CHAPTER II

Human Resource Practices

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(A) Human Resource Development

2.1 Introduction:
For at least past sixty-five years, managers have been viewed as a dynamic and important element of business organizations. It is managers who are ultimately responsible for making the decision to change their organizations’ strategies and structures and it is managers who must ensure that these new approaches are implemented, modified and executed in a way that achieves the organization’s goals. Employee development is one major way for organizations to increase the chances that managers will be effective.

HRM is a study about people in organizations – how they are hired, trained, compensated, motivated and maintained. The people who possess skills, abilities and aptitudes that offer competitive advantage to a firm. It is only human resource that is capable of deciding, implementing and controlling activities. No computer can run without human brain, no machines can run without human interventions and no organization has mandate to exist if it cannot serve people’s needs. A factory is built not by god, but by human beings. It is people who build factories, structure organizations and manage them successfully.

2.1.1 Meaning:

Human Resource Development is a systematic process of growth and development by which the managers develop their abilities to manage. So it is the result of not only participation in formal course of instruction but also of actual job experience. It is concerned with improving the performance of the managers by giving them opportunities for growth and development.

Human Resource Development is a very popular HRD activity. Although Human Resource Development has been defined in many ways the following definition captures the essence of Human Resource Development as it can and should be practiced in organizations:
“An organization’s conscious effort to provide its managers with opportunities to learn, grow and change in hopes of producing over the long term a cadre of managers with the skills necessary to function effectively in that organization.”

Human Resource Development has been described as having three main components. Management education, management training and on-the-job experiences.

(i) Management education can be defined as the acquisition of a broad range of conceptual knowledge and skills informal classroom situations in degree – granting institutions.  

(ii) Management training focuses more on providing specific skills or knowledge that could be immediately applied within an organization and/or to a specific position or set of positions within an organization.

(iii) On-the-job experiences are planned or unplanned opportunities for a manager to gain self-knowledge, enhance existing skills and abilities, or obtain new skills or information within the context of day-to-day activities.

2.1.2 Definitions:

Human Resource Development (HRD) is mainly concerned with developing the skills, knowledge and competencies of people and it is people – oriented concept.

The concept of HRD was formally introduced by Leonard Nadler in 1969 in a conference organized by the American Society for Training and Development. Leonard Nadler defines HRD as “those learning experiences which are organized for a specific time of designed to bring about the possibility of behavioural change”.

Among the Indian authors, T.Ventateswra Rao worked extensively on HRD. He defines HRD in the organizational context as “a process by which the employees of an organization are helped in a continuous, planned way to:

i) Acquire or sharpen capabilities to perform various functions associated with their present or expected future roles.
ii) Develop their general capabilities as individuals and discover and exploit their own inner potentials for their own and/or organizational development processes.

iii) Develop an organizational culture in which superior – subordinate relationship, team work and collaboration among sub – units are strong and contribute to the professional well – being, motivation and pride of employees.

2.2 Objectives of Human Resource Development:

The Human Resource Development programmes are organized with a view to achieving specific objectives. They are:

i) To overhaul the management machinery.

ii) To improve the performance of the managers.

iii) To give the specialists on overall view of the functions of an organization and equip them to coordinate each other’s efforts effectively.

iv) To identify persons with the required potential and prepare them for senior.

v) To increase morale of the members of the management group.

vi) To increase versatility of the management group.

vii) To keep the executives abreast with the changes and developments in their respective fields.

viii) To create management succession which can take over in case of contingencies.

ix) To improve thought process and analytical ability.

x) To broaden the outlook of the executive regarding his role position and responsibilities.

xi) To understand the conceptual issues relating to economic, social and technical areas.

xii) To understand the problems of human relations and improve human relations skills and

xiii) To stimulate creative thinking.
2.3 Need for Human Resource Development Programme :

The need for Human Resource Development programme arises due to the following reasons:

i) Techno – managers like basic chemical engineers, mechanical engineers, information / systems engineers need to be developed in the areas of managerial skills.

ii) Efficient functioning of public utilities, transport, communications etc. depend on professionalization of management in the sectors.

iii) Professionalization of management at all levels particularly in service organizations need the development of managerial skills and knowledge particularly at lower and middle levels.

iv) Human Resources development of the managers in multiple areas necessitates the executive development programme.

v) The need for management development arises due to providing technical skills and conceptual skills to non – technical managers and managerial skills and conceptual skills to technical managers.

vi) The intensive competition and consequently upon employment of various grand strategies by various business organizations necessitates the development of managers.

2.4 Principle of Human Resource Development :

The top management of a company should follow certain principles to make the management development programmes effective. They are:

i) The management should assess the development needs of its managers at different levels thorough performance analysis and development methods.

ii) Management should encourage the manager to take up programmes on their own in addition to the company sponsored programmes.

iii) Development programmes should concentrate on the latest management concepts and principles.
iv) Every manager of the organization should be motivated and empowered to take up developmental programmes.

v) Development programme is a continuous process.

vi) The concept of the programme should be need based for the individual manager and the organization.

vii) Management should integrate career planning and development of the organization with the management development programmes.

2.5 Methods of Human Resource Development

There are mainly two types of methods by which managers are acquire the knowledge skills and attitudes and make themselves competent managers.

The following are some of the important on – the job and off – the job techniques of Human Resource Development.

Chart – 2.1 : Important Methods of Human Resource Management

On – The – Job Techniques :

- **Coaching**: In coaching, the trainee is placed under a particular supervisor who acts as an instructor who teaches job knowledge and skills to the trainee. The act of coaching can be done in several ways. The executive apart from asking them to do the routine work, may ask them to tackle some complex problem by giving them a chance to participate in decision making.

- **Job Rotation**: The transferring of executives from job to job and from department to department in a systematic manner is called Job Rotation. Job rotation increases the inter-departmental co-operation and reduces the monotony of work. The idea behind this is to give him the required diversified skills and a broader outlook which are very important at the senior management levels.

- **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 organization a person with as much competence as the superior to fill his post which may fall vacant because of promotion, retirement or transfer. As an under study may be chosen by the department or its head, he will then teach what all his job involves and gives him a feel of what his job is.

- **Multiple Management**: Multiple Management is a system in which permanent advisory committees of managers study problems of the company and make recommendations to the higher management. It is also called junior-board of executives system. These committees discuss the actual problems and different alternative solutions after which the decision are taken.
Off – The – Job Methods :

• **The case study** : Cases are prepared on the basis of actual business situations that happened in various organizations. The trainees are given cases for discussing and deciding upon the case. Then they are asked to identify the apparent and hidden problems for which they have to suggest solutions. The situation is generally described in a comprehensive manner and the trainee has to distinguish the significant facts from the insignificant, analyze the facts, identify the different alternative solutions, select and suggest the best.

• **Incident Method** : This method was developed by Paul Pigors. It aims to develop the trainee in the areas of intellectual ability, practical judgment and social awareness. Under this method, each employee develops in a group process. Incidents are prepared on the basis of actual situations which happened in different organizations. Each employee in the training group is asked to study the incident and to make start term decisions in the role of a person who has cope with the incident in the actual situation. Later, the group studies and discusses the incidents, based on group interaction and decisions taken by each member.

• **Role Playing** : A problem situation is simulated by asking the participants to simulate by asking the participants to assume the role of a particular person in the situation. The participant interacts with other participants assuming different roles. The mental set of the role is described but no dialogue is provided. The whole play may be tape-recorded and the trainee may thus be given the opportunity to examine his or her performance.

• **In Basket Method** : The trainees are first given background information about a simulated company, its products key personnel, various memoranda, requests and all data pertaining to the firm. The trainee has to understand all this make notes, delegate tasks and prepare memos within a specified amount of time. Abilities that this kind of exercise develops are :
i) Situational judgment in being able to recall details, establishes priorities, inter-relate items and determine need for more information.

ii) Social sensitivity in exhibiting courtesy in written notes, scheduling meetings with personnel involved and explaining reasons for actions taken and

iii) Willingness to make decision.

- **Business Games**: Under this method, the trainee are divided into groups or different teams. Each team has to discuss and arrive at decisions concerning such subjects as production, pricing research expenditure, advertising etc. assuming itself to be the management of a simulated firm. The other teams assume themselves as competitors and react to the decision. This immediate feedback helps to know the relative performance of each team. The team’s co-operative decision promotes greater interaction among participants and gives them the experience in co-operative group process.

- **Sensitivity Training**: The main objective of sensitivity training is the “development of awareness of and sensitivity of behavioural patients of oneself and others”. This development results in the

  i) Increased openness with others,
  ii) Greater concern for others
  iii) Increased tolerance for individual differences
  iv) Less ethnic prejudice
  v) Understanding of group processes
  vi) Enhanced listening skills and
  vii) Increased trust and support.

The role played by the trainee here is not a structured one as in role play. It is a laboratory situation where one gets a chance to know more about himself and the impact of his behavior on others. It develops managerial sensitivity, trust and respect for others.
• **Simulation**: Under this technique, the situation is duplicated in such a way that it carries a closer resemblance to the actual job situation. The trainee experiences a feeling that he is actually encountering all those conditions. Then he is asked to assume a particular role in the circumstances and solve the problems by making a decision. He is immediately given a feedback of his performance.

• **Managerial Grid**: It is a six phase programme lasting from three to five years. It starts with upgrading managerial skills, continues to group improvement, improves inter-group relations, goes into corporate planning, develops implementation method and ends with an evaluation phase. The grid represents several possible leadership styles. Each style represents a different combination of two basic orientations – concern for people and concern for production.

• **Conferences**: A conference is a meeting of several people to discuss the subject of common interest. But contribution from members can be expected as each one builds upon ideas of other participants. This method is best suited when a problem has to be analysed and examined from different viewpoints. It helps the members develop their ability to modify their attitudes. Participants enjoy this method of learning as they get an opportunity to express their views. The success of the conference depends on the conference leader. In order to make the conference a success, the conference leader must be able to see that the discussion is thorough and concentrate on the central problem by encouraging all the participants to develop alternatives and present their viewpoints and by preventing domination by a few participants.

• **Lectures**: It is the simplest of all techniques. This is the best technique to present and explain series of facts, concepts and principles. The lecturer organizes the material and gives it to a group trainees in the form of talk. The main uses of lectures in executive development are:
✓ It is direct and can be used for a larger group of trainees.
✓ It presents the overview and scope of the subject clearly.
✓ It presents the principles, concepts, policies and experiences in the shortest time.

The lectures do not give scope for student participation and may sometimes be boring which in turn hinders learning. Skills can be learnt only by doing and therefore lectures are of no case for technical skills.

2.6 Human Resource Development Process:

Development programs and interventions can be used to address a wide range of issues and problems in an organization. They are used to orient and socialize new employees into the organization, provide skills and knowledge and help individuals and groups become more effective. To ensure that these goals are achieved care must be taken when designing and delivering development programs. Development process includes a four step sequence: needs assessment, design, implementation and evaluation.

1) Needs Assessment Phase:

HRD interventions are used to address some need or “gap” within the organization. A need can be either a current deficiency such as poor employee performance or a new challenge that demands a change in the way the organization operates.

Identifying needs involves examining the organization, its environment, job tasks and employee performance. This information can be used to:

- Establish priorities for expending HRD efforts
- Define specific training and HRD objectives
- Establish evaluation criteria
Chart – 2.2 : Training And Hrd Process Model

Assessment

- Assess Needs
- Prioritize Needs

Design

- Define Objectives
- Develop Lesson Plan
- Develop / Acquire Materials
- Select Trainer / Leader
- Select Methods and Techniques
- Schedule the Program / intervention

Implementation

- Deliver the HRD Program or intervention

Evaluation

- Select evaluation criteria
- Determine evaluation design
- Conduct evaluation of program or intervention
- Interpret result

2) **Design Phase** :

The second phase of the development process involves designing the Human Resource Development program or intervention. If the intervention involves some type of training or development program, the following activities are typically carried out during this phase:

- Selecting the specific objectives of the program
- Developing an appropriate lesson plan for the program
- Developing or acquiring the appropriate materials for the trainees to use
- Determining who will deliver the program
- Selecting the most appropriate method or methods to conduct the program
- Scheduling the program.

Once the assessment phase has been completed, it is important to translate the issues identified in that phase into clear objectives for HRD programs. This should also facilitate the development of clear lesson plans concerning what should be done in the HRD program.

3) **Implementation Phase** :

The goal of the assessment and design phases is to implement effective development programs or intervention. This means that the program must be delivered or implemented, using the most appropriate means or methods. Delivering any development program generally presents numerous challenges, such as executing the program as planned, creating an environment that enhances learning and resolving problems that may arise.

4) **Evaluation Phase** :

Program evaluation is the final phase in the development process. This is where the effectiveness of the development intervention is measured. This is an important but often under emphasized activity. Careful evaluation provides information on participant’s reaction to the program, how much the learned,
whether they use what they learned back on the job and whether the program improved the organization’s effectiveness. HRD professionals are increasingly being asked to provide evidence of the success of their efforts using a variety of “hard” and “soft” measures that is both bottom line impact as well as employee reaction. This information allows managers to make better decisions about various aspects of the development effort such as:

1. Continuing to use a particular technique or vendor in future programs
2. Offering a particular program in the future
3. Budgeting and resource allocation
4. Using some other HR or managerial approach to solve the problem.

It is important that HRD professionals provide evidence that development programs improve individual and organizational effectiveness. Armed with this information, HRD managers can better compete with managers from other areas of the organization when discussing the effectiveness of their actions and competing for organizational resources.
(B) Compensation Management

2.7 Introduction

Compensation refers to all forms of financial return and tangible services and benefits employees receive as part of employment relationship (Mickovich & Newman, 2005). It is an integral part of human resource management that helps in motivating the employees and improving organizational effectiveness by paying salary or wage. According to Kressler (2003), “Whatever the individual and cultural variations, reward, along with the strategies and systems related to it, forms significant part of a business personnel policy. It can appeal to both the material and immaterial values of employees.

Entrepreneurs and managers perceive in reward strategies a unique challenge and opportunity to make the most of what employees can contribute and be offered in return, in order to increase the potential of the net product”.

Several different kinds of rewards exist and a distinction between a positive kind and a negative kind can be made. The positive is about getting a ‘reward’ while the negative is about ‘avoiding punishment’. Positive rewards can be differentiated as emanating from intrinsic and extrinsic motivation. Intrinsic motivation comes from positive internal feelings that are generated by doing well and extrinsic motivations. Intrinsic motivation comes from positive internal feelings that are generated by doing well and extrinsic motivation are the external motivation such as compensation.

Different Kinds of Rewards
Intrinsic rewards
- Participative decision making
- More responsibility
- Opportunities for personal growth
- Greater job freedom and discretion
- More interesting work
- Diversity of activities
Extrinsic rewards

- **Direct compensation**
  - Basic salary or wage
  - Overtime and holiday premiums
  - Performance bonus
  - Profit sharing
  - Stock options

- **Indirect compensation**
  - Protection programmes
  - Payment for time not worked
  - Services and perquisites

- **Non financial compensation**
  - Preferred office furnishings
  - Assigned parking spaces
  - Impressive designation
  - Preferred lunch hours
  - Preferred work assignments
  - Own secretary

Svensson (2001) summarises the purpose of reward systems in the following seven points:

- Stimulate to increase effectiveness
- Stimulate to improve quality
- Give increased responsibility and influence over the individuals own work situation
- Stimulate personnel movement internally and externally
- Stimulate new work forms and
- Support flexible management and work forms

The combination of all cash incentives and the fringe benefit mix that an employees receives from an organization constitutes individual compensation. Compensation means pay, remuneration or reward management where financial and non-financial payments are designed and administered by organizations to reward their employees.
According to Milkovich and Newman (2007), compensation may be defined as “all forms of financial and tangible services and benefits employees receive as part of an employment relationship”. Thus, compensation is a broader term which includes wages, salary, pay, perquisites, fringe benefits, performance incentives, commissions, bonuses, stock options, remuneration etc. therefore compensation management is a process to reward employees financially and non-financially for their work, performance and contribution in order to achieve high levels of organizational performance keeping in view the following factors:

- Employees are paid adequately in terms of their work, skills, performance and motivation
- Ability of the organization to pay
- Labour marker (internal and external) conditions
- Government regulation in relation to compensation
- Economic, social, political and technological environment
- Equity considerations in compensation
- Psychological contract
- Improving individual motivation, morale, productivity and quality of work performance by employees, and
- Building competitive advantage by organization.

Compensation is a broad term and may be interpreted according to organizational and individual perspectives as depicted in figure 1.

1. **Organizational perspective**: From an organizational perspective, compensations within the same and / or different industry, region and culture. Compensation is viewed as a segment of human resource management that emphasizes planning, organizing and controlling the various types of compensation systems (e.g. monetary versus non monetary rewards their work or render service. Since compensation constitutes a major part of the operating cost, therefore, organizations strive to keep the cost of compensation as low as possible without compromising the quality and capability of employees. Organizations value the contribution of employees in achieving the goals and objective successfully.
2. **Employee’s perspective:** Within organization, individual employees have different interpretations of compensation. They often view compensation as reward entitlements and obligations are determined based on the employment contract, the value of the job, the level of personal contributions and / or the level of performance.

Employees, who perceive the production of distributing compensation and the allocation of compensation that they receive are fair, will be motivated to meet ultimate goal of the organizational compensation system: efficiency (i.e. improving performance, quality, customers and labour costs), equity (i.e., fair compensation treatment for employees through recognition of employee contributions and employee needs) and compliance with laws and regulations. Thus, it may attract, retain and motivate competent employees to support organisational and human resource management gets and strategies.

### 2.7.1 Meaning of Compensation Management:

According to Steers and Potte (1991), research on compensation clearly shows a link between the rewards an organization offers and those individuals that are attracted to
the compensation into working for the organization and those employees who will continue to work for the business.

According to Wilson (1995), compensation systems have evolved through a series of four developmental stages of discretionary process, job – based system, objectives – based system and customer – focused system, pointing out that each stage was fitting in relation to the management philosophy of that time.

The essential characteristics of a compensation system are:

- Long-term perspective
- Variable pay component
- Based on individual and / or team effort
- Goal – oriented
- Assessment of financial and non – financial customer focused criteria
- Mix of monetary and / or monetary rewards
- Continuous measurement of success factors
- Combination of internal controlling data and external compensation surveys

2.7.2 Definitions of Compensation Management:

“Compensation Management is a process of determining const – effective pay structure, designed to attract and retain, provide an incentive to work hard and structured to ensure that pay levels are perceived as fair.” (Stephen P. Robbins, David A. Decenzo, Robin Stuart – Kotze and Eleen B. Stewart).

“Compensation systems are the financial reward structures organizations use to compensate individuals for the work they perform for the organization”. (Linda K. Stroh, Gregory B. Northeraft and Margret Ann Neale).

“Compensation Management refers to payment systems which determine employee wages or salary, direct or indirect rewards”. (I. Kessler).
2.7.3 Objectives of Compensation Management:

Compensation management seeks to attain the following objectives.

1) To attract highly capable and efficient employees so that their efforts produces higher organizational performance.
2) To retain talented employees for continuance of organization performance and attainment of higher levels of competence.
3) To increase the motivation and morale of employees for achieving higher employee commitment towards goals and objectives of the organization.
4) To maintain market competitiveness in order to reduce or control employee attrition which can affect organizational functioning.
5) To reward employees for their productive contributions to organization’s bottom-line.
6) To integrate employee efforts with organizational performance management systems for increased effectiveness.
7) To build employer branding which is key to building a pool of potential hires.
8) To help employee meet his economic personal, material, social and psychological needs and aspirations.
9) To encourage employees to develop their skills and competencies by attaching higher value to compensation for increased job performance.
10) To elicit needed and desirable behaviours from employees.

2.8 Role of Compensation in Organization:

Organizations are fundamentally constituted by people who come together with a view to work towards a common objective. The formation of any organization begins with someone bringing in capital, which is basic to setting up business, machineries, equipments, land and technology. Such people are called ‘entrepreneurs’ or ‘promoters’. In order to start the business to produce goods or services, entrepreneurs or promoters by themselves cannot do everything, they need other people to carry out different tasks and activities in the farm of jobs. Other people will be willing to work in exchange for money to expert their efforts and skills in producing goods and
services. This exchange of money (cash or kind) from entrepreneurs to people is called ‘compensation’.

Compensation is fundamental to organization formation and its existence. People work to earn their living and organization compensates employees by providing monetary and non-monetary benefits and other amenities for producing goods and services.

The role of competition in organizations in terms of gaining and sustaining competitive advantage has undergone paradigm shift. Role of compensation in organization is strategic rather than merely restricted to economic compensation for providing labour. It is today a key tool for attracting, retaining and utilizing a motivated and produced workforce necessary to enable the organization to compete successfully. Following diagram 1.2 presents the changing paradigm of compensation management from past to present.

Chart – 2.4 : Today’s Trends Shaping Tomorrow’s Compensation

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative focus</td>
<td>Competitive Advantage</td>
</tr>
<tr>
<td>Responding to patterns</td>
<td>Competitive positioning</td>
</tr>
<tr>
<td>Wages and benefits</td>
<td>Total Labour Cost</td>
</tr>
<tr>
<td>National Focus</td>
<td>Global Competitiveness</td>
</tr>
<tr>
<td>Base and Annual Increase</td>
<td>Base and Performance / Quality Increase</td>
</tr>
<tr>
<td>Internal Equity</td>
<td>Support New Organisation Designs</td>
</tr>
<tr>
<td>Benefits Entitlement</td>
<td>Cost Shifting Value Added, Public Policy</td>
</tr>
</tbody>
</table>


2.9 Principles of Compensation Management :

The principles of compensation management are depicted in below figure.
2.10 Importance of Compensation Management:

The importance of compensation management is enlisted below:

1) It is essential for integrating employee efforts with organizational goals and objectives.
2) It is part of sound people management framework for recruiting, selecting, socializing, performing, developing and maintain a capable motivated workforce.
3) It has social implications as poorly paid employees are likely to include in social unrest and undesirable activities.
4) It helps in generating a talent pool.
5) It helps in maintaining compensation costs of an organization efficiently.
6) It helps in making compliance of government regulations on compensation.
7) It helps in providing job satisfaction to employees.
8) It helps in improving work and organizational efficiency due to enhanced employee commitment.

2.11 Compensation Strategies:

Compensation is payment to an employee in return for his contribution to the organization that is for doing his job. Compensation is usually provided as fixed pay and/or variable pay. There are three ways of providing compensation, that is, pay for the position, the person and the performance as depicted in below figure.

**Chart – 2.6 : Compensation Strategies**

![Compensation Strategies Diagram]


1) **Pay for position**:

Pay for position compensates for the attributes and challenges of the position. The position based model is based on a larger initial compensation and few variable benefits. The employees are expected to be motivated by
their high level compensation and one can say that in a fixed pay model, the ‘carrot’ is given before the performance.

2) **Pay for person:**

Pay for person compensates for those personal and professional attributes essential for effective performance and other elements required to recruit and retain competent employees. Paying for the person is most subjective and difficult aspect of compensation management. Compensation for person encompasses pay for his job related knowledge, skills and experience keeping in view organization’s compensation structure to prevent any disequilibrium with existing employees, ability to pay and going (market) rate.

3) **Pay for performance:**

March and Simon (1958) noted that many organizational models historically tend to relegate the reward schemes of management to the background. An organization with a that essentially rewards seniority will be less productive than one that relates promotion to some index of productivity. The objective of pay for performance is to develop productive, efficient and effective organization that enhances employee motivation and performance.

Chart – 2.7 : Major Factors Influencing Compensation

<table>
<thead>
<tr>
<th>Environment</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic influences</td>
<td>Organizational strategy</td>
</tr>
<tr>
<td>External labour market</td>
<td>Internal labour market</td>
</tr>
<tr>
<td>Organization</td>
<td>Compensation Management</td>
</tr>
</tbody>
</table>

2.12 Process of Compensation Management:

Compensation management is the strategic process of aligning pay, incentives and benefits (rewards) of employees with organizational goals and objectives. Compensation is a formidable communicator and can be a powerful instrument for change and a major determinant of the culture of an organization. The process of compensation management is depicted in the below figure.

Chart – 2.8: Compensation Management Process

The details of each step of compensation management are as follows:

1. **Business strategy**: The nature of an organization’s strategy is the primary determinant of its compensation strategy. Greater expansion fastest possible time consistent with its goals and objectives. Such organization shall in expansion mode which shall require people mainly for replenishment. Thus increases and bonuses are significantly greater proportion of total compensation than in organizations into expansion mode.

2. **HR strategy**: How people in an organization are viewed drives the HR strategy of the organization. Those organizations which view employees as talent investors, would have an HR strategy, built around competitive advantage through people. In such organization’s HR strategy compensation plays a pivotal role and has variety of other business roles.

3. **Compensation philosophy**: Compensation management seeks to link individual and the organization through an employment relationship in such a way that the organization achieves its objectives and strategy effectively and employee gets compensated well for making it possible. Compensation management in any organization is an integral part of effective human resource management. The organization is responsible for providing an effective and fair compensation to employees that steers them onto a path of greater productivity and optimized output.

4. **Compensation Policy**: An organization’s compensation policy and practices, by rewarding desired results, can reinforce employee behavior that realizes its strategic business objectives. Compensation policy is specified by the organization with focus on creating a flexible, competitive and performance oriented compensation environment that allows the organization to recruit and manage employees in the face of future challenges.

5. **Job evaluation**: Job evaluation is a technique of determining the relative worth of jobs within an organization for the purpose of determining appropriate compensation levels for individual jobs or job elements. Many
techniques of job evaluation are available and depending on the needs and requirements of an organization, appropriate techniques can be employed.

6. Design and implementation of compensation systems: Designing and implementing compensation systems involves compensation level, compensation structure and compensation payment system decisions. Compensation level decision determines whether an organization will have a lead, lag or match policy. Compensation decisions made by organizations can significantly impact individual and group level consequences, including performance, skill development, work related attitudes and workforce composition.

7. Evaluation and review: Since compensation is a dynamic concept, therefore, it must be evaluated in terms of employee satisfaction, morale and productivity indices and suitable review should be made from time to time.

2.13 Measures of Effectiveness of Compensation, System

The effectiveness of a compensation system depends on three perceived characteristics namely; (1) transparency, (2) fairness, and (3) controllability as discussed below:

1. Transparency: The perceived transparency of a compensation system depends on two characteristics: communication and complexity. A transparent system informs risk-averse employees not only of the rules of the compensation system but also of the objectives of the organization. Clear communication of these rules to employees enhance the understanding of the methodologies, measures and targets used and thereby create more support for the compensation system. Perceived uncertainty decreases the effectiveness of (incentive) compensation. Thus, the perception of transparency is expected to have a positive relationship with extrinsic motivation.
2. **Fairness**: The honesty of the management is expected to have great impact on the actions of the employees. For instance, reciprocity theory emphasizes the employee’s need to receive a fair amount of compensation relatives to the management. The surplus, created by the agency contract should be fairly divided in order to maximize incentives, according to the theory. If this condition is not met in the perception of the employee, his motivation is expected to decrease. Moreover, equity theory emphasizes the employee’s need to receive a fair amount of compensation relative to other employees. The employee is expected to compare his ratio of performance over reward to the same ratio of other employees. Any deviation in this ratio causes a state of inequity. Janssen (2001) has shown empirically that managers who perceive effort reward fairness perform better than managers who perceive they are unfairly rewarded. Informing employees of their average performance will make both parties unhappy in the short run, which partially explains the relatively high portion of positive evaluation scores and the existence of forced rankings. However, inaccurate or untrue and undifferentiated evaluation reduce the effectiveness of incentives in organizations. Hence, the perceived fairness of the different elements of the compensation system is expected to have a positive relationship with extrinsic motivation.

3. **Controllability**: Baker (2002) defines controllability as the extent to which the agent is able to control or influence the outcome. This striving for noise reduction is one of the main criteria that determine the choice of the optimal performance measure. The effect of a certain amount of effort on the performance measure should vary as little as possible in order to have control over one’s compensation. Hence, the stronger is the perceived controllability over the different elements of the compensation system, the higher will be the level of extrinsic motivation.

**2.14 Compensation and its Components**

Organization all has different compensation policies with different content. It is what gives them their competitive advantage:
1. Fixed compensation: Fixed compensating refers to payments made by organization to employees based on certain periodicity (say monthly) to compensate for the work they perform. Generally, fixed compensation is guaranteed payment which is given to the employees for meeting needs of life and motivating them for higher performance. Generally, these payments are granted under an employment contract. Such payments are in monetary value with some non-monetary benefits. It includes the following forms.

- **Basic pay**: The standard pay that an employee receives for doing a job, irrespective of performance.
- **Dearness Allowance**: An amount declared by government from time to time for neutralizing increase in cost of living. It is based on consumer index.
- **House Rent Allowance**: An amount for meeting house rentals.
- **Competency based pay**: A pay system where the organization has an express policy that recognizes competence and pays for it.
- **Fixed period employment contract**: Employment contracts that are for a fixed period of time, say two years, with performance goals attached.
- **Fringe benefits**: Benefits received in addition to base pay (for example, company cars or thrift societies, housing etc)
- **International compensation**: To any remuneration that is received overseas for example director’s fees, bonuses, retirement, etc
- **Performance pay**: Performance pay refers to paying for individual contributions usually measured by way of a performance management system. This pay is normally added to the guaranteed package by way of a salary increase and is therefore considered fixed pay.
- **Retirement funds**: Provident funds, pension funds, deferred compensation.
- **Total package**: The concept of all remuneration grossed up and monetized, and then employees have the choice of structuring their own package within organizational regulations.
2. **Variable Compensation**: Variable compensation is generally deferred compensation payments. These payments are given to employees for retaining them in the organization for longer periods with pre-determined conditions. Such payments may be for individual employees or all the employees in collectivity. It includes the following forms:

- **Long Term Incentive**: Incentive schemes where the measurement period or payout period is longer than one year, usually several years (e.g., Economic Value Add (EVA) schemes, phantom share schemes, deferred compensation etc.)
- **Share schemes**: Any type of share scheme, the most common being share options, performance shares, share purchase schemes
- **Short term incentives**: Incentive schemes where the measurement period is around one year and payments are in cash (e.g. profit share, gain share, commission, bonus scheme, etc.)
(C) Performance Appraisal

2.15 Introduction

The process of HRD helps the employees to acquire and / or develop technical, managerial and behavioural knowledge, skills and abilities and moulds the values, beliefs and attitudes necessary to perform present and future roles. The process of performance appraisal helps the employee and the management to know the level of employee’s performance compared to the standard / pre – determined level.

Performance Appraisal (PA) is essential to understand and improve the employee’s performance through HRD. Performance Appraisal was useful to decide upon employee promotion / transfer, salary determination and the like. But the recent development in human resources management indicate that performance appraisal is the basis for employee development. Performance appraisal indicates the level of desired performance level, level of actual performance and the gap between these two. This gap should be bridge through human resource development technique like training, executive development, etc.

2.15.1 Meaning of Performance Appraisal:

Performance Appraisal is a method of evaluating the behavior of employees in the work spot, including both the quantitative and qualitative aspects of job performance. Performance here refers to the degree of accomplishment of the tasks that make up an individual’s job. Some of the important features of performance appraisal may be captured these :

- PA is the systematic description of an employee’s job-relevant strengths and weaknesses.
- The basic purpose is to find out how well the employee is performing the job and establish a plan of improvement.
- Appraisals are arranged periodically according to a definite plan.
- PA is a continuous process in every large scale organization.
2.15.2 Definitions of Performance Appraisal:

The Performance Appraisal (PA) can be defined as a process, typically delivered annually by a supervisor to a subordinate, designed to help employees understand their roles, objectives, expectations, and performance success. Performance Management is the process of creating a work environment in which people can perform to the best of their abilities. According to Edward Flippo, “Performance appraisal is the systematic, periodic, and impartial rating of an employee’s excellence in matters pertaining to his present job and his potential for a better job.”

Performance appraisal is a formal, structured system of measuring and evaluating an employee’s job-related behavior and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization, and society will benefit. (Randall S. Schuler)

Dale S. Beach defined, “Performance appraisal is the systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development.”

Performance appraisal is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed for purposes of administration including placement, selection for promotion, providing financial rewards, and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally. (C. Heigal)

Performance appraisal is a broader term than merit rating, even though these two terms are used synonymously. In merit rating, the focus is on judging the caliber of an employee so as to decide salary increment, whereas performance appraisal focuses on the performance and future potential of the employee. Merit rating measures what the person is (traits) and performance appraisal measures what the person does (performance).
2.15.3 Objectives of Performance Appraisal:

Data relating to Performance Appraisal of employees recorded, stored, used for several purposes. The main purpose of employee assessment are:

i) To effect promotions based on competence and performance.
ii) To confirm the services of probationary employees upon their completing the probationary period satisfactory.
iii) To assess the training and development needs of employees.
iv) To decide upon a pay raise where (as in unorganized sector) regular pay scales have not been fixed.
v) To let the employees know where they stand insofar as their performance is concerned and to assist them with constructive criticism and guidance for the purpose of their development.
vi) To improve communication. PA provides a format for dialogue between the superior and subordinate, and improves understanding of personal goals and concerns. This can also have the effect of increasing the trust between the rater and rate.
vii) Finally, PA can be used to determine whether HR programmes such as selection, training and transfers have been effective or not.

2.16 Need for Performance Appraisal:

Performance Appraisal is needed in order to:

i. Provide information about the performance ranks. Decisions regarding salary fixation, confirmation, promotion, transfer and demotion are taken based on performance in Indian Rayon.
ii. Provide feedback information about the level of achievement and behavior of the subordinate. This information helps to review the performance of the subordinate, rectifying performance deficiencies and to set new standards of work.
iii. Provide information which helps to counsel the subordinate.
iv. Provide information to diagnose deficiency in the employee regarding skill, knowledge, determine training and development needs and to prescribe the means for employee growth provides information for correcting placement.

v. To prevent grievance and in-disciplinary activities.

2.17 Performance Appraisal and Competitive advantage:

Performance Appraisal offers competitive advantages to a firm by improving performance, helping make correct decisions, ensuring legal compliance, minimizing job dissatisfaction and employee turnover and ensuring consistency between organizational strategy and behaviour.

Chart – 2.9: Competitive advantage

Chart – 2.10 : Purposes of Performance Appraisal

<table>
<thead>
<tr>
<th>Development</th>
<th>Administrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provide performance feedback</td>
<td>• Document personnel decisions</td>
</tr>
<tr>
<td>• Identify individual strength / weaknesses</td>
<td>• Determine promotion candidates</td>
</tr>
<tr>
<td>• Recognize individual performance</td>
<td>• Determine transfers and assignments</td>
</tr>
<tr>
<td>• Assist in goal identification</td>
<td>• Identify poor performance</td>
</tr>
<tr>
<td>• Evaluate goal achievement</td>
<td>• Decide retention or termination</td>
</tr>
<tr>
<td>• Identify individual training needs</td>
<td>• Decide on logoffs</td>
</tr>
<tr>
<td>• Determine organizational training needs</td>
<td>• Validate selection criteria</td>
</tr>
<tr>
<td>• Reinforce authority structure</td>
<td>• Meet legal requirements</td>
</tr>
<tr>
<td>• Allow employees to discuss concerns</td>
<td>• Evaluate training programmers</td>
</tr>
<tr>
<td>• Improve communication</td>
<td>• Personnel planning</td>
</tr>
<tr>
<td>• Provide a forum for leaders to help</td>
<td>• Make reward / compensation decisions.</td>
</tr>
</tbody>
</table>


The benefits of PA :

Employer Perspective :

i) Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.

ii) Documentation of performance appraisal and feedback may be needs for legal defense.

iii) Appraisal provides a rational basis for constructing a bonus or merit system.

iv) Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.

v) Providing individual feedback is part of the performance management process.

vi) Despite the traditional focus on the individual, appraisal criteria can include team work and the teams can be the focus of the appraisal.

Employee Perspective :

i) Performance feedback is needed and desired

ii) Improvement in performance requires assessment

iii) Fairness requires that differences in performance levels across workers be measured and have an effect on outcomes.
iv) Assessment and recognition of performance levels can motivate workers to improve their performance.

2.18 Performance Appraisal Process:
Following figure outlines the PA process. Each step in the process is crucial and is arranged logically. Many organizations make every effort to approximate the ideal process, resulting in first – rate appraisal systems.

Chart – 2.11: Performance Appraisal Process

2.19 Methods of Performance Appraisal:

With the evolution and development of the appraisal system, a number of methods or techniques of performance appraisal have been developed. The important among them are presented in below figure.

<table>
<thead>
<tr>
<th>Methods of Performance Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Methods</strong></td>
</tr>
<tr>
<td>i) Graphic Rating Scales</td>
</tr>
<tr>
<td>ii) Ranking Method</td>
</tr>
<tr>
<td>iii) Paired Comparison Method</td>
</tr>
<tr>
<td>iv) Forced Distribution Method</td>
</tr>
<tr>
<td>v) Checklist Methods</td>
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<tr>
<td>• Simple Checklist</td>
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<tr>
<td>• Weighted Checklist</td>
</tr>
<tr>
<td>• Critical Incident Method</td>
</tr>
<tr>
<td>vi) Essay or Free Form Appraisal</td>
</tr>
<tr>
<td>vii) Group Appraisal</td>
</tr>
<tr>
<td>viii) Confidential Reports</td>
</tr>
</tbody>
</table>


2.20 Problems of Performance Appraisal:

The major problem in Performance Appraisal is ….

1) Rating Biases: The problem with subjective measure has the opportunity for bias. The rater biases include:

   a) Halo effect
   b) The error of central tendency
   c) The leniency and strictness biases
d) Personal prejudice and
e) The recency effect

2) Failure of the superiors in conducting PA and post performance appraisal interviews.
3) Most part of the appraisal is based on subjectivity.
4) Less reliability and validity of the PA techniques.
5) Negative rating affect interpersonal relations and industrial relations system.
6) Influence of external environmental factors and uncontrollable internal factors.
7) Feedback and post appraisal interview may have a setback on production.
8) Management emphasizes on punishment rather than development of an employee in performance appraisal.
9) Some ratings particularly about the potential appraisal are purely based on guess work.

2.21 Challenges of Performance Appraisal:

With the increased significance of PA, challenges confronting the system are mounting. One serious challenge facing the PA system relates to assessment of self–managed terms. Popularly called empowered teams, these self–managed teams create special challenges for performance appraisal – empowered terms perform without supervisor.

✓ Create a culture of excellence that inspires every employee to improve and lend himself or herself to be assessed.
✓ Align organizational objectives to individual aspirations.
✓ Clear growth paths for talented individuals.
✓ Provide new challenges to rejuvenate careers that have reached the plateau stage
✓ Forge a partnership with people for managing their careers.
✓ Empower employees to make decisions without the fear of failing
✓ Embed teamwork in all operational processes
✓ De-bureaucratize the organization structure for case of flow of information.
2.22 Recent Development in PA:

In view of the limitations of PA, improvements performance appraisal practices are improved. These improvements include:

i) Change in the approach to performance management
ii) Emphasis on documentation
iii) Computer based performance management
iv) Collaborative performance management
v) Customized performance management system.