

## Job Evaluation: Concept

Job evaluation is a systematic way of determining the value/worth of a job in relation to other jobs in an organisation. It tries to make a systematic comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure.<sup>1</sup>

Job evaluation needs to be differentiated from job analysis. Job analysis is a systematic way of gathering information about a job. Every job evaluation method requires at least some basic job analysis in order to provide factual information about the jobs concerned. Thus, job evaluation begins with job analysis and ends at that point where the worth of a job is ascertained for achieving pay-equity between jobs.

## Job Evaluation vs Performance Appraisal

Job evaluation is different from performance appraisal. PA is the systematic description of an employee's job-related strengths and weaknesses. The basic purpose of PA is to find out how well the employee is doing the job and establish a plan for improvement. The aim of job evaluation is to find the relative value/worth of a job and determine what a fair wage for such a job should be. The differences between the two may be presented thus:

Table 14.1

Job Evaluation vs Performance Appraisal

Point	Job Evaluation	Performance Appraisal
Define	Find the relative worth of a job.	Find the worth of a job holder.
Aim	Determine wage rates for different jobs.	Determine incentives and rewards for superior performance.
Shows	How much a job is worth.	How well an individual is doing an assigned work.

## Features

The purpose of job evaluation is to produce a defensive ranking of jobs on which a rational and acceptable pay structure can be built. The important features of job evaluation may be summarised thus:<sup>2</sup>

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

## Process of Job Evaluation

The process of job evaluation involves the following steps:<sup>3</sup>

- **Gaining acceptance:** Before undertaking job evaluation, top management must explain the aims and uses of the programme to the employees and unions. To elaborate the programme further, oral presentations could be made. Letters, booklets could be used to classify all relevant aspects of the job evaluation programme.

- **Creating job evaluation committee:** It is not possible for a single person to evaluate all the key jobs in an organisation. Usually a job evaluation committee consisting of experienced employees, union representatives and HR experts is created to set the ball rolling.
- **Finding the jobs to be evaluated:** Every job need not be evaluated. This may be too taxing and costly. Certain key jobs in each department may be identified. While picking up the jobs, care must be taken to ensure that they represent the type of work performed in that department.
- **Analysing and preparing job description:** This requires the preparation of a job description and also an analysis of job needs for successful performance.
- **Selecting the method of evaluation:** The most important method of evaluating the jobs must be identified now, keeping the job factors as well as organisational demands in mind.
- **Classifying jobs:** The relative worth of various jobs in an organisation may be found out after arranging jobs in order of importance using criteria such as skill requirements, experience needed, under which conditions job is performed, type of responsibilities to be shouldered, degree of supervision needed, the amount of stress caused by the job, etc. Weights can be assigned to each such factor. When we finally add all the weights, the worth of a job is determined. The points may then be converted into monetary values.
- **Installing the programme:** Once the evaluation process is over and a plan of action is ready, management must explain it to employees and put it into operation.
- **Reviewing periodically:** In the light of changes in environmental conditions (technology, products, services, etc.) jobs need to be examined closely. For example, the traditional clerical functions have undergone a rapid change in sectors like banking, insurance and railways, after computerisation. New job descriptions need to be written and the skill needs of new jobs need to be duly incorporated in the evaluation process. Otherwise, employees may feel that all the relevant job factors – based on which their pay has been determined – have not been evaluated properly.

### Essentials for the Success of a Job Evaluation Programme

Following are the essentials for the success of a job evaluation programme:<sup>4</sup>

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

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

1. Rate the job – not the person or employee on the job.
2. Strive to collect all the facts accurately.



3. Look especially for distinguishing features of jobs and for relationships to other jobs.
4. Study jobs independently and objectively, and then discuss views thoroughly and open-mindedly before reaching final decisions.
5. Job evaluation must be conducted systematically, based on factual and accurate information.
6. The results of job evaluation must be *fair* and rational and unbiased to the individuals being affected.

### Benefits

The pay offs from job evaluation may be stated thus:

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

### Job Evaluation Methods

There are three basic methods of job evaluation: (1) ranking, (2) classification, (3) factor comparison. While many variations of these methods exist in practice, the three basic approaches are described here.<sup>5</sup>

#### Ranking Method

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

Jobs are usually ranked in each department and then the department rankings are combined to develop an organisational ranking. The following table is a hypothetical illustration of ranking of jobs.

**t a b l e 14.2**

**Array of Jobs according to the Ranking Method**

Rank	Monthly salaries
1. Accountant	Rs 3000
2. Accounts clerk	Rs 1800
3. Purchase assistant	Rs 1700
4. Machine-operator	Rs 1400
5. Typist	Rs 900
6. Office boy	Rs 600

The variation in payment of salaries depends on the variation of the nature of the job performed by the employees. The ranking method is simple to understand and practice and it is best suited for a small organisation. Its simplicity however works to its disadvantage in big organisations because rankings are difficult to develop in a large, complex organisation. Moreover, this kind of ranking is highly subjective in nature and may offend many employees. Therefore, a more scientific and fruitful way of job evaluation is called for.

### Classification Method

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

- a. **Class I - Executives:** Further classification under this category may be Office Manager, Deputy office manager, Office superintendent, Departmental supervisor, etc.
- b. **Class II - Skilled workers:** Under this category may come the Purchasing assistant, Cashier, Receipts clerk, etc.
- c. **Class III - Semiskilled workers:** Under this category may come Stenotypists, Machine-operators, Switchboard operator etc.
- d. **Class IV - Semiskilled workers:** This category comprises Daftaris, File clerks, Office boys, etc.

The job classification method is less subjective when compared to the earlier ranking method. The system is very easy to understand and acceptable to almost all employees without hesitation. One strong point in favour of the method is that it takes into account all the factors that a job comprises. This system can be effectively used for a variety of jobs.

The weaknesses of the job classification method are:

- Even when the requirements of different jobs differ, they may be combined into a single category, depending on the status a job carries.
- It is difficult to write all-inclusive descriptions of a grade.
- The method oversimplifies sharp differences between different jobs and different grades.
- When individual job descriptions and grade descriptions do not match well, the evaluators have the tendency to classify the job using their subjective judgements.

### Factor Comparison Method

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

The steps involved in factor comparison method may be briefly stated thus:

- Select key jobs (say 15 to 20), representing wage/salary levels across the organisation. The selected jobs must represent as many departments as possible.



Table 14.6

## Conversion of Job Grade Points into Money Value

Point range	Daily Wage rate (Rs)	Job grades of key bank officials
500-600	300-400	1 Officer
600-700	400-500	2 Accountant
700-800	500-600	3 Manager I Scale
800-900	600-700	4 Manager II Scale
900-1000	700-800	5 Manager III Scale

## Merits and Demerits

The point method is a superior and widely used method of evaluating jobs. It forces raters to look into all key factors and sub-factors of a job. Point values are assigned to all factors in a systematic way, eliminating bias at every stage. It is reliable because raters using similar criteria would get more or less similar answers. The methodology underlying the approach contributes to a minimum of rating error (Robbins p.361). It accounts for differences in wage rates for various jobs on the strength of job factors. Jobs may change over time, but the rating scales established under the point method remain unaffected.

On the negative side, the point method is complex. Preparing a manual for various jobs, fixing values for key and sub-factors, establishing wage rates for different grades, etc., is a time consuming process. According to Decenzo and Robbins, "the key criteria must be carefully and clearly identified, degrees of factors have to be agreed upon in terms that mean the same to all rates, the weight of each criterion has to be established and point values must be assigned to degrees". This may be too taxing, especially while evaluating managerial jobs where the nature of work (varied, complex, novel) is such that it cannot be expressed in quantifiable numbers.

A comparative picture of various job evaluation methods is presented on Table 14.7.

Table 14.7

## Major Job Evaluation Methods

Method	What facet of job is evaluated?	How is job evaluated?	Type of method	Major advantages(s)	Major disadvantage(s)
Ranking	Whole job (compensable factors are implicit)	Jobs are subjectively ordered according to relative worth	Non-quantitative	Relatively quick and inexpensive	Entirely subjective
Classification	Whole job	Compare job to descriptions of job grades	Non-quantitative	Readily available and inexpensive	Cumbersome system
Factor comparison	Compensable factors of job	Compare job to key jobs on scales of compensable factors	Quantitative	Easy to use	Hard to construct; inaccurate over time
Point method	Compensable factors of job	Compare job to standardised descriptions of degrees of universal compensable factors and subfactors	Quantitative	Accurate and stable overtime	May be costly

## Limitations of Job Evaluation

- 1. Job evaluation is not exactly scientific.
- 2. The *modus operandi* of most of the techniques is difficult to understand, even for the supervisors.
- 3. The factors taken by the programme are not exhaustive.
- 4. There may be wide fluctuations in compensable factors in view of changes in technology, values and aspirations of employers, etc.
- 5. Employees, trade union leaders, management and the programme operators may assign different weightage to different factors, thus creating grounds for dispute.

## Summary

- Job evaluation is the systematic process of determining the relative worth of jobs in order to establish which jobs should be paid more than others within the organisation. Job evaluation helps to establish internal equity between various jobs.
- The four basic approaches to job evaluation are: the ranking method, the classification method, the factor comparison method, and the point method.
- The job ranking method arranges jobs in numerical order on the basis of the importance of the job's duties and responsibilities to the organisation.
- The job classification system slots jobs into preestablished grades. Higher-rated grades demand more responsibilities, tougher working conditions and varied job duties.
- The point system of job evaluation uses a point scheme based upon the compensable job factors of skill, effort, responsibility and working conditions. The more compensable factors a job possesses, the more points are assigned to it. Jobs with higher accumulated points are considered more valuable to the organisation.
- The factor comparison system evaluates jobs on a factor-by-factor basis against important jobs within an organisation.

## Terminology

- **Job evaluation:** A systematic way of assessing the relative worth of a job.
- **Performance appraisal:** A formal process in an organisation whereby each employee is evaluated to find how he is performing.
- **Job analysis:** The systematic collection, evaluation and organisation of information about jobs.
- **Ranking method:** A method of job evaluation which ranks employees from highest to lowest.
- **Classification method:** A method of job evaluation that concentrates on creating certain common job grades based on skills, knowledge and abilities.
- **Factor comparison method:** A method of job evaluation where job factors are compared to determine the worth of a job.
- **Point method:** A method of job evaluation where jobs are classified on identification criteria and the degree to which these criteria exist on the job.
- **Compensable factor:** A fundamental compensable element of a job, such as skills, effort, responsibility and working conditions.
- **Wage curve:** Shows the relationship between the value of the job and the average wage paid for this job.



## Introduction

Compensation is what employees receive in exchange for their contribution to the organisation. Generally, employees offer their services for three types of rewards. Pay refers to the base wages and salaries employees normally receive. Compensation forms such as bonuses, commissions and profit sharing plans are incentives designed to encourage employees to produce results beyond normal expectation. Benefits such as insurance, medical, recreational, retirement, etc., represent a more indirect type of compensation. So, the term compensation is a comprehensive one including pay, incentives, and benefits offered to employers for hiring the services of employees. In addition to these, managers have to observe legal formalities that offer physical as well as financial security to employees. All these issues play an important role in any HR department's efforts to obtain, maintain and retain an effective workforce.

## Nature of Compensation

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

- **Base pay:** It is the basic compensation an employee gets, usually as a wage or salary
- **Variable pay:** It is the compensation that is linked directly to performance accomplishments (bonuses, incentives, stock options)
- **Benefits:** These are indirect rewards given to an employee or group of employees as a part of organisational membership (health insurance, vacation pay, retirement pension etc.)

## Objectives of Compensation Planning

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

- a. **Internal equity:** This ensures that more difficult jobs are paid more.
- b. **External equity:** This ensures that jobs are fairly compensated in comparison to similar jobs in the labour market.
- c. **Individual equity:** It ensures equal pay for equal work, i.e., each individual's pay is fair in comparison to others doing the same/similar jobs.

In addition, there are other objectives also. The ultimate goal of compensation administration (the process of managing a company's compensation programme) is to reward desired behaviours and encourage people to do well in their jobs. Some of the important objectives that are sought to be achieved through effective compensation management are listed below:

- a. **Attract talent:** Compensation needs to be high enough to attract talented people. Since many firms compete to hire the services of competent people, the salaries offered must be high enough to motivate them to apply.
- b. **Retain talent:** If compensation levels fall below the expectations of employees or are not competitive, employees may quit in frustration.
- c. **Ensure equity:** Pay should equal the worth of a job. Similar jobs should get similar pay. Likewise, more qualified people should get better wages.
- d. **New and desired behaviour:** Pay should reward loyalty, commitment, experience, risks taking, initiative and other desired behaviours. Where the company fails to reward such behaviours, employees may go in search of greener pastures outside.
- e. **Control costs:** The cost of hiring people should not be too high. Effective compensation management ensures that workers are neither overpaid nor underpaid.

A completed wage curve tells management the average relationship between the pay grade points and wage rates. It will show which pay is out of the trend line. If a job's pay rate is very high - where the current rates paid by the company fall well above or below the wage line - those wage rates are identified as 'red circle' rates. This only means that pay is frozen or below average increases are granted until the structure is adjusted upward to place the circled rate within a normal range.

### Fine Tune Pay Rates and Determine Wage Structure

Here the employees fix a pay range for each grade (Officer Grade I, II and III, for example, in Banking industry). The wage structure of a company is nothing but a pay scale showing ranges of pay within each grade.

### Components of Pay Structure in India

The pay structure of a company depends on several factors such as labour market conditions, company's paying capacity and legal provisions:

#### Wages

In India, different Acts include different items under wages, though all the Acts include basic wage and dearness allowance under the term wages. Under the Workmen's Compensation Act, 1923, "wages for leave period, holiday pay, overtime pay, bonus, attendance bonus, and good conduct bonus" form part of wages.

Under the Payment of Wages Act, 1936, Section 2 (vi), "any award of settlement and production bonus, if paid, constitutes wages."

Under the Payment of Wages Act, 1948, "retrenchment compensation, payment in lieu of notice and gratuity payable on discharge constitute wages."

However, the following types of remuneration, if paid, do not amount to wages under any of the Acts:

- i. Bonus or other payments under a profit-sharing scheme which do not form a part of contract of employment.
- ii. Value of any house accommodation, supply of light, water, medical attendance, travelling allowance, or payment in lieu thereof or any other concession.
- iii. Any sum paid to defray special expenses entailed by the nature of the employment of a workman.
- iv. Any contribution to pension, provident fund, or a scheme of social security and social insurance benefits.
- v. Any other amenity or service excluded from the computation of wages by general or special order of an appropriate governmental authority.

The term 'Allowances' includes amounts paid in addition to wages over a period of time including holiday pay, overtime pay, bonus, social security benefit, etc. The wage structure in India may be examined broadly under the following heads:

#### Basic Wage

The basic wage in India corresponds with what has been recommended by the Fair Wages Committee (1948) and the 15<sup>th</sup> Indian Labour Conference (1957). The various awards by wage tribunals, wage boards, pay commission reports and job evaluations also serve as guiding principles in determining 'basic wage'. While deciding the basic wage, the following criteria may be considered: (i) Skill needs of the job; (ii) Experience needed; (iii) Difficulty of work: mental as well as physical; (iv) Training needed; (v) Responsibilities involved; (vi) Hazardous nature of job.



## Dearness Allowance (DA)

It is the allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. It serves as a cushion, a sort of insurance against increase in price levels of commodities. Instead of increasing wages every time there is a rise in price levels, DA is paid to neutralise the effects of inflation; when prices go down, DA can always be reduced. This has, however, remained a hypothetical situation as prices never come down to necessitate a cut in dearness allowance payable to employees. DA is linked in India to three factors: the index factor, the time factor and the point factor.

- **All India consumer price index (AICPI):** The Labour Bureau, Shimla, computes the AICPI (Base 1960 = 100 points) from time to time.
- **Time factor:** In this case DA is linked to the rise in the All India Consumer Price Index (AICPI) in a related period, instead of linking it to fortnightly or monthly fluctuations in index.
- **Point factor:** Here DA rises in line with a rise in the number of index points above a specific level.
- **Other allowances:** The list of allowances granted by employers in India has been expanding, thanks to the increasing competition in the job market and the growing awareness on the part of employees. An illustrative list of allowances is furnished in Table 16.1 below:

Table 16.1

List of Allowances in the Organised Sector in India

• Attendance	• Night shift	• Tiffin
• Books	• Overtime	• Transport
• Car	• Paternity	• Telephone
• Card (Credit card)	• Pension	• Uniform
• City Compensatory	• Provident Fund	
• Club Membership	• Relocation	
• Computer	• Servant	
• Deputation		
• Driver		
• Education		
• ESIS		
• Family		
• Group Insurance		
• Leave Travel		
• Lunch		
• Medical		

## Wage and Salary Administration

Employee compensation may be classified into two types – base compensation and supplementary compensation. Base compensation refers to monetary payments to employees in the form of wages and salaries. The term 'wages' implies remuneration to workers doing manual work. The term 'salaries' is usually defined to mean compensation to office, managerial, technical and professional staff. The distinction, however, is rarely observed in actual practice. Base compensation, it should be noted here, is a fixed and non-incentive payment on the basis of time spent by an employee on the job. Supplementary compensation signifies incentive payments based on actual performance of an employee or a group of employees. The term 'compensation administration' or wage and salary administration denotes the process of managing a company's compensation programme. The goals of compensation administration are to design a cost-effective pay structure that will attract, motivate and retain competent employees.

## Objectives

A sound plan of compensation administration seeks to achieve the following objectives:

- To establish a fair and equitable remuneration offering similar pay for similar work.
- To attract qualified and competent personnel.
- To retain the present employees by keeping wage levels in tune with competing units.
- To control labour and administrative costs in line with the ability of the organisation to pay.
- To improve motivation and morale of employees and to improve union-management relations.
- To project a good image of the company and to comply with legal needs relating to wages and salaries.

## Principles of Wage and Salary Administration

There are several principles of wage and salary plans and practices. The important ones among them are:

1. Wage and salary plans should be sufficiently flexible.
2. Job evaluation must be done scientifically.
3. Wage and salary administration plans must always be consistent with overall organisational plans and programmes.
4. Wage and salary administration plans and programmes should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.
5. Wage and salary administration plans and programmes should be responsive to the changing local and national conditions.
6. These plans should simplify and expedite other administrative processes.

## The Elements of Wage and Salary System

Wage and salary systems should have a relationship with the performance, satisfaction and attainment of goals of an individual. Henderson identified the following elements of a wage and salary system:

1. Identifying the available salary opportunities, their costs, estimating the worth of its members, of their salary opportunities and communicating them to employees.
2. Relating salary to needs and goals.
3. Developing quality, quantity and time standards related to work and goals.
4. Determining the effort necessary to achieve standards.
5. Measuring the actual performance.
6. Comparing the performance with the salary received.
7. Measuring the job satisfaction of the employees.
8. Evaluating the unsatisfied wants and unrealised goals aspirations of the employees.
9. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
10. Adjusting the salary levels accordingly with a view to enabling the employees to reach unreach goals and fulfil the unfulfilled needs and aspirations.



## Factors Influencing Compensation Levels

The amount of compensation received by an employee should reflect the effort put in by the employee, the degree of difficulty experienced while expending his energies, the competitive rates offered by others in the industry and the demand-supply position within the country, etc. These are discussed below.

- Job needs:** Jobs vary greatly in their difficulty, complexity and challenge. Some need high levels of skills and knowledge while others can be handled by almost anyone. Simple, routine tasks that can be done by many people with minimal skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.
- Ability to pay:** Projects determine the paying capacity of a firm. High profit levels enable companies to pay higher wages. This partly explains why computer software industry pays better salaries than commodity based industries (steel, cement, aluminium, etc.). Likewise, multinational companies also pay relatively high salaries due to their earning power.
- Cost of living:** Inflation reduces the purchasing power of employees. To overcome this, unions and workers prefer to link wages to the cost of living index. When the index rises due to rising prices, wages follow suit.
- Prevailing wage rates:** Prevailing wage rates in competing firms within an industry are taken into account while fixing wages. A company that does not pay comparable wages may find it difficult to attract and retain talent.
- Unions:** Highly unionised sectors generally have higher wages because well organised unions can exert pressure on management and obtain all sorts of benefits and concessions to workers.
- Productivity:** This is the current trend in most private sector companies when workers' wages are linked to their productivity levels. If your job performance is good, you get good wages. A sick bank, for example, can't hope to pay competitive wages, in tune with profit making banks.
- State regulation:** The legal stipulations in respect of minimum wages, bonus, dearness allowance, allowances, etc., determine the wage structure in an industry.
- Demand and supply of labour:** The demand for and the supply of certain skills determine prevailing wage rates. High demand for software professionals, R&D professionals in drug industry, telecom and electronics engineers, financial analysts, management consultants ensures higher wages. Oversupply kills demand for a certain category of employees leading to a steep fall in their wages as well.

Most employers, nowadays, are interested in paying a fair wage to all workers which is neither very high (affecting the company's profitability) nor very low (where attracting and retaining people becomes difficult).

### exhibit 16.1

Average Annual Earnings of Workers Employed in Manufacturing Industries

Particulars	1998	1999	2000
1. Number of employees ('000)	432	239	253
2. Total wage bill (Rs. in lacs)	62892	44437	60521
3. Average annual earnings (Rs)	14533	18582	23910

Source: Pocket Book of Labour Statistics, 2004.



- c. **Office staff:** To give incentives to the office staff, job evaluation may be done for each item of office work and an appropriate bonus scheme may be fixed on the basis of performance (for reduction of overtime, for disposing of files, clearing pending work, for maintaining schedules, etc.)
- d. **Material handling staff:** Incentives to this group may be based on the number of items or materials handled. To this end, standard hourly rates may be fixed and where this is not feasible, a monthly overall bonus related to the efficiency of performance may be granted.
- e. **Executives:** Supervisors, foremen and executives could be provided adequate non-financial incentives in the form of job security, participation in decision making, career development activities, housing facilities, medical benefits, etc.

## Fringe Benefits

The term 'fringe benefits' refers to the extra benefits provided to employees in addition to the normal compensation paid in the form of wage or salary. Many years ago, benefits and services were labeled 'fringe' benefits because they were relatively insignificant or fringe components of compensation. However, the situation now is different, as these have, more or less, become important components of a comprehensive compensation package offered by employers to employees.

The main features of fringe benefits, as they stand today, may be stated thus:<sup>9</sup>

- They are supplementary forms of compensation.
- They are paid to all employees (unlike incentives which are paid to specific employees whose work is above standard) based on their membership in the organisation.
- They are indirect compensation because they are usually extended as a condition of employment and are not directly related to performance.
- They help raise the living conditions of employees.
- They may be statutory or voluntary. Provident fund is a statutory benefit whereas transport is a voluntary benefit.

## Need for Fringe Benefits

Most organisations in India have been extending fringe benefits to their employees, year after year, due to the following reasons:

- a. **Employee demands:** Employees demand more and varied types of fringe benefits rather than pay hike because of reduction in tax burden on the part of employees and in view of the galloping price index and cost of living.
- b. **Trade union demands:** Trade unions compete with each other for getting more and newer varieties of fringe benefits to their members. If one union succeeds in getting one benefit, the other union persuades management to provide a new one. Thus, the competition among trade unions within an organisation results in more and varied benefits.
- c. **Employer's preference:** Employers also prefer fringe benefits to pay-hike, as fringe benefits motivate employees to give their best to the organisation. It improves morale and works as an effective advertisement.
- d. **As a social security:** Social security is a security that society furnishes through appropriate organisation against certain risks to which its members are exposed. These risks are contingencies of life like accidents and occupational diseases. Employer has to provide various benefits like safety measures, compensation in case of involvement of workers in accidents, medical facilities, etc., with a view to provide security to his employees against various contingencies.
- e. **To improve human relations:** Human relations are maintained when the employees are satisfied economically, socially and psychologically. Fringe benefits satisfy the worker's economic, social and



psychological needs. Consumer stores, credit facilities, canteen, recreational facilities, etc., satisfy the worker's social needs, whereas retirement benefits satisfy some of the psychological problems about the post-retirement life. However, most of the benefits minimise economic problems of the employee.

## Objectives of Fringe Benefits

The important objectives of fringe benefits are:

- To create and improve sound industrial relations.
- To motivate the employees by identifying and satisfying their unsatisfied needs.
- To provide security to the employees against social risks like old age benefits and maternity benefits.
- To protect the health of the employees and to provide safety to the employees against accidents.
- To promote employees' welfare
- To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden handcuffs.
- To meet the requirements of various legislations relating to fringe benefits.

In order to have a sound benefits programme there are certain essential requirements. The programme should be based on specific objectives that are in line with organisational philosophy and policies. It should be affordable and cost-effective. Through surveys and committees, a benefit package can be developed to meet employees' needs.

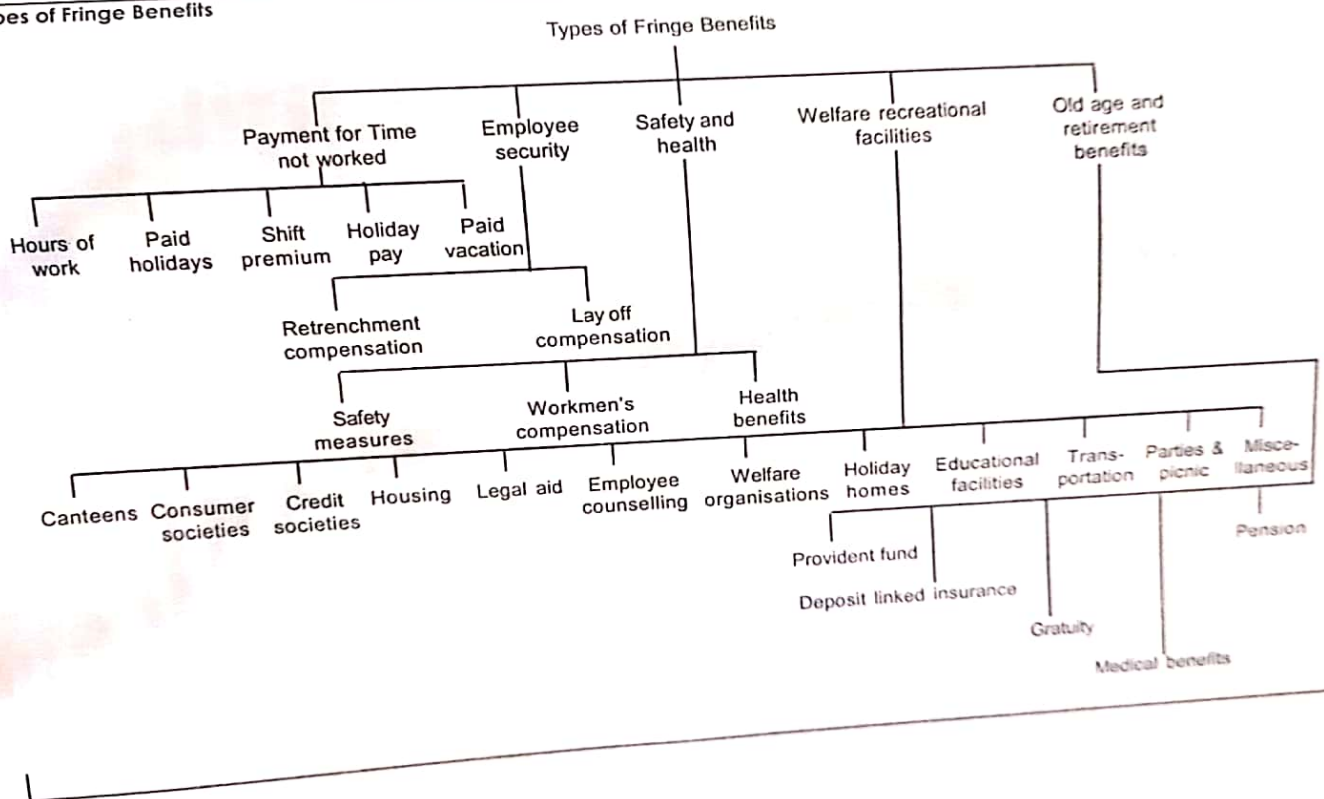
## Types of Fringe Benefits

The fringe benefits offered by various organisations in India may be broadly classified into five categories. These are discussed below:

- a. **Payment for time not worked:** This category includes: (a) hours of work, (b) paid holidays, (c) shift premium, (d) holiday pay and (e) paid vacation.
  - i. **Hours of work:** Section 51 of the Factories Act, 1948, specifies that no adult worker shall be required to work in a factory for more than 48 hours in any week. Section 54 of the Act restricts the working hours to 9 on any day. In some organisations, the numbers of working hours are less than the legal requirements.
  - ii. **Paid holidays:** According to the Factories Act, 1948, an adult worker shall have weekly paid holidays, preferably Sunday. When a worker is deprived of weekly holidays, he is eligible for compensatory holidays of the same number in the same month. Some organisations allow the workers to have two days' holidays in a week.
  - iii. **Shift premium:** Companies operating second and third shifts, pay a premium to the workers who are required to work during the odd hour's shift.
  - iv. **Holiday pay:** Generally organisations offer double the normal rate of the salary to those workers who work during holidays.
  - v. **Paid vacation:** Workers in manufacturing, mining and plantations who worked for 240 days during a calendar year are eligible for paid vacation at the rate of one day for every 20 days worked in case of adult workers and at the rate of one day for every 15 days worked in case of child workers.
- b. **Employee security:** Physical and job security to the employee should also be provided with a view to ensure security to the employee and his family members. When the employee's services get

**figure 17.2**

Types of Fringe Benefits





confirmed, his job becomes secure. Further, a minimum and continuous wage or salary gives a sense of security to the life. The Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, provide income security to the employees.

- i. **Retrenchment compensation:** The Industrial Disputes Act, 1947, provides for the payment of compensation in case of lay off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service. The compensation is paid at the rate of 15 days wage for every completed year of service with a maximum of 45 days wage in a year. Workers are eligible for compensation as stated above even in case of closing down of undertakings.
- ii. **Lay off compensation:** In case of lay off, employees are entitled to lay off compensation at the rate equal to 50% of the total of the basic wage and dearness allowance for the period of their lay off except for weekly holidays. Lay off compensation can normally be paid upto 45 days in an year.
- c. **Safety and health:** Employee's safety and health should be taken care of in order to protect the employee against accidents, unhealthy working conditions and to protect the worker's productive capacity. In India, the Factories Act, 1948, stipulated certain requirements regarding working conditions with a view to provide safe working environment. These provisions relate to cleanliness, disposal of waste and effluents, ventilation and temperature, dust and fumes, artificial humidification, over-crowding, lighting, drinking water, latrine, urinals and spittoons. Provisions relating to safety measures include fencing of machinery, work on or near machinery in motion, employment of young persons on dangerous machines, striking gear and devices for cutting off power, self-acting machines, casing of new machinery, prohibition of employment of women and children near cotton openers, hoists and lifts, lifting machines, chains, ropes and lifting tackles, revolving machinery, pressure plant, floors, excessive weight, protection of eyes, precautions against dangerous fumes, explosive or inflammable dust, gas, etc. Precautions in case of fire, power to require specifications of defective parts or test of stability, safety of buildings and machinery, etc.
- d. **Workmen's compensation:** In addition of safety and health measures, provision for the payment of compensation has also been made under Workmen's Compensation Act, 1923. The Act is intended to meet the contingency of invalidity and death of a worker due to an employment injury or an occupational disease specified under the Act at the sole responsibility of the employer. The Act covers the employees whose wages are less than Rs 500 per month. Amount of compensation depends on the nature of injury and monthly wages of the employee. Dependants of the employee are eligible for compensation in case of death of the employee.
- e. **Health benefits:** Today, various medical services like hospital, clinical and dispensary facilities are provided by organisations not only to employees but also to their family members. Employees State Insurance Act, 1948, deals comprehensively about the health benefits to be provided. This Act is applicable to all factories, establishments running with power and employing 20 or more workers. Employees in these concerns and whose wages do not exceed Rs 1,000 per month are eligible for benefits under the Act. Benefits under this Act include:
  - i. **Sickness benefit:** Insured employees are entitled to get cash benefit for a maximum of 56 days in a year under this benefit.
  - ii. **Maternity benefit:** Insured women employees are entitled to maternity leave for 12 weeks (six weeks before the delivery and six weeks after the delivery) in addition to cash benefit of 75 paise per day or twice of sickness benefit, whichever is higher.
  - iii. **Disablement benefit:** Insured employees, who are disabled temporarily or permanently (partial or total) due to employment injury and/or occupational diseases are entitled to get the cash benefit under this head.



**Dependant's benefit:** If an insured person dies as a result of an employment injury sustained as an employee, his dependants who are entitled to compensation under the Act, shall be entitled to periodical payments referred to as dependant's benefit.

**Medical benefit:** This benefit shall be provided to an insured employee or to a member of his family where the benefit is extended to his family. This benefit is provided in the following forms:

- out-patient treatment, or attendance in a hospital, dispensary, clinic or other institutions; or
- by visits to the home of the insured person; or
- treatment as in-patient in a hospital or other institution.

An insured person shall be entitled to medical benefits during any week for which contributions are payable, or in which he is eligible to claim sickness or maternity benefit or eligible for disablement benefit.

**Voluntary arrangements:** However, most of the large organisations provide health services over and above the legal requirements to their employees free of cost by setting up hospitals, clinics, dispensaries and homeopathic dispensaries. Company's elaborate health service programmes include:

- i. Providing health maintenance service, emergency care, on the job treatment care for minor complaints, health counselling, medical supervision in rehabilitation, accident and sickness prevention, health education programmes, treatment in employee colonies, etc.
- ii. Medical benefits are extended to employee family members and to the retired employees and their family members.
- iii. Small organisations which cannot set up hospitals or large organisations (in those places where hospitals cannot be set up because of various reasons) provide the medical services through local hospitals and doctors. Sometimes they provide the facility of reimbursement of medical expenses borne by the employees.

**Welfare and recreational facilities:** Welfare and recreational benefits include: (a) canteens, (b) consumer societies, (c) credit societies, (d) housing, (e) legal aid, (f) employee counselling, (g) welfare organisations, (h) holidays homes, (i) educational facilities, (j) transportation, (k) parties and picnics and (l) miscellaneous.

- i. **Canteens:** Perhaps no employee benefit has received as much attention in recent years as that of canteens. Some organisations have statutory obligation to provide such facilities as Section 46 of the Factories Act, 1948, imposes a statutory obligation to employers to provide canteens in factories employing more than 250 workers. Others have provided such facilities voluntarily. Foodstuffs are supplied at subsidised prices in these canteens. Some companies provide lunchrooms when canteen facilities are not available.
- ii. **Consumer stores:** Most of the large organisations located far from the towns and which provide housing facilities near the organisation set up the consumer stores in the employees colonies and supply all the necessary goods at fair prices.
- iii. **Credit societies:** The objective of setting up of these societies is to encourage thrift and provide loan facilities at reasonable terms and conditions, primarily to employees. Some organisations encourage employees to form cooperative credit societies with a view to fostering self-help rather than depending upon money lenders, whereas some organisations provide loans to employees directly.
- iv. **Housing:** Of all the requirements of the workers, decent and cheap housing accommodation is of great significance. The problem of housing is one of the main causes for fatigue and worry among employees and this comes in the way of discharging their duties effectively. Most of the large factories organisations, e.g., sugar mills, are located very far from towns, at places where



housing facilities are not available. Hence most of the organisations have built quarters near to factory and have thus provided cheap and decent housing facilities to their employees, while a few organisations provide and/or arrange for housing loans to employees and encourage them to construct houses.

- v. *Legal aid:* Organisations also provide assistance or aid regarding legal matters to employees and when necessary through company lawyers or other lawyers.
  - vi. *Employee counselling:* Organisations provide counselling service to the employee regarding their personal problems through professional counsellors. Employee counselling reduces absenteeism, turnover, tardiness, etc.
  - vii. *Welfare organisations, welfare officers:* Some large organisations set up welfare organisations with a view to provide all types of welfare facilities at one centre and appoint welfare officers to provide the welfare benefits continuously and effectively to all employees fairly.
  - viii. *Holiday homes:* As a measure of staff welfare and in pursuance of government's policy, a few large organisations established holiday homes at a number of hill stations, health resorts and other centres with low charges of accommodation, so as to encourage employees to use this facility for rest and recuperations in a salubrious environment.
  - ix. *Educational facilities:* Organisations provide educational facilities not only to the employees but also to their family members. Educational facilities include reimbursement of tuition fees, setting up of schools, colleges, hostels, providing grants-in-aid to the other schools where a considerable number of students are from the children of employees. Further, the organisations provide rooms and libraries for the benefit of employees.
  - x. *Transportation:* Many large Companies provide conveyance facilities to employees, from their residence to the place of work and back, as most industries are located outside town and all employees may not get quarter facility.
  - xi. *Parties and picnics:* Companies provide these facilities with a view to inculcating a sense of association, belongingness, openness and freedom among employees. These activities help employees to understand others better.
  - xii. *Miscellaneous:* Organisations provide other benefits like organising games, sports with awards, setting up of clubs, community service activities, Christmas gifts, Diwali, Pongal and Pooja gifts, birthday gifts, leave travel concession annual awards, productivity/performance awards etc.
- h. Old age and retirement benefits:** Industrial life generally breaks joint family system. The saving capacity of the employees is very low due to lower wages, high living cost and increasing aspirations of the employees and his family members. As such, employers provide some benefits to the employees after retirement and during old age, with a view to create a feeling of security about the old age. These benefits are called old age and retirement benefits. These benefits include (a) provident fund, (b) pension, (c) deposit linked insurance, (d) gratuity and (e) medical benefit.
- i. *Provident fund:* This benefit is meant for economic welfare of the employees. The Employee's Provident Fund, Family Pension Fund and Deposit Linked Insurance Act, 1952, provides for the institution of Provident Fund for employees in factories and establishments. Provident Fund Scheme of the Act provides for monetary assistance to the employees and/or their dependants during post retirement life. Thus, this facility provides security against social risks and this benefit enables the industrial worker to have better retired life. Employees in all factories under Factories Act, 1948, are covered by the Act. Both the employee and employer contribute to the fund. The employees on attaining 15 years of membership are eligible for 100% of the contributions with interest. Generally the organisations pay the Provident Fund amount with interest to the employee on retirement or to the dependants of the employee, in case of death.



- ii. **Pension:** The Government of India introduced a scheme of Employees Pension Scheme for the purpose of providing Family Pension and Life Insurance benefits to the employees of various establishments to which the Act is applicable. The Act was amended in 1971 when Family Pension Fund was introduced in the Act. Both the employer and the employee contribute to this fund. Contributions to this fund are from the employee contributions to the Provident Fund to the tune of 1.1/3% of employee wage.

Employee's Family Pension Scheme, 1971, provides for a Family Pension to the family of deceased employee as per the following rates:

### 17.3 Pension Rates

Pay for month	Rate
Rs 600 or more	12% of the basic subject to a maximum of Rs 150 as monthly pension
More than Rs 200 but less than Rs 800	15% of the basic subject to a maximum of Rs 96 and a minimum of Rs 60 as monthly pension.
Rs 200 or less	30% of the basic subject to a minimum of Rs 60 as monthly pension.

This scheme also provides for the payment of a lumpsum amount of Rs 4,000 to an employee on his retirement as retirement benefit and a lumpsum amount of Rs 2,000 in the event of death of an employee as life insurance benefits.

- iii. **Deposit linked insurance:** Employees deposit linked insurance scheme was introduced in 1976 under the P.F. Act, 1952. Under this scheme, if a member of the Employees Provident fund dies while in service, his dependents will be paid an additional amount equal to the average balance during the last three years in his account. (The amount should not be less than Rs 1000 at any point of time). Under the employee's deposit linked insurance scheme, 1976 the maximum amount of benefits payable under the deposit linked insurance is Rs 10,000.

- iv. **Gratuity:** This is another type of retirement benefit to be provided to an employee either on retirement or at the time of physical disability and to the dependents of the deceased employee. Gratuity is a reward to an employee for his long service with his present employer.

The Payment of Gratuity Act, 1972, is applicable to the establishments in the entire country. The act provides for a scheme of compulsory payment of gratuity by the managements of factories, plantations, mines, oil fields, railways, shops and other establishments employing 10 or more persons to their employees, drawing the monthly wages up to Rs 1,600 per month.

Gratuity is payable to all the employees who render a minimum continuous service of five years with the present employer. It is payable to an employee on his superannuation or on his retirement or on his death or disablement due to accident or disease. The gratuity payable to an employee shall be at the rate of 15 days wage for every completed year of service on part thereof in excess of six months. Here the wage means the average of the basic pay last drawn by the employee. The maximum amount of gratuity payable to an employee shall not exceed 20 months' wage.

- v. **Medical benefit:** Some of the large organisations provide medical benefits to their retired employees and their family members. This benefit creates a feeling of permanent attachment with the organisation to the employees even when they are no longer in service.

Fringe benefits are one of the means to ensure, maintain and increase the material welfare of employees. The physical and mental strain of workers in an industry is considerably alleviated by tax benefits through creating an environment that insulates them from fatigue and monotony. Employees who get fringe benefits are stimulated to give of their best so as to increase productivity and to develop a sense of belongingness to the organisation. Research studies, however, could not establish proof of any relationship between the amount spent on fringe benefits and level of productivity.



## Types of Piece Rate System

The Piece Rate System can be classified into three categories: (a) Straight Piece Rate (b) Piece Rate with guaranteed time rates and (c) Differential Piece Rates.

- a. **Straight piece rate:** In this method payment is made on the basis of a fixed amount per fixed unit produced without regard to the time taken. Thus,  

$$\text{Earnings} = \text{Number of units} \times \text{rate per unit}$$

The Fixation of piece rate generally depends upon:

  - The comparable time rate for the same class of workers;
  - The expected output in given time.
- b. **Piece rate with guaranteed time rate:** In this system, workers are paid minimum wages on the basis of time rates. A piece rate system with guaranteed time rate may include any one of the following:
  - If earnings on this basis of piece rate is less than the guaranteed minimum wages, the workers will be paid on the basis of time rate. On the other hand, if earnings according to piece rate is more, the workers will get more.
  - Guaranteed wages according to time rate plus a piece rate payment for units above a required minimum.
  - Piece rate with a fixed dearness allowance or cost of living bonus.
- c. **Differential piece rate:** In this scheme, the rate per piece is increased, as the output level is increased. That is, there is more than one-piece rate system. In other words, the increase in rates may be proportionate to the increase in output. By this system, inefficient workers are encouraged to earn more. This system is suitable where:
  - The work is of repetitive nature.
  - Output can be identified with individual workers.

## Incentive Plans<sup>4</sup>

Incentive plans envisage a basic rate usually on time basis applicable to all workers and incentive rates payable to the more efficient among them as extra compensation for their meritorious performance in terms of time, costs and quality. The incentive rates may take the form of bonus or premium. Bonus means payment to workers of the entire benefit accruing from savings in costs, time, improvement in quality, etc. Premium means the benefits accruing to the firm as the result of higher output or better quality will be shared equally or on some agreed basis between the management and the workers.

## Features of Incentive Plans

The characteristics of these plans are as follows:

1. Minimum wages are guaranteed to all workers.
2. Incentives by way of bonus, etc., are offered to efficient workers for the time saved.
3. A standard time is fixed and the worker is expected to perform the given work within the standard time. The standard time is set after making time studies for the performance of a specific job.

## Table 17.1

## Essentials of a Sound Incentive Plan

- **Guaranteed minimum wages**  
It must guarantee minimum wages irrespective of the performance of the worker.
- **Simple**  
It must be simple to operate and easy to understand.
- **Equitable**  
All workers should get an equal opportunity to earn the incentive pay. Equal pay for equal work should be the rule.
- **Economical**  
The incentive plan should not be a costly affair. The benefits must exceed the costs.
- **Flexible**  
It must be reasonably flexible so as to take care of changes in technology, demand for and supply of skills, competitive rates in the industry, etc.
- **Support**  
The incentive plan should take workers and unions into confidence. It should be implemented after consulting the workers and their union. Generally speaking, it should be the outcome of mutual trust and understanding between management and workers.
- **Motivating**  
The incentive should be large enough to motivate the worker to superior performance. At the same time, there should be checks and balances to ensure that the worker does not exert himself to painful levels, affecting the quality.
- **Prompt**  
There should be very little time gap between performance and payment. As soon as the job is finished, the worker should get his (incentive) earnings promptly.

Incentive plans incorporate all the advantages of piece rate wages but they resemble time wages so far as the payments are concerned. Under Incentive Plans, the employer as well as the employee share the benefit of time saved. The various incentive plans have benefited both workers and employers, as they result in higher wages, lower labour turnover and better industrial relations and morale. The following are the more important incentive plans of wage payment.

### Individual Incentives

Individual incentive plans are the most widely used pay for performance plans in industry. These pay plans attempt to relate individual effort to pay. Popular approaches include piece work plans, (such as Taylor's differential piece rate plan, Merrick's differential piece rate plan, etc.), standard hour plans, such as Halsey plan, Bedeaux plan, Emerson's plan etc.) merit pay raises, lumpsum merit payments, sales incentives and commissions.

#### A Piece Rate: Taylor's Differential Piece Rate System

FW Taylor, the father of Scientific Management, originated this system. The main features of this plan are:

- There shall be two piece work rates, one is lower and the other is higher.
- The standard of efficiency is determined either in terms of time or output based on time and motion study.
- If a worker finishes work within standard time (or produces more than standard output within time) he will be given high piece rate.

This system penalises the slow worker by paying low rate because of low production, rewards an efficient worker by giving him high rate because of higher production. Indirectly, this system gives no place to



inefficient work. In other words, if the output of a worker is less than the standard output, he is paid a low rate and vice versa.

### Merrick's Differential Piece Rate System

We have seen that in Taylor's Method, the effect on the wages is quite severe in the marginal cases. To remove this defect, Merrick came out with a Multiple Piece Rate System. There are three piece rates under this scheme instead of two, and workers producing below the standard output are not penalised by the low piece rate. Since the earnings increase with increased efficiency, performance above the standard will be rewarded by more than one higher differential piece rate. The basic features of this scheme are: (a) upto 83% of the standard output workers are paid at the ordinary piece rate (b) 83% to 100% at 110% of the ordinary piece rate, and (c) above 100% at 120% of the ordinary piece rate.

### B. Standard Hour Plans: Halsey Plan

This plan, originated by F A Halsey (an American engineer) recognises individual efficiency and pays bonus on the basis of time saved. The main features of this plan are:

1. Standard time is fixed for each job or operation.
2. Time rate is guaranteed and the worker receives the guaranteed wages irrespective of whether he completes the work in the time allowed or takes more time to do the same.
3. If the job is completed in less than the standard time, the worker is paid a bonus of 50% (33 1/3 per cent under Halsey-Weir Plan) of time saved at time rate in addition to his normal time wages.

Total Earnings = Time taken x Hourly Rate plus Bonus

Bonus = 50% of time saved

#### Merits

1. It is easy to follow and relatively simple to operate;
2. It guarantees minimum wage and thus provides security to the employees;
3. It provides increasing benefit and incentive to efficient workmen;
4. The benefit from time saved is shared equally between the employer and the workman;
5. It emphasises the saving of time rather than larger output, hence the workers do not resist its adoption.
6. The system is based on time saved and not on output, thus preventing over production.
7. Saving in time reduces both labour cost and overhead expenses.

#### Demerits

1. The worker may be encouraged to rush through work and thus neglect the quality of production to save more time and earn higher bonus;
2. It does not provide adequate incentive to highly efficient workmen as it involves sharing of the benefit with employers.
3. Fixation of standard is not easy.
4. Earnings are reduced at high level of efficiency. Therefore, it does not act as a sufficient incentive.

## Rowan Plan

This plan was introduced by D. Rowan in 1901. As before, the bonus is paid on the basis of time saved. But unlike a fixed percentage in the case of Halsey plan, it takes into account a proportion as follows:

$$\frac{\text{Time saved}}{\text{Time allowed}}$$

Thus, under this plan bonus is that proportion of the wages of time taken which the time saved bears to the time allowed or standard time.

$$\text{Bonus} = \frac{\text{Time saved}}{\text{Standard time or time allowed}} \times \text{Time taken} \times \text{Hourly rate}$$

$$\text{Total earnings} = \text{Time Taken} \times \text{Hourly Rate} + \text{Bonus}$$

## Merits

1. It assures minimum time wages. It is more liberal than the Halsey plan in that it provides incentive to work and earn extra remuneration.
2. As the increase in effort is much less rewarded after a certain stage, an automatic check for limiting production of inferior quality of goods is ensured.
3. This automatic check enables the worker to earn a fair wage, because there is less chance of rate-cutting by the employer, as he is not paying extraordinary wages.

## Demerits

1. The ordinary worker may find the bonus calculation a bit difficult.
2. Like Halsey plan, this plan does not encourage extraordinary efficiency. For example, if the time saved is more than half the total, earnings begin decreasing.

## Gantt Task and Bonus Plan

This plan combines time, piece and bonus systems. The main features of this plan are:

1. Day wages are guaranteed.
2. Standard time for task is fixed and both time wages as well as a high rate per piece are determined.
3. A worker who cannot finish the work within the standard time is paid on time basis.
4. If a worker reaches the standard, he will be paid time wage plus a bonus at fixed percentage (20% of normal time wage).
5. If the worker exceeds the standards, he is paid a higher piece rate.

## Merits

1. This plan is not as harsh as the Taylor's differential piece rate system. Hence it is more acceptable to the workers.
2. Workers can easily understand its working.
3. It ensures guaranteed time wages to inefficient workers also.
4. It makes distinction between efficient and inefficient workers because the system ensures wages for inefficient workers and piece wages plus 20% bonus for efficient workers.
5. Labour cost per unit decreases with increase in production due to incentive for efficiency under this plan.



### Demerits

1. It classifies workers into two competing categories (efficient and inefficient) and this may bring disunity among workers.
2. When this method is used, labour cost will be high for low production.
3. Extreme care is to be exercised in fixing the guaranteed time rate and determination of standard output. Any error due to lack of experience will lead to unfavourable consequences.

### Bedeaux Plan

Under this plan, every operation or job is expressed in terms of so many standard minutes, which are called 'Bedeaux points' or "B's", each B representing one minute through time and motion study. Up to 100% performance, i.e., upto standard B's, a worker is paid time wages without any premium for efficiency. If the actual performance exceeds the standard performance in terms of B's, then 75% of the wages of the time saved is paid to the worker as bonus and 25% is earned by the foremen. For example, if the standard time is 10 hours actual time taken is 8 hours and rate per hour Re.1, the worker will get:

$$= 8 \text{ hours at Re } 1 + 75\% \text{ of } 120 \text{ (points saved)} \times 1/60$$

$$= \text{Rs } 9.50.$$

### Haynes Mani Plan

This plan is just like the above plan, i.e., the Bedeaux plan with the difference that:

- a. The standard is fixed in terms of standard minute known as 'Manit', instead of Bedeaux. Manit stands for man-minute.
- b. The bonus is only 50% as against 75% of the Bedeaux plan. Of the remaining 50%, 10% bonus is paid to supervisors and 40% is retained by the employers.

### Emerson's Efficiency Plan

Under this plan, when the efficiency of the worker reaches 67% he gets bonus at the given rate. The rate of bonus increases gradually from 67% to 100% efficiency. Above 100% bonus will be at 20% of the basic rate plus 1% for each 1% increase in efficiency.

### Accelerated Premium Bonus Plan

This plan is also known as Sliding Scale Bonus Plan because the premium is paid at varying rates for increasing efficiency. In this plan, as efficiency of worker improves, his earnings would increase in greater proportion. This plan is most suitable for foremen and supervisors because it will stimulate them to get higher production from workers under their supervision but it is not advisable to use it for machine operators who may rush through work to earn more, disregarding quality of production.

There is no simple formula for this scheme. Therefore, each firm has to devise its own formula. However, by way of illustration, a graph of  $y = 0.8x^2$  may be given as general picture of the scheme (where  $x$  is percentage efficiency 100+ and  $y$  = wages).

Thus,

Percentage efficiency	100	110	130	150
$x$	1	1.1	1.3	1.5
$x^2$	1	1.21	1.69	2.25
$Y = 0.8x^2$	0.8	0.97	1.35	1.8

## Introduction

After an employee has been selected for a job, has been trained to do it and has worked on it for a period of time, his performance should be evaluated. Performance Evaluation or Appraisal is the process of deciding how employees do their jobs. Performance here refers to the degree of accomplishment of the tasks that make up an individual's job. It indicates how well an individual is fulfilling the job requirements. Often the term is confused with efforts, which means energy expended and used in a wrong sense. Performance is always measured in terms of results. A bank employee, for example, may exert a great deal of effort while preparing for the CAIIB examination but manages to get a poor grade. In this case the effort expended is high but performance is low.<sup>1</sup>

## Definition

Performance appraisal is a method of evaluating the behaviour of employees in the workplace, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work-related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he or she is performing the job and ideally, establishing a plan of improvement.<sup>2</sup>

### Box 15.1: What is Performance appraisal?

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

## Features

The main characteristics of performance appraisal may be listed thus:

- The appraisal is a *systematic process* involving three steps:
  - a. Setting work standards.
  - b. Assessing employee's actual performance relative to these standards.
  - c. Offering feedback to the employee so that he can eliminate deficiencies and improve performance in course of time.
- It tries to find out how well the employee is performing the job and tries to establish a plan for further improvement.
- The appraisal is carried out periodically, according to a definite plan. It is certainly *not a one shot deal*.
- Performance appraisal is *not a past-oriented activity*, with the intention of putting poor performers in a spot. Rather, it is a future oriented activity showing employees where things have gone wrong, how to set everything in order, and deliver results using their potential in a proper way.
- Performance appraisal is *not job evaluation*. Performance appraisal refers to how well someone is doing an assigned job. Job evaluation, on the other hand, determines how much a job is worth to the organisation and therefore, what range of pay should be assigned to the job.
- Performance appraisal is *not limited to 'calling the fouls'*. Its focus is on employee development. It forces managers to become coaches rather than judges. The appraisal process provides an opportunity to identify issues for discussion, eliminate any potential problems, and set new goals for achieving high performance.



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

### Objectives

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

Appraisal of employees serves several useful purposes:<sup>3</sup>

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

### Box 15.2: The Benefits of Performance Appraisal

#### Employer perspective [Administrative uses]

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

#### Employee perspective [developmental purposes]

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

### What is to be Appraised?

Every organisation has to decide upon the content to be appraised before the programme is approved. Generally, the content to be appraised is determined on the basis of job analysis. The content to be appraised may be in the form of contribution to organisational objectives (measures) like production, savings in terms of cost, return on capital, etc. Other measures are based on: (1) behaviours which measure observable physical actions, movements, (2) objectives which measure job related results like amount of deposits mobilised, and (3) traits which are measured in terms of personal characteristics



19. Comment about your originality and resourcefulness.
20. Identify the areas of work to which you are best suited.
21. Comment about the level and nature of your judgement skills.
22. Do you have skills of integrity?
23. Do you have the ability to accept responsibility?
24. List out your achievements during the present year.
25. Would you like to develop yourself? If yes, specify the areas of technical, marginal and human relations' areas.
26. Are you interested in specialised jobs or generalised jobs?
27. Indicate their improvements in your work performance.
28. To what extent have you availed the leave facility?
29. Specify your participation in extra curricular activities.
30. Provide any other related information.

Date

Comments of Immediate Superior

Signature of the Employee

Signature

**Users of services:** Employees' performance in service organisations relating to behaviours, promptness, speed in doing the job and accuracy can be better judged by the customers or users of services. For example, a teacher's performance is better judged by students and the performance of a conductor of a bus is better judged by passengers.

**Consultants:** Sometimes, consultants may be engaged for appraisal when employees or employers do not trust the supervisory appraisal and management does not trust the self-appraisal or peer appraisal or subordinate appraisal. In this situation, consultants are trained and they observe the employee at work for sufficiently long periods for the purpose of appraisal.

In view of the limitations associated with each and every method discussed above, several organisations follow a multiple rating system wherein several superiors separately fill out rating forms on the same subordinate. The results are then tabulated.

### When to Appraise?

Informal appraisals are conducted whenever the supervisor or personnel managers feel it is necessary. However, systematic appraisals are conducted on a regular basis, say, for example, every six months or annually. One study of 244 firms found that appraisals were most often conducted once a year. According to another Indian study, eight organisations appraised their supervisory personnel at their anniversary date of joining. Recent research suggests, however, that more frequent feedback correlates positively with improved performance. Research has also indicated that appraisals for development purpose should be separated from those for salary administration.<sup>5</sup>

### The Performance Appraisal Process

Performance appraisal is planned, developed and implemented through a series of steps.<sup>6</sup>

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

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



**Box 15.4: Yearly Performance Review**

Name of the Employee:	Mr Raju
Date:	31.12.1999
Use the following scale to rate the employee (1 poor 2 below average 3 average 4 good 5 excellent)	
a. Absenteeism	1 2 3 4 5
b. Quality of work	1 2 3 4 5
c. Quantity of work	1 2 3 4 5
d. Attitude toward the job	1 2 3 4 5
e. Personality-related factors	1 2 3 4 5
f. Interpersonal relations	1 2 3 4 5
(Your letters indicate the actual rating by the manager as on 31.12.1999)	
Supervisor _____	Employee _____

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

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

**Box 15.5: Criteria for Identifying and Writing Good Performance Goals**

- What is the task to be accomplished?
- What will it look like when it is accomplished?
- When must it be completed?
- What are the cost considerations?

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

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

Performance measures may be objective or subjective. Objective performance measures are indications of job performance that can be verified by others and are usually quantitative. Objective criteria include quality of production, degree of training needed and accidents in a given period, absenteeism, length of service, etc. Subjective performance measures are ratings that are based on the personal standards or opinions of those doing the evaluation, and are not verifiable by others. Subjective criteria include ratings by superiors, (knowledge about) overall goals, and (contribution to) socio-cultural values of the environment. It should be noted here that objective criteria can be laid down while evaluating lower level jobs which are specific and defined clearly. This is not the case with middle level positions that are complex and vague.

### Box 15.6: Measurement of Performance of a Telephone Operator

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

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

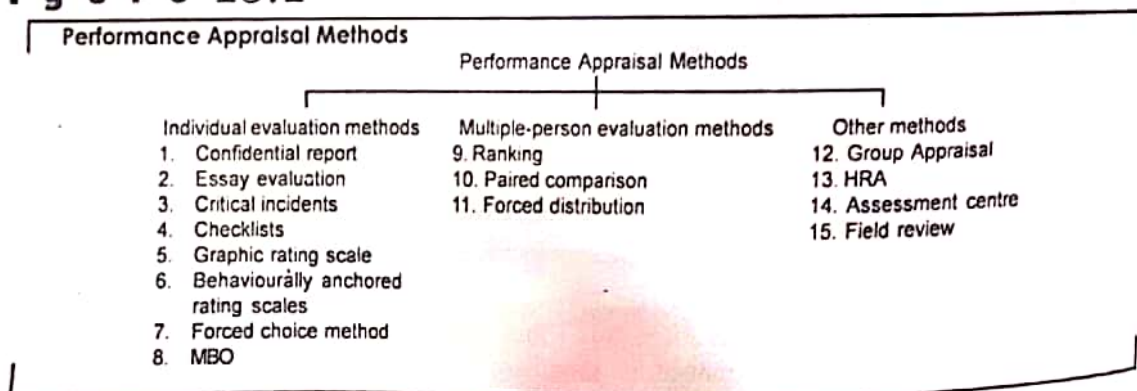
The rater's monitoring of an operator's calls is direct observation. The actual on-line performance is evaluated directly. For example, if a written test is held for telephone operators about company rules and regulations for handling emergency calls, international calls, etc., then the process of evaluation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

- d. **Compare actual performance with standards and discuss the appraisal:** Actual performance may be better than expected and sometimes it may go off the track. Whatever be the consequences, there is a way to communicate and discuss the final outcome. The assessment of another person's contribution and ability is not an easy task. It has serious emotional overtones as it affects the self-esteem of the appraisee. Any appraisal based on subjective criteria is likely to be questioned by the appraisee and leave him quite dejected and unhappy when the appraisal turns out to be negative.
- e. **Taking corrective action, if necessary:** Corrective action is of two types: one puts out the fires immediately, while the other destroys the root of the problem permanently. Immediate action sets things right and get things back on track whereas the basic corrective action gets to the source of deviations and seeks to adjust the difference permanently. Basic corrective steps seek to find out how and why performance deviates.

## Methods of Performance Appraisal

The performance appraisal methods may be classified into three categories, as shown in Figure 15.1:<sup>7</sup>

figure 15.1



### Individual Evaluation Methods

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



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

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

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

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

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

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

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

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

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

- Negative incidents may be more noticeable than positive incidents.



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

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

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

- Is the employee really interested in the task assigned?
- Is he respected by his colleagues (co-workers)?
- Does he respect his superiors?
- Does he follow instructions properly?
- Does he make mistakes frequently?

Yes/No

Yes/No

Yes/No

Yes/No

Yes/No

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

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

Box 15.7: Typical Graphic Rating Scale

Employee Name..... Department..... Date.....		Job title..... Rate.....			
	Unsatisfactory	Fair	Satisfactory	Good	Outstanding
• Quantity of work Volume of work under normal working conditions					
• Quality of work neatness, thoroughness and accuracy of work					
• Knowledge of job A clear understanding of the factors connected with the job					
• Attitude Exhibits enthusiasm and cooperativeness on the job					

Contd...



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

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

**Table 15.2**  
Forced Choice Items

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

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

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

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

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



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

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

### Multiple-person Evaluation Techniques

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

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

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



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

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

**Paired comparison method:** Ranking becomes more reliable and easier under the paired comparison method. Each worker is compared with all other employees in the group; for every trait, the worker is compared with all other employees. For instance, when there are five employees to be compared, then A's performance is compared with that of B's and decision is arrived at as to whose is better or worse. Next, B is also compared with all others. Since A is already compared with B, this time B is to be compared with only C, D and E. By this method, when there are five employees, fifteen decisions are made (comparisons). The number of decisions to be made can be determined with the help of the formulae  $n(n-2)$ . Ranking the employees by the paired comparison method may be illustrated as shown in the Table 15.3.

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

Trait: 'Quantity of work'

Table 15.3

Employee Rated

As compared to	A	B	C	D	E
A		+	-	+	-
B	-		+	-	+
C	+	-		+	-
D	-	+	-		-
E	+	-	+	+	

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

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

One strong positive point in favour of the forced distribution method is that by forcing the distribution according to predetermined percentages, the problem of making use of different raters with different scales is avoided. Further, this method is appreciated on the ground that it tends to eliminate rater bias. The limitation of using this method in salary administration however, is that it may result in