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Performance Management and Compensation Management

SEMESTER 2

POST GRADUATE DIPLOMA IN HUMAN RESOURCE MANAGEMENT

BLOCK 1

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PG DIPLOMA IN HUMAN RESOURCE MANAGEMENT

Performance Management and Compensation Management

Block 1

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COURSE INTRODUCTION

This course “Performance Management and Compensation Management” of PGDHRM 2nd semester will focus on the different aspects of Performance Management and Compensation Management. One of the most important factors in human resource management is the performance appraisal system and the compensation management. The growth of the organisation depends on the degree of soundless of these disciplines. In a competitive world, every organization’s performance depends on how well it can mange the present as well as prepare for the future. Performance management deals with the continuous improvements in performance of individuals, their teams, departments and corporations. Performance Management is the comprehensive guidebook on how to establish a communication system to get top performance and value from each employee. This course will show us how to conduct goals-focused performance planning meetings and performance appraisals and foster a true commitment to success within each employee. Performance Management will benefit the employee, the manager, and the organization itself.

Again, compensation is a broad term encompassing all the ways in which an organisation may reward employees for their services. It refers to all forms of financial return, tangible services and benefits employees receive as a part of employment relationship.

Considering the above the course has been divided into 2 blocks consisting 15 units.

Block 1 deals with the introductory concepts of Introduction to Performance Management,Process of Performance Management,Performance Appraisal,Performance Appraisal Feedback,360-Degree Appraisal,Introduction to Compensation Management, Wage and Salary Administration at Macro Level and Job Evaluation

Block 2 concentrates on Incentive Schemes, Benefits and Services, Voluntary Retirement Scheme,Pay Structures, Performance Linked Compensation, Compensation Strategy New Thinking for the New Millennium and Rewards and Recognition.

Each unit of this blocks includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. You in making your learning more active and efficient. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your learning.

BLOCK INTRODUCTION

This is the first block of the course 'Performance Management and Compensation Management'. The Block is divided into 8 units and is primarily a learner oriented Self learning material, as it satisfies the requirements of the learners in the filed of 'Performance Management and Compensation Management'.

This block comprises of the following eight units:

The *first unit* introduces us to meaning and Concept of Performance Management, Prerequisites of Performance Management, Importance of Performance Management, Benefits of Performance Management system and Linkage of Performance Management to Other hr Processes. The *second unit* gives us a concept of Performance Management Process, Performance Management Planning Process, Mid-Cycle Review Process, and End-Cycle Review Process. The *third unit* gives us an idea on the meaning of Performance Appraisal, Benefits of appraisal, Conflict and confrontation, Process of performance appraisal, Methods of performance appraisal: Traditional Methods and Modern Methods of Performance Appraisals. The *fourth unit* will help us in understanding the concept of Performance Appraisal Feedback,objectives of Performance Appraisal Feedback, Role and Importance of Performance Appraisal Feedback,types of Feedback, Principles of Performance Appraisal Feedback, situations Demanding Performance Appraisal Feedback, Components of a Feedback Process and Steps in Constructive Feedback. The *fifth unit* gives us a broad idea on concept of 360-Degree Appraisal, Purpose of 360-Degree Appraisal, Impact of 360 Degree Appraisal, Methodology of The Appraisal System, Advantages and Disadvantages of 360 Degree Appraisal and Process of 360 Degree Appraisal. The *sixth unit* will help us in understanding the meaning of compensation Management, Compensation and Non-compensation Dimensions, Motivation and the Dimensions, 3P Concept in Compensation Management, Compensation as a Retention Strategy, Compensation for Special Groups and Significant Compensation Issues. The *seventh unit* gives us an idea on concept of Wage Components, Types of Wages in India, Theories of Wage Determination, Factors Influencing Wage Compensation, Wage Policy, Institutional Mechanism for Wage Determination, Pay Commission, Wage Boards, Public Sector Pay Revision and ILO and Collective Bargaining and Union Role in Salary and Wage Administration. The *eight unit* introduces us to compensation Strategy at the Micro Level, The Concept of Equity, Job Evaluation, Process of Job Evaluation, Methods of Job Evaluation and Problems of Job Evaluation.

The Block is devided into eight units:

UNIT 1: Introduction to Performance Management
UNIT 2: Process of Performance Management
UNIT 3: Performance Appraisal
UNIT 4: Performance Appraisal Feedback
UNIT 5: 360-Degree Appraisal
UNIT 6: Introduction to Compensation Management
UNIT 7: Wage and Salary Administration at Macro Level
UNIT 8: Job Evaluation

UNIT 1: INTRODUCTION TO PERFORMANCE MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Meaning and Concept of Performance Management

1.4 Prerequisites of Performance Management

1.5 Importance of Performance Management

1.6 Benefits of Performance Management system

1.7 Linkage of Performance Management to Other HR Processes

1.8 Let Us Sum Up

1.9 Further Reading

1.10 Answers to Check Your Progress

1.11 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- learn the meaning of performance management
- discuss the prerequites of performance management
- discuss the importance of performance management
- analyze the benefits of performance management
- explain the linkage of performance management to other HR processes.

1.2 INTRODUCTION

This is the first unit of the course performance management and compensation management.

In this unit we will get some idea about the various concepts of performance management and its various aspects.

Performance management is the process of identifying, measuring, managing and developing the performance of the human resources in an

organization. It is about adopting different ways and methods to help an employee continue in their process of development so as to deliver better performance towards the organization. In this unit the meaning and nature of performance management is presented. The importance and benefits of performance management in organizations are also focused. Performance management is a vital area of human resource management and its linkage to other HR functions are also shown at a glance.

1.3 MEANING AND CONCEPT OF PERFORMANCE MANAGEMENT

Performance management is a continuous process of communication between the a supervisor and subordinate which is essentially performance centric and supports accomplishment of strategic objectives of the organization. Performance management is a process that provides feedback, responsibility and documentation for performance outcomes. It helps employees to mobilize their talents towards achievement of organizational goals. Performance management relies and analyses the pattern of efficiency of employees towards accomplishing tasks and objectives of an organization during a period of time. Effective managers seek to provide and receive feedback from employees on a continuous basis and focus less on occasional appraisals. They further seek to collect inputs on the factors that motivates employees to deliver better at the workplace, identify the obstacles and difficulties faced by them in the process and take corrective actions whenever necessary by making adjustments in the employee workload. It is a vital area of human resource management and encompasses the way managers evaluate their employees, the way employees perceive their managers and fellow employees and also how the individual employees evaluate themselves. The ultimate goal of performance management is to improve the quality of work in the most efficient way possible. It can be applied to individual workers, teams or processes, or the results of various business IT systems. This concept emerged in the 1970s regarding application of technology to performance metrics, as well as the analysis of technological performance in addition to human performance. Thus, it can be said that

performance management is the processes or activities oriented towards ensuring high performance or making sure that business operations and processes are being done efficiently. Performance management is a holistic management discipline which needs to connect many relevant dots to involve development, enablement and enhancement.

1.4 PREREQUISITES OF PERFORMANCE MANAGEMENT

The following are the essentials of performance management–

- ***Clarity of organizational goals:*** At the outset, the mangers need to clearly lay down the organizational goals and objectives and ensure that they are well communicated to the managers and employees as well so that they can understand what the organization expects from them. The organizational objectives need to be broken down and translated into individual, team and departmental goals.
- ***Evaluation:*** The performances at individual, team and departmental level need to be evaluated on continual basis. The organization should develop and design the evaluation process on scientific basis.
- ***Cooperation:*** The managers must inculcate the culture of teamwork and nurture the practice of obtaining managers' consensus rather than through control or oppression.
- ***Self-management teams:*** The management must encourage the individual and teams for self-management and self-assessment of their performance. This method of work develops among managers a sense of responsibility and a spirit of work with commitment. It also makes them aware of their respective strengths and weaknesses from time to time for reducing the performance gaps.
- ***Leadership development:*** The managers need to identify each of the managers who have leadership potential.
- ***Feedback system:*** The organization should develop an effective feedback system for managers, individual employee, teams and divisional performance.



CHECK YOUR PROGRESS

Q.1: What is Performance management?

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Q.2: Write any two essentials of performance management.

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1.5 IMPORTANCE OF PERFORMANCE MANAGEMENT

Performance management provides scope for tapping the full potential of the employees. It can be described as a comprehensive process starting from monitoring and developing the desired qualities to rating their progress and rewarding them for their achievements. The following are some of the roles played by performance management in different areas:

- It involves employees in the planning stage. The whole process of making the employees participate in various activities and plans boost their morale and confidence. It also reduces the communication gap between superior and subordinates.
- It monitors the progress of the employees on a continuous basis. It ensures that organizational tasks are efficiently completed on time and under budget.
- Another significance of performance management system is that it ensures all round development of employees. Development of employees is not only limited to individual performance at the workplace but also addresses the performance of the team as a whole. All round development of employees not only ensures the personal and professional growth of the employees but also the expansion and improvement of business.
- Performance management also facilitates evaluating and rating the performance of the employees on an individual basis. This gives a

clear picture of where each employee stand and the areas they need to work on and the areas where they are good at. Hence, they can focus on their weak areas and take corrective steps accordingly.

- It also rewards the deserving employee in various sphere of work. Rewarding and appreciating the employee performance ensures higher job satisfaction, productive performance in the long run and maximum profitability.
- Continuous performance management promotes proactive developing employees. Yearly or quarterly performance appraisals may not facilitate continuous performance improvement but such HR initiatives combined with personal development objectives cultivate talent in a way that leads the organization to success and profitability in the long run.

1.6 BENEFITS OF PERFORMANCE MANAGEMENT SYSTEM

A good performance management system works towards the improvement of the overall organizational performance by managing the performances of teams and individuals for ensuring the achievement of the overall organizational goal and mission. Following are the benefits of an efficient performance management system in organizations-

1) It ensures that the employees understand the significance of their contributions to the organizational objectives.
2) It ensures proper linking of objectives and facilitates effective communication throughout the organization.
3) It promotes a cordial and harmonious relationship between individual employee and the line manager based on trust and empowerment.
4) It facilitates job satisfaction among employees due to transparent feedback given to employees on their performance.
5) A good performance management system leads to improved organizational performance and productivity. It brings cost advantages.
6) It also results in employee retention and enhanced loyalty.
7) Performance reviews help in identifying training needs.

8) The results obtained through this system helps in assisting personnel planning including staffing.
9) Finally, the weak and lazy employees are easily identified through performance evaluation system that are dismissed and replaced with more efficient and prospective employees.

1.7 LINKAGE OF PERFORMANCE MANAGEMENT TO OTHER HR PROCESSES

- **Performance management and strategic human resource management:** Strategic HR decisions design standards and make guidelines for each job role to define its competencies. Performance management results are used by managers for soliciting information to assess and reward the behavior of the employees. The results of such system are used in recruitment, interviewing and development of personnel to suit organizational needs and requirements. The relationship between strategic planning and performance management links day-to-day operations orienting company's vision.
- **Aligning personal development goals to performance management:** An individual employee establishes his personal goals by aligning his development activities to the needs of the organization. Employees might want to brush or polish on their various traits like integrity, responsibility, reliability, customer centric behavior and so on. Performance gaps may reveal a need to improve in one or more areas. Establishing a specific, realistic and quantifiable goal make it easier for an employee to achieve his objective.
- **Performance management and designing training needs:** The results of performance management system release data and information on the degree and kind of training programmes that need to be designed for the employees. Various workshops, seminars, on the job training sessions can help prepare employees to address their problems at the workplace. The HR department needs to rise to the challenge of developing, delivering and evaluating need based training programmes.

- **Performance management and succession planning:** Succession planning is a vital duty and responsibility of HR manager as it deals with determining the future line of managers in key roles and developing a pipeline of talent which can be drawn from at any time. As performance management is a continuous process and delivers data on consistent performance of able and potential employees so the managers can have easy access to bring the potential employees on the floor for developing them to fill key business leadership positions in the company.



CHECK YOUR PROGRESS

Q.3: Write ant three benefits of an efficient performance management system in organizations.

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Q.4: Why performance management is important?

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1.8 LET US SUM UP

In this unit we have discussed the following:

- Performance management is the process of identifying, measuring, managing and developing the performance of the human resources in an organization.

- Performance management is a continuous process of communication between the supervisor and subordinate which is essentially performance centric and supports accomplishment of strategic objectives of the organization.
- Some of the roles played by performance management in different areas are:
  - It involves employees in the planning stage
  - It monitors the progress of the employees on a continuous basis
  - It ensures all round development of employees.
  - It facilitates evaluating and rating the performance of the employees on an individual basis
  - Continuous performance management promotes proactive developing employees.
- There is a linkage of performance management to other hr processes like
  - Performance management and strategic human resource management
  - Aligning personal development goals to performance management
  - Performance management and succession planning
  - Performance management and designing training needs.



1.9 FURTHER READING

1) Goel, D. (2012), *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
2) Gupta, Sashi K. and Joshi, Rosy. (2014). *Human Resource Management*. Kalyani Publishers.



1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Performance management is the process of identifying, measuring, managing and developing the performance of the human resources in an organization.

Ans. to Q. No. 2: Clarity of organizational goals and Evaluation.

Ans. to Q. No. 3: Benefits of Performance Management are:

a) It ensures that the employees understand the significance of their contributions to the organizational objectives.

b) It ensures proper linking of objectives and facilitates effective communication throughout the organization.

c) It promotes a cordial and harmonious relationship between individual employee and the line manager based on trust and empowerment.

Ans. to Q. No. 4: Performance management provides scope for tapping the full potential of the employees. It can be described as a comprehensive process starting from monitoring and developing the desired qualities to rating their progress and rewarding them for their achievements.



1.11 MODEL QUESTIONS

Q.1: Define performance management. Why is it important?

Q.2: Write a short note on essentials of an effective performance management system.

Q.3: Highlight the benefits of good performance management.

Q.4: Discuss the linkage of performance management to other processes of human resource management.

Q.5: Do you think performance management can promote an atmosphere of cooperation and participation among managers and employees? Discuss.

Q.6: How performance management is related with strategic HR decisions of an organization? Discuss.

*** ***** ***

UNIT 2: PROCESS OF PERFORMANCE MANAGEMENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Performance Management Process

2.4 Performance Management Planning Process

2.5 Mid-Cycle Review Process

2.6 End-Cycle Review Process

2.7 Let Us Sum Up

2.8 Further Reading

2.9 Answers to Check Your Progress

2.10 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the process of performance management
- describe the performance management planning process
- discuss the mid-cycle review process of performance management
- learn the end-cycle review process of performance management
- know the performance management cycle.

2.2 INTRODUCTION

In the previous unit we have discussed about the concept of performance Management. This unit will give us a fair idea about the process and various related performance management.

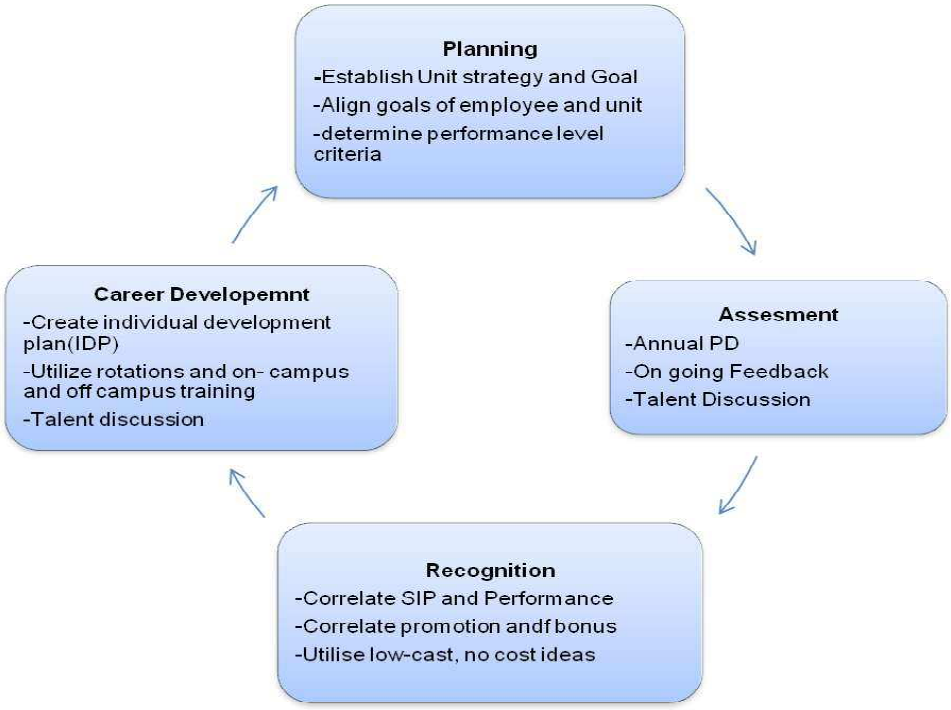
The concept of performance management is an increasingly popular topic of discussion. It involves a process in which a company or organization creates a work environment that empowers employees to work to the best of their abilities. The process adopted by employers in various organizations may slightly vary from business to business or division to division. Usually

the performance management process involves some form of goal setting, evaluation and reward. In addition to the above, coaching is often offered throughout the process.

In the present unit, the planning process, mid-cycle review process and end-cycle review process of performance management is discussed at length.

2.3 PERFORMANCE MANAGEMENT PROCESS

A good performance management process aims at developing, rewarding and retaining an organization's talent and potential. This is a continuous process and fosters effective communication to increase employee expertise. The process encompasses various stages like planning and developing stage where managers and employees collaborate to set short-term and long-term goals followed by evaluation stage where the employee progress towards the goal is measured and reward stage at which employees may receive merit increase, spot bonuses or other forms of compensation for accomplishing their goals. This practice not only assists in company planning and development of a successful workforce but it also keeps employees engaged as active participants in the organization's growth.



Let us discuss the stages in the following ways:

Planning stage: This stage of performance management includes setting achievement goals for the employees and discussing with them the performance expectations from their end. At the end of the planning stage both the employee and the manager comes to a meeting point and agreement of what is expected. The goals that are set must be achieved within the course of one year.

Assessment stage: This stage is an annual evaluation of the employees' performance. This often takes feedback from peers, clients in addition to observation by the management. Assessment also includes a review of the previous years' evaluation and an assessment of skills.

Recognition stage: This deals with recognizing the employee's accomplishments as well a any areas that need improvement. During this process the employer should discuss ways to make improvements. In terms of accomplishments, employees may be given recognition verbally and in the form of bonuses and promotions.

Career development: This phase encompasses promoting and encouraging future improvement and development of the employees. It should meet the needs of the business or organization; enhance the strengths of the employee and work to eliminate areas of weaknesses. This may include training for polishing and refining the skills and traits of the employees on the job.

A performance management process sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization's mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes.

Hence, performance management can be regarded as a proactive system of managing employee performance for pooling individual performances towards desired results and aligning to organization's objectives. It is a united effort towards accomplishment if excellence in performance.



CHECK YOUR PROGRESS

Q.1: Define Performance management process.

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Q.2: Write the stages in performance management process.

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2.4 PERFORMANCE MANAGEMENT PLANNING PROCESS

Performance management planning includes determining what and how a job needs to be done so that both the employee and his superior can understand what is expected from the employee and how success is defined and measured. It is a joint effort by the employee and his superior. It is a formal process in organizations for discussing, identifying and planning the organizational as well as individual goals which an employee can or would achieve in coming appraisal or review cycle.

The performance planning process comprises of the following steps:

- At the outset, the employee formulates and designs his job objectives by taking into account the organizational objectives by consulting the superior. The objectives are set highlighting the performance expectations that the superior has from his subordinate employee. The objectives are tools for helping the employee understand the key result expected out of him during a period which is usually a year. To be operational, objectives should be result-oriented, specific, measurable and time-bound.
- In the second phase, the contribution of each set objective to the organizational objectives is discussed and further it is determined how the accomplishment of each objective will be measured.
- In the light of the stated objectives, any development activity that will be required by the employee are worked out. Developmental

activities are those that are relevant for improving the employee's current skills or prepare him for new responsibilities.

- Once the performance plan is established, it is the responsibility of the employee to work on the objectives and carry out the responsibilities specified in the plan. The superior works with the employee throughout the plan period to help the employee succeed by coaching and counseling him on his performance.

Hence the performance management planning should be effective in monitoring as well as measuring the results. It should identify the key performance levels which can easily be quantifiable. The performance plan laid out would also be helpful in enlisting various training programs which employees can take to increase knowledge and productivity.

2.5 MID-CYCLE REVIEW PROCESS

The mid cycle performance review is an essential part of the performance management process. Conducting helpful and productive mid-cycle review discussions is a fundamental way in which managers can support a culture of ongoing feedback, recognition and to achieve better organisational results. It also helps to facilitate and coagulate positive employee-manager relationship which is a key driver of employee engagement. This cycle has mainly two objectives. Firstly to review the progress and performance demonstrated to date and secondly to create plans required for the remainder of the year. Employers use mid-year performance review s a means to discuss with employees their progress on goals and performance to date. It also provides a platform for exchange of ideas, suggestions and constructive inputs between employees and managers. It ensures employee satisfaction and paves way for easy redressal of grievances. Such mid-cycle reviews are important for the following reasons:

- Usually organizations design and set their objectives at the beginning of the year but a lot of changes may happen within the span of six months time. So it becomes necessary to conduct half yearly reviews to keep the objectives aligned with business changes.

- Mid-year reviews also provide scope for the employees to be aware of their weaknesses and pitfalls which is very necessary for them to know in order to take corrective actions.
- It can solidify the actions that the management wants the employees to take for the balance of the year. It is an excellent opportunity to clarify and review specific goals and actions to be achieved by the end of the year.

Steps for conducting a mid-cycle review

1) **Self-assessment by employees:** Employees pose as much responsibility in the performance review process as the supervisor does. The employees conduct his/her own self-assessment using the same criteria and format as the supervisor will to assess performance. The differences between ratings provide a room for discussion.
2) **Collection of performance data and feedback:** The manager collects performance data and feedback and uses the same wherever possible and list specific behavioural examples. Ambiguous and non-specific statements are avoided in the process of performance appraisal for maintaining professionalism and utility of data.
3) **Review assessment:** The manager reviews the employee's self assessment and writes its own review regarding employee's performance. While doing so, various inputs data, inputs and information are taken into consideration which is collected beforehand.
4) **Performance review discussion:** After both employee and supervisor have done their preparation, they need to meet to formally discuss performance. Both the parties should be honest and forthright with each other.



CHECK YOUR PROGRESS

Q.3: Write the steps for conducting a mid-cycle review.

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Q.4: What is performance management planning process.

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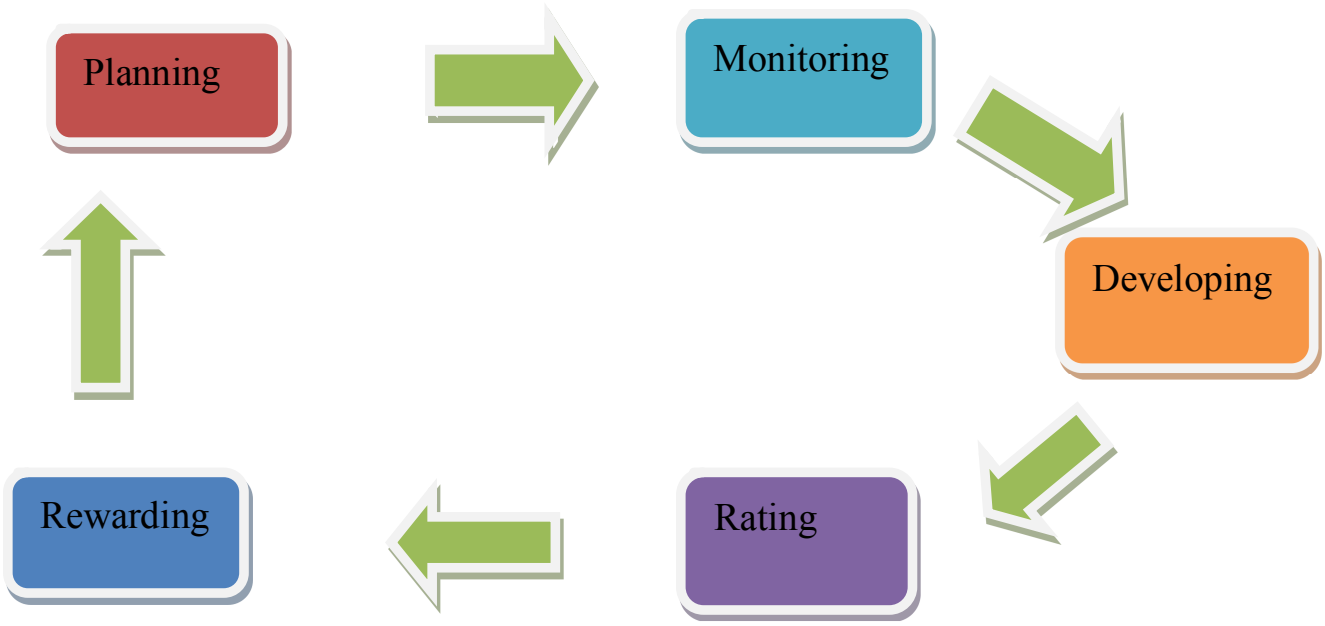
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2.6 END-CYCLE REVIEW PROCESS

At the end of the performance review process, the manager evaluates the extent to which the staff member has achieved his/her goals. In this stage feedback from the additional manager(s) if any, is taken into account by the manager. Where face-to face conversation cannot be facilitated, communication through telephone or VTC conversation is made. In this stage efforts are channeled towards setting a tone that is open and productive and it is ensured that by the end of the discussion both manager and employee have reached an understanding on any issues that require further discussion, timelines for completion, objectives that need to be met for the next year and review points.

Performance management cycle at a glance: Performance management involves more than mere appraisal of employees through rating mechanism. It is a continuous cycle that involves the following:

- **Planning** the work in advance so that the objectives and goals can be set.
- **Monitoring** the progress and performance of the employees' on a continuous basis.
- **Developing** the employee's ability to perform through training and work assignments.
- **Rating** periodically to summarize performance and
- **Rewarding** good performance.



The employee management effectiveness is one of the most important factors in achieving the company success and its competitive advantage. Therefore, performance management is the continuous process of planning, monitoring and reviewing employees' work objectives and their overall contribution to the company.

The performance management cycle includes three main stages namely–

- Performance management planning: The planning stage of the performance management cycle involves both the employees and managers. On this stage, the manager and the employee agree what the employee must accomplish, to what standard (for eg., the production goals) and identify how the results will be measured. They also negotiate about the competencies (such as customer satisfaction areas and promotional decisions) that are necessary for effectively accomplishing the company's performance and define the development and studying the employee needs to eliminate gaps in his/her competence.
- Performance management monitoring: The employee performance and progress should be continuously monitored. "Continuous monitoring" doesnot mean watching every aspect of how the employee fulfills the assigned tasks and activities. Managers should

focus the attention on the achieved results, individual and team dynamics affecting the work environment.

- Performance management reviewing and evaluating: On the last stage of performance management cycle, the employee's accomplishments and standards that have been agreed at the first stage are analyzed by the manager and the employee. They also consider what the new employee has studied and how his/her knowledge can be effectively used within the employee's current position and in the future company's jobs. They come to terms how well the employee performs during the last period and what he/she needs to consider for achieving the future work standards and goals.



2.7 LET US SUM UP

In this unit we have discussed the following:

- A good performance management process aims at developing, rewarding and retaining an organization's talent and potential. This is a continuous process and fosters effective communication to increase employee expertise.
- The performance management process encompasses various stages like planning and developing stage where managers and employees collaborate to set short-term and long-term goals followed by evaluation stage where the employee progress towards the goal is measured and reward stage at which employees may receive merit increase, spot bonuses or other forms of compensation for accomplishing their goals.
- The performance planning process comprises of the following steps:
  - The employee formulates and designs his job objectives
  - The contribution of each set objective to the organizational objectives is discussed and further it is determined how the accomplishment of each objective will be measured
  - In the light of the objectives, any development activity that will be required by the employee are worked out.

- Once the performance plan is established, it is the responsibility of the employee to work on the objectives

- The mid cycle performance review is an essential part of the performance management process. Conducting helpful and productive mid-cycle review discussions is a fundamental way in which managers can support a culture of ongoing feedback, recognition and to achieve better organisational results.
- Steps for conducting a mid-cycle review are: Self-assessment by employees, Collection of performance data and feedback, Review assessment and Performance review discussion.
- Performance management involves more than mere appraisal of employees through rating mechanism.
- The performance management cycle includes three main stages namely: Performance management planning, Performance management monitoring, Performance management reviewing and evaluating.



2.8 FURTHER READING

1) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
2) Gupta, Sashi K. and Joshi, Rosy. (2014). *Human Resource Management*. Kalyani Publishers.



2.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Performance management process aims at developing, rewarding and retaining an organization's talent and potential.

Ans. to Q. No. 2: Stages in the following ways: Planning stage, Assessment stage, Recognition stage and Career development

Ans. to Q. No. 3: Steps for conducting a mid-cycle review: Self-assessment by employees, Collection of performance data and feedback, Review assessment and Performance review discussion

Ans. to Q. No. 4: Performance management planning includes determining what and how a job needs to be done so that both the employee and his superior can understand what is expected from the employee and how success is defined and measured.



2.10 MODEL QUESTIONS

Q.1: Define performance management process. What are the different stages in the performance management process?

Q.2: Define the mid-cycle review process of performance management. Why is it important?

Q.3: Elaborate the steps involved in the mid review process of performance management.

Q.4: Highlight the performance management cycle at a glance.

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UNIT 3: PERFORMANCE APPRAISAL

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning of Performance Appraisal

3.4 Benefits of Appraisal

3.5 Conflict and confrontation

3.6 Process of Performance Appraisal

3.7 Methods of Performance Appraisal

- 3.7.1 Traditional Methods of Performance Appraisal
- 3.7.2 Modern Methods of Performance Appraisals

3.8 Let Us Sum Up

3.9 Further Reading

3.10 Answers to Check Your Progress

3.11 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of performance appraisal
- discuss the benefits of performance appraisal
- outline the conflict and confrontation related with performance appraisal
- describe the process of Performance Appraisal
- discuss methods of performance appraisal.

3.2 INTRODUCTION

In this unit, we will discuss about the benefits of appraisal, conflict and confrontation related with performance appraisal as well as the common mistakes made in it. You will also come to know about the bias effect of performance appraisal. In the later part, we will go in details through the five steps of performance appraisal process and the traditional as well as the modern method of performance appraisal.

2.3 MEANING OF PERFORMANCE APPRAISAL

Performance appraisal is a part of career development. Performance appraisal is a process of examining and evaluating an employee's job performance (generally in terms of quality, quantity, cost and time) by comparing it with the preset standards. It then provides feedback to the employee from the results of comparison and points out where improvements are needed and why. Performance appraisal Identifies employee's training and developmental needs and forms a basis for personnel decisions like salary increases, promotions, training, disciplinary actions, etc.

The practice of appraisal is a very ancient art. In the scale of history, performance appraisal may be claimed to be the world's second oldest profession. The history of performance appraisal has its roots in the early 20th century and can be traced back to Taylor's pioneering Time and Motion studies. It is used as a distinct and formal management procedure for evaluating the work performance of an employee. The practice of appraisal really dates from the time of the Second World War – not more than 60 years ago.

3.4 BENEFITS OF APPRAISAL

In the rush and bustle of daily working life, probably the most significant benefit of appraisal is that it urges a supervisor and his subordinate to have a discussion on the important work issues that might not otherwise be addressed. When performance appraisal is conducted properly, it ensures both beneficial and positive experiences to the supervisors and subordinates

Appraisal system is very much valuable to an organization. It offers an opportunity to focus on work activities and goals as well as to identify and correct existing problems. Thus it enhances the performance of the whole organization and encourages better future performance. The important benefits are explained below:

a) **Motivation and Satisfaction:** The profound effect of performance appraisal on employee motivation and satisfaction may be either good or bad. Performance appraisal offers a chance to employees to be recognized for their work efforts.

The genuineness of an organization's interest in its employee's performance and development is reflected through the existence of an appraisal program in there. An individual's sense of worth, commitment and belongingness can be positively influenced only by applying proper performance appraisal system. Performance appraisal considers the strength and prevalence of the natural human desire for individual recognition.

b) **Training and Development:** Probably through performance appraisal, both the supervisor and the subordinate gets an excellent opportunity to recognize and agree upon individual training and development needs. It shows the presence or absence of work skills in an employee's work performance

As training and development has a relevant linkage with performance outcomes and future career aspirations, their importance becomes very obvious.

From the organizational point of view as a whole, the consolidated appraisal data depicts a clear picture of the overall demand for training. This data may be analyzed based on different variables such as sex, department, etc.

c) **Recruitment and Induction:** The fruitfulness of an organization's recruitment and induction practices can be analyzed form the appraisal data. For example, how well are the employees performing who were hired in the past two years?

Appraisal data can be used to evaluate the effectiveness of changes in recruitment strategies. It is also possible to assess the progress in terms of general quality of the workforce, (whether it is improving, staying steady, or declining) by comparing the yearly appraisal data.

d) **Employee Evaluation:** Evaluation is a legitimate and major objective of performance appraisal even though it is understated or denied very often. Performance appraisal is the process of examining and evaluating the performance of an individual at its most basic level. However, there is a frequent clash for the evaluative and developmental priorities, so, there prevails an ongoing source of tension for this. It

is said that appraisal cannot serve the needs of evaluation and development at the same time. But there may be an acceptable and balanced middle ground, where it is possible to serve the needs of evaluation and development at the same time.

3.5 CONFLICT AND CONFRONTATION

Being an appraiser, it is your responsibility to give accurate feedback to the appraisee rather than flattering feedback. The feedback delivering session is always critical. It needs skill and sensitivity to handle the matter.

Everything is good and well if the appraisee accepts the negative feedback without any objection and resolves to improve himself. But the situation may be a reverse one when the negative feedback results in an angry or hurt employee. Then the process of correction fails and the performance of an employee is unlikely to improve and may even deteriorate further.

a) **Self-Auditing:** Self-Auditing means self accessing. The term is related with the poor performers of an organization. The aim of this technique is to prove or emerge the evidence of poor performance "naturally" during the course of appraisal interview. This has to be done by asking open-ended question because it provides no limit to the employee in expressing their views. Thus, it encourages the employee to identify their own performance problems.

For example, consider the case of an employee who was absent for too many days. The appraiser may ask the employee the reason of his absence.

An appraiser can feel that he has won half the battle when an employee voluntarily admits his fault. The self-auditing technique was described by Krein [1990] according to whom appraiser should not confront employees directly with criticism. Rather the employee should be encouraged to confront themselves with their own work and performance issues.



Adversarial: Involving opposition.

Confrontation techniques rely on "charge and counter-charge" process and promote adversarialism and thus subsequently lead to denial and resentment. On the contrary, self-auditing technique is

more likely to promote discussion and agreement on the need for change.

b) **Ownership of Problem:** The most powerful aspect of the self-auditing process has been noted as the employee's voluntary admission of their own poor performance. It also facilitates the employee's willingness to accept personal "ownership" of problems that have been self-identified. This sense of ownership stimulates the pace of change and development in them.

But there are some individuals who refuse to admit a thing that reflects poorly on them. They do not co-operate with the process of self-auditing due to ego. Instead, they resist it very strongly. In such cases, appraisers are left with no other option but to confront the poor performer directly and firmly with the evidence they have.

Sometimes the direct confrontation makes the employees to be shocked and they feel ashamed of their doings. So, they admit the need to make improvements. On the contrary, the problem worsens when the employees disagree to their faults.

In providing any feedback– especially negative feedback - appraisers must be careful about the sentiment of the employee. They must try to support their opinions with specific and clear examples. Use of vague generalized example should be avoided.

The focus should be on job-related behaviours and attitudes. It is better to exclude personal matter or any specific observation that cannot be supported by clear evidence. Appraisers must carefully scrutinize their own perceptions, motives and prejudices because all these have an impact in the appraisal process.

3.6 PROCESS OF PERFORMANCE APPRAISAL

1) **ESTABLISHING PERFORMANCE STANDARDS**: In this step, first the standards are set up which must be clear, easily understandable and in measurable terms. Then considering the standards as the base, the actual performance of the employees is compared. Here the criteria are set to judge the performance of the employees as

successful or unsuccessful and their degrees of contribution to the organizational goals and objectives.

2) **COMMUNICATING THE STANDARDS:** Once the standards are set, it is the responsibility of the management to inform and explain the standards clearly to all the employees of the organization. Then only employees can understand their roles and know what exactly is expected from them. The standards should also be communicated to the appraisers or the evaluators. And at this stage itself, the standards can be modified on demand, according to the relevant feedback from the employees or the evaluators.

3) **MEASURING THE ACTUAL PERFORMANCE:** Probably this is the most difficult part of the Performance appraisal process. Measuring the actual performance of the employees means the work done by the employees during the specified period of time. It is a continuous process which involves monitoring of employee performance throughout the year. The appropriate techniques of measurement should be selected very carefully so that personal bias does not affect the outcome of the process. It should provide assistance rather than interfering in an employee's work.

4) **COMPARING THE ACTUAL WITH THE DESIRED PERFORMANCE:** In this stage, the actual performance is compared with the desired or the standard performance. The comparison tells the deviations in the performance of the employees from the standards set. The result will show whether the actual performance is more than the desired performance or just opposite of it which depicts a negative deviation in the organizational performance. It includes recalling, evaluating and analysis of data related to the employee's performance.

5) **DISCUSSING RESULTS:** Then the result of the appraisal is communicated and discussed with the employees on one-to-one basis with the aim of problem solving and reaching consensus. The focus of this discussion is on the problems and its possible solutions. The feedback should be given with a positive attitude because this usually has an influence on the employee's future performance. One

of the purpose of the meeting is to motivate the employees to perform better.

6) **DECISION MAKING:** In this last step, decisions are taken which may be either to improve the performance of the employees or to adopt the required corrective actions. Decision is also taken on the HR related issues like rewards,training, promotions, demotions, transfers etc.



CHECK YOUR PROGRESS

Q.1: Write the steps of Performance Appraisal in sequential order.

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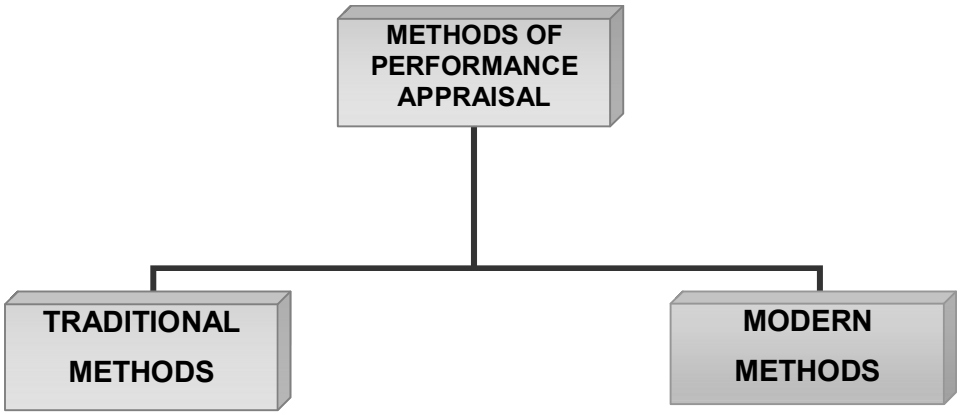
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3.7 METHODS OF PERFORMANCE APPRAISAL

The methods and techniques used for evaluating employee performance can be classified into two broad categories as shown in the following:



3.7.1 Traditional Methods of Performance Appraisal

a) **Confidential report:** it is a practice followed in most of the government departments and public enterprises where performance appraisal is done through annual confidential reports. The confidential report is based on the performance, ability and character of the employee for a unit of one year. The report is subjective. The credibility of this appraisal method is very low as no feedback is provided to the employee being appraised. The method focuses on evaluation rather than development of the employee. The employee who is appraised never knows his weaknesses and the opportunities available for overcoming these.

b) **Graphic rating scale:** in this method, an employee's quality and quantity of work is assessed in a graphical scale. There are different degrees of a particular trait. Here both the personal characteristics and the characteristics related to the on-the-job performance of the employees are taken into consideration. For example a trait like Job Knowledge may be judged on the range of average, above average, outstanding or unsatisfactory. Rating scales are of two types viz. continuous and discontinuous. In continuous scale the degree of a trait are measured in numbers ranging from 0 to 5 whereas in a discrete or discontinuous scale, appropriate boxes or squares are used.

c) **Straight ranking method:** it is one of the oldest and simplest techniques of performance appraisal. Here the appraiser ranks the employees from the best to the poorest on the basis of their overall performance. A list is then prepared for ranking the workers in order of their performance on the job, keeping the excellent employee at the top while the poor one at the bottom. It is quite useful for a comparative evaluation. It compares all the employees in any single rating group regardless of the types of work they do. Though the method is suitable in a small organization with

less number of employees, yet it is difficult to compare the persons having different qualities, attitudes etc. as a whole. This method only tells us the standing of various persons like 1, 2, 3, 4, ..., ... and so on, but not the actual difference among them ,that means, how much the person at number 1 is better than that at number 2.

d) **Paired comparison:** in this method, each employee is compared trait-wise with all others in the group, one at a time. Here, the number of times one person is compared with others is tallied on a piece of paper. These numbers help in yielding rank orders of employees. For example, if there are five persons to be compared, A's performance is first compared with that of B to find out who has better performance, then A is compared with C, D and E respectively and performance is recorded. Then B is compared to C, D and E, since he has already been compared with A. In turn C is compared with D and E and so on. Then, the results of these comparisons are tabulated and a rank is assigned to each employee. This method is suitable in a small organization where number of employee is less.

e) **Grading system:** On the basis of certain features like analytical ability, cooperativeness, dependability, job-knowledge etc. are selected for evaluation in this system. The employees are given grades according to the judgment of the rater. For example, the grades may be such as:

A = Outstanding

B = Very Good

C = Satisfactory

D = Average

E = Below average

The actual performance of every employee is rated with various grades in mind.

f) **Forced distribution:** forced distribution method is used to eliminate the element of bias from the rater's ratings. Here, the evaluator uses to distribute the employees in some fixed categories

of ratings like on a normal distribution curve. The rater places these categories on the appropriate fits based on his own discretion. Though the employees are placed in a certain category yet they are not ranked within a category. The assumption of this method that all groups of employees have the same distribution of good and poor performance is not exempted from the question. There is no explanation for placing an employee in a particular category. Moreover no specific job related criteria is used for ratings. Forced distribution of rankings is feasible for a large group of employees.

g) **Checklist method:** the rater is given a checklist which contains a list of statements, based on which the rater describes the job performance of the employees. The statements in the checklist describe the behaviour of the employees on job. Then each statement is checked by the rater to indicate whether the behaviour of an employee is positive or negative. Ultimately, the performance of the employee is rated based on the numbers of positive checks. There are three types of check lists that can be used:

1) Simple checklist
2) Weighted checklist
3) Forced choice checklist

1) Simple checklist: Under this method, only double barrel questions are put in the checklist and so the supervisor has to answer it either as yes or no. After filling these questions the checklists are sent to personnel department where final rating is done. The questions in the form may be weighed equally or certain questions may be given more weightage than others. In this method, there may also be the supervisory bias because he can distinguish between positive and negative questions. Moreover it is impossible to put all the necessary questions in the check list considering its length.

2) Weighted checklist: This method is also used to avoid personal prejudices. In this method, depending on the relative

importance, weights are assigned to different statements in the checklist which is as follows–

	Traits	**Weights**	**Performance Scale Ratings(1-5)**
1)	Regularity	0.5	
2)	Dependability	1.0	
3)	Loyalty	2.0	
4)	Leadership potential	1.5	

This method is a very lengthy, time consuming and relatively costly affair.

3) **Forced choice checklist:** In this checklist, five statements are given for each trait. Out of these statements, two are the most descriptive type while the other two are the least descriptive statements with one neutral statement. The aim is to minimize the rater's personal bias. A specimen of forced checklist is as follows:

For example, Statement no. (5) Regularity of the employee.

Options are– i) Always regular.

ii) Informs in advance for absence or delay.

iii) Never regular.

iv) Remains absent without prior notice.

v) Neither regular nor irregular.

The method is expensive, lengthy and time consuming. But it has greater objectivity than the other methods. The supervisor get no chance to discuss the rating with subordinates because these items are scored by the personnel department.

h) Critical incidents methods: In this method of performance appraisal, the evaluator rates the employee on the basis of their behaviour at the time of critical events that occur during the course of work. The assumption made in this method is that the performance of the employee on the happening of critical incidents determines his failure or success. Examples of critical events are–

a) Refused to accept instructions even when these were clear.
b) Increased his efficiency despite resentment from other workers.

Critical incident method has both negative and positive point. It provides an objective basis to discuss an employee's performance. Here the evaluation is based on employee's actual job behaviour. Finally, this method is considered to improve the employee performance because they learn precisely what is expected of them.

i) Free essay appraisal method [also known as "free Form method"]: This is a traditional, non-quantitative form of appraisal and involves a description of the performance of an employee by his superior. The description is an evaluation of the performance of an individual and often based on the facts, examples and evidences that support the information. The supervisor should have a continuous watch on the subordinates and write his assessment in the report .While preparing an essay on the employee, the rater generally considers the following factors:

i) Job knowledge of the employee
ii) Employee's relation with co-workers and supervisors
iii) Employee's traits and attitudes
iv) Employee's understanding of the company's programmes, policies, objectives etc.
v) Development needs for future etc.

The essay method not only suffer from personal bias but also from human bias because here comes the liking or disliking of a subordinate by the supervisor. The another drawback is that an appraiser may be unable to express his judgment in appropriate words limiting the utility of appraisal report. Moreover, a busy appraiser may be too hurry to write the essay. So, the actual performance of employee may not be reflected properly. The appraiser may take lots of time in preparing the essay. So, the method becomes uneconomical from the time factor point of view.

j) **Group appraisal:** under the group appraisal method, employees are rated by a group of people known as appraisal group. The appraisal group consists of a supervisor and three or four other persons who have some knowledge on the employee performance. The supervisor explain the nature of his subordinate's duties to the group members. Then the group discusses the standard performance for that job and compares it with the actual performance of the employee and offers suggestions for future improvements, if required.

This method is devoid of personal bias because appraisal result is given taking the consents of multiple judges. Moreover, it is a very thorough and simple method. The only drawback is that this method is very time consuming.

k) **field review:** In this method, there is a session of discussions and interviews between a senior member of the HR department or a training officer and the line supervisors to evaluate and rate their respective subordinates. The interviewer questions the supervisor about the requirement of each job in his unit and enquires whether the performance of each man in his job is satisfactory or not. Thus, the expert gathers all the important information on each employee from the supervisor and takes notes in his note book .There is no rating form with factors or degree, but overall ratings are obtained. Here the performance of employees is usually categorised as outstanding, satisfactory and unsatisfactory.

The success of this method depends upon the competence of the interviewer. When this method is used, the supervisors get rid of the tedious writing work of filling in appraisals forms as here questions are asked and answered verbally. Personal bias of supervisor is likely to minimise in this method because the process is largely controlled by the personnel department.

This method requires lots of time and keeps two managerial personnel busy with the appraisal system–

i) **Nominations:** In this method, appraisers are asked to identify the exceptionally good and exceptionally poor performers and they are then singled out for special treatment.

ii) **Work sample test:** In this method, from time to time, employees are given some work related tests to work out which are then evaluated to judge them.

3.7.2 Modern Methods of Performance Appraisals



Akin: Similar or relatedin quality or character.

i) **Assessment centres:** In this method, the competency of an employee is assessed to take higher responsibilities in the future. Generally, employees are given an assignment akin to the job they are expected to perform, if promoted. Then their performance on the assigned jobs are observed and evaluated by a team of trained evaluators limiting the rater's personal bias.

Interpersonal skills, intellectual capability, planning and organizing capabilities, motivation, career orientation etc. are the major competencies of an employee that are judged in assessment centre method. This method also determines the training and development needs of the targeted employees as well as provides the necessary data for human resource planning.

Drawback of this method is that the candidates may feel demoralized on receiving a negative report from the evaluators. There creates an environment of strong and unhealthy competition among the employees due to the assessment centre method. It is impossible to conduct the tests frequently and there is a possibility of over emphasizing the test performance.

Effectiveness of this method can be increased by–

a) stating the goals clearly,
b) obtaining the top management support,
c) conducting job analysis,
d) imparting proper training to the evaluators; and
e) periodically evaluating and revising the assessment programme.

ii) **Management By objectives:** The concept of 'Management by Objectives' (MBO) was first given by Peter Drucker in 1954. It is a process where the subordinates and their superiors come together to identify and set the common goals to be achieved and the standards to be taken as the criteria for measurement of their performance and contribution as well as to decide the course of action to be followed.

Participative goal setting, choosing course of actions and decision making are the essence of MBO. In MBO process, employee's actual performance is measured and compared with the set standards. There is found more eagerness to fulfill their responsibilities when the employees themselves have been involved with the goal setting and choosing of the course of action process to be followed by them.

UNIQUE FEATURES AND ADVANTAGES OF MBO: The principle behind Management by Objectives (MBO) is to create empowered employees who have a clear knowledge of their roles and responsibilities and understand the objectives to be achieved. Thus this method helps in achieving the organizational as well as personal goals. Some of the important features and advantages of MBO are:

Clarity of goals– With MBO, came the concept of **SMART** goals i.e., goals that are:

- **Specific**
- **Measurable**
- **Achievable**
- **Realistic, and**
- **Time bound**

The goals thus set are clear, motivating and have a linkage with the performance targets of the employees. Here the future is focused rather than the past. Goals and standards are set to measure the performance in future with periodic reviews and feedback. Employees are tried to be motivated so that they give

their full co-operation in the whole process of goal setting. Increasing employee empowerment dedicates to the employee job satisfaction and commitment. There is a better communication and coordination with frequent reviews and interactions between superiors and subordinates in MBO which maintains a harmonious relationship within the enterprise and solve many problems faced during the period.

However the term, MBO almost always refers to a comprehensive, organization wise goal setting and appraisal programme that consists of the following steps:

a) **Set the organization's goal:** Here an organization wise plan is established for next year and thus goals are set to make the plan successful.

b) **Set departmental goals:** In this step, departmental heads and their superiors jointly set their departmental goals.

c) **Discuss departmental goals:** Departmental heads discuss the departmental goals with all the subordinates in the department and ask them to develop their own individual goals. In other words, every employee is involved in deciding his contribution to the department's in attaining its goals.

d) **Define expected results (set individual goals):** In this step, department heads and their subordinates set short term performance targets.

e) **Performance reviews:** In this step, results are measured. Department heads compare the performance of each employee with the expected result.

f) **Provide feed back:** Department heads hold periodic performance review meetings with subordinates to discuss and evaluate the progress of them in achieving the expected results.

This approach is considerably superior to the traditional approach of performance appraisal. It is a self appraising as well as problem solving approach and emphasizes the training and development needs of individuals.

Some of the limitations of MBO method is as follows:

a) This method is unsuitable where the subordinates can not set their own goals. This problem is usually happens with the blue collar workers because they often unable to do so.

b) The method is appropriate for the appraisal of executives and supervisory personnel who have a good command over goal setting and so, they can understand it in a better way.

c) MBO programme requires a considerable time, energy and expenditure for its success.

d) There may arise some conflicts while setting the objectives because when management pushes for higher quotes, then subordinates push for lower ones.

e) Rating of every employee is based on the specific target sets for each of them. So, it makes the ratings difficult to compare with.

iii) Human resource accounting method: It is known to everyone that human resources are the most valuable assets for every organization. So, in this method, it is tried to find the relative worth of these assets in the terms of money. Here, the performance of employees is judged by comparing the cost (like their compensation, recruitment and selection costs, induction and training costs etc.) incurred on them and the contribution that the employees made in terms of the total value added (in monetary terms). In simple language, this method tries to reflect the value of a firm's internal human resources and its external customer goodwill in terms of money value. The difference between the cost and the contribution tells us about the performance of employees. It is an ideal situation when the contribution of the employees is greater than the cost incurred on them.

This method is still in infancy stage and is therefore, not very popular at present.

iv) **Behaviorally Anchored Rating Scales:** Behaviorally Anchored Rating Scales (BARS) is a relatively new technique. It combines both the graphic rating scale and critical incidents method. It consists of predetermined critical areas of job performance or sets of behavioral statements which are developed from critical incidents and describe important job performance qualities as good or bad (for e.g., the qualities like inter-personal relationships, adaptability and reliability, job knowledge etc.). In this method, an employee's actual job behaviour is measured with the desired behaviour by comparing the behaviour with BARS.

BARS typically requires five steps–

a) **Generate critical incidents:** Persons who know the job being appraised (i.e job holder and/or supervisors) are asked to describe specific illustrations (critical incidents) of effective and ineffective performance.

b) **Develop performance dimension:** These people then cluster the incidents into a smaller set of performance dimensions (say 5 or 10). Each cluster (dimension) such as 'conscientiousness' is thus defined.

c) **Reallocate incidents:** Another group of people who also know the job then reallocate the original critical incidents. They are given the cluster's definitions and the critical incidents and are asked to reassign each incident to the cluster they think it fits best.

d) **Scale the incidents:** The second group is generally asked to rate the behaviour described in the incident as to how effectively or ineffectively it represents performance on the appropriate dimension (seven or nine point scales are typical)

e) **Develop final instrument:** A subset of the incidents (usually six or seven per cluster) is used as behavioural anchors for each dimension.

v) **360 degree performance appraisals:** 360 degree feedback, also known as 'multi-rater feedback', is the most comprehensive

appraisal method where the feedback about the employee's performance comes from all the sources, that means, his/her peers, managers (i.e., superior), subordinates, team members, customers, suppliers/ vendors– anyone who come in contact with him on his job and can provide valuable insights and information or feedback regarding the "on-the-job" performance of the employee. But these respondents should assess the performance of the employee without bias.

360 degree appraisal has four integral components:

1) Self appraisal
2) Superior's appraisal
3) Subordinate's appraisal
4) Peer appraisal

Self assessment is an indispensable part of 360 degree appraisals. This method has a high degree of employee involvement and also has the strongest impact on their behavior and performance. This appraisal method is effective in identifying and measuring certain skills of an employee like interpersonal skills, customer satisfaction and team building skills etc. This credible method provides a "360-degree review" of the employee's performance. Moreover, an employee gets a chance to look at his/her strengths and weaknesses, his achievements, and can judge his own performance through self appraisal.

There is a traditional part in 360 degree appraisal method in the form of superior's appraisal where the employee's responsibilities and actual performance is rated by the superior.

Certain parameters of the employee like communication and motivating abilities, ability to delegate the work, leadership qualities etc., can be judged from the subordinates' appraisal. If the correct feedbacks are provided by peers [also known as internal customers], then it can help in measuring the employee's abilities to work in a team, co-operation and sensitivity towards others.

360 degree appraisal is also a powerful developmental tool. When conducted at regular intervals (say yearly), it helps to keep a record of the changing perceptions of other's about the employee's performance. The method is more suitable for the managers as it helps them to assess their leadership quality and managing style by knowing other's perceptions about them. This technique is being effectively used in some of the organizations like Wipro, Infosys, and Reliance Industries etc for performance appraisals.

This method also has some limitation. Receiving feed back on performance from multiple sources may be an intimidating situation. Further, the organization has to devote a long time in selecting the rater, designing questionnaires and analyzing the data which is not justifiable in this busy working environment. In addition, multiple raters are less likely to provide a balanced and objective feed back than the supervisors who are sought to be replaced. Personal differences and biases may also be the limiting factors in this method.



CHECK YOUR PROGRESS

Q.2: Match the followings:

A) SMART goals, i.e., goals that are: Specific, Measurable, Achievable, Realistic and Time bound — A) 360 degree appraisal

B) Four integral components:
   1) Self appraisal — B) Checklist method
   2) Superior's appraisal
   3) Subordinate's appraisal
   4) Peer appraisal

C) Three types of check lists that can be used:
   a) Simple checklist — C) Management by Objectives
   b) Weighted checklist
   c) Forced choice checklist



3.8 LET US SUM UP

After going through this unit, you have learnt the meaning of performance appraisal. Then you have learnt the benefits, conflict and confrontations associated with performance appraisal. The methods of performance appraisal includes–

a) Traditional Methods
   - I) Confidential Report
   - II) Graphic Scales
   - III) Straight Ranking
   - IV) Paired Comparisons
   - V) Grading System
   - VI) Forced Distribution
   - VII) Check List Method
   - VIII) Critical Incident Method
   - IX) Free Essay Method
   - X) Group Appraisal
   - XI) Field Review
   - XII) Nominations
   - XIII) Work Sample Tests

b) Modern Methods
   - I) Assessment Centre
   - II) Management By Objectives
   - III) Human Resource Accounting
   - IV) Behaviourally Anchored Rating Scales
   - V) 360 Degree Performance Appraisal.



3.9 FURTHER READING

1) Mamoria, C. B. (2010). *Personal Management*. Himalaya Publishing House.

2) Prasad, L. M. (2014). *Principles and Practice of Management*. Sultan Chand & Sons.



3.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: a) Establishing Performance Standards
b) Communicating the Standards
c) Measuring the Actual Performance
d) Comparing the Actual with the Desired Performance
e) Discussing Results
f) Decision Making

Ans. to Q. No. 2: A — C; B — A; C — B



3.11 MODEL QUESTIONS

Q.1: Explain the importance of Performance Appraisal in human resource management.

Q.2: Briefly discuss the various methods of Performance Appraisal.

Q.3: Discuss the problems in Performance Appraisal. How can performance appraisals be made more effective?

Q.4: Write short note on:

i) Graphic rating scale
ii) Check list method
iii) Management by Objectives
iv) 360 degree performance appraisal
v) Self Auditing
vi) Human Resource Accounting

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UNIT 4: PERFORMANCE APPRAISAL FEEDBACK

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Introduction to Performance Appraisal Feedback

4.4 Objectives of Performance Appraisal Feedback

4.5 Role and Importance of Performance Appraisal Feedback

4.6 Types of Feedback

4.7 Principles of Performance Appraisal Feedback

4.8 Situations Demanding Performance Appraisal Feedback

4.9 Components of a Feedback Process

4.10 Steps in Constructive Feedback

4.11 Let Us Sum Up

4.12 Further Reading

4.13 Answers to Check Your Progress

4.14 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define the meaning and objectives of performance appraisal feedback
- learn the role and importance of appraisal feedback
- discuss the types of feedback
- outline the principles of performance appraisal feedback
- analyse the situations demanding performance appraisal used feedback
- define the components of a feedback process
- discuss the steps in constructive feedback.

4.2 INTRODUCTION

In the previous unit we have discussed about the concept of performance appraisal and its various methods performance appraisal.

In this unit we are going to discuss the performance appraisal feedback, its role and importance of appraisal feedback. We will get a fair idea about the types of feedback and the principles of performance appraisal feedback.

At the end of this unit we will discuss the situations demanding performance appraisal used feedback, the components of a feedback process and the discuss the steps in constructive feedback.

4.3 INTRODUCTION TO PERFORMANCE APPRAISAL FEEDBACK

Performance Appraisal is defined as a systematic process, in which the personality and performance of an employee is assessed by the supervisor or manager, against predefined standards, such as knowledge of the job, quality and quantity of output, leadership abilities, attitude towards work, attendance, cooperation, judgement, versatility, health, initiative and so forth.

The term feedback is used to describe the useful information or criticism about prior action or behavior from an individual communicated to another individual (or a group) who can use that information to adjust and improve current and future actions and behaviours.

4.4 OBJECTIVES OF PERFORMANCE APPRAISAL FEEDBACK

The following are some of the objectives of performance appraisal feedback:

- To promote the employees, on the basis of performance and competence.
- To identify the requirement for training and development of employees.
- To provide confirmation to those employees who are hired as probationary employees, upon completion of the term.
- To take a decision regarding the hike in employees pay, incentives etc.
- To facilitate communication between superior and subordinate.

- To help employees in understanding where they stand in terms of performance.

4.5 ROLE AND IMPORTANCE OF PERFORMANCE APPRAISAL FEEDBACK

Giving feedback to employees needs planning and tactfulness. Negative feedback may not always be well received. These realities are counterbalanced by the necessity of honesty. Without accurate feedback employees will not know what they need to improve and the workplace suffers. The importance of feedback to employees is discussed below-

1) **Feedback can improve performance:** Feedback is often mistaken for criticism. In fact, what is viewed as negative criticism is actually constructive criticism and is the best find of feedback that can help to formulate better decisions to improve and increase performance.
2) **Continuous feedback ensures open communication and awareness:** The feedback process should be a continuous one. When the employees will get to know about their pitfalls and problems areas they will become aware of it and start working on it so that they donot commit it next time. Moreover when the management will discuss the performance of the employees with them, it will open channels of communication and understanding between them. By sharing tips or suggestions throughout the year, not just at appraisal time can reduce surprises, and increase acceptance of appraisal ratings.
3) **Fair procedures and communication can make up for negative outcomes:** When the management explains the need for such appraisal programmes to employees it creates less friction for the employee and they know that the appraisal process is same and objective for everyone in the organization. Interpersonal communication makes a huge difference in accepting a negative rating.
4) **Feedback can motivate:** By asking for feedback, it can actually motivate employees to perform better. Employees like to feel valued

and appreciate being asked to provide feedback that can help formulate business decisions. And feedback from client, suppliers, vendors, and stakeholders can be used to motivate to build better working relations in the organization.

5) **Feedback is a tool for continued learning:** Invest time in asking and learning about how others experience working with your organization. Continued feedback is important across the entire organization in order to remain aligned to goals, create strategies, develop products and services improvements, improve relationships, and much more. Continued learning is the key to improving.
6) **Consistent standards are to be used to evaluate job relevant behaviours:** It is important for employees to understand what is being evaluated. It is their job performance and job relevant factors that affect the workplace. This feature is one of the most important for employees. Feedback must be communicated well to the employees and outline the connections between their behaviour and workplace effectiveness.
7) **Employees' participation in the feedback process results in higher employee involvement and better productivity for the organization:** One way to improve employee acceptance of an appraisal process is to involve them in the appraisal process. Explaining clearly and completely what will be done; the behaviours that are expected of them, as well as the criteria on which they will be evaluated can increase employee involvement and interest. If employees have limited understanding of the purpose, or the process, they will have more difficulty accepting the outcomes. Open communication can aid in eliminating this barrier.



CHECK YOUR PROGRESS

Q.1: Write the importance of performance appraisal feedback to employees.

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Q.2: What is feedback?

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4.6 TYPES OF FEEDBACK

Feedback is a mechanism, process or signal that is provided to the people being evaluated for letting them aware of their performance and making corrections wherever required. It also refers to the degree to which carrying out activities required by job results in the individual's obtaining direct and clear information about the effectiveness of his/her performance.

The following are the types of performance appraisal feedback:

- **Positive feedback:** It is clearly identified and appropriate acknowledgement of a job well done, a consistently high standard of performance over a period of time or a contribution to the team who has performed beyond expectations. Positive feedback is a very powerful team management skill and if used tactfully and correctly can do wonders for individual or team spirit.
- **Negative feedback:** Negative feedback often provides a realistic perspective of what and how other people perceive reading one's

performance. Negative feedback is received in many ways. Sometimes it is received as a challenge, sometimes as a motivation for performing better and sometimes as an insult. The purpose of negative feedback indicates improvement and rectification. The results of such feedback are also utilized for termination, demotion and dismissal of employees.

- **Constructive feedback:** It is combination of both. This kind of feedback firstly indicates the strengths of the employees. It praises the performance of the evaluates and highlights the core areas where they should work upon for polishing their skills. Constructive feedback brings optimism and channelizes the efforts of the employees for better performance next time. The employees are motivated by the suggestions offered to them in the feedback process.

4.7 PRINCIPLES OF PERFORMANCE APPRAISAL FEEDBACK

As performance appraisal process deals with people and not process or things, the manager should be careful in the whole mechanism of evaluating performance and giving feedback to employees. Effective performance management doesnot come from following a rigid, bureaucratic process. It comes from understanding what motivates people, and creating conducive environment for them to achieve their goals. Although different principles may be followed in different organizations but the common principles which are usually followed by managers in giving feedback are briefly discussed below:

- **Simple:** The appraisal process should be simple to evaluate for the manager and simple to understand for the employees. The paperwork and the inherent steps should not be complicated and clumsy.
- **Result oriented:** The feedback process should focus more on building strengths rather than indicating weaknesses. The employees should know their weak areas so that they can rectify and take corrective actions for improving performance in the workplace.

- **Appreciation:** Another principle of the performance appraisal process is to recognize and acknowledge good performance of the employees. Employees need encouragement and motivation from peers and superiors. A little appreciation can work wonders to them and they regain their energy in delivering better.
- **Openness:** The evaluator should be open and honest while giving feedback to the employees. The employees should clearly understand the rating generated to them and must accept it wholeheartedly. Acceptance is likely to occur when management is open and clear in its approach of giving feedback.
- **Challenging and realistic goals:** The goals set by the top management should be challenging yet realistic on which performances will be reviewed. It creates motivation among them and gives an impetus to deliver better by creating healthy competition among the fellow employees.
- **Continuous interaction:** The evaluator should inform and involve the employees regarding their periodic performances on job in regular intervals without much gaps. Timely feedback and awareness makes the whole process productive and successful.
- **Impartial approach**: The evaluator should be impartial in its approach of evaluation. It generates the environment of equity, trust and belongingness among the employees.
- **Example setter:** Another important principle of performance appraisal process is that the habit of good performance is infectious. So the manager or leader should himself set the trend and standard of performance by setting examples. The manager should strive to be better in performance so that the others may follow him.



CHECK YOUR PROGRESS

Q.3: What is Positive Feedback?

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Q.4: What is Negative Feedback?

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4.8 SITUATIONS DEMANDING PERFORMANCE APPRAISAL FEEDBACK

The major objective of performance appraisal is to understand and evaluate how well employees are performing or acting on their duty. Such appraisal process keeps a regular record of each employee's job performance including what efforts they have made, what they have achieved so far and what is the discrepancy in their performance. Employees are rated on their performance as well as their behaviour and personality which are important requisites in taking important decisions concerning workplace.

- **For smooth flow of work:** Regular performance appraisal activities are very important to be conducted and communicated for smooth flow of work. This keeps them guarded of their performance and they are aware that they are being supervised and need to improve in certain areas. This minimizes wastes and results in better productivity.
- **For accurate decision on promotion:** Every company needs to decide objectively and impartially regarding the deserving candidates for promotion. When promotion is strictly on merit basis it becomes

imperative for the management to know who is doing best in performance and who takes initiative in decision making as well as in problem solving fields. Hence, the feedback results guides the management in taking decisions on promotion.

- **Provides input for layoff and retrenchment:** Whenever the company decides for layoff and retrenchment, it becomes very cautious on whom to retain and whom to terminate for layoff. The performance appraisal results give a direction and indication to the management regarding the idle and unproductive employees who may be earmarked for such management decisions.
- **Helpful in identifying training needs:** Another important situation demanding conduct of performance appraisal activities is releasing data for designing and planning training need for employees. An effective appraisal is a tool to determine what necessary steps are to be taken in order to help the employees in improving their performance. The increment in skills and knowledge develop an overall personality, behaviour and attitude of employees.
- **Taking corrective actions:** Performance appraisal differentiates between excellent, good and poor performing employees. Results of performance appraisal help the management in taking corrective actions. Such actions may include warning, counseling, demotion or termination of employees to prevent the occurrence of undesirable results in the workplace.
- **Evaluating effectiveness of human resource functions:** Recruitment, selection, employee training, rewarding etc. are some functions of human resource management whose effectiveness can only be analyzed when the performance of employees are appraised.
- **Helpful in deciding for incentives:** Performance appraisal of employees helps the supervisors in knowing their job performance and the right amount to pay them. The employees will receive wages in accordance to their contribution made to the organization. Employee's putting extraordinary and commendable efforts are awarded with incentives by the organization.

4.9 COMPONENTS OF A FEEDBACK PROCESS

The following are the components of a feedback process:

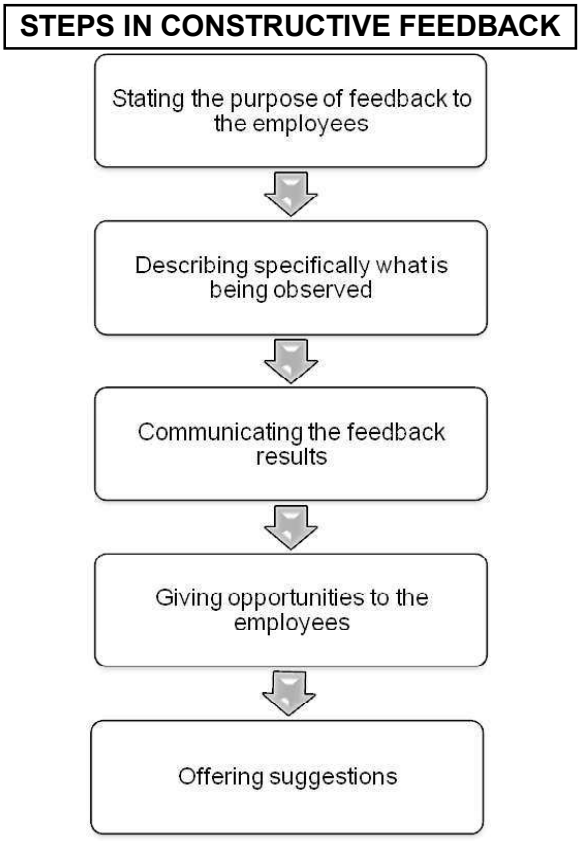
- **Management involvement:** One of the most important requisite of an effective feedback process is full involvement and support of top management. Managers are responsible for setting performance expectations, providing feedback and coaching and recognizing excellent work. Managers constitute an active part of the performance management process.
- **Goal setting:** Another important component of feedback process is goal setting process. Goals should be competitive and realistic to give direction and generate motivation among employees. The goals and objectives set must reflect the organizational culture that directs employee performance. The connection between employee efforts and organizational productivity must be build up so that employees can understand their role clearly.
- **Learning and development**: Once the goals are set and communicated to the employees, the later should develop the skill and knowledge to perform the work adequately. Employees identify the training needs of the employees and eventually design training and development programmes for polishing and refining their performance. When employees are involved in the feedback process they become performance conscious and become self-learners.
- **Feedback and coaching:** Employees are always interested to know about their performance and feedback. Employer should inform them about their performance on various aspects and the areas where they should improve and work upon. When employees can evaluate their self performance well, they get a guideline to set their own goals and start becoming self-learners.
- **Regular discussions:** This is the last component of an effective feedback process. This factor binds the other four items together ie., management, goals, learning and feedback. Organizations should create cultures supporting regular interaction and discussion on performance goals, learning, coaching etc.

4.10 STEPS IN CONSTRUCTIVE FEEDBACK

Feedback is an essential element for everyone in an organization's workforce. Giving feedback is an important task for a manager or supervisor as they should let the employees know where they stand and where to go next in terms of expectations and goal. Feedback is a useful tool for indicating when things are going in the right direction or for redirecting problem performance.

Some situations which require giving constructive feedback include:

- Ongoing performance discussions
- Providing specific performance pointers
- Following up on coaching discussions
- Giving corrective guidance
- Letting employees know the consequences of their behaviour.



Let us now discuss the steps in the process of constructive feedback:

- **Stating the purpose of feedback to the employees:** The first step in the process of constructive feedback is stating the very purpose

and objective of conducting feedback to the employees. The evaluates should know that their performance and activities will be supervised and reviewed and what advantage it is going to bring to the employees and to the organization as well.

- **Describing specifically what is being observed:** The evaluator after the process of evaluation before giving feedback should let the employees know what the former has observed and under what circumstances and situations the activities were observed.
- **Communicating the feedback results:** The employees are communicated about their performance and job behaviour and the reactions of management about it. The employees are shown their pitfalls and the consequent achievements. They are also made aware of the consequences of their actions and impact of their decisions and performance in the workplace.
- **Giving opportunities to the employees:** The employees are given an opportunity to speak and respond to the feedback given to them by the management. Moreover feedback is a two way process which is possible only with participation of both the parties. Open, honest and clear communication between management and employees makes the feedback process successful.
- **Offering suggestions:** The feedback process is not complete without offering suggestions and recommendations to the evaluatees. The employees not only should be informed regarding their strengths and weaknesses but should also be provided with suggestions for improving performance on the job.



CHECK YOUR PROGRESS

Q.5: Write components of a feedback process.

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Q.6: What are the steps in the process of constructive feedback?

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4.11 LET US SUM UP

- Feedback is used to describe the useful information or criticism about prior action or behavior from an individual communicated to another individual (or a group) who can use that information to adjust and improve current and future actions and behaviours.
- The objectives of performance appraisal feedback are: To promote the employees, on the basis of performance and competence, To identify the requirement for training and development of employees, To provide confirmation to those employees who are hired as probationary employees, upon completion of the term, To take a decision regarding the hike in employees pay, incentives, To facilitate communication between superior and subordinate and to help employees in understanding where they stand in terms of performance.
- The importance of feedback to employees are: Feedback can improve performance, Continuous feedback ensures open communication and awareness, Fair procedures and communication can make up for negative outcomes, Feedback can motivate, Feedback is a tool for continued learning, Consistent standards are to be used to evaluate job relevant behaviours and Employees' participation in the feedback process results in higher employee involvement and better productivity for the organization
- The types of performance appraisal feedback are: Positive feedback, Negative feedback and Constructive feedback
- The components of a feedback process are: Management involvement, Goal setting, Learning and development, Feedback and coaching and Regular discussions

- Steps in the process of constructive feedback are: Stating the purpose of feedback to the employees, describing specifically what is being observed, Communicating the feedback results, Giving opportunities to the employees and Offering suggestions.



4.12 FURTHER READING

1) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
2) Gupta, Sashi K. and Joshi, Rosy. (2014). *Human Resource Management*. Kalyani Publishers.



4.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: The importance of feedback to employees are: Feedback can improve performance, Continuous feedback ensures open communication and awareness, Fair procedures and communication can make up for negative outcomes, Feedback can motivate, Feedback is a tool for continued learning, Consistent standards are to be used to evaluate job relevant behaviours and Employees' participation in the feedback process results in higher employee involvement and better productivity for the organization.

Ans. to Q. No. 2: Feedback is used to describe the useful information or criticism about prior action or behavior from an individual communicated to another individual (or a group) who can use that information to adjust and improve current and future actions and behaviours.

Ans. to Q. No. 3: Positive feedback is identified and appropriate acknowledgement of a job well done, a consistently high standard of performance over a period of time or a contribution to the team who has performed beyond expectations. Positive feedback is a

very powerful team management skill and if used tactfully and correctly can do wonders for individual or team spirit.

Ans. to Q. No. 4: Negative feedback provides a realistic perspective of what and how other people perceive reading one's performance. The purpose of negative feedback indicates improvement and rectification. The results of feedback are also utilized for termination, demotion and dismissal of employees.

Ans. to Q. No. 5: Components of a feedback process are: Management involvement, Goal setting, Learning and development, Feedback and coaching and regular discussions.

Ans. to Q. No. 6: Steps in the process of constructive feedback are: Stating the purpose of feedback to the employees, describing specifically what is being observed, Communicating the feedback results, Giving opportunities to the employees and Offering suggestions.



4.14 MODEL QUESTIONS

Q.1: Define performance appraisal feedback. State any four objectives of such feedback.

Q.2: Discuss the need for performance appraisal feedback.

Q.3: Highlight various types of performance feedback.

Q.4: What principles must be followed while designing and giving feedback to employees.

Q.5: Discuss the situations demanding performance appraisal in organizations?

Q.6: What is the applicability of the results generated out of performance feedback system?

Q.7: What are the components of an effective feedback process? Discuss.

Q.8: Explain the steps involved in performance feedback process.

Q.9: What do you mean by constructive feedback? Discuss the steps in constructive feedback.

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UNIT 5: 360-DEGREE APPRAISAL

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept of 360-Degree Appraisal

5.4 Purpose of 360-Degree Appraisal

5.5 Impact of 360 Degree Appraisal

5.6 Methodology of The Appraisal System

5.7 Advantages of 360 Degree Appraisal

5.8 Disadvantages of 360 Degree Appraisal

5.9 Process of 360 Degree Appraisal

5.10 Let Us Sum Up

5.11 Further Reading

5.12 Answers to Check Your Progress

5.13 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- define the meaning of 360-degree appraisal
- discuss the impact of 360-degree appraisal
- outline the purpose of 360-degree appraisal
- analyze the methodology of the appraisal system
- discuss the advantages and disadvantages of 360-degree appraisal
- explain the process of 360-degree appraisal.

5.2 INTRODUCTION

In the previous unit we have discussed performance appraisal feedback and in this unit we will discuss meaning of 360-degree appraisal and the purpose of 360-degree appraisal.

A 360 degree appraisal is a type of employee performance review in which subordinates, co-workers and managers anonymously rate the

employees. It is a system in which employees will get feedback from all the people they work with. This system is used to get an improved understanding of everyone's strengths and weaknesses.

At the end of this unit we will get a fair idea about the methodology of the appraisal system, also we will discuss the advantages and disadvantages of 360-degree appraisal. Also, we will discuss the process of 360-degree appraisal.

5.3 CONCEPT OF 360-DEGREE APPRAISAL

A 360-degree feedback (also known as multi-rater feedback or multi source feedback) is a process through which feedback from an employee's subordinates, colleagues, and supervisor(s) as well as self-evaluation by the employee themselves is gathered. Such feedback can also include, when relevant, feedback from external sources who interact with the employee, such as customers and suppliers or other interested stakeholders. 360-degree feedback is so named because it solicits feedback regarding an employee's behaviour from different sources (subordinate, lateral, and supervisory). It therefore may be contrasted with "downward feedback" (traditional feedback on work behaviour and performance delivered to subordinates by supervisory or management employees only), or "upward feedback" delivered to supervisory or management employees by subordinates only.

A 360 degree appraisal has four stages in it namely self-appraisal, superior's appraisal, subordinate's appraisal and peer appraisal. However, it is not an easy task to implement 360 degree appraisal in organizations. There are associated benefits and challenges with this method of appraisal. Some of the important requisites for making this method successful and effective are to ensure that right skills should be identified to be assessed, the appraiser should be selected properly who must be trained and aware of this system of appraisal. The process should be kept simple and necessary follow up should be made.

Organizations mostly utilize 360-degree feedback for developmental purposes, providing it to employees to assist them in developing work skills and behaviours. However, organizations are increasingly using 360-degree

feedback in performance evaluations and employment decisions (e.g., pay; promotions). When 360-degree feedback is used for performance evaluation purposes, it is sometimes called a "360-degree review". This method of evaluation is subjected to criticisms due to involvement of subjectivity of the feedback providers, inter-rater variations, and whether feedback providers have the ability to fairly evaluate attainment of work and organizational objectives or not. While these issues exist when 360-degree feedback is used for development, they are more prominent when employers use them for performance evaluation purposes, as they can unfairly influence employment decisions, and even lead to legal liability.

5.4 PURPOSE OF 360-DEGREE APPRAISAL

360 degree appraisal system has added more benefits and a new dimension to the performance evaluation system as the employee under consideration is reviewed from various angles and from the perspective of various people associated with the employee. This is a modern method of performance appraisal which benefits not only the organization but also the employee.

The objective of carrying out 360 degree feedback is discussed briefly below:

1) Firstly, this method aims at collecting anonymous feedback about a employee from the peers, superiors, subordinates, clients etc. This provides an aggregate objective view of the employee.
2) This method of appraisal gives scope to the employees to improve their performance and dealings with multiple aspects on the job.
3) The results of this method are also utilized for taking decisions on promotion.
4) Another purpose of 360 degree appraisal is to identify the employees who are not meeting company's expectations and thus require training and formal counseling in the workplace for motivation.
5) This appraisal system also releases data to decide on determining compensation changes. Employees getting more rating are aimed for offering higher salaries and incentive packages.

6) Another important purpose of this method is to encourage coaching and mentoring of the employees.

5.5 IMPACT OF 360 DEGREE APPRAISAL

360 degree feedback is a modern method of employee performance evaluation. It presents a clear picture of the employee performance and organizational environment and progress. It supports the organization for being adaptive and flexible according to the needs of their personnel. In 360 degree feedback, usually comments and views are taken from superior, peers, subordinates, peers, customers, clients and after the evaluation is complete the feedback is shared with the employee giving them a clear illustration and even suggesting areas for their growth by giving career development sessions.

- By providing a safe, confidential and reliable way for colleagues to provide feedback, an organization gains valuable insight into current leadership, teams and overall health of the organization.
- The results of the 360 degree appraisal help in creating better performing employees who are the real assets of the organization.
- Although this new method of appraisal is quite beneficial for the organization and employees due to involvement of all associated people but this method if not used effectively may create misunderstanding and suspicion among employees and related raters.
- Another impact of this method on employees is that it enhances motivation among employees in the workplace.



CHECK YOUR PROGRESS

Q.1: What is 360 degree performance appraisal?

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Q.2: Write the objectives of 360 degree feedback.

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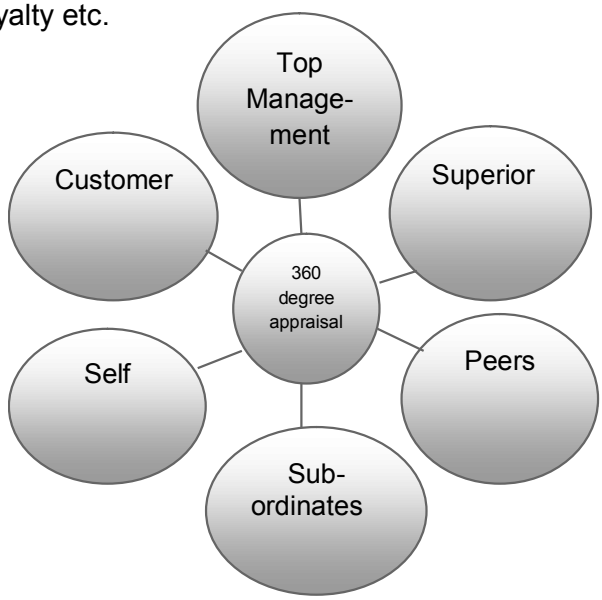
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5.6 METHODOLOGY OF THE APPRAISAL SYSTEM

This is a modern method of performance appraisal system where an appraisal is made by top management, immediate superior, peers, subordinates, customers and self. This is called 360 degree performance appraisal system. Here, the performance of the employee or the manager is evaluated by six parties including himself. So he gets a complete all round feedback of his performance from everyone around him. This method is very reliable because evaluation is done by different parties. These parties are in the best position to evaluate the employee or manager because they are continuously interacting and working with him. This method is mostly used to evaluate the performance of the employees. However, it is also used to evaluate other qualities such as talents, behaviour, values, ethics, standards, loyalty etc.



In this method, the performance and behaviour of the employee under consideration is analyzed from various quarters for a specific period of time, often a year, and is discussed and criticised by other employees. The 360 degree process is different as it obtains feedback from coworkers and subordinates, instead of just from the direct supervisor. The goal of the process is to better understand how the employee is functioning as part of the team and to improve the ways team members work together.

5.7 ADVANTAGES OF 360 DEGREE APPRAISAL

The following are the advantages of 360 degree appraisal:

1) **Increases self-awareness:** One of the most important advantages of this method is self-awareness. Participants are provided with a complete report encompassing their strengths and weaknesses. This gives the employee an insight into their behaviour and how they are perceived by others in the organization. A deeper understanding is reached when the individual compares their self-assessment with those of the raters.
2) **It provides feedback from different perspectives:** 360 degree appraisal may involve managers, subordinates, colleagues and customers. This is helpful because a person interacts differently with those they work with. For instance, they might be more open with a colleague than they are with a manager. Also, a colleague can most likely give a better assessment of how an individual works compared to the manager because they are who the individual spends more time with on a daily basis. Getting feedback from different sources allows for a more balanced feedback.
3) **It identifies development opportunities:** Personal development and growth is crucial to a successful career and areas where one needs to improve on can be addressed through a 360 degree feedback. Through this kind of feedback, you need to improve on communication skills or get better with conflict resolution or any other area you need to be better at. It helps you align better with your career goals.

4) **It focuses on core competencies:** Feedbacks are designed to show how you've been helping the company and how else can you make better contributions. A 360 degree feedback focuses on competencies that reflect that standard for behavior and interaction within an organization.
5) **Uncovers blindspots:** As 360 degree feedback gives multi-rater feedback, it allows the individual to uncover blindspots in their behavior. This enables the employee to understand the behaviours as they exhibit but never notice themselves. Uncovering blindspots is important for continuous employee improvement.

5.8 DISADVANTAGES OF 360 DEGREE APPRAISAL

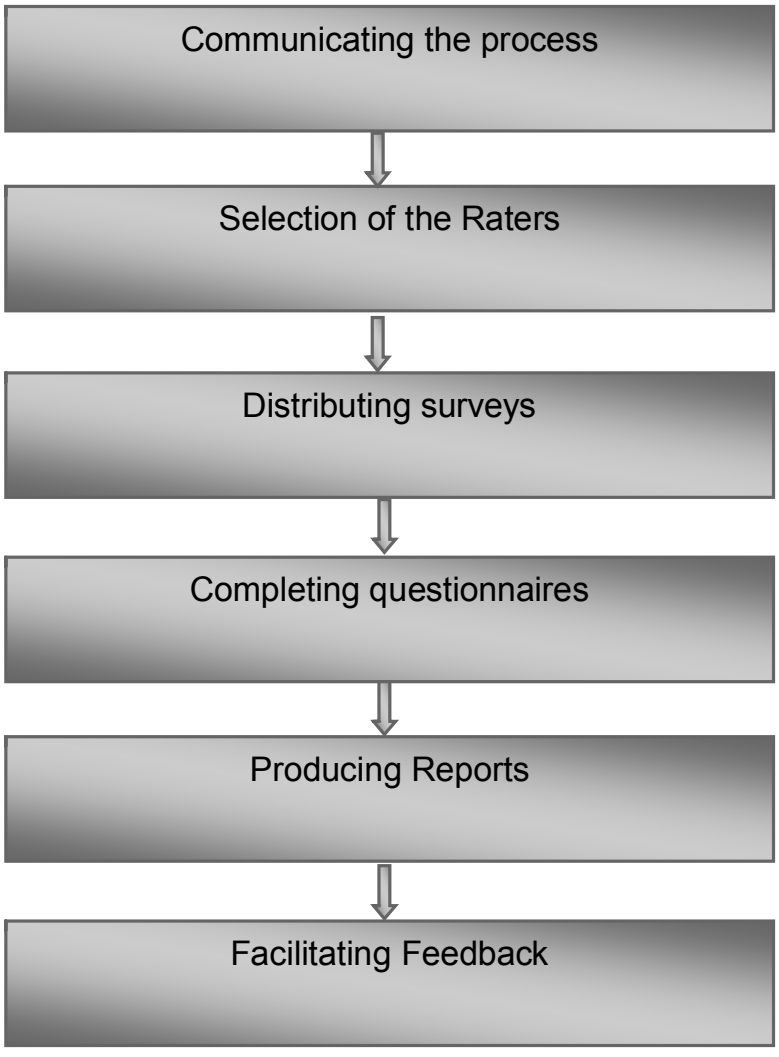
The following are the disadvantages of 360 degree appraisal:

1) **It is not really an honest assessment:** A person can be completely dishonest when they are filling out a feedback form for a certain individual. They might be scared to hurt another person's feelings if they rank them in a certain way. Also, some may be vengeful and rank a person below what they deserve. As such, the method isn't entirely reliable.
2) **It can be time consuming:** This depends on how many points need to be covered in the assessment and how many people need to be provided feedback. For instance, an individual may be asked to provide feedback for their colleague and their manager. Answering these feedback forms requires much thought because you can't just click through.
3) **Need for providing training:** For efficient carrying out of this appraisal programme it is imperative that the people giving feedback should be trained and understands the utility and importance of the appraisal.
4) **Create misunderstanding:** Many may not understand the relevance of 360 degree appraisal so there is probability of imposing an environment of suspicion if the information is not openly and honestly managed.

5) **It may create a negative culture:** If the feedback received is negative, it can create a lot of resentment on the team, where the receiver is angry at their colleagues or customers inducing emotions like fear and anger.

5.9 PROCESS OF 360 DEGREE APPRAISAL

A 360 degree appraisal is a type of employee performance review in which subordinates, co-workers and managers anonymously rate the employees. It is a system in which employees will get feedback from all the people they work with. This system is used to get an improved understanding of everyone's strengths and weaknesses. The steps involved in 360 degree appraisal are discussed below:



Let us discuss the steps in detail:

- **Communicating the process:** The first and foremost step is to properly communicate the process to all stakeholders. The very purpose of the appraisal, the process and the mechanism of gathering and utilizing feedback should be clearly communicated to the employees and other stakeholders of the organization.
- **Selection of the Raters:** The next important step is to carefully select the raters who will be contributing to the feedback process. Enough feedback providers must be chosen for acquiring comprehensive and relevant data. The number of raters included will depend upon the employee's job function and working relationships.
- **Distributing surveys:** In this stage, the questionnaires are distributed to the participants. The participants are informed through an email notification with instructions on how to start and end up the feedback process. The whole survey takes one week time.
- **Completing questionnaires:** Having the participants fill out and complete the review is the longest stage in the process. The length of this step can depend on the number of raters involved, the employee's job role and on the organization. For timely assessment of employee's contribution, deadlines are established at the outset of the process.
- **Producing reports:** After all the feedback providers have completed their questionnaire a confidential report is produced.
- **Facilitating feedback:** The final step is to arrange confidential feedback meetings for each participant undergoing the 360 degree review. Feedback may be given in these sessions by the employee's manager or by a coach. These meetings allow for greater understanding of the feedback report and an opportunity to discuss the strengths and weaknesses of employees.



CHECK YOUR PROGRESS

Q.3: Write the advantages of 360 degree performance appraisal.

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Q.4: Outline the steps involved in 360 degree appraisal.

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5.10 LET US SUM UP

- A 360-degree feedback (also known as multi-rater feedback or multi source feedback) is a process through which feedback from an employee's subordinates, colleagues, and supervisor(s) as well as self-evaluation by the employee themselves is gathered.
- A 360 degree appraisal has four stages in it namely self-appraisal, superior's appraisal, subordinate's appraisal and peer appraisal.
- 360 degree feedback is a modern method of employee performance evaluation.
- Advantages of 360 degree appraisal are a) Increases self-awareness b) It provides feedback from different perspectives c) It identifies development opportunities d) It focuses on core competencies
- The disadvantages of 360 degree appraisal are:
  1) It is not really an honest assessment
  2) It can be time consuming

3) Need for providing training
4) Create misunderstanding
5) It may create a negative culture

- The following are the steps in the process of 360 degree appraisal system are:
  1) Communicating the process
  2) Selection of the Rater
  3) Distributing surveys
  4) Completing questionnaires
  5) Producing reports
  6) Facilitating feedback



5.11 FURTHER READING

1) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
2) Gupta, Sashi K. and Joshi, Rosy. (2014). *Human Resource Management*. Kalyani Publishers.



5.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: A 360-degree feedback is a process through which feedback from an employee's subordinates, colleagues, and supervisor(s) as well as self-evaluation by the employee themselves is gathered.

Ans. to Q. No. 2: The objective of carrying out 360 degree feedback are:

1) This method aims at collecting anonymous feedback about a employee from the peers, superiors, subordinates, clients.
2) This method of appraisal gives scope to the employees to improve their performance and dealings with multiple aspects on the job.

3) Another purpose of 360 degree appraisal is to identify the employees who are not meeting company's expectations and thus require training

Ans. to Q. No. 3: The following are the advantages of 360 degree appraisal: Increases self-awareness, It provides feedback from different perspectives, It identifies development opportunities, It focuses on core competencies and uncovers blindspots

Ans. to Q. No. 4: The steps in 360 degree appraisal are:

- Communicating the process
- Selection of the Raters
- Distributing surveys
- Completing questionnaires
- Producing reports
- Facilitating feedback



5.13 MODEL QUESTIONS

Q.1: Define 360 degree performance appraisal feedback. Discuss the need for performance appraisal feedback.

Q.2: Discuss the impact of 360 degree performance feedback.

Q.3: What are the objectives of conducting 360 degree performance feedback? Or

What is the purpose behind conduct of 360 degree performance appraisal?

Q.4: Analyze the methodology of the 360 degree appraisal system.

Q.5: Explain the advantages and disadvantages of 360 degree performance appraisal system.

Q.6: Discuss the process of 360 degree performance appraisal.

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UNIT 6: INTRODUCTION TO COMPENSATION MANAGEMENT

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Compensation Management

6.4 Compensation and Non-compensation Dimensions

6.4.1 Motivation and the Dimensions

6.5 3Ps of Compensation Management

6.6 Compensation as a Retention Strategy

6.7 Compensation for Special Groups

6.8 Significant Compensation Issues

6.9 Lets Us Sum Up

6.10 Further Reading

6.11 Answers to Check Your Progress

6.12 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the meaning, concept and application of compensation management
- outline the applicability of the two important dimensions– compensation and non compensation of a pay package
- explain the 3 P concept of compensation management
- describe how compensation can be used to check employee turnover and used as a retention strategy for the employees
- explain how compensation is adapted for special groups
- discuss the issues that are of significance in structuring employee compensation.

6.2 INTRODUCTION

This unit of this paper on Compensation management tells us about the meaning of compensation and compensation management; and the objectives of an ideal compensation management system. The unit will also help us in understanding how all needs of employee's cannot be fulfilled by compensation but by non compensation factors as well.

In this unit we are going to discuss the 3Ps of compensation management– pay for person, pay for performance, and pay for position. The unit focuses on the fact that organizations can bank on its customized compensation strategies as an employee retention tool.

The unit tells us how compensation structures have to be designed for those special groups of employees who are critical for an organization. The unit deals on the various issues in compensation that is of much significance to an organization.

6.3 COMPENSATION MANAGEMENT

"Compensation" is what we get for the work we do and the time we invest in doing the work. This provision of monetary value in exchange for work forms the ground work of compensation and how this is planned, managed and implemented using processes, procedures and systems form the basis of compensation management. Compensation management is also known as Wage and salary administration. It ensures that all strategies, policies, and process used are directed toward making the wages fair, equitable, consistent and competitive in the labor market.

Employees by nature compare their level of work to their level of pay and see if the ratio of give and take is a fair one. They also compare their pay with others in the same type of work. Further they compare their pay with the ratio existent in the industry for the same type of work.

Therefore, it has to be very specific between the employer and the employee about how much has to be paid to the employee and the components of his compensation package.

According to Maslow's need hierarchy theory this compensation factor is at the middle to lower rung of the pyramid and other factors like job

satisfaction and fulfillment are at the top. So compensation as is apparent is not the sole motivating factor. There are other factors which can motivate as well. Thus if the right compensation (to fulfill the monetary needs aspect of employees) along with the right kind of opportunities(to fulfill the other needs aspects of employees) are also made available to employees by the organization in which they work then employees are a happy workforce for whom work is a pleasure and their drive to attain organizational goals becomes a commitment.

The Compensation Committee or concerned authority frames compensation strategies in alignment with business strategies. Financial compensation is of the following types.

One is direct compensation for the work done. It includes base pay, differential pay, (overtime pay, hazardous duty pay, on call pay, shift pay) and variable pay (annual incentives or bonus, lump sum payments, technical achievement award, cash profit- sharing plans, gain sharing). Other is indirect **compensation. They include pay for time at work** (break), pay for time not at work (holiday and leaves), income protected program (health insurance, life insurance, retirement benefits).

Objectives of Compensation Management

1) **Pay fairly:** The common objective of compensation management is to pay employees fairly, equitably and consistently in keeping with the organizational budget.
2) **Attract and retain talent:** With a competitive compensation package in the industry it is easy to attract and retain talent.
3) **Boost motivation:** A well structured compensation plan can well motivate employees. Nearly half or more of employee needs can be fulfilled by the money factor. So if an employee feels he is fairly compensated for his work he is more likely to be committed and productive.
4) **Compliance with statuettes:** Compensation must also comply with statutory obligations like Minimum Wages Act, Payment of Bonus Act, Payment of Wages Act etc. Adhering to the standards will protect the organization against litigation.

5) **Maximize ROI:** If a compensation plan stays within budget and also drives productivity through pay for performance then we can say the plan is both equitable for the organization and advantageous for employee.



CHECK YOUR PROGRESS

Q.1: What is compensation management?

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Q.2: Compensation management also known as .....

Q.3: Differentiate the types of Compensation Management.

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6.4 COMPENSATION AND NON-COMPENSATION DIMENSIONS

The term employee compensation comprises of all forms of pay or reward for employees and arising from their employment. Employee compensation has two main components. One is direct financial payments in the form of wages, salaries, incentives, commissions and bonuses.

Second is indirect payment in the form of financial benefits like employer paid insurance and vacations. Again, there are two ways to make direct financial payments to employees– (a) on increments of time and (b)on performance.

a) Employees are mostly paid on time rate ie their productive time on the job. For e.g. blue collar job workers are paid on the time rate basis i.e. hourly or daily wages. Other employees like managerial, professional and office job are compensated generally on the basis of a longer time period (mostly month) rather than hourly or daily.

b) Under this system compensation is proportional to the employee production (i.e. number of pieces employee produces). A worker's hourly wage is divided by the standard number of units he is expected to produce in 1 hour. Then for each unit produced over and above this standard, the worker is paid an incentive. Salespersons commissions are another good instance for compensation related to productivity.

It is noteworthy to mention here that employees as humans have many needs, out of which only some needs, can be fulfilled through money (that is direct financial payment or indirect financial benefits as discussed above). Other human needs like need for achievement, need for affiliation, need for security, need for self actualization cannot be satisfied directly by money. It is here that the idea of non compensation dimensions (non-monetary) come into being.

In the case of extrinsic needs of employees, they are met by material and tangible gains– increased pay, incentives, bonus, better medical facilities, better retirement benefits, and better canteen facilities etc. In the case of intrinsic needs of employees which are abstract in nature they can be met by mental satisfaction– increased status, challenge in job front, a sense of belonging, scope of growth, creativity, recognition, sense of achievement etc.

6.4.1 Motivation and the Dimensions

Motivation is the process that account for an individual's intensity, direction and persistence of efforts, toward attaining a goal.

The compensation dimension can fulfill employee's primary needs and motivate him to direct his efforts toward organizational goal achievement.

The secondary or intrinsic needs are vague as they represent employee's needs of mind and spirit and are ego centric. It is these intrinsic needs that complicate the motivational efforts of management, though management strategies try that non compensation dimensions fulfill employee's secondary needs and motivate him to direct his efforts towards organizational goal achievement.

Thus in brief extrinsic motivational aspects are taken care of by designing compensation that emphasise on cash component. While intrinsic motivational elements are taken care of by non compensation non monetary aspects like job security, improved work condition, status, sense of accomplishment, challenging job assignments, greater job responsibility, job enrichment and job enlargement etc. and by adopting an organization structure that enhances employee creativity and growth.

Such an ideal compensation package is motivating enough to promote–

- Job satisfaction
- Loyalty and commitment
- Performance
- Retention (Insiders)
- Attraction (Outsiders)



CHECK YOUR PROGRESS

Q.4: Enlist Compensation and non-compensation dimensions?

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Q.5: What are the objectives of an ideal compensation package?

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6.5 3Ps OF COMPENSATION MANAGEMENT

Organizations try to pursue a compensation model for their employees based on the 3P concept– pay for position, pay person and pay for performance. Such a model balances both employee motivation and organization profitability.

Jobs with repetitive tasks, will require more or less the same set of skills and knowledge and workers engaged in it will perform at almost the same level of performance. This gave rise to the Pay for Position or Job based pay, wherein in all jobs with same level of knowledge and skill will be assigned with equal wages. Similarly, further up the organizational hierarchy, senior level job titles will have additional levels of responsibility requiring almost similar skills and knowledge at the similar levels and employees engaged in it will be assigned compensation which will go higher and higher up the hierarchy. This led to a model that focused on compensation tiers tied to similar job titles in the organization hierarchy.

But this Pay for Position model promotes mediocre or average instead of excellent or extraordinary as all are getting same pay for same skills on same jobs and chances of something extraordinary is remote. The extraordinary factor is ruled out. Paying the Pay for Position can very well be defined as how and how much employees should be compensated for fulfilling their position's responsibilities, ensuring internal equity and external competitiveness. This model emphasises on slotting of each position into a grade level and weighted based on the education and experience the job requires and the number of staff who report directly to the person in the position. Pay raises are scheduled based on duration engaged in the job.

The alternative to pay for position is to compensate staff according to the value of their skills in the market. The most common approach is Pay

for Person or Competency based Pay. With competitiveness constantly creeping into business environment only Knowledge and Skill which are important to perform a job is not sufficient, what is more important is all the competencies one can display. These competencies have become paramount today as business today is bent on time and standards. Organisations are hiring and paying for these competencies. These competencies do vary in degree of presence from person to person. So their performance output is not equal. Therefore their total compensation should not be identical. This variation leads to the need to compensate for competencies. Employees should be rewarded for their own contributions to the organization achievement as per one's depth or breadth of their competencies, skills, abilities, and knowledge ensuring internal equity and external competitiveness and capacity-to-pay parameters.

Along with these two, the third factor that came into prominence seems to be the real reason for recruiting a person and this is that the person has to perform to the optimum level, he can, utilizing his skill, knowledge and competencies. A person has to perform to the extent of Knowledge, Skill and Capabilities he is possessing and therefore, came in existence Pay for Performance. It is a financial reward system for the most performing employees where some or all of their monetary compensation is related to their performance and they are paid significantly differently from others. Under this model, performance is the decisive factor for pay and both short and long term rewards are considered. Depending upon the performance of the individual, year to year and accordingly, variation on bonus etc. is being paid to him. In case he continues to be extraordinary in his displaying competencies and achieving results, then he can be promoted to next level and be paid higher compensation that will differentiate him from his peers in the earlier level, but comparable to all new peers in the higher level.

Conclusively, all 3Ps play their role in defining the compensation of an individual by establishing guidelines for an equitable grading structure, determining capability requirements and introducing short and long term performance incentive plans.



CHECK YOUR PROGRESS

Q.6: What are the 3Ps?

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6.6 COMPENSATION AS A RETENTION STRATEGY

A strategic compensation package is one that in keeping with the business goals and is also fair, realistic and equitable and the best in the industry. A fair compensation policy has to comply with statutory obligations– Minimum Wages Act, Payment of Bonus Act, Payment of Wages Act etc. A realistic compensation policy has to be defined within the employer's ability to pay. And finally an equitable compensation policy has to be internally and externally equitable and benchmarked as the best in the industry. Taking these essentials into consideration an organization can strategize its compensation structure for attracting and retaining talent.

Base salaries, bonuses and stock ownership, performance pay are some such compensation strategies. Base salaries are always an important attraction for hiring and retention of employee. Bonuses are based on short term company success. Stock ownership are offered to employees to enable them take ownership of the company. This arises a sense of belongingness to the company among the employees.

In the modern competitive employment scenario, employees value acknowledgement of their performance. In earlier times organization essentially paid people for the time. To retain employees compensation strategy needs to incorporate this trend. When employees exceed expectation, giving them a performance incentive is highly rewarding for the organization in terms of employee retention capability.

Out of the many strategies for retention some of which have been mentioned above, the key is to leverage one or more compensation strategy by the organization, which can substantially motivate employees to align

their job performance and job behavior with the organization goals. For doing so employers should evaluate multiple compensation strategies out of which, which are advantageous enough to attract and retain key employees in a highly competitive market. This will be phenomenal in reducing the risk of job hopping by the employees.

Although sometimes the compensation strategy may have to include a combination of plans meant for employees at different levels and positions. For e.g., positions susceptible to greater turnover may be best suited for bonus incentive plan. Other positions may be best suited for long term rewards.

Some modern monetary and non monetary employee compensation strategies for employee retention are–

- Discuss total employee compensation (base salary, benefits, bonus, training, etc.)
- Design reward systems to stimulate employee involvement.
- Use flexible employee benefits to respond to a changing workforce.
- Offer stock option
- Offer time off, sabbaticals and other forms of non financial employee compensation.
- Provide child care/elder care.
- Provide employee assistance program.
- Provide discounts on purchase.
- Provide professional services.
- Fund fitness club membership etc.



CHECK YOUR PROGRESS

Q.7: Enlist some monetary and non monetary employee compensation strategies generally used by companies for employee retention?

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6.7 COMPENSATION OF SPECIAL GROUPS

Special groups are characterized by their value to the organisation. They are strategically important to an organization for the roles they perform and for holding positions having built in conflict. So special groups in an organization are sought to receive special treatment through compensation. It may be either in the form of additional packages different from other employees, or a compensation model entirely unique to that offered to the other members of the organization.

They commonly include supervisors, corporate directors, top management executives, professional employees, contingent workers and sales staff.

Let us examine the role of a particular special group of employee say supervisors and understand why it is justifiable to give them a special compensation treatment.

The job of a supervisor is very demanding. They are under constant pressure to meet the demands of the upper management who are focused on production. The supervisors are under pressures from employees who may ask for rewards, counseling, training etc. Finally supervisors face the challenge in bringing the demands from both ends that is employers and employees to equilibrium. So supervisors are entitled to come under special groups with special compensation.

Special compensation treatment, for eg, to executives can come in the form of company car, 1st class air travel, club membership, spouse allowances, children allowances, home security etc.



CHECK YOUR PROGRESS

Q.8: Name a few special compensation for executives.

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6.8 SIGNIFICANT COMPENSATION ISSUES

Compensation is an important HR tool for any organization to attract, motivate, and retain employees and all the more to earn the goodwill of the employees in the job market scenario. But compensation issues can be very demanding at times on the organization by going out of the general norm and the organization has to tackle these issues with utmost diligence. Some the significant issues in compensation are:

1) **Recognizing and rewarding employees:** HR professionals design programs and procedures to motivate employees to achieve organizational goals and thus reward high performing employees within the organization budget. Since the managers are the decision makers on selecting and rewarding the performers so compensation staff must train and educate managers on how to use rewards and recognition to make employees feel appreciated and thus make them more motivated in their job.
2) **Executive Compensation:** Executive compensation is a complex issue in Compensation Management. It has to be designed to attract and retain the best executives. Public sector companies have to disclose this publicly. Many public companies have been criticized by media, share holder and government for creating compensation plans with greater rewards for executives. So the compensation has to be designed in such a way that it balances a compensation structure that can well attract and retain top executives and also one that is acceptable to the public.
3) **Internal equity:** Compensation has to be internally equitable ie, same pay for same job within the organization. Companies, generally those that are performance driven introduce performance linked pay schemes for high achievers. This creates pay differences between employees on the same job but different levels of performance.
4) **External competitiveness:** Companies generally want to have competitive compensation packages to attract and retain talent. They can comprehend their competitiveness level from the salary surveys

in the area or industry. But companies must take note that the level of competitiveness will be different at different levels of the hierarchy.

5) **Pay for performance:** Besides rewarding top performers employers are also keen on motivating mediocre employees. Here also strategies must be put in place that employees are paid according to their achievement levels.

6) **Bonus and incentive pay:** Bonus and incentive pay are integral to any compensation package. When compensation budget fund is small then this short term bonus and incentive pay can motivate employees rather than costly long term raises. More frequent compensation adjustments have greater significance than long term annual increments.

7) **Benefits:** Employee benefits put a heavy burden on the organization's compensation budget. So companies can try to put in only those benefits that are in the common parlance of the employees and refrain from benefits that are remotely thought of by employees.

8) **Hot skills:** Hot skills are those skills that are core to the industry. For example hot skills in healthcare may be nurses, paramedics and technicians. Companies may need to pay more for employees with these skills as they are the pillars of the industry. Also greater pay will attract and retain the best of the people with these hot skills.

9) **Pay range and structure:** Putting the correct pay range for positions is critical to any organization. But altering salary ranges and structures may be required for both general job titles and for individuals within a job.

10) **Performance Criteria:** Organization recognizes performance through performance linked pay. But identifying performers and arranging enough money to recognize performers is a common concern of most organizations. So organisations are tightening their standards and making performance eligibility tough and thereby allocating scarce funds in an efficient way.

11) **Market pay:** Market research to know the existing market rates of the industry and geographical area is very important to make the

compensation structure competitive and attract and retain talent. So organizations must be very vigilant on the ongoing rates and endeavor to direct their time and resources in this matter.

12) **Salary compression:** Many employees have inflated job titles. Their salaries fall outside the salary ranges. This issue needs to be resolved by determining appropriate job titles/levels to be assigned to the employee. Another easy way to ease compression is to give out raises to those whose salaries are most affected, so that there is a uniformity provided the raise is warranted in the terms of the market. It is important to note that market demand is a reason for salary compression. As the demand for new hires with latest skills cause the starting salary to rise, this will set in conflict with the existing pay structure in the organisation.This can be resolved by paying out lump sum payments to relieve compression without creating a permanent expense.

13) **Tight Budget:** It is a tough game for compensation personnel to balance the compensation costs without affecting turnover rate or employee morale. Sometimes in such cases new hirings are delayed or it is decided to cut back on employees or give out smaller short term raises for current employees.

14) **Attract and retain employees:** Companies try to hold on skilled employees and attract the best in the industry.

RETENTION: It is noteworthy to mention here that compensation is not always a factor for employee attrition. Sometimes relaxing the budget might not solve employee attrition. The best way is to use the exit interview to find the key factors for attrition.

ATTRACTION: Second is to develop from internally, employees required for skilled and strategic positions rather than inflating the compensation structure to bring talent from outside.



CHECK YOUR PROGRESS

Q.9: How does performance linked pay disturb internal equity?

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6.9 LET US SUM UP

- Compensation is the monetary value we get in exchange for the work we do and the time we invest in doing the work.
- Compensation management is the organization's processes, procedures and systems to distribute the monetary value to the employee in exchange for the work done by him.
- Employees as humans have many needs. All needs cannot be fulfilled by money. Money is only one of the many factors to satisfy human needs.
- Objectives of compensation management are– Pay fairly, Attract and retain talent, Boost motivation, Compliance with statuettes and Maximize ROI.
- Financial compensation (Monetary) is of the following types. One is direct compensation for the work done. Other is indirect compensation.
- Employee can be motivated by a compensation dimension (as mentioned in the above point) and a non compensation dimension.
- Extrinsic needs or material needs are fulfilled by compensation dimensions. Intrinsic or psychological needs are fulfilled by non compensation dimensions.
- Ideal compensation package takes care of both the compensation and non compensation dimensions.
- 3Ps –Pay for position, Pay for person and pay for performance.
- Compensation package should be fair, realistic and equitable and best in the industry to attract and retain talent.

- Compensation strategy may sometimes include a combination of plans meant for employees at different levels and positions as retaining employees at different levels will have different demands. Although sometimes leveraging on a few plans may seem beneficial.
- Special groups are characterized by their challenging roles they perform for the organization. So, special groups in an organization are acknowledged by special treatment through compensation.
- Some the significant issues in compensation are: Recognizing and rewarding employees, Executive Compensation, Internal equity, External competitiveness, Pay for performance, Bonus and incentive pay, Benefits, Hot skills, Pay range and structure, Performance criteria, Market pay, Salary compression, Tight Budget, Attract and retain employees.



6.10 FURTHER READING

1) Bhattacharyya, Dipak Kumar. (2014*). Compensation Management*. 2nd Edition, Oxford.
2) Bhattacharya, Mousumi S. and Sengupta, Nilanjan. (2008). *Compensation Management*. Excel Books.
2) Deb Tapamoy (2008). *Compensation Management: Text and Cases*. Excel Books.
4) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
5) Singh, B. D. (2017). *Compensation and Reward Management*. Excel Books.



6.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: The processes, procedures and systems that are used by an organization to distribute the monetary value adequately to the employee in exchange for the work done and the time invested by him is called compensation management. In other words, it is paying

an employee based upon the decided and agreed pay and benefit package for the position. The goal of compensation management is to find quality people who perform quality work and then compensate them in order to retain them and reduce turnover rates.

Ans. to Q. No. 2: Wage and salary administration.

Ans. to Q. No. 3: Financial compensation is of the following types.

One is direct compensation. It includes base pay, differential pay, (overtime pay, hazardous duty pay, on call pay, shift pay) and variable pay (annual incentives or bonus, lump sum payments, technical achievement award, cash profit- sharing plans, gain sharing) in the compensation package.

Other is indirect compensation. They include pay for time at work (break), pay for time not at work (holiday and leaves), income protected program (health insurance, life insurance, retirement benefits) in the compensation package.

Ans. to Q. No. 4: Compensation and non compensation dimensions can be explained as follows:

- Compensation dimension (monetary): One is direct financial payments.
- Other is indirect payment in the form of financial benefits.
- Non compensation dimension (non monetary): increased status, challenge in job front, a sense of belonging, scope of growth, creativity, recognition, sense of achievement etc.

Ans. to Q. No. 5:

- Job satisfaction
- loyalty and commitment to the organization
- Desired level of performance
- Retain productive employees
- Attract talent from outside organization

Ans. to Q. No. 6: Pay for position is paying for the job one holds.

- Pay for person is paying for individual competencies one displays at work.
- Pay for performance is not only paying but also career development for the one who performs with optimal utilization of skill, knowledge and competence.

Ans. to Q. No. 7: Some monetary and non monetary employee compensation strategies for employee retention are:

- Discuss and make the employee know his total compensation
- Design reward systems
- Use flexible employee benefits
- Offer stock option
- Offer other forms of non financial employee compensation.
- Provide child care/elder care.
- Provide employee assistance program.
- Provide discounts on purchase.
- Provide professional services.
- Provide Fund fitness club membership etc.

Ans. to Q. No. 8: Company car, 1st class air travel, club membership, spouse allowances, children allowances, home security etc.

Ans. to Q. No. 9: Compensation has to be internally equitable ie, same pay for same job within the organization. When companies link performance and pay for high performers they unintentionally introduce pay differences between employees on the same job although different levels of performance.



6.12 MODEL QUESTIONS

Q.1: Explain the different types of compensation?

Q.2: Do compensation and non compensation dimensions have a direct on employee motivation? Justify

Q.3: How can compensation check employee turnover?

Q.4: Do you think special groups in an organization should be acknowledged financially?

Q.5: Explain how salary compression and tight budget emerge as so significant issues in compensation?

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UNIT 7: WAGE AND SALARY ADMINISTRATION AT MACRO LEVEL

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Wage Concept

- 7.3.1 Wage Components
- 7.3.2 Types of Wages in India
- 7.3.3 Theories of Wage Determination

7.4 Factors Influencing Wage Compensation

7.5 Wage Policy

7.6 Institutional Mechanism for Wage Determination

7.7 Pay Commission

7.8 Wage Boards

7.9 Public Sector Pay Revision

7.10 ILO and Collective Bargaining

7.11 Union Role in Salary and Wage Administration

7.12 Let Us Sum Up

7.13 Further Reading

7.14 Answers to Check Your Progress

7.15 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- learn the concept of wage and its components; types of wages in India; theories on wage determination
- discuss internal and external factors influencing wage compensation
- discuss the evolution and working of wage policy
- outline the institutional mechanism for wage determination
- learn the doctrines of various Pay Commissions
- describe Wage Boards

- outline the framework of Public Sector Pay Revision
- describe the role of ILO in Collective Bargaining
- describe the pivotal role of unions in administering wages and salaries.

7.2 INTRODUCTION

This unit explains the concept of wage and its components. It lists the various wage theories that have evolved and the different types of wages existent in India. The unit mentions internal and external factors influencing wage compensation. It also contains how wage policy has evolved and its salient features.

The unit will help us to know another important aspect of wages that is the institutional mechanism of wage determination and how an organization is guided by these mechanisms to design its wage structure. In this unit we also discuss the workings of the following bodies– Pay Commissions and Wage Boards. The unit gives some idea on the revision of pay in Public sector according to the 3rd Pay Revision Committee.

The unit will help us know how the UN agency ILO is instrumental in Collective Bargaining and how unions play an influential role in salary and wage administration of unionized and non unionized workers.

7.3 WAGE CONCEPT

Wage in narrower sense means the basic compensation for labor or price paid to a worker for the work done and includes only the work wages or what we call the wage proper. Wage in a wider sense means any form of economic remuneration for labor. Wages therefore in this context include family allowance, relief pay, financial support and other benefits etc. Wage rate is the compensation for labor per period or unit of time.

7.3.1 Wage Components

There are two wage components– Basic wage and other Allowances. The Basic wage is remuneration through basic salary and allowances which is paid to an employee per terms the contract

of employment for the work done. Allowances are paid in addition to basic wage to ensure that the value of basic wages do not fall over a period of time. Some Allowances are statutory while some are voluntary. Most organizations pay Allowances as holiday pay, overtime pay, and bonus and social security benefits. In India different Acts include different items under wages though all the Acts include basic wage and Dearness Allowances under the term wages.

7.3.2 Types of Wages in India

The report of the Committee on Fair Wages set up by the Government of India in 1948 uses the terms Minimum wage, Fair wage and Living wage to establish the principles on which fair wages should be based and to make suggestions on the application of these principles. According to this Committee, Minimum wage should represent the lower limit of a Fair wage; the next higher level is the Fair wage and the highest level of the Fair wage is Living wage.



CHECK YOUR PROGRESS

Q.1: a) Basic wage is .....

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b) Allowances are …….....……..…….

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Q.2: Lists the levels of the wage graph.

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a) Minimum wage: According to the Committee, Minimum wage should provide for the sustenance of the worker's family, for his efficiency, for the education of his family, and for their medical care and some amenities. The problems for determining Minimum Wage made the Government evolve the Minimim Wages Act. It explains the principles for determining Minimum wage rate payable to a worker and the basic terms of his work with the main principle

being that Minimum wages should provide not only for the bare sustenance of life but also for the preservation of the efficiency of the worker by way of education, medical care and other necessary amenities. The Act interprets the Minimum rate of wages (fixed or revised) as consisting of a basic rate of wages and a special allowance like the cost of living allowance; or a basic rate of wages with or without a cost of living allowance, and the cash value of concessions for supplies of essential commodities at concessional rates; or as an all inclusive rate including the basic rate, the cost of living allowance, and the cash value of concessions.

b) **Fair wage:** According to the Committee on Fair wage, fair wage represent the wage above the minimum wage, but below the living wage. The lower limit of the fair wage is the minimum wage; the upper limit is set by the capacity of the industry to pay. Between these two ends, the actual wages depends on the following–

- Productivity of labor
- Prevailing rate of wages in the same or neighboring localities
- Level of national income and its distribution
- Place of industry in the economy of the country

Therefore Fair wages are flexible. They may increase according to the capacity of the industry to pay and the prevailing rates of wages in the area or industry.

c) **Living wage:** Living wage according to the Committee of Fair Wage is 'one which should enable the earner to provide for himself/herself, and his/her family not only the bare essentials of food, clothing and shelter, but also a measure of frugal comfort, including education for his children, protection against ill-health, requirements of essential social needs, and a measure of insurance against the more important misfortunes, including old age'. In other words a living wage is meant to provide for a standard of living that would ensure good health for workers and their family, a measure of decency, comfort, education for their children, and protection against misfortunes.

The Committee was of the opinion that although the provision of a living wage should be the ultimate goal, the present level of national income did not permit the payment of a living wage on the basis of standards prevalent in more advanced countries.

Living wages would depend on bargaining power of labor, capacity of industry to pay, the level of national income, the general effect of wage rise on neighboring industries, the productivity of labor, the place of industry in the economy of the country, and the existing rates of wages in the same or similar occupations in neighboring localities. However, a living wage should maintain a worker's health and decency, a measure of comfort and some insurance against the misfortunes of life.

d) **Need based minimum wages:** The Committee on fair wages indicated that the minimum wages provide 'not merely for the bare sustenance of life, but for the preservation of the efficiency of the worker by providing for some measure of education, medical requirements and amenities'. This recommendation was further stretched to develop the concept of Need Based Minimum Wages by the Indian Labor Conference (1957). The ILC suggested that the minimum wage fixation should be need based and should meet the minimum needs of a worker. The Conference framed some guidelines for the calculation of minimum wage which are to be followed by all wage fixing authorities, Wage Boards and Adjudicators.

7.3.3 Theories of Wage Determination

There are two key theories of wages– traditional theory of wage determination and the theory of negotiated wages.

A) **Traditional Theory of wage determination:** Like other factors of production the price of labor, i.e., wage also depend on demand and supply of labor. When demand is greater than supply wage rate rises and when demand is less than supply wage rate falls.

B) Theory of negotiated wages: Unionized employees negotiate salaries through Collective Bargaining. For non unionized employees wages can be negotiated through individual bargaining. How wages are determined has been the subject of several theories of wages. These theories are:

a) Subsistence Theory(David Ricardo 1772-1832): According to him worker should be paid 'to enable them to subsist and perpetuate the race without increase or diminution'. The theory was based on the assumption that if the worker were paid more than subsistence wage, their numbers would increase as they would procreate more and this would bring down the rate of wages. If the wages fell below the subsistence level, the number of workers would decrease as many would die of hunger, malnutrition, disease, cold etc and many would not marry.

b) Wages Fund Theory: Adam Smith (1723-90): His assumption was based on the principle that wages are paid out of a predetermined fund of wealth, the surplus savings of the wealthy. This fund could be utilized for employing laborers for work. If the fund was large, wages would be high; if it was small wages would be reduced to subsistence level.

c) Surplus value theory: Karl Marx (1818-83): Under this theory, labor is an article of commerce, which could be purchased on the payment of the 'subsistence price'. The price of any product is determined by the labor and the time needed for producing it. The theory proposes that laborer is not paid in proportion to the time spent on work, but is paid much less and the surplus is used for paying other expenses.

d) Residual Claimant Theory: Francis Walker(1840-97): This theory assumes there are four factors of production– land, labor, capital and entrepreneurship. Wages represent the amount of value created in the production, which remains after payment has been made for all these factors of production, i.e., labor is the residual claimant.

e) *Marginal Productivity Theory:* It assumes that wages are based upon an entrepreneur's estimate of the value that will probably be produced by the last or marginal worker. In other words it assumes that wages depend upon the demand and supply of labor. Consequently, workers are paid what they are economically worth.

f) *Bargaining theory of wages:* This theory says wages are determined by the relative bargaining power of the workers, trade unions and employers.

g) *Behavioral theory of wages:* (Marsh and Simon, Robert Dubin and Eliot Jacques) Studies say that employees value internal pay equity and they prefer employment stability, pacing with their salary level.



CHECK YOUR PROGRESS

Q.3: Living wage depends on ……....

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Q.4: Adam Smith theory is based on the principle of …….....

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7.4 FACTORS INFLUENCING WAGE COMPENSATION

They may be categorized as– Internal factors (factors within organization) and External factors (factors outside organization). Organizations have to respond to these factors in determining their compensation design in a way to attract, retain and motivate employees.

Internal factors: The following are some of the internal factors influencing wage compensation:

a) Ability of the origination to pay: A financially viable organization can pay competitive compensation to their employees while financially weak organizations fail to pay a competitive compensation to their employees despite their good intentions.

b) Organization strategy: If organization strategy is meant for fast growth then organization offers greater compensation. In such cases organization may intentionally encourage internal equity so that the average and below average worker become more productive to get the greater compensation. For stable growth organization will give greater focus on the fixed component.

c) Performance of employee: This is a major determinant of compensation. Employees who meet or exceed the expected performance are entitled for higher compensation through the performance linked pay system.

d) Seniority of employees: Some organizations have the tradition of giving more focus on experienced employees as they are valued more in terms of their learning and experience.

e) Employee potentiality: For effective succession planning, organization assesses the potentiality of their employees. Once the potential leaders are identified, they are valued with a higher compensation.

f) Compensable factors for the job: Jobs with higher compensable factors receive higher compensation while Jobs with lower compensable factors receive lesser compensation. The typical phenomenon is that wages should commensurate with the employee efforts.

g) Trade union bargaining power: Trade union affect rate of wages by their bargaining power.

External factors: The following are some of the external factors influencing wage compensation:

a) Legal mandates: Legal mandates influence compensation. In India we have Minimum Wages Act, Factories Act, Payment of Wages Act, Payment of Bonus Act etc to name a few.

b) Labor market trends: Labor market trends like demand and supply of labor, cost of living, etc influence compensation design.

c) Economic state of the country: Economic state of the country along with fluctuation of inflation rate affects compensation.

d) Institutionalizing technology: Advanced technology calls for higher pay to employees equipped with these skills.

e) Talent retention: Talent attraction and talent retention in competitive environment is also a decisive factor for compensation structure.



CHECK YOUR PROGRESS

Q.5: List internal and external factors of wage determination?

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7.5 WAGE POLICY

A wage policy at the macro level requires an organization to follow the various statutory and regulatory guidelines. A Wage Policy at the micro level guides an organization to take decisions on wage related issues in line with its own strategies framed for its sustainability. So wage compensation policies differ among organizations though the organizations have to necessarily frame it on the recommendation of the Committee on Fair Wages (1948).

The Committee on Fair Wages has drafted the guidelines for wage structure in India. This necessity for a central committee to provide guidelines for wage structure in the country became eminent because of our Constitutional Convention Art 39and Art43.

Article 39– 'The state shall, in particular, direct its policy toward securing that– (1) the citizens, men and women equally, shall have the right to an adequate livelihood, and (2) there is equal pay for equal work for both men and women.'

Article 43– 'The state shall endeavor, by suitable legislation or economic organization or in any other way, to give to all workers, agricultural, industrial, or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure, and social and cultural opportunities'.

It is because of these constitutional provisions and the subsequent guidelines by the Committee on Fair wages that the concepts of living wage, minimum wage and fair wage have emerged in India.

An ideal wage and salary policy should–

- Establish good labor relations
- Decide on appropriate wages
- Decide wages based on the individuals capability
- Develop a predetermined scheme for payment of wages
- Establish linkages of wage payment with performances
- Maintain parity of wages with other organization
- Provide for incentive payment
- Guarantee minimum wages
- Provide for neutralization of price rise
- Develop wage structure that can attract talent.

National Wage Policy in India: ILO has set the guidelines for a wage policy. National Wage Policy of India was framed with more or less the same objective. The objectives of national wage policy are:

1) Elimination of malpractices in wage payment
2) Setting minimum wages to reduce wage differential between organized and unorganized sectors
3) Reduce disparities between private and public sector wages
4) Compensate for cost of living adjustment
5) Reduce gap between highest and lowest paid workers
6) Support trade unions and collective bargaining
7) Ensure just share to the workers in the fruits of economic development.
8) Restrain high profit making units to discriminate wages with high compensation offer
9) Institutionalize collective bargaining within national framework
10) Encourage incentives for greater productivity
11) Ensure efficient allocation and utilization of manpower through appropriate wage differentials.



CHECK YOUR PROGRESS

Q.6: List the national wage policy objectives?

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7.6 INSTITUTIONAL MECHANISM FOR WAGE DETERMINATION

Any institution for determining its mechanism towards wage structuring will be guided by some concerns.

The concerns may be broadly grouped as regulatory and statutory concerns and voluntary concerns. Under the first category the organizational concerns are mainly the guidelines framed by the Committee on Fair Wages and the various enactments under law– Minimum Wages Act (1948), Payment of Wages Act (1936), Payment of bonus Act (1965) etc.

Voluntary concerns are the concerns that emerge out of the organizations own strategies and its inherent structure. They may be of the following kind:

1) The organization approach to its base pay design.
2) The organization decision on the pay rates for various categories of jobs maintaining individual equity (equal pay for equal job). Here it is important to note those high levels of skills and their scarce availability in market and low set of skills with abundant availability in market is a decisive factor on pay rate.
3) The organizations decision to align performance factor with compensation if the organization strategies are meant for a power performance driven organization culture and hence the ratio of performance based variable pay.
4) The organization job evaluation mechanism to establish fair differentials in wages based on the difference in job content within the organization.

5) The organizations timely revision of compensation structure in the total background of the industry's compensation structure with the objective of attracting and retaining talent.
6) The organization's own financial strategies and affordability to ensure compensation cost optimization.
7) The organizations decision on the ratio of mix between cash and benefit component of compensation.
8) The bargaining power of trade union in unionized organization influences wage determination. The more powerful the trade union the higher the wages.
9) The organization management attitude also is instrumental in wage fixation. Some organizations are open enough to involve employees in designing compensation plans, e.g., TCS.

7.7 PAY COMMISSION

Pay Commission is a panel of members for review and revision and fixation of the salaries of government employees. It is appointed by the Government of India from time to time to make recommendations on the work and pay structure of all civil and military divisions of the Government of India. The pay system in public administration has evolved over a long period of time and no Pay Commission can alter it radically. The Pay Commission observes an incrementalist approach to pay fixation and operates only within a given framework of pay structure. It cannot do away completely with the existing pay structure. Till now 7 Pay Commissions have been appointed. Some of the pay commissions with their important recommendations till date are as follows:

Pay Commission	Recommendation
1st Pay Commission (1946)	Blending direct recruitment and promotion in class I service.
2nd Pay Commission (1957)	Setting up of JCM. Selection grade in class I Service. Stoppage of Direct recruitment of Grade of UDCs.

3rd Pay Commission (1970)	Rationalized pay structure and allowed lateral entry to IAS.
5TH Pay Commission (1993)	Downsizing of bureaucracy. Retirement age to be increased from 58 to 60. Creation of more All India Services.

7.8 WAGE BOARDS

Wage Boards were constituted by the Government and are transparent in nature; representing workers, employers and independent members. They finalize all wage recommendations which have come through collective bargaining. In the 1950s and 1960s trade unions had inadequate bargaining power. Thus the wage boards were constituted to settle all wage recommendations. Some wage boards are statutory– the wage boards for journalists, non journalist newspaper and news agency employees.

Other wage boards are non statutory. With increase in bargaining power of the trade unions wage boards specifically non statutory ones have become of seemingly less importance.



CHECK YOUR PROGRESS

Q.7: Wage Boards are of 2 types. They are:

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7.9 PUBLIC SECTOR PAY REVISION

With the objective of making the Central Public Sector Enterprises (CPSEs) commercially viable and competitive and providing the employees of the CPSEs with suitable working conditions, emoluments and incentives to motivate them for future growth, productivity and profitability of their enterprises, the Government of India has decided to review the existing structure of salary and emoluments of the CPSE executives. So the 3rd Pay Revision Committee was appointed on 9/6/2016 chaired by justice Satish Chandra (retd.).

The Committee objective is, review the structure of pay scales, allowances, perks, and other benefits for the following categories in CPSE taking into account the salary, emoluments, incentives and other benefits (including non monetary benefits) available to them and suggest changes which may be desirable , feasible and affordable.

1) Board level functionaries
2) Below Board level executives
3) Non unionized supervisory staff

The Committee to, devise a comprehensive pay package for the above categories of employees that is linked to promoting efficiency, productivity and profitability of CPSEs.

While devising a suitable pay and compensation structure for the executives and the nonunionized supervisors of the CPSEs the Committee takes into account the existing pattern of scales based on Industrial Dearness Allowance (IDA) and Central Dearness Allowance (CDA) pattern ,the categorization of CPSUs into A, B, C and D schedule, the status of Maharatna, Navratna, Miniratna given on CPSEs, the overall conditions of the loss/profit making CPSEs, and those CPSEs which are not for profit companies by their very nature.

The Committee examines the concerns of the CPSEs including general principles, financial parameters and conditions which should govern the continuation/modification of the productivity linked incentive schemes and performance related payment.



CHECK YOUR PROGRESS

Q.8: Pay Review Committee will review pay structure of following categories of employees.

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7.10 ILO AND COLLECTIVE BARGAINING

ILO is an UN Agency which tries to improve working conditions and workers pay in member countries along with the setting of labor standards, developing policies and devising programmes promoting decent work for all men and women. One of the main tasks of ILO has been to promote Collective Bargaining throughout the world.

According to ILO Convention No154 Collective Bargaining is “all negotiations which take place between an employer, a group of employers or one or more employer’ organizations on the one hand, and one or more workers’ organizations on the other for,

a) Determining working conditions and terms of employment; and /or
b) regulating relations between employers and workers; and/or
c) regulating relations between employer or their organizations and a workers’ organisation or workers’ organizations.” (Art 2)

Collective Bargaining is a fundamental right to be recognized through out private and public sector in order to regulate the terms and conditions of employment. The negotiations must be free and voluntary based on the principle of independence and autonomy of the parties and the collective agreement must be binding upon the parties.

Collective bargaining follows the principle of good faith ie genuine and constructive negotiation, avoiding delays in negotiation and mutually respecting the agreement entered into. The process of conciliation and mediation may be imposed by law in the process of collective bargaining though imposition of compulsory arbitration when parties do not arrive at agreements can be admissible in some cases.



CHECK YOUR PROGRESS

Q.9: What is objective of ILO.

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7.11 UNION ROLE IN WAGE AND SALARY FIXATION

Unions have an immense impact on the compensation and the work lives of both unionized and non unionized workers. The unions substantially effect workers wages, fringe benefits, total compensation, pay inequity and workplace protection.

One of the main goals of the unions has always been to raise wages of unionized workers and also to raise their total compensation including both wages and benefits. They reduce wage inequality by raising the wages more for low-and-middle-wage workers than for higher wage workers. The standard explanation for this phenomenon is that unions standardize wages by decreasing differentials across and within job positions so that low skilled workers get a larger premium with respect to their non union wages. The most significant advantage for unionized worker is fringe benefits. Workers are provided better paid leave, health insurance and pension plans etc.

Union play a pivotal role both in securing legislated labor protection and rights like Minimum Wages Act (1948), Payment of Bonus Act (1965), Payment of Wages Act (1936) etc and also enforcing those rights of the workers. Unions ensure that workers have access to benefits to which they are legally entitled.

It is mentionable here that unions impact on wages also affects nonunion wages. For e.g., in industries where a strong core of workplaces are unionized, non union employers will try to meet union standards or at least improve their wage compensation to forestall unionization.



7.12 LET US SUM UP

In this unit we have discussed the following:

- Wage is compensation for labor. Wage components are basic wage and allowances.
- Types of wages: Minimum Wage, Fair Wage, Living Wage and Need based minimum wage

- Theories of wages: Traditional theories and Theory of negotiated wages
- An organization has to respond to external and internal factors to have a wage and salary structure commensurate with the industry pattern.
- A wage policy guides an organization on wages and salary in adherence to statutory and regulatory requirements and the organization's own strategies.
- An organization follows the (a) regulatory and statutory and (b) the voluntary concerns in designing pay structure.
- Role of Pay Commission is to review and fix the salaries of government employees from time to time.
- Wage Boards are tripartite bodies to finalize the recommendation of Collective Bargaining.
- ILO recognizes Collective Bargaining as a fundamental right for private and public sector.
- Unions raise the wages of workers and reduce wage inequality.



7.13 FURTHER READING

1) Bhattacharyya, Dipak Kumar. (2014*). Compensation Management*. (2nd Edition). Oxford.
2) Bhattacharya, Mousumi S. and Sengupta, Nilanjan. (2008). *Compensation Management*. Excel Books.
3) Deb Tapamoy. (2008). *Compensation Management: Text and Cases*. Excel Books.
4) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
5) Singh, B. D. (2017), *Compensation and Reward Management*. Excel Books.



7.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Basic wage is basic salary and allowances according to contract of employment. Allowances are additional to basic wage so that value of basic wage does not fall over a period of time.

Ans. to Q. No. 2: Minimum wage is lower limit of Fair wage. Fair wage is next higher level. Living wage is highest level of Fair wage.

Ans. to Q. No. 3:
- Bargaining power of labor
- Industry pay capacity
- National income
- Wages of other industries
- Labor productivity
- Industry position in country's economy
- Wage rates in same occupation in neighboring locality.

Ans. to Q. No. 4: Wages are paid out of the surplus savings of the wealthy

Ans. to Q. No. 5: Internal factor: Organisation ability to pay, Organisation strategy, Employee performance, Employee seniority, Employee potentiality, Compensable job factors, Trade unions.

External factors: Legal mandates, Labor market, Economy of country, Technology,Talent retention.

Ans. to Q. No 6: The objective of national wage policy are:
- Elimination of malpractices in wage payment
- Setting minimum wages to reduce wage differential between organized and unorganized sectors
- Reduce disparities between private and public sector wages
- Compensate for cost of living adjustment

Ans. to Q. No. 7: Statutory and non statutory

Ans. to Q. No. 8: Board level functionaries,Below Board level executives, Non unionized supervisory staff

Ans. to Q. No. 9: To improve the working conditions and pay of the workers of member countries.



7.15 MODEL QUESTIONS

Q.1: Explain wage with its components?

Q.2: Explain the types of wages?

Q.3: Describe the various wage theories?

Q.4: Enumerate the institutional mechanism for wage and salary fixation?

Q.5: Explain Collective Bargaining in terms of ILO Convention No 154?

Q.6: Is it right to say that Unions reduce wage inequality. Explain?

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UNIT 8: JOB EVALUATION

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Compensation Strategy at the Micro Level

8.4 Concept of Equity

8.5 Job Evaluation

8.5.1 Process of Job Evaluation

8.6 Methods of Job Evaluation

8.7 Problems of Job Evaluation

8.8 Let Us Sum Up

8.9 Further Reading

8.10 Answers to Check Your Progress

8.11 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- learn the compensation strategies of management, especially at the micro level ie at the individual level.
- explain what internal equity and external equity means and how it is important to every organization
- discuss in detail what is job evaluation and its significance to every organization
- outline the system of wage and salary administration and define the place of job evaluation in the wage and salary administration.
- describe the process of job evaluation
- explain the different methods of job evaluation
- discuss the advantages and disadvantages of applying job evaluation in organizations.

8.2 INTRODUCTION

This unit deals in detail on the factor that is used to determine reasonable and fair wages and salaries. That factor is called Job Evaluation. The unit also includes the various issues related to Job Evaluation.

The unit will help us know how important is the structuring of wage and salary rates in an organization; the process of wage and salary fixation; and how job evaluation arises as an important feature in the process of wage and salary fixation; the system that leads to a systematic job evaluation process and the various traditional and modern methods of Job Evaluation.

The unit also includes the various methodical problems in the implementation of job evaluation and also the general problems faced by the organization in the implementation of job evaluation.

In this unit we are also going to understand the micro and macro level compensation strategies and discuss the micro level strategies in detail.

The unit has a note on the different equations of wage and salary structures internal to the organization and external to the organization.

8.3 COMPENSATION STRATEGY AT MICRO LEVEL

Management's decisions on compensation are of two types– Micro (Individual focused) or macro (total organization focused). The former is more important for both employees and managers in terms of employee attraction and retention and cost considerations. This micro level decision or what we can say decisions relating to compensation at the individual levels, are influenced by factors like job components, hiring standards of the employees, job positioning in the organization hierarchy, management's discretion and internal and external pay equity structure along with union pressures and statutory regulations.Also the fluctuations in labor demand affect employer compensation decision on individuals. During an economic upswing high pay employers will increase wages and salaries and benefits while low pay employers will increase compensation more than high pay firms generally to control employee turnover.

The compensation strategy at the micro level, framed, based on whatever of the above mentioned factors, cannot be totally alienated from

the macro or what we call the organization focused compensation strategy of the management. The micro strategies are usually drawn from the more long term focused macro strategies which are defined with the organizational objective of competitive business environment sustainability.

The micro strategy has to be very clear on wages and salaries and incentives. All jobs and their skill levels are considered in terms of their relative contribution to the organization macro objective. Further, establishing pay rates for employees doing similar and dissimilar work and determining fair difference among employees doing different work becomes a strategic challenge to managers. Considering all these managers must plan the elements of pay included in the system (base pay, short and long term incentive) and communicate that to employees.

Some organizations say for example, set pay levels greater than competitors to attract and retain talent while others may offer less base pay and greater variable pay. This element of variable pay makes the organization introduce pay for performance policies for the more productive employees.

After deciding on these micro level strategies the final element in the compensation management is its administration and disbursement. A competent management is necessary to implement the micro strategies.



CHECK YOUR PROGRESS

Q.1: Compensation strategy at micro level focuses on .....

Q.2: Compensation strategy at macro level focuses on .....

8.4 CONCEPT OF EQUITY

Equity (internal equity and external equity) is a critical factor for determining pay rates.

A basic motivating factor that binds an employee, to the organization is the compensation factor. He acknowledges this as an output for his physical and mental efforts that he invests to accomplish the goals of the organization. So wages & salaries and benefits are important to an employee. Being a

social animal he has the tendency to compare his compensation rates with others working at the workplace and expects an equitable rate for similar tasks performed within an organization and also for similar tasks in the industry or geographical area. This is how internal and external pay equity concept has evolved

Pay rates have to be equitable internally: Employees not only value what they get from a job (output) in relation to what effort they put into it(input) , but they also compare their input output ratio with the input output ratio of co workers. If an employee's ratio of input output is equal to the ratio of others, equity state is achieved. If the ratios are unequal, inequity state is in existence and the employee considers himself being under rewarded.

Not all jobs require putting in the same efforts. Some jobs can be administered with a moderate level of inputs (skill, knowledge ability and experience) while some jobs specially higher up the hierarchy has to be administered with extensive level of inputs (skill, knowledge ability and experience). So there has to be a fair and reasonable relation between the wages and salaries of different positions inside the organization.

Thus arose the need of determining the internal worth of the jobs (job evaluation) based on their importance, which establishes the differentials between jobs, ultimately linking it to a financial structure and thus putting in place a wage structure across the jobs in the organization.

Pay rates have to be equitable externally: Employees also expect to be compensated equitably with other employees who are working in the same type of jobs in other organizations in the same geographic area.

All organizations will have a wage and salary structure. External equity must be compared favorably with other organizations. Wage and salary surveys across the organization in the industry or area bring to light the internal wage structure of organizations prevailing in the market. This comparison makes the management evolve a wage structure based on external equity to attract and retain talent.

Such an equitable structure of wages and salaries internally and externally keeps the employee motivated.

To conclude, it may be said that Job Evaluation is used to find internal worth of a job relative to others and establish internal equity whereas the pay

surveys are used to establish external equity & to evolve suitable wage structures to attract and retain employees. These two principles of management helps to keep employee motivated on the factor of equity in compensation.

With an equitable pay structure an organization has the following advantages. (According to a study by British Institute of Management)

1) Reduction in employee turnover
2) Increased output (productivity)
3) Improved employee morale
4) Reduction in the loss of time due to wage negotiations and disputes arising out of inequity.
5) Reduction of wage related complaints
6) Reduction of wage and salary anomalies.



CHECK YOUR PROGRESS

Q.3: What is internal equity?

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Q.4: What is external equity?

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8.5 JOB EVALUATION

Job Evaluation is a vital component in the process of wage and salary fixation. To understand the position of Job Evaluation in the process of wage

and salary fixation we have to have an idea of the initial stages of wage and salary fixation. The process starts with salary surveys.

Every employer conducts at least an informal salary survey to determine prevailing wage rates in the industry or area. Survey data are used to rate employer's main or basic benchmark jobs and relative to which he rates his other jobs, based on their relative worth to the organization and establishes pay differentials. This differentiation of the relative worth of jobs in the organization is Job Evaluation.

Job Evaluation is thus, a formal and systematic comparison of jobs to determine the worth of one job relative to another and an aid to establish pay differential in a fair and logical way.

Comparison of jobs is done generally in two ways. One is simply subjective to decide one job is "more important" than another and not go any deeper in terms of job related factors.

Another method of comparison of job is by focusing on certain basic factors (compensable factors) jobs have in common maybe like effort, responsibility, skills, problem solving, accountability etc.

8.5.1 Process of Job Evaluation

The following are the steps in the process of job evaluation:

1) Identifying the need for the Job Evaluation program
2) Getting the cooperation
3) Choosing an evaluation committee
4) Actual Job Evaluation

Let us now discuss theses steps in the detail.

1) Identifying the need for the Job Evaluation program: The need for Job Evaluation arises when employees are dissatisfied over pay inequities. If an organization does not have formal and systematic way of determining wages and salaries there is the possibility of pay inequities. There will be different pay rates for similar jobs which will lower the employee morale.
2) Getting the cooperation: Getting employee cooperation in the evaluation is important as they may fear that a systematic

evaluation of their jobs may lead to a reduction of their current wage rates.

3) Choosing an evaluation committee: It is appreciable if the committee has employee representatives as this will have greater employee cooperation.

4) Actual Job Evaluation: A detailed examination of jobs and preparation of job description (to know the job characteristics and to determine the assessment /evaluation method) and finally Job Analysis (to set out the requirements of the job under various factor headings) is done. The Committee will identify a sizeable benchmark jobs on these parameters. These jobs will be initially evaluated and will serve as benchmarks against which the relative value of all other jobs will be compared. If Job for evaluation is of same nature, a single job evaluation method will suffice. But in most organizations employees are differentiated by hierarchy and function. Therefore most organizations need multiple job evaluation techniques. Now the jobs are arranged in progress, and relating to their linear progression, the jobs are linked to a financial scale.



CHECK YOUR PROGRESS

Q.5: What is job evaluation?

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Q.6: What is the objective of job evaluation?

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8.6 METHODS OF JOB EVALUATUION

The following are the methods of Job Evaluation:

1) **Ranking method of Job Evaluation:** This method ranks each job relative to all other jobs. The steps are as follows:

a) Derive job information: Job descriptions for each job are made and they are usually the basis on which the job rankings are made.
b) Select compensable factors: This method uses generally one or two out of the overall factors and ranks each job as an entity upon these factors.
c) Rank jobs: Next the jobs are ranked from lowest to highest
d) Combine Ratings: Usually several rankers rank jobs independently. Then the rating committee can simply average the ratings.

2) **Job Description (or Grading) Evaluation method:** Under this method jobs are categorized into groups. These groups are called classes if they contain similar jobs or these groups are called grades if they contain jobs that are similar in difficulty but otherwise different. The method starts with choosing compensable factors and then developing class or grade descriptions that describe each class or grade in terms of the amount or level of these compensable factors in the jobs. Based on these compensable factors, each job is allocated in its appropriate class or grade using its job description. This is how jobs are categorized into groups. This method is different from ranking as here grade and wage levels are predetermined before jobs are ranked and descriptions are written defining the type of job which should fall into each group.

3) **Point method of job description:** This is a quantitative method of Job Evaluation. It involves identifying: (1) several compensable factors, i.e., those attributes of a job which are measureable eg skill, responsibility etc., each having several sub factors eg job responsibility as a compensable factor can be broken to sub factors as administrative, functional and strategic and also (2) the degree to which each of such sub factors and finally the factor is present in the job. Based on the degree of the presence of these sub factors, weights are assigned to each sub factor. Let us further assume that a different number of points (weight age) is assigned to each sub factor of each compensable factor according to its importance and similarly for other sub factors of the other compensable factors as well. Then,

once the evaluation committee determines the degree to which each compensable factor (determined from its sub factors) is present in the job the corresponding points for each factor can be added to get a total point value for the job or what we call the relative worth of job. Consolidated point values are finally converted to financial terms.

4) **Factor comparison job evaluation method:** This method is a step ahead of the simple ranking method. In the ranking method each job is considered as an entity and it is ranked based on some overall factor like job difficulty. In the factor comparison method, a job is ranked several times– once for each compensable factor out of the many compensable factors chosen. For eg jobs may be ranked first on compensable factor 'job difficulty'. Then jobs may be ranked on compensable factor 'skill' and so on. All these rankings are combined into an overall rating for each job. Jobs are arranged in a scale in order of their point values. The total of the factor values so determined for each job represents is rate.



CHECK YOUR PROGRESS

Q.7: Name the various methods of doing job evaluation?

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Q.8: What are compensable factors?

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8.7 PROBLEMS IN JOB EVALUATION

Problems are more in non quantitative methods of Job Evaluation. They are:

A) Procedural Problems:

Problems in Ranking Method:

1) This method has no yardstick for measuring the value of one job relative to another.
2) The degree of difference between jobs cannot be ascertained.
3) It is Impractical for large number of workers and for complicated jobs.

Problems in Classification or Grading Method:

1) Here it is not so easy to write the class or grade descriptions and considerable judgment is required to apply them.

B) General Problems:

1) Job Evaluation is subjective due to judgmental estimates of the evaluation committee.
2) Job Evaluation cannot take into consideration the cyclical effect of market value of jobs. For e.g., finance jobs may be highly priced in the job market at a time followed by HR jobs at another time.
3) Job evaluation alone is not instrumental in establishing wage rates. For wage fixation statutory requirements like Minimum Wages Act (1948), Payment of Wages Act (1936) etc are to be taken into consideration.
4) Also all other factors of wage fixation are equally important in determining wage rates– capacity of organization to pay, inter industry wage variation, interregional wage variation and collective bargaining agreements.



CHECK YOUR PROGRESS

Q.9: What are the advantages of job evaluation?

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Q.10: What are the disadvantages of job evaluation?

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8.8 LET US SUM UP

- That management's decisions on compensation are grounded on both micro and macro level. Micro level decisions or strategies are based on the individual level and all associated individual level interrelated elements like job component, hiring standards of the employee and organization hierarchy, management's discretion and internal pay equity structure along with union pressures and statutory regulations. Macro level decision or strategies are organization focused and is concerned with organization long term objectives and salary rates prevalent in the industry or area.
- That employees are by nature, psychologically inclined towards comparing their wage and salary rates with those of others doing the same job in the organization. If it is unequal employees are demotivated. So it is important to have similar wages and salary rates for the same job.
- Employees are inclined to compare their wage and salary structure with others doing the same job but in different organizations of the same industry. This again is a major reason of employee dissatisfaction and here arises the tendency of the employees to leave the current organization for the better paying organizations. Organisations then face the tremendous problem of employee attrition.
- That Job Evaluation is a comparison of jobs to determine the worth of one job relative to another and an aid to establish pay differential for a fair and logical pay system.

- That Comparison of jobs is done generally in two ways. First is simply to decide one job is “more important” than another .Second method of comparison of job is by focusing on certain basic factors (compensable factors) jobs have in common.
- That job evaluation consists of the following steps:
  1) Identifying the need for the Job Evaluation program
  2) Getting the cooperation of employees
  3) Choosing an evaluation committee
  4) Actual Job Evaluation
- That the different methods of job evaluation are:
  - Ranking method
  - Job Description method
  - Point method
  - Factor comparison method
- That identifying compensable factors in job is important to do job evaluation
- That Job Evaluation has both merits and demerits.



8.9 FURTHER READING

1) Bhattacharyya, Dipak Kumar. (2014*). Compensation Management*. (2nd Edition). Oxford.
2) Bhattacharya, Mousumi S. and Sengupta, Nilanjan. (2008). *Compensation Management*. Excel Books.
3) Deb Tapamoy. (2008). *Compensation Management: Text and Cases*. Excel Books.
4) Goel, D. (2012). *Performance Appraisal and Compensation Management: A Modern Approach*. Prentice Hall India Learning Private Limited.
5) Singh, B. D. (2017), *Compensation and Reward Management*. Excel Books.



8.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Individual

Ans. to Q. No. 2: Organization

Ans. to Q. No. 3: Employees value what they get from a job (output) in relation to what amount of the effort they put into it (input). The proportion of input to output has to be justifiable.Also employees compare their input output ratio with the input output ratio of co workers. There has to be a similarity in the ratios if the amount of input in terms of skill, knowledge, and ability is similar. Further there has to be a fair and reasonable relation between the wages and salaries of different positions inside the organization. Every job in the organizational hierarchy will call for different levels of skill, knowledge, ability and experience. The wage and salary structures for different job levels should be based on fair and reasonable differentials.

All these factors together lead to internal equity.

Ans. to Q. No. 4: Employees also compare their wage and salary structure externally with others doing the same job but in different organizations of the same industry and desire similar wage and salary for the same type of jobs. This is external equity.

Ans. to Q. No. 5: Job Evaluation is a formal and systematic comparison of jobs to determine the worth of one job relative to another

Ans. to Q. No. 6: Objective of Job Evaluation is to establish reasonable and fair pay differentials for different jobs in the organization and thus lay the foundation for a fair and logical pay system in the organization.

Ans. to Q. No. 7: The different methods of job evaluation are:

- Ranking method
- Job Description method
- Point method
- Factor comparison method

Ans. to Q. No. 8: Compensable factors are those attributes of a job which are measureable, e.g., skill, responsibility etc. Sometimes a compensable factor like say 'job responsibility' can be broken to sub

factors as administrative, functional and strategic. Compensable factors are elemental in the process of job evaluation.

Ans. to Q. No. 9: Reduction in turnout, Increased output, Improved employee morale, Reduction in the loss of time due to wage negotiations and disputes and Reduction of wage related complaints

Ans. to Q. No. 10: 1) Job Evaluation is subjective according to members of the evaluation committee.

2) Job Evaluation does not consider the cyclical effect of market value of jobs. All jobs do not have the same market value at all times. A particular class of jobs may be predominant in the market at one time while another class may be ruling the market at another time.

3) Apart from Job evaluation statutory requirements like Minimum Wages Act (1948), Payment of Wages Act (1936) etc. need to be taken into consideration for wage fixation.

4) Other factors of wage fixation are equally important in determining wage rates– capacity of organization to pay, inter industry wage variation, interregional wage variation and collective bargaining agreements.



8.11 MODEL QUESTIONS

Q.1: Explain the compensation strategy at the micro level?

Q.2: Explain the system leading to a job evaluation?

Q3: Explain the following methods of job evaluation-

- Ranking method
- Job Description method
- Point method
- Factor comparison method.
- State reasons which one would you prefer over the other.

Q.4: Why is job evaluation integral to the system of wage and salary fixation.

Q.5: Do you think Job Evaluation alone is sufficient in wage and salary fixation? Comment.

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Name of the Paper: .....
Course Code: .....

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Krishna Kanta Handiqui State Open University
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Learner's Feedback on Course

Dear Learner,

Regarding the course as mentioned above, we would like to know your opinions and comments so as to improve the quality of self learning materials in future. Please respond to the following statements by ticking the number you feel most reflect your opinion. After completion of the additional comments, please detach the page and send/mail the same to us at the address given below.

The Director, Centre for Internal Quality Assurance, KKHandiqui State Open University
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1) Approximately how many hours did you spend for studying the units in the course? ☐☐☐

2) Please give your opinions (by ✓ mark) to the following items based on your reading of the block:

Sl. No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I)	The SLMs of the course fulfil the learning objectives set out in the beginning of each unit					
II)	The units of the SLM could satisfy my academic needs and expectations					
III)	The Unit writers have excellent knowledge about the course contents					
IV)	Language and contents of the units were presented at a level which I could readily understand					
V)	Ample opportunity for participation in the activities provided in the units					
VI)	Used enough Illustrations (Diagrams, tables etc.) for conceptual clarity					
VII)	Quality of content is engaging, relevant, and up-to-date					
VIII)	The self check questions are very helpful					
IX)	The Possible/model questions and the answers to check my progress have benefited me a lot					

Additional Comments: *(Please feel free to provide your open comments)*

1) Which aspects of the SLM, according to you, worked well?

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2) What sort of changes/improvements do you feel KKHSOU could implement to improve the overall quality of the SLM?

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Thank you for taking the time to complete this form.