Vardhaman Mahaveer Open University, Kota

Performance Management and Compensation

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CONTENTS

Performance Management and Compensation

Unit- 1 : Performance Appraisal : An Overview

Structure of Unit

1.0   Objectives

After studying this unit you shall be able :

- To understand the meaning of performance appraisal.
- To know the distinctive features of performance appraisal.
- To examine the process and methods of performance appraisal
- To implement a performance appraisal system effectively.
- To know the limitations and advantages of performance appraisal.

1.1   Introduction

Over a period of time, the system of performance appraisal has become prevalent in almost all organisations. There are large numbers of definition explaining the concept. The word 'performance' has come from the basic word 'perform', which means carry out an action or to do something. This word generates two other words, i.e. 'performer' and 'performance'. The word 'performer' is a derivative and 'performance' is taken as the action of performing or an act of performing. It can also be understood in the form of capabilities. As regard the word 'appraisal' it has come from the basic word 'appraise' whose dictionary meaning suggests 'assessing the quality value or nature.' It also implies determining the value or worth of somebody. Accordingly, the word 'performance' and 'appraisal' have been used as per their suitability. The joining of these two words leads to the concept of a performance appraisal system in the human resources department of an organisation. People differ in their abilities and their aptitudes. There is always some difference between the quality and quantity of the same work on the same job being done by two different people. Performance appraisals of Employees are necessary to understand each employee's abilities, competencies and relative merit and worth for the organization. Performance appraisal rates the employees in terms of their performance. Performance appraisals are widely used in the society.

Performance appraisal helps to rate the performance of the employees and evaluate their contribution towards the organizational goals. If the process of performance appraisals is formal and properly structured, it helps the employees to clearly understand their roles and responsibilities and give direction to the individual's performance. It helps to align the individual performances with the organizational goals and also review their performance. Performance appraisal takes into account the past performance of the employees and focuses on the improvement of the future performance of the employees. Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee. The focus of the performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee. Its aim is to measure what an employee does.

1.2   Conceptual Framework

Performance appraisal may be defined as a structured formal interaction between a subordinate and a supervisor, that usually takes the form of a periodic interview, annual or semi-annual, in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development. It is a systematic evaluation of present potential capabilities of personnel and employees by their supervisor, supervisor's superior or a professional from outside. It is a process of collecting, analysing, and evaluating data relative to job behaviour and results of individuals.

The appraisal system is organised on the principle of goals and management by objectives. Management decisions on performance utilise several integrated inputs: goals and plans, job evaluation, performance evaluation, and individual history. It connotes a two-dimensional concept – at one end of the continuum lies the goals set by the authority, and at the other end, the performance achieved by the individual or any given group.

Performance appraisal can be either formal or informal. Usage of former systems schedule regular sessions in which to discuss an employee's performance. Informal appraisals are unplanned, often just chance statements made in passing about an employee's performance. Most organisations use a formal appraisal system. Some organisations use more than one appraisal system for different types of employees or for different appraisal purposes. The six primary criteria on which the value of performance may be assessed are: quality, quantity, timeliness, cost effectiveness, need for supervision, and interpersonal impact. If appraisals indicate that employees are not performing at acceptable levels, steps can be taken to simplify jobs, train, and motivate workers, or dismiss them, depending upon the reasons for poor performance.

Performance appraisal is done by the immediate supervisor or specially trained person meant for the job. Performance appraisal has direct linkage with such personnel systems as selection, training, mobility, etc. Appraisal and selection has a lit to do with the criteria or job expectation. Well-developed job descriptions can be extremely useful is not only selecting people but also evaluating them on the same criteria.

1.2.1 Definitions

1. According to Wendell French, Performance appraisal is, "the formal, systematic assessment of how well employees are performing their jobs in relation to established standards, and the communication of that assessment to employees".
2. According to Flippo – "Performance appraisal is the systematic, periodic and an impartial rating of an employee's excellence in matters pertaining to his present job and his potential for a better job".
3. According to Dale Yoder, "Performance appraisal includes all formal procedures used to evaluate personalities and contributions and potentials of group members in a working organisation. It is a continuous process to secure information necessary for making correct and objective decisions on employees".
4. Performance appraisal involves the identification, measurement, and management of human performance in organisations. (Gomej-Mejia et al. 2001)
5. Performance assessment is the process of identifying, evaluating, and developing the work performance of employees in the organisation, so that the organizational goals and objective are more effectively achieved, while at the same time benefiting employees in terms or recognition, receiving feed-back, catering for work, and offering career guidance. (Labsbury 1988)
6. Performance appraisal is a formal, structured system of measuring and evaluating an employee's job related behaviour and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization, and society will benefit. (Schuler 1982)

1.2.2 Characteristics

The main characteristics of performance appraisal may be listed thus:

1. The appraisal is *a systematic process* involving three steps:
   a. Setting work standards.
   b. Assessing employee's actual performance relative to these standards.
   c. Offering feedback to the employee so that he can eliminate deficiencies and improve performance in course of time.
2. It tries to find out how well the employee is performing the job and tries to establish a plan for further improvement.
3. The appraisal is carried out periodically, according to a definite plan. It is certainly *not a one shot deal*.
4. Performance appraisal is *not a post-oriented activity*, with the intention of putting poor performers in a spot. Rather, it is a future oriented activity showing employees where things have gone wrong, how to set everything in order, and deliver results using their potential in a proper way.
5. Performance appraisal is *not job evaluation*. Performance appraisal refers to how well someone is doing an assigned job. Job evaluation, on the other hand,

determines how much a job is worth to the organization and therefore, what range of pay should be assigned to the job.

6. Performance appraisal is *not limited to "calling the fouls"*. Its focus is on employee development. It forces managers to become coaches rather than judges. The appraisal process provides an opportunity to identity issues for discussion eliminates any potential problems, and set new goals for achieving high performance.

7. Performance appraisal may be *formal or informal*. The informal evaluation is more likely to be subjective and influenced by personal factors. Some employees are liked better than others and have, for that reason only, better chances of receiving various kinds of rewards than others. The formal system is likely to be more fair and objective, since it is carried out in a systematic manner using printed appraisal forms.

1.2.3   Benefits of Performance Appraisal:-

Perhaps the most significant benefit of appraisal is that, in the rush and bustle of daily working life. It offers a rare chance for a supervisor and subordinate to have "time out" for a one –on-one discussion of important work issues that might not otherwise be addressed. Almost universally, where performance appraisal is conducted properly, both supervisors and subordinates have reported the experience as beneficial and positive.

Appraisal offers a valuable opportunity to focus on work activities and goals, to identify and correct exciting problems, and to encourage better future performance. Thus, the performance of the whole organization is enhanced.

- It creates a profound effect on levels of employee motivation and satisfaction – for better, as well as, for worse.

- It provides employees with recognition for their work efforts.

- It indicates to an employee that the organization is genuinely interested in their individual performance and development.

- This alone can have a positive influence on the individual's sense of work, commitment and belonging.

- It offers an excellent opportunity for a supervisor and subordinate to recognize and agree upon individual training and development needs.

- It makes the need for training more pressing and relevant, by linking it clearly to performance outcomes and future career aspiration.

- It creates appraisal data which can provide a regular an efficient training needs audit for the entire organization.

- Appraisal data can be used to monitor the success of the organization's recruitment and induction practices.

- In brief, performance appraisal facilitates documentation of individual standards and achievements. Appraisals help employees align their personal goals with that of the organization and determine strategies for their professional growth. Also, appraisals predict the level and type of work that employee will be capable of doing in the future.

1.2.4   Importance of Performance Appraisal

Performance appraisal determines salary increases, training and development needs, career advancement, transfer, succession planning, etc., and helps improve job performance through counselling, motivation, and feedback. Performance appraisal has been considered to be most significant and indispensable tool for an organization as it is highly useful in making various HR-related decisions.

Following is the importance of performance appraisal   :

1. It helps management in making various HR decisions such as: recruitment, promotion, transfer, demotion, layoff, termination, succession planning, etc.

2. It facilities in identification of training and development needs of the employees.

3. It is a unified system and thus avoids the errors of nepotism, self-interest and discrimination.

   4. It makes known the performance standing to the employee himself and provides opportunity for improvement through constructive criticism and guidance for their development.

5. It improves communication between managers and their employees.
6. It helps in improving the quality of supervision by highlighting inefficiencies in the supervision.
7. It helps in evaluating the effectiveness of HR policies, plans and programmes on recruitment, selection, induction, placement, compensation, etc.

1.3   Objectives

Performance appraisal could be taken either for evaluating the performance of employees or for developing them. The evaluation is of two types: telling the employee where he stands and using the data for personnel decisions concerning pay, promotion, etc. The developmental objectives focus on finding individual and organizational strengths and weaknesses; developing healthy superior-subordinate relations; and offering appropriate counselling/coaching to the employee with a view to develop his potential in future.

Appraisal of employees' serves several useful purposes:

- **Feed back: -** It serves as a feed back to the employee. It tells him what the can do to improve his present performance and go up the "Organizational Ladder".

- **Compensation Decision: -** It provides inputs to system of rewards. The approach to compensation is at the heart of the idea that raises should be given for merit rather than for seniority.

- **Data Base: -** It provides a valid database for personal decisions concerning placements, pay, promotion, transfer etc. Appraisal also makes the employee aware of his key performance areas. Permanent performance appraisal records of employees help management to do planning without relying upon personal knowledge of supervisors who may be shifted.

- **Personal Development: -** Performance appraisal can help reveal the causes of good and poor employee performance. Though discussions with individual employees, a line manager can find out why they perform as they do and what steps can be initiated to improve their performance.

- **Training and Development Programme:-** By identifying the strengths and weaknesses of an employee it serves as a guide for formulating a suitable training and development programme to improve his quality of performance in his present work. It can also inform employees about their progress and tell them what skills they need to develop to become eligible for pay rises and/or promotions.

- **Promotion Decisions: -** It can serve as a useful basis for job change or promotion. By establishing whether the worker can contribute still more in a different or a higher job it helps in his suitable promotion and placement. If relevant work aspects are measured properly, it helps in minimising feelings of frustration of those who are not promoted.

- **Personal Development: -** Performance appraisal can help reveal the causes of good and poor employee performance. It thus helps the employee to overcome these weaknesses and improve his strength so as to enable him to achieve the desired performance.

- **Improves Supervision: -** The existence of a regular appraisal system tends to make the supervisors more observant of their subordinates because they know that they will be expected periodically to fill out rating forms and would be called upon to justify their estimates. This improves supervision.

Performance Appraisal is being practiced in 90% of the organisations worldwide. Self-appraisal and potential appraisal also form a part of the performance appraisal processes. Typically, Performance Appraisal is aimed at:

- To review the performance of the employees over a given period of time.

- To judge the gap between the actual and the desired performance

- To help the management in exercising organizational control.

- To diagnose the training and development needs of the future.

- Provide information to assist in the HR decisions like promotions, transfers etc.

- Provide clarity of the expectations and responsibilities of the functions to be performed by the employees.

- To judge the effectiveness of the other human resource functions of the organization such as recruitment, selection, training and development.

- To reduce the grievances of the employees.

- Helps to strengthen the relationship and communication between superior – subordinates and management – employees.

The most significant reasons of using Performance appraisal are:
- Making payroll and compensation decisions – 80%
- Training and development needs – 71%
- Identifying the gaps in desired and actual performance and its cause – 76%
- Deciding future goals and course of action – 42%
- Promotions, demotions and transfers – 49%

Other purposes – 6% (including job analysis and providing superior support assistance.

1.4   Phases of Performance Appraisal

Performance appraisal is a periodic evaluation of an employee's work performance .To be effective, a performance appraisal system must possess the following essential ingredients:

- Correlated with the organization's objectives and strategy
- Cover assessment of performance, as well as, potential for development
- Look after the needs of both the individual and the organization
- Help create energizing work environment
- Link rewards to achievements
- Generate information for career and succession planning
- Suggesting appropriate person – job matching

 Performance appraisal system is not an end or a beginning; it is part of a continuous cycle of performance management .The development of a performance appraisal system has four distinct phases. It is called TEAM approach. The phases are as follows:

Technical Phase:-

The technical phase consists of working with the employees to develop a clear job description, clear performance criteria, and adequate work goals with records on employee performance. Job description refers to the principal duties and responsibilities and indicates the percentage of time devoted to each. It should be current, realistic, and understandable. The next step involves the development of performance criteria. A performance criterion is a statement of conditions that will exist when a job is performed satisfactorily. Such criteria are expressed in terms of quantity, quality, manner of performance, and completion time.

Extended Phase:-

This is the most critical part of creating effective and successful performance appraisal. Managers observe, monitor, and provide feedback and direction on an employee's performance .This happens day-in and day-out. An effective manager is observant of positive behaviors and consistently reinforces those behaviors.

Appraisal Phase:-

Managers should formally discuss the employee's work performance with them on an annual basis .The frequency of the discussion should be enough to build an atmosphere which encourage an exchange of ideas and feelings about the job. During the appraisal phase, managers discuss with the employee and document the performance counseling provided and development programmes which the employee will need during the next appraisal cycle/s to continue growth, to develop new skills, and/or to improve various aspects of job performance.

Maintenance Phase:-

This phase involves creating a climate of open communication in which the employee finds it easy and desirable to approach his manager for further help or discussion at a later date. In some cases, the manager could be monitoring how employee is meeting the performance goals established during the appraisal phase. In other cases, the manager could be monitoring a performance improvement plan for deficient behaviors that was identified and created during the appraisal phase. However, employee reluctance in approaching the manager's with problems or assistance can undermine the appraisal process.

1.5   Process of Performance Appraisal

1. This first step in the appraisal process is the **determination of standards of performance** based on the organizational objectives and the job description .The performance standards and objectives have to be determined by the employee and the supervisor together .These have to be communicate in a simple and lucid manner to the employee It is easier to evaluate performance if the goals and standards are specific and quantifiable .Abstract and qualitative goals are difficult to measure and have an element of subjectivity.

2. The next step in the process of performance appraisal is the **measurement of employee performance** against the pre-determined goals and standards .This determines what components of the performance are to be measured .At these stages, the process of measurements, namely, how the performance components are to be measured, has to be determined.

3. The third step is the **actual process of measurement**. Performance appraisal has to be a continuous process and the feedback should be given to the employee at regular intervals. Making a note of the critical incidents, either positive or negative, helps the manager keep a track of the employee performance. Feedback has to be given once in 2-3 months, depending on the need to do so, which would help the

employee in meeting his objectives. Jindal Iron & Steel Company for example, has quarterly reviews based on the goals, the skills employed and the potential of the employee. This helps the employees track their performance and grooms them for higher responsibilities.

4. The fourth step is a very critical step and involves **communicating the results of appraisal to the employee concerned**. It is the responsibility of the manager to make the employee feel comfortable with the whole process. Continuous feedback and orientation would ensure a simple final appraisal discussion, with very few differences of opinion.

5. Once the appraisal is finalized after discussing it with the employee, it has to be **put to effective use.** Though most organization links it to the rewards system, some prefer to restrict it to the development of employees. Whatever might be the organization policy, the document of appraisal has to be effectively and immediately put to use to ensure a better performance during the next appraisal period. The ideal way to ensure maximum utility of performance appraisal is to link the performance standards to rewards system and the competency standards to training and development. The gaps in competency levels can be identified and necessary training is imparted to the employee.

6. Many organizations fail to receive acceptance and support from their employees for their performance appraisal system. The main reason for this is the lack of **commitment of the top management.** The exercise is a cursory and routine one in some companies, and the result are filed away and forgotten. This is when the employees get disenchanted with the exercise and lose interest in their jobs as well. The management has to ensure that the whole business of appraisal is taken seriously and the result put to effective use.

1.6   Implementing Performance Appraisal System

1.6.1   Requisites of Effective Appraisal System

- **Reliability and Validity:**   Appraisal system should provide consistent, reliable and valid information and data, which can be used to defend the organization even in legal challenges. If two appraisers are equally qualified and competent to appraise an employee with the help of same appraisal technique, their rating should agree with each other. Then the technique satisfies the condition of inter-rater reliability.

- **Job relatedness:**   The appraisal technique should measure the performance and provide information in job related activities /areas.

- **Standardization:**   Appraisal forms, procedures, use of techniques, rating etc., should be standardized as appraisal decision affects all employees.

- **Practical validity:**   The technique should be practically viable to administer, possible to implement, and economical to undertake continuously.

- **Legal sanction:** Appraisal must meet the laws of the land. They must comply with provisions of various labour enactments.

- **Training appraisers:** An appraisal is important and sometimes difficult and hence it would be useful to provide training to appraisers.

- **Open communication:** Most employees want to know how well they are performing the job. A good appraisal system provides the needed feedback on a continuing basis. The appraisal interviews should permit both parties to learn about the gaps and prepare themselves for future.

- **Employee access to results:** Employees should receive adequate feedback on their performance. If performance appraisals are meant for improving employee performance, withholding appraisal results would not serve any purpose. Permitting employees to review the results of their appraisal allows them to detect any errors that may have been made. If they disagree with the evaluation, they can even challenge the same through normal channels.

- **Due process:** It follows that formal procedures should be developed to enable employee who disagree with appraisal results. They must have the means of pursuing their grievances through established grievance reprisal procedure.

1.6.2 Implementation of Performance Appraisal System

The next step in the performance appraisal process is to implement the appraisal system for measuring employee performance. Generally, appraisal is conducted by the appraisers; they document performance and communicate the result to HR department for follow up actions which should be oriented towards the objectives of the performance appraisal.

During the first step, both the manager and employee should prepare for the interview by considering job performance, job responsibilities, and employee career goals, goals for improving performance, and problems and concerns about the job.

Next, manager and employees meet to discuss what they have prepared and to establish goals for the period before the next performance appraisal it is important that the appraisal interview be an exchange not a speech. Both parties must be able to share their perceptions of the employee's performance.

The third step, the post appraisal interview, gives manager the opportunity to discuss rewards with employees. By not addressing this issue during the appraisal interview, both managers and employees can focus on performance and goal setting, instead of reward the post appraisal meeting also can serve as a time for reiterating employee goals.

The following are noteworthy for managers:-

- Focus on results and outcomes in documenting performance using the SMART frame work.

- Rate the employee's performance against performance criteria set in performance plan as well as against an overall performance rating.

- Correlate written comments to the performance rating assigned.

- Remember that all performance factors may not be applicable for the job.

- There may be different performance factors that appraisers will want to add that is particularly important to a work unit.

- Not all performance factors will have the same priority, based on job requirements.

- The overall performance rating should reflect the rating of the most critical performance factor and/ or goals.

1.7   Methods of Performance Appraisal

Performance Appraisal is a multistage process involving several activities, which can be administered using a variety of methods. Broadly, these methods can be classified under the following approaches:

- *Intuitive approach* : In this approach , a manager judges the employee based on his perception of the employee's behavior;

- *Self-appraisal approach* : Employees evaluate their own performance using a common format;

- *Group approach* : The employee is evaluated by group of person (e.g., a panel of function experts);

- *Trait approach:* This is the conventional approach. The manager evaluates the employee on the basis of observable dimensions of personality, such as integrity, honesty, dependability, punctuality, etc.

- *Appraisal based on achieved result* : In this type of approach , appraisal is based on concrete , measurable , work achievements judged against performance criteria set mutually by the employee and the manager at the performance planning stage ; and

- *Behavioural method:* This method focuses on observed behaviour and observable critical incidents.

There are various methods to appraise performance of employees. The choice of methods depends on HR philosophy of the organization, its size, nature of business, competitive position, vision, mission, and values, technology employed, etc.

Traditional Methods of performance appraisal:-

Traditional approach is also known as traits approach. It is based on the evaluation of traits in a person. this system may list ten to fifteen personal characteristics such a ability to get along with people, competence, judgment, initiative, leadership etc. there may also be added work related characteristics such as job knowledge, ability to complete an assignment, success in carrying out plans, efforts in cost reduction etc. in the recent past, personal traits have outnumbered work related characteristics. There are several methods based on this approach .some such methods are discussed as follows-

1. **Graphic Rating Scales:**
   Rating scales consists of several numerical scales representing job related performance criterions such as dependability, initiative, output, attendance, attitude etc. Each scales ranges from excellent to poor. The total numerical scores are computed and final conclusions are derived. This is the simplest method for appraising performance. A rating scale lists traits and a range of performance values for each trait. The supervisor rates each subordinate by circling of checking the score that best describes his performance for each trait. The assigned values for the traits are then totaled. The selection of factors to be measured on the graphic rating scale is an important point under this system. Since certain areas of job performance cannot be objectively measured, it is likely that graphic scale will continue to use a mixture of both characteristics and contributions.

Rating scale are 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. The graphic scale is the most common method of evaluation of an employee's performance. Its main advantages are that it is easy to understand, easy to use and permits a statically tabulation of scores of employees. When ratings are objective in nature they can be effectively used as evaluators.

Graphic scales, however, impose a heavy burden upon the supervisor; He must report and evaluate the performance of his subordinates on scales involving as many as five degrees on perhaps ten different factors. Moreover, this method may be arbitrary and the rating may be subjective. It may be difficult to decide about relative weight age of different traits and it may be difficult to ensure uniformity as rating would differ with different raters. In practice, ratings tend to cluster on the high side under this system. a supervisors may tend to rate his men high to avoid criticism from them.

2. **Checklist method:**
   Under this method, checklist of statements of traits of employee in the form of Yes or No based questions is prepared. Here the rater only does the reporting or checking and HR department does the actual evaluation. Advantages – economy, ease of administration, limited training required, standardization. Disadvantages – Raters biases, use of improper weighs by HR, does not allow rater to give relative ratings. The performance of the employees is rated on the basis of numbers of positive checks. There are three types of check lists that can be used:-

(a) **Simple checklist: -** under this method e supervisors are provided with printed forms containing descriptive question about the performance of employees. The supervisor has the answer in yes or no. after ticking these questions the forms are sent to personnel department where final rating is done. Various questions in the form may be weighed equally or certain questions may be given more weight age than others. The check list contain such question:-
   (i) Is the employee hard working?
   (ii) Is he regular on the work
   (iii) Does he co-operate with his superiors?
   (iv) Does he maintain his equipment well?
   (v) Does he follows instructions well?

(b) **Weighted check list:-** this method is used particularly with the objective of avoiding scope for personal prejudices. In this method, weights are assigned to different statements to indicate their relative importance. This method involves a very lengthy and time consuming procedure. Moreever this method is relatively costly affairs. Financial burden is increased when diverse jobs are evaluated as a seprate procedure must be established for each job.

(c) **Forced choice checklist**: - in this checklist five statements are given for each trait, two most descriptive statement, two least descriptive statements and one natural statement. The rater is required to tick one statement each from the most descriptive and least descriptive ones. The aim is to minimize the rater's personal bias.

3. **Forced Distribution Method:**
   Some raters suffer from a constant error i.e. either they rate of employees is good, average or poor. They do not evaluate the employees properly. This system minimizes rater's bias so that all employees are not similarly rated .this system is based on the presumption that all employees can be divided into five categories i.e. outstanding. Above average, average, below average and poor. The rater is asked to place 10 percent persons in outstanding group; 20 percent in above average, 40 percent in average; 20 percent below average and 10 percent in poor category. the main idea in this system is to spread rating in a number of grades. This method obviously eliminates the room for subjective judgment on the part of the supervisors. Besides this the system is easy to understand and administer.
   But in this method employees are placed in a certain category and not ranked within a category. This method is based on the questionable assumption that all groups of employees have same distribution of good and poor performances. The rater does

not explain why an employee is placed in a particular category. Specific job related criteria are not used in ratings. Forced distribution of rankings is feasible for a large group of employees. The spread out of rating in the form of a normal distribution curve is shown in the following figure:-
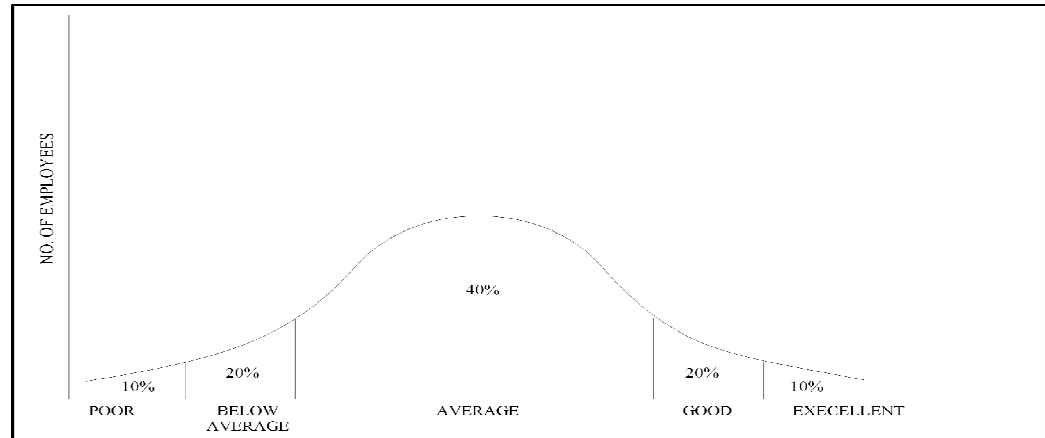
4. **Critical Incidents Method:**
    The approach is focused on certain critical behaviors of employee that makes all the difference in the performance. The assumption in this method is that the performance of the employee's .on the happening of critical incidents determines his failure or success. The supervisor keeps a record of critical incidents at different times and then rates him on this basis. Examples of critical incidents are:-
    (i)   Refused to accept instructions with detailed discussion.
    (ii)   Refused to accept instructions even when these were clear.
    (iii)   Increased his efficiency despite resentment from other workers.
    (iv)   Showed presence of mind in saving a worker when there was fire.
    (v)   Performed a difficult task even thought it was outside his regular duties.
    (vi)   Displayed a courteous behavior to a supplier.
    (vii)   He helped fellow employees in solving their problems.

    Critical incident method provides an objective basis for conducting a thorough discussion of an employee's performance. The evaluation, under this method, is based on actual job behavior. This method also avoids regency bias as rater records ratings throughout the rating period. Finally this method can increase the chances that the subordinates will improve because they learn precisely what is expected of them. However, this method has significance limitations:-
    *   Outstanding incidents may not happen very regularly.
    *   Negative incidents are, generally, more noticeable than the positive ones.
    *   The supervisor may not record an incident immediately and forget it later on.

14

- It may also be very difficult for a supervisor to decide whether an incident is critical or not.
- Very close supervision may result, which may not be to the liking of the employees.
- Supervisors may unload a series of complaints about incidents during an annual performance review session. The feedback may be too much at one time and thus, appear as a punishment to the rate.

5. **Field Review Method:**
This is an appraisal done by someone outside employees' own department usually from corporate or HR department. The expert questions the supervisor and obtains all the important information on each employee and takes notes in his note book. There is no rating form with factors or degrees, but overall ratings are obtained. The employees are usually classified into three categories as outstanding, satisfactory and unsatisfactory.

The interviewers question the supervisor about the requirements of each job in his unit and about the performance of each man in his job. He probes to find out not only how a man is doing but also why he does that way and what can be done to improve or develop him. The supervisor is required to give his opinion about the progress of his subordinates, the level of the performance of each subordinate, his weakness, good points, outstanding ability, promo ability and the possible plans of action in cases requiring further consideration. The questions are asked and answered verbally. The success of this method depends upon the competence of the interviewer he can contribute significantly to accurate appraisal only if he knows his job. This method relieves the supervisors of the tedious writing work of filling in appraisal forms. Moreover, supervisors are kept on their toes but this evaluation and biases and prejudices are reduced to the minimum, because the process is largely controlled by the personnel department.

6. **Performance Tests & Observations:**
This is based on the test of knowledge or skills. The tests may be written or an actual presentation of skills. Tests must be reliable and validated to be useful. Advantage – Tests may be apt to measure potential more than actual performance. Disadvantages – Tests may suffer if costs of test development or administration are high.

7. **Confidential Records:**
Mostly used by government departments, however its application in industry is not ruled out. These reports differ from department to department and from level to level. The confidential report is written for a unit of one year and relates to the performance, ability and character of the employee during that year. a very casual attitude is found among raters while filing confidential reports of the employees under working them. The report is not data based but subjective. No feedback is provided to the employee bring appraised and therefore, its credibility is very low. Here the report is given in the form of Annual Confidentiality Report (ACR) and may record ratings with respect to following items; attendance, self expression,

team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness etc. The system is highly secretive and confidential. Feedback to the assesses is given only in case of an adverse entry. Disadvantage is that it is highly subjective and ratings can be manipulated because the evaluations are linked to HR actions like promotions etc.

8. **Essay Method:**

In this method the rater writes down the employee description in detail within a number of broad categories like, overall impression of performance, promote ability of employee, existing capabilities and qualifications of performing jobs, strengths and weaknesses and training needs of the employee. Advantage – It is extremely useful in filing information gaps about the employees that often occur in a better-structured checklist. Disadvantages – It its highly dependent upon the writing skills of rater and most of them are not good writers. They may get confused success depends on the memory power of raters. The essay methods suffer from personal and human bias because of liking or disliking of the supervisor. An appraiser may not be able to express his judgment in appropriate words and it will limit the utility of appraisals reports.

9. **Comparative Evaluation Method (Ranking & Paired Comparisons):**

These are collection of different methods that compare performance with that of other co-workers. The usual techniques used may be ranking methods and paired comparison method.

10. **Straight Ranking Methods:-**

It is the simplest and old method of merit rating .every employee is judged as a whole without distinguishing the rates from his performance. A list is then prepared for ranking the workers in order of their performance on the job so that an excellent employee is at the top and the poor at the bottom. It permits comparison of all employees in any single rating group regardless of the types of work. The difficulty of this method is that it is very difficult to compare persons. On the whole when they differ in qualities, attitudes etc. this method only tells us about the standing of various persons and not the actual difference among them. We can only say who is number 1, 2, 3 and so on but cannot say how much the person at number one is better than that at number two. This method is suitable only when there are limited persons in an organization**.**

11. **Paired Comparison Methods:**

In this method each employee is rated with another employee in the form of pairs. In this method every person is compared trait-wise, with other persons, one at a time, 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 in turn and performance is recorded. Then b is compared to C, D and E since has already been compared with A. in turn C is compared with d and E and so on. The results of these comparisons are tabulated and a rank is assigned to

each employee. The number of rank order in this would be n (n-2) where n represents the number of persons to be compared.

This method gives more reliable rating than straight ranking. But it will be suitable only when the number of persons is small.

Modern Methods of Performance Appraisal:-

1. **Management by Objectives:**

It means management by objectives and the performance is rated against the achievement of objectives stated by the management. MBO can be on a modest scale with subordinates and superior jointly setting goals and periodically providing feedback. However, the term MBO almost always refers to a comprehensive, organization wise goal setting and appraisal programme that consists of the following steps:-

- **Set the organization's goals:** establish an organization wise plan for next year and set goals.
- **Set departmental goals.** In this step departmental heads and their superior jointly set goals for their departments.
- **Discuss departmental goals.** Departmental heads discuss the department's goals with all the subordinates in the department and ask them to develop their own individual goals. In other words every employee will state how he can contribute to the departments attaining his goals.
- **Define expected result.** In this step department heads and their subordinates set short term performance targets.
- **Performance reviews. Measure and result.** Department heads compare the performance of each employee with expected results.
- **Provide feedback.** Department heads hold periodic performance review meetings with subordinates to discuss and evaluate the latter progress in achieving expected results.

The MBO approach has done away with the judgmental role of the superior in the appraisal of their subordinates. It leads to greater satisfaction, greater agreements, greater comfort and less tension and hostility between the workers and the management .this approach is considerably superior to the traditional approach of performance appraisal. It emphasizes training and development of individuals. It is problem solving approach, this approach also has a built in device of self appraisal by the subordinates because they know their goals and the standards by which their performance will be measured.

MBO method suffers from the following limitations:-

- This method can be used only when the goal settings is possible by the subordinates. Blue collar workers are often unable to set their own goals.
- MBO programme involves considerable time, energy and expenditure. It is difficult to administer because continuous interaction between superiors and subordinates is required. If the span of supervision is quite

large, it will not be possible for the superior to have discussion with each and every subordinate for settings up mutually agreed goals.

- This approach is appropriate for the appraisal of executives and supervisory personnel who can understand it in a better way.
- Setting objectives with the subordinates sometimes turns to a tug of war with the management pushing for higher quotas and the subordinate pushing for lower ones.

MBO can applied with great success if the performance appraisal programme consists of the following elements(i) detailed job description should be available to help setting of goals for different positions(ii) superior should have trust on subordinates to establish reasonable goals(iii) emphasis should be on problem solving rather than criticism of the performance of the subordinate.

2. **Psychological Appraisals:**

These appraisals are more directed to assess employee's potential for future performance rather than the past one. It is done in the form of in-depth interviews, psychological tests, and discussion with supervisors and review of other evaluations. It is more focused on employees emotional, intellectual, and motivational and other personal characteristics affecting his performance. This approach is slow and costly and may be useful for bright young members who may have considerable potential. However quality of these appraisals largely depends upon the skills of psychologists who perform the evaluation.

3. **Assessment Centers:**

This technique was first developed in USA and UK in 1943. An assessment center is a central location where managers may come together to have their participation in job related exercises evaluated by trained observers. It is more focused on observation of behaviors across a series of select exercises or work samples. Assesses are requested to participate in in-basket exercises, work groups, computer simulations, role playing and other similar activities which require same attributes for successful performance in actual job. The characteristics assessed in assessment center can be assertiveness, persuasive ability, communicating ability, planning and organizational ability, self confidence, resistance to stress, energy level, decision making, sensitivity to feelings, administrative ability, creativity and mental alertness etc. Disadvantages – Costs of employees traveling and lodging, psychologists, ratings strongly influenced by assessor's inter-personal skills. Solid performers may feel suffocated in simulated situations. Those who are not selected for this also may get affected.

4. **Advantages** :

 Well-conducted assessment center can achieve better forecasts of future

Performance and progress than other methods of appraisals. Also reliability, content validity and predictive ability are said to be high in assessment centers. The tests also make sure that the wrong people are not hired or promoted. Finally it clearly defines the criteria for selection and promotion.

5. Behaviorally Anchored Rating Scales:

BARS con centrates on the behavioural traits demonstrated by the employees instead of his actual performance. Some of the other methods like graphic rating scale and checklist also measure the behavior, based on assumption that desirable behavior results in effective performance,

There are three steps in implementing a BARS system. They are:-

1. Determination of relevant job dimensions by the manager and the employee.
2. Identification of behavior anchors by the manager and the employee for each job dimension.
3. Determination of the scale values to be used and grouping of anchors for each scale value, based on consensus.

The main advantage of BARS is that both the manager and the employees are actively involved in the appraisal process. This increases the relevance of the system to each job and also improves its acceptance by employees. However, one drawback of this system is that it is cumbersome and needs considerable time and commitment to develop. Statements of effective and ineffective behaviors determine the points. They are said to be behaviorally anchored. The rate is supposed to say, which behavior describes the employee performance. Advantages – helps overcome rating errors. Disadvantages – Suffers from distortions inherent in most rating techniques.

6. Cost Accounting Method:-

Human resources are a valuable asset of any organization. This asset can be valued in terms of money; human resource accounting method attaches money values to the value of a firm's internal human resources and its external customer goodwill. When competent and well trained employees leave an organization the human asset is decreased and vice versa. Under this method, performance is judged in terms of costs and contributions of employees. Costs of human resources consists of expenditure on human resource planning, recruitment, selection, training and development, induction, compensation etc. contribution of human resource is the money value of labour productivity or value added by human resources. Difference between cost and contribution will reflect the performance of employees. This method is still in the infancy stage and is, therefore, not very popular at present.

7. 360 Degree Performance Appraisal Method:

360 degree feedback is also known as multi-rater feedback or multi-dimensional feedback or multi-source feedback. It is a very good means of improving an individual's effectiveness (as a leader and as a manager). It is a system by which an individual gets a comprehensive/collective feedback from his superiors, subordinates, peers/co-workers, customers and various other members with whom he interacts. The feedback form is in a questionnaire format, which contains questions that are significant to both individual as well as organization from performance aspect. It is filled by anonymous people. The number of people from whom feedback is taken can range from 6 - 20. The individual's own feedback is also taken, i.e., he self-rates himself and then his rating is compared with

other individuals ratings. Self ratings compel the individual to sit down and think about his own strengths and weaknesses.

The primary aim of a 360 degree feedback is to assist an individual to identify his strengths and build upon them, to recognize priority fields of improvement, to encourage communication and people's participation at all levels in an organization, to examine the acceptance of any change by the employees in an organization and to promote self-development in an individual. It must be noted that the assessment of individual by other people is subjective. A 360-degree feedback is challenging, promoting and analytical. It should not be regarded as ultimate and concluding. It is a beginning point. Self-assessment is an ongoing process.

360 degree feedback provides a comprehensive view of the skills and competencies of the individual as a manager or as a leader. The individual gets a feedback on how other people perceive and assess him as an employee. 360 degree feedback is beneficial to both an individual as well as organization. It leads to pooling of information between individual and other organizational members. It encourages teamwork as there is full involvement of all the top managers and other individuals in the organization. It stresses upon internal customer satisfaction. It develops an environment of continuous learning in an organization. Based on a 360 degree feedback, the individual goals and the group goals can be correlated to the organizational strategy, i.e., the individual and the group can synchronize their goals with the organizational goals. The feedback must be confidential so as to ensure its reliability and legitimacy. The feedback must be accepted with positivity and an open-mind. The effectiveness of the feedback must be evaluated and analyzed on a regular basis.

1.8 Types of Performance Appraisal

There are two types of performance appraisal systems which are normally used in organization:

In the close ended appraisal system, commonly used in government organization and public enterprises, a confidential report is submitted on the performance of the employee. Only where an adverse assessment is made against an individual, the concerned individual is informed about the same. The main shortcoming of this system is that an individual is not informed about his/her inherent strengths and weaknesses and, therefore, is not given an opportunity to respond to the assessment made on him/her. The employees are, therefore, in a constant dilemma as to how their performance is viewed by the management.

In the open ended appraisal system, unlike in the close ended system, the performance of the individual is discussed with him, and he is ranked in a five or ten point rating scale. The company uses this tool primarily for rewarding a good performer or for other considerations like promotions. The main weakness of this system is that all the employees are ranked in a particular scale, and whereas the good performers are rewarded, there is no concerted effort to motivate the average performers in performing

better. Another weakness of the grading system is that the appraisal may turn out to be more subjective in nature due to insufficient data maintained on the individual. This system also leads to unnecessary comparisons made on different individuals performing similar jobs.

Performance appraisal can be a closed affair, where the appraises do not get any chance to know or see how they have been evaluated; or it can be completely opened, where the appraises have the opportunity of discussion with their superiors during the evaluation exercise.

Rating Scale With Points

Trait:		Quality of work		
Unsatisfactory	Below	Average	Above	Average
Outstanding	Average		Average	
9-10	**7-8**	**5-6**	**3-4**	**1-2**

In this case, each item appraisal will carry with it a certain number of points the range of points used may be the same or different for every trait or factor appraised.

1.9 Advantages and Disadvantages

Advantages:

- It helps the supervisors to chalk out the promotion programs for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.

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

- The systematic procedure of PA helps the supervisors to frame training policies and programs. 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 programs.

- It 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.

- For an organization, effective communication between employees and employers is very important.

- It 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.

Disadvantages:

The problem inherent in performance appraisal may be listed thus:

1. **Judgment errors**: People commit mistakes while evaluating people and their performance. Biases and judgment errors of various kinds may spoil the show. Biases here refer to distortion of a measurement. These are of various types:

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

3. **Halo:** The Halo errors when one aspect of the subordinate's performance affects the rater's evaluation of other performance dimensions. If a worker has few absences, his supervisor might give the worker a high rating in all other areas of work. Similarly, an employee might be rated high on performance simply because he has a good dress sense and comes to office punctually.

4. **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!

5. **Leniency:** Depending on rater's own mental make-up at the time of appraisal, raters may be rated very strictly or very leniently. Appraisers generally find evaluating others difficult, especially where negative ratings have to be given. A professor might hesitate to fail a candidate when all others students have cleared the examination. The leniency errors can render an appraisal system ineffective. If everyone is to be rated high, the system has not done anything to differentiate among employees.

6. **Central tendency:** An alternative to the leniency effect is the central tendency, which occurs when appraisers rate all employees as average performers. For example, a professor, with a view to play it safe, might give a class grades nearly equal to B, regardless of the differences in individual performance.

7. **Stereotyping:** Stereotyping is a mental picture that an individual holds about a person because of that person's sex, age, religion, caste, etc. By generalizing behaviour on the basis of such blurred images, the rater grossly overestimates or underestimates a person's performance. For example, employee from rural areas might be rated poorly by raters having a sophisticated urban background, if they view rural background negatively.

8. **Regency effect:** In this case, the rater gives greater weight age to recent occurrences than earlier performance .For example, an excellent performance that may be six or seven months old is conveniently forgotten while giving a poor rating to an employee's performance which is not so good in recent weeks. Alternatively, the appraisal process may suffer due to a 'spill over effect' which takes place when past performance influences present ratings.

9. **Stringency effect:** This is just the opposite of the leniency effect. An appraiser, who feels that the rules and standards of the organization are not strict enough, tries to be very strict in rating his appraises. This might lead to dissatisfaction among his appraises as they would feel that the evaluation is biased and unfair.

10. **Culture:** In some case, the culture of the organization or the country can influence the appraiser to rate the appraise in a particular way. For example, in the context, a young appraiser who has to evaluate the performance of his elder colleague, may tend to give him higher rating than his performance warrants. In this case, the Indian culture which advocates respect for elder subconsciously influences the young appraiser.

11. **Perceptual:** This is the tendency of the appraisers to have an expectation of the performance level, which might distort the perception and judgment of actual performance. For example, when a perceived low performer exceeds the expectations of his appraiser, his performance is judged higher than it deserves to be. The opposite will be true for a perceived high performer disappointing his appraiser. He could be rated lower than he should have been.

12. **Fundamental attribution error:** An employee's performance might have been affected due to some external factors outside his control. The appraiser might however underestimate the influence of external factors and overestimate the influence of internal factors while judging the behavior/ Performance of the employee. Many other behavioral and perception errors distort the appraisal system and reduce its effectiveness. If these errors are taken care of in a suitable and well-executed appraisal system, it can add immense value to the organization.

1.10   Summary

Performance appraisal is the process of measuring quantatively and qualitative and employees past or present performance against the background of his expected role performance. The background of his work environment and about his futile potential for an organization. Performance appraisal is a significant element of information and control system in organizations. It can be put to several uses concerning the entire spectrum of HRM functions. Both the appraiser and the appraised consider it an unpleasant task as no performance appraisal system can be perfect and free from personal biases and other defects. Performance appraisal should be done on the basis of certain standards or criterion fixed in advance. Several methods and techniques are used for evaluating employee performance. Two broad categories of these techniques are: traditional methods and modern methods. Performance appraisal should be used primarily to develop employees are valuable resources. Only then it would show promising results, when management uses it as whip or fails to understand its limitations, it fails. The key is not which form or which method is used.

1.11　Self Assessment Questions

1. Discuss the objectives of Performance Appraisal?
2. What is the importance of Performance review and feedback?
3. Enlist the objectives and discuss the importance of Performance appraisal?
4. How would you achieve an effective Performance appraisal system in your organization?
5. "Is appraising potential more difficult than appraising performance? Critically examine and discuss the issue.
6. "Performance Appraisal is not merely far appraisal but is far accomplishment and improvement of performance" discuss.
7. "The higher the position and employee occupies in an organization, the easier it is to appraise his or her performance objectively". Do you agree we disagree? Discuss.
8. What is the various purpose of performance appraisal?

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Unit – 2 : Performance Planning

Structure of Unit

2.0 Objectives

After completing this unit you would be able to :-

- Understand the meaning and concept of performance planning.
- Know about the objectives of performance planning in organizations.
- Learn about the role of people involved in this process
- Understand the steps that are needed for effective implementation of performance planning in organizations.
- Have an insight into the benefits that an employee, supervisor or organization may accrue out of performance planning.
- Link the process of performance planning with performance management.

2.1   Introduction

"Performance" may be defined as a multidimensional concept regarding how things are done as well as what is done. It may also be called as the degree of accomplishment of the tasks of a particular job reflecting how much and to what extent the requirements of the job have been fulfilled. Performance in a given situation is an outcome of the interrelationship between effort, abilities and role perception. Effort is the amount of energy used by an employee or how much he was motivated to do a job. Abilities are personal characteristics needed to perform a job. Role perception is the direction in which employees channelize their efforts. Activities and behavior which are necessary to perform the job define role perception. A certain level of proficiency is needed to do a job and a minimum level of all the three determine the level of performance. Even if an employee puts in great effort and also has excellent abilities he might lack a good understanding of his role thus resulting in substandard performances. Similarly if an employee puts in lot of effort, understands his or her job well but lacks the ability he will

be a low performer. Weakness in a one area can be overcome to a certain extent by the strength of other areas, but the best result would be obtained by a combination of all the determinants. Managing performances beginning with performance planning thus become essential.

Performances are measured in terms of result for the purpose of bringing about positive results in performance standards. Performance planning may therefore be understood as the first step in the process of performance management. It is a binary approach involving both (employee and supervisor) consent in setting goals, objectives, standards and direction as against the traditional approach which involved only the superior's say. Thus Performance planning may be understood as the first step in the process of performance management. It is a binary approach involving both (employee and supervisor) consent in setting goals, objectives, standards and direction as against the traditional approach which involved only the superior's say. Performance Planning may be defined as a means/tool to ensure that employees know what is expected of them, how they are performing and what can be done to strengthen performances.

It is concerned with setting the direction, concluding performance agreements and personal development plans. It encompasses what has to be done, how it has to be done and what has to be achieved. It is a forward looking process focusing on what people have to do to achieve their potential in order to discover what all they are capable of doing. It motivates employees by providing to them the correct opportunities to perform and develop and recognize their achievements. The ultimate aim of performance planning, however, is to develop people by helping them to learn, by providing them the support they would need to do well, not only in the present, but in the future too. It consists of written and documented performance elements, which form the basis of performance management.

2.2   Objectives of Performance Planning

Two simple propositions which provide the foundation upon which performance planning operates are:

- When people (individual and teams) know and understand what is expected of them, and have taken part in forming these expectations they will make their best efforts to meet them.
- The capacity to meet expectations depends on the levels of capability that can be achieved by individuals and teams ,the level of support they are given by management ,and the processes, systems and resources made available to them by the organization.

The four primary objectives of performance Planning include :-

a) Increased communication
- Improving communication between leader and staff.
- Clarifying job responsibilities and standards.
- Giving staff feedback on their performance.

b) Improved performance :-

- Establishing challenging performance goals which support organizational objectives.
- Encouraging individuals and work teams to strive for continuous improvement and quality.
- Identifying and eliminating barriers to performance.

c) Employee development. :_

- Focusing upon staff growth and career development.
- Recognizing individual performance.
- Optimizing staff skills, abilities and knowledge for mutual benefit.

d) Human Resource Management :-

- Planning for development, resources and other issues.

2.3 Performance Plan and Role Clarity

Role clarity in performance plans helps in achieving greater teamwork and thus is the key element in employee performance. Without role clarity employees may fail to understand their job requirements which in turn may lead to low performance .Role clarity also provides the necessary freedom, authority, command and confidence needed to perform the job with an extra edge.

Levels of Plans

Parameters	Strategic Plans	Tactical Plans	Operational Plans
Focus	Execution of Strategy	Optimizing processes and performances	Controlling Performances
Use	For management of Performances	For analyzing the performances	For monitoring the performances
Scope	Entire Organization	Department s	Operational Levels
Users	Executives	Managers/ Supervisors	Employees
Data	Summarized	Detailed/Summary	Detailed
Duration of Planning sessions	Monthly/Quarterly	Daily/Weekly	Intraday

To check whether there is job /role clarity or not, the following points are looked into :-

- Does every team member have a documented job description?
- Is the process of performance measurement understood by each employee?
- Is there a match between the job and the employee in terms of knowledge, skills and abilities?
- Do the employees understand how their performance relates to the organization's achievement of strategic goals?

Fig 2.1 – The four components of role clarity needs to be understood which are-

Four components of role clarity

Boss's understanding (role description)	Own understanding (incumbent's sense of the role)
Others' understanding (expectations of the role)	Reality (how the role is enacted)
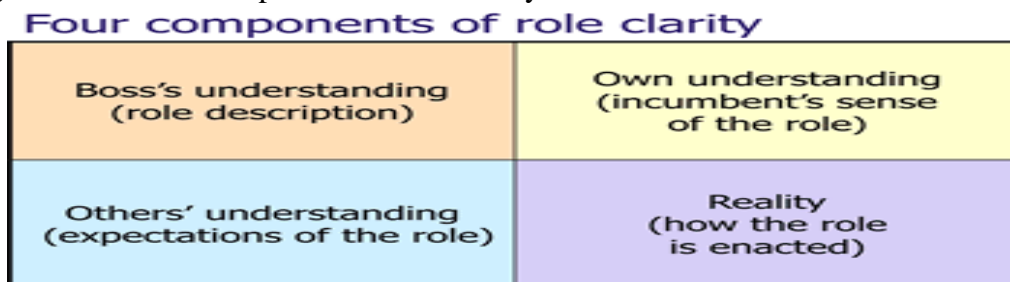
2.3.1   Actors and Players

The Employees and Supervisors play an important role in performance planning both have their specific roles. Their roles are discussed as under-

a) Supervisor's Role :-

- Thorough understanding of the work involved- the critical functions and key resource areas.
- Review the job description accurately.
- Understanding what would constitute "successful performance" in the core competencies and effectively communicate this to employees.
- Identify priority areas and communicate those to the employees.
- Communicate and relate employees' work to unit goals.
- Gaining input and providing support regarding the help needed in terms of information, resources, tools, training and supervision

b) Employee's Role :-

- Having a thorough understanding of the work involved – the critical functions and the key tasks.
- Make a cross check through the job description to ensure that information is accurate and up to date.
- Understanding about the set standards- what would constitute the "successful performance" of the core competencies.
- Understanding the linkage between employee's work and unit goals.
- Ask for needed support.
- Commitment

The HOD and the HRD provide the necessary steering framework. The main responsibility for effective performance planning rests on the shoulders of supervisors and employees.

2.4 Performance Planning Process

As discussed earlier, performance planning involves both the employee and the supervisor. The employees basically develop the plan and set their own goals and objectives in a manner that they blend well with the organizational performance expectations. The supervisor acts as a coach, mentor and advisor who not only empowers the employees but also guides them by actually developing the plan for them. The three main steps in the entire performance planning process are :-

I) **Development of Performance Plan** :- When developing the plan, the three essential components to be included are :-

a) **Developing Accountabilities** :- " Accountabilities" may be understood as those areas of responsibility for which an employee is expected to produce results. Various positions may on an average have 2-8 key accountabilities. Optimum results can be achieved when for each of these accountabilities there are well set specific performance objectives with measurable outcomes. Accountabilities are unstable and tend to change as goals are met or priorities change.

b) **Deciding Competencies** :- "Competencies" are behavioral measures focusing on how the job is to be accomplished. It includes skills, knowledge and behaviors that improve job effectiveness and performance. The number of typical competencies may range from 6-10. In contrast to accountabilities, competencies usually remain stable over time. Competencies support accountabilities.

c) **Professional Development :-** This includes planning training to not only fill skill gaps but to inculcate development orientation in employees to ensure their employability and marketability. While choosing training courses, the supervisor should encourage exact need identification in employees by inculcating in them perspectives of new skills, competencies and experiences needed for future advancement.

II **Plan discussion by employee and supervisor :-** This step is important because a clear understanding of the plan is a must for both the parties (supervisor and employee) to achieve maximum output. Some important aspects to be kept in mind in this stage include : -

- Good working relationship/partnership amongst the supervisor and employee.
- Good communication.
- Setting goals which are attainable.
- Good mentoring
- Goal fixation avoiding frequent changes.
- Linkage between performance expectations and rewards.

III   Plan updation with changing priorities/goals :- Plans need to be changed as per the changing employee priorities and goals. Organizations work in dynamic environments- both internal as well as external and hence awareness regarding areas that need to be updated and changed is essential. Regular communication, scheduled meetings, feedback collection and coaching help in the setting up and accomplishment of goals in the planning stage. The following activities contribute in the successful implementation of this stage:

a)   **Coaching & feedback :-** Throughout the performance year, the leader provides ongoing feedback to the employees' performance and they too proactively solicit feedback to ensure that performance is in line with expectations. The aim is to provide objective information to identify areas of strength and improvement round the year. Effective coaching and feedback stems from continuous open communication between the leader and employees based on honesty, objectivity and continuous improvement.
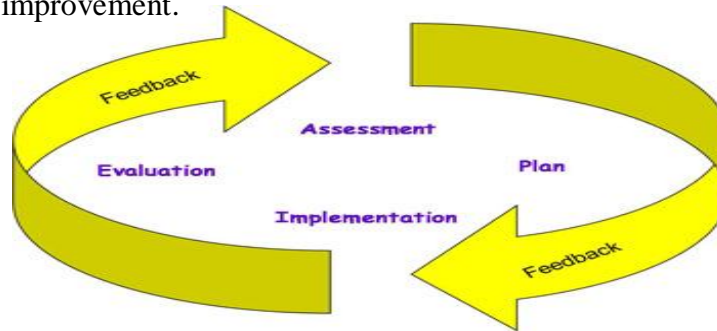
b)   **Performance review and discussion :-** At the end of the performance year the employees complete a self review of their performance vis a vis the documented expectations and goals. The leader then gives his reviews regarding the same objectives. Each assessment is supported by examples of specific results and objective examples of performance round the year. Lastly the leader and employees meet to discuss the employee performance, identifying key areas of strength and improvement.

c)   **Recognizing and rewarding performance :-** This occurs frequently throughout the year.

2.5 Factors Affecting Performance Planning

Performance is affected by a number of factors all of which are important in their own way. These comprise:

- Personal factors- the individual skills, competence, motivation and commitment
- Leadership factors- the quality of encouragement, guidance and support provided by managers and team leaders
- Tea factors- the quality of support provided by colleagues
- System factors- the system of work and facilities provided by the organization
- Contextual (situational) factors- internal and external environmental pressures and changes.

2.5.1 Advantages of Performance Planning

To Employees :-

- Clarity in performance expectations.
- Understanding how individual work contributes to the organizational success.
- Clarity in performance standard, till date.
- Development of job related technical and behavioral skills.
- Honest input and to the point performance appraisal.
- Linkage between rewards and recognition consistent with performance.

To Supervisors :-

- Synchronization and optimum utilization of the available talent pool for goal achievement.
- Monitoring of progress made .
- Capitalizing on employees strengths and addressing their weakness.
- Opportunity to provide feedback.
- Keeping the efforts of the employees channelized towards goal accomplishment.
- Opportunity to accurately appraise individual performance.
- Fair distribution of rewards & recognition.

To the Organization :-

- Work accomplishment through synchronized and collective efforts of employees.
- Nurturing of talent through cultivation of highly engaged and result oriented workforce.
- Creation and holding of talent pool by retaining top performers.

2.6 Performance Planning Approaches

Two Basic Approaches of Performance Planning are :-

a) Collaborative approach, and
b) Top-down approach.

Irrespective of the type of approach adopted, performance planning meetings should be taken up on a serious note as these are the platforms where the supervisor communicates to the employees expectations regarding their performance and duties.

These meetings can be held at any of the following times –

- New hire orientation process.
- Mid- year
- After formal appraisal process for eligible employees.

The supervisor should proceed in a well framed manner. The meeting may start by reviewing the key duties and behaviours for the position and making sure that the employee understands the priorities. Performance standards for each duty must be ensured. Each employee may then be asked to speak out his understanding regarding the expectations from him. Performance measurement criteria for each duty or behavior also

must be jointly decided upon. In case some resistance arises, explanation regarding the appropriateness of standards may be given to employees. Open dialogues may be encouraged to ascertain what the problem is and how it can be resolved. Discussion should also include the organizational commitment in terms of resources, time and direct assistance programmes like training and development.

2.6.1 Linkage of Performance Planning with Performance Management

Performance   planning is a critically important step prior to the implementation of a performance management system. Every supervisor needs to conduct a performance planning session with each and every eligible staff member. During this meeting, the following should be articulated among the concerned group members-

- The general functions of the position.
- The key duties associated with the position.
- The relative importance of each duty for the achievement of departmental goals.
- The subjective (behavioural) and objective (results) criteria to be used for judgment of performance.
- The standards to be used to determine the level of performance achieved by the staff member on each result or behavior.

Most often the appraisal meetings go well, however at times if any difficult situation arises it should be dealt with tactfully. Review of areas where there are disagreements should be undertaken and a common ground of understanding must be developed along with the scheduling of set of future actions and follow up dates, training schedules etc.

2.6.2 A Sample of Annual Performance Planning

Month 1	Months (2-11)	Month 12
Step I **Development of performance plan** **Leader & Staff Members** • Developing Accountabilities. • Deciding Competencies • Professional development goals which are specific **Step II** **Plan Discussion** **Leader & Staff Member** • Reviewing	**Step III** **Monitoring performance** **Leader & Staff Members** • Meet regularly throughout the performance year to review progress on performance goals till date, successes and roadblocks. • Redefining goals and expectations as per need **Step IV** **Coaching & Feedback** **Leader** • Provide ongoing	**Step V** **Performance Reviews & Discussion** **Staff Members** • Staff Members • At year end completing a self review related to the standards decided. **Leader** • Completing review form for staff members performance objectives and expectations

organizational objectives for the year.
• Defining performance expectations in tune with personal & organizational objectives.
• Create SMART goals which bring about organizational and professional development.
  • Specific
  • Measurable
  • Achievable
  • Relevant
  • Time bound
	feedback on staff members performance
	• Establishing open communication channels
	• Proactively giving feedback
	Leader & Staff Members
	• Identifying areas of strength and improvement in performance.
		Leader & Staff Members.
		• Support each assessment with specific results & objective examples of performance round the year.
		• Meet to discuss staff performance, identifying key areas of strength and improvement.
		STEP VI Recognizing & Rewarding Performance
		Leader
		• Recognize and reward performance frequently round the year.

2.7 Precautions for Employee Performance Plans

Traditionally, in some organizations, performance plans are developed based on employees' job description's. This, however, cannot lead to achieving the expected results, as it elaborates only the activities and not the performances accomplished. Activities in isolation cannot be aligned to organizational goals. Therefore organizations should focus on performance plans that establish elements and standards duly addressing the accomplishments which lead to the achievement of organizational goals This eight-step model is based on organizational practices, and for each successive step, the inputs come from the previous step.

STEP : I Understanding the Overall Picture

 This initial step requires consideration for overall organizational goals and objectives rather than considering employees job descriptions while developing the performance plans. Information on the general outcome of the strategic plan of organizations is collected. Alignment of employee performance plans with the strategic plan of the

organization ensures a holistic consideration of all aspects providing the overall picture. Performance plans become a subset of the organization's strategic plan.

STEP : II Identifying the Accomplishments at the Work Unit Level

This step determines the accomplishments (i. e., the products or services) at the unit level. Organizational units may be a strategic business unit (SBU), a product line, a division, or a product mix. Organizations determine the nature of accomplishments expected from the work units to develp the performance plan accordingly.

STEP : III Identifying Individual Accomplishments and Their Intergration with the Work Unit Goals

Using a role-result matrix the unit's products or services and the members' accomplishments for each job position in terms of quantifiable and verifiable performance elements are listed.

STEP : IV Converting expected Accomplishments into Performance Elements, Duly

Mentioning Their Type and Priority

Specific elements of the performance plan are identified. They are then assigned weight and priority. Elements with highest priority and weights are known as critical elements. In each job position, at least one critical element needs to be present. We may also have non-critical and additional performance elements.

STEP : V Determining work Unit and Individual Measures.

This step determines how to measure their performance. Measures explain the work unit's work process. Measures may be general or specific.

STEP : VI Developing Work Unit and Individual Standards

Establishing standards for the elements form the basis of performance appraisal programme.

STEP : VII Determining how to Monitor Performance

Performance monitoring not only indicates measurement of performance but also feedback to employees. Although performance appraisal may be at a specific time interval, performance monitoring should be an ongoing and informal process, primarily to keep the employees on track. To ensure that performance monitoring is effective, organizations need to focus on following aspects:

- Decide the nature of data to be collected,
- Decide the time interval of data collection,
- Study all the existing performance reports to design the feedback reports.
- Design feedback tables, graphs, or matrix wherever necessary.
- Ensure that the feedback process is instantaneous and automatic.

STEP : VIII Checking the performance Plan

The final step examines the performance plan based on the checklists. These checklists vary from organization to organization. The checklists may have the following check points :-

- Decide whether the critical elements are truly critical.
- Decide the range of acceptable performance.
- Decide whether the assigned performance standards are attainable
- Decide whether the attainable standards are challenging.
- Decide the degree of fairness of the standards etc.

2.8 Applications of Performance Planning

Performance planning is used most often in workplaces or other places wherever people interact-schools, churches, community meetings, sports teams, governmental agencies, social events and even political settings. The aim is to enable people interactions with their work environments in such a way that it produces the desired results. Performance plans may also be said to increase the effectiveness of companies by improving the performance of the people who work in them by developing the capabilities of teams and individual contributors.

It may be possible to get all employees to reconcile personal goals with organizational goals and increase productivity and profitability of an organization using this process. It can be applied by organizations or a single department or section inside an organization, as well as an individual person. First of all a committment analysis is done where a job mission statement is drawn up for each job. The job mission statement is a job definition in terms of purpose, customers, product and scope thus helping to determine the continuous key objectives and performance standards for each job position. After the commitment analysis, the work analysis of a particular job is done in terms of the reporting structure and job description. The aim is to determine the continuous critical objectives and performance standards for each job.

Most managers and employees might experience some degree of anxiety when planning for tough job assignment or when working with difficult employees. In such sensitive situations, the tips below may prove to be good rules to follow –

a. **Working on Employee Relationships:** Employees do not receive even the constructive criticisms well, if they feel that the foundation of the senior's evaluation is rooted in personality differences. The manager/supervisor need not be the employees' "friend" but should try to create the perception of own fairness and reasonability: the healthier the relationship the easier it would be to deliver contributions in planning.

b. **Clearly explain performance expectations**: There is nothing more frustrating for an employee than to spend time working on goals that do not contribute to the personal or organizational objectives in the long run .Thus the superior should

clearly explain to the employees as to the type of behaviors, activities or skills they should demonstrate in order to fulfill the expectation criteria.

c. **Informal communication and feedback:** It is important to try to address undesirable behaviors or performance problems as they arise. This increases the chances that the employees can plan performances better. It also ensures that the employee does not have to correct the problem areas once the process of plan implementation has been initiated.

d. **Collecting concrete examples:** Employee counselling would become more meaningful and easier if combined with the citation of specific examples where the behavior or lack of skill had a negative impact on a task, project or assignment.

e. **Starting on a positive note :** All employees like to be told as to how their performance contribution would help the organization as a whole. Problem areas may be subsequently discussed after letting the employees know that their contributions are valuable.

f. **Avoidance of making Judgments :** The supervisor should avoid words like "poor performance" or "weakness", instead these issues should be included under "developmental opportunities", thus ensuring that the supervisor's reviews would be perceived as fair.

g. **Don't just talk, listen too :** It is not unnatural for people to be defensive or feel the need to make excuses regarding performance targets and standards. Excuses might at times be valid or invalid. In either case the supervisor should listen to the discussion as a part of groundwork for building a plan together.

h. **Prepare for negative reactions :** Regardless of the planning preparation, there is always a chance that the concerned employees behave and react negatively. In those situations it is critical to listen to their points, appear calm and make sure that the supervisor presents an unbiased view of the problem area. Another way out could be to wait until the employee appears more receptive to the supervisor's perspective.

2.9   Summary

Performance planning consists of setting goals, objectives, standards and direction. It identifies what is expected (accountabilities,) how the job should be accomplished (competencies) and professional development goals. Performance planning is critical to implementing a performance management system. All involved in the planning process have clear cut roles to plan and benefits to accrue. Performance plan checklists ensure that performance plans focus on the right goals, provide concrete action steps and allow to measure progress.

2.10 Self Assessment Questions

1. What do you mean by Performance Planning? Explain in detail.
2. Discuss the objectives and role of performance planning in organizations.
3. Explain the steps involved in a typical performance planning process.
4. "Performance planning is linked to the process of performance appraisal". Discuss.
5. Explain how performance plan is influenced by the concept of role clarity.
6. Explain the transition process from an individual performance plan to a group performance plan.

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Unit – 3 : Performance Management System

Structure of Unit

3.0 Objectives

After reading this unit, you shall be able to understand-

- The purpose of performance management.
- The various models of performance management.
- Characteristics and principles of Performance Management.
- Its importance and benefits to the organization.
- The process of performance management.
- The strategies to improve performance.
- The pitfalls of performance appraisal.

3.1 Introduction

The word 'performance management' can be split up as 'performance' plus 'management'. 'Performance' means what is expected to be delivered by an individual or a set of individuals within a time frame in terms of results or efforts, tasks and quality, with specifications of conditions under which it is to be delivered. Performance has many dimensions – output or result dimension, input dimension, time dimension, focus dimension, quality dimension, and cost dimension. Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities and talents. Performance management is another way of envisaging the totally of a manager's function. It views the managerial function holistically – not a random collection of activities that most mangers recognise and undertake as their core function.

Performance management is not new, despite the fact that the use of the term has grown popular recently. Managers have always devised ways formally or otherwise, to set tasks, see that they are carried out well, and make modifications designed to secure further improvements. The essence of performance management is establishing a framework in which performance of human resources can be directed, monitored, motivated and

refined; and the links in the cycle can be audited. Performance management has become a popular vehicle for attempts to integrate the management of human resources with the organization's wider strategy. Performance management refers to an approach, rather than a particular package of policies. The approach involves linking five policy elements: setting objectives, measuring performance, feeding back results, setting rewards, and amending objectives and action.

3.2 Conceptual Framework

3.2.1 Characteristics of Performance Management

The major characteristics of performance management are as follows:

1. The organization has a shared vision and ethical values that is being communicated to all employees for seeking employee commitment.

2. Employee performance targets are a result of inter-linkage between work unit objectives with organizational goals and strategy.

3. Establishing performance criteria against which individual and work unit achievement can be measured.

4. Tracking of employee's progress towards performance criteria is regular with feedback provided to the employee.

5. Reviewing of progress of employee's results in identification of areas of competency improvement.

6. Measuring performance of employees is linked to reward outcomes.

7. Continuous enhancing of performance

8. The evaluation of the effectiveness of performance management process so that changes and improvements can be made.

3.2.2 Objectives of Performance Management System

Performance management is a key organizational strategy for improving competitiveness of the organization in a marketplace characterized by Olympian competition. It seeks to attain the following objectives in the organizational context:

1. **Formulate strategy** determining what the objectives of the organization are and how the organization plans to achieve them.

2. Manage the **strategy implementation process**, by examining whether an intended strategy is being put into practice as planned.

3. **Challenge assumptions** by focusing not only on the implementation of an intended strategy, but also on making sure that its content is still valid.

4. **Sustain excellence** in performance by motivating employees to seating goals that align with organization strategies.

5. Check position by **monitoring** whether the expected performance results are being achieved.

6. **Comply with the non-negotiable parameters**, by making sure that the organization is achieving the minimum standards needed, if it is to survive (e.g., legal requirements, environmental parameters.etc.)

7. **Communicate direction** to the test of the employees, by passing on information about what are the strategic goals individuals are expected to achieve.

8. **Communicate with external stakeholders**.

9. **Provide feedback** by reporting to employees how they are, their group, and the organization as a whole is performing against the expected goals.

10. **Evaluate and reward behavior** in order to focus the employee's attention on strategic priorities; and to motivate them to take actions and make decision, which are consistent with organizational objectives and strategy.

11. **Benchmark the performance** of different organizations, plants, departments, teams, and individuals.

12. Develop a **dynamic work culture** by assimilating people's thoughts, actions, and consequences.

3.2.3 Principles of Performance Management System

Some of the major principles of performance management are enlisted below:

1. It **translates organizational objectives** into work units, departmental, team, and individual goals.

2. It provides **clarity of goals and objectives** of the organization to all the employees and managers.

3. It is a **continuous and integrated process** for developing organizational, team, and individual performance.

4. It seeks to **build commitment** towards organizational, team, and individual performance expectation.

5. It **empowers** individual employees to find avenues for improving performance.

6. It requires an organizational culture that **fosters corporate values** of openness, mutuality, trust, and respect, paving the way for two-way communications.

7. It creates a **system of regular feedback** with positive reinforcement of employee's behavior and action.

8. It provides **for evaluation of employee's performance** against jointly agreed performance criteria in a congenial work environment.

9. It provides for an effective and contextual management of external environment for **overcoming obstacles** and impediments in the way of effective managerial performance.

10. It is more of a **developmental tool** rather than administration of financial rewards.

3.3 Performance Management Model

Performance management deals with the challenge the organizations face in defining, measuring, and stimulating employee performance with the ultimate goal to improve the organizational performance. The process of planning, managing, appreciating, and monitoring employees and organizational performance in order to improve organizational effectiveness is currently seen as critical to the development and survival of organizations. Therefore, it is a strategy of the organization to achieve competitive advantage by reinforcing acceptable whole behavior, organizational change, and organizational and self-initiated learning for effective individual organizational decision making.

Performance management has come to signify more than a list of singular practices aimed to measure and adapt employees performance, rather, it is seen as an integrated process in which managers work with their employees to set performance criteria analysis progress towards performance goals, measure and review result, provide feedback, and reward performance in order to improve employee performance, with the ultimate aim to positively affect organizational success.

This involves comparing the organization's actual performance state with the desired performance state, keeping in view contextual factors- organizational factors, industry factors and environmental factors for analysis. The gap provides insides into the factors in inhibiting the attainment of expected performance level Based on these insides, appropriate HR interventions are planned and implemented for bringing about the desired changes.

However, in the context of performance management, by aligning with the organization's mission and objectives, work system, and employment models act as supportive of high performance through expanded employee potential and increased discretionary effort. Performance management provides improved systematic response to employee effort for improving the corporate performance for attaining and or sustaining competitive advantage and improved employee outcome.
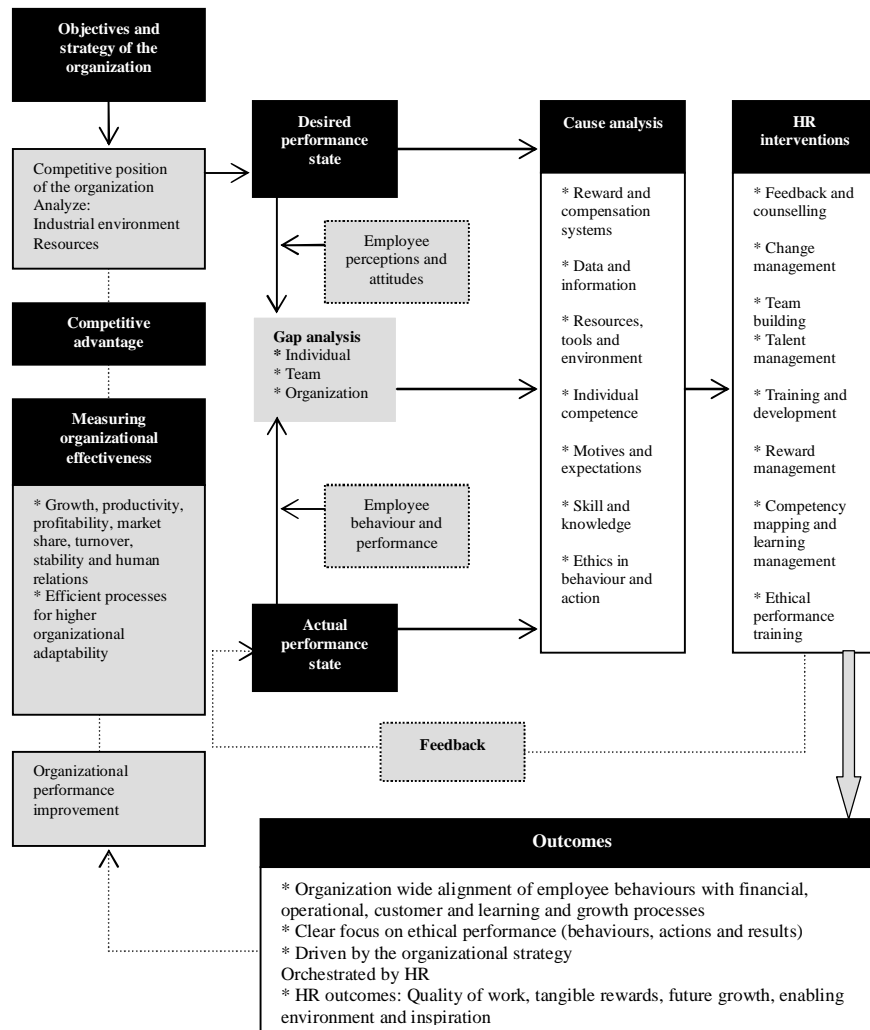
Fig. 3.1 – Holistic Model of Performance Management System

A simple conceptual model of performance management is shown in fig. depending on the nature of industry, organization size, nature of leadership, organizational culture, environment of competitiveness, and so on. It may be noted that competitive advantage is affected by industrial environment, resources, and competencies. This theoretical model shows how an organization's ability to perform the required activities can be improved through performance management, so that it can either reduce cost or find some unique ways to create a value chain.

3.4 Process of Performance Management

The three major steps in performance management process are:

Performance Planning: The first step in performance management is planning; followed by performance coaching and development. Only then does appraisal and evaluation come into play. Two of the keys to performance management are planning (setting

expectations) and appraising (making evaluations). Expectations can be goals, but they are often nothing more than statements of acceptable, desired performance, activity, and progress. What is critical is that expectations should be clear, to both the employee and the manager. The third key, of course, lies in the development progress, and the skills of managers in carrying out employee development through coaching and problem-solving. Although performance appraisal may help to identify problems and training needs, the appraisal interview itself is not the time to coach. Coaching should take place during the months prior to appraisal. Like effective feedback, coaching for development requires skill, in addition to an appropriately structured situation.

Performance Development: The key to performance development is coaching. If a manager and an employee have engaged in performance planning, then performance development through coaching should be fairly straight forward. The role of a coach is quite different from that of an appraiser. The coach is a helper, who helps the employee identify problems he o she may be having and who then helps the employee find ways to solve those problems. The proper role of the wrong to the employee, but to work with the employee to examine the information and make sense out of it, identifying whether or not the performance is on track. The role of the manager is to give the employee useful feedback – feedback that is descriptive and not evaluative concentrate and not general, and that has successful implications for further actions. Effective coaching depends on mutual exploration of problems, and shared development of possible solutions. Coaching consists of telling employees how to do it right. The coach must work with the employee to help him develop better, more effective ways to do a job or fulfil performance expectations. Managers must take a problem solving approach. Rather than giving the employee a solution, the two must work together to explore solution alternatives, select a course of action, and plan to put it into practice and monitor the results. Effective performance development through coaching requires a problem-solving approach on the part of the manager. Unfortunately, many managers neither understand this, nor do they have the feedback and problem-solving skills needed to make such an approach work. Effective performance development through coaching forms a critical part of the performance management process. Coaching sessions make sure that performance expectations are fulfilled or that employees make desired changes in their work activities.

Performance Appraisal: The core philosophy behind most effective appraisal systems begins with the requirement that the organization formulate long-range goals and strategic plans. Those plans are supported by developing overall organizational objectives. Performance appraisal can be defined as any procedure which helps the collecting, checking, sharing, giving and using of information collected from and about people at work for the purposes of adding to their performance at work. Performance appraisal procedures have many different purposes. An appraisal procedure aims at developing people and/or organizations by using information about the behaviour of people at work. It is mainly concerned with establishing controls on the behaviour of people or bringing about change in their behaviour by:

a) **Evaluation**: To enable the organization to share out the money, promotions and perquisites fairly.

b) **Auditing**: To discover the work potential, both present and future, of individuals and departments.

c) **Constructing Succession plans**: For manpower, departmental and corporate planning.

d) **Discovering training needs**: By exposing inadequacies and deficiencies that could be remedied by training.

e) **Motivating staff**: To reach organizational standards and objectives.

f) **Developing individuals**: By advice, information and attempts at shaping their behaviour by praise or punishment.

g) **Checking**: The effectiveness of personnel procedures and practices.

It must, however, be recognised that an appraisal is a management process and not merely a HR routine. The feedback to the individual is intended more for improvement and learning, and avoiding the same errors in future.

3.4.1 Elements of Performance Management

The elements of an effective performance management are depicted in figure.
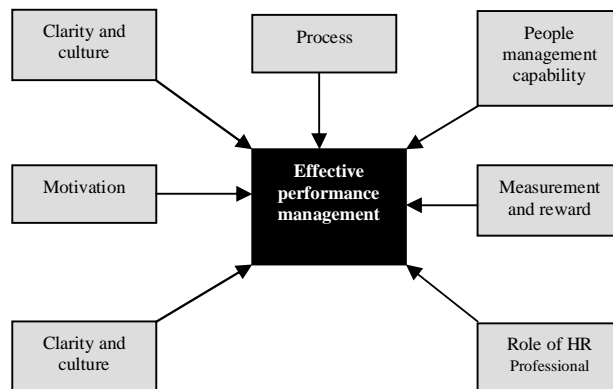
Fig. 3.2 Key elements of effective performance management

Process: The means by which individual performance is directed, assessed, and rewarded. Performance management should be a continuous process and should be carried out regularly.

People management capability : The knowledge, skills attitude, and behaviours that the managers need in order to raise the performance standards of their employees. The managers and employees should act together in the same spirit within the overall framework of performance management.

Motivation: The extent to which the organizations communicate performance management and seek commitment of employees towards it. Performance management should be participatory in nature so as to facilitate exchange to performance and development needs.

Measurement and rewards: The performance criteria or indicators that are used to evaluate (a) individual performance and (b) the organizational effectiveness of the whole system, and how these are used to allocate rewards.

Role of HR professionals The extent to which HR professional (a) demonstrate subject matter expertise: (b) draw upon relevant theory and research evidence (c) influence through leaders within organizations to focus energy on the aspects of performance management that make a significant difference to performance. Human resource professionals should follow a win-win approach in order to help managers and their employees' succeed.

Learning organization: The extent to which organizations are able to objectively reflect and learn from their own performance management experience, builds on what works, and refining where necessary.

Culture and clarity of purpose : The extent to which an approach to performance management resonates and is congruent with the broader culture of the organization in which it is being applied.

In a nutshell, performance management seeks to balance business alignment with learning and development and performance reward.

3.4.2 Feedback in Performance Management

The objective of performance management is not to find faults with the employees, but to encourage them to perform better and take corrective actions. Therefore, continuous feedback and coaching is very much necessary for effective performance management. The mid-year and final reviews are specifically focused on feedback and coaching. The appraise and the appraiser need to have formal feedback sessions. However, feedback and coaching should be provided on an on-going basis. Feedback may be of several types such as:

- Positive feedback
- Corrective feedback
- Feedback focused on identifying obstacles to performance
- Feedback for the purpose of sharing information

In this context, it has to be remembered that many people may not be comfortable at providing negative feedback and feel embarrassed and hesitant to share negative information about the appraises' performance. Some appraisers may not have a clear idea on how to give positive feedback and sometimes exaggerate the positive aspects of the appraiser's performance .Organization need to carefully consider both the case, since in either case, employees do not get the right picture so far their performance is concerned.

A few tips to provide both, positive and negative feedback are given below:

A.   Tips for giving **positive** feedback:

- Cite the examples so that the appraise can recognize his/her contribution.
  - Feedback should be provided at the right time.
  - Appraiser's view points and ideas should be heard and encouraged, and checked for its feasibility.
  - Transparent communication should be ensured.

B.   Tips for **negative** feedback:

- Express confidence in the appraiser's ability.
- Support to be extended for his/her improvement.
- The ineffective behavior should be criticized, not the person.
- Consequences of negative behavior should be clearly explained.
- Share your expectation for the future behavior.
- Avoid giving such feedback in public.

3.5 Performance Appraisal to Performance Management

The true antecedent of formal performance appraisal cannot be exactly traced. However, it seems that annual performance appraisals of workers began with the advent of the Industrial Revolution in the late eighteenth century, when the idea of the division of labour was recognized. It subsequently gained prominence from a scientific management perspective, wherein it was believed that each piece of work could be scientifically devised in the production line, and the productivity of each worker could be accurately measured. This was because labour was viewed only as one of the many factors in the production process and could be scientifically manipulated to enhance productivity. The sole purpose of performance appraisal was to assess the productivity of a worker retrospectively with a view to find ways of improving individual performance. The appraisal process was primarily judgemental and practical in nature, with little or no attention being paid to the 1920s as a means of monitoring the productivity of workers within an organization. Management was considered by some to be an exact discipline of study akin to natural science. There was little or no recognition of the fact that human beings are free-willed entities who can act on their own volition, in defiance of scientific laws.

The approach changed soon after Hawthrone Studies, which established that the relationship between fellow workers played a significant role at work. The focus of performance appraisal, which was still judgemental in nature, was then changed to the other extreme of predominantly assessing the personality traits of workers and examining how workers could be motivated to do better. It was felt that productivity of workers can

be increased by skilfully manoeuvring both. External factors, including the organization's structure, and internal factors, the psychological well-being of workers. As a result, the management by objectives (MBO) approach advocated by Peter F. Drucker gained much popularity as it took both factors into consideration and claimed to have overcome the problem of trait rating. The MBO perspective encouraged workers to set individual objectives at the commencement of the appraisal period and to review the progress at the end of the appraisal period.

Difference between Performance Appraisal & Performance Management:

Performance Appraisal System	Performance Management System
1. Emphasis is on relative evaluation of individuals.	1. Emphasis is on performance improvement of individual, teams and the organization.
2. Emphasis is on ratings and evaluation.	2. Emphasis is on performance planning, analysis, appraisal and development.
3. Performance rewarding and recognition is a critical component.	3. Performance rewarding and recognition may or may not be and integral part. Defining and Setting performance standards is an integral part.
4. Designed and monitored by HR Deptt.	4. Designed by HR Deptt. but could be monitored by the line departments.
5. Ownership is mostly with HR Deptt.	5. Ownership is with line and HR Deptt.
6. Focus on identifying development needs at the end of appraisal year.	6. Focus on identifying developmental needs at the beginning of the appraisal year.
7. Linked to promotions, transfer, trainings, and development.	7. Linked to performance improvement and through them to other HR decisions as and when interventions seem necessary.

3.6 Pitfalls in Performance Management

The performance system in any organization has to face some major challenges. These lead to potential errors in individual appraisals. It is the responsibility of the management in general and the human resource function in particular to take corrective actions and avoid the pitfalls. Some of the factors that affect the appraisal process at an individual level are:

Hallo effect: - The appraise allows a single characteristics of the appraise to dominate his judgment of the employee performance. This can result in either a positive report or a negative report on the performance of the employee. For Example, an appraiser holds the appraise in high regard for his communication skill. This might influence the appraiser to rate the employee high on other, unrelated factor such as job knowledge or leader skills. Or, and employee who is dislike by his appraisal for his shoddy dressing may be rated poor on other factors like attendance and reliability.

Leniency effect:- This refers to the situation where the appraisal tends to give high rating and only positive feedback to the appraisee.irrespective of his actual performance. The main reason for leniency could be the appraiser's desire to maintain a cordial relationship with the appraise. Subconsciously; he might feel that any low rating or negative feedback would create unpleasantness, which he tries to avoid. Such leniency is the most common reason for most of the appraisal errors.

Stringency effect: This is just the opposite of the leniency effect. An appraiser, who feels that rules and standards of the organization are not strict enough, tries to be very strict in rating his appraises. This might lead to dissatisfaction among his appraises as they would feel that the evaluation is biased and unfair.

Regency effect: This occurs when the recent performance of the appraise dominates the appraisal .appraise tends to get influence by the performance of the employee over the last 2-3 months of the appraisal period as it is still fresh in his memory. An employee who was performed well for the proceeding nine months but failed to maintain the same level of performance the last three months. Preceding the appraisal, might get the same rating as, or inferior one them, someone who performed well only in the last 2-3 months of the appraisal period this is due the regency effect.

*Primary effect***:** The performance of the appraise at the beginning of the appraisal period dominates the evaluation. The appraiser tend to be influenced by the behavior or outcomes exhibited in 6the early stage of the appraisal period of this leads to a distorted evolution.

Central tendency effect: central tendency is the tendency of the appraisal to rate most of the appraisees in the middle of the performance scale. The appraisal gives neither high nor low rating and tends to give rating in the middle of the scale to all the appraisees. This is one of the most common errors in employee performance rating.

Culture: In some cases, the culture of the organization or the country can influence the appraisers to rate the appraise in a particular way. For example, in the Indian context, young appraisers who have to evaluate the performance of his elder colleague may tend

to give him higher ratings than his performance warrants. In this case, the Indian culture which advocates respect for elders subconsciously influences the young appraiser.

Stereotyping: Stereotyping is a potential errors in personality analysis that can distort performance appraisal. It involves judging someone based on the group he belongs to and the appraiser's perception of the group. For example, an appraiser who believes that women make good managers would tend to rate his female appraisees better than his male appraisees.

Perceptual set: This is tendency of the appraisers to have an expectation of the performance level, which might distort the perception and judgment of actual performance. For example, when a perceived low performer exceeds the expectations of his appraisers, his performance is judged higher than it deserves to do. The opposite will be true for a perceived high performer disappointing his appraiser. He could be rated lower than he should have been.

Fundamental attribution errors: An employee's performance might have been affected due to some external factors outside his control. The appraiser might however underestimate the influence of external factors and overestimate the influence of internal factors while judging the behavior/performance of the employee.

Many other behavioral and perception errors distort the appraisal system and reduce its effectiveness. If these errors are taken care of in a suitable and well-executed appraisal system, it can add immense value to the organization.

3.7 Ethics in Performance Appraisal

Every performance management system needs the support of the management and the acceptance of the workforce for its success. Without these, any system will be a failure. The employees of the organization have to be convinced about the effectiveness and importance of the appraisal system. They should have trust in the process of implementation of the system.

 Performance appraisals system turns out to be ineffective due to implementation errors, rather than design defects. According to surveys, most of the errors of performance appraisers are 'intentional' errors such as leniency. Unintentional errors can be rectified by appraiser training. However, as far as the intentional errors are concerned, more organizational level steps have to be taken. Some of them are:

- Making the ratings more measurable and quantifiable
- Reducing subjectivity by using multi-rater feedback.
- Using instruments/methods which have hidden weights or keys attached to them.
- Having the feedback evaluated by a third party like the HR department
- Training appraisers on how to provide negative feedback.

Assuring and maintaining the confidentiality of the appraisal is a major responsibility for the HR function. An employee who has received an unfavorable appraisal would not like the details to be made public. In contrast, any appreciation of employee performance has

to be in public, in the form of rewards, special incentives etc. Therefore, the HR department has a major role to play in the successful implementation of a performance appraisal system.

 The organizational culture hast to be open and transparent, and support the employees in delivering a better performance. Attaching pay and rewards to performance management has to be handled with care, as it is a very sensitive issue. Therefore, it is better to have 'potential' component linked to training and development and the 'performance' components linked to pay. If the performance is measured through quantifiable targets and goals, unhealthy competition and some of the related problems can be eliminated.

3.8   Summary

Performance Management (PM) includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product of service, as well as many other areas. PM is also known as a process by which organizations align their resources, systems and employees to strategic objectives and priorities. Performance management originated as a broad term coined by Dr. Aubrey Daniels in the late 1970s to describe a technology (i.e. science imbedded in applications methods) for managing both behavior and results, two critical elements of what is known as performance.[2] A formal definition of performance management, according to Daniels' is "a scientifically based, data-oriented management system. It consists of three primary elements-measurement, feedback and positive reinforcement." This is used most often in the workplace, can apply wherever people interact — schools, churches, community meetings, sports teams, health setting, governmental agencies,social events and even political settings - anywhere in the world people interact with their environments to produce desired effects. Armstrong and Baron (1998) defined it as a "strategic and integrated approach to increase the effectiveness of companies by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors." It may be possible to get all employees to reconcile personal goals with organizational goals and increase productivity and profitability of an organization using this process.[4] It can be applied by organizations or a single department or section inside an organization, as well as an individual person. The performance process is appropriately named the self-propelled performance process (SPPP) First, a commitment analysis must be done where a job mission statement is drawn up for each job. The job mission statement is a job definition in terms of purpose, customers, product and scope. The aim with this analysis is to determine the continuous key objectives and performance standards for each job position. Following the commitment analysis is the work analysis of a particular job in terms of the reporting structure and job description. If a job description is not available, then a systems analysis can be done to draw up a job description. The aim with this analysis is to determine the continuous critical objectives and performance standards for each job. Managing employee or system performance and aligning their objectives

facilitates the effective delivery of strategic and operational goals. Some proponents argue that there is a clear and immediate correlation between using performance management programs or software and improved business and organizational result In the public sector, the effects of performance management systems have differed from positive to negative, suggesting that differences in the characteristics of performance management systems and the contexts into which they are implemented play an important role to the success or failure of performance management. Performance Management system is now widely recognized as a significant vehicle for improving performance and productivity of both employees and organizations. Therefore many organizations are reexamining their current performance management systems.

3.9 Self Assessment Questions

1. What is Performance Management?
2. What is Performance Management Process?
3. Why should we develop performance measures? How should you measure your employee performance?
4. Describe the concept & perspective of Performance Management?
5. Performance Management is a key to success. Do you agree?
6. What elements are necessary to make an effective performance management?
7. No organization can survive without improving its performance. Do you agree?
8. Why is it that even after three decades of evaluation of the concept of Performance management, it is still misunderstand?

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Unit – 4 : Performance Management Strategies

Structure Unit:

4.0   Objectives

After completing this unit, you would be able to:

- Understand the meaning and concept of performance management Strategies;
- Know about the objectives of these strategies in organizations;
- Learn how are these strategies are formulated in organizations;
- Have an insight into the various types of performance management strategies;
- Awareness about the strategic considerations regarding performance management.

4.1   Introduction

Performance management strategies may be defined as a series of strategic plans which identify critical performance dimensions, performance plans, organizational goals relating to performance expectations and reviewing feedbacks so as to plan for the future. Well defined strategies ensure organizational sustainability by aligning employee performances with organizational expectations thus bringing all individual and organizational efforts under the common strategic umbrella. In many organizations these strategies are developed after identifying critical success factors (CSF), key performance indicators (KPI) and balanced scorecard (BSC). Alignment of performance strategies with the people and structure of organization is best possible by relating processes, systems and relationships to the performance management systems. Such an alignment facilitates effective utilization of corporate strategies simultaneously getting more from the people. Commitment of the top management, their involvement in the strategy planning process, including the understanding of organizational vision, mission, strategy, values and life cycle of the organization by all involved are the keys to the success of performance management strategies. Managing these strategies including strategy alignment and implementation rather than strategy content differentiates successful and productive organizations from successful and non-productive/lowly productive organizations. One of the key questions that performance management strategists ask is "how well can an employee apply his or her current skills and to what extent can he or she achieve the desired outcome.

4.2 Guiding Principles in Developing Strategies

4.2.1 Objectives:

- To provide an efficient and effective framework for the measurement, monitoring and communication of performance strategy at all the operational levels across the organization.
- To enable all possible corrective actions to be identified and implemented in advance.
- To enable organizations to deliver high quality services by embedding in them a culture of performance management.
- To develop an effective performance framework which delivers continuous service improvements and supports managers and staff in development of their roles thus driving up standards, quality and customer satisfaction.
- To ensure that all members in the organization work towards the attainment of same goals so that all efforts are focused in the right direction.

4.2.2 Dimensions

"Performance" may be defined as the set of expectations to be delivered by an individual or team within a specific time period. These expectations may be assessed in qualitative or quantitative parameters like the efforts made, quality delivered etc. Performance management strategies,therefore might have the following dimensions:

- Output or Result
- Input
- Time & Cost
- Quality etc.

Alignment of all these performance dimensions in the form of well-set strategies increases the probability of success of performance management systems in organizations.

The main focus of performance management strategies is on what is involved in managing the organization and thus should be considered as a natural process of management - not a system or a technique. It is also about managing within the context of the internal and external environment of business and has a clear cut impact on how performance management process is developed. These strategies concern everyone in the business – not just managers. It modifies the traditional belief that only managers are accountable for the performance of their teams by replacing it with the belief that responsibility is shared between managers and team members. If looked at in a slightly different manner managers should regard the people who report to them as customers for the managerial contributions and services they can provide.

Managers and their teams are jointly accountable for results and also jointly involved in agreeing to what they need to do and how they need to do it in monitoring performance and in taking action. Performance management strategies may be understood as a part of

a holistic approach to managing for performance which is the concern of everyone in the organization.

4.2.3 Guiding Principles in Developing Strategies

The performance management strategies should be formulated on the following guiding principles:

- Communication of performance elements and information must be clear and transparent to the different audiences in different ways.
- The data should enable all recipients to easily understand and monitor what is being communicated.
- Responsibility areas for effective performance management must be fairly distributed so that everyone in the organization has some responsibility.
- Effective processes must exist to measure and monitor performance.
- Ensuring that the staff & board members are fully empowered to be engaged in the performance management culture.
- Understanding and communicating that responsibility for practicing performance management lies with the entire staff and is not restricted to those with resources only.
- Strategic planning in relation to performance management needs to be linked across all organizational strategies.
- Facilitate quarterly, half yearly or yearly internal complaint, learning and feedback meetings, to encourage innovative ideas and continuous improvement.

4.3 Strategy Formulation and Implementation

Performance management strategy formulation is a forward looking and development oriented strategic process. It provides a framework where in supervisors/leaders can support their team members to give out more impactful results through their performances.

Best results can be drawn out from these strategies with an ideal configuration of mission, vision, objectives and strategies of an organization. All these components with a wider and broader scope ultimately cascade to quantifiable critical success factors (CSF) and the key performance indicators (KPI) of an organization. Quantifiable factors help the organization to quickly assess the performance gaps and accordingly initiate the corrective actions.

Various components of performance management strategies are:-

- a.) **Strategy:** It involves the strategy development process which leads to framing of strategic objectives and action plans. To bring about effectiveness in performance initiatives, strategy is formulated in measurable terms with due identification of critical success factors that lead to the achievement of competitive advantage. Most often organizations commit the mistake of not taking up this stage of

strategy formulation seriously. They relate strategy to the financial results only leaving aside the value creation aspect. At times they take into consideration the parameters relating to internal environment only forgetting to duly acknowledge a holistic view based on the real competitive advantage and the external environment issues.

b.) <u>Target Setting:</u> Action plans to fulfill the strategic intents are developed and accordingly resources are allocated. This stage also includes setting up the financial targets for the coming year. This stage has to be closely monitored for flexibility because of the volatility of the business environment and involvement of people at different hierarchical levels.

c.) <u>Forecasting:</u> A detailed stock of activities to be undertaken in order to fulfill the strategic intent is made. This helps to assess whether the organization is on desired performance track and if not then what sort of corrective actions are required.

d.) <u>Performance Measurement:</u> This process compiles data relating to performances. Pertinent data is collected, consolidated to draw out information which in turn gets related to the critical success factors (CSF's) or the key performance indicators (KPI's). The quantitative values of CSF's and KPI's include both financial and non-financial implications, but may fail to track the corrective and preventive actions for behavioural attributes of employees.

e.) <u>Performance Review:</u> This process tracks the results of performances holistically and periodically in both qualitative and quantitative aspect. The aim of the review activity is to facilitate corrective and preventive actions to pull the performance levels to the set standards.

f.) <u>Compensation Design:</u> "Compensation" plays an important role in not only motivating the employees but in optimizing the costs incurred on employees and for these very purposes compensation policies are designed in alignment of the strategic and operational actions of the organizations.

4.3.1 Evolution of Performance Management Strategy: Phases

It takes time and much of efforts to build a management culture where in designing of performance management strategies are given due importance. In order to develop and evolve these, organizations need to adopt a structured and phased approach.

Phase 1 Performance Measurement	Phase 2 Performance Management	Phase 3 Performance Culture
• The organization's vision, strategy and related objectives are well developed • The strategy is guided by the quality of information available, and the managers fully understand performance measures and how they relate to the objectives that will deliver the strategy • The potential power and use of a set of performance measures starts to become clear across the organization	• Teams and individuals have a clear understanding of what they need to do and for what they are to be held accountable • Performance data is analyzed and turned into management information • Information is available to all the right people, at the right time and in the right media in order to support active performance management • Managers meet on a regular basis to review performance and identify the actions required to address performance issues	• Actions that have been identified have a designated owner and are clearly communicated to all relevant staff • Relevant staff understand how to set targets, monitor performance and "pull the right levers" to realize the performance required to deliver the strategy • Team and individual performance is assessed based on relevant performance measures, and is rewarded approximately • The organization reviews external leading practice and appropriately incorporates any lesson learnt • Continuous improvement is achieved • The organization is widely admired by its stakeholder community for its approach to business and performance management

4.4   Performance Management Strategies

Performance management strategies take up various forms in organizations. Irrespective of the various forms they may acquire, the aim of these activities is to help achieve organizational goals, monitor progress towards goals and make adjustments to achieve those goals more effectively& efficiently.

Some of the performance management strategies commonly adopted in organizations are:-

4.4.1 The Behavioural Strategies:

a.) Initiating Cultural Change: Introducing cultural changes in an organization bring about transformations in the overall organizational climate. Cultural changes involving bringing about positivity and motivated mind frame for performances can enhance organizational performances. "Changes" involve changes in basic values, norms, beliefs etc. among members of the organization.

b.) Knowledge Management: The focus here is on collection and management of critical knowledge in an organization to increase its capacity for achieving results. It's

effectiveness towards reaching overall results for the organization depends on how well the enhanced, critical knowledge is applied in the organization. Computer technology forms an integral part of knowledge management.

c.)Learning Organizations: Here the focus is on enhancing organizational systems (including people) to increase the organization's capacity for performance. It's effectiveness towards reaching overall results for the organization depends on how well the enhanced ability to learn is applied in the organization.

d.) Easy Appraisals: This is a traditional form of performance management. It consist of descriptions of performance by the superiors on certain points of inputs like quantity & quality of work, attitude, sincerity, loyalty, hard work, compatibility with others, punctuality etc.

e.)Critical Incidents Method: Employees are rated by evaluators on the basis of critical events and the behaviours shown during those events or incidents. Thus assessments are made both in a positive and a negative manner.

f.)Paired Comparison: This method compares each employee with all others in a group, one at a time. After all comparisons come to an end, the employee is given his final ranking on the basis of overall comparisons.

g.)Beahviourally Anchored Rating Scales (BARS): This is a relatively new technique which combines the methods of graphic rating scale and critical incident method.Pre-determined critical areas of job performance or sets of behavioural statements describing important jobs performance qualities as good or bad are the anchors to judge employee performances. The appraiser rates the employees based on items along a continuum but the points are examples of actual behaviour on the given job rather than general descriptions or traits.

h.) 360 Degree Feedback: As the name suggests, employee/individual ratings are made by a "circle" of people who frequently interact with him/her, such as subordinates, superiors, peers and customers. Self-rating can also be used. The raters limit their evaluations to job behaviours that they have directly observed.

i.) Assessment Centres: The primary use of these centres is to identify and select employees for higher level positions. Their role in employee development is also important. These centres allow candidates to demonstrate job-related dimensions of performance in exercises that replicate the important situations that occur on the job. An individual's potential for advancement in future may also be done through it.

j.)Cross-training and flexible work assignment: At times monotony in performances lead to demotivation since the possibility of motion is taken away from employees. This is where the role of cross training and flexible work assignment becomes important.Carefully designed cross-trainings provide learning opportunities for employees. These training when implemented horizontally, upward and downward bring long-term positivity in employee performances. When employee's think "the grass is greener on the other side of the fence" they soon realize their

mistakes after exposure to other departments. They return to their job with a better attitude.

k.) <u>Promotion of Work Teams:</u> Teams work with positive synergy and co-ordination and their efforts result in a level of performance that is greater than the sum of the individual inputs of the team members. Promotion of work teams results in:

- Increased employee satisfaction
- Improved communication
- Organizational flexibility
- Increased employee motivation
- Common commitment to goals
- Expanded job skills
- Higher levels of productivity
- Variety of expertise

l.) <u>Performance Reviews:</u> It is an ongoing process to document expected results, performance standards and evaluate/employee's performances. This process assesses how well the performance results have been achieved, provides suggestions and defines guidelines to improve future performances. Performance review process requires organizations to make this an ongoing process because every employee's performance curve may go up and down; and until and unless the process is ongoing performances cannot be judged.

Some of the factors considered in performance reviews are work conduct, KPI's (Key Performance Indicators), work plans, roles and responsibilities, training needs etc. Traditionally formal performance reviews are conducted once a year only, but some organizations may also conduct it on a quarterly or half yearly basis. Usually it is a two way process, between the reviewer and the reviewee but some organizations use multiple rating system like the 360-degree feedback where the managers, subordinates, peers and co-workers provide input to the review process.

m.) <u>Promoting Non-Unionization:</u> In order to gain flexibility in their operations, organizations prefer to operate in union less manner. Organizations classify their non-union firms in the following way:

- <u>Good establishments:</u> These have clear HR strategies and make extensive use of a range of HRM practices. They reflect high involvement and high commitment approaches.
- <u>Lucky establishments:</u> These do not have clear HRM strategies but still try to adopt a large number of innovative HRM practices more as a chance, (guidance from others or copying others) rather than by judgement.
- <u>Bad establishments:</u> These have no HRM strategies and also do not show any inclination towards their adaptation.
- <u>Ugly establishments:</u>These may have clear strategies but make little use of them, operate by providing minimum levels of workers' rights.

n.) <u>Performance Counseling:</u> It may be described as a process of advising employees, listening to their problems and helping them find satisfactory solutions. The process not only helps analyze individual performances objectively, but also helps identify training and development needs so as to improve future performances. Employees are able to understand their strengths and weaknesses, opportunities and threats, clear doubts and conflicts so that they are able to refresh and reset their goals for future action plans.

o.) <u>Performance Consulting:</u> It is a process which focuses on understanding and developing a holistic strategy to bring about a positive change in performances. Performance consultants partner with the management to identify excellence in performance. The main focus is on aligning the performance needs with the business needs. Role of performance consultants is just like "keys and locks - which means it cannot work unless it fits. There are three types of performance consulting-

- <u>Organizational Development:</u>Which helps to improve the overall effectiveness of the organization.
- <u>Professional Development:</u> Which emphasizes on the effectiveness of people.
- <u>Coaching:</u> Which trains people to become more effective both at the individual as well as organizational level.

4.4.2 The Audit Strategies

This approach is a systematic, formal approach designed to examine the performance management strategies, policies, procedures, structures, systems and practices with respect to the organization. It systematically and scientifically assesses the strengths, limitations and developmental needs regarding the performances of the existing human resources so as to enhance organizational performance.

Auditors may adopt any of the five approaches for the purpose of evaluation:

- **a.) <u>Comparitive Approach:</u>** Auditors identify another company as a model. The results of their organization are compared with those of the model company.
- **b.) <u>Outside Authority Approach:</u>** Use is made of the standards set by an outside consultant as a benchmark for comparison of own results.
- **c.) <u>Statistical Approach:</u>** Statistical measures of performance are developed based on the company's existing information. For example measures such as absenteeism and turnover rates.
- **d.) <u>Compliance Approach:</u>** Auditors review past actions to determine if those activities comply with legal requirements and company policies & procedures.

4.4.3 The Analytical Strategies

Performance management strategies here rely on the cost-benefit analysis also called the utility analysis. Here performances are managed, expressed and evaluated in economic terms in key result areas like appraisal systems, employee hiring, training, and turnover. Although a widely applied quantitative means of evaluating performances, this is a difficult process. Some of the major utility approaches used by a firm are:

a.) Asset Method: Employees are treated as assets and the firm's investment in each employee (asset) is measured in terms of the costs incurred on that employee (example: the cost of training).

b.) Expense Model: Employees are treated as an expense and determines the economic effects of employee behaviour such as absenteeism, job performance, turnover etc. In case new HR initiatives are to be introduced, their effectiveness is judged in terms of control it has on controllable costs.

c.) Economic Profitability: Employee's contribution to the firm's profitability is measured. For example, a compensation plan which rewards employees for increasing the firm's profits improves profitability more than a plan which pays a fixed salary to employees.

d.) Cost Benefit Ratio: Benefits of the HR activities are compared to their costs just like calculating ROI.

4.4.4 Qualitative/Strategic Improvement Strategies

a.) Strategic Planning: This includes introduction of an organization wide process to identify strategic direction, including vision, mission and overall goals. Direction may be pursued by implementing associated action plans, multi-level goals, objectives, time lines and responsibilities.

b.) Balanced Scorecards: Conventional strategies may at times not give an accurate comprehensive view about an organization. The balanced scorecard approaches link the core financial goals of the organizations with the other drivers that are a determinant of overall success of the organization while ensuring a better and comprehensive view. The balanced scorecard translates the organization's mission and strategy into some quantifiable key performance indicators (KPI's) which provide the framework for measuring performance. KPI's are those base elements of work which correlate with the strategic goals of the organization and on achievement help organizations attain their performance goals. These scorecards can be better referred to as a management system rather than only a measurement tool. In the process of translating the activities into balanced scorecard, organizations can develop the strategic framework and achieve performance goals. Kaplan and Norton (1992) described that the balanced scorecard while retaining the traditional financial measures also helps the organizations to measure the potentiality to create future value. The scorecard focuses on four indicators – customer perspective, internal business processes, learning and growth and financial perspectives to monitor progress towards organization's strategic goals.

Views are taken from the organizational vision and strategies and the KPI's are developed in all the four above mentioned perspectives.

Each performance indicator is measured in terms of certain well designed metrics against which the performance of an employee is compared. Operationally, balanced scorecards can be organizations, jobs and individual employee specific. Most organizations, based on the identified critical success factors (CSF), prepare a generic balanced scorecard and then assign weights to each performance factor.

With the support of information technology, balanced scorecards are even cascaded to individual level employees thus facilitating scientific performance appraisals.After the scorecards are deployed, managers need to periodically re-examine their existing core processes to ensure that they are linked to the corporate strategy.

Balanced scorecards may be called as one of the most scientific and effective strategic planning and implementation tool.

c.) **MBO Approach:** Specialists and operating managers set objectives in their areas of responsibility. Specific goals are created against which performances can be measured. The audit team in the end researches actual performance and compares it with the objectives. MBO helps to align goals and subordinate objectives throughout the organization. Employees get strong inputs in identifying their objectives, time lines for completion etc.

d.) **ISO 9000/ISO 14000:** This is an internationally recognized standard of quality including guidelines to accomplish the desired standards as per specifications. Organizations can be optionally audited to earn these certifications.

e.) **Total Quality Management (TQM):** This quality initiative includes set of management practices throughout the organization to ensure that customer & organizational requirements are being consistently met. There is a strong focus on initiatives favouring continuous improvement.

f.) **Benchmarking:** These are standard measurements in a service or industry for comparison to other organizations in order to gain perspectives on organizational performance. Benchmarking involves employees learning and adopting the so-called "best practices" by comparing their HRM practices with those of other more successful organizations. In addition, benchmarking can help create and initiate the need for change as it identifies what an organization needs to do to improve in relation to the HR strategy in excellently performing organizations.

g.) **Business Process Reengineering:** These interventions aim to increase performance by radically re-designing the organization's structures and processes.

4.4.5 The Techno Social Strategies

Managing employee abilities is very important in the management of performances. Setting goals, making sure that expectations are clear & providing frequent feedbacks help people to perform effectively. Employee ability can be managed by the following methods:

a.) Recruitment & Selection Strategies:

The aim of these strategies is to decide how quality people can be attracted to the business.Organizations may exercise their choices in terms of two dimensions: Supply flow (the degree to which organizations are open to the external labour market) and Assignment flow (whether decision about internal selection are based on individual/group criteria). Depending on the above dimensions organization may choose to be either of the following:

Cost Reducers: Attempt is to compete on price and so hire according to narrow specialized job requirements usually at junior levels at minimal cost.

Defenders: Tend to recruit externally only and that too only at junior levels. They tend to promote staff on the basis of loyalty and contribution to the organization.

Prospectors: These are decentralized and employ generalists (not specialists) and encourage collaboration among different departments and units.Usually recruit externally with little emphasis on promotion and reward internally.

Analyzers: These share characteristics with prospector and defender organizations.

b.) Incentive Alignment Strategies:

Most of the incentive alignment plans fall into 4 categories:

Employee Ownership: An employee stock option plan (ESOP) is a scheme whereby a company offers its employees an option to purchase a certain number of shares at a future point in time. These share prices are lower than the market price. Since the stock options are not only means to reward employees, but also encourage them to remain with the company, they come with what is called a vesting period. The employee can exercise the option only after this period elapses which is generally a few years. If he leaves the company before this period is over the options lapse. The underlying goal is that increasing employee ownership in the firm contributes to aligning employee goals with firm goals& makes them behave in the interests of the organization.

Profit Sharing: These plans share a company's profit with the workers. An attempt is made to give the workers a direct monetary interest in the profits made by the enterprises with a view to stimulate their efficiency. Being entitled to share in the profits they are likely to avoid wasting time & raw materials. The net result of such efforts is expected to more than compensate the employer for the amount paid out by him to the worker from the profits.

c.) Psychological Contracting:

A psychological contract represents the mutual benefits, perceptions and informal obligations between an employer and an employee. As organizations grow in size and complexity, there develops a tendency to standardize rather than individualize the treatment of employees. Psychological contracts are based on specific promises made by both parties and on generally accepted promises that are based on the general obligations of employers & employees. Even if an employer has not made specific promises in that regard, every employee will appreciate clarity, fairness and good communication.

During the recruitment process the employer and the employee discuss what they each can offer in the prospective relationship. The better organized employers are careful to document offers to reduce the risk of raising false expectations followed by disappointment.

Performance Management Strategies

Behavioural Strategies	Audit Strategies	Analytical Stragegies	Qualitative Improvement	Techno Social
Initiating Cultural Chaye	Comparative	Asset Method	Strategic Planning	Recruitment & Selection
Knowledge Management	Outside authority	Expense Model	Balanced Scorecard	Incentive alignment
Learning Organization	Statistical	Economic Profitability	MBO	Psychological contract
Easy Appraisals	Compliance	Cost Benefit Ratio	TQM	
Critical Indent Methods			Bench Marketing	
Paired Comparison			BPR	
BARS				
366^0 Feedback				
Assessment Centres				
Cross Training				
Performance Reviews				
Performance Counseling & Consulting				

Fig. 4.1 Performance Management Strategies – At a glance

4.5   Summary

Performance management strategies may be defined as a series of those strategic plans which ensure organizational sustainability by aligning employee performances with organizational expectations. Commitment of the top management, their involvement in the strategic planning process, including the understanding of organizational vision, mission, strategy, values and life cycle of the organization by all involved are the keys to the success of performance management strategies. Performance management strategies have 4 main dimensions: output or results, input, time and cost, quality etc. Components of performance management strategies include strategy, target setting, forecasting, performance measurement and review and compensation design. Evolution of strategies takes place in a phased manner. Performance management strategies take up various forms in organizations – Behavioural strategies, audit strategies, qualitative improvement strategies & techno social strategies etc. Performance management strategies aim to provide the means through which better results can be obtained from the organizations, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It involves developing processes for establishing shared common understanding about what is to be achieved & how is it to be achieved. It is an approach for managing and developing people in a way that probabilities of all targets being achieved in the short and long term

are enhanced. Performance management strategies take into account all activities right from the inception of performance plans, to developing the performance goals at the organizational/divisional/departmental/team/individual levels. It also includes performance review systems, performance monitoring and employee development to reach the performance and organizational goals. These strategies give an overall direction to the divisions and departments regarding the implementation and assessment of performances at all functional levels. Involvement of top management in the strategy formulation is beneficial because strategies if steered from the top of an organization easily cascade down through every level of management. These should be valued as an indispensible management tool which can lead to excellence in all areas of management efficiency.

4.6   Self-Assessment Questions

1.   Explain the purpose, process and components of performance management strategies.
2.   Discuss the behavioural approaches for performance management in detail. Which according to you is the best one?
3.   "Well defined strategies ensure organizational sustainability by aligning employee performances with organizational expectations." Discuss.
4.   "Alignment of all performance dimensions result in well set strategies." Elaborate.
5.   "What gets measured, gets done!" Discuss the statement in the context of performance management strategies.

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Unit – 5 : Reinforcement

Structure of Unit

5.0 Objectives

After going through this unit you should be able to understand:

- Meaning of Reinforcement
- Difference between positive reinforcement and negative reinforcement
- Difference between positive reinforcement and rewards
- Difference between negative reinforcement and punishment
- Meaning of strength of response and its schedule
- Schedule of Reinforcement

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5.1 Introduction

Reinforcement refers to any stimuli, event and situation that increases the likelihood that a response will occur. Fred Luthans had defined reinforcement as anything that both increases the strength and tends to induce repetitions of the behaviour that preceded the reinforcement. This means that the reinforcement affects the behavior – it may either increase or strengthen the behavior. This strengthening effect may be measured as a higher frequency of behavior (e.g., pulling a lever more frequently), longer duration (e.g., pulling a lever for longer periods of time), greater magnitude (e.g., pulling a lever with greater force), or shorter latency (e.g., pulling a lever more quickly following the antecedent stimulus). Example of reinforcement may involve praising (the reinforcer) employee for providing overwhelming results (the response). By reinforcing the desired behavior with praise, the employee will be more likely to perform the same actions again. Hence his behaviour will be strengthened. In most cases reinforcement refers to an enhancement of behavior but this term may also refer to an enhancement of memory. One example of this effect is called post-training reinforcement where a stimulus (e.g. food) was given shortly after a training session that actually enhanced the learning. This stimulus can also be an emotional one. A good example is that many people can explain in detail - where they were when they found out the World Trade Center was attacked.

5.2 Types of Reinforcement

The two major types of reinforcement categorized on the basis of condition are:

- **Primary reinforcement**- It is referred as unconditional reinforcement, that occurs naturally and does not require learning in order to work. Primary reinforcers often have an evolutionary basis. They may be essential for survival to some but may not be essential to other. For example, while one person might find a certain type of food very rewarding, another person may not like that food at all. Same way an increase in basic salary of an employee may be rewarding to him but it might not be rewarding for higher –grade employee.

- **Secondary reinforcement** - It is also known as conditioned reinforcement, that involves stimuli that have become rewarding by being paired with another reinforcing stimulus. For example, when a dog is trained, a tap on its body and a piece of meat might be used as primary reinforcers. The sound of a clicker is associated with the tap and piece of meat until the sound of the clicker itself begins to work as a secondary reinforcer.

Reinforcement is an important part of operant or instrumental conditioning. In operant conditioning, there are two different types of reinforcement on the basis of consequence of reinforcement which are - (The concept of operant conditioning has been already discussed in unit 5)

- Positive Reinforcement and
- Negative Reinforcement
- **Positive reinforcement** – It involves the addition of something to increase a response. It occurs when an event or stimulus is presented as a consequence of a behavior and the behavior increases.

Different Types of Positive Reinforcers

There are many different types of reinforcers that can be used to increase behaviours, but it is important to note that the type of reinforcer used depends upon the individual and the situation. While gold stars and tokens might be very effective reinforcement for a second-grader, they are not going to have the same effect with a high school or college student.

- Natural reinforcers are those that occur directly as a result of the behavior. For example, a girl studies hard, pays attention in class, and does her homework. As a result, she gets excellent grades.

- Token reinforcers are points or tokens that are awarded for performing certain actions. These tokens can then be exchanged for something of value. Eg. bonus to employees

- Social reinforcers involve expressing approval of a behavior, such employer saying or writing "Good job" or "Excellent work."

- Tangible reinforcers involve the presentation of an actual, physical reward such as a car to employee for performing exceptionally.. While these types of rewards can be powerfully motivating, they should be used with caution and sparingly.

Negative reinforcement –

- Negative Reinforcement involves removal, withdrawal or avoidance of something in order to increase a response, It increases the frequency and strength of a desired behaviour by avoidance of undesirable consequences.

- It may also involve removal of a pleasing stimulus *other than* the one maintaining the behaviour in order to decrease the frequency of the undesired behaviour. Normally, such behaviour decreases immediately. For example, cancellation of weekend holidays. As a result of which employees complete all of their assignments for that weekon time.

- When an aversive event or stimulus is removed or prevented from happening. the rate of a behavior increases. Similarly in above example by removing the aversive stimulus (the holidays), the management hopes to increase the occurrence of the desired behaviour (completing all job assignments). Thus Negative Reinforcement can be defined as the withdrawal of negative consequences so that likelihood of repeating the desired behaviour is increased.

5.3 Reinforcement and Punishment

Punishment is most badly administered aspect of behavioural management. In order to modify or control undesired behaviour of the employees supervisors have to sometimes revert to punishment rather than positive reinforcement.

Meaning of Punishment- Punishment is anything that weakens the behaviour and decreases the subsequent frequency of happening of undesired event or behaviour. It is usually application of an unpleasant, undesirable or noxious consequence. For example, scolding by supervisor in front of peers. Punishment could be withdrawal of desirable consequence as well. Thus withdrawal of privileges from a manager as consequence of his poor performance may be considered to be a punishment. Any form of punishment, whether application of an undesirable consequence or withdrawal of a desirable consequence would be effective if there is weakening of or decrease in the behaviour that preceded it. In many situations when supervisors think they are punishing the employees, they may be unknowingly reinforcing them by giving attention, interrupting them for their wrong way of doing the job and this attention and concern tends to be very reinforcing. Thus like reinforcement , punishment is also defined and operationalised by its efforts on behaviour and not by what the supervisor thinks what punishment is or should be.

Differences between Punishment and Negative Reinforcement

Punishment	Negative Reinforcement
Suppresses undesired behaviour temporarily	Brings permanent change in behaviour
Undesired behaviour curbs quickly	It gets eliminated gradually
Recipient becomes resentful of punisher	Recipient takes it positively
Produces unpleasant side effectslike low morale, higher absenteeism or even turnover	Ceases unpleasant behaviour.

Administering Punishment - Behavioural researches prove that punishment tends to cause many undesirable side effects. Moreover, punishment temporarily suppresses the undesirable behaviour rather than permanently changing it. The person who is being punished tends to get anxious and resentful of the punisher. Thus punishment as a strategy to control behaviour is a lose-lose approach. In order to eliminate the undesired behaviour permanently the punishment has to be severe else the behaviour will reappear quickly. But the more severe the punishment, the greater the side effects such as hostility, hated or revenge. On being punished for an undesired behaviour, if the similar behaviour reappears then it may cause fear and anxiety in the person. So when administering the punishment the effect on the person, his behaviour and consequences should be considered. Luthans suggest that the 'old-red-hot-stove rule' should be followed while administering. Like the stove the punishment should give advance warning (as its red flame) and be immediate, consistent and impersonal (it burns everyone who touches it).

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5.4 Reinforcement and Extinction

Any behaviour which is not reinforced tends to gradually extinguish. Thus elimination of any reinforcement that maintains a behaviour is called extinction. Extinction that refers to weakening or elimination of behaviour actually aims at elimination of undesired behaviour, by making it contingent on the removal of a desired consequence for the employee. Extinction involves three steps:

(i) Identification of behaviour that needs to be eliminated.

(ii) Identification of reinforcers that encourage the behaviour that has to be eliminated.

(iii) Stopping the reinforcers.

A supervisor who wishes to discourage the employees from asking questions during lunch hour may eliminate this behaviour by ignoring job related queries while having

lunch. Such queries may become extinct when it is invariably met with an absence of reinforcement. An undesirable behaviour can thus be effectively extinguished by withholding the reinforcers. Thus extinction can be defined as the withdrawal of the reinforcers of a specific behaviour.

Examples of instances , types of reinforcement and action taken:

Instance Suitable for Reinforcement	Type of Reinforcement	Action Taken
Production of high quality product by employees	Positive reinforcement through administration of positive rewards	Appreciating and commending the work and efforts
Low Attendance	Negative reinforcement	Withholding negative comments if desired behaviour occur as a result of official notice given
Mistakes and high error rate in work	Punishment	Charging fines, deduction from salary
Substandard performance due to poor working conditions	Extinction	Removal of environmental stimuli by replcing working conditions by better ones.

5.4.1 Reinforcement and Rewards

The words reinforcement and rewards are used interchangeably but in reality they have precise definition and usage. The operational definition of reward is something that the person who presents it deems to be desirable. It may not work to strengthen the behaviour. While functionally reinforcement means something which is reinforcing only if it strengthens the behaviour preceding it and induces repetitions. The difference can be made more clear with the help of this example. An employee was publicly rewarded for finding error in a report. Yet the employee was embarrassed as he was being checked by the coworkers. This decreased the error finding behaviour in the future.

5.5 Schedule of Reinforcement

Time and manner in which reinforcement is to be delivered can affect the overall strength of a response. This strength is measured by the persistence, frequency, duration and accuracy of the response after reinforcement is halted. The time and manner of delivery of reinforcement is defined as the schedule of reinforcement.

The schedule of reinforcement can be of two types:

(a) Continuous Reinforcement

This schedule involves reinforcing a desired behaviour each and every time it is demonstrated. It occurs when a reinforcer accompanies each correct behaviour by an employee. For example , praising the employee everytime he completes his task on time.

Continuous reinforcement schedule and behaviour - Continuous reinforcement schedules may lead to early satiation, and under this schedule behaviour tends to become weak very rapidly if reinforcers are withheld. This schedule is suitable for newly emitted unstable or low frequency responses generally during the early stages of learning

(b) Partial/Intermittent Reinforcement

Intermittent reinforcement may be based on either **a time frame or behaviour response pattern**.It occurs when only some of the correct behaviours are reinforced, i.e.reinforcing the employee after depicting certain number of specific types of behaviour. In situations when the presentation of reinforcement is controlled, such as during training, the timing of presentation of a reinforcer can be manipulated. This schedule precludes early satiation because reinforcers do not follow every response. Intermittent schedules of reinforcement tends to be slow in establishing the desired behaviour, but once established, the behaviour tends to be sustained even after reinforcements are stopped.

There are four types of partial reinforcement that are summarized in the table given below:

	Interval	**Ratio**
Fixed	Fixed-Interval	Fixed Ratio
Variable	Variable-Interval	Variable Ratio

Schedules of Reinforcement

The four main types of partial reinforcement can defined as follows:

- **Fixed-ratio schedule**: It is reinforcing a behavior after a specific number of responses have occurred. For example appreciation and recognition of the work of employee immediately after his success. This will be repeated every time the employee gets success. Another example is issue of 'Certificate of Commendation' by the Suggestion Scheme Department for every third suggestion accepted by the department from an employee.

- **Fixed-interval schedule**: It is reinforcing a behavior after a specific period of time has elapsed. The critical variable is time in this schedule. Most employees in an organization are paid on fixed interval schedules and it does not link performance and rewards. Contracters pay daily wages to their laboures , reinforcing their behaviour of doing a good day's work for a good day's pay.

70

- **Variable-ratio schedule**: It is reinforcing the behavior after an unpredictable/random number of responses. When the reward varies relative to the behaviour of the individual, he or she is said to be reinforced on a variable ratio schedule.

- **Variable-interval schedule**: It is reinforcing the behavior after an unpredictable or random period of time has elapsed/passed. A manager praises when the employees either after 5 days, 7 days or 15 days, rather than praising them everyday follows a variable interval reinforcement schedule. This schedule tends to lead to higher performance than fixed interval schedules. This reinforcement is easy to administer and desired behaviour is also sustained overtime.

5.6 Implications of Reinforcement

Studies show that variable schedules result in more consistent and enduring patterns of desired behaviour than fixed reinforcement schedules. The Managers are suggested that all types of reinforcement schedules should be followed at different points of these:

(i) In the initial stages the employee should be reinforced on the continuous basis

(ii) Later fixed interval or fixed ratio schedule should be adopted.

(iii) Thereafter, in order to initiate quick behavior and to sustain desired behaviour variable schedules should be adopted.

Thus by employing proper reinforcement strategies, the level, the direction and persistence of the employee's behaviour can be manipulated in the desired manner.

Managers can mould the behaviour of the employees at work by resorting to following reinforcement guidelines.

1. Reinforcements should be perceived as fair, consistent and equitable.

2. Reinforcement should be properly administered according to the situation by switching to fixed, variable or ratio schedules.

3. A mix of all the strategies results in better outcomes rather than resorting to one schedule alone.

4. Punishment should not be used continuously as they may have undesirable consequences.

5.6.1 Criticism of Reinforcement Theory

- It is widely accepted by learning experts that reinforcement is single important concept and application principle. But still there are some occasions when a person's cognitive rationalizations might neutralize his behaviour. For example people having inaccurate self-efficacy will not be affected by even negative consequences of their behaviour, whatsoever the reinforcement has been.

- In an organization people with false efficacy beliefs do not learn from their mistake or adopt corrective measures to avoid negative consequences even after

experiencing regular performance failures. They do not respond to manager's comment either on how to solve the problem. This is because such employees believe that what they are doing or their behaviour is appropriate to accomplish the task successfully. But in reality they are wrong.

- Finally it could be said that although the theory of reinforcement is not perfect to define all types of behavioural phenomenon. It still needs development and implementation issues need to be overcome. However, it does provide theoretical foundation and guiding principle to performance management.

5.7 Summary

Reinforcement is anything that increases the strength of the behaviour and induces repetitions of the behaviour that preceded the reinforcement. Reinforcers can be positive or negative. If a desired consequence is applied by the reinforcer then it is positive reinforcement. But, if undesirable consequence is prevented, terminated or withdrawn then it is called negative reinforcement. Punishment can temporarily decrease the strength and frequency of the behaviour. through noxious consequence. The schedule of reinforcement can be of two types: Continuous Reinforcement and Partial/intermittent Reinforcement. Partial reinforcement can be of four types Fixed-ratio schedule, Fixed-interval schedule, Variable-ratio schedule, Variable-interval schedule. By implementing proper reinforcement strategies, and reinforcement schedule the level, the direction and persistence of the employee's behaviour can be manipulated in the desired manner.

5.8 Self Assessment Questions

1 What do you mean by reinforcement? What is the difference between negative and positive reinforcement?

2 Differentiate between negative reinforcement and punishment.

3 Define primary reinforcement and secondary reinforcement.

4 Write a brief note on the strength of response.

5 Discuss different types of partial reinforcements with examples

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5.9 Reference Books

- Luthans Fred, Organisational Behaviour, Mc Graw Hill, Eleventh Edition
- Sekaran Uma, Organisational Behaviour - Text and Cases, Tata Mc Graw Hill, Second Edition
- Robbins Stephen, Organisational Behaviour, PHI, Seventh Edition
- Agarwal PK, Organisational Behaviour, Pragati Publications, Second Edition
- Upadhyaya & Goswami, Performance Management and retention Strategies, RBD Professional Publications

Unit – 6 : Organisational Behaviour Modification

Structure of unit

6.0 Objectives

After going through this unit you would be able to understand:
- Meaning of OB Modification
- Process of OB Modification
- Relation between OB Modification and Performance Management
- Limitations of OB Modification

6.1 Introduction

Organisational behaviour Modification or behavioral performance management is based on behavioristic, social cognitive and social learning theories and relies on the principles of reinforcement. This approach focuses on specific behaviours of employees at the workplace and aims at performance management. It helps employees to get a clear structure and envisage consequences of behaviour that in turn encourages them to affect behavioural change in an observable way in a structured time frame.

6.2 Organisational Behaviour Modification

The term behavior modification appears to have been first used by Edward Thorndike in 1911. The term "modifying behavior" has been frequently used in his article Provisional Laws of Acquired Behavior or Learning. The experimental tradition refers it to psycho-therapeutic techniques in clinical psychology derived from empirical research. It has since then come to refer mainly to techniques for increasing adaptive behavior through reinforcement (negative or positive) and decreasing maladaptive behaviour through extinction or punishment. Behaviour modification is a form of Behavior therapy now known as Applied Behavior Analysis. Behaviour Modification has been increasingly applied in a variety of organizations as OB Mod where the behaviour of organizational participants has been turned towards efficient productive efforts and desired results.The

extension of behaviour modification into organization is called organizational modification or OB Modification OB Mod is not a theory of motivation rather it is technique of motivating employees using principles of reinforcement theory. OB Mod focuses on observable and measurable behaviours instead of needs, attitudes or internal states.

"Behaviour modification is a programme where managers identify performance related employee behaviours and then implement an intervention strategy to strengthen desirable behaviours and weaken undesirable behaviours."-**Stephen Robbins**

According to Martin and Pear the seven characteristics of behavior modification are as follows:

- Strong emphasis has been laid on defining problems in terms of behaviour that can be measured.

- The treatment techniques alter or modify an individual's current environment to help him perform more effectively.

- The methods and rationales are described precisely.

- The techniques are often applied in individual's day-to-day life.

- The techniques are based on theories of learning specifically operant conditioning and respondent conditioning.

- There is a strong emphasis on scientific demonstration where by it is assumed that a particular technique is responsible for a particular behavioural change.

- There is a strong emphasis on accountability for everyone involved in a behavior modification program.

6.3 Utility of OB Modification

The major strengths of OB Modification are as follows:

1. People can learn new behaviours and skills by replacing undesirable behaviours as a result of OB Mod tools.

2. Managers can use OB Mod techniques without much problem.

3. OB Mod is related to behavioural changes. Therefore can be empirically tested.

4. OB Mod facilitates effective tools for controlling and influencing the behaviours of employees in the organization.

Graphical representation depicts the historical development and theory building up to the present influence of Bandura's social cognitive theory. Chronological Development of Conceptual Foundation for OB Modification is as follows:
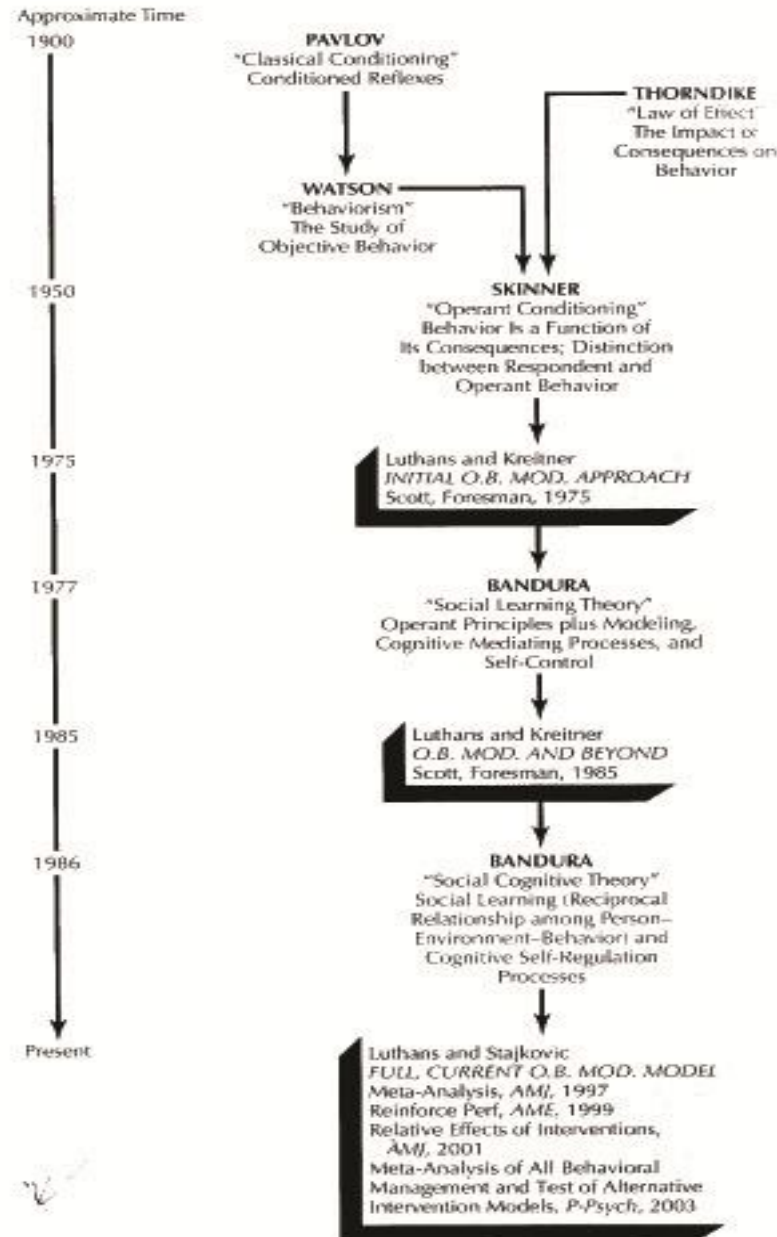
Fig 6.1 Historical Development of OB Modification

Studies conducted by Tajkovic and Luthans, include the most recent meta-analysis of all the available behavioral management studies including those using O.B. Modification It was found that an average of 16 percent improvement in performance was from the behavioral management approaches like use of reinforcement interventions, task

performance measures, and statistical information necessary to calculate effect sizes. However, most relevant, consistent, and recognized in the organizational behavior field is the O.B. mod approach.

6.4 Behavioral Modification Approach

Major Steps of Luthan's O.B. Modification Approach to Behavioral Performance Management are as follows:

6.4.1 Identification of Performance Behaviours

In every organization numerous critical behaviors are occurring all the time, irrespective of the organizational level. Some of these behaviors may have significant impact on performance. In this first step the critical behaviors that lay a significant impact on performance are identified. For eg. handling of customers, interpersonal relations in a team etc. The goal of the first step of O.B. Modification is to identify the critical behaviors. The 5 to 10 percent of the behaviors may account for up to 70 or 80 per - cent of the performance.

The process of identifying critical behaviors can be carried out in two ways- one approach is to have the person closest to the job in question-the immediate supervisor or otherwise the actual jobholder may determine the critical behaviors. This goes parallel with using O.B. Modification as a problem-solving approach for the individual manager or a team. Its advantages are that the person who knows the job best can most accurately identify the critical behavior, and, because that person is part of the O.B. Modification process so he or she may be more committed to its successful completion.

An alternative approach to identify critical behaviors could be conducting a systematic behavioral audit. The audit could be carried out either by internal staff specialists or outside consultant. The audit would in depth analyze each job, using job analysis techniques commonly employed in human resource management. The advantage of the personal approach is that the employee, immediate supervisor or team can make a vital input into the audit. In addition, the advantages of information from those closest to the action and consistency can be gained

6.4.1.1 Guidelines for identifying critical behaviors

Direct performance behaviors play the major role in O.B. Modification hence, direct performance behaviors should be firstly identified. Direct performance behaviours such as absenteeism or attendance, tardiness or promptness or a particular task or procedure that leads to quantity and/or quality outcomes should be included as critical behaviour. A

critical behavior appropriate for O.B. Modification, must fulfils these requisites positively:

(1) It can be directly measured

(2) Have a significant impact on a performance outcome.

A team's lack of commitment and teamwork or insincerity towards work is not acceptable as a critical behaviour since it is not operationally measurable. Such behaviours could be made measurable by breaking down them as - not being at the workstation, being tardy when returning from breaks, spending time at the water cooler, disrupting coworkers, playing computer games or surfing for personal reasons, and even socializing with coworkers.

Most organizations face behaviorally related performance problems rather than problems with their technology or the ability or training of their people. There are certain functional/critical behaviors (those that contribute to performance goals) that should be strengthened and dysfunctional behaviors that are detrimental to performance goals need to be weakened. For attaining overall goal of performance improvement critical behaviors must be identified, otherwise the subsequent steps of O.B. Modification would not be effective.

6.4.2 Measurement of the Behaviour

After the identification of performance behaviors in the previous step a base-line measure is obtained by determining the frequency of occurrence of identical behavior under existing conditions. Sometimes it is discovered that the critical behavior identified in previous step occurs much less or much more frequently than anticipated. It is also found that the problems may be much smaller or much critical than was thought to be earlier. In other cases, the baseline measure may cause the "problem" to be dropped because of its very low frequency of its occurrence.

A baseline frequency count provides the strength and objective frequency of the critical behavior under existing conditions. Such precise measurement is esteem of any scientific endeavor, and it separates O.B. Modification from more subjective human resource management approaches, such as participation. This baseline is established before the intervention is applied and after the intervention application as well to see the result of the intervention on the behaviour. Therefore managers record behavioral frequencies objectively in order to use the O.B. Modification approach effectively. Most measures, can be easily obtained from the existing archival data (e.g., quality, output and productivity numbers) that are collected for other purposes and can be used for this measurement step of O.B. Modification
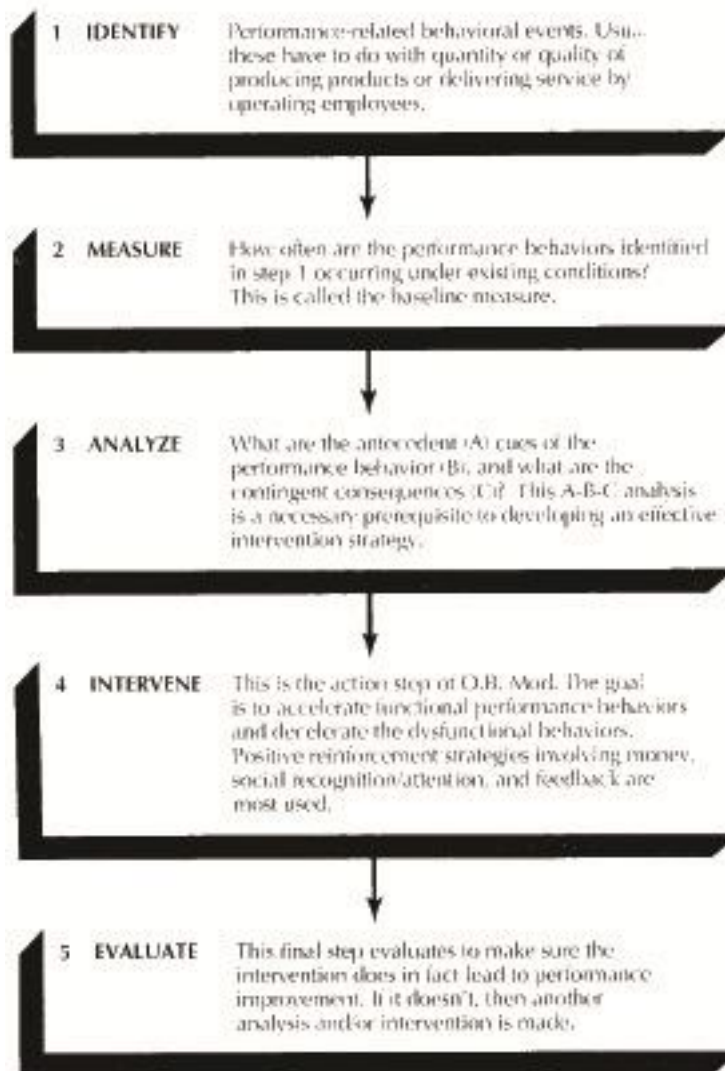
1	IDENTIFY	Performance-related behavioral events. Usu... these have to do with quantity or quality of producing products or delivering service by operating employees.
2	MEASURE	How often are the performance behaviors identified in step 1 occurring under existing conditions? This is called the baseline measure.
3	ANALYZE	What are the antecedent (A) cues of the performance behavior (B), and what are the contingent consequences (C)? This A-B-C analysis is a necessary prerequisite to developing an effective intervention strategy.
4	INTERVENE	This is the action step of O.B. Mod. The goal is to accelerate functional performance behaviors and decelerate the dysfunctional behaviors. Positive reinforcement strategies involving money, social recognition/attention, and feedback are most used.
5	EVALUATE	This final step evaluates to make sure the intervention does in fact lead to performance improvement. If it doesn't, then another analysis and/or intervention is made.

Fig 6.2 Steps of OB Modification

6.4.3 Functional Analysis of the Behaviour

In the next step a functional analysis is performed on the baseline measure of the identified performance behavior. A functional analysis identifies both the antecedents/stimuli(what happens before behaviour) (A) and consequences (C) of the target behavior (B), or, in simple words, an A-B-C analysis is conducted. According to behavioural learning theory and operant conditioning, both the antecedent/stimuli and the consequent environments are vital to understand, predict and control human behavior in organizations. In the A-B-C functional analysis, A is the antecedent cue, B is the performance behavior identified in step I, and C is the contingent consequence. Table given below identifies some of the antecedent cue As, behaviour Bs, and Consequences

78

Cs for attendance and absenteeism. In a review of absenteeism it was found that - work unit size, employee responsibility, nature of job and organizational scheduling are three potential antecedent influences that could be used to improve employee attendance, whereas feedback, rewards, and punishers are effective attendance control procedures.

Table: An Example of Functional Analysis

Functional Analysis of Attendance Behaviors

A ⟶	B ⟶	C
Antecedent Cues	**Behaviors**	**Consequences**
Awareness of any consequence	Going to bed on time	Reward progra...
Advertising	Setting the alarm	Contingent ... ...ff
Meetings	Waking up	Gifts and p... ...
Memorandums	Getting dressed	Preferred jo...
Orientation	Getting children off	Social
Bulletin board	to school	Attention
Observation of any consequence	Leaving home	Recognition
Social status and pressure	Getting a baby-sitter	Praise
Temporal cues	Driving to work	Feedback
Special events	Reporting to work	Data on atte...dance
Weather		

Functional Analysis of Absenteeism Behaviors

A ⟶	B ⟶	C
Antecedent Cues	**Behaviors**	**Consequences**
Illness/accident	Getting up late	Discipline programs
Hangover	Sleeping in	Verbal reprimands
Lack of transportation	Staying home	Written reprimands
Traffic	Drinking	Pay docks
No day care facilities	Fishing/hunting	Layoffs
Family problems	Working at home	Dismissals
Company policies	Visiting	Social consequences
Group or personal norms	Caring for sick child	from coworkers
Seniority/age		Escape from and
Awareness/observation of		avoidance of wor...
any consequence		Nothing

This functional analysis step of O.B. Modification is a problem-solving approach. Both the antecedent cues that emit and control the behavior, and the consequences that currently maintain the behavior must be identified and understood before an effective intervention strategy can be developed. In this step it is tried to find out if the employee can do the identified performance behavior when his life depended on it. If the answer is "no," then there may be problem "A" (i.e., equipment, training, even expectations). In this case the problem must be attended to. But usually this is not the case. In reality, the employees can do the identified critical performance behavior if their lives depend on it, but they are not willing to do it. This is problem "C". They are skilled and compete to do the desired performance behaviour and there are all required resources and support to do it, but there are not reinforcing consequences. The lack of reinforcing consequences is the

major problem and challenge faced by behavioural management. For example: Functional Analysis in Action provides a functional analysis of a shop floor (manufacturing unit) supervisor's problem of taking unscheduled breaks during working hours by the employees.

6.4.4 Development of an Intervention Strategy

The above preliminary three steps in an O.B. Modification approach are followed by the action step, the intervention. The goal of the intervention is to strengthen and accelerate functional performance behaviors and/or weaken and decelerate dysfunctional behaviors. There are several strategies that can be used, but the main ones are positive reinforcement and punishment-positive reinforcement.

6.4.4.1 A Positive Reinforcement Strategy

Positive reinforcement is recommended as an effective intervention strategy for O.B. Modification Positive reinforcement represents a form of positive control of behaviour; whereas negative reinforcement represents a form of negative control of behaviour. Organizations depend on negative control to a large extent. People do not want to be fired, and they pretend to be busy when the supervisor observes them or walks by, so that they are not punished. Under positive control, the person behaves in such a manner to receive the desired consequence. Under positive control, employees perform job so that their efforts can be recognized for making a contribution for achieving department's goal and contributing to achieve organisational goals. Positive control through a positive reinforcement intervention strategy is much more effective and long lasting than negative control. It creates a much healthier organizational culture and more productive organizational climate

Any OB Modification intervention can be applied as a positive reinforcer as long as it increases the performance behavior. Most often monetary (money) benefits are also thought of as the logical. or sometimes the only, positive reinforcer available to managers using this approach. Money is potentially thought to be a very powerful reinforcer, but it often turns out to be ineffective because it is not contingently administered as a consequence of the behaviour being managed. Other positive reinforcers that are also very powerful, readily available to all behavioral managers, and cost nothing are - the social reinforcers (attention and recognition) and performance feedback. When these reinforcers (money, recognition, and feedback) are used in combination in the intervention, they produce a stronger (synergistic) effect and probability of success is high.

6.4.4.2 A Punishment - Positive Reinforcement Strategy

A positive reinforcement strategy is assumed to be the most effective intervention for O.B. Modification Yet realistically in some cases the use of punishment to weaken and decelerate undesirable behaviors cannot be avoided. This would be true in the case of something like unsafe or detrimental behaviours that need to be decreased immediately. But use of punishment may also lead to many negative side effects such a hate and

revenge that it should be avoided. But through punishment undesirable behavior tends to be only temporarily suppressed; For example, if a supervisor reprimands an associate for some dysfunctional behavior, the behavior will decrease in the presence of the supervisor but will reemerge when the supervisor is absent. In addition, a punished person becomes very anxious and uptight: reliance on punishment may have a disastrous impact on employee satisfaction and commitment since he may feel harassed and may come under unnecessary stress.

With the use of punishment, it becomes very difficult for a supervisor to switch roles from punisher to positive reinforcer. Some supervisors and manager rely on a negative approach so much in dealing with their associates that it is almost impossible for them to administer positive reinforcement effectively in future. This often becomes critical situation for a HR manager because the use of positive reinforcement is a much more effective way of changing employee behaviour. If punishment is only resort to tackle a situation, the desirable alternative behaviour (for example, safe behavior) should be positively reinforced at the first opportunity. Use of this combination strategy will replace the undesirable behavior with desirable behaviour. Therefore, punishment should never be used alone as an O.B. Modification intervention, it should always be used in combination with positive reinforcement.

6.4.5 Evaluation to Ensure Performance Improvement

O.B. Modification attempts to meet the credibility and accountability problems head on by including evaluation as an actual part of the process. In this last step of the approach, the need for Kirkpatrick's well-known four levels of evaluation (reaction, learning, behavioral change, and performance improvement) is stressed.

Reaction - If O.B. Modification is well received and there is a positive reaction to it, there is a better chance of its being used effectively. In addition, reaction evaluations are helpful because

(1) positive reactions help ensure organizational support

(2) they can provide information for planning future programs

(3) favorable reactions can enhance the other levels of evaluation (learning, behavioral change, and performance improvement)

(4) they can provide useful comparative data between units and across time.

Learning - Learning is especially important when implementing an O.B. Modification approach for the first time. Learning evaluation tries to understand the theoretical background and underlying assumptions and the meaning of, and reasons for the steps in the model. If these are not reflected then the model will be ineffective .

Behavioural Change – Through this evaluation it is detected if the behaviours actually being changed. The charting of critical behaviours in the step 2 of the O.B. Modification Process gives objective data for this level of evaluation.

Performance Improvement - The major purpose of O.B. Modification is not just to receive a favourable reaction, but learn the concepts, and change behaviours. These dimensions are important mainly because they contribute to the overriding purpose, which is to improve performance. "Hard" measure (for example, data on quantity and quality, turnover, absenteeism, customer complaints, customer satisfaction, employee grievances, safety, length of patient stay number of clients served, sales revenue, and rate of return on investment) and scientific methodology are used whenever possible to systematically evaluate the impact of O.B. Modification on performance.

6.5 Limitations of OB Modification

Overtime OB Mod had elicited desirable behaviour from employees in work situations. But there are certain situations wherein OB Mod tools prove to be ineffective. Some of them are as follows:

1. Behaviour modification is based upon the assumption that extrinsic rewards like incentives, appreciation, praise etc. are key to to behaviour modification. But extrinsic rewards only satisfy the lower level needs and people working at the lower levels in an organisation. People working at the higher levels are motivated by intrinsic rewards that satisfy their higher order needs like self esteem and self actualization. Intrinsic rewards may be nature of job (innovative or novel projects) and pride in accomplishing that job (awards, certificate of accomplishment). Thus in order to induce desirable behaviour the management should redesign the job in such a manner to provide intrinsic motivation along with applying behaviour motivation tools.

2. Employees are characterized by different needs, desires, values and abilities. In an overall structure behaviour modification ignores these individual differences. As a result of these differences employees do not respond to the same stimuli in the same manner. For example if the employees are praised for their performance , all of them would not value the appreciation as desired reinforcement because they are at different level of Maslow's need hierarchy. Moreover they are not equally skilled so could not carryout the desired behaviours.

3. Organisational behaviour modification ignores work group norms prevailing in the organization.Most people working together tend to be emotionally attached to each other and often sacrifice their personal interests in favour of group needs. The OB Mod tools often go in vain in such situation. This is reflected in strikes and protests against management by the employees.

4. The power of group norms can also reduce the effectiveness of reinforcements. If the higher performance output of the group is reinforced by praise, and not by monetary benefits then they may feel that they are being exploited by the management. In such case they may jointly restrict the output in future.

6.6 Summary

Behavioural management can be effectively applied thrugh The OB Modification The different steps involved in OB Modification are- identify the performance related behaviour, measure it to determine baseline frequency, identify the performance related behaviourdetermine the baseline frequency by measuring it. Analysing both antecedents and consequences of behaviour functionally (A-B-C). intervene through a positive reinforcement strategy to accelerate the critical performance behaviours, ensuring through evaluation that interventions are increasing performance. The limitations of OB Modification are that (1) it is based upon the assumption that extrinsic rewards like incentives, appreciation, praise etc. are key to behaviour modification. But extrinsic rewards only satisfy the lower level needs Employees are also motivated by intrinsic rewards that satisfy their higher order needs like self esteem and self actualization which OB Modification ignores. (2) In an overall structure behaviour modification ignores these individual differences. As a result of these differences employees do not respond to the same stimuli (reinforcements) in the same manner. (3) Organisational behaviour modification ignores work group norms prevailing in the organization.

6.7 Self Assessment Questions

1. Explain the concept of OB Mod and discuss the steps involved in OB Modification
2. Discuss the utility of OB Modification Discuss the grounds on which it is criticised.
3. How does OB Modification work?
4. Suggest the process the managers should follow if they wish to change the behaviour of the subordinates.

6.8 Reference Books

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Unit 7 – Potential Appraisal

Structure of the Unit

7.0   Objectives

After going through the unit you will be able to understand:

- Meaning of Potential
- Potential attributes
- Meaning of Potential Appraisal
- Mechanism to examine Potential Appraisal
- Requirements for effective potential Appraisal
- Difference between Potential Appraisal and Performance Appraisal

7.1   Introduction

The philosophy of Performance Management or emphasises the appraisal of the employees' potential in addition to their performance appraisal. Performance appraisal is a systematic evaluation of the present capabilities and past performance of the employees in an organization. However Past performance may not be a good indicator of the suitability of an employee for future role. To take the business to the next level, organizations have to lay more emphasis on the Potential Appraisal of the Employees in addition to their performance, since Potential Appraisal gauge the skills and attitude the employee may possess to occupy higher positions in the organizational hierarchy and undertake higher responsibilities

7.2 Conceptual Framework

7.2.1 Meaning

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 evaluates 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. Many companies, which carry out performance appraisal to track past performance, also appraise the potential of their employees for future promotion opportunities. The reason being, the roles that employees play in the past may not be the same if they assume different or challenging job in future. So the past performance may not be a good indicator for higher role.

To overcome this adequacy, organizations appraise the potential of given employee to occupy higher positions in organizational hierarchy and undertake higher responsibilities. It helps in identifying the highfliers in the organization early for career planning.

Potential can be defined as 'a latent but unrealized ability'. Potential typically represents latent qualities and levels of talent of an individual which can be manifested in concrete terms while performing various tasks/jobs of higher level. There may be areas where the employee might not have an opportunity to demonstrate the potential ability. Moreover there are areas with which even the performance appraisers are not familiar. Potential might include specific skills that an innovative/challenging task or job might be demanding, taking into consideration the more subjective areas like 'qualities' required.

Attributes of person having high potential are:

- Ability to visualise future opportunities and assess impact of any initiative/ decision taken today.

- Adopts institutionalized way to maintain continuity and consistency in working.

- Ability to employ analytical and quantitative skills in order to identify resource gaps by the use of basic intelligence/subject knowledge/ and further find ways and means of overcoming shortages/obstacles so as to ultimately create higher value through optimum utilization of resources.

- Personal quality to establish work-life balance and to respond in the conditions of severe stress in an effective and measured manner.

- Ability to function in varied environments and conditions with confidence and delivering high performance.

- Ability to identify key success areas and exploiting the opportunities by getting into micro details.

- To display high degree of intellectual and personal integrity at all times.

- Ability to develop synergic relation between different functions

- Open to learning

The personality of a person is like an iceberg. Performance is represented by visible part above the surface. But the attributes that might be needed to perform in an excellent manner in a future job are hidden below the surface.

7.2.2 Purposes of Potential Appraisal

The purposes of a potential appraisal are:

- To assess an individual capabilities in terms of the highest level of work the individual will be able to handle comfortably and successfully in future without being overburdened or stressed
- To inform employees of their future prospects and helping them move upward in the organisation.
- To enable the organization to frame out a management succession programme
- To provide input to manpower planning activities related to competencies and skills available in the organization
- To advise and counsel employees about the level work they can easily perform to exploit upcoming career opportunities.
- To assist the organization in discharging its responsibility of recruiting, selecting and developing managers for the future to ensure its continuous growth.

Although it becomes difficult to uncover the iceberg, so is to identify the person's potential. But Potential appraisal is vital for organisation's performance and growth.

1. **Analytical Power** - The ability to:
   - Disintegrate or reformulate complicated business problems in manageable terms.
   - Analysis of the problem in a continuous manner until all the pros/cons are thoroughly and critically examined.

During the appraisal of these qualities the following factors should be considered:

(a) The relevance of problem and situation analyzed

(b) The framework including – duration and speed with which the analysis/appraisal is undertaken

(c) The nature and impact of problem to be analyzed.

2. **Creative Imagination** - The ability of an individual to imagine or conceive various possibilities and alternatives that might be inherent in a problem area but normally not obvious to other observers.

3. **Sense of Reality** – The ability to interpret the sensitivity and reality of the situation. This can be evaluated through:

- Pattern of taking insight of situation
- approach adopted to identify problems or analyzing situation
- action undertaken
- judgement

4. Effective Leadership - The ability to direct, motivate and make positive impact on the team to facilitate the achievement of goal. An effective leader should have following qualities:

- excellent job knowledge exclusive competence
- High level of objectively and drive to achieve goal
- Interpersonal skills

5. Conceptual Skills: The skills to understand and visualize one's role in the context of industry/economy and visualize and articulate the situation or circumstances of the future.

6. Technical Skills: These skills related to the conceptual and scientific knowhow with regard to any subject matter, and to develop relationship with context to future.

7. Commercial skills: The analytical and numerical skills to identify opportunities in the business environment in the prevalent socio-economic and legal scenario and to frame courses of action accordingly.

8. Communication Skills: The ability to articulate thoughts and ideas and situations in a meaningful manner conveying in the most appropriate manner so as to ensure complete understanding by the recipient.

9. Planning and organizing Skills - The ability to plan and organize the actions, in the context of organizational objectives, to clearly define the role/requirement so as at to achieve goals/targets.

10. Willingness to take additional responsibilities – Quality of an Individual of being self-motivated to voluntarily take up challenging and novel tasks and to take responsibility and accountability of the job.

11. Initiative - This means the ability to take risk and enterprising attitude towards the newly assigned role/job or venturing into new projects. Initiative requires higher level of motivation but little direction/advice in getting started.

12. Result orientation - The ability to be concentrated and focused in achieving the goal and prioritize multiple tasks simultaneously to leverage resources, and time and abide by company policy and business ethics.

13. Teamwork – The ablity to depict sensitivity, empathy and coordinative behaviour towards the members/ participants in a group. Implementing interventions with the objective to add value and enhancing efficiency and output and display of accountability to the other members in the group/team.

14. Subordinate Development – The ability to regard the participation, cooperation and coordination of the subordinates with respect to their personal and professional needs. The superior should act as a role model and guide them with the objective of enabling the subordinates to achieve success by enhancing job skills and competence.

15. Negotiation skills – The ability to bargain and to ensure a transaction which is mutually beneficial to the parties. Defining the purpose, practical creativity, and market

orientation along with a high order of quantitative skills are essentials for successful negotiation.

16. Problem solving and decision making - Ability to evolve or selecting a solution on a complex issue/situation by adopting a resolution after due consideration to all intervening variables and conditions in an objective manner.

17. Process orientation – The ability to adhere to and abide by the norm and specifications provided such as 'standard operating procedure' like the standard protocol, work systems and procedures without being bureaucratic in his approach.

The potential of an employee need to be appraised based on these criteria. Along with consistent performance these are important parameters to be considered for positional elevation. Without assessing the potential of the employee, the promotion of the person to the higher level is not justified.

7.2.3 Approaches to Potential Appraisal

Helicopter Approach-This approach measures the potential of a person on large and specific issues. It covers conceptual understanding of job as well as specific skill sets required for performing a job or task.

Whole person qualities approach -It covers potentiality of a manager in context with various dimensions of the job. This approach supports wholesome test that measures potentiality of the person in all respect.

Potential appraisal data is extremely useful in career planning as it helps in capturing and matching the latent abilities of an individual with future job and responsibilities.

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7.3   Role of Potential Appraisal

Role of Potential appraisal in Career Planning

One of the important objectives of potential appraisal is to help employees to move upwards in the organization. A career ladder providing opportunities for growth to the employees becomes an integral component of Human Resource Management. In Potential Appraisal the skills and competencies of an individual are explored that not being utilized in his present job. The analysis reviews the talent of the employee with a view to undertake higher level of responsibilities.

Career paths can be of two kinds:

(i) Those where designation changes to a higher order but the job remains more or less the same. An example of this sort can be seen in teaching institutions, where an assistant professor may be promoted to become Associate Professor and then to a Professor, but the nature of job (teaching and research) remains the same. Career path in such situations means a change only in status, better salary and benefits and perhaps less load and better working conditions.

(ii) Those where position enhancement bring about changes in the profile of job along with increased salary, status and better benefits and working conditions. For eg. in

engineering organizations engineers may move to other projects with different job demands. Potential appraisal may provide valuable feedback in such career paths

Role of Potential Assessment in Succession Planning

Succession planning is an ongoing process that identifies necessary competencies, then works to assess, develop, and retain a talent pool of employees, in order to ensure a continuity of leadership for all critical positions. Succession planning is a specific strategy, which spells out the particular steps to be followed to achieve the mission, goals, and initiatives identified in workforce planning. It is a plan that managers can follow, implement, and customize to meet the needs of their organization, division, and/or department. The continued existence of an organization over time requires a succession of persons to fill key position .The purpose of succession planning is to identify and develop people to replace current incumbents in key positions. Potential appraisal can be one of the tools that can effectively improve the succession planning process by helping Managers identify the successors based not only on their performance but also on the potential that they possess.

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7.4 Mechanisms of Effective Potential Appraisal

7.4.1 Requirements of an Effective Potential Appraisal

The following are some of the requirements and steps to be followed when introducing a potential appraisal system:

Role Description: A good potential appraisal system should be based on clarity of roles and functions related to the different roles in an organization. This requires extensive job descriptions to be made available for each job. These job descriptions should spell out the various functions, roles and process involved effectively in performing the job.

Qualities Required: Besides job descriptions, there is a need to have a detailed list of qualities required to perform the functions of each job. These qualities differ from job to job and may be broadly divided as follows –

(1)   Technical knowledge and skills,
(2)   Managerial capabilities and qualities,
(3)   Behavioral capabilities, and
(4)   Conceptual capabilities.

Indicators of Qualities: Besides listing down the functions and qualities, a good potential appraisal system should have different mechanisms for judging the potential of a given individual. Potential appraisal system is always target-group specific and business-specific.

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.

7.4.2 Mechanism to Examine a Person's Potential

Some of the mechanisms to examine a person´s potential are as follows –

1. Tests

Tests are the simplest and most standardized procedures in practice for potential appraisal. They are considered as objective and observer-neutral. Therefore, test are commonly used as potential appraisal tools. Tests can be classified as follows-

- **Intelligence test**
  Intelligence tests measure intellectual abilities like mathematical analogies in which the quality and quickness of question-solving is crucial. Intelligence tests belong to the tests with a high validity.
- **Performance test**
  Performance tests are used to determine special abilities such as the ability to concentrate and responsiveness. These types of tests are used for the potential appraisal for jobs with high, specific requirements..
- **Personality test**
  Measuring emotional, motivational and interpersonal characteristics is the purpose of personality tests.

2. Interviews

In potential appraisal interviews are largely distributed and are highly accepted by all persons who are involved. The validity of interviews varies substantially in dependence of the used method. Interviews can be divided into biographical and multimodal interviews.

- Biographical Interview
  The interviewed person self interprets and evaluates its own strengths and weaknesses. By this method behavioral pattern of the interviewed could be determined.
- Multimodal Interview
  A multimodal interview is a semi-structured type of interview which combines a series of standardized and unconcealed interview sections.

3. Assessment Center

Assessment-Center are highly-structured procedures which are characterized by independent exercises. A realistic simulation of important professional tasks is given by using this tool. Assessment-Center are usually group-processes with high validity and acceptance of the involved people.

4. Single-Assessment and Hearing

Single-Assessments are structured procedures which combine various instruments and applications of neurosciences. It is mainly used to select specialists or experts. After passing the single-assessment the candidate speak to a committee of future superiors, colleagues and the board of directors.

5. Self-Assessment

By using the self-assessment type a candidate can try to examine his own knowledge, potential and tendencies. The self-assessment method is based on an IT-supported questionnaire and is mostly used in case of applications.

6. 360° Feedback

The 360° Feedback is a method in which colleagues, superiors, customers and suppliers and other employees participate and provide feedback. The comparison of the self - valuation and the valuation of others is essential..

7. Management Audit

A Management Audit is an evaluation process which estimates the leadership qualities/management skills of the existing manpower. External consultants examine employee's skills and potential with different tests. After that an interview is used to present the employees experience, competencies and leadership-qualities. The result of management audits is communicated by a recommendation.

8. Feedback

The organisation should attempt to generate a climate of openness if it believes in the development of human resources. 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.

7.5 Potential Appraisal Vs. Performance Appraisal

Like the Performance Appraisal, potential appraisal is also done by the employee's supervisor who has the opportunity to observe the employee for some time. Potential appraisal may be done either regularly or as and when required.

Potential Appraisal is forward looking process and assesses possible knowledge, skills, and attitudes the employee may possess for better performance. Whereas **performance appraisal** is backward looking process which is related to assessing an individual's past performance in a definite time frame.

Any good or worse assessment results of performance appraisal may not be a good factor for potential appraisal. But current performance of an employee could show evidence somewhere whether he/she is flexible for new working conditions. Performance is a thing of the past, while potential includes the possible knowledge, skills, and competencies the

employee may possess for better performance. Potential Appraisal can be differentiated from Performance Appraisal as follows:

Criterion	Performance Appraisal	Potential Appraisal
Objective	Tracking job performance in a work situation in a defined time frame	Assessment of potential for growth
Query	Effectiveness of job performance?	Latent talent of employee to assume higher degree of tasks?
Organisational Motive	Effective employment of available HR	Proactively securing future staff
Employee Motive	Transactional , job satisfaction with present job	Relational, exploiting future possibilities
Position	Present job/role	Future higher degree of roles
Object	Job behaviour	Behavioural criterion
Time perspective	Past or present	Future
Perspective	Qualitative aspects	Assessment of Predictive nature
Emphasis	Performance improvement	Utilizing hidden talent-potential, paving path to grow

Due to the strategic importance of potential that Indian companies have redesigned performance appraisal system to shift from simple performance orientation to potential-cum-performance based appraisal system. Cadbury, Sandoz, Philips, Glaxo, P&C, etc. have also adopted this change.

I. Conceptual effectiveness:
- Vision
- Business-orientation
- Entrepreneurial orientation
- Sense of reality

Il. Organisational effectiveness:
- Result-orientation
- Risk-taking
- Control
- Individual effectiveness

Ill. Inter-personal effectiveness:
- Networking (relations)
- Negotiating power
- Personal influence
- Verbal behaviour

IV. Achievement motivation:
- Drive
- Professional ambition
- Innovativeness
- Stability

Companies use potential appraisal system as an integral part of management development process and also use for career planning of top positions. There is another model used by Philips India and is called Philips' Hi-La Matrix. Some of the popular methods/models of potential appraisal being used by big organisations are as follows. Hi-La Matrix is a 2x2 matrix is used to evaluate performance and potential in a single process as depicted in the following Figure:
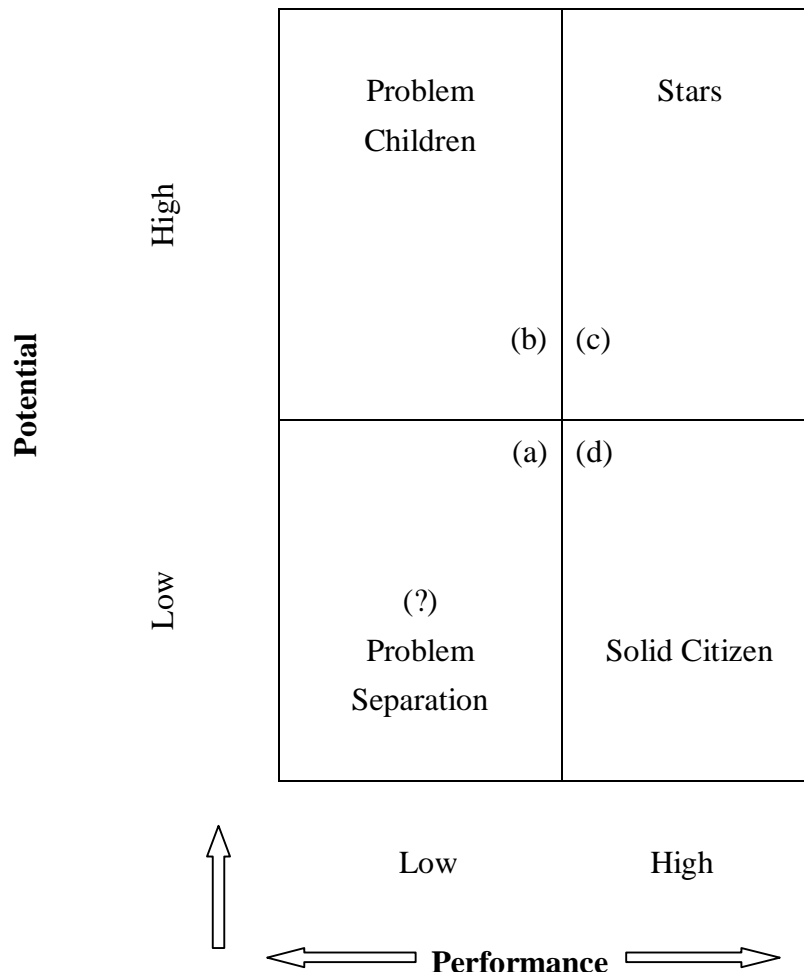

Fig 7.1 : The Philips Model

(a) It is clear from the above figure that the low potential-low performance employees are considered question marks. If they fail to bring about the desired improvement in their performance, the organisation moves towards a planned separation of such employees.

(b) In the next quadrant of high potential-Iow performance come the problem child. Such employees require close monitoring and need 'a new scenario for work as a strategy so as to tap their full potential.

(c) The third quadrant of high potential-high: performance pertains to star performers' who need to be engaged with complex assignment and groomed for top positions in the organisation

d) The fourth quadrant of low potential high performance rates to employees called solid citizens. such employees have high skills but low potential to go beyond their current jobs.

7.6 Summary

As it is important to understand the present competencies of people, it is equally necessary to identify the latest talent of people in order to achieve future objectives of the organization. Thus potential appraisal is a crucial function of human resource management. It assesses different skills and abilities of an individual to take up future roles like analytical power , creative imagination , sense of reality, capability of taking holistic view from a detached position effective leadership, conceptual skills, technical skills, commercial skills, communication skills, planning and organizing ability, willingness to take additional responsibilities, initiative, result orientation , teamwork and team building, subordinate development , negotiation skills, problem solving and decision making and process orientation. It follows two approaches – Helicopter Approach and Whole person Approach. Tests, Interviews, 360° Feedback, Assessment Centres, Management Audit are different mechanism of assessing Potential Appraisal.Thus potential Appraisal enable the employee to develop realistic self-perceptions and plan his own career and development.

7.7 Self Assessment Questions

1.   What do you mean by potential? Discuss potential attributes in detail.
2.   Discuss meaning of Potential appraisal. Explain the role and approaches to potential appraisal.
3.   Discuss different methods of Potential Appraisal.
4.   Discuss the Philips Model in detail.

7.8   Reference Books

- Pattanayak Biswajeet, Human Resourse Management, PHI, Third Edition
- Haldhar Uday, Human Resource Development, Oxford University Press, First Edition
- Upadhyaya, Goswami, Performance management and Retention Strategies, RBD Professional Publications
- Kohli A.S.&Deb T., Performance Management, Oxford university Press, First edition
- Bhattacharya Dipak, Human Resource Research methods, Oxford University Press, First Edition

Unit – 8 : Competency Analysis

Structure of Unit

8.0 Objectives

After completing this unit, you would be able to:

- To understand the concept of competency and competency analysis.
- To differentiate between the various types of competencies.
- To successfully identify the core competencies.
- To build a competency model to help in all the basic functions of a company.
- To successfully implement competency analysis and understand the impact.
- To make note of and understand the most popular innovations that have been incorporated in the field of competency analysis.

8.1 Introduction

Competence (or competency) is the ability of an individual to do a job properly. A competency is a set of defined behaviors that provide a structured guide enabling the identification, evaluation and development of the behaviors in individual employees. The term "competence" first appeared in an article authored by R.W. White in 1959 as a concept for performance motivation. Some scholars see "competence" as a combination of practical and theoretical knowledge, cognitive skills, behavior and values used to improve performance; or as the state or quality of being adequately or well qualified, having the ability to perform a specific role. For instance, management competency might include systems thinking and emotional intelligence, and skills in influence and negotiation. Competency is also used as a more general description of the requirements of human beings in organizations and communities.

Competency is sometimes thought of as being shown in action in a situation and context that might be different the next time a person has to act. In emergencies, competent people may react to a situation following behaviors they have previously found to

succeed. A competent person has the ability to interpret situations and act accordingly. Regardless of training, competency would grow through experience and the extent of an individual to learn and adapt.

Competency has different meanings, and continues to remain one of the most diffuse terms in the management development sector, and the organizational and occupational literature. Competencies are also what people need to be successful in their jobs. Job competencies are not the same as job task. Competencies include all the related knowledge, skills, abilities, and attributes that form a person's job. This set of context-specific qualities is correlated with superior job performance and can be used as a standard against which to measure job performance as well as to develop, recruit, and hire employees. Competency analysis is simply defined as an analysis of the competencies of a given company, essentially asking, what does this company do better than most? In order for an action to qualify as a competency, it should be identified as something the company does better than most (effectiveness), but also more efficiently than most (efficiency). These actions that a company performs better than most are referred to as core competencies.

8.2 Competency Theories

Some of the most popular competency theories are:

10.2.1 Dreyfus and Dreyfus on Competency Development

Dreyfus and Dreyfus introduced nomenclature for the levels of competence in competency development. The causative reasoning of such a language of levels of competency may be seen in their paper on Calculative Rationality titled, "From Socrates to Expert Systems: The Limits and Dangers of Calculative Rationality". The five levels proposed by Dreyfus and Dreyfus were:

- **Novice**: Rule-based behaviour, strongly limited and inflexible
- **Experienced Beginner**: Incorporates aspects of the situation
- **Practitioner:** Acting consciously from long-term goals and plans
- **Knowledgeable practitioner**: Sees the situation as a whole and acts from personal conviction
- **Expert**: Has an intuitive understanding of the situation and zooms in on the central aspects

The process of competency development is a lifelong series of doing and reflecting. As competencies apply to careers as well as jobs, lifelong competency development is linked with personal development as a management concept. And it requires a special environment, where the rules are necessary in order to introduce novices, but people at a more advanced level of competency will systematically break the rules if the situations requires it. This environment is synonymously described using terms such as learning organization, knowledge creation, self-organizing and empowerment.

Within a specific organization or professional community, professional competency, is frequently valued. They are usually the same competencies that must be demonstrated in

a job interview. But today there is another way of looking at it: that there are general areas of occupational competency required to retain a post, or earn a promotion. For all organizations and communities there is a set of primary tasks that competent people have to contribute to all the time.

The four general areas of competency are:

1. **Meaning Competency**: The person assessed must be able to identify with the purpose of the organization or community and act from the preferred future in accordance with the values of the organization or community.
2. **Relation Competency**: The ability to create and nurture connections to the stakeholders of the primary tasks must be shown.
3. **Learning Competency**: The person assessed must be able to create and look for situations that make it possible to experiment with the set of solutions that make it possible to complete the primary tasks and reflect on the experience.
4. **Change Competency**: The person assessed must be able to act in new ways when it will promote the purpose of the organization or community and make the preferred future come to life.

8.2.2 McClelland and Occupational Competency

The Occupational Competency movement was initiated by David McClelland in the 1960s with a view to moving away from traditional attempts to describe competency in terms of knowledge, skills and attitudes and to focus instead on the specific self-image, values, traits, and motive dispositions (i.e. relatively enduring characteristics of people) that are found to consistently distinguish outstanding from typical performance in a given job or role. It should be noted that different competencies predict outstanding performance in different roles, and that there is a limited number of competencies that predict outstanding performance in any given job or role. Thus, a trait that is a "competency" for one job might not predict outstanding performance in a different role.

Nevertheless, as can be seen from Raven and Stephenson, there have been important developments in research relating to the nature, development, and assessment of high-level competencies in homes, schools, and workplaces.

8.3 Core Competencies

The idea of "core competences" is one of the most important business ideas currently shaping our world. This is one of the key ideas that lie behind the current wave of outsourcing, as businesses concentrate their efforts on things they do well and outsource as much as they can of everything else. In this section is explained the idea and help you use it, on both corporate and personal levels; and by doing so; we show you how you can get ahead of your competition – and stay ahead. The starting point for understanding core competences understands that businesses need to have something that customers uniquely value if they're to make good profits.

Popular authors C. K. Prahalad and Gary Hamel say that "Core Competences" are some of the most important sources of uniqueness: These are the things that a company can do uniquely well, and that no-one else can copy quickly enough to affect competition.

Prahalad and Hamel used examples of slow-growing and now-forgotten mega corporations that failed to recognize and capitalize on their strengths. They compared them with star performers of the 1980s (such as NEC, Canon and Honda), which had a very clear idea of what they were good at, and which grew very fast.

Because these companies were focused on their core competences, and continually worked to build and reinforce them, their products were more advanced than those of their competitors, and customers were prepared to pay more for them. And as they switched effort away from areas where they were weak, and further focused on areas of strength, their products built up more and more to become market leaders.

8.3.1 Test of True Competencies

It is often easy to think about a whole range of things that a company does that it can do well. However, Hamel and Prahalad give three tests to see whether they are true core competences:

- **Relevance:** Firstly, the competence must give your customer something that strongly influences him or her to choose your product or service. If it does not, then it has no effect on your competitive position and is not a core competence.
- **Difficulty of imitation:** Secondly, the core competence should be difficult to imitate. This allows you to provide products that are better than those of your competition. And because you're continually working to improve these skills, means that you can sustain its competitive position.
- **Breadth of application:** Finally, it should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.

8.3.2 Identifying the Core Competencies

To identify your core competences, use the following steps:

Step 1: Brainstorm the factors that are important to your clients. If you're doing this on behalf of your company, identify the factors that influence people's purchase decisions when they're buying products or services like yours. (Make sure that you move beyond just product or service features and include all decision-making points.) If you're doing this for yourself, brainstorm the factors (for example) that people use in assessing you for annual performance reviews or promotion, or for new roles you want. Then dig into these factors, and identify the competences that lie behind them. As a corporate example, if customers value small products (for instance, cell phones), then the competence they value may be "component integration and miniaturization."

Step 2: Brainstorm your existing competences and the things you do well.

Step 3: For the list of your own competences, screen them against the tests of relevance, difficulty of imitation, and breadth of application, and see if any of the competences you've listed are core competences.

Step 4: For the list of factors that are important to clients, screen them using these tests to see if you could develop these as core competences.

Step 5: Review the two screened lists, and think about them:

- If you've identified core competences that you already have, then great! Work on them and make sure that you build them as far as sensibly possible.
- If you have no core competences, then look at ones that you could develop, and work to build them.
- If you have no core competences and it doesn't look as if you can build any that customers would value, then either there's something else that you can use to create uniqueness in the market (see our USP Analysis article), or think about finding a new environment that suits your competences.

Step 6: Think of the most time-consuming and costly things that you do either as an individual or a company. If any of these things do not contribute to a core competence, ask yourself if you can outsource them effectively, clearing down time so that you can focus on core competences.

8.3.3 Types of Competencies

These may be divided into five types:

1. **Organizational competencies**: The mission, vision, values, culture and core competencies of the organization that sets the tone and/or context in which the work of the organization is carried out (e.g. customer-driven, risk taking and cutting edge).
2. **Core competencies**: Capabilities and/or technical expertise unique to an organization, i.e. core competencies differentiate an organization from its competition (e.g. the technologies, methodologies, strategies or processes of the organization that create competitive advantage in the marketplace). An organizational core competency is an organization's strategic strength.
3. **Technical competencies**: Depending on the position, both technical and performance capabilities should be weighed carefully as employment decisions are made. For example, organizations that tend to hire or promote solely on the basis of technical skills, i.e. to the exclusion of other competencies, may experience an increase in performance-related issues (e.g. systems software designs versus relationship management skills).
4. **Behavioral competencies**: Individual performance competencies are more specific than organizational competencies and capabilities. As such, it is important that they be defined in a measurable behavioral context in order to validate applicability and the degree of expertise (e.g. development of talent).

5. **Management competencies**: Management competencies identify the specific attributes and capabilities that illustrate an individual's management potential. Unlike leadership characteristics, management characteristics can be learned and developed with the proper training and resources. Competencies in this category should demonstrate pertinent behaviors for effective management to be effective.

8.4 Building a Competency Model

Many Human Resource professional are employing a competitive competency model to strengthen nearly every face of talent management—from recruiting and performance management, to training and development, to succession planning and more. A job competency model is a comprehensive, behaviorally based job description that both potential and current employees and their managers can use to measure and manage performance and establish development plans. Often there is an accompanying visual representative competency profile as well (see, job profile template).

Creating a competency framework is critical for both employee and system success. An organization cannot produce and develop superior performers without first identifying what superior performance is. To do this, organizations developed behavioral interview questions, interviewed the best and worst performers, review the interview data (tracking and coding how frequently keywords and descriptions were repeated, selecting the SKAs that demonstrated best performance and named the competencies)

One of the most common pitfalls that organizations stumble upon is that when creating a competency model they focus too much on job descriptions instead the behaviors of an employee. Experts said that the steps required to create a competency model include:

- Gathering information about job roles.
- Interviewing subject matter experts to discover current critical competencies and how they envision their roles changing in the future.
- Identifying high-performer behaviors.
- Creating, reviewing (or vetting) and delivering the competency model.

Once the competency model has been created, the final step involves communicating how the organization plans to use the competency model to support initiatives such as recruiting, performance management, career development, succession planning as well as other HR business processes.

8.4.1 Benefits of Competency Model

Competency models can help organizations align their initiatives to their overall business strategy. By aligning competencies to business strategies, organizations can better recruit and select employees for their organizations. Competencies have been become a precise way for employers to distinguish superior from average or below average performance. The reason for this is because competencies extend beyond measuring baseline characteristics and or skills used to define and assess job performance. In addition to

recruitment and selection, a well sound Competency Model will help with performance management, succession planning and career development. Let us look at the major benefits of competencies.

- **Selection**: The use of behavioral interviewing and testing where appropriate, to screen job candidates based on whether they possess the key necessary job competency profile:
  - Provides a complete picture of the job requirements
  - Increases the likelihood of selecting and interviewing only individuals who are likely to succeed on the job
  - Minimizes the investment (both time and money) in people who may not meet the company's expectations
  - Enables a more systematic and valid interview and selection process
  - Helps distinguish between competencies that are trainable after hiring and those are more difficult to develop
- **Training & Development**: Development of individual learning plans for individual or groups of employees based on the measurable "gaps" between job competencies or competency proficiency levels required for their jobs and the competency portfolio processed by the incumbent.
  - Focuses training and development plans to address missing competencies or raise level of proficiency
  - Enables people to focus on the skills, knowledge and characteristics that have the most impact on job effectiveness
  - Ensures that training and development opportunities are aligned with organizational needs
  - Makes the most effective use of training and development time and dollars
  - Provides a competency framework for ongoing coaching and feedback, both development and remedial
- **Performance Management**: Provides regular measurement of targeted behaviors and performance outcomes linked to job competency profile critical factors.
  - Provides a shared understanding of what will be monitored, measured, and rewarded
  - Focuses and facilitates the performance appraisal discussion appropriately on performance and development
  - Provides focus for gaining information about a person's behavior on the job
  - Facilitates effectiveness goal-setting around required development efforts and performance outcomes
- **Career Paths**: Development of stepping stones necessary for promotion and long term career-growth
  - Clarifies the skills, knowledge, and characteristics required for the job or role in question and for the follow-on jobs
  - Identifies necessary levels of proficiency for follow-on jobs

- Allows for the identification of clear, valid, legally defensible and achievable benchmarks for employees to progress upward
- Takes the guesswork out of career progression discussions

- **Succession Planning**: Careful, methodical preparation focused on retaining and growing the competency portfolios critical for the organization to survive and prosper
  - Provides a method to assess candidates' readiness for the role
  - Focuses training and development plans to address missing competencies or gaps in competency proficiency levels
  - Allows an organization to measures its "bench strength"—the number of high-potential performers and what they need to acquire to step up to the next level
  - Provides a competency framework for the transfer of critical knowledge, skills, and experience prior to succession – and for preparing candidates for this transfer via training, coaching and mentoring
  - Informs curriculum development for leadership development programs, a necessary component for management succession planning

8.5 Competency Analysis Methodology

Competency analysis begins with identification of the workforce competencies required to perform the organisational business activities. Once the competencies are identified, a mapping between the targeted vs actual value of competencies is required to measure, analyze and predict the future capability of competencies and take necessary corrective/preventive action to either enhance or maintain the current capability.

Identifying the tasks, skills, knowledge and attitude required to perform various organisational roles can be used in formulating job description, assessing employees' current level of competency, and activities like planning career development and coordinating competency development.

The basic steps involved in Competency Analysis are:

Step 1: To begin with, a plan is developed for analysing workforce competencies that typically includes the following:

- The competency analysis activities to be performed,
- The schedule for competency analysis activities,
- The individuals or groups responsible for the competency analysis activities,
- The resources and efforts required, including access to the staff, and
- The process for review and approval of the plan by all the parties affected by competency analysis activities.

Step 2: Next is the method to carry out the process of Competency Analysis. The methods of workforce competency analysis include the following:

- **Position Analysis** – Position analysis is a step in the strategic planning process in which the business assesses its present position in the light of the commercial and economic environment in which it operates.
- **Critical Incident Interviews** – The Critical Incident Technique (or CIT) is a set of procedures used for collecting direct observations of human behavior that have critical significance and meet methodically defined criteria. These observations are then kept track of as incidents, which are then used to solve practical problems and develop broad psychological principles. A critical incident can be described as one that makes a contribution, either positively or negatively, to an activity or phenomenon.
- **Behavioral Event Interviews** – The theory of behavior event interviewing (BEI) is simple. It considers the best way for an organization to predict an individual's future behavior and performance is to have the individual talk about their past competencies, behavior and performance. BEI's can be one of the most reliable tools in predicting an applicant's future on-the-job performance.
- **Process Analysis and Engineering** – A form of technical writing and expository writing "designed to convey to the reader how a change takes place through a series of stages". While the traditional process analysis and a set of instructions are both organized chronologically, the reader of a process analysis is typically interested in understanding the chronological components of a system that operates largely without the reader's direct actions (such as how the body digests an apple), while the reader of a set of instructions intends to use the instructions in order to accomplish a specific, limited task (such as how to bake an apple pie).
- **Task analysis** – Task analysis the analysis of how a task is accomplished, including a detailed description of both manual and mental activities, task and element durations, task frequency, task allocation, task complexity, environmental conditions, necessary clothing and equipment, and any other unique factors involved in or required for one or more people to perform a given task. Task analysis emerged from research in applied behavior analysis and still has considerable research in that area.
- **Knowledge Engineering** – Knowledge engineering (KE) is used in many computer science domains such as artificial intelligence, including databases, data mining, expert systems, decision support systems and geographic information systems. Knowledge engineering is also related to mathematical logic, as well as strongly involved in cognitive science and socio-cognitive engineering where the knowledge is produced by socio-cognitive aggregates and is structured according to our understanding of how human reasoning and logic works.
- **Analysis of Skill Needs** – A need analysis is a systematic process for determining and addressing needs, or "gaps" between current conditions and desired

conditions or "wants". The discrepancy between the current condition and wanted condition must be measured to appropriately identify the need. The need can be a desire to improve current performance or to correct a deficiency.

Step 3: Measurement and Analysis – After finding out the competencies, it is important to measure them. Following are a few guidelines to help do the same:

- Extent to which competency information is used in designing or tailoring workforce practices and performing workforce activities
- Period between updates of workforce competency analyses or competency information
- Amount of competency information collected
- Effectiveness of meeting milestones in analyzing workforce competencies or collecting competency information
- Number of workforce competencies defined
- Amount of time or number of people involved in analyzing workforce competencies or in collecting competency information

Step 4: The organisation then defines the level of knowledge, skills, and process abilities underlying each of its workforce competencies.

Step 5: In the next step, the knowledge, skills, and process abilities required to perform committed work are defined for each workforce competency.

Step 6: After this, subject matter experts are involved in analysing the knowledge, skill and process abilities required to perform their committed work.

Step 7: Then, a description of the knowledge, skill and process abilities is defined for each workforce competency using a representation and format that is appropriate for its intended use.

Step 8: Finally, the description of workforce competencies are used for guiding workforce practices at the organisational level and within units.

8.5.1 Information Sources

It is very important to identify the correct competencies; and to do so, following are examples of information sources for determining competencies and successfully carrying out the process of competency analysis:

- Training and other development records
- Performance management records
- Management assessment of knowledge, skills and process abilities
- Self-assessment of skills, and process abilities
- Peer evaluations
- Process assessments
- Awards and achievements
- Professional accomplishments
- Assessment centers

- Information from the performance of business activities

8.5.2 Challenges

Competency analysis is necessary to identify the knowledge, skills and process abilities required to perform the organisation's business activities so that they may be developed and used as a basis for workforce practices.

Most companies do not have competency analysis framework, thereby having no competencies defined for any role. The challenge is to formalize the competency analysis process starting from identification of workforce competencies required to perform the business activities to utilization of competency information for workforce activities like staffing, training and development and competency development.

To address these gaps, the organisations must establish a competency analysis system where employees can map themselves against the competencies defined for their current and future roles.

8.6   Competency Analysis Reports

The Competency Report can be used to support selection process or employee development. To create the report our consultants do deep analysis of competency model to map the competencies. The types of reports generated as a result of competency analysis are as follows:

- **Staffing Report** – Staffing reports are useful in recruitments to specify the use of deal templates.
- **Training and Development Report** – T&D reports are used to identify trainees, trainers and areas for development.
- **Workforce Planning Report** – These reports are important in workforce planning to assess the current competencies.
- **Competency Development** – Such reports are required by experts to identify the competencies for development.
- **Workgroup Development Reports** – This type of report help identify people with required competencies.
- **Career Development** – Career development report is crucial for an employee to asses his/her competency for future roles.
- **Competency Based Assets Report** – This helps in managing assets for respective competencies.
- **Mentoring Reports** – These reports are important from the future point of view for mentoring programs to enhance competencies.
- **Organisational Capability Management Reports** – This kind of report is crucial for identifying competency capability baselines.

8.6.1 Tips for Successful Competency Analysis

Tip 1: As with all brainstorming, you'll get better results if you involve other (carefully-chosen) people.

Tip 2: On a personal basis and in the short term, it might be difficult to come up with truly unique core competences. However, keep this idea in mind and work to develop unique core competences.

Tip 3: You may find it quite difficult to find any true core competences in your business. If you've got a successful business that's sustainably outperforming rivals, then maybe something else is fuelling your success. However, if you're working very hard, and you're still finding it difficult to make a profit, then you need to think carefully about crafting a unique competitive position. This may involve developing core competences that are relevant, real and sustainable.

Tip 4: As ever, if you're going to put more effort into some areas, you're going to have to put less effort into others. You only have a finite amount of time, and if you try to do too much, you'll do little really well.

8.6.2 Impact of Competency Analysis

- Significant improvement in overall organisational competencies with the mandatory competencies check done at the time.
- Improved employee-organisation fit with employees having more clarity on their role towards achieving the company's goals.
- Increased transparency in the job expectations for an individual's current or future role.
- Self-development of more than 90% of employees in their competencies in respective domains, communication skills and leadership skills.
- Reduced interview vs. selection ratio as a result of competency based assessment at the time of hiring.
- Objective gap analysis of employees' competencies resulting in individual development for an employee's current and future role.

8.7 Innovations in Competency Analysis

Although competency analysis is a very new concept, from time to time many innovations have been brought in to make this process more effective. Various innovations with this regard are:

- Formalization and automation of competency analysis database to define competencies in terms of tasks, skills and knowledge required for different roles in the organisation.

- Alignment of various workforce activities with the competency analysis framework.
- Self-mapping of employees against the competencies for their current or next immediate role.
- Utilization of competency information across all training, career development, competency development, recruitment and mentoring.
- Training on competency framework to generate awareness among employees to participate and contribute in this initiative.
- Alignment of India-specific competencies with the organisational global roles and requisite set of competencies.
- Competency Capability Baseline (CCB) to measure, analyze and predict the current and future capability of the competencies as per the business needs and take necessary corrective/preventive action to either enhance or maintain the current capability.
- Periodic review of competency mapping by employees to remain current with the organisation's business needs.
- Periodic review of the skills and knowledge required to perform a particular role ensuring they are complete and correct.

8.8   Case Study – Employee Competency

Here's a case study on employee competencies that was used with Human Resource (HR) and Training Education Managers to help them understand the implication of employee competencies. It was used to help clarify concepts after a presentation on the background of competencies, and how organizations are using them to help position them to reach their strategic goals.

Case Background: This case is designed to provide some clarification on the role of competencies, and provide the opportunity to share learning and insights with each other. You are the Organizational and Employee Development Manager for Southern, a well known furniture retailer. Starting as a one store, small town based operation in the late 1800's, Southern evolved into a 200 store chain in the early 90's, with stores located throughout the Mid to Upper South. The key to Southern's success occurred as a result of key marketing strategies that:

1) Put stores in areas of high growth; and

2) Employed certain core business competencies.

In Southern's case, it was the combination of the ability to combine an expertise in interior decorating with sale of high end furniture. This clearly distinguished Southern from its competition, which relied mostly on walk in customer trade and retail sales without regard to real customer need. Southern, on the other hand, was quick to send someone to your house to help with your selection of furniture that fit with your interior

decorating needs. Southern relied heavily on their Store Managers to ensure a consistency of application of the core competencies in each of the locations. For the Store Manager, the traditional way of distinguishing good performance was someone who ran the store according to policy, made sure it was well stocked, that competent retail sales people and interior decorating reps were hired and trained, and that the weekly store advertising was correct and placed in the appropriate newspapers.

In the last several years, however, things are changing rapidly. There has been a marked slowdown in housing construction in many of Southern's major markets. What's more, customer tastes and preferences seemed to have changed. Faced with new opportunities for buying—catalogues, TV, Electronic Shopping Malls, etc.—and new economic pressures and uncertainty, the customers just don't seem to be the same. Sales volume and margins have slipped significantly as of late. Knowing this, Southern's CEO senses the need for significant change. "We've got to become more competitive, more strategic," he maintains. "We need to rediscover our customers, and meet their needs in today's market".

Recently, the CEO and the Director of Human Resources attended a conference on positioning the organization for change. One of the topics that got them the most excited, and at the same time the most confused, was on employee competencies. Coming back from the conference, the Director of Human Resources calls you in and says, "I need to understand the implication of all this employee competency stuff, and how it can help us become more competitive. Take a stab at it and let me know what you come up with by the end of the week."

Exercise:

1. Using the above as background and learning from the above section on competencies, come up with a plan for how to deal with this problem. Consider such issues as:
   - Are competencies relevant?
   - What value could they add in helping position Southern's employees for success?
   - What is the link with the principal business challenges?
2. Consider the Store Manager's position and the challenges they face. What are some general competencies that might apply in the new environment? How do they contrast with the traditional competencies needed for superior performance?
3. What key learning can you see that can be used in your own organizations, and the changes they face?
4. Prepare a short report back to share what you've done, and insights you've gleaned with the larger group.

8.9 Summary

Competence is the skill, knowledge and ability that people require to undertake a job. Competency analysis is simply defined as an analysis of the competencies of a given individual, group or company. While competency analysis is generally used in production environments, this type of analysis can form a basis for various practices within the company and can be completed at a product, project or company level. Core competencies, the unique characteristics of a product, individual, group or a company, should have three basic qualities – relevant, difficult to imitate and breadth of application. However, it is important to correctly identify the core competencies and build an efficient competency model which includes gathering information, interviewing subject matter, and identifying high performance and finally create an effective competency model. The different types of competencies are – Organisational, Core, Technical, Behavioral and Management competencies. Competency Methodology is all about identifying the tasks, skills, knowledge and attitude required to perform various organizational roles can be used in formulating job description, assessing employees' current level of competency, and activities like planning career development and coordinating competency development. And finally, Competency analysis provides us with reports that help in the processes of staffing, training and development, career planning, workforce planning, competency development, workgroup development, competency based assets, mentoring and organisational capability management.

8.10 Self Assessment Questions

1.   What do you mean by competency analysis? As the HR manager, what kind of competencies do you think will be considered for the position of a Marketing Head and for that of a Sales person?
2.   What do you understand by core competencies? State some of its characteristics.
3.   How would you identify the core competency of a company?
4.   Explain atleast two competency theories. Also state the purpose of competency analysis.
5.   What do you mean by a competency model? Enumerate and explain the steps to build an effective competency model.
6.   Discuss in detail the information sources for identifying competencies.
7.   Explain the Competency Analysis Methodology in detail. Also state the reports that can be generated from such process.
8.   What do you understand by the word competency? Explain with examples, the different types of competencies.
9.   Mention some of the notable innovations that have been introduced in the field of competency analysis.

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Unit – 9 : Competency Mapping

Structure of Unit

9.0   Objectives

After studying this Unit, you will be able to :

- Appreciate the concept of competency and its significance.
- Explain the linkage between job analysis and competency.
- Understand the meaning of competency mapping and its various techniques.
- Describe the application and the process of competency mapping.

9.1   Introduction

During previous decade, human resource and organization development professionals have generated a lot of interest in the notion of competencies as a key element and measure of human performance. Competencies are becoming a frequently used and written about vehicle for organizational applications. Competencies involves a number of success factors necessary for achieving important results in a specific job or work role in a particular organization. Success factors are combinations of knowledge, skills, and attributes (more historically called "KSA's") that are described in terms of specific behaviors, and are demonstrated by superior performers in those jobs or work roles. Attributes include: personal characteristics, traits, motives, values or ways of thinking that impact an individual's behaviour. Competence is an expected requirement for an individual to properly perform a specific job. It encompasses a combination of knowledge, skills and behavior utilized to improve performance. More generally, competence is the state or quality of being adequately or well qualified, having the ability to perform a specific role.

Management competency includes the attributes of systems thinking and emotional intelligence, and skills in influence and negotiation. A person possesses a competence as long as the skills, abilities and knowledge that constitute the competence are a part of them, enabling the person to perform effective action within a certain workplace environment. Therefore, one might not lose knowledge, a skill, or an ability, but still lose a competence if what is needed to do a job changes.

9.2   Types of Competence

The competencies have five characteristics, namely:

- **Motives**: Things a person consistently thinks about or wants that cause action, motives drive, direct and select behavior towards certain actions.   For example, achievement motivation people consistently set challenging goals for themselves, take responsibility for accomplishing them and use the feedback to do better.
- **Traits**: Physical characteristics and consistent responses to situations. Good eyesight is physical trait of a pilot. Emotional Self Control and initiative are more complex consistent responses to situations.
- **Self Concept**: A person's attitude value or self image. A person's values are reactive or respondent motives that predict what a person would do in the short run. Example: A person who values being a leader would be more likely to exhibit leadership behavior.
- **Knowledge**:Information a person has in specific work area. For example, An accountant's knowledge of various accounting procedures.
- **Skill:** It is the ability to perform certain mental or physical tasks. For example, mental competency includes analytical thinking. The ability to establish cause and affect relationship.

The four general competences are:

- **Meaning competence**:Idetifying with the purpose of the organization or community and acting from the preferred future in accordance with the values of the organization or community.
- **Relation competence**: Creating and nurturing connections to the stakeholders of the primary tasks.
- **Learning competence**: Creating and looking for situations that make it possible to experiment with the set of solutions that make it possible to solve the primary tasks and reflect on the experience.
- **Change competence**: Acting in new ways when it will promote the purpose of the organization or community and make the preferred future come to life.

Following are the important competencies from different perspectives:

- **Organizational Competencies** – Unique factors that make an organization competitive.

- **Job Competencies**- Things an individual must demonstrate to be effective on a job, role, function, task, or duty, on organizational level, or in the entire organization.
- **Personal Competencies**- Aspects of an individual that imply a level of skill, achievement, or output.

On the basis of management status competencies may be:

- **Managerial:**

Competencies which are considered essential for staff with managerial or supervisory responsibility in any service or program area, including directors and senior posts. Some managerial competencies could be more relevant for specific occupations, however they are applied horizontally across the organization, i.e. analysis and decision-making, team leadership, change management, etc.

- **Generic:** Competencies which are considered essential for all staff, regardless of their function or level,i.e.communication,program execution,processing tools,linguistic, etc.
- **Technical:** Specific competencies which are considered essential to perform any job in the organization within a defined technical or functional area of work, i.e. environmental management, industrial process sectors, investment management, finance and administration, human resource management etc..

On the basis of levels, competencies may be categorised as:

- **Practical competency** – An employee's demonstrated ability to perform a set of tasks.
- **Foundational competence** – An employee's demonstrated understanding of what and why he/she is doing.
- **Reflexive competence** (An employee's ability to integrate actions with the understanding of the action so that he/she learn from those actions and adapts to the changes as and when they are required.
- **Applied competence** - An employee's demonstrated ability to perform a set of tasks with understanding and reflexivity.

Similarly on the basis of application levels competencies may be divided as:

Advanced: Demonstrates high level of understanding of the particular competency to perform fully and independently related tasks. Frequently demonstrates application that indicates profound level of expertise. Can perform adviser or trainer roles. Work activities are carried out consistently with high quality standards.

Proficient: Demonstrates a sound level of understanding of the particular competency to adequately perform related tasks, practically without guidance. Work activities are performed effectively within quality standards.

Knowledgeable: Demonstrates a sufficient understanding of the particular competency to be used in the work place, but requires guidance tasks or work activities are generally carried out under direction.

9.3   Competency Mapping

Competency mapping can be defined as a process of identifying key competencies for an organization and or a job and incorporating those competencies throughout the various processes (i.e. job evaluation, training, recruitment etc…) of the organization. It identifies an individual employee's strengths, weaknesses in order to help them better understand themselves and to show them where career development efforts for them within the organization need to be directed.

Competency Mapping can be conceptualized as the process of identification of the competencies required to perform successfully a given job or role or a set of tasks at a given point of time. It consists of breaking a given role or job into sub tasks or activities and identifying the competencies (technical, managerial, behavioural, conceptual knowledge, an attitude, skills etc.) needed to perform the same successfully. On the other hand the competency assessment is the assessment of the extent to which a given individual or a set of individuals possess these competencies required by a given role or set of roles or levels of roles.

In the simplest way competency mapping can be defined as the description of skills, traits, experiences and knowledge required for a person to be effective in a job.

Competency modeling or competency mapping has assumed greater significance and importance in order to optimize not only the HRM processes but also to provide meaningful job understanding to the employees themselves. Now a days increasing number of organizations are using the data obtained through competency modeling for the purpose of decisions relating to rewards, promotions, recruitment, training and motivational aspects (Kandula, 2005).

According to Shermon, the job evaluation based competency mapping includes the following steps:

- Conduct a job analysis by asking the incumbent to complete a role profile questionnaire. The primary goal is to gather from the incumbents what they feel are the key behaviours necessary to perform their respective jobs.
- Using the results of the job analysis, a competency based job description must be developed. This is needed to be developed after carefully analyzing the input from the represented groups of incumbents and converting it to standard competencies.
- With a competency based job description, the next step is to begin mapping the competencies throughout the human resources processes across the organization. In this way the competencies of the respective job description become the factors for assessment on the performance evaluation. In this way the usage of competencies helps and guides the HR managers to perform more objective evaluations based on displayed or hidden behaviours.
- Lastly by taking the competency mapping one step further, one can use the results of the evaluation, to identify in what competency individuals need additional development or training. This will help the training manager to focus the training

needs on the goals of the positions and company and help the employees to develop in order to contribute to the ultimate success of the organization (Shermon, 2008).

Unlike the traditional process of competency based assessment, the proposed conceptual framework of competency mapping involves the customers' perception based job analysis process where the sources of data will be (1) the job analyst (2) the employees (3) the supervisors (4) the customers, and (5) the rating committee. The methods of collecting data will be (1) Interview (2) Questionnaire (3) Diaries (4) Customers' perception analysis, Following figures shows this proposed framework:
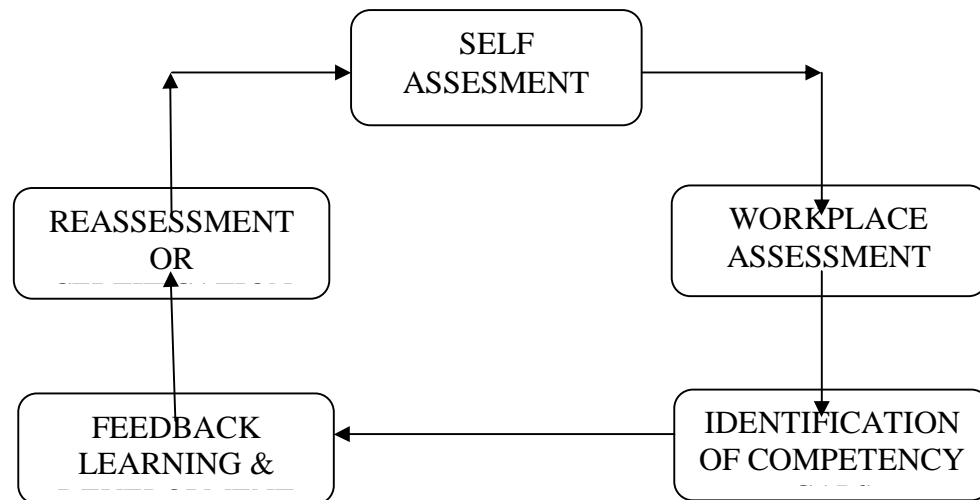
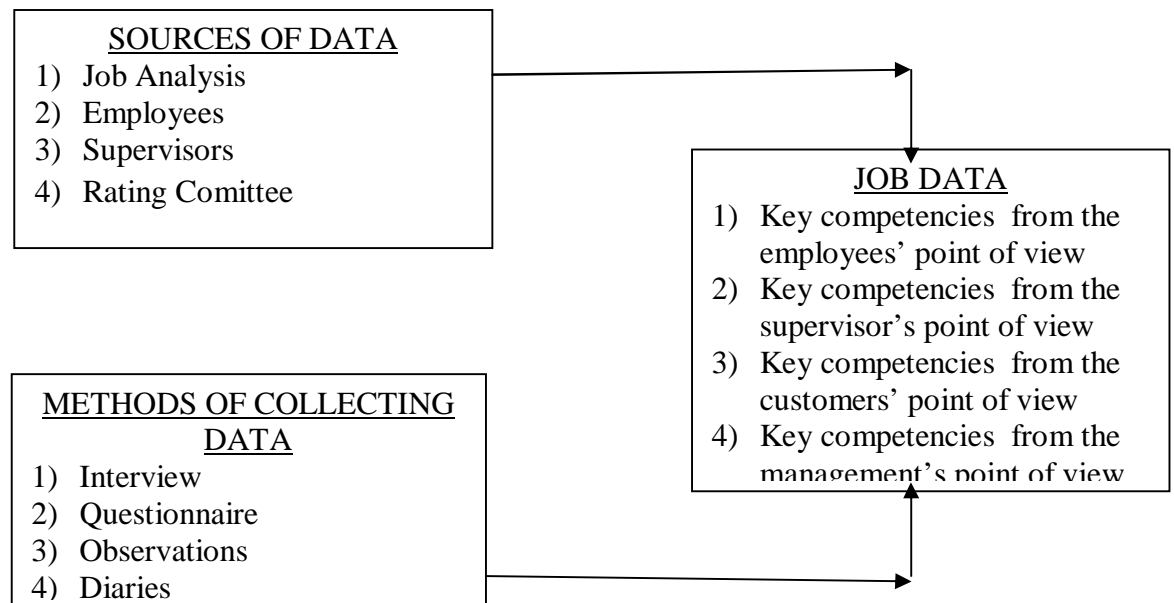Fig. 1 : Traditional Process of Competency Based Assessment

Fig. 2 : Customers' Perception Based Job Analysis

On the basis of job analysis, the job description and job satisfaction can be carried out which will include the key competencies (1) from the employees' point of view (2) from the supervisor's point of view (3) from the customers' point of view (4) from the management's point of view. Once this process is complete, the identified competencies can be linked with the entire gamut of the human resource management process across the organization in order to make the organization effective and efficient internally and externally i.e. both from the stakeholders' and customers' point of view and competition in the market.

9.4   Methods of Competency Mapping

Following are the basic competency mapping techniques or methods:

1. Behavioral Event interview

A behavioral interview is a structured interview that is used to collect information about past behavior. Because past performance is a predictor of future behavior, a behavioral interview attempts to uncover past performance by asking open-ended questions. Each question helps the interviewee to learn about past performance of the performer in a key skill area that is critical to success in the position for which they are being interviewed. The interview will be conducted face-to-face whenever possible.

2. Using the STAR Technique

In a behavioral interview, the interviewer will ask questions about employee's past experiences. A useful way to prepare for this style of questioning is to use the STAR technique.The STAR technique is a way to frame the answers to each question in an organized manner that will give the interviewer the most information about the incubant's past experience.

Following questions are being asked under STAR technique:

- What was the situation in which the employee had been involved?
- What was the task he was needed to accomplish?
- What action(s) did he take?
- What results did he achieved?

3. Repertory Grid

The repertory grid is a technique for identifying the ways that a person construes his or her experience. It provides information from which inferences about personality can be made, but it is not a personality test in the conventional sense.

A grid consists of four parts:

- A Topic: It is about some part of the person's experience.
- A set of elements, which are examples or instances of the topic. Any well defined set of words, phrases, or even brief behavioral vignettes can be used as elements.

For example, to see how I construe the purchase of a car, a list of vehicles within my price range could make an excellent set of elements.

- A set of Constructs. These are the basic terms that the client uses to make sense of the elements, and are always expressed as a contrast. Thus the meaning of 'Good' depends on whether you intend to say 'Good versus Poor', as if you were construing a theatrical performance, or 'Good versus Evil', as if construing the moral or ontological status of some more fundamental experience.
- A set of ratings of Elements on Constructs. Each element is positioned between the two extremes of the construct using a 5 or 7 point rating scale system; this is done repeatedly for all the constructs that apply; and thus its meaning to the client is captured, and statistical analysis varying from simple counting, to more complex multivariate analysis of meaning, is made possible.

Repertory grids were an invention of the late George Kelly, a mid- West American engineer turned psychologist/psychotherapist who wrote up his work in the 50's. They consist of a rectangular matrix of ratings of things called "elements" (usually placed in the columns) each rated on adjectival phrases or simple adjectives known as "constructs".

4. Critical Incident Technique

This technique is a method for getting a subjective report while minimizing interference from stereotypical reactions or received opinions. The user is asked to focus on one or more critical incidents which they experienced personally in the field of activity being analysed. A critical incident is defined as one which had an important effect on the final outcome. Critical incidents can only be recognized retrospectively.

This analysis uses a method known as Content Analysis in order to summarise the experiences of many users or many experiences of the same user.

Critical incident technique utilises a set of procedures for collecting direct observations of human behavior that have critical significance and meet methodically defined criteria. These observations are then kept track of as incidents, which are then used to solve practical problems and develop broad psychological principles. A critical incident can be described as one that makes a significant contribution – either positively or negatively – to an activity or phenomenon. Critical incidents can be gathered in various ways, but typically respondents are asked to tell a story about an experience they undergone.

- This technique is a flexible method that usually relies on five major areas.
- The first is determining and reviewing the incident, then fact-finding, which involves collecting the details of the incident from the participants.
- When all of the facts are collected, the next step is to identify the issues.
- Afterwards a decision can be made on how to resolve the issues based on various possible solutions.
- The final and most important aspect is the evaluation, which will determine if the solution that was selected will solve the root cause of the situation and will cause no further problems.

Benefits of CIT

- Flexible method that can be used to improve multi-user systems.
- Data is collected from the respondent's perspective and in his or her own words.
- Does not force the respondents into any given framework.
- Identifies even rare events that might be missed by other methods which only focus on common and everyday events.
- Useful when problems occur but the cause and severity are not known.
- Inexpensive and provides rich information.
- Emphasizes the features that will make a system particularly vulnerable and can bring major benefits.
- Can be applied using questionnaires or interviews.

Demerits:

- A first problem comes from the type of the reported incidents. The critical incident technique will rely on events being remembered by users and will also require the accurate and truthful reporting of them. Since critical incidents often rely on memory, incidents may be imprecise or may even go unreported.
- The method has a built-in bias towards incidents that happened recently, since these are easier to recall.
- It will emphasize only rare events; more common events will be missed.
- Respondents may not be accustomed to or willing to take the time to tell (or write) a complete story when describing a critical incident.

5. Competency Assessment

This involves the measurement of an individual's competencies. Measures include cognitive ability tests, biodata instruments, structured interviews, job knowledge tests, diagnostic and promotion tests, measures of customer service, and social skills. With the advent of increased agency responsibility for staffing decisions, valid personnel selection assessments are more critical than ever. The Human Resource Management research and development staff are experts in producing selection methods that can be tailored to specific agency needs.

Basic features of Selection Methods:

- Selection methods cover the entire spectrum of job-relevant abilities, including reasoning and social skills, and are offered in a variety of formats:

— Multiple-choice tests, either computer-based or paper and pencil.
— Structured interviews
— Biodata questionnaires
— Job-knowledge tests
— Social skills inventories
— Executive assessment centers
— Language-learning ability test

— Physical performance test

— Professional examinations for managers and executives

- Complete documentation of development process and validity analysis
- Nation wide network of test administrators can effectively and efficiently administer tests of OPM design.

6. Assessment Center Exercises

An Assesment Center can be defined as "a variety of testing techniques designed to allow candidates to demonstrate, under standardized conditions, the skills and abilities that are most essential for success in a given job" (Coleman, 1987). The term "assessment center" is really a catch-all term that can consist of some or all of a variety of exercises. Assessment centers usually have some sort of in-basket exercise which contains contents similar to those which are found in the in-basket for the job which is being tested. Other possibilities include oral exercises, counseling simulations, problem analysis exercises, interview simulations, role play exercises, written report/analysis exercises, and leaderless group exercises (coleman, 1987; Filer, 1979; Joiner, 1984). Assessment centers allow candidates to demonstrate more of their skills through a number of job relevant situations (Joiner, 1984).

7. 360 Degree Feedback

360-degree feedback is also known as 'multi-rater feedback', 'multisource assessment', is employee development feedback that comes from all around the employee. "360" refers to the 360 degrees in a circle. The feedback would come from subordinates, peers, and managers in the organizational hierarchy, as well as self-assessment, and in some cases external sources such as customers and suppliers or other interested stackholders. It may be contrasted with upward feedback, where managers are given feedback by their direct reports, or traditional performance appraisal, where the employees are most often reviewed only by their manager.

The outcomes of 360-degree feedback are often used by the person receiving the feedback to plan their training and development. The results are also used by some organizations for making promotional or pay decisions, which is sometimes called "360-degree review."

Merits of 360 Degree Feedback:

- Individuals get a broader perspective of how they are perceived by others than previously possible.
- Increased awareness of and relevance of competencies.
- Increased awareness by senior management that they too have development needs.
- More reliable feedback to senior managers about their performance.
- Gaining acceptance of the principle of multiple stakeholders as a measure of performance.

- Encouraging more open feedback- new insights.
- Reinforcing the desired competencies of the business.
- Provided a clearer picture to senior management of individual's real worth (although there tended to be some 'halo' effect syndromes).
- Clarified to employees critical performance aspects.
- Opens up feedback and gives people a more rounded view of performance than they had previously.
- Identifying key development areas for the individual, a department and the organization as a whole.
- Identifying strengths that can be used to the best advantage of the business.
- A rounded view of the individual's/ team's/ organization's performance and what the strengths and weaknesses are.
- Raised the self-awareness of people managers of how they personally impact upon others – positively and negatively.
- Supporting a climate of continuous improvement.
- Starting to improve the climate/ morale, as measured through the survey.
- Focused agenda for development. Forced line managers to discuss development issues.
- Perception of feedback as more valid and objective, leading to acceptance of results and actions required.
- Gaps are identified in one's self-perception versus the perception of the manager, peer or direct reports.
- Customizing the questions to one's organizational competencies.

8. Grading System

The model provides very precise and clear grading system for the competency assessment. Every competency covered in the model has number of behavioral indicators listed against it. Also every indicator has a relative weight or maximum marks given against the behavioral indicator.

Assessor is required to allot marks against each of the behavioral indicators depending on the evidence. The general principles for marking are given here below:

- Assessors are required to check for presence positive as well as absence negative of the listed behavioral indicators for assessment.
- Assesssors shall allot points for each of the behavioral indicator from maximum points indicated against each of the indicators.
- Presence of only negative indicators, the candidate qualify for nil points.
- Presence of equal positive as well negative indicators qualify the candidate for 40 percent of the points. An assessor is expected to exercise discretion to weigh the evidence for allotting the points.
- In absence of positive or negative evidence for any one of the behavioral indicator, assessor should check for evidence for other behavioral indicators. If other indicators are present marks should be allotted to maintain the percentage. If

there is no evidence for any of the behavioral indicators 50 percent marks should be allotted.

- Absence of negative indicators with presence of positive indicators qualify the candidate for 50 percent of the points.
- Evidence of strong positive indicators qualify the candidate for 70 percent of the points. Assessor is expected to use his discretion to allot marks from 50 percent to 70 percent.
- Evidence of strong +ve indicators, and evidence of positive results qualify the candidate for 80 percent of the points.
- Repetitive evidence of strong positive indicators, and repetitive evidence of positive results qualify the candidate for 90 percent of points.
- Repetitive evidence of strong positive indicators, repetitive evidence of positive results, conscious awareness and use of the competency qualify the candidate for 100 percent of the points.

9.5   Applications of Competency Mapping

Competency mapping and assessment is a very important development for HR function. It provides much needed objectivity to HR activities. With the help of tool like competency mapping assessment role of HR has changed from support function to core function. With competency based HR systems and programs HR function can directly contribute to organization effectiveness. Business process focus and objectivity are the main advantages of the competency based HR management systems. Employee competency map is a very useful document and can be used for the following applications:

These applications are explained as under:

1.   Candidate appraisal for recruitment

Selection of candidates for employment is very important decision for any organization. A wrong selection costs the organization in terms of recruitment costs, efforts, time and opportunity. Whereas landing into unsuitable job is very painful and unsetting experience for the candidate. Job position competency map provides clear guidelines and reliable process for selection.

Competency map for the job position and Assessment of candidate's for the required competencies gives comparatively reliable indication about suitability of the candidate. The assessment also provides guidelines on the training needs for the candidate if selected for the position. Normally only core competencies are assessed for selection.

2. Employee potential appraisal for promotion or functional shift

Every job position requires different set of competency hence an excellent performer in junior position may not necessarily perform to the expectations when promoted to a senior position. Also an average performer in a junior position may turn into a star performer when promoted to senior position. Similarly a successful person in one

department may turn out to be unsatisfactory in another department and also a not so competent person in one department may give excellent results in other department. Hence departmental shifts and promotions need careful assessment of the competencies of the person with respect to the required competencies of the new position. It is recommended to assess core competencies for the promotion or functional shifts.

3. Employee training need identification

Competency mapping and assessment provides clear indication of employee's developmental needs. Candidate weakness with respect to the required competencies discovered in the assessment shows opportunity for development of the candidate. Employee competency assessment can be conducted periodically, preferably along with performance appraisal, to identify development needs of every employee. As competency based training need identification has direct relation with the employee performance, effectiveness of training can directly be gauged through the assessment of performance and competencies. Generally core competencies are used for training need identification.

4. Employee performance diagnostics

Competency based assessment provides excellent understanding of performance problems. Observed non performance of an amployee can be due to factors that are out of the control of the employee or due to lack of required competencies. Those employees who are unable to perform to the expectations, should be assessed for core as well as support competencies and any observed inadequacy should be carefully studied to understand its effect before taking into any remedial measures.

5. Employee self development initiatives

The competency map and behavioral indicators help individual to understand direction for their own development. They can very easily identify the gaps and work on the inadequacies. Performance appraisal with traditional method can assess the performance with respect to set targets, but these appraisals do not guide for improving the performance. Competency map very clearly and reliably guides the employees for self development. The competency map indicates the competencies that are required for improved performance and behavioral indicators shows the factors that build up the competency. Organizations should develop a competency map document and make it available to all employees for reference and study.

9.5.1   Job Positions and Associated Competencies

To map the competencies required for any job position in the organization, the job position needs to be understood in the context of the business operation. Business organizations are an important part of civil society. These organizations exist to satisfy some social need. No organization can exist if it not satisfying a social need. To satisfy a social need organization has to carry out different types of tasks. Organizations plan the activities and the responsibilities in such a way that similar type of activities requiring similar resources and expertise are entrusted to the same employees or same group of employees.

Apart from the tasks for carrying out the main business tasks, organization has to carry out many other tasks to take care of it's resources, culture, employees, social obligations, governments requirements, shareholders expectations etc. Organization assigns all these tasks to different employees and provides them support to carry out the tasks.

Hence every job position is a unique set of relationships, responsibilities, objectives and assigned resources. Every job position should be clearly identified, analyzed, studied and documented for identification of competencies associated with it. Also for the purpose of analysis of the job positions, we have identified job factors which can be used to study, analyze and understand the nature of the duties and responsibilities for any job position.

The job factors can be used for different applications including job design, recruitment, training need identification, remuneration scheme design, organization restructuring, competency mapping etc.

Job factors are distinctive characteristics of any job position. These factors can be used to understand nature of work activities and job responsibilities for the job position. These factors are:

1. Envisioning: Whether developing vision is part of the job under study? What is the extent and coverage of envisioning requirement? The vision may be related to market servicing, operating arrangement, technology development, facility planning etc. Envisioning is requirement of leadership and managerial roles.

2. Direction: Whether directing business operation or policy formulation is the responsibility of the job under study? What is the extent and coverage of direction requirement? Formulating policy direction is requirement of Leadership and Managerial roles.

3. Organizing and Planning: Whether the job involves identification of human and/ or material resources and assigning these resources? Whether the job involves planning and scheduling usage of resources, controlling and monitoring usage of these resources? What is the extent and coverage of organizing and planning? This is requirement of Leadership and Managerial roles.

4. Resources Mobilization: Whether the job involves preparation of the resources for use? What is the extent and coverage of resources mobilization responsibility for the job? This involves proper instructions to be issued all concerned, ensuring serviceability of the resources and ensuring required consumables and inputs are available.

5. Coordination: Whether the job involves interaction with other executives to ensure synchronization of activities for effective and efficient utilization of available resources? What is the extent of coordination requirement of the job?

6. Execution: What are the execution activities of the job? What is the kind of skills required to execute the activities?

7. Human Interaction: What is the nature and extent of human interaction in the job within the organization? What is the nature and extent of human interaction outside the organization?

8. Technology: What is the nature of technological responsibilities for the job? What kind of technical decisions are required to be made in discharge of the job responsibilities?

9. Creativity: Does the job require generation of implementable options as apart of responsibility? What is the scope to novelty and innovation the job provides?

10. Costs: What is the cost of the job? How much organizational cost the job controls and influences?

11. Value addition: How much value does the job adds in relation with other jobs?

9.6 Competency Mapping Process

Elemental competencies for any given job can be identified in two different ways. By studying the job, processes and environment and by studying attributes of good performer on the job. Both the methods can be used to map give good results individually. Process described here uses both the approaches at different stages, it customize a standardized competency model based on process study in the first stage. This map is validated and implemented.

The first stage map is used for various applications in the organization for some period. During this period the staff and executives develop experience and better understanding of competency based performance management methodology, that is the time when further development of the model is initiated. In the second stage the model is further refined based on the experiences of the employees, and observed qualities and attributes of star performers.

The method described here has been developed to complement the interview based competency assessment techniques. Process of competency mapping describing here is an interactive and participative process. It makes use of experience and knowledge of the executives in the organization. It is comparatively faster.

The process is to be conducted in a workshop setting and preferably away from work place. Competency mapping workshop should be conducted for one business unit at a time. It should cover all departments from marketing to Delivery and procurement to Production catering to the requirements of a product for specific type of markets. Before conducting the workshop the facilitator should study the organization process and prepare detailed job descriptions covering Job Factors. Job factors are the job attributes that indicate the nature of work responsibilities for the job position and can be used for job analysis.

Participants for the workshop

Participants should be selected from all departments as described above. They should also cover different hierarchical levels. Objective is to include those executives who have good understanding of technical and business processes in the organization.

Competencies required for any job position shall be mapped by the executives connected with the job position. Facilitator should identify up to ten executives for every job position, which may include superiors (up to 3), subordinates (up to 3), colleagues (up to 3) and customers (up to 4) for the position. Persons external to the organization should also be included in the mapping exercise separately by collecting their qualitative and quantative inputs.

Steps involved in Comeptency Mapping

1. Introduction: In the first session of the workshop, the facilitator shall discuss objectives of the workshop and explain the concept and practice of Competency Mapping and Assessment.

2. Overview of the organization, organizational processes and jobs: In the second session of the workshop, the facilitator shall briefly present and discuss:

- Business, Market, Customers and customers requirements
- Organizational structure
- Technical Processes
- Business and management processes

This is done to enable the participants to focus on the requirements of different job positions.

3. Overview of Competency Model: Under this step, the facilitator shall briefly discuss the competency model. He should explain different competencies and their behavioral indicators. Behavioral indicators need not be discussed in detail at this stage. Facilitator should provide examples of relationships between competencies and business process requirements like elemental competency of influencing ability and sales process, Competency of team working & interpersonal effectiveness and production process, etc. After the first three sessions, facilitator shall answer the queries that participants may have, to clear their doubts. This will complete the orientation part of the workshop. These three sessions are useful to orient the participants for the task of competency mapping.

4. Identification of core competencies: For preliminary identification of core competencies, facilitators shall discuss job positions in the organization, one by one. Facilitators shall describe every job, its duties and responsibilities, processes participated, critical factors for performance, and criticality of the job etc. and shall facilitate discussion among the participants with respect to the job factors.

After the participants develop adequate clarity about the job activities and responsibilities, every participant should be asked to identify the eight most important competencies from the list of twenty one elemental competencies in the sequence of their importance and criticality. The facilitator should initiate a discussion among the participants on the relative importance of elemental competencies for the job and should finalize the list of core elemental competencies. The objective is to identify up to ten most important elemental competencies for each of the job from the list of twenty one elemental competencies and divide them into two groups' core competencies and supporting competencies.

5. **Minimum Acceptable level of competency**: To decide minimum acceptable level of each of the competency following rules are helpful:

	Minimum Required Competency level	
	Critical Competencies	Supporting Competencies
Executive	4	3
Managerial	5	4
Leader	5	4

6. Base Competency Map: Prepare a table of competency and their minimum acceptable levels for each of the job position in the organization. This may be called as base competency map for the organization.

7. Further development of the competency model: The base competency map based on the model provides broad requirements for each of the job. This map helps to establish basic requirements for a competency based performance and potential appraisal system.

For performance diagnostic applications the model needs to be further refined with in-depth job studies for each of the job.

9.7   Summary

A good human resource manager is one who place right people on right job and to ensure this he must have job analysis for each job. In most of the corporations Competency Mapping is being used as a process to identify key competencies so as to perform the job well. Based on this, the identified competencies are being incorporated while performing the processes of job evaluation, training and recuritment. The unit provide a framework through which the competencies for a job can be identified from all directions i.e. employees, employers and customers.

A number of techniques from simple ones to more complex are being used by different organizations for competency mapping such that the oveall competence of the organizqtion can be enhanced. Some of the emerging popular techniques are critical incident method, 360^0 appraisal competetency assessment etc. Competency mapping has a number of applications ranging from candidates' appraisal for recruitement, promotions, training need identification, performance diagnosis and employee sey development.

9.8   Self Assessment Questions

1. What is Competency? How the term evolved from a HRM concept to Strategic Management Tools?
2. "Primary applications of competency framework focus mainly on performance management and development, particularly of more senior staff." Comment.
3. Why competency based management is the need of the hour for modern organizations?
4. Write short notes on
   - i.) Behavioural event interview
   - ii.) Critical incident technique
   - iii.) Grading system of competency mapping
5. Explain the various steps involved in competency mapping.

9.9   Reference Books

- Bernthal, P.R. (2004), "Competency Study: Mapping the Future: New Workplace Learning and Performance Competencies", American Society for Training and Development, Alexandria, VA.
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- Kandula, S.R. (2005), "Human Resource Management in Practice: With 300 Models, Techniques and Tools", PHI Learning Pvt. Ltd., New Delhi.
- McLagan, P.(1997). "Competencies: The Next Generation", Training & Development, May 1997, pp.40-47.
- Seema Sangvi, A Hand book of Competency Mapping,.2004

Unit – 10 : Managing Compensation

Structure of Unit

10.0   Objectives

After studying this unit, you shall be able to understand:

- The concept of compensation and its major dimensions;
- The objectives of compensation;
- Factors influencing compensation;
- The meaning and concept of compensation structure, its need and characteristics;
- Various types of compensation structures;
- How to design compensation structure?
- When and how to update compensation structure?

10.1   Introduction

Human resources being the most important asset in any organization are responsible for making a great contribution in achieving the goals of any organization. Compensating them adequately and appropriately is essentially an important task for the organizations too. With the rapidly changing socio-economic environment and globalization of business, compensation management for employees has become a very challenging task. A sound compensation system needs to be put into practice to attract employees to work, retain and motivate them. The design and management of compensation system for employees constitutes one of the most difficult HRM tasks for top management team. With the increased globalization, developments in information technology and emergence of knowledge work force and their expectations, compensation structure has undergone a lot of changes. Designing, maintaining and updating compensation structures is a dynamic process and organizations continually strive to create compensation structures which are both beneficial for the employees and the organizations, as well, thereby, having a win-win situation.

10.2   Conceptual Framework

Compensation may be defined as money received for the performance of work along with the many kinds of benefits and services that organizations provide to their employees. It consists of direct financial payments in the form of wages, salaries, incentives, commission and bonuses. Also, the indirect payments in the form of financial benefits like employer-paid insurance, vacations, health checkups etc. form a part of compensation. Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance and job satisfaction. The term 'wages' is used for the remuneration paid to the labourers or "blue collar workers" who belong to the group of production and maintenance employees. 'Salary' on the other hand refers to the weekly or monthly rates paid to clerical, administrative and professional employees, normally referred as "white collar workers."

10.2.1 Objectives of Compensation

Compensation system should achieve the following objectives-

1.) Compensation system should be such that it **attracts** the capable and competent personnel.
2.) To **retain** the current employees so that the attrition rate are low.
3.) The employees are **motivated** to perform better.
4.) Effective compensation plans **rewards** performance, loyalty, responsibility and induces desirable behavior amongst employees.
5.) A rational compensation system helps organization obtain and retain employees at a reasonable cost and hence keep **costs under control**.
6.) **Compliance** with legal requirements is also attained through effective compensations plans.
7.) Compensation management strives to **establish internal and external equity**.
8.) Another objective of compensation is to facilitate **easy understanding** by all – i.e. employees, managers and HR personnel.
9.) Lastly, easy **administration** of compensation system is to be ensured.

10.2.2 Components of Compensation

A   Rewards in Terms of Pay

(i)   Salary

Salary is the first component of executive remuneration. Salary is supposed to be determined through job evaluation and serves as the basis for other types of benefits. But job evaluation may be only a partial solution because executives must be paid for their capabilities – for what they can do-rather than for job demands. This is the reason why norms of wage and salary fixation are generally not observed while fixing salaries for executives.

(ii)   Dearness Allowance and Other Allowance

This allowance is given to protect the real wages of workers during inflation. Under section 3 of the minimum wages act it is cost of living allowance. Dearness allowance has now become an integral part of the wage system in India. Besides D.A, several types of allowances are also given by companies. These include:

- City Compensatory Allowance
- Education Allowance
- House Rent Allowance
- Conveyance/Car Allowance
- Medical Allowance

(iii)   Performance Bonus or Profit-sharing

Bonus plays an important role in today's competitive executive payment programmes. This type of incentive is usually short-term (annual) and is based on performance or profit-sharing. For this reason, the definition of performance is crucial.

(iv)   Long-term Incentives Stock Options

If bonus constitutes short-term benefit, stock options are long-term benefits offered to executives. Companies allow executives to purchase their shares at fixed prices. Stock options are valuable as long as the price of share increases.

(v)   Perquisites

Perks constitute a major source of income for executives. In addition to the normally allowed perks like provident fund, gratuity and the like, executives enjoy special parking, plush office, vacation travel abroad, auto expenses, membership in clubs and well-furnished houses, Perks take care of all possible needs that the executives are rarely required to spend money from their pockets. Their holidays, servants, telephone bills and even electricity and gas bills are taken care of by their companies.

B   Non-compensation Rewards

Richard I. Henderson explains that "these rewards have an almost indefinite number of components that relate to work situation and to the physical and psychological well-being of each employee. In fact, any activity that has an impact on the intellectual, emotional, and physical well-being of the employee and is not specifically covered by the compensation system is part of the non-compensation reward system." Henderson has identified seven non-compensation dimensions, which are critical for improving work performance, in his model mentioned in the figure below. The non-compensation rewards are the most powerful rewards which helps employees to fulfill their higher level needs (Psychological and Self-actualization needs).

10.2.3   Special features of Managerial Compensation:

Executive remuneration has certain unique features which should be considered while deciding the compensation structure in an organization Managerial compensation is more complex than wage schemes for workers as it involves numerous factors and variables

and hence simple comparisons and ratings may not be possible. Higher secrecy is maintained in case of executive compensation.

Executives are not paid equally because a lot depends on competence, loyalty and relationships of each individual. Executives pay is not supposed to be based on individual performance measure but rather on unit or organizational performance. Executive remuneration is subject to statutory ceilings which should be adhered to. Although, theoretically remuneration of managerial personnel is supposed to be guided by job descriptions, job evaluations, salary grades with ranges of pay in each grade and salary surveys. But in practice, the norms are not followed and exorbitant pay packages are given to managers and decision makers in organization.

10.2.4 Components of a Compensation System:

Compensation will be perceived by employees as fair if based on systematic components. Various compensation systems have developed to determine the value of positions. These systems utilize many similar components including job descriptions, salary ranges/structures, and written procedures.

The components of a compensation system include:

- **Job Descriptions:** A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families.
- **Job Analysis:** The process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observations.
- **Job Evaluation:** A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking, Classification, Factor Comparison, and Point Method.
- **Pay Structures:** Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increment are common with union positions where the pay for each job is pre-determined through collective bargaining.

In this unit we shall focus on the pay/compensation structure. The other components have been dealt with in other units.

10.3 Factors Influencing Compensation

Different organizations have different compensation policies. Nevertheless, a host of factors influence compensation in all kinds of organization. An understanding of these factors in crucial to design an effectives compensation system in any organization. Let us understand these factors.

Besides, the basic factors provided by a job description and job evaluation those that are usually taken into consideration for wage and salary administration are-

- The organizations ability to pay
- Demand and supply
- The prevailing market rates
- Government rules & legislation
- Cost of living
- Productivity
- Trade unions power to bargain
- Job requirements
- Managerial attitudes
- Psychological & sociological factors

These can be grouped as under-

A. Legal Requirements:

Maintaining equity, minimum wage and other rules and regulations as laid by government are important factors that govern compensation decisions. Besides the general regulations, certain specific rules and regulations pertaining to specific, industries should also be considered.

B. Market Forces:

The market conditions which includes demand and supply of human resources, competitive rates, prevailing market rates govern compensations decisions. Besides the powers of trade unions, cost of living and living wage are also factors influencing compensation.

C. Organization's Goals:

The compensation paid to employees is cost to the organization and they also affect productivity of the organization on the other organizations ability to pay, managerial attitudes towards employees and legal companies to be adhered to are also factors that influence compensation systems.

10.4 Compensation Structure

Compensation structure refers to the composition of all emoluments and rewards given to the employees in the organization to attract, retain and motivate them through out their careers. Every company, business or organization that pays workers has some form of compensation structure. These documents, usually produced and maintained by human resources (HR) departments, establish salary ranges for each paid position. The configuration and scale of pay are dependent on the specific duties to be performed as part of each position. The pay scale for workers at every level includes minimum and maximum amounts that are outlined in the structure, and pay variations on the scale often take skill level and experience into account.

A company's compensation structure reveals its pay philosophy. The two most common types of compensation structures are the internal equity structure and pay hierarchy. The internal equity method of determining compensation uses a grid to ensure that each position is compensated according to the pay of positions positioned above and below it on the grid. With a hierarchical compensation structure, the prevailing market rate of pay is taken into consideration with each position and pay on the structure increases with the level of experience and responsibility.

Internal Equity:

The internal equity method undertakes the job position in the organizational hierarchy. The process aims at balancing the compensation provided to a job profile in comparison to the compensation provided to its senior and junior level in the hierarchy. The fairness is ensured using job ranking, job classification, level of management, level of status and factor compensation.

External Equity:

Here the market pricing analysis is done. Organizations formulate their compensation strategies by assessing the competitors or industry standards. Organization set the compensation packages of their employees aligned with the prevailing compensation packages in the market. This entails for fair treatment to the employees. At times organizations offer higher compensation packages to attract and retain the best talent in their organizations.

- A compensation structure is influenced by a company's industry as well as the salaries paid to employees in competing industries. In most cases, positions within a company with similar responsibilities and functions will offer competitive pay.
- It is possible for a position with the same title and function to have a different compensation structure in different industries. For example, an account specialist working in a large technology company may make significantly more than an account specialist with a small start-up company or mom and pop business.
- In most cases, a compensation structure is comparable within similar industries. It is important for pay to be competitive in order to attract and retain the best employees for positions. Workers will seek out employment with companies that pay more unless other attractive benefits or perks are offered.
- The compensation structure may include an employee's base pay as well as any incentive and merit pay programs. Base pay can be derived from a set salary or hourly amount. Incentive and merit based pay are included in these structures, and can vary based on employee effectiveness. In a performance driven environment, employees can significantly increase their earning by reaching and exceeding performance goals set by the company.
- Incentive compensation is often used to motivate employees to perform better at work. This type of compensation is common in sales environments. Employees who successfully sell more make more.

In a nutshell, we can say that pay structures, also known as salary structures, set out the different levels of pay for jobs, or groups of jobs, with reference to:

- Their relative internal value, as established by job evaluation;
- External relativities, via market rate surveys;
- Where appropriate, negotiated rates for the job.

10.4.1 Characteristics of Pay Structures are:

- Indicate rates of pay for different jobs;
- Provide scope for pay progression via performance, competence, contribution, skill or service;
- Contain pay ranges for jobs grouped into grades, individual jobs or job families.

10.4.2 Need of Pay Structures:

The need for pay structures in an organization can be attributed to the following-

- Establish a logically-designed framework within which equitable, fair and consistent rewards and policies can be implemented;
- Determine levels of pay for jobs and people;
- Basis for the effective management of relativities;
- Help monitor and control the implementation of pay practices;
- Communicate the pay opportunities available to employees.

10.4.3 Types of Pay Structure:

The most important types of pay structure, or salary structure are:

- **Graded Structures –** A sequence of overlapping job grades into which jobs of broadly equivalent size are allocated. Each grade has a range, the maximum of which is usually 20 to 50% above the minimum.
- **Broadband –** Similar to conventional graded structures, but with far fewer and far wider bands. The maximum of the band can be 100% or more above the minimum.
- **Job Family Structures –** Each job family has a different graded structure. Jobs are allocated to a job family based on activities carried out; skills and competencies e.g. Information Technology is a perfect example of a job family for which there is usually a separate grade structure.

There are many other types of pay structures and salary structures e.g. pay spines, benefit structures, spot rates, fixed rate, time-rate.

10.5 Designing a Compensation Structure

Compensation is one of many human resource (HR) tools that organizations use to manage their employees. For an organization to receive its money's worth and motivate and retain skilled employees, it needs to ensure that its compensation system is not an island by itself. Not only is it important for an organization to link compensation to its overall goals and strategies, it is important that its compensation system aligns with its HR strategy. Hence designing a sound compensation structure is of great importance.

After having an understanding of the various factors influencing compensation and the major components of compensation, we now proceed to explain the dynamics involved in designing a sound compensation structure.

Smart, successful organizations do regular planning and evaluating of their compensation and performance appraisal systems. Because compensation is visible and important to employees, it is critical to consistently communicate a clear message regarding how pay decisions are made. In short, a solid pay-for-performance strategy requires that employee pay matches the organization's message.

The major issues involved are –

- Adjust pay level (How much to pay?)
- Adjust pay mix (What forms?)
- Adjust pay structure
- Special situations
- Estimate competitors labour cost.

To cater to these issues, compensation structure takes into consideration:

A. Major policy decisions
B. Major compensation decisions
C. Establishing pay rates – Steps.

A Major Policy decisions include-

1.) Minimum and maximum level of pay:

Establish the lowest and highest rates of pay for company should be clearly established. This depends on several factors-

- Ability to pay
- Market forces
- Legal formalities
- Organizational goals

These have already been discussed in previous section.

2.) Another policy issues is to establish general relationships among pay levels. The kind of relationships that exists between senior management and operating management, operatives and supervisors so that pay levels may be determined.

3.) Should the company adopt a policy of leading the market (paying more than market trends), pay at par with the market or lag behind (pay less than what market pays) is another policy issue. These are elaborated under.

- **Lag the Market**

An organization may choose to offer a compensation package is valued less than packages offered for a similar job in the labour market. An employer with a "lag the market" philosophy is likely to be at the back of the line when it comes to hiring and retaining employees, especially those with special skills. These problems are the direct

result of below-market pay. With the Internet providing pay information with a click of a mouse, employees are less willing to stay and support an organization when they know they are underpaid. Good employees may leave, while less-skilled employees may stay with the organization.

Turnover is very expensive. It is estimated to be at least six months' pay for a non-exempt (hourly) employee and one years' pay for an exempt (salaried) employee. No organization wants to be a training ground to groom employees for its competitors.

- **Meet the Market**

This is the most common compensation strategy. This level of competitiveness occurs when an organization's compensation strategy is equal to the labour market for the same position. This is the pay philosophy that makes the most sense for most organizations. By having a base pay strategy that meets the market, an employer can easily add or subtract variable pay and/or fringe benefits. By selecting this level, employers can balance cost pressures and the need to attract and retain employees.

- **Lead the Market**

The "lead the market" pay strategy can be defined as a total compensation package that is above the labour market for a similar position. This strategy may occur because an organization believes that by paying more, it will receive more experienced employees for the same position (although it has not been proven that a higher salary guarantees higher-quality employees). Organization may select this market in good financial times, but leave them in a tight spot in a downturn.

4.) The total compensation that an organization is willing to make shall determine the financial implications, as well as, long-term growth prospects of an organization. Besides the monetary rewards, what other benefits pay for merit, other pay for performance components are included as a part of compensation.

5.) Openness or secrecy of communication of compensation system is also to be determined as a policy matter. Whether communication about compensating everyone is very open or some secrecy is also to be maintained is an important concern for both, employees, as well as, the management.

6.) The compensation system should match the organization's overall objectives:

The compensation strategy should complement other HR initiatives. For example, if quality, experience and a sophisticated skill set are an organization's strategic advantages, then it will not be successful hiring employees significantly below the market rate for that position. Therefore, it is important to review the organization's strategic plan (at least annually) and discuss whether the current HR and compensation systems are supporting these initiatives.

7.) Analyze the strengths and weakness of the organization's current compensation system:

An important component of market competitiveness is to find answers to the following questions:

- o Is the organization able to attract the appropriate skill sets and types of employees when needed?
- o Where is the organization hiring its best employees?
- o How long do most employees stay at the organization?
- o Where do employees go when they leave the organization?
- o What are the organization's promotion policies?
- o Are employees frequently asked to take on new tasks without being rewarded for their efforts?
- o Do employees value the company's benefit, incentive, work environment? What of these items should be changed or updated?
- o What is the employee morale? This information can be gathered from managers, exit interviews, employee surveys and other communication tools. Employee survey feedback, in particular, provides valuable information for moving forward.
- o What mix of pay, incentive pay, work environment and benefit levels make the most sense for the organization when considering the competition, types of jobs, niche and labour market available?

B.   Major Compensation decisions –

The major compensation decisions focus on the following –

1. Lowest rate of pay to entice quality job incubents.
2. What should be the rate of pay to encourage employee retention efforts?
3. Recognize seniority and merit through base pay.
4. Should there be more than one pay structure for similar/identical jobs?
5. Differences in pay rates among jobs requiring varying levels of knowledge, skills and attitudes?
6. Recognition of dangerous or distressing working conditions?
7. Different job progression in jobs of varying worth?
8. Opportunity for advancement? If so, differences in pay related to promotion?
9. Can job holders go higher than maximum or lower than minimum for jobs?
10. How will the organization handle across the board cost-of-living adjustments?

C.   Establishing Pay Rates –

In practice, the process of establishing pay rates while ensuring external and internal equity takes five steps –

1.) Conduct the Salary Survey:

Compensation or salary surveys play a central role in pricing of jobs. An employer uses salary surveys in three ways –

- • Survey data are used to price <u>bench mark jobs</u> that are used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.

- Secondly, it also provides valuable information on competitive salaries, as paid by others for comparable jobs.
- Thirdly, surveys also collect data on benefits like insurance, sick leave, and vacation-time and hence, provide a basis on which to make decisions regarding employee benefits.

Surveys can be formal or informal, where in the former a written questionnaire is commonly used. Telephonic surveys and news-paper ads are also sources of information.

Whatever be the method and kind of survey, the aim is to determine prevailing wage rates.

Some important aspects about surveys –

- Who should be involved in the survey design?
- How many employers should be included?
- Which job should be included?
- What information to collect?

Conducting Successful Employee Survey –

Management should take an active role in the survey's design, delivery and action steps. Top management will need to adhere to the following practices:

- ❖ Deliver a summary of employee feedback within 45 days of the survey deadline. Provide a listing of items that have already been addressed, items that will be addressed over future months, and explain why some suggestions cannot be considered.
- ❖ Maintain strict survey confidentiality. If the survey is not completely confidential, it will affect the result of this survey and future surveys.
- ❖ Design a survey format that appeals to a wide variety of employees. It may need to be translated into another language. Do not assume that all employees have access to or are comfortable with a computer-based survey.
- ❖ Increase employee participation by implementing a few clever marketing approaches, including: setting aside a special room where employees can complete the survey while enjoying light refreshments during work hours.

2.) **Determining the relative worth of a job:** is the next step for which job evaluation is conducted. Job evaluation is arrived at determining a jobs relative worth. It is a systematic comparison done in order to determine the worth of one job relative to another.

3.) **Group similar jobs into Pay Grades:**
   Once a job evaluation method has been used to determine the relative worth of each job, the next step is to group jobs into pay grades.
   - A grade is a horizontal grouping of different jobs that are considered substantially equal for pay purposes.

- Grades enhance an organization's ability to move people among jobs within a grade with no change in pay.
- The objective behind developing pay grade is to facilitate organizations to manage these clusters rather than hundreds of pay rates in the absence of the above.
- Each grade provides a range of pay.
- Within a pay grade, there is a minimum, midpoint, and maximum.
- Range from minimum to maximum is usually from 30-50%.
- Most pay grades have from 6-7 in grade steps.
- The question as to how many pay grades to be established depends on
  - Number of jobs
  - Organization hierarchy
  - Reporting relationships.
- Another important question is whether pay grades should overlap?
  - Overlapping pay grades allow more productive and senior employees in lower pay grades to make more than new, inexperienced employees in higher pay grades.
  - Drawback in large overlap is that promoted employees moving from lower pay grade to higher grade may not receive much pay increase.

4.) Price each Pay Grade:

The next step is to assign pay rates to each of the pay grades. This is accomplished through wage curve. The wage curve depicts graphically the pay rates currently being paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation.

The purpose of the wage curve is to show the relationship between

(i)   The value of the job as determined by one of the job evaluation methods and

(ii)   The current average pay rates for the grades.

The steps involved in pricing jobs with pay policy line are –

- First, find the average pay for each job grade, since each of the pay grades consists of several jobs. This is plotted on Y axis.
- On X axis, point obtained from job evaluation have to be plotted.
- A line of best fit or wage policy line is then obtained.
- Wage along the wage line are the target wages or salary rate for the jobs in each pay grade.
- If the current rates being paid for any of the jobs or grades fall above or below the wage time, that rate may be "out of line". Hence, the next step is to fine line the pay rates.
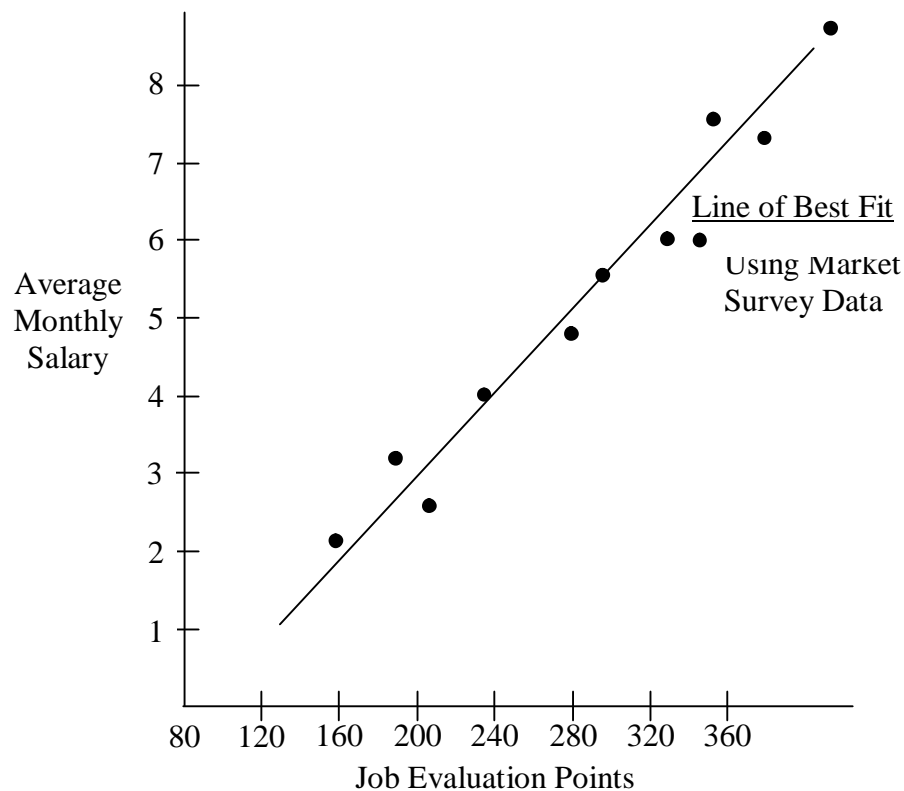
Fig.   Developing a Pay Policy Line

5.) Fine Line Pay Rate:
This is the next step which involves correcting out of line rates and usually developing <u>pay ranges</u>.
- <u>Pay ranges</u> refer to the <u>vertical dimension</u> of the pay structure.
- Each pay grade will have associated with it a pay range consisting of a midpoint and a specified minimum and maximum.
- Pay ranges take care of the
  - ❖ External pressures:
    - a.) Quality variations amongst individuals in the external market.
    - b.) Recognition of differences in the productivity-related value to employers of these quality variations.
  - ❖ Internal pressures:
    - a.) The intention to recognize individual performance variations with pay.
    - b.) Employee's expectations that their pay will increase over time.

Constructing Ranges: establishing midpoint, minimum and maximum –
- Midpoints correspond to the competitive pay policy.

- The point where the pay policy line crosses each grade becomes the midpoint of the pay range for that grade.
- Midpoints are the control points of the range.
- The midpoint represents base pay for a seasoned employee.
- The midpoint can be determined as soon as the pay grade limits are set.
- Find the job evaluation point value in the center of the pay grade.
- Substitute that point value for X in the equation of the pay line.
- Solve the equation for Y this value is the midpoint of the range.

Another important aspect which needs to be considered is the 'Range Spread'.

- Range spread is based on some judgement about how the ranges support career paths, promotions and other organization systems.
- Range spreads vary between 10 to 15 percent.
- Desired range spread is what makes good sense.
- Once the midpoint (based on pay policy line) and the range spread (based on judgement) are specified, minimums and maximums are calculated.
    - ❖ Minimum = Midpoint / [1+(1/2 range spread)]
    - ❖ Maximum = Minimum + (range Spread x minimum)
- Correcting out of line rates – the wage rate for a job may fall well off the wage line or well outside the rate range of its grade as shown in figure.
  This means that the average pay for that job is currently either too high or too low, relative to other jobs in the firm.
  Hence, if the point falls below the pay line, a pay raise for the job may be required. If the point falls above the wage line, pay cut or pay freeze may be an option.

Summary of the steps for Designing Compensation Structure:

Step 1: Determine the organization's pay philosophy: After senior management has determined the organization's pay philosophy, the next step is to summarize it and review it with middle management.

Step 2: Determine the gaps: Where are the gaps between the compensation philosophy and what the organization is currently doing? Start with a long-term plan of approximately three years and prioritize what needs to be completed first. If this is a brand new compensation plan, or if it is a major remodel (nothing or very little has been done in three or more years), then start updating the base pay plan first. In this way, other plans that build on the base pay plan also will be done correctly.

Step 3: Update job descriptions: Since jobs change so rapidly, it is important to update the job descriptions before working on any other part of the compensation system.

Step 4: Decide what sources will be used for external market information: Use at least three salary survey sources for each job. Most surveys are published only once a year. This will save money and make for a better survey to do some advance research in this area.

Step 5: Plan on how to market survey will be completed: Does the HR department have enough time and expertise to accomplish this task without outside help? Matching jobs to accurate salaries is more difficult than appears. It takes many years of experience to have the confidence and the credibility with employee/management groups to do this task right. If this is a brand new salary plan, it may be a wise decision to work with an outside consultant who has experience in the process.

Step 6: Review market data and slot into salary grades: Each set of market data points must be reviewed to ensure there is a pattern with no statistical outliers. When there is a good average for each job, the next step is slotting the jobs into salary grades based on this salary survey market average.

Step 7: Review preliminary salary survey results with senior management: Senior management should be involved early in the salary matching process to obtain management buy-in at early stage; identify and resolve problems before the project continues; and assess internal equity.

Step 8: Match employee titles to the market study titles: This step is usually harder than it looks. For many organizations, it is not clear what employees match up to which job descriptions and then which employees match up to new titles now used in the new salary grades. In many organizations, there is one title in the heirarchy, another on the job description, another on the organization's chart and another used on the employee's business card. Even understanding who does what, who belongs in which department, and which supervisors oversee jobs can be confusing even in a smaller organization.

Step 9: Review financial impact of setting new salary ranges: In almost every case, there will be pay situations where the employee's current salary is either above the new salary range or below the new range. This is one of the few occasions in compensation where the organization needs to be concerned with individual employee pay. Financial impact of pay revision needs to be estimated.

Step 10: Review and update the performance appraisal process: Does the performance system work well with the new pay-for-performance system? A separate management committee should be assembled to assist with the performance appraisal's design, process and delivery.

Step 11: Design a pay-for-performance merit matrix: After the performance appraisal form is complete, it is time to match the performance levels to be achieved against a merit schedule that rewards raises based on an employee's performance.

Step 12: Review, audit and communicate: If done correctly, this important step will have a lasting positive effect on organization. An integral part of each step in this entire process is a communication plan and a willingness to step back and audit the system.

10.6 Updating Compensation Structure

Generally, companies tend to set compensation plans and never re-revisit them until they have lost a key employee or they have aggravated their employee's base and eroded integral goodwill. Compensation plans should be revisited annually, particularly in rapid growth businesses that rely heavily on attracting and retaining the best talent.

Maintaining a strong salary structure is imperative for any organization. If the salary compared with the overall labor market, a company may find itself paying employees too much resulting in increasing operating costs, or paying employees too little and having difficulty attracting competence workforce.

Here are pointers to keep in mind for maintain a competitive salary structure.

- **Conduct a review on a regular schedule or tied to specific events:** As a general rule, examine the overall salary structure at least every three or five years. The review should determine whether the structure is still aligned with the company's needs and the labor market.

  Some HR executives favor conducting an analysis every 18 or 24 months. The rationale is to catch issues before they become large enough to affect employee engagement and the organizations ability to attract and retain talent.

  There are other situations, changes and events that also demand a review of the salary structure, such as the company's undertaking a merger or acquisition, a significant changes in the labor markets and a competitor opening a new facility or closing one near the company's operations. A plant opening could increase competition for talent, while a plant closing could significantly increase the labor pool & lower the cost of hiring new people.

- **Listen to managers rationally:** In some cases front-line managers will bring HR's attention. These managers insight can be important in determining if salary structure issues exist. Front-line managers are more likely to hear from employees who think they can earn more elsewhere before these individuals leave the company. They are also likely to more readily recognize difficulties in filling positions in their department. This insight can indicate what specific areas of the salary structure are out of alignment.

  While HR should certainly consider manager's perspectives when determining whether a salary structure review is warranted, but at the same time keep in mind that this is just one side of the story.

  Managers may not realize that employee feedback is to be expected because the organization has made a strategic decision to set pay levels at a specific point relative to the market, such as at the median or slightly above or below.

- **Link the salary structure back to HR strategy and the market:** If the salary structure does get out of alignment, it may not be tied closely enough to the company's total rewards and HR strategy. When that happens, the organization "losses the strategic connection to how the organization competes and drives value though its people." To bring the structure back in line with the company's goals, link the HR strategy to a clear compensation philosophy that will provide a

framework based on competitive positioning in the market and other factors, including regional economic conditions.

At the same time, it is important to consider the nuts and bolts that hold up the salary structure. For example:

- Has the organization established appropriate pay grades and maintained updated job descriptions with required skills?
- Does the company have a clear idea of whether it is paying for the position or for the skills that people bring to it and to the organization?

Companies are organic and change over time, hence people in certain jobs may now be doing much more than what is in their job description. It is important to make sure job descriptions are still accurate and reflect the core duties of each position. Organizations should not fall into the trap of doing the same analysis time after time.

- **Look broadly when necessary:** Depending on the organization and its talent requirements, the salary structure may need to reflect broader market forces. Particularly in a global economy, businesses may be competing for talent with entities anywhere in the world. However, the level of competition may vary by position. For example, a company that hires nuclear physicists needs to use national or international market data, while for administrative positions it may base salaries on the local market.
- **Communicate the results:** Once the company is ready to adjust the salary structure, it is important to educate and communicate with employees about the changes. Whether salary-structure adjustments go up or down, the employees should understand why it is happening.

Besides, some important key areas which can be considered by management to retain their <u>executive high level talent</u> are as follows –

- **Equity Stake:** All core team members should have equity, whether bought or earned, with the owner maintaining control of the corporate affairs of the company. Team members shares should be restricted, i.e. no voting or put rights; a reasonable drag-along right, whereby the owner can compel their team to sell their shares if they decide it is time to exit.
- **Bonus Pools:** These are a great way to empower the employees and can be fairly generic – tied to reported sales, cash flow or profit – or set up for specific projects. Bonus pools should be simple, well-defined and transparent in how they are calculated. Each employee's share of the pool is another matter, and should be managed discretely to minimize conflicts and dissent. The proportion of total compensation made up by the bonus pool will vary widely depending on the industry and stage of the company.
- **Managing Superstars:** Most high-performance companies have their Alex Rodriguez – a star infielder with the New York Yankees – the employee whose overcompensation is matched only by their importance to the company, and for whom all the rules are ignored. These individuals tend to be even more prevalent when venture capital or private equity investors are in the picture. But it is important

to ensure only true superstars, and not simply good performers, are being treated like superstars. Companies can identify superstars once they have gained a clear understanding of how they make their money, and which roles truly drive value. Don't be fooled by a resume, or the loudest person in the room.

- **Company Board:** When it comes to compensation plans, a board's practical insight can be a critical trip-wire for problems and imbalances. It should help ensure you remain competitive by keeping the best employees and by enforcing the right balance of the key aspects of compensation plans.

10.7 Summary

Compensation is an important consideration for both, the employees, as well as, the employers. Employers attract, motivate and retain employees by providing them adequate compensation, whereas, the employees in turn work with greater efficiency and effectiveness in order to achieve greater productivity for the organization. Compensation not only includes monetary rewards like salary, dearness allowance, bonus etc. but also non-compensation rewards like work satisfaction, better work environment, leadership roles etc. A host of factors influence compensation system in any organization, which are grouped as legal requirements market forces and organizational goals. Compensation structure refers to the composition of all emoluments and rewards given to the employees in the organization to attract, motivate and retain them throughout their careers. Designing a compensation structure requires matching of organizational resources, objectives with that of employee's expectations and their personal goals. Compensation structure decisions include conducting surveys, deciding the pay policy line, pay grades, pay ranges and corrections in pay rates to make them competitive with that of prevailing market rates. The organization can decide to either lead the market, match the market or lag the market, each of them having their own advantages and disadvantages. Updating salary structure is also an essential task more so because of changing technology, rapid growth of business, emerging talent and skills.

10.8 Self-Assessment Questions

1. Define compensation. What are its major determinants?
2. What factors influence compensation in any organization? What are the objectives of compensation?
3. "Designing a sound compensation structure is crucial to regaining the best talent in an organization." What major policy decisions are taken by an organization for the same?
4. What are the compensation decisions an HR expert needs to focus on?
5. What is the importance of conducting a survey? What care should be taken while designing it successfully?
6. What is the difference between pay grade and pay range? Write a note on their determination.
7. What are the major steps for designing compensation structure?
8. Write a short note on salary structure in Central Government.

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Unit – 11 : Managing Incentives and Rewards

Structure of Unit

11.0   Objectives

After completing this unit, you would be able tounderstand;

- The meaning and importance of incentives and rewards;
- Determinants of incentives;
- Classification of incentives;
- Incentives for operations employees:
- Incentives for Managers and Executives;
- Incentives for Salespeople;
- Guidelines for developing effective incentive plans;
- Non-monetary incentives.

11.1   Introduction

Workers are the most valuable resources of any organization. Employers use financial incentives to motivate employees to enhance their productivity. Financial incentives are financial rewards paid to workers whose production exceeds some predetermined standard. This was popularized by Fredrick Taylor in the late 1800's through the scientific management movements. From then on, financial incentives have been a part of employees compensation.The need for growing emphasis on pay for performance incentives is also attributed to growing importance to teamwork and employee commitment programs.To achieve success and enhanced productivity, organizations are striving towards lowering costs, restructuring and boosting performance which becomes a logical reason to link pay and performance.The entire thrust of such programs is to treat workers like partners and to get them to think of the business and its goals as their own. It is thus reasonable to pay them more like partners, too, by linking their pay more directly to performance.

147

11.2   Incentives : Meaning and Features

'An 'incentive' or 'reward' can be anything that attracts an employees' attention and motivates him to work In the words of Burack and Smith, "An incentive scheme is a plan or programme to motivate individual or group performance. An incentive programme is most frequently built on monetary rewards (incentive pay or monetary bonus), but may also include a variety of non-monetary rewards or prizes."

At the same time incentive does not include:

(i)   Wage and salary payments pay;
(ii)   Over-time payments, pay for holidays work or differential according to all, all payments which could be considered incentives to perform work at able times;
(iii)   Premium pay for performing danger tasks.

The **important features** of an incentive plan are as follows:

(i)   An incentive plan may consist of both 'monetary' and 'non-monetary' elements. Mixed elements can provide the diversity needed to match the needs of individual employees.
(ii)   The timing, accuracy and frequency of incentives are the very basis of a successful incentive plans.
(iii)   The plan requires that it should be properly communicated to the employees to encourage individual performance, provide feedback and encourage redirection.

In a nutshell, we can say that incentives are related with wage payment plans which tie wages directly or indirectly to standards of productivity or profitability of the organization or to both criteria. The use of incentives assumes that people's actions are related to their skills and ability to achieve important longer-run goals. Even though many organizations, by choice or contract, allocate rewards on non-performance criteria, rewards should be regarded as a "pay off" for performance.

- Incentives are monetary benefits paid to workmen in recognition of their outstanding performance. The international labour organization (ILO) refers to incentives as "payment by results".
- The primary advantage of incentives is the inducement and motivation for higher efficiency and greater output. Additional monetary benefits help not only the employees to improve their standard of living, it also helps organization to have better equipment utilization, reduced scrap and cost, lesser supervision and lower absenteeism and turnover and thereby greater output.
- Incentive schemes have been classified by ILO into four categories:
    (i)   Schemes in which earnings vary in proportion to output;
    (ii)   Schemes in which earnings vary proportionately less than output;
    (iii)   Schemes where earnings vary proportionately more than output;
    (iv)   Schemes where earnings differ at different levels of output.

11.2.1 Determinants of Incentives

The suitability and design of incentives are affected to varying degrees due to certain features/contingencies.These three variables which impact the incentives are as follows:

- **The Individual:**

    Different people value things differently because of their age, marital status, economic need and future objectives. Hence, same incentive may attract one individual which might not be so motivating for another individual.

- **The Incentive Plan:**

    The incentive plan itself has the potential to suit the requirements of the company and the employees, both.

    Monetary and non-monetary incentive plans motivate employees in varying degrees.

- **The Work Situation:**

    This is made up of four important elements:

    (i)   Technology; Machine or work system:If speed of equipment operation can be varied it can establish range of the incentive.

    (ii)   Satisfying job assignments: A workers job may incorporate a number of activities that he finds satisfying. Incentives may take the form of earned time-off, greater flexibility in hours worked, extended vacation time and other privileges that an individual values.

    (iii)   Feedback: A worker needs to be able to see the connection between his work and rewards. These responses provide important reinforcement.

    (iv)   Equity: Worker considers fairness or reasonableness as part of the exchange for his work.

Incentives, in general are important motivators. Their effectiveness depends upon three factors: drives, preference value and satisfying value of the goal objects.

The following generalizations about motivational impact of incentives are:

(i)   Incentives, whether they are monetary or non-monetary, tend to increase the level of motivation in a person.

(ii)   Financial incentives relate more effectively with basic motivation or deficiency needs.

(iii)   Non-financial incentives are linked more closely with higher motivation or becoming needs.

(iv)   The higher the position of a person in an organization's hierarchy, the greater is his vulnerability to non-financial incentives.

Monetary incentive imply external motivation, non-monetary incentives involves internal motivation. Both are important. It is a judicious mix-up of the two that tends to integrate incentives with motivation to achieve both organizational goals, as well as, employee contentment.

11.2.2   Classification of Rewards/Incentives

A. Rewards can be classified into:

- Direct Compensation includes –
    - ❖ Basic salary or wages for the job.
    - ❖ Overtime work.
    - ❖ Bonuses
    - ❖ Profit sharing and stock options.
- Indirect Compensation includes-
    - ❖ Pension and Insurance plans.
    - ❖ Pay for time not worked.
    - ❖ Services and Perquisites.

Indirect compensation are made available to all employees, irrespective of performance, hence they act as maintenance factors (to retain people in organization) rather than motivating them to perform better.

B. Another way in which rewards can be classified are:

- Intrinsic Rewards are those that the individual receives for himself and for the job he does.The techniques of job enrichment, shorter work weeks, flexible work hours, job rotation etc. can offer intrinsic rewards through providing interesting and challenging jobs and allowing workers greater freedom.
- Extrinsic Rewards refer to direct compensation, indirect compensation and non-financial rewards.

Although, money is an important motivating factor used to reward employees, yet a lot of controversy prevails over the effectiveness of money as a motivating factor. Despite the controversy, a more reasonable interpretation is that intrinsic motivation is increased by money if two conditions are met:

(i)   The monetary reward closely follows performance so as to be reinforcing, and

(ii)   The monetary reward is perceived by the employee to be a function of his work behavior.

11.3   Wage Incentives

The term wage incentives has been used both in the restricted sense of participation and in the widest sense of financial motivation.

A few **definitions** of wage incentives are as follows:

- According to **Hummel and Nickerson**, "It refers to all the plans that provide extra pay for extra performance in addition to regular wage for a job."
- **Florence** Observes, "It refers to increased willingness as distinguished from capacity. Incentive do not only aim to increase the national momentum towards productivity."

- In the words of **Scott**, "It is any formal and announced programme under which the income of an individual, a small group, a plant work force or all the employees of a firm are partially or wholly related to some measure of productivity output."
- According to the **National Commission on Labour**, "Wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present or targeted results."

To sum up, we can say that Wage Incentive is a system of payment under which the amount payable to a person is linked with his output. Such a payment may also be called payment by results. The term incentive has gradually acquired a wide connotation and includes all the possible factors, besides economic gains, which can possibly motivate human beings towards better and greater performance.

11.3.1 Objectives of Wage Incentive Schemes:

Wage incentive schemes aim at the fulfillment of one or more of the following objectives:

(i)   To improve the profit of a firm through a reduction in the unit cost of labour and materials or both;

(ii)   To avoid or minimize additional capital investment for the expansion of production capacity;

(iii)   To increase a worker's earnings without dragging the firm into a higher wage rate structure regardless of productivity; and

(iv)   To use wage incentives as a useful tool for securing a better utilization of manpower, better production scheduling and performance control, and a more effective personnel policy.

Merits of Incentive Plans:

(i)   Simple to calculate and easily understandable by employees.

(ii)   When properly applied, it yields increased output lower cost of production and bring a higher income to the workers.

(iii)   It is a direct stimulus to workers to improve the organization of work and to eliminate waste of resources and time.

(iv)   Labour and total costs can be estimated more accurately in advance.

(v)   Conflicting interests of employees and employers are unified which helps in creating and sustaining cordial relations between both.

Demerits of Incentive Plans:

(i)   Quality may suffer in the absence of effective quality check system.

(ii)   When new machines and methods are introduced, it may face opposition.

(iii)   Workers may regard their highest earning as norms and therefore, press for a considerable minimum wage.

(iv)   Cost of implementation of incentive scheme might be more than the benefits.

(v)   Danger of disregarding safety regulations is inherent when incentive plans are used.

(vi)   It also gives rise to jealousy among workers due to difference in their total wage payments.

(vii)   Setting of piece rates or bonus rates accurately is a complex task and so is the setting of standards.

11.3.2 Factors to be considered for successful wage incentive plan:

A successful wage incentives plan should consist of the following key point:

(i)   The effectiveness of an incentive depends on the total situation, which includes worker-management confidence, relations with the trade union, the quality of communication and of supervision and the traditions in an industry. The management should consider all of the above.

(ii)   Management should not introduce an incentive system until the participation of employees and negotiations with the trade union has been ensured.

(iii)   The management should avoid any action that may be interpreted unfair. There must be a proper machinery for handling grievance.

(iv)   It is essential that the management pay in proportion to output, once the output has risen above that required amount for guaranteed pay.

(v)   The management should train supervisors, foremen and department managers so that they are able to deal with problems within their own departments.

(vi)   Great care should be taken in setting up standards to avoid that are too loose or too tight.

11.4   Incentive Plans for Blue Collar Workers

They can be grouped under:

Short-term Plans: (Individual Plans)

Several Incentive plans are well suited for use with operational employees.

(i)   **Piecework** is the oldest one and still the most commonly used incentive plan. Earnings are tied directly to what the worker produces. He is paid a piece rate for each unit he or she produces. Developing a workable piece rate plan requires both – job evaluation and industrial engineering. Job evaluation enables to establish hourly rate to the job in question; whereas, standards are set through industrial engineering. There could be straight piecework plan or a guaranteed piecework plan. In a straight piecework plan, employee is paid on the basis of number of units produces; whereas, In a guaranteed piecework plan, an employee is paid a minimum wage irrespective of the units produced plus additional incentive on the number of units produced over a certain number.

(ii)   Halsey Premium Plan:

This is a time-saved bonus plan which is ordinarily used when accurate performance standards have not been established. Under this plan, it is optional for a workman to work on the premium plan or not & the day's wage is assured to him. A standard output within a standard time saved by the worker. If he does not complete the standard output within the stipulated time, he is paid on the basis of a time wage. The plan is a combination of the day wage and the piece wage in a modified form.

Merits:

The merits of this plan are:

(a) It guarantees a fixed time wage to slow workers and, at the same time, offers extra pay to efficient workers.
(b) The cost of labour is reduced because of the percentage premium system; the piece rate of pay gradually decreases with increased production.
(c) The plan is simple in design and easy to introduce.
(d) As the wages are guaranteed, it does not create any heartburning among such workers as are unable to reach the standard.

Demerits:

The disadvantages of the plan are:

(a) It depends upon past performance instead of making new standards.
(b) The workers can beat the game by spurting on certain jobs to capture a premium and soldiering on other jobs to rest under the protection of the guarantee of day wages.
(c) Form the point of view of the administration, the policy is one of drift, for, in this plan, the worker is left alone to decide whether or not to produce more after the standard has been reached.

(iii)   Halsey-Weir Premium Plan:

This plan is similar to the Halsey Premium Plan except that 50 percent of the time saved is given as premium to worker.

Bonus = ½ xTime Saved x Hourly Rate

(iv)   Rowan Premium Plan:

This plan differs from the Halsey Plan only in regard to determination of the bonus. In all other respects, the two are the same. The plan aims at ensuring the permanence of the premium rate, which is often cut by the employer when the worker's efficiency increase beyond a certain limit. The premium is calculated on the basis of the proportion which the time saved bears to standard time. The rowan plan has all the merits and demerits of the Halsey Plan except that, because of the limitation on earnings, it does not provide an incentive for maximum productivity.

(v)   The Bedeaux Point Plan:

This plan is used when careful assessed performance standards have been established. It differs from the 100 percent plan in that the basic unit of the time is the minute termed as B. every job is expressed in terms of Bs (after Bedeaux), which means that a job should be completed in so many minutes. If a particular work is rated at 60 Bs (or one B hour), the worker is allowed one hour for its completion and received a bonus of 75 percent for the number of Bs, i.e. time saved. Suppose a worker earns 600 Bs in a day; if the rate per point is Re. 0.01, his total earnings would be:

Rs. 4.80 x 0.01 + ¾ (600-480) x .01.

= Rs. 480 + Re. 0.90 = Rs. 5.70.

The chief advantage of this plan is that it can be applied to any kind of a job. It is particularly suitable for plants in which workers are assigned diverse kinds of jobs.

(vi)   Taylor's Differential Piece-Rate Plan:

This system was introduced by Taylor with two objects: First, to give sufficient incentive to workmen to induce them to produce up to their full capacity; and second, to remove the fear of wage cut. There is one rate for those who reach the standard; they are given a higher rate to enable them to get the bonus. The other is the lower rate for those who are below the standard, so that the hope of receiving a higher rate (that is, a bonus) may serve as an incentive to come up to the standard. Workers are expected to do certain units of work within a certain period of time. This standard is determined on the basis of time and motion studies. Such scientific determination ensures that the standard fixed is no unduly high and is within the easy reach of workers. On a proper determination of the standard depends the success of the scheme.

(vii)   Merrick's Multiple Piece Rate System:

This system, too, is based on the principle of a low piece rate for a slow worker and a higher piece rate for higher production; but the plan differs from Taylor's Plan in that it offers three graded piece rates instead of two. (i) Up to, say 83% of standard output piece rate + 10% of time rate as bonus; (ii) Above 83% and up to 100% of standard output – same piece rate + 20% of time rate; and (iii) Above 100% of standard output – same piece rate but no bonus. Such a scheme is usually introduce in an organization where the performance level is already high and management is aiming at 100% efficiency. Management has some discretion is distributing the 20% of time rate over 17% of production above 83%.

(viii)   The Gantt Task and Bonus Plan:

This plan has been devised by H.L. Gantt and is the only one that pays a bonus percentage multiplied by the value of standard time. Under this system, fixed time rates are guaranteed. Output standards and time standards are established for the

performance of each job. Workers completing the job within the standard time or in less time receive wages for the standard time plus a bonus which ranges from 20 percent to 50 percent of the time allowed and not time saved. When a worker fails to turn out the required quantity of a product, he simply gets his time rate without any bonus. Under this plan, there are also three stages of payment: (i) Below the standard performance, only the minimum guaranteed wage is to be paid; (ii) at the standard performance, this wage + 20% of time-rate will be paid as a bonus; and (iii) when the standard exceeded, a higher piece rate is paid but there is no bonus. This system is most profitable for workers whose efficiency is very high. The basic wages rise proportionately as under ordinary piece wage system, and the bonus is allowed on the increased wage. In addition to this workers with lower efficiency are not penalized, as they are in Taylor's Differential Piece Rate.

(ix)   Emerson Efficiency Plan:

Under this system, a standard time is established for a standard task. The day wage is assured. There is no sudden rise in wages on achieving the standard of performance. The remuneration based on efficiency rises gradually. Efficiency is determined by the ratio between the standard time fixed for a performance and the time actually taken by a worker. Thus, if the period of 8 hours is the standard time for a task and if a worker performs it in 16 hours, his efficiency is 50 percent. He who finished the task in 8 hours has 100 percent efficiency, at which stage he receives a nominal bonus. This bonus goes on increasing till, when he achieves 100 percent efficiency, the bonus comes to 20 percent of the guaranteed wage. At 120 percent efficiency, a worker receives a bonus of 40 percent and at 140 percent efficiency the bonus is 60 percent of the day wage.

(x)   Co-Partnership System:

This system tries to eliminate friction between capital and labour. Under this system, not only does a worker share in the profits of the undertaking but he also takes part in its control and, therefore, shares responsibilities. There are different cases; but in a complete co-partnership system, the following factors are present:

(a) The payment of the existing standard wages of labour;
(b) The payment of a fixed rate of interest on capital;
(c) The division of the surplus profit between capital and labour in an agreed proportion;
(d) The payment for a part of the worker's labour by the allotment of a share in the capital;
(e) The sharing in the control of the business by the representatives of labour.

The system arouses and sustains the interests of the workers in their work. By giving them a voice in the management of the factory it raises their status as well. As they have become partners in the business, they try to make it a very profitable enterprise.

(xi) **According Premium Systems:**

There are the system which provide for a guaranteed minimum wage for output below standard. For low and average increases in output above the standard, small increment in earnings are allowed. Increasingly large earning are conceded for above average output, the increment being different for each 1% increase in output. Very significant increases in earnings are given for really high output. In this system, the production is pushed up higher and higher by discouraging low output and rewarding at an increasingly effective rate higher outputs. Such schemes are generally adopted when much higher outputs than what are currently obtained are to be achieved.

11.4.1 Pre-requisites of a Good Wage Incentive Scheme:

Incentive schemes should not be introduced in haste due to pressures of workers and trade unions. If done, it may result in a number of personal problems.

To avoid them, it is advisable that a proper climate exist for the introduction of such schemes.

Some important considerations which should ordinarily be taken into account while choosing a particular type of wage incentive scheme are:

(i)   The management should strive to create a <u>proper industrial relations</u> climate before introducing incentive schemes.

(ii)   The objectives of the scheme must be <u>clear</u> and these should be well <u>understood</u> at the levels of management and of workers. At every stage, right from the conception of the scheme to conducting studies, etc., all the workers and supervisors should be consulted so that they understand the objectives and benefits of the scheme and may contribute to its success.

(iii) Incentive schemes should be installed only when <u>production has reached 60 percent of the rated capacity</u>. The quantum of incentive paid at the low levels of production and efficiency should be such as to ensure that earnings continuously increase when the targets are raised.

(iv)   The scheme chosen should be one which would result in overall economy for the establishment. Incentives should not only increase production but also result in <u>higher productivity and lower cost</u> per unit; and the gains of increased productivity should be shared both by the employer and the employed.

(v)   The scheme should not be very <u>costly</u> in operation.

(vi)   The scheme should be <u>based on a work study</u>, and the work contents of various jobs should be stabilized.

(vii) In principle, each individual or group should be paid according to <u>effort</u> and <u>productivity</u>, for disparity in earnings may create discontent.

(viii) The scheme should have <u>elasticity</u> to take care of technological and other changes taking place form time to time and rectify errors that may have crept in at the time of its initial introduction.

(ix) The scheme should <u>stimulate co-operation</u> with a view to achieving the common objective of increasing the well-being of the business and, therefore, of the workers in general.

(x) <u>Performance standards and norms</u> for incentive payments should be set up at the average performance level of the employees, i.e. they should <u>not be too high nor too low</u>.

(xi) Incentive payment should be made as soon as possible after a job is completed. Any hastily conceived or haphazardly introducedincentive scheme does more harm than good. Therefore, it should be introduced after a proper consideration of the <u>preparatory measures</u>.

Long-term Plans:

Group Incentive Wage Plans:

Group incentive plans are applied for a group where each member of the group receives a 'bonus' based on the output of the group as a whole.

When the jobs are inter-related and the work cannot be assigned to one worker alone, then group incentives are applicable. The major reasons for adopting such a plan are because of the **advantages** it offers:

(i) When several jobs are inter-related, one worker's performance reflects not only his own effort but that of his co-workers too.

(ii) These plans encourage co-operation among group members.

(iii) It keeps group members to perform at their best and even promotes slow workers to speed up; which also eliminate the need of supervision to some extent.

(iv) Group production levels tend to be more stable.

(v) It also facilitates on-me-job training as each member helps the other to earn betel skills so that the productivity is improved.

Disadvantages of Group Plans:

(i) Each worker's rewards are no longer based soley or directly on his own efforts. To the extent that person does not see his effort leading to the desired reward a group plan is probably not as effective as an individual plan.

(ii) There is unevenness of performance of different members of the group and this may have resentment of active members against mere 'passenger'.

(iii) Ill-feeling may be generated among the groups themselves where the technology is such that one group's earnings depend on the performance of another group.

Forms of Incentive Plans:

Group incentive plans are usually applied to small work groups, for example, 5 or 6 people who must assemble a component together. The incentives usually take three forms.

1. (a) A standard output, i.e. target production, may be laid down for a month or a larger period and bonuses are paid if this is achieved; and (b) A standard output per man-hour is laid down for a department or for the plants as a whole, and the bonus is paid in proportion to which the actual output per man-hour exceeds the standard, the other conditions of work remaining the same.
2. The 'Value added' by manufacture at factory cost leading to cost reduction forms the basis for calculating the bonus. If the actual cost of production is lower than the 'standard cost' to the extent the workers are able to influence such reduction – by harder working, saving in materials, fuels, lubricants, etc. – a bonus whose money value is a percentage to the cost reduction is paid.
3. Bonus can also be calculated on the increased value of sales where this result is obtained by increased production.

The Group Incentive Plans can be studied under the following heads:

A. Profit Sharing:
Profit-sharing is regarded as a stepping stone to industrial democracy. "Profit-sharing is an arrangement by which employees receive a share, fixed in advance of the profits." Profit-sharing usually involves the determination of an organization's profits at the end of the fiscal year and the distribution of a percentage of the profits to workers qualified to share in the earnings. The percentage to be shared by the workers is often predetermined at the beginning of the work period and is communicated to the workers so that they have some knowledge of their potential gains. To enable the workers to participate in profit-sharing, they are required to work a certain number of years and develop some seniority. The theory behind profit-sharing is that management feels its workers fulfill their responsibilities more diligently if they realize that their efforts may result in higher profits, which will be returned to the workers through profit-sharing.

Features of Profit-sharing:

The main features of the profit-sharing schemes are:

(a) The agreement is **voluntary** and based on **joint consultation** made freely between the employers and the employees.
(b) The payment may be in the form of cash, stock of future credits of some amount over and above the normal remuneration.
(c) The employees should have some minimum qualification, such as tenure or satisfy some other condition of service which may be determined by the management.

(d) The agreement on profit-sharing having been mutually accepted, is binding and there is no room on the part of the employer to exercise discretion in a matter which is vital to the employees.

(e) The amount to be distributed among the participants is computed on the basis of some agreed formula, which is to be applied in all circumstances.

(f) The amount to be distributed depends on the profits earned by an enterprise.

(g) The proportion of the profits to be distributed among the employees is determined in advance.

Profit-sharing is a distinctly progressive measure towards industrial harmony. It may be considered as a step short of joint consultation or co-partnership schemes.

- There are three main characteristics of labour remuneration in the form of profit-sharing, which distinguish it from gain-sharing and from an ordinary system of wage payment. These features are:

(a) A share in profits is payable at long intervals when the final accounts of a firm are prepared and its profit or loss ascertained.

(b) The payment is of an uncertain nature because of the uncertainty of profits. Sometimes there may be no profits or very high profits; in other cases, there may actually be some losses.

(c) The payment is not based on individual work, efficiency or merit, but is a remuneration for collective effort, the total remuneration due to workers being equally divided among them or in some agreed proportion.

(d) The payment is sometimes regarded as a windfall gain or as something a worker is entitled and not as something which is made to him for his efficiency.

Objectives of Profit Sharing:

It is one of the most important part of progressive policy.

The critical ingredient in profit sharing is the understanding between the employees and management which creates better employee relations.

It is formulated at top because it is a principle & technique of leadership.

A profit sharing scheme is generally introduced to achieve the following objectives:

(i)   To promote industrial harmony and have a stable work force.

(ii)   To eliminate waste in the material & equipment waste.

(iii) To increase the interest of employees in their work by instilling a sense of partnership.

(iv)   To attract and retain desirable employees.

(v)   To ensure group incentive for larger output and hence attain higher productivity.

(vi)   To ensure employee security.

(vii) To demonstrate some measure of social security.

Requisites for Profit-sharing:

To be effective, profit-sharing schemes should take into consideration the following factors-

(i)   Profitability of Industrial Units:

Only units which are profitable and can maintain their profitability should adopt such schemes.

For the profit sharing scheme to be sound and not merely a scheme on paper, the organization should ensure stable and good working environment, profits to be long term high and business condition being favourable; only then profit sharing schemes can be effectively implemented.

(ii)   Computation of Surplus Profit:

Surplus profits should be calculatedafter making provisions for depreciation and modernization costs.

Losses, when they occur should be deducted before the profits for the subsequent years are achieved.

(iii)   Fair Return on Capital:

The return on the capital invested in an enterprise should be that which would encourage partnership investment. It should be at least 6 per cent on paid-up capital, with a charge of 10 per cent to be made for reserves.

B. The Scanlon Plan:

This plan was developed in 1937 by Joseph Scanlon a Lecturer at the Massachusetts Institute of Technology and a trade union leader in a steel mill. The plan was designed to involve the workers in making suggestions for reducing the cost of operation are improving working methods and sharing in the gains of increased productivity.

The plan has two basic features:

- One, financial incentives aimed at cutting cost and thereby increasing efficiency are installed.
- Two, a network of departmental and plan screening committees are set up to evaluate employee and management cost-cutting suggestion.
- The plan is essentially a suggestion system and assumes that efficiency requires company-wise/plant-wise co-operation.

Usually all employees in the plant participate in the plan. Workers, supervisors and managers make cost-cutting suggestions that are screened and evaluated by the various screening committees. If a suggestion is implemented and successful, all employees usually share in 75% of the savings, and the rest 25% is set aside for the months in which labour costs exceed the standard. The Scanlon plan has been successful, where adopted. It

tends to encourage a sense of partnership and sharing among workers, less over-time and employees insistence on efficient management.

Certain conditions need be fulfilled to make the plan successful:

    (i)   They are more effective where there is a relatively small number of participants, generally less than 1,000.

    (ii)   It is more successful where there are stable product lines and costs.

    (iii)   There should be good supervision and healthy labour relations.

    (iv)   There should be a strong commitment to plan on the part of management.

11.5 Incentives for Managers and Executives

Most employers reward their managers and executives a bonus or incentive because of role managers play in determining divisional and corporate profitability.

Short-term Incentives: The Annual Bonus

Annual bonus is given to employees to motivate the short-term performance of their managers and executives.

There are **three** basic issues to be considered while awarding short-term incentives:

(i)	**Eligibility –**	Key position, salary grades and salary levels Cut-off point can be considered for eligibility criteria for payment of incentive.
(ii)	**Fund Size -**	Next, the decision regarding fund size – the total amount of bonus money available for distribution must be calculated.
(iii)	**Deciding Individual Rewards -**	The third issue is to decide the individual rewards to be paid. Typically, a target bonus is set for each eligible position and adjustments are then made for greater or less than targeted performance.

An important consideration to be kept in mind is whether the managers should be given bonus on individual performance or the corporate performance.

Generally, at higher and top level the bonuses are tied to corporate results as it is believed that corporate performance reflects top management decisions. And, as one moves down to supervisory levels, individual performance determines individual bonus.

Long-term Incentives:

Long term incentives are intended to motivate and reward top management for the firms long-term growth and prosperity and to induce a long term perspective into the executives decisions. Long-term incentives are also intended to encourage executives to stay with the company with more stability. The popularity of these plans changes over time due to:

- Economic conditions and trends;
- Internal company financial pressures;
- Changing attitudes towards long-term incentive plans;
- Changes in tax laws.

The various incentives are:

(i)   Stock Options –

The right to purchase the stated number of shares of a company stock at current prices at a future date. The employees can take advantage of the increase in the value of share by exercising his right at a time when the share prices have risen.

(ii)   Stock Appreciation Rights -

They are usually combined with stock options. This plan permits the recipient either to exercise the option (by buying the stock) or to take any appreciation in the price of stock in the form of cash, stock or some combination of these.

(iii)   Phantom Stock Plans –

In such plans, executives receive 'units' and not shares which are quite similar though. Then at some future time they receive value (usually in cash) equal to the appreciation of the 'Phantom' stock they own.

(iv)   Performance Plans –

Performance plans are plans whose payment or value is contingent on financial performance measured against objectives set at the start of a multiyear period. Such plans pay executives on the basis of firms performance and at the same time build in risks of the firm.

Implementing Long-term Incentives:

Successful long-term incentive plans should-

(i)   Use Measures of performance that correlate with shareholder wealth creation (that is return on equity and growth) not earnings per share growth.
(ii)   Establish valid target levels and communicate them clearly to participants, and
(iii)   Performance standards to be modified if market conditions warrant it.

11.6 Incentives for Sales Force

Sales compensation plans are very popularly used to motivate salespeople.

Although, sales commission may vary from industry to industry, yet the most prevalent approach is to use a combination of salary and commission plans.

There are several incentive plans, each appropriate for different markets, products etc., but all plans are basically variations of three types of plans:

(1.) Straight Salary Method:

It is not an incentive plan; the salesman is simply paid on weekly, monthly or on yearly basis. The **advantages** of this method are:

- The salesmen know their salary in advance.
- Even the companies predict their expenditure in advance.
- It is easier to reassign quotas or territories.
- Long-term customer relationships can be developed.

The main **drawbacks** are:

- It tends to shift the focus of salesmen to selling high volume items rather than prospecting and cultivating customer relations.
- Salary plans do not depend upon results. Seniority gets rewarded rather than performance.

(2.) Straight Commission Basis:

Under this method the salesmen are paid on the basis of sales effecter, i.e. they are paid for results and only for results. Therefore high performance salesmen are generally attracted.

- Secondly, it is easy to understand and implement.
- Sales costs are reduced.

The Disadvantages are:

- Salesmen focuses on making a sale on high volume items. Cultivating dedicated customers and working 'push' hard-to-sell items are often neglected,
- Salesmen tend to be less company-oriented and more money-oriented, and the company has less control over them,
- Salesmen's income generally fluctuates widely.

(3.) Combination Method of Salary and Commission Basis:

Under this, salesman not only get a fixed salary but also a commission in proportion to the sales effected. The **advantages** of this method are:

(i)   Since salesmen are assured of minimum earnings, they are relieved of financial worries.

(ii)   The company has more control over its salesmen, as there is sizable salary component in most combination plans. So that it can direct salesman's activities by detailing what services and salary component is being paid for.

But the main **disadvantages** is that salary is not related to performance; only incentive value of money is being traded off for its security value. Such plans also tend to become very complicated, and misunderstanding often results in frustration. In spite of these disadvantages, these plans are widely used with several basic variations one such being.

(4.) Salary Plus Commission:

Commission Plus Drawing Account where not only commission is paid but the salesman is also allowed to draw on future earnings to get him through low sales period; commission plus bonus, where salesmen are paid primarily on the basis of commission but they are also given a bonus for activities like "slow moving" items; and salary plus bonus, wherein salesmen are paid a basic salary; and also given a bonus for carrying out specified activities.

11.7 Non-Monetary Incentives

While monetary incentives often appear as important motivators, many non-monetary rewards also attract and motivate employees.

Following are some examples of non-monetary incentives:

The need-motives for affiliation, power and recognition in particular can be appealed to by such incentives. For example,

1. A person with strong need for affiliation may respond readily to job assignments that provide with opportunities to relate to socially attractive and satisfying individuals or groups.
2. The opportunity to communicate with and relate to others is a factor many workers emphasize and seek.
3. Persons, who are very status conscious, can be motivated with the availability of a paneled office, a carpeted floor and wall painting, a large desk and aristocratic furniture, impressive job title, their own visiting cards, their own secretary and telephone.
4. An employee with high-level desires for power may respond easily to opportunity whereby he can gain leadership and administrative responsibilities.
5. Persons interested in enhancing their reputations and receiving recognition in the eyes of others may respond to verbal 'praise' or two publicized 'awards'.
6. Persons proud of their long service may be attracted by awards recognizing their seniority.
7. When allowed to participate in important matters and their decisions, some people might feel very motivated.

Non-monetary incentives do not appeal similarly to all.

As the old proverb goes: "One man's food is another man's poison" certainly applies to rewards. What one employee views as "something I have always wanted", another finds superfluous. Therefore, care must be taken in providing the "right" reward for each person.

11.8 Guidelines for Developing Effective Incentive Plans

There are three major practical considerations in developing an effective incentive plan.

(I) Conditions under which straight salary or pay based on time on the job are appropriate:
1. When units of output are difficult to distinguish and measure, straight salary or wages (or perhaps a group incentive plan) is more appropriate.
2. When employees are unable to control quantity of output, pay based on time may be more appropriate.
3. When delays in the work are frequent and beyond employees' control, it is impractical to tie workers' pay to their output.
4. When quality is a primary consideration, pay based on time may be more appropriate.
5. Installing an incentive plan often requires an investment in industrial engineering, methods analysis, and computation of unit labour costs.

Therefore, in general, it makes more sense to use an incentive plan when:
1. Units of output can be measured.
2. There is a clear relationship between employee effort and quantity of output.
3. The job is standardized, the work flow is regular, and delays are few or consistent.
4. Quantity is less important than quantity, or if quantity is important, it is easily measured and controlled.
5. Competitive conditions require that unit labour costs be known and precise.

(II) Specific Common Sense Guidelines:
1. **Attainable Standards:** This standard set has to be attainable; necessary tools, equipment, training etc. should be timely provided.
2. **The Reward Must be Valuable to the Employees:** Increased monetary earnings must be relative to current or visible future needs.
3. **The Reward Must be Clearly Identifiable:** Individual's or groups' contributions and efforts must be clearly identifiable, if rewards are to be given for specific performance.
4. **Methods and Procedures Must be Carefully Studied:** Careful observation and measurements, define fair performance standards on which the plan is to be based.
5. **The Plan Must be Understandable and Easily Calculable by the Employees:** The incentive plan should be easily understood by the workers so that they can easily calculate personal cost benefit for various levels of effort put by them.
6. **Effective Standard Must be set:** The standards of which the plan is to be base should be effective, fair, reasonable, specific and complete. Quantity should not be neglected.
7. **Standards must be guaranteed:** The standard should be viewed as a contract with the employees. Once the plan is operational, great caution should be used before decreasing the size of the incentive in any way.

8. **An Hourly Base Rate Must be guaranteed:** At least the plant employees should be guaranteed the base rate. Moreover, there should be one base rate for a job regardless of whether or not it is on 'incentives'.

9. **Clear Policies and Rules Must be Developed:** Specific policies and rules concerning how employees will be paid, and the rules for attaining the standard (and incentives) should be clear to both manager and employees.

10. **Rewards must be Consistent with Government Regulations:** The incentives offered must govern regulations regarding compensations. The level of the reward and the frequency of it must meet minimum wage guidelines.

11. **Rewards must be Granted Promptly:** The incentive plan should provide for rewards to follow quickly after the performance that justifies the reward.

12. **The Plan Must be within the Financial and Budgetary Capacity of the Organization:** It must be compatible with the financial resources available.

13. **Additional Reinforcement Must be provided:** The incentive plan can be more effective if high performance is encouraged and reinforced by management and subordinates.

14. **It Must Minimize Frictions between Workers:** Ideally, the plan encourages workers to support each other rather than to be non-co-operative.

11.9 Summary

Workers are the most valuable resources of any organization. Employers use financial incentives to motivate employees in order to enhance their productivity and thereby the organizational productivity. Incentives can be in the form of monetary, as well as, non-monetary rewards. The major determinants of incentives are: The individual needs, demographic variables, of personal objectives, The work environment which includes technology, satisfying job assignments, feedback and equity, Incentive plan which could be monetary, as well as, non-monetary. Rewards can be classified as Intrinsic and Extrinsic. Extrinsic rewards can be either Direct, Indirect or Non-financial each having its own suitability merits and demerits. Incentive plans for the blue collar workers can be short-term (Individual Plans) and long-term (Group plans). The important short-term plans are Halsey Premium Plan, Rowan Plan, Emerson, Taylor, Merrick and Gantt Plans. Profits-sharing plans and Scanlon Plan are major group incentive plans. Annual bonus and a few long-term incentives like capital accumulation programs and stock options are appropriate for managers and executives. Incentives for salespeople are specifically designed for meeting their motivational requirements. A few options for them include straight salary method and commission plan. A combination of both can also be given to retain and motivate them. Non-monetary incentives also motivate employees, but the same incentive cannot motivate all of them in a similar fashion. Hence, care should be exercised while giving non-monetary incentives to different employees. Lastly, guidelines for effective development of incentive schemes should be considered. If these guidelines are adopted, it can result in such incentive plans which can not only motivate employees, but also help fulfill long-term organizational goals of higher productivity and profitability.

11.10 Self Assessment Questions:

1. Why should organizations introduce incentives?
2. Define 'Incentives' what are its major determinants?
3. What are the major types of incentives?
4. Discuss the objectives, merits and demerits of incentives?
5. What are the various individual incentive plans for blue collar workers? Discuss a few important ones pointing out to its merits and demerits.
6. What are the advantages of inducing group incentive plans? What are its disadvantages?
7. 'Profit-sharing' is referred to as stepping stone to industrial democracy. Elucidate, how does it differ from wage payment? What are the major requisites for profit-sharing?
8. What are the major incentive options available to you to be introduced for managers and executives?
9. "Sales compensation plans are very popularly used to motivate salespeople." Write a note on various incentive plans.
10. Write a short note on non-monetary incentives.
11. What are the major guidelines for developing effective incentive plans?

11.11 Reference Books

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Unit -12 : Managing Employee Benefits

Structure of Unit

12.0   Objectives

After you have read this chapter, you should be able to:
- Define a benefit and identify the goals of benefits.
- Understand mandated and voluntary benefits.
- Understand Benefit Management.
- Understand the process of benefits management.
- Identify the various challenges for an employer in managing the benefits.
- Understand different company's' benefit management.
- Identify the various laws which affect the employees' benefits and compensation.

12.1 Introduction

Employees today are not willing to work only for the cash alone, they expect 'extra'. This extra is known as employee benefits. Also known as fringe benefits, Employee benefits are non-financial form of compensation offered in addition to cash salary to enrich workers' lives. In addition to offering competitive pay, one of the ways a company can attract and retain efficient task force is offering employee benefits. A company needs to maintain the proper balance between turning a profit and paying for employee benefits. Business owners must exercise vigilance to ensure that the cost of the employee benefits does not affect a company's revenue stream. Managing employee benefits plays an increasingly important role in the lives of employees and their families. Offering employee benefits has a significant financial and administrative impact on the business. Just as healthy diet is necessary for maintaining a healthy body, a balanced compensation programme is necessary for healthy organization. Employers must be aware of these issues and be ready to make educated decisions when they select employee benefits. Designing the right benefit plan for the employees is a complex task. There are many issues to consider, including tax and legal aspects, budgets, finding the right vendors or service administrators.

12.2   What are the Benefits?

An indirect compensation given to an employee or group of employees as a part of organizational membership is known as benefit.

12.2.1   Objectives-

•   Employers are able to attract and retain employees who will contribute to the organization's success.

•   Employees feel they are compensated/ rewarded fairly/equitably for their efforts and contributions to an organization's success.

•   To address various issues arising due to increasing trends of dual-career couples and single parent family.

•   Helps in designing competitive compensation packages to compete in tight labour market.

Employer Voluntary Benefits-

Those benefits which are decided and applied by the employer at the organizational level only are called employee voluntary benefits. They differ from one organization to the other. Both the government mandatory and employer voluntary benefits are discussed below:-

1.   Security Benefits

•   Worker's Compensation

   ➢   Benefits provided to persons injured on the job or death at the workplace.

•   Unemployment Compensation

   ➢   A Federal/state payroll tax that funds state unemployment systems.

   ➢   Involuntary unemployment and actively seeking work is required for persons to claim benefit.

•   Supplemental Unemployment Benefits (SUB)

   ➢   A union-negotiated benefit provision that pays a supplemental amount to laid-off employees who are drawing unemployment compensation.

•   Severance Pay

   ➢   A security benefit voluntarily offered by employer to employees who lose their jobs.

   ➢   Payments are determined by the employee's level within the organization and years of employment.

   ➢   Other benefits (e.g., outplacement and continued health insurance) may be offered in lieu of cash severance payments.

2. Retirement Benefits

- **Retirement and Age Discrimination-** This benefit is provided to the employees after their retirement and it also reduces the age discrimination at the workplace while providing retirement benefits. This benefit ensures that retirement benefit must be provided to the employees after completion of a certain age and it should be same for every employee. It includes the Employees' Provident Funds & Miscellaneous Provision Act, 1952 (EPF & MP Act). The act was enacted with the main objective of making some provisions for the future of industrial workers after their retirement and for their dependents in case of death. It provides insurance to workers and their dependents against risks of old age, retirement, discharge retrenchment or death of the workers. Early retirement Options like VRS (Voluntary Retirement Scheme) in which employees are free to get retirement before the standard age of retirement.

- **Pension Plans**
  - ➢ Retirement benefits established and funded by employers and employees.
  - ➢ **Defined-benefit plans :** Employees are promised a definite pension amount based on age and length of service.
  - ➢ **Defined-contribution plans :** Employer makes an annual payment to an employee's account. Benefit payout is determined by the financial performance of the employee's retirement.
  - ➢ **Cash Balance Plans :** Benefits are based on an accumulation of annual company contributions, expressed as a percentage of pay, plus interest credited each year.

- **Employee Retirement Income Security Act (ERISA)**
  - ➢ Regulates pension funds to assure their soundness.
  - ➢ Requires firms to offer retirement plans to all employees if offered to any employees.
  - ➢ Accrued benefits must be paid to departing employees.
  - ➢ Requires minimum funding for IRS approval and purchase of plan termination insurance.

3. Health Care Benefits

- COBRA and HIPAA Provisions- COBRA requires that group health plans sponsored by employers with 20 or more employees in the prior year offer employees and their families the opportunity for a temporary extension of health coverage (called continuation coverage) in certain instances where coverage under the plan would otherwise end.

The law covers group health plans maintained by employers with 20 or more employees in the prior year. It applies to plans in the private sector and those sponsored by state and local governments. Provisions of COBRA covering state and local government plans are administered by the Department of Health and Human Services.

HIPAA is directed at health insurance carriers and plan sponsors. Anyone covered under a full-risk health benefits plan issued by a carrier or covered under a self-insured health benefits plan offered by a plan sponsor, is subject to federal HIPAA.

- Medical and Dental- It includes all the medical and dental benefits to the employees of the organization.
- Wellness Programmes:- Many employers are starting to see the value from incorporating wellness initiatives into their work places

  ➢ disease management

  ➢ health risk assessments

  ➢ fitness programs

  ➢ on-site clinics and pharmacies

4. Financial Benefits- It includes the following benefits:
- Life Insurance – When an income provider (employee) dies, there is a significant impact on the finances of the surviving family. It provides income while the Employee's family is adjusting. It covers medical and funeral expenses.

- Educational Assistance- The employer provides the funds as a benefit to employee for his/her children's education and other related expenses.

- Financial Services- In this the employer provides counselling related to financial matters and also help the employees in framing credit unions so that they can easily get the finance at cheaper rates.

5. Family Benefits:
   Family Medical Leave Act (FMLA) –
   - Coverage

     ➢ Employers with 50 or more employees

     ➢ Employees who have worked at least 12 months and 1,250 hours in the previous year.

   - Requirements

     ➢ Employers must allow eligible employees to take up to a total of 12 weeks of unpaid leave in a 12-month period to attend to a family or serious medical condition.

     ➢ Employees have the right to continued health benefits and the right to return to their job.

- Benefits for Domestic Partners-
  - ➢ Domestic Partners or Spousal Equivalents
    - o Unmarried employees who are living with individuals of the opposite sex
    - o Gay and lesbian employees who have partners
  - ➢ Affidavit of Spousal Equivalence
    - o Each is the other's only spousal equivalent.
    - o They are not blood relatives.
    - o They are living together and jointly share responsibility for their common welfare and financial obligations.
- Adoption Benefits- An adoption benefits plan is a company-sponsored program that financially assists or reimburses employees for expenses related to the adoption of a child and/or provides for paid or unpaid leave for the adoptive parent employee. Financial assistance may be reimbursement for specific costs or a set amount of money, regardless of actual expenses. Adoption leave may be paid or unpaid and provides the time following the adoption for the parent to help the child bond and feel comfortable. Some companies offer a combination of financial help and leave time.

6. **Time-Off Benefits**
- Military Reserve Time off- An employee is entitled to time off at full pay for certain types of active or inactive duty in the National Guard or as a Reserve of the Armed Forces. Military leave should be credited to a full-time employee on the basis of an 8-hour workday. The minimum charge to leave is 1 hour. An employee may be charged military leave only for hours that the employee would otherwise have worked and received pay.
- **Election and Jury Leave-** Time-off benefits for employees can be offered at the employer's discretion, but several are mandated by federal and/or state law. Required time-off benefits include time off to vote, jury duty leave.
- **Holidays and Vacations-** these leaves are in the discretion of the employer to provide the holidays and vacations to the employees.
- **Family Leave-** Various leaves for family related issues like marriage, maternity etc are also provided by the organization.

7. **Miscellaneous Benefits**
   - Social and Recreational programme and events like birthdays, deaths, marriages etc and shifting of home, renovation etc.
   - Unique Programmes

For all these events benefits are provided by the organization or employer.

12.3   Benefits Management

Benefit is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing government mandatory and employer voluntary benefits to employees. Benefit is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness. It is a combination of a series of activities, which includes:

- **Benefits Design-** The process an organization uses to determine which benefits or the level of benefits that will be offered to its employees, the degree to which employees will be expected to share the costs of such benefits.

Decisions Affecting Benefit Design:
➢ Amount of total compensation, including benefits, should be provided.

➢ The part of total compensation of individuals should benefits comprise.

➢ Determination of benefits for each employee according to their performance and other factors.

➢ Determination of expenses for each benefit.

➢ Organizations expectations in return of the benefit from employees.

➢ Determination of "flexible benefits plans (A program that allows employees to select the benefits they prefer from groups of benefits established by the employer)."

- **Benefits Administration-** Benefits administration involves the creation and management of employee benefits, as well as providing a means for employees to be trained in understanding how the benefits work, and what types of standards employees must meet in order to qualify for the benefits.

Figure 14.4.1 Benefits Administration

- **Technology Administration**- it includes identifying and selecting the most appropriate technology for benefit administration and in a way managing the benefits.
- **Benefits Measurement**: - It is the process of measuring and analyzing the designed benefits. It includes the following measurement tools:
  - ➢ Benefits as a percentage of payroll (pattern over a multi-year period)
  - ➢ Benefits expenditures per full-time equivalent (FTE) employee
  - ➢ Benefits costs by employee group (full-time vs. part-time, union vs. non-union, office, management, professional, technical, etc.)
  - ➢ Benefits administration costs (including staff time multiplied by the staff pay and benefits costs per hour)
  - ➢ Health-care benefits costs per participating employee
- **Benefits Cost Control: -** When the cost of benefits exceeds the estimated or forecasted total cost of compensation of an organization then benefit cost control technique is adopted. This activity involves the following decisions:
  - ➢ Reducing or dropping benefits- In this some benefits which seems to be less important from company's point of view are removed from the overall benefit programme.
  - ➢ Cost sharing with employees- Some or a part of cost is shared by the employees and the other part is shared by the employer like in case of Health care plans.

  - ➢ Sponsoring wellness programmes- like fitness, nutrition, financial planning, social connections and support systems, stress management, mind-body health, career planning and continued learning.

  - ➢ Fostering employee health education- Imparting education to employees on health related issues and queries.

  - ➢ Negotiating reduced rate benefit contracts- It involves negotiating the rates of benefit contracts and deciding or finalizing the most reasonable benefit contract.

  - ➢ Consolidating of benefit packages- It means providing a collection of various benefits in a single package so that the rates of individual benefit can be reduced.
- **Communication to employees:** - It includes providing the knowledge to the employees regarding various benefits. Communication can be done in three ways to the employees-
➢ Summary Plan Description:-
  - • It includes the details regarding the rights and benefits associated with a particular plan.

  - • This is required by the Employee Retirement Income Security Act (ERISA).

> Benefits Statement:-

- It is a "personal statement of benefits" that is given to employees as part of a total rewards education and communication effort.

- ERISA also requires that employees receive an annual pension-reporting statement.

> The Internet and Benefits Communication:-
- Web-based HR information systems allow employees to change their benefit choices, track their benefit balances, and seek benefit information on-line.

12.4 Laws for Employees Benefits and Compensation

1. **Fair Labour Standards Act (FLSA):-** the Fair Labour Standards Act of 1938 (abbreviated as FLSA; also referred to as the Wages and Hours Bill) federal statute The FLSA introduced a maximum 44-hour seven-day work week, established a national minimum wage, guaranteed "time-and-a-half" for overtime in certain jobs, and prohibited most employment of minors in "oppressive child labour", a term that is defined in the statute. It applies to employees engaged in interstate commerce or employed by an enterprise engaged in commerce or in the production of goods for commerce, unless the employer can claim an exemption from coverage.

2. **Employee Income Retirement Security Act of 1974 (ERISA):-**Regulates pension funds to assure their soundness. Requires firms to offer retirement plans to all employees if offered to any employees. Accrued benefits must be paid to departing employees. Requires minimum funding for IRS approval and purchase of plan termination insurance.

3. **Age Discrimination and Employment Act (ADEA):-** This act requires equal treatment for older workers in early retirement or severance situations in setting forth specific criteria that must be met when older workers sign waivers promising not to sue for age discrimination.

4. **Family Medical Leave Act (FMLA) of 1996:-**
   - **Coverage** : Employers with 50 or more employees, Employees who have worked at least 12 months and 1,250 hours in the previous year.

   - **Requirements** : Eligible employees can take up to a total of 12 weeks of unpaid leave in a 12-month period to attend to a family or serious medical condition, Employees must exhaust all other forms of leave, Employees have rights to continued health benefits and to return to their job.

5. **Workers compensation act 1987**- An Act to provide for the compensation and rehabilitation of workers in respect of work related injuries; to repeal the Workers' Compensation Act 1926 and certain other Acts; and for other purposes like compensation on death of the worker, weekly compensation etc.

6. **Health Insurance Portability and Accountability Act 1996 (HIPAA)** : Allows employees to switch their health insurance plan from one company to another, regardless of pre-existing health conditions. Requires employers to provide privacy notices to employees and to not disclose of health information without authorization.

7. **Pension Protection Act 2006:-** This legislation requires companies who have underfunded their pension plans to pay higher premiums to the Pension Benefit Guaranty Corporation (PBGC) and extends the requirement of providing extra funding to the pension systems of companies that terminate their pension plans. It also requires companies to analyze their pension plans' obligations more accurately, closes loopholes that previously allowed some companies to underfund their plans by skipping payments, and raises the cap on the amount employers are allowed to invest in their own plans. This will allow employers to deduct more money using the pension tax shield in times of high profits.

12.5   Process of Benefit Management

Decisions with respect to benefits management are made more complex because of confusion of purpose, lack of agreement on which benefits do and do not constitute compensation, and the rapid growth of benefits and their costs. Perhaps the only point of agreement is that benefit administration is changing.

To the employer, decisions on benefits management represent a large and growing proportion of compensation expenditures and thus a large part of the organization's contribution to the employment exchange. To the union, benefits are often perceived as a social obligation of the employer and a right of the employee. To the employee, they represent protection from insecurity and a reward for continuing their employment with the organization.

The process of benefit management, then, has the following steps:

- **Determining the Goals and Objectives**

The benefits plan is a part of the organization's compensation plan that is in turn part of the organizational strategy. These relationships are illustrated in Figure.
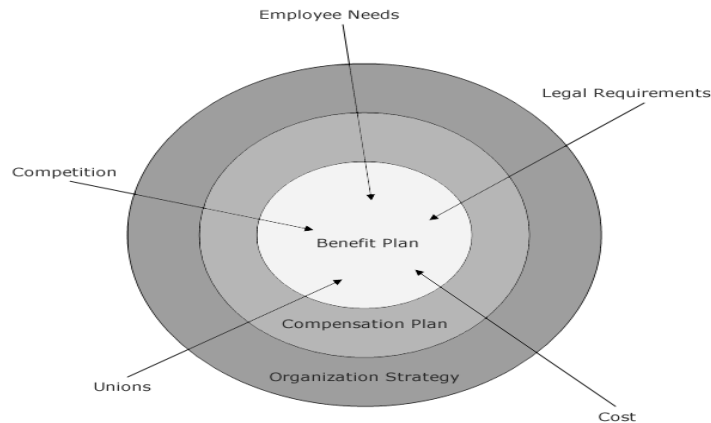
Fig. Benefits as Part of Compensation and Organization Strategy

The benefits plan should not be just a collection of individual benefits, but rather an integrated set of benefits that supports the organization's strategies through the management of its human capital. To maximize this, you need to ask what you want the benefits program to do for you. Not all organizations are going to answer this in the same way. Superficially, benefit decisions are similar to wage level decisions. In both instances, the basic issue to the employer is that of labour cost. The employer decision involves expenditures resulting from the employment exchange, and from a cost standpoint the organization is indifferent as to whether these costs are in the form of wages or benefits. The tendency to talk about wages and benefits as a package reinforces this view. Actually, however, decisions on benefits involve a number of choices different from other wage decisions. Benefits are not unitary, as are wages. There are many choices to make as to which ones to offer, and there are a number of influences on these decisions. Unions sometimes do and sometimes do not consider benefits to be pay equivalents. As indicated, employees value benefits differently. They do this not only on the basis of their own needs, but also upon being convinced of their importance by the union and management.

Organizations differ greatly in the composition of their work force and thus on the needs and desires of their employees. The purpose served by the benefit decision — that of membership — is different from the job and performance considerations in the wage decision. Different work force demographics produce different needs in the employees. Maximizing the value of benefits requires the program be fitted to employee needs. Benefit programs can also help achieve other human resource goals. For instance, benefit policies can encourage or discourage turnover of employees in certain groups or of certain ages.

Costs are an important variable. The cost of the total benefit package needs to be consistent with the ability of the organization to pay for the benefits. The cost of benefits also impacts the compensation plan as this plan ordinarily is stated in a total amount. If

benefit costs rise, there is less for salary increases. Within the benefit program the same thing can occur. Increases in particular benefits, such as health insurance, can negatively affect the ability to offer other desirable benefits.

Costs of benefits can be hidden in the short run but can destroy an organization's ability to pay or even survive in the long run. Retirement and health benefits are particularly of concern here. To the extent that these benefits continue on after the employee is no longer working they create a large unfunded liability that can ruin an organization as numerous major corporations and governmental bodies have discovered in recent years.

- **Assessing and/or Selecting Benefits**

Note that goals and objectives tell us where we would like to be, not where we are. The second step is to assess these benefits to see where improvements are needed or new ones need to be added. Selecting and evaluating benefits is the first step in translating the goals and objectives into a benefits program. There are a number of forces on the organization that influence this decision process. Organizations have some choice in the benefits they offer but not complete choice. There are required benefits, as we shall see, from legislation; second, there are customary benefits that are common to almost all organization. Finally, there are many possible benefits that can make your benefits package unique.

Legislation. Social legislation requires that the employer make expenditures for the health and safety of employees and for various forms of insurance to indemnify employee loss of income from illness and injury, unemployment, and old age. At another level, law also determines how the organization will develop and operate specific benefits, particularly retirement plans. These expenditures are required whether or not the employer wants to make them and whether or not the employee desires the resultant benefit.

It might be argued that these expenditures are not truly compensation based upon the employment exchange but are merely a convenient method whereby society insures that its members are protected from certain risks. But to the employer, they are expenditures that arise from hiring people, they are of benefit to the employees, and they do substitute for or at least diminish the ability to pay direct wages.

It may be possible, however, that these benefits are not benefits in the eyes of the employee. The employment exchange requires that the person be aware of and consider as relevant any item for it to be a part of the exchange. So if an employee is not aware of the employer's expenditure or does not care for the benefit, the employer is making a contribution to the exchange for which the organization is not receiving a return. The only alternative for the organization is to try to convince the employee of the importance of the benefit.

Legally required benefits currently cost employers in excess of 10 percent of their payroll. These are the direct payments made and do not include administrative costs or costs of legal requirements affecting the workplace.

Assessing the Competition. Another consideration in benefit planning is industry and area practice regarding benefits. This helps to determine what customary benefits are. In order to keep employees, the organization must remain competitive for labour services, and knowing what benefits other employers are offering is necessary for decisions about what benefits to offer. Surveys of benefits, then, are conducted for the same reason as wage and salary surveys — to obtain information on the conditions prevailing in the labour market. Community wage surveys include a number of benefits practices. Employer-association wage and salary surveys customarily include benefit-program information. Without this information the wage rate information received in surveys may be misleading. The usual benefits survey seeks prevailing practice in the form of enumeration of the programs offered and descriptions of those programs and their coverage. Tabulations consist of the number of responding organizations having each type of program and, if possible, variations in programs by employee group. Today this can be done in a highly sophisticated manner using the ideas and techniques of *benchmarking*.[17] It needs to be noted that benefit surveys record practice, and the costs of that practice to different organizations may be very different. This difference can result from differences in the organization's work force or in the methods used to finance the benefits.

Ideally, an organization would know both the benefits offered by competitors and the competitors' costs for those benefits. But the cost figures are hard to get. It is difficult to cost out individual benefits, and accounting practices vary considerably. As indicated, some organizations see an item as a benefit and others do not. Cost information on individual benefits may not be useful, since the composition of the work force in each organization differs. What is probably more important is to know the total benefit costs of your organization and others.

This section reinforces the complexity of benefit decisions. Compensation decision makers are charged with making sure that all expenditures for compensation benefit the organization. As benefits become a larger proportion of total compensation, the impact of benefit decisions is greater, and more care must be taken with these decisions. In wage decisions, comparison with other organizations may be an important consideration in order for the organization to be competitive in the labour market. In benefit decisions, however, although benefit practices of other organizations are one consideration, they are less important than the total cost of benefits and employee preferences. Unless employees want a particular benefit, they are unlikely to consider it a reward; therefore expenditures for that benefit do not enter the employment exchange and would not create value for the organization.

Organizational Benefit Plan Analysis. Surveys of prevailing benefits may have the dysfunctional consequence of encouraging particular benefit programs simply because they exist in other organizations and not because they are wanted or needed by the organization's employees. The present benefit structure in the U.S. suggests that benefit decisions have been motivated by competition based on a vague feeling that more benefits help an organization attract and retain employees rather than by a careful analysis of employee needs and preferences.

Internal organizational analysis of benefit practices would seem to require a comparison of current benefit offerings with the needs and preferences of employees. Our designation of benefits as membership rewards is an aid in this analysis, for it specifies the organization's purpose in offering benefits is to obtain and retain employees. But the analysis gets complex because individual employees and groups have different needs and preferences.

So the internal organizational analysis of benefits focuses on the needs and preferences of employees. Organizations differ in the demographic makeup of their work force, and this should, in turn, create differences in the types and levels of benefits that organizations offer. As discussed, there are some predictable differences based upon factors such as age and marital status, but the situation is so complex that it is hard to predict the exact benefit needs and preferences just from knowledge of the organization's demographic makeup.

A survey of employee preferences for benefits can be done by developing and administering a questionnaire within the organization. This questionnaire need not be very complex and can consist of a listing of possible benefits that are to be ranked in importance by the employee or rated on a scale of very important to very unimportant. It is useful to have the respondents also indicate their own characteristics so that the organization can determine if particular employee groups have predictable preferences.

As discussed above, from the results of the questionnaire, the desired and present benefits package can be compared. Unmet needs of employees may call for additional benefits. But overlapping benefits that provide more protection than is desired are a waste of resources. One of the most pressing problems in benefits today is that of overlapping benefits provided to the two-income family. When both members of the family work, they are often covered under each other's benefit program. The result is that neither spouse's employing organization is receiving the maximum value from providing the benefits, nor the employees are frustrated because they are receiving a duplicate unneeded reward.

- **Organizational Financial Analysis**

  A further part of the organization analysis is a comparison between direct wages and benefits, in terms of both cost and employee need. This comparison is needed for a

couple of reasons. The first is to maintain a balance between direct wages and benefits. Granting wage increases and benefit changes independently can lead to excessive increases in payroll costs where the organization loses control of the situation. When benefits or one benefit costs are rising at a rapid rate, it negatively impacts the organization's ability to raise other parts of the compensation package.

- **Designing the Benefit Packages-**

It includes design the benefit package after considering the needs and performance of the employees and other factors like government laws organizational budget etc

- **Monitoring Benefits**

The field of benefits is changing rapidly. It is necessary for the organization to keep careful track of what is happening both externally and internally. The needs and preferences of employees are likely to change because the organization's work force is constantly changing. Surveying employee needs and preferences should be a continuing exercise and not a one-time project. The practices of competition in the labour market need to be monitored on the same basis as they do for wage information. But what have become most complex for the organization to monitor are the changing costs of those benefits provided by outside organizations such as insurance companies. Organizations that have been monitoring what has happened in this area have begun to develop alternative ways of providing these benefits to employees at a lower or stable cost. Last, legislation in this field is changing every day, and administrators need to examine these acts to see if the organization is meeting legal requirements and taking proper advantage of changes in the law.

12.6   Challenges for Employers in Managing Benefits

- **Structuring employee benefit packages that meet the needs of a diverse workforce –** The workforce available in any organization is very huge and diverse in many senses like their culture, living standard, religion and needs or wants, so analysing and identifying each employee's needs is quite difficult for an employer and this affects the structuring process of benefit packages. It is also a reality that one benefit does not fit for every employee so designing different benefits for different employees is a difficult task.

- **Helping existing employees understanding the "value" of their benefits-** It is also necessary for an employer to make employee understand the value of a benefit which they are receiving, value means the worth of a benefit and making understand the employees that what an employer or in a way an organisation is expecting from the employee like more improvement in performance, increase in production, and quality output etc.

- **Administering benefit programs –** It is a costly and time-consuming process. An employer has to keep a close eye on the expenditure incurred on providing Benefits to the employees and also check that this expenditure does not increases too much that the organization cannot earn sufficient profits.

- **Continued rising health care costs-** Generally the health care benefits which are provided by the organization cost a lot and its keep on increasing, which in turn reducing the overall profits of the companies. So it's a big challenge for an employer to provide health care benefits within the budget and make ensure that this doesn't affects the profits.

- **Limited budgets** – Benefits comprises of average 25% - 40% of Payroll in most of the organizations, so within this limited budget it has became very difficult for an employer to provide a range of benefits to a variety of employees.

- **Government restrictions/legislation/public policy-** There are various Government restrictions on some kind of benefits, which an employer has to take care of and those benefits cannot be provided to the employees. There are various laws or public policies also given by government including some mandatory benefits which an employer has provide to its employee and which is also has to take care of by the employer.

12.7 Summary

In the past, a major problem with benefits has been their disorganized growth. Organizations are finding that it is becoming more necessary to carefully plan out benefit packages both to optimize their motivational impact and to reduce costs. The first decision an organization makes is what benefits to offer. Some benefits are required by law, some are bargained for by unions, others are needed to be competitive, and others meet the needs of the employees. All these must be integrated into the organization's ability to pay. How employees are "compensated" takes many forms like salary, benefits, working conditions, challenging/stimulating work, co-workers, etc.   The right "mix" for each person is different. Pay policies will differ for every employer like some will focus on cash compensation and some will focus on Total Compensation. The employer's main goal is structuring compensation and benefit programs is to be able to attract and retain the right employees needed to help the employer be competitive. Employee benefits have huge budget impacts to employers. Benefits are the "hidden pay check" for employees. The administration of benefits is becoming much more important in organizations; staff specialists are assigned to this function. Planning out the program is not the only requirement; control of costs is becoming a major goal. To maximize the impact of benefit plans, organizations are developing sophisticated communication programs to explain to employees the advantages of their benefits. The Internet offers a future of immediate and timely administration and instant and ubiquitous communication. Most

employees have come to expect a comprehensive benefits program. The absence of a program or an inadequate program can seriously hold back a company's ability to attract and retain quality personnel. There has been a growth of benefits for a number of reasons. Industrialized society makes it difficult for people to provide themselves with needed protection from the vicissitudes of the economy. Thus, organizations are often seen as having a social responsibility to provide these protections, both to care for their employees and to provide a service to society. Unions have also found it useful to demand benefits. They see the need to provide protection for their members, and the organization is the group that they can directly affect. Employees, too, are interested in benefits. Tax advantages and cost savings are two reasons, but changes in lifestyle make items like time off more appealing.

12.8 Self Assessment Questions

1. Explain the term Benefit and write its Objectives?
2. What are the different types of Benefits, Explain?
3. Explain Benefit Management.
4. Write a short note on different company's Benefit Management.
5. Write the various laws affecting Employees benefits and Compensation.
6. State the Process of Benefit Management.
7. What are the different challenges for an Employer while managing the Benefits?

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Unit 13 : Job Evaluation and Equity

Structure of Unit

13.0   Objectives

After completing this unit, you would be able to:
- Understand the concept of Job Evaluation
- Understand the process of Job Evaluation
- Learn about various methods of Job Evaluation
- Understand the significance of Job Evaluation
- To know about the issues to be considered while conducting job evaluation.
- Understand the Concept of Equity

13.1   Introduction

Job evaluation is the process in which jobs are ranked to determine the appropriate worth of each job with a view to establish a well designed compensation programme. The aim of job evaluation is to provide a systematic and consistent approach to defining the relative worth of jobs within a workplace, single plant or multiple site organisation. It is a process whereby jobs are placed in a rank order according to overall demands placed upon the job holder. It therefore provides a basis for a fair and orderly grading structure. Equity and job evaluation are closely related that concepts within a company. Equity is a general level of fairness in the alignment of the work employees perform in their positions and the rewards they receive for it. Job evaluations are tactics used by an employer to assess the value of a given position in the company and the associated pay for that position. Proper evaluation of all the job position within an organization leads to an objective compensation structure which in turn results into a sense of equity among workers. This sense of equity promotes a feeling of satisfaction which results into higher productivity and better morale.

13.2 Process of Job Evaluation

Job Evaluation programme starts with the information collected in Job analysis process. Job Descriptions and Job Specifications related to various jobs play an important role in Job evaluation process. Job Description includes systematic statement of the following Job related aspects-

- Job Title

- Location

- Job Summary

- Machines, Tools & Equipment to be used

- Materials to be used

- Supervision needed

- Working conditions

- Hazards

Job specification includes information about the employee who can perform the job. Following points should be covered-

- Educational Qualification

- Experience

- Training

- Physical Effort

- Physical Skills

- Communication Skills

- Emotional Characteristics

- Sensory demands such as sight, smell, hearing

The second step i.e. Job Evaluation Programme includes following issues-

- Which jobs are to be evaluated?

- Deciding evaluation committee - A committee, consisting of head of several department's, representatives of employee unions and specialist drawn from the National Productivity council is constituted for the jobs evaluation process. HR specialists will be normally the chairmen of the committee. Responsibility for the overall coordination of the job-evaluation programme should be in the hands of a senior executive who can then report its progress to the board, and advise it on ensuring wage and salary development.

- How much time is involved- Job evaluation should not be conducted in haste. Any rushing through will lead to appeals against the grading of jobs. Eight jobs

in a day can be the ideal pace. After this, the quality of evaluation tends to drop, and more time has to be spent later in checking and assessing the validity of the grading.

- What criteria should be selected on the basis of which jobs will be evaluated-The heart of job evaluation is the determination of the criteria for evaluation. Most job evaluations use responsibility, skill, effort and working conditions as major criteria. Other criteria used are difficulty, time-span of discretion, size of subordinate staff, and degree of creativity needed.

- Which Method should be selected – Various methods are available to carry out Job Evaluation Programme. Most suitable method should be selected.

With the help of evaluation methods job hierarchy is established. Before fixing wage rates wage survey is done to ensure Internal and external equity. The sample of firms in labour market is selected and some key jobs are also decided. With the help of these information the overall wage structure is systematically established, compared and equated.

13.3 Issues for Evaluating Jobs

Following questions should be answered before starting evaluation process-

1. **What jobs should be included?**

• If the coverage of the scheme is narrow employees outside the scheme may raise equal pay claims.

• If you include all jobs in your organisation (an integrated scheme) you may cause employee unrest where none currently exists.

• Can the organization meet the financial cost of a new grading and pay structure for the jobs you propose to cover?

2. **Who should be involved?**

• A group should be selected to oversee the whole project. It must have decision makers with the right authority and drive.

• Organisation will need to form a job evaluation committee to build the scheme and evaluate the jobs. Organisation will have to guard against members being self-interested, non-participative and indiscreet.

•How will trade unions and/or employee representatives be involved.

3. **How to collect the information we need on individual jobs?**

• This is the critical stage before starting evaluating the jobs. Gathering the information takes time and a great deal of tact and diplomacy. Many organisations recruit or train job analysts to interview job holders and write factual job descriptions.

• Factual job descriptions are usually the best basis for analysing information. Fresh descriptions written for the job evaluation process are more likely to be consistent and up-to-date.

- Questionnaires are a fast way of gathering information – but they can cause problems as they are not as transparent for the job holder as factual job descriptions.

4. How will the evaluation process work?

- Who is going to evaluate the information collected? Experts recommend setting up an 'evaluation panel' made up of a cross section of job holders and managers.

- Jobs are evaluated by comparing the agreed factual job descriptions against the agreed factor plan and allocating an appropriate level for each factor.

- Committee need to be consistent when evaluating posts – employees may try to exaggerate the importance of what they do.

- An evaluator should not evaluate their own post.

5. How will the organisation verify that initial analysis is accurate?

- Some organisations use jobs they consider to be correctly graded as 'benchmarks' for the jobs being evaluated. However, this often reinforces stereotypes and may perpetuate a discriminatory status quo.

- 'Indicative' jobs can be used to check your evaluation. For example, does the hierarchy of jobs look right and does it 'feel fair'? If the administrative assistant comes out with a higher score than the personnel manager, the committee might need to think again.

6. How will the outcomes of job evaluation be applied?

- Consider the hierarchy of jobs and the points distribution created by the job evaluation process.

- Draw the grade lines to create defensible job families.

- This process should be undertaken with recognised employee representative bodies where these exist within organisation.

7. How to manage appeals?

- Appeals against individual job evaluations must be kept separate from your company grievance procedure.

- Who is going to hear the appeals and over what timescale?

- Agree the criteria for appeals before the job evaluation begins.

- Appeals must be made against the grade allocated by the evaluation and not against the scheme.

8 How to deal with employees who move to a lower grade after evaluation?

- Many organisations find it difficult to gain employee commitment to embarking on job evaluation without an element of pay protection. This is often called 'red circling' and it means protecting the pay of those employees whose new grade pay rates might be lower than their current rate of pay.

- Will red circling leave you vulnerable to equal pay claims?

- Seek legal advice on current case law relating to pay protection.

9. **How will the scheme be implemented?**

• Will the organisation pay employees retrospectively for new pay and grading structures?

• Is this possible to implement the scheme in stages to help reduce the costs?

• Employees will often view any re-grading as a very sensitive issue. Communication is crucial to the success of the process. Organisation has to make sure that it is effective?

• Seek legal advice on current case law relating to retrospection.

10. **How often jobs should be re-evaluated?**

• Re-evaluation of a job should only be triggered by significant and permanent changes to duties. Constant re-evaluations of minor changes to duties will undermine the scheme.

• A job evaluation scheme should be relevant for up to 10 years but keep monitoring any changes to jobs.

13.4 Methods of Job Evaluation

A   Job Against Scale

 1. Job Grading-

This method classifies jobs into various grades. In this method jobs are compared against predefined scale of values (grade descriptions). The job is place in the grade from which it's job descriptions is having similarity. It includes following steps-

1. Preparing Job Descriptions.
2. Determining Grade Descriptions.
3. Comparing Job Descriptions and Grade Descriptions.
4. All Jobs are classified into various Grades.
5. All jobs in similar grade are treated alike in the matter of base salary.

Example- Class I- Lowest Pay Grade : Simple work, No Supervisory Responsibility, No Public Contact

Class II- Higher Pay grade than Class I : Simple work, No Supervisory Responsibility, Public Contact

Class III- Higher Pay grade than Class II : Medium work complexity, No Supervisory Responsibility, Public Contact

Class IV- Highest Pay Grade : Complex Work, Supervisory Responsibility, Public Contact

Advantages-

• More scientific than ranking method as it uses predefined scale of values.

• Relatively simple and inexpensive compared to other methods.

• Satisfactory when number of jobs is small.

Disadvantages-

- Not useful when jobs are very different from each other.
- Difficulty in writing grade descriptions.
- Vague statements are used in defining grade descriptions. These often lead to heated arguments between workforce and management.

2. Point Method-

In this method, the job based is broken down on the basis of various parameters such as skills, efforts and responsibility. Then points are allocated to each parameter. Points are summed and jobs having similar points are placed in one pay grade. It includes following steps –

1. Selection of the Job Factors.
2. Allocate points to each factor on the basis of importance.
3. Evaluation of the jobs - Sum total of points allocated to each factor for that particular job is done.
4. Conducting wage survey.
5. Designing wage structure.
6. Fine tune wage structure.

Example-

Point Method

Factors	No. of Points
1. Skills	**250**
i) Education	70
ii) Experience	110
iii) Initiative	70
2. Efforts needed	**75**
i) Physical Work	50
ii) Mental Work	25
3.Responsibilty	**100**
i) Equipments	50
ii) Other Workers	50
4.Job Conditions	**75**
i) Working Conditions	50
ii) Hazards	35

Advantages-

- Perceived as valid by both employer and employees.
- Provides good data to prepare a response to an appeal.
- It is more detailed and quantitative.
- Less chances of biasness.
- Less chances of error.

Disadvantages-

- Requires time, money, and effort to set up.
- Difficult to design, it is a complex method.
- Not suitable for small firms.

B. Job Against Job

1. Ranking Method-

Ranking simply orders the job descriptions from smallest to largest based on the evaluator's perception of relative value or contribution to the organization's success.

Following techniques can be adopted for ranking of Jobs-

1. The Top and Bottom jobs are first selected as benchmarks against which other jobs are evaluated for ranking process.
2. Paired comparison method in which each job is evaluated against every job.
3. Using committee for judging.
4. Using organizational chart.

Example- Professor- Highest Pay Rates

Associate Professor- Lower Pay rates than Professor

Assistant Professor- Lower Pay rates than Assistant Professor

Advantages-

- Simplest to understand
- Fast Method as it consumes less time
- Most commonly used
- Inexpensive method

Disadvantages-

- May appear arbitrary to employees
- Unreliable
- It is hard to measure whole jobs.

2. Factor Comparison Method-

It is refinement of simple ranking method. The steps in this method are as follows-

1. Select job factors.
2. Select key jobs
3. Determine correct rates of key jobs.
4. Rank key jobs under each job factor.
5. Evaluate all other jobs in terms of these key jobs.
6. Design and adjust wage structure.

See example below:

Table 15.2: Factor Comparison Method

Job Evaluation: Factor Comparison					
		The hourly rate is divided into pay for each of the following factors:			
Job	**Hourly Rate**	Pay for ˙**Skill**	Pay for **Effort**	Pay for **Responsibility**	Pay for **Working Conditions**
Labour	90.00	45.00	20.00	20.00	5.00
Fitter	110.00	55.00	25.00	25.00	5.00
Supervisor	150.00	60.00	35.00	40.00	15.00

This process establishes the rate of pay for each factor for each benchmark job. Slight adjustments may need to be made to the table to ensure equitable weighting of the factors.

The other jobs in the organization are then compared with the benchmark jobs and rates of pay for each factor are summed to determine the rates of pay for each of the other jobs.

Advantages-

- Relatively easy to use once it's set up.
- Customized to the organization.
- It is logical method. Jobs are compared with other jobs to determine relative value.
- Wages for non similar job can also be calculated using this method.

Disadvantages-

- Hard to set up
- Uses the same criteria to assess all jobs.
- Expensive for small firms.
- Require proper training to use.

13.5 Difficulties in Job Evaluation

- **Legal Factors-**
  Only job evaluation cannot be the base for compensation structure. Organisation need to fulfill all statutory requirements explained in various laws like minimum wages act etc.

- **Subjective Process-**
  As it depends on judgment of Evaluators, so it is considered to be highly subjective. It is a systematic process but not scientific.

- **Conflict between Management and Workers-**
  As this process is related to compensation of workers so it may result into conflict between workers and management.

- **Ignores Seasonal Effect-**
  This process does not consider seasonal variations in demand and supply of Human resource. Practically demand and supply of Human Resource is a critical factor in deciding compensation.

- **Time Consuming and Expensive-**
  Job evaluation is not one day task. It requires both time and money.

- **Promotes Inflexibility-**
  Job evaluation introduces inflexible wage structure in the organization.

13.6 Job Evaluation and Equity

Equity is commonly defined as anything of value earned through providing or investing something of value. Fairness is achieved when the return on equity is equivalent to the investment made. As it relates to compensation, fairness is achieved when pay equates to the value of the work performed. Inequity, on the other hand, occurs when the value of the work performed does not match the value of the compensation received.

13.6.1 External Equity

External Equity compares organization's pay for certain positions to pay given to employees in competing companies for the same positions.

The following factors contribute to these wage differences among markets:

- Geographic location.
- Industry sector.
- Union status.
- Organization size.
- Product competition.
- Company prestige.

- Education and experience level of available work force.
- Licensing or certification requirements called for by the job.

13.6.2 Internal Equity

Internal equity considers the relative fairness of compensation for work among positions within the organization.

Here are some typical compensable factors used for jobs:

- Education required.
- Experience required.
- Physical demands.
- Responsibility for equipment/materials.
- Responsibility for the safety of others.
- Supervisory/managerial responsibility.
- Working conditions.
- Accident or health hazards.
- Public contact.
- Manual dexterity.

13.6.3 Individual Equity

Individual Equity refers to the fair ratio of one's input in the organization with the output he gets from the organization.

13.6.4 Procedural Equity

It ensures that same procedure is being followed for all the employees of organization.

13.6.5 Equal pay review process-

Equal pay review process can be adopted to promote pay equity in any organisation. This review ensures that equal works are being treated equally in terms of compensation. Equal work is defined in three ways:

- Like work – work which is the same or broadly similar.
- Work rated as equivalent – work which has been evaluated similarly using an analytical job evaluation scheme.
- Work of equal value – work which is broadly of equal value when compared under headings such as effort, skill and decisions.

Purpose-

- Indentify whether any pay inequities have arisen;
- Analyse the nature of any inequities and diagnose the cause(s);
- Determine what action is required to deal with any inequities that are revealed.

1. **Analysis:** This involves collecting and processing relevant data to identify any pay gaps.

- Review the organization's equal pay policy
- Pay analysis
- Benefits comparison

2. **Diagnosis:** The process of reviewing gaps, understanding why they have occurred and what remedial action might be required if the differences cannot be objectively justified. The review should first seek explanations of why the gap exists and then establish the extent to which the gap can be objectively justified. This stage involves delving into the data, using intuition and judgment about where to focus effort, for further analysis.

3. **Action**: This stage includes agreeing and enacting an action plan that eliminates any inequalities. Committee should focus on following issues-

- Introducing or amending an equal pay policy if necessary.
- The steps required to remove pay gaps.
- How future bias can be eliminated by changing the processes, rules or practices that gave rise to unequal pay.
- A programme for implementing change.
- Accountabilities for drawing up and implementing the plan.
- How employee representatives or recognized trade unions should be involved in preparing and implementing the plan.
- The arrangements for monitoring the implementation of the plan and for evaluating outcomes.

13.7 Summary

Job evaluation has always existed in one form or another. As soon as you have two employees in different grades being paid different wages you have started evaluating the relative importance of the jobs. Every time a decision is made on what a job should be paid require a form of job evaluation. So, job evaluation is unavoidable process but it should not be intuitive, biased and subjective process. Many grading and pay structures have evolved over time and it can be hard for managers to justify why one job is graded higher than another or paid more. Pay equity benefits employers because employees who are valued are more committed to the organisation, work harder, show more initiative and are more productive. Pay equity assists with staff retention as employees who are valued and respected are less likely to leave. Each time an employee leaves, the employer incurs turnover costs, often up to three times the employee's pay. This cost is multiplied by the number of employees who leave an organisation because they can't get flexible hours, are treated disrespectfully or believe that their pay or the recruitment practices are unfair. The evaluation procedure may appear objective, but it in fact is highly subjective. Although it makes sense for job attributes such as skills and working conditions to influence pay, there is no one correct method for determining the number of points to be assigned to

each attribute, or for determining the weight each attribute should have in the overall worth of each job. Which takes the most skill, playing the violin, solving an engineering problem, translating a language, or managing a restaurant? How should skill be weighted relative to working conditions or accountability? Answers to these questions are bound to be subjective. Therefore, different job evaluation systems and different job evaluators are likely to assign different rankings to the same set of occupations. Implementing pay equity across an organisation helps increase the diversity of the workforce at all levels. Employers gain a wider range of applicants, styles, backgrounds, knowledge and experience, and the organisation benefits from a wider range of approaches and can respond to a wider range of clients.

13.8 Self Assessment Questions

1. Explain the concept of job evaluation? Write down various steps to be followed in Job Evaluation Process?
2. What issues should be considered while conducting a Job Evaluation Programme?
3. Explain various methods of Job Evaluation?
4. "Job Evaluation is essential for smooth running of organisation." What are your arguments in favor of Job Evaluation?
5. What difficulties you may face while conducting Job Evaluation?
6. What do you understand by Equity in terms of compensation? Explain various types of Equity?
7. What step you can take to promote equity in organization? Discuss Equal pay review?

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Unit - 14 : Recent Practices of Compensation

Structure of Unit

14.0 Objectives

After completing this unit, you would be able to understand:
- The meaning of Compensation.
- Emerging Aspects of compensation – From Past to Present
- Types of compensation.
- Recent Practices of Compensation
- Relevance of Recent Practices of compensation in present scenario
- Point out its demerits and know about various future aspects of practices of compensation

14.1 Introduction

A compensation system has to be aligned to the mission, vision, business strategy and organizational structure of a company to design the compensation plan in an efficient way to achieve the goals. Attracting and retaining high quality talent is crucial to our continued business success. Our compensation programs, at all levels, are designed to allow us to maintain an appropriate competitive position, to drive key business objectives, and to reward performance at the individual and company level. The most obvious reason for compensating employees is that an organization should not expect something for nothing. But by giving generous compensation, an organization attracts better employees and retains them for longer. Compensation is what organizations use to compete for top talent. Employee compensation practices differ across employment units (e.g., organizations, business units, and facilities) on several dimensions. The focus of the employee compensation literature has been on defining these dimensions, understanding why organizations differ on them (determinants), and assessing whether such differences have consequences for employee attitudes and behaviors, and for organizational effectiveness. Recent practices of compensation is a collection of activities that establishes an equitable and externally competitive philosophy practices for paying employees. Salaries and wages are often the largest cost to a firm and can be upto 70% of company's annual operating cost. Creating a comprehensive & impartial structure is a key to attract and retaining talent & therefore fundamentally of strategic importance to the organization.

14.2   Job Evaluation and Compensation

Job evaluation is part of the balanced compensation package. It's a process that serves the needs of the compensation system in an organization by determining the relative value of one job in relation to another. Professionally done it helps eliminate pay inequities which may exist because of illogical pay structures, such as might develop over time when care is not taken in how compensation is determined.

To accurately evaluate a job, compensation practice considers:

- Whether similar roles exist within the department or school. If yes, these roles should be described and the relationship(s) understood.

- Whether the language used to describe the principle duties and responsibilities clearly reflects actual duties. For example, phrases such as "represents," "coordinates," or "assists with ..." often require a greater understanding of what the actual tasks are and who also works to accomplish them.

- Whether the hiring manager/administrative officer has salary information that would help determine the appropriate salary range for this job.

In all cases, the evaluation process should be concluded with Compensation before discussing the level or grade of a job with employees or prospective employees and it could be one of these:

- creation of a new job

- promotion of an employee who is currently in the job

- reclassification of a job to a higher or lower level/grade with or without a change in salary or salary range

- determination that the current level or grade is appropriate and no change is necessary.

Thus while making compensation package, job that require greater qualifications,more responsibilities and more complex job duties should be paid more highly than jobs with lesser requirements.

14.3 Emerging Compensation Practices

Today, productivity and compensation are moving towards a model based on Relative Value Units. It reflect the relative level of time, skill, training and intensity required of a employee to provide a given service. Many thinkers have reviewed the practices from the past hundred years and included the following topics so tht the compensation decisions in the future can be viewed-

- Role of Compensation in the changing nature of deal.
- The evolution of pay for performance.
- The emergence of benefits of compensation system.

The current trends have a shift in focus vis-à-vis the traditional trends which are as under

Table 14.1 Comparison between Current and Traditional Trends

Current Trends	Traditional Trends
• Emphasis on employee engagement in health, energy, employer strategic goal.	• Legacy compensation programs(Longevity shift overtime)
• Skill and Knowledge Attainment.	• Non-consumer engaged employee health benefits
• Flexibility in work schedules	• Paper based delivery of services
• Emphasis on total compensation	• Compensation based on service rather than skills and performance.
• Compliance	• Follow the instruction only
• Productivity through business simplification and technology.	• Physical needs, job security, increments etc.

14.3.1 Some of the recent practices of compensation

Employee Stock Option Plan :

Employee Stock Option Plan (ESOP), is a plan through which a company awards Stock Options to the employees based on their performance. Under an ESOP, the employees have right to buy the shares of the company on a predetermined date at a predetermined price. The objective of ESOP is to motivate the employees to perform better and improve shareholders' value. Apart from giving financial gains to the employees, ESOP also creates a sense of belonging and ownership amongst the employees. There are two ways in which a company can set up an ESOP.

(a**) Create a Trust (Special Purpose Vehicle)** - Depending on the number of options to be given to the employees, the company will issue shares or options to the trust. The trust would need funds to buy these shares. For this, the company can either give soft loans from its own funds or the trust can raise loans through other sources to meet its financial requirement. The company can act as a guarantee to the lender to the trust. With the funds so raised, the trust then acquires shares/options required. The trust repays its loans as and when the employees purchase the options offered and when they exercise their options by paying the exercise price.

(b) **Give options directly to employees** - The selection of the employees can be based on performance of the employee, indicated by the annual performance appraisal, minimum period of service, present and potential contribution of the employees, and such other factors deemed to be relevant for the success of the company. Number of options per employee can be determined taking into

consideration, the grade, level, years of service, salary, etc. These selections would entirely depend upon the objective of the company for setting up the ESOP. The real advantage of ESOPs is that, the exercise price remains fixed over the term of the option. So, the employee would exercise his option when the market price of the shares goes substantially high and he would gain on the difference between the market price and exercise price. In Indian companies both kind of ESOP can be seen. ESOP has both merits and demerits for market and company which can be distinguished under following points:-

Table 14.2 Merits and Demerits of ESOP

Merits	Demerits
Financial Capacity of the firm is maintained.	Companies may face financial difficulties in the long run.
Various incentives at the organizational level increase employee commitment.	All the organizational incentives suffer from a dilution effect.
It enjoys special tax privileges.	It also tends to distribute their payoffs at wide intervals.

- **Profit Sharing:**

  Profit sharing has received a considerable boost in recent years.It is a method of Industrial remuneration under which an employer undertakes to pay his employees a share in the annual profits of the enterprise. This share is in addition to regular wages. It is compliance with certain service conditions and qualifications. Profit sharing refers to various incentive plans introduced by businesses that provide direct or indirect payments to employees that depend on company's profitability in addition to employees' regular salary and bonuses. In publicly traded companies these plans typically amount to allocation of shares to employees. The profit sharing plans are based on predetermined economic sharing rules that define the split of gains between the company as a principal and the employee as an agent.

- **Group Medical Insurance Scheme :**

  An insurance plan that provides health care coverage to a selected group of people. Group health insurance plans are one of the major benefits offered by many employers. These plans are generally uniform in nature, offering the same benefits to all employees or members of the group.

- **Personal Accident Insurance Scheme:**

  Personal Accident insurance or PA insurance is an annual policy which provides compensation in the event of injuries, disability or death caused solely by violent, accidental, external and visible events. It is different from life insurance and medical & health insurance.

- **Corporate Credit Card** :

  Corporate Cards are an effective way of managing travel policies and negotiating preferential terms with key suppliers. These cards are issued after credit assessment of the corporate; who in turn defines the limit on individual cards. The corporate bears the liability for the entire outstanding amount on the cards. The payment is made directly to the Bank once a month instead of multiple payments to individual employees/suppliers.

- **Educational Benefits(For higher studies) :** Nowadays employers provide various educational benefits to their employees for their higher studies, so that their employees get promoted for good designation.

- **Flexi Timing:**

  Flextime is a variable work schedule, in contrast to traditional work arrangements requiring employees to work a standard 9 a.m. to 5 p.m. day. Under flextime, there is typically a core period (of approximately 50% of total working time / working day) of the day, when employees are expected to be at work (for example, between 11 a.m. and 3 p.m.), while the rest of the working day is "flextime", in which employees can choose when they work, subject to achieving total daily, weekly or monthly hours in the region of what the employer expects, and subject to the necessary work being done. A flextime policy allows staff to determine when they will work, while a flexi place policy allows staff to determine where they will work.

- **Gainsharing:**

  Gainsharing is a program that returns cost savings to the employees, usually as a lump- sum bonus. It is a productivity measure, as opposed to profit-sharing which is a profitability measure. There are three major types of gainsharing:

  - **Scanlon plan**: This program relies on committees to create cost-sharing ideas. Designed to lower labor costs without lowering the level of a firm's activity. The incentives are derived as a function of the ratio between labor costs and sales value of production (SVOP).

  - **Rucker plan:** This plan also uses committees, but although the committee structure is simpler the cost-saving calculations are more complex. A ratio is calculated that expresses the value of production required for each rupee of total wage bill.

  - **Improshare:** Improshare stands for "Improved productivity through sharing" and is a more recent plan. With this plan, a standard is developed that identifies the expected number of hours to produce something, and any savings between this standard and actual production are shared between the company and the workers.

- **Employee Referral Scheme :**

  Employee referral is an internal recruitment method employed by organizations to identify potential candidates from their existing employees' social networks. An employee referral scheme encourages a company's existing employees to select

and recruit the suitable candidates from their social networks. As a reward, the employer typically pays the referring employee a referral bonus. Recruiting candidates using employee referral is widely acknowledged as being the most cost effective and efficient recruitment method to recruit candidates and as such, employers of all sizes, across all industries are trying to increase the volume of recruits through this channel. Proponents of employee referral schemes claim the benefits to have improved candidate quality, 'fit', and retention levels, while at the same time delivering a significant reduction in recruitment expenditure. However, there are a number of potential drawbacks. One of the greatest concerns is that relying too heavily on employee referrals could limit diversity in the workplace. But, provided that there is already a diverse workforce in place, this ceases to be such an issue.

- **Maternity Leave :**

  An employee on fixed term contract, temporary or part-time employment is entitled to 16 weeks of maternity leave if she meets the eligibility conditions under the Child Development Co-Savings Act, or 12 weeks of maternity leave if she satisfies the eligibility conditions under the Employment Act. If she is eligible for paid maternity leave, she will be paid at the gross rate for each day that she would normally have been required to work under her contract of service.

- **Pay Transperancy**:

  Employees want transparency in pay system. Now a day some organisations are using transparent pay system. Pay transparency influences employees in:

  - Fostering trust in management
  - Increasing employee engagement
  - Encouraging discretionary efforts
  - Reducing turnover
  - Creating competitive advantage

- **Broad banding and Competency Based Pay**:

  Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels. Wide bands provide for more flexibility in assigning workers to different job grades. Competency Based Pay suggest employer to pay employees purely on the basis of their competency. Other factors do not play significant role in one's compensation package.

  - Pros of Competency Based Pay- Higher Quality, Reduced Absenteeism etc.

  - Cons of Competency Based Pay- Implementation Problem, Paying Unused Knowledge and skills, Complex, Uncertain that this will improve productivity etc.

- **Variable Pay (Incentive Pay**) :

  Tying pay to some measure of individual, group, or organizational performance. Piecework incentive ,Pay-for-performance ,Pay-for –person ,Merit pay ,Bonuses ,Sales incentives ,Profit sharing ,Gain sharing ,Employee Stock Ownership Plan.

- **Flexible Benefits**:

  Flexible benefits allow employees to pick benefits that meet their needs. The idea is to allow each employee to choose a benefit package that is individually tailored to his or her own needs and situation.The three most popular type of benefit plans are: - modular plans, core-plus options and flexible spending accounts which may describe as follows:

1. **Modular Plans** : Modular plans are pre-designed packages of benefits, with each module put together to meet the needs of a specific group of employees. So a module designed for single employees with no dependents might include only essential benefits. Another, designed for single parents, might have additional life insurance, disability insurance, and expanded health coverage.

2. **Core-plus Plans** : Core-plus plans consist of a core of essential benefits and a menu-like selection of other benefits options from which employees can select and add to the core. Typically, each employee is given "benefit credits," which allow the "purchase" of additional benefits that uniquely meet his or her needs.

3. **Flexible Spending Plans** : Flexible spending plans allow employees to set aside up to the amount offered in the plan to pay for particular services. It's a convenient way, for example, for employees to pay for health-care and dental premiums. Flexible spending accounts can increase employee take-home pay because employees don't have to pay taxes on the amount they spend out of these accounts.

- **Other Benefits and Perks** :

  Physical Fitness ,Healthy Eats - a chef makes custom cook every single day ,Rejuvenating ,Dry-cleaning and alterations ,Car wash ,Unrestricted dress code ,DVD rental ,Bike repairs ,Haircuts ,Theatres ,House Rent allowance, Transport and fuel for a specific project, amount returned after service.

- **Executive Bonus Plan:**

  Bonuses play an important role in today's competitive executive payment programme. This type of incentive is usually short term (annual) and based on performance. There are almost as many bonus systems as there are companies using this form of executive compensation. Some executive plans based on subjective judgment of board of directors and CEO.

- **Golden Parachute:**

  This popular recent practice of benefits designed by top executives as a means of protecting themselves if a merger takes place.These parachutes provide either a

severance salary to the departing executive or a guaranteed position in the newly created organization.

A golden parachute is an agreement between a company and an employee (usually upper executive) specifying that the employee will receive certain significant benefits if employment is terminated. Most definitions specify the employment termination is as a result of a merger or takeover, also known as "Change-in-control benefits".But more recently the term has been used to describe perceived excessive CEO (and other executives) severance packages unrelated to change in ownership (also known as a Golden handshake). The benefits may include severance pay, cash bonuses, stock options, or other benefits.

Some other practices are as follows:

- Regular Get together and other cultural programmes

- Wedding Day / Birthday Gift

- Company leased accommodation

- Recreation, ATM & Concierge Facilities

- Cellular phone / Laptop

- Personal Health Care(Regular Health checkups)

- Loan etc.

14.4   Factors Affecting Practices of Compensation

1) **Culture**: Cultural differences necessitate understanding that the value of compensation and benefits programs is in "the eye of the beholder". A benefit highly valued in one country may be comparatively worthless in another. Differences are often rooted in subconscious beliefs.

1) **Economic factors**: Many differences subsist from country to country, in terms of the:

- Influence of politics and power.

- Distribution of wealth across country's citizenry

- Unpredictability of events (i.e., sometimes rapid changes in rates of inflation, currency).

3) **Taxation**: Tax regulations vary extensively from country to country. Some countries have no income tax, while others have income tax in excess of 50%. Some benefits that are taxable in one country are not taxable in the geographically adjacent country or vice-versa.

4) **Competitive labor market**: At a broader level, the compensation and benefits required to magnetize and sustain talent are determined by the aggressive demand for that talent. However, the nature of the competition for talent may differ across countries and regions, depending on factors like :

- Type of talent sought,

- Geographic scope of the talent market,

- Industries in which the talent may be found,

- Mix of remuneration components.

5) **Laws and Regulations**: Laws and regulations impact the remuneration of employees in many areas, such as:

- Work hours and compulsory time-off (paid and unpaid),

- Minimum wage,

- Overtime

- Compulsory bonuses

- Employment at will

- Acquired rights.

14.5 Summary

There is a wide variety of pay practices in use by employers today. Some of the most common practices include the use of compensation philosophies, setting competitive positions around the median or 50th percentile, and tying performance to compensation rewards. Organizations continue to find the best solutions to motivate their workforces and get the greatest return on their compensation investments. The responsibilities associated with serving on the compensation committee of a company's board have increased significantly in recent years. With the increasing complexity of the executive compensation landscape, effective management of the ongoing operations of the compensation committee has become increasingly challenging. Recent compensation practices are a fast-emerging phenomenon. It is driven by discontinuous corporate change and translating business issues into compensation or HR interventions, designing and delivering them with key objectives. The total compensation for an employee includes more than monetary compensation, including benefits, retirement contributions, stock options, deferred compensation, paid vacation, and the cost of special employee perks. Average total compensation as a metric is distinct from the cost per employee or employee overhead, which can include figures such as the cost of location and technology for each employee. Recent practices of Compensation support the manager to ensure that employee packages are in alignment with company policies and guidelines, are competitive, and are compliant with legal and fiscal regulations. Successful implementation of Compensation practices are strong guardians of company values and principles. They have strong interpersonal skills and are approachable, responsive, results oriented, proactive, and trustworthy.

14.6   Self Assessment Questions

1   Define the term "Compensation".
2   Explain the recent practices of Compensation.
3   Distinguish between profit sharing and Gain Sharing practice of compensation.
4   Explain the term ESOP.
5   Describe the relevance of recent practices of compensation.
6   State some demerits of recent compensation practices.
7   Explain various types of Compensation.
8   What are the factors that affect recent practices of compensations.

14.7   Reference Books

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