

Unit-1

Ques-1 define HRM? Objective & differences between HRM and personal management?

Ques-2 what are the quality of HRM? Functions of HR?

Organisations are made up of people and function through people. Without people organisations cannot exist. The resources of men, money, materials and machinery are collected, coordinated and utilised through people. Therefore, people are the most significant resource of any organisation. According to L.F. Urwick, "business houses are made or broken in the long run not by markets or capital, patents or equipment but by men." Of all the resources manpower is the only resource which does not depreciate, with the passage of time. This resource is called human resource.

From the national viewpoint, human resources may be defined as "the knowledge, skills, creative abilities, talents and aptitudes obtained in the population." From the viewpoint of an organisation, human resources represent the people at work. They are the sum-total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitudes of its employees. According to Megginson human resources refer to "the total knowledge, skills, creative abilities, talents and aptitudes of an organisation's workforce, as well as the values, attitudes and beliefs of the individuals involved."¹ Thus, human resources represent the quantitative and qualitative measurement of the workforce employed in an organisation.

Human resources are characterised by the following features:

- (i) Human resources of an organisation are the product of their biological inheritance and interactions with the environment.
- (ii) Human resources are heterogeneous. They consist of a large number of individuals each having a unique personality, different needs, attitudes and values. Each has his own physical and psychological traits. In order to make effective use of its human resources, an organisation must recognise and pay attention to differences between individuals so that each person can maximise his/her potential.
- (iii) Human resources are dynamic and behave differently. They react to the same situation in quite different ways. Even the same individual may behave differently at two different points of time. It is, therefore, very difficult to predict human behaviour.
- (iv) Human resources are the most important element in an organisation. The effective utilisation of all other resources depends upon the quality of human resources. Therefore, human resources are called human assets or human capital.
- (v) Human resources have the greatest potential to develop and grow provided the right climate is provided to them.
- (vi) The term human resources is wider than the term personnel. Human resources include all the dynamic components of all the people at all levels in the organisation whereas personnel means the employees working in the organisation.

1.1 Concept of Human Resource Management

Human Resource Management (HRM) may be defined as a set of policies, practices and programmes designed to maximise both personal and organisational goals. It is

1. Leon C. Megginson, *Personnel and Human Resource Administration*, 1977, p. 4.

the process of binding people and organisations together so that the objectives of each are achieved.] According to Flippo, human resource management is "the planning, organising, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to the end that individual, organisational and societal objectives are accomplished."¹

According to National Institute of Personnel Management of India, "human resource management is that part of management concerned with people at work and with their relationships within the organisation. It seeks to bring together men and women who make up an enterprise, enabling each to make his own best contribution to its success both as an individual and as a member of a working group."

Scott and others have defined as follows: "Human resource management is that branch of management which is responsible on a staff basis for concentrating on those aspects of relationship of management to employees and employees to employees and with the development of the individual and the group. The objective is to attain maximum individual development, desirable working relationship between employers and employees and employees and employees, and effective moulding of human resources as contrasted with physical resources."²

In the words of Jucius, "[h]uman resource management may be defined as that field of management which has to do with planning, organising and controlling the functions of procuring, developing, maintaining and utilising a labour force, such that the (a) objectives for which the company is established are attained economically and effectively; (b) objectives of all levels of human resources are served to the highest possible degree; and (c) objectives of society are duly considered and served."³

1.2 Characteristics of Human Resource Management

On the basis of the definitions given above, the following *features* of human resource management can be identified:

1. Comprehensive Function. Human resource management is concerned with managing people at work. It covers all types of people at all levels in the organisation. It applies to workers, supervisors, officers, managers and other types of personnel.

2. People-oriented. Human resource management is concerned with employees as individuals as well as groups. It is the process of achieving the best fit between individuals, jobs, organisations and the environment. It is the process of bringing people and organisations together so that the goals of each are met.

3. Action-oriented. Human resource management focuses on action rather than on record-keeping or procedures. It stresses the solution of human resource problems to achieve both organisational objectives and employees' personal goals.

4. Individual-oriented. Under human resource management, every employee is considered as an individual so as to provide services and programmes to facilitate employee satisfaction and growth.

1. Edwin B. Flippo : *Personnel Management*, 1980, p. 5.

2. W.G. Scott, Clothier, R.C. and Spriegel, W.R. : *Personnel Management—Principles, Practices and Point of View*, p. 11.

3. Michael J. Jucius : *Op. cit.*, p. 25.

DIFFERENCES BETWEEN HUMAN RESOURCE MANAGEMENT AND PERSONNEL MANAGEMENT

According to some people there is no difference between HRM and Personnel Management. They assume that both include same functions and HRM is a dignified form of Personnel Management. After taking all the views on comparison of personnel management and human resource management it can be said that both are same but have different nomenclature, also both have some similarities and some differences, and both differ in contents as well as emphasis. Following are the differences between personnel management and human resource management:

1. **Nature:** Human resource management is concerned with the continuous emphasis on the development of people at work whereas personnel management is a routine and administrative function. Further, HRM is the expression of the unshakeable belief of the management of an organization in improving human processes on continuous basis.
2. **Scope:** Personnel management is narrow in scope whereas human resource management is wider in scope. This is because personnel management deals with rules and regulations made for the personnel working in the organization. This helps the superior to deal with their subordinate so as to achieve its objectives whereas human resource management recognizes the importance of the employees and makes the policies and programmes for the development of the employees so as to make them the assets of the firm.
3. **Focus:** Human resource management has its main focus on the coordination and development of the personnel of the organization whereas personnel management focuses on the achievement of objectives by giving more powers and authority to the managers.
4. **Reactive/Proactive:** Human resource management is a proactive function and is not only concerned with the present organisational needs but anticipates future needs and acts accordingly whereas personnel management function is mainly reactive and responds to the demands of an organization whenever they arise.
5. **Dependency:** Human resource management is viewed as a sub system of the organization and takes into account its linkages and interfaces with all other parts of the organization. On the other hand the personnel management is seen as independent function and sub functions without giving due regard to organisational strategies and processes.
6. **Objective:** Under human resource management attempt is made not only to make people efficient but to create proper organisational culture to utilize the efficiency whereas personnel management concentrates mainly on improving the efficiency of personnel in isolation without emphasizing the relevance of efficiency in the organisational context.

7. **Basis of Communication:** Human resource management constitutes and deals with the help of direct and systematic communication whereas personnel management deals with the indirect communication.
8. **Job and Salary:** In case of human resource management the salary structure is related with the performance of employees on the other hand under the personnel management wage and salary is given on the job basis.
9. **Position of Employees:** Human resource management treats the people as an asset who are to be used and developed for the organization. However, personnel management treats the workers as a tool that is expandable and replaceable.

Therefore, 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 policies. Personnel management is considered a separate function like other functions. HRM, on the other hand is a part of every line function which is based on the assumption that primary job of every manager is to activating the workforce.

1.4 Objectives of Human Resource Management

Objectives of human resource management are derived from the basic objectives of an organisation. In order to achieve organisational objectives integration of employer's interest and employee interests is necessary. In this light, the objectives of human resource management may be summarised as follows:

- (i) To help the organisation attain its goals by providing well-trained and well-motivated employees.
- (ii) To employ the skills and knowledge of employees efficiently and effectively, i.e., to utilise human resources effectively.
- (iii) To enhance job satisfaction and self-actualisation of employees by encouraging and assisting every employee to realise his/her full potential.
- (iv) To establish and maintain productive, self-respecting and internally satisfying working relationships among all the members of the organisation.
- (v) To bring about maximum individual development of members of the organisation by providing opportunities for training and advancement.
- (vi) To secure the integration of all the individuals and groups with the organisation by reconciling individual/group goals with those of an organisation.

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- (i) To develop and maintain a quality life (QWL) which makes employment in the organisation a desirable personal and social situation.
- (ii) To maintain high morale and good human relations within the organisation.
- (ix) To help maintain ethical policies and behaviour inside and outside the organisation.
- (x) To manage change to the mutual advantage of individuals, groups, the organisation and the society.
- (xi) To recognise and satisfy individual needs and group goals by offering appropriate monetary and non-monetary incentives.

Thus, human resource management seeks to (a) attain economically and effectively the organisational goals, (b) serve to the highest possible degree the individual goals, and (c) preserve and promote the general welfare of the community. To sum up, human resource management seeks to accomplish societal, organisational and individual goals.

ROLE/FUNCTIONS OF HUMAN RESOURCE DEVELOPMENT MANAGER

HRM aims at bringing together expertise and skills in a scientific way. It helps in creating attitudes that motivates a group to achieve the organisational goals effectively and economically. The functions of human resource manager include the functions of management as well like:

1. Planning
2. Organizing
3. Directing
4. Controlling

Apart from these functions the human resource manager is concerned with the following functions:

1. **The Inception Functions:** This function deals with recruitment and selection of human resources. It involves identification of skills, knowledge and abilities need in an applicant. It facilitates fixation of performance standards, pay rates, and invoking fair disciplinary action, if any. The focus is on facilitating adjustment to the work environment, attainment of organisational goals and adherence to the rules and regulations of the department in which the candidate has to work.
2. **Development Function:** This function involves reformulating new employees to make them fully productive. It includes employee training, employee development, organisation

development and career development. The focus is on assisting employees to acquire better and improved skills for handling current jobs, enriching employees with more productive values, making the organisation more adaptive to external influences and designing programmes to assist employees in advancing their work lives.

3. **Motivation Function:** This function aims at improving performance. This needs proper job designing, adoption of an effective performance appraisal machinery and introduction of a fair and just system of incentives and compensation.
4. **Maintenance Function:** The maintenance function deals with putting in place activities that will help retain productive employees. It involves providing safe working environment, caring for the well being of the employees and organizing communication programmes. The motive behind organizing communication programmes is to provide information to the employees to vent their frustrations.
5. **Employment Functions:** The main trust of this function is to promote the activities related to the inception function by advertising the job effectively. It is important to note that the function does not deal with hiring decisions. It just coordinates the efforts with line management by handling the routine paper work associated with recruitment and selection.
6. **Development of Communication System:** There is a need to develop the upward, downward, and horizontal communication system in the organisation. Through HRM an effective communication system is developed in the organisation in which the policies are communicated to the lower level and feedback of employees is provided at the upper level.
7. **Training and Development Function:** This function is the organisation's internal change agent. The focus of this function is to enhance the personal qualities of the employees to improve organisational productivity. This function also counsels the employees and helps them in making a better career choice and in finding ways to achieve the desired goals.
8. **Compensation and Benefits Function:** This is the most difficult function for it deals with the most objective areas of a subjective field. It is concerned with paying the employees and in administering their benefits package. The pay is based on consideration like skills, job responsibility, efforts and accountability. While deciding the benefits package, stress is laid on employees' needs and expectations and burden this package create on the financial resources. These considerations often result in a conflict.
9. **Employee Relations Functions:** The task before the human resource manager is to solve employee grievances in a non unionized setting. The function involves enforcement of policies and procedures and permitting a wronged employee a forum to obtain relief. The organisation should ensure appropriate disciplinary sanctions.
10. **Creating Work Culture:** HRM emphasizes the development of employees' potentialities and using it for achieving organisation goals. The aims and priorities of individual workers are given due weightage in the scheme of the organisation. Human resource policy is backed by human values, understanding and concern for the welfare of people. This will improve the morale of the employees and they will cooperate for the best of the organisation. So, HRM improves the work culture in the organisation and people will enjoy their work.
11. **Research Activities:** In formulating the personnel policies and strategies, the information regarding the needs and aspirations of the personnel is required. This information is collected through research about the personnel working in the firm.

QUALITIES OF THE HUMAN RESOURCE MANAGER

HR manager should possess certain qualities to be successful. Therefore, the success or failure of HR manager depends upon the personal qualities and the situation in which the manager works. HR manager should possess both managerial and job related qualities.

Managerial Qualities

1. **Intelligence:** Intelligence is the mental ability of the individual to understand and interpret the nature of events and problems and then providing suitable solutions. HR manager should be intelligent, so that he can understand the different business situations more easily and make decisions accordingly.
2. **Conceptual Qualities:** Conceptual qualities refer to the ability to view the whole picture. These qualities are related to find out the solution of why an event occurs, why it is done, rather than how it is done. HR manager should possess these qualities for dealing with the abstractions, to set models, and to set plans. As HR manager has to deal with various abstract problems, so HR manager should have high level of conceptual skills.
3. **Analytical Qualities:** HR manager should have the analytical qualities so that he can deal with the problems and issues involved in his working quickly and accurately. In business situations there are many issues which are important while other are more important, so HR manager should be able to differentiate between wheat and chaff and get into reality.
4. **Emotional Stability:** HR manager should have high level of emotional stability. He should have consistency in action, refrain from anger, and should be free from bias. He should not have anti social attitude and should be well adjusted. He should have confidence that he can meet the problems in business situations successfully. All his work should be based on relevant facts and information.

Job Related Qualities

The HR manager should have job related qualities so that he can tackle his work related problems effectively. As HR manager has to deal with other departmental managers and have to solve their personnel related problems, so he must have such qualities to solve these problems effectively. HR manager should have following job related qualities:

1. **Empathy:** Empathy is the quality of observing the events from other's point of view. The successful HR manager has the ability to look at things objectively and understand them from other's point of view. The empathy requires respect for others, their rights, beliefs, feelings and values.
2. **Communicative and Persuasive Quality:** HR manager should have the communication and persuasive quality because he has to rely on these qualities for getting their ideas accepted in the organisation. Persuasive communication can easily get the acceptance from the receiver of the communication. Hence, for persuasive, informative, and stimulating purposes, HR manager should have the quality to communicate skillfully.

3. **Human Relations Quality:** HR manager should have the adequate knowledge of human relations and he should know how to deal with the human beings. As HR manager has to deal with the people inside and outside the organisation, he should understand their behaviour and nature. Inside the organisation, HR manager has to develop the people and outside the organisation he has to deal with many agencies. Therefore, it is necessary for the HR manager to understand the human relations.
4. **Technical Quality:** HR manager should have the technical knowledge of the relevant discipline of the human resource management along with the behavioural and managerial qualities. Therefore, the HR manager should have in depth knowledge of principles, concepts, nature, and theories of human resource management. He must have the ability to relate the concepts with the business situations.

Unit-2

Ques-3 define job analysis? Process & methods?

Ques-4 what is recruitment? Objective & Sources of recruitment?

Job Analysis and Design

CHAPTER 9

INTRODUCTION

Developing an organisational structure results in jobs which have to be staffed. Staffing is an organisation's primary function. The basic work activities may relate to three categories— Data, People and Things. Computing, copying, diverting, persuading, speaking, signalling, serving and taking instructions are included in Data and People. Things are concerned with setting up, precision working, operating, controlling, driving, manipulating and handling. Human resource planning is concerned with the number of personnel required in the organisation, but the detailed knowledge of the nature and requirements of jobs to be filled is essential for estimating the kind of manpower required. This knowledge is provided through the process of job analysis.

JOB ANALYSIS

Job analysis specifies details of what is being done and the skills utilised in the job. It enables a manager to understand jobs and job structure, and thereby, to improve productivity. It also helps in job designing or redesigning, coordinating demands on available time, individual psychological needs, technical procedures and desired performance. It is a procedure by which pertinent information is obtained about a job, i.e., it is a detailed and systematic study of information relating to the operations and responsibilities of the specific job. Therefore, job analysis is the determination of the skills, knowledge, abilities and responsibilities required by the employee for successful performance of the job.

Definitions

"Job analysis is the process of studying the operations, duties, organisational aspects of jobs in order to derive specifications or as they are called by some, job descriptions." — Michael J. Jucius

"Job analysis is the process of studying and collecting information relating to the operations and responsibilities of the specific job." — Edwin B. Flippo

"A job is a collection of duties, tasks and responsibilities which are assigned to an individual and which is different from other assignment." — Dale Yoder

"Job analysis is the process of critically evaluating the operations, duties and relationship of the job."
— Scott, Clothier, and Sprigal

"Job analysis is the methodical compilation and study of work data in order to define, characterize each occupation in such a manner as to distinguish it from all others."
— Shbim

"Job analysis is the systematic exploration of activities within a job. It is a basic technical procedure, one that is used to define the duties, responsibilities and accountability of the job."
— Robbins & De Canzo

OBJECTIVES OF JOB ANALYSIS

The important and primary objectives of Job Analysis are:

1. **Simplification of Work:** Job analysis is done to simplify the process and the methods involved in the work, i.e., redesigning the job in the simple form. This improves the productivity of the employee at work.
2. **Establishing Performance Standards:** It is necessary to determine the standards of performance in advance so as to compare them with the applications at the time of selecting the personnel. These standards are established with the help of job analysis.
3. **Supporting Personnel Activities:** Other personnel activities like recruitment, selection, training, job evaluation, development, performance appraisal, etc. are supported by job analysis.

USES OF JOB ANALYSIS

The job analysis programme is an essential ingredient of the sound personnel management. It is the major input for forecasting future human resource requirements, job modifications, job evaluation, determination of proper compensation and the formulation of job description. Job analysis is essential in every phase of employee relations.

1. **Organisational Design:** Job analysis provides the relevant and important information for completing all the steps involved in organisational design. Organisational design involves the identification of various jobs to be performed, grouping these jobs according to the similarity and assigning these jobs to the positions. All the information in relation to these steps is provided by the job analysis.
2. **Organisational and Human Resource Planning:** It is helpful in organisational planning, for it defines labour needs in concrete terms and coordinates the activities of workforce, and clearly divides duties and responsibilities.
3. **Recruitment and Selection:** By indicating the specific requirement of each job (i.e., the skills and knowledge), it provides a realistic basis for the hiring, training, placement, transfer and promotion of personnel. Basically, the goal is to match the job requirements with a worker's abilities and interests. It also helps in charting the channels of promotion and in showing lateral lines of transfer.
4. **Wage and Salary Administration:** Job analysis helps in salary and wage administration by indicating the qualifications required for doing a specific job and the risks and hazards involved in its performance. It is used as a foundation for job analysis.

5. **Employees' Training and Management Development:** Job analysis provides necessary information to the management for training and development programmes. It helps the management to determine the content and subject matter of the training courses. It also helps in checking applications, interviewing, weighing test results, and in checking references.
6. **Performance Appraisal:** Performance appraisal helps in the assessment of actual job performance by an employee, by what is expected of him. Job analysis helps in establishing clear cut standards which may be compared with the actual contribution of each individual.
7. **Health and Safety:** Job analysis provides an opportunity for identifying hazardous and unhealthy environmental factors, so that corrective measures can be taken to minimise the possibility of accidents.
8. **Employee Counselling:** Job analysis helps in providing counselling to employees in various areas. These areas may include choice of careers and rehabilitation. Thus, job analysis provides information which enables the employee to change jobs in order to permit their manned by personnel with specific characteristics and qualifications.

JOB ANALYSIS PROCESS

Steps involved in the process of job analysis are as follows:

Step 1: Collection of Background Information

In this step, the information relates to how each job fits into the total organisation through organisational structure and process charts. Because before a job analysis exercise is undertaken, it is necessary to understand the organisation structure, i.e., the placement of people within the organisation and the reporting relationships. It is also important to understand the different business processes like manufacturing, marketing, finance, and relationship between these functions. This information provides an overall view of the organisation, the positions, and the relative importance of each job.

Step 2: Determining the Purpose of Job Analysis

Job analysis data is used for a variety of purposes. Job analysis may be necessary if:

- (i) jobs are not clearly defined;
- (ii) jobs are not logically grouped together;
- (iii) reporting relationships are not clear;
- (iv) there is an overlap in responsibilities; and
- (v) jobs with same or similar responsibilities are not placed in the same grade or salary scale.

Therefore, before undertaking job analysis, it is necessary to clearly define the purpose of analysis.

Step 3: Selection of Job to be Analysed

All the jobs are not equally critical. However, some of them may not be appropriately graded or scaled. Only those jobs which are critical or important for the functioning of the organisation and those jobs which require corrections should be taken up for the analysis or study.

Step 4: Collection of Job Analysis Data

Job data on the features of the job require employee qualifications and requirements should be collected either from the employees who actually perform the jobs or from other employees (such as supervisors) who watch the workers doing the job and thereby, acquire knowledge about it; or from outside persons known as trade job analysts who are appointed to watch employees performing the job. Therefore, a standardised questionnaire can be prepared to collect data on all the aspects of the job and its requirements. Similarly, the educational qualifications, experience, training, skills, abilities required for the job may also be listed.

Step 5: Preparation of Job Description

The information collected is to be developed in the form of a job description. This is the written statement of the main features which the job incumbents must possess.

Step 6: Preparation of Job Specification

The last step is to convert the job description statements into job specification, i.e., to specifically mention what personnel qualities, traits, skills and background is necessary for getting the job done.

TECHNIQUES OF JOB ANALYSIS

The determination of job tasks, the concomitant skills and abilities necessary for successful performance, and the responsibilities inherent in the job can be obtained through the following methods:

Qualitative Methods

1. **Personal Observation Method:** The most reliable and practical technique for obtaining the information in relation to the job is through the direct observation of the work performed coupled with the discussion with the supervisor of the job. The materials and equipments used, the working conditions and probable hazards, and an understanding of what the work involves are facts which should be known by an analyst. Direct observation is especially useful in jobs that consist primarily of observable physical ability like the jobs of draftsman, mechanic, spinner, or weaver.
2. **Questionnaire Method:** In this method, the questionnaire is prepared by the job analyst and distributed among the workers. The questions are answered by the workers to the best of their knowledge and belief. This method is usually employed by engineering consultants. Properly drafted questionnaires are sent out to the job holders for completion and are returned to supervisors. The idea of issuing questionnaires is to elicit the necessary

information from the job holders so that any error may first be discussed with the employee and after due corrections may be submitted to the job analyst.

3. **Personal Interviews:** Personal interviews may be held by the employees and answers to the relevant questions may be recorded. But this method is relatively time consuming and costly. This method is a prime method used by the job analyst for data collection. The job analyst contacts the workers and the supervisors concerned and asks questions regarding the various jobs performed by them for collecting the relevant information.
4. **Record:** In this method, the employee is asked to maintain the daily diary record of duties he performs, stating the time at which each task is started and finished. But this method is incomplete, because it does not give the desirable data on supervisor relationship, equipments used and the working conditions. This record is also maintained by the personnel department regarding the job holders. The analyst collects this information from the record maintained by the personnel department.
5. **Job Performance:** In this method, the job is actually performed by the job analyst for obtaining firsthand experience in relation to the actual tastes, physical and social demand, and the working environment of the job. This method can be used only for jobs where skill requirements are low and can therefore, be learnt quickly and easily.

Quantitative Methods

1. **Position Analysis Questionnaire (PAQ):** It is a structured job analysis questionnaire. The PAQ is filled by the job analyst. It contains 194 items, each of which represents an important component of the job. The job analyst decides whether each item plays a role on the job and if so to what extent.

Advantages of PAQ

- (i) It classifies the jobs.
- (ii) It provides a quantitative score or the profile of the job.
- (iii) The results of PAQ can be used to compare one job with the other.
- (iv) PAQ is also used for the fixation of pay levels.

Disadvantages of PAQ

- (i) It is time-consuming.
- (ii) It involves a complicated analysis on the part of job analyst.

2. **Management Position Description Questionnaire (MPDQ):** It is a standardised instrument which is specifically designed for the use in the analysis of managerial jobs. Its questionnaire consists of 15 sections including 274 items. In this method, the respondents have to respond on the importance of each item to the position. The management description factors include:

- (i) Internal Business Control
- (ii) Public and Customer Relations
- (iii) Staff Service

- (iv) Supervision
- (v) Broad Personnel Responsibility
- (vi) Complexity and Stress
- (vii) Approval of Financial Commitments
- (viii) Autonomy of Actions
- (ix) Advanced Consulting
- (x) Product, Marketing, and Financial Strategy Planning
- (xi) Coordination of Other Organisational Units and Personnel
- (xii) Products and Service Responsibility

3. Functional Job Analysis: This approach of job analysis is worker oriented. The functional job analysis approach attempts to describe the whole person on the job. It examines three fundamental components of 'data, people, and things'. The four main dimensions which are rated under this method are:

- (i) The language and verbal facilities required to perform the job.
- (ii) The mathematical ability required to perform the job.
- (iii) The extent to which specific instructions are necessary to perform the job.
- (iv) The extent to which judgement and reasoning are required to perform the job.

This method is used frequently for government jobs. It provides a quantitative score of each as a function of its complexity in relationship with people, data, and things.

PROBLEMS IN JOB ANALYSIS

The main problems involved in job analysis are:

- 1. Lack of Support from Top Management:** In some organisations, job analysis is not supported by the top management. The top management creates confusion in the minds of employees by not appropriately describing what an employee is supposed to do in the company.
- 2. Single Method:** In various organisations, only one method is used under job analysis whereas the use of a combination of methods gives better results.
- 3. Lack of Motivation/Training:** The job holders are a great source of information for job analysis but they are not trained or motivated to provide quality information for the job analysis. Further, the job holders are also not provided any incentives for providing accurate information for job analysis.
- 4. Distortion of Activities:** When the job holders are not provided with training, they tend to submit the distorted information about the job, either intentionally or inadvertently

PRODUCTS OF JOB ANALYSIS

The two main products of job analysis are:

1. Job Description

INTRODUCTION

Recruitment is another important functions of human resource management. After estimating the manpower requirements, the next process is the procurement function. Recruitment ensures the number of persons necessary to continue the operation of the organisation. On the basis of manpower planning, the company determines the right number and right quality of the employees. Thus, the process of recruitment begins with the determination of demand for the employees.

MEANING OF RECRUITMENT

The term 'recruitment' applies to the process of attracting potential employees towards the organisation. It is a systematic means of finding and inducing available candidates to apply to the company for employment. The recruitment process includes the identification and evaluation of the sources of the manpower. It is an important function of personnel administration and a major step in the total staffing process. So, recruitment is the process of searching for prospective employees and encouraging them to apply for jobs in the organisation.

It aims at securing as many qualified applicants for jobs as possible so as to decrease the hiring ratio. Thus, recruitment is the process of identifying and attracting the right candidates for a job. It follows the human resource planning exercise. It is the phase that immediately precedes the selection and its purpose is to pave the way for the selection procedures by producing, ideally the smallest number of candidates who appear to be capable either of performing the required tasks of the job from the outset, or of developing the ability to do so within a period of time acceptable to the employee organisation. The efficient recruitment of staff may be described as knowing what resources you want, what resources are available, and where and how they may be found.

Definitions

"Recruitment is the process of finding and attracting capable applicants for employment." — Davis

"Recruitment is the process of searching for prospective employees and stimulating them to apply for the jobs in the organisation."

"Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon whom the organisation can depend when it needs additional employees."

— Dale S. Beach

1. **Requisition of Employees:** In the first step of recruitment, the heads of various departments provide the information to the personnel manager regarding their requirements for the employees in their departments. Heads of the departments provide this information after analysing the workload and the availability of the staff.
2. **Identification of Sources:** After receiving the requirement of staff from the various departments, personnel manager decides the sources from which the recruitments are to be made. For this, various sources are analysed keeping in view their positive and negative aspects. (These sources are discussed later in this chapter.)
3. **Inviting the Applicants:** Once the sources of recruitment are decided, the next step is to invite the interested applicants for the job in the company. In this invitation following information is included:
 - ♦ Number of vacancies
 - ♦ Job profile
 - ♦ Proposed salary
 - ♦ Minimum qualification
 - ♦ Preferred qualification
 - ♦ Minimum experience
4. **Preparation of the List:** After receiving the applications, they are verified and classified into two groups. In one group those applications are included, which fulfill the required minimum qualification; and in the other those which do not fulfil the minimum qualification. The first group is then included in the selection process.

SOURCES OF RECRUITMENT

The sources of recruitment which are to be selected in the second step of recruitment are of two types:

- I. Internal Sources
- II. External Sources

I. Internal Sources

Internal sources of recruitment are those where the vacancy is filled from within the organisation. It is desirable to look for applicants from within the organisation, if they have requisite qualifications needed to fill a vacancy. The internal sources of recruitment include personnel already on the payroll of an organisation. It also includes personnel who were once on the payroll and wish to return or whom the company may like to rehire. Recruitment from internal sources include the following:

1. **Promotion:** Promotion involves shifting of an employee to a higher position carrying higher responsibilities, higher status, and more pay. This promotion may be based upon both the seniority and merit. Further, it is a vertical shifting of employees or the upward movement of the employees. The promotion may be temporary or permanent in the organisation. The promotion without the increase in salary is called dry promotion.

Seniority Vs Merit

There is always a conflict between the two options that, if the promotion should be based on merit or seniority. Both the methods have their own merits and demerits:

Merits of Promotion Based on Seniority

- (i) It is the simple and easy method of promotion of employees.
- (ii) This method of promotion creates the discipline and respect for the senior personnel in the organisation.
- (iii) As the promotions are acceptable to all, this method creates the peace in the organisation.
- (iv) Right of senior persons for promotion is recognized in this system.
- (v) The employees become aware of the future prospects of their job.
- (vi) The existing manpower can be used to an optimum level by giving them training and preparing them for higher jobs.
- (vii) It is the cheapest system of recruitment.

Merits of Promotion based on Merit

- (i) The competence, knowledge and initiative of employees are recognised and rewarded.
- (ii) Employees feel that their performance will be rewarded which leads to improvement in their performance.
- (iii) Competent and efficient personnel are retained in the organisation.
- (iv) It is a logical and scientific system of recruitment.

Both the methods have their own advantages, so the organisation should develop such a system where a combination of both should be followed.

2. Transfer

A transfer refers to the shifting of the employees from one job to another without a drastic change in the responsibilities and the status of the employees. It is the horizontal shifting of the employees. Transfer of employees is made from one place to an other place in the interest of work, worker, and the organisation.

3. Retired or ex-employees

Sometimes the organisation retrenches due to lay off and whenever there is vacancy in the organisation, it is filled with these ex-employees. Sometimes the retired persons are re-employed for the token of their loyalty to the organisation.

Advantages of Internal Sources

1. **Motivation to the Employees:** Employees are motivated to perform better at work, so that they can get the reward of promotion. The use of internal sources for filling the vacant position provide the job satisfaction to the employees. Not only do the promoted employees get motivated, but the other employees also put their maximum efforts.

2. **Economical:** Internal sources are economical because there is no need for any formalities of advertisements, interviews, etc. It saves money as many candidates can be selected on the basis of seniority and merit.
3. **Knowledge of Company:** The employees are aware of the rules and policies of the company, so there is no need of orientation of such employees because they already are a part of the enterprise and have full knowledge about the working methods, rules and policies of the organisation.
4. **No Reference:** In the recruitment through internal sources, any reference and its verification is not required. This is because the service record of the employee is already available with the organisation.
5. **Improves Morale:** Internal source of recruitment improves the morale of the employees in the organisation as they are assured of better positions when the vacancies are created in the organisation. This method gives preference to the existing employees and outsiders are only provided with the opportunity when the suitable candidates are not available from within the organisation.
6. **Less Time-consuming:** Recruitment through internal sources is less time-consuming as in this case the employees are internally available in the organisation and they can be immediately selected.
7. **Satisfaction of Trade Unions:** Using internal sources as the source of recruitment will satisfy the trade unions. This will also reduce the conflicts between the management and the trade unions.
8. **Promotes Loyalty:** Internal sources of recruitment promote loyalty in the organisation as when the existing employees are considered for higher positions, they feel a part and parcel of the organisation and they try to promote its interests.

Disadvantages of Internal Sources

1. **No New Entrants:** In this internal source recruitment, company gets deprived of new, improved and novel skills, which outsiders may introduce. Further efficient, competent and trained outsiders will not get an opportunity for appointment.
2. **Promotion of Inefficient Personnel:** If seniority is taken as the basis of promotion, anyone whether efficient or inefficient may get the promotion. Further, in case of taking merit as the base, approaches play an important role. So, it is possible that really capable hands may not be chosen.
3. **Not a Complete Solution:** The internal sources are not capable of fulfilling all the requirements of the company and it has to depend on the external sources as well.
It is not only reasonable but wise to use internal sources, if the vacancies to be filled are within the capacity of the present employees. If the present employees are given a chance to prepare for the promotion, then this method is one of the best because it motivates the workforce.

II. External Sources

The external sources of recruitment supply the manpower from the outside sources. Here, the employees are selected from outside the enterprise through a prescribed selection

procedure. External sources provide a large pool of talented persons and at the minimum cost. Following are the various sources of external recruitment:

1. **Educational and Training Institutions:** One of the oldest recruitment practices in the United States is known as Scouting— sending recruiters to the schools and colleges for interviews and screen possible recruits and persuade them to come to work, which is regarded as part of the American Way. Now, different organisations in India also use this method. Most of the organisations are using this source to perform the function of selection after completing the recruitment in the campus of the institute itself with a view to minimise time lapse and securing the cream before they are attracted by some other organisations.
2. **Jobbers/Contractors:** These are the individuals and organisations, which work as middlemen to supply workers. If the organisation fails to work directly, it meets its requirements through this source.
3. **Recommendations of Existing Employees and Trade Unions:** The existing employees of the organisation recommend the names of their family, relatives, or friends and the organisation recruits them. If the employees recommend suitable candidates, then this method is suitable.
4. **Advertisements:** Advertisement is the most effective means to search potential employees from outside the organisation. These advertisements can be given in journals, newspapers, bulletins, etc. The coverage of the advertisement is very large. Advertisement includes the important information regarding the job profile, salary, minimum qualification, etc. This is the most commonly used method by which employers carry out their search for suitable staff. Apart from the national and the local press and to a limited extent, television and radio, professional and trade journals are an important source of recruitment by this means.
5. **Employment Agencies:** Many organisations obtain the information regarding the prospective candidates through the employment exchanges. In our country, two types of employment exchanges are operating:
 - ♦ **Public Employment Exchanges:** These are run by government.
 - ♦ **Private Employment Exchanges:** These are run by individuals privately.
6. **Gate Hiring:** The concept of gate hiring is to select people who approach on their own for employment in the organisation. This happens mostly in the case of unskilled and semi-skilled workers. When large numbers of workers are required at the initial stage of the organisation, then this method is suitable.
7. **Professional Organisations:** Professional organisations also help the organisation to fill up the vacancies. These organisations have complete biodata of their members and provide them to the organisations at the time of recruitment. These act as a link between the members and the recruiting firms.
8. **Data Bank:** Under this, the management can collect the biodata of the candidate from the different sources like educational training institutions and employment exchanges, etc. and feed them in computer. whenever there is a need, the recruiting firm can use and get the suitable candidates.

9. **Casual Callers:** Many well reputed business organisations draw a steady stream of unsolicited applications in their offices. Such job seekers can be a valuable source of manpower. A waiting list of such visitors may be prepared and they may be screened to fill the vacancies as they arise.
10. **Telecasting:** In this method, the jobs are telecasted which includes all the important information like job profile, experience, salary, minimum qualifications, etc.
11. **Internet:** There has been a growth in the use of the internet to attract applicants. Surveys show that many organisations use the internet. Benefit from this method is the speed—by which applicants can obtain information about the organisation and application documents can be downloaded from the internet. Whilst the internet was initially suitable for professional and technical vacancies, one suspects that the spread of personal computing to all potential applicants groups will see this tool develop further. Internet and websites are used for the recruitment. Various websites like www.naukri.com register the candidates for the jobs and provide them information regarding the vacant posts suitable for them.
12. **Walk-ins, Write-ins and Talk-ins:** Nowadays, walk-ins are becoming a very popular method of recruitment. Advertisement is given in the newspapers for walk-in interview. The applicants just walk in with their resumes for the interviews. However, this is tough for the organisation as it is not known that how many candidates will walk in for the interview.
13. **Displaced Persons:** Implementation of a project in a particular area would result in displacement of several inhabitants. Rehabilitating the displaced persons is a social responsibility of every business organisation. The companies should recruit such displaced persons; however, the track record of companies in this respect is disappointing.
14. **Employee Referrals:** If the company feels that they can obtain candidates by word of mouth, they may place an advertisement on the company's noticeboard stating their requirements. Employees of the company may contact persons known to them, who may be suitable for the job and obtain their biodata. The personnel department would scrutinise applications and call shortlisted candidates for an interview.

Advantages of External Sources

Following are the advantages of using the external sources of recruitment:

1. **Wider Choice:** The area of choice increases with the use of external sources. Number of applicants is much higher in this case as compared to the internal sources of recruitment. So, management has a wider choice for selection when external sources are used.
2. **Efficient and Qualified Personnel:** By using the external sources of recruitment, the qualified and efficient personnel from outside are provided opportunity to show their capability.
3. **New and Fresh Talent:** Through external sources, latest knowledge, skills and innovations can also be flowed into the organisation. People with latest knowledge and new ideas can enter into the organisation only through the external sources of recruitment.
4. **Less Favouritism:** Candidates are selected without any preconceived notion. Almost all the applicants are new to the managers, so there is a less chance of partiality or favouritism.

5. **Long-run Benefit:** External sources provide the long-run benefit to the organisation as the qualitative human resources are brought.

Disadvantages of External Sources

Following points highlight the disadvantages of the external sources:

1. **Time-consuming:** Using external sources for the recruitment is a lengthy and time-consuming process. This is because a lot of formalities are required to be fulfilled for recruiting candidates from the external sources.
2. **Expensive:** External sources of recruitment are considered a costly process because it requires expenditures on advertisement, training of the candidates, etc. So, this source is more expensive as compared to the internal sources of recruitment.
3. **Dissatisfaction among the Existing Staff:** When the existing staff is not promoted and external candidates are given opportunity for the same post, they lose trust on their superiors. They feel that they are not considered capable by their top management. So use of external sources dissatisfies the existing employees.
4. **Increase in Employee or Labour Turnover:** When employees see that there are no chances of their promotion, they leave the organisation as and when they get better opportunities outside. This adversely affects the goodwill and reputation of the enterprise.
5. **Wrong Selection:** Sometimes the external sources lead to the selection of wrong and inefficient candidates because all information is not available with the company at the time of recruitment and selection of the candidates.

Differences between External and Internal Sources of Recruitment

Basis	Internal Sources	External Sources
Meaning	Recruitment is made from within the organisation.	Recruitment is made from outside the organisation.
Motivation	Increases the motivation of existing employees.	Decreases the motivation of existing employees.
Time	It is less time-consuming.	It is more time-consuming.
Choice	It provides a limited choice.	It provides wider choice.
Cost	It is less costly.	It is more costly.
Quality	Quality of recruitment is not as superior as in external sources.	Quality of recruitment is more superior.
Reference	No reference is required because the enterprise already knows the employee.	Reference is required because the enterprise did not know the candidate.
Basis	Based on both seniority and merit.	Based only on merit.

Unit-4

Ques-7 defines performance appraisal? Process & methods?

Ques-8 defines compensation? Types & theories of compensation?

CHAPTER 19

Performance Appraisal

INTRODUCTION

Organisations are managed by men. It is through manpower that goals are set and objectives are achieved. The performance of an organisation is, thus, dependent upon the sum total of the performance of its employees. According to Peter Drucker, "An organisation is like a tune. It is not constituted by individual sounds but by their synthesis." The success of an organisation, therefore, depends on its ability to accurately measure the performance of its employees and use these measurements objectively, in order to optimise the personnel's performance, as they are the most vital resource in the organisation.

The performance of an employee, as his resultant behaviour on task, can be observed and evaluated. Therefore, performance refers to the contribution made by an individual in the accomplishment of the organisational objectives. The task performed is measured through a combination of quantity, quality, time and cost of work. Employees do not learn, unless they are given feedback on the results of their actions. For learning to take place, feedback should be both regular and frequent, so that corrective actions can be taken for the failures. In order to facilitate this performance, the appraisal system provides management with an opportunity to recall and give feedback to the employees, as to how they are doing on the job and so that they can correct their mistakes and acquire new skills.

MEANING OF PERFORMANCE APPRAISAL

Performance appraisal refers to all those procedures that are used to evaluate the personality, the performance and the potential of the employees in the organisation. Performance appraisal can be informal or formal. Informal performance appraisal is a continuous process of giving feedback to the subordinates *i.e.*, the information about how well they are doing their work in the organisation. The informal appraisal is conducted on a day-to-day basis.

For example, the manager spontaneously mentions to his subordinates that a particular piece of job was well performed or poorly performed. As there is a close connection between the behaviour and the feedback, the informal appraisal encourages desirable performance and discourages undesirable performance before it becomes permanently engrained. Therefore, informal appraisal must not be perceived merely as a casual occurrence but should be taken as an important activity and an integral part of the organisation's culture. On the other hand, the

Thus, performance appraisal is the systematic evaluation of the individual with respect to his or her performance on the job or his or her potential for the development. Performance appraisal is a formal structured system of measuring and evaluating an employee's job related behaviour's and outcomes, to discover how and why the employee is presently performing more effectively than before, so that in the future the employee, organisation and society benefit.

Definitions

Following are some definitions of the performance appraisal:

"Performance appraisal is the systematic, periodic and an impartial rating of an employee's excellence in matters pertaining to his present job and his potential for the present job."
— Edward Flippo

"Performance appraisal includes all formal procedures used to evaluate personalities, contributions and potentials of the group members in a working organisation. It is a continuous process to secure information necessary for making correct and objective decisions on employees."
— Dale Yoder

"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."
— Dale S. Beach

"Performance appraisal is a formal structured system of measuring and evaluating an employee's job related behaviour and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organisation, and society will benefit."
— Randall S. Schuler

On the basis of the above definitions, it can be said that performance appraisal is a process by which organisations evaluate the employees' performance. It is the systematic evaluation of the individual with respect to his performance on the job and his potential for development. It is concerned with the determination of the differences among the employees.

FEATURES OF PERFORMANCE APPRAISAL

Following are the main features of performance appraisal:

- 1. Systematic Process:** Performance appraisal is a systematic, process consisting of the number of steps to be followed for the purpose of evaluation of strengths and weaknesses of the employees.
- 2. Description of an Employee:** Performance appraisal is the objective and systematic description of the employees' strengths and weaknesses in terms of the job performed by them.
- 3. Continuous Process:** Performance appraisal is not a one shot deal, rather it is an ongoing and continuous activity where evaluations are arranged periodically according to the definite plan.
- 4. Collection of Information:** Performance appraisal is concerned with the collection of important and necessary information about the employees' strengths and weaknesses so that the decisions related to them can be taken correctly.
- 5. Human Oriented:** Performance appraisal is human oriented as it is done for the employees of the employees and about the employees working in the organisation.
- 6. Formal and Informal:** Performance appraisal can be formal as well as informal. Informal appraisals takes place on a continuous basis where feedback is given to the employees by

2. **Communication of the Standards to Employees:** The performance standards set in the first step should be communicated to the employees, so that the employees know what is expected from them. These standards will remove the confusion in the minds of the employees in relation to the targets to be achieved by them. Further, when the standards are communicated to the employees, they put their best efforts in increasing their performance equal to or above the set standards.
3. **Measuring the Actual Performance:** The next step in the process of performance appraisal is to measure the actual performance of the employees at work. This measurement of performance can be done through statistical reports, personal observations, written reports, oral reports, etc.
4. **Comparison of Actual Performance with the Standards:** The actual performance of the employees is compared with the fixed standards for the purpose of finding the stand of the employees. Deviations in the performance of the employees are also noted at this stage. The evaluation of the employees is done on the basis of their potential for growth and advancement.
5. **Discussing Reports with the Employees:** Periodically, the assessment reports are discussed with the concerned employees. For helping the employees to improve their performance, their weak points, good points and difficulties are indicated. In this way, their attitude and performance are influenced for the achievement of the organisational goals.
6. **Taking Corrective Action:** Performance appraisal process is useful only if corrective action is taken on the basis of the reports. This corrective action can be in the form of advice, counsel, warning, refresher course, training, assignments, coaching, etc.

METHODS OF PERFORMANCE APPRAISAL

Since the early years of their use, methods of evaluating personnel have evolved considerably. Old systems have been replaced by new methods that reflect technical improvements and are more consistent with the purposes of the appraisal. The methods of performance appraisal are classified into traditional methods and modern methods.

Traditional Methods

Traditional methods are also known as trait methods. Trait approaches to performance appraisal are designed to measure the extent to which an employee possesses certain characteristics such as dependability, creativity, initiative and leadership that are viewed as important and desirable for the job and the organisation in general. There may also be added work-related characteristics such as job knowledge, ability to complete an assignment, success in carrying out plans, etc. As there are different methods of rating people on the basis of such dimensions, there are several methods based on this approach. The reason that trait methods are the most popular is largely due to the ease with which they are developed. Some of these methods are as follows:

1. **Rating Scales:** In this method, each trait or characteristic to be rated is represented by the scale on which a rater indicates the degree to which an employee possesses that trait or characteristic. This is the simplest and most popular technique for appraising

employee performance. The typical rating scale system consists of several numerical scales, each representing a job-related performance criterion such as dependability, initiative, attendance, output, attitude and cooperation. Each scale ranges from excellent to poor. The rater checks the appropriate performance level on each criterion, and then computes the employee's total numerical score. This is shown in the table below.

Instructions: For the following performance factors, please indicate on the rating scale your evaluation of the employee named below

Employee's name	Rater's name				
Performance Factors	Excellent 5	Good 4	Acceptable 3	Fair 2	Poor 1
1. Dependability	—	—	—	—	—
2. Initiative	—	—	—	—	—
3. Overall Output	—	—	—	—	—
4. Attendance	—	—	—	—	—
5. Attitude	—	—	—	—	—
6. Cooperation	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
20. Quality of Work	—	—	—	—	—
Total	+	+	+	+	+

(Source: William B. Werther and Keith Davis, *Human Resources and Personnel Management*, p. 349)

Subjectivity bias is reduced somewhat when the dimensions on the scale and the scale points are defined as precisely as possible. This can be achieved by training raters and by including descriptive appraisal guidelines in a performance appraisal reference packet.

2. Confidential Report: Confidential Reports are maintained mostly in government departments, though its application in the industry is not ruled out. These reports differ from department to department and from level to level. The confidential report is written for a unit for one year and relates to the performance, ability, and character of the employee during that year. The report is not data based but is subjective. No feedback is provided to the employee being appraised and therefore, its credibility is very low. The approach called Annual Confidential Report (ACR), contains 14 items:

- (i) Attendance
- (ii) Self-expression
- (iii) Ability to work with others
- (iv) Leadership
- (v) Initiative

- (vi) Technical ability
- (vii) Ability to understand new material
- (viii) Ability to reason
- (ix) Originality
- (x) Areas of work that suit the person best
- (xi) Judgement
- (xii) Integrity
- (xiii) Responsibility
- (xiv) Any defect

3. Ranking Method: In this, the superior ranks his or her subordinates in the order of their merit, starting from the best to the worst. It is the simplest and old method of merit rating. Every employee is judged as a whole without distinguishing the rates from his performance. All that the HR department knows is that A is better than B. The 'how' and 'why' are not questioned nor answered. No attempt is made to fractionalise what is being appraised into component elements. This method is subject to the halo and recency effects, although ranking by two or more raters is averaged to help reduce bias. Its advantages include ease of administration and explanation.

4. Paired Comparison Method: The paired comparison method is almost similar to ranking method. When variations are made in the ranking method so that it can easily be used in large groups, it becomes paired comparison method. In paired comparison method, every person is compared traitwise with the other persons one at a time. The number of times one person is compared with others is tallied on a piece of paper. With the help of these numbers, ranks are allotted to the employees. Rater is provided with the bunch of slips, each containing a pair of names. The rater puts a tick mark against the person whom he considers better of the two, and the final ranking is determined by taking the total of number of times an employee is ranked better than an other employee.

5. Grading System: In this method, certain characteristics or abilities of performance are identified in advance and the employees are put into the category according to their behaviour and traits. Such categories are defined as outstanding, good, average, below average, and poor in terms of letters like A, B, C, D, E where A indicates the best, and E the poorest. This method is used for the promotions based on performance.

6. Checklist Method: Under this method, a checklist of statements on the traits of the employees and his or her job is prepared in two columns – viz. a 'Yes' column and a 'No' column. It is a list of statements that indicate the performance of the employees on the job. All that the rater has to do is to tick 'Yes' column if the answer to the statement is positive and column 'No' if the answer is negative. The performance of the employee is rated on the basis of the number of positive checks. A typical checklist is given below:

Statements	Yes	No
Is the employee really interested in the job?		
Does he or she possess adequate knowledge about the job?		

3. Is his or her attendance satisfactory?		
4. Does he or she cooperate with his or her co-employees?		
5. Does he or she keep his or her temper low?		
6. Does he or she obey orders?		
7. Does he or she observe safety precautions?		
8. Does he or she complete what he or she commences?		
9. Does he or she evade responsibility?		

These Checklists are of three types:

- (i) **Simple Checklist:** In this method, the printed forms containing descriptive questions about the performance of the employees are provided to the supervisors. The supervisor has two options 'Yes' and 'No'. He ticks the one according to the behaviour of the employee and sends the filled form to the personnel department for the final rating.
 - (ii) **Weighted Checklist:** In this method, the weights are allotted to the different statements to indicate their importance over the other statements. This method is used particularly with the objective of avoiding scope of personal prejudices.
 - (iii) **Forced Choice Checklist:** Five statements for each trait are given in this checklist. These five statements include two most descriptive, two least descriptive, and one neutral statement. The rater has to tick on one statement. This checklist has greater objectivity as compared to the other methods.
- 7. Forced Choice Method:** This method requires the rater to choose from statements, often in pairs, that appear equally favourable or equally unfavourable. The statements, however, are designed to distinguish between successful and unsuccessful performance. The rater selects one statement from the pair without knowing which statement correctly describes successful job behaviour. Forced Choice pairs might include the following:

- | | |
|---------------------------------|-------------------------------------|
| (i) (a) Works Hard | (b) Works Quickly |
| (ii) (a) Shows Initiative | (b) Is less responsive to customers |
| (iii) (a) Produces Poor Quality | (b) Lacks good working habits |

This approach is known as forced choice method because the rater is forced to select statements which are readymade. The advantage of this method is the absence of personal bias in rating. The disadvantage is that the statements may not be descriptive of the ratee's trait.

- 8. Essay Method:** This method requires the appraiser to compose a statement that best describes the employee being appraised. The appraiser is usually instructed to describe the employee's strengths and weaknesses and to make recommendations for his or her development. Essay method is often used in combination with some other rating method. Here, the supervisor continuously watches the subordinates and writes his assessment in the report. The following factors are considered by the rater while writing the essay:

- (i) Potential of the employee and his knowledge about the job.
- (ii) Relationship of the employee with co-workers and supervisors.
- (iii) Employee's traits and attitudes.
- (iv) Need for future development, etc.

The essay method provides an excellent opportunity to point out the unique characteristics of the employee being appraised. It is a non-quantitative technique of appraisal and provides a good deal of specific information about the employee and can reveal even more about the supervisor. A major limitation of the essay method is that composing an essay that attempts to cover all the employee's characteristics is a time-consuming task. This method may suffer from personal and human bias because of likings or dislikings of the supervisor.

9. Performance Tests and Observation: With a limited number of jobs, employee assessment may be based upon his test of knowledge or skills. The test may be of the paper and pencil variety or an actual demonstration of skills. The test must be reliable and validated to be useful. Then, the performance tests are apt to measure potential more than actual performance. In order for the test to be job related, observation should be made under circumstances likely to be encountered.

10. Forced Distribution Method: Raters sometimes suffer from a constant error i.e., either they rate the employees as good, average, or poor. They do not evaluate the employees properly. This system minimises the rater's bias so that all employees are not similarly rated. In this method, the appraiser is forced to appraise the appraisees according to the pattern of the normal curve. This system is based on the assumption that all employees can be divided in five categories i.e., outstanding, above average, average, below average, and poor. The raters are asked to place employees as follows:

Outstanding	10% of employees
Above Average	20% of employees
Average	40% of employees
Below Average	20% of employees
Poor	10% of employees

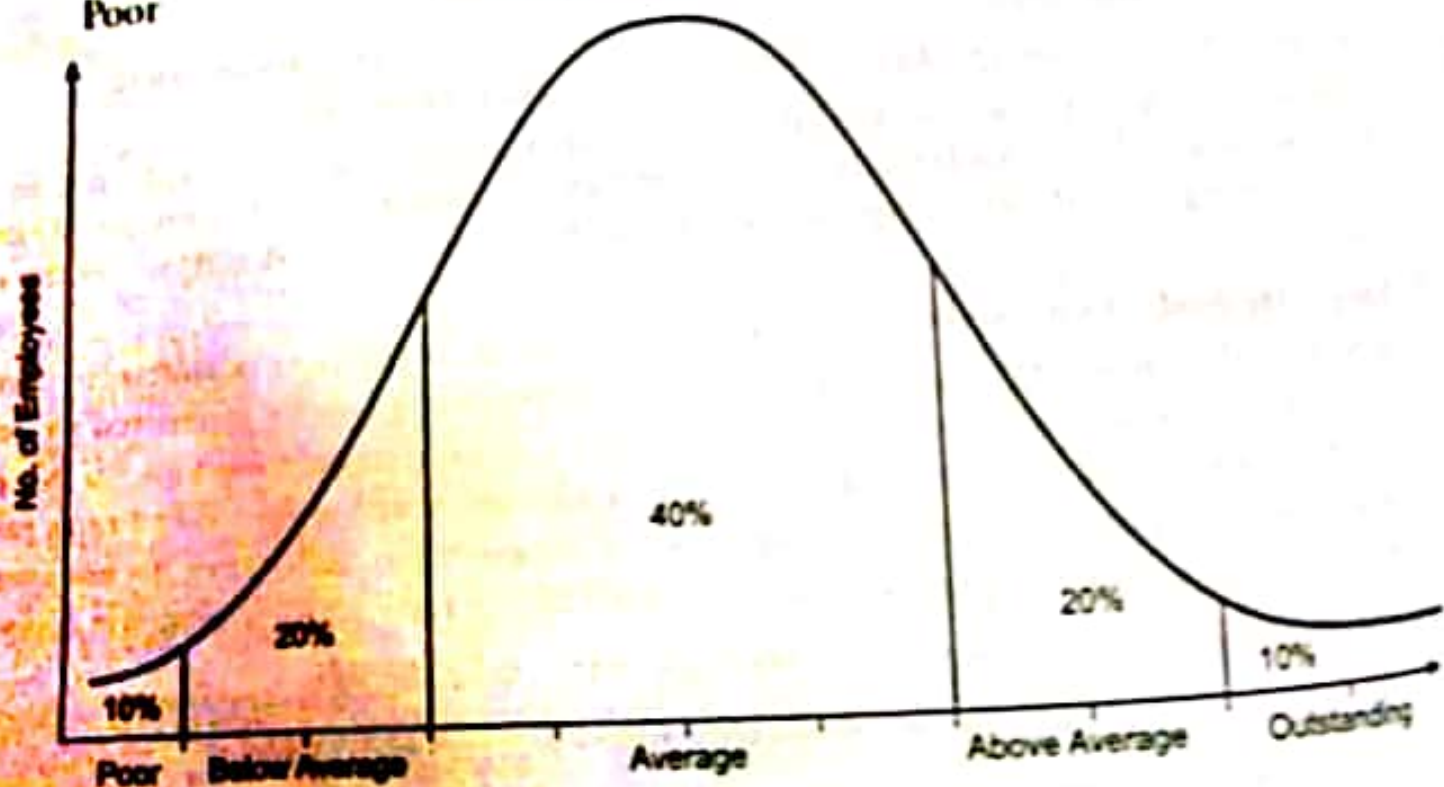


Fig. 1: Forced Distribution Method

This method removes the room for subjective judgement on the part of the supervisors. Further, this system is easy to understand and administer. But the limitation of this method is that the employees are placed within the category and are not ranked within the category and the rater does not explain why the employee is placed in a particular category.

Field Review Method: In this method, an employee is not appraised by his direct superior but by another person usually from the HR department. This is an appraisal by someone outside the assessee's own department, usually someone from the corporate office or the HR department. The basic idea is that such a person may take a more objective view in the appraisal as he is not under the pressure as the superior of the employee may be. The rater also conducts the interview with the employee and his superior for making a qualitative assessment of the employee. Field reviews are useful and are done when comparable information is needed from employees in different units or locations. Two disadvantages of this method are:

- (i) An outsider is usually not familiar with conditions in an employee's work environment.
- (ii) An outside reviewer does not have the opportunity to observe the employee behaviour or performance over a period of time and in a variety of situations.

Modern Methods

As stated above, one of the potential drawbacks of a trait-oriented performance appraisal is that traits tend to be vague and subjective. We discussed earlier that one way to improve a rating scale is to have descriptions of behaviour along a scale, or continuum. These descriptions permit the rater to readily identify the point where a particular employee falls on the scale. Modern methods have been developed to specifically describe which actions should be or should not be exhibited on the job. Modern methods are also called behavioural methods. They are frequently more useful for providing employees with developmental feedback. Some of these methods are discussed as follows:

1. Assessment Centres

In the 1930s, the concept of assessment centres was initially applied to military situations in the German army and the War Office Selection Board of the British Army in 1960s. The basic purpose of this method was to examine the candidates in the social situation, using the variety of procedures and a number of assessors. Earlier, assessment centres were being used for executive hiring but these days these centres are used for the purpose of evaluating supervisory or executive potential.

An assessment centre is a central location where the managers may come together to participate in job-related exercises, who are then evaluated by the trained observers. An assessment centre evaluates the following:

- (i) Communication skills
- (ii) Interpersonal skills
- (iii) Ability to plan and organise
- (iv) Mental alertness
- (v) Resistance to stress
- (vi) Self-confidence, etc.

Objectives

- (i) To determine the training and development needs of the employees.
- (ii) To provide the information for human resource planning.
- (iii) To measure the potential of the employees for the different positions in the organisation.
- (iv) To select the employees for entry level positions.

Advantages

- (i) Assessment centres help in determining the training and development needs of the employees.
- (ii) They provide data for human resource planning.
- (iii) It can be used for the selection of candidates for the entry level positions.
- (iv) In this method, all the candidates get equal opportunity to prove their merit.
- (v) Rater's personal bias is reduced as the employees are evaluated by a team of trained evaluators under similar conditions.
- (vi) The assessment is based on the direct observation of relatively large sample of the assesses' behaviours which provides more accurate information about them.

Disadvantages

- (i) Assessment centre is a time-consuming and expensive method.
- (ii) The ratings of this method are said to be strongly influenced by the participant's interpersonal skills.
- (iii) Raters tend to evaluate the quality of the individual's social skills rather than the quality of decisions themselves.
- (iv) The candidates who receive a negative report from the assessment centre may feel demoralised.

2. Human Resource Accounting

From all the resources used in the business organisation, the most valuable resource is the human resource because the efficiency of all the resources depend upon it. Like other assets, these can also be measured in terms of money. In human resource accounting, the money value is attached to the value of firm's internal human resources and its external customer goodwill. In human resource accounting, the performance of the employees is judged in terms of cost incurred and contributions made by the employees.

Cost is Measured in Terms of:

- (i) expenditure on human resource planning,
- (ii) expenditure on recruitment and selection,
- (iii) expenditure on compensation,
- (iv) expenditure on training and development.

- Contribution is Measured in Terms of:
- (i) money value of labour productivity,
 - (ii) value added by human resources.

Behaviourally Anchored Rating Scale (BARS)

An approach that has received considerable attention by academics in past years involves BARS. This method uses critical incidents to serve as anchor statements on the scale. A BARS may form, usually contains 6 to 10 specifically defined performance dimensions each with one or two critical incident anchors. The dimensions have both negative and positive job-related critical incidents. These scales combine major elements from the critical incident and graphic rating scale approaches. The appraiser rates the employee based on items along a continuum, but the points are example of actual behaviour on the given job rather than general descriptors of traits. The enthusiasm surrounding BARS grew from the belief that the use of specific behaviour, derived for each job should produce relatively error-free and reliable ratings. Although this promise has not been fulfilled, it has been argued that this may be partly due to departures from careful methodology in the development of specific scales themselves rather than to inadequacies in the concept. BARS, too, has also been blamed to be very time-consuming. The research on BARS indicates that while it is far from perfect, it does tend to reduce rating errors. Possibly, its major advantage stems from the dimensions generated rather than from any particular superiority of behaviour over trait anchors. The steps in developing BARS are as follows:

- (i) Generating Critical Incidents:** The job holders or supervisors are asked to illustrate some specific critical incidents of effective and ineffective performance. The critical behaviours are those which are essential for the effective performance of the job.
- (ii) Development of Performance Dimensions:** The critical incidents are then clustered into smaller set of performance dimensions by these people. Each cluster or dimension is then properly defined.
- (iii) Reallocate Incidents:** Another group of people, who are also aware of the concept of job, then reallocate the original critical incidents. They are given the cluster's definitions and the critical incidents and are then asked to reallocate each incident to the cluster as they think fits best.
- (iv) Rating the Incidents:** The critical behaviours are then assigned the scales usually in numbers with their description. The scale may range from 1 to 9 or from 1 to 7. This is generally done by the second group.
- (v) Development of Final Instruments:** The result for arranging scale for different dimensions of the job produces the vertical scale for each dimension. This scale is then used for the evaluation of the performance of the employees.

management in which employees establish objectives through consultation with their superiors and then these objectives are used as the basis for evaluation. MBO is a system involving a cycle that begins with setting the organisation's common goals and objectives. The management concept as was conceived by Drucker, reflects a management philosophy which values and utilises employee contributions. Application of MBO in the field of performance appraisal is a recent thinking. The MBO process seems to be most useful with managerial personnel and employees who have a fairly wide range of flexibility and self-control in their jobs. Therefore, the Management by Objectives approach involves establishing performance goals jointly by the superior and subordinate. For this programme to be effective, both superior and subordinate must be actively involved in objective formulation and agree on the methods to be used to assess performance. The MBO programme involves:

- (i) defining key tasks for the subordinate and setting a limited number of objectives;
- (ii) establishing criteria for evaluation of objectives;
- (iii) determining dates for review of progress and making modifications in original objectives during review, if necessary;
- (iv) having a final evaluation session for counselling and encouragement; and
- (v) setting objectives for the next cycle.

Problems

- (i) Too much paperwork is involved.
- (ii) Setting too many objectives may create a problem of prioritisation.
- (iii) May be difficult to establish measurable objectives for some jobs.
- (iv) Too much emphasis on short-term performance and losing sight of long-term objectives.
- (v) May be used by some supervisors as a control device that intimidates, rather than motivates subordinates.

5. 360 Degree Feedback

In this method of performance appraisal, information is collected from all persons around the employees — superiors, subordinates, peers, and internal and external customers. Hence, the title 360 degree feedback. The feedback is usually used for determining training and development needs rather than the compensation revision. The appraiser, listed earlier, complete survey questionnaires on the individual. Computerised systems then compile all the feedback into individualised reports. These are presented to the person being rated. Appraisers then meet with their supervisors and sometimes with their subordinates, to share pertinent information for the purposes of developing the self-improvement plans. The most productive feature of this system is its ability to provide a diverse array of feedback. The use of multiraters also provides a way to compensate faulty assessments that are sometimes obtained from inexperienced and poorly performing executives.

Compensation Management-I

PRODUCTION

Compensation may be defined as money received in lieu of the performance of work, plus many kinds of benefits and services that organisations provide to their employees. 'Money' is included under direct compensation, while benefits come under indirect compensation, and they consist of life, accident, and health insurance, the employer's contribution to retirement, pay for vacation and illness and employer's required payment for employee welfare as social security. The meaning of word 'compensation' is to compensate i.e. to pay for. Compensation can be a payment made in exchange of efforts, services rendered or task done. It can be regarded as the fruit for efforts put in. In some other sense, it is also described as a return, refund, or payment made for damage done or destruction caused or injury caused.

Compensation/Reward means the return an employee expects from the business process once employee participates and puts his efforts to achieve the organisational goals. Thus, not only the wages/salary paid to the employee but direct as well as indirect benefits provided to the employee as his fair share in the prosperity of business is also regarded as compensation.

Essentials of an Equitable and Ideal Compensation/Reward System

In order to understand the essentials of an equitable and ideal compensation system, it will be necessary to consider following factors, on which the ideal compensation system shall be heavily depending upon.

- 1. Demand and Supply Position:** Each job demands certain skills, personal qualities and technical education, experience to perform the job. If the demand is more and supply is less then naturally compensation payable will be high and vice versa. For example, if stenographers are scarce in number, compensation offered would be higher.
- 2. Nature of Business:** If the product or service is having the nature of yielding high profits, naturally the compensation paid is relatively higher than what is paid for in other low profit yielding businesses. For example, compensation paid to employees in companies like Reliance Industries Ltd., Bajaj Auto Limited would be definitely higher as compared to the other industries since these are supposed to be high profit earning industries and as such capable of paying the high and handsome compensation.

11. For revision of wages, a wage committee should always be preferred to the individual judgement, however unbiased, or a manager.
12. The wage and salary payments must fulfil a variety of human needs, including the need for self-actualisation.

DETERMINATION (THEORIES) OF WAGES

Different methods of wage payment are prevalent in different industries and in various countries. There may be payment by time or payment by results, including payment at the piece rate. Wages are fixed mainly as a result of individual bargaining, collective bargaining or by public or State regulation. How wages are determined has been the subject of several theories of wages.

Subsistence Theory

This theory, also known as *Iron Law of Wages*, was propounded by David Ricardo (1772-1823). This theory states that the labourers are paid to enable them to subsist and perpetuate the race without increase or diminution. The theory was based on the assumption that if the workers were paid more than the subsistence wage, their numbers would increase as they would procreate more, and this would bring down the rate of wages. If the wages fall below the subsistence level, the number of workers would decrease — as many would die of hunger, malnutrition, disease, cold, etc., and many would not marry, when that happened the wage rate would go up.

Criticism

This theory is criticised on the following grounds:

- (i) This theory is a one-sided theory as it totally ignores the demand of labour and only takes in account the supply of labour.
- (ii) Causes of differences in wages are not explained through this theory.
- (iii) Relationship between efficiency and productivity is also ignored in this theory.
- (iv) It is a pessimistic theory as according to it, wage rate cannot be more than the subsistence level.
- (v) According to this theory, the rise in wage rate encourages the workers to live luxurious life which leads to increase in population but this is not so as it is seen that where workers enjoy luxuries they keep the birth rate low.

Wage Fund Theory

This theory was developed by Adam Smith (1723-1790). His basic assumption was that wages are paid out of a predetermined fund of wealth, which lies surplus with wealthy persons — as a result of savings. This fund can be utilised for employing labourers for work. If the fund were large, wages would be high; if it were small, wages would be reduced to subsistence level. The demand for labour and the wages that can be paid to them are determined by the size of the fund. Francis A Walker had attacked this theory. He argued that wages are paid out of the product of labour and not from some previously accumulated capital. It is production that furnishes true measure of wages.

Criticism

- (i) The source of wage fund as well as how it is formed is not explained in this theory.
- (ii) The relation between the efficiency and productivity is not explained in this theory.
- (iii) The reason of differences in wages in different countries as well as among different classes of workers is also not explained in this theory.
- (iv) This theory is a one-sided theory as it totally ignores the demand of labour and only takes into account the supply of labour.
- (v) This theory is unscientific because it determines wage rate after determining wage fund. In fact, it is after determining wage rate that wage fund is established.

The Surplus Value Theory of Wages

This theory owes its development to Karl Marx (1819-1883). According to this theory, the labour was an article of commerce, which could be purchased on payment of subsistence price. The price of any product is determined by the labour time needed for producing it. The labourer was not paid in proportion to the time spent on work, but much less, and the surplus went to the owner, to be utilised for paying other expenses.

Residual Claimant Theory

Francis A. Walker (1840-1897) propounded this theory. According to him, there were four factors of production viz., land, labour, capital and entrepreneurship. Wages represent the amount of value created in the production, which remains after payment has been made for these factors of production. In other words, the labour is the residual claimant.

$$\text{Wages} = \text{Total Production} - \text{Rent} - \text{Interest} - \text{Profit}$$

Marginal Productivity Theory

This theory was developed by Philips Henry and Jon Bates. According to this theory, wages are based upon the entrepreneur's estimate of the value of that will probably be produced by the last or the marginal worker. In other words, it assumes that wages will depend on the demand for and supply of the labour. Consequently, the workers are paid what they are economically worth. The result is that the employer has a larger share in profit as he does not have to pay the non-marginal worker. As long as each additional worker contributes more to the total value than the cost in wages, it helps the employer to continue hiring, where this becomes uneconomical, the employer may resort to superior technology.

Marginal productivity theory of wage explains that under perfect competition a worker's wage is equal to marginal as well as average revenue productivity. In other words, marginal revenue productivity (MRP) and average revenue productivity (ARP) of a worker determine his wages. According to this theory, wage of a labourer is determined by his marginal productivity. In other words, $MRP = MW$. Marginal productivity is the addition made to total product by employing one more unit of a labourer. As the labourers are given money wage, their marginal productivity is calculated in terms of money. This is called MRP. MRP is the addition made to total revenue by employing one more unit of a worker. A producer will maximise his profit when the wage of a labourer is equal to the marginal revenue product. If MW is greater than

$MW = MRP$, wage is greater than marginal revenue product. Then, the producer will sustain loss. If MW for labour is higher than its marginal revenue product then the employers get less and pay more. Thus he loses.

On the other hand, if the producer pays wage less than MRP ($MW < MRP$), he will gain. But his gain will not be maximised. Thus he will gain by employing workers so long when $MW < MRP$. Thus the wage of a labourer will be determined where $MRP = MW$. Suppose producer employs three labourers with other factors of production. He gets ₹ 270 as total revenue i.e. income from the sale of output. If he employs an additional labourer his total revenue increases by ₹ 300. Thus by employing one additional labourer, he adds ₹ $(270 - 100) = ₹ 170$ to the total revenue, this increase in ₹ 170 is called MRP . Under perfect competition, a worker gets wages equal to his marginal revenue productivity. If the labourers demand more than ₹ 100, the producer will employ lower number of workers since their new price exceeds their marginal productivity. When less number of workers get higher wage, the unemployed labourers will bring down the wage to the equilibrium level. Ultimately, wages will tend to equal marginal productivity of workers. In such a situation the producer thinks of employing more labourers to maximise his profit. This process will continue until wages become equal to the workers' marginal activity.

Assumptions

- Perfect competition prevails in both product and factor market.
- Law of diminishing marginal returns operates on the marginal productivity of labour.
- Labour is homogeneous.
- Full employment prevails.
- The theory is based on long run.
- Modes of production are constant.

Criticism

- The theory is based on the assumption of perfect competition. But perfect competition is unreal and imaginary. Thus theory seems impracticable.
- The theory puts too much emphasis on demand side. It ignores supply side.
- Production is started with the combination of four factors of production. It is ridiculous to say that production has increased by the additional employment of one worker. Employment of an additional labourer amounts nothing in a big-scale industry.
- The theory is static. It applies only when no change occurs in the economy. Unemployment or depression wage cut will not increase employment.
- This theory explains that wages will be equal to MRP and ARP .
- It is difficult to measure MRP because any product is a joint product of both fixed and variable factors.
- According to Watson the theory is cruel and harsh. This theory never takes into consideration the marginal product of the old, aged, blind etc.

THE BARGAINING THEORY OF WAGES

John Davidson propounded this theory. Under this theory, wages are determined by the relative bargaining power of workers or trade union is involved, basic wages, fringe benefits etc.

job differentials and individual differences tend to be determined by the relative strength of the organisation and the trade union.

Behavioural Theories

Many behavioural scientists have presented their views on the wages and salaries on the basis of research studies and action programmes conducted by them. Briefly, such theories are

- (i) **The Employee's Acceptance of the Wage Level:** This type of thinking takes into consideration the factors which may induce an employee to stay with a company. The size and prestige of the company, the power of the union, the wages and benefits the employee receives in proportion to the contribution made by him—all have their impact.
- (ii) **The Internal Wage Structure:** Social norms, traditions, customs, prevalent in the organisation and psychological pressures on the management, the prestige attached to certain jobs in terms of social status, the need to maintain internal consistency in wages at the higher levels, the ratio of the maximum and minimum wage differentials and the norms of span of control, and demand for specialised labour—all affect the internal wage structure of an organisation.
- (iii) **Wage and Salaries Motivators:** Money often is looked upon as means of fulfilling the most basic needs of man. Food, clothing, shelter, transportation, insurance, pension plans, education, and other physical maintenance and security factors are made available through the purchasing power provided by monetary income i.e. wages and salaries. Merit increases, bonuses based on performance, and other forms of monetary recognition for achievement are genuine motivators. However, basic pay, cost of living increases, and other wage increases unrelated to an individual's own productivity typically may fall into maintenance category.

METHODS OF WAGE PAYMENT

Wages can be paid to the employees either on the basis of time or on the basis of production done by them. Thus, there are two methods of wage payment:

1. Time rate System
2. Piece rate System

TIME RATE SYSTEM

Time rate system is the oldest method of wage payment. Under this method the employee is paid on the basis of time worked i.e. a day, a week, a fortnight or a month irrespective of quantity produced. It must be remembered here that wages are paid after the time fixed for work is completed irrespective of output or completion of the work. Every worker knows how much wages he will get after specific period as an arrangement regarding wages is reached between employees and management regarding the wage rate.

Formula:

Wages = Number of hours worked × Rate per hour

For example, A worker is paid at the rate of ₹ 10 per hour and he spent 100 hours at work

So his wages will be:

$$\begin{aligned}\text{Wages} &= \text{Number of hours worked} \times \text{Rate per hour} \\ &= 100 \times 10 \\ &= ₹ 1000\end{aligned}$$

Types of Time Rate System

1. **Flat Time Rate:** It is the oldest and simple method of wage payment. Under this system workers are paid at the flat rate on the basis of time they are employed. The flat rate may be per hour, per day, per week, per month etc.
2. **High Pay Rate:** One of the basic drawbacks of the time rate system is that it does not attract the highly skilled workers. High pay rate system suits to highly skilled workers. Under this method overtime is not allowed and workers are required to achieve the target within time. The success of the system depends on the cooperation of efficient workers. It also requires proper setting of standards.
3. **Measured Pay Rate:** Under this workers are given a specified work and rate is fixed according to the level of performance. Higher wages will be given for higher performance. This method is criticised on the ground that additional remuneration is given for any improvement in the performance.
4. **Graduated Time Rate:** Under this method the wage rate is fixed with cost of living index changes. This method is the choice of workers as they get additional wages when cost of living index changes.
5. **Differential Time Rate:** Under this system different wages are fixed for different workers as per their personal abilities. Higher wages are paid to meritorious workers and incentives are given to workers for their performance.

Advantages of Time Rate System

Following are the advantages of time rate system:

1. **Simple:** The very first advantage of time rate system is that it is simple to understand and easy to use. The workers can easily understand this method and compute their earnings.
2. **Regularity:** Regularity is another feature of this method. Earnings are regular and fixed, there being no uncertainty of any type. So workers get regular earnings and plan their expenditures in advance on the basis of their earnings.
3. **Clerical Work:** Workload of clerks and other officials also gets reduced. In this method, the clerical work in the wage calculations is minimum because no records of output are required.
4. **Amount of Wages:** In this method, the employees can predict the wages in advance, similarly for the employer i.e. employer can predict his liability for the payment of wages in future with accuracy which makes the arrangements of funds very easy.
5. **Quality:** There is no restriction regarding the quantity of output, employees try to maintain the top quality of goods. The employees work with ease and patience. So it can be said that the output in this system is of good quality.

6. **Protection:** Workers are sure to get certain amount of wage so they can plan their expenditures and also can make their family budget. This method protects the wages of trainees, aged and other employees who temporarily fall sick.
7. **No Wastage:** There is no consideration of quantity, workers make the production by giving more importance to quality, which avoids wasteful handling of material, machines and tools.
8. **Preference:** Since time rate system of wage payment does not differentiate between efficient and inefficient workers, so it is preferred by workers and trade unions.
9. **Popular Method:** This is the most popular method. It is favoured and practised by most of employers and employees.
10. **Lesser Administrative Expenses:** Every worker takes his job and his duty sincerely and honestly and as such lesser inspection and supervision is required which reduces the administrative expenses.

Disadvantages of Time Rate System

Following are the disadvantages of the time rate system of wage payment:

1. **Lack of Incentive for Efficiency:** The major disadvantage of this method is the lack of incentives i.e. both efficient and inefficient workers get equal remuneration on the same job, as such there is no incentive for efficient workers.
2. **Need for More Supervision:** The workers become careless, as no specific amount of work is required to be performed. This is why more supervision is required.
3. **Loss of Efficiency:** There is no discrimination in this method between the efficient and inefficient workers. So efficient workers have no incentives to work better in terms of quality and quantity, which decreases the morale and efficiency of the efficient workers.
4. **Difficult Assessment of Work:** As there is no record of individual's performance or output. So in this method it is very difficult to assess the workers' efficiency.
5. **Loss of Production:** Carelessness and slackness of both workers and management results in loss of production.
6. **Reduced Morale:** This method destroys the morale of the workers, and even efficient workers come to the level of inefficient workers. Sometimes competition takes the negative side.

Suitability of Time Rate System

The time rate system is suitable in the following situations:

1. Work is of varied nature and standards of performance are difficult to set.
2. Where quality of goods is more important.
3. Where mental work is involved such as administration, management policy making.
4. Trade union is very strong and is opposed to output-related payment.
5. Highly skilled and competent manpower is employed which does not require to be closely supervised.
6. When it is difficult to fix the standard time for doing the job.

7. When the job relates to office or is clerical work.
8. When collective effort of group of persons necessary to perform the job.

PIECE RATE SYSTEM

Under this system the worker is paid on the basis of output i.e. amount of work done. The earnings of the workers are governed by the production quantities and wage rate per piece. The rate of wages is fixed in advance. Though the time is not important in this system, it is assumed that the worker will not take more than the average time to complete a job. The earnings of the worker depend upon the speed of his work and his own individual skill and efficiency. As against the time rate system where every employee is paid the same wage, under this system the wage varies according to the worker. A superior worker will earn more than the inferior worker. The higher the output of the worker, the greater are his wages.

Formula:

$$\text{Wages} = \text{Number of units produced} \times \text{Rate per unit}$$

For example, Suppose piece rate prescribed is ₹ 20 per unit produced. If a worker produces 10 units, his wages will be as follows:

$$\text{Wages} = \text{Number of units produced} \times \text{Rate per unit}$$

$$\text{Wages} = 10 \times 20$$

$$\text{Wages} = ₹ 200$$

Types of Piece Rate System

There are four types of piece rate system:

1. **Straight Piece Rate System:** It is the simple method of payment under which payment is made to workers according to the units produced at fixed rate. Another type of this method is piece rate with guaranteed time rate with additional advantage of piece rate.
2. **Taylor Differential Piece Rate System:** The differential piece rate system makes the correlation between the increase in the efficiency of the worker and the increase in wage rates. With this an efficient worker gets more wages in comparison to the inefficient one. The two wage rates are determined in this system i.e. higher wage rate for the worker who produces more than the standard output and lower wage rate for the worker who produces standard or less than standard output.
3. **Merrick Multiple Piece Rate System:** Under this system three piece rates are applied to workers with different levels of performance. These are:

Performance level	Piece Rate
Less than 83% of standard output	Ordinary Piece rate
83% to 100% of standard output	110% of ordinary piece rate
More than 100% of standard output	120% of ordinary piece rate

4. **Gantt's Task and Bonus Plan:** Under this the standard time is fixed for doing particular task and then workers' actual performance is compared with the standard time.
 - If worker takes more time than the standard time then he is given wage for the time taken by him.

- If worker takes the standard time then he is given wages for the standard time + 20% as the bonus on the wages earned.
- If worker takes time less than the standard time then he is given wages equal to the standard time + 20% of the wages for the standard time.

Advantages of Piece Rate System

The following are the advantages of piece rate system:

1. **Increased Production:** Production increases as every worker tries to produce more and more. Efforts on the part of every worker results in the amount of output.
2. **Simple:** Wages are based on the number of units produced by workers so both management and workers can calculate their wages in advance. On the basis of this they can plan their expenditures.
3. **Better Employer Employee Relations:** The relations between employer and employees improve as rate of wages is decided in advance and there are no chances of conflict.
4. **Proper Use of Tools and Equipments:** Every worker tries to produce more and more so it makes the efficient use of tools and equipments.
5. **Benefits to Consumers:** The large-scale increased output reduces the cost of production and also the prices of the products. The customers get these products at cheaper rates.
6. **Easy Determination of Quotation Price:** The employer is able to know the exact labour cost per unit. This will help to make quotations confidently and accurately.
7. **Less Supervision:** As compared with the time rate system, the supervision costs under this system are not high, because the workers are to be paid on the basis of performance. The very attraction of greater reward for greater effort drives them to work hard.
8. **Reduction of Idle Time:** The quantum of idle time is minimised as workers know that they will not be paid for idle time. Thus it persuades them not to waste their time.
9. **Minimisation of Loss due to Breakage:** The workers handle the machines, tools and implements with great care which helps in minimisation of loss resulting from breakage. They know that the breakage will reduce their output which results in reduced wages.

Disadvantages of Piece Rate System

Some important disadvantages of the system are given below:

1. **Difficulty in Fixation of Standard Piece Rate:** Setting of a standard rate involves a lot of difficulties and a considerable amount of expense has to be incurred. If high piece rate is established, it is very difficult to reduce it subsequently.
2. **Ignores Quality:** As more output means more wages, the workers are always in a hurry to produce more. This results in production of sub standard items, high rate of rejection and ultimately increased production cost per unit.
3. **Insecurity:** The system does not provide guarantee of minimum wages to the workers. They feel insecure since they would get less wages during the period when their efficiency may get reduced due to factors beyond their control. Thus, at times, workers may be earning even below the subsistence level.

4. **Conflict:** The system may lead to conflict between the management and the workers, if the output is low due to some fault of the management, such as bad quality of raw material, frequent break downs failure of machinery etc.
5. **Expensive Control Systems:** Management is compelled to intern expensive control systems of supervision and inspection for maintaining quality of output.
6. **Speeding:** Workers may Speed up the work to produce more which causes great injury to their health. Speeding also causes undue wastage of raw materials and wear and tear to machines.
7. **Effect on Production Schedule:** Workers may work at a speed for a day, earn more wages and then absent themselves for a few days, which may affect the uniform flow of production and the production as such may be disturbed.
8. **Increased Cost of Production:** Cost of production may increase due to more wastage of materials, high cost of supervision and inspection, and wear and tear of machines.
9. **Frustration among Less Efficient Workers:** The system will frustrate the less efficient workers and their efficiency may further decrease because of discontentment.

Suitability of Piece Rate System

Piece rate system of payment of wages is considered suitable where:

- (i) the quantity of work done can be precisely measured and standardised.
- (ii) the work is of repetitive nature;
- (iii) it is possible to fix a fair and acceptable piece rate;
- (iv) the productivity is closely related to skill and efforts;
- (v) the quality of goods can be controlled;
- (vi) time cards are maintained for ensuring regularity and punctuality of workers and uninterrupted flow of production, and
- (vii) materials, tools and machines are readily available to cope with the possible increase in production.

Difference between Time Rate System and Piece Rate System

Basis	Time Rate System	Piece Rate System
Basis of Payment	Time spent on job	Number of units produced
Guaranteed Payment	Guarantee of minimum payment	No guarantee of payment
Administrative cost of System	Low	High
Quality of Work	High	Low
Productivity	Low	High
Degree of Supervision	High	Low
Labour Cost per Unit	Higher and changes with efficiency	Constant