

## Unit – II

### Q. What do you mean by Performance Appraisal?

Performance Appraisal is an objective assessment of an individual's performance against well-defined benchmarks. Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

1. The supervisors measure the work of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.
3. The employers are in position to guide the employees for a better performance.

### Q. State the Objectives of performance appraisal?

Performance Appraisal is done with following objectives:

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. It serves as a basis for influencing working habits of the employees.
6. To review and retain the promotional and other training programmes.

Objectives of appraisal as stated above include effecting promotions and transfers, assessing training needs, awarding pay increases, and the like. The emphasis in all these is to **correct** problems. These objectives are appropriate as long as the approach in appraisal is individual. Appraisal in future, would assume systems orientations. In the systems approach, the objectives of appraisal stretch beyond the traditional ones.

In the systems approach, appraisal aims at **improving** the performance, instead of merely assessing it. Towards this end, an appraisal system seeks to evaluate opportunity factors. Opportunity factors include the physical environment such as noise, ventilation and lightings, available resources such as human and computer assistance and social processes such as leadership effectiveness. These opportunity variables are more

important than individual abilities in determining work performance. In the systems approach the emphasis is not on individual assessment and rewards or punishments. But it is on how work the work system affects an individual's performance. In order to use a systems approach, managers must learn to appreciate the impact that systems levels factors have on individual performance and subordinates must adjust to lack of competition among individuals. Thus, if a systems approach is going to be successful, the employee must believe that by working towards shared goals, everyone will benefit. Not that the role of the individual is undermined. The individual is responsible for a large percentage of his or her work performance. Employees should not be encouraged to seek organizational reasons for his failures. The identifications of systems obstacles should be used to facilitate development and motivation, not as an excuse to poor performance.

**Q. What is the Purposes of Performance Assessment?**

<b>General Applications</b>	<b>Specific Purpose</b>
Developmental Uses	Identification of individual needs Performance feedback Determining transfers and job assignments Identification of individual strengths and developmental needs
Administrative users/decisions	Salary Promotion Retention or termination Recognition of individual performance Lay offs Identification of poor performers
Organizational maintenance/ objectives	HR planning Determining organization training needs Evaluation of organizational goal achievement Information for goal identification Evaluation of HR systems Reinforcement of organizational development Needs
Documentation	Criteria for validation research Documentation for HR decisions Helping to meet legal requirements

## **Q. What are the advantages of Performance Appraisal?**

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

**Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.

**Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.

**Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyze strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.

**Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.

**Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:

- Through performance appraisal, the employers can understand and accept skills of subordinates.
- The subordinates can also understand and create a trust and confidence in superiors.
- It also helps in maintaining cordial and congenial labour management relationship.
- It develops the spirit of work and boosts the morale of employees.

All the above factors ensure effective communication.

**Motivation:** Performance appraisal serves as a motivation tool. Through evaluating

performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

**Q. Who does performance appraisal?**

In most organizations, self-appraisals are commonly used. Apart from this, the appraisal process may also be done by supervisors, peer group, HR managers, consultants etc. Usually, the appraisal process is carried out once a year, but there are instances where the appraisal is also done half-yearly or quarterly.

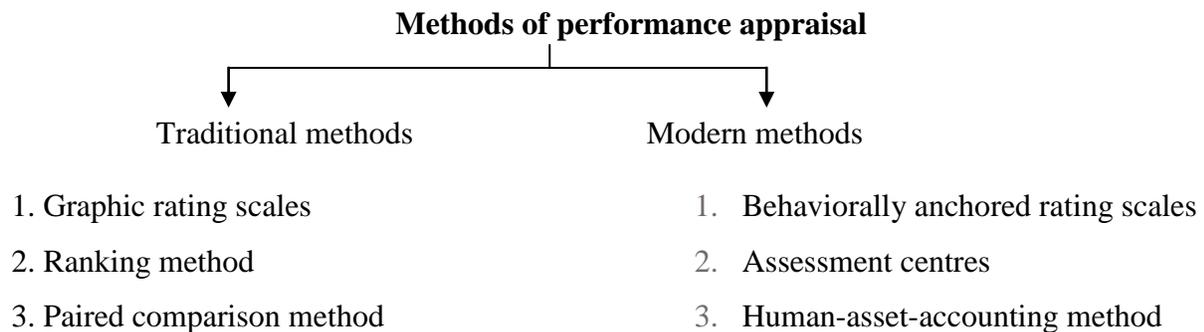
**Q. Elaborate the Process of appraisal.**

The steps usually involved in the appraisal process are:

1. establishing standards of performance,
2. communicating the performance,
3. measuring the actual performance,
4. comparing the actual performance with the established standards and discussing the appraisal process, and
5. taking corrective actions wherever necessary.

**Methods:**

Various methods are involved in performance appraisal. Some methods measure absolute standards, some measure relative standards, and others measure standards in relation to objectives. Further, in the last 30 years, the appraisal process has undergone a lot of changes, and in line with its importance, new methods have also resulted. Hence, methods of performance appraisal can be divided under two headings: traditional methods and modern methods. These methods have been listed in Figure below:



4. Forced distribution method

5. Checklist methods

(a) simple checklist

(b) weighted checklist

(c) critical incident method

6. Essay form appraisal

7. Group appraisal

8. Confidential reports

4. Management by objectives

5. 360<sup>0</sup> performance appraisal

### **Traditional Methods**

The traditional methods of performance appraisal have been briefly discussed below.

#### **Graphic rating scales**

This is the oldest and most commonly used method. It is also known as the linear rating scale or simple rating scale. In this method, a printed form is used to evaluate the performance of each employee. A variety of traits such as employee initiative, leadership, attitude, loyalty, creativity, cooperation, quality and quantity of work done, goals achieved, coordination towards co-workers and supervisors, etc. are included. These traits are then evaluated on a rating scale by the rater according to the employee performance. The advantage of this method is that it is easy to use, easy to understand, and many employees can be evaluated quickly. The drawback is its low reliability, subjectivity, and the descriptive words used in such scales, which may have different meaning to different raters.

#### **Ranking method**

This is a relatively easy method. In this method, each person in the group is assigned a rank in comparison with others in the group. Normally, the ranking is done based on the performance of the employees. The top performer is usually assigned rank I and the ranks decline as the performance level decrease. Even though ranking is done, it is difficult to evaluate and assign ranks to average employees. The method also has its limitations. Only a relative ranking of the employee is obtained but not the degree of difference in proficiency. Another limitation is only the work-related aspects are compared and not other behavioural aspects. This method is not practicable for a large group.

#### **Paired comparison method**

Paired comparison method is a systematic method where each employee is compared with all

other employees in the group, for each trait, one at a time.

### **Forced distribution method**

In this, the system rater appraises the employee on two dimensions: job performance and other factors of promotability. A five-point performance scale is used to describe and classify the employees. The extreme ends denote good and bad performances. For example, employees with outstanding performance may be placed among the top ten per cent of the scale. An advantage of this method is it brings about uniformity among the rates. Since performance depends on many factors, employees who have been classified as low performers may experience low morale.

### **Checklist methods**

It is a simple rating method in which the rater is given a list of statements and is asked to check the statements representing the characteristics and performance of each employee. There are three types of checklist methods- simple checklist, weighted checklist, and forced-choice method.

***Simple checklist method*** It consists of a large number of statements concerning employee behavior. The rater's task is simply to check if the behaviour of an employee is positive or negative to each statement. Employee performance is rated on the basis of the number of positive checks, negative checks are not considered.

***Weighted checklist method*** The weighted checklist method involves weighting the different statements about an individual to indicate that some are more important than others. The rater is expected to look into the questions which relate to the employee's behavior and tick such statements that closely describe the behavior of employees. In the weighted method, the performance ratings of the employee are multiplied by the weights of the statements and the coefficients are added up. This cumulative coefficient is the weighted performance score of the employee, which, in turn, is compared with the overall assessment standards in order to find out the overall performance of the employee. However, this method is expensive to design and time consuming in nature.

***Critical incident method*** In the critical incident method, the rater or manager prepares a list of statements on the basis of the effective and ineffective behaviour of an employee. These incidents represent the behaviour of employees on their job. The rater periodically records the critical incidents and maintains it. At the end of the rating period, these critical incidents are used to evaluate the overall employee performance.

### **Essay-form appraisal**

In an essay form appraisal the manager writes a short essay describing the employee's performance. This form, prepared during the rating period, emphasizes the evaluation of the overall performance on the basis of their strengths/weaknesses. A major limitation of this method is that the quality of ratings depends on the writing skills of the manager, rather than the performance of an employee.

### **Group appraisal**

In this method, an employee is appraised by a group of appraisers. The group consists of the immediate supervisor of the employee, manager or head of the department, and consultants. The group may use one or multiple methods. The group first appraises the performance of the employee, compares the actual performance with the standards, finds out the deviations, and discusses the reasons for it in order to suggest ways for improving the performance of the employee. The group also prepares a plan of action, studies the need for change in job analysis and standards, and recommends change. This method is used for the purpose of promotion, demotion, and retrenchment appraisal.

### **Confidential reports**

Under this method, the supervisor appraises the performance of his subordinates on the basis of his observations, judgment, and intuitions. This method is usually used in government organizations and is prepared at the end of every year. The report states the strengths, weaknesses, sincerity, punctuality, attitude, knowledge, skills, conduct, and character of the employee.

## **Q. What are the Modern Methods performance appraisal adopted by organization to assess the performance of its employees?**

The modern methods of performance appraisal are discussed below:**Behaviorally anchored rating scales (BARS)**

This is recently developed appraisal method. It is a combination of the rating scale and critical incident method. The five-step procedure for BARS are discussed below:

**Step I: Collect critical incidents** People with knowledge of the job that will be appraised are asked to describe specific illustrations of effective and ineffective performance behavior.

**Step II: Identify performance dimensions** These people then cluster the incidents into a smaller set (of say, 5-10) of performance dimension. Each cluster (dimensions) is then defined.

**Step III: Re-classify the incidents** Another group of people, who has knowledge about the job, reclassify the critical incidents. They are various cluster definitions and critical incidents, and asked to re-design each incident to the dimension it best describes. Typically, a critical incident is retained some percentage (usually 50% to 80%) of this group assigns it to the same cluster as the previous group did.

**Step IV: Rate the incidents** This second group is generally asked to rate (7 or 9-point scales are typical) the behavior described in the incident on how effectively or ineffectively it represents performance on the appropriate dimension.

**Step V: Develop the final instrument** A subset of incidents (usually 6 or 7 per cluster) is used as 'behavior anchors' for the performance dimensions.

### **Assessment-centre method**

This method is used to test candidates in a social situation, using a variety of procedures and a number of assessors. The most important feature of the assessment centre is job-related simulations. These simulations involve characteristics that managers feel are important to job success. The evaluators observe and evaluate participants (in several situations) as they perform activities commonly found in these higher-level jobs. Assessments are made to determine employee potential for the purpose of promotions.

### **Assessment centers are used for the following purposes:**

To measure the potential for first-level supervision, sales and upper management positions, and also for higher levels of management for development purposes:

- to determine the individual training and development needs of employees
- to select recent college students for entry-level positions
- to provide more accurate human resource planning information
- to make an early determination of potential

- to assist in implementing affirmative action goals

### **Human-asset-accounting method**

Human-asset accounting is a sophisticated method which deals with the cost and contribution of human resources to the organization. Cost of employee includes cost of manpower planning, recruitment, selection, induction, placement, training, development and benefits, etc. Employee contribution is the employee's service towards the organization. Employee performance is positive if the employee contribution is more than his/her cost to the company.

### **Management by objectives**

Management by objectives is described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contributions of each of its members. MBO is a modern method of evaluating the performance of employees-it measures each employee's contribution to the success of the organization.

To establish objectives, the key people involved should engage in the following three activities:

- meet to achieve the objectives within a given period of time.
- develop plans to accomplish the objectives.
- agree on the 'yardsticks' for determining whether the objectives have been met.

So, MBO is a complete system of planning, control, and philosophy of management.

### **360<sup>0</sup> performance appraisal**

The appraiser can be any person who has knowledge about the job done, the contents to be appraised, the standards of contents, and observes the employee while performing a job. The comprehensive appraisals from the supervisors, peers, subordinates, and the employee himself/herself are called 360<sup>0</sup> performance appraisal. The appraiser should assess the performance without bias and must also be capable of determining what is more important and what is less important.

### **Q. Discuss the problems of performance appraisal.**

The performance appraisal process and techniques that have been suggested make an assumption that the rater is free from all biases and is very objective in his assessment. There are a few

common errors which might accidentally occur in the rating process. Some of them are as follows:

### **Leniency Error**

Every rater has his or her own way of evaluating individuals against or irrespective of a standard of performance. Sometimes, this might result in a high marking or a low marking. This is referred to as the leniency error. When raters are positively lenient in their appraisal, an individual performance becomes overstated, resulting in a positive leniency error. Similarly, a negative leniency error understates the performance, giving the individual a lower appraisal.

### **Halo Error**

The halo effect is a tendency to rate high or low on all factors due to the impression created by a high or low rating on some specific factor. For example, if an employee is found to be dependable and sincere, there will be a tendency to rate the individual high on other positive personal attributes. One way to avoid this error is to rate the individual on all dimensions before the final rating. This procedure can be practiced by involving many raters.

### **Similarity Error**

Usually, people tend to perceive and interpret behavior by projecting their own perceptions on others. When evaluators do so, it is called a similarity error. For example, the rater who perceives himself/herself as honest may evaluate others by looking for honesty.

### **Error of Central Tendency**

It is possible that the general findings of the appraisal results might fall in the average category. Very few people might fall in the extremes. Here, the rater shows reluctance to give absolute markings either on the positive or on the negative side. This is referred to as the error of central tendency. Failure to rate the employees in the extreme categories, even when they deserve it, might create some problems for the employees.

Despite the above errors, the appraisal process is a powerful tool to enhance and motivate an employee's performance. The data from the appraisal may be utilized effectively for performance planning and improvement.

**First impression (primacy effect):** the appraiser's first impression of a candidate may colour his evaluation of all subsequent behavior. In the case of negative primacy effect, the employee may seem to do nothing right, in the case of positive primacy effect, the employee can do no wrong.

**Horn effect:**

The rater's bias is in the other direction, where one negative quality of the employee is being rated harshly. For example, the rate rarely smiles so he cannot get along with people.

**Stereotyping:** stereotyping is a mental picture that an individual holds about a person because of the person's sex, age, religion, caste. By generalizing behavior on the basis of such blurred images, the rater grossly overestimates or underestimates a person's performance.

**Recency effect:** in this case, the rater gives greater weightage to recent occurrences than earlier performance. Ex- an excellent performance that may be six or seven months old is conveniently forgotten while giving a poor rating to an employee's performance which is not so good in recent weeks.

**Q. What is Potential Appraisal?**

The potential appraisal refers to the appraisal i.e. identification of the hidden talents and skills of a person. The person might or might not be aware of them. Potential appraisal is a future – oriented appraisal whose main objective is to identify and evaluate the potential of the employees to assume higher positions and responsibilities in the organizational hierarchy. Many organisations consider and use potential appraisal as a part of the performance appraisal processes.

**Q. What are the purposes of a potential review are:**

1. to inform employees of their future prospects;
2. to enable the organisation to draft a management succession programme;
3. to update training and recruitment activities;
4. to advise employees about the work to be done to enhance their career opportunities.

**Q. Discuss some of the requirements and steps to be followed when introducing a potential appraisal system.**

**Role Description:** A good potential appraisal system would be based on clarity of roles and functions associated with the different roles in an organisation. This requires extensive job descriptions to be made available for each job. These job descriptions should spell out the various functions involved in performing the job.

**Qualities Required:** Besides job descriptions, it is necessary to have a detailed list of qualities required to perform each of these functions. These qualities may be broadly divided into four categories -

- (1) technical knowledge and skills,
- (2) managerial capabilities and qualities,
- (3) behavioural capabilities, and
- (4) conceptual capabilities.

**Indicators of Qualities:** A good potential appraisal system besides listing down the functions and qualities would also have various mechanisms for judging these qualities in a given individual. Some of the mechanisms for judging these qualities are -

- (a) rating by others,
- (b) psychological tests,
- (c) simulation games and exercises,
- (d) performance appraisal records.

**Organising the System:** Once the functions, the qualities required to perform these functions, indicators of these qualities, and mechanisms for generating these indicators are clear, the organisation is in a sound position to establish and operate the potential appraisal system. Such establishment requires clarity in organisational policies and systematisation of its efforts.

**Feedback:** If the organisation believes in the development of human resources it should attempt to generate a climate of openness. Such a climate is required for helping the employees to understand their strengths and weaknesses and to create opportunities for development. A good potential appraisal system should provide an opportunity for every employee to know the results of assessment. He should be helped to understand the qualities actually required for performing the role for which he thinks he has the potential, the mechanisms used by the organisation to appraise his potential, and the results of such an appraisal.

A good potential appraisal system provides opportunities continuously for the employee to know his strengths and weaknesses. These are done through periodic counseling and guidance sessions

by either the personnel department or the managers concerned. This should enable the employee to develop realistic self-perceptions and plan his own career and development.

**Q. What do you mean by job evaluation? Discuss the objectives of job evaluation.**

Job evaluation is the process of analyzing and assessing the various jobs systematically ascertain their relative worth in an organization. Jobs are evaluated on the basis of their content and are placed in the order of their importance. In this way, a job hierarchy is established in the organization, the purpose being fixation of satisfactory wage- differentials among various jobs.

According to Dale Yoder, "Job evaluation is a practice which seeks to provide a degree of objectivity in measuring the comparative value of jobs within an organization and among similar organizations. It is essentially a job rating process, not unlike the rating of employees.

**Objectives of Job Evaluation**

- To secure and maintain complete, accurate and impersonal descriptions of each distinct job or occupation in the entire plant.
- To provide a standard procedure for determining the relative worth of each job in a plant.
- To determine the rate of pay for each job that is fair and equitable with relation to other jobs in the plant, community or industry.
- To ensure that wages are paid to all qualified employees for like work.
- To promote a fair and accurate consideration of all employees for advancement and transfer.
- To provide the consideration of wage rates for similar jobs in a community and in an industry.
- To provide information for work organization, employees' selection, placement, training and numerous other similar problems.

**Q. What do you mean by job evaluation? Discuss its methods of job evaluation.**

**Methods of Job Evaluation**

Following are the methods of job evaluation:

## **I) Non Quantitative Methods**

1. Ranking Method
2. Job Classification or Grading System

## **II) Quantitative methods**

1. Factor Comparison Method
2. Point Method

## **I) Non-Quantitative Methods**

**1) Ranking System:** In this system all jobs are arranged or ranked in the order of their importance from the simplest to the hardest or in the reverse order each successive job being higher or lower than the previous one in the sequence. It is not necessary to have job descriptions, although they may be useful. Sometimes, a series of grades or zones are established and all the jobs in the organization are arranged into these. A more common practice is to arrange the jobs according to their requirements by them to establish the group or classification. The usually adopted technique is to rank jobs according to "the whole job" rather than a number of compensable factors.

The ranking system of job evaluation usually measures each job in comparison with other jobs in terms of the relative importance of the following five factors:

- Supervision and leadership of subordinates.
- Co-operation with associates outside the line of authority.
- Probability and consequences of errors (in terms of waste, damage to equipment, delays, complaints, confusion, spoilage of product, discrepancies etc).
- Minimum experience requirement
- Minimum education required.

## **Merits of Ranking System**

- The system is simple, easily understood and easy to explain to employees (or a union). Therefore, it is suitable for small organizations with clearly defined jobs.

- It is far less expensive to put into effect than other systems and requires little effort for maintenance.

It requires time, fewer forms and less work, unless it is carried to a detailed point used by company.

### **Demerits of Ranking System**

- Specific job requirements (such as skill, effort and responsibility) are not normally analyzed separately .Often a rater's judgment is strongly influenced by present wage rates.
- The system merely produces a job order and does not indicate to what extent it is more important than the one below it. It only gives rank or tells that it is higher or more difficult than another; but it does not indicate how much higher or more difficult.

### **2) Job Classification or Grading Method:**

In this system, a number of pre-determined grades or classifications are first established by a committee and then the various jobs are assigned within each grade or class. Grade descriptions are the result of the basic job information which is usually derived from a job analysis. After formulating and studying job description and job specifications, job are grouped into classes or grades which represents different pay levels ranging from low to high. Common tasks, responsibilities, knowledge and experience can be identified by the process of job analysis. Certain job may then be grouped together into a common grade or classification. General grade descriptions are written for each job classification and finally these are used as a standard for assigning all the other jobs to a particular pay scale. The following 5 steps are involved:

- Preparation of job descriptions.
- Preparation of grade description.
- Selection of grades and key jobs.
- Grading the key jobs.
- Classification of all jobs.

### **Description of Job Classification**

## **Merits of Job Grading**

- This method is simple to operate and understand, for it does not take much time or require technical help.
- The use of fully described job classes meets the need for employing systematic criteria in ordering jobs to their importance. Since many workers think of jobs in, or related to, cluster or groups, this method makes it easier for them to understand ranking.
- The grouping of jobs into classifications makes pay determination problems administratively easier to handle. Pay grades are determined for, and assigned to, all the job classification.
- It is used in important government services and operates efficiently; but it is rarely used in an industry.

## **Demerits of Job Grading**

- Although it represents an advance in accuracy over the ranking method, it still leaves much to be desired because personal evaluations by executive establish the major classes, and determine into which classes each job should be placed.
- Since no detailed analysis of a job is done, the judgment in respect of a whole range of jobs may produce an incorrect classification.
- It is relatively difficult to write a grade description. The system becomes difficult to operate as the number of jobs increases.
- It is difficult to know how much of a job's rank is influenced by the man on the job.
- The system is rather rigid and unsuitable for a large organization for very varied work.

## **Quantitative Methods of job evaluation**

**1) The Factor Comparison Method:** Under this system, jobs are evaluated by means of standard yardsticks of value. It entails deciding which jobs have more of certain compensable factors than others. Here, the analyst or the evaluation committee selects some 'key' or 'benchmark' jobs for which there are clearly understood job descriptions and counterparts in other organizations, and for which the pay rates are such as are agreed upon and are acceptable to both management and labor. Under this method each job is ranked several times-once for each compensable factor selected.

### **The major steps in this system consist of the following:**

- Clear-cut job descriptions are written and job specifications then developed.
- Selecting of key job.
- Ranking of 'key' jobs.
- Valuing the factors.
- Comparing all jobs with key jobs.
- Establishing the monetary unit value for all jobs.

### **Merits of Factor Comparison Method**

This system enjoys the following benefits:

- It is a systematic, quantifiable method for which detailed step by step instructions are available.
- Jobs are compared to other jobs to determine a relative value.
- It is a fairly easy system to explain to employees.
- There are no limits to the value which may be assigned to each factor.

### **Demerits of Factor Comparison Method**

The system suffers from the following shortcomings:

- It is costly to install, and somewhat difficult to operate for anyone who is not acquainted with the general nature of job evaluation techniques.
- Wage levels change from time to time, and their minor inconsistencies may be adjusted to bring all the jobs into alignment.
- Money rates when used as a basis of rating tend to influence the actual rate more than the abstract point.
- The system is complex and cannot be easily explained to, and understood by, every day non supervisory organizational employee.

**2) Point Method:** This method is the most widely used type of job evaluation plan. It requires identifying a number of compensable factors (i.e., various characteristics of jobs) and then determining degree to which each of these factors is present in the job. A different number of

points are usually assigned for each degree of each factor. Once the degree to each factor is determined, the corresponding number of points of each factor is added and an overall point value is obtained. The point system is based on the assumption that it is possible to assign points to respective factors which are essential for evaluating an individual's job. The sum of these points gives an index of the relative significance of the jobs that are rated.

**The steps in this method followed are:**

**Step 1:** The jobs have to be determined first which are to be evaluated. They are usually clustered. The jobs which require:

- Similar activities,
- The same worker characteristics or traits, (corresponding machines, tools, materials and instruments) and work on the same kind of material (say wood or metal) are placed in the same cluster or family.

**Step 2:** For the purpose, a pre-determined number of factors are arbitrarily selected by raters. The number of factors used varies a great deal from company to company, ranging from as few as 3 to as many as 50, although most companies use less than 15. Sometimes, only three factors job conditions, physical ability and mental requirements may be used. Another company may use 4 factors like skill, effort, responsibility and job conditions. As far as possible, the factors selected are such as are common to all the jobs.

**Step 3:** The next step is to break down each factor into degrees or levels, and to assign a point value to each level or degree. For example, experience, which is one of the most commonly used job factors, may be sub-divided into 5 degrees. The first degree, three months or less may be assigned 5 points; the second degree, 3 to 6 months, given 10 points, the third degree, 6 to 12 months, assigned 15 points; the fourth degree 1 to 3 years, assigned 20 points; and the fifth degree is over 3 years, and is assigned 25 points. This same procedure is followed for each factor at each level or degree represented by an appropriate number of points.

**Step 4:** Determination of relative values or weights to assign to each factor. For each job or cluster of jobs some factors are more important than others. For example, for executives, the

"mental requirements" factor would carry more weight than "physical requirements". The opposite might be true of "factory jobs".

**Step 5:** The next step is to assign money values to points. For this purpose, points are added to give the total value of a job; its value is then translated into terms of money with a pre-determined formula.

### **Merits of Point Method**

- It gives a numerical basis for wage differentials. By analyzing a job by factors it is usually possible to obtain a high measure of agreement on job value.
- Once the scales are developed, they can be used for a long time.
- Jobs can be easily placed in distinct categories.
- Definitions are written in terms applicable to the type of jobs being evaluated, and these can be understood by all.
- Factors are rated by points which make it possible for one to be consistent in assigning money values to the total job points.
- The workers' acceptance of the system is favorable because it is more systematic and objective than other job evaluation methods.
- Prejudice and human judgment are minimized, i.e., the system cannot be easily manipulated.
- It has the ability of handling a large number of jobs and enjoys stability as long as the factors remain relevant.

### **Demerits of Point Method**

- The development and installing of the system calls for heavy expenditure.
- The task of defining job factors and factor degrees is a time-consuming and difficult task.
- If many rates are used, considerable clerical work is entailed in recording and summarizing the rating scales.
- It is difficult to determine the factor levels within factors and assign values to them.
- The non-quantitative or non-analytical or summary methods utilize non-quantitative methods of listing jobs in order of difficulty. They are simple methods. The job is treated as a whole and job descriptions rather to job specifications are often utilized. On the other

hand, quantitative or analytical methods use quantitative techniques in listing the jobs. They are more complex and are time consuming.

### **Q. Discuss few Limitations of Job Evaluation.**

**Not a Scientific Technique:** Job evaluation is a systematic technique and not a scientific technique of rewarding the job. Job evaluation lacks scientific precision because all factors cannot be measured accurately.

**Problem of Adjustment:** Though many ways of applying the job evaluation techniques are available rapid changes in technology and in the supply and demand of particular skills have given rise to problem of adjustment.

**Unrealistic:** Substantial differences exist between job factors and the factors emphasized in the market. These differences are wider in cases in which the average pay offered by a company is lower than that prevalent in other companies in the same industry or in the same geographical area.

**Organizational Limitations:** A job evaluation scheme takes a long time to install. It requires specialized personnel and it is costly.

**Opposition by Workers:** Job evaluation is regarded by the trade unions with suspicion because it is made on certain principles and results are generally ignored. Some of the methods of job evaluation are not easily understood by workers. Workers fear that job evaluation will do away with collective bargaining.

**Subjective:** Too many factors are used in job evaluation and more over there is no understanding of the factors to be considered. Definitions of factors vary from organization to organization. Many researches show that the factors used are not independently valued at all. It gives more reliance on international standards and evaluation of fixing wage rates.

**Limitations of Evaluator:** If evaluator is not well-versed in techniques and principles of job evaluation, job classification and job grading the results of the job evaluation will be quite inconsistent. Moreover, if evaluator is biased to a particular job, it will be assigned more weightage.

**Nature of Job:** It is presumed that jobs of equal worth are equally attractive to all workers but it is not so. If the job offers bright prospects it will attract more people. A job having no prospect should be offered higher wages.

**Q. What do you mean by Wages and Salaries?**

Wages and salaries in cash consist of wages or salaries payable at :

- regular weekly, monthly or other intervals, including payments by results and piecework payments;
- plus allowances such as those for working overtime;
- plus amounts paid to employees away from work for short periods (e.g., on holiday);
- plus ad hoc bonuses and similar payments;
- plus commissions, gratuities and tips received by employees.

**Q. Discuss the nature of compensation?**

Compensation offered by an organization can come both directly through base pay and variable pay and indirectly through benefits.

**Base pay:** it is the basic compensation and employee gets, usually as a wage or salary.

**Variable pay:** it is the compensation that is linked directly to performance accomplishment.

**Benefits:** these are indirect rewards given to an employee or group of employees as part of organizational membership.

**Q. What are the objectives of compensation planning?**

The most important objective of any pay system is fairness or equity. The term equity has three dimensions.

**Internal equity:** These ensure that more difficult jobs are paid more.

**External equity:** this ensures that jobs are fairly compensated to similar jobs in the labour market.

**Individual equity:** it ensures equal pay for equal work, i.e. each individual's pay is fair comparison to others doing the same jobs.

Q. Is the **Effective compensation management is essential for an organization? If, yes, why?**

**Attract talent:** compensation needs to be high enough to attract talented people. Since many firms compete to hire the services of competent people, the salaries offered must be high enough to motivate them to apply.

**Retain talent:** if compensation levels fall below the expectations of employees or are not competitive, employees may quit in frustration.

**Ensure equity:** pay should equal the worth of job. Similar jobs should get similar pay. Likewise, more qualified people should get better wages.

**New and desired behavior:** pay should reward loyalty, commitment, experience, risks taking, initiative and other desired behaviors. Where the company fails to reward such behaviors, employee may go in search of greener pasture outside.

**Control costs:** the cost of hiring people should not be too high. Effective compensation management ensures that workers are neither overpaid nor underpaid.

**Comply with legal rules:** compensation programme must invariably satisfy governmental rules regarding minimum wages, bonus, allowances, benefit.

### **Q. What the various Components of Wages?**

Under the payment of wage Act 1936 “ any award of settlement and production bonus, if paid, constitutes wages.” The term allowance includes amounts paid in addition to wages over a period of time.

- **Basic Pay/Salary:** provides the foundation of pay pocket. It is price for service rendered.
- **Bonus:** The word Bonus refers to extra pay due to good performance.
- **Dearness Allowance:** This allowance is given to an employee to compensate him for the loss in the purchasing power of money due to increase in prices.

- **House Rent Allowance:** House Rent Allowance is given by the employer to the employee to meet the expenses in connection with rent of the accommodation which the employee might have to take.
- **City Compensatory Allowance:** It is paid to employees serving in big cities for the purpose of compensating them for the increased cost of living of big cities. City compensatory allowance is paid to meet additional expenditure, it is additional salary and, consequently, chargeable to tax.
- **Fixed Medical Allowance:** It is paid regularly at a fixed rate irrespective of the actual expenditure on medical treatment. It is fully taxable.
- **Conveyance Allowance:** Any allowance which is granted to meet the expenditure on conveyance in performance of duties of an office is termed as conveyance allowance. It is exempt from tax to the extent it is spent on such conveyance provided that free conveyance is not provided by the employer.
- **Children Education:** Any allowance which is granted to an employee to meet the cost of education (including hostel allowance) of his children subject to a maximum of two children is exempted from tax.

### **Q. Elaborate the method of Wage Determination.**

Fixation of wages is a recent phenomenon in India. There was no effective machinery until second World War for settlement of disputes for fixation of wages. After independence of India, industrial relations became a major issue and there was a phenomenal increase in industrial dispute mostly over wages leading to substantial loss of production. Realizing that industrial peace is essential for progress on industrial as well as economic front, the Central Government convened a tripartite conference consisting of representatives of employers, labor and government in 1947. Government of India formulated industrial policy resolution in 1948.

#### **Objectives of wage determination by Government of India are:**

- Statutory fixation of minimum wages,
- Promotion of fair wages.

To achieve the first objective, the minimum wages and salary in India are fixed through several institutions. These are:

### **1) Collective Bargaining**

- Collective bargaining relates to those arrangements under which wages and conditions of employments are generally decided by agreements negotiated between the parties.
- Broadly speaking the following factors affect the wage determination by collective bargaining process:
  - a) Alternate choices and demands,
  - b) Institutional necessities,
  - c) The right and capacity to strike.
- In a modern democratic society wages are determined by collective bargaining in contrast to individual bargaining by working.
- In the matter of wage bargaining, unions are primarily concerned with:
  1. General level of wages rates.
  2. Bonus, incentives and fringe benefits, and administration of wages.

### **2) Industrial Wage Boards**

- Concept of wage board was first enunciated by committee on fair wages.
- It was commended by first five year plan and second five year plan also considered wage board as an acceptable machinery for setting wage disputes.
- Wage boards in India are of two types:
  - Statutory Wage Board: It means a body set up by law or with legal authority to establish minimum wages and other standards of employment which are then legally enforceable in particular trade or industry to which board's decision relate.
  - Tripartite Wage Board: It means a voluntary negotiating body set up by discussions between organized employers, workers and government to regulate wages, working hours and related conditions of employment.
- Wage board decisions are not final and are subjected to either executive or judicious review or reconsideration by other authority or tribunals.

- The powers and procedure of wage boards are same as those industrial tribunals unsaturated under ID Act 1947.

### **3) Pay Commissions**

- First pay commission was appointed by Government of India in 1946 under chairmanship of justice Vardachariar to enquire in to conditions of service of central government employees.
- The Vardachariar Commission in its report said that in no case should a man's pay less than living wage.
- The 2nd pay commission was appointed in August 1957 and the commission submitted its report in 1959, examined the norms for fixing a need based minimum wage.
- Govt. of India appointed third pay commissions in 1970s which submitted its report in April 1973. In this report, commission supported for a system in which pay adjustments should occur automatically upon an upward movement in consumer price index.
- After thirteen years, government appointed fourth central pay commissions to examine structure of all central government employees, including those of union territories and officers belonging to all India service and armed forces. The commission submitted its report on July 30, 1986 and recommended drastic changes in pay scale.
- The 5th pay commission (1952-1996) made certain recommendations regarding restricting of the pay scales.
- The 6<sup>th</sup> pay commission was established in 2006 and its report was submitted in March 2008.

### **Q. What are the various types of Wage Payment?**

There are three methods of wage payment. These are as given below:

- 1) Time wage system,
- 2) Piece wage system, and
- 3) Balance or debt method

### **Time Wage**

This is the oldest and the most common method of fixing wages. Under this system, workers are paid according to the work done during a certain period of time, at rate of so much per hour, per day, per week, per fortnight or per month or any other fixed period of time. The essential point is that the production of the worker is not taken into consideration in fixing the wages; he is paid at the settled rate as soon as the time contracted for is spent.

### **Advantages of Time Wage System**

- It is simple to measure.
- The quality of the work is not degraded as the workers are in no hurry to increase the output.
- As all the workmen employed for doing a particular kind of work receive the same wages, ill-will and jealousy among them are avoided.
- Due to the slow and steady pace of the worker, there is no rough handling of machinery, which is a distinct advantage for the employer.
- It is the only system that can be used profitably where the output of an individual workman or groups of employees cannot be readily measured.
- Trade unions accept this form of wage payment quite willingly because it does not create any distinctions on the rank of workers on account of differences in efficiency.

### **Disadvantages of Time Wage System**

- It does not take into account the fact that men are of different abilities and that if all the persons are paid equally, better workmen will have no incentive to work harder and better.
- As there is no specific demand on the worker that a piece of work needs to be complete in a given period of time, there is always the possibility of systematic evasion of work by workmen.
- As the employer does not know the amount of work that will be put in by each worker, the total expenditure on wages for turning out a certain piece of work cannot be adequately assessed.
- As no record of an individual worker's output is maintained, it becomes difficult for the employer to determine his relative efficiency for purpose of promotion.

- It destroys the morale of workers and efficient workers are either driven out or their efficiency is pulled down to the level of inefficient workers.

### **Suitability of Time Wage System**

- Where supervision is close as in small concerns.
- Where quality is more important than quantity.
- Where measurement of work is not simple or not possible.
- Where specialized skills are required to perform the job.
- Where work is not repetitive and standardized.
- Where collective efforts of a group of worker are required for the performance of work.
- Where work is machine paced and an individual worker has no control over the number of units produced.

### **Piece Wage System**

Under this system, workers are paid according to the amount of work done or the number of units completed, the rate of each unit being settled in advance irrespective of the time taken to do the task.

Under this system, wage payable to an employee are related directly to the quantity of work done by him. The work may be measured in terms of units of output or piece and the payment is made per piece.

**Wage (W) = Number of pieces produced (N) x rate per piece (R)**

The piece wage system is sometimes called incentive system because the piece rate is directly related to the efforts put in by the worker.

### **Advantages of Piece Wage System**

- It pays the workman according to his efficiency as reflected in the amount of work turned out by him. It satisfies an industrious and efficient worker, for he finds that his efficiency is adequately rewarded. This gives him a direct stimulus to increase his production.

- The total unit cost of production comes down with a larger output because fixed overhead burden can be distributed over a greater number of units.
- It requires less supervision because the workers are themselves in hurry to do all.
- It avoid frequent industrial disputes which otherwise are inevitable.

### **Disadvantages of Piece Wage System**

- Payment under this system is irregular and uncertain, and thus creates uncertainty in the life of workers as well as he feels unable to maintain a desirable standard of life because of the uncertainty of the amount of wages.
- During the periods of illness, or disability, the worker is not paid any amount, whereas in fact, during these periods monetary need becomes more pressing.
- Too much emphasis on the quantity of production may lower the quality of products.
- The establishment of piece rates is difficult and often becomes a source of grievances on the part of workers. Without undertaking time and motion study and having past experience, piece rate may be set at so low a level that it exercises a demoralizing effect on the workers.
- There is a greater chance of deterioration in the quality of work owing to over zealousness on the part of workers to increase production. This may effect upon their health resulting in a loss of efficiency.

### **Suitability of Piece Wage System**

- Where specialized artistic skills or craftsmanship is not required for the performance of the job, i.e. where work is not art based or craft man oriented. Where quantity of output is more important than its quality.
- Where the work is of standardized and repetitive character.
- Where units of output are measurable.

### **Balance or Debt Method**

This method is not separate rather a combination of time and piece wage system. The worker is guaranteed a time rate along with an alternative piece rate. If the wages calculated at piece rate exceed the time rate, the worker gets credit. On the other hand, if time wages exceed piece

wages, the worker is paid time wage and the deficit is carried- forward to be reconsidered in future.

This method provides a sense of security to employees. At the same time an employee is given the opportunity to increase his earnings beyond the guaranteed time wage. This method is appropriate in industries where the flow of work is minimum. But rates in this method have to be fixed on most scientific basis.

### **Q. What do you mean by Wages Differentials?**

Wage differential refers to differences in wage rates due to working conditions, type of product manufactured, location of company, hours of work, or other factors. It may be the difference in wages between workers with different skills working in the same industry or workers with similar skills working in different industries or regions.

### **Q. Discuss the various types of Wage Differentials.**

Differentials in wages for jobs are inevitable in any industry. Wage differentials arise because of the following factors:

**Inter-Industry Differential:** These differentials arise when workers in the same occupation and the same area but in different industries are paid different wages. Inter-industry differential reflect skill differentials. Factors affecting this differential include extent of unionization, the structure of product markets, the ability to pay, labor-capital ratio and the stage of development of an industry.

**Inter-Personal Differentials:** These arise because of differences in the personal characteristics (age or sex) of workers who work in the same plant and the same occupation. "Equal pay for equal work" has been recommended by ILO Convention and also by Industrial Courts, labor Tribunals, Minimum Wages Committee and the Fair Wage Committee. This has been converted into Equal Remuneration Act, 1984.

**Inter-Occupational Differentials:** It may comprise of skilled, unskilled and manual wage differentials, non manual and manual (white and blue collar) and general skill differentials.

Occupational wage differentials generally follow the changes in the relative supplies of labor to various occupations.

**Inter-Area Differentials:** They are the result of living and working conditions, such as unsatisfactory or isolation, sub-standard housing, disparities in the cost of living and the availability of manpower. In some cases, regional differentials are also used to encourage planned mobility of labor.

**Inter-Firm Differentials:** It reflect the differences in wage of workers in different plants in the same area and occupation. The main causes of inter-firm wage differentials are:

- Difference in the quality of labor employed by different firms,
- Imperfections in the labor market, and
- Difference in the efficiency of equipment, supervision and other non-labor factors.

### **Q. Discuss the Wage Law in India.**

The **Minimum Wages Act 1948** is an Act of Parliament concerning Indian labour law that sets the minimum wages that must be paid to skilled and unskilled labours. The Indian Constitution has defined a 'living wage' that is the level of income for a worker which will ensure a basic standard of living including good health, dignity, comfort, education and provide for any contingency. However, to keep in mind an industry's capacity to pay the constitution has defined a 'fair wage'.

Fair wage is that level of wage that not just maintains a level of employment, but seeks to increase it keeping in perspective the industry's capacity to pay. To achieve this in its first session during November 1948, the Central Advisory Council appointed a Tripartite Committee of Fair Wage. This committee came up with the concept of Minimum Wages. A minimum wage is such a wage that it not only guarantees bare subsistence and preserves efficiency but also provides for education, medical requirements and some level of comfort.<sup>[1]</sup> India introduced the Minimum Wages Act in 1948, giving both the Central government and State government jurisdiction in fixing wages. The act is legally non-binding, but statutory. Payment of wages

below the minimum wage rate amounts to forced labour. Wage Boards are set up to review the industry's capacity to pay and fix minimum wages such that they at least cover a family of four's requirements of calories, shelter, clothing, education, medical assistance, and entertainment. Under the law, wage rates in scheduled employments differ across states, sectors, skills, regions and occupations owing to difference in costs of living, regional industries' capacity to pay, consumption patterns, etc.

The Act provides for fixing wage rate (time, piece, guaranteed time, overtime) for any industry that has at least 1000 workers.

1) While fixing hours for a normal working day as per the act should make sure of the following:

- The number of hours that are to be fixed for a normal working day should have one or more intervals/breaks included.
- At least one day off from an entire week should be given to the employee for rest.
- Payment for the day decided to be given for rest should be paid at a rate not less than the overtime rate.

2) If an employee is involved in work that categorizes his service in two or more scheduled employments, the employee's wage will include respective wage rate of all work for the number of hours dedicated at each task.

3) It is mandatory for the employer to maintain records of all employee's work, wages and receipts .

4) Appropriate governments will define and assign the task of inspection and appoint inspectors for the same.

### **Fixation and revision of minimum wage**

The Minimum Wages Act 1948 generally specifies minimum wage rates on a per day basis, and extends to the entire country and is revised within a period of not less than five years, however there is a provision to increase dearness allowance every two years. The norms in fixing and revision of minimum wages were first recommended by ILC, 1957.

Revision of minimum wage rates is based on a 'cost of living index' and wages can be fixed for an entire state, part of the state, class or classes and employments pertaining to these categories. The fixation of wages is based on the norms mentioned and a wage board (different for different industry).

Under the Minimum Wages Act, State and Central Governments have the power to fix and revise minimum wages. The act specifies that the "appropriate" government should fix the wages i.e. if the wages to be fixed are in relation to any authority of Central government or Railway administration then the Central government fixes it. However if the wage rate is to be fixed or revised for a scheduled employment, the respective state governments fix it. The Centre fixes the National floor level Minimum Wage that is lower than most states' respective minimum wages. The ambiguity and overlap in the jurisdiction of both these tiers of government have caused debates and controversies. One of such debates revolves around fixing wage rates of MGNREGA scheme, an employment guarantee initiative by the Central Government.<sup>1</sup>

As per Section 5 of the Minimum Wages Act, 1948, there are two ways of fixing and/or revising minimum wages

- Committee Method: Committees and Sub-committees are set up to make recommendations or create inquiries.
- Notification Method: The government publishes proposals and an official date in the Official Gazette. All advice and recommendations from various committees and sub-committees as well as representations are collected before the specified official date and the government then proceeds to fix/revise minimum wages.

### **Q. Write short notes on Executive Compensation.**

The top **executive compensation** is a special and specific area of compensation and benefits, which is usually confidential and it is not open to all employees in the organization. The top executives hold the responsibility for the organization, they lead the development of the organization and they have a tremendous impact on the results of the organization. The **compensation scheme of top executives** has to reflect the responsibility and it has to provide the security to the top executives to use the personal responsibility and to take courageous decisions.

The **executive pay** is about the focus on the short-term performance and the long-term sustainability of the organizational development. The top executives are motivated to search for the cost-cutting potential and focusing on the sales and performance growth in the long-term perspective as the shareholders can realize the benefits of being involved in the organization.

### **Q. Elaborate the Executive Compensation Principles**

The executive pay has to reflect the role of the executive top management in the organization. The executive management drives the development of the organization and the executive compensation has to be aligned.

The executive compensation changed dramatically over the last two years as the financial crisis showed several issues with the executive pay, which was too focused on the growth of the organization while ignoring the sustainability of the organization.

The **executive compensation** consists usually from two main parts:

- Short Term Pay
- Long Term Pay

The short term pay of the executives is about the base salary and short term bonuses, which are paid on the basis of the immediate performance of the organization. The bonuses are usually deferred over a period of time. The short term pay is usually fully cash based executive compensation component.

The long term pay is about the stock options, shares, restricted stocks and pay based on the performance against the index. The shareholders use these long term compensation components to protect the value of the organization and betting of the top executives on the growing value of the organization on the market. The long term compensation components can be realized just in case, the stock price of the organization grows. The long term pay component is usually non-cash based. In the modern organizations the short term pay is just a small part of the total cash of the top executives.

### **Q. What do you mean by Executive Compensation Risks?**

The executive compensation is sensitive to the right setting as the short term and long term components of the pay have to be in balance as the organization does not suffer from the imbalances in the managerial decisions. The organization should always focus to balance the short term remuneration (which is valued more) with the potential to get more in the future. It is always difficult to find the right balance and the shareholders have to be in the agreement with the top management.

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