Yashwantrao Chavan Maharashtra Open University

MBA205

ज्ञानगंगा घरोघरी

HUMAN RESOURCE MANAGEMENT

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UNIT 1   INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

Structure

1.0 Introduction

"Take our twenty best people away, and I will tell you that Microsoft would become an unimportant company"

Bill Gates, CEO of Microsoft in Fortune, November 25th 1996

The only vital value that an enterprise has that sets it stand out in today's competitive world is the skill, talent, innovativeness and insights of its people. Each business and organization works with several factors of production i.e. men, machine, material, finances etc. Among these is men who can help provide a competitive advantage to the organization by offering skills, capabilities, systems, culture, speed, innovativeness etc.

Human resource management is an extension of its parent discipline Personnel management. Human Resource Management refers to managing the Organization's workforce in an effective and efficient manner. It aims at procuring, developing and maintaining the Human Resource to achieve Organization goals keeping in mind the satisfaction of each individual. Human Resource is a multi-disciplinary function present at all the layers of the organization. It aims at attracting the right people to the organization, selecting the most competent candidates at the right position, keeping them motivated by focusing on their needs, training them to enhance their skills, developing their personality and motivating them to build a long term association with the organization. While doing all this they make sure that the employee works with complete dedication and to the best of his capabilities and knowledge towards achieving

the organization's goal on a whole. Hence it's the people who can make or break an organization. As Thomas J. Watson, the founder of IBM once said "you can get capital and erect buildings, but it takes people to build a business"

1.1 Unit Objectives

After studying this unit, you should be able to-

★ Understand the Concept of Human Resource Management.

★ Identify the nature and scope of HRM.

★ Understand the Objectives and importance of HRM.

★ Illustrate the various functions of HRM.

★ Explain the Strategic Human Resource Management and its Process.

★ Describe the Skill set required to become an efficient HR manager.

1.2 Nature of HRM

Human resource management aims at fulfilling the goal of each individual and the organization on a whole. Below are the features of human Resource Management

(1) **Pervasive Force :** Human Resource Management is the inherent part of an organization. It is pervasive in nature and present in all enterprises at all levels of management. It is the responsibility of each manager to select the right candidate under him and pay attention to the development and satisfaction of each sub-ordinate. However he can seek advice and help from experts who have special competence in Personnel Management.

(2) **People Oriented :** Human Resource Management focuses on and values people at work both as individuals and groups. It encourages people to develop their full potential and in return give the best to the organization. People are assigned jobs and trained to produce best results, resultant gains are used to reward people and motivate them towards higher standards of performance. It brings people and Organization together in a manner so that the goal of each one is met.

(3) **Action Oriented :** Human Resource Management does follow rules, records and policies but it stresses on action. The focus is on providing effective and timely solution to employees for any problems, tensions or controversies faced by them.

(4) **Future Oriented :** To sustain and grow in this competitive environment organizations follow long term strategic planning. Effective Human Resource Management prepares people for current as well as future challenges, specially working in an environment characterized by dramatic changes.

(5) **Development Oriented :** HRM continuously works towards the development of employees. There are various tools used to make the employees reach

their maximum potential. Training programs are held to help the employees enhance their skills and knowledge. Monetary and non-monetary reward structures are tuned to motivate the employees. Also job redesigning methods like job enrichment and job enlargement are used to help them stay motivated and give their best efforts to the organization.

(6) **Enhance Employee Relations :** HRM helps building healthy relationship between the employees at various levels. It encourages mentoring and counseling to help employees in times of need. It aims at creating a culture in the organization that is conducive to learning and growth.

(7) **Interdisciplinary Function :** The knowledge that has influenced Human Resource Management is interdisciplinary in nature. It drives knowledge from five major bodies: education, system theory, economics, psychology and organizational behavior. Managers need to understand and appreciate the contribution of all such soft disciplines.

1.3 Scope of HRM

Human Resource management has a very wide scope, Every department and activity in an organization needs human resources, even if it is about running a machinery. Hence management of human resources has a very strong impact on all the other aspects of the business. The scope of Human resource management can be broadly divided into three:-

(1) **HRM in Personnel Management :** The objective here is to ensure the individual growth of each employee which indirectly contributes to the overall growth of the entire organization. Hence it focuses on manpower management that covers all aspects right from hiring (recruitment and selection) , training and development, induction and orientation, transfer, promotion, compensation, lay off , retrenchment and employee productivity.

(2) **HRM in Employee Welfare :** This aspect of HRM is concerned with the working condition and the amenities at the work place. It makes the environment worth working by eliminating work place hazards, providing job safety, medical and health services etc. It also helps in determining employee real needs and fulfilling them with active participation of the management and employees, provides employee consulting education and training, also takes care of proper ventilation and lighting, canteen facilities, recreation facilities etc.

(3) **HRM in Industrial Relation :** The main aim of this aspect is to maintain peace and harmony in the organization. It requires effective interaction with the labor or employee unions, sensitively addressing their grievances and settling their disputes. It works towards safeguarding the interest of the employees by securing the highest level of understanding , maintaining disciplinary procedures and solving problems with mutual efforts.

1.4 Objectives of HRM

The Primary Objective of HRM is to place a competent and willing workforce into the right position and at the right time. Further it aims to obtain maximum individual development, desirable working conditions and at the same time it focuses on contributing to the realization of the organizational goals.

The main objectives of HRM are :-

(1) To help the Organization achieve its goals- HRM is the means to assist the organization to achieve its goals. It ensures effective utilization of Human Resources which in turn results in the efficient utilization of all the other organizational resources.

(2) To employ skillful workforce and focus on their training and development- HRM aims at employing the skills and abilities of the workforce efficiently. It generates maximum development of Human Resources within the organization by offering opportunities for growth to employees through training and development.

(3) To ensure employee job satisfaction and maintain a quality of work life- HRM focuses on fulfilling the personal objectives of the employees which helps in enhancing their contribution to the organization. Their objective is to ensure respect for human beings by providing various services and welfare facilities to the personnel. It identifies and satisfies the need of the individuals by offering various monetary and non-monetary rewards. It reconciles the organizations goals with individual goals in such a manner that the personnel feels a sense of commitment and loyalty towards it.

(4) Societal Objective- HRM must ensure that there is compliance with the legal and ethical standards of the society at each level and function of the organization. It implies that the organizations manage human resources in an ethical and socially responsible manner.

1.5 Functions of HRM

Human Resource management covers various operative and managerial functions that are performed at all the levels of the organization. They have been discussed in detail below.

(1) **HR Planning :** Human Resource Planning is a process that identifies current and future human resource needs for an organization to achieve its goals. The objective of Human Resource Planning is to ensure the best fit between employees and jobs, while avoiding manpower shortages and surpluses.

(2) **Job Analysis and Design :** Job Analysis is the determination of the precise characteristics of a job through in-depth and detailed examination of the activities to be performed. It does a detailed analysis of the tasks, activities, duties and responsibilities that are required to do a job. It is the first step to

successful human resource activities such as Human Resource Planning, Recruitment, Selection, Placement, Training, Performance Appraisal etc.

Job design allows job analysis. It involves designing the content of a job, it combines the tasks into a job to be assigned to an individual and further fixes the duties and responsibilities to do the job. While designing the job the needs of the organization and the needs of the individual manager must be balanced.

(3) Recruitment and Selection : Once job analysis and job design specifies the tasks and responsibilities of a job and the qualification required to perform it, it is followed by recruitment and selection. It is the process of hiring the right number of people of the right type at the right place. Recruitment is the process of searching the best qualified candidate from within or outside the organization in a cost effective manner. It includes identifying and encouraging the candidates to apply for a job, receiving applications and screening them. Once the applications are received after thorough examination the right candidate is picked from it. This process is called selection. It involves choosing the most aptly qualified candidate that best fits the job and can perform the task most successfully

(4) Orientation and Placement : Orientation is the process in which the new employees are introduced and made familiar to their jobs, complex processes, coworkers and organizations. Once the employee is introduced to the organization, he is then placed in the suitable job. It involves assigning the duties and responsibilities to the employee after matching the job requirement with the employee's qualification. Placement includes assigning tasks to new employees and promotion or transfer of present employees. The new recruits for initial period of time are put under probation to judge whether the candidate is fitting the job profile well.

(5) Training and Development : Training is the process of enhancing the knowledge and skill of an employee required for a particular job. It improves the current performance of the employee and increases his knowledge base for higher level jobs. Development is an ongoing and continuous process which aims at improving the personality and attitude of employees. Training involves improving a specific skill of an individual whereas development aims at a broader picture and works towards improving the personality of an individual or work dynamics of a team. Training is required more on the staff handling the operations of a company whereas development is more common to the managers.

(6) Performance Appraisal : Performance appraisal is the assessment of how well an employee has performed his assigned duties and responsibilities. The assessment is done on the results obtained by the employee and the output achieved by him in the past. Along with this the employee's potential to grow in the future is also measured. Performance appraisal helps in making the employee aware how well they are performing their job and guides them

for future development. It helps in deciding the promotion and pay rise for each employee.

(7) Remuneration : Payment or Compensation received in exchange of the services or employment is termed as remuneration. It consists of both monetary and non-monetary benefits .It mainly consists of the base pay also known as wage or salary. Up and above the base pay they can be compensated with variable pays like bonus, incentive, profit sharing etc. Indirect rewards are also provided such as retirement plans, vacation packages, health cover etc. Remuneration policies are well thought as it is the most important factor in attracting and retaining the employees. It should also make sure to maintain the internal and external equity to avoid dissatisfaction amongst the employees

(8) Communication and Motivation : Effective communication is a very important contributor to the success of a business. It is very important that the mission, vision and objective of the organization is communicated to all. Each employee needs to clearly understand his/her role and responsibility. They should also be formally or informally communicated about their performance and guided accordingly. Motivation is a driving force that arouses the individual to work towards a desired goal with intensity, sense of direction and constant efforts. Each individual might be motivated with a completely different factor which should be carefully analyzed to energize these efforts.

(9) Welfare, Safety and Health : Effective measures and programs ensure that the workplaces meet the health, safety and welfare needs of all the employees. Health measures and regulation ensures that the mental, physical and emotional health of an employee is in a state of wellbeing. It makes sure the working environment is adequate with proper ventilation, cleanliness, appropriate temperature and lighting and comfortable seating arrangement etc. In case an employee suffers from mental stress or emotional agony, it is the duty of the supervisors to sympathetically support the employee and help him overcome it. The workplace building, equipment, devices and systems should be maintained in an efficient manner so as to avoid hazard if a fault occurs.

(10) Industrial Relations : Labor is one of the most important factors of production in any organization. Healthy relationship between management and labor are very important to ensure uninterrupted manufacturing activities, reduces tension, conflict and unwanted violence. It helps in smooth running of the organization and continuous work to the workers leading to achievement of targets. Hence there needs to be a healthy communication and friendly relationship between management and labor to be able to achieve higher efficiencies and higher profits.

1.6 Strategic Human Resource Management

The main aim of strategic HRM is to integrate business strategy with HR strategy.

In the old times the business environments were different, the markets were more stable, there was not much continuous advancement in technology, there was less variety in products and services, customers did not have much choice and competition was not at an all-time high. But with the globalization setting in, the trade barriers between the countries have been reduced drastically. To fight these upcoming challenges businesses need to be foresighted and create strategies to be able to sustain and continuously grow.

In strategic human resource management, it is made sure that the human resource policies and procedures are well aligned with the strategic objectives of the organization. The knowledge and talent of the workforce has a very vital role to play in the success of a business. Realizing the fact that since the global economy has opened a lot of opportunities for the competent resources, attracting, managing, nurturing and retaining them has become the most critical issue for any organization.

At each step of strategic management model the focus on human resources is aligned with the strategic plan for the business. Since strategic management is very different from traditional ways of running a business, there can be seen a huge difference between the traditional and strategic approach to human resource management. Model of strategic management consists of the major five steps :

(1) Defining Organizational Goal : The first step in the strategic management starts with evaluating the company's mission, vision, goal and values. While doing so the organization aligns a collection of HR practices, programs and policies to facilitate the achievement of the organization's strategic objectives.

(2) Analyzing the environment : SWOT (Strengths, Weaknesses, Opportunities, Threat) analysis is an important tool used in strategic management. It looks into the strength and weakness of the organization, the opportunities available outside the organization and the threats faced from the competition. While doing so it not only focuses on the employee relations but also on their relations with the internal and external customers.

(3) Formulation of strategies : Management evaluates all the factors and formulates strategies on the corporate, business and specific functional levels. While doing so strategies are framed from a long term perspective which requires HR to be proactive and align HR strategies to various time frames in a flexible manner.

(4) Implementation of Strategies : Once the strategies are formulated activities need to be performed to implement them. It deals with the leadership style, structure of the organization and the management of human resources. Unlike the traditional bureaucratic roles and policies, strategic HR replaces specialization by cross training, teamwork is encouraged, permits employees to carry out job responsibilities in a free flowing way by encouraging autonomy at various levels.

(5) Strategy evaluation : This is the final phase where it is measured whether the strategies implemented has led to achieve the desired results. HR aims at

increased performance, enhancing employee satisfaction etc. To achieve this they ensure effective management of staffing, selection, development, training and retention to fit with the organization strategy and culture.

1.7 Skills and Proficiency of HR Managers

Job of an HR manager is the most challenging one as there is no factor of production as complex as people. HR managers need to integrate processes, people and technology in an efficient and effective manner that should enable the organization to achieve its goals. While doing all this they need to assess, develop, reward and retain a wide variety of people. Discussed below are the skill sets that an efficient HR manager should possess

(1) **Multi- knowledgeable :** HR managers should possess knowledge of all the diverse fields that collectively run a business. Since HR management is required in all the departments and at all levels, it is important that HR managers should be competent in all the diverse areas of finance, sales, marketing, operations etc

(2) **Personal attributes :** HR managers should possess the mental ability to communicate, articulate and handle people and situations with intelligence

He should have the learning skills as he needs to continuously upgrade himself to stay abreast with the outside world. Coaching and teaching is a continuous process that a HR professional undertakes to develop the employee's skills and personality.

They should possess the discretion to discriminate between right and wrong and use ethical attitude while dealing with people and situations.

HR managers should have both the leadership and executive skills. They should be able to lead a large group of people towards a course of action that is in the best interest of the individual as well as the organization. They should also accurately and quickly execute the management's decision regarding personal issues.

(3) **Professional attitude :** HR manager's job is getting professionalized. He should be organized as there is no margin of error when dealing with the lives and careers of people. He should have comprehensive understanding of HR policies, principles, programs, practices and laws.

(4) **Ethical attitude :** For healthy and successful running of a business, it is very important that the HR managers comply to the code of moral principles and values with respect to what is right or wrong. Employees should be coached from time to time and their ethical dilemmas should be cleared. In case of any violation the company should not hesitate to punish the unethical behavior of the employees. HR professionals should communicate clearly and fairly and aim to promote equity. HR professionals are company conscience and keepers of confidential information. They should respect and maintain privacy always.

1.8 Summary

★ Human Resource management aims at attracting, managing and maintaining human resources in an effective and efficient manner.

★ It is present in all the functions and all the levels of the organization and is a continuous and future oriented process.

★ It aims at aligning human resource strategies with business strategies to be able to survive and grow in today's competitive world

★ To achieve all of the above it performs various functions like recruitment and selection, training and development, job designing, performance appraisals etc.

★ The HR managers should be skillful and intelligent as managing the most complex factor of production i.e. people is a very challenging job.

1.9 Key Terms

★ **Human Resource management :** It refers to managing the organization's workforce in an effective and efficient manner.

★ **Performance appraisal :** It is the assessment of how well an employee has performed his assigned duties and responsibilities.

★ **Remuneration :** It is payment or compensation received in exchange of the services or employment.

★ **Motivation :** It is a driving force that arouses the individual to work towards a desired goal with intensity, sense of direction and constant efforts.

★ **Industrial Relations :** It refers to the relationship between the management and the Labur.

★ **Strategic Human Resource Management :** It refers to integrating business plans with HR plans.

1.10 Questions and Exercises

(1) Define HRM. What are the objectives of human resource management?

(2) What is the nature of Human Resource management?

(3) What do you mean by strategic human resource management and how is it aligned with the Organization Strategies?

(4) Define the below terms

  (A) Recruitment and Selection

  (B) Training and Development

  (C) Performance Appraisal

  (D) Job Analysis and Design

(5) Discuss the important skills that an efficient HR manager should possess.

1.11 Further Reading and References

(1) M. Armstrong, ``*A handbook of Human Resource Management Practice"*, Kogan Page, 2006.

(2) V. S. P. Rao, ``*Human Resource Management : Text and Cases"*, Excel Books, 2002.

(3) J. Brattor, J. Gold, ``*Human Resource Managment : Theory and Practice"*, Machnillian Press, London, 2nd edition, 1999.

UNIT 2   HUMAN RESOURCE PLANNING

Structure

2.0 Introduction

Human Resource Planning is a process that forecasts the company's future manpower demand by analyzing the current supply and the gaps if any. The ultimate mission or purpose of Human Resource Planning is to align the future human resources to future organizational strategies and needs so as to maximize the future returns on investment in human resources. It ensures that an organization is always equipped with the right number and kind of people, at the right place and time. They should be capable of effectively and efficiently accomplishing their tasks that are required to achieve the goal of the organization as a whole.

According to *Geisler*, "Human Resource planning is the process- including forecasting, developing and controlling- by which a firm ensures that it has the right number of people and the right kind of people at the right places at the right time doing work for which they are economically most useful."

2.1 Unit Objectives

After studying this unit, you should be able to-

★ Understand the concept of Human Resource Planning.

★ Describe the various Objectives of Human Resource Planning.

★ Explain in detail the various steps involved in the Human Resource Planning Process.

★ Illustrate the various Human Resource Demand Forecasting Techniques.

★ Explain the concept of Job Evaluation.

★ Describe the Job Evaluation Process.

★ Explain the concept of Human Resource Information System (HRIS) and discuss its benefits.

2.2 Objectives of Human Resource Planning

The main objective of Human Resource Planning is to determine its future HR requirements and to plan as to how the existing HR can be utilized optimally. It aims to ensure best fit between employees and jobs while avoiding manpower shortages and surpluses.

Further the objectives of Human Resource Planning are discussed below:-

(1) To Forecast Future Requirements for HR

HR Planning is essential to project the future manpower needs of an organization. If HR planning is not done effectively it can lead to overstaffing or understaffing.

(2) Realizing Organizational Goal

The basic aim of HR planning is to have an accurate and optimum number of employees at any given point in time. They should have the skills required to accomplish each job to meet the organizational objectives

(3) Effective Management of Change

An organization faces constant internal and external changes e.g mergers, acquisitions, govt regulations, technology etc. These changes are to be proactively assessed from time to time so that HR plan would fit in with the strategic business objectives. HR planning should ensure that even during such times of changes the organization should not suffer due to non-availability of qualified people.

(4) Effective Utilization of Human Resources

HR assesses the current human resources capacity based on their competencies , skills, training , qualification etc. against the capacity needed to achieve the organizational goal. Keeping the inventory of the existing personnel helps utilize the existing resources more effectively in relation to the job requirement. HR strategies, plans and programs are then designed, developed and implemented to close the gaps.

(5) Promoting Employees

HR planning is required to maintain data and assess the performance of each employee. A promotion is viewed as desirable by employees as it is a form of recognition for those who make significant and effective work contribution. HR plan continuously work on ensuring regular promotions to competent people on a justifiable basis.

2.3 Requirements of Effective HRP

The following conditions should be fulfilled for the successful development and execution of HR planning:

(1) Clear understanding on the Objective

HR managers should have a clear understanding on the objectives behind HR planning, they should very well understand its critical impact on other function of human resource management and the goal accomplishment.

(2) Communication

Sustained and regular communication and harmonious relationship between the line mangers and HR managers is absolutely essential.

(3) Alignment

HR plans should be aligned properly with the organization's mission, vision and strategic goals. They should fit into the present and future requirements of the organization.

(4) Top Management Support

Active involvement and proper guidance from the top management is extremely important. Before starting the human resource planning project, the support and commitment of the top management must be ensured.

(5) Human Resource Information System

It is very important for a organization to have a strong HRIS in place while starting the Human Resource Planning process. as planning requires objective and comprehensive data for decision making. It is thus essential for an organization to maintain up-to-date and accurate HR records. It should maintain computerized human resource information regarding the employees demographics, career progression, appraisals, skills, qualifications, experience, performance and promotion ratings etc.

2.4 Human Resource Planning Process

Human Resource Planning is a process whereby organizations forecast the future personnel needs required to meet business and customer demands . It also takes into consideration the impending retirements and transitions, the existing personnel supply and filling the gap through personnel related programs and training.

Human Resource Planning Process usually consists of the following steps.

Forecasting Manpower needs-	● **Quantity and quality of human resources required**
Assessing current Manpower Inventory	● **Employees available within organization**
Identifying Manpower Gap	● **Qualitative and quantitative gaps**
Formulating Manpower Plan	● **Recruitment, selection, training or down sizing**
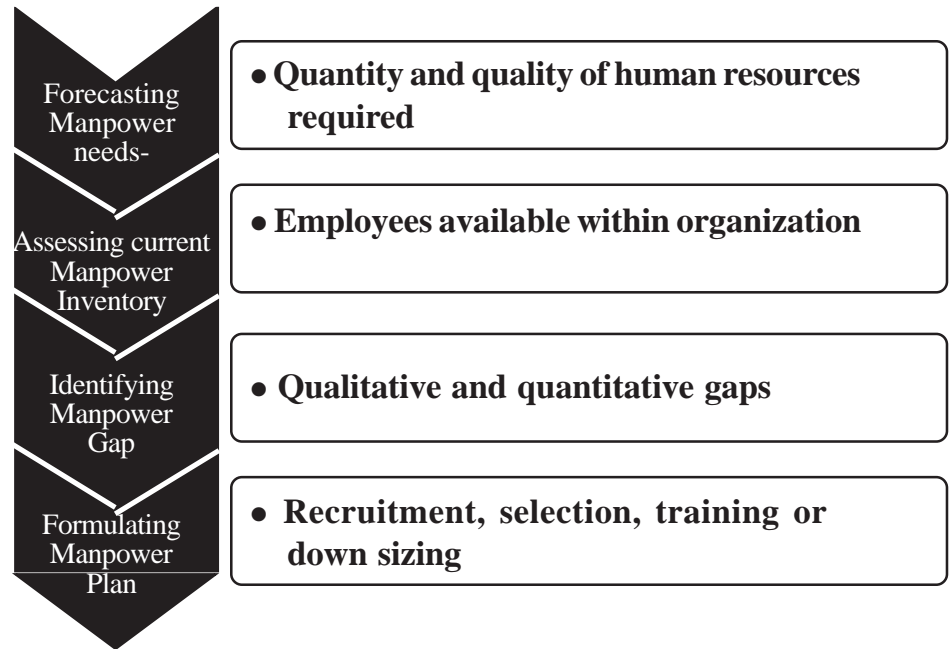
(1) Forecasting Manpower Need

HR Planning ensures that a predetermined number of people with correct qualification and skill sets are available for the future. This needs to be done to guarantee the availability of the human resources needed by an organization to meet its strategic business objectives. The basis of forecasting is that the annual budgets and long term projections are divided into activity levels for each function and department. This further helps in determining the quality and quantity of personnel required to perform those activities effectively.

Demand forecasting is dependent on several factors both external and internal. External factors include regulatory, governmental, economic and social changes, technical development and competition etc. Internal factors include organization's strategic plan, sales and production budgets, investment in new products, services and ventures, impending retirements, terminations, resignations etc.

(2) Assessing Current Manpower Inventory

The next step in HR Planning is to estimate the quantity and quality of employees available within the organization to fill the positions. In case of internal labour supply the HRIS (human resource information system) is referred to, HRIS uses computers for collecting, storing, maintaining and updating data from time to time of its employees. It tries to capture the number of employees in each job, their age, sex, qualifications, past experience etc. It also captures the skills, knowledge, abilities and career aspirations of each employee which is timely updated due to any change because of training, additional qualifications etc.

In order to foresee and estimate the absenteeism, turnover and attrition rate historical trends are recorded and examined. This gives an idea of an approximate time period when the important positions might fall vacant and the number of employees

who will be present in the various positions within the organization at any given point in time. In case internal sources are not enough to fill in the expected vacancies, companies might look out for prospective employees from external sources e.g universities, consultants, competitors etc.

(3) Identifying Manpower Gap

Once the number and type of employees needed is determined and the supply of manpower is estimated, a reconciliation of the two will determine the quantitative and qualitative gaps in the organization. It will throw a light on the number of people to be recruited or make the organization aware whether there has been overstaffing. This forms the foundation of preparing a HR plan.

(4) Formulating Manpower Plan

Once the human resource requirements and necessary changes to be applied are identified, they need to be translated into a concrete HR plan supported by policies, programs, strategies etc. Below are some of the plans and strategies implemented to achieve the goals-

(a) **Recruitment and selection plan :** Recruitment and selection is the process of hiring the right number and type of people at the right place and at the right time. To do this there are plans charted out to recruit the right people. After recruitment the selection process is also professionally designed.

(b) **Redeployment and training :** To keep the employees abreast with the changing technology or product lines they should be imparted new skills. In case an organization discontinues a business the employees should be retrained and redeployed to other departments where they can effectively contribute.

(c) **Alternatives to Hiring :** There are other alternatives that can be undertaken as an alternative to hiring additional employees for e.g encouraging employees nearing retirement to extend their years of service by rewarding late retirements, rehire, launching overtime schemes by paying a higher commission for overtime etc. All these alternatives are beneficial if the manpower need has gone high for a temporary time period and there is a likelihood of it returning to a lower level.

(d) **Retention Plans :** Various retention plans are implemented to avoid attrition in an organization. Organizations might increase the wages, provide better career opportunities, improve the working conditions, avoid hiring unstable recruits etc.

(e) **Downsizing Plan :** Organizations resort to downsizing plans when the supply of manpower exceeds the demand and there is surplus in the staff. In such a case staff is underutilized and there is a need of trimming the labour force. Some of the examples of downsizing plans are offering voluntary retirement schemes to the employees, laying off the redundant staff etc.

2.5 Manpower Demand Forecasting Techniques

In order to assess the number of employees required at any given time in future, organizations apply various manpower demand forecasting techniques. The basis of forecast is the annual budget and long term corporate plans, which is then converted into the man hours required to achieve them and finally the number of employees required to complete those man hours. Forecasting techniques vary from organization to organization. Organization may follow more than one technique which can be simple or complex, the most commonly used techniques are discussed below.

2.5.1 Managerial Judgment

In this forecasting method the experience and judgment of the managers is used to forecast the demand for labour. It can be a bottom-up-forecasting in which the line managers submit their manpower proposal to top managers who analyze the same and ultimately forecast the human resource requirement for the overall organization on the basis of proposals of the departmental needs. The other approach is the top down forecasting method . In this approach the top managers meet and discuss the current business scenario, the future challenges expected and how these trends would impact the business and forecasts the human resource requirements for the entire organization and various departments. This information is supplied to various departmental heads for their review and approval. A participative approach is the most preferred approach in which management and departmental heads meet and unanimously decide about the future human resource requirements

2.5.2 Ratio-Trend Analysis

Under this forecasting technique the demand for human resources/manpower is estimated on the basis of ration of production level and number of employees required to achieve that production level in the past. While doing so the provisions are made for any possible changes expected in the processes, product line, structure of the organization. A simple example given below-

Estimated production for next year = 140000 units

Ratio as per analysis - 1:200 (1 employee produced 200 units in the past in a span of one year)

Estimated number of workers needed on the basis of ratio trend of 1:200 = 700 workers

2.5.3 Regression Analysis

Similar to ratio-trend analysis this model is also based on the relationship between dependent variable (sales volume) and independent variable (employee size). However this model is based on mathematical and statistical techniques for estimating future demand. A regression line is drawn in a diagram which depicts the relationship between the dependent variable to be predicted (e.g manpower/human resources) and the independent variable (e.g sales, total production, work load etc)

Y axis Number of Workers
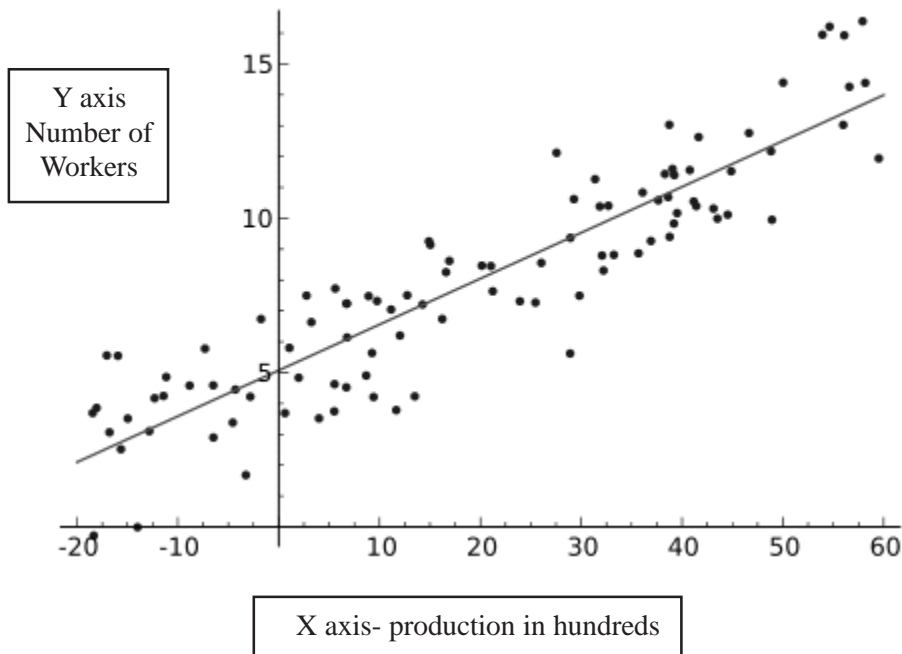
X axis- production in hundreds

2.5.4 Work- Study Technique

This technique is also known as work load analysis . This technique is used where the work load is easily measurable. The company first considers the production budget prepared in terms of volumes of the saleable product. The budgeted volumes are then translated into number of man hours required to produce per unit. Thus demand of human resources is forecasted on the basis of estimated total production and contribution of each employee in producing each unit items. Allowances will have to be made for absenteeism , labour turnover and idle time.

Let us assume that the estimated production of an organization is 300000 units. The average man-hrs required to produce each unit are 2 hrs. The past experience shows that the work ability of each employee in man hrs is 1500 hrs per annum. The work load and demand of human resources can be calculated as below :

★ Budgeted total annual production = 300000 units

★ Average man hrs needed to produce each unit= 2hrs

★ Calculated man hrs needed to meet Budgeted production = 300000*2 = 600000 hrs

★ Man hrs that can be invested by each employee per year = 1500 hr

★ Approximate numbers of workers needed = 600000/1500= 400

2.5.5 Delphi Technique

Delphi technique is also a very important technique used for estimating demand for human resources. It takes into consideration the human resources requirements given by a group of experts i.e managers. A small group or panel of ten or fewer experts is identified. Each expert is asked to give their individual judgments on the issue , they are asked to provide answers to a structured questionnaire or even interviewed. After which the human resource planning expert acts as a intermediary, collects all the

responses, summarizes them and send the report back to the experts. This process is continued until all the experts agree on estimated human resource requirements. In the entire process there is no interaction between the experts, they do not meet face to face but exchange notes through anonymous questionnaires.

2.6 Job Analysis : Concept

A job consists of a set of tasks, duties and responsibilities to be performed. A task can be explained as an identifiable piece of work, duty consists of several tasks and responsibility is the accountability to do certain tasks and duties.Job Analysis is the determination of the precise characteristics of a job through in depth and detailed examination of the activities to be performed. It does a detailed analysis of the tasks, activities, duties and responsibilities that are required to do a job. It is the first step to successful human resource activities such as human resource planning, recruitment, selection, placement, training, performance appraisal, counseling etc.

Job Analysis acts as a primary tool to gather, analyze and implement the information regarding the job in concern. Personnel manager undertake job analysis for an effective recruitment, selection and placement. It helps in placing the right person at the right job.

There are two outcomes of job analysis. They are as follows :

(1)   Job Description

(2)   Job Specification

(1) Job Description

It is a factual statement that describes the content of the job. It states the duties, tasks and responsibilities to be undertaken to do that job. It gives a clear picture to the job holder of what all tasks need to be done and the purpose behind why they need to be performed.

Job description constitutes the below facts :-

● Title/designation of the job.

● Location in concern.

● Job Summary- gives a brief idea of what is the job all about.

● Job Activities –describes the tasks to be undertaken by the jobholder, clearly mentions the responsibility and authority of the job holder.

● Mentions the provision of working conditions required and provided for performance of that job.

● Describe the relationship of that job with other jobs in concern.

Below is an example of a Job Description of an Insurance Agent.

Job Title : Insurance Agent

Job Summary : Provides service to clients' changing insurance needs by selling

life, health, and disability insurance.

Insurance Agent Job Duties

★ Develops database for long-term sources of clients by using referrals, occupational, and special-interest groups to compile lists of prospects.

★ Approaches potential clients by utilizing emails and phone calls and making presentations to groups at company-sponsored gatherings; speaking publicly to community groups on the subject of financial well-being.

★ Determines clients' particular needs and financial situations by scheduling fact-finding appointments; verify extent of present coverage and investments; ascertain long-term goals of the client.

★ Develops a coordinated protection plan by calculating and quoting rates for immediate coverage action and long-term strategy implementation. Obtains underwriting approval by completing application for coverage.

★ Completes coverage by delivering policy; planning for future, deciding for follow-up visits and evaluations of needs.

★ Provides continuing service by providing direct deposit forms; processing changes in beneficiary and policy loan applications if required by the client.

★ Updates job knowledge by participating in educational opportunities; reading professional publications; maintaining personal networks; participating in professional organizations.

★ Enhances insurance agency reputation by accepting and accomplishing new and different requests; exploring opportunities to add value to job accomplishments.

Skills : Prospecting Skills, Meeting Sales Goals, Motivation for Sales, Understanding Customer Needs, Client Relationships, People Skills, Product Knowledge, General Math Skills, Organization, Dependability, Statistical Analysis

Working Conditions : Eight hours per day. Five days a week.

Report to : Risk and credit department head.

(2) Job Specification

It is the translation of job description into human qualities and qualifications that are required to do the job. Each role, task and responsibility mentioned for a job in job description needs a set of skills, qualifications and human characteristics for satisfactory job completion. Job Specification states the minimum acceptable skills , knowledge and abilities (SKAs) which are required to perform a job. It is beneficial to have a job specification for each job description. It helps the organization to determine what kind of person is required for a specific job.

Job Specification constitutes the following.

● Job Title/designation

● Educational qualification

Check Your Progress
1. Discuss the process of manpower planning in an organization.
2. Differentiate between job specification and job description.

- Skills, Knowledge and Abilities (SKAs)

- Physical and Mental Health

- Maturity and Dependability

- Relationship of the job with other jobs in concern

Below is an example of job specification for a Marketing Manager.

Title/Designation : Marketing Manager

Experience

★ 10 years responsible positions in marketing, preferably in a similar industry

Education

★ Bachelors Degree in Marketing or a related field required.

★ Masters in Business or Marketing preferred.

Required Skills, Knowledge and Characteristics - Marketing Manager:

★ Effective communicator.

★ Highly developed, demonstrated teamwork skills.

★ Demonstrated ability to increase productivity and continuously improve methods, approaches, and departmental contribution. Commitment to continuous learning.

★ Ability to coordinate the efforts of a large team of diverse creative employees.

★ Expert in internet and social media strategy with a demonstrated track record.

★ Familiarity and skill with the tools of the trade in marketing including PR, written communication, website development, market research, product packaging, microsoft software suite of products, visual communication software products, and creative services.

★ Experience managing external PR and communication consulting firms and contractors.

2.7 Job Analysis : Process

The process of Job Analysis can be explained in the following steps :

(1) Identifying the Job analysis purpose

The first step is to be clear about the purpose behind conducting job analysis, it might be carried out for varied reasons like

- When it is a newly set up organization.

- A new role is created in an already running organization.

- A job has significantly changed due to change in the processes and procedures being followed by the organization.

- When there is a change in the remuneration plan or the employees feel that they are not being paid fairly.

Once the objective of job analysis is clear, it needs to strategize the following :

(A) **Level of detail :** It needs to be decided as to how in depth job analysis needs to be undertaken. The detail depends on the purpose of job analysis. Further it also helps to decide the nature of data that needs to be collected to fulfill the purpose.

(B) **Employee involvement :** It is about deciding the extend of employee involvement needed in the process. The most logical way of knowing about the content of the job is through the employee/job holder as they are the most familiar with it. But while doing this their involvement level needs to be carefully decided. Too much involvement may result in bias in favour of a job as the employees may tend to inflate their duties and responsibilities. Also if they are not clear about the purpose of job analysis, it might lead to dissatisfaction, anxiety and uncertainty among them.

(C) **Data Collection :** The next step is to decide what type of data is to be collected. Data can be regarding educational qualification of employees, skills and abilities required to perform the job, working conditions, job activities, reporting hierarchy, required human traits, duties and responsibilities involved and employee behavior etc. Secondly its important to decide what methods need to be employed for data collection . The different methods that can be used are observation, interview, questionnaire, checklists, technical conferences etc.Who should collect the data is also a crucial decision to take. They can be trained job analysts, supervisors or job holders.

(D) **Information Processing :** Now is the time to segregate the collected data into useful information. It is processed so as to be useful in various personnel functions. Job related data is used to prepare job description and job specification. Job description states the roles, responsibilities, duties, activities and tasks involved in the job. Job specification on the other hand is a statement of educational qualifications, skills, experience and personal traits required to perform the job

2.8 Introduction to Human Resource Information System (HRIS)

In today's world human resource information system is the integral part of every organization. HRIS refers to the systems and processes at the intersection between human resource management(HRM) and Information technology (IT) . It refers to the electronic tools used to access the HR related information and perform HR related functions.It is used in acquiring, storing , manipulating and analyzing important information regarding the human resource of an organization. It helps HR managers to perform the HR functions in a more effective, systematic and faster manner using technology.

2.9 Benefits of HRIS

There are several benefits of HRIS. It has become a backbone for successful running of the organizations in today's times:-

● Since it leads to automation of work to a great extend the need to maintain files and manually process payrolls and applications can be avoided. It also helps avoid manual errors. Hence it saves time and makes work easy. This can let the HR managers focus on other important strategic decisions.

● It also helps in streamlining the administration of employee attendance, leave records, employee benefits etc. Employees can mark their attendance electronically, apply for leaves online, new employees may electronically enroll in benefit plans, current employees can log onto the system monitor and update their leave records, current benefit coverage and other important information throughout the year.

● HRIS allows candidates in case of job openings to submit their resumes and contact information online. the software also allows current employees to electronically apply for new positions.The system then collects the information and archives it so it is easily accessible by the hiring manager.

● It acts as a decision support system. HRIS maintains data about employee profiles, hiring records, tax information, insurance benefits, employee attendance and much more, while wanting to make a decision it can process out reports on the stored data with a few mouse clicks. It gives a very accurate information and does fast processing.Hence it becomes an important tool to strategic planning and its implementation

2.10 Summary

● Human Resource Planning is a process that identifies current and future human resource needs for an organization to achieve its goals. The objective of Human Resource Planning is to determine its future HR requirements and to plan as to how the existing HR can be utilized optimally.

● The process of human resource planning starts with forecasting manpower needs, assessing the current manpower supply, identifying the gap between the two and then formulating and implementing the plans to fill the gap.

● There are different techniques used while forecasting the future manpower requirements, some of them are managerial judgment, ratio-trend analysis, regression analysis, work-study technique and Delphi technique etc.

● Job Analysis is the determination of the precise characteristics of a job through in depth and detailed examination of the activities to be performed. It does a detailed analysis of the tasks, activities, duties and responsibilities that are required to do a job.

- Human resource information system (HRIS) refers to the systems and processes at the intersection between human resource management(HRM) and Information technology (IT) . It refers to the electronic tools used to access the HR related information and perform HR related functions. It is very beneficial and present in all the organizations in today's world.

2.11 Key Terms

★ **Human Resource Planning** : It is a process that forecasts the company's future manpower demand by analyzing the current supply and the gaps if any.

★ **Human Resource Information System :** It refers to maintaining computerized human resource information regarding the employee's demographics, career progression, appraisals, skills, qualifications , experience, performance and promotion ratings etc.

★ **Manpower Inventory :** It refers to the quantity and quality of employees available within the organization.

★ **Managerial Judgment** : In this forecasting method the experience and judgment of the managers is used to forecast the demand for labour. It can be a bottom-up approach or up-down approach.

★ **Ratio-trend analysis** : Under this forecasting technique the demand for human resources/manpower is estimated on the basis of ratio of production level achieved and number of employee in the past.

★ **Regression Analysis :** It is a statistical technique that is used to estimate future demand of human resources by determining the relationship between dependent variable (sales volume) and independent variable (employee size).

★ **Work-study technique:** The demand of human resources is forecasted on the basis of estimated total production and contribution of each employee in producing each unit items.

★ **Delphi Technique:** It aims at estimating demand for human resources by taking into consideration the estimation of human resources requirements given by a group of experts.

★ **Turnover** : Employee or staff turnover is the ratio of the number of employees that leave the company in a specific period of time.

★ **Attrition**-: It refers to the employees leaving the organization due to resignations, retirements, sickness or death.

★ **Downsizing:** It refers to reducing the number of employees in the organization through termination, early retirement etc.

★ **Job Analysis** : It is the determination of the precise characteristics of a job through in depth and detailed examination of the activities to be performed. It includes job description and job specification.

★ **Job Description:** It is a factual statement that describes the content of the job of an employee. It states the duties, tasks and responsibilities to be undertaken to do that job.

★ **Job Specification**: It is the translation of the contents of a job into human qualities and qualifications.

2.12 Questions and Exercises

(1) Define Human resource planning and describe the various steps involved in the Human Resource Planning Process.

(2) What is the objective behind undertaking a comprehensive Human Resource Planning process in any organization?

(3) What are the different forecasting techniques used while forecasting Manpower need? Explain them in detail.

(4) ``Human Resource planning is a prerequisite for all the effective implementation of all the other functions of HRM" In the light of the above statement kindly discuss the importance of Human Resource Planning.

(5) Explain in detail the concept of job analysis. What are the steps involved in the process of job analysis?

(6) Describe in detail with example the two ouctcomes of job analysis : Job description and Job specification.

(7) What is Human Resource Information System (HRIS)? Explain why has it become an integral part of every organization in today's world.

2.13 Further Reading and References

(1) P.Reilly, *"Human Resource Planning",* The Institute of Employment Studies, London 1997

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UNIT 3   TALENT ACQUISITION

Structure

NOTES

3.0 Introduction

In this competitive environment human resources play a very vital role in the success and profitability of any business. Each organization tries to attract the best employee for best results. Hence efficient and effective recruitment becomes very crucial in human resource management. Recruitment should aim at attracting qualified, motivated and competent staff that stays with the company for a long term. It should create a talent pool of candidates to enable selection of best candidates for the organization. A wrong or poor recruitment may lead to huge long term losses. Substandard, inappropriate or inefficient staff may lead to low- productivity, low profitability with huge training and development cost.

Definition : Recruitment is the process of hiring the right number of people of the right type at the right place. It is the process of generating a pool of qualified applicants for a job. It includes identifying and encouraging the candidates to apply for a job, receiving applications and screening the applicants.

According to Kempner, "Recruitment forms the first stage in the process which continues with selection and ceases with the placement of the candidate."

3.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the concept of recruitment.

★ Describe the various sources of recruitment and discuss their merits an demerits.

★ Explain in detail the various steps involved in the recruitment process.

★ State the various alternatives to recruitment.

★ Explain the concept of selection.

★ Describe the various steps followed and tools used in the selection process.

★ Explain the concept of induction and the induction process.

3.2 Sources of Recruitment

A source from where candidates are identified, attracted and selected can be classified into two:-

(1) Internal Sources

(2) External Sources

(1) Internal Sources

This approach includes recruiting, developing and promoting the employees from within the organization. Internal recruitments are cost effective, more reliable as the organization is aware of the candidate's skill set and knowledge and it also motivates the employees and increases their commitment towards the organization. Internal sourcing can be done in the following ways:-

(A) **Transfers :** An employee may be shifted from one job to another internally generally of the same level. The roles and responsibilities of the employees might change but not necessarily the salary. This helps the employees to get motivated and try something new, helps them break the monotony of the old job and encourages them to grow by gaining more knowledge.

(B) **Promotions :** As recognition of their efficiency and experience the employees are moved from a position to a higher position. There is a change in their duties and responsibilities accompanied with a change in salary and status. It helps the employee to grow vertically in the organization. It refrains him from leaving the company for greener pastures.

(C) **Retired and retrenched employees :** Retired and retrenched employees may also be recruited back in case there is high demand and shortage of supply in the industry or there is sudden increase in work load. These employees are already aware of the processes, procedures and culture of the organization hence they prove to be cost effective.

(D) **Employee Referrals :** In this case each employee of the company acts as a recruiter. The employees are encouraged to recommend the names of their friends or relatives working in other organizations. For this they are even rewarded monetarily. The benefit of employee referral is that the potential candidate gets the first hand information about the job and organization culture from the already working employee. Since he knows what he is getting into

he is expected to stay longer in the organization. Also since the credibility of those who recommend is at stake, they tend to recommend those who are highly motivated and competent.

(E) **Job Postings :** The Company posts the current and expected vacancy on bulletin boards, electronic media and similar common portals. This gives an opportunity to the employees to undertake career shift and help them grow within the company.

(F) **Deceased and disabled employees :** In order to make the families of the deceased and disabled employees self-sufficient their relatives or dependents may be offered a job in case of any vacancy.

(2) External Sources

New candidates are recruited from outside the organization by different means and methods. It is more commonly used than internal sources. External recruitments are helpful in acquiring skills that are not possessed by the current employees; it also helps to bring onboard employees from different backgrounds that gets diversity of ideas on the table.

Some of the modes of external sourcing are

(A) **Campus Recruitments :** When companies are in search of fresh talents and are focusing on knowledge, communication skill and talent than experience, they approach management colleges, technical institutes etc. The company makes a presentation about its organization in order to attract the students. Whoever finds it matching with their career plans applies for the job. These applicants are then made to go through series of selection processes like analytical and psychological tests, group discussions, interviews etc before the final selection is done.

(B) **Management Consultants :** Management consultants act as representatives of the employer. They perform the recruitment function on behalf of the client company by charging them fees or commission. These consultants are able to tailor their services according to the specific needs of the clients thus relieving the line managers from their recruitment function.

(C) **Advertisements through newspaper, television and radio etc. :** This media of recruitment is very popular and commonly used as it reaches out a wide range of people. It can also be targeted at a specific group or a particular geographic area by choosing a specific newspaper, radio channel etc. e.g Business journal. In certain advertisements company name, job description and salary packages are mentioned. There are blind advertisements as well where no identification of the firm is given. These advertisements are published mostly when the organization wants to fill an internal vacancy or planning to displace an existing employee.

(D) **Trade Associations :** There are associations that create a database of job seekers and provide it to its members during regional or national conventions. They also publish classified advertisements for employers interested in

recruiting their members.

(E) Walk in Interview : Another upcoming method of recruitment is walk-in-interviews. There is no time and meeting schedule for each individual. An advertisement regarding the time and the location of the interview is given in the newspaper. The candidates are required to carry their CVs and directly appear for the interview. It is a very common mode of recruitment amongst BPOs and call centers.

(F) Job Fairs : Job fairs are effective way of getting in touch with the potential employees and candidates. There are HR hiring managers of various companies under one roof. Information and business cards can be exchanged and resumes can be submitted by the candidates. Employers can spot the right applicants, similarly the applicants can apply in many organizations together, wherever they feel the offer is best and suits their interest.

Both the Sources of Recruitment have their own advantages and disadvantages, the same have been mentioned below.

Merits of Internal Sourcing

(1) Internal recruitment is less time consuming and economical.

(2) It is reliable as the organization is aware of the employee's knowledge and skill set.

(3) There is no need of induction and training as the employee is already aware of the processes, procedures and culture of the organization.

(4) It increases the motivation level of the employees as they look forward to getting a higher job in the organization instead of looking for greener pastures outside.

(5) It boosts the morale of the employees, improves their relations with the organization and reduces employee turnover.

(6) It develops the spirit of loyalty in the employees, ensures continuity of employment and organizational stability.

Demerits of internal sourcing

(1) Internal sourcing prevents new blood, originality and innovative ideas from entering the organization.

(2) The scope is limited as not all the vacancies can be filled by the limited pool of talent available in the organization.

(3) The position of the person who is transferred or promoted falls vacant.

(4) It can create dissatisfaction amongst the rest of the employees as there can be bias or partiality in promoting an employee in the organization.

Merits of External Sourcing

(1) New and young blood enters the organization, which have innovative ideas, new approaches that can help to stir up the existing employees.

(2) It offers a wider pool for selection. Companies can pick up candidates with

requisite qualification.

(3) It creates a competitive environment as it helps the existing employees to work harder in order to match the standard that the new employees bring in.

(4) It leads to long term benefits to the organization. Talented pools of people bring along with them new methods of working and new approaches to situations that helps the organization to stay abreast with the competitive world outside.

Demerits of External Sourcing

(1) It is a time consuming process as it involves attracting the right candidates, screening them, going through a series of tests and interviews etc. When suitable candidates are not available this process has to be repeated again and again.

(2) This process proves to be very expensive for the organization as the companies have to resort to advertisements, hiring consultants etc for attracting the right pool of talent.

(3) It can lower the morale and demotivate the existing employees as they can feel that their services have not been recognized.

(4) It is less reliable than internal sourcing. Since the organizations hire candidates on the basis of their resumes, tests, interviews etc they may not turn out to be as expected. It may end up hiring someone who ends up being a misfit and may not be able to adjust in the new set up.

3.3 Recruitment Process

There is a step by step approach that is taken while identifying and attracting a pool of talented and qualified candidates as per the organizational needs. These interrelated steps are discussed below.

Planning

Planning refers to identifying vacancies and evaluating human resouce needs. Proper planning and evaluation of the number of people required and type of applicants to be contacted leads to hiring the right person for the role and team. Organizations always attract more candidates than they plan to hire as many of the candidates who are attracted may be under qualified, a misfit or not willing to join the position. First they measure the successfulness of the recruitment strategies by recruitment yield ratio in order to determine the number of candidates to be attracted for a vacancy.

Recruitment yield ratio (Yr) refers to the ratio of candidates CVs forwarded to those shortlisted for interview, those interviewed to offered, those offered to placed. For e.g.

(a) An advertisement attracted resumes from 3000 applicants out of which only 300 candidates were qualified to fit the job, the Yr =10:1.

(b) Now out of these 300 Resumes received only 60 candidates turned up for the

interview Yr=5:1.

(c) Further out of these 60 who attended the interview only 40 were offered a job Yr=(3:2), out of which only 30 accepted the offer Yr=4:3.

(d) Hence the total Yr is 100:1. This means that if the company finally needs 20 employees onboard they should attract resume from 2000 candidates.

Along with the decision on the number of people to be employed it is very important to evaluate the kind of people to be targeted. Job description and job specification clearly states the roles and responsibilities involved and the skills and qualifications required to fulfill them.

(1) Sourcing Strategy : There are various strategies that can be used to identify and attract the right candidates to fill a job vacancy. Companies might decide to recruit internally from the current pool of talent within the organization and then train them further to take up larger and variety of roles. If the company feels that they need to attract the skills, talent and knowledge that are not possessed by the current employees they may plan to source from outside the organization. In this way they can bring onboard employees from different backgrounds that can bring diversity of ideas. In order to attract employees from outside the organization they can undertake campus interviews, or publish an advertisement in the newspaper or internet, attend job fairs, hire recruitment consultants etc. These are the internal and external sources of recruitment that have been discussed earlier in the chapter.

(2) Searching and Selling : Once the sourcing strategy has been decided upon, the search methods are activated. The company sells itself when the search process begins by communication through the search media. While doing so the company must make sure that they sell themselves enough to attract the required number and type of people but at the same time do not oversell their virtues. They should also select the media or medium of communication very carefully as the credibility of the media impacts the success of the recruitment process to a large extend.

(3) Screening : Screening is an important step in the recruitment process and helps save a great deal of time and money if effectively undertaken at an early stage. The main purpose of screening is to determine which candidate will be selected for interview from a larger pool. When the recruiters are clear about what key skills and attributes are they seeking in a candidate, it becomes easy for them to remove those applications that are visibly unqualified for the job. Screening should be done very carefully, potentially good employees should not be rejected without justification. Applicant's qualification should be prudently judged on the basis of their knowledge,skills, abilities and interests required to do the job.

(4) Evaluation and Control : Evaluation of the recruitment process helps in exercising control over different aspects of the recruitment process. These aspects are:-

★ The cost incurred in terms of salaries to the recruiters, cost of advertisement and other recruitment methods, cost of overtime and outsourcing while the vacancies remained vacant, recruitment overheads and other costs etc.

★ Time spent by the management and professionals on preparing job descriptions, job specifications, advertisements etc.

★ The final number of recruits selected measures the effectiveness of the recruitment methods, the recruitment yield ratio achieved etc.

★ Organization measures the quality of the new recruits by monitoring their performance, their turnover rate (separation rate) and the employee retention rate (stability index) while evaluating the success of the recruitment process.

3.4 Alternatives to Recruitment

Recruitment and selection is costly and time consuming process. Moreover it gets on board permanent employees which are hard to be separated in case they do not perform as per the requirement or if there is over staffing due to less work due to market demand fluctuations. Hence to fight back the temporary phases of high market demand for firm's products, companies might resort to alternatives to recruitment that are stated below:-

(1) **Overtime :** In order to fulfill the extra demand of the firm's products which lead to excess work load, some employees are asked to work overtime under some terms and conditions. Overtime is the amount of time that someone works beyond the working hours. In such a case employee gets extra wages as per the contract signed between the employee and the employer. The disadvantage is that the employee might not work to his full potential during the day in order to earn overtime.

(2) **Temporary Employees :** A temporary employee is appointed for a period that does not last for long. It is to fill a short term position which is scheduled to be terminated within one or more years for reasons as the completion of a specific project or peak work load. This helps the company in avoiding expenses of recruitment, saves time involved, and help avoid the negative impact of labor turnover etc. However temporary employees might not be very loyal to the company, their inexperience may affect the work output and they tend to take time to adjust.

(3) **Sub-contracting :** To complete a specific project or fulfill a sudden temporary increase in the demand of the company's products, the company might resort to subcontracting. It is the practice of assigning part of the obligations, tasks and responsibilities to another party under a contract known as subcontractor. Hiring an outside specialist agency to undertake part of the work leads to mutual advantages in such cases as the company would like to expand on its own only when the increased demand lasts for a specified period of time.

(4) **Employee Leasing :** An employee leasing firm specializes in recruitment, training, human resource management, payroll accounting and risk administration. The leasing firm also takes care of the work supervision, daily duties and other routine aspects of work. For example a nursing services

firm hires many nurses and provides them to hospitals on a contract basis. It provides an advantage to the organization to change its employees without actual layoffs.

(5) Outsourcing : Under outsourcing a business process is contracted out to a third party, the reason behind outsourcing are many. It reduces the need to hire and train specialized staff as it is sourced out to someone specializing in that area possessing the resources and expertise that leads to competitive superiority overtime. It also helps to reduce capital and operating expenses and helps avoid burdensome regulations, high taxes, labor union contracts etc.

3.5 Introduction to Selection

Once a pool of job applicants is created, it is followed by selection. Selection is choosing the best possible candidate with requisite qualification and competence to meet the specific requirements of the role. Selection is more a process of elimination; it seeks to eliminate as many unqualified applicants as possible in order to identify the right candidates. Effective selection can be done only when there is effective matching. It is a very crucial process as it creates the foundation of success for an organization.

Selecting the right candidate results in high quality of work performance and productivity, high sense of loyalty to the organization and commitment to work, less turnover rate, competitive environment and better results.

3.6 Selection Process

Selection process is generally a lengthy process and varies from organization to organization or even between two different positions in the same organization. Below are the general steps followed in a selection process:-

(1) Preliminary Interview

Preliminary interview is an elimination process in the very early stage so as to save time and energy. It is similar to screening and aims at eliminating unqualified applicants who do not appear fit in the application while they are screened.

(2) Selection Test

After the screening process and preliminary interview the applicants shortlisted are made to undergo certain tests. These tests are created in a specific manner and are taken under standardized conditions. These standards (of environment, scoring etc) are uniformly applied so as to avoid any bias. The nature of the job and position to be filled determines which all tests the applicant needs to go through.The main objective of these tests is to measure the candidates behavior, skill sets and attitudes. Stated below are some of the common tests undertaken :

* **Intelligence Test :** also referred to as ability test, measures the candidate's

ability to learn and grasp things. Candidates who seem to be quick at learning are referred as they can be trained easily and can be used to achieve organizational goals.

- **Aptitude Test :** measures the candidate's potential to learn a specific area. Hence when a candidate is being examined for a specific role, his aptitude regarding the tasks to be performed to fulfill that role is measured.

- **Personality Test :** is generated to measure the basic aspects of the applicant's personality like motivation, decision making skill, self-confidence, interpersonal behavior, emotional balance etc.

- **Achievement Test :** is carried out to test whether the testee actually knows what has been mentioned by him in the resume and whether he has the capability to do the current job. In order to test that, work samples of a small portion of the job are created. The testee is asked to perform them which gives a clear picture of the ability of the testee to do the job.

- **Simulation Test :** are commonly carried out to assess the candidate's ability to handle the various activities and problems while at work. Managers need to face such situations at work and handle them effectively. Hence such problems and situations are duplicated and presented in front of the applicants to test their ability to deal with them.

- **Graphology Test :** a trained evaluator reads the handwriting of the applicant and infers his personality and emotional quotient by examining the lines, curves, loops and strokes in the handwriting.

- **Polygraphy test :** is basically a lie detector where in the applicant is made to sit on a chair with lots of equipments and machines attached to him. He is further asked a series of questions to determine whether the subject's responses were truthful or deceptive, his biological measurements like breathing, blood pressure, perspiration etc are examined.

- **Integrity Test :** measures the honesty of the employees by making them answer a well-structured and formal series of questions. The result of the test are a good prediction of whether the employee will ever perform an act that will be unacceptable by the organization.

(3) Employment Interviews

Interview is the oral and face to face examination of the applicant. It is the most effective tool in the entire selection process. It helps the interviewer to know the interviewee in the aspects beyond the ones mentioned in the application. It also makes clear the interviewee's agreeableness, motivation levels, proactiveness etc. Subjective aspects can be examined through the individual's facial expressions, body language, confidence, nervousness etc. It is beneficial both ways the interviewer can sell the organization to the candidate and the candidate can become more aware about the policies, programs, job description etc. while conversing with the interviewer.

Interview can be (i) one to one-in this there is interaction between only two people the interviewer and the interviewee. (ii) Sequential-In this there is series of interviews

. Each interview is taken by an expert in a different field so as to thoroughly judge the knowledge and skill of the candidate in different fields. (iii) Panel- A panel interview consists of two or more interviewers collectively examining the candidate. A panel interview is more formal in nature and can provide large information about the candidate if handled efficiently.

Depending on the nature of the position to be filled different types of interviews might be undertaken.

(a) **Non Directive interview :** In this kind of interview the interviewer does not have any preset sequence of questions to be asked. The recruiters ask questions as and when they come to the mind and hence the interview can take any direction. It also is a qualitative method of analysis where the interviewer also throws some open ended questions to let the interviewee talk freely.

(b) **Structured Interview :** In this kind of interview the interviewer will ask predetermined set of questions to each candidate so as to avoid any bias.In this case comparisons between the applicants becomes easy. On the other hand it might come across as a very formal or rigid kind of an interaction leading the applicants to be uneasy.

(c) **Situational Interviews :** In this kind of interviews hypothetical situations are created and the applicants are made to face them. Their response to these situations are evaluated and examined.

(d) **Behavioral Interviews :** It focuses on the way the candidate has handled the given situations in the past. The candidates discuss the incidents that occurred in their work or personal life in the past and how they handled them.

(e) **Stress Interview :** The objective of stress interview is to determine whether the candidate will be able to calmly deal with the stress producing and demanding situations at work. Hence very aggressive, rude and insulting questions are thrown at him and his response is examined and evaluated.

(f) **Group Discussion :** Is a methodology in which a group of candidates is given a topic on a situation, they are given a few minutes to think about the same and then asked to discuss it amongst themselves. Through this method the recruiters can gauge whether the candidate has certain personality traits and skills that it desired in its members for e.g.

★ Ability to work in a team
★ Communication skills
★ Reasoning ability
★ Leadership skills
★ Initiative
★ Assertiveness
★ Flexibility
★ Creativity

(4) Medical Examination

In certain Organizations medical examination is a must. As the job might require clear vision, accurate hearing, high stamina etc. Medical examinations helps in telling whether the applicant's physical health is in accordance with the job requirement or whether he needs to correct it before coming onboard. In a general basis it also protects the company against unwarranted claims for compensation, prevents communicable diseases etc. The main purpose of the medical examination is to see whether the candidate is medically fit to withstand the physical and psychological stresses that a job demands.

(5) Reference check

Every candidate is required to give the contact details of at least two persons who can be contacted for their reference check. These can be people who are familiar with the candidate's academic achievement or co-workers or employers in the previous organization. The employers from the previous job can provide information about certain facts like job title, wages, duration of employment, etc, it can also throw a light on candidates performance, character and behavior. Candidates past criminal records, educational records, civil records etc are also checked. These checks are generally done via phone calls. They are undertaken only when the candidate has successfully passed all the stages of the election process.

(6) Job Offer

A letter of appointment is issued to those who have successfully crossed all the stages of selection . This letter is an offer of job and states the terms and conditions on which the employee has been taken onboard. It also states the date on which the appointee must report on duty..

3.7 Orientation and Induction

Orientation is a process in which the new employees are made familiar to their jobs, complex processes, coworkers and organizations. Orientation process may be formal or informal, individual or collective and is structured over a scheduled period of time. They usually cover general information about the day to day work, facts about the organization history,details about the products, services, policies, procedures followed , work rules, employee benefits etc. Also, covered are the more routine things that the new employee must be aware of such as location of rest rooms, parking spaces, canteens etc.

Following are the benefits of an orientation and induction program:-

- **It helps in bringing familiarity and removing fear :** Induction helps the employees in overcoming the fear of the unknown. Since he is made familiar with the environment, people, organization and the job he feels much at ease.

- **Forming an impression :** Induction helps to get off to a good start. The new recruit is able to know more about the organization and the job. He can ask questions and clear all his doubts and inhibitions. Induction forms a good impression about the company and the people in the mind of the new recruit.

Check Your Progress
1. What are the different types of interview?
2. What are the various types of selection test?

- **Source of Information :** It is a valuable source of information as the new employee is inducted by handbooks, manuals, presentations about the different departments in the organization and his job in specific. This makes him clear and confident about himself and the job undertaken.

3.8 Induction Process

A well conducted induction ensures new hires are retained and speedily and comfortably settled in a constructive role. The process includes

- **Introduction :** The new employee is introduced to various aspects of the business. He is made aware of the organizational issues like history of the company, Organizational structures, names and roles of the existing employees, products, services and processes, disciplinary procedures, company's policies etc.The new recruit also gets an insight on the employee benefits like pay scale, insurance, medical, recreation, retirement benefits, vacations etc. He is introduced to the seniors supervisors, co-workers, trainers, counselors etc. He is also explained the job in detail and made aware about the job location, tasks, roles and responsibilities, objectives and job's relation with other jobs.

- **Socialization :** Formal and informal interactions and discussions with the employees working in the organization helps the new recruits in understanding how the department/ company is run. It gives an insight on what kind of behavior is expected by the company. It makes him aware of the values, norms and beliefs held by others in the organization.

- **Follow ups :** During the induction there can be communication gaps by the supervisors while covering a large area of information to be provided to the new joinees. In order to overcome this there should be follow up meetings at certain intervals and the gaps should be spotted through indepth interviews, round table conferences or questionnaires. The main aim of follow ups is to further guide the new joinees on the job related matters where they feel directionless.

3.9 Summary

- Recruitment is the process of identifying and attracting a pool of qualified applicants for a job. It involves encouraging the candidates to apply for a job followed by receiving and screening the applications.

- Recruitment process is a step by step approach and starts from planning the number of candidates to be recruited followed by deciding sourcing strategy, searching and selling , screening, evaluation and control.

- Sources from where the candidates are identified, attracted and selected can be either internal like transfers, promotions, employee referrals, job postings etc or external through campus recruitments, management consultants,

advertisements, trade associations etc.

- Companies might resort to alternatives to recruitment like overtime, sub-contracting, employee leasing etc, in case they want to hire people for a short period.

- Selection is choosing the best possible candidate with requisite qualification and competence to meet the specific requirements of the role.

- Selection process consists of a series of interviews and tests, medical examination and employee referrals before the job offers are issued to the selected candidates.

- Orientation and Induction is carried out after a candidate is offered a job. It is a process in which the new employees are made familiar to their jobs, complex processes , co-workers and organizations.

3.10 Key Terms

- **Recruitment:** It is the process of hiring the right number of people of the right type at the right time.

- **Internal Sources** : This approach includes recruiting, developing and promoting the employees from within the organization.

- **External Sources**: New candidates are recruited from outside the organization by different means and methods.

- **Promotions:** As recognition of their efficiency and experience the employees are moved from a position to a higher position.

- **Retrenchment:** It refers to the forced lay off of the organization's employees in order to cut down on the expenditure.

- **Referral:** It is a recruitment method in which the current employees are encouraged and rewarded for introducing to their current organization appropriate recruits from among the people they know.

- **Walk in interview:** In such interviews an advertisement regarding the time and location of the interview is given in the newspaper. The candidates are required to carry their CVs and directly appear for the interview.

- **Job Fairs**: In such fairs there are HR hiring managers of various companies under one roof , who get in touch with the potential employees and candidates who attend such fairs.

- **Screening:** It is refers to that part of the selection process which is done to determine which candidate will be selected for interview from a larger pool.

- **Overtime:** It is the amount of time that an employee works beyond the working hours.

- **Outsourcing** : It is a term used when a business process is contracted out to a third party.

- **Graphology:** It is the study of handwriting. It is used during the selection process to evaluate the candidate's personality and emotional quotient.

- **Polygraph:** It is an instrument that is used to measure physiological responses in the candidate when they are questioned in order to determine if their answers are truthful.

3.11 Questions and Exercises

Short Answer questions.

(1)   Define Recruitment and Selection.

(2)   Explain the two different sources of Recruitment.

(3)   What are the merits and demerits of internal sources of recruitment?

(4)   Define the terms given below :

- Overtime

- Sub-contracting

- Job Fairs

- Employee Referrals

Long Answer Questions.

(1)   Explain the recruitment process in detail.

(2)   What are the different steps followed in selecting a candidate?

(3)   What do you mean by orientation and induction? State their benefits.

3.12 Further Reading and References

(1)   W. F. Cascio, ``*Managing Human Resources,*'' Mc Grawttid My 1995.

(2)   M. Armstrong, ``*A hand book of personal Management*'', Kogan page, Landon, 1991

(3)   V. S. P. Rao, ``*Human Resource Management : Text and cases*'', Excal Books, 2002.

UNIT 4   HUMAN RESOURCE TRAINING AND DEVELOPMENT

Structure

4.0 Introduction

Training generally refers to programs and procedures undertaken with an attempt to improve current or future employee performance. Training helps in making the employee learn new knowledge, refine his skill set and change his attitude in order to improve his performance which can significantly improve the overall profitability of the organization. The main purpose of training is learning. It helps prepare new employees for new roles, enhance the knowledge of the existing employees by teaching them to acquire new skills, It is also required to enable the employees to move from one job to another, it makes the employees more confident, versatile and mobile.

In the current scenario where there is a constant technological development and huge competition in the market, each company comes up with a better procedures than the other, training has become an indispensable part of HR function in every organization.

4.1 Unit Objectives

After studying this unit, you should be able to-

★ Understand the concept of human resource training.

★ Understand the difference between training and development.

★ Understand the need and importance of training.

★ Describe in detail the training process.

★ Understand the importance of evaluation of training.

★ Explain the different types of training.

★ Describe in detail the factors involved while selecting a training method.

★ Understand the concept and objectives of Executive Development.

★ Describe in detail the various methods of Executive Development.

4.2 Difference between Training and Development

In a broad sense training and development work towards the same goal of achieving the objectives of the organization and increasing the efficiency and productivity of the employees, however when studied closely there are many differences between training and development that are discussed below :

(1) **Time Period :** Training is a short term process of planned programs and procedures while development is an ongoing continuous process.

(2) **Purpose :** Training aims at increasing the skills and knowledge of the employee to perform a specific job or solve a technical or mechanical problem. Hence training is generally targeted on non-managerial personnel. Development on the other hand aims at improving the total personality of an individual; it is mostly aimed at managerial personnel.

(3) **Approach :** Training is a reactive process whereas development is a proactive process. Training focuses on the current requirements while development aims at the long term need of the individual and the organization

(4) **Initiative :** Training is the result of the initiative taken by the management where programs are planned and knowledge is imparted to the employees. It is a result of some outside motivation Development on the other hand is stimulated by the environment but is mostly a result of internal motivation.

4.3 Need for Training

Training is required for organizational growth. It is beneficial to both the employer and the employee; it makes the employee more efficient which leads to better results and growth of the organization.

(1) **Learning for New Recruits :** Once the employees are selected and placed in a position they need to be trained for the specific job. It helps in making them perform their job effectively. On job trainings help them handle their job competently.

(2) Promotions : In order to prepare the existing employees for higher roles they need to be trained in the areas of their added responsibilities so that they can do justice to the position.

(3) Transfers : Training on different jobs makes the employees mobile and versatile and make them capable to be moved from one job to another

(4) Bridging the Gap : There can at times be some gaps between the knowledge and skills an employee possesses and the requirements of the job. Training helps in bridging this gap and making the employees more productive.

4.4 Importance of Training

Training is a very vital tool in all the departments of the business e. g. finance, production, marketing etc. The return on investment in training is huge in terms of higher productivity, enhancing skills of the employees, increasing the motivation levels etc.

Adequately planned and well executed training program can lead to the following advantages :

(1) Training leads to higher productivity and better quality of work : Formal training leads to enhancement of skills of the employees that enables them to perform their job more efficiently. As standard methods are taught to the employees it improves the quality of product and services.

(2) Reduction in wastage and cost : Workers learn how to make the optimum use of resources. Training leads to economic use of material and machinery and helps minimize cost of operations per unit.

(3) Increases morale and loyalty : Training helps boost the morale of the employees by developing positive attitude, job satisfaction and enhanced learning. It makes them loyal to the organization as they develop a sense of commitment.

(4) Promotions : Training helps employees realize their career goals actively. It also reduces employee grievances by providing opportunities for internal promotions

(5) Reduced supervision and low accident rates : Training develops well motivated employees who are self-reliant, they do not need constant guidance and supervision. Employees can also avoid mistakes and accidents on the job as they can handle job with confidence and adopt the right work methods

4.5 Training Process

Training is an investment made by an organization with the objective of achieving some desired results. If the training is effective then it can be very profitable for the organization, hence a well-planned step by step process should be adopted while deciding a training program. Below are the steps involved in a training process.

(1) Assessment of training needs

It analysis what are the long term requirements of the organization and what does the organization expects from the employees. If there is a mismatch between the skills and knowledge required to achieve the organizational goals and the current capabilities of the employees, it means there is a learning gap. To assess this learning gap below three elements are closely examined.

(A) **Organization analysis :** The objectives of the organization are studied. The end result that a company wants to achieve is examined in context to how it uses its resources to achieve the same. Organizations internal environment regarding employees attitude, work culture etc is also examined . Similarly the impact of economic, political and socio-cultural environment on the company's business is also considered.

(B) **Operation Analysis :** A job requires a combination of different activities for a successful completion. Operation analysis focuses on the needs, skills, knowledge and attitude required to efficiently complete the job.

(C) **Person analysis :** In person analysis the focus is on the employee who has to perform the job. It is analyzed whether the performance of the employee is satisfactory and he is being able to achieve the organizational goal. If there seems to be any learning gap it is further assessed whether the employee is capable of being trained or there is a need of modification in the job or employee replacement.

(2) Defining the training objective

After deriving the learning gap organizations should define the learning objective. Goals and objective of training becomes the foundation of the training initiatives. Learning objectives are achieved when goals are stated in advance. These learning objectives should be measurable in concrete terms. Hence determining the training objectives gives a direction to the entire learning program. The learner and the trainer both get a clear picture of the outcome that is expected out of the learning program. It gives an input in designing the training program and also helps provide a yardstick against which the effectiveness of the training program is measured.

(3) Designing a training program

Once the objective of the training program is determined , it is time to analyze the factors that need to be considered while designing a training program-

(A) **Who will be the trainer :** As per the skill and knowledge requirement for an effective training; it should be decided upon who will conduct the training program. It can be supervisor, university faculty, Industrialist, HR staff, consultants etc.

(B) **Who needs to be trained :** It is to be decided who all needs to be trained to fill the learning gap. It can be on the basis of self-motivation, recommendation by supervisors of HR department itself.

(C) **Training Methods :** Trainer should have complete information of the

participants and their profile so that he can choose the learning methods that best suits their requirement. The training content is prepared based on the specific areas that need development .

(4) Implementation of the training program

Refers to putting the training plan into action. There should be a proper environment created which is conducive to learning, The trainees should feel comfortable, the session should be interactive so that they can ask questions and clear their doubts without any hesitation. The trainer should be comfortable and confident of the content of the training. It should be preferably a participative approach and trainer should promote role playing and interactive games to keep the trainees involved

(5) Evaluation and follow up

Training evaluation is done to check whether the goals and objectives of the training have been achieved or not. Feedback needs to be taken from the participants on the training results. A follow up can be done by asking the supervisors whether the participants are applying the skills learned in the learning program on their day to day job.

4.6 Evaluation of Training

It is very important to assess the effectiveness of the training undertaken. Since training involves a lot of investment in terms of money and time it is very important to analyze the learning outcomes. Evaluation makes sure that the deliverables are not compromised upon and helps in controlling the training program by checking its effectiveness. It also helps to do the cost benefit analysis of the training program and ensures that they are effective in enhancing the work quality, development of new skills, improving employee attitude and confidence within a certain budget. It helps provide a feedback to the trainer by assessing the trainee's application of new learning at work. It provides a clear picture of the loopholes in the learning outcome which can then let the trainer take corrective measures going forward.

There are various methods of training evaluation. The effectiveness of the training can be measured by taking the feedback and obtaining reactions and views of the trainees through questionnaires and interviews. Trainees can be asked to undertake certain tests to find out their learning levels. There are other factors that indirectly throw light on the effectiveness of the training e.g. A good training program leaves the trainees satisfied and will eventually result in lower rate of absenteeism, turnover, grievances etc. Finally the most important evaluation criteria is the cost benefit analysis that compares the cost involved in the training to the value gained and returns in terms of learning outcomes

4.7 Types of Training

There are different types of training that are conducted depending upon the

requirements of the trainee and the organization. The different types of trainings are discussed below :

(1) **Induction and orientation training :** Just after the recruitment and selection of a new employee he is made to undergo induction and orientation training. The objective behind it is to help settle the employee in a new and unfamiliar environment; he is inducted about the procedures, rules and regulations followed by the company. An in-depth knowledge about the company background, organization structure, products and policies is imparted to the new employee. He is also made familiar to his superiors and subordinates leading to less nervousness and more comfort. It helps develop a feeling of certainty and satisfaction in the mind of the new employee as he feels cared for and is handled in the initial phase of his new job.

(2) **Promotional training :** Employees who have a potential to grow and handle larger roles are identified and selected. They are further trained on various areas that they might need to cover when they would have to handle larger roles after promotion.

(3) **Refresher training :** In today's dynamic world there is a constant change in technology, procedures and policies. Traditional way of working may become obsolete very soon. Under refresher training the existing employees are trained to follow new and improved procedures and techniques to stay abreast with the competition. They are made to undergo short term courses so that they can adopt latest developments in a particular field and are able to confidently face the upcoming challenges.Refresher trainings may also be given when newly created jobs are given to existing employees.

(4) **Skills training :** If there is a gap between the skills required for successful completion of a job and the skills possessed by the employees, there arises a need for training. A training program is planned and the content is developed to meet the training objectives. An effective method of training is selected which could be lecture, coaching, special courses etc. These skills could be as basic as reading, writing, communication skills, interpersonal skills etc.

(5) **Internship training :** Under this kind of training professional colleges like management schools or engineering institutes approach organizations, companies and corporate set ups and place there students under them. This helps to enhance the knowledge of the students as it gives a practical experience on the job to the theoretical knowledge gained in the college.

(6) **Cross functional training :** Under this training technique the aim is to educate and train the employee in area of work other than their assigned jobs. This gives them a broader perspective of the business on a whole, helps them gain diverse knowledge, enhances their career path and chances of promotion. Cross functional training can be done by job rotation i.e placing the employees under different roles after a suitable period of time. It can also be done where the departments can exchange their personnel for a certain period that gives an insight to the employees on how other departments are working.

4.8 Selection of a Training Method

The following factors should be kept in mind while selecting the training methods

(a) **Training Goals :** The choice of training method depends on the objective behind the training. It can aim at acquiring new skills , improving communication skills, enhancing decision making skills etc. Each goal will have a training method that is more effective and more suitable than the other, hence the objective behind the training plays a very crucial role in deciding upon the training methodology.

(b) **Who is being trained? :** The level of the trainee in the hierarchy plays an important role in deciding upon the training method. They can be new employees with little or no knowledge about the business procedure or they can be upper management being trained for further development, the approach in both the cases would be different and require a different training method.

(c) **Training Budget :** Training involves large investments because if the training is effective the returns are huge. The finance available on training determines the method to be used to a large extent as each methodology differs on the cost incurred.

(d) **Time availability :** To make the training program a success adequate commitment of time and energy is required from both the trainer and the trainee. Each training methodology would demand a different span of time from the trainer and the trainee. For e.g in on the job training the trainees can continue to do their day to day job while being trained simultaneously, on the other hand special courses and training sessions would make the day to day work of the trainees suffer.

(e) **Availability of competent trainers :** The effectiveness of the training program depends upon the competency of the trainer, hence it is very important to find a qualified and effective trainer to undertake the training process.

4.9 Introduction to Executive Development

"An institution that cannot produce its own managers will die. From an overall point of view the ability of an institution to produce a manger is more important than its ability to produce goods efficiently and cheaply".

Peter Drucker

Executive Development is an ongoing process that helps managers gain knowledge, skills and abilities to handle current situations in a more efficient manner and get matured to handle future challenges successfully. It is generally gained by experience along with formal courses of instructions that helps improve the conceptual and analytical abilities of the executive. It also helps in enhancing their personalities and make them better human beings. It improves their capabilities of handling various tasks at work, taking decisions, analyzing situations, improving communications etc over a period of time.

Check Your Progress

1. What are the factors that should be kept in mind while selecting training method?

According to **Harold Koontz and Cyril O Donnell,** "Developing a manager is a progressive process in the same sense that educating a person is. Neither development nor education should be thought of as something that can ever be completed, for there are no known limits to the degree one may be developed or educated. Managers development concerns the means by which a person cultivates those skills whose application will improve the efficiency and effectiveness with which the anticipated results of a particular organizational segment are achieved."

4.10 Objectives of Executive Development

The main objectives of Executive Development are :

(1) **To sustain in a dynamic and competitive environment :** In today's dynamic world where there is huge competition, it is very important to stay abreast with latest technologies, business processes etc. Managerial obsolescence is avoided by investing in the executives to acquire knowledge , skills and abilities. They need to be efficient and competent enough to be able deal with market forces and stay ahead of competition.

(2) **To ensure competent staff at all levels :** There needs to be a competent staff at each level of the organization so that bottle neck can be avoided and business can smoothly run. Executives at each level should be good performers and their potential should be fully exploited.

(3) **To develop leaders :** Executive development is a futuristic and long term process. It not only helps the executives perform their current jobs in an efficient manner but also teaches them how to get prepared for larger roles. It creates leaders from within the organization. It helps them grow to look at different business situations in a matured manner, broaden their outlook, enhances their ability to make right decisions, improves their communication skills etc.

(4) **Executive Career Growth :** It plans the career growth for the executives. It not only enhances their business skills but also helps them grow personally and become a better human being. They are prepared for higher roles so that they can be promoted in future. It leads to increasing their morale, self-confidence and commitment to the organization. They feel assured that their career goals can be met in the current organization, it leads to retention of employees and they do not feel the need to leave the organization for greener pastures.

4.11 Methods of Executive Development

The Executive development methods can be broadly divided into the following two categories:-

(1) On the Job Training

(2) Off the Job Training

On the Job Training

Under on the job training the employees get trained while doing their day to day

job. Skills are gained while employees are carrying out their daily tasks and responsibilities. They learn in the real work environment by facing challenges and situations and solving them under the guidance of a much superior and experienced employee. All employees right from the lower level staff to the top management go through continuous and regular on the job training. On the job training can take the following forms :

(a) **Coaching :** Coaching is a process under which the trainee is placed under a much experienced employee or a supervisor who instructs and guides the trainee in the day-to-day work. He instructs him what tasks are to be completed and the procedure to successfully finish them and would guide him in times of errors committed by him. To help the trainee grow and to enhance his decision making and analytical skills the supervisors may also ask him to handle complex situations and problems.

(b) **Job Rotation :** An employee is shifted between two or more roles or departments . This helps them gain knowledge and experience in varied fields. They get huge exposure to various aspects of the business. They get developed in this way to handle larger roles where knowledge of the various fields is required. It helps to keep them motivated as they have to face new challenges under different roles. It also helps to reduce the monotony of the job and does not lead to boredom. It helps them gain more experience and insights in the various fields of operations

(c) **Understudy :** A position in the organization may fall vacant in the near future because of reasons like retirement, promotion or transfer of the current job holder. In such a case a junior resource is chosen by the head of a particular department who is placed as an understudy under the superior who is about to leave that position. The superior will train the understudy closely and make him capable to handle the role efficiently by including him in all day to day processes and decision making. This helps the organization to not get affected when the job holder moves on as they have a trained staff ready to replace him.

(d) **Projects and assignments :** Employees might be given some special projects and assignments to handle. They might have to do in-depth research, analysis and present a report that advises a solution to the problem or case in hand. This provides the employee a first-hand experience and in-depth knowledge to work in the field.

Off the job Training

Off the Job training is imparted when new job skills and knowledge is to be taught to the employees. Off the job training takes place away from the immediate work place. There might be classroom sessions and trainers from outside the organization to train the employees. It is costlier and more artificial than on the job training.

Below are the various forms of Off the Job Training

(a) **Lectures :** Lectures are conducted on a particular topic or a specialized area of work to a group of people. It is conducted by an experienced and learned person who has an in-depth knowledge in that area. It can be done in the

Check Your Progress
1. ``Executive development is an ongoing process''. Comment.

form of a power point presentation, audio-visual aids or just a speech. The presenter should have good communication and interpersonal skills, he should be completely confident about his knowledge and very clear while imparting it. He should give room to discussions and allow it to become an interactive session to keep the atmosphere lively and maintain the interest of the audience.

(b) **Conference :** Conference is a meeting of people conducted to discuss a common topic of interest. All the individuals are asked to prepare on the topic and get together to discuss about it in detail. The conference leader creates an environment that promotes healthy discussions. The participants are encouraged to freely voice out their opinions on the topic in discussion. It is an enriching experience for each participant as they have a lot to learn from other participants views and opinions. The conference leader should make sure that the conference proceeds on the desired and planned guidelines.

(c) **Business Games :** Under this method the trainees are generally divided into teams and given a hypothetical situation that is very close to a real time situation. They are asked to take certain decisions and solve the situation in hand or produce the desired results. Once they come up with a plan it is fed in the system and they are informed about the impact and result of their decision. On the basis of the feedback provided to the they might want to change the course of action to be adopted to solve the situation, this exercise goes on till they are able to achieve the desired results. This exercise helps in improving the managerial and leadership skills and the decision making ability of the participants. It is a very effective tool of executive development as it allows them to experience how their decisions and actions impact the business.

(d) **Case Study :** Decision making is a very important role of a manager that impacts the profitability of a business to a large extent. Case study method brings interesting real world situations into the classroom. These cases are generally based on complex situations that can arise in the business environment. Participants are expected to thoroughly read and master the content of the case, they should be able to grasp the objective of the case study and identify the problem. The solution to the problem would more or less be on the lines of the concepts already taught to them. They should be able to decide on a corrective course of action to resolve the case study. They should also be able to judge the impact and effectiveness of their corrective actions on the end result. This helps in improving their managerial and decision making skills.

(e) **Role playing :** Under the role playing method a complex or conflicting situation is presented to the trainees. Each trainee then plays a role of a specific organizational member whose presence and decision making is required to resolve the situation. It is like a spontaneous stage act where each participant plays a different role and works towards solving a given problem in hand in a different capacity. While they act out their roles they get familiar with their own business acumen, on immediate feedback they

can correct mistakes and reorient their focus in the right way, this way they learn by doing things. The main purpose of role play is to enhance the interpersonal skills of the participants as they learn how others react to their suggestions and how their decisions impact other roles.

(f) Sensitivity Training : Sensitivity training aims at developing behavioral flexibility by improving the tolerance power of the participants to each other's behavior. It enables them to understand the views and opinions of others in a better manner. It consists of an unstructured group of 10-15 people with no trainer or leader to guide them; hence the trainees are motivated to resolve the situation themselves. In order to find out a solution they start forming some kind of hierarchy, some forcefully try to become leaders and might be opposed by other trainees. It leads to self-realization of what one wants and how the others react to their way of handling a situation. Without the trainers support the trainees begin to examine their interpersonal behavior, giving each other feedback and starting to experiment with range of new behaviors and values which they might further use in their workplace.

(g) In-basket technique : In this approach the trainees are presented with a number of tasks and problems that they might find in their "basket" while performing the role of a manager. Various files, phone calls, reports, messages are handed over to them in no particular sequence. They need to priorities the tasks in hand, delegate the work and clear the basket within a given time frame. This helps acquaint them with the complexities of the job of a manager.

4.12 Summary

★ Training refers to the programs and procedures undertaken to improve skills and competencies of the employees. Development is a process in which executives acquire skills and competencies not only in their present job but also for future managerial roles. Training and Development aim towards achieving the same goal but are different in their approach, initiative, time period and purpose.

★ A step by step procedure is followed for an effective training that includes assessing the need for training, defining a training objective, selecting a suitable method to achieve that objective. Once the objective is set the training program is developed and implemented and its effectiveness is measured through evaluation and follow up.

★ The various types of training includes Orientation training, Promotional training, Refresher training, Skills training, Internship training, Cross functional training etc. A suitable type of training is carefully selected while deciding upon a training method to be implemented. It can be used to settle down new recruits, teach new skills to existing employees, enhance employee's knowledge for promotion and higher roles etc.

★ Training Methods include (i) On the job training where employees get trained

during their day-to-day jobs through coaching, job rotation, understudy, projects etc (ii) Off the job training is imparted through planned programs that generally take place away from the immediate work place e.g lectures, conferences, business games, case studies, role playing sensitivity training etc.

4.13 Key Terms

★ **Training:** It generally refers to programs and procedures undertaken with an attempt to improve current or future employee performance.

★ **Induction:** It is the HRM function where a new employee is formally and systematically introduced to the organization, job and relevant personnel.

★ **Orientation** : It is the process of imparting in-depth knowledge about the company background, organization structure, products and policies to the new employee. He is also made familiar to his superiors and subordinates leading to less nervousness and more comfort.

★ **Internship** Under internship training, professional colleges like management schools or engineering institutes approach organizations, companies and corporate set ups and place there students under them.

★ **Training evaluation:** It assess the effectiveness of the training undertaken by doing cost benefit analysis.

★ **Executive Development:** It is an ongoing process that helps managers gain knowledge, skills and abilities to handle current situations in a more efficient manner and get matured to handle future challenges successfully.

★ **On the Job training:** Training that happens in the organizations when employees get trained during their day-to-day jobs.

★ **Off the Job training:** Training that is imparted through planned programs that generally take place away from the immediate work place.

★ **Conference***:* Conference is a meeting of people conducted to discuss a common topic of interest.

★ **Business Games:** Under this method the trainees are generally divided into teams and are asked to take certain decision for a given hypothetical situation that is very close to a real time situation.

★ **Role playing**: Under the role playing method a complex or conflicting situation is presented to the trainees. Each trainee then plays a role given to him.

★ **Sensitivity Training-** Sensitivity training aims at developing behavioral flexibility by improving the tolerance power of the participants to each other's behavior without the help of trainer.

★ **In basket technique**- In this approach the trainees are presented with a number of tasks and problems in form of report, files messages etc that they might find in their "basket" while performing the role of a manager for decision making.

★ **Coaching**: It is the process where trainee is placed under a much experienced employee or a supervisor who instructs and guides him in his day-to-day work.

★ **Job Rotation:** It refers to shifting an employee between two or more roles or departments which help them gain knowledge and experience in varied fields.

★ **Understudy** : The senior employee who is expected to leave in the near future trains the junior employee known as understudy closely and makes him capable to handle the role efficiently by including him in all day to day processes and decision making.

4.14 Questions and Exercises

(1) Explain the concept of training. What is the need and importance of training?

(2) How is training different from development?

(3) Briefly describe the steps involved in conducting a training program in a systematic way.

(4) Explain how effectiveness of training can be evaluated?

(5) ``From an overall point of view the ability of an institution to produce a manger is more important than its ability to produce goods efficiently and cheaply". Throw some light on the above statement and describe the concept and objective of Executive Development.

(6) Decribe the various On the Job and Off the job Methods of Executive Development

(7) "You can't develop Managers. People either have the ability to manage or they don't". Critically examine the statement.

(8) Write short notes on:-

    (a) Case study method

    (b) Role Playing

    (c) Sensitivity Training

    (d) In basket technique

4.15 Further Reading and References

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UNIT 5   MOTIVATION IN ACTION

Structure

5.0 Introduction

"People who are unable to motivate themselves must be content with mediocrity, no matter how impressive their other talents."

- Andrew Carregie

Motivation is a driving force that arouses an individual to work towards a desired goal with intensity, sense of direction and constant efforts. It is a process where the wants and needs of the employees are met and satisfied so that it encourages them to perform their assigned duties with more enthusiasm and commitment which results in the effective achievement of the organizational goals.It channelizes the energy and efforts of the employees towards efficient task performance.

Motivation can be further classified into two–

★   Intrinsic Motivation

★   Extrinsic motivation

Intrinsic motivation refers to an inner drive, where the people engage in an activity for their own sake, as it might give them pleasure, enhance their skill etc. . They are more interested to gain mastery over a topic rather than just to get appreciated by

others or get good grades. Pursuing a hobby is a typical example of intrinsic motivation; it is not dependant on any external incentive present.

Extrinsic motivation is when the person is motivated by external factors as opposed to inner drive.External motivation includes tangible rewards such as pay hike, bonus, other monetary benefit or it can be a promotion or praise in public etc.

Each individual might be motivated with a completely different factor. Financial incentive might motivate some whereas standing out in the crowd may motivate the other. Hence it is very important to analyze for each individual the action that psychologically motivates him to activate and energize his efforts towards achieving the goal.

According to Dubin, motivation is, "The complex of forces starting and keeping a person at work in an organization. Motivation is something that moves the person to action, and continues him in the course of action already initiated."

5.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the Concept of Motivation.

★   Explain the Benefit and Importance of Motivation.

★   Describe the Characteristics of Motivation.

★   Explain the different tools of motivation.

★   Understand the benefits and impacts of each motivational tool.

★   Explain the various characteristics of job and their effect on motivation.

★   Understand the concept of empowerment and participative management and their importance in motivation.

★   Understand the ways through which quality of work life can be improved.

★   Explain the various variable pay programs.

★   Explain the importance of mentoring and couseling.

5.2 Importance and Benefits of Motivation

Motivation is very important as it has a huge beneficial and positive impact on the business of any organization, Some of the benefits have been discussed below.

(1)   **Optimum utilization of the factors of production :** Effective and efficient utilization of all the others factors of production like equipment, machinery, finances etc. depends on the manpower of the organizations. If the manpower is motivated enough to give his best to the processes and functions , optimum results are bound to be attained from all the factors of production.

(2)   **Sense of direction :** Its only through motivation that any leader or top management can make the workforce take a direction and follow a course of action that leads to achievement of the organizational goals. It is very important to keep the workforce

motivated for gradual and continuous advancement to fulfill the mission of any organization.

(3) **Good work and industrial relationship :** A motivated workers is satisfied with his work and happy with his quality of life. Motivated workers share a healthy relationship among themselves and with the organization. There will be less friction between the management and the staff. Also there will be industrial peace with low resistance from trade unions in forms of strikes, collective bargaining etc.

(4) **Sense of loyalty and low attrition rate :** A motivated employee feels a sense of belongingness to the organization. Since the organization takes care of the mental, emotional and financial needs of the employees, serving the organization to the best of their capabilities comes naturally to them. They would want to stay associated with the organization for long terms and would not get attracted with greener pastures outside the organization. Hence motivation helps to retain the organization's workforce.

(5) **Change management :** Motivation helps fight the resistance the workforce show against any change in the structure, procedures or processes in the organization. In this dynamic world where the organizations go through constant changes due to the external and internal factors it becomes very important to keep the employees motivated to adjust themselves according to the changes time and again.

5.3 Features and Characteristics of Motivation

Broadly the features and characteristics of Motivation can be stated as below:-

(1) **Psychological Aspects :** Motivation is a psychological inner force that drives an individual to behave or not to behave in a certain way.

(2) **Goal Driven :** Motivation directs human behaviour and action towards a goal. A person gets influenced to work towards it with commitment in order to achieve the desired results.

(3) **Need Driven :** There are some psychological and physical needs that are required to be fulfilled for personal satisfaction. Motivation refers to the drive and effort to satisfy a want or need.

(4) **Motivation can be either positive or negative :** This is also referred to as a carrot and stick approach. In the carrot approach there are positive motivational tools used like a pay rise, incentives, bonus, public appreciation etc. In the stick approach fear is instilled in the person's mind by negative approaches like threat of demotion, reprimand, suspension etc so as to force them to provide desired results.

(5) **Continuous Process :** Motivation is a continuous process and does not end at the satisfaction of a need or want. Once a need is satisfied and the individual progresses in life another need arises and the cycle goes on.

(6) **Complex :** Since motivation refers to psychological aspects of human beings, it is a very complex phenomenon. Human mind is the most complex and dynamic aspect and needs to be handled differently in different situations.

5.4 Tools of Motivation

It is very important for an organization to have a happy and satisfied workforce. A discontented and unmotivated staff may drastically impact the productivity and work relationship of the organization. Hence organizations use different motivational tools to boost the morale of its employees. These can be physical or monetary rewards, or internal and intrinsic that uses psychological measures to enhance the self-esteem of the employees. Some of the motivational tools applied by the organizations are discussed below:-

5.4.1 Job Characteristic Model

This approach basically holds that each job has certain nature and characteristics that combine to create meaningful work. The presence of some of these characteristics can make a job more important and worthwhile than the other. They can be described in terms of five core dimensions as below :

(1) **Skill Variety :** A job at times require a combination of different activities for its successful completion. Each activity requires a different set of skills required for successful completion of the tasks in hand.

(2) **Task Identity :** Is the degree to which completion of a set of tasks leads to an identifiable piece of work for e.g. building a sofa is more complete than attaching legs to a table top.

(3) **Task Significance :** A job is more significant if it has a substantial and direct impact on the lives and works of other people.

(4) **Autonomy :** Refers to the amount of discretion an employee has in deciding how, when and where a task needs to be performed. High autonomy leads to greater responsibility which in turn enhances motivation.

(5) **Feedback :** It is the extent to which the results of an individual's efforts can be directly and clearly measured. A job high on feedback will result in individual being able to get direct information about the effectiveness of his performance

Job Redesign

While redesigning a job, restructuring of tasks, responsibilities and duties is done in order to inspire the employees. The aim is to place the right person at the right job at the same time increasing their satisfaction levels. The process includes increasing the variety of assignments and functions, reshuffling and reforming in order to make the employees feel an important asset of the organization. Below are the various approaches to job redesigning

(1) **Job Rotation :** is a technique where employees are moved between two or more jobs in a planned manner. The jobs generally have the similar skill requirements. Job rotation is carried out when an employee suffers from over routinization of their work that leads to boredom and gradual disinterest which in turn lowers productivity.

Advantages of job rotation are that it increases motivation through diversifying the employee's activities and creates workforce with a wider range of skills. On the contrary it increases training cost and a job suffers

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Check Your Progress

1. Distinguish between intrinsic and extrinsic motivation.
2. What are the characteristics of Motivation?

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inefficiency when a person is posted in a new role.

(2) Job Enlargement : refers to the widening of the range of tasks performed by an employee. This results in reducing monotony as it leads to greater variety of activities and added responsibilities accompanied by adequate training. It is a horizontal restructuring method that results in greater workforce flexibility.

(3) Job Enrichment : Job enrichment enhances the job satisfaction by increasing the level of responsibility and scope. It combines various existing and new tasks into one large module of work. There is more control in the hands of the employees, he enjoys more authority and autonomy while planning and executing.

5.4.2 Alternative Work Arrangements

Apart from job redesigning as a tool to motivate employees there are other ways of motivating them by alternative work arrangements discussed below :-

(1) Flexible work timings : refers to changing the work arrangements and timings of the employees according to their convenience. Some individuals are more charged up and productive in the morning hours, they would like to come to work early and leave early. Hence to suit their comfort levels the organizations asks the employees to work for a specific number of hours in a week, but they are free to vary the time and hours of work according to their convenience within certain limits.

(2) Job Sharing : is another way of motivating the employees in which a single job is split between two people. They can work in two different slots in the same day or can work on alternate days in a week. In one way it leads to flexibility and job satisfaction within the employees but on the other hand it is difficult to find compatible partners who can co-ordinate successfully. Organizations find it beneficial in a way that they can pay for one individual by drawing on talents of more than one individual. But there might be conflict of interests or failure in effective co-ordination between the two employees sharing the job, this might lead to affecting the work relationships and lowering down productivity.

(3) Telecommuting : is the most flexible of all the options where the employee can work sitting at home for certain number of days in a week. It is done on a computer that is linked to their office. But there are specific nature of jobs that can be performed by telecommuting for e.g. writers, analysts, telemarketers, reservation agents who spend most of their time on computers and telephones are best suited for this kind of arrangement. Whereas some jobs that are people oriented and involves meetings of physical examination of the products might not be able to promote the culture of working from home.

5.4.3 Empowerment

It means delegating more power to employees to make their own decisions without the approval of their immediate seniors over areas of their work.

It is not necessary that it is accompanied with a monetary benefit as it is a

psychological tool and helps to boost the self-esteem of the employees. Empowerment encourages employees to become innovators. The employees are supported and encouraged to utilize their skills, ability and creativity by accepting accountability for their work. This concept works when the employees are adequately trained and provided with all the relevant information.

There should be conducive conditions for empowerment. Employees must be encouraged to take control of their work. Superiors must be receptive to the employee's innovative ideas. Trust levels should be high between the employees and the superiors. And there should be frequent feedbacks provided to the employees regarding their performance.

Employees are empowered after carefully identifying how much authority and responsibility they can effectively handle without becoming overburdened or over stressed. The conditions existing in the organization that leads to a feeling of powerlessness should be identified. This can be caused because of various factors like centralized resources, bureaucratic way of working, low task variety etc. Once the reasons are identified, empowering strategies and techniques should be introduced for e.g. delegating responsibility along with authority, tolerance for mistakes committed by subordinates, sharing information with sub ordinates etc.

All of the above measures lead to an enhanced self-efficacy amongst the employees, they tend to become more confident and self-assured. This leads to increased and effective activity directed towards task accomplishment.

5.4.4 Participative Management

Participative management means involving workers in the decision making process, it involves employees or employee representatives at all levels of decision making . The aim is to involve those who are influenced by the decisions in making decisions.

Since the worker gives his time, commitment and energy to the workplace, he should be given a chance to participate in the decision making process. The employee should be given an opportunity to express his views and due importance should be given to them by the management while framing policies.

The various methods of participation are:-

★ Participation at the Board level.

★ Participation through share ownership.

★ Participation through joint councils and committees.

★ Participation through job enlargement.

★ Participation through job enrichment.

★ Financial Participation.

★ Empowered teams.

★ Participation through Collective Bargaining.

Importance and advantages of Participation -

★ It leads to better performance as employees identify themselves with the work better.

★ It gives a psychological satisfaction to the employees, hence they feel motivated.

★ It reduces employees grievances, conflicts and stress resulting in more commitment to goals.

★ It brings a uniformity of approach between the management and the employees.

★ It boosts the employee's self-esteem and increases job satisfaction.

★ It enhances communication between the management and the employees leading to a better relationship and co-operation between them.

★ It introduces industrial democracy and brings stability and prosperity to the business enterprise.

5.4.5 Quality of Work Life (QWL)

It is determined by the environment at the work place. It measures the larger personal satisfaction that the employees are deriving from working in an organization. There are few factors that impact the quality of work life of the employees in a major way. Some of them are stated below.

● **Pay :** An equitable pay, a certain share in the profits to the employees so that they also benefit in case the company progresses is one of the most important factor determining the quality of work life of the employees.

● **Benefits :** Employees nowadays look forward to larger range of benefits much beyond just health and safety.

● **Job Security :** Stability of employment is a very important factor to make an employee feel committed and stay loyal to the organization. Hire and fire policy, lay offs and constantly being at the mercy of the employer is strongly opposed in any organization.

● **Job Enrichment :** Job enrichments enhances the job satisfaction by increasing the level of responsibility and scope. It combines various existing and new tasks into one large module of work. There is more control in the hands of the employees, he enjoys more authority and autonomy while planning and executing.

● **Job Flexibility :** Allowing the workers to change the work timings and arrangements according to their convenience leads flexibility in the workers lifestyle, they can share jobs, work in slots, and work from home whenever possible. They don't feel bound to work at a scheduled time, they can pick up work in their most productive hours and aim to complete certain hours in a week.

● **Other Measures :** Various measures like an atmosphere of trust and open communication, recognition of work done followed by rewards, training and development etc also enhances a workers quality of life.

The different tools by which quality of work life programs can be measured and evaluated are – turnover data, morale surveys, number of grievances handled, absenteeism data etc.

5.4.6 Motivation Through Variable Pay Programs

In order to motivate the employees towards better standards and higher levels of productivity, variable pay programs play a very effective role. If the employees are paid on the basis of time of the job and seniority their drive to excel dies down as they know that they will be paid the same amount even if they work and produce bare minimum results. However if a portion of the employee's pay is based on some individual or organizational performance, it motivates the employees to excel in their performance as their earnings are directly proportionate to their contribution to the organization. Following are the different types of variable pay programs.

- **Piece Rate Pay :** Under piece rate pay an employee receives a remuneration according to the number of units produced or job completed for e.g number of units sold by a sales man. There is no regular fixed income.

  Total wages = output * piece rate. Since the payment is on the basis of result and not the time spent on the job, it helps reduce idle time. It encourages efficient workers as they are able to make more money than the others due to their high productivity levels.

- **Merit Based Pay :** Under merit based pay there are certain criteria for which the performance of the employee is measured and rated. Each individual's pay and promotion is decided based on performance appraisal ratings. Good performers get motivated as they feel that they are being compensated fairly according to their individual contribution to the organization. They are motivated further to keep up and enhance their good work for career growth. It also helps retain to employees as they feel they are being done justice to and they do not get lured by greener pastures outside the organization.

- **Bonus :** Bonus is paid up and above the regular basic salary. It is paid yearly or bi-yearly. Bonus acts as a gesture of appreciation of the hard work put in by the employees that produce great results. It may also be paid to the entire group in case the group is able to achieve the desired goal. This helps to keep them motivated to work together towards a common goal with a healthy team spirit.

- **Profit Sharing :** Under this incentive plan the company divides a portion of its profit in certain pre-determined percentage amongst the eligible employees. This motivates the employees as not only their hard work is being appreciated but they also feel a sense of satisfaction and commitment to the organization. This in turn further increases the employee productivity and morale leading to higher financial gains. This cycle goes on in a way that it becomes beneficial to both the employee as well as the employer.

- **Employee Stock Option Plans (ESOPs) :** Under ESOPs company awards the performance of its employees by giving them shares generally at below the market price . It motivates the employees as it instills in them a sense of ownership and belongingness. Employee's share value grows in proportion to the growth and prosperity of the company hence leading to huge financial gains. It helps the company to retain its business philosophy by selling the shares to its employees rather than to an outside buyer and hence protects the legacy and the culture of the company built by them over the years.

Check Your Progress
1. Explain the factors that have an impact on the quality of work life.
2. What are the various ways through which employees can participate in decision making?

5.4.7 Mentoring

Mentoring is a formal or informal relationship between the two employees, a senior mentor and a junior mentee. Generally the mentor is outside the mentee's chain of supervision. There are various mentoring programs that are undertaken which help in motivating the mentee, boosting his morale, enhancing his career development and increasing organizational productivity.

In the words of B.H.Owens mentoring, " Is a supportive and nurturing relationship between an expert and a notice".

A mentor is a teacher, guide, friend and a great support system to the mentee.

Mentoring helps in skill enhancement, it enables experienced and highly competent staff to pass their expertise to the young professionals who need to acquire skills.

Mentoring helps in mentees career development, it paves a path for them to manage and grow their careers. They also become resilient and self-reliant in times of change.

Mentoring helps develop leadership competencies in the mentee. This is more effectively gained through on job practical examples than in theories.

Mentoring influences staff retention as there are ongoing interactions, coaching, learnings etc.

5.4.8 Employee Counseling

Sometimes employees might face some difficult time and their morale may go down. They might feel demotivated because of several reasons like unrealistic targets, excessive work load, tight deadlines, lack of team spirit, interpersonal relationships, personal or family problem etc . In such cases HR managers, line managers, supervisors take the responsibility of counseling the distressed employee.

In the counseling session the managers sit with the counselee , listens to his problems, addresses the issues, provides feedback and helps the counselee to see a different view point . He further suggests and recommends solutions, reach conclusions, decides the right course of action. Once the corrective action is taken he follows up on the development.

The HR manager stays informed, discusses the issue with the relevant supervisor, schedules a joint counseling session, continuously asks for feedback and monitors development.

5.5 Summary

★   Motivation is a driving force that arouses an individual to work towards a desired goal with intensity, sense of direction and constant efforts.

★   Motivation is very beneficial to the organization as it helps in optimum utilization of all the factors of production, infuses a sence of belongingness and loyaly in the minds of the employees, gives them a sense of direction and encourages them to fight the internal and external changes affecting the organization.

★ There are different motivation tools that organizations use to boost the morale of its employees. These can be physical or monetary rewards, or internal and intrinsic that uses psychological measures to enhance the self-esteem of the employees.

★ Some of the motivational tools are job redesigning that aims at changing or enhancing the job activities and tasks of an employee's job to keep him interested and excited to perform better, It provides alternatives work arrangements that suits the convenience of the employees. It empowers them by giving them a sense of authority, involves them in decision making.

★ Encourage mentoring programs to give them a sense of direction and provides couselling in times of distress to its employees.

5.6 Key Terms

★ **Motivation**: It is a driving force that arouses an employee to work towards a desired goal with intensity, sense of direction and constant efforts.

★ **Job Redesigning:** It refers to restructuring of tasks, duties and responsibilities of an employee.

★ **Job Enlargement:** It refers to widening of the range of tasks performed by an employee.

★ **Job Enrichment:** It aims at enhancing the job satisfaction of the employees by increasing their level of responsibility and scope.

★ **Empowerment:** It means delegating more power to employees to make their own decisions.

★ **Participative Management:** It means involving workers in the decision making process, it involves employees or employee representatives at all levels of decision making.

★ **Quality of Work Life:** It measures the larger personal satisfaction that the employees are deriving from working in an organization. It is determined by the environment at the work place.

★ **Employee Stock Option Plans (ESOPS):** Under ESOPs company awards the performance of its employees by giving them shares generally at below the market price.

★ **Bonus**: It is paid to employees in terms of money up and above the regular salary. It is a motivational tool used to enhance productivity of an individual or team.

★ **Staff Retention:** It refers to the ability of an organization to retain its employees. A number of efforts are made by organizations to retain employees.

★ **Mentoring :** It is a formal or informal , supporting and nurturing relationship between the two employees, a senior mentor and a junior mentee.

5.7 Questions and Exercises

(1) Define motivation and state its benefits.

(2) Explain the job characteristic model and throw a light on how the different job redesigning tool help in motivating the workforce.

(3) Explain the given below concepts :

- Empowerment

- Participative Management

- Mentoring

- Counseling

(4) What are the three different ways by which job can be redesigned? Give an example where one method would be favored over the other.

(5) What are the different alternatives work arrangements that an organization can resort to. How do they help in enhancing the motivation level of the employees?

(6) How do the variable pay programs help in motivating employees? Explain in detail the various variable pay programs.

5.8 Further Reading and References

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UNIT 6   PERFORMANCE APPRAISAL

Structure

6.0 Introduction

Job evaluation is the process of determining the relative worth of a job based on the job content. It analysis how important is a job in comparison to other jobs. It helps in ranking the job and determining grading and pay structures for various jobs. It helps in creating agreed differentials in the organization. It does not evaluate the job holder instead it evaluates the job. It is different from job analysis in a way that it not only examines the contents of a job but it also weighs its worth in achieving the overall organizational growth in comparison to other jobs.

6.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the concept of job evaluation and performance appraisal.

★   Explain the difference between job evaluation and performance appraisal.

★   Describe the objectives of performance appraisal and the basis on which the

employees are appraised.

★ Describe the step by step performance appraisal process.

★ Understand the problems and challenges faced during performance appraisals.

★ Illustrate the essentials of an effective performance appraisal.

★ Describe in detail the various methods and techniques of performance appraisal.

★ Understand the 360 degree performance appraisal process and discussing its benefits that has made it so popular in today's scenario.

6.2 Performance Appraisal : Concept and Definition

Performance appraisal works towards measuring the performance quality of the job holder. After the candidates are recruited, selected, placed and trained they are given certain standards to maintain and targets to achieve over a predetermined period of time. Performance appraisal evaluates the job holders performance over a period of time against these standards and targets.

Other areas in which the performance of the employees is evaluated are initiative, team work, dependability, integrity, judgment, decision making etc. It also provides a feedback to the employee about how well is he performing a job. It further focuses on employee development and establishes a plan for improvement in the future.

According to *Dale Yoder*, "Performance appraisal consists of all formal procedures used in working organizations to evaluate personalities and contributions and potentials of group members".

Edwin Flippo has stated the concept of performance appraisal as, ``Instead of rating an employee on characteristics such a dependability, initiative and the like, there is now a tendency towards establishing job goals and appraising the work done towards these goals."

6.3 Job Evaluation Vs. Performance Appraisal

(1) Job evaluation measures the value or worth of a job whereas performance appraisal evaluates the performance quality of the job holder.

(2) Job evaluation is not done as regularly as performance appraisal. Performance appraisal is an ongoing process and repeated after a particular time period.

(3) The aim of evaluating a job is to create a pay scale for a job in comparison to other jobs in the organization. Performance appraisal is carried out to determine incentives, rewards, promotions or demotions of the employee.

(4) Job evaluation is carried out by specialists in the area while performance appraisal is mostly carried out by the supervisor.

6.4 Objectives of Performance Appraisal

According to *Lockett* (1992), performance management aims at developing individuals with the required commitment and competencies for working towards shared meaningful objectives within an organizational framework.

Performance Appraisal is undertaken to evaluate the performance of their employees and make them reach higher standards of performance. It also helps in creating a framework for the development of the employees by assessing the gap between the performance standards and the standards set for the successful job completion. Below are the main objectives of performance appraisal

(1) *Pay Rise* **:** Performance appraisal can be used as a yardstick to decide upon the pay raises and other benefits to be given to an employee. The main purpose of performance appraisal used for compensation decision is that increment in salary should be based on the employee performance and merit rather than seniority. This keeps the employee motivated.

(2) *Promotions* **:** Since it evaluates the employees on the basis of their merit and performance quality it helps in taking decisions regarding the promotions and job change of the employees.

(3) *Feedback System* **:** It acts as a feedback platform where the employee can be made aware of how well he is performing the job, his strengths and weaknesses can be discussed. He can also be advised how can he improve his present performance and his growth plan in the organization can be discussed.

(4) *Training and development program* **:** After performance appraisals, gaps between the standards achieved by the employees can be measured. Employees can be informed about the skills they need to develop for improving their current performance or for further promotion or pay raise. Training and development programs can be designed accordingly.

(5) *Improves Supervision :* Since performance appraisal happens periodically it becomes important for the supervisor to observe their subordinates closely and continuously so as to give a clear and proper feedback at the time of performance appraisal.

(6) *Career Planning :* Performance appraisal facilitates career planning for the employees. Their strengths and weaknesses are analyzed and discussed. The areas where they have a potential to grow are identified which helps the management in human resource planning.

(7) *Healthy and Productive work environment :* Since the achievements and hard work of the employees are identified and awarded there is a sense of satisfaction amongst the workers. They are motivated to achieve higher standards and quality of output in order to gain more appreciation, incentives and bonuses etc.

(8) *Improves communication* **:** Performance appraisal is a continuous process. It timely provides a format for dialogue between the supervisor and the

subordinate. It gives a platform where they can freely talk about their personal goals and concerns. It helps in improving the relationship and trust between the supervisor and the subordinate.

6.5 Basis of Performance Appraisal

Basis of Performance Appraisal- The performance appraisal is based on scrutiny of certain factors. The basis of Performance appraisal standards may include the following

(1) Knowledge about the job

(2) Quantum of work

(3) Quality of work

(4) Ability to plan, organize, delegate and control

(5) Cost consciousness

(6) Use of discretion and judgement

(7) Initiative

(8) Leadership skills

(9) Power of expression and communication- written or verbal

(10) Personality traits

　★　Integrity

　★　Adaptability

　★　Dependability

　★　Loyalty

6.6 Performance Appraisal Process

Performance Appraisal Process should be comprehensive and should contain of a well thought step by step approach of evaluating the performance of the employees. Below are the steps that are generally followed which results in an effective performance appraisal.

Objectives of performance appraisal
↓
Job analysis and Job description and establishing performance standards
↓
Communicate performance standards to the emplyees
↓
Measuring actual performance against the standards set
↓
Discussing the appraisal with the employees
Taking corrective actions if necessary
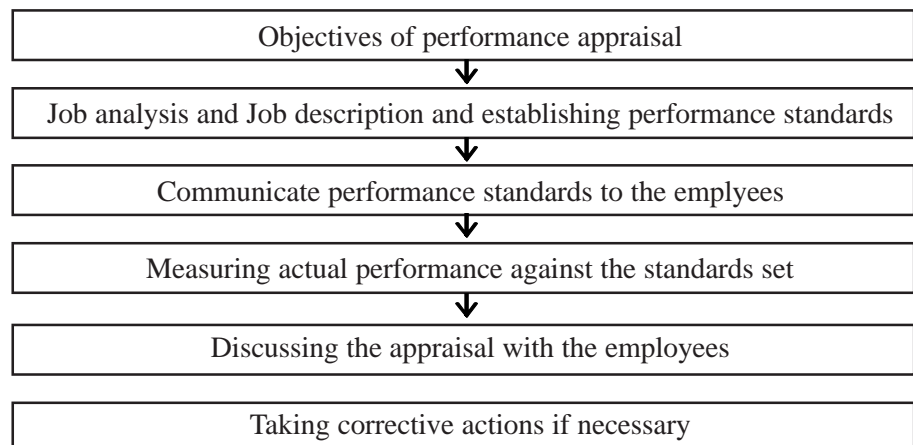
(1) **Objective of performance appraisal :** Appraisals can be carried out for various reasons. These reasons might include deciding the pay rise and other benefits, promotions or demotions, job transfers or even layoffs. In above cases some appraisals may be required to merely assess the performance while others might aim at improving the performance.

(2) **Job Analysis :** Job specification and establishing performance standards-Job analysis is the second step to the performance appraisal process. It is important to determine the job specifications i.e the precise characteristics of a job through in depth and detailed examination of the activities, tasks, duties and responsibilities that are required to do the job. Once that is decided, performance standards are set against each task and activity. It is very important that the performance standards are clear and measurable.Goals behind each task of the job should be mentioned. Each goal should be achievable and measurable within a certain time and cost consideration.

(3) **Communicate performance standards to the employees :** Job description should be very clear to the appraiser and the appraisee, they should know very well what all tasks and duties are expected out of them by clearly understanding the goal behind each task. Performance standards should be communicated to the appraisee, their feedback should be taken on the set targets and standards, the communication needs to be a two way communication where it should be open to any doubts or discussions and the appraisee should be coached and guided by the appraiser on how to achieve the performance standards effectively.

(4) **Measuring actual performance against standards set :** After setting up the performance standards, communicating them to the appraisee and mutual acceptance is the next step to measure the actual performance against the standard set. The performance can be measured objectively and subjectively through reports, information and observation by the supervisor etc. While doing this the influence on the employee performance of both external and internal factors is also considered.

Objective performance can be measured through reports, quantitative output etc and hence are easy to be verified. Subjective performance measure mainly depends on the observation and feedback by the supervisor and evaluates a person on his attitude, decision making, taking initiatives, contribution to the soci-cultural values of the organization etc.

(5) **Discussing the appraisal with the employees :** The actual performance when compared to the standards might at times be above the expectation and sometimes it might go off the track and the same is discussed with the employees.

(6) **Taking Corrective actions if necessary :** Once the deviation from the actual performance is measured corrective actions are taken to help enhance the performance of the appraisee so that and he meets the expected standards. The appraiser may coach or guide the appraisee on how to overcome his

shortcomings and improve his quality of work wherever he is lacking, he might also nominate him for training programs where he finds a gap between the skills of the appraisee and the skill required to perform the job. In worse cases where there is lack of interest or initiatives from the appraisee's end, he might also be scolded or warned to get his act right from immediate effect. Similarly on above expected performances the employee is rewarded using different motivational tools.

6.7 Problems in Performance Appraisal

There are various problems and challenges faced in Performance appraisal. Some of them are illustrated below :

(1) Judgment Error

Since the rating of an employee depends on the opinion and perception about him held by his senior or supervisors it may suffer from subjectivity and bias in many forms which are discussed below :

(a) **Halo effect :** Under this influence if the rater aptly rates the employee as excellent in one quality he tends to further give him higher than deserved rating in other qualities for e.g excellent scoring in communication skills might influence the rater to give excellent scoring in coordination skills even if the employee is not so good at it.

(b) **Horn effect :** This is the reverse of Halo effect. In case the employee is a poor performer of low ranker in a certain quality that might influence the rater to give him lower than deserved rating in other qualities for e.g the employee rarely smiles so he does not possess good interpersonal skills as well.

(c) **Influence of first impression :** At times the first impression of the candidate in the appraiser's mind lasts forever and in turn influences his opinion and ratings for all the subsequent behavior of the candidate.

(d) **Leniency :** This error leaves the entire performance appraisal exercise redundant. As the appraiser is reluctant in giving low scores to the employees depending on his state of mind at the time of appraisal. He might hesitate to rank an employee very low on the scale in case the others have achieved a high ranking.

(e) **Central tendency :** In order to play safe and in the fear of being disliked by his subordinates, managers might end up rating all the employees as average performers regardless of the differences in their performance levels.

(f) **Stereotyping :** Under this the supervisors may end up generalizing the behavior of the subordinates on the basis of their age, sex, religion,caste etc. They have a preconceived notion about such images and they might end up overestimating or underestimating the employees.

(g) **Recency effect :** The most recent behavior of the employee is so fresh in the

mind of the appraiser that it influences his rating for the entire evaluation period.

(h) **Consequence of appraisal :** If a poor appraisal result leads to damaging the career of the employee that appraiser may refrain himself from doing so.

(2) Inappropriate appraisal methods and forms

The methodology used and the forms filled for the appraisal of the employee impacts the effectiveness of the performance appraisal to a great extent. The forms may be too vague, long and complex. It might cover areas that are not important criteria of the job in question etc.

(3) Lack of training

The appraiser might not be properly trained to conduct an effective performance appraisal. He might not possess a sense of proper judgment or decision making skill or suffer from low confidence and poor communication skills. On the functional front he might not have the understanding and knowledge of the areas on which he is ranking his subordinates. They need to be properly trained before they can carry out performance appraisal of the employees.

(4) Ineffective implementation of performance appraisal

When the rater provides a feedback about the employee after a thorough performance appraisal process, it might not be well accepted by the management. If low rating by the rater is perceived as a negative sign of failure at the part of the rater of discontented employee the rater might lose interest in performance appraisal of the employees and might award them satisfactory rating despite their poor performance. To avoid such situations the raters immediate supervisor must approve the rating so that the management gains confidence in the feedback.

6.8 Essentials of an Effective Performance Appraisal

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(1) **Reliable measures :** In order to achieve consistent and valid results and information from a performance appraisal system it is important to use reliable measures to quantify all observations and reports to rate an employee's performance. The methods used for appraisal should be such that it produces the same results even if undertaken by different raters. The information produced should be valid and reliable so that if needed it can be used to defend the organization even in legal challenges.

(2) **Standardization :** There should be well defined criteria, appraisal procedures and rating systems to appraise the employees. There should be standard reports and administration of techniques that should be used while appraising an employee. This results in uniformity and allows comparison of ratings between two employees in a group.

(3) **Just and fair :** Employee performance appraisal is done on objective and subjective measures. It should be made sure that there is no bias or favoritism

while ratings are decided by the supervisor. It should be fair, accurate and supported with evidence and examples. Anybody who provides opinions used for subjective performance rating should make sure that it is just and fair with no personal bias involved.

(4) Viability : The technique should be realistic in terms of its implementation and cost involved. It should not be too theoretical or ambitious and should be able to present a clear picture of the employee's performance.

(5) Clear objective : The key to an effective appraisal is the establishment of appraisal objectives behind the performance appraisal being undertaken. The appraisals can be conducted for various reasons which can be for determining the potential for higher jobs, deciding annual salary increment etc. The appraisal process should be objective oriented for effective results.

(6) Trained appraisers : An effective outcome of the performance appraisal process highly depends on how well is the evaluator or the appraiser is trained in conducting a performance appraisal in an efficient manner. The training should cover all the elements of appraisals such as values, objective settings, observation and data gathering skills, conducting post appraisal interviews, documenting appraisals etc. They should also be given training in philosophy and psychology so that it can help them make it an educative process.

(7) Educative process : The aim of any performance appraisal should be improving employee performance and employee development which in turn enhances organizational effectiveness and helps to accomplish organizational objectives. They should act like a guide or a coach rather than a judge. They should not be harsh on the employees who are a vital part of an organization rather they should identify the problem areas and work towards finding corrective measures along with the employee.

(8) Feedback and participation : Main purpose of performance appraisal is to make the employee aware of his performance levels, strengths and weaknesses and areas that require improvement. Just providing feedback is not enough, it should be made sure that it should be a two way communication process. Both the appraiser and the appraisee should be actively involved in the goal setting process, it helps planning performance better. The appraisee's opinion should be given weightage at each level of the appraisal process and he should be coached and guided by the appraiser at each step.

(9) Confidential : Appraisal results should be handled as a private and confidential information. In order to maintain healthy competitive atmosphere in the organization only people with an approved need to know should have access to an employee's performance appraisal results.

6.9 Methods and Techniques of Performance Appraisal

There are several methods of performance appraisal that can be broadly classified into

- Trait Based Method
- Result Oriented Method

Trait Based Method

It adopts a qualitative approach towards performance appraisal. Under this method the different traits and qualities of the employee are measured, the behavior they adopt while performing a job is evaluated. The focus is more on qualities like attitude, leadership skills, reliability, dependability etc rather than performance achieved. The various trait based methods of performance appraisal are discussed below :

(1) **Confidential Reports :** It is a traditional form of appraisal method where a descriptive report about an employee's strength and weaknesses is submitted by the immediate superior. This appraisal method is mostly used in government organizations and is generally conducted yearly. There are many drawbacks in this method and hence it is not applied in today's scenario.

★ The feedback provided by the superior is very subjective and can be at times unfair and biased.

★ There is lack of sense of direction in the employee's mind as he is not provided any feedback about his performance.

★ It does not lead to any development of the employee as the employee doesn't get to know about the areas where he has a poor performance neither is he guided for corrective measures.

(2) **Straight Ranking Method :** It is one of the oldest and simplest technique of comparative evaluation of employees. It is the process in which all the employees of a group are ranked one after the other starting from the best performer to the poorest performer depending on the overall performance level of the employees. This process is simple but has its own limitations like

★ It at times lacks fairness and can be biased since it is very subjective.

★ Ranking employees one after the other is a difficult task, it is easy to choose the best and the worst employee but ranking all individuals in between is different as they all may possess varied behavioral traits.

★ There is no systematic ranking procedure that can lead to standard results.

★ It is very difficult to be conducted where it is a large group consisting many employees.

★ The magnitude of difference in the performance levels and ability between two consecutive ranks may vary a lot. For e.g the difference between the first and second individual may be much greater in absolute terms than the difference between the second and third individual.

(3) **Paired Comparison Method :** This is a slight variation and extension of Straight Ranking Method. Under this method each employee is first compared to all the other employees in the group. Once all the possible comparisons are done on the basis of the overall performance, they are given a final ranking. If there are four employees A,B,C and D in a group then A's performance will be compared to all

the other three i.e B,C and D and it will be decided as to whose performance is better, the rater puts a tick mark against whose performance is better than the two and final ranking is determined by the number of times that person is judged better than the other , the same process will be repeated for all the other three employees B,C and D. The number of comparisons that are to be made amounts to N(N-2) where N stands for the number of persons to be compared. Hence the number of comparisons to be made in the above example are 4(4 -1)/2.

This process is very time consuming it increases the number of comparisons to be made hence it is not viable when the group is very large.

Paired Comparison Ranking Table	Placing + in the cell means employee is considered better and **-** sign means worse than the other employee					
AS COMPARED TO	A	B	C	D	E	Total Ranking
A		-	-	+	+	3
B	+		-	+	+	2
C	+	+		+	+	1
D	-	-	-		+	4
E	-	-	-	-		5

C gets the highest number of plus and that's why the highest ranking, similarly E gets the lowest number of plus and hence the lowest rating.

(4) **Critical Incident Method :** Under this method the critical incidents or events and the behavior associated with these incidents and events are evaluated. The main objective of this rating system is to appraise the people who can perform well in critical situations as under normal situations almost all the employees perform alike. It helps to identify the potential employees who can perform better under critical situations for e.g How a manager handles the situation in the case of sudden disturbance by workers will reflect his leadership qualities.

It has its own shortcomings e.g there is a greater chance of noticing the negative incidences over the positive ones, also the managers may be too busy to make a note about a critical incident or it may require close supervision that may not be liked by the employees.

(5) **Checklists and weighted ChecklistMethod :** Under the method the supervisor indicates the behavior of the employee by responding to a set of descriptive questions. There is a list of questions that are prepared by the personnel department which relate to the behavior of the appraisee concerned. Each question has two alternatives yes and no , below are few examples

★ Is he/she punctual?   Yes/No

★ Is he/she Regular?   Yes/No

★ Does he/she respects his/her superiors and colleagues?   Yes/No

★ Is he/she willing to help other employees?   Yes/No

Further extension to this approach is a weighted checklist method where more weightage may be given to those questions that are more important .The weightage given to the questions becomes very subjective at it suffers from the bias of the evaluator. Below is a snapshot of how the behavioral traits can be assigned weights.

Weighted Checklist

Traits		Weights
(1)	Attendance	0.5
(2)	Knowledge of the job	1.0
(3)	Quantity of work	1.0
(4)	Quality of work	1.5
(5)	Dependability	1.5
(6)	Interpersonal relations	2
(7)	Organizational loyalty	1.5
(8)	Leadership potential	1.5

(6) Essay Evaluation : This is a non-quantitative and less structured approach. It is an open ended description of the strengths and weaknesses of the employee being appraised. It throws a light on the employee's inherent potential and his knowledge about the area of his job, his interpersonal skills and his relations with the co-workers and the supervisors. It may also describe his managing, controlling and organizing skills along with his ability and readiness to undertake company's programs, policies, objectives etc. This technique may suffer from evaluator's bias as it can become highly subjective. Comparison of two essay appraisal is also not possible due to variation in their content. It might not present the correct picture due to the poor writing skills of the evaluator.

(7) Graphic Rating Scale : This method is commonly used for performance evaluation where a graphic scale is established which measures different degrees of job related characteristics and qualities present in the employee. A specimen of graphic rating scaling is given below.

Employee name   ……………..   Job Title   ……………

Department   ……………..

	Excellent	*Good*	*Average*	*Poor*
Quality of Work				
Dependability				
Confidence				

Evaluators are given a form with series of questions regarding employee traits and performance. Along with these questions is provided a continuous scale measuring the different degrees of quality which is ticked by the rater. The scores are tabulated which indicates the relative worth of each employee. The advantage of rating scale is that different statistical tools and tabulations can be applied to derive important information about the employee's performance levels. The drawback is that it can be highly subjective in nature at times.

(8) Grading Method : Under the grading method the performance of the employees is measured against some predefined grades such as A,B,C,D etc. These grades may indicate different standards which are well defined in advance for e.g A indicates 'outstanding' i.e the best, D indicates 'poor' i.e the worst and B and C in the middle indicates 'good' and 'average' respectively.

(9) Field Review Method : To avoid subjectivity and bias in the appraisal of an employee field review method is adopted. Under this method a trained and skilled representative of the HR department works closely with the supervisor and asks them to provide specific information regarding the employee performance i.e his strength and weakness, work progress, promotion potential etc. Working in consultation with the HR specialist leads to a more reliable performance appraisal.

(10) Forced Choice Method : This system is adopted to avoid subjectivity and the tendency of the rater to give consistently high or low ratings to the employees. The rater will be given a group or series of statements out of which he will have to choose the one that best describes the characteristics of the employee being evaluated. The choices may consist of both negative and positive statements for e.g

(1) Smart worker

(2) Is not proactive

(3) Can be a leader

(4) Wastes time on unproductive things

All or some of the statement choices given might aptly describe the employees but the rater is forced to tick only one which appears to be more descriptive of the employee

(11) Man to Man Comparison Method : Under this method there is comparative analysis done for each employee against the other. A scale for each factor e.g leadership quality, initiative etc is developed. The standards on the scale are set not in terms of numbers, alphabets or descriptive objectives but in terms of persons of varying ability. Thus a scale of men is created for each trait. In rating an employee the rater looks at this scale and compares him with the persons on the scale.

(12) Behaviorally anchored rating system : This is a rating system that combines the techniques used in the critical incident method and weighted checklist rating scale. There is a behaviorally anchored rating scale created where the critical incidents serve as anchors to traditional rating scales. It is considered to be a superior performance appraisal method as it gives more accurate rating of a person's

performance or behavior. Below are the steps used in creating the BARS.

- Critical incidents are identified by job holders or supervisors and they describe specific examples of effective and ineffective behavior related to job performances.

- The above data derived is then sorted and clustered into set of key performance dimensions. Further the various levels of performance for each dimension is defined which can be scaled in terms of excellent, good, average or poor performance.

- Then a group of subject matter experts are referred to, they go through the key performance dimensions and come to an agreement for each.The behaviors for which there is not a high level of agreement (often 50–75%) are dropped, others with a high level of agreement are retained.

- The retained behaviors are then scored either on a one-seven or one-nine scale where one represents ineffective performance whereas the top score indicates very effective performance.

- The standard deviation criteria is applied where behaviors with low standard deviation are retained while behaviors with high standard deviation are discarded.

- The final BARS instrument consists of all the behaviors that are retained after the subject matter experts agreement and which fulfill the standard deviation criteria.

BARS is considered to be a more accurate and reliable performance appraisal methods as experts are also involved in its creation. It also requires considerable employee participation and is thus very well accepted by both the superiors and the subordinates. On the other hand it turns out to be very time consuming expensive as expert advice is required. Also it is more activity oriented than result oriented, hence it evaluates the employees who are performing the activity without giving any attention to whether they are achieving the goals or not.

Result Oriented Method

Under the result oriented method of appraisal employee's performance is studied and examined both in terms of quality and quantity. Actual performance levels are measured rather than depending on the subjective feedback or ranking by the supervisors. The result oriendted method of appraisal also known as management by objective is discussed in detail below :

(1) **Management By Objective (MBO) :** In 1954, Peter Drucker coined the term Management By Objective. It is a technique in which measurable goals are set by joint effort of senior and subordinate and the contribution of each individual is measured in terms of their accomplishment of the goals. The goals set in MBO are not unilaterally set by the superior or imposed on the subordinates. These identified goals are set in close consultation with subordinates. MBO is an autonomous and participative style of management. The concept has become popular these days as a rewarding style of
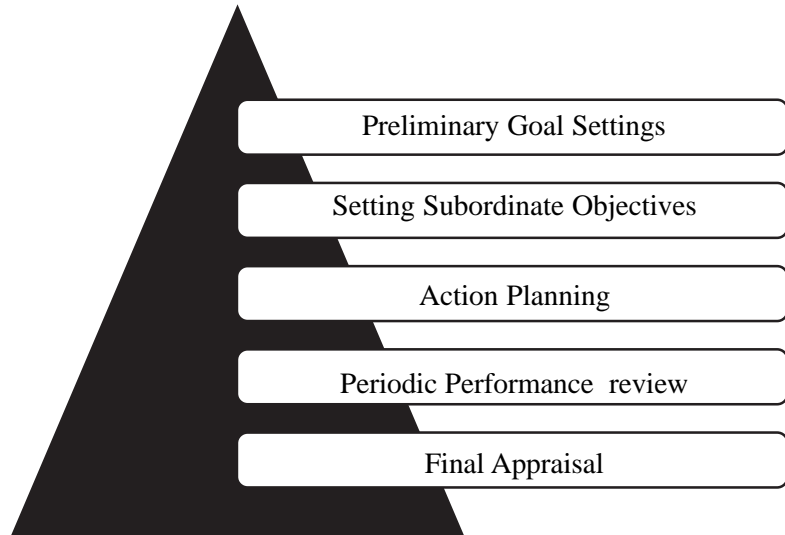
management. It focuses concentration on the achievement of objectives through partaking and involvement of all concerned persons.

6.9.1 Process of Management by Objectives

The basic assumption behind such a philosophy is that when people are aware of the expectation from them they align their personal goal with the organizational goal and can perform better. Further the joint goal setting, superior-subordinate participation and support from superior to subordinates are the important characteristics of MBO. This improves employee morale and motivates them.

Preliminary Goal Settings

Setting Subordinate Objectives

Action Planning

Periodic Performance review

Final Appraisal

(1) Preliminary goal settings: the initial stage in the process of MBO is to identify the organizational objectives. The top management generally in consultation with other managers determines it. The important aspect in determining these is identifying "Key-Result Areas' (KRA). Once these goals are identified they must be shared with other members.

*(2) Setting specific performance objectives***:** the organization goals can only be achieved if they are divided amongst the individuals and every individual performs the given task. Therefore every individual should be informed about the task that is expected from them. The subordinate should be consulted before providing with the resources for performing the task. The resources provided should be proportionate according to the goals. Goal setting is a two way process it is not imposed on the subordinate by the superior. Superior suggests a goal to subordinate and subordinate accepts it.

(3) Development of action plans: after the goals are set, action plans are developed to bring the things into force. Procedures are formed for achievement of set goals**.** Under MBO the subordinates and superior jointly and interactively perform a given task. The superior gives suggestion and the subordinates perform. The objectives are so formed that every objective accomplished at lower level contributes to the fulfillment of the greater goal. For the evaluation of key areas check points are also established.

(4) Periodic performance review: at specified time interval evaluation of the work is done with joint participation to identify shortcomings or deviations

if any. Subordinate and superior sit and discuss about the problems area identified   Feedbacks and suggestions are made available for the potential development. The main purpose is to improve the quality instead of focusing on criticism.

(5) Final appraisal: at the end of the year, performance of the individual is evaluated on the basis of task completed. The standards which are set are compared with the actual. The actual work is evaluated based on which the appraisal or rewards of the subordinate is decided.

6.9.2 Importance of Management by Objectives

(1)   Helps in reducing wastage of resources as the resources are provided in proportion to goals set.

(2)   Helps in making planning effective with the help of action plans and result oriented planning.

(3)   The subordinate is able to relate his goals with organizational objectives and feels proud of his contribution towards the organizational objectives

(4)   Induces team spirit with democratic and participative style of work.

(5)   It gives subordinate valuable feedback through the system of periodic evaluation. The employee becomes aware of his progress and can take timely corrective action if he is lacking somewhere.

(6)   Induces employee morale as their participation is given due consideration. Also the rewards are according to the contribution which raises their morale.

(7)   It acts an a effective tool of self-control as every individual knows what is expected out of him, which helps in self-regulation.

6.9.3 Limitations of Management by Objectives

(1)   Rigidity : the problem is that it sometimes fails to incorporate prevailing trends and the current scenario of the organization.

(2)   Goal Setting : which criteria should be given more preference quantity or quality? The goal should be long term or short term, these are various issues confronted while setting goals. Sometimes overemphasis on measurable goals can neglect crucial qualitative goals like job satisfaction.

(3)   Time consuming : setting up of goal that are measurable and that too in participative style requires a lot of time. Instilling confidence, deciding on tasks all these require a lot of time. The process of evaluation and performance appraisal involves considerable paper work and time.

(4)   Unhealthy environment : sometimes more emphasis is laid on work rather than improving the quality which produces lot of pressure and unhealthy competition between work group.

(5)   Participation problem : at times to avoid wastage of time, superior do not consult subordinates and set the goals authoritatively which loses the essence of the process.

(6)   Managerial skill : Some managers may not be very good at human skills. They may not be effective in motivating and leading people towards the

Check Your Progress

1. Discuss the essentials of an effective performance appraisal.
2. Differentiate between trait based appraisal and result based appraisal.

goal. The subordinate may not get necessary guidance and counselling during the process.

6.10 Introduction of 360 Degree Performance Appraisal

360 Degree Performance Appraisal

A 360 degree performance appraisal is used to judge the behavioral aspects of performance of the managers. These are the aspects that all people related to the manager in the professional space can comment on. Feedback is taken from the manager being appraised, peers and sub ordinates by asking them to answer a questionnaire covering different aspects of expected performance factors. In this system the subordinate can unburden themselves from the fear of negative rating by them as the feedback is offered anonymously.

It is very prevalent in today's scenario. Corporations like Aditya Birla Group, SBI, Thomas cook etc are all using this tool to get a much real picture of their managers and the prevailing company culture. Below are the benefits of 360 degree feedback system:-

6.11 Benefits of 360 Degree Performance Appraisal

(1) **Larger and balanced picture of individual performance :** It gives a much balanced view about person's performance as there are multiple feedbacks received. If a number of people say the same thing then it is harder to ignore it. It is advantageous in a way that it is not dependent on just one person's subjective opinion.

(2) **Effective in causing behavioral change :** If the same feedback is provided by different employees for the manager being appraised, it is a sort of evidence that is difficult to ignore. When such feedbacks are communicated to the managers, they are resolved to make changes in their work methodology whenever required.

(3) **Reveals unique information :** Since 360 degree feedback is taken anonymously it unburdens the subordinates and peers from giving any negative feedback about the team leader. Similarly it removes the blockage in the minds of the managers who are reluctant to give any positive feedback about the subordinates.

(4) **Helps identify development needs :** It gives an insight in the organizational framework, efficiency and culture. It helps identify the development needs which other methods fail to identify.

(5) **Promotes self-directed learning :** 360 degree feedback system makes the managers aware of the deep seated problems in their working approach. They get to know their peers and subordinate's perception about them vis a vis what they perceive about themselves. Such overwhelming evidence brings an inner drive in the managers for self-directed learning and improvement.

6.12 Summary

- Job evaluation is the process of determining the relative worth of a job based on the job content whereas performance appraisal works towards measuring the performance quality of the job holder.

- Performance appraisal solves many purposes and can be used for deciding compensation, pay rise, training and development needs, results in better supervision and career planning of the employees etc. It is based on the factors like the quantum and quality of work by the employee and his personal traits like reliability, dependability, loyalty etc.

- A step by step process of performance appraisal is undertaken in which the objectives of performance appraisal is defined , performance standards are set and communicated to the employees. The actual performance standards are measured against the standards set and corrective measures are undertaken whenever necessary.

- There are different methods that are adopted for performance appraisal which can be broadly classified into trait based method and result oriented method. Trait based method is a qualitative approach for e.g straight ranking method, paired comparison method, critical incident method and weighted checklist method etc. Result oriented method focuses more on the quantitative output by an employee e.g management by objectives.

- 360 Degree performance appraisal is very prevalent in today's scenario and corporations where performance appraisals are used to guide the behavioral aspects of performance of the managers.

6.13 Key Terms

- **Job Evaluation**: It refers to the process of determining the relative worth of a job in relation to other jobs in an organization.

- **Performance Appraisal** : It works towards measuring the performance quality of the job holder.

- **Promotion** : It refers to giving a higher position to the employees which gives them more responsibility with higher status.

- **Halo Effect** :A judgment error in which the rater aptly rates the employee as excellent in one quality tends to further give him higher than deserved rating in other qualities

- **Horn Effect**: This is the reverse of Halo effect. A low rank in a certain quality of the employee might influence the rater to give him lower than deserved rating in other qualities.

- **Central Tendency**: A form of judgment error during performance appraisal in which managers might end up rating all the employees as average in order to play safe and in the fear of being disliked by his subordinates.

- **Recency Effect :** Refers to the error in judgment during performance appraisal where the most recent behavior of the employee is so fresh in the mind of the

appraiser that it influences his rating for the entire evaluation period.

- **Trait Based Method**: It adopts a qualitative approach towards performance appraisal that involves measurement of different traits and qualities of the employee, the behavior they adopt while performing a job is evaluated.

- **Result Oriented Method**: Under the result oriented method of appraisal, employee's performance is studied and examined both in terms of quality and quantity.

- **Management by Objectives**: It is a technique in which measurable goals are set by joint effort of senior and subordinate and the contribution of each individual is measured in terms of their accomplishment of the goals.

6.14 Questions and Exercises

(1) Job evaluation and performance appraisal both aim at achieving organizational goals but are different in their approach. Elaborate.

(2) Describe the detail process of Performance Appraisal.

(3) Evaluate the objective and purpose of performance appraisal in an organization. How can it be made more effective?

(4) Explain the problems faced in the performance appraisal of employees.

(5) Explain the concept of Management by Objectives. Also throw some light on its importance and limitations.

(6) Explain the step by step process of Management by Objectives.

(7) Why is 360 degree feedback system being commonly adopted by the corporates in today's scenario?

(8) Write short notes on the following methods of performance appraisal.
   (1) Straight Ranking Method
   (2) Paired Comparison Method
   (3) Critical Incident Method
   (4) Weighted Checklist method
   (5) Forced Choice Method

6.15 Further Reading and References

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UNIT 7   COMPENSATION MANAGEMENT

Structure

7.0 Introduction

Compensation is one way or the other reward given to the employees by the employer in return to their services or contribution to the organization. It plays a very significant role in human resource management because it helps in attracting, retaining & motivating the employees. Compensation is the key deciding factor for any employee to take up a job offer or stay loyal to the current job. Compensation of an employee decides his standard of living, his position in the society and in turn reflects his loyalty, motivation levels etc. It also helps in improving organization efficiency. Compensation also helps in maintaining coordination between work & employee relationship by providing them monetary & non monetary benefits. In other words, compensation can be defined as the monetary worth given to the employee by the employer in return of their service to the organization.

Employees are provided compensation in three different forms:

(1) Pay- Provided in the form of periodic wage & salary.

(2) Benefits- Provided in the form of medical facility, insurance facility, recreational benefits etc.

(3) Incentives- Provided in the form of bonuses, commissions etc. to award the good performers.

7.1 Unit Objectives

After studying this unit, you should be able to-

★ Understand the concept of compensation.

★ Describe the objectives of compensation planning.

★ Explain in detail the various factors that influence the compensation planning in an organization.

★ Describe the characteristics of a desirable wage plan.

★ Understand in detail the different methods of wage payment.

★ Describe the different wage theories, wage structure and wage policies in detail.

★ Understand the various incentive plans followed by the organizations.

★ Explain the concept of bonus and fringe Benefits.

7.2 Objectives of Compensation Planning

As we have already discussed that compensation is very important part of an organization therefore, we must consider certain objectives before planning for compensation to the employees. These are as follows:-

(1) **Internal & External Equity :** The employees should be paid in accordance to the services delivered by them. In internal equity if an employee is performing a difficult or more complex task he should be paid more in synchronization with his contribution to the organization. Absence of interal equity can lead to discontent amongst the employees and an unhealthy work environment .In external equity an employee's job should be fairly reimbursed to the similar jobs in the market.In the absence of which the employees might leave in the hunt of greener pastures.

(2) **Attract Quality Candidates :** Quality candidates are in demand in every organization . In order to attract and retain them the compensation offered by an organization needs to be high enough to retain them. Organization should offer higher salaries which will motivate the talented candidates to apply.

(3) **Retain Employees :** Nowadays there are ample opportunities available to the candidates in the market hence the most challenging task of an organization is to retain its employees. If the organization wants to retain the

efficent employees it should maintain an effective level of compensation. If the level falls employees can switch to other organizations.

(4) Cost Control : a good organization always ensures that their employees are neither paid too less nor too much.Both the situations are harmful to the organization. They should always he paid in proportion to the services provided by them. The organization should also take care that the cost of recruiting new talents is not too high.

(5) Comply with Legal Rules : while giving the compensation to the employees government policies and rules should also be kept in mind regarding minimum wage, allowances, benefits, bonus etc..

(6) Ease to Understand and Operate : The compensation planning should be easy to understand and operate.It should be comprehensive and clear and the employees, managers and union should be able to refer to them with ease.

7.3 Factors Influencing Compensation Planning

(1) Job level and needs : If the level of job is high or the task to be performed is difficult and complex in nature employee will be given higher compensation. Also there are certain tasks that need a specific and unique skill set and knowledge that will end up demanding a higher compensation. If the task is simple and of routine nature and very less efforts are required to perform it, it will attract less compensation.

(2) Organizations ability to pay : The profits earned by an organization will influence the amount of compensation to be paid. There are certain products and services that lead to higher profits, company's manufacturing such products and providing such services will be able to pay high salaries to its staff. Less compensation will be given during the time of losses.

(3) Supply of the labor in the market : The compensation administration is always affected by the demand & supply condition of labor in the market. When the demand for a specific type of labor is more & supply is less, the organization is forced to pay high rate of compensation in order to meet its requirements. Where as, when the demand for a specific type of labor is less and its supply is more, the organization offers minimum amount of compensation.

(4) Cost of living : Cost of living is an important factor in determining the salary of the employees especially at the time of rising prices. As the cost of living rises the real wage declines which directly affects the employee purchasing power. A portion of employee's compensation is kept in a variable form by the organizations such as dearness allowance because of the change in cost of living. That portion is fixed on the basis of existing cost of living and changes when cost of living changes.

(5) Productivity : Due importance is given to the productivity of labor in the organization as it relates to the reputation of the organization. If the employee is performing good or he is highly productive he will be paid more and if the

employee is less productive he will be paid less amount of compensation. This is termed as merit based payment where the wages are paid on the basis of the quality of work, rather than on seniority.

(6) Prevailing market rate : These provides the basis for comparing the compensation rates of one industry with that of the other. If there are two industries of the same nature offering different compensation rates, employees will always be attracted towards the one offering higher compensation rates. In this case it will become difficult for the organizations to retain potential employees.

(7) Trade Union's bargaining power : If there is powerful trade union in the organization the compensation rates will be high. But if these unions are disorganized and are not united, management can take advantage of it. Management can easily lower down the compensation rates. These unions's can even go for strikes and lock out to get their wages increased.

(8) Attitude of the management : The attitude of the management should be positive towards providing compensation to the employees. If any employee is doing better job he should be entitled to a fair amount of compensation but if the employee is not doing a good job he should be given lesser compensation. The management should be impartial and unbiased towards providing compensation.

7.4 Types of Compensation

Compensation is the pay given by the employer to the employee for the services provided by him. It can be given in the following three types:-

(1) Base Pay : It is the basic compensation given to the employee by the employer. It is given either in the form of wage or salary. Base pay is further classified into two namely Hourly Base pay and Salaried Base Pay. Hourly base pay is given to the employee on the basis of time. Employees paid hourly receive wages, which are calculated on the basis of number of hours worked in a day in an organization. Whereas, salaried base pay is given on the basis of nature of the job. It can be given weekly, fortnightly or monthly. It is fixed in amount regardless of the number of hours worked. Those who get salary are considered higher in status than those who get wages.

(2) Variable Pay : It is the direct compensation given to the employee which is not fixed but variable in nature. It is given as per the individual, team or organizational performance. The amount of variable pay to be given depends on the quality of work that is produced. Variable Pay is given in the form of bonus, incentives, holidays, cash kind etc. It is a one time payment as it is always re-established and re-considered before next performance period.

(3) Benefits : Benefits are indirect in nature. These are not given in the form of cash.. These are given to the employees or group of employees regardless of their performance. Examples of benefits are health insurance, retirement, pension etc.

7.5 Characteristics of a Desirable Wage Plan

(1) Flexible : A wage plan should be made flexible so that the necessary changes can be made at any time as when required. A flexible wage plan should not involve excess of administrative cost in it.

(2) Equitable : There should be equal distribution of wages. Every employee should be given wages on the basis of number of hours worked or number of units produced. Their wages should be in proportion to their contribution to the organization.

(3) Cost-Effective : A good wage plan always ensures that it is utilizing its cost in a proper and economical manner. It should not involve excess of operative and administrative cost.

(4) Certain : Every desirable wage plan should be certain. There should not be any kind of ambiguity. It should be clear enough to create the confidence in the mind of the workers that they are getting fair amount of wages.

(5) Balanced : Wage payment should be made impartial. On the basis of the job evaluation of the employees they should be given wages.

7.6 Methods of Wage Payment

There are two types of wage payment system:

(1) Time Wage System

(2) Piece Wage System

Time Wage System

In this system wage payment is made on the basis of time spent on the job. The wages given depends on a certain period of time. The period of time may be an hour, a day, a week, a fortnight or a month. It is calculated by the sum total of numbers of hours worked multiplied by the hourly rate. This is the oldest and the most common system. Time wage system is very suitable when it is difficult to fix the standard time for doing a job. For example, Akshay an employee of a company works 9 hours a day and his standard rate per hour is Rs. 7. His total wage will be 9*7= 63 Rs.

Here,

Wages = No. of hours worked * Rate per hour

Features of time wage system

★ It gives more importance to the quality of work.

★ It involves complicated production process.

★ It requires high degree of skilled workers.

★ It involves more mental work than administrative work.

Advantages of time wage system

(1) Easy to Understand : Time Wage System is very simple and easy to understand. Workers can easily calculate their wage on the basis of time and

rate per hour. It reduces the chances of misunderstanding between workers and management.

(2) ***Quality of Work :*** Here quality of work is of much importance than the quantity of work to be done. Product quality is maintained under this method because workers are paid on the basis of time spent on the job, therefore they take time and produce better quality product.

(3) ***Less Damage of Machinery & Equipment :*** As workers give their required time to complete the job, therefore there is no need to speed up the operation. The task is performed with an ease. Machinery and equipments can be used very safely.

(4) ***Equal Wage Distribution :*** Workers are distributed according to equal wages if they are working for a similar job and for the same number of hours or time. This avoids the jealousy and difference between the workers. This ultimately helps in smooth functioning of the organization.

(5) ***Feeling of Security :*** Workers feel more secure under this method because they know in advance what will be their total wages at the time of completion of the job. They can plan their personal expense in advance and can avoid all the doubts and confusion in this regard.

Disadvantages of time wage payment

(1) ***Inefficiency of Labor :*** There is no link between the wage distribution and the productivity of the work. The workers can any time slow down the speed of the work because of their inefficiency in performing a particular task.

(2) ***Constant Supervision :*** Supervisors will need to check the workers at a regular interval. To maintain the productivity strict supervision is required. Close supervision will ensure better productivity.

(3) ***Lack of motivation :*** There is no difference between the efficient and the inefficient workers. They both are treated in the same manner. No extra incentives or encouragement is provide to the workers. A worker feels less motivated and works in his regular routine.

Piece Wage System

Under this system wage payment is made on the basis of the output of the work. Wage payment is made on the basis of amount of work completed or the numbers of units sold. Workers will take only average time to complete their job because time is not an essence here. A worker's individual skill and efficiency will be judged in this system and he will be paid on the basis of his speed of the work. The more units of a product he will produce, more wages he can earn. For example, Vishal an employee of a company produces 20 units at a time and a rate per unit is 10. Therefore, his wages will be 20*10 = Rs. 200.

Here,

Wages = No. of units produced * Rate per unit

Features of piece wage payment

★   It increases the productivity of the workers.

★   It involves more physical work than mental work.

★ It can easily measure the quantity of production.

★ It also includes the quality control system to keep a check on quality.

★ It uses standardized method of production.

Advantages of piece wage payment

(1) ***Encourage efficient workers :*** It encourages the efficient workers to produce more because they will be paid higher wages in comparison to inefficient workers.

(2) ***Provide motivation :*** There is direct link between the wage distribution and productivity. It will motivate the workers to generate more output and increase the productivity. The workers producing more output will be given higher wages.

(3) ***Transparency :*** This system ensures the complete transparency between wage distribution and productivity. Workers producing more will get more wages, workers producing less will get less wages.

(4) ***Less cost of supervision :*** In order to get the rewards for better performance, workers work very hard by their own. No supervisor is required to watch over them. No strict supervision is required to increase the productivity.

(5) ***Economical :*** The total unit cost of production comes down with larger output because the fixed overhead burden can be distributed over a greater number of units.

Disadvantages of piece wage payment

(1) ***Low quality :*** If the wages are distributed on the basis of output, workers will produce more to earn more wages. This will lead to increase in quantity but the quality of the product will be sacrificed. There should be close inspection to safeguard the quality.

(2) ***Unequal wage distribution :*** Workers doing same nature of job do not get the equal wages irrespective of the time spent by them because in this method wages are paid on the basis of units produced not the time taken.

(3) ***Health hazards :*** In order to get more units produce and more wages paid workers try to complete their job in eagerness and take themselves to the extreme level of exhaustion. In this method health of the workers suffers to some extent.

(4) ***More wastage :*** The workers to get more output speed up their work which requires speeding up of machinery. This will lead to wastage of fuel, power, material etc. There are also chances of breakdowns, accidents, frequent alteration in work in progress resulting in great loss to the organization.

7.7 Wage Theories

(1) Subsistence Theory by David Ricardo (1772-1823) : This theory was given by David Ricardo also known as the "Iron Law of Wages". According to this theory price of labor depends on survival of labor. Under this theory if the wages are

increased above the subsistence level, the supply of labor will increase which in turn will bring down the wages to the subsistence level. Similarly if the wages go below the subsistence level there may be loss of labor due to hunger, disease, malnutrition etc , this will in turn bring back the wages to the subsistence level.

There are certain assumptions of this theory which are as follows:-

- Demand for the labor is stable.
- Supply of labor is infinitely elastic.
- The size of labor increases or decreases depending on the survival wage paid to them.
- Same wages are paid to all the workers.

(2) Wage Fund Theory : According to this theory a fund of capital is accumulated in advance which is devoted to payment of wages to labor, This fund is alterable as it depends on the saving and the increase in wealth of the organization. The wages received by each labor depends on the amount in the wage fund and the number of workers amongst whom the fund amount needs to be distributed as wages

Assumptions of the theory :

- The Wage rate is flexible as it depends on factors like the fund amount and number of workers.
- Wages depend on the demand and supply of labor.
- Less emphasis is made on the efficiency and productivity.

(3) Surplus Value Theory by Karl Marx (1818-1883) : This theory was introduced by Karl Marx. Under this theory workers did not get the full compensation for the work done by them. The value of commodity produced is determined by the investment of time and energy by the labour involved in making that commodity. In the capitalist environment labourer offers his services to the organization in order to produce a commodity but in response to it he gets a small portion of the profit. The remaining profit goes to the organization he is working for.

Assumption of this theory :

- Full compensation is not paid to the workers.
- Labor is treated as a commodity.
- Applies to the unorganized sector.

(4) Marginal Productivity Theory by P H Wicksteed and J B Clark : This theory was propounded by P H Wicksteed and J B Clark. The price paid to a factor is income to it while it is cost to the organization. The point of equilibrium reaches at that point where the price paid to a factor is equal to its marginal productivity. In case less units of factors are employed the cost is less than the productivity. Thus in such a case more units of factors of production needs to be employed to increase productivity and profit and reach the equilibrium. Similarly if the number of factors employed is more the cost will be higher than the productivity. Hence the aim is to reach the equilibrium as its then when the organization is making the maximum profits where the cost of an additional factor employed will be equal to the marginal revenue.

Assumptions of the theory:-

- Resources are fully utilized.
- Factors of production are homogeneous.
- Production factors are mobile.
- There exists perfect competition.

(5) Residual Claimant Theory by Francis A Walker (1840-1897) : This theory was given by Francis A Walker. This theory is purely based on the four factors of production namely land, labor, capital and entrepreneurship. This theory suggests that after all the factors of production except human resources have received their contribution from the production value the amount of capital left over will go to the workers as wages. Hence wages are calculated on the basis of value of production after deducting rent, interest and profit.

(6) Bargaining Theory of Wages by John Davidson : This theory was introduced by John Davidson. In this theory wages are determined by the relative bargaining power of workers, trade unions and the employers.

Assumption of the theory :

- Applies in organized sector.
- Workers are paid more if the union is powerful & vice versa.

7.8 Wage Structure and Wage Policy

It is a policy that defines the structure of wages to the workers in an organization. Under this policy guidelines are defined by the government in regard to wages and salary system of the nation. In an organization there are workers working on different grades and their wages are different on the basis of their grades. Wage policy is that wage structure in which various pay scales showing ranges of pay with in each grade are defined. Pay structure in India generally consists of the following components :

(1) Basic Wage

This is the foundation of the pay structure, it constitutes the payment for the service rendered by the worker over a period of time. It varies according to the requirements of the job measured by job evaluation like skills and experience required, difficulty of work,responsibilities involved etc.

Wage policy in India covers the below statutory wages

(a) Minimum Wage : These wages are fixed by the government. These wages should be enough to provide the workers the basic amenities of life. Minimum wages are sufficient to sustain and preserve the efficiency of workers. These wages must be invariably paid to every worker irrespective of the fact that the company is small or big, profitable or not . If the organization can not pay the minimum wages they do not have the right to exist.

Minimum Wages should be able to cover the below aspects as per the Statutory standards laid down by the government.

● Standard working class family should be assumed to comprise of three consumption units for one earner.

● Minimum food requirements should be calculated as per the standards laid by the government.

● Clothing requirements should be estimated as per the statutory parameters

● Rent component should be accommodated.

● Lighting, fuel and other expenditure should constitute 20% of the total minimum wage.

(b) Fair Wage : These wages are more than the minimum wages but less than the living wages. These wages are fixed by the employers. According to the Committee on Fair Wages – " while the lower limit of the 'fair wages' must obviously be the minimum wage, the upper limit is set by the capacity of the industry to pay. Between these two limits, the actual wages will depend on:

● The productivity of labour.

● The prevailing rates of wages.

● The level of the national income and its distribution.

● The place of the industry in the economy of the country.

(c) Living Wage : The amount of living wages is proposed by the government and the highest of all. It aims at maintaining the wellbeing of the workers in a particular society by providing him certain amenities up and above the necessities of life. It focuses on improving the standard of life of the employees According to the Fair Wages Committee, "the living wage should enable the male earner to provide for himself and his family not merely the bare essentials of food, clothing and shelter but also a measure of frugal comfort including education for children, protection against ill-health, requirements of essential social needs and measure of insurance against the more important misfortunes including old age."

(2) Dearness allowance

Dearness Allowance is paid to neutralize the impact of inflation. It is paid as a percentage of an employee's basic salary to enable them to face the increasing price of the essential commodities. Instead of increasing the base pay. It is beneficial to provide dearness allowance as it is flexible and can fluctuate.

7.9 State Regulation of Wages

State Regulation of wages refers to an attempt by the government to regulate wages paid to the citizen. These are legally binding and mediated through a state appointed judge or magistrate.

(1) Minimum Wage Act, 1948 : Under this act Central and State governments have been given jurisdiction in fixing wages .This act was introduced to protect the

interest of workers by providing them the minimum wages to avoid chances of exploitation of labor by underpaying them for their effort. It binds the employer to pay their workers the minimum wages under the act from time to time.

(2) Payment of Wage Act, 1936 : This act was introduced to curb all the malpractices like nonpayment, short payment, irregular payments or deductions due to unjustified reasons.. This act was introduced to help the employees who were facing problem in getting their salaries and were exploited by the employer. The main objectives of the act were as follows:-

(a) To ensure the regular payment of wages.

(b) To ensure the right amount of wages to be paid.

(c) To avoid the unnecessary deduction of wages.

(d) To eliminate all the mal practices involved.

(3) Collective Bargaining : Collective bargaining is a negotiation between employers and employees in relation to the terms of employment. In collective bargaining representatives of both workers and employees sit together and discuss the terms of their employment. They discuss the matters like wages, hours, working condition, bonus, retirement benefits, terms and conditions of services. The collective bargaining helps in establishing regular and stable relationship between parties involved.

(4) Wage Boards : Wage Boards are tripartite in nature comprising of representatives of workers, employers and independent members who participate in finalization of compensation related recommendation. Wage Boards are the committee determining the fair wages for the workers in an industry or a region. Wage Boards define a standardized wage structure under the social and economic policy of the government. Below are the functions of Wage Boards.

(a) Helps in bringing employer and employee to a mutual agreement.

(b) Helps in building better relationship.

(c) Defines matters pertaining to dispute between employer and employee.

(d) Determining wages to be paid to employees.

(5) Pay Commissions : Pay commissions are the administrative system set up by the government of India to determine the salaries of the Central government employees. It constitutes a panel of members of the union cabinet in India There are six pay commissions set up by the government in India till now.

7.10 Incentive Plans

Incentives are given to the workers both in monetary and non-monetary terms over and above their wages. These are provided to them for their exceptional performance over a period of time. It rewards productive employees in order to motivate them and retain them in the organization. This in turn results into increased efficiency and better performance at the work place. Some of the incentive Plans are discussed below.

7.10.1 Individual Based Incentive Plans

(1) Taylor's differential Piece Rate System : This plan was defined by F. W. Taylor. He was the father of scientific management. In his view, efficiency of each worker is different form the other. Efficient workers should be paid greater incentives than the inefficient workers.Time and motion study is used to define the standard task and two different piece rates are set up. Workers performing more or equal to the standard performance will be given high piece rate but the worker failing to reach the standards will be given low piece rate.

Merits

(1) It is simple and easy to understand.

(2) Efficient workers can be easily identified.

(3) Inefficient workers can be easily eliminated.

(4) Time and motion study is used to identify the standard task.

Demerits

(1) Under this method minimum wages to the workers are not guaranteed.

(2) Do not provide better quality work.

(3) Workers are treated in a very unsympathetic way because of their inefficiency.

(4) Workers are treated as machinery rather than human beings.

(2) Merrick's differential Piece Rate System : This system is a modification of Taylor's plan. Under this plan Merrick defines three piece rates. One was for beginners, second for the developing workers and third for the highly skilled workers. Under this method workers tries to improve their efficiency. Every worker wants to reach the third piece rate. These piece rates are defined as follows:-

Up to 83% - Ordinary Piece Rate.

83 – 100% - 110% of ordinary piece rate.

Over 100% - 120% of ordinary piece rate.

Merits

(1) This plan is very flexible.

(2) It provides wages on the basis of efficiency of the workers ranging from beginner to highly skilled labor.

Demerits

(1) Does not guarantee minimum wages to the workers.

(2) Better quality work is not achieved.

(3) Halsey Plan : This plan was introduced by F. A. Halsey. On the basis of past performance records a standard time for completion of work is fixed. Workers who complete their job with in the standard time or more than the standard time are given guaranteed wages. Where as, workers who completes their job in less than the standard time is rewarded with the 'bonus', which is calculated on the basis of time saved.

Merits

(1)   Easy to understand.

(2)   Motivates the workers.

(3)   Extra wages can be earned by efficient workers.

Demerits

(1)   Only 50% of the wages paid for the time saved.

(2)   Attention is not paid on the quality of the work.

(4)   Rowan Plan : It was introduced after Halsey plan. It is a modified form of Halsey plan and was given by James Rowan. In this plan a standard time is determined in advance, and minimum wages are guaranteed to every worker, this helps the slow workers and they are not made to suffer. To further reward the efficient workers bonus is calculated as that proportion of wages which is the time saved based on standard time.

Thus if a 25 hrs job is done in 20 hrs and if the hourly rate is Rs.20, the total earning of the worker will be :-

Bonus= (Time saved * Time Taken) / ((Time saved/Time allowed)* hrs worked*rate per hr)

i.e   20 * 20 + ((5/25)*20*20)= 400 + 80 = 480

Merits

(1)   This plan is good for beginners

(2)   Workers are not forced to complete the work speedily

Demerits

(1)   Lower incentives at higher production level.

(2)   Efficient and inefficient workers cannot be identified.

(5)   Gantt task and Bonus Plan : This system guarantees minimum wages on the basis of time. Fixed time rates are guaranteed. Every worker gets the minimum wages according to this plan, but if any worker completes his task in less than the standard time or stipulated time, he gets hike in his wage rate. This hike is given to him in the form of percentage bonus.

Merits

(1)   This plan ensures minimum wages to all the workers.

(2)   Workers feel more secured under this plan.

(3)   Incentives are also provide to the efficient workers.

(4)   Proper planning and supervision is done under this plan.

Demerits

(1)   Due to very high standards very few workers earn bonus which leads to dissatisfaction.

(2)   Very focused attention is needed to be paid during fixation of time rate and standard time.

(6) **Bedeaux plan :** In this plan B's represent the standard minutes for every operation. A worker gets his wages as and when he completes his job in standard time. If his actual performance exceeds standard performance in terms of B's then out of his total wages 75% of wages of time saved is paid to the worker as bonus and 25% is given to the foreman. This is done considering the fact that a worker cannot show good result without the co-operation and proper direction from the foreman.

Merits

(1) Higher productivity from workers.

(2) Since foreman receives 25% of the increased wages, he is motivated to get higher productivity from the workers.

(3) Minimum wages are always guaranteed even if the work is not completed in stipulated time.

Demerits

(1) Incentives are not easy to calculate under this plan and workers find it difficult to understand.

(2) It might leave the workers disappointed if the bonus is shared by the foreman.

7.10.2 Group or Team Based Incentive Plans

There are certain industries and work processes where the output from each individual cannot be accurately measured for e.g electrical industry etc. Hence in such cases the group or team output is measured and group or team based incentive plan is applied. Team based incentive plans follow the same principles as the individual incentive plans discussed above, the only difference is that here it is paid to a group of people for the output they produce. Amongst all the individual incentive plans the piece-work system is the most commonly used in the team based incentive plan. The total incentive awarded to the group may be divided amongst its members equally if the skills possessed and the contribution made by each member is similar. If the members of the group possess unequal skills and the contribution made by each individual varies then the sharing of incentive will be divided in proportion to their individual contribution or a specified percentage. The advantages and disadvantages of group incentives are as below

Merits

(1) It encourages cooperation and team spirit amongst the employees.

(2) Less supervision required due to motivated teams.

(3) Since they work collectively for a common goal there is reduced absenteeism in the team.

(4) The members in the team are more helpful towards each other as the better performance of the other will lead to higher incentives for all , hence the need of training is less.

Demerits

(1) Due to difference in the efficiency levels of the workers an efficient worker may have to suffer due to the inefficiency of the other.

(2) Unhealthy competition and relations between the members of the group may defeat the very purpose of team work.

7.10.3 Organization Wide Incentive Plan

When the organization is growing and is successfully running profitable business it can decide to adopt organization wide incentive plans. These incentive plans not only instills a feeling of belongingness in the minds of the employees, it also increases their commitment and loyalty towards the organization. Below are the three types of organization wide incentive plans

(1) Profit Sharing : In this plan a particular portion of net profit is agreed to be paid to the deserving employees. On the basis of certain service qualifications and service conditions the employers agree to pay a certain portion of their profits amongst the deserving employees.. This profit can be shared in the form of cash or shares. It leads to instilling a sense of belongingness in the employees and increases their loyalty and commitment towards the organization. It starts a cycle of improved organization performance. It increases the motivation levels of the employees and they work more efficiently producing better results which in turn increases the shares of the workers. Hence it benefits both the organization and the employees simultaneously

(2) Gain Sharing : Under this plan a comparison of a standard performance is made with the actual productivity in a given time period. When the productivity exceeds the standard set, then a portion of the savings made is shared with the employees. These gains are shared on a monthly or quarterly basis on the extent to which the standard is exceeded. Since it is spread across a large number of employees it helps in inculcating team spirit and cooperation amongst the employees as they all work towards a common goal.

(3) Employee Stock Ownership Plan : This plan was originated in U.S.A but has still not gained so much popularity in India. Under this plan eligible employees are allowed to buy the shares of a company at a reduced rate. The eligibility may depend on the duration of service in the organization, the position held in the organization etc. The employees can pay for the shares in installments or they can be paid in advance as deductions from their salary every month. Since they become the part owners of the company they contribute their best and then enjoy the resultant gains in terms of increased share value held by them.

7.11 Bonus

Bonus is the extra payment or incentives made to the workers over and above their standard wages after a specific time period. Bonus is given in the form of gift to employees or workers. Many firms declare bonus at some special time period like at

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Check Your Progress
1. Explain Residual Claimant theory by Francis A Walkar.
2. Distinguish between minimum wage and living wage.
3. What are merits and demerits of group based incentive plan?

the time of Diwali, at the time of New Year or any other special occasion.It reflects the desire of the employer to share with his workers the surplus generated with common efforts.

Payment of Bonus Act, 1965

This act was introduced to provide the payment of bonus to the persons who are employed in a certain establishment on the basis of profit or productivity and the matters concerned there with.

Applicability

★ The act is applied to every factory which is established under the Factories Act, 1948.

★ The act is also applied to all those establishments where 20 or more persons are employed on any day in an accounting year.

★ Any employee receiving salary or wages upto 10,000 p.m. (for calculation purpose Rs 3500 p.m maximum will be taken) is eligible for Bonus.

★ The employee should have worked in an establishment for not less than 30 days in an accounting year.

★ An employee is entitled to get maximum 20% and minimum 8.33% of bonus of salary and wages.

★ An employee will not be entitled to get the bonus if he is dismissed from his job because of reasons like conduct of fraud, misbehaving in the office premises, theft etc.

Mode & Time of Payment

Bonus will be paid in cash and with in 8 months from the close of an accounting year. Bonus is Payable only annually.

7.12 Fringe Benefits

Fringe benefits refers to various extra benefits such as gratuity, medical care, accident relief, health & group insurance, canteen facilities, recreational facilities etc that are provided up and above the compensation paid in terms of salaries.

7.12.1 Need of Fringe Benefits

Fringe Benefits act as a very necessary motivational tools, It helps to retain the employees by increasing the sense of commitment and loyalty in them. Below are the factors that make fringe banefits an essential part of compensation planning.

★ **Motivate the employees :** when employees are provided with the benefits in addition to their standard wages and salary, they feel motivated and work with more dedication for the organization. In order to get the full efficiency of workers to be utilized it becomes very necessary to keep them motivated.

★ **Enhance employee performance :** benefits provided to the employees also helps in increasing the productivity of the organization. Employees will put their best efforts when they know their performance will be viewed and they

will be paid more for their good performance. They also feel the drive to perform to their maximum potential when they feel that they are being taken care of by the organization.

★ **Employee demands :** sometimes in an organization employees demand very high salary if they are not paid with any type of essential benefits. In that case also fringe benefits should be paid so that they can raise their standard of living and feel satisfied from the organization. This will make them stay for long in an organization.

★ **Trade union demands :** if the trade unions of an organization are very powerful it becomes difficult for the company to deal with them. They can demand for unnecessary hikes and if their demands are ignored they can go for strikes and lock outs which will affect the reputation of the company. In that case it is very important to satisfy the trade unions of the company and provide such benefits time to time.

★ **Improve relations :** fringe benefits will also help in improving relations in the organization. It helps in harmonizing the relationship between employer and employee, employee and management and employer and management also. Better relationship will leads to better working of the organization. In this way objectives of the organization can be achieved efficiently and effectively.

★ **Provide social security :** employee security is a very important factor, which needs to be considered in every organization. If employees are not secured with in an organization, they can at any time switch to other organizations. With such benefits employees will feel more motivated & connected with the organization.

7.12.2 Types of Fringe Benefits

Mentioned below are the various types of Fringe benefits that can be provided to the employees of an organization.

(1) **Payment for time not worked :** This is a sort of benefit where the employees salary is not deducted on his absence from the work.Sick leave pay, vacation pay, paid rest and relief time, paid lunch periods, grievance time, bargaining time, travel time, paid holidays, less hour worked all these kind of benefits are provided under this category.

(2) **Employee security :** confirmation of job to employees gives the big relief of security. Employees should be provided with job security. Security should also be provided to employee's family members. Minimum and continuous wages or salary should be assured to secure their job.

(3) **Retrenchment compensation :** 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.

(4) Lay off compensation : employees in case of lay off will be entitled to get 50% of total of the basic wage and dearness allowance for the period of their lay off except for weekly holidays.

(5) Safety and Health : it is the responsibility of the employer to ensure better working conditions to the worker and protect their health. Safety measures should also be provided. Few of these measures include cleanliness, disposal of waste, lighting, drinking water,clean urinals, and spittoons, fencing of machinery or near machinery in motion, easing of new machinery, pressure plant, safety of buildings and machinery etc.

(6) Health benefits : The employees are offered medical cover schemes which they can use in times of their ill health . It is also extended at times to the dependent family members. These benefits include sickness benefit, medical benefit, temporary disablement benefit, permanent disablement benefit, maternity benefit etc.

(7) Welfare and Recreational facilities : Since long hours of work may become very monotonous and stressful the employees should be provided welfare and recreational facilities that can be easily approached and enjoyed at a reasonable price such as canteens, consumer stores, credit societies, housing, legal aid, employee counseling, welfare organizations, holiday homes, educational facilities, transportation, parties and picnics.

(8) Old age and retirement benefits : Benefits covered under this plan are provident fund, pension. deposit linked insurance, gratuity, medical benefits, deferred income plans, travelling concession to retired employees etc.

7.13 Summary

- Compensation can be defined as the monetary worth given to the employee by the employer in return of their service to the organization. It plays a very significant role in human resource management because it helps in attracting, retaining and motivating the employees.

- The main objective of compensation management is to maintain Internal and External equity, be able to attract quality candidates and help retain employees, comply with the legal rules etc.

- Factors that influence the compensation planning of an organization are its ability to pay, job levels and needs, labor supply in the market, cost of living, trade union bargaining power etc.

- Compensation can be broadly divided into Base Pay, Variables and Benefits.

- There are two methods of wage payment i) Time wage system and ii) Piece Wage system. Under Time wage system payment is made on the basis of time spent on the job. Under Piece wage system payment is made on the basis of the output of the work.

- The wage policy in India is based on the principles of equal pay for equal work, living wages for all workers, payment of statutory bonus as per the statutory standards etc.

- Incentives are given to the workers both in monetary and non-monetary terms over and above their wages. These are provided to them for their exceptional performance over a period of time. There are various individual based incentive plans , group or team based incentive plans or organization wide incentive plans that are applied as per the need of the situation.

- Bonus is the extra payment or incentives made to the workers over and above their standard wages after a specific time period.

- Fringe benefits refers to various extra benefits such as gratuity, medical care, accident relief, health and group insurance, canteen facilities, recreational facilities etc that are provided up and above the compensation paid in terms of salaries.

7.14 Key Terms

- **Compensation :** It is one way or the other reward given to the employees by the employer in return to their services or contribution to the organization.

- **Variable Pay :** It is the direct compensation given to the employee which is not fixed but variable in nature. It is given as per the individual, team or organizational performance.

- **Benefits :** Benefits are indirect in nature and are not given in the form of cash. These are given to the employees or group of employees regardless of their performance.

- **Wage:** It is a fixed regular payment to workers earned for work or services, paid on a daily or weekly basis.

- **Minimum Wage :** These wages are fixed by the government. Minimum wages provide the workers the basic amenities of life that are sufficient to sustain and preserve the efficiency of workers.

- **Fair Wage :** These wages are more than the minimum wages but less than the living wages that are fixed by the employers.

- **Living Wage :** The amount of living wages is the highest of all wages and aims at maintaining the wellbeing of the workers in a particular society by providing him certain amenities up and above the necessities of life.

- **Time Wage System :** Is a wage payment system in which the wages are calculated on the basis of time spent on the job.

- **Piece Wage System :** Under this system wage payment is made on the basis of the output of the work. Wage payment is made on the basis of amount of work completed or the numbers of units produced.

- **Dearness Allowance :** It is paid as a percentage of an employee's basic salary to enable the employees to face the increasing price of the essential commodities.

- **Bonus :** It is the extra payment or incentives made to the workers over and above their standard wages after a specific time period.

- **Fringe benefits :** It refers to various extra benefits such as gratuity, medical care, accident relief, health and group insurance, canteen facilities, recreational facilities etc that are provided up and above the compensation paid in terms of salaries.

- **Gratuity :** It is the lump sum amount of money that a company pays to its employee after a certain period of time as an acknowledgement of the employee's loyalty to the company.

7.15 Questions and Exercises

(1) What do you understand by compensation? What are the main objectives of compensation management?

(2) Describe the various factors that influence compensation planning of an organization.

(3) What are the two different methods of wage payment? Explain along with advantages and disadvantages of each.

(4) Write short notes on :
  - ★ Rowan Plan
  - ★ Living Wages
  - ★ Subsistence Theory

(5) What are the different types of Fringe Benefits? Explain the need of Fringe benefits in an Organization.

(6) What is Bonus? Describe the features of Payment of Bonus Act 1965.

(7) Explain in detail Organization Wide Incentive Plans.

7.16 Further Reading and References

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UNIT 8   EMPLOYEE DISCIPLINE

Structure

8.0 Introduction

Discipline means an orderly behavior to be followed by the individual, team members and groups within an organization to achieve the ultimate objectives. It is true for every organization that in order to maintain harmonious industrial relations strict need for following certain rules and regulations or following a proper code of conduct arises. This will help an organization to prosper and grow. The purpose of the disciplinary process is that the organizational members/Employees work together as a team to achieve organizational goals.

In other words, we can define discipline as a strength that prompts individual and groups to study the rules, regulations and procedure which are supposed to be necessary for the successful functioning of an organization. It simply means working, co-operating and behaving in a normal and orderly way, as any responsible person would be expected to do.

In the words of *R. D. Calhoon,* "Discipline is a force that prompts individuals and groups to observe rules, regulations, standards or procedures deemed necessary for an organization". Without discipline gradually an organization becomes unprofitable. It is unable to complete its projects in time, meet deadlines or keep promises. Slowly the organization loses goodwill in the market. This impacts the profitability of the business to a huge extent.

8.1 Unit Objectives

After studying this unit, you should be able to-

★ Understand the concept of employee discipline.

★ Describe the types of discipline.

★ Explain the factors that causes and lead to indiscipline in the workplace.

★ Describe in details the various disciplinary actions taken as corrective measures.

★ Explain the steps involved while taking disciplinary actions.

★ Describe the features of an effective disciplinary action.

8.2 Types of Discipline

Discipline is a tool that is used to maintain the performance of the employees by changing their behavior whenever required. It can be enforced in the employees both positively and negatively. Positive discipline is healthier and more constructive and is always preferred over negative discipline. Negative discipline should be considered as a last resort when everything else fails, below discussed are the two types of disciplines-

(1) **Positive Discipline :** It is also known as constructive discipline or self-discipline. Under this aspect of discipline employees support all the rules, regulation and procedure made by the management and follow them. It helps the employees to mold their behavior and develop it in a corrective and supportive manner. It encourages self-discipline among the employees. It does not involve any kind of punishment and penalties. Positive discipline takes place in situations like appreciating an employee, payment of adequate remuneration, providing training etc.

(2) **Negative Discipline :** This is also known as corrective discipline or punitive discipline. When the employees do not want to follow the rules, regulations and procedures in the organization, they are forced to stay under the rules and policies of the organization by the way of punishments. Negative discipline helps in extracting only the standard performance from the employees. Employees always feel demoralized with this type of discipline. Punishments, penalties, demotions, warning and transfers are some of the ways of getting work done by the employees.

8.3 Causes of Indiscipline

Indiscipline at the work place can take place as a result of various socio-economic and cultural factors prevailing at the workplace. Discussed below are some of the factors that greatly impact the mindset of the employees and motivate or demotivate them to comply with the rules and regulations.

(1) **Ineffective leadership or supervision :** When the leader or supervisor is not active in delegating the duties and responsibilities to the employees it leads to indiscipline. If he fails to instruct and guide them in areas of their work it leads to a loss of sense of direction amongst the employees. Instructions to do a job should

be followed by proper supervision by the supervisor. In case he fails to check whether the employees are following the desired course of action it may lead to chaos eventually. Employees start doing their job according to their desire which will lead to inefficiency in achieving organization objectives.

(2) **Lack of proper communication :** Communication gap between management and the employees gives rise to indiscipline in the organization. If the policies of the company are not properly communicated to the employees, they will face problem in following them. The employer should adopt a humane and empathetic approach towards the employees. This requires removal of barrier of any kind in the communication between the supervisor and the subordinate.

(3) **Favoritism and discrimination :** Special attention given to few employees, or discrimination while handing out rewards or imposing penalties leads to discontent and indiscipline amongst the employees who are not favored within the organization.Discrimination can also be based on the characteristics which are protected by law related to age, gender, qualification and religion etc.

(4) **Divide and Rule Policy :** Divide and Rule is the most common policy to be followed by the organizations to get the work done by the employees. The management does not want all employees to make a group and work together; they always divide the employees in small groups get information from a group about others and encourage spying activities. This is highly detrimental to the team spirit and leads to misunderstanding and friction amongst the employees which in turn results in indiscipline.

(5) **Lack of clear rules and regulations :** When the rules and regulations of the organization are not clear to all the employees, they can make mistakes while following them. This will lead to confusion and chaos at work and misunderstanding among the employees and the management.

(6) **Victimization and bad working conditions :** Victimization of subordinate in the form of excessive work pressure or inhuman work conditions can also result in indiscipline. The management should not exploit the workers. The conditions in which they are working including things as amenities, physical environment, stress and noise levels, degree of safety or danger and the like should be maintained at a desirable standard.

(7) **Personal problems of the employees :** Sometimes, employees are facing few personal problems about which management have no ideas. Employees will stay frustrated and will not be able to focus on his job. So the management should take care about it and try to solve it as soon as possible. This will help the employees to put their best efforts to achieve organizational objectives.

(8) **Improper co-ordination between authority and responsibility :** Authority here means power, rights or ability of the employees on a specific job whereas, responsibility means an employee's duty, accountability and liability within a job. When these both are not in proper co-ordination it can lead to frustration in the mind of the employee and he may deny following the rules and regulations in certain situation.

8.4 Disciplinary Actions

The disciplinary actions taken should be seen primarily as a corrective measure, aimed at preventing further misconduct or poor performance.

(1) Warning : This is the mildest form of disciplinary action and is usually applied at a minor offence. These are given orally and very leniently. Warnings can be given verbally or in written form. Verbal warnings are usually given when there is a minor offence of misconduct; in case verbal warning fails to produce the desired result the organization resorts to warning in written form for stricter action.These warnings do not produce any effect on the employee's status or wages in the organization.

(2) Written Notice : When warning does not work and the employees continue with the same misconduct, it becomes necessary to issue a written notice implying certain punishment.

(3) Suspension : This disciplinary action is temporary in nature. In this an employee is prohibited from performing the duties assigned to him for a certain period of time. Under this employee is refused to perform his task for few days or months depending on the nature of misconduct. Later on, after the completion of his punishment period employee can rejoin his job.

(4) Demotion : It is only used in a case when an employee does not meet his present job requirements or standards. When he is not able to give good performance on his job he is posted one rank below his present rank in the organization.

(5) Fines : It is the kind of punishment where the amount of fine is deducted from the remuneration of employee for his misconduct. A penalty is charged from the employee if he is breaking any rule repeatedly.

(6) Pay Cuts : When an employee provides any loss or harm to the property of the organization or take leave without permission etc he is not paid with his full remuneration and the amount of loss or damage is deducted from his pay.

(7) Holding increments : It comes under major punishment. When an employee is about to receive his increment but due to the disciplinary action taken against him, his annual increment is put on a hold for some time.

(8) Termination of services : It is the severe punishment which makes an employee disqualified from his employment. This is the last stage of any disciplinary action when there is no other choice left for the employer to punish the employee.

8.5 Steps in Disciplinary Actions

(1) Preliminary Investigation : The first step is to hold preliminary investigation into any allegation of misconduct. Information is gathered from various sources like witnesses to alleged incidents etc and an investigation report is prepared.

(2) Issue of Charge Sheet : If misconduct exists, the management should proceed to

issue a charge sheet in writing to the employee. A charge sheet is a formal document of accusation and legally abiding on the accused.

(3) Meeting with the accused : After issuing the charge sheet to the employee a meeting should be fixed with the accused employee. He should be given a chance to explain the reason behind the misconduct. There may be another side to the situation which is not being covered in the investigation from other sources.

(4) Notice of Enquiry : After replying to the charge sheet, following two situations may arise :

(i)   If the employee admits the charges on him, the employer will give him punishment at that time only without any further enquiry.

(ii) If employee denies the charge, the employer will hold further enquiry.

(5) Holding a full-fledged enquiry : When the employee denies the charges a full-fledged enquiry is conducted where all the details are studied by the enquiry officer. Various witnesses are questioned and the sequence of events are monitored.

(6) Findings by the enquiry officer : The enquiry officer after proper investigations should decide whether the charges made upon the employee are valid or not.

(7) Making final decision of punishment : If the enquiry officer proves charge upon the employee, the employer or the legal authority may award punishment to the employee. The punishment would depend on the gravity of the misconduct. It might be a temporary punishment like suspension, a monetary fine etc or if misconduct deserves a severe punishment the employee's services may be terminated.

The punishment should be communicated to the employee in a written letter which should contains all details regarding the charge sheet, the enquiry, the findings of the enquiry, decisions taken, the date from which the punishment is to be effective. Still, if the employee feels that the enquiry conducted was not proper or the action taken is unjustified he might appeal for reconsideration of his case.

8.6 Features of an Effective Disciplinary Action

(1) Corrective rather than punitive : The main objective of a disciplinary system should be to correct the behavior and maintain the performance of the employees rather than punishing them. He will feel more sense of belongingness towards the organization and they get motivated to follow the rules and regulations set by the organization.

(2) Progressive disciplinary approach : Discipline system should be progressive in nature. A progressive disciplinary approach starts with a mild corrective action taken initially which progresses in severity if the employee continues to show improper behavior.Under this approach the employees get enough time to correct their actions and they do not take it for granted.

(3) **Should follow "The Red hot Stove Rule" :** According to the hot stove rule it is believed that any delay in conducting a disciplinary action defeats the entire purpose behind it. A disciplinary action should have the same features and effects that are attained by touching a hot stove. The "red hot stove" rule draws a parallel between touching a red hot stove and violating rules of discipline. When a person touches a hot stove below are the consequences which can be related to a disciplinary action as well:-

(i) **Burns immediately :** Any delay in the disciplinary action spoils the entire purpose of taking it, delayed disciplinary action leaves the accused wondering about the reason behind it. If disciplinary action is to be taken, it should be taken immediately so that the person will understand the reason for it. Delayed disciplinary action also brings down the morale of the other employees who are constantly abiding by the rules and regulations of the organization.

(ii) **Provides warning :** Since the person feels the heat if he goes near the hot stove it acts as a warning that if he moves further closer and touches the hot stove he might burn himself.

(iii) **Gives consistent punishment :** It burns everyone who touches it , hence shows consistent results every time without any exception.

(iv) **Burns impersonally :** Disciplinary action is impersonal as there is no bias involved similar to a hot stove that burns anybody who touches it without showing any favoritism.

(4) **Training of supervisors :** Supervisors and managers need to be trained on when and how the disciplinary action should be used. There is a certain amount of judgment and communication skills that are required while dealing with the employees creating disturbance in the organization. Moreover, discipline decisions taken by trained supervisors are considered fair by both employees and managers as they would follow fair and informed practices while conducting any disciplinary action.

(5) **Discipline should be fair :** Every employee should receive the same punishment for the same offence. There should be absence of bias and no favoritism while deciding upon a disciplinary action against someone who has committed an offence. If different punishments exist for the same offence, it would lead to partiality.

(6) **Disciplinary action should be prompt :** The effective discipline should be immediate. The longer time lag between the misconduct offense and the disciplinary action defeats the entire purpose of it. Employee will take it very leniently and forget it very soon.

(7) **Follow-up :** The employees must be informed clearly about what constitutes good behavior and the punishments for their misconduct they may get. Once the disciplinary action is taken a proper follow up needs to be conducted where the change in the behavior of the employee who has been punished should be observed and it should be made sure that there is improvement in his behavior

8.7 Summary

- Discipline is a tool that is used to maintain the performance of the employees by changing their behavior whenever required.

- Discipline can be both positive and negative. Positive discipline is a constructive form of discipline that promotes self-discipline.Negative discipline is a form of punitive discipline where corrective actions are taken to force the employees to abide by the rules and regulations of the organization

- There are various factors that lead to indiscipline such as ineffective leadership and supervision, lack of communication,favoritism, lack of clear policy, divide and rule policy, victimization , personal problem of the employees etc.

- The disciplinary actions taken should be seen primarily as a corrective measure, aimed at preventing further misconduct or poor performance. The various disciplinary actions are warning, written notice, suspension, demotion, pay cuts, holding increments , termination of services etc.

- A step by step approach should be taken while enforcing a disciplinary action. It should start with preliminary investigation followed by issue of a charge sheet, the accused should be given an opportunity of explanation, in case he admits misconduct a full-fledged inquiry is undertaken and final punishment is decided.

- An effective disciplinary system should be corrective rather than punitive, should be progressive in its approach, should follow the red hot stove rule, should be undertaken by trained supervisors and it should be fair and prompt.

8.8 Key Terms

- **Discipline** : It means an orderly behavior to be followed by the individual, team members and groups within an organization to achieve the ultimate objectives.

- **Divide and Rule Policy:** The management do not want all employees to make a group and work together, they always divide the employees in small groups, get information from a group about others and encourage spying activities.

- **Suspension:** It is a temporary disciplinary action wherein an employee is prohibited from performing the duties assigned to him for a certain period of time as a punishment for misconduct.

- **Demotion:** It is an action taken by the management where the employee is posted one rank below his present rank in the organization.

- **Fines***:* It is another kind of punishment where the amount of fine is deducted from the remuneration of employee for his misconduct.

NOTES

● **Red Hot Stove Rule:** According to the hot stove rule a disciplinary action should have the same features and effects that are attained by touching a hot stove i.e. it should be taken immediately.

8.9 Questions and Exercises

(1) Explain the concept of discipline at workplace.

(2) What are the different Causes of Indiscipline?

(3) Explain the different kinds of disciplinary action that can be undertaken depending on the degree of misconduct.

(4) Describe the step by step process of undertaking a disciplinary action.

(5) "The "red hot stove" rule is based on an analogy between touching a red hot stove and violating rules of discipline". Explain

(6) What are the main features of an effective disciplinary system?

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UNIT 9   EMPLOYEE GRIEVANCE AND COLLECTIVE BARGAINING

Structure

9.0 Introduction

Grievance means any type of disappointment or unhappiness arising out of factors related to an employee's job which he thinks is unfair. Grievance can be factual, imaginary or disguised. A grievance arises when an employee goes through an unfair, unjust or inequitable situation or treatment at the work place. This feeling grows over a period of time and leads to complaint by the aggrieved employee. And if his complaint goes unheard or unattended for a long time it takes the form of grievance. A well defined grievance procedure is an important element of sound industrial relation machinery. To maintain industrial peace prompt actions should be taken and the grievance of the employees should be effectively attended to.

According to *Dale S Bearch* "Grievance is any dissatisfaction or feeling of injustice in connection with one's employment situation that is brought to the attention of management."

In the words of *Michael J Jucious,* " A grievance is any discontent or dissatisfaction whether expressed or not, whether valid or not, arising out of anything connected with the company that an employee thinks believes or even feels, is unfair, unjust or inequitable."

9.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the concept employee grievance.

★   Describe the various causes and effects of employee grievance.

★   Explain the elements required for an effective grievance handling.

★   Illustrate the various steps involved in grievance handling.

★   Explain the benefits of grievance handling.

★   Explain the concept of industrial disputes and describe in detail the various ways in which the disputes are settled.

★   Explain the concept of collective bargaining.

★   Describe the features and objectives of collective bargaining.

★   Understand the issues that give rise to collective bargaining and the types of bargaining prevalent.

★   Describe the various steps involved in collective bargaining.

★   Introduce collective bargaining in India.

9.2 Causes of Grievance

There are various factors that leaves an employee unhappy and dissatisfied at the work place. They become a cause of concern and results in a demotivated staff .Below are some of the causes :

(1)   **Inadequate Wages and Bonus :** When the workers are not paid adequate amount of wages and bonus for their hard work or if equal wages are not paid for the same work, grievance may arise.

(2)   **Unachievable and irrational targets and standards :** Sometimes targets set by the managers are so impractical, that they cannot be achieved easily. Workers eventually get under tremendous stress and pressure in the effort of chasing the targets, this leads to grievance among the employees.

(3)   **Bad working conditions :** Working conditions is a very important factor that impacts the satisfaction level of an employee. Bad working conditions, unavailability of tools and proper machinery etc leads to grievances amongst the employees.

(4)   **Inadequate health and safety devices :** Companies while paying attention to maximizing their profit end up compromising with the health and safety conditions of the employees. Unhygienic environment, poor safety conditions etc demotivates an employee to come to the work place.

(5) Strained relationship amongst the employees : Sometimes the employee feels jealous, anxious, nervous etc. working with their coemployees, superior or subordinate. Absence of healthy relationship amongst the employees leads to an environment which is conducive to unhappiness, dissatisfaction and grievance.

(6) Layoffs and Retrenchment : At the time of economy breakdown every company try to reduce the strength of their employees so that they can cut down the overall cost. In such cases the retrenched employees feel cheated and it also instills fear in the minds of the employees who are retained.

(7) Lack of Career planning and employee development Plan : Planning enables the employees to think about their future and overall development. For the employees to stay successful in their career it is a must for them to keep pace with the changing trend and environment.Lack of planning and showing no interest in the development of an employee make them dissatisfied and stagnant in life.

9.3 Effects of Grievance

A dissatisfied and unhappy employee will not be able to perform to the best of his ability. His mind will be preoccupied with the things that are bothering him which leads to lack of focus on his current job in hand. It leads to drop in productivity and efficiency of the employee and the organization on a whole. Below are some of the effects of employee grievance:

(1) Demotivated staff : If there is no corrective action taken when an employee approaches with a complaint regarding something that is troubling him at the workplace, he may end up feeling frustrated and demotivated. A demotivated employee losses his interest in his work or job assigned. He works only for the sake of wages or salaries.

(2) Low Productivity : If the grievance is not sought out in proper time or as and when it arises employees become dissatisfied and will not work to their full potential which leads to low productivity overall.

(3) Labor unrest : Distressed employees if not handled properly eventually can even get violent which will cause heavy damage to the company.

(4) Absenteeism : Delay or neglect in solving the problem of the employee will kill the drive in him to report to work every day This may cause an unwanted increase in absence rate.

(5) High rate of attrition : Attrition rate refers to the number of people leaving an organization over a period of time. If an employee is unhappy with the organizations working conditions, culture etc, the organization may end up eventually losing the employee to its competitors in the industry.

(6) Strains the superior-subordinate relationships : Once disciplinary action is taken against a subordinate it strains the relationship between the superior and him as he feels that the action must be taken as per superiors's recommendation or with his consent and knowledge.

(7) Reduces employee morale and commitment : An unattended grievance of an

employee may make him feel that he is been taken for granted by the organization. His morale and faith in the organization may come down tremendously and he may not feel committed to the organization anymore.

(8) Increase in wastage and cost : With an occupied mind the employee may not be able to focus in utilzing the factors of production to the optimum level, this might lead to wastage of materials and lead to high costs.

9.4 Elements Required for an Effective Grievance Handling

The effectiveness of a grievance procedure depends on some prerequisites which are as follows:-

(1) Acknowledging grievance : Any kind of discontent or dissatisfaction whether expressed or not, whether valid or not, should be entertained by the superiors and managers, there should be free flow of communications and the employees should feel free to express whatever is troubling them. Acknowledgement of their problems instills a confidence in them that they are in safe hands and their problems will be resolved.

(2) Quick action : As we all know justice delayed is justice denied. Grievance should be settled at the lowest stage, it will ensure the worker that management is listening to them and trying to solve their problems. The grievance procedure must aim at speedy settlement of grievance.

(3) Adherence to prevailing law : The grievance procedure should be planned in compliance with the existing law. In other words, the existing grievance machinery as provided by law should be strictly followed.

(4) Clarity : The procedure should be clear and simple enough to be understood by each and every employee. Every employee must clearly understand the different stages of the procedure, the forms to be filled up etc.

(5) Grievance handling training to be imparted to the supervisors and union representatives : Training should be imparted to the supervisors and union representatives because they are the one, who guide, supervise or spend more time with workers at the work place. So if any grievances arise it will instantly come to their knowledge, it is most effective if the grievances are resolved at that stage itself , there will be no need of taking it further to the next level.

(6) Execution and review (follow up) : A regular follow up of the system increases the faith of the people in the system. The HR department should periodically review the grievance procedure of an organization and make the necessary changes whenever required.

9.5 Steps in Grievance Handling

Grievance affects not only the employee and the manager but also the organization as a whole. The grievance procedure has to be carefully designed and implemented as

it deals with human sentiments. Below steps should be followed to redress the grievance for smooth functioning of the organization.

(1) **Acknowledge and understand grievance :** The first step in grievance handling is to timely acknowledge the problems before they turn into actual grievances through several means such as:-

   (i) Observation : Through observation, a manager/supervisor can easily track the behavior of people working under him. He can easily find out the unusual behavior and prepare report accordingly.

   (ii) Opinion surveys : Periodical interviews, group meetings, collective bargaining sessions etc with the workers are also helpful in knowing employee discontent before it becomes a grievance.

   (iii) Gripe boxes : It is a box in which employees can drop their complaints. Employees do not have to disclose their identity while expressing their feelings of injustice or discontent.

   (iv) Exit interviews : Employees usually leave their current jobs due to dissatisfaction regarding some areas at work. Exit interviews, conducted properly, can provide important information about employee's grievances.

   (v) Open door policy : This policy is useful in keeping touch with the employee's feelings as some organizations extend a general invitation to their employees to talk over their grievances in manager's room.

(2) **Gathering facts and data :** The next step is to collect facts and data about the grievance from all the parties involved. Everyone's opinion should be given equal importance and no fact should be neglected or ignored

(3) **Analysis of the grievance :** The problem should be analyzed on the basis of the facts and data received after taking into consideration the economic, social, psychological and legal issues involved in them.

(4) **Deriving a solution :** After analyzing all the facts and data, different alternative solutions to the problem should be discussed and the best solution should be selected.

(5) **Redressal :** The grievance should be redressed by promptly putting into action the best solution selected. The employee should be relieved of the stress and discontent as soon as possible.

(6) **Execution and Follow up :** Once the solution is executed and implemented, there should be a timely follow up registering the employee's reaction to the decision. Also it should be checked time and again whether the issue has been properly closed and it should be made sure that it does not reoccur.

9.6 Benefits of Grievance Handling

The benefits of a good grievance handling system are as follows:

(1) **Avoids disputes :** Before a grievance takes the form of any kind of dispute, it is the duty of the management to solve it as soon as possible. Timely redressal of

grievance saves the organization from settling a dispute that may arise otherwise.

(2) **Opportunity for the workers to express their dissatisfaction :** It provides the workers an opportunity to express their fears, anxieties and dissatisfaction. It brings grievance to the open and to the knowledge of the managers so that they can take a step to resolve it.

(3) **Boosts morale and emotional security :** It provides employees a platform where they can formally release their emotional stress and dissatisfaction. It thus builds within him a sense of emotional security.

(4) **Enhances commitment of the staff :** When the employees feel emotionally secured that their problems and grievances are being attended to and resolved promptly, they feel a sense of commitment to the organization. Their drive to perform to the best of their ability increases and they become more loyal towards the organization..

(5) **Helps maintain cordial relationship :** Acknowledgement of employee grievance by the managers and redressal of the same as soon as possible promotes a healthy relationship between the subordinate and the superior. The subordinate feels cared for and in return would follow the instructions of the superior with greater dedication.

(6) **Improves staff productivity :** When an employee grievance is attended to and a prompt action is taken to redress it, it boosts the employee's morale, motivates him to maximize his potential and work with full dedication and commitment. This results in higher standards of productivity and optimum utilization of resources.

9.7 Industrial Disputes : Definition

When there is a disagreement in an industrial relation it leads to industrial disputes. Disputes are very common in industries. They appear in the form of strikes, lockouts, bandhs etc. Industrial dispute has been defined as "any dispute or difference arising between employers and workmen or between workmen and workmen or between employer and employer which is connected with the employment or non-employment, or the terms of employment or the conditions of labor, of any person."

In simple words we can say that it is the conflict arising between the employer and workmen with in a organization at any time. The other reasons for these disputes can be wages or salaries demand, union rivalry, political interference, unfair labor practices etc.

9.8 Indian Industry : Greivance Management

(1) **The Industrial Employment (standing orders) Act 1946 :** The act is a generous community legislation, which aims to provide protection of labor by providing stable and uniform conditions of employment. The act stipulates the employees

of certain industrial establishments to clearly define, with sufficient care; the conditions of employment i.e. service rules and make them known to workmen employed by them. This act requires the employers to define the conditions of service in their establishments and to produce them in writing and to get them compulsorily certified with a view to avoid unnecessary industrial disputes.

The main objectives of the Act are :

(i) To define principal conditions of employment in industrial establishments with sufficient care and to make the said conditions known to workmen employed by them.

(ii) A standard code of conduct for both employers and employees should be made so that cordial relations can be established between them.

(iii) To maintain proper discipline, healthy working conditions, higher productivity etc by providing satisfactory employment and working conditions.

(iv) Define the duties and responsibilities of both the employers and employees very clearly.

(v) To provide for rectification of grievances arising out of employment.

(vi) To provide statutory holiness and importance to the standing orders.

Main features of the Act :

(i) Standing orders cover all matters specified in the schedule of the Act.

(ii) These are approved by the proper authority.

(iii) All the terms and conditions of employment excluding matters relating to wages and other forms of remuneration are settled clearly under the standing orders.

(iv) Rights and duties of employers and employees are clearly defined under this Act.

(2) Factories Act 1948 : The Factories Act 1948, came into existence on 1st April, 1949. The Factories Act is the principal legislation, which regulates the health, safety and welfare of workers and protects the children and women working in the factories.

The word "Factory" means

(i) Any premises where 10 or more workers are working and a manufacturing process is carried out with the aid of power.

(ii) Any premises where 20 or more workers are working and a manufacturing process is carried out without the aid of power.

Applicability

The Act applies to whole of India. But Mines and Railway workers are not included as they are covered by separate Acts.

It covers the following provisions-

Provisions Regarding the Health of Workers

(i) Sanitation or cleanliness

(ii) Proper temperature and ventilation

Check Your Progress

1. What are the main causes of grievance at the work place?
2. How does a good grievance handling system benefits the organistion?

(iii) Dumping of waste and effluents

(iv) Drinking water

(v) Lighting

(vi) Dust and fumes

(vii) Overcapacity of workers

(viii) Latrines and urinals

Provisions Regarding the Safety of Workers

(i) Framing around machinery

(ii) Working near machinery in motion

(iii) Employment of young person's on dangerous machines

(iv) Elevators and lifts

(v) Lifting machines, chains, ropes and lifting tackle

(vi) Protection of eyes

(vii) Protection against dangerous fumes

(viii) Safety officers

Provisions Regarding the Welfare of Workers

(i) Washing facilities

(ii) Facilities for storing and drying clothing

(iii) Facilities for sitting

(iv) First-aid appliances

(v) Cafeteria

(vi) Crèches

(vii) Shelters, restrooms and lunchrooms

(viii) Welfare officers

Working Hours of Adults

(i) Weekly Hours – Not more than 48 hours in a week.

(ii) Daily Hours – Not more than 9 hours in a day.

(iii) Intervals for rest – Not more than 5 hours work continuously without a break of 30 minutes.

(iv) Extra wages for overtime – wages at twice the ordinary rate.

Working Hours of women

(i) Weekly Hours – Not more than 48 hours in a week.

(ii) Daily Hours – Not more than 9 hours in a day.

(iii) Timings - can only work between 6 am to 7 pm.

Working Hours of Children

(1) No child shall be permitted to work in a factory.

(i) For more than four and a half hours in a day.

(ii) During night.

(2) They should get weekly holiday.

(3) Female child worker can only work between 8 am to 7 pm.

(3) **The industrial disputes Act 1947 :** The Industrial Disputes Act, 1947 extends to whole of India. It came into operation on the first day of April, 1947. This Act replaced the Trade Disputes Act of 1929. The Trade Disputes Act imposed certain restraints on the right of strike and lockout in public utility services. But no provision existed for the settlement of Industrial Disputes, either by reference to a Board of Conciliation or to a Court of Inquiry. In order to remove this deficiency, the Industrial Disputes Act, 1947 was passed.

The main objective of this act is to ensure social justice to both the employees and employers and advance the progress of industry by bringing about the existence of harmony and cordial relationship between the parties so as to bring about industrial peace.

The Industrial Disputes Act 1947 provides for the investigation and settlement of industrial disputes in an industrial establishment relating to lockouts, layoffs, retrenchment etc. It provides the machinery for the reconciliation and adjudication of disputes or differences between the employees and the employers. Industrial undertaking includes an undertaking carrying any business, trade, manufacture etc.

- The Act lays down the conditions that shall be compiled before the termination/retrenchment or layoff of a workman who has been in continuous service for not less than one year under an employer.

- The workman shall be given one month's notice in writing, indicating the reasons for retrenchment and the period of the notice that has expired or the workman has been paid, in lieu of such notice, wages for the period of the notice.

- The workman shall also be paid compensation equivalent to 15 days average pay for each completed year of continuous service.

9.9 Collective Bargaining : Concept and Definition

Collective Bargaining is the most dynamic area of industrial relations, often described as the "heart" of industrial relations. Collective bargaining involves discussions and negotiations between two groups as to the terms and conditions of employment. It is called 'collective' because both the employer and the employee act as a group rather than as individuals. It is known as 'bargaining' because the method of reaching an agreement involves proposals and counter proposals, and other negotiations. In other words, it is the process in which the representatives of the employer and of the employees meet and attempt to negotiate a contract governing the employer-employee union relationship.

According to *Jucious* "collective bargaining refers to a process by which employers on the one hand and representatives of employees on the other, attempt to arrive at agreements covering the conditions under which employees will contribute and be compensated for their services."

9.10 Features of Collective Bargaining

(1) **Group Action :** It is a group process where one group represents employers and another group represents employees. The representatives of both the parties participate in it. Employers are represented by its delegates and employees are represented by their trade unions. Both the groups sit together to discuss the terms of employment.

(2) **Representation by Union leaders :** Unions typically represents employees when there is a need for collective bargaining. Leaders bring complaints, needs or wants of the employees to the attention of the employer. They transmit responses from the employer back to the employees and assist in putting together a draft called a collective bargaining agreement.

(3) **Continuous Process :** Collective bargaining is a continuous process. It does not always start with negotiations and end with an agreement. The process is continuous as it includes negotiations to arrive at agreement, implementation of the agreement and also further negotiations.

(4) **Bipartite Process :** Collective bargaining is a two way process. There are always two parties involved i.e., employers and employees involved in it to take some action. There is no involvement of any third party.

(5) **Dynamic Process :** It is a process which transforms leading into negotiations, which permits employees dignity as they participate in the formulation of their terms and conditions of employment.

(6) **Flexible :** It is a group action where representatives of workers and management expand energies in order to arrive at consent. Negotiations are not subject to hard and fast rule for reaching an agreement, thus providing ample flexibility. There is sufficient scope for compromise unless final agreement is acceptable to both the parties is reached.

9.11 Objectives of Collective Bargaining

(1) **Promote industrial democracy :** Collective bargaining is a pragmatic and democratic method of regulating the terms and conditions of employment. It provides a method for the regulation of conditions of employment by those directly concerned.

(2) **Improve employer - employee relationship :** Collective bargaining leads to mutual understanding. The employers gain a greater insight into the problems and aspirations of the workers while employees become more aware of the economic and technical factors involved in industrial management which helps to improve employer-employee relationship.

(3) **Settle disputes :** It provides for an efficient and smooth operation of the plant It promotes stability and prosperity as it helps in avoiding interruptions, strikes, go-slow and other crisis in industry.

(4) **Avoid third party intervention :** It eliminates the entry of third parties between workers, and management by setting a system of industrial democracy. A prompt

and fair system of handling grievances will boost the morale in the industry.

9.12 Bargaining Issues

(1) **Wages and incentives :** It includes the issues such as cost of living adjustments and overtime rates.

(2) **Working conditions :** It includes the issues such as illumination, temperature, ventilation etc. at the work place.

(3) **Health and Security :** Includes issues like safety and security, medical aid etc.

(4) **Impact of technology and procedural changes on employees :** Includes issues like changes in technology etc.

(5) **Regulations and practices pertaining to employees :** Includes the issues such as rights and duties of the employers, employees, unions and QWL programs.

(6) **Employee benefits :** Includes issues such as pension plans and paid vacations etc.

(7) **Grievance handling :** Includes issues like what are the procedures for handling grievances etc.

9.13 Types of Bargaining

(1) **Conjunctive bargaining :** It is also known as distributive bargaining. It is the most common type of bargaining and involves zero-sum negotiations. In this type of bargaining, the employers and employees try to maximize their gains. They try to settle economic issues like wages, bonus, benefits etc. It is based on the principle "my gain is your loss and your loss is my gain". For e.g., trade unions negotiate for the maximum wages and the management wants to keep it minimum while getting things done through workers.

(2) **Cooperative bargaining :** In cooperating bargaining, both parties focus on survival in difficult situations like recession and are willing to negotiate the terms of employment in a flexible way. Employees may accept a reduction in salaries in return for job security. They may demand for higher wages and benefits only when things get improved.

(3) **Productivity bargaining :** In this method worker's wages and incentives depends on the level of productivity the worker is able to attain. In this management offers workers a rise in wages in response to alterations in worker's working practices for raising productivity. A standard productivity index is prepared for the workers. If the workers are able to go above the standard productivity norms, workers get substantial incentive or bonus.

(4) **Composite bargaining :** In composite bargaining method, labor bargains for the rise in wages as usual but also demand equity in matters relating to work norms, employment levels, manning standards etc.

9.14 Steps in Collective Bargaining

(1) Acknowledging and identifying the problem : The first step in the collective bargaining process is to acknowledge and identify the problem. The severity of the problem determines the size and selection of representative, period of negotiations and agreement. Hence, it is important for both the parties to be clear about the problem before entering into the negotiations.

(2) Collection of facts and data : After identification of the problem, the parties are required to collect facts and figures that can be used as defense while negotiation. The data is collected in consultation with the members..

(3) Selection of representatives : The preparation starts with the selection of representatives. When representatives are selected for negotiations, the following points should be kept in mind:

(i) He should be able to carry out negotiations with patience.

(ii) He should be able to present his views effectively.

(iii) He should know the problem in detail.

(iv) His authority and power should be clearly spelt out.

(4) Starting the negotiation process : It is very important that representatives reach the negotiating table with calm and positive attitude. During negotiations the representatives should be attentive as to find out what the other party is arguing for. In this phase, the initial demands of both the employer and employees are determined. This negotiation process continues until the final agreement is obtained.

(5) Bargaining Strategy : Skillful negotiators always prepare elements of bargaining well before the commencement of negotiations; by organizing the points they want to present and work out alternatives with reasons for accepting one and rejecting the others.

(6) Reaching to an agreement : After completing the negotiation process, the next step in the process of bargaining is to reach a consensus about the solution of the problem leading to an agreement.

(7) Formalizing and Enforcing the agreement : After reaching to an agreement, the next step is to examine the agreement and identify whether or not both the issues mentioned by each party are acceptable. If acceptable, then finally it needs to be converted into a legal contract. Lastly it should be ensured that the agreement is implemented according to the the issues mentioned in it.

9.15 Collective Bargaining in India

The collective bargaining in India over last one decade or so has undergone a gradual but definite change. Nowadays collective bargaining is not only limited to "traditional issues" like wages, dearness allowance, bonus, employment conditions,

safety and security etc but also demands for "non-traditional issues" like additional and better welfare facilities, fringe benefits, enriching jobs etc. It is because of the following reasons:

(i) Now the working class is well educated and aware about the industrial role. Under such circumstances, when the workers economic needs are fully satisfied, the union representatives hardly bring such issues in the bargaining sessions.

(ii) The employers are willing to concede the demands of higher benefits like fringe benefits and welfare amenities as most of them do not call for direct or indirect financial involvement.

(iii) With the entry of Multinational Company's in India, workers have started to get better pay packages and other lucrative facilities. So instead dealing with traditional issues, the collection bargaining discussion surrounds more important issues like modernization, employment conditions, productivity etc.

A few common items that have become the part of collective bargaining in India nowadays are as follows:

(i) House Rent Allowance(H.R.A) : With effect from fourth pay commission in India, all the government employees are getting fixed H.R.A on the basis of the city where they reside. Since then, private employees too bargained over this issue. With the change in the society, now private employees are also getting H.R.A. It is interesting to note that the employees of chemical, electronics, pharmaceutical industries are getting 10 to 25% of their basic salary as H.R.A .

(ii) Leave Travel Concession (L.T.C) : This facility has been started by Central Government for their employees but now it has been adopted in most of the private undertakings. The details of such benefit is decided at the collective bargaining meeting; generally workers are paid one or one and half month salary, which they can utilize for ten or fifteen days L.T.C. if the employee is not willing to enjoy the L.T.C. facility then he is paid 80 percent of the L.T.C amount in cash.

(iii) Educational Allowance : The fourth pay commission has made a specific reference to payment of educational allowance for the children of employees. This allowance generally covers the cost of tuition fees, books, uniform etc. In case where such facility is not available, employee can bargain over it.

9.16 Summary

- Grievance means any type of disappointment or unhappiness arising out of factors related to an employee's job which he thinks is unfair.

- There are various factors that leaves an employee unhappy and dissatisfied

Check Your Progress
1. What are the provision relating to safety of workers and working hours for children under the industrial employment (standing orders) Act 1946.
2. What are the various bargaining issues?

at the work place. It can be inadequate wages and bonus, unachievable and irrational targets, bad working conditions, strained relationship amongst the employees, layoffs and retrenchment, lack of career planning of the employees etc.

- Employee Grievance leaves a negative impact on the productivity and efficiency of an organization as it leads to demotivated staff, high rate of absenteeism, high attrition rate, labor unrest, increase in wastage and cost etc.

- For grievance handling to be effective the grievance should be acknowledged promptly, quick action to be taken in adherence with the law, it should be clear and there should be follow up undertaken after quick action is taken.

- The steps in grievance handling cover acknowledging the grievance, gathering facts and data, analyzing a grievance, deriving a solution, redressal of the grievance and its execution and follow up.

- Industrial dispute has been defined as "any dispute or difference arising between employers and workmen or between workmen and workmen or between employer and employer which is connected with the employment or non-employment, or the terms of employment or the conditions of labor, of any person.

- Collective bargaining involves discussions and negotiations between two groups as to the terms and conditions of employment. It is a group action, represented d by union leaders, it is flexible in nature and a continuous process.

- The objectives of collective bargaining are to promote industrial democracy, improve employer-employee relationship, settle disputes, avoid third party intervention.

- There are various bargaining issues like wages and incentives, working conditions, health and safety, rules and regulations, employee benefits etc.

9.17 Key Terms

- **Employee Grievance :** It refers to any type of disappointment or unhappiness arising out of factors related to an employee's job which he thinks is unfair.

- **Retrenchment :** It refers to the forced lay off of the organization's employees in order to cut down on the expenditure.

- **Gripe Boxes :** It is a box in which employees can drop their complaints. Employees do not have to disclose their identity while expressing their feelings of injustice or discontent.

- **Exit Interviews :** It refers to an interview that is conducted at the time when the employee is leaving the organization so that it provides information regarding employee dissatisfaction and grievances.

- **Open Door Policy :** It refers to a general invitation by the organization to their employees to talk over their grievances in manager's room.

- **Redressal :** Grievance redressal refers to putting into action the best solution possible so that the employee is relieved of the stress and discontent as soon as possible.

- **Industrial Disputes :** It refers to any dispute or difference arising between employers and workmen or between workmen and workmen or between employer and employer which is connected with the employment or non-employment, or the terms of employment or the conditions of labor, of any person.

- **Collective Bargaining :** Collective bargaining refers to discussions and negotiations between two groups as to the terms and conditions of employment. It is called 'collective' because both the employer and the employee act as a group rather than as individuals.

- **Bipartite Process :** It is a process in which only two parties are involved.

9.18 Questions and Exercises

(1) What is grievance? Why should a manager be concerned about employee grievance?

(2) What are the elements of effective grievance handling?

(3) Describe the step by step procedure of grievance handling.

(4) What is Industrial Disputes? Write short notes on the below Acts-

   ★ The Industrial Employment (standing orders) Act 1946

   ★ Factories Act 1948

(5) Define Collective Bargaining. Explain the features of Collective Bargaining.

(6) Describe the various features of Collective Bargaining.

(7) What are the different types of Collective Bargaining?

(8) Mention the Current trends of Collective Bargaining in India.

9.19 Further Reading and References

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UNIT 10   HUMAN RESOURCE ACCOUNTING, AUDIT AND HUMAN RESOURCE INFORMATION SYSTEM

Structure

10.0 Introduction

Organization's success and failure greatly depends upon the quality and number of human resources of the organization. Human resources constitute the most valuable asset of the organization which the traditional method of accounting fails to record.

Human Resource means the workers, employees and managers of the organization. Human Resource Accounting is a completely new division of accounting. It is based on a traditional concept of accounting. The term human resource accounting stands for recording and analyzing the data of these human assets in the books of accounts. Another way to record information about human resources is to create a database of human assets through HRIS. Human Resource Information System aims at collecting, storing, maintaining, retrieving and validating data needed by an organization about its human resources. The advantage of HRIS is that it provides timely and accurate information about human resources that are required to make strategic HR decisions. HR Audit is like an annual health check-up of HR functions of an organization. It evaluates the appropriateness and effectiveness of HR policies, procedures and strategies of the organization.

10.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the concept, objective and advantage of Human Resource Accounting.

★   Explain the various methods of Human Resource Accounting.

★   Understand the concept and objective of Human Resource Audit.

★   Describe the process of HR Audit.

★   Understand the concept, objective and advantage of Human Resource Information System.

★   Identify the essential features of good Human Resource Information System.

★   Identify the limitations of Human Resource Information System.

★   Discuss the significance of HRIS in today's corporate world.

10.2 Concept of Human Resource Accounting

HRA is about identifying and measuring data of human resources. It is used to develop financial assessment of people in the organization during a particular time period. It is also about evaluating the economic result of investment in people. In other words, HRA means measuring the cost and value of people working in the organization. It identifies and measures the cost incurred on recruiting, hiring, training and developing the employees and managers of the organization. The organizations want to analyze the adequacy of expenditure incurred on their employees starting from their recruitment to payment of their wages and salaries. It is an attempt to classify and report the investments made in HR that are presently not accounted for in conventional accounting practices. According to the American Accounting Association, "HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties." Management is interested in knowing the value of the human resources and the changes in them over time.

The purpose of Human Resource Accounting is to:-

(1) It allows the management to effectively monitor the use of HR in the organization.

(2) It controls the appreciation, depletion or conservation of HR.

(3) It furnishes the cost and value information for making management decision regarding acquiring, allocating, developing and maintaining the HR.

10.3 Objectives of Human Resource Accounting

(1) Produce information of cost and value of Human Resource

The main aim of HR Accounting is to generate cost and value information of human resources by measuring and identifying the data about the employees or managers working in an organization. Management estimates the cost which will be incurred while recruiting and selecting an employee. Once recruitment process is done a proper training and development program is also required which involves more investment. So it becomes very important to estimate the probable expenditure in acquiring, allocating and maintaining the HR.

(2) Effectively monitor the use of Human Resource

Human Resource Accounting helps the organization to make the best employment of human resources and keep a constant check on the performance of human resources. It ensures that whatever cost management has incurred in acquiring, selecting or training the employees is justified. The employees are working with the best of their efficiency. Say for instance if employee is appointed on a very high package as a quality controller to maintain the quality of the product, the organization must ensure that his performance is very commendable and he is carrying out all his duties and responsibilities assigned to him as per the expectation of the organization.

(3) Appreciation and Depreciation of Human Resource

HRA is also considered as an accounting system that treats employees as the biggest asset of the organization. Their level of performance and quality of work is recorded in the books of organization. In this way, organizations can easily retrieve the value of the most valuable asset .Say for instance an employee keeps on improving his quality of work then from the organization's point of view it is treated as appreciation of asset and on other hand if the quality of work or performance is decreasing over time then it is treated as depreciation of asset; in such a case corrective measure need to be taken in time to improve his performance.

(4) Provide the cost and value information

Human Resource Accounting as it is clear from its meaning is an activity of knowing cost invested in employees towards their recruitment, training, payment of wages and salaries and other benefits paid in return of their contribution towards the organization. This cost and value analysis is very useful for the organization; because we can know whether the return is more than the cost incurred on an employee or not.

Further it helps an organization to know the exact contribution made by an employee in the progress of an organization. This data helps in determining the payment system according to the contribution or return generated by employees for the organization. Earlier this method was not so popular but in modern era almost each and every organization wants to know the cost and value information of every employee to keep a check on it.

10.4 Advantages of Human Resource Accounting

(1) Helps in decision making

Human Resource Accounting helps in taking appropriate decisions regarding human assets in the organization. Whether to recruit a new employee or to promote the employee internally? Whether to transfer the employees to new location or hire employees locally? Whether to incur additional cost in training the existing employees or hire consultants from outside? Human resource accounting is also very useful in taking decision regarding expansion, diversification, and technological change in the organization.

(2) Identifies the strength and weakness of the existing workforce

Human Resource Accounting helps in identifying the strength and weakness of the existing manpower in the organization. This will help the management in taking decision regarding manpower planning, training and development, transfers, promotions, and retrenchment of the employees. Management can take decisions regarding appointment of right person for the right job at the right time if the strength and weakness of employees are very well known to them.

(3) Measures the effectiveness of the HR policies

Implementation of Human Resource Accounting system enables the management to assess the effectiveness of its HR policies. If the management is incurring high cost on recruitment of employees, it can change the method of recruitment. In the same way, if training and development programmes are involving high cost than the benefits derived from them, the system will reveal the requirement to change the training program.

(4) Helps investors judge a company

The cost and value information provided by different organizations by the way of Human Resource Accounting will help the investors to identify the right company for the purpose of their investment. The investors would be able to judge the company on the basis of human resource or manpower in the company. If the rate of return on capital employed is same in two different companies, then this cost and value information of human resources will be very helpful for the investors to take the right decision.

(5) Measures the return in investment (ROI)

Human Resource data also helps in measurement of ROI. Organization makes investment on its employees with the expectations of generating returns. It should make sure that the company's return on investment on its Human Resources should be greater than the investment in them in terms of recruitment, training and development etc.

10.5 Methods of Human Resource Accounting

In an organization human resources are also evaluated or estimated. There are certain methods for its valuation which are as follows :

10.5.1 Historical Cost Method

This method was introduced by Brummet, Flamholtz and Pyle. This is oldest method of valuation of human resource. It uses the conventional procedure to determine the value of human resource or assets in the organization. Under this method the sum total of all the cost related to human resources are calculated to find out the value of human resource. These costs include cost on recruitment, selection, training, placement and development of human resource of an organization. This cost is then capitalized and written off over the period an employee is expected to serve the organization. The procedure to write off the human assets is same as that of physical assets. But if an employee leaves the organization before his expected service period his remaining amount will be written off in the same year. Two types of cost are included in historical cost method:-

(1) **Acquisition cost :** It means that cost which is incurred on acquiring the human resource in the organization. The cost incurred at the time of recruitment, selection and placement etc.

(2) **Learning Cost :** It means that cost which is incurred at the time of providing training and development to the employees and managers.

Merits of historical cost method

(1) This method is very easy to calculate the value of human resource.

(2) Employers and employees can easily understand this method.

(3) This method follows the traditional accounting concept of matching cost with revenue.

(4) Return on company's investment in the human resource can easily be calculated by this method.

Demerits of historical cost method

(1) Under this method it is very diffierent to estimate the service period of an employee.

(2) In this methods rate of amortization is very difficult to determine.

(3) As we know, value of assets decrease with increasing number of years or amortization. But in case of human resource, it is just the opposite. The utility of employee increases with the increasing experience and training provided to them.

10.5.2 Replacement Cost Method

This method was introduced by Rensis Likert and Eric G. Flamholtz. Replacement cost is that cost which is incurred on replacing the existing human resource by an identical one i.e. human resource capable of rendering similar services. In other words,

organization will calculate that cost, to be incurred when existing human resources are required to be replaced with the other or new human resource with the same experience and talent. The replacement cost involves the cost of recruiting and training the new recruit, the opportunity cost till the new recruit attains the efficiency levels, lost productivity prior to the separation of an individual from the organization. This method is different from the historical cost method. The historical method take into account only the sunk cost which is immaterial to calculate the value of human resources and take decision on that basis. Replacement cost method is very realistic as it considers the current value of human resources in its financial statement.

Merits of replacement cost method

(1) This method estimates the present value of human resource. This method is very logical and representative.

(2) This method can easily adjust the human value of price trends and can provide realistic value at the time of rise in prices.

Demerits of replacement cost method

(1) The identical replacement of an employee is not always possible to find.

(2) The cost of replacing the human resource is inconsistent with traditional accounting system based on cost concept.

10.5.3 Present Value Method and Economic Value Method

In present value method the future earnings of the employees are estimated up to the retirement period and are discounted at discount rate which is usually cost of capital. Under economic value method present worth of the employee is calculated on the basis of the future service that is expected from him till his retirement. In other words, under this methods value of human resource is calculated on the basis of contribution made by the employees in the organization till their retirement. The payment due to the employees in the form of pay, allowance, and benefit etc. are estimated and then discounted to arrive at present economic value of the individual. Under this method the expected service time of employee in each service is used as the base to determine the value of human resource.

Merits of economic value method

(1) Employee's career movements are taken into account under this method.

(2) The possibilities of employees leaving the organization other than death or retirement are also considered.

Demerits of economic value method

(1) The service tenure of employee is very difficult to estimate.

(2) The value of expected services data is very difficult to find.

(3) Estimation of employee's chances of occupying various positions for each employee is not an easy task.

(4) Valuation of contribution of services from employees is also not easy to judge.

(5) To estimate the exit probabilities and changes from one position to another is an expensive process.

10.5.4 Asset Multiplier Method

Asset Multiplier Methods consider that there is no direct relationship between cost incurred on human resource and how much valuable he is for the organization. The value of human resource depends on various factors like level of motivation, and employee attitude towards work and the organization. Here multiplier refers to instruments that relate personal worth of human resource to the total asset value of the organization. Employees of the organization are divided into four categories under this method namely – Top management, middle management, supervisor and clerical employees. Total salary of each group is collected and particular multipliers are applied to get a total amount for the asset value of employee. Asset Multiplier reflects the following factors:-

(1) Technical, qualification and experience of employees.

(2) Experience required for the job.

(3) Personal qualities and attitude.

(4) Loyalty and expectation of future services.

The maximum number of multiplier is attached to senior management and minimum number of multiplier is attached to clerical and operative employees.

Merits of asset multiplier method

(1) This method is simple and easy to understand.

(2) Data for calculation is easily available.

(3) Multipliers used in this method are different for different group of employees.

Demerits of asset multiplier method

(1) This method considers factors like motivation, employee's attitude which are difficult to quantify.

10.6 Controlling Manpower Cost

Manpower is very important in every organization. To arrange the manpower in an organization they need to incur cost for acquiring, allocating, training the manpower. Therefore, manpower expenses are important elements of operating cost in an organization. It becomes very necessary for the organization to control their manpower expenses; otherwise higher manpower expenses will not be able to make the company competitive. These manpower expenses vary from one firm to the other. In few industries they are very high as compared to expenses in other industries.

Now a days, firms are more concerned about the manpower cost. Four approaches are used to control and analyze the cost of manpower. They are; management by objectives, ratio analysis, personnel productivity and HR reports and Budgets.

10.7 Concept of HR Audit

HR Audit is like an annual health check-up, it plays a vital role in encouraging the

sense of confidence in the Management and the HR functions of an organization. It is a comprehensive evaluation of existing HRD strategies, systems, styles, skills and culture and their appropriateness to achieve the short term and long term goals of the organization.

In other words, we can say HR Audit means the systematic verification of job analysis and design, recruitment and selection, orientation and placement, training and development, performance appraisal and job evaluation, employee and executive remuneration, motivation and morale, participative management, communication, welfare and social security, safety and health, industrial relations, trade unionism, and disputes and their resolution. It is very useful for the organization to achieve the organizational goals and also a vital tool which helps in assessing the efficiency of HR functions in the organization.

HR Audits help the organization in following ways:-

(1) It helps to find out the proper contribution of the HR department towards the organization.

(2) Development of the professional image of the HR department of the organization.

(3) Reduces the HR cost.

(4) Motivates HR personnel.

(5) Find out the problems pertaining to HR functions and solve them smoothly.

(6) Helps in developing sound performance appraisal systems.

10.8 Objectives of HR Audit

(1) To review the organizational system

It is very important to review the organization system time to time. Every organization must keep a review on recruitment, selection, orientation, placement, training and performance appraisal on yearly, half yearly or quarterly basis. HR audit helps the organizations to review their systems on timely basis. This helps in keeping a check on performance of an employee; to see whether he or she is working with his full potential or not. Appropriateness of selection procedure, training and development will determine quality of workforce.

(2) Examine the implementation of policies and procedures

HR audit is used to check that the policies and procedure of an organization are properly implemented and followed by the organization and its employees. For this reason organization lay certain rules that act as standard for the organization. If for some reason the implementation of the rules are not properly monitored by the organization then in such case organization cannot blame its employees.

(3) Measure the effectiveness of policies and procedures

Once the policies and procedure are successfully implemented then comes the role of management to ensure the efficiency and effectiveness of the policies. For any reason if the current policies are not as per the expectation of the management or not

contributing towards growth of the organization, then the management can modify the policies at any time for the betterment of the organization and its employees. But the policies must match with previously laid down standard.

(4) Review Personnel system in comparison to other organizations

The personnel system of an organization should be strong enough to sustain in this competitive world, it is very important to keep reviewing the personal system of an organization to other organizations in the industry so as to be able to meet the challenges posed by them.

10.9 HR Audit Process

An HR audit is a process to review implementation and effectiveness of the policies and procedures of the company to ensure compliance with employment law. It also examines that whether management is implementing best practices or not, and it educates the managers in this regard HR Audit refers to an examination and evaluation of human resource policies, procedures and practices to determine the effectiveness of human resource management. No organization can work on its own, various laws and regulations are formulated by the Government that are to be followed by an organization. An HR audit process review that the policies and procedure implemented by the company are in compliance with Government law. HR audit also evaluates the effectiveness of personnel management. Certain steps are included in it which are as follows :

(1) Identify Indicators

The first step in HR audit is to identify the indicators. This is the preparatory step in auditing process. Here particular issues regarding the skills, styles, systems, strategies and structures of the organization are discussed. Necessary data is also collected for the audit purpose; the various indices , statistical ratios and gross numbers are identified as per the requirement.

(2) Examine the Variations

This is the next step after identifying the indicators. Under this step scrutiny of all available information pertaining to personnel will be taken in to account. Similar previous corresponding period is taken into account, the performance is judged on the basis of the indicators decided and any variation between the results in the two time frames is examined.

(3) Comparing and examining variations between departments and between similar units in other industries

After examining the deviations a comparison is made. These deviations are compared between different departments and between similar units in the other industries. These deviation will help the organization to correct the process of auditing if the need arises.

(4) Drawing trend lines

After the measurement and comparison with the other departments the organization

is able to derive a trend that exists and would analyze and depict it in the form of trend lines, frequency distributions and statistical correlations.

(5) Preparing a detailed Report

The last step involves the finalization of report. This final report contains the detailed information about the audit of the organization. This report is submitted to the top management and to the managers at suitable levels for information . Necessary action is taken thereafter.

10.10 Concept of Human Resource Information System

Human Resource Information System (HRIS) is an organized procedure for collecting, storing, maintaining, retrieving and validating data needed by an organization about its human resources. It is usually a part of the organization's Management Information System (MIS). HRIS is a computerized back up which helps in taking important decisions about the organization. Although it is not necessary for an HRIS to be computerized but keeping track of all the human resources on computer has its own advantage of providing accurate and timely data. HRIS is applied in many areas of applications like training management, risk management, turnover analysis, succession planning, flexible-benefit administration, compliance with government and legal requirements, attendance reporting and analysis, human resource planning, accident reporting and prevention, strategy planning, financial planning and other related areas.

In other words, we can say the main use of technology in HRM is an organization's Human Resource Information system. HRIS is a complete computerized package that provides the data about human resource to the management so that the data can be communicated widely providing access to other users of the organization.

10.11 Information Provided by HRIS

HRIS is the system to acquire, store, manipulate, analyze, interpret and disseminate relevant information on human resource. Every organization has to take various decisions at various level of the management and HRIS helps in supplying the information required for the effective management of an organization. HRIS provides various information to the organization which are as follows:-

(1) Recruitment Information : HRIS provides the recruitment information to the management. It identifies the vacant positions in the organization and also provides the vacancy details. It also helps in short listing the right candidate for the job. HRIS also helps in matching the skills of the candidates with the required skills. HRIS also helps in cost analysis, internal job posting, scheduling the interview for the applicants, posting interview calls to the candidates through the internet. We can say that HRIS has made the recruitment process easy.

(2) Career Planning Information : HRIS provides the career planning information about the employees. If an employee is working since many years in an organization then HRIS will help in deciding his promotions, training and development programs. HRIS will keep the record of the employee's performance and on the basis of their performance their career will be planned, their pay structure revised. If the employee is not performing well he can be demoted from his current designation.

(3) Training Information : HRIS makes available the information regarding training needs. It also provides a schedule for training program such as ; how many days the training will be provided, what will be the course content of the training program, course specification etc. HRIS will also help in evaluating training program by analyzing cost incurred on it and benefit derived from it. An in-house faculty database and external faculty database will also be prepared.

(4) Appraisals Information : The performance of the employees is appraised on yearly, half yearly or quarterly basis depending on the organization's requirement. Their appraisal are done by assessment of their performance and their goal accomplishments .HRIS provides information regarding the performance levels of an employee in a particular time frame. It becomes easier to analyze and rate an employee's performance on the basis of the information available on HRIS. The feedback generated after analyzing the reports available on HRIS about employee performance also helps the management decide his career path.

(5) Provides Employee Data on their remuneration : HRIS maintains data about employee wages, incentives, tax information, insurance benefits, employee attendance, and much more, while wanting to make a decision. It can process out reports on the stored data with a few mouse clicks. It gives a very accurate information and does fast processing.

(6) Personnel Research Information : HRIS also provide the research information about the human resource in the organization. Whenever any employee joins the organization, management seeks his past information like his qualification, experience, past performance, previous salary drawn, reason of switching from last organization and such other important information. All these information helps in choosing the right candidate for the right job.

10.12 Objectives and Purpose of HRIS

HRIS is very important for an organization to maintain. Now a days, many organizations are working on HRIS to keep a sound and accurate record about their human resources. Beside there are some purposes and objectives of maintaining HRIS in the organization which are as follows:-

(1) Provide historical information and evidence : HRIS is a part of

management information system, which keeps track about their employee's data like their joining date, cost incurred on recruitment, their performance record, their feedback and all other important information which is very necessary for an organization. In case any confusion arises on the part of employee or the management the past record of employees can be accessed at any time for reference.

(2) **Provides up-to date information :** The organization keeps each and every single detail about an employee. HRIS is updated every time when an employee joins or leaves the organization. It is updated every day with other important information. Management can get the accurate and timely information with the use of HRIS.

(3) **Helps in personnel research and personnel audit :** HRIS also helps in conducting the research or investigation about an employee because sometimes, employees provide false or fake data in order to join the organization. The data provided by the personnel are also verified by the management by using various ways of HR auditing. Before final selection of an employee it is very necessary for the organization to perform such research and audit.

(4) **Needed to take Personnel Decision :** HRIS also helps in taking personnel decisions. HRIS helps the management in forecasting the demand and supply for manpower in the organization. It also helps in taking decisions like recruitment, selection, placement, training needs and promotions etc. of an employee.

(5) **Deciding pay rolls and Career Path :** HRIS records all the information about the human resources of the organization. On the basis of the qualification, experience, past performance HRIS helps the management in deciding the pay roll and career path like the promotion, demotion, training, development, transfers etc about the employees.

(6) **Supplying information to the government and various agencies :** HRIS also supply the information to the government and various agencies for additional use. Organizations in order to get the right candidates for the right job at the right time provide the required information of the vacant position to the government and various agencies. If they find any suitable match for the vacant position, they can refer that candidate to the organization.

(7) **Helps in evaluation and modification of HR policies :** It helps in evaluating and modifying the HR policies time to time. If there is any need to change or update any policy, HRIS will help the organization in making the necessary changes.

(8) **Helps the company to detect frauds, mistakes and errors :** HRIS also helps the company to detect the frauds, mistakes and errors made in the data recorded in the information system. It checks all the frauds and corrects mistakes and errors wherever required.

10.13 Advantages of HRIS

HRIS is needed in the organization because of the following reason:-

(1) More accurate than manual files : HRIS is a computerized package. It maintains all the records on the computer and avoids the manual process of payrolls and applications. HRIS is an automated system therefore; it saves time and avoids manual errors. It also provides accurate and timely results.

(2) It is available centrally and accessible to all : HRIS is a computerized package that records, stores, manipulates and communicates the information with increased capacity with access to many users. It is stored centrally in the main system which is linked to other users that can be accessed by them as per their requirements.

(3) Easy to analyze records than in manual recording : HRIS makes it easy and convenient to analyze all the records of the employees. HRIS maintains all the information on the computer system and it becomes easy for the managers or any other user to access the information that is accurate and on time. Manual recording by the clerks or the specialized persons appointed for this purpose is very time consuming.

(4) Easy to operate and saves time : Since it leads to automation of work to a great extent the need to maintain files and manually process payrolls and applications can be avoided. Hence it saves time and makes work easy. The manager saves time and is able to devote time in other important strategic decision of the organization.

(5) Administer employee information : It also helps in streamlining the administration of employee attendance, leave records, employee benefits. Employees can mark their attendance electronically, apply for leaves online, new employees may electronically enroll in benefit plans, current employees can log onto the system monitor and update their leave records, current benefit coverage and other important information throughout the year.

(6) Apply electronically to the organization : HRIS allows candidates in case of job openings to submit their resumes and contact information online. The software also allows current employees to electronically apply for new positions. The system then collects the information and archives it so it is easily accessible by the hiring manager.

(7) Decision Support System : It acts as a decision support system. HRIS maintains data about employee profiles hiring records, tax information, insurance benefits, employee attendance, and much more, while wanting to make a decision it can process out reports on the stored data with a few mouse clicks. It gives very accurate information and does fast processing. Hence it becomes an important tool to strategic planning and its implementation.

10.14 Essentials of a Good HRIS

(1) **Should fulfill the Objective :** An HR record is maintained in order to be able to derive some sound and accurate information from it for further analysis . It should keep a record of all the necessary information that is required to fulfill the objective behind maintaining the records.

(2) **Should follow a proper procedure and format :** It should be maintained systematically. So that at the time of need accurate and timely information can be easily retrieved. For that purpose, it must follow a proper procedure and format.

(3) **Clear and Easy to understand :** It should be clear and easy to understand. A complex HR record is always difficult to maintain and not understood by the employees of the organization.

(4) **Reasonable Cost :** It should be cost effective. This means that it should not involve more cost than the benefit derived from it otherwise it will become difficult for the organizations to obtain and maintain it.

(5) **Easily accessible :** A good HR record should be easily accessible by all the departments at any time. It becomes easy to maintain if accessed from anywhere.

(6) **Accurate :** HR records should provide accurate information. This will save time of the managers and they can involve themselves in many other decision making of the organization.

(7) **Should be verifiable :** An HR record should be easily verifiable at any time by the managers of the organization.

10.15 Limitations of HRIS

HRIS is a very helpful tool for every organization. It provides all information about the human resource which is relevant for an organization. But besides being very popular and advantageous for the organizations it is also criticized on certain grounds. There are some barriers in the successful running of HRIS. Which are as follows:-

(1) Failure in Forecasting

Human Resource Information System is totally based on computers. The information is stored by the experts appointed for operating HRIS. If they have entered any wrong information about the employees or the organization or they made any omission in entering the data, it will be very harmful for the organization. This will lead to failure in forecasting because if the data entered is wrong, HR demand forecast and HR supply forecast will also be wrong. The organization will have no idea about the actual requirement and assessment of the current manpower inventory.

(2) Perception of Top Level Management

Sometimes, top management does not support the decision of operating on HRIS.

Management still wants to continue with the manual procedure. Management thinks that this is wastage of time and money. Installation of HRIS in the organization will include a lot of cost and some experts will be a needed to appoint specialized persons to operate on HRIS. Therefore, management in order to save time and money do not agree for installation of HRIS.

(3) Defects in Implementation System

There can be errors, faults and failures of output generation in the system. Implementation system or execution of HRIS can be defected sometimes. This will not be able to provide the actual results and the information provided can be wrong, misleading, and vague. Therefore, complete trust on HRIS cannot be maintained.

(4) Lack of Proper Training to HRIS Operators

HRIS is an automated system, which requires some specialized persons to operate on it. Every employee cannot run or execute programs on HRIS. Extra training and development needs to be provided to these specialized employees operating HRIS, otherwise they will face problem in providing the accurate data to the organization.

10.16 Significance of HRIS in Today's Corporate World

HRIS helps in keeping all the information about the human resource of an organization in a systematic order. This will help the managers in taking other important strategic decision about the organization. HRIS keeps the complete information in detail about every employee like their name, date of birth, marital status, academic qualifications, professional qualification, previous employment records etc. All these information is very helpful in deciding the pay roll of the employee, deciding the training and development program for them, providing health and safety benefits etc. HRIS is very useful for the organization in many ways. In the present context, many organizations have started their functioning on HRIS. HRIS is very significant in today's corporate world because of many other reasons also. Some of them are as follow:-

(1) It helps in providing the important information to the managers about the employees.

(2) It also helps in recruitment, selection, training, development, orientation, placement, transfers, promotion and many other important matters.

(3) It helps in building harmonious industrial relations and helps in conducting the in depth study about the industrial relations and goodwill of the firm in the market.

(4) It helps the managers in deciding the wages, salaries and benefits of the employees.

(5) It provides the equal employment opportunity to the employees on the basis of their qualification, past experience and performance.

(6) It keeps an up to date track of employee's leaves, transfers, turnovers etc.

(7) On the basis of the present requirement of the organization it helps the

managers in deciding the best training and development programs for the employees.

(8) It also helps the government organizations to gather data in respect to turnover, rate of absenteeism and other personnel matters.

(9) HRIS also helps the organization in planning and analyzing the HR demand and supply.

10.17 Summary

- HRA is about identifying and measuring data of human resources. It is used to develop financial assessment of people in the organization during a particular time period. It is also about evaluating the economic result of investment in people. In other words, HRA means measuring the cost and value of people working in the organization.

- HRA helps in studying the strength and weakness of the Human Resources in the organization and help take proper decision regarding the use of human assets in the organization.

- Historic cost, replacement cost, present value method, economic value method and asset multiplier method are the principle monetary methods of measuring the value of human resources.

- HRD Audit is a comprehensive evaluation of existing HRD strategies, systems, styles, skills and culture and their appropriateness to achieve the short term and long term goals of the organization.

- Human Resource Information System is an organized computerized procedure for collecting, storing, maintaining, retrieving and validating data needed by an organization about its human resources. It is usually a part of the organization's Management Information System (MIS).

10.18 Key Terms

- **Human Resource Accounting :** It involves measuring the data of human resources, the cost involved in recruiting and maintaining them and the returns achieved from them.

- **Appreciation and Depreciation of Human Resources:** If an employee keeps on improving his quality of work then from the organization's point of view it is treated as appreciation of asset and on other hand if the quality of work or performance is decreasing over time then it is treated as depreciation of asset.

- **Return on Investment:** ROI in human resource accounting refers to the returns in terms of productivity and quality of work achieved by the employees on the investment made on them in forms of recruitment, training and development.

- **Acquisition Cost :** It means that cost which is incurred on acquiring the human resource in the organization i.e. cost incurred at the time of recruitment, selection and placement etc.

- **Learning Cost :** It means that cost which is incurred at the time of providing training and development to the employees and managers.

- **Human Resource Audit :** It is a comprehensive evaluation of existing HRD strategies, systems, styles, skills and culture and their appropriateness to achieve the short term and long term goals of the organization.

- **Human Resource Information System :** It is an organized procedure for collecting, storing, maintaining, retrieving and validating data needed by an organization about its human resources.

10.19 Questions and Exercises

(1) Describe the concepts of Human Resource Accounting and its objectives.

(2) How is Human Resource Accounting advantageous to an organization?

(3) Describe the various methods of HR valuation.

(4) Why is it important to conduct an HR Audit?

(5) Explain a systematic HR audit process.

(6) Explain the concept of HRIS . What is the information provided by HRIS?

(7) What are the advantages of HRIS? Explain its importance in today's context.

10.20 Further Reading and References

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UNIT 11 INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Structure

11.0 Introduction

With the advent of globalization the work of HR manager has become more complex and challenging. Apart from the basic core functions of HR, the International Human Resource Management has to understand various other factors that are peculiar to international business. He has to be aware of cultural, ethical, legal differences among nations and their people. Work force diversity, different political and legal environment necessitates the development of specific HR functions that can be applied for achieving overall global objective of the Multinational Corporations. It requires additional competencies and skills on part of international human resource manager such as cultural sensitivity, knowledge about business and organization of different nations in which the MNC is operating.

11.1 Unit Objectives

After studying this unit, you should be able to-

★   Understand the threats and opportunities arising from globalization.

★   Differentiate between global HRM and domestic HRM.

★   Identify the various external factors affecting IHRM.

★   Understand International Human Resource Planning.

★   Understand International approaches for staffing.

★   Discuss selection, training and development of expatriates.

11.2 Globalization

Globalization or international business refers to economic integration among the countries across the world. When business activities cross national boundaries, international business is said to have happen. Globalization is a process of internationalization of products, markets, technologies, capital, human resource, information and culture. Due to reduction in trade barriers factors of production can be easily arranged from other countries and subsidiaries can be located in low cost countries. Improvement in communication, information processing including internet and transportations has eliminated physical barrier thus facilitating globalization.

11.3 Globalization in the 21ˢᵗ Century

Twenty-first century has shown significant growth in globalization. After the II world war there has been continuous, unexpected and rapid growth in world trade. There are certain factors like diversification, expanded opportunity set in terms of market and factors of production, reduction in trade barriers etc. have lead to tremendous growth in international business. The factors are discussed below :

(1) Huge Market Potential

Developing countries especially BRIC countries are offering huge market potential for the unutilized capacity of developed countries. The developed countries can easily scale up the production and achieve advantage of economies of scale by offering their products in international market. Presently more and more companies want to respond to the international sales opportunity.

(2) Demographic Characteristics

Demographic changes has also triggered globalization for e.g. developed countries are witnessing shortage of working age population while it is in abundance in developing countries. The availability of manpower in developing countries not only in terms of number but also in quality has lead to establishment of subsidiaries in developing countries.

(3) Rise in Competition

As the competition is rising the companies have started cutting cost by outsourcing intermediate goods and purchasing raw material and manpower from the low cost countries in order to become competitive. Some companies have set up their production units in the countries where factors of production are available at low cost in order to minimize the cost of operation. Cost effectiveness has become an essential feature to survive in such a competitive situation. Therefore, we can say that the growing competition has led to growth in internationalization.

(4) Technology Advancement

Many firms have come up with innovative products and improved technology. Firms are producing products according to the requirement of the world market. If firms want to increase the demand for their product they have to adopt the new techniques of production in their business. Products are planned and developed according to the requirement of world market. Moreover the communication channels have improved leading to better coordination in cross border business activity.

(5) Growth in Entrepreneurship

Entrepreneurs are also affecting the growth of globalization in the past years. In India also entrepreneurs like TATA and Birla's have extended their business to developed countries. In recent past information technology and telecommunication are the fastest growing industry triggering globalization.

(6) Liberalization of Government Policy

Restrictions in trade imposed by Government make the movement of goods and services difficult. Such restrictions make the trade more expensive. The liberalization of trade by way of reduction in trade barriers, export promotion activities, formation of special economic zones and free trade zones; are some of the initiatives taken by the government to facilitate the cross border trade. These policies also helped in increasing the globalization.

11.4 Benefits of Globalization

Globalization involves the expansion of business transactions throughout the world. Many other opportunities have also arisen due to globalization. Some of them are listed below :

(1) Increased Market Size

With the increasing opportunity of globalization, companies get increased market size to sell their product. They can attract domestic as well as international customer. As, the product popularity rises and the product is more preferred by the customers, firms can very easily increase their market share.

(2) Economies of Scale

When additional units of goods can be produced at relatively lower prices, it is

said to be achieving the economies of scale. This happens when the company expands and its production increases. In other words, we can say that for many goods, the unit cost of product is less in large factories as compared to the smaller ones. The large companies have a better chance to reduce its prices that helps in attracting more customers. This will help in achieving the economies of scale. Globalization expands the customer base and helps achieve economies of scale.

(3) Favorable Government Policies

Favorable government policies play a very important role in increasing the globalization. In many countries Government has liberalized certain restrictions like removal of trade barriers, reductions in quotas and tariffs, providing subsidies, introduction of special economic zone and free trade zones, promoting export activities. All these have helped in reducing the expense on international trade and developing the trade across the countries.

(4) Exploit Local Advantage

Companies can also make use of the local advantage of the country in which they are doing international business. For example, company can use labor of the other country which is available at cheap rates, Many MNCs have entered India and conduct their business just because they can take advantage of low-priced factors of production that is locally available in the country.

(5) Achieve Economic Growth

Due to flow of capital to developing countries from developed countries new industries are set up. It generates employment opportunities and improves the purchasing power of the people. This leads to increase in demand that further stimulates the growth in economy.

(6) Achieve Full Employment of People and Optimum Use of Resources

The developed countries outsource large number of jobs to developing countries creating employment opportunities. Savings gained by developed countries are redirected to other more productive jobs.

11.5 Threats from Globalization

Globalization always helped the nations and provided many opportunities to boost their economies. But all the countries are not successful in conducting cross border trade. MNCs and domestic companies sometimes have to face the following threats in international business.

(1) Failure to Compete with Global Market

As the globalization is increasing, the competition is also increasing. There are many companies, who are not able to compete or survive in the global market. Big companies incur heavy expenses on advertisement to make their product popular. Due to this local players suffer from heavy losses and lack finances to advertise their product in order to survive the competition. This intense competition can be very dangerous to

local players.

(2) Failure to study foreign customer's demands and preferences

Sometimes companies fail to understand the demand and preferences of the customers of the other countries. There is always difference in the culture, taste, preferences and expectations of the customers of the other country. Company is unable to understand what the customer is looking for, hence it fails to make a market and establish itself in that country.

(3) Political Risks

Globalization is definitely affected by the politics. There are many countries that do not have very strong government. There are many civil wars, internal trouble that could cause major risk for the investments made in those countries. Therefore, due to such conditions it is not always safe to enter in such countries. The political risk may arise due to unanticipated change in political set up. If the host country develops strained political relationship with home country it can lead to expropriation or confiscation of business property.

(4) Operating exposure

Risk arises due to changes in exchange rate and inflation rate of the country. Unfavorable changes can alter the amount and risk element of future revenues of the company adversely.

11.6 Concept of International Human Resource Management

When the activities of human resources of an organization are managed at international level, it is known as International Human Resource Management. It is the process of procuring, allocating and effectively utilizing human resource at international level. It uses the services of parent country nationals, host country nationals and third country nationals for their corporate office and foreign plants.

In other words, we can say that International Human Resource Management is the combination of three elements.

    (a) **Core Human Resource functions :** It includes all the function of domestic HRM such as – HR planning, recruitment and selection, training and development, remuneration, industrial relations etc.

    (b) **Deals with different countries :** IHRM involves dealing with more than one country at a time the host country, the home country and the third county or other countries. For e.g. A US company has its headquarters in US (parent country), subsidiary in Australia (host country) and is dealing in Thailand (third country) for availability of cheap labour.

    (c) **Different kinds of employees :** Employees are also of three types - host country nationals, parent country nationals and third country nationals. The selection of employee is made from all the three countries. A US company having subsidiary in Australia can hire people from US (parent country

nationals), Australia (host country nationals) or can hire from Thailand (third country nationals).

11.7 Difference between Global HRM and Domestic HRM

(1) Broader Perspective and More Functions

Company needs a wider outlook while dealing with the different issues at international level. For example, if the company wants to decide on issues like the basic pay, benefits, incentives and compensation, the international HR manager will face more complex situation. The pay system and currencies will be different in different currencies. The payments will have to be disbursed in different currencies that may change in relative value to one another over time. While evaluating the training needs the need for cross cultural training has to be assessed. The international operation broadens and extends the core HR functions.

(2) More Heterogeneous Function

IHRM is more complex than domestic HRM. In domestic HRM all the business transactions are executed in one country but in IHRM more than one country is involved. Therefore, it becomes very difficult to manage human resources of two or more countries at the same time. Countries have different culture, political environment, economic systems, customer's preferences and social set up. This will influence the differences in functioning of a plant in one country to functioning of other plant in another country. The company will manage the human resource of the plant or office according to the requirement and laws and regulations of country in which it is operating. This not only broadens the functions but also augments them. The additional functions of IHRM include analyzing the impact of international taxation on salary of expatriates, facilitating international relocation and orientation, providing administrative services for expatriates.

(3) Higher Exposure to Risk

In IHRM more risk is involved than domestic HRM. The risks involved in international business are unique and more intimidating. The involvement of risk factor varies from country to country. Huge investment is done on travelling expenses, relocation and training of expatriates and if they fail to perform or underperform, it can have disastrous effect on the organization. Another risk involved is the political risk especially in the countries having civil unrest or are target of terrorist activities. Hence physical safety in this regard becomes very important necessitating creation of the emergency evacuation procedure for highly risky locations.

(4) More Involvement in the Employee's Personal Life

IHRM involvement is more in the personal life of the employees as compared to domestic HRM.. Before sending the expatriate to the host country the HR department must ensure that he is aware of the health and medical facility, culture, language, political environment of the country and many other factors. They have to give assistance and support to their spouse and family also while relocation, like providing suitable housing

facilities and schooling to children. If the family is able to adjust well in the assigned location the expatriate will be able to handle work assignment smoothly. All this will help the expatriate to settle down in host country. In order to provide the support and service needed by the expatriate in the host country HR manger demonstrates greater involvement in the personal life of employees.

(5) More External Influences

External factors to a large extent influence the IHRM activities. The managers in the host country are dictated by host country's laws of hire and remuneration. The general code of conduct and generally accepted business practices also influences the functions of HR managers. He may have to deal with ministers, political figures, and various economic and social interest groups that domestic HR managers would normally not come across.

11.8 External Factors Impacting IHRM

(1) Cultural Factors

Culture is a set of social norms, shared beliefs and values that condition inhabitants' behavior of the country. The culture is different in different countries. Due to globalization people from various countries come together to perform work related task. HR manager has to face additional challenge to manage work force diversity. Work motivation, negotiation style, and attitude towards independence and development of relationships vary from country to country. Cultural differences may lead to misunderstanding, increased turnover and interpersonal conflict if it is not managed properly. The language can act as a barrier leading to reduction in communication. All these problems have to be solved by HR manager.

(2) Economic Systems

Different countries have different economic system like china is a communist country while USA is a capitalist economy. All this have a great impact on determination of pay structure, incentive scheme, layoff policy etc. Economic conditions determine the infrastructure facilities of the country. If the facilities are poor in a country the managers or professionally skilled people will be reluctant to take up assignment there. Cost of living is also a very important factor in deciding global operations.

(3) Political Legal Environments

The political legal environment of every country is different. Some countries have more stable political system like USA as compared to other countries that witness military coup from time to time. Level of corruption is different in different countries. Legislations regarding employment is also not similar. Difference in laws relating to minimum wages, working hours or labour unions etc, requires HR managers to conduct a comprehensive evaluation of political environment and employment related legislations of the country in which the company is operating or is going to operate. Violation of laws can attract heavy punishment from the host country government.

11.9 IHRM Activities

11.9.1 HR Planning

Human resource planning is very complex and difficult at the international level. The planning is not confined to one country but extends to various other countries in which the MNC is operating or plan to operate in future. It is very difficult to maintain consistency in the HR planning in all the subsidiaries. The HR planning is influenced by culture of the host country especially its perception towards the control over future events. Such difference in perception towards future will directly impact the HR planning process for e.g. societies that are oriented towards past will heavily rely on historical data for making prediction of future HR needs. HR planning is appropriate for the firms operating in stable environment, but where environment is highly unstable HR planning is not successful. HR planning becomes more difficult at international level because of non availability of data worldwide. The information required to develop an HR planning requires information on labour supply trends, demographic characteristics, migration and immigration, work force diversity, educational facilities etc. Further MNCs because of its global perspective keep considering possible alliances like joint venture, merger and acquisition. Here human element is a very important factor and should be incorporated in HR planning.

One of the key issues in international planning is the identification and development of Global managers.

Critical success factors for future managers should be identified. Potential level of the current management should be assessed and development opportunities should be provided so as to facilitate individuals to rise in their international career path. Strategic business plans should be well integrated to HR planning.

11.9.2 International Recruitment and Selection Policy

The objective of international HR manager is to make available the right kind of human resource to the organization at the right time. This means after HR planning recruitment and selection process will start. The international HR manager must hire the candidates not only with required skills but also with the ability to adapt to the culture of the other country. International manager can hire the candidates from the three countries – parent country, host country and third country depending upon the requirement and suitability.

(1) Approaches to staffing

In international business while recruiting the employees four approaches to staffing are followed. These are as follows:-

(A) Ethnocentric Approach

Under this approach the parent company fills all the key management positions by parent country nationals. They do not give due consideration to host country nationals or third country nationals. The reason behind is the predominance of home country

cultural values and business practices. It is assumed that home country approach is best in business and management practices hence employees from other parts of the world should not have any problem in following it.

Advantages

It is advantageous at the early stage of internationalization. In the initial stages of international business, this stage is very appropriate because it is concerned with relocating that part of the business which has already worked well in the home country. The key positions are held by those individuals who are familiar with the products, processes and goals of the corporations and have been with it for some time. Moreover the local workforce of the host country may not have that expertise and knowledge about the product especially if it is complex in terms of technology employed to produce it. The communication is effective between the headquarters and subsidiaries which leads to better coordination and control. There are many firms following this approach such as – Procter and Gamble, Philips, Toyota, Samsung etc.

Disadvantage

The disadvantage of this approach is that there may be huge environmental and cultural diversity between the host and the home country. Parent countries may not always be cultural sensitive. The manager expatriate may not be in the condition to perceive the cultural difference and predict the consequences. He may commit mistakes frequently leading to corporation's failure.

(B) Polycentric Approach

Under this approach important positions of subsidiary company are held by host country nationals while key positions at head quarters are usually occupied by parent country nationals. Most of the MNCs during initial stages of internationalization follow ethnocentric approach and later on shift to polycentric approach by handing over its operations to host country nationals e.g. Hindustan Lever Ltd, is the Indian subsidiary of Unilever which is managed by local Chiefs.

Advantages

The advantage of this approach is that it reduces cultural disparity. Moreover the cost of hiring is not huge. It saves the cost of international relocation and orientation of expatriate. If the host country environment permits then advantage of local salary which is lower can be taken while still paying premium to attract high quality employee. Moreover the subsidiary's manager does not have to adjust to culture as he is already aware of it.

Disadvantage

The disadvantage is that there may be a communication gap between the subsidiary and the parent country leading to lack of coordination and control. It reduces the integration between subsidiary and parent company and among various subsidiaries because of language barriers and national loyalties. This results in nominal links that give rise to isolated units. As the host country nationals have very limited experience

outside their own country they may not qualify to work as a part of global enterprise. It inhibits sharing of knowledge across countries which could have been beneficial for their working. Another limitation is in failing to realize benefit from global manufacturing strategies as they concentrate on manufacturing the products that are preferred by local people.

(C) Geocentric Approach

Under this approach best people are hired for all the important positions regardless of their nationality. Since it seeks best people for its key position it is a reliable approach and is applied to all subsidiaries of MNC. The basic criteria of selection are candidate's experience and job description, not the country to which he belongs. For example, Colgate Palmolive follow the geocentric approach. They are doing the international business from many years, their expatriate can speak at least two languages and the meeting takes place all over the globe.

Advantage

The advantage is that it unites headquarters and subsidiaries globally. Managers are competent and possess high adaptability due to their rich international experience that they accumulate during their job tenure. The multinational composition of management team is committed towards the global objective. This philosophy helps in increasing global profit and best utilization of resources worldwide. It reduces the identification of the manager with subsidiary unit and enhances local responsiveness.

Disadvantage

The disadvantage is that it is a very expensive approach as it involves huge recruitment, transfer and relocation cost. It requires a centralized staffing process, the success of which depends upon the top management's ability to select the right individual having global orientation.

(D) Regiocentric Approach

The managers of the subsidiary are hired from countries within the geographic region that closely resembles host country.

Advantage

The advantage is that management expands its search area for hiring the suitable candidate for managerial positions. It is not confined to only host country for finding the right manager. The managers are in better positions to deal with language and cultural problems of the host country.

Disadvantage

The disadvantage is communication gap between managers of headquarters and managers of subsidiaries leading to lack of integration and control.

(2) Recruitment and Selection of Expatriate

The recruitment and selection process in international business highly depends on the wide use of expatriate employees. These expatriates work outside their home country with a planned return to that country. But sometimes, they fail to adjust in the other

country, which adversely affects the working of the company. Therefore, international HR manager must pay attention to various important factors while selecting the expatriate. To reduce the expatriate failure and improve the chances of survival selection procedure should be improved and must include the following factors:-

(a) **Technical ability :** Global firms pay more attention on the technical skills of the employees. The expatriate may not have the requisite support system to clear doubts regarding task while working in other countries. The manager should check the technical ability of the expatriate during the selection procedure.

(b) **Cross cultural suitability :** It should be checked that whether the expatriate can adjust himself to the culture of other country. He should be open and flexible enough to adapt to the changing condition of environment. He should be cultural sensitive and ready for cultural adaptability.

(c) **Family requirements :** The family members of the expatriate should be able to adjust in the other country. If the expatriate devotes his major time wrestling with family problems like housing, schooling, health care and socializing, he will not be able to concentrate in his job. Moreover his family will be his only support in the host country. The management should check whether they will be able to meet the requirements of the family in host country.

(d) **Language skill :** The management should check that whether expatriate can speak and understand the language of the host country or not. Knowledge of the host country language will be an added advantage.

(e) **Personality characteristics :** Expatriate should be able to successfully express himself, must be a team player, and should be emotionally stable and capable of handling stress.

11.9.3 Training and Development

It is the next step after recruitment and selection. International HR manager will provide the training and development to the new expatriate going to the host country. They are provided with the pre departure training before they depart for the host country. The expatriate are provided with the cultural training, language training and practical training. This will help in reducing the expatriate failure.

(1) Cultural Training

The cultural training is provided to the expatriate to understand the host country culture so that they feel comfortable towards the culture of host country. They are informed about the culture of the host country, its history, politics, business practices, marketing strategy, etiquettes, value system etc. In fact, sometimes family trips are arranged for the expatriate before their formal transfer. These trips will provide ample opportunities for expatriates and their families to know host country's culture closely. This training is gaining much popularity these days.

(2) Language Training

Language training is very important for the candidates in their pre departure

Check Your Progress
1. ``Human Resource planning is very complex and difficult at international level'' comment.
2. What are the four approaches of staffing while recruiting managers at international level?

program. Although English is a very popular language at the international level, but there are some countries like china, where English speaking people are also at a disadvantage position. Language training will help the expatriate to communicate better with the people in the host country. This will help in building relationship with local employees and improve the expatriate effectiveness.

(3) Practical Training

This training will help the expatriate and their families to settle in host country smoothly. It improves the chances of adaptability. One necessary condition is the availability of network or support of friends. The expatriate community will be a useful and important source of support and information and will help the family to adapt host country culture.

11.9.4 Expatriate Remuneration

International HR manager must pay focused attention while designing the remuneration package of the expatriate. It needs to be considered that there is a difference in the cost of living of the two countries and even the tax structure differs. Hence all the below components should be carefully designed.

(1) Base Salary

It may be paid in the currency of either home country or host country but while doing so it should be kept in mind that it should be at least equivalent to what the expatriate is getting in his home country or more than that. There are many approache to a expatriate's salary. He can be either paid according to the headquarter compensation structure or according to the home country salary structure or the host country package.

(2) Benefits

Since an expatriate works in a different environment than his home town, he shall be provided with benefits that are not provided to local employees. These benefits may include use of club facilities, festival celebrations, family benefits like helping the spouse to obtain work visa, children's school sponsorship, telecommunication facilities, career counseling, reassignment etc.

(3) Allowances

Allowances helps in providing the equal opportunities that expariates have already enjoyed in their home country. There are various allowances that are paid to the expatriates such as :

   (a) **Cost of living allowance :** Helps to cover the difference in the expenditure between the host country and the foreign land.

   (b) **Housing allowance :** The expatriates are generaly provided with accommodation or given allowance which can help them maintain their living standards that exist in their home country.

   (c) **Travel allowance :** This allowance is paid by the company generally once a year which covers the cost of the expatriate's travel back to his home town, this allowance helps him to maintain his family ties and avoid adjustment

problems in the foreign land.

(d) **Education Allowance for the children :** is provided to take care of the expenses on the tuition fees, language classes fees etc of the children of the expatriate.

(e) **Relocation Allowance :** is paid once to the expatriate to cover the expenditure that is incurred in shipping, transportation etc to move to a foreign land.

(4) Tax Equalization Payment

The main aim of tax equalization payment is that the foreign country makes sure that the expatriate will pay the same amount of tax in the foreign land that he would have paid had he been in his home country so that the assignment is 'tax neutral' for the expatriate employee. It also provides for tax protection policy, in which if the tax structure of the foreign country is such that the employee saves taxes while on assignment, then the employee retains the tax savings.

11.9.5 Performance Appraisal of an Expatriate

In this world of rising globalization expatriates are of immense importance to multinational enterprises. To keep them motivated appropriate and justified performance appraisals should be conducted.Appraising an expatriate is a complex task as there is an active involvement of the home country supervisor and the host country supervisor. Performance appraisal of the expatriate may face the below challenges.

Cultural difference : due to the cultural differences it may be difficult to rely on the appraisal done by the local management.

Geographical difference : Evaluations from the home country manager may also be questioned due to the geographical differences. The home country manager is sitting far away and will not be able to judge the conditions faced by the expatriate at the work place.

Political impact : The factors like profitability and market share can be used to judge the performance of an expatriate but they do not present a clear picture as they are influenced by the local issues like political instability, changes in government policy etc. All these factors impact the degree of difficulty level of each assignment.

All the above factors need to be kept in mind to be able to conduct an effective performance appraisal of an expatriate. Also the feedback of the expatriate is crucial on areas like the support received by him from the home office, the challenges faced by him during the assignment period and his suggestions should be well considered.

11.9.6 Repatriation

The repatriation is the process of taking back the expatriate from the host country. It is the process of re-entry into the home country. It represents the new challenges because the expatriate now has to face the re-entry shock or reverse cultural shock. This process take place when the expatriate has completed his host country assignment and now he has been assigned a new assignment in the home country.

11.10 Summary

- Globalization or international business refers to economic integration among the countries across the world. It is a process of internationalization of products, markets, technologies, capital, human resource, information and culture.

- There has been a high growth in globalization in the 21st century because of rising competition, technology advancement, liberalization of government policy, growth in entrepreneurship etc

- Globalization leads to various opportunities like increased market size, economies of scale, favorable government policies etc, it helps in exploiting local advantage and achieving economic growth.

- Globalization can be threatening to a country in many ways. It can lead to failure in competing with global markets, failure in studying foreign customer's demands and preferences, political risks etc.

- International Human Resource Management is the process of procuring, allocating and effectively utilizing human resource at international level. In IHRM activities of human resources of an organization are managed at international level.

- There are various differences between global HR and domestic HR. Global HR has a broader perspective and more functions. It is more heterogeneous and has a higher exposure to risk. Has more external influences and is more involved in the employee's personal life.

- Cultural Factors, Economic systems and political legal environments are the major areas that have a major impact on IHRM.

- IHRM activities of HR planning, recruitment, training and development, compensation and performance appraisal is difficult and much complex than the domestic HRM and needs to be designed carefully.

- Management can follow any of the four approaches to staffing; ethnocentric, polycentric, geocentric and regiocentric . The training also includes cultural training and language training.

11.11 Key Terms

- **International Human Resource Management** : It is the process of procuring, allocating and effectively utilizing human resource at international level.

- **Ethnocentric:** Under this approach the parent company fills all the key management positions by parent country nationals.

- **Polycentric: Under** this approach important position of subsidiary company are held by host country nationals while key positions at head quarters are usually occupied by parent country nationals.

- **Geocentric Approach:** Under this approach best people are hired for all the important positions regardless of their nationality.

- **Regiocentric Approach:** The managers of the subsidiary are hired from countries within the geographic region that closely resembles host country.

- **Expatriate:** An employee who is sent to live abroad often temporarily and for work reasons.

- **Tax Equalization Payment :** The main aim of tax equalization payment is that the foreign country makes sure that the expatriate will pay the same amount of tax in the foreign land that he would have paid had he been in his home country so that the assignment is 'tax neutral" for the expatriate employee.

- **Repatriation: The** repatriation is the process of taking back the expatriate from the host country.

11.12 Questions and Exercises

(1) Define Globalization. Present a clear picture of globalization in the 21st Century.

(2) What are the opportunities and threats that are faced by a country from globalization?

(3) Define International Human Resource Management. Explain the difference between global HR and domestic HR.

(4) What are the three major factors impacting IHRM?

(5) Explain the factors that should be taken into account during expatriate's selection.

(6) What are the different kinds of trainings that an expatriate needs to go through before taking up a foreign assignment?

(7) Discuss the components of compensation of an expatriate.

11.13 Further Reading and References

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