



SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

[DEEMED TO BE UNIVERSITY]

Accredited "A" Grade by NAAC | 12B Status by UGC | Approved by AICTE

www.sathyabama.ac.in

UNIT – I – Human Resource Management – SPSY1504

HRM is the study of activities regarding people working in an organization. It is a managerial function that tries to match an organization's needs to the skills and abilities of its employees.

Definitions of HRM

Human resources management (HRM) is a management function concerned with hiring, motivating and maintaining people in an organization. It focuses on people in organizations. Human resource management is designing management systems to ensure that human talent is used effectively and efficiently to accomplish organizational goals. HRM is the personnel function which is concerned with procurement, development, compensation, integration and maintenance of the personnel of an organization for the purpose of contributing towards the accomplishments of the organization's objectives. Therefore, personnel management is the planning, organizing, directing, and controlling of the performance of those operative functions (Edward B. Philippo).

According to the Invancevich and Glueck, "HRM is concerned with the most effective use of people to achieve organizational and individual goals. It is the way of managing people at work, so that they give their best to the organization".

According to Dessler (2008) the policies and practices involved in carrying out the "people" or human resource aspects of a management position, including recruiting, screening, training, rewarding, and appraising comprises of HRM. Generally HRM refers to the management of people in organizations. It comprises of the activities, policies, and practices involved in obtaining, developing, utilizing, evaluating, maintaining, and retaining the appropriate number and skill mix of employees to accomplish the organization's objectives.

The goal of HRM is to maximize employees' contributions in order to achieve optimal productivity and effectiveness, while simultaneously attaining individual objectives (such as having a challenging job and obtaining recognition), and societal objectives (such as legal compliance and demonstrating social responsibility). In short Human Resource Management (HRM) can be defined as the art of procuring, developing and maintaining competent workforce to achieve the goals of an organization in an effective and efficient manner.

Nature of HRM

HRM is a management function that helps manager's to recruit, select, train and develop members for an organization. HRM is concerned with people's dimension in organizations.

The following constitute the core of HRM

1. HRM Involves the Application of Management Functions and Principles. The functions and principles are applied to acquiring, developing, maintaining and providing remuneration to employees in organization.
2. Decision Relating to Employees must be Integrated. Decisions on different aspects of employees must be consistent with other human resource (HR) decisions.
3. Decisions Made Influence the Effectiveness of an Organization. Effectiveness of an organization will result in betterment of services to customers in the form of high quality products supplied at reasonable costs.

4. HRM Functions are not Confined to Business Establishments Only but applicable to nonbusiness organizations such as education, health care, recreation and like. HRM refers to a set of programmes, functions and activities designed and carried out in order to maximize both employee as well as organizational effectiveness.

Scope of HRM

The scope of HRM is indeed vast. All major activities in the working life of a worker – from the time of his or her entry into an organization until he or she leaves the organizations comes under the purview of HRM. The major HRM activities include HR planning, job analysis, job design, employee hiring, employee and executive remuneration, employee motivation, employee maintenance, industrial relations and prospects of HRM.

The scope of Human Resources Management extends to:

- All the decisions, strategies, factors, principles, operations, practices, functions, activities and methods related to the management of people as employees in any type of organization.
- All the dimensions related to people in their employment relationships, and all the dynamics that flow from it.

The scope of HRM is really vast. All major activities in the working life of a worker – from the time of his or her entry into an organization until he or she leaves it comes under the purview of HRM. American Society for Training and Development (ASTD) conducted fairly an exhaustive study in this field and identified nine broad areas of activities of HRM.

These are given below: • Human Resource Planning • Design of the Organization and Job • Selection and Staffing • Training and Development • Organizational Development • Compensation and Benefits • Employee Assistance • Union/Labour Relations • Personnel Research and Information System

a) Human Resource Planning: The objective of HR Planning is to ensure that the organization has the right types of persons at the right time at the right place. It prepares human resources inventory with a view to assess present and future needs, availability and possible shortages in human resource. Thereupon, HR Planning forecast demand and supplies and identify sources of selection. HR Planning develops strategies both long-term and short-term, to meet the man-power requirement.

b) Design of Organization and Job: This is the task of laying down organization structure, authority, relationship and responsibilities. This will also mean definition of work contents for each position in the organization. This is done by “job description”. Another important step is “Job specification”. Job specification identifies the attributes of persons who will be most suitable for each job which is defined by job description.

c) Selection and Staffing: This is the process of recruitment and selection of staff. This involves matching people and their expectations with which the job specifications and career path available within the organization.

d) Training and Development: This involves an organized attempt to find out training needs of the individuals to meet the knowledge and skill which is needed not only to perform current job but also to fulfil the future needs of the organization.

e) Organizational Development: This is an important aspect whereby “Synergetic effect” is generated in an organization i.e. healthy interpersonal and inter-group relationship within the organization.

f) Compensation and Benefits: This is the area of wages and salaries administration where wages and compensations are fixed scientifically to meet fairness and equity criteria. In addition labour welfare measures are involved which include benefits and services.

g) Employee Assistance: Each employee is unique in character, personality, expectation and temperament. By and large each one of them faces problems everyday. Some are personal some are official. In their case he or she remains worried. Such worries must be removed to make him or her more productive and happy.

h) Union-Labour Relations: Healthy Industrial and Labour relations are very important for enhancing peace and productivity in an organization. This is one of the areas of HRM.

i) Personnel Research and Information System: Knowledge on behavioral science and industrial psychology throws better insight into the workers expectations, aspirations and behaviour.

Advancement of technology of product and production methods have created working environment which are much different from the past. Globalization of economy has increased competition many fold. Science of ergonomics gives better ideas of doing a work more conveniently by an employee. Thus, continuous research in HR areas is an unavoidable requirement. It must also take special care for improving exchange of information through effective communication systems on a continuous basis especially on moral and motivation.

HRM is a broad concept; personnel management (PM) and Human resource development (HRD) are a part of HRM.

Objectives of HRM

The primary objective of HRM is to ensure the availability of competent and willing workforce to an organization. The specific objectives include the following:

- 1) Human capital : assisting the organization in obtaining the right number and types of employees to fulfill its strategic and operational goals
- 2) Developing organizational climate: helping to create a climate in which employees are encouraged to develop and utilize their skills to the fullest and to employ the skills and abilities of the workforce efficiently
- 3) Helping to maintain performance standards and increase productivity through effective job design; providing adequate orientation, training and development; providing performance-related feedback; and ensuring effective two-way communication.
- 4) Helping to establish and maintain a harmonious employer/employee relationship
- 5) Helping to create and maintain a safe and healthy work environment.
- 6) Developing programs to meet the economic, psychological, and social needs of the employees and helping the organization to retain the productive employees

- 7) Ensuring that the organization is in compliance with provincial/territorial and federal laws affecting the workplace (such as human rights, employment equity, occupational health and safety, employment standards, and labour relations legislation). To help the organization to reach its goals
- 8) To provide organization with well-trained and well-motivated employees
- 9) To increase the employees satisfaction and self-actualization
- 10) To develop and maintain the quality of work life
- 11) To communicate HR policies to all employees.
- 12) To help maintain ethical polices and behavior.

The above stated HRM objectives can be summarized under four specific objectives: societal, organizational, and functional and personnel.

Functions of HRM

Human Resources management has an important role to play in equipping organizations to meet the challenges of an expanding and increasingly competitive sector. Increase in staff numbers, contractual diversification and changes in demographic profile which compel the HR managers to reconfigure the role and significance of human resources management. The functions are responsive to current staffing needs, but can be proactive in reshaping organizational objectives. All the functions of HRM are correlated with the core objectives of HRM. For example personal objectives is sought to be realized through functions like remuneration, assessment etc.

HR management can be thought of as seven interlinked functions taking place within organizations, as depicted. Additionally, external forces—legal, economic, technological, global, environmental, cultural/geographic, political, and social—significantly affect how HR functions are designed, managed, and changed.

The functions can be grouped as follows:

- 1.) Strategic HR Management: As a part of maintaining organizational competitiveness, strategic planning for HR effectiveness can be increased through the use of HR metrics and HR technology. Human resource planning (HRP) function determine the number and type of employees needed to accomplish organizational goals. HRP includes creating venture teams with a balanced skill-mix, recruiting the right people, and voluntary team assignment. This function analyzes and determines personnel needs in order to create effective innovation teams. The basic HRP strategy is staffing and employee development.
- 2.) Equal Employment Opportunity: Compliance with equal employment opportunity (EEO) laws and regulations affects all other HR activities.
- 3.) Staffing: The aim of staffing is to provide a sufficient supply of qualified individuals to fill jobs in an organization. Job analysis, recruitment and selection are the main functions under staffing. Workers job design and job analysis laid the foundation for staffing by identifying what diverse people do in their jobs and how they are affected by them. Job analysis is the process of describing the nature of a job and specifying the human requirements such as knowledge, skills, and experience needed to perform the job. The end result of job analysis is job description. Job description spells out work duties and activities of

employees. Through HR planning, managers anticipate the future supply of and demand for employees and the nature of workforce issues, including the retention of employees. So HRP precedes the actual selection of people for organization. These factors are used when recruiting applicants for job openings. The selection process is concerned with choosing qualified individuals to fill those jobs. In the selection function, the most qualified applicants are selected for hiring from among the applicants based on the extent to which their abilities and skills are matching with the job.

4.) Talent Management and Development: Beginning with the orientation of new employees, talent management and development includes different types of training. Orientation is the first step towards helping a new employee to adjust himself to the new job and the employer. It is a method to acquaint new employees with particular aspects of their new job, including pay and benefit programmes, working hours and company rules and expectations. Training and Development programs provide useful means of assuring that the employees are capable of performing their jobs at acceptable levels and also more than that. All the organizations provide training for new and in experienced employee. In addition, organization often provide both on the job and off the job training programmes for those employees whose jobs are undergoing change. Likewise, HR development and succession planning of employees and managers is necessary to prepare for future challenges. Career planning has developed as result of the desire of many employees to grow in their jobs and to advance in their career. Career planning activities include assessing an individual employee's potential for growth and advancement in the organization. Performance appraisal includes encouraging risk taking, demanding innovation, generating or adopting new tasks, peer evaluation, frequent evaluations, and auditing innovation processes. 9 This function monitors employee performance to ensure that it is at acceptable levels. This strategy appraises individual and team performance so that there is a link between individual innovativeness and company profitability. Which tasks should be appraised and who should assess employees' performance are also taken into account.

5.) Total Rewards: Compensation in the form of pay, incentives and benefits are the rewards given to the employees for performing organizational work. Compensation management is the method for determining how much employees should be paid for performing certain jobs. Compensation affects staffing in that people are generally attracted to organizations offering a higher level of pay in exchange for the work performed. To be competitive, employers develop and refine their basic compensation systems and may use variable pay programs such as incentive rewards, promotion from within the team, recognition rewards, balancing team and individual rewards etc. This function uses rewards to motivate personnel to achieve an organization's goals of productivity, innovation and profitability. Compensation is also related to employee development in that it provides an important incentive in motivating employees to higher levels of job performance to higher paying jobs in the organization. Benefits are another form of compensation to employees other than direct pay for the work performed. Benefits include both legally required items and those offered at employer's discretion. Benefits are primarily related to the area of employee maintenance as they provide for many basic employee needs.

6.) Risk Management and Worker Protection: HRM addresses various workplace risks to ensure protection of workers by meeting legal requirements and being more responsive to concerns for workplace health and safety along with disaster and recovery planning.

7.) Employee and Labor Relations: The relationship between managers and their employees must be handled legally and effectively. Employer and employee rights must be addressed. It is important to develop, communicate, and update HR policies and procedures so that managers and employees alike

know what is expected. In some organizations, union/management relations must be addressed as well. The term labour relation refers to the interaction with employees who are represented by a trade union. Unions are organization of employees who join together to obtain more voice in decisions affecting wages, benefits, working conditions and other aspects of employment. With regard to labour relations the major function of HR personnel includes negotiating with the unions regarding wages, service conditions and resolving disputes and grievances.

Questions:

1. Define HRM?
2. What are its functions and objectives?
3. Elaborate about the nature of HRM and its relevance in present scenario.
4. Explain the role of HR manager in HRM

Reference books

Aswathappa. K. (2008), Human Resource and Personnel Management (5th edition), Tata McGraw-Hill Publishing Company Ltd., New Delhi.

Biswajeet Pattanayak (2001), Human Resource Management, Prentice Hall of India Pvt. Ltd., New Delhi.

Lloyd L. Byers and Leslie W. Rue (1997), Human Resource Management (5th edition), The McGraw-Hill Companies, USA.

Michael Armstrong (1999), A Handbook of Human Resource Management Practice (7th edition), Kogan Page Limited, 120 Pentonville Road, London

UNIT – I – Human Resource Management – SPSY1504

Human resource management has started to play a significant role in the overall strategic development of the organization. At present HR strategies are designed in tune with the overall business strategy of the organization. HR strategy should sub serve the interest of the organization, translating firm's goals and objectives into a consistent, integrated and complimentary set of programmes and policies for managing people. First part of Human resource strategy is HRP – Human Resource Planning. All other HR activities like employee hiring, training and development, remuneration, appraisal and labour relations are derived from HRP. HR planning is important in a wide variety of industries and firms. HR planning affects what employers do when recruiting, selecting, and retaining people, and of course these actions affect organizational results and success. The challenges caused by changing economic conditions during recent year's show why HR workforce planning should occur. Staffing an organization is an HR activity that is both strategic and operational in nature. As the HR Headline indicates, HR planning is important in a wide variety of industries and firms. HR planning affects what employers do when recruiting, selecting, and retaining people, and, of course these actions affect organizational results and success. Human Resources planning mean different means to different organizations. To some companies, human resources planning mean management development. It involve helping executives to make better decisions, communicate more effectively, and know more about the firm. The purpose of HRP is to make the manager a better equipped for facing the present and future.

Human Resource Planning (HRP)

Human resource planning is important for helping both organizations and employees to prepare for the future. The basic goal of human resource planning is to predict the future and based on these predictions, implement programmes to avoid anticipated problems. Very briefly humans resource planning is the process of examining an organization's or individual's future human resource needs for instance, what types of skills will be needed for jobs of the future compared to future human resource capabilities (such as the types of skilled employees you already have) and developing human resource policies and practices to address potential problems for example, implementing training programmes to avoid skill deficiencies.

Definition of Human Resource Planning

According to Vetter, "HRP is the process by which management determines how the organization should move from its current man power position to desired manpower position. Through planning, management strives to have the right time, doing things which result in both the organization and individual receiving maximum long run benefits".

According to Gordon Mc Beath, "HRP is concerned with two things: Planning of manpower requirements and Planning of Manpower supplies".

According to Beach, "HRP is a process of determining and assuming that the organization will have an adequate number of qualified persons, available at proper times, performing jobs which meet the needs of the enterprise and which provides satisfaction for the individuals involved" Simply HRP can be understood as the process of forecasting an organization's future demands for and supply of the right type of people in the right number. In other words HRP is the process of determining manpower needs and formulating plans to meet these needs.

HRP is a Four-Phased Process.

- The first phase involves the gathering and analysis of data through manpower inventories and forecasts,
- The second phase consists of establishing manpower objectives and policies and gaining top management approval of these.
- The third phase involves designing and implementing plans and promotions to enable the organization to achieve its manpower objectives.
- The fourth phase is concerned with control and evaluation of manpower plans to facilitate progress in order to benefit both the organization and the individual. The long run view means that gains may be sacrificed in the short run for the future grounds. The planning process enables the organization to identify what its manpower needs is and what potential manpower problems required current action. This leads to more effective and efficient performance.

Nature of HRP

Human resource planning is the process of analyzing and identifying the availability and the need for human resources so that the organization can meet its objectives. The focus of HR planning is to ensure that the organization has the right number of human resources, with the right capabilities, at the right times, and in the right places. In HR planning, an organization must consider the availability and allocation of people to jobs over long periods of time, not just for the next month or the next year.

HRP is a sub system in the total organizational planning. Actions may include shifting employees to other jobs in the organization, laying off employees or otherwise cutting back the number of employees, developing present employees, and/or increasing the number of employees in certain areas. Factors to consider include the current employees' knowledge, skills, and abilities and the expected vacancies resulting from retirements, promotions, transfers, and discharges. To do this, HR planning requires efforts by HR professionals working with executives and managers.

Objectives of Human Resource Planning

1. To ensure optimum utilization of human resources currently available in the organization.
2. To assess or forecast the future skill requirement of the organization.
3. To provide control measures to ensure that necessary resources are available as and when required.
4. A series of specified reasons are there that attaches importance to manpower planning and forecasting exercises.

They are elaborated below:

- To link manpower planning with the organizational planning
- To determine recruitment levels.
- To anticipate redundancies.
- To determine optimum training levels.
- To provide a basis for management development programs.

- To cost the manpower.
- To assist productivity bargaining.
- To assess future accommodation requirement.
- To study the cost of overheads and value of service functions.
- To decide whether certain activity needs to be subcontracted, etc.

HRP exists as a part of planning process of business. This is the activity that aims to coordinate the requirements for the availability of the different types of employees. The major activities are the forecasting, (future requirements), inventorying (present strength), anticipating (comparison of present and future requirements) and planning (necessary program to meet the requirements). The HR forecasts are responsible for estimating the number of people and the jobs needed by an organization to achieve its objectives and realize its plans in the most efficient and effective manner. HR needs are computed by subtracting HR supplies or number of the employees available from expected HR demands or number of people required to produce a desired level of outcome. The objective of HR is to provide right personnel for the right work and optimum utilization of the existing human resources.

The objectives of human resource planning may be summarized as below:

- **Forecasting Human Resources Requirements:** HRP is essential to determine the future needs of HR in an organization. In the absence of this plan it is very difficult to provide the right kind of people at the right time.
- **Effective Management of Change:** Proper planning is required to cope with changes in the different aspects which affect the organization. These changes need continuation of allocation/ reallocation and effective utilization of HR in organization.
- **Realizing the Organizational Goals:** In order to meet the expansion and other organizational activities the organizational HR planning is essential.
- **Promoting Employees:** HRP gives the feedback in the form of employee data which can be used in decision-making in promotional opportunities to be made available for the organization.
- **Effective Utilization of HR:** The data base will provide the useful information in identifying surplus and deficiency in human resources. The objective of HRP is to maintain and improve the organizational capacity to reach its goals by developing appropriate strategies that will result in the maximum contribution of HR.

HRP Process

HRP effectively involves forecasting personnel needs, assessing personnel supply and matching demand – supply factors through personnel related programmes. The HR planning process is influenced by overall organizational objectives and environment of business.

Environmental Scanning: It refers to the systematic monitoring of the external forces influencing the organization. The following forces are essential for pertinent HRP.

- Economic factors, including general and regional conditions.
- Technological changes
- Demographic changes including age, composition and literacy,
- Political and legislative issues, including laws and administrative rulings
- Social concerns, including child care, educational facilities and priorities.

By scanning the environment for changes that will affect an organization, managers can anticipate their impact and make adjustments early.

Organizational Objectives and Policies: HR plan is usually derived from the organizational objectives. Specific requirements in terms of number and characteristics of employees should be derived from organizational

objectives Once the organizational objectives are specified, communicated and understood by all concerned, the HR department must specify its objective with regard to HR utilization in the organization.

HR Demand Forecast: Demand forecasting is the process of estimating the future quantity and quality of people required to meet the future needs of the organization. Annual budget and long-term corporate plan when translated into activity form the basis for HR forecast. For eg: in the case of a manufacturing company, the sales budget will form the basis for production plan giving the number and type of products to be produced in each period. This will form the basis upon which the organization will decide the number of hours to be worked by each skilled category of workers. Once the number hours required is available organization can determine the quality and quantity of personnel required for the task. Demand forecasting is influenced by both internal factors and external factors: external factors include competition, economic climate, laws and regulatory bodies, changes in technology and social factors whereas internal factors are budget constraints, production level, new products and services, organizational structure and employee separations. Demand forecasting is essential because it helps the organization to 1. Quantify the jobs, necessary for producing a given number of goods, 2. To determine the nature of staff mix required in the future, 3. To assess appropriate levels in different parts of organization so as to avoid unnecessary costs to the organization, 4. To prevent shortages of personnel where and when, they are needed by the organization. 5. To monitor compliances with legal requirements with regard to reservation of jobs. Techniques like managerial judgment, ratio- trend analysis, regression analysis, work study techniques, Delphi techniques are some of the major methods used by the organization for demand forecasting.

HR Supply Forecast: Supply forecast determines whether the HR department will be able to procure the required number of workers. Supply forecast measures the number of people likely to be available from within and outside an organization, after making allowance for absenteeism, internal movements and promotions, wastage and changes in hours, and other conditions of work. Supply forecast is required because it is needed as it 1. Helps to quantify the number of people and positions expected to be available in future to help the organization realize its plans and meet its objectives 2. Helps to clarify the staff mixes that will arise in future 3. It assesses existing staffing in different parts of the organization. 4. It will enable the organization to prevent shortage of people where and when they are most needed. 5. It also helps to monitor future compliance with legal requirements of job reservations. Supply analysis covers the existing human resources, internal sources of supply and external sources of supply.

HR Programming: Once an organization's personnel demand and supply are forecasted the demand and supply need to be balanced in order that the vacancies can be filled by the right employees at the right time.

HR Plan Implementation: HR implementation requires converting an HR plan into action. A series of action are initiated as a part of HR plan implementation. Programmes such as recruitment, selection and placement, training and development, retraining and redeployment, retention plan, succession plan etc when clubbed together form the implementation part of the HR plan.

Control and Evaluation: Control and evaluation represent the final phase of the HRP process. All HR plan include budgets, targets and standards. The achievement of the organization will be evaluated and monitored against the plan. During this final phase organization will be evaluating on the number of people employed against the established (both those who are in the post and those who are in pipe line)

and on the number recruited against the recruitment targets. Evaluation is also done with respect to employment cost against the budget and wastage accrued so that corrective action can be taken in future.

Recruitment:

Meaning and Definition

Recruitment forms a step in the process which continues with selection and ceases with the placement of the candidate. It is the next step in the procurement function, the first being the manpower planning. Recruiting makes it possible to acquire the number and types of people necessary to ensure the continued operation of the organisation. Recruiting is the discovering of potential applicants for actual or anticipated organisational vacancies.

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

According to Lord, "Recruitment is a form of competition. Just as corporations compete to develop, manufacture, and market the best product or service, so they must also compete to identify, attract and hire the most qualified people. Recruitment is a business, and it is a big business."

In the words of Dale Yoder, "Recruiting is a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force."

Factor Affecting Recruitment

The factors affecting recruitment can be classified as internal and external factors. The internal factors are:

- Wage and salary policies;
- The age composition of existing working force;
- Promotion and retirement policies;
- Turnover rates;
- The nature of operations involved the kind of personnel required;
- The level and seasonality of operations in question;
- Future expansion and reduction programmes;
- Recruiting policy of the organisation;
- Human resource planning strategy of the company;
- Size of the organisation and the number of employees employed;

Cost involved in recruiting employees, and finally;

- Growth and expansion plans of the organisation.

The external factors are: • Supply and demand of specific skills in the labour market; • Company's image perception of the job seekers about the company. • External cultural factors: Obviously, the culture may exert considerable check on recruitment. For example, women may not be recruited in certain jobs in industry. • Economic factors: such as a tight or loose labour market, the reputation of the enterprise in the community as a good pay master or otherwise and such allied issues which determine the quality and quantity of manpower submitting itself for recruitment. • Political and legal factors also exert restraints in respect of nature and hours of work for women and children, and allied employment practices in the enterprise, reservation of Job for SC, ST and so on.

Sources of Recruitment

After the finalisation of recruitment plan indicating the number and type of prospective candidates, they must be attracted to offer themselves for consideration to their employment. This necessitates the identification of sources from which these candidates can be attracted. Some companies try to develop new sources, while most only try to tackle the existing sources they have. These sources, accordingly, may be termed as internal and external.

Internal Sources

It would be desirable to utilise the internal sources before going outside to attract the candidates. Yoder and others suggest two categories of internal sources including a review of the present employees and nomination of candidates by employees. Effective utilisation of internal sources necessitates an understanding of their skills and information regarding relationships of jobs. This will provide possibilities for horizontal and vertical transfers within the enterprise eliminating simultaneous attempts to lay off employees in one department and recruitment of employees with similar qualification for another department in the company. Promotion and transfers within the plant where an employee is best suitable improves the morale along with solving recruitment problems. These measures can be taken effectively if the company has established job families through job analysis programmes combining together similar jobs demanding similar employee characteristics. Again, employees can be requested to suggest promising candidates. Sometimes, employees are given prizes for recommending a candidate who has been recruited. Despite the usefulness of this system in the form of loyalty and its wide practice, it has been pointed out that it gives rise to cliques posing difficulty to management. Therefore, before utilising this system attempts should be made to determine through research whether or not employees thus recruited are effective on particular jobs. Usually, internal sources can be used effectively if the numbers of vacancies are not very large, adequate, employee records are maintained, jobs do not demand originality lacking in the internal sources, and employees have prepared themselves for promotions.

External Sources

DeCenzo and Robbins remark, "Occasionally, it may be necessary to bring in some 'new blood' to broaden the present ideas, knowledge, and enthusiasm." Thus, all organisations have to depend on external sources of recruitment. Among these sources are included:

- Employment agencies.
- Educational and technical institutes. and
- Casual labour or "applicants at the gate" and nail applicants.

Public and private employment agencies play a vital role in making available suitable employees for different positions in the organisations. Besides public agencies, private agencies have developed markedly in large cities in the form of consultancy services. Usually, these agencies facilitate recruitment of technical and professional personnel. Because of their specialisation, they effectively assess the needs of their clients and aptitudes and skills of the specialised personnel. They do not merely bring an employer and an employee together but computerise lists of available talents, utilising testing to classify and assess applicants and use advanced techniques of vocational guidance for effective placement purposes. Educational and technical institutes also form an effective source of manpower supply. There is an increasing emphasis on recruiting student from different management institutes and universities commerce and management departments by recruiters for positions in sales, accounting, finance, personnel and production. These students are recruited as management trainees and then placed in special company training programmes. They are not recruited for particular positions but for development as future supervisors and executives. Indeed, this source provides a constant flow of new personnel with leadership potentialities. Frequently, this source is tapped through on-campus interview with promising students. In addition, vocational schools and industrial training institutes provide specialised employees, apprentices, and trainees for semiskilled and skilled jobs. Persons trained in these schools and institutes can be placed on operative and similar jobs with a minimum of in-plant training. However, recruitment of these candidates must be based on realistic and differential standards established through research reducing turnover and enhancing productivity. Frequently, numerous enterprises depend to some extent upon casual labour or “applicants at the gate” and nail applicants. The candidates may appear personally at the company’s employment office or send their applications for possible vacancies. Explicitly, as Yoder and others observe, the quality and quantity of such candidates depend on the image of the company in community. Prompt response to these applicants proves very useful for the company. However, it may be noted that this source is uncertain, and the applicants reveal a wide range of abilities necessitating a careful screening. Despite these limitations, it forms a highly inexpensive source as the candidates themselves come to the gate of the company. Again, it provides measures for good public relations and accordingly, all the candidates visiting the company must be received cordially.

Methods of Recruitment

Methods of recruitment are different from the sources of recruitment. Sources are the locations where prospective employees are available. On the other hand, methods are way of establishing links with the prospective employees. Various methods employed for recruiting employees may be classified into the following categories:

Direct Methods:

These include sending recruiters to educational and professional institutions, employees, contacts with public, and manned exhibits. One of the widely used direct methods is that of sending of recruiters to colleges and technical schools. Most college recruiting is done in co-operation with the placement office of a college. The placement office usually provides help in attracting students, arranging interviews, furnishing space, and providing student resumes. For managerial, professional and sales personnel campus recruiting is an extensive operation. Persons reading for MBA or other technical diplomas are picked up in this manner. For this purpose, carefully prepared brochures, describing the organisation and the jobs it offers, are distributed among students, before the interviewer arrives. Sometimes, firms directly solicit information from the concerned professors about students with an outstanding record.

Many companies have found employees contact with the public a very effective method. Other direct methods include sending recruiters to conventions and seminars, setting up exhibits at fairs, and using mobile offices to go to the desired centres.

2. Indirect Methods:

The most frequently used indirect method of recruitment is advertisement in newspapers, journals, and on the radio and television. Advertisement enables candidates to assess their suitability. It is appropriate when the organisation wants to reach out to a large target group scattered nationwide. When a firm wants to conceal its identity, it can give blind advertisement in which only box number is given. Considerable details about jobs and qualifications can be given in the advertisements. Another method of advertising is a notice-board placed at the gate of the company.

3. Third-Party Methods: The most frequently used third-party methods are public and private employment agencies. Public employment exchanges have been largely concerned with factory workers and clerical jobs. They also provide help in recruiting professional employees. Private agencies provide consultancy services and charge a fee. They are usually specialised for different categories of operatives, office workers, salesmen, supervisory and management personnel. Other third-party methods include the use of trade unions. Labourmanagement committees have usually demonstrated the effectiveness of trade unions as methods of recruitment. Several criteria discussed in the preceding section for evaluating sources of applicants can also be used for assessing recruiting methods. Attempts should be made to identify how the candidate was attracted to the company. To accomplish this, the application may consist of an item as to how the applicant came to learn about the vacancy. Then, attempts should be made to determine the method which consistently attracts good candidates. Thus, the most effective method should be utilised to improve the recruitment programme.

Self-Assessment Questions

1. Explain the role of HR professional in human resource planning process in organizations.
2. Describe the various forecasting techniques and how these techniques are being used in human resource planning.
3. Explain the barriers to HRP.
4. Bring out the requisites for effective planning.
5. Define recruitment and identify the various factors which affect recruitment.
6. Discuss the steps of recruitment process. How will you reconcile the internal and external sources of recruitment?
7. Discuss various sources of recruitment.
8. What is realistic job preview? How does it differ from traditional job preview?
9. What do you mean by recruitment policy? Explain the prerequisites of a good recruitment policy.
10. Write short notes on following. (i) Advantages and disadvantages of internal sources of recruitment. (ii) Advantages and disadvantages of external source of recruitment.
11. Explain the direct, indirect and third party methods of recruitment.

Reference Books

Lloyd L. Byars and Leslie W. Rue (1997), Human Resource Management (5th edition), The McGraw-Hill Companies, USA. –

Michael Armstrong (1999), A Handbook of Human Resource Management Practice (7th edition), Kogan Page Limited, 120 Pentonville Road, London.

Biswajeet Pattanayak (2001), Human Resource Management, Prentice Hall of India Pvt. Ltd., New Delhi.

K. Aswathappa (1999), Human Resource and Personnel Management (2nd edition), Tata McGraw-Hill Publishing Company Ltd., New Delhi.

P. Subba Rao (2004), Management and Organisational Behaviour (First edition), Himalaya Publishing House.

UNIT – III – Human Resource Management – SPSY1504

Performance appraisal system has been defined in many ways. The easiest way to understand the meaning of performance appraisal is as follows: It is the systematic assessment of an individual with respect to his or her performance on the job and his or her potential for development in that job. Thus, performance appraisal is a systematic and objective way of evaluating the relative worth or ability of an employee in performing his job.

The two aspects of performance appraisal considered to be important are: systematic and objective. The appraisal is said to be systematic when it evaluates all performances in the same manner, by applying the same approach, so that appraisal of different persons are comparable. Such an appraisal is taken from time to time according to plan; it is not left to probability. Thus, both raters' and ratees know the system of performance appraisal and its timing. Appraisal has objectivity also. It's important aspect is that it attempts at precise measurement by trying to remove human biases and prejudices.

According to Flippo, a prominent personality in the field of Human resources, "performance appraisal is the systematic, periodic and an impartial rating of an employee's excellence in the matters pertaining to his present job and his potential for a better job."

In the words of Yoder, "Performance appraisal refers to all formal procedures used in working organizations to evaluate personalities and contributions and potential of group members."

Thus performance appraisal is a formal programme in an organization which is concerned with not only the contributions of the members who form part of the organization, but also aims at spotting the potential of the people." It is a systematic way of judging the relative worth of an employee while carrying out his work in an organization. It also helps recognize those employees who are performing their tasks well and also- who are not performing their tasks properly and the reasons for such (poor) performance. According to International Labor Organization, "A regular and continuous evaluation of the quality, quantity and style of the performance along with the assessment of the factors influencing the performance and behavior of an individual is called as performance appraisal." In short, we can say that performance appraisal is expected to result in an assessment of: development potential of the employees, training needs for the employees; capabilities of employees being placed in higher posts, behavior and obedience of the employees; and the need of the organization to evolve a control mechanism.

Methods of Performance Appraisal

Performance appraisal methods are categorized in two ways traditional and modern methods. Each organization adopts a different method of performance appraisal according to the need of organization. In small organization, it may be on an informal basis where personal opinion of a superior about his subordinates may consider for appraisal.

1. Ranking Method: It is the oldest and simplest method of performance appraisal in which employees' are ranked on certain criteria such as trait or characteristic. The employee is ranked from highest to lowest or from worst to best in an organization. Thus if there are seven employees to be ranked then there will be seven ranks from 1 to 7. Rating scales offer the advantages of flexibility comparatively easy use and low cost. Nearly every type of job can be evaluated with the rating scale, the only condition being that the Job-performance criteria should be changed'. In such a way, a large number of employees can be

evaluated in a shorter time period. Thus, the greatest limitation of this method is that differences in ranks do not indicate how much an employee of rank 1 is better than the employee whose rank is last.

2. Paired Comparison: In method is comparatively simpler as compared to ranking method. In this method, the evaluator ranks employees by comparing one employee with all other employees in the group. The rater is given slips where, each slip has a pair of names, the rater puts a tick mark next those employee whom he considers to be the better of the two. This employee is compared number of times so as to determine the final ranking. This method provides comparison of persons in a better way. However, this increases the work as the large number of comparisons has to be made. For example, to rank 50 persons through paired comparison, there will be 1,225 comparisons. Paired comparison method could be employed easily where the numbers of employees to be compared are less. This may be calculated by a formula $\frac{N(N-1)}{2}$ where N is the total number of persons to be compared. Where N is the total number of persons to be evaluated.

3. Grading Method: In this method, certain categories are defined well in advance and employees are put in particular category depending on their traits and characteristics. Such categories may be defined as outstanding, good, average, poor, very poor, or may be in terms of alphabet like A, B, C, D, etc. where A may indicate the best and D indicating the worst. This type of grading method is applied during Semester pattern of examinations. One of the major limitations of this method is that the rater may rate many employees on the better side of their performance.

4. Forced Distribution Method: This method was evolved to abolish the trend of rating most of the employees at a higher end of the scale. The fundamental assumption in this method is that employees' performance level conforms to a normal statistical distribution. For example, 10 per cent employees may be rated as excellent, 40 per cent as above average, 20 per cent as average, 10 per cent below average, and 20 per cent as poor. It eliminates or minimizes the favoritism of rating many employees on a higher side. It is simple and easy method to appraise employees. It becomes difficult when the rater has to explain why an employee is placed in a particular grouping as compared to others.

5. Forced-choice Method: The forced-choice rating method contains a sequence of question in a statement form with which the rater checks how effectively the statement describes each individual being evaluated in the organization. There may be some variations in the methods and statements used, but the most common method of forced choice contains two statements both of which may be positive or negative. It may be both the statement describes the characteristics of an employee, but the rater is forced to tick only one i.e the most appropriate statement which may be more descriptive of the employee. For example, a rater may be given the following two statements: (i) The employee is hard working. (ii) The employee gives clear instructions to his subordinates. Though both of them describe the characteristics of an employee, the rater is forced to tick only one which appears to be more descriptive of the employee. Out of these two statements, only one statement is considered for final analysis of rating. For example, a rater may be given the following two statements: (i) The employee is very sincere. (ii) Employee gives clear and fast instructions to his subordinates.

Both of the above statements are positive but the rater is supposed to rate only one which is more appropriate of subordinate's behavior. For ranking only one statement is considered .As the rater is not aware about the statement to be considered the result would be free from bias. This method may be more objective but it involves lot of problems in framing of such sets of statements.

6. Check-list Method: The main reason for using this method is to reduce the burden of evaluator. In this method of evaluation the evaluator is provided with the appraisal report which consist of series of questions which is related to the appraise. Such questions are prepared in a manner that reflects the behavior of the concerned appraise. Every question has two alternatives, yes or no, as given below:

1. Is he/she respected by his/her subordinates? Yes/No
2. Is he/she ready to help other employees? Yes/No
3. Does her behavior remain same for everyone in the organization? Yes/No

The concerned rater/evaluator has to tick appropriate answers relevant to the appraises. When the check-list is finished, it is sent to the personnel department to prepare the final scores for all appraises based on all questions based on yes or no. While preparing question effort is made to establish the level of consistency of the rater by asking the same question twice but in a different manner. This method is considered to be easy if questions are framed properly for different categories of employees. However, one of the disadvantages of the check-list method is that it is very difficult to accumulate, analyze and evaluate a number of statements about employee characteristics and contributions. It is even costly method with lot of time and efforts required by the organization.

7. Critical Incidents Method: This method is very useful for finding out those employees who have the highest potential to work in a critical situation. Such an incidence is very important for organization as they get a sense, how a supervisor has handled a situation in the case of sudden trouble in an organization, which gives an idea about his leadership qualities and handling of situation. It is also said to be a continuous appraisal method where employees are appraised continuously by keeping in mind the critical situation. In this method, only the case of sudden trouble and behavior associated with these incidents or trouble are taken for evaluation. This method is categorized in three steps. First, a list of notable (good or bad) on-the-job behavior of specific incidents or sudden trouble is prepared. Second, selected experts would then assign weightage or score to these incidents according to how serious a particular incident is and their degree of willingness to perform a job. Third, finally a check-list indicating incidents that illustrate workers as good or "bad" is formed. Then, the checklist is given to the rater for evaluating the workers. The strong point of critical incident method is that it focuses on behaviors and, thus, judge's performance rather than personalities. Its drawbacks are that too frequently they need to write down the critical incidents which is very timeconsuming and burdensome for evaluators, i.e., managers. Generally, negative incidents are more noticeable than positives.

8. Graphic Scale Method: It is one of the simplest and most popular techniques for appraising performances of employee. It is also known as linear rating scale. In graphic rating scale the printed appraisal form is used to appraise each employee. Such forms contain a number of objectives, and trait qualities and characters to be rated like quality of work and amount of work, job knowhow dependability, initiative, attitude, leadership quality and emotional stability. The rater gives an estimate the extent to which subordinates possess each quality. The extent to which quality is possessed is measured on a scale which can vary from three points to several points. In general practice five-point scales is used. Some organizations use numbers in order to avoid the propensity of the rater to tick mark central points. It may be numbered or defined. Thus numbers like 5, 4, 3, 2 and 1 may denote points for various degrees of excellent-poor, high-low, or good-bad, and so on. Such numbers may be expressed in terms like excellent,

very good, average, poor and very poor; or very high, high, average, low and very low. Graphic scale method is good for measuring various job behaviors of an employee. But, it is bound to limitations of rater's bias while rating employee's behavior at job.

9. Essay Method: In this method, the rater writes a detailed description on an employee's characteristics and behavior, Knowledge about organizational policies, procedures and rules, Knowledge about the job, Training and development needs of the employee, strengths, weakness, past performance, potential and suggestions for improvement. It is said to be the encouraging and simple method to use. It does not need difficult formats and specific training to complete it.

10. Field Review Method: In this method of appraisal direct superior is not going to appraise an employee but appraised by another person, usually, from personnel department. The rater, in such a case, appraises the employee on the basis of his past records of productivity and other information such as absenteeism, late coming, etc. It is more suitable in a situation where an organization wants to provide promotion to an employee. It also gives information for comparing employees from different locations and units. It reduces partiality to some extent as personnel department person is supposed to be trained in appraisal mechanism. This method suffers from two limitations:

1. As employees are not rated by immediate boss, the rater from other department may not be familiar with the conditions in an employee's work environment which may hamper his ability and work motivation to perform.

2. The rater from other department do not get a chance to scrutinize the employee's behavior or performance with different time interval and in a variety of situations, but only in an unnaturally structured interview situation which is for a very short period of time.

Modern Methods

1. Management by Objectives (MBO):

The concept of 'Management by Objectives' (MBO) was coined by Peter Drucker in 1954. It is a process where the employees and the superiors come together to identify some goals which are common to them, the employees set their own goals to be achieved, the benchmark is taken as the criteria for measuring their performances and their involvement is there in deciding the course of action to be followed. The basic nature of MBO is participative, setting their goals, selecting a course of actions to achieve goals and then taking decision. The most important aspect of MBO is measuring the actual performances of the employee with the standards set by them. It is also said to be a process that integrates organizational objectives into individual objectives. Entire program me of MBO is divided in four major steps i.e setting up of goal, action planning, comparison and timely review. Setting up of goal-In goal setting superior and subordinate together set certain goals, i.e the expected outcome that each employee is supposed to achieve. In action planning, the manner in which goals could be achieved is determined i.e. identifying the activities which are necessary to perform; to achieve pr determined goals or standards. When the employees start with their activities, they come to know what is to be done, what has been done, and what remains to be done and it also gives an idea about the resources to be achieved. In the third step, the goals set by the individual employee are compared with the actual goals achieved. It gives an idea to the evaluator as why there is a variation in desired outcome and actual outcome. Such a comparison helps create need for training so as to enhance employees' performance.

Finally, in the timely review step, corrective actions are taken so that actual performances do not deviate from standards established in beginning. The main reason for conducting reviews is not to humiliate the performer but to assist him in better performances in future. Few advantages of MBO are a) it is outcome –oriented. It co-ordinates the planning and control functions and provides motivation) Employees are clear about the task that they are expected to perform and also how they may be evaluated. MBO do have certain limitations such as it is time consuming, employees and the superiors jointly setting the goals may lead to conflict as employee would always like to set lower goal and the superior would like to set it on the higher side, lack of confidence in employee by management. 2. Behaviorally Anchored Rating Scales: This method is a combination of traditional rating scales and critical incidents methods. It consists of preset critical areas of job performance or sets of behavioral statements which describes the important job performance qualities as good or bad (for e.g. the qualities like inter personal relationships, flexibility and consistency, job knowledge etc). These statements are developed from critical incidents. These behavioral examples are then again translated into appropriate performance dimensions. Those that are selected into the dimension are retained. The final groups of behavior incidents are then scaled numerically to a level of performance that is perceived to represent. A rater must indicate which behavior on each scale best describes an employee's performance. The results of the above processes are behavioral descriptions, such as anticipate, plan, executes, solves immediate problems, carries out orders, and handles urgent situation situations. This method has following advantages: a) It reduces rating errors) Behavior is assessed over traits. c) It gives an idea about the behavior to the employee and the rater about which behaviors bring good Performance and which bring bad performance.

The Performance Appraisal Process

The performance appraisal system of one organization may vary from other organizations, though some of the specific steps that an organization may follow are as follows:

1. Establish Performance Standards: It begins by establishing performance standards i.e. what they expect from their employee in terms of outputs, accomplishments and skills that they will evaluate with the passage of time. The standards set should be clear and objective enough to be understood and measured. The standards which are set are evolved out of job analysis and job descriptions. Standards set should be clear and not the vague one. The expectation of the manager from his employee should be clear so that it could be communicated to the subordinates that they will be appraised against the standards set for them.
2. Communicating the Standards Set for an Employee: Once the standards for performance are set it should be communicated to the concerned employee, about what it expected from them in terms of performance. It should not be part of the employees' job to estimate what they are expected do. Communication is said to be two ways street, mere passing of information to subordinate does not mean that the work is done. Communication only takes place when the information given has taken place and has been received and understood by subordinate. . If necessary, the standards may be tailored or revised in the light of feedback obtained from the employees.
3. Measuring of the Actual Performances: It is one of the most crucial steps of performance appraisal process. It is very important to know as how the performance will be measured and what should be measured, thus four important sources frequently used by managers are personal

observation, statistical reports, oral reports, and written reports. However, combination of all 105 these resources gives more reliable information. What we measure is probably more critical to the evaluation process than how we measure. The selection of the incorrect criteria can result in serious consequences. What we measure gives an idea about what people in an organization will attempt to achieve. The criteria which are considered must represent performance as stated in the first two steps of the appraisal process.

4. Comparing Actual Performance with Standards Set in the Beginning: In this step of performance appraisal the actual performance is compared with the expected or desired standard set. A comparison between actual or desired standard may disclose the deviation between standard performance and actual performance and will allow the evaluator to carry on with the discussion of the appraisal with the concerned employees.

5. Discussion with the Concerned Employee: In this step performance of the employee is communicated and discussed. It gives an idea to the employee regarding their strengths and weaknesses. The impact of this discussion may be positive or negative. The impression that subordinates receive from their assessment has a very strong impact on their self esteem and, is very important, for their future performances.

6. Initiate Corrective Action: Corrective action can be of two types; one is instant and deals primarily with symptoms. The other is basic and deals with the causes. Instant corrective action is often described as “putting out fires”, where as basic corrective action gets to the source from where deviation has taken place and seeks to adjust the differences permanently. Instant action corrects something right at a particular point and gets things back on track. Basic action asks how and why performance deviated. In some instances, managers may feel that they do not have the time to take basic corrective action and thus may go for “perpetually put out fires. Thus the appraisal system of each organization may differ as per the requirement of that Organization.

Self Assessment Questions

1. “Performance appraisal is the systematic evaluation of the individual with respect to his performance on the job and his potential for development”. What are the options open to you in the design of a performance appraisal system to achieve this goal?
2. Explain the Performance Appraisal System. Either suggests improvements to an existing appraisal system in your organization or design an appraisal system which would meet the objectives outlines in this chapter.
3. Does current thinking indicates that appraisal for training should be conducted separately from appraisal for promotion?
4. Explain in detail the process of performance appraisal.
5. Write short notes of: a) Management by objectives b) Behaviorally Anchored Rating Scale
6. Explain the methods of performance appraisal in detail.
7. “Performance appraisal is not only for appraisal but is for achievement and improvement of performance”. Explain.
8. According to you what should be done to have an effective performance appraisal system in your organization.
9. Write short notes on: a) Field review method: b) Critical incidents method

Reference Books:

Prasad L.M, (2005); 'Principles and Practices of Management'; Sultan Chand and Sons Publisher, New Delhi.

· P.Subba Rao, (2007); Essentials of Human Resource Management and Industrial Relations'; Himalaya publishing House, Mumbai.

· S.S.Khanka, (2008); Human Resource Management; S.Chand& Company limited'; New Delhi.

· K Aswathappa (2003); Human Resource and Personnel Management'; Tata McGraw-Hill Publishing Company limited, New Delhi.

UNIT – IV – Human Resource Management – SPSY1504

Introduction Employees' compensation is one of the major determinants of employee satisfaction in an organization. The compensation policy and the reward system of an organization are viewed by the employee as a indicators of the management's attitude and concern for them. It is not just the compensation in tote, but its fairness as perceived by the employees that determines the success of a wage and salary administration system. Hence, it very important for the management to design and implement its compensation system with utmost care and tact. A good wage and salary administration should be able to attract and retain employees, give them fair deal, keep the organization competitive and motivate employees to perform their best. Wage and salary determination and its administration has always remains sensitive issue for an organizational management, since employees moral, motivation, productivity and their relationship with the management more or less associated with the compensation management system. Furthermore compensation has always remain as a major yardstick for the success or failure or concern for the employees by an organization. Traditionally, pay scales in companies reflected the importance of the work and the responsibility level. Today organization tries more to assess the worth of an individual in terms of his performance and contribution to the organization. With the growing demands of the workforce and the constant challenges in the business environment, organizations have to evolve an accurate system for evaluating jobs and assessing their worth. Job evaluation helps to determine the relative worth of job in an organization in a systematic, consistent and accurate manner. It also helps in estimating the basic pay for each job in accordance with the importance of the job in the organizational hierarchy. Once basic pay is determined, the rewards, incentives and benefits attached with the pay, position and performance are also determined. The basic wage, incentives and rewards and benefits, together from compensation package of an employee.

113 9.2 Principles of Wage and Salary Administration

Since the issue of wage and salary determination has always enjoying the major consideration for any organization, it should be develop and maintain based on sound principles , some of them are narrated below, attempt should be made to incorporate them as far as possible while designing the compensation system.

- 1) There should be a definite plan and system to ensure that differences in pay for jobs are based upon variations in job requirements, means maintaining equity in the distribution of wages and salaries in the organization.
- 2) Maintaining competitiveness in the wage market means the general level of wage and salary should be reasonably in line with that prevailing in the market.
- 3) Matching employees' expectations and it should avoid unjustified discrimination by providing equal pay for equal work.
- 4) Reinforcing positive employee behavior and contribution to the organization, differences in the compensation package should be based on contribution, productivity, job performance, achievement etc.
- 5) Devising a system that is the most efficient for the organization, as far as possible it must eliminate any discrepancies or exploitation of the employees.
- 6) The compensation system should formulate and define rules and regulations for determining, changing, adjusting wages in the organization.
- 7) The compensation package must ensure fairness, should maintain harmonious relationship between the employee and employer.
- 8) Compensation system should be flexible enough so that future changes can be incorporated.
- 9) The wage and salary administration should take care of and comply all the rules and regulations laid down by the legislator for protecting the employees' interest.
- 10) Optimization of management and employee interests.

9.3 Essentials of Sound Wage and Salary Administration

Sound Wage and salary administration demands some essentials to satisfy, so that one who is shoulder with the responsibility of designing administrative aspects with this regards, may come out with efficient system for managing the issues related with it. Some of the pre requisites for the sound compensation system are:

- I. **Rational Job Analysis:** It is an important exercise with regards to each category of jobs. It reveals detailed aspects of the job, like duties, responsibilities associated with the performance, performance standards as a fair parameter for evaluation of the performance. It gives fair idea about job specification i.e. qualification, experience, skill and other essential requirements that job performer must satisfy. Thus rational job analysis always put policy decider in a better condition to lay down appropriate content in policy design.
- II. **Proper Job Evaluation:** Job evaluation is a systematic process of analyzing and evaluating jobs to determine the relative worth of job in an organization. It forms the basis for designing the sound compensation system in an organization. Since wage and salary administration and the perceived fairness of approach adopted under it have a immense influence on employee morale, motivation and satisfaction, proper job evaluation exercise demands sensible consideration.
- III. **In Depth Knowledge About an Organization and Market Factors:** Apart from job evaluation, the various other factors that determine the administrative aspects for wage and salary administration are the size and structure of the organization and the industry in which it operates, the strength of employees union, position of a person and his importance to the organization, demand and supply for particular skill sets in the industry, organizational ability and capacity to pay and its economic condition like profitability, and legislative aspects related with wage determination. Sound system for compensation management demands detail knowledge about all these factors in order to its sound framework and operation in the organization.
- IV. **Clarity of Objectives or Purposes of Wage and Salary Administration :** Last but not the least in terms of its significance, in order to have effective and efficient administration of compensation as an area in the organization, one must have accurate clarity about the purposes that it may tries to satisfy through policy decisions .objectives may be attracting talented resources; retaining and motivating employees; financial management of an organization; satisfying legal requirement; and many more. Sometimes these objectives are conflicting in nature also. So it is very essential that one, who is going to carry out this responsibility of designing the compensation system in the organization, should have reasonable clarity for objectives to be satisfied with the design.

Factors affecting Wage and Salary Administration

The term employees remuneration includes both wages and salaries. Wages are commonly considered as the price of labor paid to the workers for the services rendered to the organization employing them. Where quantum of services rendered is difficult to measure the payment is called salary. Normally, payment made to

workers is referred to as wages, and remuneration paid periodically to persons whose output cannot be measured such as clerical, supervisory and managerial staff, is called salary. Wage and salary administration is affected by so many factors and most of them are uncontrollable in nature so probably, this decision is more crucial and critical.

Methods of Wage Payments

Wage plans are mainly micro plans and each company may devise any of the wage plans. Basically there are two methods for wage payments, viz.

(1) Time rate wage system; and (2) Piece rate wage system.

- I. The wage paid to labor has to perform important functions in the economic system. It should be such as to make the worker capable and willing to be efficient and involved in the job. There should be link, wherever feasible between emoluments and productivity; and fair parity between wage differentials and skill differential. The plan should act as an incentive to improve the efficiency, and it should attract the worker wherever demanded or needed. Whatever may be the method of wage payment but the wage plan should contain following ingredients:
 - It should be simple and understandable
 - It should be capable of easy computation
 - It should be capable of motivating the employees
 - It should be attractive enough for new talent in the organization.
 - It should be fair, just and stable to all the employees.The fundamental plans of wage payment are:
 - I. Time Rate Wage System: It is the oldest and the simplest form of wage fixing. Under this system, workers are paid according to the work done during a certain period of time at a rate of per hour, per day, per week, per fortnight, or per month or any other fixed period of time.

According to the section 4 of the Payments of Wages Act, 1936, not more than one month must elapse between two wage period. Time wage system adopts time as the basis of worker remuneration without taking in to account the units produced. The worker is guaranteed a specified sum of money for a fixed period of his time taking no account of the quality or quantity of the work done.

- II. Piece Rate Wage System: Under this system, workers are paid according to the amount of work done or numbers of units produced or completed, the rate of each unit being settled in advance, irrespective of the time taken to do the work. This does not mean that the workers can take any time to complete a job because of his performance far exceeds the time which his employer expects he would take, the overhead charges for each unit of article will increase. There is an indirect implication that a worker should not take more than average time.

- III. Balance and Debt System: This system combines time rate and piece rate. Under it a minimum weekly wage is guaranteed for a full weeks' work, with an alternative piece-rate determined by the rate fixed on the assumption that the worker would put enough effort to earn his minimum wage. If the wages calculated on piece bases are in excess of the time rate, the worker earns the excess. If the piece rate wages are less than the time-rate earnings, he would still get weekly wage, but on the condition that he shall have to make good the excess paid to him out of the subsequent wage he would earn. Suppose a worker is expected to complete at least 10 pieces during the week in order to earn the minimum wage of rs.60, the piece rate has been fixed at a rate of Rs.6 per unit. If the worker produces 12 units within the week, his earning will be Rs.72. If on the other hand he produces only 9 units , he will still be paid Rs. 60 his minimum weekly wage but as on the basis of piece rate his earning should amount to only Rs. 54, the sum of Rs. 6 paid in excess will be debited to him to be deducted out of his subsequent earnings. Thus under this system workers' wages are determined, by both the number of hours he works and the pieces he produces. So it a hybrid system producing the same benefits and limitations of both the time rate and piece rare system

Self Assessment Questions

1. Why Wage and Salary Administration is considered as a significant Human Resource Management function? What principles an organization is require keeping in mind while deciding compensation policy? 2.
2. Discuss in detail different factors that generally affect compensation decision of an organization.
3. What are the methods generally available to an organization for making wage payments? Discuss their suitability together with their merits and demerits.
4. Elaborate standard procedure or mechanism that an organization follows for determining Wage and salary structure together with the rationality attached with each step.

Reference Books –

Principles of personnel Management-Edwin flippo - Personnel Management &Industrial Relations-Yoder (Prentice Hall of India Ltd. New Delhi) - Personnel Management-C.E.Nrothcott - Personnel Management –C.B.Mamoria - Personnel Management-Dr.P.C.Tripathi - Dynamic Personnel Administration-Management OF Human Resources-M.N.Rudrabasavaraj

UNIT – V – Human Resource Management – SPSY1504

Growth & Development of Human Resource Accounting

Research into Human Resource accounting began in the 1960's by Rensis Likert. It supported long term planning on diverse qualitative human resource variables yielding superior benefits in long run. Human resource Accounting is the outcome of numerous research studies conducted in the field of accounting and finance. Human resource as an asset if positioned & nurtured in the right direction may realize its full potential.

Lately, the Behavioral scientists criticized the conventional accounting practice of valuing human resource along with physical resources and stressed on the concept of assigning monetary value to human resource of the organization. They advocated that any expenses incurred on the development of human resources should be treated as capital expenditure as in the long run it gives benefits which can be measured in monetary terms. Eric Falmholtz divided the development of Human Resource

Accounting into five stages, which can be summed up as follows:-

First Stage (1960 – 66) – This symbolizes the beginning of Human Resource Accounting where the focus was to derive the concepts of Human Resource Accounting from other studies like economics etc.

Second Stage – (1966 – 71) – The objective here was to assess some models that would cover both costs models & monetary & non – monetary value of Human Resource .

Third Stage - (1971 – 76) – Here noticeable significance in the field of Human Resource Accounting grew leading to number of researches in the field. The focal point was the application of Human Resource Accounting in business organizations.

Fourth Stage - (1976 – 80) – This period saw the collapse of the concept of Human Resource Accounting as the organizations were not prepared to invest time , energy and most importantly the funds needed to research further deep into the concepts of Human Resource Accounting.

Fifth Stage - (1980 Onwards) – The explosion of service economies in developed countries brought about a renewal of interest in Human Resource Accounting.

And further in mid 90's the application of Human Resource Accounting to business management gained greater impetus.

Concept of Human Resource Accounting

Meaning & Definition

The concept of human resource accounting can be better understood by following important definitions given by eminent authors in the accounting field. M.N. Baker defines, "H.R.A. is the term applied by the accountancy profession to quantify the cost and value of employees to their employing organization". K.Foley Defined "Human Resource Accounting is the measurement of the cost and value of people for organization." Prof. Davidson Defined "Human Resource Accounting is the term used to describe a variety of proposals that seek to report and emphasize the importance of human resource knowledgeable , trained and loyal employees in a company earning process and total assets". The American Accounting Society Committees on Human Resource Accounting defined it as follows:- "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to

interested parties.” Flamholtz defines “Human Resource Accounting as the measurement and reporting of the cost and value of people in organizational resources.”

Need and Importance of Human Resource Accounting

The need for Human Resource Accounting felt largely as a result of the emerging concern for human relations management in industry. The very importance of Human Resource Accounting can be summed up through following major points – (a) Human Resource Accounting helps management in acquiring placing and in making effective utilization of human resources. (b) To retain the qualified employees (c) It aids in deciding the transfers , promotion , training etc of human resources. (d) It serves as a tool to measure and compare the expenditure incurred for imparting the training to employees and in turn the benefits derived by the firm. (e) Human Resource Accounting helps to improve the profile of the enterprise and its image Human Resource Reporting in India In India, reporting practices of Human Resource Accounting is extremely low. A few companies do report in their annual reports. The reporting of Human Resource Accounting is in some sentences. Some Companies furnish information about number of employees working in the organization, how many working hours have lost, what is the situation of industrial relation etc. Both Public sector and private sector companies have used economic value approach instead of cost approach. Most of the companies have used Lev and Schwartz model. They have Lev and Schwartz model in modified way, which is similar to Flamholtz model. It has been discovered that most likely variety of the companies is replacement cost model, Human resources reporting is not because their is no legal compulsion by Indian Companies Act 1956. There is also problem in measuring Human Resources. Human Resource Accounting has been reported by above – mentioned companies as a supplementary information in their annual reports , such reporting by companies are audited. The companies have classified their employees, age wise, they have further classified them in managers, executives, supervisors, Artisans, clerical staff etc. Some Companies in India shows human Resource development cost i.e. training and development cost in detail while some corporation are showing them in short, some shows them in “Director’s Report or chairman speech.” Productivity / performance statistics of human resource have been presented by some companies in detail. Average employee cost is shown by few companies only. Appreciations and Awards received by the companies have been shown by the companies under the heading “High light” or Director’s Report or elsewhere in the annual reports of the Companies Highlight’s. For purpose of calculating the present value of future earning of employees , all the companies have adopted a discount rate , which is not common. Majority of the companies adopted 12%. 178 Some of the companies have not mentioned the purpose for which they are reporting HRA information in their annual reports. Whereas some companies have clearly mentioned their objective of reporting human resource data. It seems that some companies report HRA for image building purposes. Some companies have also given additional information as regarding number of employees , average salary , average age of employees , average production per employee etc.

Problems in HRA Reporting

1. Human Resource Accounting is shown as supplementary information in the annual reports , which has no significance.

2. All the companies who are reporting Human Resource Accounting have used Lev and Schwartz model but this model is suffering from some drawbacks. One it has assured state promotion policy and consistent average salary to all the employees in a particular group. These two assumptions are far from reality , difference in skill , experience qualifications and increasing importance of employees union often lead to change in these policies.

3. Though human capital plays an important role in any organization , there is a wide spread , disagreement regarding the reorganization and valuation of human resource as assets on generally the assets is one which fulfills the following three criteria. They are (i) the entity should have legally enforceable claim to it. (ii) It should be owned by the entity (iii) the entity should possess it with the expectation of deriving services from it in future HR are not fulfilling any criteria. As such there is a problem in recognizing human resources as assets.

4. Proper matching of costs with revenue is not possible unless the costs on the recruitment training and development of personnel are capitalized over their effective service lives. It is so because the benefits from such expenses are usually derived over a period beyond the year of payment. However in a number of cases, the earnings potential of employees may not depend upon the expenditure incurred by the firms for the purpose. But it depends upon behaviour aspects like skill , motivation group loyalty capacity for effective interaction and decision making etc , to influence the end results of an enterprises effectively.

5. The very idea of showing human resource as an asset on the balance sheet of a firm tends to be arbitrary for this purpose as per the methods available , human resource are to be valued either on the basis of cost incurred by a firm on recruitment trainings etc or replacement cost. In both the methods cost is taken as the value of human assets. But this hardly represent the real value of personnel in particular and the firm in general. The other method like discounted wage, and salaries method , economic value method , and opportunity cost method , involves the element of subjectivity in valuing the human resources.

6. Yet another difficulty regarding HRA is Quantification and pricing of employees in respect of jobs which do not yield any physical output. Determination of probabilities of the expected services of the employees is also a difficult task. These practical difficulties are subject to the influence of age qualification , the previous experience point of first entry , employment period and turn over as well as the organizational pulls and pressures on different categories of employees.

7. In all the methods , the salaries earned by the employees are taken as the basis for valuing human resources. Thus the career movement of employees either within the organization or elsewhere in the other organization is kept outside the purview of valuation. Since the employees make constant 179 trials to occupy higher position during their effective service life , any valuation process without considering this way tend to be less meaningful.

8. The provision of existing tax laws , do not recognize the amortized portion of capitalized human resource value as deductible expenses for computing income. Even if attempts are made to amend the existing provision of tax laws there is a greater amount of scope to misuse the facility as the employers may adopt fictitious method to undertake the profitability of their business and may show unrealistic value of the firm.

Self Assessment Questions

1. What do you mean by “HRA “. Explain & Detail.
2. Classify the various stages in development of Human Resource Accounting.
3. Discuss the importance of HRA in today’s globalized world.
4. Write short note on Human Resource Reporting in India.
5. What are the different valuation models of HRA ? State their merits and demerits.

Reference Books –

A.M. Sarma (2009) ; Personnel & Human Resource Management ; Himalaya Publishing House , New Delhi.

Subba Rao (2008) ; Personnel & Human Resource Management ; Himalaya Publishing House ; New Delhi. - Dr. G. L. Dave (2001) ; Social Accounting ; Renuka Publisher ; Jodhpur.

Ravi M. Kishore (2008) ; Advanced Management Accounting ; Taxmann Publication ; New Delhi.

Eric. G. Flamholtz (1999) ; Advances in concepts , methods and applications ; Kluwer Academic Publishers.