CHAPTER FIVE

TRAINING AND DEVELOPMENT

Introduction

Having qualified and well trained personnel, to perform various jobs, is a very basic necessity for any organization.

- ✓ Training and development of employees becomes necessary because of changing technology, up gradation of skills and knowledge of the workers, the need to increase the productivity of the workers, etc., so as to retain the competitive edge. Training and development seem to indicate the same meaning, but a detailed examination would reveal some differences.

5.1. Meaning of Training and Development

Training is a process of learning a sequence of programmed behavior, which helps the trainees in improving their job performance and better apply their knowledge. Whereas **development** covers not only performance improvement activities but also those which enhance personality, gain better attitudes, values and behavior. The scope of development is wider than training. To understand the difference between training and development more clearly we need to look at their impact on the learning dimensions.

Table 1 Distinction between training and development

	Learning dimensions	Training	Development
1	Who is the target?	It is given to technical/ non managerial people	It is given for managers.
2	What knowledge	People a quire technical &	Executives a quire conceptual

	to transfer?	operational knowledge and skill	and theoretical knowledge
3	Why?	For job improvement. It is job centered - for specific job.	For general development. It is career oriented or growth oriented - for all activity of job.
4	When or time duration?	It is Short term process.	It is long term process.

Training is a short term process involving a systematic and organized procedure by which non managerial personnel acquire technical knowledge and skill for a definite purpose. Training is planned effort to facilitate learning of job related behaviors.

Development is a long term educational process consisting of a systematic and organized procedure by which managerial personnel acquire conceptual and theoretical knowledge for general purpose.

By looking at the above table we can understand that training is generally meant for workers to increase job performance skills and the duration of the program is for a lesser time. Whereas development programs are used for increasing the knowledge and enhancing the personality and behavior of the managers and they are for a longer duration.

Training

Training is planned programs designed to improve performance at the individual, group and/or organizational level. It refers to improving competencies needed today or very soon. Usually, the main objective of training is to improve performance in a specific job by increasing employees' skills and knowledge.Training is defined as any attempt to improve employee performance on a currently held job or one related to it. This usually means changes in specific knowledge, skills, attitudes, or behaviors. **Training** is a learning process that involves the acquisition of knowledge, skills, and abilities (KSA) necessary to successfully perform a job.

5.2. Needs and purpose (Objective) of training

In the modern corporate environment, the necessity of training of employees may arise for different reasons.

- Economic, social, technological, and government changes can make the skills learned today obsolete in the future.
- Planned organizational changes (such as the introduction of new equipment) can make it necessary for employees to update their skills or acquire new ones.
- Performance problems within an organization such as low productivity or large scrap

problems can be reduced by training.

- Regulatory, contractual, professional, or certification issues can require an employer to provide training for its employees.
- to reduce supervision time, minimize spoilage and wastage of material
- To assist workers to perform at the optimum level in current jobs.
- To develop employees for future jobs expansions or diversifications.
- To help the worker in adopting safe work procedures.
- To help the workers in their personal growth, within the organization as well as outside.
- To increase the job satisfaction since training can improve the employee's self-esteem.
- To prepare employees for promotion to positions which require added skill and knowledge. Trained workers will be given priority in promotions and transfers.
- To lower the cost of wastes and equipment maintenance.
- To bridge the gap b/n the existing performance and potential performance.
- To improve health and safety.

5.3. Steps Involved in Creation of a Training Program

Training programs are expensive and time consuming hence; they should be created in a very objective and careful way. Generally, in most organizations the following steps are undertaken to create a good training program.

Step 1. Need assessment:

Determining the need for training is the first step in the training process. Analyze the organization need and identify training goals which when reached, will equip learner's with knowledge and skills to meet the organization's needs. Usually this phase also includes identifying when training should occur and who should attend as learners.

All training programs are created to meet the various needs of the organization.

To properly identify the needs of the organization it is very important to first conduct a thorough organizational analysis, operations analysis, and analysis of the manpower it possesses. Organizational analysis basically involves analysis of the organizational goals and the resources allocated to achieve these goals. Operations analysis focuses on the way in which a job or task is to be done in an effective way. Manpower analysis tries to find out the qualities, knowledge, attitudes, etc., of the present workers of the organization.

Step 2. Translating the training need in to the program/Getting ready for the job

It outlines training package, instructional methodologies, training schedule. In this stage the human resource managers or the trainer decide who is to be trained, the duration of the training program, what kind of training material to be collected, and other kinds of preparation for the program.

Step 3. Selecting the trainees and trainers

Selecting the right individuals for training is essential process of training. It is essential to give the training to the right people by considering factors such as relevance of the training to the improvement of performance, interest and motivation level of the trainee, etc. It is also important to select trainers who are capable and qualified to train. In this step the learner is told about the importance of the training program, its contents, and its contribution to improved performance of the individual as well as the organization. A learner is generally nervous before any training program and it is the duty of the trainer to psychologically put him/her at ease and generate interest in the program.

Step 4. Selecting Training Methodologies

There are several training methods but it is vital to select appropriate training methods for the program. The appropriateness of the training technique depends on cost effectiveness, training content, available of training facility, trainees, capabilities, etc.

Step 5. Conducting the training/Presentation of Operations and Knowledge

It is the most important step in the training program. It involves the actual transmission of knowledge or operations through lectures, illustration, discussions, demonstrations, etc. Usage of audio visual teaching aids enriches the teaching-learning process of these programs. This step can include administrative activities, such as copying scheduling facilities taking attendance data, building learns.

Step 6. Performance Try Out.

In this step the trainees are tested and the effectiveness of the training and development program is found out. Performance try out is generally carried out by, asking the trainees undertake written or oral tests to ascertain their subject or technical knowledge, by observing the performance of the trainees on the job itself, by taking the evaluation of the trainees about the program, by conducting structured interviews and by making the trainees fill up questionnaires, by taking the feedback of the top managers about the program and by comparing the actual performance of the trainees before and after the training and development program.

Step 7. Evaluation of Training/Feedback

After implementing the training and development package, evaluating training and development program before, during and after implementation is essential. Feedback on the training and development program should be obtained in order to assess the value of the training. In this last stage, the trainees are left on their own and checked frequently to see how far they follow the new techniques learnt in the training and development program and its impact on their productivity.

5.4. Training Approaches /Methods

Several methods can be used to satisfy an organization's training needs and

accomplish its objectives. Broadly all approaches or methods of training are classified as

- ☞ On the job training
- ☞ Off the job training and
- ☞ Vestibule training

A. On – the – job training

On – the – job training is training approach by which trainees learn working methods and skills by actually doing or performing their jobs. It is much more practical for jobs that are either difficult to learn quickly by watching. In this type of training, an employee is put on the work floor directly and is assigned to a superior or to an experienced worker who teaches/guides him in how to do the work practically. These methods are a part of the everyday job activity of the organization. This is the most common method of training because it is practical oriented, less expensive and the focus is on the job.

The various techniques used under this method are;

i. **Coaching or understudy program.** Employees are trained on the job by an experienced worker or the trainee's supervisor, where the supervisor or an experienced worker gives personal and in depth guidance to an employee or subordinate.

ii. **Job rotation:** is used to cross train employees in variety of jobs by moving them from jobs to other jobs. In this method the employees are assigned to different jobs after certain period of time so as to get working knowledge in all area of the organization. Job rotation programs are used to expose employees to and train them in a variety of jobs and decision-making situations. Usually, job rotation programs rotate employees through jobs at a similar level of difficulty. The extent of training and long-run benefits may be limited, however, because employees aren't in a single job long enough to learn very much and may not be motivated to work hard because they know they will move on in the near future:

iii. **Special assignments or committees**, in this method the lower level employees are assigned to temporary committees or are given temporary assignments so that they get a chance of knowing about other activities in the organization and also give them problem solving abilities.

Advantages of on-the job-training

- relatively in expensive
- trainees learn while producing
- no need of facilities like class rooms
- Transfer of training is high. That is, because trainees learn job skills in the

environment in which they will actually work, they readily apply these skills on the job

Disadvantages of on-the job-training

- Not suitable for large number of trainees. training is appropriate only when a small number of individuals need to be trained and when the consequence of error is low. Also, the quality of the training hinges on the skill of the manager or lead employee conducting it.
- Trainees may be disinterested because they are trained in the same environment.

B. Off – the job training

This type of training is given to the trainees away from the work floor and is not the everyday activity of an organization. Is a training approach in which employees are moved from the actual job and training elsewhere. The trainees are imparted theoretical knowledge in a class room or a training center and the most popular kind of off-the-job training methods are lectures, conferences, group discussions, case studies, role play, programmed instructions, etc.

Advantage of off – the – job training

- ☞ Can train large number of employees
- ☞ Individuals may be motivated because they take the training in a different environment.

Disadvantages of off – the – job training

- ☞ It is relatively expressive
- ☞ Transfer of knowledge is relatively difficult in this case. It is necessary characteristics situations where it is too costly or difficult to train employee on the job

C. Vestibule training

This is a combination of on-the-job and off-the-job training methods. It is a training activity that explicitly places the trainee in an artificial environment that closely related to actual working condition. In this method identical machines and equipment, which are used on the work floor, are installed in a training center and also an effort is made to duplicate work atmosphere found on the actual work floor. This method tries to give the trainees a chance of getting trained in a situation which is as close to the original work situation as possible.

5.5. Career Development

Development is the managerial function of preserving and enhancing employees' competence in their jobs by improving their knowledge, skills, abilities and other

characteristics. It refers to activities intended to improve competencies over a longer period of time. The major objective of development is to prepare the work force for roles they may have in the future.

It refers to learning opportunities designed to help employees grow. Such opportunities do not have to be limited to improving employee's performance on their current jobs. The focus of 'development' is on the long term to help employees prepare for future work demands, while 'training' often focuses on the immediate period to help fix any current deficits in employee's skills. The most effective companies look at training and career development as an integral part of a "human resource development" (HRD) program carefully aligned with corporate business strategies.

5.6. Objectives of Development

Some of the common objectives of development program are,

- To provide the managers and other higher officials with leadership skills
- To enhance the performance of the executives
- To help the management in ensuring better control in the organization.
- To train managers for higher assignments
- To prepare managers to adapt to changes. Change could be because of technology, environment, etc.
- To develop a unity of purpose and improve morale of the managers
- To make managers socially more conscious and ethical in their practices

5.8. Methods of Management Development

Many different techniques can be used for development activities

a. **Position /job rotation**: involves rotating key personnel in different positions or departments. This will help managers gain experience in variety of positions in the organization.

b. **Coaching:** - is mainly used to develop managers by placing the trainee under a close guidance and supervision to perform increasing range of management tasks and share the trainer's experience.

c. **Role playing**: is a development method that creates of realistic situation and then the trainees assuming the roles of specific person in that situation. The purpose of this method is to solve the problem at hand and there by develop trainees' skills in areas like leadership and delegating.

d. **Case study method**: is a method that requires trainees to analyze and solve simulated or actual business problems. This provides trainees a realistic experience of dealing with complex problems. While their progress and approach is being guided by the trainer.

e. **Seminar:** a situation where a group of people are gathered for the purpose of studding a subject under the leadership of an expert.

In selecting training and development techniques, tradeoffs exist, i.e. no single technique is always best. The best method depends on cost effectiveness, desired program content, learning principles, appropriateness of the facilities, and trainees and trainer preference and capabilities.

Chapter Six

Performance Appraisal

6.1. Meaning of performance appraisals

Performance appraisal is the logical evaluation of the employees' performance so as to

understand their abilities for further growth and developments. It is done in a systematic way so as to maintain records with an aim of determining compensation packages, salaries raises, wage structures etc.

A performance appraisal is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organizational objectives.

Performance appraisal is variously called employee rating, employee evaluation, performance review, performance evaluation, or results appraisal.

Who Conducts Appraisals?

Performance appraisals can be ***conducted by anyone*** familiar with the performance of individual employees. Possible rating situations include the following:

1. Supervisory Rating of Subordinates: The most widely used means of rating employees is based on the assumption that the immediate supervisor is the person most qualified to evaluate an employee's performance realistically and fairly. To help themselves provide accurate evaluations, some supervisors keep performance logs noting their employees' accomplishments so that they can reference these notes when rating performance.

2. Employee Rating of Managers: A number of organizations today ask employees to rate the performance of their immediate managers. A prime example of this type of rating takes place in colleges and universities, where students evaluate the teaching effectiveness of professors in the classroom.

3. Team/Peer Rating: Having employees and team members rate each other is another type of appraisal with potential both to help and to hurt. Peer and team ratings are especially useful when supervisors do not have the opportunity to observe each employee's performance but other work group members do.

4. Self-Rating: Self-appraisal works in certain situations. As a self-development tool, it requires employees to think about their strengths and weaknesses and set goals for improvement. Employees working in isolation or possessing unique skills may be particularly suited to self-ratings because they are the only ones qualified to rate themselves. Overall, the use of self-appraisals in organizations has increased.

5. Outsider Rating: People outside the immediate work group may be called in to conduct performance reviews. This field review approach can include someone from the HR department as a reviewer, or completely independent reviewers from outside the organization.

Examples include a review team evaluating a college president or a panel of division managers evaluating a supervisor's potential for advancement in the organization. A disadvantage of this approach is that outsiders may not know the important demands within the work group or organization. In addition, the customers or clients of an organization are good sources for outside appraisals.

6. Multisource/Comprehensive or 360-Degree Feedback/Rating: Multisource feedback recognizes that for many jobs, employee performance is multidimensional and crosses departmental, organizational, and even global boundaries. Therefore, information needs to be collected from many different sources to adequately and fairly evaluate an incumbent's performance in one of these jobs. The major purpose of 360-degree feedback is not to increase uniformity by soliciting like-minded views. Instead, it is designed to capture evaluations of the employee's different roles to provide richer feedback during an evaluation.

Types of Performance Information

Managers can use three different types of information about employee performance, as Figure 6.2 shows.

i. Trait-based information: identifies a character trait of the employee—such as attitude, initiative, or creativity—and may or may not be job related. Because traits tend to be ambiguous, and favoritism of raters can affect how traits are viewed, court decisions generally have held that trait-based performance appraisals are too vague to use when making performance-based HR decisions such as promotions or terminations. Also, fixating too much on characteristics such as "potential" can lead managers to ignore the important behaviors and outcomes that help organizations reach their objectives.

ii. Behavior-based information: focuses on specific behaviors that lead to job success. Behavioral information clearly specifies the behaviors management wants to see. A potential problem arises when any of several behaviors can lead to successful performance, and employees rely on these different behaviors to complete work.

iii. Results-based/Individual task outcome/ information: consider employee accomplishments. For jobs in which measurement is easy and obvious, a results-based approach works well. However, in this approach, that which is measured tends to be emphasized, which may leave out equally important but difficult-to-measure parts of work. Further, ethical or even legal issues may arise when only results are emphasized, and how the results were achieved is not considered, so care should be taken to balance the different types of information.

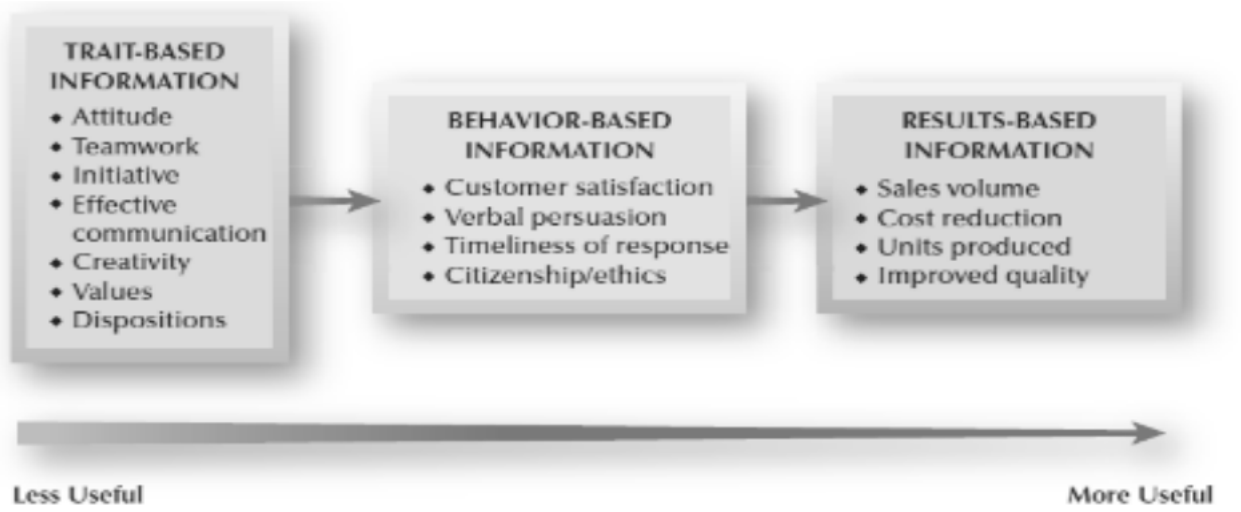


Figure 6.2 Types of Performance Information

Performance measures can be viewed as objective or subjective. The objective measures can be observed—for example, the number of cars sold or the number of invoices processed can be counted. Subjective measures require judgment on the part of the evaluator and are more difficult to determine. One example of a subjective measure is a supervisor's ratings of an employee's "attitude," which cannot be seen directly. Consequently, both objective and subjective measures should be used carefully.

6.2. Purpose of performance appraisal

Performance appraisal has two general uses in organizations, and these roles often are potential conflicts.

One role is to measure performance for the purpose of **rewarding** or otherwise making **administrative** decisions about employees. Promotions or layoffs might hinge on these ratings, often making them difficult for managers to do. Another role is **development** of individual potential. In that role, the manager is featured more as a counselor than as a judge, and the atmosphere is often different. Emphasis is on identifying potential and planning employees' growth opportunities and direction.

A. Administrative purpose

A performance appraisal system is often the link between the rewards employees hope to receive and their productivity. The linkage can be thought of as follows: Compensation based on performance appraisal is at the heart of the idea that raises should be given for performance accomplishments rather than for seniority. Under performance-oriented

systems, employees receive raises based on how well they perform their jobs. The manager's role historically has been as an evaluator of a subordinate's performance, which then leads to managers making compensation recommendations or decisions for employees. If any part of the process fails, the most productive employees do not receive the larger rewards, resulting in perceived inequity in compensation.

Performance appraisals are essential when organizations **terminate, promote, or pay people differently**, because they are a crucial defense if employees sue over such decisions. Thus, necessity likely accounts for the widespread administrative use of performance appraisals. But certain problems, including leniency, are common when ratings are to be used for administrative purposes.

B. Development purpose

Performance appraisal can be a **primary source of information** and feedback for employees, which is key to their future development. When supervisors identify the weaknesses, potentials, and training needs of employees through performance appraisal feedback, they can inform employees about their progress, discuss what skills they need to develop, and work out development plans.

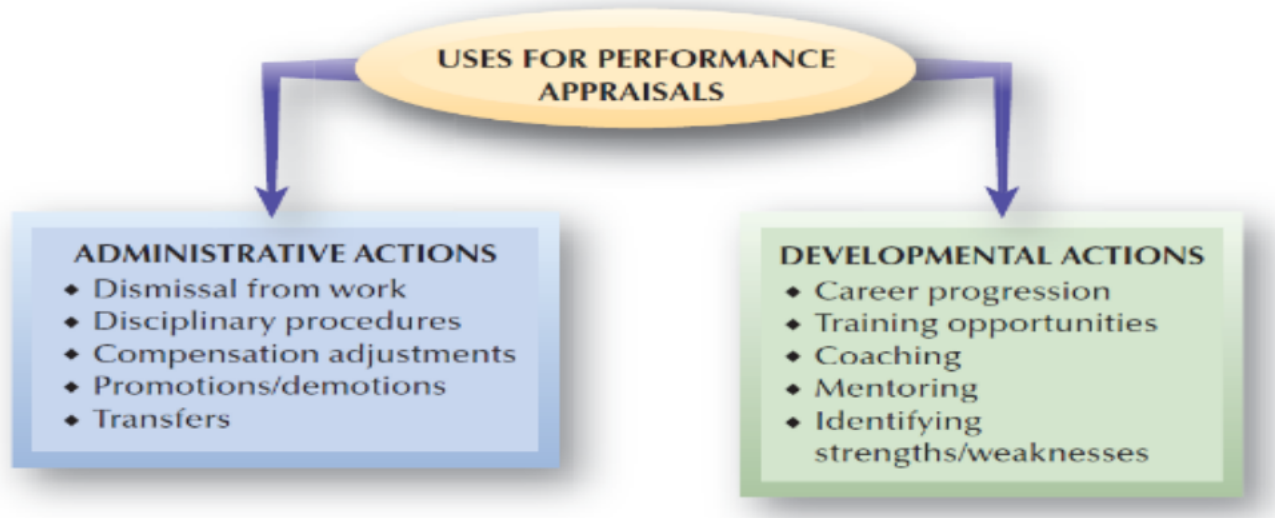


Figure 6.3 Uses for Performance Appraisals

6.3. Performance Appraisal Process

Developing and conducting performance appraisals should **not be done in isolation.** The performance appraisal is closely related to a number of human resource management activities that should be considered, they are illustrated in the following section.

1. Job Analysis

The performance appraisal should be based on a thorough job analysis. The results of a job analysis can be used to produce a job description, which describes the work to be performed, and job specifications, which outline the requirements necessary to accomplish the job.

2. Performance Standards

Performance standards should be derived from the job analysis information. Based on this information, level of performance deemed to be acceptable versus unacceptable are developed.

In essence, a standard against which to compare employee performance is determined. Performance standards focus on how well the job has been done. Each standard should be clearly stated and communicated so that the rater and the subject know what is expected and whether the standard has been met.

3. The Performance Appraisal System

In general, employees should be evaluated on a number of specific dimensions of job performance rather than on a single global or overall measure. The actual performance assessment is the determination of the employee's strengths and weaknesses. One purpose of a performance appraisal is to improve employee performance, weaknesses must be assessed. However, it is also important to reinforce existing behavior that is deemed to be strong.

4. Performance Review

The performance review is the actual discussion that transpires between the rater and the rate regarding the ratee's performance. Performance reviews should be considered an exchange of information-not simply a one-way communication from the rater to the subjects.

5. Future Plan of Action

The supervisor and employee should focus on the future. Job performance objectives should be discussed in order to establish a future plan of action. The supervisor reviews the job performance and development plans, and then set objectives for the next rating period. This will provide the employee with direction and guidance as to what is expected. The

employee needs to understand areas where improvement is needed and how to strengthen job performance.

6.4. Problems associated with Performance Appraisals

There are many possible sources of error in the performance appraisal process. One of the major sources is the raters. Although **completely eliminating errors is impossible**, making raters aware of them through training is helpful.

1. **Varying Standards:** When appraising employees, a manager should avoid applying different standards and expectations to employees performing the same or similar jobs. Such problems often result from the use of ambiguous criteria and subjective weightings by supervisors.

2. **Recency and Primacy Effects**: The recency effect occurs when a rater gives greater weight to recent events when appraising an individual's performance. The opposite of the recency effect is the primacy effect, which occurs when a rater gives greater weight to information received first when appraising an individual's performance.

3. **Central Tendency, Leniency, and Strictness Errors:** Appraisers who rate all employees within a narrow range in the middle of the scale (i.e., rate everyone as "average") commit a central tendency error, giving even outstanding and poor performers an "average" rating. Rating patterns also may exhibit leniency or strictness. The leniency error occurs when ratings of all employees fall at the high end of the scale. The strictness error occurs when a manager uses only the lower part of the scale to rate employees. To avoid conflict, managers often rate employees higher than they should. This "ratings boost" is especially likely when no manager or HR representative reviews the completed appraisals.

4. **Rater Bias:** When a rater's values or prejudices distort the rating, this is referred to as rater bias. Such bias may be unconscious or quite intentional. Use of age, religion, seniority, sex, appearance, or other "classifications" also may skew appraisal ratings if the appraisal process is not properly designed. A review of appraisal ratings by higher-level managers may help correct this problem.

5. **Halo and Horns Effects:** The halo effect occurs when a rater scores an employee high on all job criteria because of performance in one area. The opposite is the horns effect, which occurs when a low rating on one characteristic leads to an overall low

rating.

6. **Contrast Error:** Rating should be done using established standards. One problem is the contrast error, which is the tendency to rate people relative to one another rather than against performance standards. Although it may be appropriate to compare people at times, the performance rating usually should reflect comparison against performance standards, not against other people.

7. **Similar-to-Me/Different-from-Me Errors:** Sometimes, raters are influenced by whether people show characteristics that are the same as or different from their own.

8. **Sampling Error:** If the rater has seen only a small sample of the person's work, an appraisal may be subject to sampling error. For example, assume that 95% of the reports prepared by an employee have been satisfactory, but a manager has seen only the 5% that had errors. If the supervisor rates the person's performance as "poor," then a sampling error has occurred. Ideally, the work being rated should be a broad and representative sample of all the work done by the employee.

6.5. Overcoming Problems of Performance Appraisal

Just because organizations can encounter problems with performance appraisal should not lead managers to give up the process. Some measures can be taken to overcome most of the problems (particularly those caused due to human errors) identified above.

1. **Use of multiple criteria**: The more complex a job, the more criteria that will need to be identified and evaluated. Only the critical activities, not everything, that lead to high or low performance are the ones that need to be evaluated. Emphasizing behaviors rather than traits. Many traits often considered to be related to good performance may, in fact, have little or no performance relationship. For example, individuals who rate high on such traits as loyalty, initiative, courage, reliability, etc., may be poor performers. Conversely, it is possible to find excellent performers who do not score well on such traits.

2. Documenting performance behaviors in diary: By keeping a diary of specific critical incidents for each employee, evaluations tend to be more accurate. Diaries, for instance, tend to reduce leniency and halo errors because they encourage the evaluator to focus on performance-related behaviors rather than traits.

3. Use of multiple evaluators: As the number of evaluators increases, the probability of

attaining more accurate information increases. Thus, if an employee has had nine supervisors, nine having rated him/her excellent and one poor, one can discount the value of the one poor evaluation. Therefore, by moving employees about within the organization so as to gain a number of evaluations or by using multiple assessors (as provided in 360-degree appraisals), the probability of achieving more valid and reliable evaluations can be increased.

4. Evaluate selectively: appraisers should evaluate only those areas in which they have some expertise. If raters make evaluations on only those dimensions on which they are in good position to rate, inter-rater agreement can be increased and evaluation can be made a more valid process. This approach also recognizes that different organizational levels have different orientations toward ratees and observe them in different settings. In general, therefore, it is recommended that appraisers should be as close as possible, in terms of organizational level, to the individual being evaluated. Conversely, the more levels that separate the rater and ratee, the least opportunity the rater has to observe the ratee's behavior and not surprisingly, the greater the possibility for inaccuracies.

5. Train raters: Rater training is an area which has recently shown some promise in improving the effectiveness of performance ratings.

6.6. Performance Appraisals Methods

Performance can be appraised by a number of methods.

A. Category Rating Methods

The simplest methods for appraising performance are category rating methods, which require a manager to mark an employee's level of performance on a specific form divided into categories of performance. The graphic rating scale and checklist are common category rating methods.

I. Graphic Rating Scale

The graphic rating scale allows the rater to mark an employee's performance on a

continuum. Because of its simplicity, this method is the one most frequently used. Managers use a graphic rating scale form to rate employees. The rater checks the appropriate rating on the scale for each duty listed. More detail can be added in the space for comments following each factor rated. There are actually two types of graphic rating scales in use today. They are sometimes both used in rating the same person. The first and most common type lists job criteria (quantity of work, quality of work, etc.). The second is more behavioral, with specific behaviors listed and the effectiveness of each rated. There are some obvious drawbacks to the graphic rating scale as well. Often, separate traits or factors are grouped together, and the rater is given **only one box to check.** Another drawback is that the descriptive words sometimes used in such **scales may have different meanings to different raters.** Terms such as initiative and cooperation are subject to many interpretations, especially if used in conjunction with words such as outstanding, average, and poor. Graphic rating scales in many forms are used widely because they are easy to develop; but they encourage errors on the part of the raters, who may depend too heavily on the form itself to define performance. Both graphic rating scales and the checklist (which follows) tend to focus much emphasis on the rating instrument itself and its limitations. In so far as they fit the person and job being rated, the scales work well. However, if the instrument is a poor fit, managers who must use them frequently complain about "the rating form."

For example:

Utilizing the following definitions, rate the performance on as I, M, or E.

I - Performance is below job requirements and improvement is needed.

M - Performance meets job requirements and is meeting standards.

E - Performance exceeds job requirements a majority of the time and is exceeding standards.

Specific Job Responsibilities: List the principal activities from the job summary, rate the performance on each job duty by placing an "X" on the rating scale at the appropriate location, and make appropriate comments to explain the rating.

Job Duty #1: Inventory receiving and checking

I	M	E

Comments:_____

_____

Job Duty #2: Accuracy of records kept

I	M	E

Comments:_____

_____

II. Checklist

The checklist is composed of a list of statements or words. Raters check statements most representative of the characteristics and performance of employees. The following are typical checklist statements:

_____ can be expected to finish work on time

_____ seldom agrees to work overtime

_____ is cooperative and helpful

_____ accepts criticism

_____ strives for self-improvement

The checklist can be modified so that varying weights are assigned to the statements or words. The results can then be quantified. Usually, the weights are not known by the rating supervisor because they are tabulated by someone else, such as a member of the HR unit.

There are several difficulties with the checklist: (1) as with the graphic rating scale, the words or statements may have different meanings to different raters; (2) raters cannot readily discern the rating results if a weighted checklist is used; and (3) raters do not assign the weights to the factors. These difficulties limit the use of the information when a rater discusses the checklist with the employee, creating a barrier to effective developmental counseling.

B. Behavioral Rating Scales

In an attempt to overcome some of the concerns with graphic rating scales, employers may use behavioral rating scales designed to assess individual actions instead of personal attributes and characteristics. Different approaches are used, but all describe specific examples of employee job behaviors. In a behaviorally–anchored rating scale (BARS), these examples are “anchored” or measured against a scale of performance levels.

When creating a BARS system, identifying important job dimensions, which are the most important performance factors in a job description, is done first.

Short statements describe both desirable and undesirable behaviors (anchors). These are then “translated,” or assigned, to one of the job dimensions. Anchor statements are usually developed by a group of people familiar with the job. Assignment to a dimension usually requires the agreement of 60% to 70% of the group. The group then assigns each anchor a number that represents how good or bad the behavior is, and the anchors are fitted to a scale.

Several problems are associated with the behavioral approaches. First, creating and

maintaining behaviorally–anchored rating scales requires extensive time and effort. In addition, various appraisal forms are needed to accommodate different types of jobs in an organization. For instance, because nurses, dietitians, and admissions clerks in a hospital all have distinct job descriptions, a separate BARS form needs to be developed for each.

For example:

Job: Industrial Psychologist

Performance Dimension: Testing

Outstanding Performance	5	This industrial psychologist is recognized as an expert and can be expected to help others and to provide counsel to others working on the team.
Commendable Performance	4	This industrial psychologist can be expected to know almost everything about testing and can provide assistance in solving difficult problems.
Acceptable Performance	3	This industrial psychologist can be expected to work diligently on normal caseload and to complete them on time.
Needs Improvement	2	This industrial psychologist can be expected to work late on testing to keep up with the caseload.
Unacceptable Performance	1	This industrial psychologist is confused and can be expected to hinder the completion of the caseload because of lack of knowledge.

C. Comparative Methods

Comparative methods require that managers directly compare the performance levels of their employees against one another, and these comparisons can provide useful information for performance management. Comparative techniques include ranking and forced distribution.

I. **Ranking** The ranking method lists the individuals being rated from highest to lowest based on their performance levels and relative contributions. One disadvantage of this process is that the sizes of the performance differences between employees are often not fully investigated or clearly indicated.

Ranking also means some- one must be last, which ignores the possibility that the last-ranked individual in one group might be equal to the top-ranked employee in a different group. Further, the ranking task becomes unwieldy if the group to be ranked is large.

II. **Forced Distribution** Forced distribution is a technique for distributing ratings that are

generated with any of the other appraisal methods and comparing the ratings of people in a work group. With the forced distribution method, the ratings of employees' performance are distributed along a bell-shaped curve. For example, if a five-point scale is used, the manager might decide to distribute employees as follows: 5 percent in the "unacceptable" category, 25 percent in the "needs improvement" category, 40 percent in the "acceptable" category, 25 percent in the "commendable" category, and 5 percent in the "outstanding" category.

D. Narrative Methods

Managers and HR specialists often are required to provide written appraisal information. However, some appraisal methods are entirely written, rather than relying on predetermined rating scales or ranking structures. Documentation and descriptive text are the basic components of the critical incident method and the essay method.

I. Critical Incident In the critical incident method, the manager keeps a written record of both highly favorable and unfavorable actions performed by an employee during the entire rating period. When a "critical incident" involving an employee occurs, the manager writes it down. The critical incident method can be used with other methods to document the reasons why an employee was given a certain rating.

II. Essay The essay method requires a manager to write a short essay describing each employee's performance during the rating period. Some "free-form" essays are without guidelines; others are more structured, using prepared questions that must be answered. The rater usually categorizes comments under a few general headings. The essay method allows the rater more flexibility than other methods do. As a result, appraisers often combine the essay with other methods.

The effectiveness of the essay approach often depends on a supervisor's writing skills. Some supervisors do not express themselves well in writing and as a result produce poor descriptions of employee performance, whereas others have excellent writing skills and can create highly positive impressions. If well composed, essays can provide highly detailed and useful information about an employees' job performance.

E. Management by Objectives

Management by objectives (MBO) specifies the performance goals that an individual and manager identify together. Each manager sets objectives derived from the overall goals and objectives of the organization; however, MBO should not be a disguised means for a

superior to dictate the objectives of individual managers or employees. Other names for MBO include appraisal by results, target coaching, work planning and review, performance objective setting, and mutual goal setting.

MBO Process: Implementing a guided self-appraisal system using MBO is a four-stage process. The stages are as follows:

1. **Job review and agreement:** The employee and the superior review the job description and the key activities that constitute the employee's job. The idea is to agree on the exact makeup of the job.
2. **Development of performance standards**: Together, the employee and the employee's superior develop specific standards of performance and determine a satisfactory level of performance that is specific and measurable.
3. **Setting of objectives**: Together, the employee and the superior establish objectives that are realistically attainable.
4. **Continuing performance discussions**: The employee and the superior use the objectives as bases for continuing discussions about the employee's performance. Although a formal review session may be scheduled, the employee and the supervisor do not necessarily wait until the appointed time to discuss performance. Objectives can be mutually modified as warranted.

The MBO process seems to be most useful with managerial personnel and employees who have a fairly wide range of flexibility and control over their jobs. When imposed on a rigid and autocratic management system, MBO often has failed. Emphasizing penalties for not meeting objectives defeats the development and participative nature of MBO.

F. Combinations of Methods

No single appraisal method is best for all situations. Therefore, a performance measurement system that uses a combination of methods may be sensible in certain circumstances. Using combinations may offset some of the advantages and disadvantages of individual methods.

Chapter Seven:

Compensation

7.1. Introduction

Compensation systems in organizations must be linked to organizational objectives and strategies, as the opening discussion of Bayer Corporation indicates. But compensation also requires balancing the interests and costs of the employer with the expectations of employees. A compensation program in an organization should have four objectives:

- Legal compliance with all appropriate laws and regulations
- Cost effectiveness for the organization
- Internal, external, and individual equity for employees
- Performance enhancement for the organization

For employers, compensation costs must be at a level that both ensures organizational competitiveness and provides sufficient rewards to employees for their knowledge, skills, abilities, and performance accomplishments. Balancing these facets so that the employer

can attract, retain, and reward the performance of employees requires considering several types of compensation.

7.2. Nature and Types of Compensation

7.2.1 Nature of compensation

Compensation refers to something (such as money) given or received as payment or reparation (as for a service or loss or injury). **Compensation of employees (CE)** is a statistical term used in national accounts, balance of payments statistics and sometimes in corporate accounts as well. It refers basically to the total gross (pre-tax) wages paid by employers to employees for work done in an accounting period, such as a quarter or a year. However, in reality, the aggregate includes *more* than just gross wages, at least in national accounts and balance of payments statistics. The reason is that in these accounts, CE is defined as "the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period". It represents effectively a total labour cost to an employer, paid from the gross revenues or the capital of an enterprise.

Compensation of employees is accounted for on an accrual basis; i.e., it is measured by the value of the remuneration in cash or in kind which an employee *becomes entitled to receive* from an employer in respect of work done, during the relevant accounting period - whether paid in advance, simultaneously, or in arrears of the work itself. This contrasts with other inputs to production, which are to be valued at the point when they are actually used.

Compensation is an important factor affecting how and why people choose to work at one organization over others. Employers must be reasonably competitive with several types of compensation in order to hire, keep, and reward performance of individuals in the organization.

7.2.2. Types of Compensation

Rewards can be both intrinsic and extrinsic. Intrinsic rewards often include praise for completing a project or meeting some performance objectives. Other psychological and social effects of compensation reflect the intrinsic type of rewards. Extrinsic rewards are tangible, having the form of both monetary and nonmonetary rewards. Tangible components of a compensation program are of two general types. With the direct type of compensation, monetary rewards are provided by the employer. Base pay and variable pay are the most common forms of direct compensation. Indirect compensation commonly

consists of employee benefits.

i. BASE PAY The basic compensation that an employee receives, usually as a wage or salary, is called **base pay.** Many organizations use two base pay categories, hourly and salaried, which are identified according to the way pay is distributed and the nature of the jobs. Hourly pay is the most common means of payment based on time; employees who are paid hourly are said to receive **wages**, which are payments directly calculated on the amount of time worked. In contrast, people who are paid **salaries** receive payments that are consistent from period to period despite the number of hours worked. Being salaried typically has carried higher status for employees than being paid wages. Some organizations have switched to an all-salaried approach with their manufacturing and clerical employees in order to create a greater sense of loyalty and organizational commitment. But they still must pay overtime to certain employees in jobs covered by federal and state pay laws.

ii. VARIABLE PAY: Another type of direct pay is **variable pay**, which is compensation linked directly to performance accomplishments. The most common types of variable pay for most employees are bonuses and incentive program payments. For executives, it is common to have longer-term rewards such as stock options.

Benefits: Many organizations provide numerous extrinsic rewards in an indirect manner. With indirect compensation, employees receive the tangible value of the rewards without receiving the actual cash. **A benefit** is an indirect reward, such as health insurance, vacation pay, or retirement pensions, given to an employee or group of employees as a part of organizational membership.

7.3. Importance of Equity and Compensation Activities

It is important for HR professionals and managers to develop, administer, and maintain compensation programs that are perceived equitably by employees. The consequence of an equitable compensation program is that individuals are more likely to be attracted to and take jobs in organizations where employees do not voice widespread concerns about equity. Greater loyalty, less turnover, and higher commitment to achieve organizational performance objectives are more likely if employees believe they are compensated fairly

and will share in the growth of the organization. Also, the organization must have policies, procedures, and administrative support systems that are viewed as job-related and are not manipulated by favoritism or personality preferences of managers and supervisors.

Finally, external equity is crucial if the organization is going to compete effectively in the labor market. Increasingly in many labor markets, some employers are finding it difficult to attract and retain a workforce with the necessary capabilities to compete in a global marketplace. Regularly tracking external pay data and updating pay structures are integral to ensuring external equity in any organization.

7.4. Factors Affecting Compensation

When developing and designing a compensation system, organizations must take into consideration the internal environment in which they do business and external environmental factors impact an organization.

7.4.1. Internal Environmental Variables

Not only are external environmental variables important to organizations when developing compensation systems, so are internal environmental variables. Four of the most salient internal variables-corporate strategy, management philosophy, the type of job, and productivity-are described below.

A. Corporate Strategy

The overall corporate strategy provides the direction for the organization. Because its focus is primarily long term, the pay system should be designed to support this focus. One way to accompalish this goal is to tie the compensation system to the developmental phase. Different combinations of pay are designed to fit with the strategic conditons faced by the firm.

For example, a mature organization would have several product lines and strong earnings. The focus of its human resource department would be on cost cutting, consistency of program application, and efficiency. The most effective pay mix would offer a competitive base pay, incentives, and benefits. It is possible that a single organization could have more than one compensation strategy and system. Within an organization, the various subdivisions or units may be in different stages in their life cycle. This would require separate compensation plans for different divisions.

B. Management Philosophy

One component of management philosophy is the value it places on its human resources. This value is reflected in the relationship between management and line employees. Take,

for example, this statement of company mission for Tata Iron and Steel Company (TISCO), a manufacturer of iron and steel. Central to the company's mission is that it attempts to share values, ideals, goals, and respect for each person. To implement this mission, in 1980s, TISCO installed a plan that pays every employee a quarterly bonus based on attainment of production goals, employee cost-saving suggestions, customer satisfaction, and the company's return on assets. As we can see, an organization's culture is reflected in its pay system.

C. The Type of Job

Job differs in many ways. These differences include the variety of tasks performed, the amount of physical or mental effort, the pleasantness of working conditions, the degree of autonomy (control over how, when, and what to do), the responsibility for labor, materials, and equipment, and the amount of interaction with others.

D. Productivity

Productivity is simply the ration of outputs (product or service provided by the company) to inputs (for example, cost in terms of labor, capital, energy, materials, and machinery). Any increase in labor costs decreases productivity unless output increases or other costs decrease.

7.4.2. External Environmental Variables

While many external environmental factors impact an organization, only a few have a direct effect on an organization's reward system. They are explained below:-

A. Nature of Competition

The level of competition a firm faces in the product market is an important consideration when designing a compensation system. When an organization has many product competitors, cost control assumes greater significance. Price pressures generally are downward, and salary increases cannot be passed on to customers without risking loss of market share. In this situation, noneconomic rewards (such as promotions, job enrichment, and training and development programs) may assume greater importance in the pay scheme. Few competitors, on the other hand, increases flexibility in the design of the compensation system because wage increases are absorbed into the cost of the product or service.

B. Nature of the Labor Market

The impact of the nature of the labor market on designing reward system focuses on two issues: labor supply and demand, and what competitors are paying to their employees. When the supply of labor is greater than the demand, the competition among job applicants for a limited number of positions permits companies to pay lower salaries.

When demand for labor is greater than the supply, competition among job applicants for a

limited number of positions permits competition for the scarce resource of labor increases, bidding up the cost of labor.

This is not the only way that wages paid by competitors in the labor market can influence a company's wages. Some industries or individual organizations pay higher salaries than other as a policy. Certainly, high-tech and research and development industries must attract highly qualified employees. One way to do this is to pay more than other employers in the area.

C. **Government Regulations**

Federal legislation affects almost every aspect of the compensation plan. It places a lower limit on wages that can be paid; it affects raise and incentive decisions; it proscribes wage discrimination; and it requires certain benefits be paid for all employees.

7.5. Employee Benefits and Services

Employee benefits consist of arrangements made by employers for their employees that enhance the latter's well-being. They are provided in addition to pay and form important parts of the total reward package. As part of total remuneration, they may be deferred or contingent likes a pension scheme, insurance cover or sick pay, or they may be immediate like a company car or a loan. Employee benefits also include holidays and leave arrangements, which are not strictly remuneration. Benefits are sometimes referred to dismissively as 'perks' (perquisites) or 'fringe benefits', but when they cater for personal security or personal needs could hardly be described as 'fringe'. Employee benefits are a costly part of the remuneration package. They can amount to one-third or more of basic pay costs and therefore have to be planned and managed with care.

A. Rationale for Employee Benefits

Employee benefits provide for the personal needs of employees and they are a means of increasing their commitment to the organization and demonstrating that their employers care for their well-being. Not all employers care, but, like the ones that do, they still provide benefits to ensure that the total remuneration package is competitive. And some benefits like maternity leave have to be provided by law.

B. Employee Benefit Strategies and Policies

Employee benefit strategies will be concerned in general terms with the direction the organization wants to go with regard to the range and scale of benefits it wants to provide and the costs it is prepared to incur. The strategy forms the foundation for the formulation of employee benefit policies.

Employee benefit policies are concerned with:

- the types of benefits to be provided, taking into account their value to employees,

their cost, and the need to make the benefit package competitive;

- the size of the benefits;
- the need to harmonize benefits
- the total costs of benefits provision in relation to the cost

C. Types of Benefit

The main benefits deal with personal security, financial assistance, personal needs, company cars and voluntary benefits as described below.

I. Personal security

Personal security benefits include:

- **Health care –** the provision through medical insurance of private health care to cover the cost of private hospital treatment (permanent health insurance), making periodic health screening available and, sometimes, dental insurance.
- **Insurance cover** for death in service (if not already provided in a pension scheme), personal accident and business travel.
- **Sick pay**, providing full pay for a given period of sickness and a proportion of pay (typically half-pay) for a further period. Sick pay entitlement is usually service related. Sick pay can be costly unless attendance management and control practices are introduced.
- **Redundancy pay** – additions can be made to the statutory redundancy pay, including extra notice compensation, extra service-related payments (eg one month per year of service) and ex gratia payments to directors and executives in compensation for loss of office (sometimes called golden handshakes).
- **Career counseling (outplacement advice**) can be provided by specialist consultants to employees who have been made redundant.

II. Financial assistance

Financial assistance can take the following forms:

- **Company loans** – interest-free modest loans, or low interest on more substantial loans, which are usually earmarked for specific purposes such as home improvements.
- **Mortgage assistance** – subsidized interest payments on mortgages up to a given price threshold. This benefit is most likely to be provided by financial services companies.
- **Relocation packages** – for staffs that are being relocated by the organization or recruited from elsewhere, the costs of removal and legal/estate agent's fees may be

refunded.

- **Fees to professional bodies**

III. Personal needs

Employee benefits satisfying personal needs include:

- maternity and paternity leave and pay above the statutory minimum;
- leave for personal reasons;
- childcare through workplace nurseries or vouchers;
- pre-retirement counseling;
- personal counseling through employee assistance programmes;
- sports and social facilities;
- company discounts – employees can buy the products or services offered by the company at a reduced price;
- retail vouchers to buy goods at chain stores.

IV. Holidays

Before the European Working Time Directive in 1998, there was no statutory obligation to offer any paid holiday except for the standard bank holidays. Employers are now obliged to offer a minimum a minimum amount of payment in holidays.

V. Company cars

Although the tax liability for individuals with company 'status' cars has increased steadily over the last decade, they still remain one of the most valued perks, perhaps because people do not have to make a capital outlay, do not lose money through depreciation and are spared the worry and expense of maintenance.