CENTRE FOR OPEN AND DISTANCE LEARNING

TEZPUR UNIVERSITY: NAPAAM: SONITPUR

SELF-LEARNING MATERIAL

FOUNDATION OF HUMAN RESOURCE MANAGEMENT

DHR 103

SELF-LEARNING MATERIAL

Course Code: DHR 103

Course Title: FOUNDATION OF HUMAN RESOURCE MANAGEMENT

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March 2012

Published by

Director, Centre for Open and Distance Learning (CODL),

on behalf of Tezpur University.

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DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-1: INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

UNIT STRUCTURE

1.0 OBJECTIVES

After going through this unit you should be able to:

- Define the concept, nature and scope of HRM and how it is related to management process
- Discuss the various functions of HRM
- Identify the differences between HRM and PM
- Define the concept of SHRM
- Identify the environmental factors that have a bearing on HRM

1.1 INTRODUCTION

HRM plays a central role in creating organization and helping them survive. Our world is an organizational world. We are surrounded by organization and we participate in them as members, employees, customers and clients. Organization provides the goods and survives on which we depend to live.

An organization, on the other hand, is made up of four Ms viz – Man, Money, Machine and Material. Out of these four only man is living and others are non-living. It is the man who makes use of non human resources. The HR of an organization can be considered as the most significant input that an organization utilizes. It is through Human Resources that all other resources are acquired and used. It is the man who makes all the difference in the organization. According to Peter Drucker "man, of all resources available to man, can grow and develop" (Practice of Management, 1970).

It is seen that decision about HR tends to affect the quality and use all other resources. Therefore, it is very difficult for manager to use human resources in an effective and efficient manner. In a highly competitive and complex business environment, attracting and retaining qualified and competent employees have become a real challenge for the management. The "rule of thumb" becomes obsolete and the need is to have right people for right job. This gives genesis to the concept of human resource management in an organization.

Human resource management tries to focus on people in work place, the need to understand their contribution to the organization's purpose. Human resource management is responsible for bringing people into organization, helping them in performing their work, compensating them for their labours and solving problems that arise out of their work lives.

1.2 CONCEPT AND MEANING, SCOPE & IMPORTANCE

1.2.1 CONCEPT AND MEANING

It is a process of making the efficient and effective use of HR so that the stated goals are achieved. According to Flippo " Human resource management is the planning , organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and separation of human resource to the end that individual , organizational and social objectives are accomplished." According to Decenzo and Robbins "Human Resource Management (HRM) is concerned with the people dimension in management. Since every organization is made up of people, acquiring their services, developing their skill, motivating them to higher level of performance and ensuring that they continue to maintain their commitment to the organization are essential to achieve organizational objectives."

Thus human resource management (HRM) is the process of developing and maintaining human resource in the organization so that organizational goals are achieved in an efficient and effective manner. Human resource management is the art of managing people at work in such a manner that they give their best to the organization.

1.2.2 SCOPE OF HRM

The scope of HRM is, indeed very vast and wide. It includes all activities starting from manpower planning till the employee leave the organization. Accordingly the scope of HRM consists of acquisition, development, maintenance, retention and control of HRM in the organization.The Indian Institute of Personnel Management has specified the scope of HRM as:

Personal aspect: It includes the matters related to individual employees. This is concerned with HRP, recruitment, selection, placement, training and development, incentives productivity etc.

Welfare aspect: It covers the area related to the welfare of the individuals. This is the concern of the organization for improvement of welfare of the employees. It includes the working condition, housing, canteen, medical facility, health and safety, education, recreation etc.

Industrial relation aspect: It is very important for an organization to maintain a healthy relationship with its employees. It deals with union –management relationship, joint consultation, collective bargaining, grievance handling and disciplinary procedure etc.

1.2.3 IMPORTANCE OF HRM

Human resource activities are expected to contribute to the survival and effectiveness of the organization. The primary goal of HRM as it is mentioned earlier is to ensure the availability of right people to the right job so as to achieve organizational goal most efficiently and effectively. A good HR practice is not only helping the organization itself but also help the society at large. The importance of HRM can be judged with the help of following points:

Organization's point of view:

- HRM helps organization to attain its goal efficiently and effectively by providing competent and motivated employees.
- HRM ensures fullest and effective use of the available human resources.

- HRM helps organization to identify, develop and maintain talent base through the various tool kits with the HR manger.

Individual point of view:

- HRM puts its efforts to accommodate the various personnel needs by implementing and designing different policies.

- HRM designs the different policies to reduce the friction between the employee’s goal and the organizational goal.

- HRM provides excellent opportunity to people to grow and to increase employees’ job satisfaction to the fullest extent possible.

From society’s point of view:

- Good HR practices generate employment opportunities.

- It helps in maintaining ethical and legal policies inside and outside the organization.

- HRM also ensures a better quality of work life. The better quality of life at work profoundly influences the quality of life away from work; most of the organizations have attempted to improve quality of life at work by creating a flexible work hours, autonomous work team, job enrichment and better work environment.

1.3 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

HRM as defined in the previous sections involves job analysis, planning, selection, training and development etc. However, for the sake of discussion, the HR activities can be classified into the following:

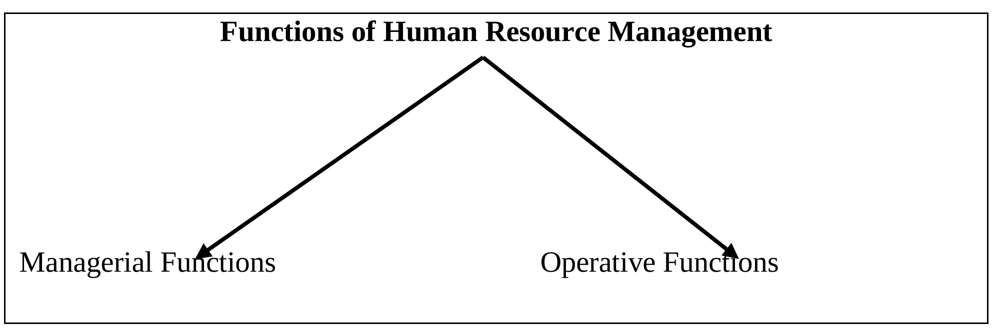


Fig: 1.1 Function of Human Resource Management

1.3.1 MANAGERIAL FUNCTIONS

The basic managerial functions comprises of planning, organizing, directing and controlling. This can be discussed in the following lines:

a) Planning: Planning implies fixing up of future goal. Planning determines the future destination. The HR manger is expected to determine the demand and supply of personnel in a particular time period. The planning of human resources is important to ensure the availability of right kind of people in right numbers at right place.

b) Organizing: Organizing primarily concerned with the delegation of authority, designing of task, distribution of task, grouping up of different activities. Organizing helps in developing a structure of the organization.

c) Directing: It involves supervising and leading people. The success of an organization depends upon the way manager directs the individual.

d) Controlling: Controlling involves monitoring and evaluation of performance of the individual. The HR managers of most of the organizations after a specified time period appraise the employees. The HR manager along with their employees set the goals for each of them for a specified time period and at the end of the period evaluate them against the standard fixed for them. It ensures that the activities are carried out as per the plan. Even on the basis of the evaluation the HR manger design the corrective programme for deviation of standards.

1.3.2 OPERATIVE FUNCTIONS

The operative function of HRM ensures right people for right job at right times. These functions vary from department to department. However the different types of operative functions are shown in the figure 1.2 and discussed below:

a) Procurement:

It consists of activities such as Human Resource Planning, Recruitment, Selection, Placement, performance Appraisal, and Orientation of new employees. It involves procuring the right kind and right size of people in an organization. The various activities under procurement are:

i. Job analysis: It is the process of collecting and analyzing the information relating to a particular job.

ii. Human Resource Planning: Human resource Planning is a process of striking balance between HR required and acquired in an organization. HRP helps an organization to have the right number and right kind of people at right places and right times to successfully achieve its overall objectives.

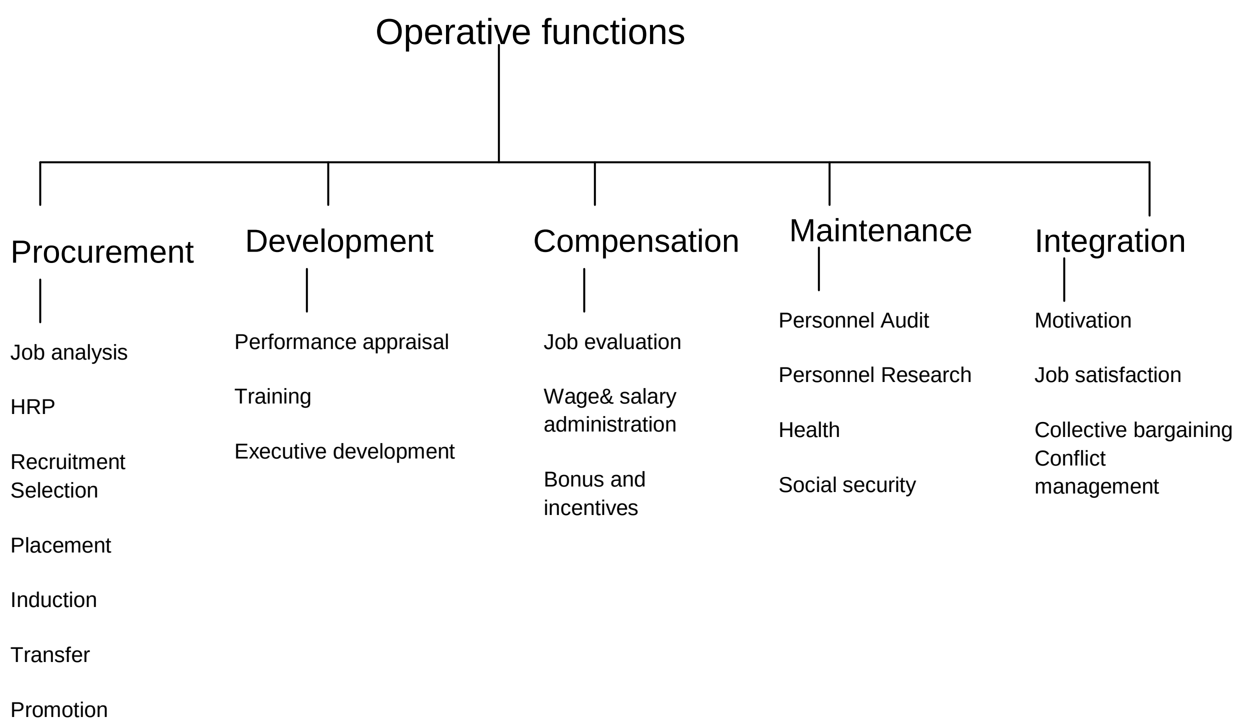


Fig 1.2: Operative Functions of a HR manager

iii. Recruitment: Recruitment is the first step in the process of filling a vacancy. Recruitment is generating application for specific positions to be filled up in the organization. Recruitment is a process of searching for and securing applicants for the various job positions which arise from time to time in the organization

iv. Selection: Selection is hiring the best candidate from the application received through recruitment. In other words, it is the process of picking the suitable candidate from a pool of applications to fill various jobs in the organization. Selection is a process of choosing the most suitable candidate from applicants for the various jobs in the organization. It seeks to ensure which applicants will be successful if hired.

v. Placement: It is the process that ensures placing selected candidates in the right place.

vi. Induction: It is the process through which a new employee is familiarized with the work environment, policies, people and practices of the organization.

vii. Transfer: It is the internal mobility of an employee within the same position from one department to another or from one branch to another branch. Transfer decision might be perceived as positive or negative. Sometimes transfer might be the result of punitive action. However sometimes due to change of organizational policies, or to use the skill of the employees, he /she might be transferred from one unit to other. Moreover transfer might also be preferential, if it is given as per the wish of the employee.

viii. Promotion: Promotion is also the internal mobility of the employee. It is the vertical movement of the employees within the organization. Promotion is generally the acknowledgement of performance of the employee in a visible form by the organization. Promotion has some motivational value as it leads to a higher status, gives more power and increase salary and responsibilities.

b) Development:

This function involves activities which primarily meant to improve the knowledge, skill aptitude and abilities and other characteristics of the employees. The main goal of this function are over all development of employees which help them to perform in the most effective and efficient manner. It comprises activities like training, executive development, career planning & development. Let us discuss them one by one.

i. Training: Training is learning experience which aims at bringing out changes. It is a process of imparting knowledge to the present as well as the new employees about the skill required for a job, to develop them in their career plan, to help them in performing the job and to increase the job knowledge.

ii. Executive development: It is the process of overall development in a person. It not only aims at improvement of job performance but also improvement in knowledge, personality, attitude, behaviour etc.

iii. Performance appraisal: Performance appraisal is the most widely used tools to measure the performance of the employees towards achievement of the organizational goal. It is the measurement of the performance of the employees either to develop them for future organizational need or to evaluate the current work performance towards goal achievement.

c) Compensation:

Most of you are probably familiar with the term compensation. Compensation involves effective wage and salary payment, bonus, incentive and profit sharing received by the employees. The management of compensation involves the coordinated efforts of the HRD and operating managers.

i. Job evaluation: It the process of determining the worth of a job. It helps in determining the relative pay for a particular job. It helps in establishing internal equity i.e. similar type of job should be paid equally.

ii. Wage and salary administration: The main aim of wage and salary administration is to design a pay package which is a competitive one. It aims at designing a pay package which will attract qualified candidate, motivate the candidate to work and retain competent employees.

iii. Bonus and incentives: It is the customary for many organizations to pay incentives and bonus during any specific time period or at the time of any festival. In some organizations incentives are paid once after achievement of the target. However this is the additional amount over basic wages based on actual performance. It might be both monetary as well as non monetary.

d) Maintenance:

It is concerned with protecting and promoting employees while at work. For this purpose various benefits such as housing, medical are provided to employees. Several social security measures such as provident fund group insurance etc. are also arranged.

i. Personnel Audit: It refers to the examination and evaluation of policies, practices and procedures to determine the effectiveness of HRM.

ii. Health: The HR manager in organization is expected to ensure a healthy work environment. They should abide by the law and other general rules to ensure a good quality of work environment. They should ensure that employees are protected from physical hazards, unhealthy condition, and unsafe acts.

iii. Social security: Management as per the legal provision should provide the social security to their employees. These social security provisions include:

- Provision for workman compensation
- Provision of maternity benefit to women employees
- Provision for Sickness benefit
- Provision for Dependent benefit
- Provision for Retirement benefit

iv. Personnel research: It is the process of evaluating the effectiveness of human resource policies and practices and developing more suitable ones.

e) Integration:

This functions of HR manager aims at integrating the goals of an organisation with the employees' aspiration. It aims at motivating employees by addressing their needs. It incorporates the various conflict resolution techniques. Job satisfaction and collective bargaining is also a part of integration function of a HR manager.

i. Motivation: Motivation is the process of exerting influence towards achievement of goals. Managers generally try to motivate their people through properly administered rewards.

ii. Job satisfaction: As the name implies job satisfaction is the satisfaction derived out of job. It is the positive feeling about one's job after evaluating its characteristics. There are so many factors associated with job satisfaction. In general job satisfaction is derived out of the work itself, the amount of pay received, the career advancement opportunities, relationship with co-workers, style of supervision, the total work environment, autonomy and power received from the job etc.

iii. Collective bargaining: Collective bargaining is the cornerstone of congenial industrial relation and of constructive peace. Collective Bargaining is the process of negotiating between management and workers represented by their representative for determining mutually agreed terms and conditions of work which protect the interest of both workers and management

iv. Conflict management: Conflict is the most common phenomenon in our day to day life. Organizations are also not exceptional. Conflict is the negative feeling between the parties to conflict. It can be defined as the processes which begin when one party perceives that another party has negatively affected or is about to negatively affect something that the first party cares about. It is the responsibility of the HR manager to solve the conflict as it may lead to loss of productivity in an organization. There are a handful of tools available with the HR manager to solve the conflict. Some of them are: face to face meeting, shared goals, behavioural change technique, structural changes, increasing the volume of resources etc.

1.4 DIFFERENCE BETWEEN PERSONNEL MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

There are a lot of controversy regarding the two terms Personnel Management and Human Resource Management. A group of critiques agree that both Personnel Management and Human Resource Management are the same concept. While on the other hand a group of people agree that there is difference between Personnel Management and Human Resource Management. Let us discuss the different arguments related to each of the issues.

1.4.1 PERSONNEL MANAGEMENT AND HUMAN RESOURCE MANAGEMENT ARE SYNONYMOUS CONCEPT

HRM is a modern process which emerged during 1970 and got its final acceptance when the American Society for Personnel Administration (ASPA) voted to change its name to Society for Human Resource Management (SHRM). Therefore it is said that both HRM and PM is the same concept. Both the concept refers to the individual working in company, their maintenance and administration.

1.4.2 PERSONNEL MANAGEMENT AND HUMAN RESOURCE MANAGEMENT ARE DIFFERENT CONCEPTS

However according to a group of thinkers HRM and PM is not simply a name change. The change was a symbolic recognition of the expanding role HRM plays in creating competitive companies. The early personnel department was primarily responsible for employees' selection, training, record keeping and collective bargaining. Though these activities are still the part of HRM, yet some additional activities are inserted into the area. HRM is assumed to play a central role by acting as change agent to adapt the changes effectively by the organization. It helps in developing a good corporate culture and distributes those values to the employees.

According to Goss, HRM has three principal distinguishing features as compared to PM. These can be listed out as follows:

The assumptions underlying PM concept emphasize clearly defined rules, procedures and contract. The relationship between the workforce and management is governed by collective bargaining as well as employment contract.

Whereas HRM emphasize open ended contract, the term of which are related to strategic values of the organization, conflict is viewed as something pathological. Management assumes responsibility to motivate employees and constantly inspire performance based on stated goals.

The main goal of Personnel management is a peaceful labour management relationship. It does not focus upon strategic management.

On the other hand HRM is proactive approach. It is not only concerned with the present organization need but also anticipate future needs of the organization. It also seeks to identify the potentialities in terms of KSAO of the people employed in the organization.

The base of PM is collective agreement between management and union. Employees used to get standardized reward based on job evaluation.

HRM leads to individualization of collective relation. Emphasis has been given upon to develop a one to one relationship. Performance linked pay (PRP) is generally given preference. HRM seeks to develop skill and a holistic development of the employees.

The difference between the PM and Human resource management can be listed out in the following table:

Table: 1.1: The difference between the PM and HRM

Dimension	PM	HRM
Nature of Relation	Pluralist	Unitarist
Conflict occurrence	Conflict is institutionalized	Conflict is pathalogical
Contract	Emphasis on compliance	Beyond contract – commitment
Role of procedure	Rules dominated	Culture and value dominated.
Planning perspective	Reactive	Integrated
Acceptability of union	Acceptable	Not desirable
Level of trust	Low	High
Key relation	Labour management	Customer
Management Role	Transactional	Transformational
Basis of job design	Division of labour	Teams
Key people	PM/IR specialist	Line People/ General Managers
Skill acquisition	Training & Development	Learning Organization
Reward management	Standardized job evaluation	Performance linked

1.5 ENVIRONMENTAL SCANNING OF HRM

Successful management of organization depends upon the ability of the organization to adapt rapidly to the changing environment. The HR manager also can't work in isolation from the environment. HR managers need to work in a volatile environment. However the scanning of the environment to know the environmental factors that might affect the function of the HR manager is very important.

Brown and Weiner (1985) define environmental scanning as "a kind of radar to scan the world systematically and signal the new, the unexpected, the major and the minor". Scanning of environment is useful for the HR manager in order to become proactive and not to remain reactive to the environment. Environmental scanning is the process through which organization maintain awareness of opportunities and threats presented by the surroundings.

There are different forces or factors which affect the functioning of the HR department. However broadly speaking we can divide the environment as *micro* and *macro* environment. The *micro environment* is basically related to the *internal forces* or *internal environment* of an organisation. The *macro environment* refers to the *external environment* of the organisation.

The forces related to internal or micro environment and external or macro environment is presented in the following table and examined in detail in the following paragraph.

Table: 1.2: The factors related to internal as well as external environment

Factors related to Internal Environment	**Factors related to External Environment**
Organization Structure Organization Culture Organization policies Union Professional Bodies	Political & Legal factors Economic Factors Cultural & Social factors Technological factors

Factors related to Internal Environment:

The various internal factors which influence the activities of the HR manger is mentioned in the above table. Let us now discuss them in detail:

a) Organization Structure: Organization Structure refers to the various ways in which organization can be designed to attain maximum level of efficiency and effectiveness. People who work together in an organization require a definite system or structure through which they relate each other and through which their efforts can be co-ordinated. The structure of an organization also reveals who is reporting to whom, the position of the job in the organizational hierarchy. It is the organization structure which defines the role of the HR manger in an organization. Moreover the role of the HR manager varies as the organizational structure changes from pyramidical to a flat one.

b) Organization Culture: Every organization has its own culture. Culture may be defined as the core values shared by the members of the organization. It is the job of the HR manager to proactively react to the change of culture. There is often conflict which arises due to the difference between the culture and attitude of the employees. For example, there might be difference of personal ethics of an employee and ethics developed out of organizational culture. This difference might be the source of conflict in an organization. Such conflict has bearing on the HR activities of the organization. HR department of an organization is expected to develop and enforce guidelines to reduce these types of conflict by playing a proactive role.

c) Organizational Policies: Policies are the plan of action. It is a man made rule of predetermined course of action that is established to guide the performance of work towards the organizational objectives (Flippo). The organizational policies provide guidelines to formulate the personnel policies. Personnel policies are the principles and rule of conduct which formulate and redefine the actions that govern the relationship with employees in the attainment of organizational goal.

d) Union: Union is one of the important internal factors that influence the activities of the HR manager. A trade union is a continuous association of wage earners or employees formed to protect the interest of the employees. The different HR activities like recruitment, selection, training, compensation and industrial relation are carried out in consultation with the union representatives. The trade union plays both positive and negative role in organisation. Moreover in case of negotiation the union plays an important role. The different personnel activities of a firm are influenced by its union.

e) Professional Bodies: There might be several professional bodies which regulates the function of a HR manager. These bodies use to develop certain code of ethics which HR professionals are expected to follow. This obviously have certain impact on HR function. As for example, in India, National Institute of Personnel Management (NIPM) is acting as an apex body for regulating the function of HR managers.

Factors related to External Environment:

The various external factors which influence the activities of the HR manger are discussed below:

a) Political & Legal factors: The political environment covers the impact of political institutions on HRM. The political environment is composed of three institutions. These are:

The legislature: It is the parliament at the central level and assembly at the state level. It acts as the law making body. To regulate the working condition and employment relation, labour laws are enacted time to time by the legislature.

The executive: It is popularly known as government. Government use to implement the laws enacted by the legislature.

The judiciary: It plays the role of a watch dog. The main function of judiciary is to ensure that both the legislature and the executive work within the confines of the constitution and in public interest.

The different HR activities like recruitment, planning, selection etc are also influenced in one way or other by them.

b) Economic Factors: Economic environment refers to all those economic forces which have a bearing on the HR functions. The level of unemployment can directly influence how easy or difficult it is to find out the kind of people organization requires. The firms have to understand whether the changes in the economy are temporary or they represent the long term structural changes. Accordingly the HR manager has to take decision on structural changes. In the new global market place, HR managers are required to play challenging roles and create a competitive advantage for the firm through people-friendly policies and practices.

c) Cultural & Social factors: The belief, attitudes, values, opinion and lifestyles of individuals in a particular society is always a part of their culture. The changes in the demographic mix of the society in terms of gender, age, education etc also bring in lot of opportunities to proactive companies. HR manger must adapt their practices to the changing expectations of the society in which they operate. As societal values, customs and taste changes, the HR manager must fine tune their policies accordingly.

Moreover the attitude of the workers towards work is the result of their cultural background. Work ethics of the individual is also influenced by the culture and this might act as significant input in determining the individual behaviour.

d) Technological factors: Technology undoubtedly has changed the way machines are positioned, tools are handled, data being processed, products that are manufactured and services that are offered. When technology changes and new technology are being adapted, employees need to be trained in the way of handling the operations and machines. Technological changes have resulted in collaborative work teams where managers, technicians and analysts work together on projects. Similarly technology has created more flexible, dynamic organisation structure that facilitates changes and adaptation to variations in the external environment. Technology has also facilitated the reallocation of work from office to home.

HR professionals need a knowledge base about the current technological possibilities and general vision about the role that technology might play in their firms. With this knowledge, they will be able to add value to strategic decision that is related to technology.

1.6 STRATEGIC HUMAN RESOURCE MANAGEMENT

In this section we will be discussing about strategic HRM. Probably you are already familiar with the term strategy in your foundation of management. However let us first define strategy first, and then we will continue our discussion on strategic HRM

Strategy can be defined in most simple term as the course of action. For example, in a game of cricket each team has a definite game plan to win the match. This game plan is nothing but the strategy of the each team to win the game. This is one of the most common words used in today's corporate world. Strategies are designed to achieve organizational goal in a most effective manner. Likewise SHRM ensures that the management of human resource in the organization is fully oriented towards the strategic planning of an organization.

People are the key asset of an organization. The success of any organization very well depends upon the quality of people hired by the organization. Therefore HRM in organization should always look at the strategies for goal achievement. The different HR activities like recruitment, selection, induction, training etc should be done by keeping in view of the strategy fixed.

SHRM, therefore, implies a detailed analysis of HR functions so that it can help the organization to achieve its goal successfully. The important activities under SHRM are:

- Environmental scanning or prepare a SWOT analysis
- Prepare a strategy on the basis of SWOT analysis of the organization.
- Implementation of strategy
- Evaluation and controlling of activities in order to achieve goal effectively with the help of SHRM.

SHRM is not only help in strategy formulation but also in strategy implementation. HRM can act as a source of information for goal-setting. It helps an organization by providing the internal strength and weakness of the employees and to capitalize on the opportunities the available. It also helps the organization to overcome the internal weakness and to minimize the external threats.

Moreover without the support of HR manager the strategy can't be translated to different functional area. Even the employees become aware about strategies only when it is translated to policies and practices.

After discussing the role as well as the benefits associated with SHRM, let us now look at how we can create a SHRM system. For a practically relevant SHRM system we generally give importance to three components. These are: HR professional himself, HR policies and practices and Employees' behaviour and practices. For building a healthy SHRM system HR professionals should have the necessary KSAO (knowledge, skill, abilities and other skills). The different HR policies and practices like recruitment, selection, and training etc should also be developed in tune with the organizational strategy. Another important component of the SHRM is Employees' behaviour and competencies. There should be complete match of the skill required by the strategy and skill and competencies posed by the employees. The HR policies and practices should ensure that it will help in developing the necessary skill if employees are lacking in the skill.

From the above discussion it is seen that SHRM plays two important roles as a formulator of strategy and implementer of strategy. However the model of SHRM along with the role of HRM in strategy building can be shown with the help of the following diagram:

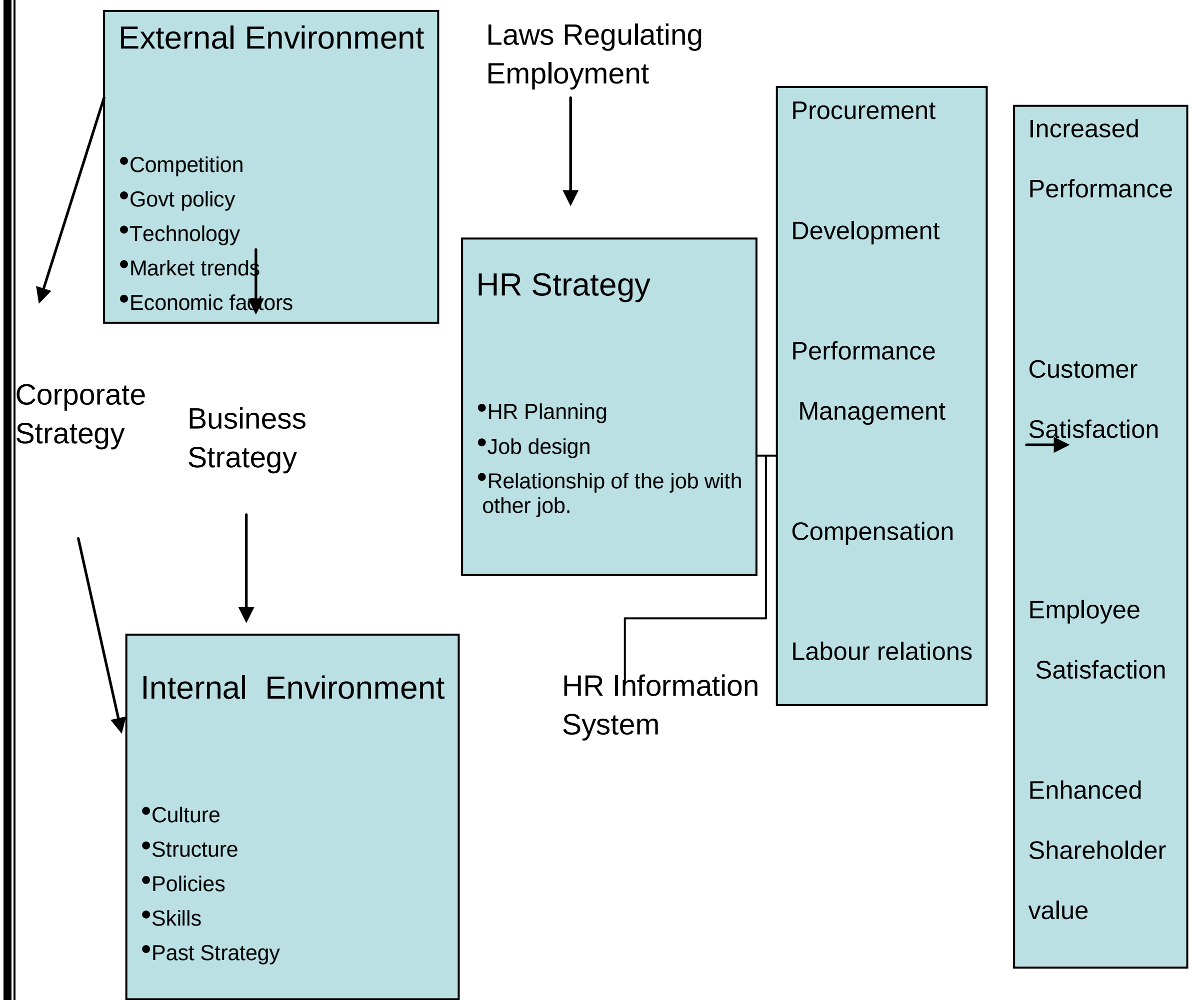


Fig1.3 : Model of SHRM

1.7 SUMMARY

People are the central element of an organization. HRM plays a central role in creating organization and helping them survive. HRM tries to focus on people in workplace their need and contribution to the organization's purpose.HRM is a modern process which emerged during 1970 and got its final acceptance when the American Society of Personnel Administration (ASPA) voted to change its name to Society for HRM (SHRM).

HR managers have to perform different activities, which can be categorized as managerial and operational functions. HRM mainly covers aspect i.e. people, welfare and industrial relation aspect.

HRM in organization should always look at the strategies for goal achievement. SHRM ensures that the management of human resource in the organization is fully oriented towards the strategic planning of the organization.

There are number of environmental factors which affect the activities of the HR manager. These factors are both internal and external to the environment. The study of environment enables HR manager to become proactive in their approach to personnel aspects.

1.8 PROBABLE QUESTIONS

1. Briefly discuss the functions of a HR Manager.

2. Briefly discuss the difference between PM & HRM.

3. HRM is central to the different activities of an organization. Explain the statement by throwing light upon the importance of HRM.

4. Define SHRM. Discuss the role of HRM in strategy formulation.

5. Outline the impact of different environmental factors upon HR functions.

1.9 ASSIGNMENT

1. Visit any organization known to you and try to identify the different HR activities of a HR manager which is discussed in the section of this unit.

1.10 SUGGESTED READINGS

1. Mondy, R.W. *Human Resource Management*. New Delhi: Pearson education P, 2006. Print.

2. Rao, V.S.P. *Human Resource Management, Text and Cases*. New Delhi: Excel Books P, 2009.Print.

1.11 KEY WORDS USED

Management: Getting the things done along with people (employee)

Human Resource: Total knowledge, skill and abilities of the employees

Skills: The individual abilities of human beings to perform a piece of work.

Human capital: It is the economic and productive potential of employees knowledge, experience etc.

System: Two or more interrelated parts are working together as an organized whole.

Productivity: The ratio of output to input

Quality of work life: It is the degree to which members of an organization are able to satisfy important personal needs through their experience in the organization.

Job analysis: The systematic collection and analysis of data

Recruitment: Finding and attracting candidate for employment

Selection: Identifying the best candidate out of those recruited.

Training: A specific learning programme designed to a specific job.

Strategic Human Resource Management: The linkage of HRM to organizational strategy

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-2: HUMAN RESOURCE PLANNING I

UNIT STRUCTURE

2.0 OBJECTIVES

2.0 OBJECTIVES

After going through this unit you should be able to:

- Define the human resource planning (HRP).
- Outline the process of human resource planning (HRP).
- Understand job analysis and its use.
- Discuss the process of analyzing the job.
- Define job description, job specification and job evaluation

2.1 INTRODUCTION

In general, planning means the process of establishing goals and a suitable course of action for achieving the goal. Infact planning is omnipresent in all walks of our life. You all might have a plan to achieve success in your life. This holds true of organization also. To achieve its goal efficiently and effectively organization also need right kind of people at right time.

The quality of an organization is to a large extent depends on the quality of people it hires and keeps. Therefore while selecting the right people for the right job, HR managers are thus under pressure to get the best manpower to meet corporate growth plan emerging out of increasing foreign investment and growth of corporations. This can be done thorough Human Resource Planning. HRM thus begin with HRP.

2.2 CONCEPT, DEFINITION, NEED FOR HRP, AND OBJECTIVES OF HRP

2.2.1 CONCEPT & DEFINITION

Human Resource Planning is a process of striking balance between HR required and acquired in an organization. HRP helps an organization to have the right number and right kind of people at right places and right time to successfully achieve its overall objectives.

The simple definition of HR planning could be it is the process –including forecasting, developing and controlling – by which a firm ensures that it has the right number of people and the right kind of people at the right places at the right time to achieve its goal most efficiently.

In the words of Beach, "human resource planning is a process of determining and assuming that the organization will have adequate number of qualified persons, available at the proper times, performing jobs which meet the needs of enterprise and which provides satisfaction for individual involved."

Therefore HRP can be defined as the comparison of an organization's existing labour resources with labour demand, and hence the scheduling of activities for acquiring, training, redeploying and possibly discarding labour. It seeks to ensure that an adequate supply of labour is available precisely when required.

2.2.2 OBJECTIVES OF HRP

The main objective of human resource planning is to have an accurate number of employees required with matching skill to accomplish organizational goals. According to Sikula "the ultimate purpose /objective of HRP is to relate future HR to future enterprise needs so as to maximize the future return on investment in HR"

In other words the objectives of HRP are:

- Ensure adequate supply of manpower as and when required
- Ensure proper use of existing HR in the organization
- Forecast future requirement of HR in the organization with different levels of skills, knowledge and abilities.
- Assess surplus or shortage if any of human resources available over a specified period of time.
- Anticipate the impact of technology on jobs and requirement for HR
- Control the HR already deployed in the organization
- Provide lead time available to select and train the required additional HR over a specified time period.

2.2.3 NEED FOR HRP

The need for HRP can be listed out as follows:

Growing unemployment and shortage of skills:

Despite growing unemployment there has been a shortage of HR with required skills, qualifications, capabilities to carry on works. Hence it is needed to plan the HR most effectively.

Technological Changes:

Change is inevitable in the different field of business. There has been change in the technology and methods of production and distribution of products and services. These changes may also necessitate a change in skills of employees as well as change in the number of employee require. If the desired people are not in position, the implementation of plans /projects would suffer. It is the HRP that enables organization to cope with such problems.

Expansion and Diversification programme of an organization:

HRP is also needed in order to meet the need of expansion and diversification progarmme of an organization.

Work force turn over:

HRP is also essential in the face of marked rise in work force turn over which is unavoidable. Voluntary quits, discharge, marriages, promotion and seasonal fluctuation in business are the examples of factors leading to workforce turnover in the organization. These cause a constant ebb and flow in the workforce.

Smooth Supply of HR

The normal wastage of HR due to retirement, death, incapable due to physical and mental ailment, needs to be replaced by new employees. HRP ensures smooth supply of workers without interruption.

Lead time:

Planning will help in positioning needed employees at the desired time, taking into account the lead time for the process of identifying the shortages, getting vacancy filled up and going through the selection process. If the vacancy has to advertise on all India bases then the lead will even be longer.

Identification of Surplus personnel:

The need for HRP is also felt in order to identify the areas of surplus personnel. In case of surplus personnel it can be redeployed in other areas of the organization. Conversely in case of shortage of personnel it can be made good by downsizing the workforce.

2.3 HUMAN RESOURCE PLANNING PROCESS

1. Analyzing organizational plan and objectives:

The process of planning begins with analysis of overall plans and objectives of the organization. Analysis of the enterprise plans into sub-sectional and functional plan provides for assessing the HR requirement of each activity in each section and department. For example, if the organization wants to expand its business to a new location, it might create the need for more Human Resources in the line of business. Even for developing a new type of product might also create the need for specialist in those specified areas. Therefore it is necessary that Human Resource Planning should be done in accordance with the enterprise objectives.

However one should always remember that the main objective of HRP is to provide the right kind of people, in right numbers as required by the organizational objectives. However the specific objective of the HRP is fixed on the basis of the need of the organization with respect to people dimension.

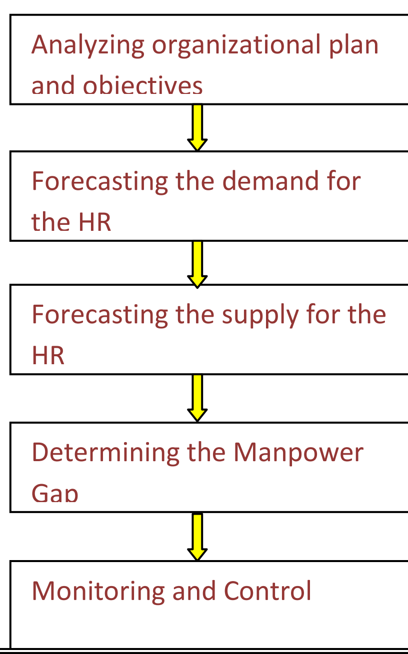


Fig 2.1: HRP Process

2. Forecasting the demand for the HR

The next stage of HRP is to forecast the demand for Human Resources for a specified time period. Forecasting the demand for human resource is helpful to determine the number jobs required to achieve the stated objectives. It is also necessary to ascertain the different KSAOs needed for different jobs available in the organization for the goal achievement at different points of time.

However forecasting the demand for human resources at different points of time is a very challenging task. As nothing is static in this world, with the changes, there might be change in the need of human resource requirement. There are certain external factors which pose a challenge for determining the demand for HR. These factors are:

Economic Factor: The demand for certain skills is influenced by different economic factors like globalization, expansion of one particular sector in an economy like retail business etc.

Social Factor: The demographic profile of the members of the society also influences the demand for certain skill.

Technical Factor: With the change in the method of working from man to machine, more and more organizations are demanding technically competent people. Alternately high technology may compel organizations to go lean and downsize its work force (Rao). Forecasting of demand in this situation becomes highly complicated.

Competition: Competition is another important factor which influences the demand of human resources in an organization. The decreasing rate of market share of the firm due to intense competition compels the firm to go for a lean structure. This will obviously affect the forecasting of demand of human resources.

There are certain internal factors too influence the forecasting of demand for HR. These are:

Organizational Policy: The policy of the organization will also influence the demand for human resources. The expansion or diversification of one's business is certainly having impact on the demand for human resources. For example a textile mill owner wants to diversify his business to telecommunication sector as he foresees the growth in this sector. Therefore to start his new venture in telecommunication sector he will need more people having skills related to new business.

Staff Mix: The demand for people is also influenced by the availability of people in an organization. The retirement, resignations, termination, death and leaves on medical ground etc also influence the demand for human resources.

Inspite of these challenges it is necessary for an organization to have an estimate of the number of human resources required. Organizations used different techniques to forecast the demand of HR in an organization. In the following paragraph the techniques and use of these techniques is discussed.

a) Management Judgment:

This is the most simple and easiest method of forecasting demand. Probably you can guess from the name of the technique that it is based on managerial judgment. Managers or experts prepare the departmental requirement for human resources on the basis of its plan or strategies. For forecasting the demand for human resources there are two approaches under this method i.e. bottom up and top-down approach. In bottom up approach the unit or department estimate the requirement of human resources and submit it to the top managers for their reviews. Then the experts or top managers consider the different estimates for different departments and finally give their judgment on the requirement of human resources by expressing it in quantitative terms. In the top down approach top managers prepare the departmental forecast. After preparing the estimate, the top managers discuss with each department to arrive at the magical figure.

This method is suitable only for small organization. Forecasting by using this method suffers from subjectivity.

b) Work Study Method:

This method is also known as work load analysis. This method can be used when a fixed method is followed to produce the output; job is somewhat routine type and it is possible to set standard and to measure the work. Time and motion study is used here to set the standard for doing the task. Based on this the organization tries to calculate the number of persons required for various jobs. The following example will make you clear about the method:

Table 2.1: Example of a Work Study Method

Planned output for the year :	20000 units

Standard hours per unit :	3 hours
Planned hours required for the year (20000 * 3):	60000
Productive hours per worker/ per hour (after allowing, normal overtime, absenteeism and idle time):	2000 hours (Estimated on annual basis)
Number of workers required (60000/2000):	30
If span of control is 10 , then the number of supervisors required is (30/10) :	3

c) Ratio-Trend analysis:

This is the quickest method of demand forecasting. Time series data is used to forecast the demand. We are using past data to forecast the requirement of human resources. While calculating future ratios, allowances can be made for expected change in organization, methods, and jobs (Khanka). Let us take an example to illustrate ratio-trend analysis.

Table 2.2: Example of Ratio Trend Analysis

Total Production in the year 2010-11	2,00,000 units
Number of workers in the year 2010-11	100
Ratio (Worker/ Production)	1: 2000
Number of supervisor in the year 2010-11	10
Ratio(supervisor/Worker)	1:10
Estimated production in 2011-12	2,20,000 units
Number of worker required in 2011-12(2,20,00*1/ 2,000)	110

Number of supervisor in the year 2011-12 (110*1/10)	11

d) Delphi Technique:

The Delphi technique is a forecasing aid based on a consensus of a panel of experts. The panel members do not meet face to face. The panel members provide their estimate of human resource requirement through a series of questionnaires. The result of the first phase of the survey is compiled and sent to the panel members. The panel members then are again asked to review the results and to give the final estimate of human resource requirement.

e) Mathematical model:

Several mathematical models like regression, optimization etc can also be used to forecast the demand for human resources.

3. Forecasting the supply for the HR:

The next step of human resource planning is to forecast the supply of human resources. It gives the quantity and quality of people available from the internal as well as the external sources of manpower. While preparing the workforce analysis, the possibilities of absenteeism, turnover etc should also be taken into account.

Moreover the replacement of employees, succession plan, and internal mobility of the employees should also be taken into account at the time of forecasting the supply of human resources in the organization. Organization should have the details of the human resource inventory which contains the detailed information about the present employees. Staffing tables can also be used as a tool for forecasting the supply of human resource. A staffing table is a list where employees are classified on the basis of their age, sex, position, category, experience, qualification and skill etc.

4. Determining the Manpower Gap:

The demand for human resource and the supply of human resource are compared to determine the gap in the workforce. Accordingly the action plan will be prepared to maintain a balance between the demand and supply of human resources. The shortage and surplus of human resource can be managed by formulating the HR plan with different strategies as:

Recruitment plan: When there is shortage of Human resources with the required skill, organization has to plan for recruiting new candidates.

Redeployment plan: When there is surplus of Human Resource, programmes for transferring or retaining the existing employees for new job is carried out.

Redundancy Plan: In case of redundancy of an existing talent, the plan for retraining or golden handshake or retrenchment is carried out.

Training Plan: In case of shortage of required skill (HR), organization can even plan for training the existing employees.

5. Monitoring and Control:

This is the final step of Human Resource Planning. The action plan is formulated and implemented. After implementation of the action plan there is a need for continuous monitoring of the action plan. It helps to identify the deviations from the standard and corrective action is taken if there is deviation from the standard. Moreover the action plan once prepared should incorporate the changes necessitated by the external environment.

2.4 JOB ANALYSIS

2.4.1 CONCEPT, NEED FOR JOB ANALYSIS

Job analysis is the process of collecting information about a job. It is the formal and detailed analysis of the job. It provides information about the task, qualification and skill needed for the job.

According to Edwin B. Flippo, job analysis "is the process of studying and collecting information relating to the operations and responsibilities of a specific job. The immediate products of this analysis are job description and job specifications."

Job analysis is useful for clear understanding of duties and responsibilities of a particular job. The information gathered through job analysis can be used in performing other personnel management activities. The need for job analysis information is discussed below:

Recruitment: We have already defined recruitment in the previous unit. Job analysis information is used at the time of recruitment. It is used to find out when and how to hire people for future job opening. It also helps the manager by providing the list of necessary skill required to perform the job.

Selection: Selection as it is mentioned in the previous unit is the identification of best suitable candidate for the job. Hence for selecting a suitable candidate there is need for complete match of skill required and skill posed by the candidate. It is the job analysis which can provide the information related to skill required to perform a specific task. Job analysis provides the basis for selection of employees in an organization.

Placement and Orientation: Job analysis provides information related to job. Therefore it is relatively easier for the HR manager to develop an orientation programme which is best suited for a specific type of job holder. Moreover with help of necessary information related to the task to be performed by a specific job holder, the HR manager can place them in the right job.

Training and Development: The specific need of the job can be determined with the help of job analysis. It helps in tailoring a specific training programme for the job.

Performance Appraisal: Performance appraisal is the process of comparing actual performance with the standards. It is necessary to evaluate each employee to have information about their performance and to compensate them accordingly. Job analysis helps in establishing standards of performance against which the actual performance of the employee is compared.

Employee Safety: Job analysis discloses the information related to the work and working condition. It helps to identify the hazardous and unsafe conditions of work environment. Thus help the manager to take necessary safety provision to avoid or minimize the occupational hazards.

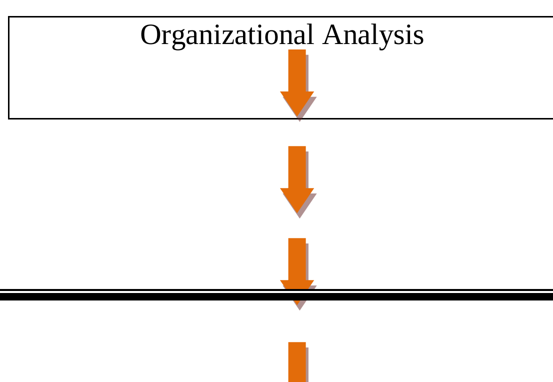
Job Evaluation: Job analysis helps in finding out the relative worth of a job. This in turn helps in developing a competitive compensation package for the job.

Job design: Job analysis also helps in designing a job. It identifies the unnecessary movements for performing a particular job and helps in reducing the difficulty which arises out of the job.

2.4.2 PROCESS OF JOB ANALYSIS

The main step of job analysis process is discussed below:

1. Organizational Analysis: Job analysis begins with obtaining relevant information about the various jobs in the organization. This will help us to understand the linkages of the organizational objectives and different jobs, interrelationship with each job and contribution of each job towards organizational efficiency. This sort of information can be gathered from the organizational charts, work flow and other relevant documents



Selection of a Representative Job

Collections of Data

Preparation of Job Description

Preparation of Job Specification

Fig 2.2: Process of job analysis

2. Selection of a Representative Job: Due to time constraints and cost involved in the process, it is not possible to analyze all the jobs of an organization. Therefore a representative job has to be selected for the purpose of analysis.

3. Collections of Data: Data regarding the job has been collected in this step. These data are mainly related to the characteristics of the job, required qualifications for performing the job and expected behaviour of the employees to effectively accomplish the task.

There are several techniques available for collection of data. These are Observation Methods, Interview, Questionnaire Methods, Checklist, Critical Incident Techniques, Diaries and Technical Conference Methods etc. Let us briefly discuss these methods.

Observation: Here data is collected by observing the employees while working. The job analyst use to observe the employee carefully and record what the employee is doing, how he/she is doing, and the skill needed to perform the task. This method helps in clear understanding of job duties. However it is suitable for manual, short period job activities like the job of a mechanic or weaver etc. The major disadvantage of this method is that it is time consuming and the mental aspect of the job cannot be recorded. Moreover the analyst should be very skillful in collecting the data.

Interview: A structured interview of the job holder is conducted in this method to collect information about the job. Sometimes supervisors are also interviewed to have the most accurate and relevant information about the job. The advantage of interview method is that the interviewer may extract the accurate and relevant information from the job holder as the job holder is directly related to the job. The major disadvantage of this method is that it is totally dependent on interviewer skill to extract information from the interviewee. Moreover it is time consuming and costly.

Questionnaire: It is the most widely used and common techniques for collection of data related to a job. If the number of people doing the same job is very large and it is very difficult to conduct personnel interview, the questionnaire method is used. This method is also very helpful in extracting detail information about the job.

A structured questionnaire is prepared by covering all the aspect of the job and distributed to the employees. The employees fill the questionnaire and return it to the supervisors. The supervisors again examine the filled questionnaire and make necessary corrections in it. After that these questionnaires are submitted to the job analyst. Job analyst then processes the data and collects relevant information about the job.

It is highly economical and provides detailed information about the job. However it is time consuming. The inability on the part of the job holder to understand the questions listed out in the questionnaire may result in inaccurate information about the job. Moreover it is difficult to motivate the employees to fill the questionnaire completely and return it back.

Checklist: Checklist is a list of questions with their answers as “yes” or “no”. In this method a checklist is prepared covering the aspect of the job. The different aspects of the job are collected from the supervisors and other people who are familiar to the job. The checklist is distributed to the jobholders and they have to tick the correct option. Sometimes they have to mention the time duration required for each activity. The checklist is returned to the analyst and data is tabulated and information related to the job is recorded.

It is suitable for a large organization. It is a costly one.

Critical Incident Techniques: This method is based on the past experience of the job holders and it is the qualitative approach to job analysis. Job holders are asked to describe the past incidents related to their job. The incidents that are listed out by the job holders are analyzed and classified according to job areas they describe. The job requirement will be clear, once the incident and the behaviour of the employees are analyzed.

Diaries: The job holders are asked o maintain a diary or log of their day to day activities under this method. The job holder is required to list out all his job related activities and time needed to perform each activities. The job analyst then analyzes the activities over a specified time period and records the essential characteristics of a job.

Technical Conference Method: A conference is organized for the supervisors who possess the knowledge about the job. They discuss different aspect of the job. The job analyst obtains job related information from discussion with the supervisors.

4. Preparation of Job Description: The next stage of job analysis process is to use the collected information. The collected information related to job is now used to describe the content of the job in terms of the functions, responsibilities etc. A detail discussion of job description is presented in the next section.

5. Preparation of Job Specification: This step involves preparing the written statements regarding the skill, qualities, and aptitude required to perform the job. This is done on the basis of collected information. This step is the last step of job analysis.

2.4.3 JOB DESCRIPTION, JOB SPECIFICATION, JOB EVALUATION

2.4.3.1 JOB DESCRIPTION

It is the written statement of what the job holder does, how it is done, and why it is done. It focuses on the job content, working condition and condition of employment. It provides information about the duties, responsibilities, the tools required, and the nature of supervision and the relationship of the job with other jobs.

According to V.S.P Rao, job description covers the following information:

Job title: Tells about the job, its title, code of the job and place where it is done.

Job summary: It is the brief description about the job.

Job activities: It is a description of the task done, facilities used etc

Working conditions: It refers to the physical environment of the job

Social environment: It refers to the interactions required to perform the job and the size of the work group.

Specific Use of Job Description:

- Job description can be used at the time of grading and classification of the jobs in an organization.
- It can also be used at the time of developing work standards.
- It helps in outlining the career path for the employees.
- The orientation and placement also uses the information provided by job description.

2.4.3.2 JOB SPECIFICATION

Job specification focuses on the job holder. It is a statement of the minimum levels of qualifications, skills, physical, and other abilities required to perform the job. It summarizes the skill needed to perform the job effectively and efficiently. This helps the organization to identify the type of people it needed.

According to V.S.P Rao, the personal attributes that are described through a job specification may be classified into three categories:

Essential Attributes: skills, knowledge and abilities a person must possess.

Desirable Attributes: these are the qualifications a person expected to posess.

Contra indicators: these are the attributes which act as obstacles in the performance of the task.

Specific Use of Job Specifications:

- It helps in human resource planning by providing the information about the skill requirement.
- Job specification can also be helpful for developing the performance standard for evaluation of the performance of the job holder.
- It also helps in devising effective training and development programme for the employees.
- It also helps in recruiting and selecting candidate for a particular job.

2.4.3.3 JOB EVALUATION

Job evaluation is a comparative process of determining the values of the different jobs in an organization. It is a systematic way of determining the relative worth of the job. Job evaluation uses the information provided by job analysis. The British Institute of Management defines job evaluation as “the process of analysis and assessment of jobs to ascertain reliably their negative worth using the assessment as the basis for a balanced wage structure”.

Specific Use of Job Evaluation:

- It helps to devise a competitive pay package for the different jobs by determining the value of the job.
- It helps in establishing internal equity by paying the equal amount of wages to the similar type of job.

- It helps in solving the wage related grievances by eliminating wage differentials within the organization.
- It provides the base for wage negotiation and collective bargaining.

2.5 SUMMING UP

HRP is a process by which a firm ensures that it has the right number of people and the right kind of people at the right places for achieving the organizational goal most efficiently. The main objective of HRP is to ensure adequate demand and supply of manpower as and when required. Due to changes in the external environment as well as in the internal environment of an organization, there might be changes in the requirement of human resources. This very well necessitated having proper plan for balancing the supply and demand of human resources.

The different activities under human resource planning process are: analyzing organizational plan and objectives, forecasting demand for the HR, forecasting the supply of the HR, determining the manpower gap and monitoring & controlling. There are different methods like work study method, managerial judgment, ratio trend analysis and Delphi method etc to forecast the demand for the human resources.

While forecasting the demand for the HR to perform different jobs, manager should have detail knowledge of the jobs so that he can ensure the right kind of people for the right job. This can be done through job analysis. Job analysis is the systematic process of analyzing a job. The information collected through job analysis can be used for recruitment, selection, training and development activities. Different methods like questionnaire, interview etc are used to collect information about the job.

The two important aspects of job analysis are: job description and job specifications. Job description focuses on the job content, working conditions and condition of employment whereas job specifications is a statement of the minimum levels of qualifications, skills, physical, and other abilities required to perform the job. Job analysis information is also widely used in case of job evaluation. Job evaluation is a comparative process of determining the values of the different jobs in an organization

2.6 PROBABLE QUESTIONS

1. Briefly discuss the process of HRP.
2. What are the benefits of HRP?
3. Briefly discuss the techniques to forecast demand for Human Resources.
4. What is job analysis? Discuss the importance of job analysis from HR manager point of view.
5. Briefly discuss the process of job analysis.

6. Discuss any two methods of collecting information of a job.

7. Define job description and job specification. List out the differences between job description and job specification.

2.7 ASSIGNMENT

1. List any three external factors affecting HRP of an educational institute.
2. Meet the HR manager of your organization/ any organization known to you and conduct an interview on how they forecast the demand for HR.
3. Select the job you are familiar with and list out the duties performed by the job holder and the qualifications of the job holder.

2.8 SUGGESTED READINGS

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2. Rao,V.S.P. *Human Resource Management, Text and Cases*. New Delhi: Excel Books P, 2009.Print.
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2.9 KEY WORDS USED

Forecast: It is the prediction about future.

Staffing table: It is a list showing the grade wise availability of the employees.

Replacement Chart: It is chart showing who will replace whom in case of any new job opening.

Succession Planning: It shows the individuals who are ready to move in the next higher positions.

Human Resource Inventory: It describes the details of each of the existing employees in terms of skill etc.

Job classification: The grouping of job into one class on the basis of the similarities of the job.

Retrenchment: Termination of the service of a workman by the employer for any reason whatsoever, otherwise then as a punishment inflicted by way of disciplinary action.

Collective Bargaining: It is the process of agreeing on a satisfactory terms and conditions between management and union.

Time Study: Time study is a tried and tested method of work measurement for setting *basic times* and hence *standard times* for carrying out specified work.

Motion Study: Motion Study is a method for establishing employee productivity standards in which a complex task is broken into small, simple steps, the sequence of movements taken by the employee in performing those steps is carefully observed to detect and eliminate redundant or wasteful motion, and precise time taken for each correct movement is measured

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-3: HUMAN RESOURCE PLANNING II

UNIT STRUCTURE

3.0 OBJECTIVES

After reading this unit you should be able to

- Define recruitment, selection and placement.
- Explain the various methods of selection and recruitment.
- Outline the process of recruitment and selection.
- Discuss the various sources of recruitment

3.1 INTRODUCTION

In the previous two chapters we have learnt that people is the most essential resource of an organization. It is the people who can determine the value of an organization. In the process of acquiring right talent for an organization, the two most common terms used is recruitment and selection. In your day to day life probably you use the two terms synonymously. But in actual practice there is difference between the two. This will be discussed further in the following section of this unit. In this chapter we will discuss in detail about recruitment, the different sources of recruitment, selection and the different methods of selection.

It is also very much essential for an organization to place the selected candidate in the right job. Placement is another aspect which will be discussed here.

3.2 RECRUITMENT

3.2.1 MEANING & DEFINITION

Recruitment is the first step in the process of filling a vacancy. Recruitment is generating application for specific positions to be filled up in the organization. In other words it is a process of searching for and obtaining applicants for jobs so that right people in right number can be selected. Recruitment is a process of searching for and securing applicants for the various job positions which arise from time to time in the organization. According to Bergmann and Taylor “Recruitment is the process of locating, identifying and attracting capable applicants”.

Recruitment is a really demanding job and it requires proper attention of the management. Recruitment should result in having the best talent which can help in making organization competitive. Therefore many a times organizations use different alternatives for recruitment for minimizing the risk associated with recruitment. The most commonly used recruitment alternatives are: outsourcing, employee leasing, overtime, and contingent workers.

Outsourcing occurs when a company purchases products or services from an outside supplier, rather than performing the same work within its own facilities, in order to cut costs. The decision to outsource is a major strategic one for most companies, since it involves weighing the potential cost savings against the consequences of a loss in control over the product or service. Most of the business houses started looking at outsourcing as an alternative to recruitment. The most inherent reason for finding outsourcing as an alternative is to reduce cost time and effort needed in the overall recruitment process. Moreover, recruitment can’t guarantee that you to have the right candidate for the job. But through outsourcing one can minimize this sort of risk too.

Overtime is the most common way to deal with the short term fluctuation in work volume. The benefit associated with over time is the reduction of cost related to recruitment, selection and training by using the present employee. Employee too gets benefits in terms of a good amount of overtime payment.

In your daily life probably you are aware about a leased property or property on lease etc. Employee leasing is almost similar to this. An employee leasing firm recruits, train and compensate employees. Supervision, daily duties and other aspects of work is also taken care of by the leased company. Whenever any requirement arises the employee leasing firm leases their employees to the other firm where there is need of such qualified people.

3.2.2 FACTORS AFFECTING RECRUITMENT

The factors which influence recruitment can be divided into two types:

Internal Factors

External Factors

Internal Factors: These factors are also known as endogenous factors of recruitment. These factors are within the organization which affects the recruitment.

A) *Size of the organization*. It affects the recruitment process. Experience suggests that larger organization find recruitment less problematic than the organization which is smaller in size.

B) *Recruitment Policy*: The recruitment policy of an organization i.e. recruiting from internal sources and from external sources also affects recruitment process. Generally, recruitment through internal sources is preferred, because own employees can better feed into the organizational culture.

C) *Image of the Organization*: Good image of the organization helps in attracting potential and competent candidate. Managerial actions like good public relations, rendering public services helps in earning goodwill for the organization.

D) *Image of the job*: Better remuneration and working conditions, promotions and career development opportunities also attract potential candidates.

External Factors: These factors are known as exogenous factors of recruitment. These factors are external to the organization which affects the recruitment.

A) *Demographic factors*: Demographic factors have profound influence on recruitment process. These factors include sex, age, literacy and economic status of the labour force.

B) *Labour market*: Labour market condition i.e. supply and demand of labor is of paramount importance in affecting recruitment process. For example, if the demand for specific skills is high than that of supply, recruitment of employees will require more efforts. On the contrary, if the supply is more than the demand, recruitment will be relatively easier.

C) *Unemployment situation/Economic condition*: When the unemployment rate in a given area is high the recruitment process tends to be simpler. The number of applicants is expectedly very high which makes easier to attract best qualified applicants. Low rate of unemployment will result in a difficult recruitment process.

D) *Labour Laws*: There are several labour laws passed by the central or state government that governs different types of employment. These cover working condition, compensation, retirement benefits of employers in industrial undertaking. Accordingly this will effect the recruitment

E) *Legal consideration*: Reservation of jobs for the Scheduled Caste, Scheduled Tribes and Other Backward Classes is the popular example of such legal consideration.

3.2.3 SOURCES OF RECRUITMENT

The various sources of recruitment can be classified into two broad categories -----

1. Internal Sources
2. External Sources

INTERNAL SOURCES

The source of recruitment within the organization is referred to as internal source of recruitment. The benefit of using internal sources is that these are most economical. These sources are most reliable in the sense that organization already has detailed knowledge of all of them. The problem associated with internal source is that promotion from the present employees may result in inbreeding which creates frustration among those who are not promoted. It provides a limiting choice to a few people and denying hiring of outsiders who may be better qualified and skilled. The different types of internal sources of recruitment are:

i. Present Employee: Promotion and transfer from the previous employees can be a good source of recruitment. Promotion implies upgrading of an employee to a higher position with higher status, pay and responsibilities. Promotion from present employee is advantageous because the employees promoted are well acquainted with the organizational culture, they get motivated and it is cheaper also.

ii. Former Employee: Former Employee is another source of recruitment. Retired or retrenched employees may be hired for the job. Moreover some former employee who left the organization may be happy to come back to old organization. The advantage of this source is that former employees are familiar with the work environment and employers too have the knowledge of the performance of the employee.

iii. Previous Application: Organizations generally receives lots of application for a particular job. Moreover some organization has provision for online resume submission. These job applications can act as an internal source of recruitment to fill up the vacancies in the organization.

EXTERNAL SOURCES As the name implies the external sources of recruitment are the source which are outside of the organization. The main advantage of using external source of recruitment is that it can help organization to have a large number of talent pool and choosing the best out of those. However recruiting from external sources of recruitment might be time consuming and costly. The different types of external sources of recruitment are discussed below.

i. Educational Institute: It is most popular external source for recruiting candidates. The prime advantage of this source is that it can serve the purpose of the organization by providing the variety of candidates in terms of skill and qualification that too in large numbers. At one place the recruiting company can meet a large talent pool and they very easily can organize recruitment and selection process. In common language this process of recruitment from educational institute or universities is known as campus recruitment.

ii.Employment Exchanges: In each district of every state of India, it is necessary to have an employment exchange, where the job seekers can register their name for any future job opening. Even as per the Notification of Vacancies Act, 1959, it is obligatory for all industrial establishments to notify their vacancies to the nearest employment exchanges. The main advantage of this source is that it also can provide candidates with different skill and qualification. Even sometimes for government jobs, it is necessary to have an employment exchange registration number.

iii. Professional Association/ Employment Agencies: This is another external source of recruitment. Like employment exchanges, professional or employment agencies are the private organizations which can also act as a source of recruitment. Job consultancy firms like MaFoi, Career Launcher etc are the example of such type of employment agencies.

iv. Competitor: Competitor of one organization can also act as an external source of recruitment. By offering a better compensation package to the qualified employees of the rival or competitor, organizations may try to attract them. This is popularly known as Raiding or Employee Pinching.

3.2.4 METHODS OF RECRUITING

Organization follows a variety of recruitment methods to attract potential candidates for a job vacancy. For the sake of discussion we can divide them into two broad classes:

- Internal Methods
- External Methods

INTERNAL METHODS OF RECRUITING

Job Posting/Job Bidding: These recruitment methods are used only when the organization has to recruit from within. It is a procedure for informing its own employees that job opening exists. This method permits individuals in an organization who believes that they possess the required qualification for a posted job. The notification of the vacancies can be posted on the notice broad of the organization, organizational website or in the intranet. Job bidding/ job posting help to minimize the complaints that insiders are unaware about a job opening until it is filled.

Employee Referral: Present employees are encouraged to refer to their relatives or friends for a particular job. It allows the organization to have the list of names of the referred candidate and their qualifications. Here every employee of the organization becomes the company recruiter. Even in some organization there is a provision of referral bonus so as to motivate present employees to refer someone whom he finds qualified for the job opening. A referral bonus is paid when the candidate referred by an individual employee is selected against the others.

Employee enlistment is the form of employee referrals. Here, the business card is distributed to the employees where messages like **“we are always looking for great -------. For additional information please log on to our website.”** is written. The employee can distribute the card along with the message whenever he finds opportunity or if he is attending any social event.

EXTERNAL METHODS OF RECRUITING

Advertising: This is the most commonly used method to recruit candidates for a particular vacancy. In most of the daily newspapers, you can see lots of advertisement with employment opportunity. This sort of method is basically applied by the organization when they want lots of applicants for the job with a variety of skill and qualifications.

Organizations use to advertise the job vacancies in the newspaper, different types of the journals, radio, television and internet. The advertisement carries the brief details of the job responsibilities, pay packages, and qualifications needed for the job. However the media used for advertisement of the job vacancies depend on various organizational factors like cost and time that they can able to spend and quantity and quality they want to have. For example if the organization want to target candidate from different geographic location, a national daily can be preferred. You will find different recruitment advertisement in the Telegraph on its special Tuesday supplement. Recruiters can also use local daily if they want candidates only from nearby locations to apply for the job. Different trade or business journal like Business India etc are also used by the organization depending on the type of candidate they are targeting. The radio and television are also used by the different recruiters to recruit the candidate in India.

Job fair: It is another popular method of recruiting candidate nowadays. A single or a group of employers jointly organize a fair which provide opportunity to the potential candidate to come, apply, giving interview and get a job. It is a recruitment method engaged by the employer to attract a large number of applications for interview.

Internship:

It is a special form of recruitment that involves placing a student in temporary job with no obligation either by the company to hire the student permanent position with the following graduation.

Walk in Application:

A very popular method of recruiting candidate is walk-in application. The main advantage of this method is that within a very short notice and without much effort, it can generate lots of applications. The organizations use to give advertisement by using different media about the job opening and the date of walk in application. On the very day the interested candidate may come and submit their application or resume as per the requirement of the organization. On that day itself, organizations can arrange for the job interview and is able to declare the result. However the disadvantage of this method is that there is a possibility of selecting a candidate who is actually not the best suitable for the job. Moreover as it is arranged for a very limited period of time, some interested and qualified candidate can't apply for the job.

Applicant Tracking System:

Many organizations have a system that automates online recruitment and selection process. One of these systems is Application tracking system. Online Skill Assessment helps the organization to save time in screening the application and short listing the right candidate.

3.3 SELECTION

3.3.1 MEANING AND DEFINITION

Selection starts where recruitment ends. Selection is hiring the best candidate from the application received through recruitment. In other words, it is the process of picking the suitable candidate from pool of application to fill various jobs in the organization. Selection is a process of choosing the most suitable candidate from applicants for the various jobs in the organization. It seeks to ensure which applicants will be successful if hired. Selection is an exercise in prediction. David and Robbins defined selection as a "managerial decision-making process as to predict which job applicants will be successful if hired".

DIFFERENCE BETWEEN SELECTION AND RECRUITMENT

Selection and Recruitment are often considered as synonymous and are used interchangeably. They are two side of the same coin; there exists a fine distinction between the two.

Table 3.1: Difference between Selection and Recruitment

Recruitment	Selection

1. Recruitment technically precedes selection 2. Recruitment refers to the process of identifying and encouraging potential candidate to apply for jobs in the organization. 3. Recruitment is positive as it aims at increasing the number of job seekers for wider choice 4. Recruitment involves searching for potential candidates	1. Selection Follows recruitment 2. Selection involves choosing the best out of those recruited. 3. It is a negative process as it rejects a large number of unqualified applicants for the job. 4. Selection involves comparison

Source: S.S.Khanka. Human Resource Management

NEED FOR SCIENTIFIC SELECTION

Selecting the right person for the right job is critical to organization success. The perfect match between the employee and the job is not always possible. Faulty selection or choice can have a far reaching impact on the organizational functioning and performance. The need for scientific methods of selection to have the right candidate is discussed below.

Different studies reveal that any selection decision can result in four possible outcomes. These are
i. True positive
ii. True negative
iii. False negative error
iv. False positive error
A true positive outcome of a selection test is that a candidate is selected for particular job as he performs well in the selection test. The true negative outcome is that when a candidate is rejected for a particular job as because of the poor performance of the candidate. Unknowingly a good performer might be rejected in a selection process and this is known as false negative error. Moreover a poor performer might

be selected for a job and this is known as false positive error. Therefore to reduce both the two types of errors, it is necessary to have a scientific selection process.

Moreover to build up a good image and its fairness, organization should have a scientific selection process.

3.3.2 SELECTION PROCESS

Selection of right employee for the right job is the most difficult and challenging task for the organization. However to easily understand the selection process, it can be broken down to several stages. The stages of a selection process can be listed out as follows:

- Preliminary Interview
- Application Blank
- Selection tests
- Interview
- Checking of reference
- Physical examination
- Hiring Decision

Preliminary Interview:

This is the very first stage of selection process. It is arranged by the organization to avoid unnecessary cost of selections. In this stage only eligible candidates are short listed. While screening out the applications, the information regarding age, education etc is looked into. This stage is often refereed to as *"courtesy interview"* as it helps to identify the obvious misfit.

Application Blank:

It is the most common device for collecting information from the eligible candidates which are shortlisted. Application blank is a structured form prepared by the organization to collect detailed information of the screened candidates. Each of the short listed candidates has to fill up the application and submit it to the organization. This filled application can serve as base for the personal information of the candidate. Such a form is designed in a way that it records the information regarding educational qualification, demographic profile, work experience, extra curricular information, minimum acceptable level of pay package and references etc. of the prospective employee.

Selection tests:

Employers often use different standardized selection tests and other selection procedures to select the best candidate for the job. The need for using a selection test or technique is to identify the skill and competency of the prospective employee. In other words, we can say that to match the job requirement with the prospective employee, the selection test is used. The characteristics of a good section test are:

i) *Standardization*: There should be uniformity of procedures and condition related to administration of the test.

ii) *Objectivity:* The condition that is achieved when all individuals with similar score obtain the same result.

iii) *Norms*: A frame of reference for comparing an applicant's performance with others

iv) *Reliability*: The extent to which selection test provides consistent result

v) *Validity*: The extent to which a test measures what it claims to measure.

The types of tests selection procedures utilized include cognitive tests, personality tests etc. Some of the most common tests for selection are:

i) Ability test or intelligence test:

Ability test is basically used to identify the potential of the candidate. It also aims at identifying the abilities to learn different skill in order to perform the job related activities. There are different forms of ability test. These are: cognitive ability test, perceptual ability test, psychomotor ability test, and physical ability test.

The cognitive ability tests are used to determine the general reasoning ability, vocabulary, verbal fluency and numerical ability. The main aim of this type test is to measure the leaning as well as judgmental capabilities of the candidates. It can provide information regarding several types of traits of the candidates. The perceptual ability test is basically related to the perception of the candidate with respect to colour, vision, sensitivity and hearing. To identify the different body movement like finger dexterity, limb movement and reaction time etc, the psychomotor ability test is used. For performing some job, it is necessary to have physical strength and stamina. To determine the physical strength of the candidate physical ability test is used.

ii) *Aptitude Test:*

Aptitude test aims at measuring the potential of a candidate to learn certain skill required by the job. It can also determine how quickly the candidate can develop the specific skills. The clerical test is the example of aptitude test.

iii) *Personality Test:*

The basic aim of the personality test is to measure the different aspects of personality such as motivation, self-confidence, emotional stability etc. Even emphasis has also been taken to find out the interest of the candidate and then comparing the information with the interest areas of the successful people on that specific job. Another aim of the personality test is to compare the preference of the candidate towards performing the job and organizational requirement of the job performance.

iv*) Job knowledge test:*

Job knowledge test is designed to measure a candidate's knowledge about the duties of the job for which he or she is applying.

v) *Work sample test:*

This test is also known as achievement test. This test requires an applicant to perform a task which is representative of the job. Work samples are the replicas of actual job requirement. However it is not very easy to develop work sample for each job and it can not be applied to all levels and all types of the job.

vi) *Graphoanalysis:*

Graphoanalysis is also known as graphology test. It involves analysis of the handwriting of the candidate. A trained individual analyzes the handwriting of the candidate, in order to identify the personality and emotional stability of the individual.

Interview:

The interview is a goal oriented information exchange between the potential candidate and the employer. It is a one to one interaction between the parties. It is used to find whether the candidate is best suited for the required job or not. Interviews can take many forms and styles. However a good interview is that which can uncover the potentiality of the prospective employee. But such interviews consume time and money both. The competencies of the candidate cannot be judged properly if the interviewer is not well informed about the job description.

An interview might be two types on the basis of its structure. These are structured interview and unstructured interview. A structured interview is one in which all the applicants are asked the same question from the list of predetermined questions. On the contrary an unstructured interview is one in which interviewers are free to ask any question as per their wish.

Checking of reference:

It is necessary to verify the accuracy of information given by job applicants in the selection processes. Uncover background information on applicants is essential to select the right candidate with right skill.

Physical examination:

It is carried out to ascertain the physical standards and fitness of prospective employees. The physician determines if the applicant is physically sound and free from physical defects that would adversely affect the performance of duties required to be performed by the candidate.

Hiring Decision:

This is the final stage of the selection process. Here the organization has to take the final decision whether to select or reject a candidate. Adequate care should be taken at the time of taking the final decision. The candidate with highest score is considered to be the best suitable for a job in most of the times. But the final decision of hiring may be complicated as there are variety of selection test is used. In public sector organization a rule called “Rule of 3(or 5)” is used to take the final decision. Here the top three candidates along with their score are taken to make final choice on the basis of the immediate requirement of the organization.

After the final decision the organization send the appointment letter to the candidate.

3.4 PLACEMENT AND INDUCTION

3.4.1 MEANING AND DEFINITION

Placement is a process of assigning a specific job to each of the selected candidates. It involves assigning a specific rank and responsibility to an individual. It implies matching the requirements of a job with the qualifications of the candidate. Placement might arise out of recruitment of new candidate, transfer, promotions or demotions of the existing employee.

Significance of placement

The significance of placement can be explained as follows: -

It improves employee morale: A newly joined employee is always under the stress of the new environment. Placement helps the new employee to overcome this and provide encouragement.

It helps in reducing employee turnover: It is believed that the amount of interest of the employees towards their job is one of the issues in determining the rate of turnover. It is also seen that an employee who finds his or her job as an interesting one, rarely leaves the organization. As it is known to us that placement always aims at placing the right people in the right place, therefore it indirectly helps in reducing turnover.

It helps in reducing absenteeism: Placement always aims at a complete fit between the job and the job holder. An employee always found his job as an interesting one, if it can provide him the opportunity to use and develop his or her skill. Moreover as he or she finds interest in the job, therefore it helps in reducing absenteeism.

It helps in reducing accident rates: A good placement and induction always provide the basic and necessary information regarding job. Even it is necessary to inform the new employees about the tools and equipments to be used in his day to day work life. Moreover as placement aims at placing the right people at the right place, and as such the employee is very much competent in handing all those tools and equipments, hence it reduces the accident rates.

It avoids misfit between the candidate and the job: While placing the employees in a particular job, the HR manager again thoroughly analyzes the job requirements and the skill posses by the candidate. Therefore it helps in reducing the risk of misfit between the candidate and the job.

It helps the candidate to work as per the predetermined objectives of the organization: Last but not the least it is the responsibility of the HR manger to inform about the goal of the job assigned to the individual, at the time of placing him or her on the job. Therefore proper placement helps the candidate to work as per the predetermined objectives of the organizations.

The process of assigning the selected candidate with the most suitable job requires matching employees' specification with job requirements. This function includes:

I. Counseling the personal manager regarding placement.
II. Conducting follow up study, appraising the employee performance in order to determine employee adjustment with job.
III. Correcting misplacements if any.

3.5 SUMMING UP

Recruitment is the process of attracting potential candidates to apply for a job. The various environmental factors like labour market condition, demographic factors, labour laws, organizational policy, image and size of the organization and image of the job etc are affecting the recruitment. A firm may use different sources of recruitment. It might go for internal source for its easy access to these. However the firm can also recruit candidates from the external sources. Various methods like job posting, employee referral, advertisement, job fair, e-recruiting etc are used by different firm at different point of time for various job openings.

After recruitment, selection of the best candidate out of those recruited is carried out. Selection is the process of identifying the best candidate amongst all other applicants. Selection process starts with the screening of the applicants and finishes when final decision regarding hiring will be taken. A variety of the methods like personality test, ability test, graphology etc are used to select candidate.

Placement is assigning the job position and work activity to the selected candidate. Placement is very important for the newly joined employee as it helps in removing fear from the mind of the new employee. It should be taken very seriously so that the new employee can be placed in a most suitable job for him or her.

3.6 SUGGESTED READINGS

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3.7 PROBABLE QUESTIONS

1. Explain in brief the various selection methods.

2. What is the relevance of physical examination in the process of hiring a candidate?

3. What is application blank?

4. What sort of information do we have to record to shortlist the candidates at the time of courtesy interview?

Assignment:

1. According to you, how can the interview be made most effective so that right candidate can be selected? Discuss.

2. Discuss the importance of placement for an employee in an organization.

3. Prepare a recruitment advertisement for hiring of HR trainee for an organization known to you.

3.8 KEY WORDS USED

Recruitment: Attracting the potential candidate to apply for the job.

Executive Search firms: Special firms who will look after the hiring activity of the firm.

Outsourcing: An alternative to recruitment, where the parent organization use to perform certain non-core activity by outside vendors.

Employee leasing: Giving the employee of one firm on lease to another firm.

Job posting: Posting of a job opening in the organizational website, bulletin board etc.

Referral Bonus: An amount of bonus paid to an employee if the candidate referred by him is selected for a particular job.

Selection: The identification of the best candidate out of those recruited.

Reliability: The ability of a selection test to measure the attributes of the candidate accurately

Placement: New employee should be placed in the suitable job, so that he can get opportunity to use his skill.

Inductions/Orientation: Introduction of the new employee to the organization and its members.

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-4: TRAINING AND DEVELOPMENT

UNIT STRUCTURE

4.0 OBJECTIVES

At the end of this unit a learner should be able to

- understand and explain the meaning of training and development.
- describe different types of training that can be imparted.
- understand and discuss the aspects of designing a training programme, the differences between training, development and education, and illustrate the steps in designing training and different types of training

4.1 INTRODUCTION

You must have heard about Darwin's theory which mentioned about 'struggle for existence' and 'survival of the fittest'. In today's competitive world only those organizations will thrive that are able to give best performance. They must have some competitive advantage over their competitors, whether it is in terms of the quality of products or services, the marketing effort, after sales service or customer care, the pricing of their products or services, the relationship management etc. In order to attain all these they must have people with the right skills and knowledge all time in various positions of the organization to plan appropriate strategies, manage people, organize tasks, handle the latest technology, create a suitable work environment, create innovations, lead teams, implement tasks, manage the information system, get the right and updated information from the environment like customers needs and wants, competitor's information so on and so forth. But for this people must have the requisite skills, knowledge and motivation to perform. When we talk about skills you must have read about McKinsey's 7S Model where one of the Ss is Skills and that comprise of both the 'Hard' as well as the 'Soft' skills. It is in this context that training and development can provide the needed support to the organization by filling up the competency gaps in individuals.

According to James W. Fairfield-Sonn, to survive and grow in increasingly competitive markets, service firms have often been advised to develop a distinctive competence. For example, in Peters and Waterman's book, In Search of Excellence, they cite the success of Delta Airlines' creation of a "family atmosphere" and Disney Productions' "service-through-people." There is one area, however, which is often mentioned but rarely treated seriously as a potential source of competitive advantage. That area is training and development.

Training and development may sometimes be viewed as a luxury or "necessary evil" by senior management. In addition, few senior managers have the time to become personally involved in such labor-intensive activities, so they do not see the direct benefits which can be gained from these efforts. It may also be the case that senior management overlooks or avoids this area because they do not have a clear *model for making decisions about whether or not training and development activities will lead to a competitive advantage.*

Source: http://www.questia.com/googleScholar.qst?docId=5001680583

Training is a sub-system of the organization because the departments such as, marketing & sales, HR, production, finance, etc depends on training for its survival. Training is a transforming process that requires some input and in turn it produces output in the form of knowledge, skills, and attitudes (KSAs).

4.2 CONCEPT OF TRAINING AND DEVELOPMENT

Training and development also called Human Resource Development is a continuous process to ensure the development of employees' dynamism, effectiveness, competencies and motivation in a systematic and planned manner. It has a multiple goal; these include employees' competency and motivation development and organizational climate development. Employees need to have a variety of competencies knowledge, skills and attitudes in technical areas, human relation areas and conceptual areas to perform the different tasks and functions.

4.3 AIM OF TRAINING AND DEVELOPMENT

Training and development aims at bridging the competency gap to perform the present role effectively. As you can guess that the present performance of a person would not be satisfactory if he lacks the requisite skills, knowledge and motivation in doing his present job effectively.

Training and development also aims at developing potential of people in organizations to fulfill the future needs of the organizations. Here it tries to groom the present employees to fill up higher positions in future. By doing this, both the organization as well as the individuals are benefited. The reason is that the organization does not have to go on searching for the right person to fill up the vacancies when they arise and in the process the work in the organization does not suffer. Further, it sends out a positive signal to the employees because the whole process is linked to the career growth of the people in the organization.

We can say that the purpose of training and development is-

- to increase productivity
- to improve quality
- to help a company fulfill its future manpower needs
- to improve the organizational climate
- to improve health and safety
- obsolescence prevention

- personal growth
- building a learning culture.

Training is focused at three levels i.e. on individuals, groups and the organization.

4.4 DIFFERENCE BETWEEN TRAINING, DEVELOPMENT AND EDUCATION

The three terms training, development and education look very similar and are linked to common component- learning. But what seems different is the intention behind each one of them. The subsequent section deals with the difference.

Training

It is a process that tries to improve skills, knowledge and attitudes of the employees so that he/she is better equipped to do his present job or a higher job involving higher responsibilities.

It can also be said to be a learning experience that seeks a relatively permanent change in an individual that will improve his/her ability to perform the job.

It gives people an awareness of the rules and procedures to guide their behaviour.

Training is a process of learning a sequence of programmed behaviour. It is application of knowledge.

It attempts to improve their performance on the current job or prepare them for an intended job. The focus is short term.

Development

It has broader scope than training. It covers not only those activities/skills which help to improve performance of the individual, but also those which bring about growth of personality that help the individual to progress towards maturity and actualization of potential capacities so that they become not only good employees but better individuals.

It is intended to equip persons to earn promotion and hold greater responsibility. Training is a one shot deal whereas development is behavioural modification of people through continuous learning practices. It is focused on long term and brings changes in overall personality of a person. Development is a carefully planned approach for different individuals looking into the kind of responsibilities the person is likely to handle in future.

Education

It can be said to be a life long learning process. The main purpose is to improve the conceptual understanding of the people about a subject or theme or environment. Education is the understanding and interpretation of knowledge. It develops a logical and rational mind that can determine relationships among pertinent variables and thereby understand phenomena.

Education is imparted through schools, colleges, universities or through the contents of programmes aimed at improving the knowledge and understanding of the people about their environment.

4.5 NEED FOR TRAINING

By now you already know the utility of training. But you might also be wondering whether it is actually needed by all organizations? And the answer for this is 'Yes'. The following points will tell you why training and development is required by all organizations.

i) For bridging the gap between what the employee has and what the job demands.

ii) To enhance the sub-optimal performance of organizations.

iii) To reduce the widening gap between planning, implementation and completion of projects.

iv) To cope up with the technological change.

v) To fulfill the demand for quality work and output

vi) To handle increasing uncertainties and complexities in the total environment necessitating flexible and adaptive responses from organizations.

vii) To fulfill the need for individuals and organizations to grow at rapid pace

viii) For meeting the challenges posed by global competition

ix) For harnessing the human potential and giving expression to their creative urges

x) To better handle job rotations that demand varying degree of skills, knowledge or rather competency.

xi) For increasing the morale of the employees to continue with their good work in the organization.

xii) To bring in personal growth.

xiii) To realize a favourable organizational climate

If you want to achieve the above in organizations, training and development is the solution.

4.6 TRAINING AND DEVELOPMENT PROCESS

Training and development process basically be worked out in five steps as below-

i. ***Need analysis:*** It includes task analysis & performance analysis that is analyze the present task that they are doing and the present performance that they are giving. Thus it is necessary to-

- identify specific job performance skills needed to improve performance and productivity of each individual,
- analyze the audience that is the trainees,
- use research to develop specific measurable knowledge and performance objectives against which training and development will be given.

ii. ***Instructional design:*** For any kind of training and development to be effective, the design of the instructions should be appropriate. Thus the following needs to be taken into consideration in this regard.

- gather instructional objectives, methods, media, description of and sequence of contents so that they are aligned to the objectives of the training.
- making sure of all materials that will be used in the process or would be given to the trainees.
- carefully and professionally handle all program elements to guarantee quality & effectiveness

iii. ***Validation:*** Before the actual training programme is conducted, the same is tested with a sample group of participants so as to test is validity and carry out certain corrections if required.

iv. ***Implementation*** of training

v. **Evaluation and follow up**

This step is very significant as it gives information about the success of the programme, that is, the extent to which it could really meet the objectives previously set. One needs to assess the programme success according to

- reaction of the learners before training is actually imparted
- learning of the learners after training is completed
- behaviour that is manifested after training is given
- results that are visible after the training.

4.7 TRAINING METHODS

It is observed that organizations today experiment with different kinds of training methods in order to achieve the desired results. In fact, training efforts for individuals are initiated as soon as they join the organization and termed as employee orientation and socialization. These are discussed below.

Employee orientation

It is seen that individuals apply jobs in an organization and if selected join the organization with a preconceived idea about it. But after they resume their office, they find that not everything they thought is right. At times they might be disillusioned with the system and their surroundings. Moreover in order to work in their new workplace they need to be familiar with its people, rules, policies etc. Thus here comes the need of employee orientation. It is a procedure for providing new employees with basic background information about the firm in order to perform their job satisfactorily. The programmes may range from brief, informal introductions to lengthy, formal course. The HR specialist performs the first part of the orientation, by explaining basic matters like working hours, vacations, employee benefits, personnel policies, the daily routine, company organization and operations, safety measures, company regulations, facilities etc. Then the subsequent orientation is carried out by the departmental head or the supervisors by explaining the exact nature of the job, introduction to the new colleagues, familiarizing the new person with the workplace. It helps reduce the reality shock.

Socialization

It is an ongoing process of instilling in all employees the prevailing attitudes, standards, values and patterns of behaviour that are expected by the organization and its departments. Without this a gap is likely to arise in between the expected behaviour and the actual behaviour of the individuals.

More often than not, training and development programmes are developed in response to a crisis such as the departure of several valued employees, a rush of customer complaints, and/or new regulatory reporting requirements. In response to these pressures, a content-oriented, reactive, and piece-meal effort is mounted, which may serve short-run demands, but rarely addresses long-term issues. To move beyond this "quick fix" mentality, a fundamental shift in thinking must occur about ways of developing pro-active, goal-oriented programs that can be integrated with other human resource activities. Further, training need should be aligned to the business needs of the organization.

Rightly organizations are facing great pressure to change these days - to facilitate and encourage whole-person development and fulfillment - beyond traditional training. Conventional 'training' is required to cover essential work-related skills, techniques and knowledge, but at the same time organizations must also try out with some innovative methods of training. According to the specialists, the most effective way to develop people is quite different from conventional skills training, which many employees perceive as not so positive. They will do it because they receive a directive, but they are not likely to enjoy it much because it's about work, not about themselves as people. The most effective way to develop people is instead to enable learning and personal development. The following are some of the training methods available for a trainer to choose.

Broadly training can be clubbed into two heads- formal and informal.

Formal training:

When training involves the intervention of someone outside the immediate work group, it is known as formal training.

Informal training:

It constitutes the sorts of intervention that line managers would make as part of their managerial role of coaching their staff, or a peer member of the work group in helping/coaching others in the group. It excludes any interference from someone outside the working group. Coaching can encompass a wide range of different approaches – from the traditional sitting next to a person/coach, to project work and the planned involvement of individuals in areas outside their normal work. Clear objectives and a plan for achieving those objectives within a timescale are the ingredients for successful coaching.

Informal training is appropriate in the following situations:

- usually for the development of a skill (rather than learning a new skill)
- when there is a need for the training to be tailored to specific work environments
- when the individual responds better to this form of training
- when there are no suitable formal training solutions
- when there is a limited budget
- when timescale is a problem
- for a new entrant when learning by seeing others (specially the expert) doing is the best

Advantages

Informal training provides the following advantages.

- cheaper solution
- can develop manager/staff relationships
- develops managers'/coaches' skills
- can provide great job satisfaction for the coaches
- can help team working
- promotes a learning environment

Under the above the different choice of training and development methods are the following-

i. On the job training

It is learning by doing. It ranges from simple observation to handling sophisticated methods. It is suitable for new employees. It includes the following-

- Job instruction training : Here the trainer or supervisor gives instructions to an employee as to how to perform his job. It is appropriate for acquisition or improvement of motor skills and routine repetitive operations.
- Coaching: the new employee works under the guidance of the superior. Superior points out the mistakes and gives suggestions for improvement.
- Job rotation: here a trainee moves from one job to another and from one department to another. It is appropriate for developing multiple skills, operational flexibility and broadening overall perspective of the trainee.

ii. <u>Simulation method:</u>

Here the training is conducted imagining a real situation. It takes into consideration what an individual has to deal in actual situation. It includes the following:

- Role play: trainees are required to enact defined roles on the basis of oral or written description of a particular situation. It is used in jobs related to sales, marketing, purchasing etc.
- Case method: here an actual event or situation on organizational problems is taken up for discussion, brainstorming, and problem solving purpose. It relates to real situation. It is good for developing decision making /judgment skills.
- Management games: These are devised on the model of a business situation. Usually the trainees are divided into groups who represent the management of competing companies. They make decisions resembling real-life situations. The decisions made by the groups are evaluated and the likely implications of the decisions are fed back to the groups.
- In- basket exercises: These are also called 'in- tray' method. It is based on the concept of 'incoming mail' of a manager. The trainee is presented with a pack of papers and files in a tray, containing administrative problems, and is required to take decisions on these within a specified time frame. The trainee is provided with a feedback at the end of the exercise.
- Vestibule training: here the employees learn to work on the equipments that they need to use at their actual job. But the difference is that the environment is the simulated one and not the one that exist in an actual shop floor. Examples can be cited about a trainee pilot or a train driver. Only the organization and the HRD department must consider the cost and hazards involved here.
- In house developmental centres: trainees are bombarded with different training methods in a secluded place.

iii. Knowledge-based:

- Lectures: It is the most common method. It is good when some information is to be shared with a large audience and which does not require their greater participation. The advantage associated with it is its low cost.
- Conference, seminars: Here a trainer delivers a lecture/presentation on a subject to be followed by discussions and queries.
- Programmed instructions: trainees are communicated the instructions in doing their jobs through a textbook/computer.

Under this method the systematic method for teaching a job skill would include the steps-

a. presenting questions, facts or problems to the learner at first,
b. allowing the person to respond,
c. providing feedback on the accuracy of the response

- E- learning/training: it includes the use of audiovisual techniques like tele- training, video conferencing, internet, CD- roms etc.(multimedia) for imparting training. Here a learner can learn at his own pace and convenience. Further the learners need not be located in one place.
- Behaviour modeling: it focuses on making the trainees understand and refine one's behaviour by dropping the dysfunctional behaviour.
- Organization development: The phases under this are diagnosis, action planning and programme management/stabilization. It uses various interventions for carrying out these steps. It helps to a large extent in bringing change in the organization.
- Outdoor training: training sessions conducted from the outskirts to the countryside to rugged mountains and water bodies suitable for developing interpersonal relationships, team building etc.

Training for special purpose

Training can also be conducted for special purposes like, literacy training, health education, training for international business, cultural awareness programme, etiquette for global transactions, cross cultural training programme, international protocol, business basics for the foreign executives, language programme, values training, diversity training, team work , empowerment etc.

►***Read***

Case Study of Training and Development in Nestle

Introduction

Nestlé is today the world's leading food company, with a 135-year history and operations in virtually every country in the world. Nestlé's principal assets are not office buildings, factories, or even brands. Rather, it is the fact that they are a global organization comprised of many nationalities, religions, and ethnic backgrounds all working together in one single unifying corporate culture.

Culture at Nestlé and Human Resources Policy

Nestlé culture unifies people on all continents. The most important parts of Nestlé's business strategy and culture are the development of human capacity in each country where they operate. Learning is an integral part of Nestlé's culture. This is firmly stated in the Nestlé Human Resources Policy, a totally new policy that encompasses the guidelines that constitute a sound basis for efficient and effective human resource management. People development is the driving force of the policy, which includes clear principles on non-discrimination, the right of collective bargaining as well as the strict prohibition of any form of harassment. The policy deals with recruitment, remuneration and training and development and emphasizes individual responsibility, strong leadership and a commitment to life-long learning as required characteristics for Nestlé managers.

Training Programs at Nestlé

The willingness to learn is therefore an essential condition to be employed by Nestlé. First and foremost, training is done on-the-job. Guiding and coaching is part of the responsibility of each manager and is crucial to make each one progress in his/her position. Formal training programs are generally purpose-oriented and designed to improve relevant skills and competencies. Therefore they are proposed in the framework of individual development programs and not as a reward.

Literacy Training

Most of Nestlé's people development programs assume a good basic education on the part of employees. However, in a number of countries, they have decided to offer employees the opportunity to upgrade their essential literacy skills. A number of Nestlé companies have therefore set up special programs for those who, for one reason or another, missed a large part of their elementary schooling.

These programs are especially important as they introduce increasingly sophisticated production techniques into each country where they operate. As the level of technology in Nestlé factories has steadily risen, the need for training has increased at all levels. Much of this is on-the-job training to develop the specific skills to operate more advanced equipment. But it's not only new technical abilities that are required. It's sometimes new working practices. For example, more flexibility and more independence among work teams are sometimes needed if equipment is to operate at maximum efficiency. *"Sometimes we have debates in class and we are afraid to stand up. But our facilitators tell us to stand up because one day we might be in the parliament!"* (Maria Modiba, Production line worker, Babelegi factory, Nestlé South Africa).

Nestlé Apprenticeship Program

Apprenticeship programs have been an essential part of Nestlé training where the young trainees spent three days a week at work and two at school. Positive results observed but some of these soon ran into a problem. At the end of training, many students were hired away by other companies which provided no training of their own. *"My two elder brothers worked here before me. Like them, for me the Nestlé Apprenticeship Program in Nigeria will not be the end of my training but it will provide me with the right base for further advancement. We should have more apprentices here as we are trained so well!"* (John Edobor Eghoghon, Apprentice Mechanic, Agbara Factory, Nestlé Nigeria) *"It's not only a matter of learning bakery; we also learn about microbiology, finance, budgeting, costs, sales, how to treat the customer, and so on. That is the reason I think that this is really something that is going to give meaning to my life. It will be very useful for everything."* (Jair Andrés Santa, Apprentice Baker, La Rosa Factory Dosquebradas, Nestlé Columbia).

Local Training

Two-thirds of all Nestlé employees work in factories, most of which organize continuous training to meet their specific needs. In addition, a number of Nestlé operating companies run their own residential training centers. The result is that local training is the largest component of Nestlé's people development activities worldwide and a substantial majority of the company's 240000 employees receive training every year. Ensuring appropriate and continuous training is an official part of every manager's responsibilities and, in many cases; the manager is personally involved in the teaching. For this reason, part of the training structure in every company is focused on developing managers' own coaching skills. Additional courses are held outside the factory when required, generally in connection with the operation of new technology.

The variety of programs is very extensive. They start with continuation training for ex-apprentices who have the potential to become supervisors or section leaders, and continue through several levels of technical, electrical and maintenance engineering as well as IT management. The degree to which factories develop "home-grown" specialists varies considerably, reflecting the availability of trained people on the job market in each country. On-the-job training is also a key element of career development in commercial and administrative positions. Here too, most courses are delivered in-house by Nestlé trainers but, as the level rises, collaboration with external institutes increases. *"As part of the Young Managers' Training Program I was sent to a different part of the country and began by selling small* *portions of our Maggi bouillon cubes to the street stalls, the 'sari sari' stores, in my country. Even though most of my main key accounts are now supermarkets, this early exposure were an invaluable learning experience and will help me all my life."* (Diane Jennifer Zabala, Key Account Specialist, Sales, Nestle Philippines). *"Through its education and training program, Nestlé manifests its belief that people are the most important asset. In my case, I was fortunate to participate in Nestlé's Young Managers Program at the start of my Nestlé career, in 1967. This foundation has sustained me all these years up to my present position of CEO of one of the top 12 Nestlé companies in the world."* (Juan Santos, CEO, Nestlé Philippines)

Virtually every national Nestlé company organizes management-training courses for new employees with High school or university qualifications. But their approaches vary considerably. In Japan, for example, they consist of a series of short courses typically lasting three days each. Subjects include human assessment skills, leadership and strategy as well as courses for new supervisors and new key staff. In Mexico, Nestlé set up a national training center in 1965. In addition to those following regular training programs, some 100 people follow programs for young managers there every year. These are based on a series of modules that allows tailored courses to be offered to each participant. Nestlé Pakistan runs 12-month programs for management trainees in sales and marketing, finance and human resources, as well as in milk collection and agricultural services. These involve periods of fieldwork, not only to develop a broad range of skills but also to introduce new employees to company organization and systems. The scope of local training is expanding. The growing familiarity with information technology has enabled "distance learning" to become a valuable resource, and many Nestlé companies have appointed corporate training assistants in this area. It has the great advantage of allowing students to select courses that meet their individual needs and do the work at their own pace, at convenient times. In Singapore, to quote just one example, staff is given financial help to take evening courses in job-related subjects. Fees and expenses are reimbursed for successfully following courses leading to a trade certificate, a high school diploma, university entrance qualifications, and a bachelor's degree.

International Training

Nestlé's success in growing local companies in each country has been highly influenced by the functioning of its international Training Centre, located near their company's corporate headquarters in Switzerland. For over 30 years, the Rive-Reine International Training Centre has brought together managers from around the world to learn from senior Nestlé managers and from each other. Country managers decide who attends which course, although there is central screening for qualifications, and classes are carefully composed to include people with a range of geographic and functional backgrounds. Typically a class contains 15–20 nationalities. The Centre delivers some 70 courses, attended by about 1700 managers each year from over 80 countries. All course leaders are Nestlé managers with many years of experience in a range of countries. Only 25% of the teaching is done by outside professionals, as the primary faculty is the Nestlé senior management. The programs can be broadly divided into two groups:

Management courses: these account for about 66% of all courses at Rive-Reine. The participants have typically been with the company for four to five years. The intention is to develop a real appreciation of Nestlé values and business approaches. These courses focus on internal activities.

Executive courses: these classes often contain people who have attended a management course five to ten years earlier. The focus is on developing the ability to represent Nestlé externally and to work with outsiders. It emphasizes industry analysis, often asking: “What would you do if you were a competitor?”

Conclusion of the case

Nestlé’s overarching principle is that each employee should have the opportunity to develop to the maximum of his or her potential. Nestlé do this because they believe it pays off in the long run in their business results, and that sustainable long-term relationships with highly competent people and with the communities where they operate enhance their ability to make consistent profits. It is important to give people the opportunities for life-long learning as at Nestle that all employees are called upon to upgrade their skills in a fast-changing world. By offering opportunities to develop, they not only enrich themselves as a company, they also make themselves individually more autonomous, confident, and, in turn, more employable and open to new positions within the company. Enhancing this virtuous circle is the ultimate goal of their training efforts at many different levels through the thousands of training programs they run each year.

Source: **www.mbaknol.com**

4.8 SUMMING UP

Training and development is an effort on the part of the organization to fully develop the potential of the employees to perform their present as well as future role efficiently so that organizational effectiveness too can be attained. It aims at bridging the competency gap of the individuals in doing so. Training should not be a haphazard process but a very systematic and planned one. It must take into account the business need of the organization as well as the individual’s need for training. Organizations have different choices of methods for training ranging from the traditional one to very innovative and sophisticated ones. Cost, time, availability of competent trainers, previous results and hazard involved are some of the important considerations while designing training. Designing training involves certain steps.

4.9 PROBABLE QUESTIONS

i. What do you mean by training and development?

ii. What is the aim of training and development?

iii. What is the difference between training, development and education?
iv. What is the need for the organizations to conduct training and development?
v. Discuss the steps in the training and development process?
vi. What is the difference between formal and informal training?
vii. What is coaching? When can coaching be suitable in organizations?
viii. Discuss the advantages associated with coaching.
ix. What is employee orientation? What is its importance?
x. Discuss socialization. Why do you think it is important?
xi. Discuss the different types of trainings.
xii. What are the learning points from Nestlé's case of Training and development?

► ***Assignment***

Visit an organization and discuss with the person responsible for Training and development in that organization regarding the different types of Training and development efforts taken up. Also discuss how these are designed. Try to find out whether they prepare a training calendar for the year.

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-5: COMPENSATION AND PERFORMANCE APPRAISAL

UNIT STRUCTURE

5.0 OBJECTIVES

After going through this unit you should be able to

- Define the concept, nature and scope of performance appraisal and the process of performance appraisal
- Discuss the various issues related to compensation administration

5.1 INTRODUCTION

Compensation is one of the important aspects of human resource management. It is considered to be the most important element to attract and retain employees for a particular job. In this unit, we will provide a detailed discussion of the different issues related to compensation administration.

In order to know how the employees are bringing value to the organization, after a specified period of time the performance of each of the employees are evaluated. This process is known as the performance appraisal. Here we will discuss the process of performance appraisals, its goal and the different methods used for performance.

5.2 COMPENSATION

5.2.1 MEANING AND DEFINITION OF COMPENSATION

Compensation administration is one of the most challenging human resource areas because it contains many elements and has a far-reaching impact on organization's strategic goals. Compensation can be defined as the total of all rewards provided to employees in return for their services towards the organization. We are also using the term "wage" and "salary" to refer to the exchange rate the workers get after rendering their services to the organization. In fact, few authors also pointed out that wage or salary is one of the components of a compensation package. Generally a compensation packages includes three types of rewards i.e the Pay (wage or salaries), Benefits (Medical insurance etc) and incentives (Bonus etc.)

Compensation has impact on a person economically, sociologically and psychologically. That is why mishandling compensation issues is likely to have a strong negative impact on employees and ultimately on the firm's performance.[1] There are also certain driven factors that are influencing the compensation planning. The compensation packages of different category of workers are different from that of one another.

5.2.2 OBJECTIVES OF COMPENSATION MANAGEMENT

The increasing competitiveness of the labor market and turnover of employees had forced the organizations to have a competitive compensation plan. The components of compensation have to be devised in such a way that, it focuses on the growing demands of employees while retaining the competitiveness and profitability of the company. However the basic objectives of compensation management are :

- A good compensation package is important to motivate the employees to perform effectively and efficiently.
- The employees have other psychological and self-actualization needs to fulfill. Thus, compensation serves the purpose as salary is just a part of the compensation system.
- The most competitive compensation will enable organization to attract and retain the best talent. The compensation package should be as per industry standards.
- A good compensation package maintains equity, in the sense that the similar jobs are paid equally.
- A compensation system should be cost effective. As it is mentioned in the previous chapter that the organization always have to bear the high cost in recruiting the candidate. Therefore the compensation package should be competitive, so that it can attract talent and thereby reducing the recruiting cost.
- Government norms should also be satisfied by a good compensation system.

5.2.3 TYPES OF COMPENSATION

Compensation provided to employees can be direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits. There are two basic types of compensation. They are:

a). Direct Compensation b). Indirect compensation

(a) Direct Compensation:

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, PF/Gratuity, etc.

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[1] Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr (NOVEMBER 2009). Motivating_people_Getting_beyond_money. www.mckinseyquarterly.com

- **Basic Salary:**

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services.

- **House Rent allowance:**

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees.

- **Conveyance:**

Organizations provide travelling allowance to its employees. Few organizations provide vehicles and petrol allowances to their employees to motivate them. On the other hand some organization provide pick & drop facility to its employees.

- **Medical reimbursement:**

The health of the employee should also be the concern of the employer. The employees are provided with medical facilities for them and their family members. These facilities include health insurance and treatment bills reimbursement etc.

- **Bonus:**

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security.

- **Special allowance:**

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans, insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity.

(b) INDIRECT COMPENSATION:

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Leave Policy, Overtime Policy, Car policy, Hospitalization, Insurance, Leave travel Assistance Limits, Retirement benefit, Holiday Homes.

- **Leave Policy**

It is the right of employee to get adequate number of leave while working with the organization. The organizations provide for paid leaves such as, casual leaves, medical leaves (sick leave), and maternity leaves, statutory pay, etc.

- **Over time policy**

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

- **Hospitalization** The employees should be provided allowances to get their regular check-ups, say at an interval of one year. Even their dependents should be eligible for the medi-claims that provide them emotional and social security.
- **Insurance**

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

- **Leave Travel Allowance**

The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

- **Retirement Benefits**

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

- **Holiday Home**

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill stations and other most wanted holiday spots. The organizations make sure that the employees do not face any kind of difficulties during their stay in the guest house.

- **Flexible Timings**

Some organizations use to provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

5.2.4 COMPONENTS OF COMPENSATION PACKAGES IN INDIA

In reality if you compare the pay packages of two different organizations in India, there will definitely be differences. However if we look at the pay packages of the employees in India some common elements are present in most of the packages. These are listed below:

a) Basic wage /salary:

This is also known as the "basic" of the compensation package and most common element of the compensation system. These refer to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes. It is structured based on the position of an individual in the organization and differs from grades to grades.

b) Dearness allowance:

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him. The onslaught of price increase has a major bearing on the living conditions of the labour. The increasing prices reduce the compensation to nothing and the money's worth is coming down based on the level of inflation. The payment of dearness allowance, which may be a fixed percentage on the basic wage, enables the employees to face the increasing prices.

c) Bonus:

The bonus can be paid in different ways. It can be fixed percentage on the basic wage paid annually or in proportion to the profitability. The Government also prescribes a minimum statutory bonus for all employees and workers.

d) Commissions:

Commission to Managers and employees may be based on the sales revenue or profits of the company. It is always a fixed percentage on the target achieved. For taxation purposes, commission is again a taxable component of compensation. Depending upon the targets achieved, companies may pay a commission on a monthly or periodical basis.

e) Mixed Plans:

Companies may also pay employees and others a combination of pay as well as commissions. This plan is called combination or mixed plan. Apart from the salaries paid, the employees may be eligible for a fixed percentage of commission upon achievement of fixed target of sales or profits or performance objectives. Nowadays, most of the corporate sectors are following this practice. This is also termed as variable component of compensation.

g) Sign-on Bonuses:

The latest trend in the compensation planning is the lump sum bonus for the incoming employee. A person, who accepts the offer, is paid a lump sum as a bonus. Even though this practice is not prevalent in most of the industries, equity research and investment banking companies are paying this to attract the scarce talent.

h) Profit Sharing:

Profit sharing is again a novel concept nowadays. This can be paid through payment of cash or through Employee Stock Option Plans. The structuring of wages may be done in such a way that, it attracts competitiveness and improved productivity. Profit sharing can also be in the form of deferred compensation at the time of retirement. At the time of retirement the employees may be paid a lump sum or retirement benefits.

h) Fringe Benefits:

Company car, paid vacations, membership of socio-cultural clubs, family vacation packages etc are the example of fringe benefits.

i) Reimbursements:

Employees, depending upon their job hierarchy in the organization may get reimbursements based on the expenses incurred and substantiated. Certain expenses are also paid based on expenses incurred during the course of business. In many cases, employers provide advances to the employees for incurring certain expenses that are incurred during the course of the business.

j) Sickness benefits:

The increasing social consciousness of corporate had resulted in the payment of sickness benefit to the employees. This also includes payments of maternity benefits. The expenses incurred due to injury or illness are compensated or reimbursed to the employees. In certain companies, the death of an employee is compensated financially. Companies are also providing supporting financial benefits to the family of the bereaved employees. However companies cover these costs through appropriate insurance policies like medical and life insurance.

5.2.5 WAGE THEORIES AND EVOLUTION OF COMPENSATION SYSTEM

With the change in the organizational structures and the need of the workers' it is necessary to have certain changes in the compensation systems From the bureaucratic organizations to the participative organizations, employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensation to their employees. It depends on both internal and external factors as well as the life cycle of an organization.

In the traditional organizational structures, employees were expected to work hard and obey the bosses' orders. In return they were provided with job security, salary increments and promotions annually.

With the behavioral science theories and evolution of labour and trade unions, employees started asking for their rights. Employees were expected to work hard to have the job security. The compensation system was designed on the basis of job work and related proficiency of the employee. Today the compensation systems are designed aligned to the business goals and strategies. The employees are expected to work and take their own decisions. Authority is being delegated. Employees feel secured and valued in the organization. Organizations offer monetary and non-monetary benefits to attract and retain the best talents in the competitive environment.

However there are few theories related to wage determination. These are discussed below:

Wage Fund theory: Adam smith, the classical economist propounded this theory. The basic assumption of this theory was that workers are paid out of a predetermined fund of wealth. The demand for labour and the rate of wages depends on the size of the wage fund. Therefore, if the wage fund is of large size, the rate of wages would also be higher.

Subsistence theory: David Ricardo propounded the subsistence theory. Ricardo said that workers should be paid at the subsistence level. The Subsistence wages can be referred to the minimum wages which just enables the worker to live at the subsistence level. The basic assumption of this theory is that if workers are paid less than subsistence wage, the number of workers will decrease as a result of malnutrition, starvation and diseases etc. On the contrary, if workers are paid more than the subsistence level supply of workers will increase and the wages will come down to subsistence level.

The surplus Value theory of wages: This theory was developed by Karl Marx with the basic assumption that labour is a commodity of commerce. This means that Marx's theory of surplus-value is basically a deduction (or residual) theory of the ruling classes' income. The whole social product (the net national income) is produced in the course of the process of production. The surplus product, and therefore also its money form, surplus-value, is the residual of that new (net) social product (income) which remains after the producing classes have received their compensation (under capitalism: their wages).

Residual claimant theory: It is propounded by Francis A. Walker. He recognizes four factors of production. i.e. Land, Labour, Capital and Entrepreneur. After paying rewards to the other three factors, labours are paid the residual amount. According to him, "Wages are the residue left over, after the other factor of production has been paid". According to Jevon's words, "The wages of a working man are ultimately coincident with what he produces, after the deduction of rent, taxes and the interest on capital." Therefore, the remainder of the total output goes to the workers as wages after rent, interest and profit have been paid.

Bargaining Theory of wages: This theory is propounded by John Davidson. According to this theory fixation of wages depends on the bargaining power of the workers/Union and of the employers. If the union is strong enough then obviously wages tend to be higher and vice versa.

Behavioral Theories of Wages: Human behavior is held to be the most important factor in determination of wages. Behavioral scientists in their study of individuals, groups, and organizations have turned up numerous bits and pieces of evidence that hold promise of filling the gaps left in explanations of wage determination by both general economic theorists and labor economists. Because the attention here is to behavioral factors, these factors are employed when an economic explanation would also serve.

5.2.6 WAGE RELATED LEGISLATION IN INDIA

In India a lot of labour legislations are enacted to ensure that workers are getting the amount deserved by them and there should be no exploitation on the part of the employer. These wage legislations can be discussed below:

Labour legislation	**Type of intervention**
The Minimum wage Act, 1948	To provide minimum compensation for work. Workers in scheduled employment to be paid minimum wage.
The Equal remuneration Act, 1976	Assure equal wage to women for same or similar work.
The Payment of wages Act, 1936	To regulate the manner of payment of wages and their realisation in case of non-payment.

Source: *Das, K.S. (1998), Wage Policy Issues in the Informal Sector*, The Indian Journal Of Labour Economics, *V 41(4), p 896*.

The minimum wage Act:

The minimum wage legislation is the main labour legislation for the workers in this sector. In India, the policy on wage determination had been to fix minimum wages in sweating employments and to promote fair wage agreements in the more organised industries. Wages in the organised sector are determined through negotiations and settlements between employer and employees. On the other hand, in unorganised sector, where labour is vulnerable to exploitation due to illiteracy and does not have effective bargaining power, the intervention of the government becomes necessary both from the perspective of social justice and also for increasing efficiency and productivity in the economy.

The Act also provides that different minimum wage rate may be fixed for 1) different scheduled employments, 2) different works in the same employment, 3) adult, adolescent and children, 4) different locations or 5) male and female. Also, such minimum wage may be fixed by 1) an hour, 2) day, 3) month, or 4) any other period as may be prescribed by the notified authority

Payment of wages Act:

The Payment of Wages Act, 1936 is a central legislation which has been enacted to regulate the payment of wages to workers employed in certain specified industries and to ensure a speedy and effective remedy to them against illegal deductions and/or unjustified delay caused in paying wages to them. It applies to the persons employed in a factory, industrial or other establishments or in a railway, whether directly or indirectly, through a sub-contractor. Further, the Act is applicable to employees drawing wages upto Rs. 1600/- a month

Payment of Bonus Act:

An Act to provide for the payment of bonus to persons employed in certain establishments on the basis of profits or on the basis of production or productivity and for matters connected therewith. Subject to the other provisions of this Act, every employer shall be bound to pay to every employee in respect of the accounting year commencing on any day in the year 1979 and in respect of every subsequent accounting year, a minimum bonus which shall be 8.33 per cent of the salary or wage earned by the employee during the accounting year and to a maximum of twenty per cent, of such salary or wage.

The Equal remuneration Act of 1976:

This Act provides for payment of equal remuneration to men and women workers for the same work or work of similar nature and for the prevention of discrimination on grounds of gender.

5.3 PERFORMANCE APPRAISAL

5.3.1 MEANING AND DEFINITION

Performance appraisal is the most widely used tools to measure the performance of the employees towards achievement of organizational goal. After selecting the employee for a particular job (We have already discussed about employee recruitment and selection in the previous chapter), it is necessary to know how he or she is fulfilling the job requirements. In most of the organizations, employees are appraised annually by their actual level of performance.

Performance appraisal is the measurement of performance of the employees either to develop them for future organizational need or to evaluate the current work performance towards goal achievement. Performance appraisal helps the managers to maintain and enhance the productivity of the employees to achieve organizational goal effectively and efficiently.

Here we are basically concerned about performance appraisal, its purpose and scope. We will also discuss the process of appraising employers with special emphasis on the methods of measurement of performance of the employees. The problem associated with performance appraisal and how to solve these problems to make appraisal effective will also be discussed.

The history of performance appraisal is quite brief. As a distinct and formal management procedure used in the evaluation of work performance, appraisal really dates from the time of the Second World War - not more than 60 years ago.
There is, says Dulewicz (1989), "... a basic human tendency to make judgments about those one is working with, as well as about oneself." Appraisal, it seems, is both inevitable and universal. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily.

Performance appraisal is the systematic process of obtaining, analyzing and recording information about the performance of an employee. The focus of the performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee.
In many organizations appraisal results are used, either directly or indirectly, to design a training and development programme, and to determine reward outcomes.

5.3.2 OBJECTIVES OF PERFORMANCE APPRAISAL

The main objectives of performance appraisal are:

- To measure the performance of the employees over a given period of time.
- To see if there is any gap between the actual and the desired performance.
- To help the management control.
- To identify the strengths and weaknesses of the individuals so as to design the training and development programmes for the employees.

- To provide feedback to the employees regarding their past performance.
- To provide clarity of the expectations and responsibilities of the functions to be performed by the employees.
- To judge the effectiveness of the other human resource functions of the organization such as recruitment, selection, training and development.
- To reduce the grievances of the employees.
- To help in introducing a transparency in all the other related activities.

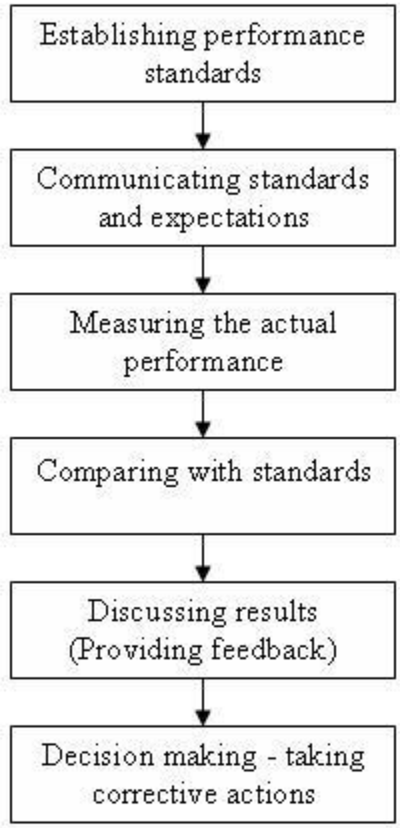
5.3.3 PROCESS OF PERFORMANCE APPRAISAL

ESTABLISHING PERFORMANCE STANDARDS:

It is necessary to set some standard of measurement at the outset of the performance appraisal process. The standards will be used as the base to compare the actual performance of the employees. This step requires setting the criteria to judge the performance of the employees as successful or unsuccessful and the degrees of their contribution to the organizational goals and objectives. The standards set should be clear, easily understandable and in measurable terms. Both the appraiser and the appraisee should be clear with the standard. Even the standard should be written down carefully so that it can reduce the confusion if any at any point of the appraisal process.

COMMUNICATING THE STANDARDS:

After the measurement standards are fixed it is necessary to communicate it to the employees. It is the responsibility of the management to communicate the standards to all the employees of the organization. Sometimes the departmental head or the immediate superior is responsible for communicating the standards to the subordinates. The employees should be informed and the standards should be clearly explained to them. This will help them to understand their roles and to know what exactly is expected from them. The standards should also be communicated to the appraisers or the evaluators. There should be provision of flexibility in terms of fixation of standard as the standards need modification as per the feedback of the employees or the evaluators.



MEASURING THE ACTUAL PERFORMANCE:

The most difficult part of the appraisal process is measuring the actual performance of the employees. The work done by the employees during the specified period of time is continuously monitored. This stage requires the careful selection of the appropriate techniques of measurement, taking care that personal bias does not affect the outcome of the process and providing assistance rather than interfering in an employee's work. There are several techniques used by the evaluator to measure the performance of the employees. These methods will be discussed in the section 5. 3.4 of this unit.

COMPARING THE ACTUAL WITH THE DESIRED PERFORMANCE:

The actual performance is compared with the desired or the standard fixed for the process. The comparison will highlight the deviations in the performance of the employees from the standards set. The result can show the actual performance being more than the desired performance or, the actual performance being less than the desired performance.

DISCUSSING RESULTS:

The next phase of the performance appraisal is communicating results to appraise. The result of the appraisal is communicated and discussed with the employees on one-to-one basis. The results, the problems and the possible solutions are discussed with the aim of problem solving and reaching consensus. The feedback should be given with a positive attitude as this can have an effect on the employees' future performance. The purpose of the meeting should be to solve the problems faced and motivate the employees to perform better.

DECISION MAKING:

The last step of the process is to take decisions which can be taken either to improve the performance of the employees, take the required corrective actions, or the related HR decisions like rewards, promotions, demotions, transfers etc.

5.3.4 METHODS OF PERFORMANCE APPRAISAL

The methods of performance appraisal are discussed below:

1. Ranking
2. Paired Comparison
3. Forced Distribution
4. Confidential Report
5. Essay Evaluation
6. Critical Incident
7. Checklists
8. Graphic Rating Scale
9. BARS
10. Forced Choice Method
11. MBO
12. 360 Degree Apprisal

1. Ranking Method

This is the most common method of performance evaluation. It requires the rater to rank his subordinates on overall performance. This consists in simply putting the performance of an employee in terms of a numerical rank. Under this method, the ranking of an employee in a work group is done against that of another employee. The relative position of each employee is tested in terms of his numerical rank. It may also be done by ranking a person on his job performance against another member of the competitive group.

Advantages of Ranking Method

i. Employees are ranked according to their performance levels.

ii. It is easier to rank the best and the worst employee.

Limitations of Ranking Method

i. The "whole man" is compared with another "whole man" in this method. In practice, it is very difficult to compare individuals possessing various individual traits.

ii. This method speaks only of the position where an employee stands in his group. It does not test anything about how much better or how much worse an employee is when compared to another employee.

iii. When a large number of employees are working, ranking of individuals become a difficult issue.

iv. There is no systematic procedure for ranking individuals in the organization. The ranking system does not eliminate the possibility of snap judgments.

2. Paired Comparisons method:

Under paired comparison method ranking of employees has become quite easier. Every employee is compared with all the other employees in a group. Each employee is compared with other employees on one to one basis. The number of times one particular employee is compared as better with the others on different traits, determines his or her final ranking. The following formula is used to ascertain the number of possible pairs for a given number of employees – N(N-1)/2 where N is the total number of employees.

Advantages of Paired Comparisons Method

i. It is more reliable and employees are compared with other employees on one to one basis.

Limitations of Paired Comparison Method:

i. This method becomes very difficult when large number of employees are being compared.

3. Forced Distribution method:

This is a ranking technique where raters are required to allocate a certain percentage of rates to certain categories (eg: superior, above average, average) or percentiles (eg: top 10 percent, bottom 20 percent etc). Both the number of categories and percentage of employees to be allotted to each category are a function of performance appraisal design and format. The workers of outstanding merit may be placed at top 10 percent of the scale, the rest may be placed as 20 % good, 40 % outstanding, 20 % fair and 10 % fair.

Advantages of Forced Distribution

i. This method tends to eliminate raters bias

ii. By forcing the distribution according to pre-determined percentages, the problem of making use of different raters with different scales is avoided.

Limitations of Forced Distribution

i. The limitation of using this method in salary administration, however, is that it may lead to low morale, low productivity and high absenteeism.

ii. Employees who feel that they are productive, but find themselves in lower grade (than expected) feel frustrated and exhibit over a period of time reluctance to work.

4. Confidential Report:

This is the traditional method of apprising employees, mostly used in government organizations. As the name implies a report on the performance of the employee is prepared by the immediate superior. A structured format is prepared to narrate the performance of the employee along with the strength and weakness of the employee. This report is very much confidential and there is no provision of feedback to the employees.

Advantages of Confidential Report:

As the immediate superior has complete knowledge of the job and its every element, it is easier for him to evaluate the performance of the employee

Limitations of Confidential Report:

This method suffers from subjectivity. As there is no provision of feedback to the employees hence there is no scope for further development of the employees.

5. Essay Evaluation Method:

It is the simplest method of appraisal. In this method the rater writes an essay on the performance of employees. He provides the description of the employee's strength, weakness, past performance, relationship with his colleague and superior, his overall behavior, and his potential.

Advantages of Essay Evaluation Method

i. This method provides a great deal of information about the employee

Limitations of Essay Evaluation Method

i. The quality of appraisal depends on the writing skill of the rater.

ii. It provides only qualitative data.

6. Critical Incident techniques:

Under this method, the manager prepares lists of statements of every effective and ineffective behavior of an employee. These critical incidents or events represent the outstanding or poor behavior of employees or the job. The manager maintains logs of each employee, whereby he periodically records critical incidents of the workers' behavior. At the end of the rating period, these recorded critical incidents are used in the evaluation of the worker's performance. Example of a good critical incident of a Customer Relations Officer is : March 12 - The Officer patiently attended to a customers complaint. He was very polite and prompt in attending the customers problem.

Advantages of Critical Incident techniques

i. This method provides an objective basis for conducting a thorough discussion of an employee's performance.

ii. This method avoids recency bias (most recent incidents are too much emphasized)

Limitations of Critical Incident techniques

i. Negative incidents may be more noticeable than positive incidents.

ii. The supervisors have a tendency to unload a series of complaints about the incidents during annual performance review sessions.

iii. It results in very close supervision which may not be liked by an employee.

iv. The recording of incidents may be a chore for the manager concerned, who may be too busy or may forget to do it.

7. Checklists and Weighted Checklists

In this system, a large number of statements that describe a specific job are given. Each statement has a weight or scale value attached to it. While rating an employee the supervisor checks all those statements that most closely describe the behaviour of the individual under assessment. The rating sheet is then scored by averaging the weights of all the statements checked by the rater. A checklist is constructed for each job by having persons who are quite familiar with the jobs. These statements are then categorized by the judges and weights are assigned to the statements in accordance with the value attached by the judges.

Advantages of Checklists and Weighted Checklists

i. Most frequently used method in evaluation of the employees' performance.

Limitations of Checklists and Weighted Checklists

i. This method is very expensive and time consuming

ii. Rater may be biased in distinguishing the positive and negative questions.

iii. It becomes difficult for the manager to assemble, analyze and weigh a number of statements about the employees' characteristics, contributions and behaviours.

8. Graphic Rating Scale

This is also known as linear rating scale. A structured printed format of traits is prepared to evaluate the performance. Five point rating scale is commonly used here. The rater rates each employee by ticking the score that indicates his or her performance for each trait.

Advantages of Graphic Rating Scale:

i. It is very easy to understand and very easy to use.
ii. It also provides quantitative data

Limitations of Graphic Rating Scale:

i. The rating may be subjective in nature
ii. Difficulty may arise at the time of designing the graphic scale

9. BARS

The technique behaviorally anchored rating scale was developed around 1960. BARS are the description of various degrees of behavior with regard to a specific performance dimension. It combines the rating scale, the critical incident and quantified rating method of performance appraisal. The critical incidents serve as the anchor statement on a scale of six to seven specifically defined performance dimension.

Advantages of BARS

i. It provides a clearer standard and better feedback than the other techniques of performance appraisal.
ii. This method represents the innovation of using critical incident as the anchor statement for measuring the performance.

Limitations of BARS

i. This method suffers from rater errors.
ii. This method is activity oriented rather than result oriented.

10. Forced Choice Method

The forced choice method was developed by J.P.Guilford. The main purpose of this method is to correct the tendency of the rater to give consistently high or low ratings to the employees. Several sets of pair phrases, two of which maybe positives and two negatives are used to rate the employees.

Advantages of Forced Choice Method

i. The objectivity is increased in overall evaluation of employees performance
ii. The Rater does not have any access to the score of the employee.

Limitations of Forced Choice Method

i. This method becomes time consuming and it is very expensive because to prepare the set of phrases trained technicians are needed.
ii. The raters or the managers may feel frustrated in rating the employees as they do not have any access to the scoring key.

11. MBO

Management by objectives (MBO) was developed by Peter. F. Drucker in 1954. This is the modern method of evaluating performance appraisal. Here the superior and the subordinate jointly identified the common goals and set the individual goals for each of them. MBO focuses attention on the goals which are measurable, verifiable and tangible. Probably a detailed discussion of MBO is presented in your course 1.0 Foundation of Management.

Advantages of MBO

i. As the targets are jointly set by both the subordinate and superior, they are aware about the standard set for them.

ii. The goals can guide the operating unit and helps in assessment of contribution of the employees.

Limitations of MBO

i. It is time consuming as setting of realistic goals for each employee consumes a great deal of time.

ii. Here Lack of trust with each other might influence the process of goal setting.

iii. The qualitative aspect of the job might be ignored at the time of goal setting.

12. 360- Degree Appraisal Method:

This method of performance evaluation was first used by GE (General Electric Company) in the year 1992. Under this method the information regarding the employees performance behaviours are collected from all the stakeholders of the organization. The stakeholders are customers, peers, superior and clients. A questionnaire is generally prepared to record the information from the people with whom the employee used to interact in his day to day life. All these information thus collected are compiled and a report regarding performance is prepared. These reports are then presented to the employees and both superiors and the employees discuss over them.

Advantages of 360 Degree Appraisal System

i. As feedback is taken “All around”, the evaluation of employees performance tends to be more correct and realistic.

ii. Provision of the detailed discussion of the report creates an atmosphere of teamwork and improvements.

Limitations of 360 Degree Appraisal System

i. This method suffers from the biasness on the part of the appraisers.

ii. This method ignores performance linked to result.

iii. Linking the appraisal on the basis of 360 degree appraisal can proved to be misleading.

5.4 SUMMING UP

Performance appraisal is a systematic way of evaluating the performance of the employees for a specific period of time. The main aim of performance appraisal is to record the performance and taking necessary actions with respect to the performance of the employees. Setting of standards to measure the performance is very vital in the process of appraising employees. There are several methods used to evaluate the performance of the employees.

Compensation is the amount the employee used to receive for their contributions towards the organization. The main aim of compensation administration is to establish internal and external equity. A compensation package is helpful for attracting and retaining talent. There are several theories to determine the wages of the employees. In India there are several laws which guide the HR managers at the time of devising the compensation packages. The basic pa, dearness allowances, travelling allowances etc are the some of the components of the compensation package in India.

5.5 SUGGESTED READINGS

1. Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr (NOVEMBER 2009). Motivating people getting beyond money. www.mckinseyquarterly.com

2. Das, K.S. (1998), Wage Policy Issues in the Informal Sector, The Indian Journal Of Labour Economics, V 41(4), p 896

5.6 PROBABLE QUESTIONS

1. Briefly discuss the process of performance appraisal.

2. According to you, which method of performance appraisal is better? Justify your answer.

3. How can the wage legislation guide the HR manager at the time of developing a compensation package? Explain.

4. Briefly discuss the different components of compensation.

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-6: INDUSTRIAL RELATION

UNIT STRUCTURE

6.0 INTRODUCTION

Maintenance of healthy relationship between employer and employees is one of the vital functions of human resource manger. All the aspects related to maintenance of employment relationship can be termed as industrial relation. As various groups exist in the organization, therefore it is necessary to have a mutual discussion over different matters related to organization. This is known as collective bargaining.

In the present unit we will be discussing industrial relations, its objectives, different approaches to industrial relations and parties to industrial relation. Collective bargaining will also be discussed along with the process of collective bargaining.

6.1 OBJECTIVES

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

- Define industrial relation
- Identify the various parties to industrial relation
- Outline the process of collective bargaining
- Discuss the importance of collective bargaining.

6.2 INTRODUCTORY OVERVIEW OF INDUSTRIAL RELATION

6.2.1 MEANING & DEFINITION

In an organization, there are different functional groups. Industrial relations are exercises in organizational relations between these functional interest groups. Basically industrial relation is the relationship between the two prime functional groups of an organization i.e. employers and employees. According to Industrial Labour Organization (ILO), industrial relation comprises of relationships between the State on the one hand and the employers' and organizations on the other and the occupational organizations themselves.

Richardson defines Industrial relation is an art of living together for the purpose of production (or service). According to C.S. Venkata Ratnam, Industrial relation covers all aspect of employment relationship.

Thus it can be understood from the above definitions that industrial relation is the relationship which exists because of employment of different individuals for contributing towards achievement of common goals. The detail of employment relationship is discussed in the unit 2 of course 4.

6.2.2 OBJECTIVES AND IMPORTANCE OF IR

The objectives and importance of industrial relation can be discussed in the following lines:

- *To develop and maintain harmonious relationship between management and labour:*

A good industrial relation system is always very much effective in maintaining and developing cordial relationship between management and the labour. It helps to understand the mutual obligation and provides opportunity to interact over different matters having mutual interest of both the parties.

- *To safeguard the interests of labour*:

Industrial relation helps in safeguarding the interest of the labour. It paves the way for mutual discussion over the matter of working conditions, pay etc. Moreover it gives the opportunity to the working class to bring out different problems faced by them in front of management. For safeguarding their interest, the workers may assemble together to form a group which is popularly known as trade union. For further detail of trade union, you can refer to unit 3 of course 4.

- *To establish and maintain industrial Democracy:*

Industrial democracy refers to the participation of the workers in decision making at various levels. A good industrial relation aims at developing and maintaining industrial democracy by providing an opportunity to the working class people to participate in decision making related to organizational affairs.

- *To avoid all form of industrial conflict so as to ensure industrial peace:*

Conflict is always omni present, wherever a group works. Industrial relations always aim at avoiding all forms of industrial conflict by the way of mutual discussion and compromise.

- *To raise productivity :*

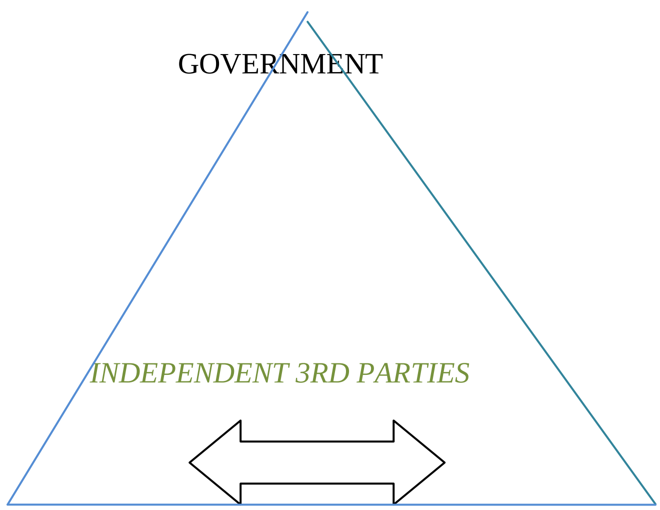
Another important aim of industrial relation is to raise the productivity. As it is already mentioned, individual difference and disagreement is dissolved through mutual understanding and discussion, therefore, there is very little chance of occurrence of conflict. Hence no question of productivity lost. Even mutual decision is taken on the methods of production, training etc.

To ensure a healthy and balanced social order through recognition of human rights by way of trade unionism:

The most important aim of industrial relation is to ensure a balanced social order. The employer and the employee, both of them have equal status and are recognized as the human being.

6.2.3 RELEVANCE OF INDUSTRIAL RELATION There are some basic aspects one cannot deny at the time of discussing the relevance of industrial relation. It is well known to us that employees from their work get the taste of that work, the value of the task and gain experience form that task. An organization achieves success or its goal only because of the work carried out in it by its employees. Moreover through the employees only, it is possible to carry out innovations, adapt changes and efficient utilization of resources. And ultimately the success of the business organizations in some way or other would contribute towards economic development of the country. Therefore by considering the above mentioned points, it can be said that there is relevance of a good industrial relation system in organization irrespective of its size and types.

6.2.4 PARTIES TO INDUSTRIAL RELATION SYSTEM



EMPLOYEES EMPLOYERS

Fig: Key Players of an Industrial relation system

The key players of an industrial relation system are shown in the above figure. Let us discuss them in the following paragraph:

Employee: The important basic building block of an industrial relation system is the employees. The various characteristics of employees have profound influence on the industrial relation system of the organization. In most of the cases, employees participate in the industrial relation system through trade union.

Employer: Another important party to industrial relation is the employer. Employer tries to maintain relationship with the employees by adopting various means. The type of relationship employers uses to maintain may very organization wide. Employer use to provide opportunity to employees to participate in the decision making related to working condition, pay etc. Employers also abide by the legal norms prescribed by the government.

Government: Government is the one of the important player of the industrial relation system. Government acts as the controlling machinery of the industrial relation system. Government enacts various labour laws to improve and maintain the relationship between the employer and the employees. To safeguard the interest of the working class, government amends existing labour laws at different points of time.

Independent Third Parties: The clients, customers, shareholders etc are the independent parties and influence the industrial relation. A healthy relationship with the customer can help a firm to win the competition in the long run and these are the part of a healthy industrial relation.

6.2.5 APPROACHES TO INDUSTRIAL RELATION

Approaches to industrial relation imply how it is perceived. Different behavioural scientists perceive industrial relation from different points of view. For example, psychologist perceives industrial relation as the study of work behavior and attitude of different parties of it to each other. In the unit 2 of course 4 a thorough discussion of the approaches is presented. However, here we will be discussing a few of these approaches:

Psychological Approach:

Psychologists as it has been already mentioned viewed industrial relation as a study of work behavior and attitude. According to them, due to the difference in perceptual ability of the union, management and workers, the behavior of the different parties towards each other is also different at different points of time. These sometimes may be the causes of conflict between management and union.

Sociological Approach:

Organization consists of people. These individuals of an organization carry their own societal value and norms with them. Of course these values might be different from one another. These values of the members of the organization always have an influence over the origination culture in general and industrial relation in particular. However there is possibility of conflict and competition out of the difference in the values of the members.

Human Relation Approach:

As it is mentioned in the first unit of this course, human resource are the most important and vital resource for an organization to achieve its goal efficiently. Therefore, it is necessary to maintain human resource very carefully. Mishandling of human resource can lead to situation of conflict. Therefore it is of utmost important on the part of the organization to maintain cordial relationship with the human resources. The maintenance of human relation is a part of industrial relation.

Socio-Ethical Approach:

This approach considers industrial relation from the point of view of both sociology and ethics. Employees of an organization are the member of the society. Employers are also the member of the society. As both employer and employee belong to society, therefore it is the moral responsibility of the employer to take care of his fellow being. This is the ethical ramification of industrial relation.

Gandhian Approach:

Gandhiji's view on industrial relation is based on his principle of truth and non- violence. His principle of trusteeship is the basic philosophy of industrial relation. We will be discussing detail of Gandhian Approach in the unit 2 of course 4.

System Approach:

John Dunlop viewed industrial relation as a system. It consists of different independent sub system. Employees, employers and government etc are the participant of the industrial relation system. He had also mentioned about the different environmental factors, different process, and the influence of environmental factors on the processes. The result of the different process was considered as the outcome of the industrial relation system.

6.2.6 CAUSES OF POOR INDUSIAL RELATION

There are various factors responsible for poor industrial relation in an organization. A few of them are discussed below:

A) Organizational or internal factors:

Lots of factors related to the organization itself are the cause of the poor industrial relation. Actually these are the factors within the organization. Issues like management style and philosophy, culture of the organization, various human resource management policies of the organization are the factors responsible for poor industrial relation. Moreover the nature of work, compensation and working condition are also important organizational factors related to poor industrial relation. The strength of the trade union can also influence the type of relationship.

B) External Factors

There is no denying of the fact that external environment has certain influence on the organization. There are various forces in the external environment which influence the industrial relation system of an organization.

Various economic factors like the demand and supply of labour, labour market condition, economic scenario prevailing in the country etc influence the industrial relation system.

The philosophy and attitude of the government towards labour, various state policies related to labour and labour laws, etc are also important factors for determining the quality of relationship.

The various technological factors like rate of change of technology, types of technology used etc influence the pattern of industrial relation.

Stop & Read:

For detail discussion of the various factors related to poor industrial relation, please refer to the unit 2 of the course 4.

6.2.7 REMEDIES TO IMPROVE INDUSTRIAL RELATIONS

Developing a sound industrial relation is a very challenging task. There are different parties to industrial relations system, along with their varied ideologies. However in the following paragraph an attempt has been made to discuss the various aspects for designing a healthy industrial relation system.

Constructive Attitudes:

Both Management and Union should develop trust and positive attitude towards each other. However in many cases it is seen that management consider trade union as their competitor. Even union considers management as exploitative of the workers.

Sound polices:

All basic policies and procedures relating to Industrial Relations should be clear to everybody in the organization. The Union Leaders should clarify all the terms of the policies to its members, if necessary. Moreover the union leader as well as the management should take active part in developing, proper implementation and maintaining of the policies.

Participative Management:

Management-employee relation is about involvement, engagement, participation and partnership. Therefore to foster healthy relationship between management and employees, it is necessary to encourage employees participation in decision-making related to organisational maters. Moreover mutual discussion and negotiation can help to maintain a healthy relationship with the employees.

Organized Unions:

A strong and democratic union is always necessary to protect the interest of the workers. Management should encourage right kind of Union Leadership

Effective Grievance Procedure

The personnel manager should remove any distrust by convincing the union of the company's integrity and his own sincerity and honesty. Collective bargaining can be resorted to handle the grievances effectively. It provides an opportunity to freely discuss the different issues between the labour and management and to arrive at a mutuality agreeable decision. After the settlement is reached it should be properly administered.

6.2.8 INDUSTRIAL RELATION SCENARIO IN INDIA

There are differences between the nature and development of industrial relation system in the pre independence era and that of post independence era. These can be discussed as follows:

Pre independence era:

Probably you are aware about the colonial government during the pre independence period. Therefore a colonial model of industrial relation system was there during that period. Till the Second World War government was not giving due importance to the industrial relation system of the country. Due to social and economic backwardness of the Indian labour, it was very much easy to exploit them. Moreover the measures taken for labour welfare was more for the favour of the British industrialist.

Fortunately the leaders of the freedom movement were taking the matter of labour seriously and under their leadership the trade union movement of the country gained momentum. Gandhiji was one of them who constantly gave pressure to the mill owners to uplift the workers status in an industry.

The salient features of the colonial model of IR can be summarised as close association between political and trade union movement, dominance of 'outsiders' in the union movement, state intervention and federal and tripartite consultations. (S.S.Khnaka, Human Resource Management).

Post independence era:

The colonial model of industrial relation was in practice, immediately after the independence of India. Gradually, once the economy became settled, government started intervening into the matter of industrial relation. Government resorted to various labour reforms to increase the welfare of the working class on one hand and to provide security on the other hand. Government introduced different tripartite and bipartite institutions to solve the various labour problems.

Stop & Read:

For detail discussion of the industrial relation scenario in India, please refer to the unit 2 of the course 4.

6.2.9 LABOUR LEGISLATION IN INDIA

For Preservation of the health, safety and welfare of workers, and to maintain good relations between employers and employees, from time to time, the government of India enacted different labour laws. During pre independence era, different labur laws were enacted by the British Government. Factories Act of 1883 was the first of those in the series. This act for the first time brought certain changes with respect to working condition of the working class. However it was noticed that most of the labour laws enacted during that period was to protect the interest of the British industrialist.

After independence, government of India enacted various labor laws to improve the condition of labour class in the country. Moreover amendment of various acts, enacted during British era was also made by the government.

The term 'labour legislation' is used to cover all the laws which have been enacted to deal with "employment and non-employment" wages, working conditions, industrial relations, social security and welfare of individuals employed in industries.

Lots of labour legislations are enacted by the central as well as the state government and these laws can be classified into the following four categories

(i) Laws related to Working Condition
(ii) Laws related to Wages
(iii) Laws related to Industrial Relations
(iv) Laws related to Social Security

(i)Laws related to Working Condition:

The laws related to this category are specifically to govern the working condition, working hour, holidays, rest period and some special provision for maintaining the health and hygiene of the workers. Some of those are:

- The Factories Act, 1948
- The Dock Workers (Regulation of Employment) Act, 1948
- The Plantation Labour Act, 1951
- The Mines Act, 1952
- The Merchant Shipping Act, 1958

(ii) Laws related to Wages

To protect the workers from non payment and irregular wages, various labour laws are enacted. These are:

- The Payment of Wages Act, 1936
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- Equal Remuneration Act,

(iii) Laws related to Industrial Relations

Maintenance of healthy industrial relationship is necessary for industrial productivity. Moreover solving the disputes between the employer and employee is also equally important. To achieve this aim government enacted various labour laws like :

- The Industrial Dispute Act, 1947
- The Trade Union Act, 1926
- The Industrial Employment (Standing Order)Act,1946

(iv) Laws related to Social Security

There are various labour laws to provide the security to the workers. Most of the laws related to social security aims at providing income to the worker at the time of his /her unemployment due to sickness, accident, retirement or death. Some of the laws related to social security are:

- The Workmen's Compensation Act, 1923
- The Employees' State Insurance Act, 1948
- The Employees' Provident Fund & Miscellaneous Provisions Act, 1952
- The Payment of Gratuity Act, 1972
- The Maternity Benefit Act, 1961

> **Stop & Read**:
>
> A detail discussion about the various labour laws mentioned here is presented in the course 6.

6.3 COLLECTIVE BARGAINING

6.3.1 MEANING

Collective Bargaining is a technique used for compromising the conflicting interest of employer and employee. The phrase 'Collective Bargaining' is coined by Sydney and Beatrice Webb. According to Dale Yoder, "Collective Bargaining is essentially a process in which employees act as a group in seeking to shape conditions and relationship in their employment."

Collective Bargaining can simply be defined as an agreement collectively arrived at by the representative of employees and the employers. Collective Bargaining is negotiation about working condition and terms of employment between an employer and a group of employees or one or more employee organization with a view to search an agreement wherein the terms serve as a code of defining rights and obligation of each party in their employment in relation with one another.

6.3.2 IMPORTANCE

Better Understanding:

Collective bargaining presents an opportunity to the management and the employees to negotiate over different issues related to work life. The most important aspect of collective bargaining is that it provides an opportunity to come closer at the time of negotiation. This helps the manager to have a better understanding of the problem and expectation of the employees. Moreover, this front to front discussion also helps the employees by providing insight into the organizational prospect and problem. Therefore, it helps in developing a better understanding between the two parties by reducing the disputes.

Promotion of Industrial Democracy:

You all are aware about industrial democracy. It is said that collective bargaining helps in promoting Industrial democracy at work. It provides opportunity to discuss different issues related to work life between two parties having different power status in the organization. Like in democracy, here also workers are encouraged to put forward their views related to issues like wage, working condition etc.

Win-Win Situation

A successful collective bargaining provides a win-win situation to both the parties. As this sort of negotiation carries some sort of compromise by the parties to bargaining.

Adaption to Change

Change is the most common phenomenon in today's scenario. This requires changes of various working condition and work process in the organization. Collective bargaining can be used as a tool at the time of bringing out changes in the work place. Because management can present the situation very well before the employees under which they want to bring out the changes. Moreover employees can also present their verdict regarding the changes. However, finally they will be arriving at a solution as to what sort of changes is needed and how to bring it.

6.3.3 LEVELS OF COLLECTIVE BARGAINING

There are various levels at which bargaining takes place. These can be classified as under:

a) Plant Level Bargaining :

This type of bargaining takes place within the organization. The employers and the workers of the organization bargain over different issues related to wage, working condition etc. As this type of bargaining is carried out in the plant itself, therefore it is known as plant level bargaining. In case of a large scale organization, the representative from management and representative from the union side use to sit for bargaining.

b) Industry Level Bargaining:

For clarifying industry level bargaining, you should have a fair idea about an industry. In most common terms, industry is an association or combination of different firms producing similar good or services. For example, all the cement producing firms belong to cement industry.

The bargaining between the employers association of the same industry and association the workers of the same industry is known as industry level bargaining.

c) National Level Bargaining:

To address the issue of the labour of the whole country, sometimes bargaining is carried out between the employers association of different industries and the national representatives of the workers union. This type of bargaining is known as national level bargaining.

6.3.4 PROCESS OF COLLECTIVE BARGAINING

The process of collective bargaining can be divided into the stages as shown in the following figure.

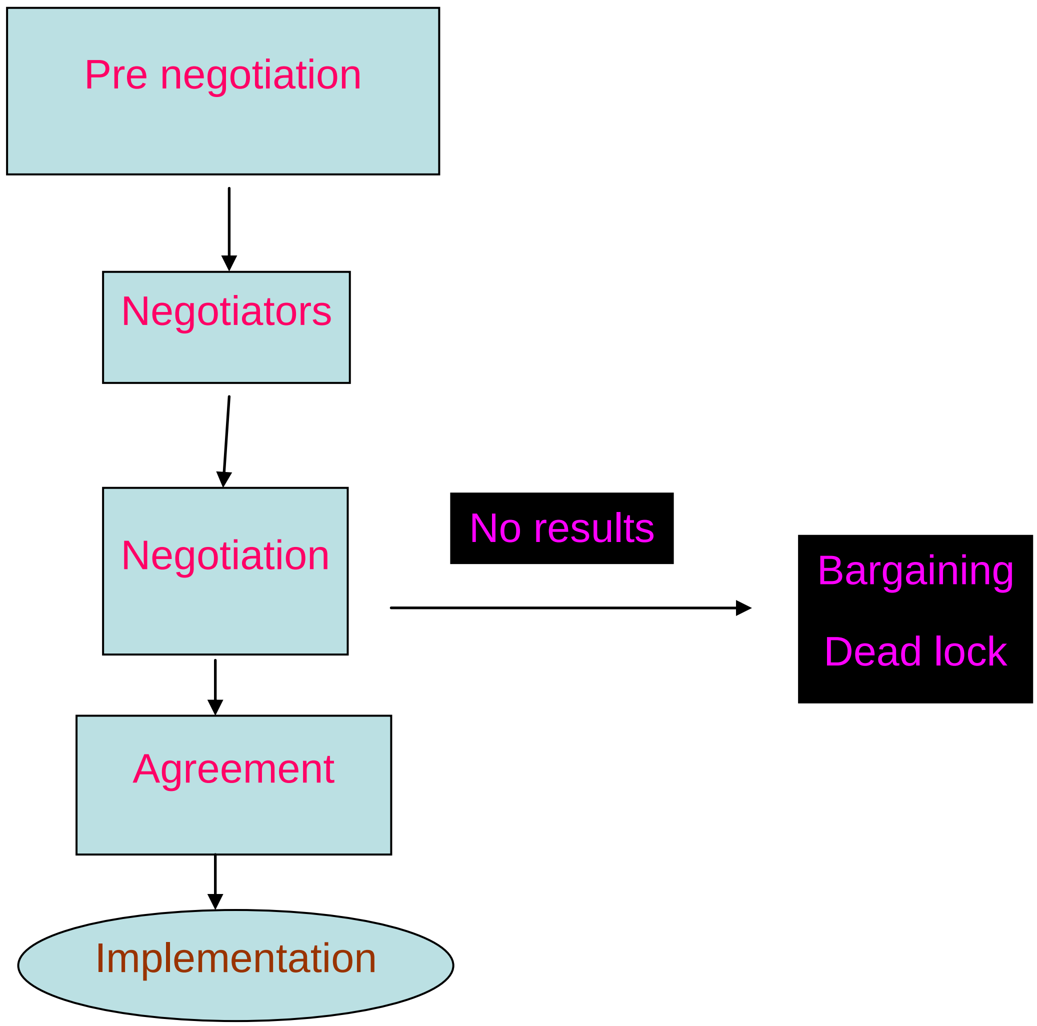


Fig: Process of Collective Bargaining

***Pre-negotiation*:**

This stage is known as preparation stage for negotiation. Management use to prepare it in the following lines

a) Study the labour union
b) Study of the external environment
c) Expectation of the union
d) Organizational data base like productivity, profitability, cost etc.
e) Decision taken, analyzed and a draft plan is prepared.

The Labour union also needs to collect data on relevant aspects of organization to facilitate its negotiating process and tactics. Unions generally collect different data on the

a) relevant aspect of the organization
b) practices followed by other companies
c) expectation of the employees

Negotiators:

The success of a negotiation depends upon the skills and knowledge of the negotiators. Therefore it is very important to select the negotiator with utmost care. In this stage both management and union select their representative for the negotiation.

Negotiation:

Both the parties come to the negotiation table at a time and place for this purpose. Generally negotiation starts with union leader deliberations with a long list of demand. Management counters the demand by offering little more than what is agreed. Then assessment of relative priority of demand is done to reach a closure of the bargaining.

In case both parties do not reach to any agreement, then it is called deadlock breakdown of the bargaining impasse.

Agreement:

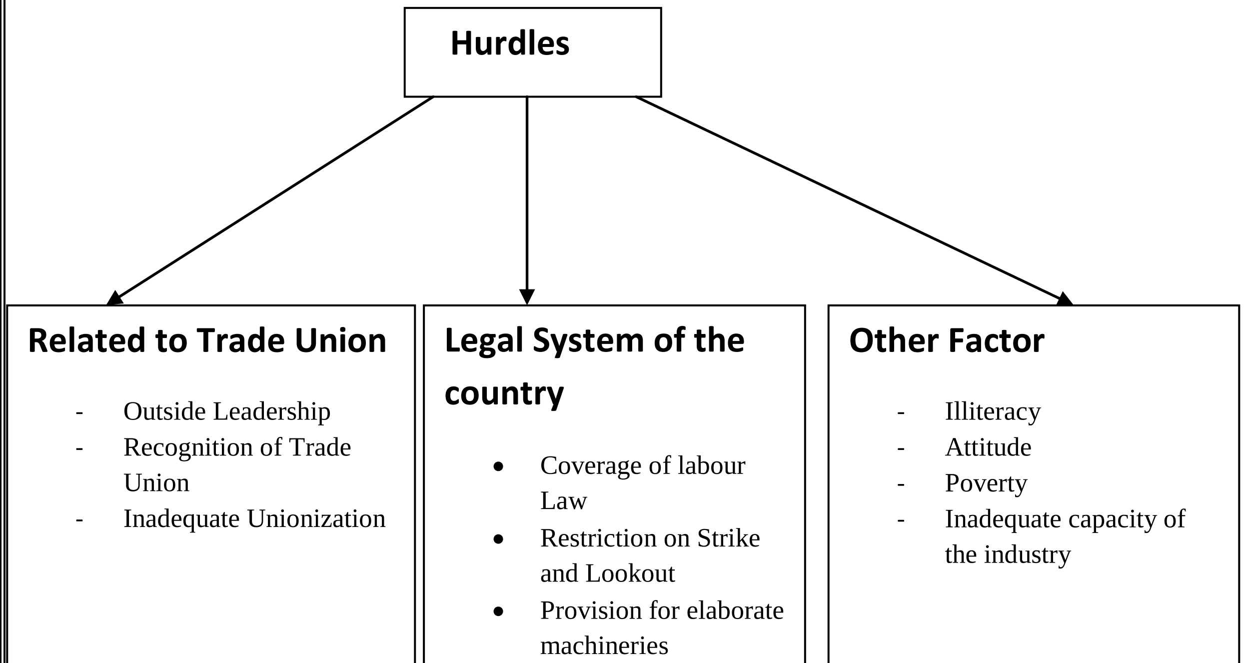
After mutual give and take, once the solution is reached, it is necessary to have formal documentation of the solution. This is known as collective bargaining agreement. It consists of terms and conditions, date from which it came into effect, duration and the name of the signatories. This agreement should be signed by both the parties.

Implementation:

It is the duty of the HR dept. to ensure the proper and full implementation of all the provisions given in the agreement. The way of implementation of the agreement is also written down with the agreement. For a meaningful and effective collective bargaining both the parties should abide by the terms and conditions of the agreement.

6.3.5 HURDLES TO COLLECTIVE BARGAINING

Collective Bargaining in India as a method for settling dispute is of recent origin. Though govt. is paying attention to the issue of Collective Bargaining but there have been various challenges in its way. There are different types of challenges which hinder the growth of Collective Bargaining in India can be classified as bellow:



A detailed discussion of the hurdles faced by the collective bargaining will be presented in the unit 6 of course 4.

6.3.6 CONDITION FOR EFFECTIVE COLLECTIVE BARGAINING

Arnold F. Campo has laid down certain essential general principles for effective collective bargaining:

For management:

A) The management must develop and consistently follow a realistic labour policy, which should be accepted and implemented by all its representatives.

B) Acceptance and Recognition: management must recognize and accept T.U. as constructive force and its position in an organization.

C) Determination of attitude/Goodwill: It is wrong to always accept that employees hold goodwill for the organization all the time. Therefore, it is recommended that management should try to determine the attitude/goodwill of the employee by periodically reviewing the rules and regulations.

D) Prevention is better than cure: Management, before the union brings the matter into the notice of management, try to treat the issue. And it should create an atmosphere in the organization so that Collective Bargaining can be used only as preventive measure.

E) Social consideration: While weighing an economic condition management must consider social condition.

F) Number of union: The management should deal with only one union. This attitude can help the organization from the problem multiplying in the organization.

G) Management must also be to introduce a fair treatment to the trade Union so that Trade Union becomes a responsible and conservative body.

For the Trade Union

A) Elimination of undemocratic practice

B) They should feel obliged to assist management in the elimination of waste and in improving the quality and quantity of production.

C) Should appreciate the economic obligation and their demand being generally met from income and resource of the organization.

D) Only when all other methods of settling a dispute failed to bring about satisfactory result.

For Union and management

A) Collective Bargaining should be made a knowledge-sharing process. It should offer to trade union leaders an opportunity to present the wants, the desires, the graveness and to management of economic problems, issue to the organization.

B) Both of them must look upon Collective Bargaining as a means of finding the best possible solution.

C) There must be mutual confidence, and faith and a desire to make Collective Bargaining effective in practice.

D) There should be an honest, able and responsible leadership, for only this type of leadership will make Collective Bargaining effective and meaningful.

E) Two Parties should observe and abide by all the national and state laws which are appreciable to Collective Bargaining.

F) Should have respect for each other and have enough bargaining power to enforce the terms of the agreement that may be arrived at.

Stop & Read:

For detail discussion of the issues related to collective bargaining, please refer to the unit 6 of the course 4.

6.4 SUMMING UP

All the aspects related to maintenance of employment relationship can be termed as industrial relation. The prime objective of industrial relation is to develop and maintain harmonious relationship between management and labour. There is relevance of a good industrial relation system in organizations irrespective of its size and types. The key players of the industrial relation system are employee, employers, government and independent third parties. There are different approaches to industrial relation i.e psychological approach, sociological approach, human relation approach, socio-ethical approach, Gandhian approach and system approach. There are various factors which affect the industrial relation system. To have a healthy industrial relation constructive attitude, sound personnel policies etc are needed. Government of India from time to time enacted various labour laws to maintain a healthy environment for the working class.

Collective Bargaining is negotiation about working condition and terms of employment between an employer and a group of employees or one or more employee organization. As various groups exist in the organization, therefore it is necessary to have a mutual discussion over different matters related to organization. This is one of the prime objectives of the collective bargaining. For promotion of industrial democracy and to have better understanding of the employer and employees, it is necessary to resort to collective bargaining. Bargaining is carried out at plant level, industry level and national level. The process of collective bargaining consists of different stages like pre-negotiation, negotiation, negotiators, agreement and implementations. There are various hurdles related to collective bargaining which can be classified under three headings: hurdles related to trade union, legal system and others related to workers themselves.

6.5 SUGGESTED READINGS

1. Rao,V.S.P. *Human Resource Management, Text and Cases*. New Delhi: Excel Books P, 2009.Print

2. Mamoria, Mamoria, Gankar. *Dynamics of Industrial Relations*. New Delhi: Himalaya Publishing House P, 2003. Print

6.6 PROBABLE QUESTIONS

I. Briefly discuss the process of collective bargaining.

II. List out the content of the collective bargaining agreement.

II. Why does bargaining fail?

V. Explain the nature of industrial relation system during pre independence era.

Assignment:

Prepare a comparative analysis of human resource management (HRM).

1. Prepare a report on what kind of preparation you need as a representative from the union to bargain over the issues related to wage hike.

6.7 KEY WORDS USED

Industrial Relation: Basically refers to the relationship between employer and employees

Collective Bargaining: A negotiation process between the management and union where both the parties bargain over some common issue.

Trade Union: Continuous association of workers

ILO: International Labour Organization is one of the principal international organizations to protect and safeguard labour.

NCL: National Commission on Labour was appointed by the government of India to study the labour problems in the country and to suggest measure to improve the condition of labour in the country.

Trusteeship: Employer has a moral responsibility to look after the interest of their workers.

Industrial democracy: Participation of the workers in the decision making process of the organization.

Industrial conflict: Any dispute or differences between different parties to employment relationship.

Strike: Cessation of work or refusal to continue work by a body of persons employed in any industry.

Lock out: The temporary closure of any industry or suspension of work or refusal by an employer to continue to employ any number of persons employed by him.

Social Security: Protection given to the members of the society against the contingencies of modern life.

DHR 103 FOUNDATION OF HUMAN RESOURCE MANAGEMENT

UNIT-7: INTERNATIONAL HUMAN RESOURCE MANAGEMENT

UNIT STRUCTURE

7.0 OBJECTIVES

At the end of this unit a learner will be able to-

-explain the concept of International human resource management,

-describe the practice of human resource management,

-discuss the issues and challenges/problems associated with human resource management .

7.1 INTRODUCTION

Today organizations have moved beyond the geographical boundaries of their nations and had set up their units or branches in several countries across the globe. It is now truly said that the world has become a small global village. Today if we for instance look at India, we see most of the leading brands available here, whether it is SONY, LG, SAMSUNG, NOKIA, ADIDAS, KFC, DISNEY, GE, VOLKSWAGEN, SUZUKI, FORD, AMERICAN EXPRESS etc. the list is long indeed. Many of our Indian brands have also moved outside like DABUR, ITC, RANBAXY, INFOSYS etc. Perhaps you are aware that those companies who have establishments in more than one country are called multinationals. These organizations expand in order to take advantage of emerging markets or a cheaper cost of production and distribution or the available tax laws and subsidies etc. Whatever the case may be, when an organization has establishments in more than one country, it would also require people to man those places. It is not practical and feasible to fulfill the requirement of people from the parent company headquarters or the country. Though a few are definitely moved to those places to oversee the work and maintain the organization culture, most of the people are taken from the host country. By now you can well guess that such organizations would be facing a whole lot of challenges in managing their human resources.

7.2 CONCEPT AND ISSUES OF INTERNATIONAL HUMAN RESOURCE MANAGEMENT

By now you are already know that Human Resource Management (HRM) is the set of activities directed at attracting, developing, and maintaining the effective workforce necessary to achieve a firm's objectives. Recruiting and selecting employees, providing training and development, appraising performance, and providing compensation and benefits are all part of HRM. When we talk of International human resource management, the functions are similar to that of HRM but more complex as it goes beyond one nation. Further, there are wide variations from country to country. IHRM also has to look after some additional areas which normally may not be necessary in one country operation. What an HR manager does in a multinational corporation varies from firm to firm. It also depends on whether the manager is located in a global corporation's headquarters or onsite in a foreign subsidiary.

Broadly defined, international human resource management (IHRM) is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation. If the MNC is simply exporting its products, with only a few small offices in foreign locations, then the task of the international HR manager is relatively simple. However, in global firms human resource managers must achieve two somewhat conflicting strategic objectives. First, they must integrate human resource policies and practices across a number of subsidiaries in different countries so that overall corporate objectives can be achieved. At the same time, the approach to HRM must be sufficiently flexible to allow for significant differences in the type of HR policies and practices that are most effective in different business and cultural settings.

The balancing of this integration (control and coordination from headquarter) and differentiation (flexibility in policies and practices at the local subsidiary level) emerge as a real challenge to the global HR managers.

When compared with domestic human resource management, IHRM requires a much broader perspective on HR activities. The number and variety of IHRM activities are extensive with issues as varied as international taxation; international relocation and orientation; various other administrative services for expatriates; selecting, training and appraising local and international employees; and managing relations with host governments in a number of countries around the world. An international company deals with an increased complexity and an increased uncertainty. The following points differentiating IHRM and National Human resource Management can be highlighted.

- In a multinational company the numbers and the heterogeneity of the elements influencing the decision making process increase.
- Environmental elements and conditions are different from country to country.
- Economic, political and social differences hinder the normal standardized procedure adopted by the organization.
- The linguistic variety influences the communication
- Cross cultural differences determine the thinking and behaviour pattern of the individuals.

- Prejudices influence the interpersonal relationship.

A paper by Morgan (1986) on the development of international HRM enlightens us regarding the activities that change when HRM goes international. According to him, international HRM consists of three dimensions:

i. The three broad human resource activities of procurement, allocation, and utilization of human resources.

ii. The three national or country categories involved in international HRM activities: (a) the host-country where a subsidiary may be located,

(b) the home-country where the firm is headquartered, and

(c) "other" countries that may be the source of labor or finance.

iii. The three types of employees of an international firm:

(a) host-country nationals (HCNs),

(b) parent-country nationals (PCNs), and

(c) third-country nationals (TCNs).

Thus, for example, Microsoft employs German citizens (HCNs) in its German operations, often sends U.S. citizens (PCNs) to Asia-Pacific countries on assignments, and may send some of its Indian employees on an assignment to its Sri Lankan operations (as TCNs).

Morgan defines international HRM as the interplay among these three dimensions—human resource activities, types of employees, and countries of operation.

We can see that in broad terms, international HRM involves the same activities as domestic HRM: (eg. procurement refers to HR planning and staffing). However, domestic HRM is involved with employees within only *one national boundary*, whereas the other goes beyond that. The international HRM process involves understanding the strategic context of HRM within the firm's overall strategy, recruiting and selecting appropriate managerial personnel, providing necessary training and development, assessing performance, providing compensation, maintaining the right kind of employee relations, and evaluating managerial retention and turnover.

7.3 CHALLENGES OF IHRM

IHRM has to face several challenges compared to HRM. Some of these are as follows:

- International HR managers face a more complex task than their domestic counterparts because differing cultures, workforce diversity, levels of economic development, and legal systems among countries that may require companies to adapt their hiring, firing, training, and compensation programs to each country they operate.
- Firms must decide whether managers will be selected from the home country, from the host country or from third countries.
- Training and development for managerial and non-managerial employees in an international firm may be more complex than in a domestic firm.
- Compensation both the monetary and non-monetary (like, the fringe benefits) systems must be adapted to meet the needs of each country's labour market.
- Retention of employees

7.4 IHRM IN PRACTICE

7.4.1 INTERNATIONAL MANAGERIAL STAFFING NEEDS

Now you must be thinking about the kind of staffing needs that MNCs have and how different positions of an MNC in a host country are filled up. Actually there are two broad categories of staffing needs facing international human resource managers:

(a) Recruiting, training, and retaining managerial and executive employees; and

(b) Recruiting, training, and retaining non-managerial employees such as blue-collar production workers and white-collar office staff.

For non-managerial employees, international firms normally adapt their compensation and performance appraisal systems to local laws, customs, and cultures. For example, that while U.S. workers appreciate feedback from an appraisal system, German workers are resentful of feedback.

Companies or firms carry out expansion of their operations in phases. And each phase of expansion requires human resource. The choices are Parent Country Nationals (PCNs), Host Country Nationals (HCNs) or Third Country Nationals (TCNs).

When a firm establishes an international department, subsidiary managers are hired usually from the host country, who report to the top management person of the international division, who is usually a home/parent country citizen. As the firm further expands its operations, a team of managers with expertise in the firm's product lines, necessary functional skills, individual country markets, and the firm's global strategy is usually assembled.

The extent of centralization influences the choice of people for employment. Firms that practice centralized decision making at the headquarters typically favour home country managers, who are Parent Country Nationals (PCN). That way these organizations feel that the decisions will be more attuned to the thoughts of the head office. On the other hand, those who want to practice decentralized decision making (at the subsidiary level) attempt to favour host country nationals. But it is generally observed that companies do not fall into one of these extremes and hence have a combination of both home and host country managers.

There are certain advantages as well as disadvantages associated with hiring of the PCNs.

Communications and coordination with corporate headquarters is typically facilitated when PCNs are employed because they normally share a common culture and education background with headquarters staff. PCNs may however lack adequate knowledge of the local laws, culture, economic conditions, social structure, and political processes. They may be expensive to relocate and maintain in the host country. Moreover, even if the firm wants to have freedom in choosing the country of the employees, the host country may impose certain restrictions on the number of people who could be transferred from the company offices elsewhere.

HCNs are the most common choice for the mid level and lower level jobs. Employing HCNs is popular because they are already familiar with the local laws, culture and economic conditions. They may also be cheaper than the PCNs as the relocation expense does not come into the picture. However, they are not familiar with the firm's corporate culture and business practices and hence have to be trained on those aspects before deriving meaningful work from them.

Third Country Nationals (TCNs) are citizens of neither the firm's home country nor the host country. Firms usually employ them in upper level or technical positions or for special assignments in other countries. TCNs and PCNs are collectively known as expatriates, which refer to people working and residing in countries other than their native country.

7.4.2 INTERNATIONAL STAFFING MODELS

Multinational companies face dilemma in recruiting, selecting and placing people in different positions. However few staffing models are available from which they can prefer to choose one. These are discussed below.

i. Ethnocentric staffing model :

It suggests that PCNs can be selected for higher level positions. The reasons being the advantages associated with being aware of the culture of the organization, the people in the headquarters. It helps in creating and focusing the work culture as desired by the head office. As said before, the presence of PCNs helps in coordination with the top management as well as the departmental heads. PCNs may also expedite their work through their association with the informal structure in the organization. In most of the cases these people have already made a name in their organization and the latter knows their strengths, weaknesses and potential. These international assignments may also be a launching ground for a higher position in the organization or may also be a test period. Thus chances are much there that the person will try to do well.

ii. *Polycentric staffing model:*

It is based upon the belief that as HCNs know the local market best they must be selected to man most of the positions. In a place where the market, laws and the whole system is complicated, it is always better to take HCNs. It is influenced by the availability of candidates with the requisite skills and abilities including qualification and experience.

iii. *Geocentric staffing model* :

Firms that want to hire the most qualified person for the job regardless of their nationality may follow this model. For managing the operations of the firm when it aims at quality this model will be suitable. In many cases the work cannot be entrusted to a person looking at his or her nationality, but more important is the knowledge of the work that the person is supposed to do and skills that the person has to handle the operations (refer fig.8.1).

7.4.3 SKILLS AND ABILITIES NEEDED BY INTERNATIONAL MANAGERS FOR SUCCEEDING IN INTERNATIONAL ASSIGNMENT

It falls primarily under two categories (refer fig.8.1), namely, those needed to do the job and those needed to work in a foreign location. The former includes the technical, functional and managerial skills. The latter include the individual's ability to get adapted to the new environment, ability to speak, write, understand the language of a foreign country and several personal characteristics like an individual's interest to work in such countries etc. If an employee who is chosen to work in a host country has both these two sets of skills and abilities, he or she has greater chances of completing and succeeding in an international assignment.

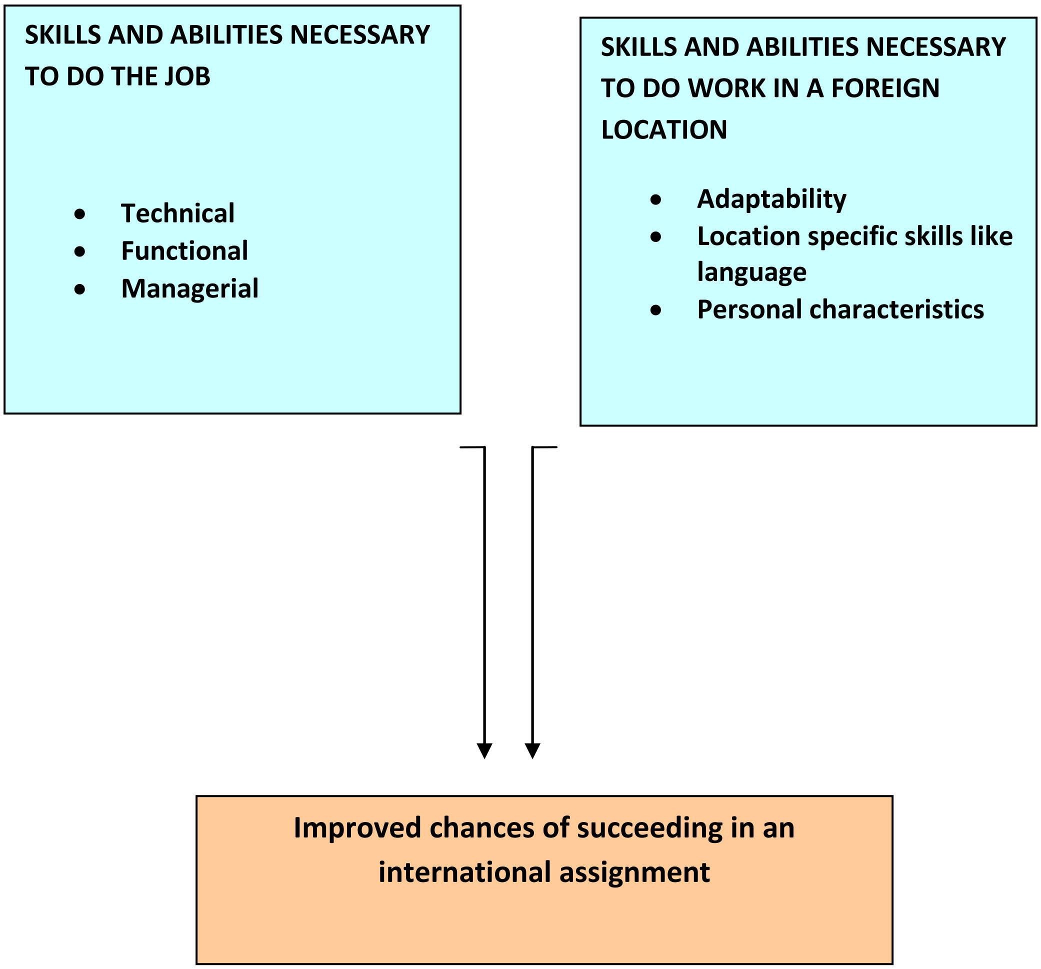


Fig 7.1: Necessary skills and abilities needed of international managers

Today, as businesses globalize, the market for executive talent is also globalizing. Top management teams are increasingly diverse in their members. While most MNCs do not hire new college graduates to take foreign positions immediately, many hire graduates with the intention of sending them abroad in the future. The selection process in international firms is particularly important because of the high cost of expatriate failure. Expatriate failure is the early return of an expatriate manager to his or her country because of an inability to perform in the overseas assignment or adapt to the new environment. Expatriate failure rates may be as high as 20-50 percent in many U.S. companies, higher than for either European or Japanese companies.

Managers sent on foreign assignments may experience culture shock, a psychological phenomenon that may lead to feelings of fear, helplessness, irritability, and disorientation in the new environment. In order to get over this acculturation must take place. The reasons for this are discussed below.

- An expatriate suffering from culture shock may be less effective and productive. Hence, companies typically take measures to limit its effects such as providing pre-departure language and cultural training.
- In most cases, expatriates fail to complete their foreign assignments because of an inability of the expatriate manager, or his or her spouse and family, to adapt to the new location.
- Firms are now beginning to pay more attention to repatriation--bringing a manager back home after a foreign assignment has been completed. Individuals that successfully adapted to the foreign environment may experience reverse culture shock upon returning to their own country.
- Regarding "non-cultural" issues leading to success or failure overseas, managers tend to be more successful in foreign assignments when the following five conditions are met:

i. they can freely decide whether or not to accept a foreign assignment

ii. they have a realistic understanding of the new job and assignment

iii. they have a realistic expectation of a repatriation assignment

iv. they have a mentor in the parent firm who will look out for their careers

v. there is a clear link between the foreign assignment and the manager's long-term career path.

Acculturation takes place in four phases. This is depicted in fig.7.2 below.

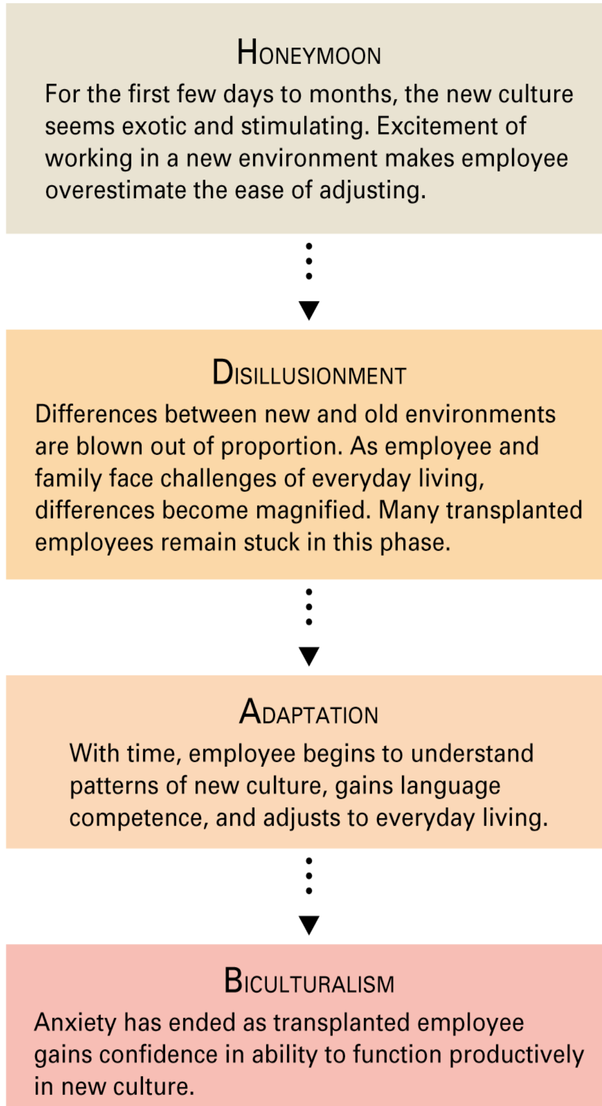


Fig. 7.2 Phases in Acculturation

At the end of the above mentioned phases, an expatriate gets adjusted well to the culture of the place and also that of the organization in a particular country. He or she starts liking it and starts performing well. The new culture gets embedded in the daily routine and habit of the person. The period that follows is smooth. At this juncture a problem surfaces when the person has to go back to his parent country termed as 'repatriation'. He is again likely to face difficulty in adjusting to its culture. Thus MNCs should help their employees in getting readjusted to the previous culture.

7.4.4 TRAINING

Designing training is challenging for multinationals as the kind of training required by the HCNs and expatriates would differ in certain ways. However, the four strategies of training can be discussed as follows.

i. *Use of expatriates for short and long term international job assignments*

The focus while training an employee for a short – term assignment would remain narrowly focused on what the objective of assignment is compared to cultural gaps and work – life differences that will be given minimal importance in the training. But for a long-term assignment a significant amount of time and effort would be given in coaching the employee on the cultural differences, workplace behaviour, etiquette, eating habits and other helpful strategies to achieve success on the assignment.

ii. *The staffing orientation that is adopted in the subsidiary unit*

This influences the kind of training that is given. An ethnocentric staffing keeps the focus of training to cross- cultural and cultural adjustment initiatives. Depending upon the roles and responsibilities, the training framework is determined. A polycentric staffing shifts the training focus to technology training and an extensive orientation/induction centering the parent company's culture, policies and workplace values. The training focuses on familiarizing the employees on the acceptable and not acceptable work practices. In geocentric staffing the training focuses on knowing the parent company, the particular technology of the organization and the specific skills required to manage employee's role.

iii. *Control and coordination linkages with the subsidiary unit*

When the parent unit has strong linkages of control with the subsidiary unit, the investment on training is on work culture, compliance and several practices. The training is aligned to the organization's global strategy. On the other hand when this linkage is weak the training revolves around the local technical and managerial issues specific to the industry and country of existence.

iv. *Role and responsibility of the position*

This determine to a significant extent the magnitude and content of training. Training for role in higher levels of hierarchy focus on leadership, strategy formulation, management challenges specific to the organization/ industry and the country of practice. Jobs/ roles that are critical for organization's success in a host/subsidiary unit like that of sales/ research where normally they are specialists, training focuses on global organizational objectives and ongoing technological training in order to equip themselves with the latest skills and remove obsolescence.

As said before, checking expatriate failure is a major challenge for many multinational organizations. In this regard training can be of some help.

Tarique and Calligiri (1995) proposed the following steps in order to design a training programme for expatriates:

i. Identify the type of global assignment, eg technical, functional, tactical, and developmental or strategic/executive so that the person is well conversant with the work he is supposed to do in another country.

ii. Conduct a cross-cultural training needs analysis covering organizational analysis and requirements, assignment analysis of key tasks and individual analysis of skills. This will help to design the right kind of training to different persons.

iii. Establish training goals and measures – cognitive (eg understanding the role of cultural values and norms) and affective (modifying perception about culture and increasing confidence in dealing with individual behaviours to form adaptive behaviours such as interpersonal skills). This will help the expatriates to develop a positive perception about his or her role in a new country and better get adjusted to its culture.

iv. Develop the programme – the content should cover both general and specific cultural orientation; a variety of methods should be used; for example classroom and exposure to reality, demonstrations etc.

v. Evaluate the effectiveness of training imparted from time to time.

7.4.5 PERFORMANCE MANAGEMENT

From your knowledge on this topic you are perhaps aware that it includes different components like goal setting, training and development, performance appraisal and performance linked reward, all of which are focused on enhancement of performance of a person. It is an area of great significance in a multinational corporation. Performance appraisal of Host Country Nationals is a matter of concern of IHRM. The cultural differences of the parent and host countries may make the use of the standard appraisal system unworkable. For instance if we take the case of Japanese MNC in France, and the appraisal of a French employee by a Japanese manager; the Japanese manager cannot directly criticize an employee’s work. He may start by discussing all the good work the employee is doing on a general level. He may then explain the consequences of a mistake of the type made by an employee, without directly stating that the employee made such a mistake. The employee is then supposed to understand his mistake and how to correct it. Together they decide upon a corrective plan. This example is only one in a great many cross cultural issues that may exist in appraisal system in place within an organization. In many countries quality comes before quantity or for success of the company is derived from customer satisfaction. The IHRM department must exercise caution and understand the cultural environment in place within the subsidiary company. It may be preferable to set forth general guidelines for the appraisal system and allow the HRM department within the subsidiary company to develop or modify existing systems to comply with the general guidelines.

Expatriate performance management is another consideration of a multinational enterprise. As with most employees an expatriate must be evaluated on his or her performance. This issue becomes more complicated in that some of the expatriates may now be reporting to someone in the Host Country subsidiary. The expatriate may feel he is better served by an evaluation of his performance by someone in the parent company as he is more comfortable and convinced with it. Another reason might be that the expatriate will return to the parent company upon completion of the assignment and would wish to maintain his or her relationship with the headquarters more so to get noticed. Other issues of concern to either the expatriate or the company's HR department is whether or not to use a standard or a customized employee appraisal form, the frequency of the evaluation and performance feedback.

PMS is part of organizational strategy to attract, manage and retain an effective and efficient work force. It is linked to broader strategic rewards that keep highly skilled employees engaged and focused on meeting strategic objectives and delivering results. These rewards apart from pay and benefits/incentives also include career development and learning opportunity and getting the benefits of a better organizational climate and a work/life balance. The PMS is viewed as a strategic HR activity of the organization and is attuned to achieving the business objective. For deriving the benefits of an effective PMS the following need to be considered by an MNC.

i. Clear criteria and standard of individual performance that relate to an individual's role needs to be laid down and communicated to the respective individuals. This must include the setting and communication of SMART (Specific Measurable Agreed Realistic Time bound) goals. Normally this should be a participative approach.

ii. Adequate job and performance related training need to be imparted. But training need analysis is important.

iii. Continuous measurement and feedback on job related result and behaviour.

iv. To conduct developmental activities to remedy poor performance and to build on good performance.

v. Attribution of good or poor performance to correct the causes.

vi. To keep the provision of performance linked reward to motivate the good performers.

vii. Formulation of plans to correct poor performance and to build on good performance in future.

7.4.6 COMPENSATION

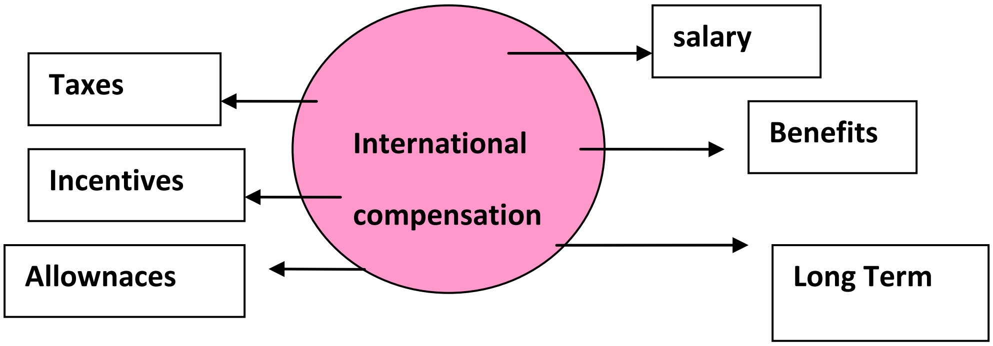


Fig 7.3 Components of International compensation

The factors those are likely to have an impact on the design of reward systems as suggested by Bradley *et al* (1999) are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities and legal and institutional factors. They refer to the choice that has to be made between seeking internal consistency by developing common reward policies in order to facilitate the movement of employees across borders and preserve internal equity, and responding to pressures to conform to local practices. It is advisable that the reward system design and management needs to be tailored to the local values to enhance the performance of overseas operations. The differences in international reward are not just a consequence of cultural differences, but also of differences in international influences, national business systems and the role and competence of managers in the sphere of HRM.

Compensating expatriate managers can be a complex process because factors such as differences in currency valuation, standards of living, lifestyle norms, and so forth must be taken into consideration while designing compensation plan for them. However, the following points needs to be carefully thought.

- A cost-of-living allowance may be given to managers to offset differences in the cost-of-living in the home and host countries. A hardship premium (also known as a Foreign Service premium) may be paid to managers who accept assignments in relatively unattractive locations.
- Special benefits packages may be provided to expatriate managers that include housing and utilities, education/ school fees, medical treatment, travel to the home country, ‘incentive to work abroad’ premium, spouse assistance and club memberships.
- Some MNCs have a provision of ‘rest and recuperation’ leave.

- Including Long Term benefits like Employee Stock option plan, restricted stock Unit, employee stock purchase Plan.

It is seen that in many cases the total compensation package offered to an expatriate is much more lucrative than the package offered to his or her local counterpart. This creates confusion and a decreased morale to the latter.

The basic choice is whether to adopt a home- based or host-based policy for expatriates. The **home-based pay** approach aims to ensure that the value of the salary of expatriates is the same as in their home country. It is the salary which is assumed to be paid to expatriates were they employed in a job of equivalent level at the parent company. The home-base salary is used as the foundation upon which the total remuneration package is built. This is sometimes called the ‘build-up’ or ‘balance sheet’ approach. To it a cost of living adjustment is added, which is applied to ‘spendable income’ – that is the portion of salary that would be used at home for everyday living. It usually excludes income tax, social security, pensions and insurance and can exclude discretionary expenditure on major purchases or holidays on the grounds that these do not constitute day-to-day living expenses. In addition to this, it may be necessary to adjust salaries to take account of the host country’s tax regime in order to achieve tax equalization.

Organizations in order to avoid disparity regarding salary payments between the expatriates and HCNs consider **Host-based pay** approach that provides expatriates with salaries and benefits such as company cars and holidays that are in line with those given to nationals of the host country in similar jobs. This method ensures equity between expatriates and host country nationals. It is adopted by companies using the so-called ‘market rate’ system, which ensures that the salaries of expatriates match the market levels of pay in the host country. Companies using the host-based approach commonly pay additional allowances such as school fees, accommodation and medical insurance. They may also fund long-term benefits like social security, life assurance and pensions from home. The host-based method is certainly equitable from the viewpoint of local nationals, and it can be less expensive than home-based pay for the organization. But it may be much less attractive as an inducement for employees to work abroad, especially in unpleasant locations, and it can be difficult to collect market rate data locally to provide a basis for setting pay levels.

7.4.7 EMPLOYEE RELATIONS

MNCs have to carefully proceed with the kind of employee relation practices that they intend to follow in a host country. Though they may have their own philosophy, but they must also feel and predict the impact of such practices in another country. A country’s laws, culture, social structure, and economic conditions may impact labour relations. For example, the role of unions varies greatly among countries.

In the U.S. membership in unions has been steadily decreasing, but over half the world's workforce outside the U.S. belong to unions. Unions in the European countries tend to be aligned with political parties, but in Japan are created and run by the firms themselves, for example that of TOYOTA, SONY corporation etc. In fact, labour relations in Japan are so cordial that strikes are rare. Employees and employers believe in life long employment. Both have the concern for each other; hence betterment of the organization is prime focus in their minds. The premise of industrial democracy that is the belief that workers should have a voice in how businesses are run is an important influence in labour unions in Europe. In Germany an approach called codetermination provides for cooperation between management and labour in running a business.

The EU's implementation of its social charter (or social policy) whereby employment conditions and practices will be standardized throughout the community is addressing issues such as maternity leave, job training, and pension benefits.

Labour unions have had their bargaining power reduced by globalization. However, there is very little coordination between unions in different countries to counter that reduction in bargaining power. MNCs must try to understand the industrial relations climate of the host country and accordingly decide upon the kind of ER or IR practices in a country. In order to derive good results they can integrate the positive aspects of what they presently practice with that what is prevalent in a host country. Further a study of the successful cases and learning from bad cases of practice may help them in devising their own ER strategy. Whatever the case may be, MNCs must endeavour to bring in employee motivation at work.

7.5 SUMMING UP

Broadly defined, international human resource management (IHRM) is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation. But it has more functions apart from these. International HR managers face a more complex task than their domestic counterparts because of differing cultures, workforce diversity, levels of economic development, and legal systems among countries. While staffing their multiple locations in host countries they have a choice of adopting three models namely, ethnocentric, polycentric and geocentric. These comprise the Parent Country National (PCNs), Host Country Nationals (HCNs) and Third Country National (TCNs). The expatriates must go through the acculturation process in order to get adapted to a host country's environment. The factors that would determine the kind of training that would be imparted are, whether the expatriates are chosen for short and long term international job assignments; the kind of staffing orientation that is adopted in the subsidiary unit; the control and coordination linkages that exist with the subsidiary unit and role and responsibility of the position. Conducting Training Need Analysis and specifying the training is important. Evaluating training is essential to derive the desired benefits. A suitable Performance Management System can help the MNC to focus on results. Designing the right kind of compensation though challenging yet can help to retain employees. Further, maintaining cordial relations with the employees at all levels so that they become partners in creating the organization's success is of utmost necessity.

►***To read***

International HRM practices of MNCs.

7.6 PROBABLE QUESTIONS

1. What do you mean by International Human Resource Management?
2. How would you distinguish it from Human Resource Management (domestic)?
3. What are the challenges of International Human Resource Management?
4. Describe international staffing needs and how these needs can be fulfilled.
5. What are the skills and abilities needed by international managers for succeeding in international assignment?
6. Why does acculturation need to take place? Discuss the different phases of acculturation.

7. Discuss the need for training in an MNC. How will you plan the kind of training that is required by the employees?

8. Discuss what should be the type of compensation for different types of people in a host country?

9. What are the different alternatives that are available to guide you while designing the compensation system for an MNC?

10 Discuss the significance of employee relations for an MNC citing examples of practices in different countries.

11. What are the advantages as well as disadvantages of employing PCNs?