - ❖ Where and when did it occur?
  - ❖ Who was involved?
  - ❖ How did it affect others?

Statements such as: “The ad copy you wrote just didn’t click. Try to put a little more energy into your sales presentations”, “I just don’t like the way you displayed the items”; do not help the employee because there is no information based on which he can make changes in his actions. Detailed feedback should be specific and accurate. It must give answers to the questions just mentioned above. In the presentation example, an improved way of giving feedback could be: “your presentation is full of ideas but you don’t seem to be excited when you were suggesting them; (what he has been doing) your voice is very soft and rate of speaking is low. Our surveys show that your audience think you sound bored with your topic. (Perhaps a small digression here could define where and when and who his listeners are) Could you make the points more clear to the audience by means of concrete examples and interesting anecdotes (redirect energies in a right way?)”. While describing behaviour, certain precautions need to be observed:

- i. *Acts, not attitudes*
  - ◆ Never attack personality, educational background, physique, etc. Do not comment on employee’s attitudes.
  - ◆ The right way : you were late twice last week.
  - ◆ The wrong way : you just don’t care about coming in on time.
- ii. *Future oriented*
  - ◆ Do not dwell on the past; focus on the future, review the past, observe the current performance and use both to improve employee performance in future.
- iii. *Goal-oriented*
  - ◆ Each one of us walks along our own path. There may be hurdles on the way. We may overstep and go off the rails. We may obstruct others from realising their goals. But if all of us focus on overall goals and move like teammates, the effort will not go waste.
- iv. *Listen to the recipient*
  - ◆ The reactions of the feedback recipient should never be ignored. The appraiser should give feedback when the appraisee is ready to accept

it. This, of course, depends on the appraiser's relationship with the recipient and the recipient's capacity to receive feedback.

v. *Descriptive, not evaluative*

- ◆ The feedback should not be judgemental. It should be descriptive and allow the recipient to think and take appropriate action. Consider the statements, which reflect this spirit:

Your remark made me 'angry'

In the last 10 minutes, you repeated the same statement 4 times.

- ◆ On the other hand, evaluative feedback in the form of statements: "your behaviour is not proper, you suffer from inferiority complex, you should be bold enough to say no" will not help the recipient.

vi. *Data-based feedback*

- ◆ Effective feedback gives specific information about where the recipient has gone wrong and gives him data in the form of observations, feelings and other things which his behaviour has evoked.

Wrong way : 'Do not interrupt'.

- ◆ Right way : You interrupted A, B, C without allowing them to complete their points of view.

vii. *Suggestive*

- ◆ The supervisor may offer constructive suggestions aimed at improving the behaviour of the recipient. These should however, be in the form of various alternatives open to the recipient for improving his own ways of doing things. The supervisor should not prescribe actions – what exactly the recipient should do – because that only makes the employee (i) depend on the former for advice and guidance, (ii) ineffective since he is not involved in the decision taken.

viii. *Reinforcement*

- ◆ Effective feedback should help a person decide about which style of behaviour he should continue to use. To this end, the supervisor should identify job behaviours and performance of the employee that help achieve goals and encourage the employee to repeat such behaviours and grow gradually.

ix. *Continuous*

- ◆ Feedback should not be an annual ritual carried out in a mechanical way. It should be a continuous, on going process of reinforcing right behaviours and checking wrong ways of doing things (Poertner and Miller).

x. *Need-based and solicited*

- ◆ Feedback would be effective if the recipient genuinely wants to take it and mends those of his behaviours that are not in tune with job requirements. It should be such that the recipient could think about it and do something to improve his behavioural responses. For example, feedback given to a person on his stammering may not help because it would only reinforce his negative self-image and he cannot do anything about his stammering in the normal course.



- c. **Proper timing:** Feedback should be well-timed. It should be given immediately after the event has taken place. For example the statement, '3 weeks ago I passed you in the corridor; you didn't say hello' – does not serve the purpose as the recipient has no interest to reflect on the event unless the consequences are negative. Timing also means that the recipient of the feedback should be in a position to receive feedback and use it.
- d. **Help both parties:** To be effective, feedback should satisfy the needs of the rater as well as the ratee. The rater may want to help, to influence and to establish a better relationship. To this end, he must move closer to the ratee, understand his problems and suggest remedial steps in a friendly tone. The ratee on his part should listen to the feedback information given by the rater carefully. There is no use overreacting to feedback. When the ratee is praised for showing promise and talent, he should not take it for granted that he does no wrong. A negative comment of the rater likewise, should not influence the ratee's behaviour too badly. The ratee should keep all feedback in perspective and learn from all such information without writing off inappropriate feedback as rude and obnoxious. The ratee should remain calm and cordial throughout the feedback session. He should not be afraid to ask questions. To this end, he must:
- ❖ Ask for details, especially when he/she is bombarded with inappropriate feedback.
  - ❖ State clearly what he heard from the feedback to make sure that his/her interpretation matches the intention of the appraiser.
  - ❖ Seek suggestions for future action. The purpose of feedback is to share information that will help him/her plan the future. Always ask the appraiser to help develop a plan for changing your future actions.
  - ❖ Remember to thank the person giving the feedback. Saying 'thanks' demonstrates that your behaviour always remains professional and sets a positive tone for your next interaction.

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## 11.9 PROBLEMS WITH PERFORMANCE APPRAISAL

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The problems inherent in performance appraisal may be listed thus:

- a. **Judgement errors:** People commit mistakes while evaluating people and their performance. Biases and judgement errors of various kinds may spoil the show. Bias here refers to distortion of a measurement. These are of various types:
- i. **First impressions (primacy effect):** The appraiser's first impression of a candidate may colour his evaluation of all subsequent behaviour. In the case of negative primacy effect, the employee may seem to do nothing right; in the case of a positive primacy effect, the employee can do no wrong (Harris, p.192).
  - ii. **Halo:** The Halo error occurs when one aspect of the subordinate's performance affects the rater's evaluation of other performance dimensions. If a worker has few absences, his supervisor might give the worker a high rating in all other areas of work. Similarly, an employee might be rated high on performance simply because he has a good dress sense and comes to office punctually!
  - iii. **Horn effect:** The rater's bias is in the other direction, where one negative quality of the employee is being rated harshly. For example, the ratee rarely smiles, so he cannot get along with people!



- iv. *Leniency*: Depending on rater's own mental make-up at the time of appraisal, raters may be rated very strictly or very leniently. Appraisers generally find evaluating others difficult, especially where negative ratings have to be given. A professor might hesitate to fail a candidate when all other students have cleared the examination. The leniency error can render an appraisal system ineffective. If everyone is to be rated high, the system has not done anything to differentiate among employees.
  - v. *Central tendency*: An alternative to the leniency effect is the central tendency, which occurs when appraisers rate all employees as average performers. For example, a professor, with a view to play it safe, might give a class grades nearly equal to B, regardless of the differences in individual performance.
  - vi. *Stereotyping*: Stereotyping is a mental picture that an individual holds about a person because of that person's sex, age, religion, caste, etc. By generalising behaviour on the basis of such blurred images, the rater grossly overestimates or underestimates a person's performance. For example, employees from rural areas might be rated poorly by raters having a sophisticated urban background, if they view rural background negatively.
  - vii. *Recency effect*: In this case, the rater gives greater weightage to recent occurrences than earlier performance. For example, an excellent performance that may be six or seven months old is conveniently forgotten while giving a poor rating to an employee's performance which is not so good in recent weeks. Alternatively, the appraisal process may suffer due to a 'spill over effect' which takes place when past performance influences present ratings.
- b. **Poor appraisal forms**: The appraisal process might also be influenced by the following factors relating to the forms that are used by raters:
- ❖ The rating scale may be quite vague and unclear.
  - ❖ The rating form may ignore important aspects of job performance.
  - ❖ The rating form may contain additional, irrelevant performance dimensions.
  - ❖ The forms may be too long and complex.

**Box 11.7: Why Performance Appraisals Fail?: Top 10 reasons**

- Manager lacks information concerning an employee's actual performance.
- Standards to evaluate an employee's performance are not clear.
- Manager does not take appraisal seriously.
- Manager is not prepared for the appraisal review with the employee.
- Manager is not honest/sincere during the evaluation.
- Manager lacks appraisal skills.
- Employee does not receive ongoing performance feedback.
- Insufficient resources offered to reward performance.
- There is ineffective discussion of employee development.
- Manager uses unclear/ambiguous language in the evaluation process.

See (i) C.O. Longnecker and S.J. Golf, "Why performance Appraisals still fail?", Journal of Compensation and Benefits, 4, Nov-Dec. 1990.

(ii) P. Falcone, "7 Deadly Sins of Performance Appraisals", Supervisory Management, 30 Jan, 1994.

- c. **Lack of rater preparedness:** The raters may not be adequately trained to carry out performance management activities. This becomes a serious limitation when the technical competence of a ratee is going to be evaluated by a rater who has limited functional specialisation in that area. The raters may not have sufficient time to carry out appraisals systematically and conduct thorough feedback sessions. Sometimes the raters may not be competent to do the evaluations owing to a poor self-image and lack of self-confidence. They may also get confused when the objectives of appraisal are somewhat vague and unclear.
- d. **Ineffective organisational policies and practices:** If the sincere appraisal effort put in by a rater is not suitably rewarded, the motivation to do the job thoroughly finishes off. Sometimes, low ratings given by raters are viewed negatively by management – as a sign of failure on the part of rater or as an indication of employee discontent. So, most employees receive satisfactory ratings, despite poor performance. Normally, the rater's immediate supervisor must approve the ratings. However, in actual practice, this does not happen. As a result, the rater 'goes off the hook' and causes considerable damage to the rating process.

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## 11.10 ESSENTIAL CHARACTERISTICS OF AN EFFECTIVE APPRAISAL SYSTEM

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Performance appraisal system should be effective as a number of crucial decisions are made on the basis of score or rating given by the appraiser, which in turn, is heavily based on the appraisal system. An appraisal system, to be effective, should possess the following essential characteristics:

- a. **Reliability and validity:** Appraisal system should provide consistent, reliable and valid information and data, which can be used to defend the organisation – even in legal challenges. If two appraisers are equally qualified and competent to appraise an employee with the help of the same appraisal technique, their ratings should agree with each other. The technique then demonstrably satisfies the conditions of inter-rater reliability. Appraisals must also satisfy the condition of validity, by measuring what they are supposed to measure. For example, if appraisal is made for potential of an employee for promotion, it should supply the information and data relating to potentialities of the employee to take up higher responsibilities and carry on activities at higher level.
- b. **Job relatedness:** The appraisal technique should measure the performance and provide information in job related activities/areas.
- c. **Standardisation:** Appraisal forms, procedures, administration of techniques, ratings, etc., should be standardised as appraisal decisions affect all employees of the group.
- d. **Practical viability:** The techniques should be practically viable to administer, possible to implement and economical to undertake continuously.
- e. **Legal sanction:** Appraisals must meet the laws of the land. They must comply with provisions of various statutes relating to labour.
- f. **Training to appraisers:** Because appraisal is important and sometimes difficult, it would be useful to provide training to appraisers viz., some insights and ideas on rating, documenting appraisals and conducting appraisal interviews. Familiarity with rating errors can improve rater's performance and this may inject the needed confidence in appraisers to look into performance ratings more objectively.

- g. **Open communication:** Most employees want to know how well they are performing the job. A good appraisal system provides the needed feedback on a continuing basis. The appraisal interviews should permit both parties to learn about the gaps and prepare themselves for future. To this end, managers should clearly explain their performance expectations to their subordinates in advance of the appraisals period. Once this is known, it becomes easy for employees to learn about the yardsticks and, if possible, try to improve their performance in future.
- h. **Employee access to results:** Employees should know the rules of the game. They should receive adequate feedback on their performance. If performance appraisals are meant for improving employee performance, then withholding appraisal result would not serve any purpose. Employees simply cannot perform better without having access to this information. Permitting employees to review the results of their appraisal allows them to detect any errors that may have been made. If they disagree with the evaluation, they can even challenge the same through formal channels.
- i. **Due process:** It follows then that formal procedures should be developed to enable employees who disagree with appraisal results (which are considered to be inaccurate or unfair). They must have the means for pursuing their grievances and having them addressed objectively.

Performance appraisal should be used primarily to develop employees as valuable resources. Only then it would show promising results. When management uses it as a whip or fails to understand its limitations, it fails. The key is not which form or which method is used (Mathis and Jackson).

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## 11.11 PERFORMANCE APPRAISAL IN INDIAN INDUSTRIES

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There are three different approaches for carrying out appraisals. Employers can be appraised against (i) absolute standards (where employees' performance is measured against some established standards; the subjects here are not compared with any other person) (ii) relative standards (where the subjects are compared against other individuals) and (iii) objective. Here, employees are evaluated by how well they accomplish a specific set of objectives that have been determined to be critical in the successful completion of their job. No one approach is always best; each has its strengths and weaknesses. Of course, a successful performance appraisal system requires more than good technique. It depends on a consistent approach for comparability of results, clear standards and measures, and bias-free ratings. Against this backdrop, let's see how some of the leading companies in India carry out the appraisal process.

- (i) **Hughes escorts:** Hughes Escorts, the subsidiary of the US-headquartered telecom company, Hughes, uses a competency-based performance-enhancement model. Each position in the organisation is defined in terms of 23 key competencies, categorised into four groups: attitude-based, knowledge-driven, skill-centred, and value based. The company uses these competencies to measure shortfalls and provide relevant training inputs. This is done to both maximise productivity and make employees aware of their professional standing.
- (ii) **National panasonic:** This Japanese white-goods major has developed a performance-assessment system driven by key result areas (KRAs). KRAs describe performance goals – business, functional, and behavioural ones – with defined time-frames and are decided jointly by the employee and the manager at the beginning of the year. It is a structured exercise using a written format. These KRAs are then used to map the employee's progress and, based on the results, the

company decides to plug performance gaps with the help of relevant training inputs. National Panasonic puts a great deal of emphasis on this process for re-skilling its employees as it believes in growing its own timber rather than opting for expensive mid-career hires.

- (iii) **Larsen & Toubro:** Engineering major Larsen & Toubro has developed a competency matrix which lists 73 competencies – that vary across managerial levels – to measure performance and gauge development needs of its employees. Each listed competency has associated knowledge, skills, and attributes. The company appraises individual employees in the listed competencies, and zeroes in on the functional, managerial, and behavioural skill gaps. Subsequently, customised reinforcement is provided. Further, as the matrix is linked to business strategy on the one hand and training needs on the other, strategic needs drive the company's development policies, making the process of re-learning and re-skilling easier, and more focused.
- (iv) **Daewoo Motors:** Auto major Daewoo Motors Ltd. has introduced a parameter on team work in its appraisal process. Targets are set according to business plans in the beginning of the year and assigned to various functional teams. Subsequently, the team's performance is measured on the basis of its achievement vis-à-vis its goals. This done, the top management allocates ratings (which can vary from outstanding to average) to each team. In a parallel process, the team-supervisor appraises each team member. Both ratings are taken into account before a final rating is assigned by the senior management team to each functional team and every team member. Rewards, including performance increments, bonuses, and promotions are given out on the basis of this final rating.
- (v) **EIH Ltd.:** Hospitality company EIH recently overhauled its performance appraisal system to make it more participatory and competency-driven. Now, employees are appraised on the achievement of specific individual and functional targets, as well as generic competencies like technical, functional, managerial, decision-making, and leadership skills. Performance ratings ranging from outstanding to below-average are given accordingly. The exercise is followed by an employee feedback process, where employees are required to answer. EIH had taken its managers through an extensive tour of its new appraisal process to raise comfort levels, and hopes to use its as a vehicle for people-based growth.
- (vi) **Pepsi Co. India:** Beverage giant Pepsi Co. (India) employs an annual appraisal process that is numerical target driven. As a large part of Pepsi's compensation package comprises performance pay in the form of bonuses – varying from 15 per cent at junior levels to 60-plus per cent at senior rungs – the manager's performance is determined on three key parameters: volume growth, marketshare, and net operating profit, to compute the variable component to compensation. Managers are also rated on key behavioural and functional competencies to assess their potential for advancement within the organisation.

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## 11.12 CHALLENGES IN PERFORMANCE MANAGEMENT

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In present day organisations, the twin principles of motivating employees are common at all levels: acknowledge unique contributions and alleviate personal concerns that impact professional performance. To get the best out of people, the CEOs should:

- Create a culture of excellence that motivates employees at all levels.
- Match organisational objectives with individual aspirations.

- Equip people with requisite skills to discharge their duties well.
- Clear growth paths for talented employees.
- Provide new challenges to rejuvenate flattening corners.
- Empower employees to take decisions without fear of failing.
- Encourage teamwork and team spirit and open communication.

### Check Your Progress 3

State whether the following statements are true or false:

1. Subjective measures in performance appraisal are most desirable.
2. Performance appraisals can reduce bias.
3. Employee self appraisals are a good way to decide promotions.
4. Using multiple raters improves evaluations.
5. Assessment centre technique is costly and time-consuming.
6. Rating scales are particularly subject to bias.
7. Evaluation interviews require careful preparation.
8. Behavioural techniques focus attention on ratings rather than on observation.
9. Objective appraisal measures are always popular with employees.
10. Job analysis is the basis for performance standards.

## 11.13 EQUAL EMPLOYMENT OPPORTUNITY

Equal opportunity employment refers to the approach of the employers to ensure the practice of being fair and impartial in the employment process. The term “Equal Opportunity Employment” was first given by President Lyndon B. Johnson when he signed Executive Order 11246 which was created to prohibit federal contractors from discriminating against employees on the basis of race, sex, creed, religion, color, or national origin. The scope of the order also covered the discrimination on the basis of the minority status.

The term Equal Employment Opportunity was created by President Lyndon B. Johnson when he signed Executive Order 11246, created to prohibit federal contractors from discriminating against employees on the basis of race, sex, creed, religion, color, or national origin.

The Executive Order also required contractors to implement affirmative action plans to increase the participation of minorities and women in the workplace. Pursuant to federal regulations, affirmative action plans must consist of an equal opportunity policy statement, an analysis of the current work force, identification of problem areas, the establishment of goals and timetables for increasing employment opportunities, specific action-oriented programs to address problem areas, support for community action programs, and the establishment of an internal audit and reporting system.

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## 11.14 LET US SUM UP

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Performance appraisal systems are designed to improve performance, they broadly cover three areas: define performance, facilitate performance and encourage performance.

The appraisal systems are used for a variety of development and administrative purposes.

Appraisals can be done either informally or systematically. Systematic appraisals are done annually.

Appraisals can be done by superiors, peers, subordinates, teams, outsiders or a combination of raters. Employees also can carry out self-appraisals.

Three types of appraisal methods are generally used: individual evaluation methods, multiple person evaluation methods and other methods, including HRA, assessment centre, and 360 degree feedback, etc.

Appraisals should be carried out in an objective manner, scrupulously following the criteria laid down for this purpose. When appraisals take a subjective route, several problems crop up instantaneously: such as rating errors, poor forms, lack of rater preparedness, ineffective organisational policies and practices.

To improve the reliability and validity of ratings, it is essential to train raters (apart from setting an objective set of criteria for evaluating performance). A variety of suggestions are advanced by HR professionals to overcome these problems. Recent approaches to performance management have involved more parties in the whole process of evaluation including subordinates, peers, customers etc.

Giving and receiving feedback is not an easy task. If done properly, both organisation and employee will immensely benefit from such an exercise.

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## 11.15 LESSON END ACTIVITY

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You are heading a 250-member medium-sized company that has just had a fantastic year. Everyone pulled together and worked hard to give a big boost to company profits. Unfortunately, due to rise in input costs, you are forced to offer only a 3 per cent rise in salaries across the board. At appraisal time, how would you communicate praise for a job well done coupled with your limited ability to reward such outstanding performance? Now assume you can afford to hand out some handsome bonuses or raises. What would be the best way to evaluate employees when everyone has done exceptionally well?

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## 11.16 KEYWORDS

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**Performance appraisal:** A systematic and objective way of evaluating both work related behaviour and potential of employees

**Human resource accounting:** It is a sophisticated way to measure the effectiveness of personnel management activities and the use of people in an organisation.

**Halo effect:** Bias which occurs when the rater's personal opinion of a specific trait of employee influences the rater's overall assessment of performance.

**Rater bias:** Error that occurs when a rater's values or prejudices distort the rating.

**Contrast error:** Tendency to rate people relative to other people rather than to performance standards.



**Behaviourally anchored ratios scale:** It is an absolute assessment technique wherein critical incidents are identified and a range of performance possibilities (from poor to good) are described for each dimension.

**Assessment centre:** It is an appraisal technique that relies on multiple types of evaluation and multiple raters.

**Central tendency:** The reluctance to use the extremes of a rating scale and to thereby fail to adequately differentiate employees being rated.

**Impression management:** Efforts by employees to obtain higher ratings by portraying an image desired by their supervisors.

**Ranking:** Listing employees from best to worst.

**MBO:** An approach in which employee and supervisor jointly establish clear, measurable performance jobs for the future.

**Rating scale:** A method which requires the rater to provide a subjective performance evaluation along a scale from low to high.

**Checklist:** Performance appraisal tool that uses a lot of statements or words that are checked by raters.

**Forced choice:** A method requiring the rater to select the most descriptive statement in each pair of statements about the employee being rated.

**Paired comparison:** A method that compels raters to compare each employee with all other employees who are being rated in the same group.

**360 degree feedback:** Information is gathered from a variety of sources in this system, including subordinates who complete performance appraisals, then the results are summarised for the employee and necessary improvements are discussed.

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## 11.17 QUESTIONS FOR DISCUSSION

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1. Describe in detail the process of performance appraisal.
2. Discuss the merits and demerits of critical incident technique and graphic rating scales.
3. Why does current thinking indicate that appraisal for training should be conducted separately from appraisal for promotion?
4. To what extent can appraisal problems be minimised through computerisation and by taking adequate precautions?
5. Explain the post appraisal interview problem between the superior and the subordinate.
6. Evaluate the significance of performance appraisal in an educational institution. How would you make it more effective?
7. "Performance appraisal is not merely for appraisal but is for accomplishment and improvement of performance". Discuss.
8. Distinguish performance appraisal from potential appraisal.
9. What are the three methods of appraisal? Which method would you prefer as an employee? As a manager? Why?
10. Describe how to prepare a BARS for a payroll clerk.



11. Suppose you are a supervisor. What errors might you make when doing an employees' performance appraisal?
12. Why is training of appraisers so important to an effective performance appraisal system?
13. How would you get an interviewee to talk during an appraisal interview?
14. Discuss the pros and cons of using different potential raters to appraise a person's performance.
15. "The higher the position an employee occupies in an organisation, the easier it is to appraise his or her performance objectively." Do you agree or disagree? Discuss.

### Check Your Progress: Model Answers

#### CYP 1

1. Performance Appraisal
2. systematic and objective
3. performance of employees
4. good and poor employee

#### CYP 2

1. (c), 2. (a), 3. (b), 4. (e), 5. (b)

#### CYP 3

1. (F) 2. (T) 3. (F) 4. (T) 5. (T) 6. (T) 7. (T)
8. (F) 9. (F) 10. (T)

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## 11.18 SUGGESTED READINGS

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V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

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D. K. Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

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# UNIT V

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## LESSON

# 12

## WAGE AND SALARY ADMINISTRATION

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## 12.0 AIMS AND OBJECTIVES

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The purpose of this lesson is to bring out the importance of designing an effective compensation plan that takes care of legal stipulations, industry practices, employee expectations, competitive pressures, etc., so as to attract and retain talent. After studying this lesson, you will be able to:

- Define 'compensation'
- State the objectives of compensation planning
- Explain in detail how to establish wage rates
- Outline the factors influencing compensation levels
- Indicate the choices in designing a compensation system
- Discuss current trends in executive compensation in India

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## 12.1 INTRODUCTION

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Compensation is what employees receive in exchange for their contribution to the organisation. Generally, employees offer their services for three types of rewards. Pay refers to the base wages and salaries employees normally receive. Compensation forms such as bonuses, commissions and profit sharing plans are incentives designed to encourage employees to produce results beyond normal expectation. Benefits such as insurance, medical, recreational, retirement, etc., represent a more indirect type of compensation. So, the term compensation is a comprehensive one including pay, incentives, and benefits offered by employers for hiring the services of employees. In addition to these, managers have to observe legal formalities that offer physical as well as financial security to employees. All these issues play an important role in any HR department's efforts to obtain, maintain and retain an effective workforce.

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## 12.2 WAGE DETERMINATION PROCESS

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The need for equity is the most important factor in determining wage rates. This is achieved through the following steps:

- Find the worth of each job through job evaluation.
- Conduct a salary survey to find what other employers are paying for comparable jobs.
- Group similar jobs into Pay grades.
- Price each pay grade by using wage curves.
- Fine tune pay rates.

### 12.2.1 Job Evaluation

Job analysis offers valuable information for developing a compensation system in terms of what duties and responsibilities need to be undertaken. The worth of a job to the organisation is as ascertained through job evaluation. Since the whole process is largely subjective, a committee is appointed to collect information and come up with a hierarchy of jobs according to their value. The evaluation is done through the use of market pricing or through the use of ranking, point or factor comparison methods.

### 12.2.2 Wage and Salary Surveys

While job evaluation ensures internal equity, wage and salary surveys ensure external equity. A wage and salary survey provides information as to what other organisations that compete for employees are paying. The survey could cover all the jobs within an organisation (obviously costly and hence avoided) or limited to benchmark jobs, jobs that are used to anchor the company's pay scale and around which other jobs are slotted based on their relative worth to the firm. The benchmark jobs have the following basic characteristics.

- Many workers in other companies have these jobs.
- They will not be changing in the immediate future in terms of tasks, responsibilities, etc.
- They represent the full range in terms of salary such that some are among the lowest paid in the group of jobs, others are in the middle range and some are at the high end of the pay scale.

Formal and informal surveys (through telephone, for example) could be undertaken to collect data on benefits like insurance, medical leave, vacation pay, etc., and so offer a basis on which to take decisions regarding employee benefits. Published sources also provide valuable information regarding industry-wise trends in salary structures in and around the country. The published sources in India include:

- Reports published by the Ministry of Labour.
- Pay commission reports.
- Reports of Wage Boards appointed by Government.
- Reports of employees and employers' organisations.
- Trade journals of specific industry groups, etc.

One of the major problems with these sources is the comparability of jobs in the survey to jobs in the organisation. To overcome the limitations of published surveys, conduct your own surveys of important jobs. The following survey methods are generally used to collect relevant wage-related information:

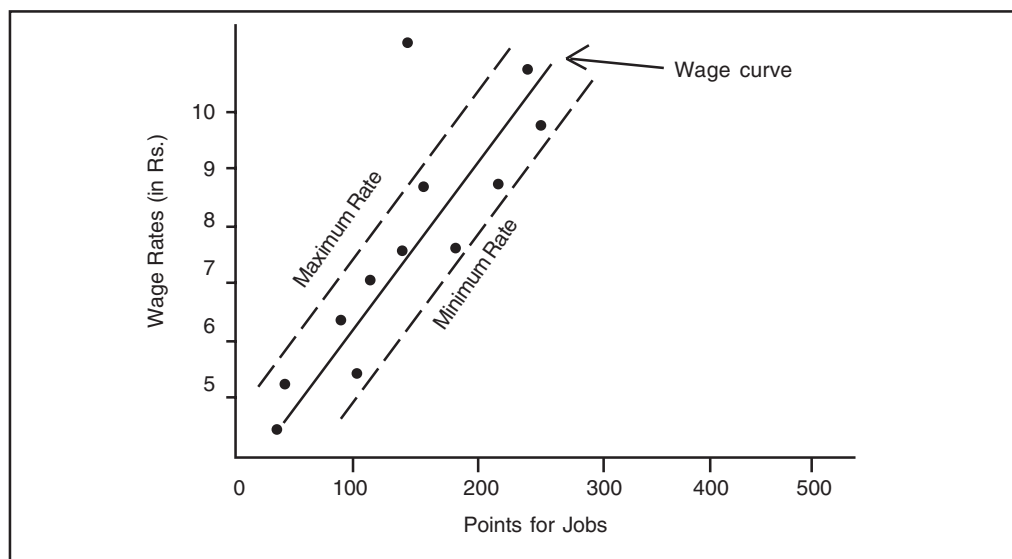
- **Key job matching:** Under this method, similar key jobs are identified between the organisations and the relevant wage particulars about those comparable jobs are collected.
- **Key class matching:** Similar classes of jobs are identified and the necessary data about those classes are collected.
- **Occupational method:** Certain basic occupational groups like clerks, officers managers are identified and then the necessary data is collected.
- **Job evaluation method:** All the parties participating in the survey method, use the same method and same mechanism for evaluating similar jobs.
- **Broad classification method:** Under this method, broad groups of relatively homogeneous jobs, i.e., by industry, by profession or by geographical area are grouped and the relevant information about these jobs is collected.

### 12.2.3 Group similar Jobs into Pay Grades

In this step, similar jobs (in terms of their ranking or number points as ascertained by the job evaluation committee) are grouped into grades for pay purposes. The organisation can now focus on, say 10 to 12 Pay grades, instead of hundreds of pay rates. A pay grade consists of jobs of approximately equal difficulty or importance as determined by job evaluation. If the point method is used, the pay grade consists of jobs falling within a range of points. Ten to sixteen grades per job cluster (factory jobs, clerical jobs) is common.

### 12.2.4 Price each Pay Grade – Wage Curves

In the next step, pay rates are assigned to Pay grades through a wage curve. The wage curve shows graphically the pay rates currently paid for jobs in each pay grade relative to the points or rankings given to each job or grade, as depicted in Figure 12.1 below:



**Figure 12.1: Plotting a Wage Curve**

(The average pay rate for jobs in each grade [Grade I = 0-50 points, Grade II = 50-100 points, Grade III = 100-150 points] are plotted and the wage curve fitted in).

A completed wage curve tells management the average relationship between the pay grade points and wage rates. It will show which pay is out of the trend line. If a job's pay rate is very high – where the current rates paid by the company fall well above or below the wage line – those wage rates are identified as 'red circle' rates. This only means that pay is frozen or below average increases are granted until the structure is adjusted upward to place the circled rate within a normal range.

### 12.2.5 Fine Tune Pay Rates and Determine Wage Structure

Here the employees fix a pay range for each grade (Officer Grade I, II and III, for example, in Banking industry). The wage structure of a company is nothing but a pay scale showing ranges of pay within each grade.

## **12.3 COMPONENTS OF PAY STRUCTURE IN INDIA**

The pay structure of a company depends on several factors such as labour market conditions, company's paying capacity and legal provisions:

### **12.3.1 Wages**

In India, different Acts include different items under wages, though all the Acts include basic wage and dearness allowance under the term wages. Under the Workmen's Compensation Act, 1923, "wages for leave period, holiday pay, overtime pay, bonus, attendance bonus, and good conduct bonus" form part of wages.

Under the Payment of Wages Act, 1936, Section 2 (vi), "any award of settlement and production bonus, if paid, constitutes wages."

Under the Payment of Wages Act, 1948, "retrenchment compensation, payment in lieu of notice and gratuity payable on discharge constitute wages."

However, the following types of remuneration, if paid, do not amount to wages under any of the Acts:

- i. Bonus or other payments under a profit-sharing scheme which do not form a part of contract of employment.
- ii. Value of any house accommodation, supply of light, water, medical attendance, travelling allowance, or payment in lieu thereof or any other concession.
- iii. Any sum paid to defray special expenses entailed by the nature of the employment of a workman.
- iv. Any contribution to pension, provident fund, or a scheme of social security and social insurance benefits.
- v. Any other amenity or service excluded from the computation of wages by general or special order of an appropriate governmental authority.

The term 'Allowances' includes amounts paid in addition to wages over a period of time including holiday pay, overtime pay, bonus, social security benefit, etc. The wage structure in India may be examined broadly under the following heads:

### **12.3.2 Basic Wage**

The basic wage in India corresponds with what has been recommended by the Fair Wages Committee (1948) and the 15th Indian Labour Conference (1957). The various awards by wage tribunals, wage boards, pay commission reports and job evaluations also serve as guiding principles in determining 'basic wage'. While deciding the basic wage, the following criteria may be considered: (i) Skill needs of the job; (ii) Experience needed; (iii) Difficulty of work: mental as well as physical; (iv) Training needed; (v) Responsibilities involved; (vi) Hazardous nature of job.

### **12.3.3 Dearness Allowance (DA)**

It is the allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. It serves as a cushion, a sort of insurance against increase in price levels of commodities. Instead of increasing wages every time there is a rise in price levels, DA is paid to neutralise the effects of inflation; when prices go down, DA can always be reduced. This has, however, remained a hypothetical situation as prices never come down to necessitate a cut in dearness allowance payable to employees.



DA is linked in India to three factors: the index factor, the time factor and the point factor.

- **All India consumer price index (AICPI):** The Labour Bureau, Shimla, computes the AICPI (Base 1960 = 100 points) from time to time.
- **Time factor:** In this case DA is linked to the rise in the All India Consumer Price Index (AICPI) in a related period, instead of linking it to fortnightly or monthly fluctuations in index.
- **Point factor:** Here DA rises in line with a rise in the number of index points above a specific level.
- **Other allowances:** The list of allowances granted by employers in India has been expanding, thanks to the increasing competition in the job market and the growing awareness on the part of employees. An illustrative list of allowances is furnished in Table 12.1 below:

Table 12.1: List of Allowances in the Organised Sector in India

● Attendance	● Night shift	● Tiffin
● Books	● Overtime	● Transport
● Car	● Paternity	● Telephone
● Card (Credit card)	● Pension	● Uniform
● City Compensatory	● Provident Fund	
● Club Membership	● Relocation	
● Computer	● Servant	
● Deputation		
● Driver		
● Education		
● ESIS		
● Family		
● Group Insurance		
● Leave Travel		
● Lunch		
● Medical		

Check Your Progress 1

Mention the three factors of Dearness Allowance in India.

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12.4 ADMINISTRATION OF WAGE AND SALARY

Employee compensation may be classified into two types – base compensation and supplementary compensation. Base compensation refers to monetary payments to employees in the form of wages and salaries. The term ‘wages’ implies remuneration to workers doing manual work. The term ‘salaries’ is usually defined to mean compensation to office, managerial, technical and professional staff. The distinction, however, is rarely observed in actual practice. Base compensation, it should be noted here, is a fixed and non-incentive payment on the basis of time spent by an employee on the job. Supplementary compensation signifies incentive payments based on actual performance of an employee or a group of employees. The term ‘compensation administration’ or wage and salary administration denotes the process of managing a company’s compensation programme. The goals of compensation administration are to design a cost-effective pay structure that will attract, motivate and retain competent employees’.

### 12.4.1 Objectives

A sound plan of compensation administration seeks to achieve the following objectives:

- To establish a fair and equitable remuneration offering similar pay for similar work.
- To attract qualified and competent personnel.
- To retain the present employees by keeping wage levels in tune with competing units.
- To control labour and administrative costs in line with the ability of the organisation to pay.
- To improve motivation and morale of employees and to improve union-management relations.
- To project a good image of the company and to comply with legal needs relating to wages and salaries.

### 12.4.2 Principles of Wage and Salary Administration

There are several principles of wage and salary plans and practices. The important ones among them are:

1. Wage and salary plans should be sufficiently flexible.
2. Job evaluation must be done scientifically.
3. Wage and salary administration plans must always be consistent with overall organisational plans and programmes.
4. Wage and salary administration plans and programmes should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.
5. Wage and salary administration plans and programmes should be responsive to the changing local and national conditions.
6. These plans should simplify and expedite other administrative processes.

### 12.4.3 Elements of Wage and Salary System

Wage and salary systems should have a relationship with the performance, satisfaction and attainment of goals of an individual. Henderson identified the following elements of a wage and salary system:

1. Identifying the available salary opportunities, their costs, estimating the worth of its members, of their salary opportunities and communicating them to employees.
2. Relating salary to needs and goals.
3. Developing quality, quantity and time standards related to work and goals.
4. Determining the effort necessary to achieve standards.
5. Measuring the actual performance.
6. Comparing the performance with the salary received.
7. Measuring the job satisfaction of the employees.
8. Evaluating the unsatisfied wants and unrealised goals aspirations of the employees.

9. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
10. Adjusting the salary levels accordingly with a view to enabling the employees to reach unreached goals and fulfil the unfulfilled needs and aspirations.

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## 12.5 FACTORS INFLUENCING WAGE AND SALARY STRUCTURE AND ADMINISTRATION

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The amount of compensation received by an employee should reflect the effort put in by the employee, the degree of difficulty experienced while expending his energies, the competitive rates offered by others in the industry and the demand-supply position within the country, etc. These are discussed below.

- a. **Job needs:** Jobs vary greatly in their difficulty, complexity and challenge. Some need high levels of skills and knowledge while others can be handled by almost anyone. Simple, routine tasks that can be done by many people with minimal skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.
- b. **Ability to pay:** Projects determine the paying capacity of a firm. High profit levels enable companies to pay higher wages. This partly explains why computer software industry pays better salaries than commodity based industries (steel, cement, aluminium, etc.). Likewise, multinational companies also pay relatively high salaries due to their earning power.
- c. **Cost of living:** Inflation reduces the purchasing power of employees. To overcome this, unions and workers prefer to link wages to the cost of living index. When the index rises due to rising prices, wages follow suit.
- d. **Prevailing wage rates:** Prevailing wage rates in competing firms within an industry are taken into account while fixing wages. A company that does not pay comparable wages may find it difficult to attract and retain talent.
- e. **Unions:** Highly unionised sectors generally have higher wages because well organised unions can exert presence on management and obtain all sorts of benefits and concessions to workers.
- f. **Productivity:** This is the current trend in most private sector companies when workers' wages are linked to their productivity levels. If your job performance is good, you get good wages. A sick bank, for example, can't hope to pay competitive wages, in tune with profit making banks.
- g. **State regulation:** The legal stipulations in respect of minimum wages, bonus, dearness allowance, allowances, etc., determine the wage structure in an industry.
- h. **Demand and supply of labour:** The demand for and the supply of certain skills determine prevailing wage rates. High demand for software professionals, R&D professionals in drug industry, telecom and electronics engineers, financial analysts, management consultants ensures higher wages. Oversupply kills demand for a certain category of employees leading to a steep fall in their wages as well.

### Check Your Progress 2

List the three elements of wage and salary system.

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.....

## 12.6 WAGE ADMINISTRATION RULES

The Government has adopted various methods to regulate wages in India such as prescribing minimum rates of wages, regulating payment of wages, settlement of wage related disputes through adjudication process, setting up of wage boards, etc.

**Table 12.2: Institutions involved in Fixation of Wages**

<ul style="list-style-type: none"> <li>• Employer</li> <li>• Collective Bargaining</li> <li>• Legislation</li> <li>• Wage Boards</li> <li>• Pay Commissions</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum Wages Act</li> <li>• Payment of Wages Act</li> <li>• Adjudication Machinery</li> </ul>
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### 12.6.1 Minimum Wages Act, 1948

The Act prescribes minimum rates of wages for certain sweated and unorganised sectors covered under the Act. The minimum wages can be fixed by hour, day, month or any other longer period. The Act provides for setting up a tripartite body consisting of employees, unions and the government, to advise and assist in fixing and revising minimum wage rates. The rates could be subjected to revision at intervals not exceeding 5 years. The Act has not been able to prevent exploitation of labour due to a variety of reasons:

- The Vidyasagar Committee, 1965, pointed out that the desired objective of the Act could not be realised due to inadequate and improper organisation of the administrative machinery.
- Minimum wages have not been revised as stipulated in the Act. They are revised after much longer intervals.
- The Act did not define minimum wages nor specified any norms for its determination.

The Supreme Court has held (in 1992) that the appropriate authorities should take into consideration the components such as children's education allowance, medical needs, minimum recreation, provision for marriage, old age etc., while calculating minimum wages.

### 12.6.2 Payment of Wages Act, 1936

The main objective of the Act is to provide for regular payment of wages without any unauthorised reductions to persons who are employed in any industrial establishment or factory or railway or by a railway contractor whose monthly wages are less than Rs 1600. The Act prescribes the following permissible deductions to be made from the employee's salary: fines, deductions for absence, deductions for (i) loss of goods entrusted to worker, (ii) house given by employer, (iii) services provided by employer, (iv) advances given to worker, (v) tax payable by employer, (vi) deductions under court orders, cooperative society. PF, insurance premium, etc.

### 12.6.3 Adjudication of Wage Disputes

Collective bargaining is a procedure through which employee problems relating to various issues including wages are settled through the process of joint consultation, in an atmosphere of 'give and take', trust and mutual confidence. If these problems are not settled through collective bargaining, they may be settled through voluntary arbitration or adjudication. The awards given or reached by or through the arbitrator or adjudicator or collective bargaining agreements form the basis for fixing wages in various organisations.

### 12.6.4 Wage Boards

This is one of the important institutions set up by the Government of India for fixation and revision of wages. Separate wage boards are set up for separate industries. Government of India started instituting Wage boards in accordance with the recommendations of Second Five-year Plan, which were reiterated by the Third Five-year Plan. Wage boards are not governed by any legislation but are appointed on an ad hoc basis by the Government.

Each Wage Board consists of one neutral Chairman, two independent members and two or three representatives of workers and management each. The Wage boards have to study various factors before making any recommendations. The recommendations of Wage Board are first referred to the Government for acceptance. The Government may accept with or without modification or reject the recommendations of the Wage Board. The recommendations accepted by the Government are enforceable by the parties concerned.

The Wage boards take the following factors into consideration for fixing or revising the wages in various industries:

(i) Job evaluation, (ii) Wage rates, for similar jobs in comparable industries, (iii) Employees' productivity, (iv) Firms' ability to pay, (v) Various wage legislations, (vi) Existing level of wage differentials and their desirability, (vii) Government's objectives regarding social justice, social equality, economic justice and economic equality, (viii) Place of the industry in the economy and the society of the country and the region, (ix) Need for incentives, improvement in productivity, etc.

The Wage Boards fix and revise various components of wages like basic pay, dearness allowance, incentive earnings, overtime pay, house rent allowance and all other allowances.

### 12.6.5 Pay Commissions

Wages and allowances of Central and State government employees are determined through the pay commissions appointed by the appropriate government. So far the Central Government has appointed five pay commissions. The disputes, arising out of pay commission awards and their implementation are decided by commissions of inquiry, adjudication machinery and the joint consultative machinery.

### 12.6.6 Bonus

An important component of employees' earnings, besides salary, is bonus. Starting as an ad hoc and ex-gratia payment, bonus was claimed as dearness allowance during World War II. In the course of labour history, it has metamorphosed from a reward or an incentive for good work, into a defensible right and a just claim. Subsequently, under The Payment of Bonus Act, 1965, it secured the character of a legal right. The dictionary meaning of 'bonus' is an extra payment to the workers beyond the normal wage. It is argued that bonus is a deferred wage payment which aims at bridging the gap between the actual wage and the need based wage. It is also said that bonus is a share of the workers in the prosperity of an organisation. The third argument is that bonus is primarily a share in the surplus. But it is only incidentally treated as a source of bridging the gap between the actual wage and the need based wage.

### 12.6.7 Payment of Bonus Act, 1965

The Act defines an employee who is covered by it as one earning Rs 2,500 p.m. (w.e.f. 1.4.93) basic plus dearness allowance and specifies the formula for calculating the allocable surplus from which bonus is to be distributed. The minimum bonus to be paid has been

raised from 4 per cent to 8.33 per cent (w.e.f. 25.9.75) and is sought to be linked to increased productivity in recent times. Through collective bargaining, the workers, through their representative union, can negotiate for more than what the Act provides and get the same ratified by the government, if necessary. In the absence of such a process, the Act makes it mandatory to pay bonus to employees (who have worked in the unit for not less than 30 working days in a year) following a prescribed formula for calculating the available surplus. The available surplus is normally the gross profits for that year after deducting depreciation, development rebate/investment allowance/development allowance, direct tax and other sums referred to in Sec. 6. The Act applies to every factory or establishment in which 20 or more persons are employed in an accounting year. Currently the position is such that even if there is a loss, a minimum bonus needs to be paid treating the same as deficit to be carried forward and set off against profits in subsequent years (Sec. 15). The Act is proposed to be changed since the amount of bonus, the formula for calculating surplus, and the set off provisions have all been under serious attack from various quarters.

**Table 12.3: Bonus Calculations in India**

<ul style="list-style-type: none"> <li>• Bonus is calculated on a salary of Rs 2,500 per month.</li> <li>• Bonus is to be paid at a minimum of 8.33 per cent of the salary of an employee.</li> <li>• The bonus is to be paid within 8 months from the close of an accounting year.</li> <li>• If in any year the available surplus exceeds the amount of minimum bonus payable to an employee, the employer shall pay a higher bonus subject to a minimum of 20% of salary or wage.</li> <li>• Bonus is paid out of available surplus of an accounting year after deducting the sums referred to in Sec. 6. Even if there is no surplus, bonus has to be paid, treating it as 'deferred wage'.</li> <li>• To claim bonus, the employee must have worked for 30 days in that year.</li> </ul>
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## 12.7 WAGE DIFFERENTIALS

Differentials in wages for jobs are inevitable in any industry. The reasons are not far to seek:

**Table 12.4: Reasons for Wage Differentials**

Wage differentials	Reasons
Interpersonal differentials	Differentials in sex, skills, age, knowledge, experience
Inter-occupational differentials	Varying requirements of skill, knowledge, demand-supply situation
Inter-area differentials	Cost of living, ability of employers to pay, demand and supply situation, extent of unionisation
Inter-firm differentials	Ability of employer to pay, employees' bargaining power, degree of unionisation, skill needs, etc.

Wage differentials perform important economic functions like labour productivity, attracting the people to different jobs. Since most of the workers are mobile with a view to maximising their earnings, wage differentials reflect the variations in productivity, efficiency of management, maximum utilisation of human force, etc. Attracting efficient workers, maximisation of employee commitment, development of skills, knowledge, utilisation of human resources, maximisation of productivity can be fulfilled through wage differentials as the latter determines the direct allocation of manpower among different units, occupations and regions so that the overall production can be maximised. Thus, wage differentials provide an incentive for better allocation of human force – labour mobility among different regions and the like.



Wage differentials play a pivotal role in a planned economy in the regulation of wages and development of national wage policy by allocating the skilled human force on priority basis. Development of new skills, knowledge, etc., is an essential part of human resource development. Shortage of technical and skilled personnel is not only a problem for industries but it creates bottlenecks in the attainment of planned goals. Thus, wage differentials, to a certain extent, are desirable from the viewpoint of national interest. As such, they probably become an essential part of national wage policy. Complete uniform national wage policy is impracticable and undesirable.

### 12.7.1 Are Wage Differentials Justified?

Wage differentials on the basis of occupations, units and areas (when real wages are taken into account) can be justified on the basis of equal pay for equal work among workers. They are also justified in view of varying conditions of demand and supply and varied job requirements like skill, knowledge, aptitude, ability, experience, etc. But the object of the Government is to minimise income inequalities and inequalities in the distribution of wealth. Thus, wage differentials are not desirable in a socialistic pattern of society. However, formulating a uniform wage policy ignoring differences in individual skills, knowledge, etc., are constrained by limitations in a unit's ability to pay varying living costs in different regions, varying demand and supply conditions, differences in occupations, etc., rendering uniformity impracticable. Hence, a compromise between uniform wage policy and wage differentials has to be developed keeping in view the principles of a socialistic pattern of society.

### 12.7.2 Wage Differentials in India

Interpersonal, inter-unit, inter-occupational wage differentials are more predominant in unorganised sector of Indian economy. But even in organised sector and public sector units, wage differentials are quite common. However, the tendency appears to be towards minimisation and regularisation of wage differentials and to narrow down the gap between maximum and minimum wage in a unit. Wage differentials on the basis of sex are however common, mainly in unorganised sector of the economy. It is observed that certain industrial tribunals had awarded different wages for male and female workers not on the ground that the work done is unequal but on the grounds that the wages of female employees have always been somewhat lower than those of male workers, that women workers support a smaller family and that the cost of employing women workers is higher. However, it is felt that further steps should be taken in order to minimise wage differentials not only in unorganised sector but also in organised and public sector undertakings.

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## 12.8 CHOICES IN DESIGNING A COMPENSATION SYSTEM

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The compensation system that is followed by a firm should be in tune with its own unique character and culture and allow the firm to achieve its strategic objectives. A wide variety of options confront a firm while designing such a system.

1. **Internal and external pay:** Pay equity, as stated previously, is achieved when the compensation received is equal to the value of the work done. Compensation policies are internally equitable when employees believe that the wage rates for their jobs approximate the job's worth to the organisation. Perceptions of external equity exist when the firm pays wages that are relatively equal to what other firms are paying for similar types of work.



2. **Fixed vs. variable pay:** Nowadays variable pay programmes are widely followed throughout many organisations and for all levels of employees. Widespread use of various incentive plans, team bonuses, profit sharing programmes have been implemented with a view to link growth in compensation to results. Of course, while using variable pay systems, management must look into two issues carefully:
  - ❖ Should performance be measured and rewarded based on individual, group or organisational performance?
  - ❖ Should the length of time for measuring performance be short term or long term?
3. **Performance vs. membership:** Knowledge-based organisations these days follow a performance-based payment plan offering awards to employees for cost saving suggestions, bonuses for perfect attendance or merit pay based on supervisory appraisals. 3 M's encouragement of innovation through this route, for example, has paid off in what has become a legend in the field of product development (one of its chemists developed the immensely popular product 'Post-it' when 3M gave time for the employee and announced a handsome bonus for the final result. Most organisations, however, still pay their employees based on the number of hours of work per week coupled with certain benefits for serving the company loyally for a particular period.

**Box 12.1: Guidelines for Effective Performance-based Pay Systems**

To be fair to employees, organisations should keep the following guidelines in mind while instituting merit-pay systems

- Establish high standards of performance, so that only the truly outstanding employees emerge as winners.
- Develop accurate performance appraisal systems. The focus must be on job-specific, results-oriented criteria as well as employee behaviours.
- Train supervisions in the mechanics of carrying out appraisals and offering feedback to employees in a proper way.
- Tie rewards closely to performance.
- Use a wide range of increases. Also, make pay increases meaningful.

4. **Job vs. individual pay:** Most traditional organisations – even today – decide the minimum and maximum values of each job independently of individual workers (who are placed in between these two extremes), ignoring their abilities, potential and the ability to take up multiple jobs. Such job-based pay systems may, in the end, compel capable workers to leave the company in frustration. To avoid such unfortunate situations, knowledge-based pay systems (or skill-based ones) have been followed increasingly in modern organisations. In this case employees are paid on the basis of the jobs they can handle or the talents they have that can be successfully exploited in various jobs and situations.

**Box 12.2: Suitability of Job-based and Knowledge-based Pay Systems**

<p>A job based-pay system is suitable when:</p> <ul style="list-style-type: none"> <li>● Jobs do not change often</li> <li>● Technology is stable</li> <li>● Lot of training is required to learn a given job</li> <li>● Turnover is relatively low</li> <li>● Employees are expected to move up through the ranks over time</li> <li>● Jobs are fairly standardised within the industry</li> </ul>	<p>Individual-based pay system is suitable when:</p> <ul style="list-style-type: none"> <li>● The firm has relatively educated employees with both the ability and willingness to learn different jobs</li> <li>● The firm's technology, processes are subject to frequent change</li> <li>● Vertical growth opportunities are limited</li> <li>● Opportunities to learn new skills exist</li> <li>● Teamwork and employee participation are encouraged</li> </ul>
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Organisations will grant an increase in pay after the employee masters various skills and demonstrates these according to a pre-determined standard. One of the important limitations of this method is that employees can become discouraged when they acquire new skills but find very few rewarding growth opportunities or high-rated jobs where they can use their talents successfully.

**Box 12.3: Broad banding vs Competency Based Pay System**

Organisations that follow a skill-based or Competency Based Pay System frequently use broad banding to structure their compensation payments to employees. Broad banding simply compresses many traditional salary grades (say 15 to 20 grades) into a few wide salary bands (three or four grades). By having relatively few job grades, this approach tries to play down the value of promotions. Depending on changing market conditions and organisational needs, employees move from one position to another without raising objectionable questions, (such as when the new grade is available, what pay adjustments are made when duties change etc.) As a result movement of employees between departments, divisions and locations becomes smooth. Employees with greater flexibility and broader set of capabilities can always go in search of jobs in other departments or locations that allow them to use their potential fully. Broad banding, further, helps reduce the emphasis on hierarchy and status. However, broad banding can be a little unsettling to a new recruit when he is made to roll on various jobs. Most employees still believe that the existence of many grades helps them grab promotional opportunities over a period of time. Any organisation having fewer grades may be viewed negatively – as having fewer upward promotion opportunities. Moreover, a number of individuals may not want to move across the organisation into other areas.

5. ***Below market vs. above market compensation:*** In high tech firms R&D workers might be paid better than their counterparts in the manufacturing division. Blue chip firms such as HLL, Nestlé, Procter & Gamble, TCS, Hughes Software Systems might pay above market compensation to certain groups in order to attract (and retain) 'the cream of the crop'. To grow rapidly and to get ahead of others in the race, especially in knowledge-based industries, most companies prefer to pay above-market salaries. Above market wages are typical in well-established manufacturing units operating in a highly competitive environment. Firms paying below market tend to be small, young and non-unionised.
6. ***Open vs. secret pay:*** In the real world, the issue of paying compensation openly or in a secret way may often become a bone of contention between employees and the employer(s). Current research evidence indicates that pay openness is likely to be more successful in organisations with extensive employee involvement and an egalitarian culture that encourages trust and commitment. Open pay eliminates doubts in the minds of employees regarding equity and fairness - because there is equal pay for equal work. But open pay has a downside. First, managers are forced to defend their compensation decisions publicly. The question of how much pay one should get is more or less decided by the manager - based on his own subjective assessment of various factors. In such decision, it is not easy to please everyone. Second, the cost of making a mistake in a pay decision increases when pay is open. Third, to avoid never-ending and time-wasting arguments with employees, managers may eliminate pay differences among subordinates despite differences in performance levels. This may, in the end, force talented people to leave the organisation. Pay secrecy involves withholding information from the recruits regarding how much others make, what raises others have received and even what Pay grades and ranges exist within an organisation. Pay secrecy gives managers some amount of freedom in compensation management, since pay decisions are not disclosed and there is no need to justify or defend them. Employees

who do not know how much others are getting have no objective base for pursuing complaints about their own pay. Secrecy also serves to cover up inequities prevailing within the internal pay structure. Again, secrecy surrounding compensation decisions may lead employees to believe that there is no direct relationship between pay and performance. Pay secrecy, however, is a difficult policy to maintain because most of the pay-related information is now available on the Web. Anyone with access to the Internet can easily find out what a position is worth in the job market.

### Check Your Progress 3

Fill in the blanks:

1. .... offers valuable information for developing a compensation system in terms of what duties and responsibilities need to be undertaken.
2. .... paid to employees in order to enable them to face the increasing dearness of essential commodities.
3. .... is one of the important institutions set up by the Government of India for fixation and revision of wages.
4. .... is a metamorphosed from a reward or an incentive for good work, into a defensible right and a just claim.
5. .... in the mechanics of carrying out appraisals and offering feedback to employees in a proper way.

## 12.9 MANAGERIAL COMPENSATION

Organisations decide executive compensation packages, consisting of basic pay, allowances, perquisites, stock options, etc., based on a number of factors. The United States Compensation institutes' Phoenix plan uses 28 compensable factors:

**Table 12.5: Phoenix Plan – Compensable Factors**

<ul style="list-style-type: none"> <li>● Job related experience</li> <li>● Time spent in planning</li> <li>● Training time required</li> <li>● Contact with suppliers/customers</li> <li>● Frequency of review of work</li> <li>● Utilisation of independent choice</li> <li>● Frequency of reference to guidelines</li> <li>● Frequency of work transferred through supervisor</li> <li>● Analytical complexity</li> <li>● Time spent in processing information</li> <li>● Supervisors reporting to position level</li> <li>● Travel outside work location</li> <li>● Salary grade to which this position reports</li> <li>● Salary grade of positions supervised</li> <li>● Management responsibility</li> <li>● Revenue size</li> <li>● Asset size</li> <li>● Employment size</li> <li>● Budget size</li> <li>● Payroll size</li> </ul>	<ul style="list-style-type: none"> <li>● Impact on departmental budget</li> <li>● Directing of others.</li> <li>● Training of staff/physical stress experienced</li> <li>● Time spent working under deadlines</li> <li>● Time spent in hazardous conditions</li> </ul>
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The Hay Group, another specialised US Agency, uses three compensable factors: accountability, problem-solving and know-how. Sibson and company determines base compensation depending on the market value of the job, its relationship to other positions in the organisation and the person's value to the organisation based on long-term performance and experience. The Compensation Survey Report of Business International Asia – Pacific Limited, Hongkong considered the following factors to determine executive compensation: education, experience, scope of activities, need to negotiate, type of problems handled, decision making authority, influence on results, size of the unit managed, number of people supervised, number of reporting steps to the head of unit.

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## 12.10 INDIAN PRACTICES

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Executive compensation in India is basically built around three important factors: job complexity, employers' ability to pay and executive human capital. The complexity of a chief executive's job would depend on the size of the company as measured by its sales volume, earnings and assets' growth, the geographic dispersal of the unit, etc. The employer's ability to pay is also a major factor to be considered while deciding executive compensation. A sick bank, for instance, cannot afford to pay the same kind of salary to its executives as that of a healthy and growing bank. This partly explains why executive compensation in public sector undertakings is less when compared to private sector units.

### Box 12.4: Executive Compensation: Private Sector vs. Public Sector

In a well publicised front page news sometime back The Economic Times mentioned about the miserable salary levels of top executives in public sector units in India. For example the State Bank of India chief is paid 10% of HDFC Bank Managing Director, BHEL's chief getting about Rs.10 to 12 lakhs per year as against ABB's MD getting nearly Rs.40 to 50 lakhs; Indian Oil Corporation's chief getting Rs.10 to 15 lakhs per annum as against Reliance Industries' Ambanis getting a package of over Rs.10 crore per annum. Salary levels in 'hot' private sector such as BPO, hospitality, biotechnology 'Media', IT, Telecommunications, Oil, Automobiles and Insurance are way above the packages offered to executives in public sector for various reasons such as: overstaffing, inefficient processes, pressure on margins due to competition, appointment of people without requisite skills at the top level, political interference especially in pricing the products or services, legal constraints etc.

The economic theory of human capital says that the compensation of a worker should be equal to his marginal productivity. The productivity of an executive, likewise depends on his qualifications, job knowledge, experience and contribution. Indian companies usually structured executive compensation along the following factors: salary, bonus, commission, PF, family pension, superannuation fund, medical reimbursement, leave travel assistance, house rent allowance and other perquisites. In recent years, instead of increasing the base compensation, companies have been enhancing the worth of an executive job through novel payment plans based on earnings/assets or sales growth of the company over a period of time, well-supported by an ever-expanding list of allowances and perquisites including stock options, educational, recreational, academic allowances and several other developmental initiatives aimed at improving the overall personality of an executive.

### *Protecting your Valuable Employees from the Eyes of the Competition (not playing the salary game?)*

With the battle for talent escalating into a war, Indian companies are going all out to retain their prized employees. Two approaches have gained visibility and popularity in recent times. The first is internal and includes improving communication, changing work

rules, increasing pay and even tightening phone security of a person. If the person in question is a high performer with a high risk of leaving, companies like Reckitt Benckiser, go on an overdrive with the milk and honey. Ego massaging services are initiated immediately. Eicher has a 'key man policy' in place to prevent 'stars' from leaving the company. The insurance policy, a juicy carrot for the top performers, however, comes with a rider: if the person stays for an agreed period he earns a certain amount but if he leaves before that, the company gets a larger amount. Retention bonuses are also quite common. At Mahindra & Mahindra, 50 per cent of the employees' bonus comes in the form of a fixed deposit that can be encashed after a mutually agreed time period. The second method is external and focused on broking the raiding firm. Four years ago Pepsi even went to the extent of filing a case against Coke for poaching its employees. Non-poaching agreements, explicit or implicit, have also gained popularity. Some firms try to foil poaching by signing up several firms. Other companies such as Sasken Communication Technologies, Honey Well, Johnson & Johnson deal with the problem in a novel way: allowing employees complete freedom to think and act independently, opportunities to upgrade skills, offering jobs with stretch, pull and challenge etc.

#### Check Your Progress 4

State whether the following statements are true or false:

1. External equity is determined through job analysis.
2. Key jobs are those most numerous in the firm.
3. An example of indirect compensation is 'pensions'.
4. Wage surveys determine point values for jobs.
5. 'The concept of comparable worth' tries to reduce the male-female salary differential.
6. Pay levels are determined by combining job evaluation results with survey wage rates.
7. Jobs with similar value are combined into pay ranges.
8. The predominant approach to employee compensation in India is still the skill-based system.
9. Because of inflation, compensation rates have to be adjusted upward periodically to help employees maintain their purchasing power.
10. Pay secrecy does not give freedom to managers in compensation management.

## 12.11 LET US SUM UP

Compensation administration intends to develop the lowest-cost pay structure that will not only attract, inspire and motivate capable employees but also be perceived as fair by these employees.

Establishing wage rates involves five steps: evaluate jobs, conduct salary survey, develop Pay grades, use wage curves, and fine tune pay rates.

The pay structure of a company depends on several factors such as labour market conditions, company's paying capacity, legal provisions, prevailing wage rates, demand and supply of labour, degree of unionisation etc.

The wage policy in India is built around certain cardinal principles: (i) equal pay for equal work (ii) living wage for all workers so that they lead a decent life (iii) payment of wages on appointed dates without unauthorised deductions (iv) Resolving wage related issues through collective bargaining (v) payment of statutory bonus at 8.33 per cent as per legal provisions (vi) ensuring a fair, equitable wage plan for various employees without significant wage differences etc.

While designing a compensation system, every company needs to pay attention to: (i) internal as well as external equity (ii) fixed vs variable pay (iii) payments based on performance or membership (iv) Job based pay or knowledge-based pay (v) payment as per market rates (vi) open vs secret pay etc.

Executive compensation in India is built around three important factors: job complexity, employees' ability to pay and executive competency levels.

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## 12.12 LESSON END ACTIVITY

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Infotech Enterprises Ltd. has 4,000 employees and wishes to develop a compensation policy in all its divisions [(i) Engineering design services, (ii) Geographical Information Systems, and (iii) Software Development and Services] to correspond to its dynamic business strategy. The company wishes to employ a high quality workforce capable of responding to a competitive business environment. Suggest different compensation objectives to match Infotech's business goals.

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## 12.13 KEYWORDS

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**Compensation:** It is what employees receive in exchange for their contribution to the organisation.

**Wages:** The amount paid by the employer for the services of hourly, daily, weekly, fortnightly employees (ILO).

**Incentives:** Motivational devices used such as bonuses or commissions to encourage special work effort.

**Salaries:** Remuneration paid to the clerical and management personal employed on a monthly or yearly basis. However the distinction between wages and salaries need not be observed in actual usage. Both may mean remuneration paid to an employee for services rendered.

**Earnings:** Total amount of remuneration received by an employee during a given period.

**Wage rate:** It is the amount of remuneration for a unit of time, excluding incentives, overtime pay etc.

**Wage structure:** Consists of various pay scales showing ranges of pay within each grade.

**Wage policy:** Principles acting as guidelines for determining a wage structure.

**Minimum wage:** Wage sufficient to sustain and preserve the efficiency of the worker and to provide him basic amenities.

**Wage curve:** Curve in a scatter diagram representing the relationship between relative worth of jobs and wage rates.

**Pay equity:** An employee's perception that compensation received is equal to the value of work performed.



**Pay grades:** Groups of jobs within a particular class that are paid the same rate.

**Compensation administration:** Deciding about how much an employee should be paid observing internal as well as external equity.

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## 12.14 QUESTIONS FOR DISCUSSION

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1. What is pay structure? How is it designed?
2. What are the factors influencing wage structure?
3. Write notes on:
  - a. Need based wage
  - b. Wage boards
  - c. Minimum Wages Act
4. Explain the various methods of fixing wages and salaries in an organisation.
5. Write notes on:
  - a. State regulation of wages
  - b. Bonus
  - c. Time wage plan vs Piece wage plan
6. How does effective compensation management help an organisation achieve its strategic objectives?
7. Critically examine the components of a compensation package in organised industry in India.
8. What are the principal objectives of wage and salary administration? What factors should be taken into account while deciding executive compensation?
9. Write short notes on:
  - a. Executive compensation
  - b. Wage differentials
10. What are the pros and cons of broad banding, and would you recommend your current employer (or some other firm you are familiar with) use it? Why or Why not?

### Check Your Progress: Model Answers

#### **CYP 1**

Factors of Dearness Allowance

1. Index Factor
2. Time Factor
3. Point Factor

#### **CYP 2**

Three elements of wages and salary system are:

1. Measuring the actual performance

*Contd....*



2. Comparing the performance with the salary
3. Measuring the job satisfaction of the employees.

**CYP 3**

1. Job Analysis
2. Dearness Allowance (DA)
3. Wage Boards
4. Bonus
5. Train Supervisions

**CYP 4**

1. F, 2. F, 3. T, 4. F, 5. T, 6. T, 7. T,
8. F, 9. T, 10. F

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## 12.15 SUGGESTED READINGS

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VSP Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004

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## LESSON

# 13

## INCENTIVES AND EMPLOYEE BENEFITS

### CONTENTS

- 13.0 Aims and Objectives
- 13.1 Introduction
- 13.2 Determinants of Incentives
- 13.3 Types of Rewards
  - 13.3.1 Individual Incentives
  - 13.3.2 Group or Team based Incentive Plans
  - 13.3.3 Organisation wide Incentive Plans
- 13.4 Wage Incentive Schemes in India
- 13.5 Guidelines for Effective Incentive Plans
- 13.6 Employee Benefits and Services
  - 13.6.1 Factors Influencing Benefits and Services
  - 13.6.2 Objectives of Fringe Benefits
  - 13.6.3 Employee Security
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  - 13.6.5 Health Benefits
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- 13.7 Safety Engineering
- 13.8 Let us Sum up
- 13.9 Lesson End Activity
- 13.10 Keywords
- 13.11 Questions for Discussion
- 13.12 Suggested Readings

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### 13.0 AIMS AND OBJECTIVES

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The lesson highlights the various incentive plans that are currently used in the corporate world—to motivate direct and indirect employees working at various levels. After studying this lesson, you should be able to:

- Describe the features of an ideal system of wage payment
- List the various methods of wage payment

- State the incentive schemes available for indirect workers
- Understand the need for fringe benefits
- Outline the various types of fringe benefits

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### 13.1 INTRODUCTION

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Wage payment is a matter of great importance to workers. It determines their standard of living, their attitude towards the company and influences their motivation to work. It is an important issue from the employer's point of view as well, as their profit is affected by the total wage bill. Remuneration to labour, thus, is a complex problem and is often the bone of contention between workers and employers. Employers want to keep down the wage rates and employees want to see their wages rise continually. To strike a balance between the two, it is necessary to select the system of wage payment carefully. An ideal system of wage payment should have the following features.

1. **Simple:** The system of wage payment should be simple and easily intelligible to the worker. Above all, it must be perceived by employees as equitable.
2. **Beneficial:** The allocation of gains should be judiciously made among labour and management on some equitable basis.
3. **Equitable:** Each worker should be paid fairly, in line with his effort, abilities and training.
4. **Guaranteed minimum wage:** The system should guarantee a minimum wage (to meet bare necessities and comforts of life) to every worker. Pay should be enough to help an employee cover his basic needs.
5. **Balanced:** Pay, benefits and other rewards should offer a reasonable total compensation package.
6. **Incentive-oriented:** The wage system should be such that the workers may feel encouraged to produce more and earn more wages.
7. **Quality output:** The system must encourage the worker not only to increase the quantum of output but also improve the quality of output.
8. **Certainty:** Wages should be paid in cash on a convenient date, time and place during working hours. The system should not have any element of uncertainty.
9. **Cost-effective:** Pay should not be excessive, considering what an organisation can afford to pay
10. **Flexible:** The system should be flexible to allow necessary changes, which may arise from time to time.

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### 13.2 DETERMINANTS OF INCENTIVES

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The effective use of incentives depends on three variables-the individual, work situation, and incentive plan.

Different people value things differently. Enlightened managers realize that all people do not attach the same value to monetary incentives, bonuses, prizes or trips. Employees view these things differently because of age, marital status, economic need and future objectives. However, even though employee reaction to incentives vary greatly, incentives must have some redeeming merits. For example, there might be a number of monetary and nonmonetary incentive programmes to motivate employees. Money, gift certificates, praises, or merit pay are of the continuous parade of promotion.

If speed of equipment operation can be varied, it can establish range of the incentive. Workers' job may incorporate a number of activities that he finds satisfying. Incentives may take the form of earned time-off, greater flexibility in hours worked, extended vacation time and other privileges that an individual values.

A worker needs to be able to see the connection between his work and rewards. These responses provide important reinforcement. Worker considers fairness or reasonableness as part of the exchange (or his work, incentives, in general, are important motivators. Their effectiveness depends upon three factors: drives, preference value, and satisfying value of the goal objects.

Beyond subsistence level, becoming needs (self-actualization needs) possess greater preference value and are more satisfying than deficiency needs (which are necessary for survival). Below the subsistence level, however, the reverse holds true." He makes the following generalizations:

- i. Incentives, whether they are monetary or non-monetary, tend to increase the level of motivation in a person.
- ii. Financial incentives relate more effectively with basic motivation or deficiency needs.
- iii. Non-financial incentives are linked more closely with higher motivation, or becoming needs.
- iv. The higher the position of a person in an organization's hierarchy, the greater is his vulnerability to non-financial incentives.

"While budgetary restrictions and temporary improvements in performance place a limit on the potency of money as a motivator, non-financial incentives involve only human ingenuity as investment and also insure a relatively stable acceleration in output. Monetary incentive imply external motivation, non-monetary incentives involve internal motivation. Both are important. It is a judicious mix-up of the two that tends to cement incentives with motivation. "

Subjectivity can be useful in mitigating various problems faced in assigning rewards through formulas based on quantitative performance measures. The use of subjectivity allows evaluators to exploit any additional relevant information that arises during the measurement period to the benefit of both the firm and the employee. The firm can benefit through improved incentive alignment and the employee can benefit through reduced risk.

Effective performance measures provide accurate, informative, and timely indications of the individual's contributions to firm value (or other organizational goals). When quantitative performance measures are effective, formula incentives are likely to be used intensively. However, quantitative performance measures often distort incentives (e.g., because they are incomplete or prone to manipulation) or impose undue risk on the employee (e.g., because they include uncontrollables). Thus, mitigating distortions to improve incentive alignment, and filtering out uncontrollables to reduce risk, allow for stronger incentives.

Performance measures, especially accounting numbers, can distort incentives because they inadequately account for (or ignore entirely) some dimensions of the employee's job. Most jobs involve multiple types of employee efforts and decisions. Ideally, compensation contracts should use all possible information about employees' effects on firm value, weighted properly, so that incentives are appropriately balanced across different dimensions of the job.

At managerial levels, where jobs are complex, compensation contracts are almost invariably incomplete. Commonly, then, managers direct their efforts only to measured tasks and may ignore other important-but-unmeasured tasks (e.g., they focus on improving short-term profits at the expense of long-term client relations). Subjectivity can be used to reward managers for value-enhancing efforts that are not easily quantified, and thus are not explicitly measured in the formula contract.

Subjectivity can be used to mitigate an excessively short-term focus in situations where accounting measure conservatism is more pronounced.

Using subjectivity to leave the basis for evaluations somewhat vague lessens employees' incentives and abilities to manipulate the measures. Further, assuming that evaluators have sufficient skill to detect some manipulations, subjectivity allows the firm to engage in ex post settling up, thereby also diminishing the incentives of managers to engage in non-productive manipulations. This suggests that: the use of subjectivity in the assignment of rewards will be positively related to the manipulability of the quantitative measures.

#### Check Your Progress 1

Mention the four features of system of wage payment.

.....  
.....

### 13.3 TYPES OF REWARDS

**Individual Incentives:** Offered to reward the effort and performance of individuals.

**Group Incentives:** Group or team incentive plans reward team members with an incentive bonus when agreed upon standards are met or exceeded.

**Organisation wide Incentives:** Organisation incentives reward people for the performance of the entire organisation [such as profit sharing, employee stock options etc.]

#### 13.3.1 Individual Incentives

Individual incentive plans are the most widely used pay for performance plans in industry. These pay plans attempt to relate individual effort to pay. Popular approaches include piece work plans, (such as Taylor's differential piece rate plan, Merrick's differential piece rate plan, etc.), standard hour plans, (such as Halsey plan, Bedeaux plan, Emerson's plan etc.) merit pay raises, lumpsum merit payments, sales incentives and commissions.

##### A. Piece Rate: Taylor's Differential Piece Rate System

F W Taylor, the father of Scientific Management, originated this system. The main features of this plan are:

- There shall be two piece work rates, one is lower and the other is higher.
- The standard of efficiency is determined either in terms of time or output based on time and motion study.
- If a worker finishes work within standard time (or produces more than standard output within time) he will be given high piece rate.

This system penalises the slow worker by paying low rate because of low production, rewards an efficient worker by giving him high rate because of higher production. Indirectly, this system gives no place to inefficient work. In other words, if the output of a worker is less than the standard output, he is paid a low rate and vice versa.

### ***Merrick's Differential Piece Rate System***

We have seen that in Taylor's Method, the effect on the wages is quite severe in the marginal cases. To remove this defect, Merrick came out with a Multiple Piece Rate System. There are three piece rates under this scheme instead of two, and workers producing below the standard output are not penalised by the low piece rate. Since the earnings increase with increased efficiency, performance above the standard will be rewarded by more than one higher differential piece rate. The basic features of this scheme are: (a) up to 83% of the standard output workers are paid at the ordinary piece rate, (b) 83% to 100% at 110% of the ordinary piece rate, and (c) above 100% at 120% of the ordinary piece rate.

### ***B. Standard Hour Plans: Halsey Plan***

This plan, originated by F A Halsey (an American engineer) recognises individual efficiency and pays bonus on the basis of time saved. The main features of this plan are:

1. Standard time is fixed for each job or operation.
2. Time rate is guaranteed and the worker receives the guaranteed wages irrespective of whether he completes the work in the time allowed or takes more time to do the same.
3. If the job is completed in less than the standard time, the worker is paid a bonus of 50% (33 1/3 per cent under Halsey-Weir Plan) of time saved at time rate in addition to his normal time wages.

Total Earnings = Time taken x Hourly Rate plus Bonus

Bonus = 50% of time saved

### ***Merits***

1. It is easy to follow and relatively simple to operate;
2. It guarantees minimum wage and thus provides security to the employees;
3. It provides increasing benefit and incentive to efficient workmen;
4. The benefit from time saved is shared equally between the employer and the workman;
5. It emphasises the saving of time rather than larger output, hence the workers do not resist its adoption.
6. The system is based on time saved and not on output, thus preventing over production.
7. Saving in time reduces both labour cost and overhead expenses.

### ***Demerits***

1. The worker may be encouraged to rush through work and thus neglect the quality of production to save more time and earn higher bonus;
2. It does not provide adequate incentive to highly efficient workmen as it involves sharing of the benefit with employers.
3. Fixation of standard is not easy.
4. Earnings are reduced at high level of efficiency. Therefore, it does not act as a sufficient incentive.

**Rowan Plan**

This plan was introduced by D. Rowan in 1901. As before, the bonus is paid on the basis of time saved. But unlike a fixed percentage in the case of Halsey plan, it takes into account a proportion as follows:

$$\frac{\text{Time saved}}{\text{Time allowed}}$$

Thus, under this plan bonus is that proportion of the wages of time taken which the time saved bears to the time allowed or standard time.

$$\text{Bonus} = \frac{\text{Time saved}}{\text{Standard time or time allowed}} \times \text{Time taken} \times \text{Hourly rate}$$

$$\text{Total earnings} = \text{Time Taken} \times \text{Hourly Rate} + \text{Bonus}$$

**Merits**

1. It assures minimum time wages. It is more liberal than the Halsey plan in that it provides incentive to work and earn extra remuneration.
2. As the increase in effort is much less rewarded after a certain stage, an automatic check for limiting production of inferior quality of goods is ensured.
3. This automatic check enables the worker to earn a fair wage, because there is less chance of rate-cutting by the employer, as he is not paying extraordinary wages.

**Demerits**

1. The ordinary worker may find the bonus calculation a bit difficult.
2. Like Halsey plan, this plan does not encourage extraordinary efficiency. For example, if the time saved is more than half the total, earnings begin decreasing.

**Gantt Task and Bonus Plan**

This plan combines time, piece and bonus systems. The main features of this plan are:

1. Day wages are guaranteed.
2. Standard time for task is fixed and both time wages as well as a high rate per piece are determined.
3. A worker who cannot finish the work within the standard time is paid on time basis.
4. If a worker reaches the standard, he will be paid time wage plus a bonus at fixed percentage (20%) of normal time wage.
5. If the worker exceeds the standards, he is paid a higher piece rate.

**Merits**

1. This plan is not as harsh as the Taylor's differential piece rate system. Hence it is more acceptable to the workers.
2. Workers can easily understand its working.
3. It ensures guaranteed time wages to inefficient workers also.



4. It makes distinction between efficient and inefficient workers because the system ensures time wages for inefficient workers and piece wages plus 20% bonus for efficient workers.
5. Labour cost per unit decreases with increase in production due to incentive for efficiency given under this plan.

#### ***Demerits***

1. It classifies workers into two competing categories (efficient and inefficient) and this may bring disunity among workers.
2. When this method is used, labour cost will be high for low production.
3. Extreme care is to be exercised in fixing the guaranteed time rate and determination of standard output. Any error due to lack of experience will lead to unfavourable consequences.

#### ***Bedeaux Plan***

Under this plan, every operation or job is expressed in terms of so many standard minutes, which are called 'Bedeaux points' or "B's", each B representing one minute through time and motion study. Up to 100% performance, i.e., up to standard B's, a worker is paid time wages without any premium for efficiency. If the actual performance exceeds the standard performance in terms of B's, then 75% of the wages of the time saved is paid to the worker as bonus and 25% is earned by the foremen. For example, if the standard time is 10 hours actual time taken is 8 hours and rate per hour Re.1, the worker will get:

$$\begin{aligned}
 &= 8 \text{ hours at Re } 1 + 75\% \text{ of } 120 \text{ (points saved)} \times 1/60 \\
 &= \text{Rs } 9.50.
 \end{aligned}$$

#### ***Haynes Manlt Plan***

This plan is just like the above plan, i.e., the Bedeaux plan with the difference that:

- a. The standard is fixed in terms of standard minute known as 'Manit', instead of Bedeaux. Manit stands for man-minute.
- b. The bonus is only 50% as against 75% of the Bedeaux plan. Of the remaining 50%, 10% bonus is paid to supervisors and 40% is retained by the employers.

#### ***Emerson's Efficiency Plan***

Under this plan, when the efficiency of the worker reaches 67% he gets bonus at the given rate. The rate of bonus increases gradually from 67% to 100% efficiency. Above 100% bonus will be at 20% of the basic rate plus 1% for each 1% increase in efficiency.

#### ***Accelerated Premium Bonus Plan***

This plan is also known as Sliding Scale Bonus Plan because the premium is paid at varying rates for increasing efficiency. In this plan, as efficiency of worker improves, his earnings would increase in greater proportion. This plan is most suitable for foremen and supervisors because it will stimulate them to get higher production from workers under their supervision but it is not advisable to use it for machine operators who may rush through work to earn more, disregarding quality of production.

There is no simple formula for this scheme. Therefore, each firm has to devise its own formula. However, by way of illustration, a graph of  $y=0.8x^2$  may be given as general

picture of the scheme (where  $x$  is percentage efficiency  $100\div$  and  $y$  = wages).

Thus,

Percentage Efficiency	100	110	130	150
$x$	1	1.1	1.3	1.5
$x^2$	1	1.21	1.69	2.25
$Y = 0.8x^2$	0.8	0.97	1.35	1.8

An Individual Incentive plan is likely to be more effective under certain circumstances:

- The task is liked.
- The task is not boring.
- The supervisor reinforces and supports the system.
- The plan is acceptable to employees and managers and probably includes them in the plan's design.
- The incentive is financially sufficient to induce increased output.
- Quality of work is not especially important.
- Most delays in work are under the employees' control.

T.L. Ross et al, "The Incentive Switch", Management Review, 18, May 1989.

### C. Bonuses

A bonus is an incentive payment that is given to an employee beyond one's normal standard wage. It is generally given at the end of the year and does not become part of base pay.

#### Box 13.1: The Payment of Bonus Act, 1965

The Act defines an employee who is covered by it as one earning Rs 2,500 p.m. (w.e.f. 1.4.93) basic plus dearness allowance and specifies the formula for calculating the allocable surplus from which bonus is to be distributed. The minimum bonus to be paid has been raised from 4 per cent to 8.33 per cent (w.e.f. 25.9.75) and is sought to be linked to increased productivity in recent times. Through collective bargaining, the workers, through their representative union, can negotiate for more than what the Act provides and get the same ratified by the government, if necessary. In the absence of such a process, the Act makes it mandatory to pay bonus to employees (who have worked in the unit for not less than 30 working days in a year) following a prescribed formula for calculating the available surplus. The available surplus is normally the gross profits for that year after deducting depreciation, development rebate/investment allowance/development allowance, direct tax and other sums referred to in Sec. 6. The Act applies to every factory or establishment in which 20 or more persons are employed in an accounting year. Currently the position is such that even if there is a loss, a minimum bonus needs to be paid treating the same as deficit to be carried forward and set off against profits in subsequent years (Sec. 15). The Act is proposed to be changed since the amount of bonus, the formula for calculating surplus, and the set off provisions have all been under serious attack from various quarters.

### D. Merit Pay and Individual Incentive Plans

Merit pay is a reward based on how well an employee has done the assigned job. The payout is dependent on individual employee's performance. Performance is evaluated in a subjective fashion. Advocates of merit pay call it the most valid type of pay increase. Rewarding the best performers with the largest pay is claimed to be a powerful motivator. Performance that is rewarded is likely to be repeated. People tend to do things that are rewarded. Generally speaking, individuals are goal oriented and financial rewards can shape an individual's goals over time. When high achievers are rewarded, they set the benchmarks for others to follow. Merit raises, unfortunately, may not always achieve

their intended purpose. Unlike a bonus, merit raise may be perpetuated year after year even when performance declines. When this takes place, employees come to expect the increase and see it as being unrelated to their performance. Evaluating merit, further, is not easy. In most cases, merit raises may be based on seniority or favoritisms or sometimes just to cover rising inflationary pressures. Subordinates who are politically, socially and familially connected inside and outside the organisation, who have clout and who can hurt the supervisor in some way are likely to receive a larger share of the merit pie than their performance may warrant. Compensation specialists find fault with merit raises on the following grounds:

- Tying pay to goals may force people to be narrow-minded; they may focus on goals that are measurable, easy to achieve and avoid the more important goals.
- It is difficult to define and measure performance objectively
- Employees fail to make the connection between pay and performance
- Every supervisor may not be a competent evaluator
- There may be lack of honesty and cooperation between management and employees. Politics may come to pay a major role in recognising meritorious performers.
- The size of merit award has little effect on performance

Merit plans can work in cases where the job is well designed and the performance criteria are both well delineated and assessable.

#### ***E. Lumpsum Merit Pay***

In this case, employees receive a single lumpsum payment at the time of their review – which in any case, is not added to their base pay. Such merit increases help the employer keep the wage bill under control as they do not contribute to escalating base salary levels. Employees receiving the fat, lumpsum merit payments are able to clearly identify the linkage between pay and performance.

#### ***F. Commissions for Sales People***

Compensation plans for sales personnel generally consist of a straight salary plan, a straight commission plan or a combination salary and commission plan.

- (a) ***Salary plan:*** Some firms pay sales people only a salary. Such a plan is useful when serving and retaining existing accounts is being emphasised more than generating new sales and accounts. This approach is generally used to protect the income of new sales representatives at the beginning of their career, trying to build their rapport with customers. It can also be put to use when both new and existing sales reps are supposed to spend a lot of time learning about and selling customers new products and services.
- (b) ***Commission plan:*** In this plan, a sales representative receives a percentage of the value of the sales made. He receives no compensation, if no sales are made. The sales representative must inevitably sell in order to earn. High-performing sales people could earn record commissions if they are able to deliver results. Sales costs, thus, are directly proportional to the sales made (rather than remaining fixed) and as such companies would be more than willing to pay commissions based on sales. The plan is quite easy to understand and compute. However, it is not without drawbacks. The emphasis here is always on sales volume rather than on profits. Sales representatives tend to concentrate more on generating sales

volumes and on high-value items neglecting other important duties like serving small accounts, cultivating dedicated customers, and pushing hard-to-sell items. Earnings tend to fluctuate widely between good and poor periods of business. Wide variations in income would occur as sales people compete with other and this could ultimately lead to negative feelings of bitterness, jealousy and anguish among themselves. Again, sales people may be tempted to grant price concessions (against company policy) to push up sales.

- (c) **Combination plan:** The most frequently used form of sales compensation is the salary plus commission, which combines the stability of a salary with the performance aspect of a commission. Many companies also pay sales representatives salaries and then offer bonuses as a percentage of base pay tied to meeting various levels of sales targets or other criteria. A common split is 70% salary to 30% commission, although the split varies by industry and with other factors. Combination plans have many plus points. They offer sales people a floor to their earnings as they get a fixed salary for servicing current accounts and earn extra incentives for superior performance. Combination plans offer greater design flexibility as they can be set up to help maximise company profits. They can develop the most favourable ratio of sales expenses to sales.

### 13.3.2 Group or Team based Incentive Plans

Team based incentive plans reward all team members equally based on overall performance of the team members. Performance is evaluated using an objective standard. As in individual plans, payments to team members may be made in the form of cash bonus or in the form of non-cash rewards such as pleasure trips, time off or luxury items. Team based incentives foster cohesiveness among team members. They can motivate group members to behave and think as a unit rather than as competing individuals. Also it is easy to measure the overall performance of the entire team (rather than contributions of each member of the team).

However, complaints of unfairness are inevitable in a group situation where all team members may not contribute in equal measure. Imagine what would happen to a class where all students get the same grade!

### 13.3.3 Organisation wide Incentive Plans

Organisation wide incentive plans reward employees on the basis of the success of the organisation over a specified time period. These plans seek to promote a 'culture of ownership' by developing a sense of belongingness, cooperation and teamwork among all employees. There are three basic types of organisation-wide incentive plans: profit sharing, gainsharing and employee stock ownership plans.

#### A. Profit Sharing

Profit sharing is a scheme whereby employers undertake to pay a particular portion of net profits to their employees on compliance with certain service conditions and qualifications. The purpose of introducing profit sharing schemes has been mainly to strengthen the loyalty of employees to the firm by offering them an annual bonus (over and above normal wages) provided they are on the service rolls of the firm for a definite period. The share of profit of the worker may be given in cash or in the form of shares in the company. These shares are called bonus shares. In India, the share of the worker is governed by the Payment of Bonus Act.

### ***Merits***

1. The idea of sharing the profits inspires the management and the worker to be sincere, devoted and loyal to the firm.
2. It helps in supplementing the remuneration of workers and enables them to lead a rich life.
3. It is likely to induce motivation in the workers and other staff for quicker and better work so that profits of the firm are increased which in turn increases the share of worker therein.
4. Workers do not require close supervision, as they are self-motivated to put in extra labour for the prosperity of the firm.
5. It attracts talented people to join the ranks of a firm with a view to share the profits.

### ***Demerits***

1. Profits sharing scheme is, in practice, a fair-weather plan. Workers may get nothing if the business does not succeed.
2. Management may dress up profit figures and deprive the workers of their legitimate share of profits.
3. Workers tend to develop loyalty toward firm discounting their loyalty toward trade unions, thus impairing the solidarity of trade unions.
4. Fixation of worker's share in the profits of firm may prove to be a bone of contention in the long run.

### ***B. GainSharing***

A gainsharing plan aims at increasing productivity or decreasing labour costs and sharing the resultant gains (usually a lumpsum payment) with employees. It is based on a mathematical formula that compares a baseline of performance with actual productivity during a given period. When productivity exceeds the base line an agreed-upon savings is shared with employees. Gainsharing is built around the idea that involved employees will improve productivity through more effective use of organisational resources. Three major types of gainsharing plans are currently in use: Scanlon Plan, Rucker, Plan, and Improshare. Improshare stands for improved productivity through sharing. This plan is similar to a piece rate except that it rewards all employees in an organisation. Input is measured in hours and output in physical units. A standard is calculated and weekly bonuses are paid based on the extent to which the standard is exceeded. The employees and the organisation each receive payment for 50 per cent of the improvement.

Unlike profit sharing plans which have deferred payments, gainsharing plans are current distribution plans. They are directly related to individual behaviour and are distributed on a monthly or quarterly basis. Gain sharing plans tend to increase the level of cooperation across workers and teams by giving them a common goal. Managers are not required to base their calculations on complex mathematical formulae, nor they are required to closely look into the specific contributions of individuals or independent teams. It is easier for both, to formulate bonus calculations and to achieve employee acceptance of those plans. Gain sharing plans, however, protect low performers. Where rewards are spread across a large number of employees, poor performers may get rewards for non performance at the cost of the bright performers. Gain sharing plans may fail due to other reasons as well: poorly designed bonus formulae, lack of management support for

employees' participation, increasing cost factors that undermine the bonus formula, poor communication, lack of trust, and apathy on the part of employees. To develop an organisationwide incentive plan that has a chance to survive, let alone succeed careful, in depth planning must precede implementation. A climate of trustworthy labour-management is also absolutely essential. The financial formula should be simple and should measure and reward performance with a specific set of measurable goals and a clear allocation method.

**Table 13.1: Comparative Analysis of three Gain sharing Plans**

Program Dimension	Scanlon	Rucker	Improshare
1. Philosophy; theory	Original single unit; share improvements; people capable of and willing to make suggestions, want to make ideas	Primarily economic incentive; some reliance on employees' participations	Economic incentives increase performance
2. Primary goals	Productivity improvement	Improved productivity	Improved productivity
3. Subsidiary goals	Attitudes, communication, work behaviours, quality, cost reduction	Attitudes, communication, work behaviours, quality, cost reduction	Attitudes, work behaviours
4. Worker's participation	Two levels of committees; screening (one) and production (many)	Screening committee and production committee (sometimes)	Bonus committee
5. Suggestion making	Formal system	Formal system	None
6. Role of supervisor	Chair of production committee	None	None
7. Role of managers	Direct participation in bonus committee assignments	Idea coordinators: Evaluate suggestions, committee assignments	None
8. Bonus formula	$\frac{\text{Sale}}{\text{Payroll}}$	$\frac{\text{Bargaining} - \text{unit payroll}}{\text{Production value}}$	$\frac{\text{Engineering standard} \times \text{BPF}^*}{\text{Total hours worked}}$
9. Frequency of payout	Monthly	Monthly	Weekly
10. Role of union	Negotiated provisions; membership on screening committee	Negotiated provisions; screening committee membership	Negotiated provisions
11. Impact on management style	Substantial	Slight	None

\* BPF = Base Productivity Factor. Adapted from Christopher S. Miller and Michael H. Schuster (summer 1987), "Gainsharing Plans: A Comparative Analysis.", *Organisational Dynamics* 16 (1), pl. 48

### ***C. Employees Stock Ownership Plans***

Employee stock ownership plans originated in the USA in early 90s. Such plans have not gained popularity in India till recently, due to the absence of legal provisions in the Companies Act covering stock options. However, in 1988, the Government has allowed stock options to software professionals, recognising the importance of retaining talent within the country.



Under employee stock option plan, the eligible employees are allotted company's shares below the market price. The term stock option implies the right of an eligible employee to purchase a certain amount of stock in future at an agreed price. The eligibility criteria may include length of service, contribution to the department/division where the employee works, etc. The company may even permit employees to pay the price of the stock allotted to them in installments or even advance money to be recovered from their salary every month. The allotted shares are generally held in trust and transferred to the name of the employee whenever he or she decides to exercise the option. The stock option empowers the employee to participate in the growth of the company as a part owner. It also helps the company to retain talented employees and make them more committed to the job.

Employee stock options are welcomed everywhere due to their in-built motivating potential. Some of the powerful benefits offered by Esops may be catalogued thus:

- Stock options are a tremendous motivator because they directly link performance to the market place. The underlying rationale is to let employees add value to a company and benefit from it on the same terms as any other provider of risk-capital.
- Employees remain loyal and committed to the company. To become part owners, everyone has to stay for a while, contribute their best and then share the resultant gains according to an agreed criteria. Stock options motivate people to give their best to the company because individual performances will translate into share price increases only if it is part of a larger collective effort.
- By transforming your employee into a stockholder, stock options foster a long-term bond between the employee and the company. Employees begin to look at themselves as real owners in place of just paid servants of a company. ESOPs give employees a 'piece of the action' so that they can share in the growth and profitability of their company. Everyone also loves the concept of employee ownership as a kind of "People's capitalism."
- ESOPs underscore the importance of team effort among employees.
- Better industrial relations, reduced employee turnover, lesser supervision, increased dividend income, etc., are other incidental benefits.

ESOPs have their critics as well who attack the method on the following grounds:

- Only profitable companies can use the tool
- Stock prices do not always reflect fundamentals
- Falling share price could mean losses for employees
- The inability to cash in quickly can dampen interest
- Lack of transparency can earn accusations of favouritism

Employees' sharing the platform with owners, evidently, can be a disadvantage because they may feel 'forced' to join, thus placing their financial future at great risk (e.g., employees who opted for ESOPs during the software boom in the late 90s have suffered huge losses when stock prices crashed subsequently). Another drawback is that ESOPs could be used by managements to fend off unfriendly takeover attempts. Holders of stock options often align with management to turn down bids that would benefit outside shareholders but would replace management and restructure operations. Surely, ESOPs are not meant to entrench inefficient management. Despite these disadvantages, ESOPs have grown in popularity in recent times.



### Check Your Progress 2

State whether the following statements are true or false:

1. The Payment of Wages Act came into force in the year 1926.
2. Minimum wage is the wage which must invariably be paid whether the company makes profits or not.
3. Government wage surveys are often out of date
4. Incentive systems are possible for all jobs
5. Under piece rate plan, employees are paid at a stipulated rate per hour of work done by the employee.
6. Employee stock option plans are limited to executives
7. Subjective evaluations are a problem with merit pay systems.
8. Under incentive systems, worker pay is determined by performance
9. The Minimum Wages Act came into force in the year 1958.

## 13.4 WAGE INCENTIVE SCHEMES IN INDIA

Companies like Mastek, Godrej and Boyce have tried to link their rewards to team based performance in recent times quite successfully

### *Team based rewards: Best practices*

- Set quantifiable targets when evaluating team performance for rewards.
- Ensure that top performers in each team earn the highest level of rewards.
- Link team performance closely to the company's profits and overall financial health.
- Avoid subjectivity when assessing both the team and its member's performance.
- Offer uniform non-team based incentives to employees within each grade.

Other companies like Pfiger, Siemens have been linking rewards to shop floor workers based on the worker ability to meet productivity as well as performance targets. In any case, the emerging picture is quite clear especially in the post liberalisation era in India. The start that need entrepreneurial action from its employees will have to offer large doses of cash, goal linked incentive pay and possibly stock options to link compensation to profits. Mature companies, whose focus is on managing their earnings per share and protecting market shares, will have to seek out managerial talent and reward it with flexible tax-friendly compensation packages with benefits designed to improve the quality of working life.

### *Incentive Schemes in India*

The most widely prevalent incentive scheme in Indian industries is the piece-rate system. In industries like iron, steel and chemicals, however only a small percentage of workers are paid on piece-rate basis. Another incentive system that is prevalent in Indian industries is the payment of production bonus usually at a differential rate for the output produced in excess of the normal output for a unit of time. The norms are generally fixed on the basis of job analysis and/or time studies.

The incentive scheme operates on a group or individual basis, depending on the measurability of the work of individual workers and the inter dependence of their output performance. Engineering and chemicals have mostly the group system, while textiles have mainly the individual system of incentives.

The group incentive system is more widely prevalent in the Indian industry than the system of individual incentive or a combination of both. Wage incentive plans, other than the piece-rate system, bristle with some problems in their operation. First, incentive earnings, as a percentage of the total wages of workers covered under the incentive plans, are very low. In 1961, it was 10.9 per cent. There may be several reasons for this situation: either the norms of standard work are fixed high and it is not possible for a worker to exceed them by a sizable percentage; or the fall-back on time rate wage is sufficiently high and workers do not have much inducement to put in greater effort beyond the standard norms; or the rate structure of incentive wage is not adequately progressive. In any case, this situation reflects the relative ineffectiveness of incentive plans. Second, a number of units may have unnecessarily complex incentive plans, probably transplanted from European firms, which are not easily comprehensible to illiterate or semi-literate workers on the one hand, and which do not have a direct relationship between effort and wages on the other. In addition to numerous slabs in the rate structure, there are often changing bases of calculation and distinctions between different types of employees - permanent, temporary staff, workmen, etc. Third, in cases where group incentive plans are in vogue, a system becomes difficult to operate effectively, for the direct link between effort and earnings is lost. Fourth, while there is no need for the rate structure of incentive wages to be progressive from the beginning, it needs to be so when workers show high levels of productivity.

Some of the incentive plans actually turn out to be regressive in practice in these final stages. These maladies of the incentive plans betray a lack of wage to make them an effective tool of increasing productivity.

### **13.5 GUIDELINES FOR EFFECTIVE INCENTIVE PLANS**

- ***Guaranteed minimum wages:*** It must guarantee minimum wages irrespective of the performance of the worker.
- ***Simple:*** It must be simple to operate and easy to understand.
- ***Equitable:*** All workers should get an equal opportunity to earn the incentive pay. Equal pay for equal work should be the rule.
- ***Economical:*** The incentive plan should not be a costly affair. The benefits must exceed the costs.
- ***Flexible:*** It must be reasonably flexible so as to take care of changes in technology, demand for and supply of skills, competitive rates in the industry, etc.
- ***Support:*** The incentive plan should take workers and unions into confidence. It should be implemented after consulting the workers and their union. Generally speaking, it should be the outcome of mutual trust and understanding between management and workers.
- ***Motivating:*** The incentive should be large enough to motivate the worker to superior performance. At the same time, there should be checks and balances to ensure that the worker does not exert himself to painful levels, affecting the quality.
- ***Prompt:*** There should be very little time gap between performance and payment. As soon as the job is finished, the worker should get his (incentive) earnings promptly.

## 13.6 EMPLOYEE BENEFITS AND SERVICES

The term 'fringe benefits' refers to the extra benefits provided to employees in addition to the normal compensation paid in the form of wage or salary. Many years ago, benefits and services were labeled 'fringe' benefits because they were relatively insignificant or fringe components of compensation. However, the situation now is different, as these have, more or less, become important components of a comprehensive compensation package offered by employers to employees.

The main features of fringe benefits, as they stand today, may be stated thus:

- They are supplementary forms of compensation.
- They are paid to all employees (unlike incentives which are paid to specific employees whose work is above standard) based on their membership in the organisation.
- They are indirect compensation because they are usually extended as a condition of employment and are not directly related to performance.
- They help raise the living conditions of employees.
- They may be statutory or voluntary. Provident fund is a statutory benefit whereas transport is a voluntary benefit.

### 13.6.1 Factors Influencing Benefits and Services

Most organisations in India have been extending fringe benefits to their employees, year after year, due to the following reasons:

- a. **Employee demands:** Employees demand more and varied types of fringe benefits rather than pay hike because of reduction in tax burden on the part of employees and in view of the galloping price index and cost of living.
- b. **Trade union demands:** Trade unions compete with each other for getting more and newer varieties of fringe benefits to their members. If one union succeeds in getting one benefit, the other union persuades management to provide a new one. Thus, the competition among trade unions within an organisation results in more and varied benefits.
- c. **Employer's preference:** Employers also prefer fringe benefits to pay-hike, as fringe benefits motivate employees to give their best to the organisation. It improves morale and works as an effective advertisement.
- d. **As a social security:** Social security is a security that society furnishes through appropriate organisation against certain risks to which its members are exposed. These risks are contingencies of life like accidents and occupational diseases. Employer has to provide various benefits like safety measures, compensation in case of involvement of workers in accidents, medical facilities, etc., with a view to provide security to his employees against various contingencies.
- e. **To improve human relations:** Human relations are maintained when the employees are satisfied economically, socially and psychologically. Fringe benefits satisfy the worker's economic, social and psychological needs. Consumer stores, credit facilities, canteen, recreational facilities, etc., satisfy the worker's social needs, whereas retirement benefits satisfy some of the psychological problems about the post-retirement life. However, most of the benefits minimise economic problems of the employee.

### 13.6.2 Objectives of Fringe Benefits

The important objectives of fringe benefits are:

- To create and improve sound industrial relations.
- To motivate the employees by identifying and satisfying their unsatisfied needs.
- To provide security to the employees against social risks like old age benefits and maternity benefits.
- To protect the health of the employees and to provide safety to the employees against accidents.
- To promote employees' welfare
- To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden handcuffs.
- To meet the requirements of various legislations relating to fringe benefits.

In order to have a sound benefits programme there are certain essential requirements. The programme should be based on specific objectives that are in line with organisational philosophy and policies. It should be affordable and cost-effective. Through surveys and committees, a benefit package can be developed to meet employees' needs.

### 13.6.3 Employee Security

Physical and job security to the employee should also be provided with a view to ensure security to the employee and his family members. When the employee's services get confirmed, his job becomes secure. Further, a minimum and continuous wage or salary gives a sense of security to the life. The Payment of Wages Act, 1936, the Minimum Wages Act, 1948, The Payment of Bonus Act, 1965, provide income security to the employees.

- i. **Retrenchment compensation:** The Industrial Disputes Act, 1947, provides for the payment of compensation in case of lay off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service. The compensation is paid at the rate of 15 days wage for every completed year of service with a maximum of 45 days wage in a year. Workers are eligible for compensation as stated above even in case of closing down of undertakings.
- ii. **Lay off compensation:** In case of lay off, employees are entitled to lay off compensation at the rate equal to 50% of the total of the basic wage and dearness allowance for the period of their lay off except for weekly holidays. Lay off compensation can normally be paid up to 45 days in an year.

### 13.6.4 Safety and Health

Employee's safety and health should be taken care of in order to protect the employee against accidents, unhealthy working conditions and to protect the worker's productive capacity. In India, the Factories Act, 1948, stipulated certain requirements regarding working conditions with a view to provide safe working environment. These provisions relate to cleanliness, disposal of waste and effluents, ventilation and temperature, dust and fumes, artificial humidification, over-crowding, lighting, drinking water, latrine, urinals and spittoons. Provisions relating to safety measures include fencing of machinery, work on or near

machinery in motion, employment of young persons on dangerous machines, striking gear and devices for cutting off power, self-acting machines, casing of new machinery, prohibition of employment of women and children near cotton openers, hoists and lifts, lifting machines, chains, ropes and lifting tackles, revolving machinery, pressure plant, floors, excessive weight, protection of eyes, precautions against dangerous fumes, explosive or inflammable dust, gas, etc. Precautions in case of fire, power to require specifications of defective parts or test of stability, safety of buildings and machinery, etc.

### 13.6.5 Health Benefits

Today, various medical services like hospital, clinical and dispensary facilities are provided by organisations not only to employees but also to their family members.

Employees State Insurance Act, 1948, deals comprehensively about the health benefits to be provided. This Act is applicable to all factories, establishments running with power and employing 20 or more workers. Employees in these concerns and whose wages do not exceed Rs 1,000 per month are eligible for benefits under the Act. Benefits under this Act include:

- i. **Sickness benefit:** Insured employees are entitled to get cash benefit for a maximum of 56 days in a year under this benefit.
- ii. **Maternity benefit:** Insured women employees are entitled to maternity leave for 12 weeks (six weeks before the delivery and six weeks after the delivery) in addition to cash benefit of 75 paise per day or twice of sickness benefit, whichever is higher.
- iii. **Disablement benefit:** Insured employees, who are disabled temporarily or permanently (partial or total) due to employment injury and/or occupational diseases are entitled to get the cash benefit under this head.
- iv. **Dependant's benefit:** If an insured person dies as a result of an employment injury sustained as an employee, his dependants who are entitled to compensation under the Act, shall be entitled to periodical payments referred to as dependant's benefit.
- v. **Medical benefit:** This benefit shall be provided to an insured employee or to a member of his family where the benefit is extended to his family. This benefit is provided in the following forms:
  - ❖ out-patient treatment, or attendance in a hospital, dispensary, clinic or other institutions; or
  - ❖ by visits to the home of the insured person; or
  - ❖ treatment as in-patient in a hospital or other institution.

An insured person shall be entitled to medical benefits during any week for which contributions are payable, or in which he is eligible to claim sickness or maternity benefit or eligible for disablement benefit.

### 13.6.6 Old Age and Retirement Benefits

Industrial life generally breaks joint family system. The saving capacity of the employees is very low due to lower wages, high living cost and increasing aspirations of the employees and his family members. As such, employers provide some benefits to the employees, after retirement and during old age, with a view to create a feeling of security about the old age. These benefits are called old age and retirement benefits. These benefits include

(a) provident fund, (b) pension, (c) deposit linked insurance, (d) gratuity, and (e) medical benefit.

- i. **Provident fund:** This benefit is meant for economic welfare of the employees. The Employee's Provident Fund, Family Pension Fund and Deposit Linked Insurance Act, 1952, provides for the institution of Provident Fund for employees in factories and establishments. Provident Fund Scheme of the Act provides for monetary assistance to the employees and/or their dependants during post retirement life. Thus, this facility provides security against social risks and this benefit enables the industrial worker to have better retired life. Employees in all factories under Factories Act, 1948, are covered by the Act. Both the employee and employer contribute to the fund. The employees on attaining 15 years of membership are eligible for 100% of the contributions with interest. Generally the organisations pay the Provident Fund amount with interest to the employee on retirement or to the dependants of the employee, in case of death.
- ii. **Pension:** The Government of India introduced a scheme of Employees Pension Scheme for the purpose of providing Family Pension and Life Insurance benefits to the employees of various establishments to which the Act is applicable. The Act was amended in 1971 when Family Pension Fund was introduced in the Act. Both the employer and the employee contribute to this fund. Contributions to this fund are from the employee contributions to the Provident Fund to the tune of 1.1/3% of employee wage.

Employee's Family Pension Scheme, 1971, provides for a Family Pension to the family of deceased employee as per the following rates:

**Table 13.2: Pension Rates**

Pay for month	Rate
Rs 800 or more	12% of the basic subject to a maximum of Rs 150 as monthly pension.
More than Rs 200 but less than Rs 800	15% of the basic subject to a maximum of Rs 96 and a minimum of Rs 60 as monthly pension.
Rs 200 or less	30% of the basic subject to a minimum of Rs 60 as monthly pension.

This scheme also provides for the payment of a lumpsum amount of Rs 4,000 to an employee on his retirement as retirement benefit and a lumpsum amount of Rs 2,000 in the event of death of an employee as life insurance benefits.

- iii. **Deposit linked insurance:** Employees deposit linked insurance scheme was introduced in 1976 under the P.F. Act, 1952. Under this scheme, if a member of the Employees Provident fund dies while in service, his dependents will be paid an additional amount equal to the average balance during the last three years in his account. (The amount should not be less than Rs 1000 at any point of time). Under the employee's deposit linked insurance scheme, 1976 the maximum amount of benefits payable under the deposit linked insurance is Rs 10,000.
- iv. **Gratuity:** This is another type of retirement benefit to be provided to an employee either on retirement or at the time of physical disability and to the dependents of the deceased employee. Gratuity is a reward to an employee for his long service with his present employer.



The Payment of Gratuity Act, 1972, is applicable to the establishments in the entire country. The act provides for a scheme of compulsory payment of gratuity by the managements of factories, plantations, mines, oil fields, railways, shops and other establishments employing 10 or more persons to their employees, drawing the monthly wages up to Rs 1,600 per month.

Gratuity is payable to all the employees who render a minimum continuous service of five years with the present employer. It is payable to an employee on his superannuation or on his retirement or on his death or disablement due to accident or disease. The gratuity payable to an employee shall be at the rate of 15 days wage for every completed year of service on part thereof in excess of six months. Here the wage means the average of the basic pay last drawn by the employee. The maximum amount of gratuity payable to an employee shall not exceed 20 months' wage.

- v. **Medical benefit:** Some of the large organisations provide medical benefits to their retired employees and their family members. This benefit creates a feeling of permanent attachment with the organisation to the employees even when they are no longer in service.

Fringe benefits are one of the means to ensure, maintain and increase the material welfare of employees. The physical and mental strain of workers in an industry is considerably alleviated by tax benefits through creating an environment that insulates them from fatigue and monotony. Employees who get fringe benefits are stimulated to give of their best so as to increase productivity and to develop a sense of belongingness to the organisation. Research studies, however, could not establish proof of any relationship between the amount spent on fringe benefits and level of productivity.

All organisations may not provide all the benefits discussed earlier due to financial stringencies. Moreover, the list of benefits given earlier is not an exhaustive one and some organisations provide different benefits which are not included in the list owing to their need and the financial ability of the organisations.

Human resource management does not end with salary administration. It should also deal with human aspects of personnel management. Human aspects of personnel management include understanding and maintaining human relations. Hence, understanding and maintaining human relations can be treated as a function of Human Resource Management.

### Check Your Progress 3

Multiple Choice Questions – Select the most appropriate one

1. In an incentive payment plan, worker pay is determined by
  - a. Management
  - b. Profits
  - c. Seniority
  - d. Cost of living
  - e. Performance
2. Group incentives would work best among
  - a. Accountants
  - b. Lawyers
  - c. Stockholders
  - d. Car sales people
  - e. Assembly line workers

Contd....



3. Merit raises are seldom
  - a. Decided by supervisors
  - b. Given to average performers
  - c. Used
  - d. Tied to payout standards
  - e. Based on performance appraisals
4. Unions oppose incentive schemes because
  - a. Standards may go up
  - b. It dilutes union power
  - c. It reduces union membership
  - d. Workers do not like incentives
  - e. Management may not be honest
5. Research evidence indicates that employees
  - a. Appreciate benefits
  - b. Are aware of their coverage
  - c. Undervalue benefits
  - d. Try to abuse benefits
  - e. Are satisfied with the variety of benefits extended

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## 13.7 SAFETY ENGINEERING

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Safety engineering is an applied science strongly related to systems engineering and the subset System Safety Engineering. Safety engineering assures that a life-critical system behaves as needed even when pieces fail.

In the real world the term "safety engineering" refers to any act of accident prevention by a person qualified in the field. Safety engineering is often reactionary to adverse events, also described as "incidents", as reflected in accident statistics. This arises largely because of the complexity and difficulty of collecting and analysing data on "near misses".

Increasingly, the importance of a safety review is being recognised as an important risk management tool. Failure to identify risks to safety, and the according inability to address or "control" these risks, can result in massive costs, both human and economic. The multidisciplinary nature of safety engineering means that a very broad array of professionals are actively involved in accident prevention or safety engineering.

The majority of those practicing safety engineering are employed in industry to keep workers safe on a day to day basis.

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## 13.8 LET US SUM UP

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The system of wage payment is an important issue between labour and management. Employees could be paid either on the basis of time spent or contributions made by them. To motivate employees further, monetary incentives could also be given using different bases.

There should be a proper way of inspiring indirect workers too through financial incentives.

Profit sharing – which is used in most organisations nowadays – is a scheme whereby employers offer a portion of net profits to their employees on an agreed basis.

Based on their membership, workers are entitled to number of benefits as well. Some of these are guaranteed by the State and others have come to the centre stage due to economic and social pressures.

The fringe benefits offered by various organisations in India may be broadly put into five compartments. Payment for time not worked, employee security, safety and health, welfare and recreation facilities and old age and retirement benefits.

In addition to these, modern organisations have also been rewarding their employees through employee stock options and co-partnership schemes in recent times.

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## 13.9 LESSON END ACTIVITY

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You are a small business owner wishing to establish a benefits programme for your employees. What things should you consider to ensure that the programme is a success for your employees?

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### 13.10 KEYWORDS

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**Benefit:** An indirect reward given to an employee or group of employees as a part of organisational membership.

**Compensation:** It refers to the financial and non-financial rewards to the employees for their services rendered to the company.

**Incentive wages:** Incentive wages are the extra payments for superior performance.

**Employee stock option plan:** It provides a mechanism through which certain eligible employees may purchase the stock of the company at a reduced rate.

**Fringe benefits:** Extra benefits provided to employees in addition to the normal compensation paid in the form of wage or salary.

**Co-partnership:** In this system, the employee gets his usual wages, a share in the profits of the company and a share in the management of the company as well.

**Profit sharing:** A scheme wherein employees agree to pay a particular portion of net profits to eligible employees.

**Gainsharing:** The sharing with employees of greater - than expected gains in profits and/ or productivity.

**Perquisites:** Special benefits given to executives, often referred to as perks.

**Team incentive plan:** Compensation plan where all team members receive an incentive bonus payment when production or service standards are met or exceeded.

**Intrinsic rewards:** Rewards that one gets from the job itself and that are usually self-initiated (having pride in one's own work, having a sense of achievement, being part of a team etc)

**Extrinsic rewards:** Rewards one gets from the employer, usually money, a promotion or benefits.

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### 13.11 QUESTIONS FOR DISCUSSION

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1. Why have benefits grown in strategic importance to employees?
2. Why would an employee stock ownership plan be seen by employees both as an attraction and as a risk?

3. Of the different additional benefits companies offer, which would you consider most valuable to you? Why?
4. Contrast the differences between straight piecework, differential piece rate, and standard hour plans. Explain where each plan might best be used.
5. What do you understand by incentive plans? Describe the prerequisites of a sound incentive plan.
6. Write short notes on
  - ❖ Employee stock option plan
  - ❖ Importance of Fringe Benefits
7. What do you mean by 'fringe benefits'. Explain the need for fringe benefits. Describe the various types of fringe benefits offered to employees in India.
8. During the last couple of years, the cost of benefits has risen faster than wages and salaries in India. How do you explain that trend?

### Check Your Progress: Model Answers

#### CYP 1

Features of system of wage payment are:

1. Simple
2. Beneficial
3. Equitable
4. Balanced

#### CYP 2

1. F, 2. T, 3. T, 4. F, 5. F, 6. F, 7. F,
8. T, 9. T

#### CYP 3

1. e, 2. e, 3. d, 4. a, 5. c

## 13.12 SUGGESTED READINGS

V S P Rao, *Human Resource Management*, Excel Books, New Delhi, 2005

D K Bhattacharyya, *Human Resource Management*, Excel Books, New Delhi, 2006

P L Rao, *Comprehensive HRM*, Excel Books, New Delhi, 2004