# Human Resource Management

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We wish you happy reading.

DIRECTOR

# HUMAN RESOURCE MANAGEMENT

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# UNIT 1 HUMAN RESOURCE MANAGEMENT

**Structure**



## 1.0 OBJECTIVES

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

- To understand the meaning and definition of the term human resource management;
- Understand different features of human resource management;
- Explain different terms of human resource management;
- Understand scope and objectives of HRM;
- Understand HRM practices in India;

## 1.1 INTRODUCTION AND MEANING

Human Resources are the wealth of an organization which can help it in achieving its goals. Human resource management is concerned with the human beings in an organization. It reflects a new outlook which views organization’s manpower as its resources and assets. Human resource is the total knowledge, abilities, skills, talents and aptitudes of an organization’s workforce. The values, ethics, beliefs of the individuals working in an organization also form a part of human resource. In the present complex environment, no business or organization can exist and grow without appropriate human resources. So human resource has become the focus of attention of every progressive organization.

Human resource management is that process of management which develops and manages the human elements of an enterprise. It is not only the management of skills but also the attitudes and aspirations of people. When individuals come to a work place, they come with not only technical skills, knowledge, experience etc., but also with their personal feelings, perceptions, desires, motives, attitudes, values etc. So HRM means management of various aspects of human resources. An important element of human resource management is the humane approach while managing people. This approach helps a manager to view his people as an important resource. It is an approach in which manpower resources are developed not only to help the organization in achieving its goals but also to the self satisfaction of the concerned persons. On the one hand this approach focuses on human resource development, and on the other hand it focuses on effective management of people on the other.

## 1.2 DEFINITION OF HUMAN RESOURCE MANAGEMENT

It is a process by which the people and organizations are bound together in such a way that both of them are able to achieve their objectives.

***According to Flippo,*** "Human resource management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to the end that individual, organizational and societal objectives are accomplished. "

This definition reveals that human resource management is that aspect of management which deals with the planning, organizing, directing and controlling the personnel functions of an enterprise. The purpose of these functions is to assist in the achievement of basic organizational, divisional and societal goals.

***According to Institute of Personnel Management (U.K.)***

"Personnel Management is an integral but distinctive part of management concerned with people at work and their relationships within the enterprise. It seeks to bring together into an effective organization the men and women who staff the enterprise enabling each to make his/her best contribution to its success, both as a member of a working group and as an individual. It seeks to provide relationship within the enterprise that are conducive both to effective work and human satisfaction.

## 1.3 FEATURES OF HRM

It has the following features:

1 ***Pervasive force:*** HRM is pervasive in nature. It is present in all enterprises. It permeates all levels of management in an organization.

2 ***Action oriented:*** HRM focuses attention on action, rather than on record keeping, written procedures or rules. The problems of employees at work are solved through rational policies.

3 ***Individually oriented:*** It tries to help employees develop their potential fully. It encourages them to give their best to the organization. It motivates employees through a systematic process of recruitment, selection, training and development coupled with fair wage policies.

4 ***People oriented:*** HRM is all about people at work, both as individuals and groups. It tries to put people on assigned jobs in order to produce good results. The resultant gains are used to reward people and motivate them towards further improvements in productivity.

5 ***Future oriented:*** Effective HRM helps an organization in meeting its goals in the future by providing for competent and well-motivated employees.

6 ***Development oriented:*** HRM intends to develop the full potential of employees. The reward structure is tuned to the needs of employees. Training is offered to sharpen and improve their skills. Employees are rotated on various jobs so that they gain experience and exposure. Every attempt is made to use their talents fully in the service of organizational goals.

7 ***Integrating mechanism:*** HRM tries to build and maintain cordial relations between people working at various levels in the organization. In short, it tries to integrate human assets in the best possible manner in the service of an organization.

8 ***Comprehensive function:*** HRM is, to some extent, concerned with any organizational decision which has an impact on the workforce or the potential workforce. The term 'workforce' signifies people working at various levels, including workers, supervisors, middle

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and top managers. It is concerned with managing people at work. It covers all types of personnel. Personnel work may take different shapes and forms at each level in the organizational hierarchy but the basic objective of achieving organizational effectiveness through effective and efficient utilization of human resources, remains the same. “It is basically a method of developing potentialities of employees so that they get maximum satisfaction out of their work and give their best efforts to the organization”. (Pigors and Myers)

9 ***Auxiliary service:*** HR department exist to assist and advise the line or operating managers to do their personnel work more effectively. HR Manager is a specialist advisor. It is a staff function.

10 ***Inter-disciplinary function:*** HRM is a multi-disciplinary activity, utilizing knowledge and inputs drawn from psychology, sociology, authropology, economics, etc. To unravel the mystery surrounding the human brain, managers, need to understand and appreciate the contribution of all such ‘soft’ disciplines.

11 ***Continuous function:*** According to Terry, HRM is not a one shot deal. It cannot be practiced only one hour each day or one day a week. It requires a constant alertness and awareness of human relations and their importance in every day operations.

## 1.4 SCOPE OF HRM

The scope of HRM is very wide. Research in behavioural sciences, new trends in managing knowledge worker and advances in the field of training have expanded the scope of HR function in recent years. The Indian Institute of Personnel Management has specified the scope of HRM thus:

***Personnel aspect:*** This is concerned with manpower planning, recruitment, selection, placement, transfer, promotion, training and development, lay off and retrenchment, remuneration, incentives, productivity etc.

***Welfare aspect:*** It deals with working conditions and amenities such as canteens, crèches, rest and lunch rooms, housing, transport, medical assistance, education, health and safety, recreation facilities etc.

***Industrial relations aspect:*** This covers union management relations, joint consultation, collective bargaining, grievance and disciplinary procedures, settlement of disputes etc.

## 1.5 OBJECTIVES OF HRM

The principal objectives of HRM may be listed as:

1. ***To help the organization reach its goals:*** HR department, like other departments in an organization, exists to achieve the goals of the organization first and if it does not meet this purpose, HR department (or for that matter any other unit) will wither and die.

2. ***To employ the skills and abilities of the workforce efficiently:*** The primary purpose of HRM is to make people’s strengths productive and to benefit customers, stockholders and employees.

3. ***To provide the organization with well-trained and well-motivated employee:*** HRM requires that employees be motivated to exert their maximum efforts, that their performance be evaluated properly for results and that they be remunerated on the basis of their contributions to the organization.

4. ***To increase to the fullest the employee’s job satisfaction and self-actualisation:*** It tries to prompt and stimulate every employee to realize his potential. To this end suitable programmes have to be designed aimed at improving the quality of work life (QWL).

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5. ***To develop and maintain a quality of work life:*** It makes employment in the organization a desirable, personal and social, situation. Without improvement in the quality of work life, it is difficult to improve rganizational performance.
6. ***To communicate HR policies to all employees:*** It is the responsibility of HRM to communicate in the fullest possible sense; tapping ideas, opinions and feelings of customers, non-customers, regulators and other external public as well as understanding the views of internal human resources.
7. ***To be ethically and socially responsive to the needs of society:*** HRM must ensure that organisaitons manage human resource in an ethical and socially responsible manner through ensuring compliance with legal and ethical standards.

## 1.6 IMPORTANCE OF HRM

People have always been central to organizations, but their strategic importance is growing in today's knowledge-based industries. An organisation's success increasingly depends on the knowledge, skills and abilities (KSAs) of employees, particularly as they help establish a set of core competencies that distinguish and organization from its competitors. With appropriate HR policies and practices an organization can hire, develop and utilize best brains in the market place, realize its professed goals and deliver results better than others.

Human Resource Management helps an organisaiton and its people to realize their respective goals thus:

1. ***At the enterprise level:***
   - Good human resource practices can help in attracting and retaining the best people in the organization. Planning alerts the company to the types of people it will need in the short, medium and long run.
   - It helps in training people for challenging roles, developing right attitudes towards the job and the company promoting team spirit among employees and developing loyalty and commitment through appropriate reward schemes.
2. ***At the individual level:*** Effective management of human resources helps employees in the following areas:
   - It promotes team work and team spirit among employees.
   - It offers excellent growth opportunities to people who have the potential to rise.
   - It allows people to work with diligence and commitment.
3. ***At the society level:*** Society, as a whole, is the major beneficiary of good human resource practices.
   - Employment opportunity is multiply.
   - Scarce talents are put to best use. Companies that pay and treat people well always race ahead of others and deliver excellent results.
4. ***At the national level:*** Effective use of human resources helps in exploitation of natural, physical and financial resources in a better way. People with right skills, proper attitudes and appropriate values help the nation to get ahead and compete with the best in the world leading to better standard of living and better employment.

### Importance of HRM

- Attract and retain talent
- Train people for challenging roles
- Develop skills and competencies
- Promote team spirit

- Develop loyalty and commitment
- Increase productivity and profits
- Improve job satisfaction
- Enhance standard of living
- Generate employment opportunities

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## 1.7 NEED FOR HRM APPROACH

Human resource management helps in creating a better understanding between employees and management. It helps workers in accomplishing individual and organizational goals. This approach has been attracting the attention of management professional in the last decade or so. HRM is considered essential due to the following reasons:

1. ***Better Industrial Relations:*** There is widespread unrest, strained worker-management relations, lack of confidence in each other, rising expectations of workers, emergence of militancy in trade unions etc. These factors have created a gap among workers and managements. Both sides are talking of exploitation by the either side. In the absence of cordiality in an organization the performance of workers is adversely affected.

   HRM approach is required to create proper understanding among workers and management. The workers are developed to meet their individual and organizational objectives. The workers are convinced that various managerial actions will help them in accomplishing their motives besides helping the organization.

2. ***Develop Organisational Commitment:*** There is a humanisation of work environment in indusrialised countries like Japan, U.S.A., Germany etc. and other countries. Globalisaiton of economy has exposed Indian industries to international competition. An improvement in efficiency and quality of work can come only when workers develop organizational commitment. HRM approach helps in creating a sense of pride for the organization among the workforce.

3. ***Coping with Changing Environment:*** The business environment is rapidly changing. Technological improvements have revolutinised production procedures. Automation has been introduced in office operations. Better communication channels have revolutionized vital areas of business. There is a need to cope with new and changing situation. The operational efficiency of employees must improve to face the new situation. There is a need for new approach to manpower.

4. ***Change in Political Philosophy:*** Political Philosophy has undergone a change all over the world. The new approach is to develop human resource properly for making its better use. In India, Central Government has named a Ministry as Human Resource Development and put it under the charge of a Cabinet Minister. This development shows the importance given to human resource. So there is a need for human approach towards the workforce.

5. ***Increased Pressure on Employees:*** The technological changes have necessitated the use of sophisticated machines. The installation, monitoring of machines, maintenance and controlling of operations need trained and skillful people. There is a regular need for training and development of people for coping with the emerging situations. Human resource development has become essential for every organization. Research and fresh initiatives in industry require new policy of human resource development.

## 1.8 HRM AND PERSONNEL MANAGEMENT

Some people feel that HRM is a dignified word for personnel management. While others feel that HRM and personnel management perform the same functions. Both the terms are different in outlook or philosophy. Human resource management is not personnel management rather the latter is a part of the former.

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In the words of Flippo, “Personnel management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration and imaitenane of people for the purpose of contribution to organizational, individual and social goals”. Personnel management is mainly concerned with procurement and development of personnel for the attainment of organizational goals. Though Flippo talks of individual and social goals but the main trust is to achieve organizational aims with the help of individuals, the individual aspirations and goals submerge into organizational goals. The planning, organizing, directing and controlling of human beings are the other functions of personnel management.

HRM philosophy is to develop people as per their aspirations and individual goals and motivate them to help in achieving organizational goals. So human resource is considered as an important element in HRM thinking.

Personnel function is headed by personnel manager who is supposed to know rules and regulations of personnel practices and he advises top management on personnel polices. Personnel management is considered as separate function like other functions. HRM, on the other hand, is a party of every line function. The primary job of every manager is activating and human resource management cannot be isolated from activating. So there should not be an impression that traditional personnel management function is replaced by HRM. Rather, HRM has absorbed the personnel function in refined form.

## 1.9 LIMITATIONS OF HUMAN RESOURCE MANAGEMENT

HRM approach is very useful in creating work culture in the organization but still it suffers from certain limitations:

1. ***Lack of Top Management Support:*** HRM must have the support of top level management. The change in attitude at the top can bring good results while implementing HRM. Because of passive attitude at the top, this work is handed by personnel management people. Unless otherwise there is a change is approach and attitude nothing spectacular is going to happen.

2. ***Recent Origin:*** HRM is of recent origin, lacks universally approved academic base. Different people try to define the term differently. Some consider it as a new name of personnel management. Some organizations have named their traditional personnel management department as human development with the passage of time.

3. ***Improper Implementation:*** Human resource management should be implemented by assessing the training and development needs of employees. The needs and aspirations of people should be taken into account while framing human resource policies. HRM is implemented half-heartedly. The organizing of some training programmes is considered as the implementation of HRM Management’s productivity and profitability approach remains undisturbed in many organizations.

4. ***Inadequate Development Programme:*** Human resource management requires implementation of programmes such as career planning, on the job training, development programmes, counseling etc. There is a need to create an atmosphere of learning in the organization. In reality HRM programmes are confined to class room lectures and expected results are not coming out from this approach.

5. ***Inadequate Information:*** Some organizations do not have requisite information about their employees. In the absence of adequate information and database, this system cannot be properly implemented. There is a need to collect, store and retrieve information before implementing human resource management.

The liberalization of economy, entry of multinationals in Indian markets, raising of quality standards of Indian goods, growing competition will put pressure on human resources of every organization. Management will be required to constantly assess and reassess competence levels of their employees. Training and development programmes will be needed to motivate personnel to cope with the new requirements. Human resource management will have a pivotal role in managing the business in near future.

## 1.10 SYSTEM APPROACH TO HRM

An enterprise cannot work in isolation. It depends on its external environment. It is a part of larger system such as the industry to which it belongs, the economic system and the society. The enterprise receives the inputs, transforms them and exports the output to the environment. The inputs from internal environment include people, capital, managerial skills, technical knowledge etc. Various groups of people too make demands on the enterprise, e.g. employees want higher wages, stable employment, promotional avenues, consumers demand good quality products at the reasonable price, suppliers want assurance that their products will be purchased, shareholders except higher returns and appreciation of their stock holdings, government wants payment of taxes, compliance of various laws, community wants greater employment opportunities and minimum of pollution.

It is the task of the managers to transform various inputs into outputs. Though managers do not have control over external environment, still they have to respond to it. The enterprise has to adjust its working in such way that it is able to use the environment to its advantage. In order to carry out its operations effectively a business generally creates certain departments which are known as subsystems. The important subsystems of a business firm are human resource system, production system, finance system, marketing system, research and development system.

Each subsystem has a number of further subsystems. For example, human resource system, which is a subsystem of a business firm, has the following subsystems:

(i) Recruitment and selection

(ii) Training and development

(iii) Compensation

(iv) Employee welfare and services

(v) Personnel records & research etc.

## 1.11 DESCRIPTION OF LINE AND STAFF FUINCTIONS

In a sense, all managers are HR Managers as they all get involved in activities like selection, training, compensation of employees. Yet most firms, now a days, have the HR department headed by a person with requisite qualifications in behavioural sciences. How do the duties of this HR manager relate to the line managers ? HR duties would be an interesting question to answer. Line managers have the final responsibility for achieving the organisation’s goals. They also have the authority to direct the work of subordinates. Staff managers usually help and advise line managers in achieving organizational goals. HR managers are staff experts. They assist line managers in areas like recruiting, selecting, training and compensating. Managing people, in a boarder context, is every manager’s business and successful organizations generally combine the experience of line managers with the experience of HR specialist while utilizing the talents of employees to their greatest potential. HR managers have to win the hearts of employees working alongside line managers and deliver results in a cost-effective manner. HR managers as indicated earlier are assuming a greater role in top management planning and decision making, a trend that indicates the growing realization among executives that HRM can make significant contribution to the success of an organization.

## 1.12 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

The functions of human resource management may broadly be classified into two categories, i.e. managerial functions and operative functions.

### Managerial functions

The basic managerial functions comprise planning, organizing, directing and controlling.

1. ***Planning:*** This function deals with the determination of the future course of action to achieve desired results. Planning of personnel today prevents crises of tomorrow. The personnel

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manager is expected to determine the personnel programme regarding recruitment, selection and training of employees.

2. ***Organising:*** This function is primarily concerned with proper grouping of personnel activities, assigning of different groups of activities to different individuals and delegation of authority. Creation of a proper structural framework is his primary task. Organising, in fact, is considered to be the wool of the entire management fabric and hence cannot afford to be ignored.

3. ***Directing:*** This involves supervising and guiding the personnel. To execute plans, direction is essential, for without direction there is no destination. Many a time, the success of the organization depends on the direction of things rather than their design. Direction then consists of motivation and leadership. The personnel manager must be an effective leader who can create winning teams. While achieving results, the personnel manager manner must, invariably, take care of the concerns and expectations of employees at all levels.

4. ***Controlling:*** Controlling function of personnel management comprises measuring the employee's performance, correcting negative deviations and industrial assuring an efficient accomplishment of plans. It makes individuals aware of their performance through review reports, records and personnel audit programmes. It ensures that the activities are being carried out in accordance with stated plans.

### Operative Functions

The operative functions of HRM are related to specific activities of personnel management, viz. employment, development, compensation and industrial relations. These functions are to be performed in conjunction with managerial functions

1. ***Procurement function:*** The first operative function of personnel management is procurement. It is concerned with procuring and employing people who possess necessary skill, knowledge and aptitude. Under its purview you have job analysis, manpower planning, recruitment, selection, placement, induction and internal mobility.

   i. *Job analysis:* It is the process of collecting information relating to the operations and responsibilities pertaining to a specific job.

   ii. *Human resources planning:* It is a process of determining and assuring that the organization will have an adequate number of qualified persons, available at proper times, performing jobs which would meet their needs and provide satisfaction for the individuals involved.

   iii. *Recruitment:* It is the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

   iv. *Selection:* It is the process of ascertaining qualifications, experience, skill and knowledge of an applicant with a view to appraising his/her suitability to the job in question.

   v. *Placement:* It is process that ensures a 3600 fit, matching the employee's qualifications, experience, skills and interest with the job on offer. It is the personnel manager's responsibility to position the right candidate at the right level.

   vi. *Induction and orientation:* Induction and orientation are techniques by which a new employee is rehabilitated in his new surroundings and introduced to the practices, polices, and people. He must be acquainted with the principles which define and drive the organization, its mission statement and values which form its backbone.

   vii. *Internal Mobility:* The movement of employees from one job to another through transfer and promotions is called internal mobility. Some employees leave an organization due to various reasons leading to resignation, retirement and even termination. These movements are known as external mobility. In the best interest of an organization and its employees, such job changes should be guided by well-conceived principles and policies.

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2. ***Development:*** It is the process of improving, moulding, changing and developing the skills, knowledge, creative ability, aptitude, attitude, values and commitment based on present and future requirements both at the individual's and organization's level. This function includes:

    i. *Training:* Training is a continuous process by which employees learn skills, knowledge, abilities and attitude and attitudes to further organizational and personnel goals.

    ii. *Executive development:* It is a systematic process of developing managerial skills and capabilities through appropriate programmes.

    iii. *Career planning and development:* It is the planning of one's career and implementation of career plans by means of education, training, job search and acquisition of work experiences. It includes succession planning which implies identifying developing and tracking key individuals for executive positions.

    iv. *Human resource development:* HRD aims at developing the total organization. It creates a climate that enables every employee to develop and use his capabilities in order to further both individual and organizational goal.

3. ***Motivation and compensation:*** It is a process which inspires people to give their best to the organization through the use of intrinsic (achievement, recognition, responsibility) and extrinsic (job design, work scheduling, appraisal based incentives) rewards.

    i. *Job design:* Organising tasks, and responsibilities towards having a productive unit of work is called job design. The main purpose of job design is to integrate the needs of employees to suit the requirements of an organization.

    ii. *Work scheduling:* Organizations must realize the importance of scheduling work to motivate employees through job enrichment, shorter work weeks flexi-time, work sharing and home work assignments. Employee need to be challenged at work and the job itself must be one that they value. Work scheduling is an attempt to structure work, incorporating the physical, physiological and behavioural aspects of work.

    iii. *Motivation:* Combining forces that allow people to behave in certain ways is an integral aspect of motivation. People must have both the ability and the motivation if they are to perform at a high level. Managers generally try to motivate people through properly administered rewards (financial as well as non-financial).

    iv. *Job evaluation:* Organizations formally determine the value of jobs through the process of job evaluation. Job evaluation is the systematic process of determining the relative worth of jobs in order to establish which jobs should be paid more than others within the organization. Job evaluation helps to establish internal equality between various jobs.

    v. *Performance appraisal:* After an employee has been selected for a job, has been trained to do it and has worked on it for a period of time, his performance should be evaluated. Performance evaluation or appraisal is the process of deciding how employees do their jobs. It is a method of evaluating the behaviour of employees at the workplace and normally includes both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating work related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he or she is performing and ideally, establishing a plan of improvement.

       The appraisal process consists of six steps: (1) establish performance standards with employees: (2) set measurable goals (manager and employee): (3) measure actual performance; (4) compare actual performance with standards; (5) discuss the appraisal with the employees and (6) if necessary initiate corrective action.

    vi. *Compensation administration:* Compensation administration is the process of dividing how much an employee should be paid. The important goals of compensation administration are to design a low-cost pay plan that will attract, motivate and retain competent employee which is also perceived to be fair by these employees.

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vii. *Incentives and benefits:* In addition to a basic wage structure, most organizations now a days offer incentive compensation based on actual performance. Unlike incentives, benefits and services are offered to all employees as required by law including social security, insurance, workmen's compensation, welfare amenities etc. Organizations have been offering a plethora of other benefits and services as well as a means of 'sweetening the pot' (employee stock options, birthday gifts, anniversary gifts, paid holidays, club membership).

4. ***Maintenance:*** It aims at protecting and preserving the physical and psychological health of employees through various welfare measures.

(i) *Health and safety:* Managers at all levels are expected to know and enforce safety and health standards throughout the organisation. They must ensure a work environment that protects employees from physical hazards, unhealthy conditions and unsafe acts of other personnel. Through proper safety and health programmes, the physical and psychological well-being of employees must be preserved and even improved.

(ii) *Employee welfare:* Employee welfare includes the services, amenities and facilities offered to employees within or outside the establishment for their physical, psychological and social well being. Housing, transportation, education and recreation facilities are all included in the employee welfare package.

(iii) *Social security measures:* Managements provide social security to their employees in addition to fringe benefits. These measures include: (a) Workmen's compensation to those workers (or their dependents) who are involved in accidents; (b) Maternity benefits to women employees; (c) sickness benefits and medical benefits; (d) disablement benefits/allowance; (e) dependent benefits; (f) retirement benefits like Provident Fund, Pension, Gratuity etc.

5. ***Integration function:*** This tries to integrate the goals of an organisaiton with employee aspirations through various employee-oriented programmes, like redressing grievances promptly, instituting proper disciplinary measures, empowering people to decide things independently, encouraging a participative culture, offering constructive help to trade union. etc.

i. *Grievance redressal:* A grievance is any factor involving wage, hours or conditions of employment that is used as a complaint against the employer. Constructive grievance handling depends first on the manager's ability to recognize, diagnose and correct the causes of potential employee dissatisfaction before it converts to into a formal grievance.

ii. *Discipline:* It is the force that prompts an individual or a group to observe the rules, regulations and procedures, which are deemed necessary for the attainment of an objective.

iii. *Teams and teamwork:* Self-managed teams have emerged as the most important formal groups in today's organizations. They enhance employee involvement and have the potential to create positive synergy. By increasing worker interaction, they create camaraderie among team members. They encourage individuals to sublimate their individual goals for those of the group. Teams have inherent strengths which ultimately lead to organizational success at various levels.

iv. *Collective bargaining:* It is the process of agreeing on a satisfactory labour contract between management and union. The contract contains agreements about conditions of employment such as wages, hours, promotion and discipline; lay off, benefits, vacations, rest pauses and the grievance procedure. The process of bargaining generally takes time, as both parties tend to make proposals and counter – proposals. The resulting agreement must be ratified by unions, workers and management.

v. *Employee participation and empowerment:* Participation means sharing the decision-making power with the lower ranks of an organisation in an appropriate manner. When workers participate in organizational decisions they are able to see the big picture clearly and how their actions would impact the overall growth of the company. They can offer feedback immediately based on their experiences and improve the quality of decisions greatly. Since they are now treated with respect, they begin to view the job and the organisaiton as their own, and commit themselves to organisaitonal objectives whole-heartedly.

vi. *Trade unions and employees association:* Trade union is an association either of employees or employees or independent workers. It is a relatively permanent body formed by workers. With the objective of countering exploitation and harassment. It strives towards providing economic and social benefits to the labour community. Trade unions have already played a powerful role in improving the lot of workers in India, using aggressive bargaining tactics. However since the 90's, the situation changed dramatically. Unable to fight the forces of competition, many employers have been forced to shutdown units and scale down operations. This has made both parties realize the importance of bargaining for their rights in an atmosphere of 'give and take'

vii. *Industrial relations:* Harmonious industrial relations between labour and management are essential to achieve industrial growth and higher productivity. When the relationhip between the parties is not codial, discontentment develops and conflicts erupt abruptly. It is not always easy to put out the fires with the existing dispute settlement machinery, created by the government. Hence both labour and management must appreciate the importance of openness, trust and collaboration in their day-to-day dealings.

6. ***Emerging issues:*** Effective management of human resources depends on refining HRM practices to changing conditions. Hence the need to look at other important issues that can motivate people to give their best in a dynamic and ever-changing environment.

(i) *Personnel records:* Personnel records such as papers, files, cards, cassettes and films are maintained to have tangible record of what is actually happening in an organisation and to formulate appropriate HR policies and programmes (based on historical records, actual experience and future trends) from time to time.

(ii) *Human resource audit:* Human resource audit refers to an examination and evaluation of policies, procedures and practices to determine the effectiveness of HRM. Personnel audit (a) measures the effectiveness of personnel programmes and practices and (b) determines what should or should not be done in future.

(iii) *Human resources research:* It is the process of evaluating the effectiveness of human resource policies and practices and developing more appropriate ones.

(iv) *Human resources accounting (HRA):* It is a measurement of the cost and value of human resources to the organisation. Human resource management is said to be effective if its value and contribution in any organisation is more than its cost.

(v) *Human resource information system:* HRIS is an integrated system designed to improve the efficiency with which HR data is compiled. It makes HR records more useful to the management by serving as a source of information.

(vi) *Stress and counseling:* Stress is the psychological and physical reaction to certain life events or situations. At an organizational level, stress results in burn out, substance abuse in the form of alcohol or drug use/dependence reduced job satisfaction, increased absenteeism and increased turnover. Companies, therefore, are closely looking at what should be done to promote the physical and mental well being of employees through proper counseling and employee development programmes.

(vii) *International human resource management:* International business is important to almost every business today and so firms must increasingly be managed with a clear global focus. This of course, poses many challenges before managers including coordinating production, sales and financial operations on a worldwide basis. International HRM places greater emphasis on a number of responsibilities and functions such as relocation, orientation and training services to help employees adapt to a new and different environment outside their own country.

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## 1.13 ROLE OF HR MANAGERS

Human resource managers, now a days, wear many hats. They perform mainly three different types of roles, while meeting the requirement of employees and customers, namely administrative, operational and strategic.

### Administrative Roles

The administrative roles of human resource management include policy formulation and implementation, housekeeping, records maintenance, welfare administration, legal compliance etc.

1. ***Policy maker:*** The human resource manager helps management in the formation of policies governing talent acquisition and retention, wage and salary administration, welfare activities, personnel records, working conditions etc. He also helps in interpreting personnel policies in an appropriate manner.

2. ***Administrative expert:*** The administrative role of an HR manager is heavily oriented to processing and record keeping. Maintaining employee files, and HR related databases, processing employee benefit claims, answering queries regarding leave, transport and medical facilities, submitting required reports to regulatory agencies are examples of the administrative nature of HR management. These activities must be performed efficiently and effectively to meet changing requirements of employees, customers and the government.

3. ***Advisor:*** It is said that personnel management is not a line responsibility but a staff function. The personnel manager performs his functions by advising, suggesting, counseling and helping the line managers in discharging their responsibilities relating to grievance redressal, conflict resolution, employee selection and training. Personnel advice include preparation of reports, communication of guidelines for the interpretation and implementation of policies, providing information regarding labour laws etc.

4. ***Housekeeper:*** The administrative roles of a personnel manager in managing the show include recruiting, pre-employment testing, reference checking, employee surveys, time keeping, wage and salary administration, benefits and pension administration, wellness programmes, maintenance of records etc.

5. ***Counsellor:*** The personnel manager discusses various problems of the employees relating to work, career, their supervisors, colleagues, health, family, financial, social, etc. and advises them on minimizing and overcoming problems if any.

6. ***Welfare officer:*** Personnel manager is expected to be the Welfare Officer of the company. As a welfare officer he provides and maintain (on behalf of the company) canteens, hospitals, crèches, educational institute, clubs, libraries, conveyance facilities, co-operative credit societies and consumer stores. Under the Factories Act, Welfare officers are expected to take care of safety, health and welfare of employees. The HR managers are often asked to oversee if everything is in line with the company legislation and stipulation.

7. ***Legal consultant:*** Personnel manager plays a role of grievance handling, settling of disputes, handling disciplinary cases, doing collective bargaining, enabling the process of joint consultation, interpretation and implementation of various labour laws, contacting lawyers regarding court cases, filing suits in labour courts, industrial tribunals, civil courts and the like.

In some organizations, the above administrative functions are being outsourced to external providers in recent times, with a view to increasing efficiency as also cutting operational costs. Technology, is being put to good use to automate many of the administrative tasks.

### Operational Roles

These roles are tactical in nature and include recruiting, training and developing employees; coordinating HR activities with the actions of managers and supervisors throughout the organisation and resolving difference between employees.

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1. ***Recruiter:*** "Winning the war for talent" has become an important job of HR managers in recent times in view of the growing competition for people possessing requisite knowledge, skills and experience. HR managers have to use their experience to good effect while laying down lucrative career paths to new recruits without, increasing the financial burden to the company.
2. ***Trainer, developer, motivator:*** Apart from talent acquisition, talent retention is also important. To this end, HR managers have to find skill deficiencies from time to time, offer meaningful training opportunities, and bring out the talent potential of people through intrinsic and extrinsic rewards which are valued by employees.
3. ***Coordinator/linking pin:*** The HR Manager is often deputed to act as a linking pin between various divisions/departments of an organisation. The whole exercise is meant to develop rapport with divisional heads, using PR and communication skills of HR executives to the maximum possible extent.
4. ***Mediator:*** The personnel manager acts as a mediator in case of friction between two employees, groups of employees, superiors and subordinates and employees and management with the sole objective of maintaining industrial harmony.
5. ***Employee champion:*** HR managers have traditionally been viewed as 'company morale officers' or employee advocates. Liberalisation, privatization and globalization pressures have changed the situation dramatically. HR professionals have had to move closer to the hearts of employees in their own self interest. To deliver results they are now seriously preoccupied with:
   - Placing people on the right job.
   - Charting a suitable career path for each employee.
   - Rewarding creditable performance.
   - Resolving differences between employees and groups smoothly.
   - Adopting family-friendly policies.
   - Ensuring fair and equitable treatment to all people regardless of their background.
   - Striking a happy balance between the employee's personal/professional as also the larger organizational needs.
   - Representing worker's issues, problems and concerns to the management in order to deliver effective results HR managers have to treat their employees as valuable assets. Such an approach helps to ensure the HR practices and principles are in sync with the organization's overall strategy. It forces the organisation to invest in its best employees and ensure that performance standards are not compromised.

An organization's success increasingly depends on the knowledge, skills and abilities of its employees, particularly as they help establish a set of core competencies (activities that the firm performs especially well when compared to its competitors and through which the firm adds value to its goods and services over a long period of time, e.g. ONGC's oil exploration capabilities and Dell's ability to deliver low cost, high quality computers at an amazing speed) that distinguish an organisaton from its competitors. When employees' talents are valuable, rare, difficult to intimate and organized, a firm can achieve sustained competitive advantage through its people. The strategic role of HR management focuses attention on how to enable ordinary employees to run out extraordinary performance, taking care of their ever-changing expectations. The key areas of attention in this era of global competition include effective management of key resources (employees, technology, work process), while delivering cost effective, value-enhancing solutions.

1. ***Change agent:*** Strategic HR as it is popularly called now, aims at building the organization's capacity to embrace and capitalize on change. It makes sure that change initiatives that are focused on creating high-performing teams, reducing cycle time for innovation, or implementing new technology are defined, developed and delivered in a timely manner. The HR manager in his new avtar would help employees translate the vision statements info a

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meaningful format (Ulrich, 1998). HR's role as a change agent is to replace resistance with resolve, planning with results and fear of change with excitement about its possibilities. HR helps an organisation identify the key success factors for change and assess the organisation's strength and weakness regarding each factor. It may not decide what changes the organisation is going to embrace, but it would certainly lead the process to make them explicit. In helping to bring about a new HR environment there needs to be clarity on issue like who is responsible for bringing about change? Why do it? What will it look when we are done? Who else needs to be involved? How will it be measured? How will it be institutionalized? How will it be measured? How will it get initiated, developed and sustained?

2. ***Strategic partner:*** HR's role is not just to adapt its activities to the firm's business strategy, nor certainly to carry out fire-fighting operation like compensating employees. Instead, it must deliver strategic services cost effectively by building a competent, consumer-oriented work force. It must assume important roles in strategy formulation as well as strategy implementation. To this end, it must identify external opportunities from time to time, develop HR based competitive advantages and move in to close the gaps advantageously (like excellent training centre, design centre, automation centre etc. which could be used by others as well). While implementing strategies, HR should develop appropriate ways to restructure work processes smoothly.

## 1.14 HUMAN RESOURCE MANAGEMENT PRACTICES IN INDIA

The development of HRM over the period of time is important for understanding the philosophy, functions, and practices of HRM that are followed in different situations so that relevant HRM practices are evolved in the present situation. HRM being a part of management discipline, has followed the pattern of management development because of the interrelationship of the problems of both the fields. Though HRM as a field of study has relatively recent origin, history of management of people in the organizations particularly in state administration, is quite old. However, these ancient developments could not create much impact on the recent development of literature and practices of HRM as these developments were concerned primarily in state administration. Some serious thoughts were applied towards the effective utilisaiton of labour force in industrial organizations after the industrial revolution that started in 19th century. The following practices may be classified as follows:

1. Industrial revolution era – 19 century
2. Trade union movement era – close to the 19th century
3. Social responsibility era – beginning of the 20th century
4. Scientific management era – 1900-1920s
5. Human relations era – 1930s – 1950s
6. Behavioural science era – 1950s – 1960s
7. Systems and contingency approach era – 1960 onwards
8. Human resource management era – 1980 onwards

The classification of various stages of development of management of human resources in terms of period shows the beginning of that era. In each era, emphasis has been put on a particular approach of managing people at work. A succeeding era does not mean the complete end of proceeding era but there has been overlapping in these. We discuss below the main features of these eras and the type of practices that have been adopted.

1. ***Industrial Revolution Era:*** The systematic development of HRM started with industrial revolution that started during 1850s in Western Europe and USA. The industrial revolution consisted, essentially, the development of machinery, the use of mechanical energy in production processes, and consequently the emergence of the concept of factory with large number of workforce working together. The factory system replaced the old cottage system. Industrial revolution brought out a number of changes like centralized work locations with

large number of workers working together, mechanical production process, migration of workers from their place of origin, and indirect contact between factory owners and workers. In order to manage people in the factory system of industrial revolution, three systems of HRM were developed: recruitment of workers, training for workers, and control of workers. However, the basic philosophy of managing workers revolved around master-servant relationship.

2. ***Trade Union Movement Era:*** Shortly after the emergence of factory system, workers started to organize themselves based on their common interests to form workers' associations which were subsequently known as trade unions. The basic objectives of these associations were to safeguard their interests and to sort out their problems which arose primarily because of employment of child labour, long hours of work, and poor working conditions. Later other aspects of work such as economic problems and wages, employee benefits and services, etc. also became issues. These trade unions started such weapons as strikes, slowdowns, walk outs, boycotts etc. for the acceptance of their demand. These activities on the part of workers forced owners and managers to the adoption of employee grievance handling systems,. The acceptance of arbitration as a means of resolving conflicts of rights, disciplinary practice, the expansion of employee benefit programmes, the liberalization of holiday and vacation time, clear definition of job duties, job rights through seniority, and installation of national and defensible wage structure.

3. ***Social Responsibility Era:*** In the first decade of 20th century, some factory owners started adopting a more humanistic and paternalistic approach towards workers. Paternalistic approach to labour management is based on the philosophy that labour is just like a child and owner is just like a father and the owner should take care of his labour just like a father takes care of his children. Those industrialists who adopted paternalistic approach offered a number of concessions and facilities to labour force like reduced number of work hours, improved facilities at workplace, model villages to workers, etc. All these practices led to the development of social welfare aspect of labour management.

   Many critics to paternalistic approach viewed that this approach was adopted to overcome the problems posed by labour union movement as plenty of trade unions emerged which frequently interrupted work performance. Employers observed that workers were going out of their control and to overcome this problem, they implemented welfare scheme. Thus, this was a compulsion rather than a philosophy.

4. ***Scientific Management Era:*** Around the beginning of 20th century, Taylor started to find out 'one best way of doing thing' based on time and motion studies. On the basis of his experiments, he was able to increase workers' productivity considerably and wrote many papers based on these experiments and a book on scientific management. The main principles of scientific management are: (1) replacing rule of thumb with science, (2) harmony in group action, (3) cooperation between management and workers, (4) maximum outputs in place of restricted outputs, and (5) development of workers.

5. ***Human Relations Era:*** Around 1920s, management researchers gave a close look at the human factor at work and the variables that affected people's behaviour. Before that, Hugo Munsterberg wrote a book on 'Psychology and Industrial Efficiency' which suggested the use of psychology in the field of personnel testing, interviewing, attitude measurement, learning. etc. This brief period was termed as 'Industrial Psychology Era' . In 1924, a group of professors from Harvard Business School, USA, began an enquiry into the human aspects of work and working conditions at Hawthorne plant of Western Electric Company, Chicago. They conducted researches from 1924 to 1932 and arrived at the conclusions that productivity of workers depended on: (1) social factors at the workplace, (2) group formation and group influence, (3) nature of leadership and supervision, and (4) communication.

6. ***Behavioural Science Era:*** In contrast to human relations which assume that happy workers are productive workers, the behavioural scientists have been goal and efficiency-oriented and consider understanding of human behaviour to be the major means to that end. They have tried several sophisticated research methods to understand the nature of work and the people in the work environment. The Contribution of behavioural scientists to management practices

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consists primarily of producing new insights rather than new techniques. It has developed or expanded a useful way of thinking about the role of the manager, the nature of organizations, and the behaviour of individual within organizations. As against human relations model, they have given the concept of human resource model. Major conclusions of the contributions made by behaviouralists can be presented as follows:

(a) People do not dislike work. If they have been helped to establish objectives, they will want to achieve them. In fact, job itself is a source of motivation and satisfaction to employees.

(b) Most people can exercise a great deal of self-direction, self-control, and creativity than are required in their current job. Therefore, there remains untapped potential among them.

(c) The manager’s basic job is to use untapped human potential in the service of the organization.

(d) The manager should create a healthy environment wherein all subordinates can contribute to the best of their capacity. The environment should provide a healthy, safe, comfortable and convenient place to work.

(e) The manager should provide for self-direction by subordinates and they must be encouraged to participate fully in all important matters

(f) Operating efficiency can be improved by expanding subordinate influence, self-direction, and self-control.

(g) Work satisfaction may improve as a ‘by-product’ of subordinates making full use of their potential.

(h) *Systems and Contingency Approach Era:* Systems and contingency approach has attracted maximum attention of thinkers in management in the present era. It is an integrated approach which considers management in its totality based on empirical data. The basic idea of this approach is that analysis of any object must rely on a method of analysis involving simultaneous variations of mutually-dependent variables. This happens when systems approach is applied in managing. The basic precepts of systems and contingency approach are as follows:

    (i) Management action is contingent on action outside the system or subsystem as the case may be.

    (ii) Organisational action should be based on the behaviour of action outside the system so that the organisation is integrated with the environment.

    (iii) Because of the specific organisation environment relationship, no action can be universal. It varies from situation to situation.

(i) *Human Resource Management Era:* When the factory system was applied in production, large number of workers started working together. A need was felt that there should be someone who should take care of recruiting, developing, and looking after welfare of these workers. For this purpose, industrial relations department came into existence in most of the large organizations which was concerned mostly with workers. However, as the time passed and the complexity of managing large business organizations increased, the scope of industrial relations department was extended to cover supervisory staff and subsequently managerial personnel as well, and the department was named as personnel department whit the increasing competition for market share, competition for resources, people were not treated merely as physiological beings but socio-psychological beings as a prime source of organizational effectiveness, and large organizations changed the nomenclature of their department from personnel department to human resource department to reflect the contemporary view. Even the American Society for Personnel Administration, the largest professional association in the field of human resource management, changed its name to the Society for Human Resource Management in 1990. At the academic level, similar pattern followed and the tile of personnel management

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course was changed to human resource management, Since then, the expression is gradually replacing the hackneyed term 'personnel management'

## 1.15 SUMMARY

- Human Resource Management may be defined as the art of procuring, developing and maintaining competent work force to achieve the goals of an organisation in an effective and efficient manner.
- HRM aims at achieving organizational goals meet the expectations of employees, develop the knowledge, skills and abilities of employees. Improve the quality of working life and manage human resources in an ethical and socially responsible manner.
- HR can be a source of competitive advantage when the talents of people working in the company are valuable rare, difficult to initiate and well organized to deliver efficient and effective results.
- HRM mainly covers three broad areas; personnel aspect, welfare aspect and industrial relations aspect.

## 1.16 SELF ASSESSMENT QUESTIONS:

1. "HRM is a basic management pertaining to all levels and types of Management. Discuss".
2. "Human Resource Managers position in the company does not determine his voice in policy making a personnel matters". Discuss.
3. Discuss various features of HRM.
4. Discuss various role of HR Manager.
5. What are the functions of Human Resource Management? Discuss.
6. What changes in society and within organizations have been instrumental in reshaping the personnel role.
7. Discuss various objectives of HRM.
8. Describe various importance of HRM.
9. Discuss various scope of HRM.
10. Discuss limitation of HRM.

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# UNIT 2 HUMAN RESOURCE PLANNING

**Structure**

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## 2.0 OBJECTIVES

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

- understand the meaning, objectives and importance of HRP
- outline the HRP process
- Describe the methods of human Resource Planning.
- Understand Types of HRP
- understand meaning, definition, policy of Recruitment
- Describe source & methods of Recruitment
- To understand meaning & definition of selection
- Outline the selection process
- Understand system of Induction/orientation

# PART I - HUMAN RESOURCE PLANNING

## 2.1 INTRODUCTION AND MEANING

Human resource is an important corporate asset and the overall performance of companies depends upon the way it is put to use. In order to realise company objectives, it is essential to have a human resource plan. Human Resource Planning (also called employment or personnel planning) is essentially the process of getting the right number of qualified people into the right job at the right time so that an organisation can meet its objectives. It is a system of matching the supply of people with opening the organization expects over a given time frame.

The words 'human resource planning' and 'manpower planning' are generally used interchangeably. Human resource ' planning is not a substitute for manpower planning. Rather the latter is a part of the former i.e. manpower planning is integrated with human resource planning.

HR planning means different things to different people. However, the general agreement exists on its ultimate objective, the most effective use of scarce talent. HR planning has attained utmost importance due to the technological changes and the scarcity of skilled manpower. Manpower replacement is not like removing the damaged spare-part and replacing with another. Since no two humans are similar. Nowadays the organisations require people with specialised skills and HR should know in advance the requirement of the nature of manpower. So that the right kind of person can be selected for the post. HR planning is thus, a process whereby the organization’s manpower requirement is maintained by liberate and systematic action to mobilize reasonable balance with the demands.

## 2.2 DEFINITIONS HRP

The following definitions will help to understand properly the concept of human resource planning: According to Eric W, Vetter, "Human resource planning is the process by which a management determines how an organisation should move from its current manpower position to its desired manpower position. Through planning a management strives to have the right number and the right kinds of people at the right places, at the right time to do things which result in both the organisation and the individual receiving the maximum long range benefit."

According to Leon C. Meginson, "Human resource planning is an integration approach to performing the planning aspects of the personnel function in order to have a sufficient supply of adequately developed and motivated people to perform the duties and tasks required to meet organisational objectives and satisfy the individual needs and goals of organisational members."

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According to Bruce P. Coleman, "Manpower planning is the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plan of the organisation."

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

## 2.3 FEATURES OF HUMAN RESOURCE PLANNING

A discussion of various definitions brings out the following features of human resource planning:

1. ***Objective must be well Defined:*** The objectives of the organisation in strategic planning and operating planning may form the objectives of human resource planning. Human resource needs are planned on the basis of the company's goals. Besides, human resource planning has its own objectives like developing human resource, updating technical expertise, career planning of individual executives and people, ensuring better commitment of people and so on.
2. ***Determining Personnel Needs:*** Human resource planning is related to the determination of personnel needs in the organisation. The thinking will have to be done in advance so that the persons are available at a time when they are needed. The organisation may also have to undertake recruiting, selecting and training process also.
3. ***Preseat Manpower Inventory:*** It includes the inventory of present manpower in the organisation. The manager should know the persons who will be available to him for undertaking higher responsibilities in the near future.
4. ***Adjusting Demand and Supply:*** Manpower requirements have to be planned well in advance as suitable persons are not immediately available. In case sufficient persons will not be available in future then efforts should be made to start recruitment process well in advance. The demand and supply of personnel should be seen in advance.
5. ***Creating Proper Working Environment:*** Besides estimating and employing personnel, manpower planning also ensures that proper working conditions are created. People should like to work in the organisation and they should get proper job satisfaction.

## 2.4 NEED FOR HUMAN RESOURCE PLANNING

Human resource planning is viewed as foreseeing the human resource requirements of an organisation and supply of human resources. Its need can be accessed from the following points:

1. ***Determining the number of persons to be employed at a new location:*** If organisations overdo the size of their workforce it will carry surplus or under utilised staff. Alternatively, if the opposite misjudgement is made, staff may be overstretched, making it hard or impossible to meet production or service deadlines at the quality level expected. The questions normally asked in this context are:
   - How can output be improved through understanding the interrelation between productivity, work organisation and technological development? What does this mean for staff numbers?
   - What techniques can be used to establish workforce requirements?
   - Have more flexible work arrangements been considered?
   - How the needed staff is to be acquired?

   The principles can be applied to any exercise to define workforce requirements, whether it be a business start-up, a relocation, or the opening of new factory or office.

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2. ***Retaining the highly skilled staff:*** Issues about retention may not have been to the fore in recent years, but all its needs is for organisations to lose key staff to realize that an understanding of the pattern of turnover is needed.

   - Monitor the extent of employee turnover
   - Discover the reasons for it
   - Establish what it is costing the organisation
   - Compare loss rates with other similar organisations.

   Without this understanding, management may be unaware of how many good quality staff are being lost. This will cost the organisation directly through the bill for separation, recruitment and induction, but also through a loss of long-term capability.

   Having understood the nature and extent of turnover steps can be taken to rectify the situation. There may be relatively cheap and simple solutions once the reasons for the turnover of employees have been identified. But it will depend on whether the problem is peculiar to the organisation, and whether it is concentrated in particular groups (eg by age, gender, grade or skill).

3. ***Managing an effective downsizing programme:*** An all too common issue for managers, is how the workforce can be cut painlessly, while at the same time protecting the long-term interests of the organisation? A question made all the harder by the time pressures management is under, both because of business necessities and employee anxieties. HR planning helps in these issues by considering:

   - the sort of workforce envisaged at the end of the exercise
   - the pros and cons of the different routes to get there
   - how the nature and extent of wastage will change during the run-down
   - the utility of retraining, redeployment and transfers
   - What the appropriate recruitment levels might be.

   Such an analysis can be presented to senior managers so that the cost benefit of various methods of reduction can be assessed, and the time taken to meet targets established.

4. ***Where will the next generation of managers come from?:*** Many senior managers are troubled by this issue. They have seen traditional career paths disappear. They have had to bring in senior staff from elsewhere. But they recognize that while this may have dealt with a short-term skills shortage, it has not solved the longer term question of managerial supply: what sort, how many, and where will they come from? To address these questions one must understand:

   - the present career system (including patterns of promotion and movement, of recruitment and wastage).
   - the characteristics of those who currently occupy senior positions.
   - the organisation's future supply of talent.

   This then can be compared with future requirements, in number and type. These will of course be affected by internal structural changes and external business or political changes. Comparing the current supply to this revised demand will show surpluses and shortages which will allow the organization to take corrective action such as:

   - Recruiting to meet a shortage of those with senior management potential.
   - Allowing faster promotion to fill immediate gaps
   - Developing cross functional transfers for high fliers
   - Hiring on fixed-term contracts to meet short-term skills/experience deficits
   - Reducing staff numbers to remove blockages or forthcoming surpluses.

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Thus, appropriate recruitment, deployment and severance policies can be pursued to meet business needs. Otherwise process are likely to be haphazard and inconsistent. The wrong sort of staff may be engaged at the wrong time on the wrong contract. It can be expensive and embarrassing to put such matters right.

## 2.5 OBJECTIVES HRP

The basic purpose of having a human resource plan is to have an accurate estimate of the number of employees required, with matching skill requirements to meet organisational objectives. It provides information about the manner in which existing personnel are employed, the kind of skills required for different categories of jobs and human resource requirements over a period of time in relation to organisational objectives. It would also give an indication of the lead time that is available to select and train the required number of additional manpower.

More specifically, HR planning is required to meet the following objectives:

- ***Forecast personnel requirements:*** HR planning is essential to determine the future manpower needs in an organisation. In the absence of such a plan, it would be difficult to have the services of right kind of people at the right time.
- ***Cope with changes:*** HR planning is required to cope with changes in market conditions, technology, products and government regulations in an effective way.

  These changes may often require the services of people with the requisite technical knowledge and training. In the absence of ah HR plan, we may not be in a position to enlist their services in time.
- ***Use existing manpower productively:*** By keeping an inventory of existing personnel in an enterprise by skill, level, training, educational qualifications, work experience, it will be possible to utilise the existing resources more usefully in relation to the job requirements. This also helps in decreasing wage and salary costs in the long run.
- ***Promote employees in a systematic manner:*** HR planning provides useful information on the basis of which management decides on the promotion of eligible personnel in the organisation. In the absence of an HR plan, it may be difficult to ensure regular promotions to competent people on a justifiable basis.

## 2.6 IMPORTANCE HRP

Human Resource Planning is a highly important and useful activity. If used properly, it offers a number of benefits:

- ***Reservoir of talent:*** The organisation can have a reservoir of talent at any point of time. People with requisite skills are readily available to carry out the assigned tasks.
- ***Prepare people for future:*** People can be trained, motivated and developed in advance and this helps in meeting future needs for high-quality employees quite easily. Likewise, human resource shortages can also be met comfortably (when people quit the organisation for various reasons) through proper human resource planning.
- ***Expand or contract:*** If the organisation wants to expand its scale of operations, it can go ahead easily. Advance planning ensures a continuous supply of people with requisite skills who can handle challenging jobs easily.
- ***Cut costs:*** Planning facilitates the preparation of an appropriate HR budget for each department or division. This, in turn, helps in controlling manpower costs by avoiding shortages/excesses in manpower supply. The physical facilities such as canteen, quarters, school, medical help, etc., can also be planned in advance.
- ***Succession planning:*** Human Resource Planning, as pointed out previously, prepares people for future challenges. The 'stars' can be picked up and kept ready for further promotions whenever they arise. All multinational companies for example, have this policy of having a

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'hot list' of promising candidates prepared in advance e.g., HLL, Proctor & Gamble, Godrej consumer products etc.3 Such candidates are rolled over various jobs and assessed and assisted continuously. When the time comes, such people 'switch hats ' quickly, and replace their respective bosses without any problem.

## 2.7 THE METHODS OF HUMAN RESOURCE PLANNING

The method of HRP usually followed in a large organisation, consists of the following steps:

### 2.7.1 Forecasting the Demand for Human Resources

Most firms estimate how many employees they require in future. The demand for human talent at various levels is primarily due to the following factors:

1. ***External challenges:*** These challenges arise from three important sources:
   - *Economic developments:* Liberalisation, opening up of banking sector, capital market reforms, the on-line trading systems have created huge demand for finance professionals during 1990-1995 in India. The late 90s saw the rise of manufacturing, FMCG, Pharmaceuticals, Auto-components, Healthcare and Chemical Industries in a steady manner. Consequently, the demand for Engineering and Management graduates, Scientists and Healthcare .professionals has picked up in recent times.
   - *Political, legal, social and technical changes:* The demand for certain categories of employees and skills is also influenced by changes in political, legal and social structure in an economy. Likewise, firms employing latest technology in construction, power, automobiles, software, etc., have greatly enhanced the worth of technicians and engineers during the last couple of years. Technology, however, is a double-edged weapon and hence, its impact on HR plans is difficult to predict. For example, computerisation programme in Banks, Railways, Post and Telegraph Departments may reduce demand in one department (book keeping, for example) while increasing it in another (such as computer operations). High technology with all its attendant benefits may compel organisations to go lean and downsize workforce suddenly. Employment planning under such situations becomes complicated.
   - *Competition:* Companies operating in fields where a large number of players are bent upon cutting each other's throat (with a view to enhance their market shares) often reduce their workforce. Competition is beneficial to customers but suicidal for-companies operating on thin margins. Such companies have to necessarily go 'lean' by reducing their workforce. On the other hand, companies that are doing well and progressing smoothly will always look for people with critical skills.
2. ***Organisational decisions:*** The organisation's strategic plan, sales and production forecasts and new ventures must all be taken into account in employment planning. If Britannia Industries Ltd expects higher demand for biscuits and bread, the long-term HR plan must take this into consideration. Likewise, if it tries to venture into other lucrative fields such as milk based products and confectionery items, the demand for people possessing requisite skills in those areas in the next couple of years should be looked into carefully.
3. ***Workforce factors:*** Demand is modified by retirements, terminations, resignations, deaths and leaves of absence. Past experience, however, makes the rate of occurrence of these actions by employees fairly predictable.
4. ***Forecasting techniques:*** The manpower forecasting techniques commonly employed by modern organisations are given below:
   - *Expert forecasts:* In this method, managers estimate future human –resource requirements, using their experiences and judgments to good effect.
   - *Trend analysis:* HR needs, can be estimated by examining past trends. Past rates of change can be projected into the future or employment growth can be estimated by its relationship with a particular index.

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### 2.7.2 Preparing Manpower Inventory (Supply Forecasting)

The basic purpose of preparing manpower inventory is to find out the size and quality of personnel available within the organisation to man various positions. Every organisation will have two major sources of supply of manpower: internal and external.

***Internal labour supply:*** A profile of employees in terms of age, sex, education, training, experience, job level, past performance and future potential should be kept ready for use whenever required. Requirements in terms of growth/diversification, internal movement of employees (transfer, promotions, retirement, etc.) must also be assessed in advance. The possibilities of absenteeism and turnover should be kept in mind while preparing the workforce analysis. Through replacement charts or succession plans, the organisation can even find out the approximate date(s) by which important positions may fall vacant. Frequent manpower audits may be carried out to find out the available talent in terms of skills, performance and potential.

Some of the important forecasting techniques may be summarised thus:

Staffing table: It shows the number of employees in each job. It tries to classify employees on the basis of age, sex, position, category, experience, qualifications, skills, etc. A study of the table indicates whether current employees are properly utilised or not.

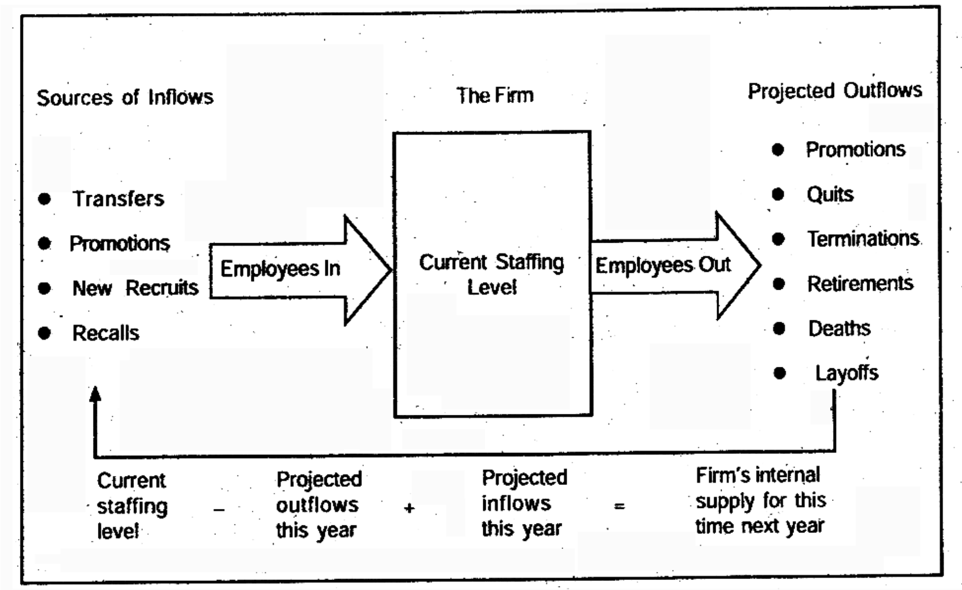


**Figure 2.1: Estimated Internal Labour Supply for a Given firm**

***Markov analysis:*** This techniques uses historical rates of promotions, transfer and turnover to estimate future availabilities in the workforce. Based on past probabilities, one can estimate the number of employees who will be in various positions with the organization in future.

Skills Inventory: A skills inventory is an assessment of the knowledge, skills, abilities, experience and career aspirations of each of the current employees. This record should be updated at least every 2 years and should include changes such as new skills, additional qualifications, changed job duties etc. Of course, confidentiality is an important issue in setting up such an inventory. Once established, such a record helps an organization to quickly match forthcoming job openings with employee backgrounds.

***External labour supply:*** When the organization grows rapidly, diversifies into newer areas of operations (merchant banking, capital market operations, mutual funds, etc. In the case of a bank) or when it is not able to find the people internally to fill the vacancies, it has to look into outside sources. To the extent an organization is able to anticipate its outside recruitment needs and looks into the possible sources of supply keeping the market trends in mind, its problem in finding the right personnel with appropriate skills at the required time would become easier.

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Organisations, nowadays, do not generally track the qualifications of thousands of employees manually. Details of employees in terms of knowledge, skills, experience, abilities etc., are computerised, using various packaged software systems. [There are over 300 computerised human resource informations systems now available].

**Important Barometers of Labour Supply**

1. Net migration into and out of the area
2. Education levels of workforce
3. Demographic changes in population
4. Technological developments and shifts
5. Population Mobility
6. Demand for specific skills
7. National, regional unemployment rates
8. Actions of competing employers
9. Government policies, regulations, pressures
10. Economic Forecasts for the next few years
11. The attractiveness of an area
12. The attractiveness of an industry in a particular place

### 2.7.3 Determining Manpower Gaps

The existing number of personnel and their skills (from human resource inventory) are compared with the forecasted manpower needs (demand forecasting) to determine the quantitative and qualitative gaps in the workforce. A reconciliation of demand and supply forecasts will give us the number of people to be recruited or made redundant as the case may be. This forms the basis for preparing the HR plan. The Box below shows how demand and. supply forecasts can be related over a period of three years.

**Determining Human Resource Requirements**

| | Year<br>1 2 3 |
|---|---|
| Number required at the beginning of the year | |
| Changes to requirements forecast during the year | DEMAND |
| Total requirements at the end of the year (1+2) | |
| Number available at the beginning of the year | |
| Additions (transfers, promotions) | SUPPLY |
| Separations (retirement, wastage, promotions out and other losses) | |
| Total available at the end of year (4+5+6) | |
| Deficit or surplus (3-7) | RECONCILIATION |
| Losses of those recruited during the year | OF THE ABOVE |
| Additional numbers needed during the year (8+9) | MANFOWER NEEDED |

### 2.7.4 Formulating HR Plans

Organisations operate in a changing environment. Consequently, human resource requirements also change continually. Changes in product mix, union agreements, competitive actions are some of the important things that need special attention. The human resource requirements identified along the procedure outlined in the above box need to be translated into a concrete HR plan, backed up by detailed policies, programmes and strategies (for recruitment, selection, training, promotion, retirement, replacement, etc.

- ***Recruitment plan:*** Will indicate the number and type of people required and when they are needed; special plans to recruit right people and how they are to be dealt with via the recruitment programme.
- ***Redeployment plan:*** Will indicate the programmes for transferring or retraining existing employees for new jobs.
- ***Redundancy plan:*** Will indicate who is redundant, when and where; the plans for retraining, where this is possible; and plans for golden handshake, retrenchment, lay-off, etc.
- ***Training plan:*** Will indicate the number of trainees or apprentices required and the programme for recruiting or training them; existing staff requiring training or retraining; new courses to be developed or changes to be effected in existing courses.
- ***Productivity plan:*** Will indicate reasons for employee productivity or reducing employee costs through work simplification studies, mechanisation, productivity bargaining; incentives and profit sharing schemes, job redesign, etc.
- ***Retention plan:*** Will indicate reasons for employee turnover and show strategies to avoid wastage through compensation policies; changes in work requirements and improvement in working conditions.
- ***Control points:*** The entire manpower plan be subjected to close monitoring from time to time. Control points be set up to find out deficiencies, periodic updating of manpower inventory, in the light of changing circumstances, be undertaken to remove inefficiencies and develop future plans.

## 2.8 RESPONSIBILITY FOR HRP

Top level executives are responsible for HR planning as it is one of the important factors influencing the success of an organisation. The plans are usually prepared by the Human Resource Division in consultation with other corporate heads. The responsibility and accountability for manpower aspects of various divisions is on their respective heads. They should undertake their own appraisals of future needs in such a way as to provide a concrete basis for organisation-wide forecasting and planning. The Human Resource Division must offer counsel and advice to various divisional heads and coordinate the various manpower estimates from time to time. Prof. Geisler outlined the responsibilities of Human Resource Department in respect of HR planning thus:

- Assist and counsel operating managers to plan and set objectives.
- Collect and summarise manpower data keeping long-run objectives and broad organisational interests in mind.
- Monitor and measure performance against the plan and keep top management informed about it.
- Provide proper research base for effective manpower and organisational planning.

## 2.9 FACTORS AFFECTING HUMAN RESOURCE PLANNING

There are mainly three factors affecting Human Resource planning. These constitute the basis of Human Resource planning which may be summarised as follows:

1. ***Existing Stock of Manpower:*** Taking stock of existing manpower is the first basis of manpower planning and is the starting point of all planning processes. To analyse the existing stock of manpower, one must study the position of total stock of manpower by dividing it into groups on the basis of function, occupation, level of skill or qualification. A groupwise detailed statement is prepared regarding the number of workers in the group, their age, qualification, date of retirement and chances for promotion etc.
2. ***Wastage:*** The second basis of manpower planning is wastage. For good planning, appropriate adjustment in the existing stock of manpower should be made for the possible wastage of manpower caused by any foreseeable changes in the organisation. In order to analyse the

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wastage of manpower, rate of labour turnover and the period of active management, the work should be studied. Other reasons of wastage may be expansion and modernisation of plant, retirement, promotion, transfer and training of workers etc. In planning the manpower, these factors should be taken into consideration to make the necessary adjustments in the requirement of personnel.

3. ***Future Manpower Requirement:*** After evaluating the existing stock of manpower and analysing the various factors of wastage caused by any foreseeable change in the organisation, one may very easily assess the future requirements of manpower in an industry taking into account the future plans of the company, government plans and programmes, employment policy, demand and supply of manpower in future, productivity of labour and other factors of production and replacement needs. One should also take into consideration the possible changes in the techniques and methods of production in the near future.

## 2.10 TYPES OF HUMAN RESOURCE PLANNING

There are two main types of manpower planning. On the basis of time span i.e. short term manpower planning and long term manpower planning.

### 2.10.1 Short Term Human Resource Planning

Short term planning as the name suggests is made for a short time i.e. for a period of not more than two years. Short term plans are more concerned with specific projects and programmes and the existing personnel must be adjusted to match the requirements of that project and programme. The following problems in short run are:

1. ***The Weak Incumbent:*** The first and the most difficult problem in short term planning is experienced when an existing personnel is not according to the specifications of the jobs. In such circumstances, there are four approaches for matching jobs and individuals:

   (i) *Changing of the Man.* The first approach in this regard is the changing of the present incumbent by improving his ability through education, training and counselling. In this way, the weakness of the incumbent may be overcome to make him suitable for the job.

   (ii) *Change in the Contents of the Job.* The next approach can be to change the job contents to make them suitable to the individual. This can be done by (a) withdrawing a duty from one position and assigning it to some other related position (b) adjusting the degree of decentralisation (c) providing the additional assistance when a person is weak.

   (iii) *Changing the Job and the Man.* Another approach may be a combination of the above two approaches i.e. both man and the job can be adjusted according to each other by: (a) improving the ability of the man through training and counselling and (b) shifting a duty from one position to another.

   (iv) *Removal of the Incumbent.* The fourth approach may be the removal of the present incumbent but this step should be taken only when (a) it is not possible to change the job to make it suitable to the individual or (b) the individual cannot be improved even after proper training and counselling.

   Which approach should the management go for is a question which has no universally accepted answer. It depends upon the circumstances of the individual case. Management may adopt any of the above approaches or a combination of more than one but only after analysing the following points:

   (i) While changing the job, management should analyse its effects on other jobs or positions because of the interdependence of jobs.

   (ii) While changing the incumbent, it should be analysed whether personnel deficiencies can be removed promptly and fairly in a short time by imparting training to him.

   (iii) In removing the incumbent, its effect on the morale of the other employees in the organisation should be studied and analysed.

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(iv) Management may also find out the replacement of workers and then analyse the problems relating thereto.

2. ***The Strong Incumbent:*** Some people in the organisation may have greater ability than their present job requires. In such a case, again there is a problem of matching jobs with the man because a portion of an individual's ability remains unutilised. For the proper utilisation of the ability, the following approaches may be tried out:

   (i) *Assigning Additional Duties.* A man may be assigned some additional but related duties beyond his assigned sphere. He may give advice to others who are poor in their job performance.

   (ii) *Assigning Some Special Problems.* Sometimes, some special problems arise in the organisation. The help of the capable man can be taken to solve the problem.

   (iii) *Advice:* Advice of the capable man can be sought for any problem for which he is supposed to be having special knowledge or any activity can be made part of his regular duty which requires repeated advice of the capable man.

   (iv) *Change in Job:* The ability of a man can be better utilised by changing the job that suits his abilities and capabilities. Any activity which is not being managed properly may be assigned to the capable man.

   But care should be taken in making such arrangement, not to involve such a strong incumbent in so many other unofficial duties otherwise he will neglect his regular duties. The better course then will be either to transfer or to promote him to the better job claiming higher capability.

3. ***An Unexpected Vacancy:*** The next problem which the management has to face in the short run is the filling up of posts falling vacant due to some unexpected reasons such as death, resignation or some other social reasons. As these unexpected factors are not known in advance, the problem of matching jobs and individuals again arises. No one in the organisation may match the vacant position. Much can be achieved by changing the job reorganisation or by changing the next person in the position through training and for the mean time, some temporary arrangements can be made or another person having ability may be assigned additional charge of the vacant position on temporary basis.

### 2.10.2 Long Term Human Resource Planning

Long term Human Resource planning is concerned with all jobs and persons at once-with matching total available personnel in the organisation to total job requirements. It is concerned with fulfilling future vacancies rather than matching the present incumbents to present jobs. The long term manpower planning has the following elements.

(a) ***Projecting Manpower Requirements:*** The first essential step in projecting the manpower reqirements is to forecast the organisation structure. The organisation operates in a changing environment and therefore, it is bound to change in future. In matching the change with the present job structure, the management must predict the manpower requirements in future. The following factors should be analysed to forecast the manpower requirements:

   (i) The rate of loss due to known (e.g. retirement and transfer etc.) and unknown (e.g. resignation, discharge, leave etc.) factors may be guessed. An accurate forecast can be done for known factors but for unknown factors, only past records may help which may be adjusted on the basis of present known circumstances.

   (ii) The manpower requirement in future will depend upon the expansion or contraction in the size of the organisation. The size of the organisation can be predicted on the basis of the past rate of growth by projecting the trend in the size of sales, capital requirements or manpower stock.

   (iii) A job analysis should also help in long term planning. A prediction of capabilities will be required in the people perform the job effectively. Such prediction is more important in

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case of managerial personnel, because it takes more time to develop managerial skill. Again, the development of other personnel also depends upon the management abilities.

(b) ***Taking Stock of Existing Manpower:*** Having projected the manpower requirements, the next step in manpower planning is to take stock of existing manpower and to find out how far the present stock of manpower would fulfill the qualifications of the anticipated jobs or how far they would be developed through training. For this purpose, a list of present employees should be prepared stating the present abilities of different persons. The list should also state the persons who can be developed within a period of five or ten years either through experience or training to suit the anticipated job requirements.

(c) ***Recruitment and Selection:*** Once the requirement of manpower is known, the process of recruitment and selection starts to identify the prospective candidates and to stimulate them to apply for jobs. The recruiting activity may be selective or pre-selective through choosing among various sources of supply and by the decision as to which candidate should be permitted to go through subsequent screening procedures.

(d) ***Manpower Development:*** Manpower development includes the development of individuals through training to fill up the prospective vacancies so that they can meet the challenges with their full capabilities. It develops the man according to the requirements of the job and thus, coordinates the man and the job. Having predicted the future needs of personnel, the existing personnel are trained, if possible and are appointed as and when necessary to the suitable higher jobs.

# PART II - RECRUITMENT

## 2.11 INTRODUCTION

The human resources are the most important assets of an organization. The success or failure of an organization is largely dependent on the caliber of the people working their in. In order to achieve the goals or the activities of an organization therefore we need to recruit people with requisite skills qualifications and experience.

In today's competitive environment, choice of the right employees has for reaching implications for an organisation's functioning. Employees well selected with the right kind of skills, knowledge and potentials would contribute a lot to the efficient running of the organization. Human resource problems including attitudes, skills and productivity issues all begin at the stage of recruiting. With wrong recruitment, the organisation has to pay heavily in terms of low productivity, low competency and wrong placement. The organisation suffers heavily in beating competition and brining innovation, if proper recruitment is not done and the right kind of manpower is not deployed in the organisation.

Recruitment is sometimes confused with employment. The two are not one and the same. Recruitment is just one step in the process of employment. Similarly recruitment and selection are also different in nature. The function of recruitment precedes the selection process. Recruitment is concerned with developing suitable techniques for attracting more and-more candidates while selection is the process of finding out the most suitable candidate for the job.

## 2.12 MEANING AND DEFINITIONS

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. When more persons apply for jobs then there will be a scope for recruiting better persons. The job-seekers too, on the other hand, are in search of organisations offering them employment. Recruitment is a linkage activity bringing together those with jobs and those seeking jobs.

According to Yoder, "Recruitment is a process to discover -the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting the manpower in adequate numbers to facilitate effective selection of an efficient working force." Recruitment is the process which prompts people to offer for selection in an organisation. This

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involves locating sources of manpower to meet job requirements. In his words, "It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation. It is often termed positive in that it stimulates people to apply for jobs to increase the hiring ratio, i.e., the number of applicants for a job.

According to Flippo, "Recruitment is the process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation".

According to Dale S. Beach "Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon when the organization can depend when it needs additional employees."

## 2.13 RECRUITMENT POLICY

Recruitment policy specifies the objectives of recruitment and provides a framework for the implementation of the recruitment programme. According to Yoder and Others, "A recruitment policy may involve commitment to broad principles such as filling vacancies with the best qualified individuals. It may embrace several issues such as extent of promotion from within, attitudes of enterprise in recruiting its old employees, handicaps, minority groups, women employees, part time employees, friends and relatives of present employees etc. It may also involve the organisational system to be developed for implementing recruitment programme and procedures to be employed.

### Elements of a Good Recruitment Policy

A good recruitment policy must contain the following elements:

(i) ***Organisational Objectives.*** Both short term and long term organisational objectives must be taken into consideration as a basic parameter for recruitment decisions.

(ii) ***Identification of the Recruitment Needs.*** The recruiters should prepare profiles for each category of workers and accordingly work out the man specifications, decide the sections, departments or branches where they should be placed and identify the particular responsibilities which may be immediately assigned to them.

(iii) ***Preferred Sources of Recruitment.*** Preferred sources of recruitment which would be tapped by the organisation for different classes of employees must be identified.

(iv) ***Criteria of Selection and Preferences.*** Selection and preferences should be based on conscious thought and serious deliberations.

(v) ***Monetary Aspects.*** The cost of recruitments and financial implications of the same have to be kept in mind also.

A recruitment policy involves the employer's commitment to such general principles as:

(i) To find and employ the best qualified persons for each job.

(ii) To retain the most promising of those hired

(iii) To offer promising opportunities for life time working careers.

(iv) To provide facilities and opportunities for personnel growth on the job.

### Pre-Requisites of a Good Recruitment Policy

The recruitment policy of an organisation must satisfy the following conditions:

1. It should be in conformity with the general personnel policies,
2. It should be flexible enough to meet the changing needs of an organisation.
3. It should provide employees with job security and continuous employment,
4. It should integrate organisational needs and employee needs.

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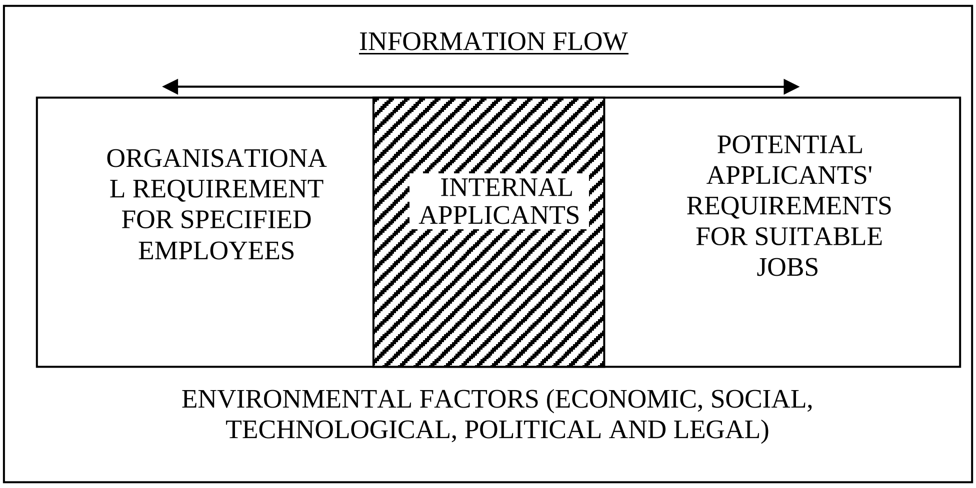
5. It should match the qualities of the employees with the requirements of the work for which they are employed.
6. It should highlight the necessity of establishing job analysis.
7. It should provide suitable jobs to handicapped, women and minority groups.

To summarise, according to Yoder, "The recruitment policy is concerned with quantity and qualifications of manpower".

## 2.14 SITUATIONAL FACTORS AFFECTING RECRUITMENT

Every organisation, big or small has to engage in recruitment of persons, as recruitment provides the most productive of all resources viz. employees, to an organisation. Recruitment has two important aspects (i) to find out the number of vacancies to be notified and the type of applicants needed to fill them and (ii) to approach the potential applicants to apply for such vacancies. No organisation can recruit successfully without taking into consideration the following factors:




### Recruitment-Matching the Organisation's and Applicants' Requirements

1. ***The Economic Factors.*** Economic conditions of a country influence the recruitment process in all the organisations. The globalisation and liberalisation of Indian economy, since 1991 onwards has resulted in a boom in financial services in India. As a result of the new economic policy, the demand for MBA/CA/ICWA/CFA students has grown tremendously. Even the engineering students had to get finance/marketing degrees or diplomas to encash job opportunities as their demand, especially in the manufacturing sector has not kept pace. People with specific fund management skills were in great demand. Companies had to resort to extensive advertising to hire suitable people. But the trend had changed by the late 1990s. Except software and pharmaceuticals sectors, recession had set in almost all the other sectors. As a result, companies had to cut down their recruitment costs and they had to resort to less expensive media advertising only in place of campus recruitment, search firms, employee referrals, contractors etc.
2. ***The Social Factors.*** The social factors also affect the recruitment policy of an organisation. Social changes in the past two decades in India have forced organisations to place increased emphasis on recruitment. The mentality of modern employees has changed from 'just any job' to a 'satisfying career'. If they are not satisfied with their jobs they don't hesitate to leave the organisations and go in search of greener pastures outside. To ward off such problems, the companies, now-a-days, present a more realistic picture of the job and the encouraging career opportunities to prospective employees through innovative recruitment campaigns. The organisations have to be aware of and sensitive to the prevailing social values and norms, otherwise their recruitment efforts could go off the track. The organizations should emphasize

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opportunities for training and development and progression through a series of jobs within the same organisation.

3. ***The Technological Factors.*** The globalisation and liberalisation of economy since 1991 has brought about rapid changes in the fields of banking, electronics, telecommunications, automobiles, software and pharma industries. New technologies have created new jobs and existing jobs have undergone rapid changes. Several old jobs have disappeared from the scene. Technological changes have led to a chronic shortage of people with requisite skills and knowledge. In such a scenario, companies have to step up their recruitment efforts to compete successfully for a small number of suitable candidates.

4. ***The Political Factors.*** The late 1980s brought the concept of 'equal employment opportunity1 in the corporate circles. Companies at last, realised that employment should be defined in terms of ability to perform the job, rather than in terms of race, colour, religion, sex or national origin. However, political compulsions and constitutional provisions covering reservations for special groups, come in the way of recruiting people, based solely on qualifications, skills and experience. Influence of unions, recommendations of friends and relatives of management, political leaders etc. also play an important role in recruitment policies followed by a concern.

5. ***The Legal Factors.*** The different legislative policies governing child labour, night shifts, bonded labour, contract labour etc. have brought the legal environment to be a major factor to be looked into carefully by all companies intending to recruit people for various positions. Some of the important legislations affecting recruitment are:

   (i) *The Factories Act, 1948.* The Factories Act prohibits the employment of women and children below 14 years of age in certain jobs which involve night work, underground jobs, carrying heavy loads etc.

   (ii) *The Apprentices Act, 1961.* The Apprentices Act provides for a machinery to lay down syllabi and specify period of training, mutual obligations of apprentices and employees etc. The apprentice after serving a contractual term of training can be taken on regular rolls. The Act as amended in 1986, provides for revised rates of compensation during the apprenticeship period and for failure on the part of the employer to execute the terms of the contract.

   (iii) *The Employment Exchanges Act, 1959.* The Employment Exchanges Act, 1959 requires all employers to notify the vacancies arising in their establishments to prescribed employment exchange before these are filled. The Act covers all establishments in public sector and non-agricultural establishments employing 25 or more workers in the private sector.

   (iv) *The Contract Labour Act, 1970.* The Contract Labour Act is applicable to every establishment (contractor) employing 20 or more persons. It tries to regulate the employment conditions of contract labour in certain establishments and also provides for the abolition of contract labour in certain circumstances.

   (v) *Bonded Labour System (Abolition) Act, 1976.* This Act provides for the abolition of bonded labour (system of forced labour to liquidate debts payable to parties who are bent on exploiting the vulnerability of the victim) or his family members.

   (vi) *The Child Labour Act, 1986.* The Child Labour Act prohibits the employment of children below 14 years of age to certain employments. This has become a serious issue in India recently when German firms refused to accept carpets exported from Uttar Pradesh, objecting to the employment of child labour in the carpet industry.

## 2.15 RECRUITMENT ORGANISATION

Recruitment policy differs from organisation to organisation.

Indian Railways follow decentralised system of recruitment while commercial banks follow centralised system. In case of central recruitment, personnel department at the central office

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performs the functions of recruitment while in a decentralised system, recruitment is undertaken at unit level or zonal level. Both the systems of recruitment have their own good points.

### Merits of Centralised Recruitment

(i) The cost of recruitment per candidate is low because of large number of persons recruited.

(ii) It has the benefit of centralised promotion and transfer procedure.

(iii) The services of experts will be available for recruitment,

(iv) It enables broad uniformity among various persons recruited.

(v) Since there is uniformity among persons, it becomes easy to transfer persons from one plant area to another.

(vi) The line managers of various plants or zones concentrate on their work, they are relieved of the botheration of recruitment,

(vii) It ensures effective and suitable placement to candidates.

### Merits of Decentralised Recruitment

(i) The units are well aware of the requirement of jobs and social and cultural background of candidates available. It will be possible to recruit most suitable candidates.

(ii) There may be certain area where suitable candidates are available. In decentralised system of recruitment the thrust will be to go to those places where required persons will be available.

(iii) The recruitment can be done as and when there is a need. The delays in recruitment under centralised system can be avoided in this method.

(iv) The units will have full information about recruitment processes and feedback system from the employment market will help in planning this function.

(v) The units will be free to use methods to stimulate prospective candidates so that proper persons are recruited,

(vi) The units can exercise better control over persons who are recruited by them as compared to those recruited by central agency.

Both centralised recruitment and decentralised recruitment have their own merits. The choice between the two well depend upon the management psychology and needs of the particular organisation. In some cases, a combination of both the systems is used. Lower level staff is recruited centrally whereas middle and top level executives are recruited in a decentalised manner.

## 2.16 SOURCES OF RECRUITMENT

Before an organisation actively begins to recruit applicants, it should consider the most likely source of the type of employee it needs. Some companies try to develop new sources while most try to tackle the existing sources they have. These sources, accordingly, may be termed as-internal and external. Management considers several variables in deciding on the extent to which they will depend on inside and outside sources. Among the most important are the following:

1. The effect of the policy on the attitudes and actions of all employees. It is often cited as the major reason for a policy of promotion from within. Most employees are likely to feel more secure and to identify their own long term interests with those of the organisation when they can anticipate first chance at job opportunities. On the other hand, general application of the promotion from within policy may encourage mediocre performance by the employees.

2. The level of specialisation required of employees. In many organisations, the principal source of qualified workers may be the present employees, who have received specialised training. In new industries or endeavours, no other source may be as satisfactory.

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3. The emphasis on general economic policy on participation by employees at all levels. New employees from outside, inexperienced in the firm, may not know enough about its service or products or processes to participate effectively.

4. The need for originality and initiative. If management feels that it is providing training for these qualities, it may prefer its own people. If, on the other hand, it feels no such assurance, that fact may argue for the importation of new people with different ideas.

5. Acceptance of the seniority principles. In most organisations, if emphasis is to be placed on promotion from within, seniority will play an important part. It is the simplest basis on which to decide who merits advancement.

### 2.16.1 Internal Sources

Internal source is one of the important sources of recruitment. The employees already working in the organisation may be more suitable for higher jobs than those recruited from outside. The present employees may help in the recruitment of new persons also. Internal sources consist of the following:

1. ***Present Employees:*** Promotions and transfers from among the present employees can be a good source of recruitment.

   (i) Transfer. Transfer involves shifting of persons from present jobs to other similar places. These do not involve any change in rank, responsibility and prestige, the number of persons do not increase with transfers but vacant posts may be attended to.

   (ii) Promotions. Promotions refer to shifting of persons to positions carrying better prestige, higher responsibilities and more salaries. The higher positions falling vacant may be filled up from within the organisation. A promotion does not increase the number of persons in the organization position. Promotion avenues motivate employees to improve their performance so that they get promotions to higher positions.

2. ***Employee Referrals:*** Employee referrals can be a good source of internal recruitment. Employees can develop good prospects for their families and friends by acquainting them with the advantages of a job with the company furnishing letters of introduction and even encouraging them to apply. This source is, usually, one by the most effective methods of recruiting because many qualified people are reached at a very low cost to the company. In an organisation with a large number of employees, this approach can provide quite a large pool of potential organisational members. Most employees know from their own experience about the requirements of the job and what sort of persons the company is looking for. Often employees have friends or acquaintances who meet these requirements. A major limitation of employee referral is that the referred individuals are likely to be similar in type to those who are already working in the organisation. This may lead to informal groups based on race, religion or sex.

3. ***Former Employees:*** Former employees are another internal source of recruitment. Some retired employees may be willing to come back to work on a part time basis or recommend someone who would be interested in working for the company. Sometimes, people who have left the company for some reason or the other are willing to come back and work. Individuals who left for other jobs and greener pastures, might be willing to come back at higher emoluments. An advantage of this source is that the performance of these people is already known.

4. ***Previous Applicants:*** Although not an internal source, in the true sense, those who have previously applied for jobs can be contacted by mail. This is a quick and an inexpensive way to fill an unexpected vacancy. This is a very suitable method for filling the professional openings.

### 2.16.2 External Sources

Every enterprise has to use external sources for recruitment to higher positions when existing employees are not suitable. More persons are needed when expansions are undertaken. External methods are discussed as follows:

1. ***Advertisement:*** Advertisement is the best method of recruiting persons for higher and experienced jobs. The advertisements are given in local or national press, trade or professional journals. The requirements of jobs are given in the advertisements. The prospective candidates evaluate themselves against their requirements of jobs before sending their applications. Management gets a wider range of candidates for selection. The flood of applications may create difficulties in the process.

2. ***Employment Exchanges:*** Employment exchanges run by the government are also a good source of recruitment. Unemployed persons get themselves registered with these exchanges. The vacancies may be notified with the exchanges, whenever there is a need. The exchange supplies a list of candidates fulfilling required qualifications. Exchanges are a suitable source of recruitment for filling unskilled, semi-skilled, skilled and operative posts. The job-seekers and job givers are brought in contact by the employment exchanges.

3. ***Unsolicited Applicants:*** Persons in search of employment may contact employers through telephone, by post or in person. Generally, employers with good reputation get unsolicited applications. If an opening is there or is likely to be there then these persons are considered for such jobs. Personnel department may maintain a record of unsolicited applications. When jobs suitable for these persons are available these are considered for employment.

4. ***Professional Organisations:*** Professional organisations maintain complete bio-data of their members and supply it to companies on demand. These organisations also act as exchange between the members and recruiting firms. Firms can seek clarifications and clear doubts about persons they want to recruit. This source of recruitment is found reliable for recruiting persons at middle and upper levels of management.

5. ***Data Banks:*** The recruiting firms can prepare a data bank about various persons in different fields. They can collect information from educational institutions, employment exchanges, professional organisations etc. It will become another source and the firm can get the particulars as and when it needs to recruit.

6. ***Similar Organisations:*** The organisations producing similar products or having the same line of business act as an important source of recruitment. The persons having same experience as required by the recruiting firms will be available in similar organisations. This would be the most effective source for executive positions and newly established or diversified and expanded organisations.

7. ***Casual Callers:*** Management may appoint persons who casually call on them for meeting short-term demands. This will avoid following a regular procedure of selection. These persons are appointed for short periods only. They need not be paid retrenchment or lay off allowance. This method of recruitment is economical because management does not incur a liability in pensions, insurance and fringe benefits.

8. ***Labour Contractors:*** It is quite common to engage contractors for the supply of labour. When workers are required for short periods and are hired without going through the full procedure of selection etc. Contractors or jobbers are the best source of getting them. The contractors maintain regular contracts with workers at their places and also bring them to the cities at their own expense. The persons hired under this system are generally unskilled workers.

9. ***Trade Unions:*** Generally, unemployment and underemployed persons make a request to trade union leaders for finding suitable jobs for them. Union leaders are aware of various vacancies in firms and also know the management. These leaders can help in the recruitment of suitable persons. In some organisations trade unions are consulted before starting a recruitment process for certain categories of employees. In such situations trade union leaders can give the names of persons available for recruitment.

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10. ***Gate Recruitment:*** Unskilled workers may be recruited at the factory gate. In some industries like jute a large number of workers work as badli or substitute workers. These may be employed whenever a permanent employee is absent. More efficient among these badli workers may be recruited to fill permanent vacancies. A notice on the notice board of the company specifying the details of the Job Vacancies can be put. Such recruitment is called direct recruitment. It is a very economical method and used mainly for unskilled and casual job vacancies.

11. ***Campus Recruitment:*** Colleges, universities, research laboratories are fertile grounds for recruiters. The Indian Institutes of Management (IIMs) and the Indian Institutes of Technology (IITS) are on the top list of avenues for the recruiters. In fact, in some companies recruiters are bound to recruit a large number of candidates from these institutes every year. Campus recruitment is so much sought after by the recruiters that each college, university department or institute will have to have a placement officer to handle recruitment functions.

    Campus recruitment is often an expensive process. Majority of those recruited leave the organisations after some time in search of greener pastures outside. Problems notwithstanding, campus placement is the major source of recruitment for prestigious companies such as Hindustan Lever Limited, Tata, Larsen and Toubro etc.

12. ***Recruiting Agencies:*** Several private consultancy firms e.g. A.F. Ferguson Associates, Price Waterhouse Coopers, ABC consultants etc. perform recruiting function on behalf of client companies by charging fees. These agencies are particularly suitable for recruitment of executives and specialists. They perform all the functions of recruitment and selection so that the client is relieved of this burden. But the cost of recruitment through these agencies is very high.

13. ***Walk-ins, Write-ins and Talk-ins:*** Now-a-days walking-ins are becoming a very popular method of recruitment. Today's newspapers are full of new openings to be tapped in newer ways. Six out of ten are through walk-in-interviews. The applicants just walk in with their resumes for interviews. However, the walk in interviews post a tough challenge for the interviewers who do not know how many candidates are to be interviewed. The number of candidates sometimes be varying directly with the temperature outside. From employee view point, walk-ins are preferable as they are free from the hassles associated with other methods of recruitment,

    In write ins, job seekers send written enquiries and they are asked to complete application forms for further processing.

    Talk-ins are also becoming popular now-a-days. Job aspirants are required to meet the recruiter, on an appropriated date for detailed talks. No application is required to be submitted in this case.

14. ***Displaced Persons:*** Implementation of a project in a particular area would result in displacement of several hundred inhabitants. Rehabilitating the displaced persons is a social responsibility of business. Rehabilitation of displaced persons is mandated by the government and the World Bank has made it conditionality for granting assistance to the concerned country. However, the track record of companies in this respect is disappointing.

15. ***Competitors:*** Rival firms can be a source of recruitment. Popularly called, poaching or raiding, this method involves, identifying the right people in rival companies, offering them better terms and luring them away. There are legal and ethical issues involved in raiding rival firms for potential candidates. Unfortunately, today's young managers are known for rootlessness and job hopping. Loyalty to the organisation is a thing of the past. This is a challenge for the HR managers.

## 2.17 METHODS OF RECRUITMENT

Methods of recruitment are different from the sources of recruitment. Sources are the locations where prospective; employees are available. On the other hand, methods are ways of establishing

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links with the prospective employees, Various methods employed for recruiting employees may be classified into the following categories.

1. ***Direct Methods:*** Under direct recruitment, employee contacts, manned exhibits and waiting lists are used. Representatives of the organisation are sent to the educational and training institutions for scouting prospective candidates. These travelling recruiters exchange information with the students, clarify their doubts, stimulate them to apply for jobs, conduct campus interviews and short list candidates for further screening. They act in cooperation with placement head of the institution.

   Another direct method is to ask employees of the organisation to contact the public and tell them about the vacancies. Manned exhibits involve sending recruiters to seminars and conventions, setting up exhibits at fairs and using mobile offices to go to the desired centres. Some organisations prepare the waiting lists of candidates who have indicated their interest in jobs in person, through mail or over telephone.

2. ***Indirect Methods:*** Advertisement in newspapers, journals, on the radio and television are used to publicize vacancies. A well thought out and clear advertisement enables candidates to assess their suitability so that only those possessing the requisite qualifications will apply. This method is suitable when the organisation wants to reach out to large target group scattered geographically. Considerable details about jobs to be filled and qualifications required can be given in the advertisements. But a large number of candidates may be unsuitable.

3. ***Third Party Methods:*** Various agencies can be used to recruit personnel. Public employment exchanges, management consulting firms, professional societies, temporary help societies, trade unions, labour contractors are the main agencies In addition, friends and relatives of existing staff and deputation method can be used.

## 2.18 RECRUITMENT PRACTICES IN INDIA

The findings of various surveys show that in foreign countries commonly used methods for recruitment are: employment referrals, casual applicants, advertising, local educational institutions, public employment exchanges, private employment agencies, unions etc.

The recruitment methods followed by Indian industries are as follows:

(i) Internal sources

(ii) Public employment exchanges

(iii) Labour contractors

(iv) Candidates introduced by friends and relatives

(v) Candidates brought by present employees (generally for lower posts).

(vi) Casual labourers.

(vii) Private employment agencies/Consultants.

(viii) Campus recruitment such as Institues of Management, Institutes of Technology, Engineering Colleges, University Campuses etc.

(ix) Sons of Soil. There is a move at present that vacancies at lower levels should be filled from local people. Public sector undertakings are already following this practice.

(x) Reservations. There are reservations for persons belonging to particular castes and communities in government undertakings. There are moves to have such reservations in private sector also.

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## 2.19 RECENT TRENDS IN RECRUITMENT

The following trends are, being seen in recruitment:

### Outsourcing

In India, the HR processes are being outsourced from more than a decade now. A company may draw required personnel from outsourcing firms. The outsourcing firms help the organisation by the initial screening of the candidates according to the needs of the organisation and creating a suitable pool of talent for the final selection by the organisation. Outsourcing firms develop their human resource pool by employing people for them and make available personnel to various companies as per their needs. In turn, the outsourcing firms or the intermediates charge the organisations for the services.

Advantages of outsourcing are:

1. Company need not plan for human resources much in advance.
2. Value creation, operational flexibility and competitive advantage.
3. Turning the management's focus to strategic level processes of HRM.
4. Company is free from salary negotiations, weeding the unsuitable resumes/candidates.
5. Company can save a lot of its resources and time.

### Poaching/Raiding

"Buying talent" (rather than developing it) is the latest mantra being followed by the organisations today. Poaching means employing a competent and experienced person already working with another reputed company in the same or different industry; the organisation might be a competitor in the industry. A company can attract talent from another firm by offering attractive pay packages and other terms and conditions, better than the current employer of the candidates. But it is seen as an unethical practice and not openly talked about. Indian software and the retail sector are the sectors facing the most severe brunt of poaching today. It has become a challenge for human resource managers to face and tackle poaching, as it weakens the competitive strength of the firm.

### E-Recruitment

Many big organizations use Internet as a source of recruitment. E-recruitment is the use of technology to assist the recruitment process. They advertise job vacancies through worldwide web. The job seekers send their applications or curriculum vitae i.e. CV through e-mail using the Internet. Alternatively job seekers place their CV's in worldwide web, which can be drawn by prospective employees depending upon their requirements.

Advantages of E-Recruitment are:

- Low cost.
- No intermediaries
- Reduction in time for recruitment.
- Recruitment of right type of people.
- Efficiency of recruitment process.

# PART III - SELECTION

## 2.20 INTRODUCTION

A properly planned recruitment and selection process is required for appointment of suitable persons. The selection process starts after the receipt of appropriate number of applications through various sources. The purpose of selection is to assess the suitability the candidate for employment in the organisation. As, number of all applicants may be not be suitable, and in order to save time and money of the organization as well as that of the candidates, it is important to scruitinise the applicants and select only those candidates for the tests or interview. Suitable from the organisation's part view point.

## 2.21 MEANING AND DEFINITION

To select means to choose. Selection is the process of picking up individuals (out of the pool of job applicants) with requisite qualifications and competence to fill jobs in the organisation.

According to Dale Yoder, "Selection is the process in which candidates for employment are divided into two classes those who are to be offered employment and those who are not".

According to Thomas Stone "Selection is the process of differentiating between applicants in order to identify (and hire) those with a greater likelihood of success in a job".

Thus, the selection process is a tool in the hands of management to differentiate between the qualified and unqualified applicants by applying various techniques such as interviews, tests etc. In this sense, it is a negative process of employment which only a few who qualify for job are offered employment and others are denied the opportunities. A sound selection policy ensures the selection of suitable candidates.

## 2.22 SELECTION

The selection procedure consists of a series of methods or steps or stages by which additional information is secured about an applicant. At each stage facts may come to light which may lead to the rejection of an applicant. Selection procedure may be compared to a series of barriers which an applicant is required to cross before he is finally selected.

### Essentials of a Selection Procedure

The selection procedure should be prepared in such a way That it suits the organisation's needs. The procedure will be successful if it satisfies the following requirements:

(i) There should be sufficient number of applicants from whom the required number of candidates may be selected. The selection will not be proper if number of candidates is less.

(ii) There should be some person who is assigned the authority to select. The authority is given on the basis of type of persons to be selected and the nature of work they will take up.

(iii) There should be some standard of personnel with which a prospective employee may be compared i.e. there should be available before hand a comprehensive job specification as developed by job analysis.

### Significance of Selection Procedure

The success of an organisation depends on the quality of personnel selected for the jobs. Thus, selection of personnel is a very important function of management. The importance of selection can be judged from the following factors:

1. ***Procurement of Skilled Workers:*** Only the suitable candidates who are fit for the job are selected from among the prospective candidates for employment. In this way, selection is a process by which only desirable candidates are hired and others are denied the opportunities.
2. ***Reduction in the Cost of Training:*** Proper selection of candidates reduces the cost of training because (i) qualified personnel have better grasping power, they can understand the techniques of work better and in no time; (ii) the organisation can develop different training programmes for different persons on the basis of their individual differences, thus, reducing the time and cost of training considerably.
3. ***Solution to Personnel Problems:*** Proper selection of personnel reduces personnel problems in the organisation. Many problems like labour turnover, absenteeism and monotony shall not be

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experienced in the organization if proper selection is made. Labour relations will also be better because workers will be fully satisfied by their work.

Thus, selection of proper personnel helps the management in getting the work done by the people effectively.

## 2.23 SELECTION PROCESS

The selection procedure consists of a series of steps. Each step must be successfully cleared before the applicant proceeds to the next. The selection process is a series of successive hurdles or barriers which an applicant must cross. These hurdles are designed to eliminate an unqualified candidate at any point in the selection process. Thus, this technique is called "SUCCESSIVE HURDLES TECHNIQUE". In practice, the process differs among organisations and between two different jobs within the same organisation. Selection procedure for the senior managers will be long drawn and rigorous, but it is simple and short while hiring lower level employees. The following figure shows a generalised selection process:

Steps involved in employee selection are explained in detail as follows:

1. ***External and Internal Environment:*** Selection is influenced by several external and internal environmental factors. The important external factors affecting selection are supply and demand of specific skills in the labour market, unemployment rate, labour market conditions, legal and political considerations etc. The internal factors are organisation's image, organisation's policy, human resource planning and cost of hiring.

2. ***Reception:*** The receipt and scrutiny of applications is the first step in the process of selection. A receptionist in the personnel department gives information about new openings to the visitors and receives their applications. 'The scrutiny of applications is essential to take out those applications which donot fulfill the requirements of posts. Some people send applications even when they do not possess the required experience and qualifications. These applicants if called for preliminary interviews, will waste their own time and that of the company. These applications should out rightly be rejected and information should be sent to the applicants in this regard.

3. ***Preliminary Interview:*** Preliminary interview is a sorting process in which the prospective candidates are given the necessary information about the nature of the job and the organisation. Necessary information is obtained from the candidates about their education, skills, experience, expected salary etc. If the candidate is found suitable, he is selected for further screening. This 'courtesy interview' as it is often called, helps the department screen out obvious misfits. Preliminary interview saves time and efforts of both the company and the candidate. It avoids unnecessary waiting for the rejected candidates and waste of money on further processing of an unsuitable candidate. Preliminary interview is brief and generally carried out by a junior executive across the counter or at the reception office. Since rejection rate is high at preliminary interview, the interviewer should be kind, courteous, receptive and informal. He should give a good account of the company so that the applicant takes a good view of it and hopes to apply again whenever new opening emanates.

4. ***Blank Application Form:*** A blank application form is a widely accepted device for getting information from a prospective applicant. This is a way of getting written information about candidate's particulars in his own handwriting. It enables the personnel department to draw tentative inferences about the applicant's suitability for employment. The information collected in the application form may also be circulated to various members of selection committee for enabling them to make a view about different applicants.

   The information collected in blank application relates to the following particulars:

   (i) Bio-data. Bio-data includes name of the applicant, father's name, date of birth, place of birth, permanent address, height, weight, identification mark, marital status, physical disability etc.

(ii) Educational Qualifications. This part of educational qualifications relates to education acquired, institutions attended, percentage of marks, distinctions achieved, technical education acquired, subjects studied, areas of specialisation.

(iii) Work Experience. Application blank also enquires about previous experience, similar or other jobs held, nature of duties, salaries received, names of previous employers, reasons for leaving the present job.

(iv) Curricular Activities. The information about participation in extra-curricular activities like N.S.S., N.C.C., debates and declamations, sports, etc. is also received in blank application form.

(v) References. The applicant is also asked to give some references from where an enquiry may be made about his nature and work. The references are normally the persons with whom the applicant has worked but are not related to him.

(vi) Salary Demanded. The salary demanded by the applicant is also given in the application blank. An attempt is made to elicit maximum information in application blank. The information asked for should be relevant and specific. It should have relevance to the post he has applied for. The information collected should be brief and to the point. Questions requiring essay-type answers should be avoided.

**Evaluation of Application Forms**

Application forms may be evaluated in the following ways:

(a) Clinical Methods. Under this method application forms are analysed in such a way that all possible inferences are drawn about candidates from the information supplied. The personnel traits are projected in such a way that the suitability of candidates is evaluated against the job requirements. A properly designed application form can provide clues to a person's leadership ability, emotional stability, writing ability, assertiveness, attitude towards superiors and other people, etc. The clinical method makes the use of psychology in framing the application form and then evaluating it.

(b) Weighted Method. In this method different points/traits are assigned weights. The points are given after reading the answers of applicants in the forms. In developing a weighted application form it is necessary to identify those items of the personnel.

**Weighted Application Blanks (WAB)**

Some organisations assign numeric values or weights to the responses provided by the applicants. This makes the application form more job related. Generally, the items that have a strong relationship to job performance are given higher scores. For example, for a sales representative's position, items such as previous selling experience, area of specialisation, commission earned on sales, age, marital status etc. may be given more weightage as compared to caste, religion, language etc. The total score of each applicant is then obtained by adding the weights of the individual item responses. The resulting scores are then used in the final selection.

WAB is best suited for jobs where there are many employees specially for sales and technical jobs. It can help in reducing the employee turnover later on. However, there are several problems associated with WABs e.g:

- It takes time to develop such a form.
- The WAB would have to be updated every few years to ensure that the factors previously identified are still valid products of job success.
- The organisation should be careful not to depend on weights of a few items while finally selecting the employee.

5. ***Selection Tests:*** Applicants who pass the screening and the preliminary interview are called for tests. Different types of tests may be administered depending on the job and the company. A test provides a systematic basis for comparing the behaviour, attitudes and performance of

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two or more persons. Tests are based on the assumption that individuals differ in their job related traits which can be measured. Tests help in reducing bias in selection by serving as a supplementary screening device. Tests help in better matching of candidate and the job. Tests may reveal qualifications which remain hidden in application form and preliminary interview. Tests are useful when the number of applicants is large. Moreover, to be effective, tests must be properly designed and administered. However, test is not a fool proof method. At best, it reveals that the candidates who have scored above the predetermined cut off points are likely to be more successful than those scoring below the cut off points.

6. ***Selection Interview:*** Interview is the oral examination conducted for the purpose of employment. It is a formal, in depth conversation, which evaluates the applicant's acceptability. Interview is an excellent selection device. It is a very flexible device which can be adopted to select unskilled, skilled managerial and professional employees. In selection interview, the interviewer matches the information obtained about the candidate through various means to the job requirements and to the information obtained through his own observations during the interview. Thus, interview is a purposeful exchange of views, the answering of questions and communication between two or more persons. Interview gives the interviewer an opportunity:

   (i) to size up the candidate personally

   (ii) to ask questions that are not covered in tests

   (iii) to make judgments on candidate's enthusiasm and intelligence

   (iv) to assess subjective aspects of the candidate-facial expressions, appearance, nervousness and so forth

   (v) to give facts to the candidate regarding the company, its policies, programmes etc. and promote goodwill towards the company.

   However, interviews do have some limitations. Absence of reliability is one limitation. Due to personal and subjective judgments, no two interviewers offer similar scoring after interviewing an applicant. Lack of validity is another shortcoming. This is because, few departments use standardised questions upon which validation studies can be conducted.

7. ***Checking References:*** The references may provide significant information about the candidates if they happened to be his former employers or with whom he might have been working earlier. The applicants are normally asked to name two or three persons who know about his experience, skill, ability, etc. but should not be related to him.

   The prospective employer normally makes an investigation on the references supplied by the candidate and undertakes search into his past employment, education, personal reputation, etc. Though checking references may be a good source of information but referees may not give frank opinion about the candidate. If the referee happens to be a former employer he will, generally, either praise the candidate or criticise his work and ability. Such extreme postures may not help in knowing the exact position of candidates. There may be persons who will not say bad things about a candidate when it is a question of his future. They will say good things about the candidates.

   It may be said that checking references does not serve much of a purpose because no impartial evaluation of the candidates is received from the referees.

8. ***Final Selection:*** Upto this stage, selection is handled by personnel department or staff executives. Since the persons employed are to work under line officers, the candidates are referred to them. Line officers will finally decide about the work to be assigned to them. If line officer is a production manager or foreman he may assess on the job performance of the candidates. If the candidate is not suitable for one job then he is tried at some other. If candidate's performance is not upto the mark then he may be kept as apprentice for some time. Normally, a candidate is not rejected at this stage.

9. ***Physical Examination:*** After the selection decision and before the job offer is made, the candidate is required to undergo physical fitness test. Candidates are sent for physical

examination either to the company's physician or to a medical officer approved for the purpose. Such physical examination provides the following information:

(i) Whether the candidate is physically fit for the specific job or not?

(ii) Whether the candidate has health problems or psychological attitudes likely to interfere with work efficiency or future attendance?

(iii) Whether the candidate suffers from bad health which should be corrected before he can work satisfactorily?

(iv) Whether the candidate's physical measurements are in accordance with job requirements or not?

A job offer is, often, contingent upon the candidate being declared fit after the physical examination. The results of medical fitness test are recorded in a statement and preserved in the personnel records. Such records will protect the employer from worker's compensation claims that are not valid because the injuries or illnesses were present when the employee was hired.

10. ***Job Offer:*** The next step in the selection process is the job offer to those applicants who have crossed all the previous hurdles. Job offer is made in the form of an appointment letter. Such a letter, generally, contains a date by which the candidate must report for duty. Reasonable reporting time is given to all the appointed candidates. This is particularly necessary when the appointed person is already in employment, in which case he has to give notice to the previous employer. Moreover, the job may require movement to another city which means considerable preparation and shifting of property and family members.

    Some organisations also inform the rejected candidates about their non selection. Their application may, however, be preserved for future use. The applications of selected candidates are always preserved for future references.

11. Contract of Employment: After the job offer has been made and the candidate accepts the offer, a contract for employment is executed by the employer and the candidate. The basic information that is included in a written contract varies according to the level of the Job.

    Generally, the following details are included in the contract:

    (i) Job title

    (ii) Details of duties

    (iii) Date when the continuous employment starts

    (iv) Remuneration and method of payments

    (v) Hours of work including lunch break, overtime and shift arrangements

    (vi) Holiday arrangements and details of holidays

    (vii) Sickness leave rules

    (viii) Length of notice due to or from an employee

    (ix) Grievance procedure

    (x) Disciplinary procedure

    (xi) Work rules

    (xii) Terms of Termination of employment

    (xiii) Terms for union membership

    (xiv) Employers right to vary terms of the contract subject to proper notification being given.

    Great care is taken in drafting the contracts. Often services of law firms are obtained to get the contracts drafted and finalised. Employers who belong to high employee turnover sectors, insist on agreements being signed by newly hired employees. The limitation of contracts is

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that it is almost impossible to enforce them. A determined employee will leave the organisation, contract or no contract it is for this reason that several companies have scrapped the contracts altogether.

12. ***Evaluation:*** The selection process, if properly performed, will ensure availability of competent and committed personnel. A period audit, conducted by people who work independently of the human resource department, will evaluate the effectiveness of the selection process. The auditors will do a thorough the intensive analysis and evaluate the employment programme.

## 2.24 INDUCTION/ORIENTATION

Induction or orientation is the process through which a new employee is introduced to the job and the organisation. In the words of Armstrong, induction is "the process of receiving and welcoming an employee when he first joins a company and giving him the basic information he needs to settle down quickly and start work". Induction serves the following purposes:

(a) ***Removes fears:*** A newcomer steps into an organisation as a stranger. He is new to the people, workplace and work environment. He is not very sure about what he is supposed to do. Induction helps a new employee overcome such fears and perform better on the job.

(b) ***Creates a good impression:*** Another purpose of induction is to make the newcomer feel at home and develop a sense of pride in the organisation. Induction helps him to:

- Adjust and adapt to new demands of the job.
- Get along with people.
- Get off to a good start.

Through induction, a new recruit is able to see more clearly as to what he is supposed to do, how good the colleagues are, how important is the job, etc. He can pose questions and seek clarifications on issues relating to his job. Induction is a positive step, in the sense, it leaves a good impression about the company and the people working there in the minds of new recruits. They begin to take pride in their work and are more committed to their jobs.

(c) ***Acts as a valuable source of information:*** Induction serves as a valuable source of information to new recruits. It clarifies many things through employee manuals/ handbook. Informal discussions with colleagues may also clear the fog surrounding certain issues. The basic purpose of induction is to communicate specific job requirements to the employee, put him at ease and make him feel confident about his abilities.

### Induction Programme: Steps

(a) ***Introduction:*** Induction training tries to put the new recruits at ease. Each new employee is usually taken on a formal tour of the facilities, introduced to key personnel and informed about company policies, procedures and benefits. The training opportunities and career prospects are also explained clearly. Every attempt is made to clarify the doubts of the new recruits. They are encouraged, in fact, to come out with questions on various issues confronting their working lives. The company's manual is also handed over at the end of the programme.

(b) ***Socialisation:*** Socialisation is a process though which a new recruits begins to understand and accept the values, norms and beliefs held by others in the organisation. HR department representatives help new recruit to "internalise the way things are done in the organisation". Orientation helps the newcomers to interact freely with employees working at various levels and learn behaviours that are acceptable. Through such formal and informal interaction and discussion, newcomers begin to understand how the department/company is run, who holds power and who does not, who is politically active within the department, how to behave in the company, what is expected of them, etc. In short, if the next recruits wish to survive and prosper in their new work home, they must soon come to 'know the ropes. Orientation programmes are effective socialisation tools because they help the employees to leam about the job and perform things in a desired way.

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(c) ***Follow-up:*** Despite the best efforts of supervisors, certain dark areas may still remain in the orientation programme. New hires may not have understood certain things. The supervisors, while covering a large ground, may have ignored certain important matters. To overcome the resultant communication gaps, it is better to use a supervisory checklist and find out whether all aspects have been covered or not (covering organisational issues, employee benefits, job duties, introduction to supervisors and co-workers, etc). Follow up meetings could be held at fixed intervals, say after every three or six months on a face-to-face basis. The basic purpose of such follow-up orientation is to offer guidance to employees on various general as well as job related matters - without leaving anything to chance.

## 2.25 SUMMARY

Human Resource Planning is the process of getting the right number of qualified people into the right job at the right time so that an strategy for the acquisition. Let lisation, improvement and preservation of an organizations human resources. It is aimed at co-ordinating the requirements for and the availability of different types of employees.

Recruitment is the process of searching for prospective employees, and stimulating them to apply for jobs in the organization. It is linkage activity bringing together these with jobs and those seeking jobs. Recruitment process begins when the personnel department receives requisitions for recruitment from any department of the company.

Selection is the process in which candidates for employment are divided into two classes-those who are to be offered employment and those who are not. Selection means to choose. It is the process of picking up individuals with requisite qualification and competence to fill jobs in the organization. The importance of selection can be judged from the following factors, (i) Procurement of skilled worker (ii) Reduction in the cost of training (iii) Solution to personnel problems.

Induction is the process through which a new employee is introduced to the job and the organization.

## 2.26 SELF ASSESSMENT QUESTIONS

1. What do you mean by H.R.P and discuss its objectives.
2. Discuss various methods of Human Resource Planning
3. Describe the factors affecting H.R.P.
4. What is Recruitment
5. Define Recruitment policy.
6. Describe sources of recruitment
7. Define recruitment practices in India.
8. Define selection and discuss selection procedure.
9. Define selection process.
10. What do you mean by Induction?

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# UNIT 3 PROMOTION, TRANSFER AND SEPARATION

**Structure**

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## 3.0 OBJECTIVES

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

- Describe the meaning, definition, purpose of promotion
- Understand the principles and types of promotion.
- Understand the meaning and causes of demotion.
- Describe the meaning and purpose of transfer.
- Understand the types of transfer and transfer policy.
- Describe the meaning and various forms of separation.
- Describe the meaning, definition and features of performance appraisal.
- Explain the objectives and process of performance appraisal.
- Explain the problems with performance appraisal.
- Describe the meaning and objectives of potential appraisal.

# PART I - PROMOTION

## 3.1 INTRODUCTION

Promotion based either on meritorious performance or continuous service has powerful motivational value. It inspires employees to complete and get ahead of others. Promotions and transfers are activities through which an adjustment in the size of workforce of an enterprise can be made to cope with the changing situations. The lateral or vertical movement of an employee within an organisation is called 'internal mobility'. It may take place between jobs in various departments or divisions. These functions can be accomplished formally or informally. Usually formal systems are adopted to ensure operative consistency and efficiency.

## 3.2 MEANING AND DEFINITION OF PROMOTION

Promotion refers to upward movement of an employee from current job to another that is higher in pay, responsibility, status and organisational level. A mere shifting of an employee to a different job which has better working hours, better location and more pleasant working conditions does not imply promotion. The new job will be promotion only if it entails increased responsibilities and enhanced pay. The term promotion has been defined by different authors as follows:

***According to Scott and Spreigal,*** "A promotion is the transfer of an employee to a job that pays more money or that enjoys some preferred status."

***According to Pigors and Myres,*** "A promotion is the advancement of an employee to a better job-better in terms of greater responsibilities, more prestige or status, greater skill and especially, increased rate of pay or salary."

***According to Edwin B. Flippo,*** "A promotion involves a change from one job to another that is better in terms of status and responsibility."

The analysis of above definitions reveals three basic elements in promotion:

- Transfer of an employee to some **higher job** having more prestige, better status, more benefits and privileges.
- Reassignment of an employee to a position having **increased responsibilities**.
- Higher job grade.

All the three elements must be present in promotion.

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## 3.3 PURPOSES OF PROMOTION

Promotions are generally given to achieve the following purposes;

1. To put the employee in a position where he will be of greater value to the company. This will imply, utilizing the employee's skill and knowledge at the appropriate level in the organisation hierarchy resulting in organisational effectiveness and employee satisfaction.
2. To develop competitive spirit and zeal in the employees to acquire the skill and knowledge etc. required by higher level jobs.
3. To develop internal source of employees ready to take jobs at higher levels in the organisation. Employees have little motivation if better jobs are reserved for outsiders.
4. To promote employee self-development and make them await their turn of promotions. It reduces labour turnover.
5. To build up morale, loyalty and a sense of belongingness on the part of employees when it is brought home to them that they would be promoted if they deserve it.
6. To promote employees' interest in training and development programmes and in team development areas.
7. To builts loyalty among employees and to boost their morale.
8. To reward committed, loyal and deserving employees.
9. To create among employees a feeling of contentment with their present working conditions and encourage them to succeed in the company.

**Watkins, Dodd and others** mention that the purposes of promotion are:

- To furnish an effective incentive for initiative, enterprise and ambition.
- To conserve proved skill, training & ability.
- To reduce discontent and unrest.
- To attract suitable and competent workers and
- To suggest logical training for advancement.

**Yoder** and **others observe**, "Promotion provides incentive to initiative, enterprise and ambition, minimises discontent and unrest, attracts capable individuals, necessitates logical training of advancement and forms an effective reward for loyalty, cooperation and long service etc."

## 3.4 PRINCIPLES OF PROMOTION

A sound promotion policy should be based on the following principles:

1. **The promotion policy should be in writing** and must be understood by all employees to avoid any suspicion regarding line of promotion in the minds of employees.
2. The promotion policy should lay down **what percentage of vacancies in higher levels of hierarchy are to be filled up by promotion** and it should be followed strictly. It is better to incorporate a statement of management intention that higher paid and better jobs will be filled by promotion from within, if possible, rather than by hiring from outside. If it is necessary to go outside to fill specific skilled or professional jobs, it should be notified in advance.
3. The promotion policy should mention the **basis of promotion-seniority or merit**. A sound policy should be based on both the considerations i.e. seniority and ability. Primarily it would emphasise the merit giving due weightage to seniority. If two persons are equal in merit and seniority, seniority should be the basis of promotion.
4. **Job analysis** decides the position of the jobs and their relationship to other positions. This should be charted to provide clear recognition of the natural movement from one job to another. Positions may be adjusted and arranged so that one position prepares workers for

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another and natural course of advancement throughout the organisation or within each division or department may be provided. Employees should be fully aware of the plan so that they may prepare themselves for higher position.

5. Promotion programmes should be closely **allied to training** programmes; which enables the employees to improve themselves for promotions.
6. A scientific procedure for **evaluating employee performance** should be followed. The assessment of employee and confidential reporting should be objective so that every employee has a faith in the promotion policy and is motivated for better performance of work to get promotion.
7. **The supervisor or the immediate** boss **should recommend the promotion** which is subject to approval by his immediate superior in the line. Final decision in this respect should be taken by the top executive in line with the advice and assistance of the personnel department in a staff capacity. This serves as a check on the fairness of promotion and ensures that the policy will be consistently administered.
8. The promotion policy should contain **a provision for the challenge of a particular promotion** by the employee or union within the limits of the promotion policy to ensure fairness in management decision.
9. **A vacancy or a would be vacancy should be notified to employees in advance** so that interested employees may apply within a specified period. If possible, the candidate should be selected before the job actually becomes vacant.
10. **The promotion, at first, should be made on probation.** If he works satisfactorily during probation period, he should be made permanent.
11. Not all people within an organisation want promotion because some feel that they will leave a congenial work group or they will not be able to handle the responsibilities of higher job or they may have certain other reasons.

***Promotion should not be forced on such reluctant employees*** and they should be allowed to continue their present assignment.

## 3.5 TYPES OF PROMOTION

There are three types of promotion based on the following criterion :

(i) Seniority

(ii) Merit

(iii) Senority-cum-merit

### 3.5.1 Seniority as a Basis of Promotion

Seniority means length of recognised service in on organisation. If seniority is adopted as the basis of promotion, the senior most person in the lower grade shall be promoted as and when there is an opening in the higher position, The logic behind considering the seniority as a basis of promotion is that there is a positive correlation between the length of service in the same job and the amount of knowledge and the level of skill acquired by an employee in an organisation. Seniority on the basis of length of recognised service in the organisation is decided by the organisation and every employee knows his place in the promotion line. There will be no chance of favouritism or dispute regarding promotion. Seniority is widely recognised as the basis of promotion in almost all types of organisations, particularly in organisations where trade unions are strong.

The advantages of seniority as a basis of promotion are as follows:

1. It is relatively easy to measure the length of service and to judge the seniority.
2. Trade unions generally emphasise on seniority rather than on merit as a basis of promotion.
3. The employees trust this method as there is no scope for favouritism, discrimination and judgment.

4. Security and certainty is also a plus point in the use of seniority. Employees can predict when and how he will be promoted. It increases employee morale and gives the employees a sense of satisfaction.
5. It minimises the scope for grievances and conflicts regarding promotion.
6. Seniority as the basis of promotion helps in reducing labour turnover because an employee will not easily give up his seniority in the organisation.

In spite of the above mentioned advantages, this system also suffers from certain limitations. These are:

1. It is not necessary that employees learn more with length of service. The employees may learn upto a certain age and learning capabilities may diminish beyond a certain age.
2. It demotivates the young and more competent employees and results in greater labour turnover.
3. It kills the zeal and interest for self development as everybody will be promoted without showing any all round growth or promise.
4. Judging the seniority, though, it may seem very easy in theoretical sense, is highly difficult in practice, as so many problems like job seniority, company seniority, service in different organisations, trainee, researcher etc. will crop up.

### 3.5.2 Merit as a Basis of Promotion

Merit means ability to work. It denotes an individual employee's skill, knowledge, ability, efficiency and aptitude as measured from educational, training and past employment record. If merit is adopted as the basis of promotion the most able person in the lower grade, no matter howsoever junior he maybe in the company, shall be promoted. It encourages all employees to improve their efficiency. Management personnel generally prefer merit as the basis of promotion. Merit may be determined by job performance and by analysis of employee potential for development through written or oral examinations or personal interviews or other records of performance. Thus, 'ability' ignores the value of experience.

The advantages of merit system of promotion are :

1. The skills of an employee can be better utilised at a higher level. It results in maximum utilisation of human resources in an organisation.
2. Competent employees are motivated to exert all their energies and contribute to organisational efficiency and effectiveness.
3. This system continuously encourages the employees to acquire new skills, knowledge etc. for all round development.

Despite the advantages, the merit system suffers from the following limitations:

1. Measuring merit is not always easy.
2. Many employees, particularly, trade unions distrust the management's integrity in judging merit.
3. The techniques of merit measurement are subjective.
4. The purpose of promotion may not be served if merit is taken as the sole criteria for promotion. Merit should mean future potentiality but not past performance. This method takes into consideration the past achievements but not the future success.

### 3.5.3 Seniority-Cum-Merit Basis

There is a great controversy on the question of whether promotions should be given on the basis of seniority or merit. Managements mostly prefer merit as the basis of promotion as they are interested in enriching organisational effectiveness by enriching its human resources. But, trade unions favour seniority as the sole basis for promotion with a view to satisfy the interests of

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majority of their members. The most widely used basis of promotion combines both ability and seniority. The best policy would be to ensure that whenever there are two employees of equal seniority, merit or ability should be the deciding factor in a promotion. Where, however, there are two employees of almost equal competence, seniority should be the decisive factor. Such a policy should satisfy both the management and the trade unions. Hence, a combination of both seniority and merit may be considered as a sound basis for promotion.

## 3.6 DEMOTION

Demotion is just opposite to promotion. In demotion, the employee is shifted to a job lower in status, grade and responsibilities. "Demotion refers to the lowering down of the status, salary and responsibilities of an employee."

In the words of Dale Yoder, "Demotion is a shift to a position in which responsibilities are decreased. Promotion is, in a sense, an increase in rank and demotion is decrease in rank."

When an employee is demoted, his pride suffers a more severe jolt than it does when he is superceded by his junior. Some managers hesitate to demote a man. They prefer to discharge him rather than to demote him on the lower job because he will not accept the lower job and will turn to be a disgruntled employee and his position will not be good for better industrial relations.

## 3.7 CAUSES OF DEMOTION

There are several reasons for demoting a man from his present position. Some of these reasons are as follows:

1. Inadequacy on the part of the employees in terms of job performance, attitude and capability. It happens when an employee finds it difficult to meet job requirement standards, following his promotion.
2. Demotion may result from organisational staff reductions. Due to adverse business conditions, organizations may decide to lay off some and downgrade some jobs.
3. Demotions may be used as disciplinary tools against errant employees.
4. If there is a mistake in staffing i.e. a person is promoted wrongly.
5. When, because of a change in technology, methods and practices, old hands are unable to adjust or when employees because of ill health or personal reasons, cannot do their job properly.

## 3.8 DEMOTION POLICY

Demotion is very harmful for the employees' morale. It is an extremely painful action, impairing relationships between people permanently. While, effecting demotions, a manager should be extremely careful not to place himself on the wrong side of the fence. It is, therefore, necessary to formulate a demotion policy so that there may be no grievance on the part of the trade unions.

Yoder, Heneman, Turnbull and Stone have suggested a five-fold policy in regard to demotion practice :

1. A clear list of rules along with punishable offences be made available to all the employees.
2. Any violation be investigated thoroughly by a competent authority.
3. In case of violations, it is better to state the reasons for taking such a punitive step clearly and elaborately.
4. Once violations are proved, there should be a consistent and equitable application of the penalty.
5. There should be enough room for review.

Demotions have a serious impact on need fulfillment. Needs for esteem and belongingness are frustrated leading to a defensive behaviour on the part of the person demoted. There may be complaints, emotional turmoil, inefficiency or resignation. Hence, demotions, are very rarely resorted to by managers. Managers prefer to discharge employees rather than facing the problems arising from demotion.

# PART II - TRANSFER

## 3.9 MEANING AND DEFINITION OF TRANSFER

A transfer is a change in job assignment. It is the internal movement of an employee from one section to another without involving any substantial change in his duties, responsibilities, required skill, status and compensation. A transfer does not imply any ascending (promotion) or descending (demotion) change in status or responsibility.

According to Edwin B. Flippo, "Transfer is a change in job where the new job is substantially equal to the old in terms of pay, status and responsibilities."

According to Dale Yoder, "A transfer involves the shifting of an employee from one job to another without special reference to changing responsibility or compensation. Transfer may involve promotion, demotion or no change in status and responsibility."

Thus, transfer is a horizontal or lateral movement of an employee from one job, section, department, shift, plant or position to another at the same or another place, where his salary, status and responsibility are the same.

## 3.10 PURPOSES OF TRANSFER

Transfers are generally resorted to with a view to attain the following :

1. ***To Meet the Organisational Requirements:*** Organisational changes may demand the shift in job assignments with a view to place the right man on the right job, Such changes may be changes in technology, changes in the volume of production, production schedule, product line, quality of products, change in the job pattern, fluctuations in the market conditions, reallocation of or reduction in the workforce due to a shortage or a surplus in same section so that lay offs may be avoided, filling in of the vacancies which may occur because of separations or because of the need for suitable adjustments in business operations. In short, the purpose of transfers is to stabilise employment in an organisation.
2. ***To Meet Employees' Requests:*** Sometimes, transfer is done at the request of the employer himself. Employee may need transfer in order to satisfy their desire to work under a different superior in a department/region where opportunities for advancement are bright, in or near their native place or place of interest, doing a job where the work itself is challenging etc.
3. ***To Ensure Better Utilisation of the Employees:*** An employee may be transferred because the management feels that he is not performing satisfactorily and adequately and when the management feels that he may be more useful or suitable elsewhere, where his capacities would be better utilised.
4. ***To Make the Employees More Versatile:*** Employees may be shifted from one job to another to expand their capabilities. Job rotation may prepare the employee for more challenging assignments in future.
5. ***To Adjust the Workforce:*** Workforce may be transferred from a plant where there is less work to a plant where there is more work. Thus, the employees who have been in service of an organisation are not thrown out of employment but adjusted elsewhere.
6. ***To Provide Relief to the Employee:*** Transfers may be made to give relief to employees who are overburdened or doing hazardous jobs for long periods. Transfer may also be made to break the monopoly of the employee. The climate of a place may be unsatisfactory for an employee's health. He may request a transfer to another place, where his health may not be affected by the climate.

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7. ***To Reduce Conflicts and Incompatibilities:*** Where employees find it difficult to get along with colleagues in a particular section or department, they could be shifted to another place to reduce conflicts.
8. ***To Penalise the Employees:*** Transfers may be effected as disciplinary measures to shift employees indulging in undesirable activities to remote, far flung areas.
9. ***To Maintain a Tenure System:*** In senior administrative services of the Government and also in industries or where there is a system of annual intake of management trainees, the employee holds a certain job for a fixed tenure but is made to move from job to job with a view to enable him to acquire variety of experience and skills and also to ensure that he does not get involved in politicising informal groups.
10. ***To Accommodate Family Related Issues:*** Family related issues cause transfers, specially among female employees. When they get married, the female employees want to join their husbands and this fact necessitates transfers or resignations.

## 3.11 TYPES OF TRANSFER

Transfers may be classified on the basis of purpose or unit:

### (A) On the Basis of Purpose

1. ***Production Transfers:*** A shortage or surplus of the workforce is common in different departments in a plant or several plants in an organisation. Surplus employees in a department have to be laid off, unless they are transferred to another department. Transfers effected to avoid such inevitable lay offs are called production transfers.
2. ***Replacement Transfers:*** A replacement transfer is the transfer of a senior employee to replace the junior employee or a new employee, when the latter is laid off or shifted to another job, Sometimes, it is a temporary arrangement to make use of the services of the senior personnel.
3. ***Versatility Transfers:*** Versatility transfers are effected to make employees versatile and competent in more than one skill. It aims at giving training to the employees of various jobs of similar nature having different operations. It helps the employees to get themselves prepared for promotions and also helps the employer in developing the effective manpower prepared to handle the higher openings.
4. ***Shift Transfers:*** When the unit runs in shifts, employees are transferred from one shift to another on similar jobs. In some undertakings, where shifts are operated regularly, employees may be recruited permanently for the shift, but in some cases they are rotated from one shift to another as a matter of practice, because many employees dislike second or third shift assignment as it interferes with their social or family engagements.
5. ***Remedial Transfers.*** Remedial transfers are effected at the request of the employees and are, therefore, called personal transfers. Personal transfers take place because the initial placement of an employee may have been faulty or the worker may not get along with his supervisor or with other workers in the department. He may be getting too old to continue his regular job or working conditions may not be well adapted to his personal health. If the job is repetitive, the employee may stagnate and would benefit by transfer to a different kind of work.
6. ***Precautionary Transfers:*** Such transfers are made as a precautionary measure to avoid the misuse of office or misappropriation of funds by the employees. In some undertakings, there are more chances of misuse of office or misappropriation of funds than others. Generally it is mentioned in the transfer policy of the organisation that an employee cannot stay at one post for more than 3 years or so.

### (B) On the Basis of Unit

1. ***Sectional Transfers:*** These transfers are made within the department from one section to another. The main purpose of such transfers may be to train the workers and prepare them to handle the operations of different sections of the department.

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2. ***Departmental Transfers:*** Transfers from one department to another department within the plant is called departmental transfer. Such transfers are made if the nature of work is same or substantially the same in both the departments such as clerical or routine jobs.
3. ***Inter-Plant Transfers:*** If there are more than one plants under the control of same management, transfer may be made from one plant to another on varied reasons. Such transfers are called inter-plant transfers.

## 3.12 TRANSFER POLICY

A sound, just and impartial transfer policy should be evolved in the organisation to govern all types of transfers. This policy should be clearly specified so that the superiors cannot transfer their subordinates arbitrarily and the subordinates may not request for transfers even for the petty issues. The management must frame a policy on transfers and apply it to all the transfers instead of treating each case on its merit. Such a policy must be based on the following principles:

1. Transfer policy must be in writing and be made known to all the employees of the organisation.
2. The policy must very clearly specify the type and the circumstances under which company initiated transfers will be made.
3. Basis for transfer should be clearly mentioned in the policy. Whether it will be based on seniority or on skill and competence or any other factor.
4. It should indicate the executive who will be responsible for initiating and approving the transfers.
5. The policy should specify the region or unit of the organisation within which transfers will be administered.
6. The effect of the transfer on the pay and seniority of the transferred employee may be clearly evaluated.
7. It should be prescribed in the policy whether the training or retraining is required on the new job.
8. Transfers should be clearly defined as temporary or permanent.
9. The interests of the organisation are not to be forgotten in framing a policy of transfer.
10. Reasons for mutual transfer of employees or reasons to be considered for personal transfers should be specified.
11. The fact of transfer should be intimated to the person concerned well in advance.
12. Transfers should not be made frequent and not for the sake of transfer only.

Generally, line managers administer the transfers and personnel managers assist the line managers in this respect.

# PART III - SEPARATIONS

## 3.13 MEANING OF SEPARATION

Separation involves cessation of services of personnel from an organization. Since the employment relationship between an organization and its employee is a contractual one. In the words of Kith Davis “Separation is decision that an individual and the organization should part” the parting of ways can be at the instance of the employer or the employee.

## 3.14 TYPES OF SEPARATION

Separation can face the following forms:

1. ***Resignation:*** A resignation refers to the termination of employment at the instance of the employees. A resignation may be put voluntarily by the employee. An employee resigns when

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he secures a better job elsewhere, in the case of a female employee when she marries and has to quit for personal reasons or when an employee suffers from ill health or for any other reasons. The administration of separation caused by voluntary resignation is very simple because the employee himself is responsible for it. In compulsory resignation, an employee is asked to put in his resignation if he wants to avoid termination of his services on the ground of gross negligence of duty on his part or some serious charge against him.

2. ***Dismissal or Discharge:*** Dismissal is the termination of the services of an employee as a punitive measure for some misconduct. Discharge also means termination of the service of an employee, but not necessarily as a punishment step. A discharge does not arise from a single irrational act. Dismissal or discharge is a drastic step and should be taken after careful thought. A dismissal needs to be supported by just and sufficient reasons. Before discharging or dismissing the employee, advance notice of the impending danger must be given and the reasons of discharge must be stated clearly. The employee must be given the opportunity to defend himself. If the grounds under which the employee has been discharged are not strong enough, there should be a provision for reviewing the case. In any case, the punishment should not be out of proportion to the offence. Such step should be taken as a last resort if all other measures fail in salvaging the employee. The following reasons may lead to the dismissal of an employee:

   (a) Unauthorised absenteeism from duty for a long time.

   (b) Willful violation of rules.

   (c) False statement of qualification at the time of employment.

   (d) Dishonesty

   (e) Drunkenness

   (f) Carelessness

   (g) Insubordination

   (h) Inefficiency

   (i) Violent and aggressive acts

   (j) Physical disability

3. ***Death:*** Some employees may die in service. When the death is caused by occupational hazards, the employee gets compensation as per the provisions of the Workmen's Compensation Act. On compassionate grounds some organisations offer employment to the spouse/child/dependent of the employee who dies in service.

4. ***Suspension:*** Suspension means prohibiting an employee from attending work and perform normal duties assigned to him. This is a serious punishment and is generally awarded only after a proper enquiry has been conducted. During suspension, the employee receives a subsistence allowance. If the charges against the suspended employee are serious and are proved, suspension may lead to termination also.

5. ***Retrenchment:*** Retrenchment, too, results in the separation of an employee from his employer. Retrenchment is generally on account of surplus staff, poor demand for products, general economic slowdown etc. Termination of services on disciplinary grounds, illness, retirement, winding up of a business does not constitute retrenchment. Retrenchment entitles the employees to compensation which in terms of section 25 (f) of the Industrial Disputes Act 1947, is equivalent to fifteen days average pay for each completed year of continuous service. The principle in the procedure of retrenchment is that the last person employed in each category must be the first person to be retrenched i.e. "last come first go". When vacancies arise after retrenchment, the employer gives an opportunity to the retrenched workers to offer themselves for reemployment and they are given preference. Such vacancies are generally notified at least 10 days before they are filled up.

6. ***Lay off:*** A lay off is a temporary separation of the employee from his employer at the instance of the latter without any prejudice to the former.

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**Sec. 2 (kkk) of the Industrial Disputes Act, 1947** defines lay off as follows:

"Lay off means the failure, refusal or inability of an employer on account of coal, power or raw-materials or accumulation of stock, breakdown of machinery or by any other reason to give employment to a workman whose name is borne on the muster roll."

Thus, lay off is resorted to as a result of some bonafide reasons as factors which are beyond the control of the employers. As the employees are laid off at the instance of the employer, they have to be paid compensation for the period they are laid off. Sec. 25 of the Industrial Disputes Act 1947, makes it mandatory on the part of me employer to pay compensation for all the days of the lay off. The compensation must be equal to half the normal wages the employee would have earned if he had not been laid off. It goes without saying that employees with the shortest period of service to their credit are first laid off and the older employees are retained as long as conditions permit. Competence as the basis for lay off is not possible in unionised companies because of the outright resistance shown by union leaders.

As soon as the lay off is lifted, the employees should be recalled. The seniority system usually specifies that those who were laid off last will be called back first. However, the management may seek to call junior employees whose skills are essential for the resumption of production.

Because of the heavy costs involved in lay off, employers should take every possible step to avoid the causes of lay off. A possible adjustment of placements of workers such as demotions, transfers etc. should be made.

# PART IV - PERFORMANCE APPRAISAL

## 3.15 INTRODUCTION

After an employee has been selected for a job, has been trained to do it and has worked on it for a period of time, his performance should be evaluated. Performance Evaluation or Appraisal is the process of deciding how employees do their jobs. Performance here refers to the degree of accomplishment of the tasks that make up an individual's job, It indicates how well an individual is fulfilling the job requirements. Often the term is confused with efforts, which means energy expended and used in a wrong sense. Performance is always measured in terms of results. A bank employee, for example, may exert a great deal of effort while preparing for the CAIIB examination but manages to get a poor grade. In this case the effort expended is high but performance is low.

## 3.16 MEANING & DEFINITION

Performance appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing his job. Performance appraisal is a method of evaluating the behaviour of employees in the workspot, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work-related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he or she is performing the job and ideally, establishing a plan of improvement.

### Definition

***According to Edward Flippo,*** “Performance appraisal is a systematic, periodic and as impartial rating of an employees excellence in matters performing to his present job and his potential for the present job”

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

***According to dale Yoder,*** “ Performance appraisal includes all formal procedures used to evaluate personalities, contributions and potentials of the group members in a working organization. It is a continuous process to secure information necessary for making correct and objective decision on employees.

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**What is Performance Appraisal?**

- ***Identification:*** Means determining what areas of work the manager should be examining when measuring performance - essentially focusing on performance that affects organisational success.
- ***Measurement:*** Entails making managerial judgements of how good or bad employee performance was.
- ***Management:*** Appraisal should be more than a post-mortem examination of past events, criticising or praising workers for their performance in the preceding year. Instead, it must take a future oriented view of what workers can do to realise their potential.

## 3.17 FEATURES OF PERFORMANCE

The main characteristics of performance appraisal may be listed thus:

- The appraised is a systematic process involving three steps:
  - Setting work standards.
  - Assessing employee's actual performance relative to these standards.
  - Offering feedback to the employee so that he can eliminate deficiencies and improve performance in course of time.
- It tries to find out how well the employee is performing the job and tries to establish a plan for further improvement.
- The appraisal is carried out periodically, according to a definite plan. It is certainly not a one shot deal
- Performance appraisal is not a past-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.
- 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 organisation and therefore, what range of pay should be assigned to the job.
- Performance appraisal is not limited to 'calling the fouls'. Its focus is on employee development. It forces managers to become coaches rather then judges. The appraisal process provides an opportunity to identify issues for discussion, eliminate any potential problems, and set new goals for achieving high performance.
- 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.

## 3.18 OBJECTIVES OF PERFORMANCE APPRAISAL

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, promotions, etc. The developmental objectives focus on finding individual and organisational 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.

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Appraisal of employees serves several useful purposes:

1. ***Compensation decisions:*** It can serve as a basis for pay raises. Managers need performance appraisal to identify employees who are performing at or above expected levels. This approach to compensation is at the heart of the idea that raises should be given for merit rather than for seniority. Under merit systems, employee receives raises based on performance.
2. ***Promotion decisions:*** It can serve as a useful basis for job change or promotion. When merit is the basis for reward, the person doing the best job receives the promotion. If relevant work aspects are measured properly, it helps in minimizing feelings of frustration of those who are not promoted.
3. ***Training and development programmes:*** It can serve as a guide for formulating a suitable training and development programme. Performance appraisal can inform employees about their progress and tell them what skills they need to develop to become eligible for pay raises or promotions or both.
4. ***Feedback:*** Performance appraisal enables the employee to know how well he is doing on the job. It tells him what he can do to improve his present performance and go up the 'organisational ladder'.
5. ***Personal development:*** Performance appraisal can help reveal the causes of good and poor employee performance. Through 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.

## 3.19 THE BENEFITS OF PERFORMANCE APPRAISAL

### Employer perspective [Administrative uses]

- Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.
- Documentation of performance appraisal and feedback may be required for legal defence.
- Appraisal offers a rational basis for constructing a bonus or merit system.
- Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.

### Employee perspective {Developmental purposes]

- Individual feedback helps people to rectify their mistakes and get ahead, focusing more on their unique strengths.
- Assessment and reorganisation of performance levels can motivate employees to improve their performance.

## 3.20 THE PERFORMANCE APPRAISAL PROCESS

Performance appraisal is planned, developed and implemented through a series of steps.

1. ***Establish performance standards:*** Appraisal systems require performance standards, which serve as benchmarks against which performance is measured. To be useful, standards should relate to the desired results of each job. What about those appraisals which are carried out without any clear-cut criteria? Observe the following case:

   Chandan, who had just finished his first year as an office assistant was summoned to his manager's office for his annual performance review. Slightly uneasy, but confident that he has done a good job, Chandan arrived at his manager's office at the appointed hour. After the initial exchange of pleasantries, Chandan was given a copy of an appraisal form, which was completed as follows:

**Yearly Performance Review**

Name of the Employee: Mr Chandan

Date: 31.12.1999

Use the following scale to rate the employee

(1 poor 2 below average 3 average 4 good 5 excellent)

| | | | | | | |
|---|---|---|---|---|---|---|
| a. | Absenteeism | 1 | 2 | 5 | 4 | 5 |
| b. | Quality of work | 1 | 2 | 5 | 4 | 5 |
| c. | Quantity of work | 1 | 2 | 5 | 4 | 5 |
| d. | Attitude toward the job | 1 | 2 | 5 | 4 | 5 |
| e. | Personality-related factors | 1 | 2 | 5 | 4 | 5 |
| f. | Interpersonal relations | 1 | 2 | 5 | 4 | 5 |

(Bold letters indicate the actual rating by the manager as on 31.12.1999)

Supervisor __________________ Employee ___________________

Chandan got the shock of his life. Why did he not receive any negative feedback about his performance until now? How did the manager rate his personality and interpersonal behaviour so badly? Looking at his unhappy reactions, the manager proceeded to explain how he has failed to win the confidence of his teammates. He also advised Chandan to talk to him directly instead of writing to the Director of the company. Speechless and dejected, Chandan left the office, wondering as to what he must to do to improve his performance and obtain better grades.

To avoid embarrassments of this kind, performance standards must be clear to both the appraiser and the appraise. The performance standards or goals must be developed after a thorough analysis of the job. Goals must be written down, just talking about them is not enough. They must be measurable within certain time and cost considerations. For example, the regional sales officer may be asked: "The sales of colour television sets in Bhubaneswar must increase by 1000 per month in the next 6 months and the budget toward promotional expenses would Rs 5,000 per month."

2. ***Communicate the standards:*** Performance appraisal involves at least two parties; the appraiser who does the appraisal and the appraise whose performance is being evaluated. Both are expected to do certain things. The appraiser should prepare job descriptions clearly; help the appraisee set his goals and targets; analyse results objectively offer coaching and guidance to the appraisee whenever required and reward good results. The appraisee should be very clear about what he is doing and why he is doing it. For this purpose, performance standards must be communicated to appraisees and their reactions should be noted down right away. If necessary, these standards must be revised or modified. As pointed out by De Cenzo and Robbins, "too many jobs have vague performance standards and the problem is compounded when these standards are set in isolation and do not involve the employee".

3. ***Measure actual performance:*** After the performance standards are set and accepted, the next step is to measure actual performance. This requires the use of dependable performance measures, the ratings used to evaluate performance. Performance measures - to be helpful - must be easy to use, reliable, and report on the critical behaviours that determine performance. Four common sources of information which are generally used by managers regarding how to measure actual performance are personal observation, statistical reports, oral reports and written reports.

   Performance measures may be objective or subjective. Objective performance measures are indications of job performance that can be verified by others and are usually quantitative. Objective criteria include quality of production, degree of training needed and accidents in a given period, absenteeism, length of service, etc. Subjective performance measures are ratings

Notes

that are based on the personal standards or opinions of those doing the evaluation, and are not verifiable by others. Subjective criteria include ratings by superiors, (knowledge about) overall goals, and (contribution to) socio-cultural values of the environment. It should be noted here that objective criteria can be laid down while evaluating lower level jobs which are specific and defined clearly. This is not the case with middle level positions that are complex and vague.

**Measurement of Performance of a Telephone Operator**

A telephone company supervisor, while measuring the performance of a telephone operator may observe the following:

- Use of company procedures such as staying calm, following company rules and regulations, etc.
- Pleasant phone manners such as speaking politely in a courteous tone.
- Call-placement accuracy: placing operated assisted calls accurately.

The rater's monitoring of an operator's calls is direct observation. The actual on-line performance is evaluated directly. For example, if a written test is held for telephone operators about company rules and regulations for handling emergency calls, international calls, etc., then the process of evaluation becomes indirect as it is based on a written report about the performance of operators in the test.

4. ***Compare actual performance with standards and discuss the appraisal:*** Actual performance may be better than expected and sometimes it may go off the track. Whatever be the consequences, there is a way to communicate and discuss the final outcome. The assessment of another person's contribution and ability is not an easy task. It has serious emotional overtones as it affects the self-esteem of the appraisee. Any appraisal based on subjective criteria is likely to be questioned by the appraisee and leave him quite dejected and unhappy when the appraisal turns out to be negative.

5. ***Taking corrective action, if necessary:*** Corrective action is of two types: one puts out the fires immediately, while the other destroys the root of the problem permanently. Immediate action sets things right and get things back on track whereas the basic corrective action gets to the source of deviations and seeks to adjust the difference permanently. Basic corrective steps seek to find out how and why performance deviates.

## 3.21 METHODS OF PERFORMANCE APPRAISAL

The performance appraisal methods may be classified into three categories, as shown in the following Figure:

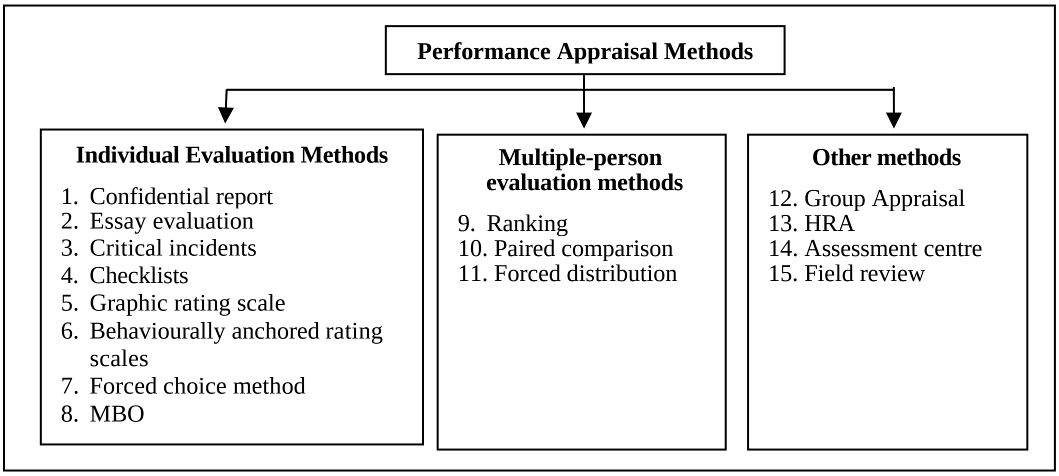


**Figure 3.1: Performance Appraisal Methods**

## Individual Evaluation Methods

**Notes**

Under the individual evaluation methods of merit rating, employees are evaluated one at a time without comparing them with other employees in the organisation:

1. ***Confidential report:*** It is mostly used in government organisations. It is a descriptive report prepared, generally at the end of every year, by the employee's immediate superior. The report highlights the strengths and weaknesses of the subordinate. The report is not databased. The impressions of the superior about the subordinate are merely recorded there. It does not offer any feedback to the appraisee. The appraisee is not very sure about why his ratings have fallen despite his best efforts, why others are rated high when compared to him, how to rectify his mistakes, if any; on what basis he is going to be evaluated next year, etc. Since the report is generally not made public and hence no feedback is available, the subjective analysis of the superior is likely to be hotly contested. In'recent years, due to pressure from courts and trade unions, the details of a negative confidential report are given to the appraisee.

2. ***Essay evaluation:*** Under this method, the rater is asked to express the strong as well as weak points of the employee's behaviour. This technique is normally used with a combination of the graphic rating scale because the rater can elaborately present the scale by substantiating an explanation for his rating. While preparing the essay on the employee, the rater considers the following factors: (i) Job knowledge and potential of the employee; (ii) Employee's understanding of the company's programmes, policies, objectives, etc.; (iii) The employee's relations with co-workers and superiors; (iv) The employee's general planning, organising and controlling ability; (v) The attitudes and perceptions of the employee, in general.

   Essay evaluation is a non-quantitative technique. This method is advantageous in at least one sense, i.e., the essay provides a good deal of information about the employee and also reveals more about the evaluator. The essay evaluation method however, suffers from the following limitations:

   - It is highly subjective; the supervisor may write a biased essay. The employees who are sycophants will be evaluated more favourably than other employees.
   - Some evaluators may be poor in writing essays on employee performance. Others may be superficial in explanation and use flowery language which may not reflect the actual performance of the employee. It is very difficult to find effective writers now-a-days.
   - The appraiser is required to find time to prepare the essay. A busy appraiser may write the essay hurriedly without properly assessing the actual performance of the worker. On the other hand, appraiser takes a long time, this becomes uneconomical from the view point of the firm, because the time of the evaluator (supervisor) is costly.

3. ***Critical incident technique:*** Under this method, the manager prepares lists of statements of every effective and ineffective behaviour of an employee. These critical incidents or events represent the outstanding or poor behaviour of employees on the job. The manager maintains logs on each employee, whereby he periodically records critical incidents of the workers' behaviour. At the end of the rating period, these recorded critical incidents are used in the evaluation of the workers' performance. An example of a good critical incident of a sales assistant is the following:

   **July.20** - The sales clerk patiently attended to the customer's complaint. He is polite, prompt, enthusiastic in solving the customer's problem.

   On the other hand, the bad critical incident may appear as under:

   **July 20** - The sales assistant stayed 45 minutes over on his break during the busiest part of the day. He failed to answer the store manager's call thrice. He is lazy, negligent, stubborn and uninterested in work.

   This method provides an objective basis for conducting a thorough discussion of an employee's performance. This method avoids recently bias (most recent incidents get too much emphasis). This method suffers, however, from the following limitations:

**Notes**

- Negative incidents may be more noticeable than positive incidents.
- The supervisors have a tendency to unload a series of complaints about incidents during an annual performance review session.
- It results in very close supervision which may not be liked by the employee.
- The recording of incidents may be a chore for the manager concerned, who may be too busy or forget to do it.

Most frequently, the critical incidents method is applied to evaluate the performance of superiors.

4. ***Checklists and weighted checklists:*** Another simple type of individual evaluation method is the checklist. A checklist represents, in its simplest form, a set of objectives or descriptive statements about the employee and his behaviour. If the rater believes strongly that the employee possesses a particular listed trait, he checks the item; otherwise, he leaves the item blank. A more recent variation of the checklist method is the weighted list. Under this, the value of each question may be weighted equally or certain questions may be weighted more heavily than others. The following are some of the sample questions in the checklist:

   - Is the employee really interested in the task assigned? Yes/No
   - Is he respected by his colleagues (co-workers) Yes/No
   - Does he respect his superiors? Yes/No
   - Does he follow instructions properly? Yes/No
   - Does he make mistakes frequently? Yes/No

   A rating score from the checklist helps the manager in evaluation of the performance of the employee. The checklist method has a serious limitation. The rater may be biased in distinguishing the positive and negative questions. He may assign biased weights to the questions. Another limitation could be that this method is expensive and time consuming. Finally, it becomes difficult for the manager to assemble, analyse and weigh a number of statements about the employee's characteristics, . contributions and behaviours.

5. ***Graphic rating scale:*** Under this method, a printed form, as shown below, is used to evaluate the performance of an employee. A variety of traits may be used in these types of rating devices, the most common being the quantity and quality of work. The rating scales can also be adapted by including traits that the company considers important for effectiveness on the job. A model of a graphic rating scale is given below.

**Typical Graphic Rating Scale**

| | | | | | |
|---|---|---|---|---|---|
| Employee Name ...........................<br>Department ..................................<br>Data ............................................. | | | Job title ………………….<br>Rate …………………….. | | |
| | **Unsatisfactory** | **Fair** | **Satisfactory** | **Good** | **Outstanding** |
| • **Quantity of work**<br>Volume of work under normal working conditions<br>• **Quality of work**<br>neatness, thoroughness and accuracy of work<br>• **Knowledge of job**<br>A clear understanding of the factors connected with the job | | | | | |

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| | | | | | |
|---|---|---|---|---|---|
| • **Attitude**<br>Exhibits enthusiasm and cooperativeness on the job<br>• **'Dependability**<br>Conscientious, thorough, reliable, accurate, with respect to attendance, reliefs, lunch breaks, etc.<br>• **Cooperation**<br>Willingness and ability to work with others to produce desired goals. | | | | | |

From the graphic rating scales, excerpts can be obtained about the performance standards of employees. For instance, if the employee has serious gaps in technical-professional knowledge (knows only rudimentary phases of job); lacks the knowledge to bring about an increase in productivity; is reluctant to make decisions on his own (on even when he makes decisions they are unreliable and substandard); declines to accept responsibility; fails to plan ahead effectively; wastes and misuses resources; etc.; then it can safely be inferred that the standards of performance of the employee are dismal and disappointing.

The rating scale is the most common method of evaluation of an employee's performance today. One positive point in favour of the rating scale is that it is easy to understand, easy to use and permits a statistical tabulation of scores of employees.

When ratings are objective in nature, they can be effectively used as evaluators. The graphic rating scale may, however, suffer from a long standing disadvantage, i.e., it may be arbitrary and the rating may be subjective. Another pitfall is that each characteristic is equally important in evaluation of the employee's performance and so on.

6. ***Behaviouralty anchored rating scales:*** Also known as the behavioural expectations scale, this method represents the latest innovation in performance appraisal. It is a combination of the rating scale and critical incident techniques of employee performance evaluation. The critical incidents serve as anchor statements on a scale and the rating form usually contains six to eight specifically defined performance dimensions. Figure 8.2 representing a BARS scale for a college professor is shown below.

   How to construct BARS? Developing BARS follows a general format which combines techniques employed in the critical incident method and weighted checklist rating scales. Emphasis is pinpointed on pooling the thinking of people who will use the scales as both evaluators and evaluees.

   *Step I:* Collect critical incidents: People with knowledge of the job to be probed, such as job holders and supervisors, describe specific examples of effective and ineffective behaviour related to job performance.

   *Step II:* Identify performance dimensions: The people assigned the task of developing the instrument, cluster the incidents into a small set of key performance dimensions. Generally, between five and ten dimensions account for most of the performance. Examples of performance dimensions include technical competence, relationships with customers, handling of paperwork and meeting day-to-day deadlines. While developing varying levels of performance for each dimension (anchors), specific examples of behaviour should be used, which could later be scaled in terms of good, average or below average performance.

   *Step III:* Reclassification of incidents: Another group of participants knowledgeable about the job is instructed to retranslate or reclassify the critical incidents generated (in Step II) previously. They are given the definition of job dimension and told to assign each critical incident to the dimension that it best describes. At this stage, incidents for which there is lower than 75 per cent agreement are discarded as being too subjective.

**Notes**

*Step IV:* Assigning scale values to the incidents: Each incident is then rated on a one-to-seven or one-to-nine scale with respect of how well it represents performance on the appropriate dimension. A rating of one represents ineffective performance; the top scale value indicates very effective performance. The second group of participants usually assigns the scale values. Means and standard deviations are then calculated for the scale values assigned to each incident. Typically, incidents that have standard deviations of 1.50 or less, (on a 7-point scale) are retained.

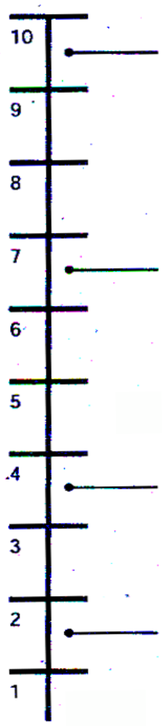
**Organisational Skills:**

A good constructional order of material slides smoothly from one topic to another; design of course optimises interest; students can easily follow organisational. strategy; course outline followed.

Follows a course syllabus; presents lectures in a logical order; ties each lecture into the previous.

Prepares & course syllabus but only follows it occasionally; presents lectures in no particular order, although does tie them together.

Makes no use of a course syllabus; lectures on topics randomly with no logical order.




Follows a course syllabus; presents lectures in a logical order; ties each lecture into the previous.

This instructor can be expected to announce at the end of each lecture the material that will be covered during the next class period.

This instructor could be expected to be sidetracked at least once a week in lecture and not cover the intended material.

This instructor could be expected to lecture a good deal of the time about subjects other than the subject s/he is supposed to lecture on.

**A Sample Behaviourally Anchored Rating Scale for a College Professor**

*Step V:* Producing the final instrument: About six or seven incidents for each performance dimension - all having met both the retranslating and standard deviation criteria - will be used as behavioural anchors. The final BARS instrument consists of a series of vertical scales (one for each dimension) anchored (or measured) by the final incidents. Each incident is positioned on the scale according to its mean value.

Because the above process typically requires considerable employee participation, its acceptance by both supervisors and their subordinates may be greater. Proponents of BARS also claim that such a system differentiates among behaviour, performance and results and consequently is able to provide a basis for setting developmental goals for the employee. Because it is job-specific and identifies observable and measurable behaviour, it is a more reliable and valid method for performance appraisal.

Researchers, after surveying several studies on BARS, concluded that "despite the intuitive appeal of BARS, findings from research have not been encouraging". It has not proved to be superior to other methods in overcoming rater errors or in achieving psychometric soundness. A specific deficiency is that the behaviours used are activity oriented rather than results

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oriented. This creates a potential problem for supervisors doing the evaluation, who may be forced to deal with employees who are performing the activity but not accomplishing the desired goals. Further, it is time consuming and expensive to create BARS. They also demand several appraisal forms to accommodate different types of jobs in an organisation. In a college, lecturers, office clerks, library staff, technical staff and gardening staff all have different jobs; separate BARS forms would need to be developed for each. In view of the lack of compelling evidence demonstrating the superiority of BARS over traditional techniques such as graphic rating scales, dacoits concluded that "It may be time to quit hedging about the efficacy of behavioural scaling strategies and conclude that this method has no clear-cut advantages over more traditional and easier methods of performance evaluation".

7. ***Forced choice method:*** This method was developed to eliminate bias and the preponderance of high ratings that might occur in some organisations. The primary purpose of the forced choice method is to correct the tendency of a rater to give consistently high or low ratings to all the employees. This method makes use of several sets of pair phrases, two of which may be positive and two negative and the rater is asked to indicate which of the four phrases is the most and least descriptive of a particular worker. Actually, the statement items are grounded in such a way that the rater cannot easily judge which statements apply to the most effective employee. The following box is a classic illustration of the forced choice items in organisations:

**Forced Choice Items**

| | | | |
|---|---|---|---|
| **1.** | **Least** | | **Most** |
| | A | Does not anticipate difficulties | A |
| | B | Grasps explanations easily and quickly | B |
| | C | Does not waste time | C |
| | D | Very easy to talk to | D |
| **2.** | **Least** | | **Most** |
| | A | Can be a leader | A |
| | B | Wastes time on unproductive things | B |
| | C | At all times, cool and calm | C |
| | D | Smart worker | D |

The favourable qualities earn a plus credit and the unfavourable ones earn the reverse. The worker gets an overall plus rating, when the positive factors override the negative ones or when one of the negative phrases is checked as being insignificantly rated.

They overall objectivity is increased by using this method in evaluation of employee's performance, because the rater does not know how high or low he is evaluating the individual as he has no access to the scoring key. This method, however, has a strong limitation. In the preparation of sets of phrases trained technicians are needed 'and as such the method becomes very expensive. Further, managers may feel frustrated rating the employees 'in the dark'. Finally, the results of the forced choice method may not be useful for training employees because the rater himself does not know how he is evaluating the worker. In spite of these limitations, the forced choice technique is quite popular.

8. ***Management by Objectives (MBO):*** MBO requires the management to set specific, measurable goals with each employee and then periodically discuss the latter's progress towards these goals, This technique emphasises participatively set goals (that are agreed upon by the superior and the employee) that are tangible, verifiable and measurable. MBO focuses attention on what must be accomplished (goals) rather than how it is to be accomplished. It is, thus, a kind of goal setting and appraisal programme involving six steps:

Set the organisation's goals: Establish an organisationwide plan for next year and set company goals.

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- *Set departmental goals:* Departmental heads at this stage take the broader company goals {such as improving profits by 20 per cent, increasing market share by 10 percent etc.) and, with their superiors, jointly set goals for their departments.
- *Discuss departmental goals:* The departmental goals are now put to discussion in a departmental meeting with subordinates. The departmental heads would require the subordinates to set their own preliminary individual goals, focusing mostly on what they can do to achieve the department's goals.
- *Define expected results:* In the next step, the departmental heads and their subordinates agree on a set of participatorily set short term, and individual performance targets.
- *Performance reviews:* Departmental heads compare each employee's actual and targeted performance, either periodically or annually. While periodic review is intended to identify and solve specific performance problems, the annual review is conducted to assess and reward one's overall contribution to the organisation. Because employees are evaluated on their performance results, MBO is often called a result-based performance appraisal system.
- *Provide feedback:* Both parties now discuss and evaluate the actual progress made in achieving goals, where things have gone off the track, how best to rectify the mistakes made in the past, and how the employee could meet the targets next time, focusing attention on his strengths.

However, setting clearly measurable goals is not an easy task. MBO demands a great deal of time to set verifiable goals at all levels of an organisation. In the race to define everything rigidly, some of the qualitative aspects might be ignored (such as employee attitudes, job satisfaction etc). Often the superior may set goals at a frustratingly high level, whereas the subordinate may wish to have it at a comfortable level. At times, the short-term goals may take precedence over long term goal. The only way to overcome these problems is to allow managers at all levels to explain, coordinate and guide the programme in a persuasive, democratic way. The jointly set targets must be fair and attainable. Both the superiors and the subordinates must be taught how to set realistic goals and be familiarised with the. results for which they are finally held responsible.

**Multiple-person Evaluation Techniques**

The above discussed methods are used to evaluate employees one at a time. In this section, let us discuss some techniques of evaluating one employee in comparison to another. Three such frequently used methods in organisations are - ranking, paired comparison and forced distribution.

9. ***Ranking method:*** This is a relatively easy method of performance evaluation. Under this method, the ranking of an employee in a work group is done against that of another employee. The relative position of each employee is expressed in terms of his numerical rank. It may also be done by ranking a person on his job performance against another member of the competitive group. The quintessence of this method is that employees are ranked according to their relative levels of performance. While using this method, the evaluator is asked to rate employees from highest to lowest on some overall criterion. Though it is relatively easier to rank the best and the worst employees, it is very difficult to rank the average employees. Generally, evaluators pick the top and bottom employees first and then select the next highest and next lowest and move towards the average (middle) employees. The longstanding limitations of this method are:

- The 'whole man' is compared with another 'whole man' in this method. In practice, it is very difficult to compare individuals possessing varied behavioural traits.
- This method speaks only of the position where an employee stands in his group. It does not tell anything about how much better or how much worse an employee is when compared to another employee.

Notes

- When a large number of employees are working, ranking of individuals becomes a vexing issue.
- There is no systematic procedure for ranking individuals in the organisation. The ranking system does not eliminate the possibility of snap judgments.

In order to overcome the above limitations, a paired comparison technique has been advanced by organisational scholars.

10. ***Paired comparison method:*** Ranking becomes more reliable and easier under the paired comparison method. Each worker is compared with all other employees in the group; for every trait, the worker is compared with all other employees. For instance, when there are five employees to be compared, then A's performance is compared with that of B's and decision is arrived at as to whose is better or worse. Next, B is also compared with all others. Since A is already compared with B. this time B is to be compared with only C, D and E. By this method, when there are five employees, fifteen decisions are made (comparisons). The number of decisions to be made can be determined with the help of the formulae n (n-2). Ranking the employees by the paired comparison method may be illustrated as shown in the Table 8.3.

    For several individual traits, paired comparisons are made, tabulated and then rank is assigned to each worker. Though this method seems to be logical, it is not applicable when a group is large. When the group becomes too large, the number of comparisons to be made may become frighteningly excessive. For instance, when n=100, comparisons to be made are 100 (100 – 2) = 100 (98) = 9800.

    Trait: 'Quantity of work'

11. ***Forced distribution method:*** Under this system, the rater is asked to appraise the employee according to a predetermined distribution scale. The rater's bias is sought to be eliminated here because workers are not placed at a higher or lower end of the scale. Normally, the two criteria used here for rating are the job performance and promotability. Further, a five-point performance scale is used without any mention of descriptive statements. Workers are placed between the two extremes of 'good' and 'bad' performances. For instance, the workers of outstanding merit may be placed at the top 10% of the scale. The rest may be placed as - 20% —good, 40% —outstanding, 20% —fair and 10% —poor. To be specific, the forced distribution method assumes that all top grade workers should go to the highest 10% grade; 20% employees should go to the next highest grade and so on.

    Apart from job performance as the criterion, another equally important factor in this method is promotability. Employees may be classified according to their promotional merits. The scale for this purpose may consist of three points - namely, quite likely promotional material, may/may not be promotional material and quite unlikely promotional material.

    One strong positive point in favour of the forced distribution method is that by forcing the distribution according to predetermined percentages, the problem of making use of different raters with different scales is avoided. Further, this method is appreciated on the ground that it tends to eliminate rater bias. The limitation of using this method in salary administration however, is that it may result in low morale, low productivity and high absenteeism. Employees who feel that they are productive, but find themselves placed in a grade lower than expected feel frustrated and exhibit, over a period of time, reluctance to work.

    Other methods of appraising performance include: Group Appraisal, Human Resource Accounting, Assessment Centre, Field Review, etc. These are discussed in the following sections:

13. ***Group appraisal:*** In this method, an employee is appraised by a group of appraisers. This group consists of the immediate supervisor of the employee, other supervisors who have close contact with the employee's work, manager or head of the department and consultants. The head of the department or manager may be the Chairman of the group and the immediate supervisor may act as the Coordinator for the group activities. This group uses any one of multiple techniques discussed earlier. The immediate supervisor enlightens other members

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about the job characteristics, demands, standards of performance, etc. Then the group appraises the performance of the employee, compares the actual performance with standards, finds out the deviations, discusses the reasons therefore, suggests ways for improvement of performance, prepares an action plan, studies the need for change in the job analysis and standards and recommends changes, if necessary.

This method eliminates 'personal bias* to a large extent, as performance is evaluated by multiple raters. But it is a very time consuming process.

14. ***Human resource accounting:*** HRA is a sophisticated way to measure (in financial terms) the effectiveness of personnel management activities and the use of people in an organisation. It is the process of accounting for people as an organizational resource. It tries to place a value on organisational human resources as assets and not as expenses. The HRA process shows the investment the organisation makes in its people and how the value of these people changes over time. The acquisition cost of employees is compared to the replacement cost from time to time. The value of employees is increased by investments made by the company to improve the quality of its human resources such as training, development, and skills acquired by employees over a period of time through experience, etc. When qualified, competent people leave an organisation, the value of human assets goes down. In this method, employee performance is evaluated in terms of costs and contributions of employees. Human resource costs include expenditure incurred by the company in hiring, training, compensating and developing people. The contributions of human resources is the money value of labour productivity. The cost of human resources may be taken as the standard. Employee performance can be measured in terms of employee contribution to the organisation. Employee performance can be taken as positive when contribution is more than the cost and performance can be viewed as negative if cost is more than contribution. Positive performance can be measured in terms of percentage of excess of employee contribution over the cost of employee. Similarly negative performance can be calculated in terms of percentage of deficit in employee contribution compared to the cost of employee. These percentages can be ranked to 'Zero Level' as shown in the following table

**'Zero Level'**

| Rank | Rating | Percentage of surplus/Deficit of contribution to cost of employee |
|---|---|---|
| 1. | Extremely good performance | Over 200 |
| 2. | Good performance | 150-200 |
| 3. | Slightly good performance | 100-150 |
| 4. | Neither poor nor good | 0-100 |
| 5. | Slightly poor performance | 0 |
| 6. | Poor performance | 0 to (- 50) |
| 7. | Extremely poor performance | (-50) to (-100) |

This technique has not developed fully and is still in the transitionary stage.

14. ***Assessment centre:*** This method of appraising was first applied in German Army in 1930. Later business and industrial houses started using this method. This is not a technique of performance appraisal by itself. In fact it is a system or organisation, where assessment of several individuals is done by various experts using various techniques. These techniques include the methods discussed before in addition to in-basket,- role playing, case studies, simulation exercises, structured in sight, transactional analysis, etc.

In this approach, individuals from various departments are brought together to spend two or three days working on individual or group assignments similar to the ones they would be handling when promoted. Observers rank the performance of each and every participant in order of merit. Since assessment centres are basically meant for evaluating the potential of candidates to be considered for promotion, training or development, they offer an excellent means for conducting evaluation processes in an objective way. All assesses get an equal opportunity to show their talents and capabilities and secure promotion based on merit. Since evaluators know the position requirements intimately and are trained to perform the evaluation process in an objective manner, the performance ratings may find favour with a majority of the employees. A considerable amount of research evidence is available to support the contention that people chosen by this method prove better than those chosen by other methods. The centre enables individuals working in low status departments to compete with people from well-known departments and enlarge their promotion chances. Such opportunities, when created on a regular basis, will go a long way in improving the morale of promising candidates working in 'less important' positions.

15. ***Field review method:*** Where subjective performance measures are used, there is scope for rater's biases influencing the evaluation process. To avoid this, some employees use the field review method. In this method, a trained, skilled representative of the HR department goes into the 'field' and assists line supervisors with their ratings of their respective subordinate's. The HR specialist requests from the immediate supervisor specific information about the employees performance. Based on this information, the expert prepares a report which is sent to the supervisor for review, changes, approval and discussion with the employee who is being rated. The ratings are done on standardised forms.

    Since an expert is handling the appraisal process, in consultation with the supervisor, the ratings are more reliable. However, the use of HR experts makes this approach costly and impractical for many organisations.

## 3.22 PROBLEMS WITH PERFORMANCE APPRAISAL

The problems 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. Bias here refers to distortion of a measurement. These are of various types:

   i. *First impressions (primacy effect):* The appraiser's first impression of a candidate may colour his evaluation of all subsequent behaviour. In the case of negative primacy effect, the employee may seem to do nothing right; in the case of a positive primacy effect, the employee can do no wrong (Harris, p. 192).

   ii. *Halo:* The Halo error occurs 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.

   iii. *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 ratee rarely smiles, so he cannot get along with people!

   iv. *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 other students have cleared the examination. The leniency error can render an appraisal system ineffective. If everyone is to be rated high, the system has not done anything to differentiate among employees.

   v. *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.

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

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performance. For example, employees from rural areas might be rated poorly by raters having a sophisticated urban background, if they view rural background negatively.

vii. *Recency effect:* In this case, the rater gives greater weightage 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.

2. ***Poor appraisal forms:*** The appraisal process might also be influenced by the following factors relating to the forms that are used by raters:
   - The rating scale may be quite vague and unclear.
   - The rating form may ignore important aspects of job performance.
   - The rating form may contain additional, irrelevant performance dimensions.
   - The forms may be too long and complex.
3. ***Lack of rater preparedness:*** The raters. may not be adequately trained to carry out performance management activities. This becomes a serious limitation when the technical competence of a ratee is going to be evaluated by a rater who has limited functional specialisation in that area. The raters may not have sufficient time to carry out appraisals systematically and conduct thorough feedback sessions. Sometimes the raters may not be competent to do the evaluations owing to a poor self-image and lack of self-confidence. They may also get confused when the objectives of appraisal are somewhat vague and unclear.

   Top 10 reasons of Failing Performance Appraisal
   - Manager lacks information concerning an employee's actual performance.
   - Standards to evaluate an employee's performance are not clear.
   - Manager does not take appraisal seriously.
   - Manager is not prepared for the appraisal review with the employee.
   - Manager is not honest/sincere during the evaluation.
   - Manager lacks appraisal skills.
   - Employee does not receive ongoing performance feedback.
   - Insufficient resources offered to reward performance.
   - There is ineffective discussion of employee development.
   - Manager uses unclear/ambiguous language in the evaluation process.
4. ***Ineffective organisational policies and practices:*** If the sincere appraisal effort put in by a rater is not suitably rewarded, the motivation to do the job thoroughly finishes off. Sometimes, low ratings given by raters are viewed negatively by management - as a sign of failure on the part of rater or as an indication of employee discontent. So, most employees receive satisfactory ratings, despite poor performance. Normally, the rater's immediate supervisor must approve the ratings. However, in actual practice, this does not happen. As a result, the rater 'goes off the hook' and causes considerable damage to the rating process.

## 3.23 ESSENTIAL CHARACTERISTICS OF AN EFFECTIVE APPRAISAL SYSTEM

Performance appraisal system should be effective as a number of crucial decisions are made on the basis of score or rating given by the appraiser, which in turn, is heavily based on the appraisal system. An appraisal system, to be effective, should possess the following essential characteristics:

1. ***Reliability and validity:*** Appraisal system should provide consistent, reliable and valid information and data, which can be used to defend the organisation - even in legal challenges. If two appraisers are equally qualified and competent to appraise an employee with the help of

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the same appraisal technique, their ratings should agree with each other. The technique them demonstrably satisfies the conditions of inter-rater reliability. Appraisals must also satisfy the condition of validity, by measuring what they are supposed to measure. For example, if appraisal is made for potential of an employee for promotion, it should supply the information and data relating to potentialities of the employee to take up higher responsibilities and carry on activities at higher level.

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

3. ***Standardisation:*** Appraisal forms, procedures, administration of techniques, ratings, etc., should be standardised as appraisal decisions affect all employees of the group.

4. ***Practical viability:*** The techniques should be practically viable to administer, possible to implement and economical to undertake continuously.

5. ***Legal sanction:*** Appraisals must meet the laws of the land. They must comply with provisions of various statutes relating to labour.

6. ***Training to appraisers:*** Because appraisal is important and sometimes difficult, it would be useful to provide training to appraisers viz., some insights and ideas on rating, documenting appraisals and conducting appraisal interviews. Familiarity with rating errors can improve rater's performance and this may inject the needed confidence in appraisers to look into performance ratings more objectively.

7. ***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. To this end, managers should clearly explain their performance expectations to their subordinates in advance of the appraisals period. Once this is known, it becomes easy for employees to learn about the yardsticks and, if possible, try to improve their performance in future.

8. ***Employee access to results:*** Employees should know the rules of the game. They should receive adequate feedback on their performance. If performance appraisals are meant for improving employee performance, then withholding appraisal result would not serve any purpose. Employees simply cannot perform better without having access to this information. 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 formal channels.

9. ***Due process:*** It follows then that formal procedures should be developed to enable employees who disagree with appraisal results (which are considered to be inaccurate or unfair). They must have the means for pursuing their grievances and, having them addressed objectively.

Performance appraisal should be used primarily to develop employees as valuable resources. Only then it would show promising results. When management uses it as a whip or fails to understand its limitations, it fails. The key is not which form or which method is used (Mathis and Jackson).

## 3.24 PERFORMANCE APPRAISAL PRACTICES IN INDIA

There are three different approaches for carrying out appraisals. Employers can be appraised against (i) absolute standards (where employees' performance is measured against some established standards; the subjects here are not compared with any other person) (ii) relative standards (where the subjects are compared against other individuals) and (iii) objective. Here, employees are evaluated by how well they accomplish a specific set of objectives that have been determined to be critical in the successful completion of their job. No one approach is always best; each has its strengths and weaknesses. Of course, a successful performance appraisal system requires more than good technique. It depends on a consistent approach for comparability of results, clear standards and measures, and bias-free ratings. Against this backdrop, let's see how some of the leading companies in India carry out the appraisal process.

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1. ***Hughes escorts:*** Hughes Escorts, the subsidiary of the US-headquartered telecom company, Hughes, uses a competency-based performance-enhancement model. Each position in the organisation is defined in terms of 23 key competencies, categorised into four groups: attitude-based, knowledge driven, skill-centred, and value based. The company uses these competencies to measure shortfalls and provide relevant training inputs. This is done to both maximise productivity and make employees aware of their professional standing.

2. ***National panasonic:*** This Japanese white-goods major has developed a performance-assessment system driven by key result areas (KRAs). KRAs describe performance goals - business, functional, and behavioural ones - with defined time-frames and are decided jointly by the employee and the manager at the beginning of the year. It is a structured exercise using a written format. These KRAs are then used to map the employee's progress and, based on the results, the company decides to plug performance gaps with the help of relevant training inputs. National Panasonic puts a great deal of emphasis on this process for re-skilling its employees as it believes in growing its own timber rather than opting for expensive mid-career hires.

3. ***Larsen & Toubro:*** Engineering major Larsen & Toubro has developed a competency matrix which lists 73 competencies - that vary across managerial levels - to measure performance and gauge development needs of its employees. Each listed competency has associated knowledge, skills, and attributes. The company appraises individual employees in the listed competencies, and zeroes in on the functional, managerial, and behavioural skill gaps. Subsequently, customised reinforcement is provided. Further, as the matrix is linked to business strategy on the one hand and training needs on the other, strategic needs drive the company's development policies, making the process of re-learning and re-skilling easier, and more focused.

4. ***Daewoo Motors:*** Auto major Daewoo Motors Ltd. has introduced a parameter on team work in its appraisal process. Targets are set according to business plans in the beginning of the year and assigned to various functional teams. Subsequently, the team's performance is measured on the basis of its achievement vis-a-vis its goals. This done, the top management allocates ratings (which can vary from outstanding to average) to each team. In a parallel process, the team-supervisor appraises each team member. Both ratings are taken into account before a final rating is assigned by the senior management team to each functional team and every team member. Rewards, including performance increments, bonuses, and promotions are given out on the basis of this final rating.

5. ***EIH Ltd:*** Hospitality Company EIH recently overhauled its performance appraisal system to make it more participatory and competency-driven. Now, employees are appraised on the achievement of specific individual and functional targets, as well as generic competencies like technical, functional, managerial, decision-making, and leadership skills. Performance ratings ranging from outstanding to below-average are given accordingly. The exercise is followed by an employee feedback process, where employees are required to answer. EIH had taken its managers through an extensive tour of its new appraisal process to raise comfort levels, and hopes to use its as a vehicle for people-based growth.

## PART V - POTENTIAL APPRAISAL

## 3.25 MEANING OF POTENTIAL APPRAISAL

Potential appraisal refers to the evaluation of present abilities which are not currently utilized or not required to that degree in the present job as would be required in possible. Further higher jobs which the individual may hold. It refers to the evaluation of the abilities to discharge higher responsibilities in future roles.

Thus potential appraisal is required to:

1. Inform employees about their future prospects.
2. Help the organization chalk out of a suitable succession plan.

3. Update training efforts from time to time.
4. Advice employees about what they must do to improve their career prospects.

Therefore people are like Iceberg. What you see above the surface (performance) is anybody small par. A large part of attributes needed to perform excellently in a future job which is called potential is not immediately visible.

## 3.26 OBJECTIVES OF POTENTIAL APPRAISAL

The following are the objectives of potential appraisal:

1. To assess an individual in terms of the higher level of work the individual will be able to handle comfortable and successfully in future without being over stretched.
2. To assist the organization in discharging its responsibility of selecting and developing managers for the future to ensure continuous growth of the organisation.
3. To advice the employees regarding the prospects for them in future.
4. In suggest the employees about what they should do for improving their future career prospects.
5. To help the organization to chalk out their suitable succession plan.
6. To update training efforts from time to time.

### Difference between Performance Appraisal and Potential Appraisal

Following are the differences between the performance appraisal and potential appraisal

| **Basis** | **Performance Appraisal** | **Potential Appraisal** |
|---|---|---|
| Objective | Improvement of job performance and work situation | Evaluation of ability of growth |
| Query | Effectiveness of job performance? | Other skills/talent possessed by employees? |
| Organisational Motive | Employment of available personnel | Securing future staff. |
| Employee Motive | Present job satisfaction | Motivation for future possibilities |
| Position | Present | Others mainly high levels |
| Object | Work behavior | Behavioral criteria |
| Time Perspective | Recent past and future | Near future |
| Perspective | Qualitative Aspects | Predictive Aspects |
| Emphasis | Areas of improvement | Areas of growth potential |

## 3.27 SUMMARY

A promotion involves a change from one job to another that is better in terms of status and responsibility.  It refers to upward movement of an employee from current job to another that is higher in pay, responsibility. Status and organization level. The new job will be promotion only if it entails increased responsibilities and increased pay. A sound promotion policy should be in writing and must be understood by all employees. It should mention the basis of promotion-seniority or merit or both. Promotion should not be fixed on such reluctant employees and they should be allowed to continuous their present assignment.

Transfer is a horizontal an lateral movement of an employee from one job, section, department, shift, plant or position to another at the same or another place where his salary status and responsibilities are the same. It is a change in job assignment.

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Separation is a decision that the individual and the organisaiton should part. The parting of ways can be at the instance of the employee or the employees. Separation can take the following forms: (i) Resignation, (ii) dismissal, (iii) death, (iv) suspension, (v) retrenchment and (vi) layoff.

Performance appraisal is a method of evaluating the behavior of employees in the work spot normally including both the quantitative and qualitative aspects of job performance. It is a systematic periodic and asixpantial rating of an employee's excellence in matters pertaining to his present job and his potential for the present job. Performance appraisal is useful for compensation decision, promotion decision, training and development programme, feedback and personnel development.

Potential appraisal refers to the evaluation of the present abilities which are not currently utilized or not required to that degree in the present job as would be required in possible future higher jobs which the individual may hold. It refers to the evaluation of the abilities to discharge the higher responsibilities in future roles.

## 3.28 SELF ASSESSMENT QUESTIONS

1. Describe the meaning, significance and policies of promotion. Examine merits and demerits of promotion by seniority.
2. What are the essentials of a sound promotion policy?
3. Discuss the basis of promotion. What should be the elements in a sound promotion policy?
4. What is meant by transfer? What are its various kinds? Bring out clearly the silent features of a sound transfer policy?
5. Discuss the term 'Demotion' and used in Personnel Management.
6. Write notes on (a) Death, resignation and retirement, (b) Suspension, discharge and dismissal, (c) Lay off and retrenchment.
7. What do you mean by separation? What are its types?
8. What is meant by performance appraisal? What are its objectives?
9. Discuss various Methods of Performance appraisal.
10. Discuss performance appraisal practice in India.
11. Describe the meaning and objective of potential appraisal.
12. What are the difference between performance appraisal and potential appraisal?

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# UNIT 4 COMPENSATION MANAGEMENT

**Structure**



## 4.0 OBJECTIVES

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

- Understand the concept of compensation and its components.
- Discuss about the compensation management process.

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- Describe features of good wage system.
- Define system of wage payment.
- Understand job evaluation and its features, process, benefits and its methods.
- Discuss about training and objectives need and methods of training.

## 4.1 CONCEPT OF COMPENSATION

The meaning of word compensation is to compensate, i.e. to pay for compensation can be a payment made in exchange of efforts, service rendered or task done. In the case of human resource management, compensation is referred to as money and other benefits received may be in different forms – base compensation in money form and various benefits, which may be associated with employee's service to the employer like provident fund, gratuity, insurance scheme, and any other payment which the employee receives or benefits he enjoys in lieu of such payment. Cascio has defined compensation as follows: "Compensation includes direct cash payments, indirect payments in the form of employee benefits, and incentives to motivate employees to strive for higher levels of productivity"1 Based on above description of compensation, we may identify its various components as follows:

1. ***Wage and Salary:*** Wage and salary are the most important component of compensation. Wage is referred to as remuneration to workers, particularly hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel. Wage and salary are paid on the basis of fixed period of time and normally not associated with productivity of an employee at a particular time.
2. ***Incentives:*** Incentives are the additional payment to employees besides the payment of wages and salaries. Often, these are linked with productivity, either in terms of higher production or cost saving or both. These incentives may be given on individual basis or group basis.
3. ***Fringe Benefits:*** Fringe benefits include such benefits which are provided to employees either having long-term impact like provident fund, gratuity, pension: or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniforms, canteens, recreation etc.
4. ***Perquisites:*** There are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organisation. Such perquisites include company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

## 4.2 COMPENSATION MANAGEMENT

Compensation management, also known as wage and salary administration, remuneration management, or rewards management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized only determination of wage and salary structures in organisational settings. However, over the passage of time, many more forms of compensation, as discussed earlier, entered the business field which necessitated to take wage and salary administration in a comprehensive way with a suitable change in its nomenclature. Beach has defined wage and salary administration as follows: "Wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, surveys of wages and salaries, analysis of relevant organizational problems, development and maintenance of wage structure, establishing rules for administering wages, wage payments, incentives, profit sharing, wage changes and adjustments supplementary payments control of compensation costs, and other related items.

## 4.3 OBJECTIVES OF COMPENSATION MANAGEMENT

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and organization. Since both these needs emerge from different sources, often, there is a conflict between the two. This conflict can be understood by agency theory which explains relationship between employers and employees. The theory suggests that employers and employees are two main stakeholders in a business unit, the former assuming the role of principals and the latter assuming the role of agents. The compensation paid to employees is agency consideration. Each party to agency tries to fix this consideration in its own favour. The employers want to pay as little as possible to keep their costs low. The employees want to get as high as possible. The compensation management tries to strike a balance between these two with following specific objectives:

1. ***Attracting and Retaining Personnel:*** From organisation's point of view, the compensation management aims at attracting and retaining right personnel in the organisation. In the Indian corporate scene, there is no dirth of personnel at operative levels but the problems come at the managerial and technical levels particularly for growing companies. Not only they require persons who are well qualified but they are also retained in the organisation. In the present day context, managerial turnover is a big problem particularly in high knowledge-based organisations.
2. ***Motivating Personnel:*** Compensation management aims at motivating personnel for higher productivity. Alfie Kohn has gone to the extent of arguing that corporate incentive plans not only fail to work as intended but also undermine the objectives they intend to achieve. He argues that this is due to inadequate psychological assumptions on which reward systems are based. His conclusions are as follows:
   (a) Rewards punish people – their use confirms that someone else is in control of the employees.
   (b) Rewards rupture relationships – they create competition where teamwork and collaboration are desired.
   (c) Rewards ignore reasons – they relieve managers from the urgent need to explore why an employee is effective or ineffective.
   (d) Rewards discourage risk taking – employees tend to do exactly what is required to earn the reward, and not any more.
   (e) Rewards undermine interest – they distract both manager and the employee from consideration of intrinsic motivation.
3. ***Optimizing Cost of Compensation:*** Compensation management aims at optimizing cost of compensation by establishing some kind of linkage between performance and compensation. It is not necessary that higher level of wages and salaries will bring higher performance automatically but depends on the kind of linkage that is established between performance and wages and salaries. Compensation management tries to attempt at this.
4. ***Consistency in Compensation:*** Compensation management tries to achieve consistency – both internal and external – in compensating employees. Internal consistency involves payment on the basis of critically of jobs and employees' performance on jobs. Thus, higher compensation is attached to higher level jobs. Similarly, higher compensation is attached to hither performers in the same job. Level of jobs within an organisation is determined by job evaluation. External consistency involves similar compensation for a job in all organizations. Though there are many factors involved in the determination of wage and salary structure for a job in an organisation which may result in some kind of disparity in the compensation of a particular job as compared to other organizations, compensation management tries to reduce this disparity.

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## 4.4 COMPENSATION MANAGEMENT PROCESS

In order to achieve the objectives of compensation management, it should proceed as a process. This process has various sequential steps are given below.


1. ***Organisation's Strategy:*** Organisation's overall strategy, though not a step of compensation management, is the starting point in the total human resource management process including compensation management. Companies operating in different types of market/product having varying level of maturity, adopt different strategies and matching compensation strategy and blend of different compensation methods.

   Thus, it can be seen that organizations follow different strategies in different market situations and align their compensation strategy and contents with these strategies. In a growing market, an organization can expand its business through internal expansion or takeover and merger of other organizations in the same line of business or a combination of both. In such a growing market, the inputs, particularly human resources, do not grow in the same proportion as the business expands. Therefore, in order to make the growth strategy successful, the organisation has to pay high cash to attract talents.

2. ***Compensation Policy:*** Compensation policy is derived from organisational strategy and its policy on overall human resource management. In order to make compensation management to work effectively, the organisation should clearly specify its compensation policy, which must include the basis for determining base compensation, incentives and benefits, and various types of perquisites to various levels of employees. The policy should be linked with the organizational philosophy on human resources and strategy. Besides, many external factors which impinge on the policy must also be taken care of.

3. ***Job Analysis and Evaluation:*** Job analysis, provides basis for defining job description and job specification with the former dealing with various characteristics and responsibilities involved in a job and the latter dealing with qualities and skills required in job performer. Job analysis also provides base for job evaluation which determines the relative worth of various jobs in the organisation. The relative worth of various jobs determines the compensation package attached with each job.

4. ***Analysis of Contingent Factors:*** Compensation plan is always formulated in the light of various factors both external and internal, which affect the operation of human resource management system. Various external factors are conditions of human resources market, cost of living, level of economic development, social factors, pressure of trade unions, and various labour laws dealing with compensation management. Various internal factors are

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organisation's ability to pay and employees' related factors such as work performance, seniority, skills etc. These factors may be analysed through wage/salary survey.

5. ***Design and Implementation of Compensation Plan:*** After going through the above steps, the organisation may be able to design its compensation plan incorporating base compensation with provision of wage / salary increase over the period of time, various incentives plans, benefits and perquisites. Sometimes, these are determined by external party, for example, pay commissions for Government employees as well as for public sector enterprises. After designing the compensation plan, it is implemented. Implementation of compensation plan requires its communication to employees and putting this into practice.

6. ***Evaluation and Review:*** A compensation is not a rigid and fixed one but is dynamic since it is affected by a variety of factors which are dynamic. Therefore compensation management should have a provision for evaluating and reviewing the compensation plan. After implementation of the plan, it will generate results either in terms of intervening variables like employee satisfaction and morale or in terms of end-result variables like increase of productivity. However, this latter variable is more important. The evaluation of compensation plan must be done in this light. If it does not work as intended, there should be review of the plan necessitating a fresh look.

## 4.5 ESSENTIAL FEATURES OF A GOOD WAGE SYSTEM

A wage system will be treated as fair if it has the following features:

1. The system should be fair both to the employer and the employee. It should be based upon scientific time and motion study to ensure a standard output to the employer and a fair amount of wages to the workers.
2. The worker should be assured of a guaranteed minimum wage at Satisfactory level irrespective of the work done by him.
3. Workers should be paid according to their merits. Efficient workers should be able to earn more wages as compared to the inefficient workers.
4. Skilled workers should be paid more as compared to the unskilled workers. Skilled workers are to be compensated for the efforts put in by them to acquire the skill.
5. The system should ensure equal pay for equal work.
6. The system should be flexible to allow necessary changes which may arise.
7. The system should be such as to minimize labour turnover, absenteeism and late attendance.
8. The system should not violate any local or national trade union's agreements.
9. The system should keep in view the wage rate in the same area or industry.
10. In order to protect the real wages from erosion the level of money wages should be adjusted to price changes. Workers should be paid dearness or dear food allowance over and above the basic pay to take account of an increase in prices. Thus, a system of wage payment should keep in view the price changes.
11. The system should be correlated to the capacity of the organization to pay.
12. The method should be simple and capable of being understood by the workers.

## 4.6 SYSTEMS OF WAGE PAYMENT

There are two principal wage systems: (i) Payment on the basis of time spent in the factory irrespective of the amount of work done. This method is known as time wage system. (ii) Payment on the basis of the work done irrespective of the time taken by the worker. This method is called piece rate system.

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Other methods called premium plans or bonus and profit sharing schemes are used with either of the two principal methods of wage payment.

### A. Time Wage System

Under this method of wage payment, the worker is paid at an hourly, daily, weekly or monthly rate. Suppose, a worker is paid at the rate of Rs. 0.75 per hour and he has spent 220 hours during a particular month; his wages will be Rs. 165 (time multiplied by rate i.e. 220 hrs. @ 75 P). Thus payment is made according to the time worked irrespective of the quality of work done. There are five types of this system, each differing only in so far as the fixation of the rate is concerned. They are as follows:

(a) Flat time rate of time rate at ordinary level.

(b) High day rate or time rate at high wage level.

(c) Measured day rate.

(d) Graduated time rate

(e) Differential time rate

(a) ***Flat Time Rate:*** It is oldest method of wage payment. Under this method, workers are paid at a flat rate on the basis of time they are employed. The flat rate may be per hour, day, week or month. The flat rate is usually fixed keeping in view the rate prevailing in similar trades in the same locality for the same grade and skill. The earnings of workers depend on the time put in by them.

This method of wage payment is most suitable for the highly skilled and the unskilled workers including apprentices. This method is also suitable for the following types of work:

1. Where quality of goods produced is of extreme importance e.g., artistic goods.
2. Where the speed of production is beyond the control or energy of the worker e.g. when production is automatic or it depends on heat treatment or a chemical reaction.
3. Where output cannot be measured e.g. maintenance and repair work.
4. Where close supervision of work is possible.
5. Where work delays are frequent and beyond control of employees.
6. Where incentive schemes would be difficult or impossible to follow, e.g. indirect labour, clerical work etc.

Time wage method is easy and simple to follow and the worker is assured of payment for the time spent by him. But his method suffers from the following disadvantages which outweigh its advantages:

1. Workers are not paid according to their merits because no distinction is made between efficient and inefficient workers. Payment is made according to the time spent and not according to the output of workers. Thus, the method gives no incentive to produce more. But this drawback of the method can be removed by following a method of differential time rates; under this method, payment to workers is made at time rates adjusted to different personal qualities in the worker. Time wage under this method vary with the personal qualities of the workers.
2. Workers will get payment for idle time because they are to get wages for the time spent irrespective of the units produced.
3. Efficient workers will become inefficient workers because they notice that inefficient workers also get the same wages. But this drawback can be overcome to some extent by attracting the highest quality of workers by giving them the higher time rate than that normally paid in the industry or locality.

4. The employer is not able to ascertain his exact labour cost per unit because it will change if output falls or rises. Therefore, a difficulty is experienced while sending quotations for tenders.
5. Strict supervision is necessary to get the required amount of work done from the workers.
6. Inefficiency results in upsetting of production schedule and increase the cost per unit.
7. It will encourage a tendency among workers to go slow so as to each overtime wages.

   To conclude, this method does not establish a proportionate relationship between effort and reward and the result is that it is not helpful in increasing production and lowering labour cost per unit.

(b) ***High Day Rate:*** One of the drawbacks of the flat time rate is that it does not provide any incentive for increased efficiency. This drawback is overcome by adopting high day rate which is usually higher than the average wage rate of the industry. The rate of wages is fixed by hour or day but the rate fixed is relatively higher. Higher rate is given to attract the efficient workers who can easily be motivated to achieve pre-determined standards of efficiency which are relatively fixed at higher levels. Overtime work is not permitted under this system and the workers are expected to achieve the standard of output within the regular hours of work. This method is helpful in increasing production and lowering labour cost and overhead cost per unit because it motivates efficient workers to achieve the pre-determined standards within the regular hours of work. However, the system is successful only with the cooperation of efficient workers and it does not work well with workers of a substandard efficiency. Further, it requires proper setting of standards if desired results are to be achieved.

(c) ***Measured Day Rate:*** Workers under this method are given a specified work to be performed and the rate is fixed in accordance with the level of performance specified by the employer. This method gives to efficient workers because higher rate is fixed for higher level of performance. But this method suffers from the drawback that there is no additional remuneration for any improvement in the level of performance initially fixed.

(d) ***Graduated Time Rate:*** Under this method the rates of wages are linked up with the cost of living index. Thus, the rate per hour or day fixed initially goes on changing with the changes in the cost of living index. This method is liked by workers in a period of rising prices because they are compensated for the increase in the cost of living index. This method is preferred by employers when their products have an inelastic demand because rise in wages can be shifted to consumers through higher prices.

(e) ***Differential Time Rate:*** Under this method, different rates of wages are fixed for different workers in the same group according to the differences in their personal abilities and skill. Higher rates are given to efficient workers in recognition of their efficient performance. Thus, workers are paid according to their merits and there is a positive incentive for improvement of performance by the workers.

## B. Price Rate System (i.e. Payment by Result)

Under this system of wage payment, a fixed rate is paid for each unit produced, job completed or an operation performed. Thus payment is made according to the quantity of work done and no consideration is given to the time taken by the workers to perform the work. For example, a worker is paid at the rate of Rs. 2 per unit and produce 5 units during the day, he will get Rs. 10 (units produced multiplied by rate per unit, i.e. 5 units @ Rs. 2 per unit).

An equitable piece work rate should be fixed to give an inducement to the workers to produce more. Equitable rate can be fixed with the help of time and motion study and job analysis. Different piece rates should be determined for different types of jobs or operations after giving due consideration to factors such as efforts involved while working on the jobs or operations, conditions under which jobs would be performed, risk involved etc. It should also be seen that piece rates are revised as and when they are revised by other counterparts or there is an increase in the cost of living index. Piece rates should also be revised at the end of the contract period as settled between the management and the wormers' union when revision is due.

Notes

There are four variants of this system, each differing only in so far as the fixation of the piece wage is concerned. They are:

(a) Straight piece rate system

(b) Taylor's differential piece rate system

(c) Merrick's multiple piece rate system.

(d) Gant's task and bonus plan.

(a) ***Straight Piece Rate System:*** It is simplest method of payment by result in which payment is made according to the number of units produced at a fixed rate per unit.

Another type of the straight piece rate method is piece rate with guaranteed time rate in which the worker is guaranteed the time rate with an opportunity of getting piece wages if his earnings according to piece rate system are more than his time wage earnings.

### *Advantages*

Piece rate system has the following advantages

1. Workers are paid according to their merits because distinction is made between efficient and inefficient workers. An efficient worker can earn more wages because wages are linked to output. Thus, this method is an improvement on the time wage system.
2. An inducement is given to the workers to increase their production and as a result workers will try to adopt better methods of production to increase their production to earn more wages.
3. Increased production will reduce fixed expenses per unit and cost of production will reduce, allowing a greater margin of profit to the employer.
4. Idle time is not paid for as is the case under the time wage system. Thus, idle time will be reduced to minimum.
5. The employer is able to know his exact labour cost per unit which will help him in making quotations confidently.
6. Workers use their tools and machinery with a greater care so that the production may not be held up on account of their defective tools and machinery.
7. Less supervision is required because workers have the fear of not earning wages if they do not work.
8. Inefficient workers are motivated to become efficient and earn more wages by producing more.

### *Disadvantage*

1. Considerable difficulty is experienced in fixing a suitable piece work rate. Low piece work rate fixed by the employer will frustrate the workers and will not provide any inducement to the workers to increase the production. Thus, equitable piece work rates should be fixed if the piece rate system is to be successful.
2. The quality of the output will suffer because workers will try to produce more to earn more wages. Strict supervision and inspection is necessary to ensure the quality of the goods produced.
3. There may not be an effective use of material because of the efforts of workers to increase the production. Haste makes waste. Thus, there will be more wastage of materials.
4. Increased production does not necessarily mean lower cost of production. Cost of production may increase due to more wastage of materials, high cost of supervision and inspection and high tools cost.
5. Increased production will not reduce the labour cost per unit because the same rate will be paid for all units. On the other hand, increased production will reduce the labour cost per unit under the time wage system.

6. Workers have the fear of losing wages if they are not able to work due to some reason.
7. Workers may work for long hours to earn moiré wages, and thus, may spoil their health.
8. Workers may work at a very high speed for a few days, earn good wages and then absent themselves for a few days, upsetting the uniform flow of production.
9. Workers in the habit of producing quality goods will suffer because they will not get any extra remuneration for the good quality.
10. The system will cause discontentment among the slower workers because they are not able to earn more wages.

    This method can be successfully applied when:

    (i) The work is of a repetitive type.

    (ii) Quantity of output can be measured.

    (iii) Quality of goods can be controlled.

    (iv) It is possible to fix an equitable and acceptable piece rate.

    (v) Reasonable rates are fixed so that workers may get a chance to earn more wages.

    (vi) The system is flexible and rates can be adjusted to changes in the price level.

    (vii) Materials, tools and machines are sufficiently available to cope with the possible increase in production.

    (viii) Time cards are maintained to make workers punctual and regular so that production may not slow down.

(b) ***Taylor's Differential Piece Rate System:*** This system was introduced by Taylor, the father of scientific management. The underlying principle of this system is to penalize a slow worker by paying him a low piece rate for low production and to reward an efficient worker by giving him a higher piece rate for a higher production. Taylor was of the view that an inefficient worker should have no place in the organisation and he should be compelled to leave the organization by paying him a low piece rate for low production. Taylor proceeded on the assumption that through time and motion study it is possible to fix a standard time for doing a particular task. To encourage the workers to complete the work within the standard time, Taylor advocated two piece rates, so that if a worker performs the work within or less than the standard time, he is paid a higher piece rate, and if he does not complete the work within the standard time, he is given a lower piece rate. Thus, if the standard production has been fixed at 8 units per day of 8 hours (taking normal piece rate as Re. 1), the higher piece rate for 8 units or beyond may be Rs. 1.20 per unit and the lower rate for an output of less than 8 units per day, may be 80P. per unit.

    Hence, Taylor decided to give a large reward to those who would complete the work within or less than the standard time and much less wages to those who would not complete the job within the standard time. The system is very harsh to the inefficient workers because they earn much less wages on account of lower output and lower rate. Moreover, minimum wages are not guaranteed under this method. Another drawback of the system is that if a worker just fails to complete the work within the standard time earns much less wages than a worker who just completes the job within the standard time. Therefore, the system is now almost out of use.

**Illustration 1:** Calculate the earnings of workers under Straight Piece-rate System and Taylor's differential piece-rate system from the following particulars:

Normal rate per hour = Rs. 1.80

Standard time per unit = 20 seconds

Differentials be applied:

Notes

80% of piece rate below standard

120% of piece rate at or above standard

Worker produces 1,300 units per day and worker produces 1,500 units per day.

***Solution:***

Standard production per 20 seconds = 1 unit

Standard production per minute $= \frac{60}{20} = 3\text{units}$

Standard production per hour = 3 × 60 = 180 units

Standard production per day of 8 hours (assumed) = 180 × 8 = 1,440 units

Normal rate per hour = Rs. 1.80

$\therefore$ Normal piece rate $= \frac{\text{Rs. } 1.80}{180 \text{ units}} = 1\text{paisa}$

Low piece rate below standard production $\frac{1\text{P.} \times 120}{100} = 1.2\text{paisa}$

Earnings of Worker

Under Straight Piece-rate System

1,300 units @ 1P. = $\frac{1300 \times 1}{100}$ = Rs.13

Under Taylor's Differential Piece-rate system

1,3000 units @ 0.8 P. = $\frac{1,300 \times 8}{10} \times \frac{1}{100}$ = Rs.10.40

Low piece-rate has been applied because worker A's daily production of 1,300 units is less than the standard daily production of 1,440 units.

Earnings of Worker

Under Straight Piece-rate System

1,5000 units @ 1 P. = $\frac{1,500 \times 1}{100}$ = Rs.15

Under Taylor's Differential Piece-rate system

1,500 units @ 1.2 P. = $\frac{1,500 \times 12}{10} \times \frac{1}{100}$ = Rs.18

High piece-rate has been applied because work daily production of 1,500 units is more than the standard daily production of 1,440 units.

(c) ***Merrick's Multiple Piece Rate System:*** This method seeks to make an improvement in the Taylor's differential piece rate system. Under this method, three piece rates are applied for workers with different levels of performance. Wages are paid at ordinary piece rate to those workers whose performance is less than 83% of the standard output, 110% of the ordinary piece rate is given to workers whose level of performance is between 83% and 100% of the standard and 120% of the ordinary piece rate is given to workers who produce more than 100% of the standard output.

This method does not guarantee time wages as wages are paid according to pieces produced. Efficient and experienced workers whose performance is more than 100% earn more wages because they get wages at 120% of the ordinary piece rate. The method is not as harsh as the Taylor's piece rate because penalty for slow workers is relatively lower.

(d) ***Gant's Task and Bonus Plan:*** This plan is based on careful time and motion study. A standard time is fixed for doing a particular task, worker's actual performance is compared with the standard time and his efficiency is determined. If a worker takes more time than the standard time to complete the task (i.e., his efficiency is below 100%), he is given wages for the time taken by him and if a worker takes the standard time to perform the task (i.e., efficiency is 100%), he is given wages for the standard time and a bonus of 20% on the wages earned. If the worker completes the task in less than the standard time he is given wages for the standard time plus a bonus of 20% of the wages for the standard time. In other words, if a worker's performance is more than 100% he is given piece wages plus bonus at 20% of piece wages. Thus, with every reduction in time, the plan ensures progressive increase in total wages. For this reason, the plan is also known as "Progressive Rate System".

***Advantages***

1. The plan is not so harash as the Taylor's differential piece rate is. Therefore, it is more acceptable to the workers.
2. It is simple to understand.
3. It ensures guaranteed time wages to the worker who are below average workers.
4. It makes distinction between efficient and inefficient workers because the system ensures time wages for sub-standard workers and piece wages plus 20% bonus for standard and super-standard workers. Increasing rate of bonus is very satisfying to the efficient workers, so every worker tries to become more efficient.
5. Fixed cost per unit decreases with increase in production due to incentive for efficiency given under this scheme of wage payment.

***Disadvantages***

1. Like Taylor's differential piece rate method, it divides the workers into competing categories – one who earns the bonus and the other who does not earn the bonus. This brings disunity among workers and becomes unacceptable to the labour union.
2. The Guaranteed time wages may not encourage efficiency if workers feel satisfied with the time wages.

## 4.7 PREMIUM AND BONUS PLAN

The object of a premium plan is to increase the production by giving an inducement to the workers in the form of higher wages for less time worked.

Under a premium plan, a standard time is fixed for the completion of a specific job or operation and the worker is paid for the time taken by him to complete the job or operation at an hourly rate plus wages for a certain fraction of the time saved by way of a bonus. It is to be recalled that standard time is the time taken by the average worker and this time is determined on the basis of time and motion study. The plan is also known as incentive plan because a worker has the incentive to earn more wages by completing the work in less time. For example, if a worker is allowed 10 hours to complete the job and he is given bonus at the rate of 50% of time saved, he takes 6 hours to complete the job. In this case he will get wages for 8 hours i.e. wages for 6 hours (actual time taken) plus wages for 2 hours (50% of time saved) as bonus.

This system of wage payment is in between the time wage system and piece work system. In time wage system, worker does not get any reward for the time saved and in piece work system, the worker gets full payment for the time saved whereas in a premium plan, both the worker and the employer share the labour cost of the time saved. In the example cited above the worker will get wage (i) for 6 hours in time wage system, (ii) for 10 hours in piece work system, and (iii) for 8 hours in premium plan. Thus, in a premium plan, the employer is able to save wages for a

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proportion of the time saved and on the other hand the worker is able to get extra wages for a fraction of the time saved.

A satisfactory premium plan should take into consideration the following factors:

1. The plan should be simple and it should be easily understood by all workers.
2. The plan should appear reasonable both to the employer and the employee.
3. Standard time should be determined on the basis of time and motion study. An average worker should be able to complete the work within the allowed time.
4. Standard once fixed should not be altered unless there is a permanent change in the method of work.
5. To make a premium plan successful, workers should be motivated by the desire to earn more money. They should be motivated to attain standards.
6. Working conditions should be such that a worker can produce more with extra efforts.
7. The incentive should be sufficiently high for the efficiency above the standard so that workers may try hard to have performance above the standard.
8. The system should result in increased production and lower cost of production.
9. As incentive scheme should not penalize a worker for adverse results owing to conditions beyond his control.
10. Workers should be properly educated about the incentive scheme so that there may be no undue resentment among them,
11. A good incentive scheme should not put any limit on the earnings of workers. Workers should have sufficient scope of earnings.
12. Quality of the product should be assured. Undue haste at the cost of the quality should be discouraged. The incentive scheme should provide for adequate supervision and production control.
13. Indirect workers should also be covered in the incentive scheme.

***Advantages of Premium Plans***

1. Increase in production with corresponding reduction in cost because of reduction in overhead cost per unit particularly where there are substantial fixed overheads.
2. More efficient workers may be attracted because of possibility of earning higher wages.
3. Labour turnover is reduced because of high morale of workers as a result of better wages earned by efficient workers.
4. Consumers get the benefit of lower production cost by way of lower selling price and better quality of goods.

***Disadvantages of Premium Plans***

1. Difficulties are experienced in establishing performance levels and rates resulting into frequent and continuing labour disputes.
2. It is difficult to withdraw a scheme once it is introduced even if it is proved at a later date to be uneconomical from employer’s point of view.
3. Non-acceptability of the incentive system by the trade unions may lead to strikes and lock outs.
4. Some incentive schemes are complicated and expensive to administer.

Some of the important premium plans are discussed below:

(i) ***Halsey Premium Plan:*** Under this method, standard time for doing each job or operation is fixed and the worker is given wages for the actual time he takes to complete the job or operation at the agreed rate per hour plus a bonus equal to (usually) one-half of the wages of the time saved. In practice, the bonus may vary from 33 1/3% to 66 2/3% of the wages of the time saved. Thus, if S is standard time, T the time taken, R the labour rate per hour, and % the percentage of the wages of time saved to be given as bonus, total earnings of the worker will be: $T \times R + \%\,(S - T)R$

***Advantages of the Halsey Premium Plan***

1. It is simple to understand and relatively simple to operate.
2. It guarantees time wages to workers.
3. The wages of time saved are shared by both employers and workers, so it is helpful in reducing labour cost per unit.
4. It makes distinction between efficient and inefficient workers because it provides increasing incentive to efficient workers.
5. Fixed overhead cost per unit is reduced with increase in production.
6. The employer is able to reduce cost of production by having reduction in labour cost and fixed overhead cost per unit. Lower cost gives him incentive to provide the best possible equipments and working conditions.

***Disadvantages of the Halsey Premium Plan***

1. Quality of the work suffers because workers are in a hurry to save more and more time to get more and more bonus.
2. Workers criticize this method on the ground that the employer gets a share of wages of the time saved.
3. Difficulties are experienced in determining standard time and hourly rate of wages which may be acceptable to workers.

(ii) ***Rowan Plan:*** Under this method, the worker is again guaranteed wages at the ordinary rate for the time taken by him to complete the job or operation. The difference between the Halsey Premium Plan and the Rowan Premium Plan is only in the calculation of the bonus. Under the Halsey Plan, bonus is a fixed percentage of the wages of the time saved whereas under the Rowan plan bonus is that proportion of the wages of the time taken which the time saved bears to the standard time allowed. Thus, bonus under this plan will be calculated as:

$$\frac{S-T}{S} \times T \times R$$

and the total earning will be calculated as:

$$T \times R + \frac{S-T}{S} \times T \times R$$

Where T = Time Taken (i.e. Actual Time)

S = Standard Time (i.e. Time Allowed)

R = Rate per hour

***Advantages of the Rowan Premium Plan***

1. It guarantees time wages to workers.
2. The quality of work does not suffer much. The worker is not induced to rush through the work because bonus increases at a decreasing rate at higher levels of efficiency.

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3. Labour cost per unit is reduced because wages of the time saved are shared by the employer and the worker.
4. Fixed overhead cost per unit is reduced with increase in production.

***Disadvantages of the Rowan Premium Plan***

1. The Rowan plan is critised by workers on the ground that they do not get the full benefit of the time saved by them as they are paid bonus for a portion of the time saved.
2. The Rowan plan suffers from another drawback that two workers, one very efficient and the other not so efficient, may get the same bonus.

**Comparison Between the Halsey Plan and the Rowan Plan**

Both these plans are criticized by workers on the ground that they do not get the full benefit of time saved by them as they are paid bonus for a proportion of the time saved. The Rowan Plan has another drawback that two workers, one very efficient and the other not so efficient, may get the same bonus. Suppose, standard time fixed for a job is 20 hours. A finishes the job in 8 hours and worker B in 12 hours and labour rate per hour is Rs. 1.50

Worker A – Bonus $\frac{S-T}{S} \times T \times R = \frac{20-8}{20} \times 8 \times Rs.1.50 = Rs.7.20$

Worker B – Bonus $\frac{S-T}{S} \times T \times R = \frac{20-12}{20} \times 12 \times Rs.1.50 = Rs.7.20$

Thus, two workers get the same amount of bonus.

The Rowan Plan is better the Halsey Plan because of the following reasons:

1. Under the Halsey Plan premium rate varies between 331/3% and 66 2/3% of the wages of the time saved whereas in the Rowan Plan, it is fixed and is calculated by applying the following formula:

   $$\frac{S-T}{S} \times T \times R$$

   Thus, the Rowan Plan protects employer and workers against loose premium rate setting.
2. In the Halsey Plan, bonus is usually set at 50% of the time saved. It does not serve as a strong incentive. On the other hand under the Rowan Plan, bonus is that proportion of the wages of the time taken which the time saved bears to the standard time. It serves as a strong incentive for increasing the efficiency.
3. In the Rowan Plan, the quality of work does not suffer much. The worker is not induced to rush through the work because bonus increases at a decreasing rate at higher levels of efficiency. In the Halsey Plan, a worker is induced to rush through the work because he gets extra wages for every 50% of the time saved.
4. The effective labour rate per hour in the Rowan Plan is higher upto 50% of the time saved and falls thereafter whereas in the Halsey Plan, the effective labour rate per hour is lower upto 50% of the time saved and can be doubled thereafter. Usually, workers are not able to save more than 50% of the time allowed, so workers prefer the Rowan Plan for earning more wages.

(iii) ***Emerson Efficiency Plan or Empiric System:*** In this plan bonus becomes payable only when efficiency touches 66 2/3% of the standard laid down. If a worker takes 10 hours to complete a job for which standard time fixed is 6 2/3 hours, he is entitled to get some bonus. If he takes more than 10 hours he gets only the time wages. The amount of bonus payable increases progressively with increase in efficiency in such a manner that at 100% efficiency, the bonus is 20% of the hourly rate. For efficiency beyond 100% additional 1% bonus is payable for each 1% increase in efficiency beyond 100%. Thus, at 110% efficiency bonus payable is 30% (20% upto 100% + 10% for 10% efficiency beyond 100%) and total wages payable are time

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wages, for the actual time taken plus 30% of time wages as bonus. The plan is very beneficial to the workers as they are guaranteed wages for the actual time and are entitled to get bonus even if they reach 66 2/3% efficiency.

(iv) ***Bedeaux Point Premium Plan:*** Under this plan, every operation or job is expressed in terms of so many standard minutes, which are called "Bedeaux points" or "B's"; each B representing one minute through time and motion study. Upto 100% performance i.e. upto standard B's, a worker is paid time wages without any premium for efficiency. If the actual performance exceeds the standard performance in terms of B's, then 75% of the wages of the time saved is paid to the worker as bonus and 25% is earned by the foreman. For example, standard time required for a job is 20 hours i.e. 1,200 B's in terms of minutes (20 × 60) whereas a worker has taken 16 hours i.e. 960 B's (16 × 60) instead of 1,200 B's. The worker has saved 240 B's or 4 hours (4 × 60). Suppose time wage rate is Rs. 2 per hour; the time saved will be equal to Rs. 8 (4 hours @ Rs. 2). The worker will get 75% of Rs. 8 as bonus. So, his total earnings will be as follows:

| | Rs. |
|---|---|
| Time wages for 16 hours (actual time taken @ Rs. 2 per hour) | 32 |
| Bonus – 75% of 4 hours wages $\left[\frac{75}{100}\times 4\times Rs.2\right]$ | 6 |
| Total earnings | 38 |

This method ensures time wages to the workers and has the novel feature of distributing the wages of time saved among workers and foremen. It serves as a strong incentive for workers for improving their performance above 100% of the standard. But workers criticize this method as foremen are given a share of wages of the time saved. It is a complicated method as the determination of standard time in terms of B's is not easily understood by workers.

(v) ***Barth Plan:*** This plan is advocated to provide incentive to beginners, trainees and unskilled workers whose efficiency is low. However, the plan does not guarantee time wages. Wages are calculated by multiplying hourly rate by the square root of the product of standard time and actual time.

Wages = Rate per hour × $\sqrt{\text{Standard time} \times \text{Actual time}}$

***Advantages***

1. It is difficult for the workers to understand the plan because of complicated calculations.
2. As the efficiency of the workers increases, the hourly rate of wages also increase.

***Disadvantages***

1. Barth plan is most suitable to the new enetrants whose efficiency is low in the beginning.
2. Workers cannot themselves determine their own wages.
3. Efficient workers do not get enough incentive as their total earnings fall with the increase in efficiency.

## 4.8 GROUP BONUS SCHEMES

In the premium plans discussed so far, bonus payable to an individual was ascertained. A bonus scheme for a group of workers can also be followed. It can be introduced where –

1. It is necessary to have a team work.
2. It is required to reward not only the direct workers but also the indirect workers who assist the direct workers.
3. It is difficult to measure the output of individual workers because the output depends upon the combined efforts of a group of workers. A group bonus is divided among the workers of the group in proportion to the basic wages earned by them.

***Advantages***

1. It creates team spirit which in turn leads to high output.
2. It eliminates excessive waste of time because the members of the group divide the work among themselves according to their convenience keeping in view the interest of the group as a whole.
3. It guarantees time wages to the members of a group.
4. Workers are likely to maintain flow of production in a group. Hence, a group bonus plan is very useful in activities where a number of processes are involved and the completion of one process depends upon the completion of the previous process.
5. Support workers (i.e. indirect workers) not directly associated with production can easily be included in the group bonus scheme because group bonus can be divided among members of the group in proportion to the basic wages earned by them.
6. It greatly reduces the number of rates to be negotiated,
7. It is easier to manage the scheme because members of the group take care of themselves. It is administratively simpler because less recording of labour times and production rate is required.

***Disadvantages***

1. The share of bonus of efficient workers may be the same as that of inefficient workers because all workers of the group get bonus in proportion to their normal time rate earnings.
2. A group bonus scheme is less direct in approach than individual incentive schemes, so it may not provide the same incentive as individual incentive scheme provide.
3. It may be difficult to obtain agreement on the proportions of the bonus which group members will receive. Hence, there may be a difficulty in the distribution of bonus among members of the group.

A group bonus scheme can be successfully applied in the large automobile factories, iron and steel works, ship building yards, heavy engineering, mass production enterprises and also in other assembly type of production operations where individual performance tend to loss their identity and operations are performed on a group basis.

Some of the group premium plans are described below:

(i) ***Priesteman's Production Bonus:*** Under this plan, a standard production is fixed for the entire factory for a particular period in consultation with workers. The actual production is compared with the standard production at the end of the period. If the actual production exceeds the standard production, all workers are paid bonus in proportion to the increase in output. Workers are assured time wages if actual output does not exceed the standard output. Workers try hard to produce more because they are to get bonus only when actual output is more than the standard output.

(ii) ***Scanlon Plan:*** Under this plan, a constant proportion (i.e. ratio of wage to sales value) of the added value of output is paid to the workers who are responsible for the addition of the value. The added value is the change in market value (including profit) resulting from an alternation in the form location or

(iii) ***Towne Plan:*** The objective of this plan is to encourage cost reduction by foremen and workers. However, bonus is paid upon a reduction in labour cost alone. A standard labour cost per unit for a particular period is determined and it actual labour cost per unit is less than the standard labour cost. 50% of the saving in labour cost is distributed among workers and foreman in proportion to their wages.

## 4.9 CO-PARTNERSHIP AND PROFIT SHARING SCHEMES

Under these schemes, workers get a share of the yearly profits of the company. This is done with a view to getting the cooperation of workers by giving these the feeling that they are to share the prosperity of the business. Workers can be given their share of profit in the form of cash or shares in the company. A permanent interest of workers in the future of the business is created if the share of profits is given in the form of shares in the company.

## 4.10 JOB EVALUATION

Job evaluation aims to provide this equity and consistency by defining the relative worth of different jobs in an organisation. Job evaluation is the process of determining the relative worth of different categories of job by analyzing their responsibilities and consequently, fixation of their remuneration.

## 4.11 OBJECTIVES OF JOB EVALUATION

The basic objective of job evaluation is to determine the relative contributions that the performance of different jobs makes towards the realisaiton of organizational objectives. This basic objective of job evaluation serves a number of purposes which may be grouped into three categories: wage and salary fixation, restructuring job hierarchy, and overcoming anomalies.

## 4.12 FEATURES OF JOB EVALUATION

The purpose of job evaluation is to produce a defensive ranking of jobs on which a rational and acceptable pay structure can be built. The important features of job evaluation may be summarized thus:

- It tries to access jobs, not people.
- The standards of job evaluation are relative, not absolute
- The basic information on which job evaluations are made is obtained from job analysis.
- Job evaluations are carried out by groups, not by individuals.
- Some degree of subjectivity is always present in job evaluation.
- Job evaluation does not fix pay scales, but merely provides a basis for evaluating a rational wage structure.

## 4.13 PROCESS OF JOB EVALUAITON

The process of job evaluation involves the following steps:

- ***Gaining acceptance:*** Before undertaking job evaluation, top management must explain the aim and use of the programme to the employees and unions. To elaborate the programme further, oral presentations could be made. Letters, booklets could be used to classify all relevant aspects of the job evaluation programme.
- ***Creating job evaluation committee:*** It is not possible for a single person to evaluate all the key jobs in an organization. Usually a job evaluation committee consisting of experienced employees, union representatives and HR experts is created to set the ball rolling.
- ***Finding the jobs to be evaluated:*** Every job need not be evaluated. This may be too taxing and costly. Certainly key jobs in each department may be identified. While picking up the jobs, care must be taken to ensure that they represent the type of work performed in that department.
- ***Analyzing and preparing job description:*** This requires the preparation of a job description and also an analysis of job needs for successful performance.

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- ***Selecting the method of evaluation:*** The most important method of evaluating the jobs must be identified now, keeping the job factors as well as organizational demands in mind.
- ***Classifying jobs:*** The relative worth of various jobs in an organisation may be found out after arranging jobs in order of importance using criteria such as skill requirements, experience needed, under which conditions job is performed, type of responsibilities to be shouldered, degree of supervision needed, the amount of stress caused by the job, etc. Weights can be assigned to each such factor. When we finally add all the weight, the worth of a job is determined. The points may then be converted into monetary values.
- ***Installing the programme:*** On the evaluation process is over and a plan of action is ready, management must explain it to employees and put it into operation.
- ***Reviewing periodically:*** In the light of changes in environmental conditions (technology, products, services, etc.) jobs need to be examined closely. For example, the traditional clerical functions have undergone a rapid change in sectors like banking, insurance and railways, after computerization. New job description need to be written and the skill needs of new jobs need to be duly incorporated in the evaluation process. Otherwise, employees may feel that all relevant job factors – based on which their pay has been determined – have not been evaluated properly.

## 4.14 ESSENTIALS FOR THE SUCCESS OF A JOB EVALUATION PROGRAMME

Following are the essentials for the success of a job evaluation programme:

1. Compensable factors should represent all of the major aspects of job content. Compensable factors selected should (a) avoid excessive overlapping or duplication; (b) be definable and measurable; (c) be easily understood by employees and administrators; (d) not cause excessive installation or administrative cost; and (e) be selected with legal considerations in mind.
2. Operating mangers should be convinced about the techniques and programme of job evaluation. They should also be trained in fixing and revising the wages based on job evaluation.
3. All the employees should be provided with complete information about job evaluation programme.
4. All groups and grades of employees should be covered by the job evaluation programme.
5. The programme of – and techniques selected for – job evaluation should be easy to understand by all the employees.
6. Trade unions acceptance and support to the programme should be obtained.

Experts have advanced certain guidelines for conducting the job evaluation programme in a systematic way:

1. Rate the job – not the person or employee on the job.
2. Strive to collect all the facts accurately.
3. Look especially for distinguishing features of jobs and for relationship to other jobs.
4. Study jobs independently and objectively, and then discuss views thoroughly and open-mindedly before reaching final decisions.
5. Job evaluation must be conducted systematically, based on factual and accurate information.
6. The results of job evaluation must be fair and rational and unbiased to the individuals being affected.

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## 4.15 BENEFITS OF JOB EVALUAITON

The pay offs from job evaluation may be stated thus:

- It tries to link pay with the requirements of the job.
- It offers a systematic procedure for determining the relative worth of jobs. Jobs are ranked on the basis of rational criteria such as skill, education, experience, responsibilities, hazards, etc. and are priced accordingly.
- An equitable wage structure is a natural outcome of job evaluation. An unbiased job evaluation tends to eliminate salary inequities by placing jobs having similar requirements in the same salary range.
- Employees as well as unions participate as members of job evaluation committee while determining rate grades for different jobs. This helps in solving wage related grievances quickly.
- Job evaluation, when conducted properly and with care, helps in the evaluation of new jobs.
- It points out possibilities of more appropriate use of the plant's labour force by indicating jobs that need more or less skilled workers than those who are manning these jobs currently.

## 4.16 JOB EVALUATION METHODS

There are three basic methods of job evaluation: (1) ranking, (2) classification, (3) factor comparison. While many variations of these methods exist in practice, the three basic approaches are described here.

1. ***Ranking Method:*** Perhaps the simplest method of job evaluation is the ranking method. According to this method, jobs are arranged from highest to lowest, in order or their value or merit to the organisation. Jobs can also be arranged according to the relative difficulty in performing them. The jobs are examined as a whole rather than on the basis of important factors in the job; the job at the top of the list has the highest value and obviously the job at the bottom of the list will have the lowest value.

   Jobs are usually ranked in each department and then the department rankings are combined to develop an organizational ranking. The variation in payment of salaries depends on the variation of the nature of the job performed by the employees. The ranking method is simple to understand and practice and it is best suited for a small organisation. Its simplicity however works to its disadvantage in big organizations because rankings are difficult to develop in a large, complex organisaiton. Moreover, this kind of ranking is highly subjective in nature and may offend many employees.

2. ***Classification Method:*** According to this method, a predetermined number of job groups or job classes are established and jobs are assigned to these classifications. This method places groups of jobs into job classes or job grades. Separate classes may include office, clerical, managerial, personnel, etc. Following is a brief description of such a classification in an office.

   (a) Class I – Executives: Further classification under this category may be Office Manager, Deputy Office Manager, Office superintendent, Departmental supervisor etc.

   (b) Class II – Skilled workers: Under this category may come the Purchasing assistant, Cashier, Receipts clerks, etc.

   (c) Class III – Semiskilled workers: Under this category may come Stenotypists, Machine-operators, Switchboard operator etc.

   (d) Class IV – Semiskilled workers: This category comprises Daftaris, File clerks, office boys etc.

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3. ***Factor Comparison Method:*** Under this method, instead of ranking complete jobs, each job is ranked according to a series of factors. These factors include mental effort, physical effort, skill needed, responsibility, supervisory responsibility, working conditions and other such factors (for instance, know-how, problem solving abilities, accountability etc.) Pay will be assigned in this method by comparing the weights of the factors required for each job, i.e. the present wages paid for key jobs may be divided among the factors weighted by importance (the most important factor, for instance, mental effort, receives the highest weight). In other words, wages are assigned to the job in comparison to its ranking on each job factor.

4. ***Point Method:*** This method is widely used currently. Here, jobs are expressed in terms of key factors. Points are assigned to each factor prioritizing each factor in order of importance. The points are summed up to determine the wage rate for the job. Jobs with similar point totals are placed in similar pay grades. The procedure involved may be explained thus:

   (a) Select key jobs. Identify the factors common to all the identified jobs such as skill, effort, responsibility, etc.

   (b) Divide each major factor into a number of sub factors. Each sub factor is defined and expressed clearly in the order of importance, preferably along a scale.

   The most frequent factors employed in point systems are (i) skill (key factor): Education and training required, Breadth/depth of experience required, Social skills required, problem-solving skills, Degree of discretion/use of judgement, Creative thinking (ii) Responsibility/Accountability: Breadth of responsibility, Specialialised responsibility, Complexity of the work, Degree of freedom to act, Number of nature of subordinate staff, Extent of accountability for equipment / plant, Extent of accountability for product/materials; (iii) Effort: Mental demands of a job, physical demands of a job, Degree of potential stress.

   (c) Find the maximum number of points assigned to each job (after adding up the point values of all sub-factors of such a job). This would help in finding the relative worth of a job.

   (d) Once the worth of a job in terms of total points is expressed, the points are converted into money values keeping in view the hourly/daily wage rates. A wage survey is usually undertaken to collect wage rates of certain key jobs in the organisation.

## 4.17 TRAINING

Training is the act of increasing the knowledge and skills of an employee for doing a particular job. The major outcome of training is learning. A training learns new habits, refined skills and useful knowledge during the training that helps him improve performance. Training enables an employee to do his present job more efficiently and prepare himself for a higher level job. Training, thus, may be defined as a planned programme designed to improve performance and bring about measurable change in knowledge, skills attitude and social behaviour of employees.

Basically, it is learning experience that is planned and carried out by the organisation to enable more skilled task behaviour by the trainee. Training imparts the ability to detect and correct error. Furthermore, it provides skills and abilities that may be called on in the future to satisfy the organizations' human resources needs. Training may be carried out on the job or in the classroom and in the latter case, it may be on site or off site – perhaps in a motel or a training centre – or it may be in a simulated environment that is thought to be similar to the work environment in important respects. In any case, trainees are expected to acquire abilities and knowledge that will enable them to perform their jobs more effectively.

## 4.18 TRAINING VS. DEVELOPMENT

Training often has been referred to as teaching specific skills and behaviour. Examples of training are learning to fire a rifle, to shoot foul shots in basketball and to type. It is usually reserved for people who have to be brought up to a performing level in some specific skills. The skills are almost always behavioural as distinct from conceptual or intellectual.

Development, in contrast, is considered to be more general than training and more oriented to individual needs in addition to organizational needs and it is more often aimed towards executives. There is more theory involved with such education and hence, less concern with specific behaviour than is the case with training. Usually, the intent of development is to provide knowledge and understanding that will enable people to carry out non-technical organizational functions more effectively, such as problem solving, decision making and relating to people.

**Training and Development: Distinctions**

| Learning Dimension | Training | Development |
|---|---|---|
| Who | Non-managers | Managers |
| What | Technical-mechanical operations | Theoretical-conceptual ideas |
| Why | Specific job-related information | General knowledge |
| When | Short-term | Long-term |

Thus, training is meant for operatives and development is meant for managers. Training tries to improve a specific skill relating to a job whereas development aims at improving the total personality of an individual. Training is a one-shot deal; whereas development is an ongoing, continuous process. Training is mostly the result of initiatives taken by management. It is the result of some outside motivation. Development is mostly the result of internal motivation. Training seeks to meet the current requirements of the job and the individual; whereas development aims at meeting the future needs of the job and the individual. In other words, training is a reactive process whereas development is a proactive process. Development is future-oriented training, focusing on the personal growth of the employee.

## 4.19 TRAINING VS EDUCATION

The term 'education' is wider in scope and more general in purpose when compared to training. Training is the act of increasing the knowledge and skills of an employee while doing a job. It is job-oriented (skill learning). Education, on the other hand, is the process of increasing the general knowledge and understanding of employees. It is a person-oriented, theory-based knowledge whose main purpose is to improve the understanding of a particular subject or theme (conceptual learning). Its primary focus is not the job of an operative. Education is imparted through schools or colleges and the contents of such a programme generally aim at improving the talents of a person. Training is practice-based and company specific. However, both have to be viewed as programmes that are complementary and mutually supportive. Both aim at harnessing the true potential of a person / employee.

## 4.20 OBJECTIVES OF TRAINING

Generally, the training policies are formulated by the HR manager at the request of line managers. The training objectives are laid down keeping in view the company's goals and objectives. But, the general objectives of any training programme are:

1. To impart the basic knowledge and skills to new entrants and enable them to perform their jobs well.
2. To equip the employee to meet the changing requirements of the job and the organisation.
3. To teach the employees new techniques and ways of performing the job or operations.
4. To operate employees for higher level tasks and build up a second line of competent managers.

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## 4.21 NEED FOR TRAINING

Training is the act of increasing the knowledge and skills of an employee for performing a particular job. It is concerned with important specific skills for a particular purpose. Training is mainly job-oriented, it aims at maintaining and improving current job performance. Training is needed to achieve the following purposes:

1. Newly recruited employees require training so as to perform their tasks effectively. Instruction, guidance, coaching help them handle jobs competently, without any wastage.
2. Training is necessary to prepare existing employees for higher-level jobs (promotion).
3. Existing employees require refresher training so as to keep abreast of the latest developments in job operations. In the face of rapid technological changes, this is an absolute necessity.
4. Training is necessary when a person moves from one job to another (transfer).
5. Training is necessary to make employees mobile and versatile. They can be placed on various jobs depending on organizational needs (job rotation).

## 4.22 IMPORTANCE OF TRAINING

Training offers innumerable benefits to both employer and employees. It makes the employees more productive and more useful to an organization. The importance of training can be studied under the following heads:

**Importance of Training**

| Benefit to the training | Benefit to the training |
|---|---|
| • Trained workers can work more efficiently | • Training makes an employee more useful to a firm. Hence, he will find employment more easily. |
| • They use machines, tools, materials in a proper way. Wastage is thus eliminated to a large extent. | • Training makes employees more efficient and effective By combining materials, tools and equipment in a right way, they can produce more with minimum effort. |
| • There will be fewer accident. Training improves the knowledge regarding the use of machines and helps equipment. Hence trained workers need not be put under close supervision, as they know how to handle equipment properly. | • Training enables employees to secure promotions easily. They can realize their career goals comfortably. Training helps employee to move fro one organisation to another easily. He can be more mobile and pursue career goals actively. |
| • Trained workers can show superior performance. They can turn out better quality goods by putting the materials, tools and equipment to good use | • Employees can avoid mistakes, accidents on the job. They can handle jobs with confidence. They will be more satisfied on their jobs. Their morale would be high. |
| • Training makes employees more loyal to an organization. They will be less inclined to leave the unit where there are growth opportunities. | • Thus, training can contribute to higher production, fewer mistakes, greater job satisfaction and lower labour turnover. Also it can enable employees to cope with organizational, social and technological changes. Effective training is an invaluable investment in the human resources of an organisation. |

## 4.23 METHOD OF TRAINING

Broadly speaking, there are two methods of training, viz, on-the job training and off-the job training.

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## On-the-Job Training

In this method, the employee learns by doing. He is exposed to the real work situation. An experienced employee will act as a friend, philosopher and guide. They new employee follows the orders, carries out instructions and adopts the right technique while doing the job. In this way, he is able to learn the work practically. While doing so, he can ask questions, seek clarifications on various job-related matters and obtain guidance from his senior employee. Important on the job methods of training include: job rotation, coaching or job instruction, working as an assistant or understudy under senior employees, temporary promotions etc. Some of the widely used on the job training methods are discussed below.

1. ***Job Instruction Training (JIT):*** The JIT method (development during World War II) is a four step instructional process involving preparation, presentation, performance try out and follow up. It is used primarily to teach workers how to do their current jobs. A trainer, supervisor or co-worker acts as the coach. The four steps followed in the JIT method are:
   (i) The trainee receives an overview of the job its purpose and its desired outcomes with a clear focus on the relevance of training.
   (ii) The trainer demonstrates the job to give the employee a model to follow. The trainer shows a right way to handle the job.
   (iii) Finally the employees does the job independently without supervision.

**Job Instruction Training**

| Merits | Demerits |
|---|---|
| • Trainee learns fast through practice and observation | • The trainee should be as good as the trainer. Trainer is not good transference of knowledge and skill will be poor. |
| • It is economical as it does not require any special settings. Also mistakes can be corrected immediately. | • Trainee while learning may damage equipment, waste materials and cause accidents frequently. |
| • The trainee gains confidence quickly as he does the work himself in actual settings with the help of supervisor | • Experienced workers cannot use the machinery while it is being used for training |
| • It is most suitable for unskilled and semi-skilled jobs where the job operations are simple: easy to explain and demonstrate within a short span of time | |

2. ***Coaching and Mentoring:*** Coaching is one-on-one relationship between trainees and supervisors which offers workers continued guidance and feedback on how well they are handling their tasks. Mentoring is a particular form of coaching used by experienced executives to groom junior employees. Normally, mentoring involves one-on-one coaching for a period of several years until the individual is eventually capable of replacement the mentor.

**Merits and Demerits of Coaching and Mentoring**

| Merits | Demerits |
|---|---|
| • There is an excellent opportunity to learn quickly through continuous interaction. | • It may create feelings of jealously among other workers who are not able to performance show equally good performance. |
| • Constant guidance helps the trainee to be on track using facilities to good advantage | • If mentors form overly strong bonds with trainees, unwarranted favouritism may result. This can have a demoralizing effect on other workers affecting their work performance in a negative way. |

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3. ***Apprenticeship Training:*** Apprenticeship training dates back to biblical times and is frequently used to train personnel in some skilled trades such as electricians, tailors, mechanics, bricklayers, and carpenters. The period of training ranges from two to five years depending on the occupation in which the trainee is engaged. Frankly speaking, apprenticeship refers to a combined on-the-job as well as off-the-job training approach, in the sense that the trainee agrees to work for a salary below that a fully qualified employee gets, in exchange for a specified number of formal training hours in the organization. One advantage of apprenticeship training is its success; success because apprenticeship programmes employ many of the principles of learning – such as modeling, feedback, classroom training etc. and are often quite effective. The principal drawbacks of apprenticeship training include the period of training at which the employee are underpaid may be quite long. Also, the uniform period of training is not suitable to all. People have different abilities and learn at varied rates. Those who learn fast may quit the programme in frustration. Slow learners may required additional training time. It is also likely that in these days of rapid changes in technology, old skills (remember Java?) may get out dated quickly. Trainees who spend years learning specific skills may find, upon completion of their programs, what the job skill they acquired are no longer required in the market place.

4. ***Job rotation:*** Job rotation is also known as cross training. Job rotatijon is the process of training employees by rotating them through series of related tasks. In job rotation, an individual learns several different jobs within a work unit or department. He performs each for a specified time period. The trainees, therefore, are exposed to various coaches, points of views, and task operations. Job rotation has one main advantage; it makes flexibility possible in the department. For instance, when one employee of a work unit is absent, another employee can perform his job. Job rotation is not useful for training technical skills such as programming and welding. Job rotation, however, is common for training managers. Job rotation, rather is very necessary for middle managers because through rotation managers are exposed to different operations, departments and acquire general knowledge of the company's procedures and policies. The principal weakness of job rotation include: (i) it is very difficult to coordinate various assignments such as production, finance and marketing etc. (the jobs usually vary in content and the trainee might be moved from production to finance, to sales, to personnel etc). (ii) some of the coaches may not be motivated to concentrate on trainees assigned only for short period, (iii) Different coaches may espouse conflicting viewpoints of company policies and procedures.

5. ***Refresher training:*** Rapid changes in technology may force companies to go in for this kind of training. By organising short-term courses which incorporate the latest developments in a particular field, the company may keep its employees up-to-date and ready to take on emerging challenges. It is conducted at regular intervals by taking the help of outside consultants who specialise in a particular discipline.

6. ***Orientation training:*** Orientation or induction training tries to put the new recruits at ease. Each new employee is usually taken on a formal tour of the facilities, introduced to key personnel and informed about company policies, procedures and benefits. To be effective, orientation training should be well planned and conducted within the first week of employment. Such a pre-job training helps the recruit to familiarize himself with the job and its settings.

   The above on the job methods are cost effective. Workers actually produce while they learn. Since immediate feedback is available, they motivate trainees to observe and learn the right way of doing things. Very few problems arise in the case of transfer of training because the employees learn in the actual work environment where the skills that are learnt are actually used. On the job methods may cause disruptions in production schedules. Experienced workers cannot use the facilities that are used in training Poor learners may damage machinery and equipment. Finally, if the trainer does not posses teaching skills, there is very little benefit to the trainee.

   Under this method, trainee is separated from the job situation and his attention is focused upon leaning the material related to his future job performance. Since the trainee is not distracted by job requirements, he can place his entire concentration on learning the job rather than spending his time in performing it. There is an opportunity for freedom of expression for the trainees. Off-the-job training methods are as follows:

(a) *Vestibule training:* In this method, actual work conditions are simulated in a class room. Material, files and equipment that are used in actual job performance are also used in training. This type of training is commonly used for training personnel for electrical and semi-skilled jobs. The duration of this training ranges from a few days to a few weeks. Theory can be related to practice in this method.

(b) *Role playing:* It defined as a method of human interaction that involves realistic behaviour in imaginary institutions. This method of training involves action, doing and practice. The participants play the role of certain characters, such as the production manager, mechanical engineer, superintendents, maintenance engineers, quality control inspectors, foreman, workers and the like. This method is mostly used for developing interpersonal interactions and relations.

(c) *Lecture method:* The lecture is a traditional and direct method of instruction. The instructor organizes the material and gives it to a group of trainees in the form of a talk. To be effective, the lecture must motivate and create interest among the trainees.

(d) *Conference/discussion approach:* In this method, the trainer delivers a lecture and involves the trainee in a discussion so that his doubts about the job get clarified. When big organizations use this method, the trainer uses audio-visual aids such as blackboards, mockups and slides; in some cases, the lecturers are videotaped or audio taped. Even the trainee's presentation can be taped for self-confrontation and self-assessment. The conference is thus, a group-centered approach where there is a clarification of ideas, communication of procedures and standards to the trainees.

(e) *Programmed instruction:* In recent years, this method has become popular. The subject matter to be learned is presented in a series of carefully planned sequential units. These units are arranged from simple to more complex levels of instruction. The trainee goes through these units by answering questions or filling the blanks. This method is thus, expensive and time-consuming.

(f) *Behaviourally Experienced Training:* Some training programmes focus on emotional and behavioural learning. Here employees can learn about behaviour by role playing in which the role players attempt to act their part in respect of a case, as they would have in real-life situation. Business games, cases, incidents, group discussions and short assignments are also used in behaviourally-experienced learning methods. Sensitivity training or laboratory training is an example of a method used for emotional learning. The focus of experiential method is on achieving through group process, a better understanding of oneself and others. These are discussed elaborately in the next section covering Executive Development Programmes.

## 4.24 SUMMARY

The term compensation management is more common in Human Resource Management. Compensation includes direct cash payments, indirect payment in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity.

There are two principal system of wage payment:-

(i) Payment on the basis of time spend in the factory irrespective of the amount of work done. This method is known as time wage system.

(ii) Payment on the basis of the work done irrespective of the time taken by the worker. This method is called peace rate system.

Job evaluation aims to provide this equity and consistency by defining the relative worth of different jobs in an organisation. Job evaluation is the process of determining the relative worth of

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different categories of jobs by analyzing their responsibilities and consequently fixation of their remuneration.

Placement is the actual posting of an employee to a specific job. HR professionals must ensure that a new hire is placed on a suitable job.

Induction is the process through which a new employee is introduced to the job and the organization. Induction removes fears in the minds of a newcomer, creates a good impression about the company and acts as a valuable source of information.

Training is the act of increasing the knowledge and skills of an employee for doing a particular job. Development, on the other hand, is the process in which executives acquire not only skills and competence in their present jobs but also capabilities for future managerial tasks of increasing difficulty and scope. There are broadly two methods of training: on the job training and off the job training.

On the job training methods include: job instruction training, coaching and mentoring, apprenticeship training, job rotation, refresher training and orientation training. Role playing, cases, conferences, programmed instruction etc. are used in off the job training.

## 4.25 KEY WORDS

***Recruitment:*** The discovering of potential applicants for actual or anticipated organizational vacancies.

***Transfer:*** A lateral movement within the same grade, from one job to another.

***Promotion:*** Movement of an employee from a lower level position to a higher level position with increase in salary.

***Executive search:*** Hiring search firm/head hunter to track candidates.

***Employee search:*** A recommendation from a current employee regarding a job applicant.

***College placement:*** An external search process focusing recruitment efforts on a college campus.

***Campus recruiting:*** Visiting specific skill institutes to hire graduates.

***Internal advertising:*** Informing employees of vacancies internally.

***Media advertising:*** Inviting applications by placing ads in media.

***Job analysis:*** A systematic investigation into the tasks, duties and responsibilities of a job.

***Inducements:*** Positive features and benefits offered by an organization to attract job application.

***Yield ratio:*** Indicates the number of contracts required to generate a given number of hires at a point of time.

***Employee leasing:*** Hiring permanent employees of another company on lease basis for a specific period as per the leasing arrangement.

***Temporary employees:*** Employees hired for a limited time to perform a specific job.

***Outsourcing:*** Letting outside vendors provide services.

***Selection:*** Picking up suitable candidates by rejecting the unsuitable.

***Job posting:*** It is method of publicising job openings on bulletin boards, electronic media and similar outlets by a company.

## 4.26 SELF ASSESSMENT QUESTIONS

1. Discuss the concept of compensation.
2. What are the objectives of compensation management.
3. Discussion compensation management process.

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4. What are the features of good wage system.
5. What do you mean by time wage system and what are its types.
6. Define piece rate system and discuss types of piece rate system.
7. Describe premium and bonus plan.
8. Define job evaluation and discuss features and process of job evaluation.
9. Discuss various job evaluation methods.
10. Define 'training'. Distinguish between training, development and education. Explain the various methods of training.
11. Training programmes are helpful to avoid personnel obsolescence. Discuss.
12. What do you mean by executive development? Discuss the various methods of executive development.
13. Explain the terms 'placement' and 'induction'. Outline their objectives.
12. What are the components of an employee induction programme? What measures should be taken to make the induction programme successful?

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# UNIT 5 INTERNATIONAL HUMAN RESOURCE MANAGEMENT

**Structure**



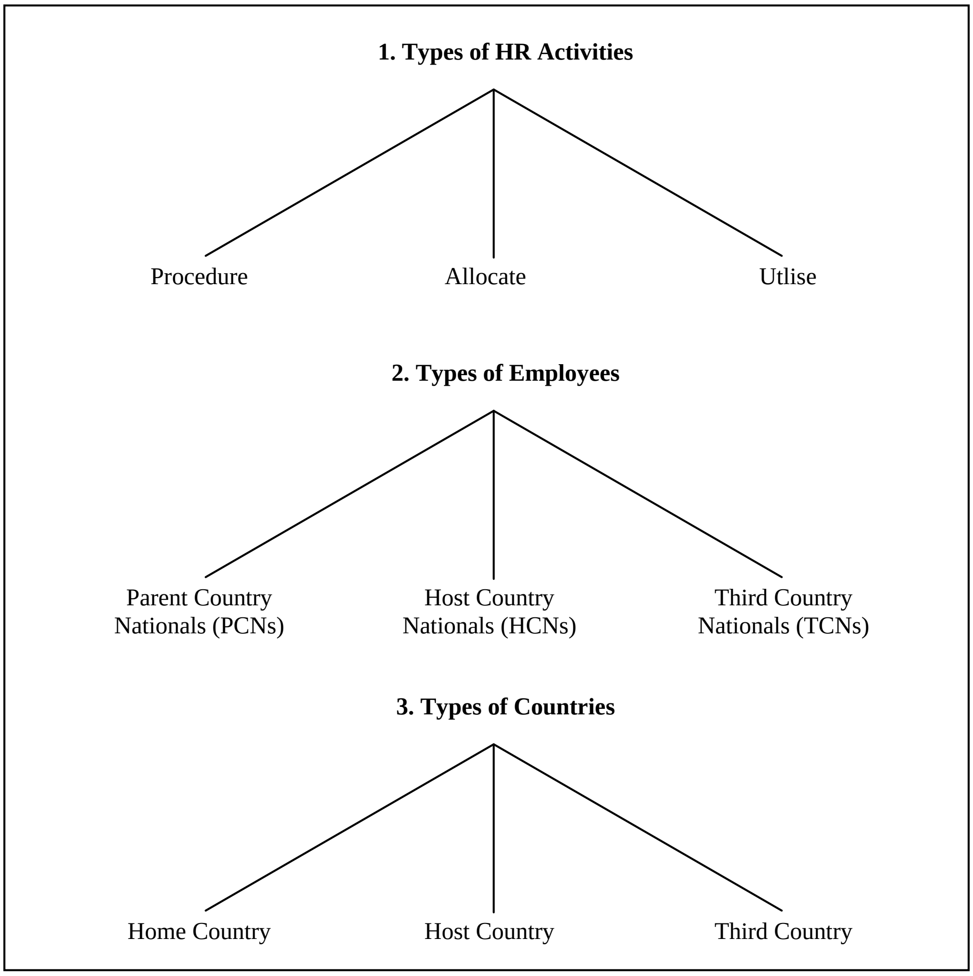
## 5.0 OBJECTIVES

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

- To understand International Human Resource Management and its various activities.
- To understand linkage of Global Business Strategy and International Human Resource Strategy.
- To understand linkage of Domestic and International Human Resource Management.
- To understand Globalisation and how it affect Human Resource Management.

## 5.1 CONCEPT OF INTERNATIONAL HUMAN RESOURCE MANAGEMENT (IHRM)

International Human Resource Management (IHRM) is the process of acquiring, allocating, and utilising human resources in a global business to achieve the stated objectives. Because of global context, international HRM is the interplay of three dimensions: HR activities, type of employees, and countries of operations




The three dimensions of international HRM are described here briefly.

1. There are three broad activities in international HRM—procuring, allocating, and utilising employees for international operations. These three broad activities cover all HR functions which are relevant for domestic operations.
2. There are three types of employees in a multinational firm based on their place of origin—parent country nationals, host country nationals, and third country nationals. Parent country nationals (PCNs) are those whose origin is the country where the firm's headquarters are located. Host country nationals (HCNs) are those whose origin is the country where the firm's operations are located. Third country nationals (TCNs) are those whose origin is a country which is neither the home country nor the host country.
3. There are three types of countries involved in international HRM activities—home country, host country, and third country. Home country is the country of origin of the firm. Host country is the country in which operations of the firm are carried on. For a single firm, there may be many host countries. Third country is a country from where resources—human and other resources—are procured. There may be many third countries.

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## 5.2 NEED FOR INTERNATIONAL HUMAN RESOURCE MANAGEMENT

There are four major contextual variables because of which HRM activities in a global firm differ from a domestic firm, hence the need for international HRM. These are cultural diversity, workforce diversity, language diversity, and economic diversity. Let us go through these variables and see how they affect HRM practices.

### 5.2.1 Cultural Diversity

Cultural diversity is related to Individualism and human resource management practices in the organisation. Culture of a country is one of the main factors which affect people-oriented processes and HRM is a people-oriented process. Therefore, culture of a country has very significant impact on HRM practices. When we consider global perspective of HRM, we find cultural diversity along the globe, that is, cultures of two countries are not alike. Cultural diversity exists on five dimensions: individualism versus collectivism, power orientation, uncertainty avoidance, masculinity versus femininity, and time orientation. Let us see how these dimensions affect human behaviour and consequently, work practices.

1. ***Individualism versus Collectivism:*** People differ in terms of individualism and collectivism. Individualism is the extent to which people place value on themselves; they define themselves by referring themselves as singular persons rather than as part of a group or organisation. For them, individual tasks are more important than relationships. Collectivism is the extent to which people emphasise the good of the group or society. They tend to base their identity on the group or organisation to which they belong. Countries that value individualism are USA, Great Britain, Australia, Canada, Netherlands, and New Zealand. Countries that value collectivism are Japan, Columbia, Pakistan, Singapore, Venezuela, and Philippines. India may be placed near to collectivism.
2. ***Power Orientation:*** Power orientation, also known as orientation to authority, is the extent to which less powerful people accept the unequal distribution of power; people prefer to be in a situation where the authority is clearly understood and lines of authority are never bypassed. On the other hand, in a culture with less orientation to power, authority is not as highly respected and employees are quite comfortable circumventing lines of authority to accomplish jobs.
3. ***Preference for stability:*** It is the extent to which people feel threatened by unknown situations and prefer to be in clear and unambiguous situations. In many countries, people prefer unambiguity while in many other countries, people can tolerate ambiguity.
4. ***Masculinity versus Femininity:*** Masculinity or femininity, also known as degree of assertiveness or materialism, is the extent to which the dominant values in a society emphasise aggressiveness and the acquisition of money and material goods, rather than concern for people and overall quality of life. In societies having masculinity characteristics, more emphasis is placed on ego goals such as career, money, etc., while in societies having femininity characteristics, more emphasis is placed on social goals such as relationships, helping others, etc.
5. ***Time Orientation:*** Time orientation dimension divides people into two categories: long-term orientation and short-term orientation. People having long-term orientation focus on future, prefer to work on projects having a distant payoff, and have persistence and thrift. People having short-term orientation are more oriented towards past and present and have respect for traditions and social obligations.

### 5.2.2 Workforce Diversity

Workforce diversity implies that various categories of employees not only bring their skills and expertise but also their attitudes, motivation to work or not to work, feelings, and other personal characteristics. Managing such employees with pre-determined HRM practices may not be effective but contingency approach has to be adopted so that HRM practices become tailor-made.

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In a global firm, additional workforce diversity emerges because of hiring personnel from different countries. A typical global firm may draw its employees from three types of countries—home country (PCNs), host country (HCNs), and third country (TCNs). In a global firm, workforce diversity can also be seen in the context of employee mobility from one country to another country for performing jobs. On this basis, an employee can be put in one of the following categories:

1. Expatriate—a parent country national sent on a long-term assignment to the host-country operations.
2. Inpatriate—a host country national or third country national assigned to the home country of the company where it is headquartered.
3. Repatriate—an expatriate coming back to the home country at the end of a foreign assignment.

### 5.2.3 Language Diversity

Language is a medium of expression but employees coming from different countries have different languages. Though English is a very common language, it does not serve the purpose adequately as it does not cover the entire world. While employees coming from different countries may be encouraged to learn the language of the host country for better dissemination of the information, it does not become feasible in many cases. An alternative to this is to send multilingual communications. It implies that anything transmitted to employees should appear in more than one language to help the message get through. While there are no hard-and-fast rules in sending such messages, it appears safe to say that such a message should be transmitted in the languages the employees understand to ensure adequate coverage.

### 5.2.4 Economic Diversity

This diversity is expressed in terms of per capita income of different countries where a global company operates. Economic diversity is directly related to compensation management, that is, paying wages/salaries and other financial compensation to employees located in different countries. One of the basic principles of paying to employees is that "there should be equity in paying to employees." However, putting this principle in practice is difficult for a global company because its operations are located in different countries having different economic status. In such a situation, some kind of parity should be established based on the cost of living of host countries. Diversity of various types in a global firm suggests that HRM practices have to be tailor-made to suit the local conditions.

## 5.3 COMPARISON OF DOMESTIC AND INTERNATIONAL HRM

From the above discussion, it emerges that international HRM practices have to be different from those of domestic HRM, This difference exists on six dimensions which are given below:-

1. ***More and Varied HR Activities:*** As compaied to domestic HRM, in international HRM, there are more and varied HR activities. In international HRM, the volume of the same HR activities which are relevant for domestic HRM too increases because these activities have to be performed in a different context. For example, when employee is chosen for an international assignment, he needs additional training which would enable him to adjust in the new environment. This, training will be in addition to training meant for skill development for performing the job effectively. There are many HR activities in which this type of situation emerges. Variety in HR activities exists in international HRM because many activities are undertaken which are performed in international HRM only, for example, managing visa and completing various formalities which are necessary for an employee to perform job in an overseas location. There are several such activities.
2. ***Need for Broader Perspective:*** As compared to domestic HRM, international HRM requires much wider perspective in respect of almost all HR activities. It implies that HR managers have to consider a variety of factors in making decisions on any issue of international HRM. Many of these factors are not relevant in the case of domestic HRM. For example, while fixing international compensation packages, HR managers have to take into account the cost

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of living of different international locations to bring some kind of parity among employees working at different locations. Similarly, fringe benefits have to be provided to suit conditions of different locations. There are many such activities which require much broader perspective.

3. ***More Involvement in Employees' Personal Lives:*** As compared to domestic HRM, HR managers are required to have more involvement in employees' personal lives in the case of international HRM. This higher level of involvement is required to ensure that the employees are suitably placed in an international location with which they are not well familiar. This lack of familiarity may be on a number of factors like housing, health care practices, meeting of legal requirements of host country, etc. In many cases, the number of such factors may be quite large. In order to take care of such factors, many organisations prefer to have a special unit in their HR department, known as 'International Human Resource Service'. The basic logic behind creation of such a unit is to provide specialised service which is relevant only in the case of international HRM.

4. ***High Emphasis on Change in Employee Mix:*** In international HRM, high emphasis is placed on change in employee mix particularly in terms of nationality of employees. Very often, it happens that when an organisation establishes a business in a foreign country, it recruits more number of employees from the country of its origin. However, in order to have a favourable image in the country of its operations, it recruits and develops local (host country) personnel. With the result, over the period of time, the proportion of local employees becomes sizeable. This strategy is adopted by most of the multinationals. This process is taken on gradual basis.

5. ***High Risk Exposure:*** There is high risk exposure in international HRM as compared to domestic HRM. The risk involved may be of different types (political, regulatory, etc.) in an international business. However, HR-related risk may be in the form of lack of suitable HR practices meeting local requirements, social-cultural risk in the form of non-acceptance of parent country nationals as employees, etc. Such risk may have serious consequences in many cases like social boycott of parent country nationals, kidnapping of employees or harassing them in other forms, and in extreme case, takeover of the business by the local government on the plea of not meeting local HR-related conditions. Therefore, HR managers have to be careful in making decisions on issues of international HRM.

6. ***More External Influences:*** A maxim of managing a business is: farther away a business goes, more influences it has to face. This is true for international HRM too. As compared to domestic HRM, international HRM activities are influenced by a variety of external factors. HR managers are required to deal with a new set of socio-cultural milieu, political and legal system, etc. Not only they have to change their mind set to work in this new set but they have to train the employees to adjust with the new set. In fact, effectiveness of HR depends to a very great extent on the degree of such an adjustment. With this background about international HRM, let us move to discuss issues involved in performing international HR activities.

## 5.4 INTERNATIONAL MANAGER & INTERNATIONAL HR ACTIVITIES

An International Manger is a person who oversees a company’s Global operations. In some instances, an International Manager is responsible for all of a companys foreign business.

Managers need to be able to plan, control, organise and lead their companies and department. According to a recent survey the top characters of an International Manager include many softskills, such as the ability to work in International Teams adaptability to new situation. He must require attributes such as cultural emapathy, emotional energy, psychological maturity, cope with cognitive complexity etc.

International HR activities are quite similar to domestic HR activities. However, since both these types of activities are performed in different context, the issues involved in these activities differ. The key international HR activities that require special attention of HR managers are: recruitment, selection, training and development, performance management, compensation management, industrial relations, and repatriation. In discussing these activities, the term international will be affixed at appropriate places to distinguish these activities from those of domestic HR.

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## 5.5 INTERNATIONAL RECRUITMENT

It is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. In general, the basic objective of reruitment is to ensure that the organisation is appropriately staffed. However, in order to achieve this objective in the context of an international operation, issues involved may be different from domestic HRM. A global firm operates in different countries which may have different business environment affecting HR practices, more particularly socio-cultural and legal factors. Therefore, a global firm's recruitment practices are likely to be affected by host country requirements to a great extent. A global firm has a mix of three types of employees based on their place of origin: parent country nationals (PCNs), host country nationals (HCNs), and third country nationals (TCNs). What would be the proportion of these three types of employees in total workforce depends on the type of approach adopted by a global firm in the context of international recruitment. For international recruitment, there are four approaches with each approach having its own pros and cons. These approaches are:

1. ***On Parent Country Nationals (Ethnocentric Approach):*** Under this approach, all key positions, in headquarters as well as subsidiaries, are staffed by parent country nationals (PCNs). PCN is an employee who is a citizen of the country where the headquarters of the organisation are located. A PCN posted abroad is known as expatriate. This approach is adopted by multinational firms in the early stages of internationalisation. Other reasons for adopting this approach are lack of qualified personnel in the host country to fill key organisational positions, desire to maintain a unified corporate culture and tight control across subsidiaries throughout the world, and desire to transfer quickly the parent firm's core competencies to the subsidiaries.

   ***Disadvantages:***

   a. The PCNs may take lot of time in understanding the culture of host countries. Because of this reason, faulty decisions may emerge.

   b. Employing PCNs may be a costly affair particularly if host countries are economically lesser developed as compared to the home country.

   c. Since expatriates are generally paid higher remuneration and in the currency of home country, host country nationals may feel discriminated and, thus, frustrated. Such a feeling may affect their productivity.

   d. HCNs may also develop the feeling about lack of promotional opportunities to higher positions as such positions are staffed by PCNs. This may result in higher employee turnover.

2. ***On Host Country Nationals Basis (Polycentric Approach):*** Under this approach, key positions in overseas subsidiaries are staffed by host country nationals and those in headquarters are staffed by parent country nationals. This approach is adopted to give adequate representation to local employees who can handle the issues arising from local political and legal system. This approach is more suitable if the host country’s socio-cultural and legal system is quite different from that of home country.

   ***Disadvantages:***

   a. There is likelihood of cultural conflict between parent company and subsidiary if the culture of parent company is not adequately imbibed by the HCNs. Such a conflict leads to ineffective decisions or even no decisions at all on many issues.

   b. If parent country nationals do not get adequate exposure of global business by working on overseas assignments, their development remains inadequate. They may not be able to have right perspective to make decisions on issues related to global business.

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3. ***On Regional Basis (Regio-centric Approach):*** Under this approach, for recruitment purpose, global business of the parent country is grouped into broad geographical regions--continent (America, Europe, etc.), two or more adjoining continents (Asia-Pacific), or different areas of a continent (East Asia, West Asia, etc.). Key positions in subsidiaries located in a particular region are staffed by people belonging to that region. People are also transferred from one subsidiary to another subsidiary of the same region. Thus, the host country is replaced by the region. This approach is adopted when a parent company has a number of subsidiaries in different regions of the world. As compared to polycentric approach, this approach offers a better option to get qualified employees from the region.

   ***Disadvantages:***

   a. This approach works well only when there is sufficient similarity in the countries belonging to a particular region. In many cases, this similarity is not available.

   b. The career of many outstanding employees may remain limited to serving regional subsidiaries. They may not get opportunity to reach the top level of the parent company. Such employees may not have that much affection to the region which they may have for their own country. This phenomenon may result in turnover of highly talented employees.

4. ***On Merit Basis (Geocentric Approach):*** Under this approach, key positions in headquarters as well as subsidiaries abroad are staffed by people based on merit irrespective of their nationality. This approach is adopted to acquire best available talent worldwide and using this talent pool most effectively by transferring the people where they can be best fitted. Further, it enables the parent company to have uniform work practices throughout the world. However, this approach has certain limitations too:

   a. Different countries of the world have their own specific requirements. Because of these differing requirements, a multinational firm cannot transfer its employees as freely as it wishes.

   b. In some cases, there may be cultural mismatch even in the case of the highly qualified employees. To that extent, free transferability of employees is hampered.

The above discussion shows that not a single approach of international recruitment is suitable in all situations. The determining factors for suitability of a particular approach are the nature of parent company's business and its HR strategy and the nature of host countries in terms of level of human resource development, employee cost, legal requirements, and approach towards multinationals. Thus, many companies may prefer ethnocentric approach (Indian IT companies operating overseas prefer this approach) while many may prefer polycentric approach (many Indian companies which have acquired overseas businesses adopt this approach). Many European and American multinationals adopt geocentric approach with the result Hindustan Unilever (a subsidiary of Unilever) has become a good source of supplying competent managers to its parent as well as its subsidiaries in different countries; many Indians are CEOs of multinational firms which have opted this approach.

## 5.6 INTERNATIONAL SELECTION

Selection is the process of picking up individual with requisite qualification and competence to fill jobs in the organisation. Various international recruitment approaches, except polycentric approach, involve extensive employment of expatriate employees. An expatriate is a person who is sent on a long-term assignment to the host country operations. When the period of assignment is over, he comes back to his country. Though in the category of expatriates, generally PCNs are included but TCNs experience the same kind of problems. Therefore, we can include both these categories of employees. Since expatriates face different kind of problems as compared to home country nationals working in headquarters, issues related to selecting former category of employees differ from those of latter. Let us go through these issues. These issues are identification of problems likely to be faced by expatriates, factors in expatriate selection, and expatriate selection methods.

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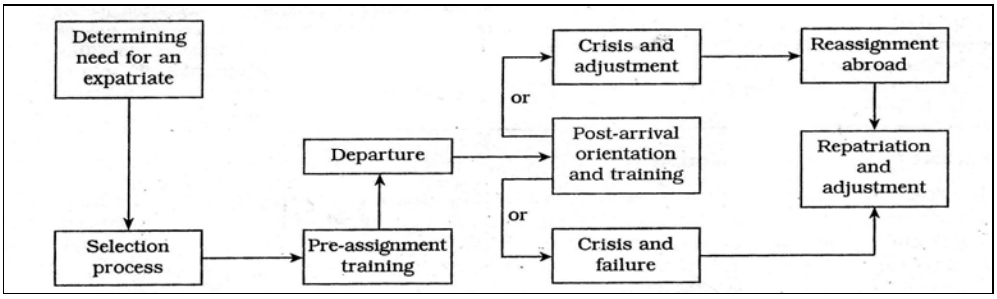
### *Expatriate Problems*

Expatriates face some problems which HCNs are not expected to face. For identifying the stage at which expatriates presented in face problems let us go through expatriate assignment life cycle which is presented in

Determining need for an expatriate Crisis and adjustment Reassignment abroad Or Post-arrival orientation and training Departure Repatriation and adjustment or Selection process Pre-assignment training Crisis and failure




**Expatriate assignment life cycle**

The above figure shows that expatriate assignment life cycle involves determining need for expatriates (done on the basis of organisation's global business strategy and its international HR strategy), process of selecting expatriates (criteria and methods of selection), pre-assignment training, departure for taking foreign assignment, post-arrival orientation and training, crisis and its resolution and adjustment, crisis leading to failure, finally reassignment abroad or repatriation back to home and adjustment. It is not necessary that every expatriate may face crisis of the same magnitude but it depends on the ability of expatriates to adjust with the situations. A major problem connected with expatriates is their premature return to home country. Known as expatriate failure, this feature has created lot of problems before multinationals and lead to considerable losses. There are several reasons for expatriate failure. The table below presents various reasons for expatriate failures (in descending order of importance) in US and Japanese firms.

### *Reasons for expatriate failures*

| US firms | Japanese firms |
|---|---|
| 1. Inability of spouse to adjust | 1. Inability to cope with larger international liabilities |
| 2. Expatriate's inability to adjust | 2. Difficulties with the environment |
| 3. Other family reasons | 3. Personal or emotional problems |
| 4. Expartiate's personal or emotional maturity | 4. Lack of technical competence |
| 5. Inability to cope with large international responsibilities | 5. Inability of spouse of adjust |

## 5.7 INTERNATIONAL TRAINING AND DEVELOPMENT

Training is an organised procedure for increasing the knowledge and skill of people for a specific purpose. In international HRM, training is provided to expatriates as well as to host country nationals (HCNs). However, the contents of training for both these categories of employees differ significantly. Therefore, it is desirable to discuss these separately, that is expatriate training and host country national training.

### *Expatriate Training*

Multinational firms provide pre-departure training to expatriates. However, in many cases, such a training is superficial without really addressing the issues uppermost in the minds of expatriates and their families. In multinational firms, training objectives should be as follows:

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1. Bridging the cultural gaps between parent and host organisations.
2. Recognising the fact that orientation challenges are different for parent and host units.
3. Building a unified culture across subsidiaries throughout the world.

Fieldman suggests that expatriates need four level training:

**Level 1:** Training focusing on cultural difference and on raising trainees' awareness of such differences and their impact on business outcomes. This is known as cross cultural training.

**Level 2:** Training focusing on attitudes and aiming at getting trainees to understand how attitudes (both positive and negative) are formed and how they influence behaviour.

**Level 3:** Providing factual knowledge about host country.

**Level 4:** Skill building in areas like language, adjustment, and adaptation.

Training in all these areas is necessary for the success of the expatriates because in different cultures, different meanings are assigned to a particular gesture; different criteria are used for defining a qualitative outcome, say success; and so on. Looking at the importance of expatriate training in the present business scenario, many firms are offering consultancy services in this area.

***How to avoid cross connections***

You should keep the following in mind when dealing with colleagues and partners from other countries:

- The Americans are very aggressive and pushy. You must be clear about what you want from them and put your views clearly and up front.
- The Japanese are very slow in decision making, very hierarchical, and have very large teams. You have to be patient when dealing with them. Also, do not think that you can crack a deal by going to Japan just once. It is better to approach Japanese companies through a mediator who is a respected member of their society.
- The Chinese bargain very aggressively; always keep a large margin for bargaining.
- The FrenCh, the Italians, and the Australians are very possessive about their time. Don't expect them to sit with you outside of office hours or on weekends just because you are visiting.
- In general, be sensitive to the fact that it is often difficult for executives in the West to digest the fact that they are reporting to someone from the developing world.
- Read up about local culture and traditions before embarking on an assignment to any country.

***HCN Training***

Besides expatriates, host country nationals also need training. However, this training differs substantially from that of expatriates. The emphasis of HCN training is to make them suitable to occupy the positions that they are expected to occupy in the subsidiary. Thus, HCNs need training in the following areas:

1. Training for developing technical and managerial competence in HCNs; the extent of such a training depends on level of education prevailing in the host country.
2. Acquiring knowledge about the parent organisation: its objectives, strategies, and the role that it is expected to play.
3. Gaining knowledge about the culture of the parent organisation and imbibing that culture.

## 5.8 INTERNATIONAL PERFORMANCE MANAGEMENT

It is the process of assessment of employee performance, discussing its results with employees, and suggesting and working out way for improvement of performance is a critical issue in

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managing a subsidiary located abroad. It implies that work outcome depends, to a very great extent, on contextual variables. In the case of a subsidiary, there might be so many host country variables on which the expatriates may not have that much of control which HCNs may have. Further, an HCN as a head of subsidiary may use criteria for performance appraisal which may not work for the expatriates. For example, Americans tend to appraise performance based on management by objectives (MBO). In countries where people are highly oriented towards authority (a cultural factor), any discussion of performance outcome by a subordinate is treated insubordination. In order to overcome these problems and to improve performance management of expatriates, the following measures:

1. Stipulate the difficulty level involved in assignments at the expatriate's workplace. For example, working as expatriate in China is generally considered more difficult than working in England.
2. Give more weight in evaluation towards the on-sight manager's appraisal than towards the home-sight manager's appraisal which is based mainly on distant perceptions of the employee performance.
3. In case the home-sight manager appraises the expatriate, background advice from a former expatriate from the same overseas location should be taken to ensure that unique local issues are considered in appraisal.
4. The performance criteria used for a particular job should be modified to fit the overseas position and characteristics of that particular location. For example, maintaining and improving labour relations might be more important in India than in the United States.
5. Appraise the expatriate not only in terms of quantitative criteria like profit or market share but also qualitative criteria like insights of the expatriate into the functioning of the overseas operations.

## 5.9 INTERNATIONAL COMPENSATION MANAGEMENT

Compensation may be defined as money received in performance of work plus many kinds of services and benifits that organisations provide to their employees. International compensation management involves fixing reinuneratioff of expatriates and administering it. Expatriate's remuneration includes base salary, benefits, allowances, and incentives. The intricate question in fixing international remuneration is how to fix it so that following objectives are achieved:

1. Attracting employees who are qualified and interested in international assignments.
2. Facilitating the movement of expatriates from one subsidiary to another, from the home country to subsidiaries, and from subsidiaries back to the home country.
3. Providing a consistent and reasonable relationship between the pay levels of employees at the headquarters, domestic affiliates, and foreign subsidiaries.
4. Being cost-effective by reducing unnecessary expenses.

In designing international compensation to meet the above objectives, generally, the following problems crop up:

1. Discrepancy in remuneration between parent country, home country, and third country nationals.
2. Need to vary expatriate compensation depending on the life cycle stage of the expatriate's family (for example, children's age and their schooling).
3. Remuneration issues related to re-entry into the parent organisation.
4. Remuneration issues to deal adequately with new waves of changes in the international business environment.

While fixing international remuneration, various factors are taken into account. There are two factors i.e. MNC internal environment and MNC external environment. MNC internal

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environment includes goal orientation, capacity to pay, competitive strategy, organisational culture, internal workforce composition, labour relations, and subsidiary role. MNC external environment includes parent nationality, labour market characteristics, local culture, home and host country rules, industry type, and competitors' strategies. After considering these factors, one of two approaches of determining international remuneration can be adopted: going-rate approach and balance-sheet approach. In both these approaches, additional expenses such as relocation, housing, extra taxes, etc. are paid in the form of allowance. However, the basis of fixing compensation differs in both approaches.

Going-rate Approach: In going-rate approach, pay of an expatriate is tied to host country norms. This approach aims at equity between people working in the same location. However, this can have devastating effects in a financially unattractive location. For example, an employee of a developed country will be at loss when he is placed in a developing country where the compensation level tends to be much lower. Similarly, when an employee from a developing country is posted in a developed country, his compensation level may be too high to be borne by the organisation.

Balance-sheet Approach: In balance-sheet approach, pay of an expatriate is tied to home country norms. This approach is more practical in recognising that an employee's current home pay and emoluments need to be protected and augmented to compensate for hardship and additional expenses. The objective is to keep the employee financially 'whole' with no loss from present emoluments. However, in this approach, an employee is likely to suffer when he is placed in a location which is cost disadvantageous than his home location. In order to overcome this problem, a modified balance-sheet approach is adopted which has many variations "encompassing common salary structures, fixed percentage tax withholding, or the blending of certain local elements such as housing or spendable income, with home country benefits or taxes."

In comparison to domestic compensation, the issues of equity and fairness are far complicated in international compensation and are more emotional than rational. Therefore, multinationals must "balance local country taxation and social welfare structures, indigenous pay delivery mechanisms, and social and cultural expectations against organisational needs for cross-country equity and fairness." More importantly, multinationals must address the basic motivation of an expatriate in accepting foreign assignment, that is, how the assignment is going to boost the employee's career prospects and how this international experience will help him in promotion in the organisation. Thus, international compensation has to be seen in a holistic perspective and must address broader issues of career management.

### *Compensation plan for US employees of Infosys posted in USA*

Infosys adopts quite progressive compensation plan for its employees posted in USA. Besides matching salary of the host country, it offers a host of benefits to its employees. These are as follows:

1. ***401 (k) Saving Plan:*** Under this plan, an employee can contribute up to 20 per cent of his compensation on a pre-tax basis with a maximum of $10,000 per annum. Infosys provides a match on employee's contributions.
2. ***Health Cover:*** All employees are covered by the health care scheme which becomes effective from the day the employees report to work.
3. ***Medical Insurance:*** This scheme covers all employees and their dependents. The insurance premium is paid by the company.
4. ***Vision Care Plan:*** The company has its own self-funded vision care plan which covers all employees and their dependents.
5. ***Disability Insurance:*** The company has disability insurance scheme both for short term and long term. Under short-term disability insurance, a disabled employee gets 2/3 of his pre-disabled earning up to 90 days. Under long-term insurance, the disabled employee gets 2/3 of his pre-disabled earning beyond 90 days to a certain maximum.

Besides, the employees posted in USA continue to get other benefits like stock options which they used to get in India.

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## 5.10 INTERNATIONAL INDUSTRIAL RELATIONS

The general objective of international industrial relations is to get the support of organised labour in integrating and consolidating global business operations of the organisation. This integration and consolidation is helpful in taking advantage of experience curve and locational economies. It implies that the organisation would like to have freedom to organise and reorganise its global operations scale-wise as well as location-wise. However, the organised labour tries to thwart such a move of the organisation if the outcome of the move is perceived against labour interest. In fact, in many cases, the trade unions of the subsidiaries concerned have vehemently opposed organisation's move of labour rationalisation or relocation of business units. Maintaining good industrial relations across the world subsidiaries involves two major issues: who will handle industrial relations and tactics of trade unions. Let us discuss both these issues.

Who Will Handle Industrial Relations? The basic question that comes before any MNC is: who will handle industrial relations issues: whether MNC headquarters or subsidiary concerned? This issue is a pressing one as on the one hand, an MNC will like to standardise its industrial relations practices across the world, at least, in terms of productivity and equity; on the other hand, issues of industrial relations should be handled in accordance with the local conditions which-vary from country to country. There cannot be any standardised practice in this context but; in actual form, it depends more on the origin of MNC. For example, American MNCs exercise more centralised control, are averse to trade unions, and prefer to deal with labour issues at the enterprise level than European MNCs; Japanese MNCs believe in informal centralised coordination of their foreign operations through an international network of Japanese expatriate managers but the coordination is not to impose policies from the top but to facilitate local adaptation. In fact, in order to have sufficient freedom to determine employment level, pay, and productivity to maintain global competitiveness, many MNCs today increasingly scrutinise local labour laws as well as political and social attitudes before bringing direct foreign investment. Accordingly, they negotiate and lobby with governments and even trade unions to get a better deal.

Tactics of Trade Unions: In response to approaches adopted by MNCs to protect their interests related to industrial relations issues, trade unions across the world have formed international coalitions and alliances. These coalitions and alliances provide guidelines about how to deal with labour. These guidelines have been accepted by many countries which MNCs have to follow. For example, at the world level, International Labour Organisation (ILO) has been formed. ILO has established voluntary guidelines in employment relationships to be respected by nations within the framework of local laws. These guidelines include freedom of association, right to organise and collective bargaining, abolition of forced labour, non-discrimination in employment etc. Further, such associations exist at regional level too to protect the interest of labour. For example, European Union has established its own social charter to improve health and safety in the workplace through employee consultation. At the national level, trade unions in many countries join hands with the government to protect their interest against any wrong doing by MNCs.

## 5.11 GLOBALISATION AND ITS IMPACT ON HUMAN RESOURCE MANAGEMENT

Today's economy has become globalization in which geographical boundaries of a country have only political relevance the economic relevance has extended these. Today, the world is known as a global village, a term that reflects the nature of business in the world. Business organisations of many countries generate more revenues from their overseas businesses than their domestic businesses. This trend is catching up Indian businesses too. Majority of Indian IT companies are generating more revenues from their overseas businesses; global business takeover has become a buzz word for Indian companies. This scenario has resulted in change in the context of managing human resources—the change from managing human resources in domestic context to managing these resources in global context. This phenomenon has led to the emergence of international human resource management.

In a wider sense, globalisation is "a process by which the people of the world are united into a single society. This process is a combination of economic, technological, socio-cultural, and

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political forces." However, from the point of view of business with which we are concerned here, globalisation should be taken on the basis of economic and technological forces only though organisations opting for global business have to take care of socio-cultural and political forces of the countries concerned while implementing their strategies. From this point of view, degree of globalisation is measured on the following features:

1. Goods and services—exports and imports as a proportion of national income.
2. Human resource—inward/outward migration flows in relation to total national population.
3. Capital—inward/outward direct investment as a proportion of national income.
4. Technology—international research and development flows, proportion of population using particular inventions particularly factor-neutral advances such as cellphones, Internet, etc.

While globalisation is increasing in terms of its degree, there is a controversy about the level of globalisation achieved. In 2005, Thomas Friedman, a New York Times columnist, has described in his book that the world has become flat in which several forces like technology which enable connectivity and collaboration are creating a level playing field of global competitiveness. However, in the academic field, there is virtually no dissent on the idea that the world is very far from being extremely globalised. Based on ten-year study of globalisation, Ghemawat, professor of strategic management, concludes that true globalisation is still far away. He asserts that the world is still largely uneven and differences pertaining to culture, geographical proximity, administrative distances, and economic distances still matter.

Globalisation has the following impacts:

1. ***Impact on Pattern of Employment:*** Globalisation has changed pattern of employment considerably by forcing business organisations to organise their businesses around their core competence to face competitive threats effectively. It may be mentioned that globalisation follows liberalisation which implies more freedom in the way the business is done. In the globalised era, the primary means of developing competitive advantage at the marketplace is no longer the physical and financial resources but the human resources. Therefore, the pattern of employment has become competency based. This may create a paradox in an economy. On one hand, a country may have surplus manpower; while on the other, it may feel shortage of competent manpower. For example, India is experiencing this phenomenon after globalisation.
2. ***Impact on Human Resource Development:*** In globalised era, there is high need for human resource development so that human resources are capable of working in the changing work environment which has resulted by globalisation. Globalisation paves the way for rapid technological development and assimilation. Very often, the gap between the stage of technology development and its widespread commercial usage gets reduced considerably. With the result, any new technology is made available to various users necessitating new skills in human resources. This phenomenon goes on continuous basis. With the result, intensive human resource development becomes a continuous process.
3. ***Impact on Employee Expectations:*** Globalisation has serious socio-cultural implications. It raises the expectations of people of a country in the form of international demonstration effect. In a simply way, this effect is do as what others arc doing; use what others are using'. Since there are least possible restrictions on global movement of things, these are available everywhere though at a cost. This may have its own social implication. However, this phenomenon has a serious implication for managing human resources. Because of international demonstration effect, expectations of employees increase significantly. These expectations are not only in the form of increased monetary compensation but are also in the form of the treatment that should be given to them. They expect that they should be treated as valued human beings in the organisation and not only parts of a machine to be fitted anywhere any time. This orientation of employees demands a considerably changed mind set from those who are responsible to manage the former.
4. ***Impact on Work Practices:*** Globalisation brings contemporary management practices in organisations including those relevant for work practices. Many newer concepts have been

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adopted by Indian organisations in managing their human resources because of globalisation. Some of these concepts are employee empowerment, work-life balance, alternative work schedule options, mentoring counselling etc. Many more such concepts will continue to be put in practice.

## 5.12 GLOBAL BUSINESS STRATEGY-INTERNATIONAL HR STRATEGY LINKAGE

From our point of view, the last issue in international HRM is to analyse what type of international HR strategy should be adopted so that it meets the requirements of global business strategy of a firm. In the case of domestic business, HR strategy should be adopted in accordance with the requirements of a firm's business strategy. Same is the case with a global firm. However, global business strategy differs from domestic business strategy and, consequently, HR strategy. Therefore, in order to analyse global business strategy-international HR strategy linkage, let us go through global business strategy and international HR strategy.

### *Global Business Strategy*

Global business can be undertaken through exports, licensing products in favour of overseas partners, franchising, partly/wholly owned subsidiaries, and joint ventures. In each option, the HR requirement is different, for example, almost no HR requirement in the case of franchising or similar arrangement and very high HR requirement in the case of subsidiaries. Strategies for global business differ from those for domestic business because of difference in the nature of competitive forces that operate in two types of businesses. There are two sets of factors that impinge upon a firm's decision to adopt strategies for global business: (1) extent of cost pressures and (2) extent of pressures for local responsiveness. Cost pressures denote the demand on a firm to minimise its per unit costs. Pressures for local responsiveness make a firm to tailor its strategies to respond to national-level differences in terms of variables like customer preferences and tastes, government policies, and business practices. Often, these two factors are contradictory as minimising costs may not be possible when products/services are to be differentiated. The juxtaposition of these two factors results in four types of strategies for global businesses.

## 5.13 TYPES OF GLOBAL BUSINESS STRATEGY

The four types of strategies are discussed below:

1. ***Global Strategy:*** In global strategy, assumption is made that customer needs are similar worldwide. Therefore, firms can sell standardised products in the same way everywhere, for example, steel, pharmaceuticals, cement, petroleum, etc. When given a choice between a low-priced standard product and a high-priced nationally customised product, many customers will go for low-priced product. Thus, firms offering standardised products globally have competitive advantage in the form of lower costs resulting from economies of scale in product development, production, and marketing. In contrast, distinct markets mean incurring additional costs in most of value chain activities. For implementing global strategy, some facilities like R&D may be centralised in one country and production/operations may be decentralised in different countries to save cost of transportation.

2. ***Multidomestic Strategy:*** In multidomestic strategy, firms try to achieve a high level of local responsiveness by making their product/service offerings to the requirements of the countries they operate in. In this case, a multidomestic firm attempts to extensively customise its products/services according to the local conditions operating in different countries. In fact, some of the products may be standardised worldwide, but a majority of products cannot be. Customers preferences and tastes are quite different in many countries for different products, for example, food products. Similarly, differences exist in other areas too like infrastructure, distribution channels, government rules and regulations, etc. For meeting the requirements of all these conditions, customised products are needed. Thus, multidomestic strategy is essentially based on differentiation.

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3. ***International Strategy:*** In the early stage of globalisation, a firm may not be in a position to opt for either global strategy or multidomestic strategy for its overseas business. Therefore, it may adopt international strategy which involves creating an international division and exporting the products through that division to those countries where the products are needed. At this stage of globalisation, a firm is really focused on the domestic market and just exporting what is demanded abroad. As the firm becomes successful abroad, it might set up manufacturing and marketing facilities with certain degree of differentiation based on product customisation. The key characteristic of this strategy is that all control is retained at the home office regarding product and marketing functions. Many MNCs have adopted this route. However, the basic flaw of this strategy is that it does not allow the firm to benefit from either lower cost by leveraging its global presence or customising its products to global customers.

4. ***Transnational Strategy:*** Transnational strategy involves adopting a combined approach of low costs and high local responsiveness simultaneously by the firms for their products/services. Integrating these two contradictory approaches is a difficult proposition and requires innovative ways. Bartlett and Ghoshal have suggested the following actions to achieve combination of low costs and customisation:

   a. Getting Subsidiary Inputs: It is very important to have subsidiaries involved in generating ideas and innovations, and developing a means for their dissemination across the firm. Multiple linkages are required between the head office and the subsidiaries. Therefore, while the head office managers need to understand country-level needs and opportunities, country managers need to understand and be involved in head office decision processes.

   b. Ditributed Interdependent Capabilities: Various subsidiaries located in different countries should be encouraged to achieve economies of scale and produce a product or perform an activity that can be used in all the subsidiaries.

   c. Flexible Integration Process: There should be integration across the firm but that integration should not be directive; it should create an atmosphere where the firm's objectives are clear while allowing for the development of managers with a global mindset.

## 5.14 INTERNATIONAL HR STRATEGY

International HR strategy should support global business strategy. It implies that it is not necessary that a particular international HR strategy which is relevant for a specific global business strategy is also relevant for other global business strategies; a particular global business strategy may require tailor-made HR strategy. Let us see what type of HR strategy fits with each global business strategy. Out of the four strategies for global business, international strategy requires negligible human resources to be posted abroad, hence no need for international HR strategy. The remaining three strategies—global, multidomestic, and transnational—require relevant international HR strategies.

Utiliser HR Strategy: Utiliser HR strategy is relevant for global strategy as the firm pursuing this business strategy aims at minimising cost, including HR cost too, to compete on cost basis throughout the world. Utiliser HR strategy involves deploying human resources as flexibly and efficiently as possible through hire and fire of personnel to suit short-term business needs and matching employee skills to tasks. It helps the firm to maintain a lean workforce that has been handpicked to suit immediate task requirements. In order to maintain tight control over business operations throughout the world, centralised structure and ethnocentric approach of recruitment are adopted.

## 5.15 SUMMARY

- International human resource management is the process of acquiring, allocating and utilizing human resources in a global business to achieve the stated objectives. Because of global context, international HRM is the interplay of 3 dimensions such as human resources activities, types of employees and countries of operations.

Notes

- There are 4 major variables which are necessary for international HRM. These are cultural diversity, workforce diversity, language diversity and economic diversity.
- International recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. In general, the basic objective of recruitment is to ensure that the organisation is appropriately staffed.
- International selection is the process of picking up individual with requisite qualification and competence to fill jobs in the organisation. Various international recruitment approaches expect polycentric approach involving extensive employment of expatriate employees. An expatriate is a person who is sent on along term assignment to the host country operation.
- Training is an organised procedure for increasing the knowledge and skill of people for a specific purpose. In international HRM, training is provided to expatriotes as well as to host country nationals. However, the content of training for both these categories of employees differ significantly. Therefore, it is desirable to discuss these separately i.e. expartiate training and host country nations training.
- International performance management is the assessment of employee performance, discussing its result with employees and suggesting and walking out way for improvement of performance in critical issue in managing a subsidiary located abroad. It implies that work outcome depends to a very great extent on contextual variables.
- In wider sense, globalisation is a process by which the people of the world are united into a single society. This process is a combination of technological, economical, socio-cultural and political forces. However, from the point of view of business, globalisation should be taken on the basis of economical and technological forces only through organisations opting for global business.

## 5.16 SELF ASSESSMENT QUESTIONS

1. Describe International HRM and its various activities.
2. Discuss the linkage of global business strategy and IHR strategy.
3. Discuss the linkage of domestic and international HRM.
4. Define globalisation and discuss how it affects HRM.
5. Discuss various types of global business strategy.
6. Define international recruitment.
7. Define International Selection.
8. Define International training and development.
9. Define International performance management.
10. Define International Industrial Relation.