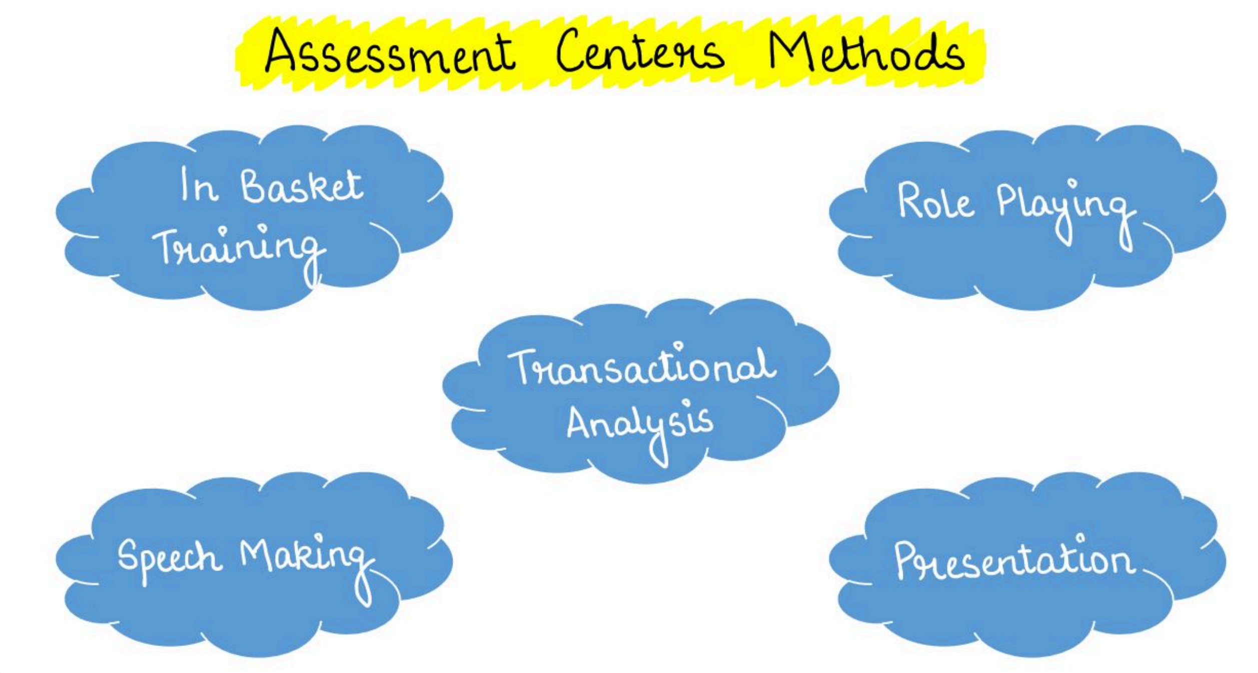
Auditing Course Material

3. Methods of Performance Appraisal

Assessment centers are a performance management method designed to evaluate the potential of individuals for promotions, training, or development.



In this approach, candidates or employees are brought together, and they undergo various individual and group tasks that simulate the challenges they may face in their future roles. Observers, often trained assessors, then assess and rank the participants based on their performance during these simulated exercises.

In an assessment center for a managerial role, candidates might go through exercises such as in-basket techniques, where they are given a set of tasks and decisions to prioritize within a limited time. Another exercise could involve leaderless group discussions, where participants must collaborate to solve a problem without a designated leader. Role-playing scenarios may also be included, allowing assessors to observe how candidates handle situations that mirror real-world challenges.

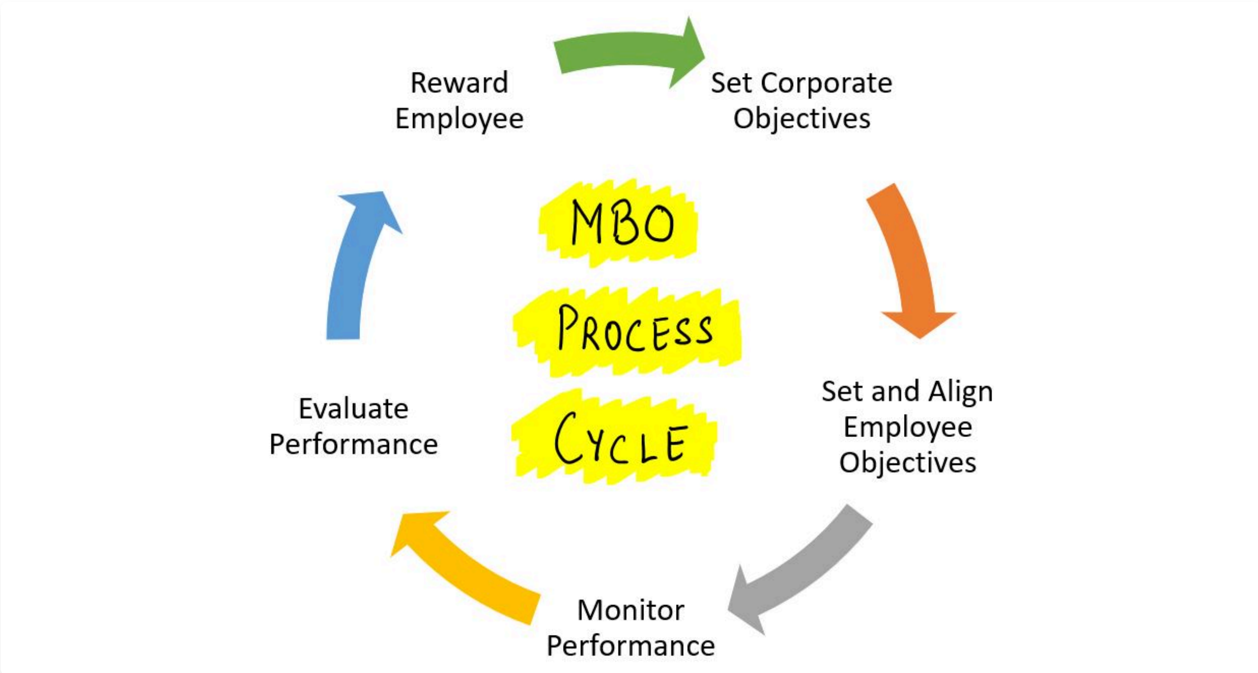
By utilizing a variety of exercises, assessment centers provide a thorough evaluation of a candidate's skills, including problem-solving, communication, leadership, and teamwork.

3. Methods of Performance Appraisal

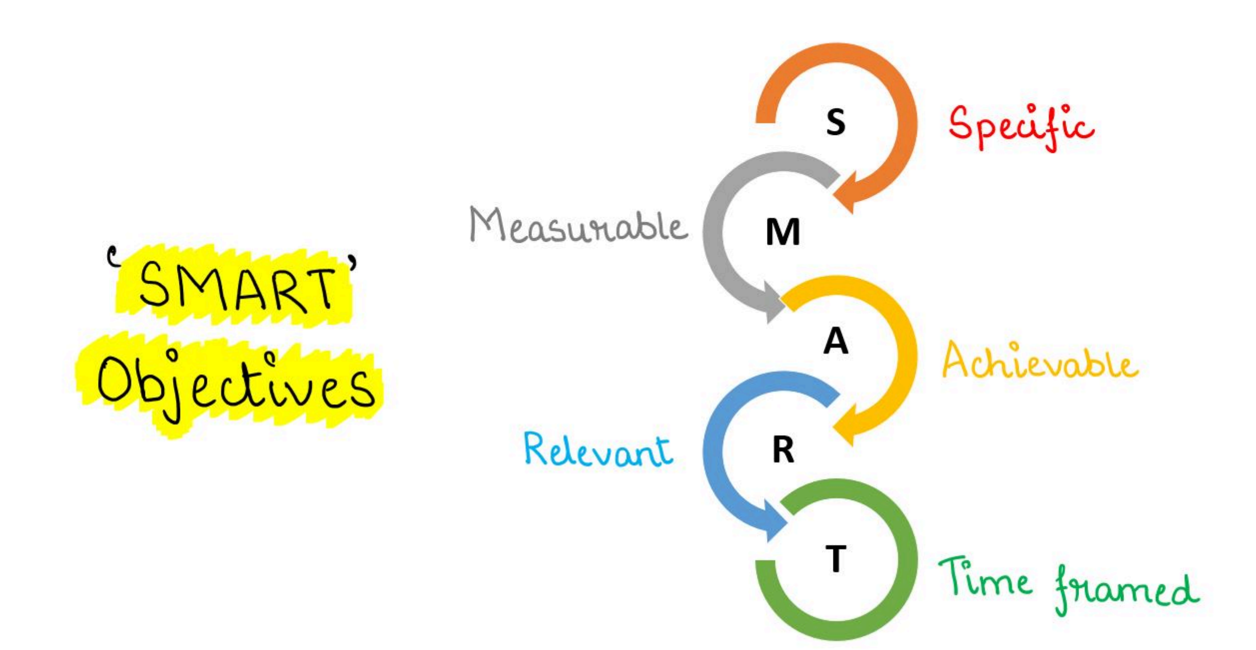
Management by objectives involves setting specific measurable goals with each employee and then periodically reviewing the progress made. The term MBO almost always refers to a comprehensive organization wide goal setting and appraisal program that consists of 6 main steps:

1. Set the organization's goal
2. Set departmental goals
3. Discuss departmental goals
4. Define expected result
5. Performance review
6. Provide feedback.

The term 'Management by Objectives' was first popularized by Peter Drucker in his 1954 book 'The Practice of Management'.



The essence of MBO is participative goal setting, choosing course of actions and decision making. An important part of MBO is the measurement and the comparison of the employee's actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.



Many organizations use the following **SMART** mnemonic to summarize the criteria for objectives:

S = Specific/stretching – clear, unambiguous, straightforward, understandable and challenging.

M = Measurable – quantity, quality, time, money.

A = Achievable – challenging but within the reach of a competent and committed person.

R = Relevant – relevant to the objectives of the organization so that the goal of the individual is aligned to corporate goals.

T = Time framed – to be completed within an agreed time scale.

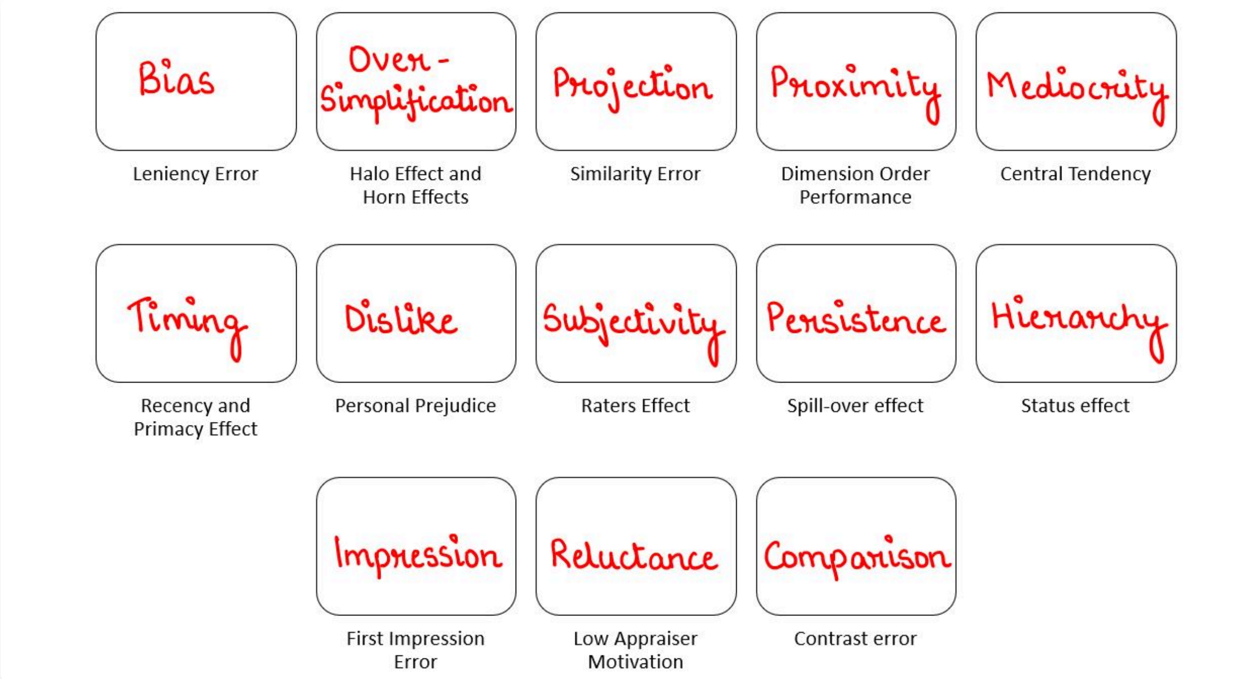
MBO is a system that seeks to align employees' goals with the goals of the organization. This ensures that everyone is clear about what they should be doing, and how that is beneficial to the whole organization. It's quite easy to see why this type of managing makes sense - when the parts work in unison, the whole works smoothly too. And by focusing on what you're trying to achieve, you can quickly discriminate between tasks that must be completed, and those that are just a waste of valuable time.

The main objective of performance counseling is to help the employee overcome his weaknesses and to reinforce his strengths. In this sense, it is a developmental process where the supervisor and the subordinate discuss the past performance with a view to help the subordinate to improve and become more effective in future. Appraisal reports serve as springboard for discussion. One of the fallout effects of this dyadic interaction is the identification of training needs. Counseling provides an opportunity to the supervisor to give feedback to the subordinate on the performance and performance related behavior.

4. Bias in Performance Appraisal

The performance appraisal process is often thought of as an objective system, but it's unrealistic to assume that all managers interpret and standardize evaluation criteria without any bias.

Although it's acknowledged that a perfect, error-free performance appraisal is impossible, several types of errors can negatively impact the objectivity of the evaluation, which are discussed below.



1. Leniency Error

This occurs when evaluators rate employees too high or too low based on their own value system, resulting in overrated or underrated performance appraisals. For example, an evaluator who is positively lenient might give a high rating to an employee who meets only the minimum requirements, while an evaluator who is negatively lenient (Strictness Error) might give a low rating to an employee who consistently exceeds expectations. These are types of Distribution Errors.

2. Halo Effect and Horn Effects

The Halo Effect occurs when an individual's overall performance is judged solely based on one outstanding positive quality, feature, or trait. This often leads to uniformly high ratings in other areas of work, even if they may not necessarily deserve it. For instance, if an employee has a good attendance record, the supervisor may rate them highly in all other areas of work as well.

On the other hand, the Horn Effect occurs when an individual's overall performance is judged based on one negative quality or feature, leading to an overall lower rating than what may be warranted. For example, if an employee is not formally dressed up in the office, the employer may assume that they are also casual in their work, which may result in a lower rating.

3. Similarity Error

This occurs when evaluators rate other people in the same way that they perceive themselves, projecting their own perceptions onto others. For example, an evaluator who perceives themselves as aggressive may evaluate others by looking for aggressiveness, leading to similar evaluations for individuals who demonstrate that characteristic (Similar to Me error).

4. Dimension Order Performance

This occurs when two or more dimensions on a performance instrument describe or rotate to a similar quality, causing the rater to rate the second dimension similar to the first because of their proximity. For example, an evaluator may rate an employee's communication skills highly, and then rate their teamwork skills similarly, even if the employee's teamwork skills are weaker than their communication skills.

5. Central Tendency

This occurs when an evaluator consistently rates employees in the middle range of the scale, without using the extremes. For example, an evaluator may give all employees a rating of "average," without distinguishing between high performers and low performers. These is a type of Distribution Errors.

6. Recency and Primacy Effect

Recency effect occurs when an employee's recent performance overshadows their performance throughout the entire rating period, leading to higher ratings than warranted. Primacy effect occurs when an employee's initial impression influences their overall rating, regardless of their performance throughout the entire rating period. For example, an evaluator may give an employee a high rating based on their recent performance, without considering their performance earlier in the rating period (Recency effect). Alternatively, an evaluator may give an employee a high rating based on their first impression, even if their performance throughout the entire rating period was poor (Primacy effect).

7. Personal Prejudice

This occurs when an evaluator dislikes an employee or group, leading to lower ratings than warranted. For example, an evaluator may give an employee a low rating because they don't like their personality, even if the employee's work quality is excellent.

8. Raters Effect

It includes favouritism, stereotyping and hostility. This occurs when an evaluator gives exclusively high or low scores to certain individuals or groups based on their attitude towards them, not on their actual outcome or behavior. For example, an evaluator may give all female employees low ratings, even if their work quality is excellent, due to their attitude towards women. It is also known as Perceptual Set. Perceptual set can be influenced by several factors, including motivation, emotions, culture, and personal experiences. For example, if someone is expecting to see a certain object or pattern, they may be more likely to perceive it in ambiguous situations, even if it is not actually there.

9. Spill-over effect

This occurs when past performance appraisal ratings influence current ratings unjustifiably, leading to incorrect ratings. For example, an employee who received a high performance rating in the past may receive an unjustifiably high rating in the current appraisal, even if their performance has decreased, due to the spill-over effect.

10. Status effect

Overrating employees in higher-level jobs and underrating employees in lower-level jobs is referred to as Status effect. For example, a manager may rate a subordinate highly just because of the job title, even if the employee's performance is subpar.

11. First Impression Error

When a rater's first impression of an employee's performance carries too much weight in the evaluation of their entire rating period, it is known as First Impression Error. For example, a new employee may have performed poorly during their first week, but they could have shown tremendous improvement in the following weeks.

12. Low Appraiser Motivation

Low Appraiser Motivation refers when the evaluator is reluctant to give a realistic appraisal because they know a poor appraisal could hurt the employee's future, especially when important rewards depend on the results.

For example, an evaluator may give a higher rating to a friend even if the friend's performance is subpar, knowing that a lower rating could ruin their friendship.

13. Contrast error

Contrast error is when a rater unintentionally compares employees with one another, resulting in low ratings for good performers. For example, a supervisor may give a low rating to a good performer just because they have another employee who performs even better.

Rater errors result in contamination and deficiency and are difficult to prevent. Rating accuracy can be improved somewhat by making raters aware of the kinds of errors that can arise. Various rating formats can also be used to reduce errors. But the most effective method for increasing rating accuracy is to help raters develop a consistent view of what represents good and bad performance. This approach, often labeled frame-of-reference training, provides instruction and practice to help raters see different performance episodes in the same way.

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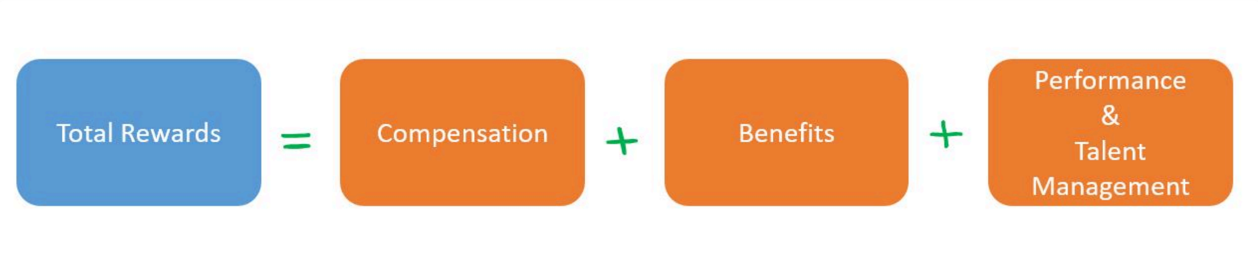
1. Introduction

Compensation Management refers to the process of planning, designing, implementing, and administering an organization's compensation structure to ensure that it aligns with business objectives, attracts and retains talent, and motivates employees.

It encompasses the formulation and administration of various components of employee compensation, including base salary, bonuses, benefits, incentives, and other perks.

Compensation is one part of Total Rewards, with benefits and performance & talent management being the other two parts.



Before moving further, let us understand, what all is included in Total Rewards.

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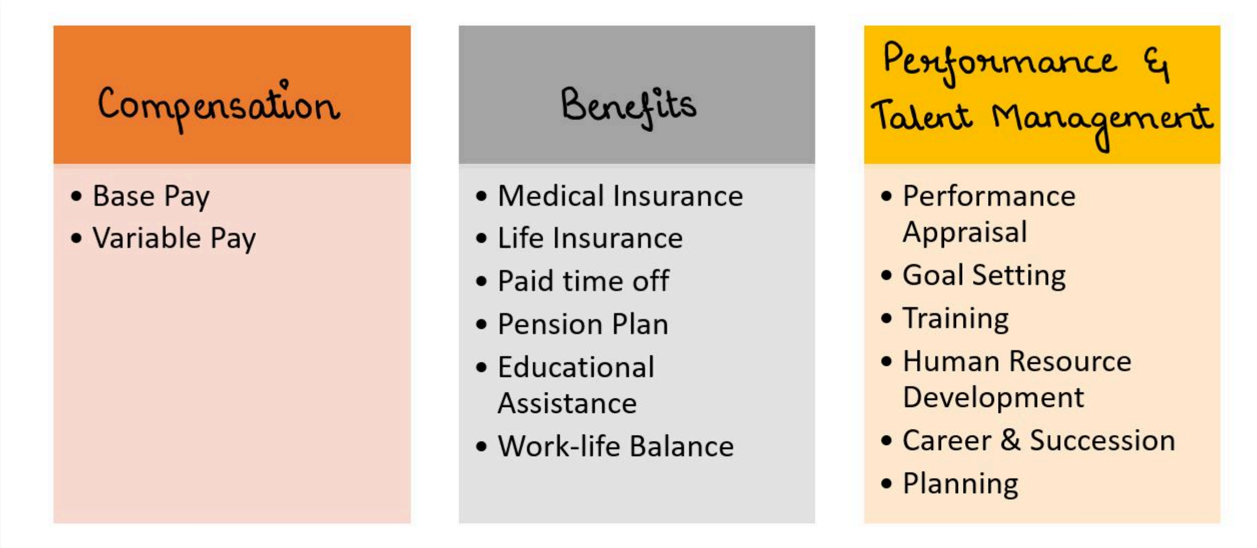
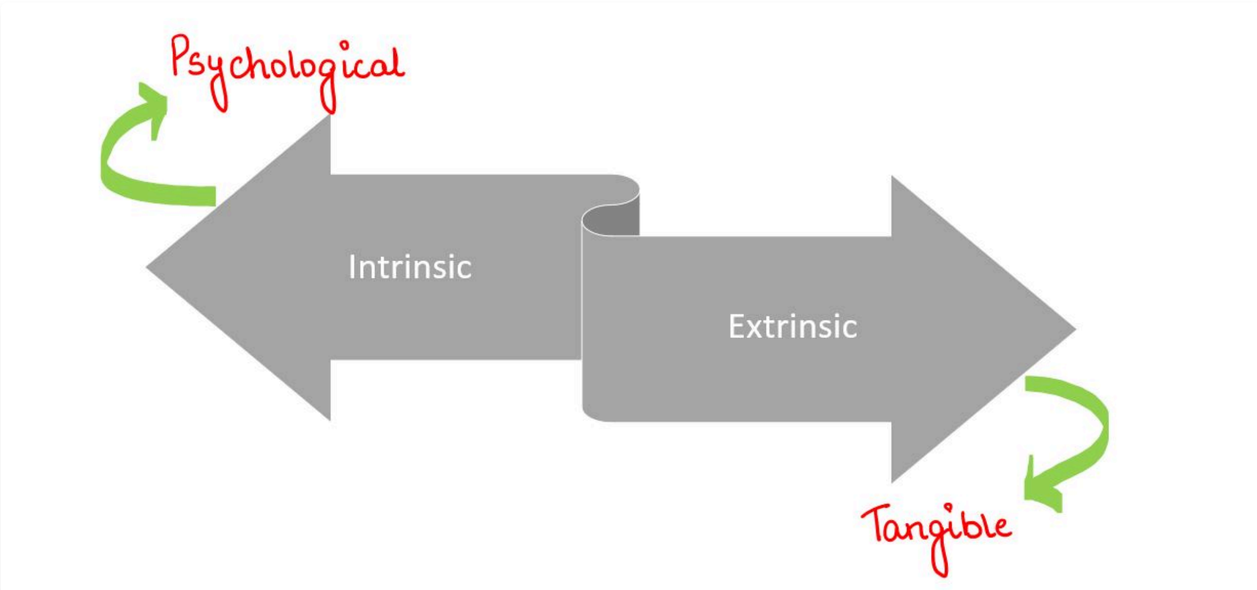
2. Total Rewards

To remain competitive, companies must create reward packages, referred to as total rewards, that satisfy and motivate employees.. Total rewards is combination of three things:
1. Compensation
2. Benefits
3. Performance & Talent Management

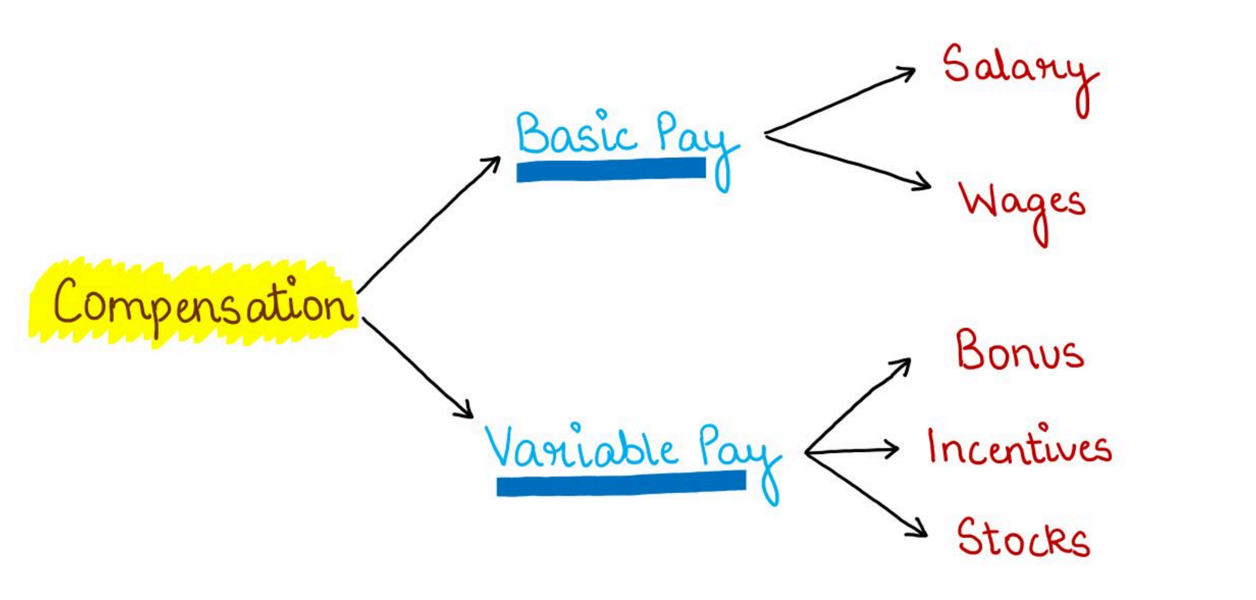


Total rewards include both monetary and non-monetary components and are critical for attracting and retaining employees.



Rewards can be also classified as either intrinsic or extrinsic. **Intrinsic rewards** include psychological and social compensation, like praise for completing a project or meeting performance objectives. **Extrinsic rewards**, on the other hand, are tangible and can be monetary or non-monetary.

Direct compensation, which is the monetary reward provided for work done and performance achieved, is a critical component of a compensation program. Base pay and variable pay are two types of direct compensation. Employee benefits, which are indirect compensation, are also common.



Base pay is the primary compensation that an employee receives and can be hourly or salaried. Hourly pay (usually called **wages**) is based on time, with employees receiving payments calculated based on the time worked. **Salaries**, on the other hand, provide employees with the same payment each period regardless of the number of hours worked.

Variable pay, which is linked to individual, team, or organizational performance, is another type of direct pay. Bonuses and incentive payments are the most common types of variable pay for employees, while executives may receive long-term rewards such as stock options.

3. Approaches to Compensation

Compensation plans are crucial to attracting, retaining, and motivating employees in any organization. There are different approaches to designing compensation plans, each with its own advantages and disadvantages.

These approaches are discussed next.

3. Approaches to Compensation

Entitlement versus Performance represents two distinct approaches to compensation management. The entitlement philosophy, situated at one end of the spectrum, assumes that individuals are entitled to pay increases based on the mere completion of another year, with little consideration for performance differences. On the other end is the performance philosophy, which dictates that compensation changes should be reflective of performance disparities.

In the entitlement philosophy, annual pay increases are granted as a matter of routine, irrespective of individual performance. This approach implies that employees are entitled to salary increments solely based on their tenure with the organization. Conversely, the performance philosophy adheres to a pay-for-performance model, where compensation adjustments are tied to an individual's performance outcomes. Under this approach, organizations structure pay and incentives to recognize and reward employees based on their contributions and achievements.

3. Approaches to Compensation

Internal versus External equity is a crucial aspect of compensation management, focusing on the perceived fairness of rewards based on internal and external comparisons.

Internal Equity

Internal equity is present when employees within an organization believe they are fairly rewarded according to the relative value of their jobs within that specific organization. It involves comparing the compensation and rewards of individuals performing different roles within the same company. For example, if employees in similar positions receive comparable pay, internal equity is maintained.

External Equity

External equity comes into play when employees perceive that their compensation is fair in comparison to individuals performing similar jobs in other organizations. This involves evaluating how an organization's pay rates align with industry standards or the salaries offered by competing employers for similar roles.

To ensure fairness in the compensation process, organizations must also consider *procedural justice*, focusing on the perceived fairness of the procedures used to make decisions about pay, and *distributive justice*, addressing the perceived fairness in the distribution of outcomes. Establishing compensation appeals procedures allows employees to voice concerns, contributing to a more equitable compensation system.

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3. Approaches to Compensation

Market Competitiveness is a critical approach in compensation management, involving the alignment of employees' pay with market benchmarks to attract and retain top talent.

There are 3 Strategies:

1. Lead the Market Strategy

In this strategy, an organization aims to be a leader in compensation within its industry. It involves offering pay levels that exceed the market average to attract top-tier talent and position the company as an employer of choice.

2. Meet the Market Strategy

Organizations adopting this strategy align their compensation with industry averages. It ensures that the company remains competitive in the labor market and can attract and retain employees without necessarily being the highest payer.

3. Lag the Market Strategy

This strategy involves setting compensation levels below industry averages. While it may help control costs, it carries the risk of losing high-performing employees to competitors offering more competitive pay.

Consider a software development company operating in a highly competitive industry. To ensure market competitiveness, the company adopts a "Meet the Market" strategy. This approach involves setting compensation levels at industry averages to remain competitive in attracting and retaining skilled software developers. By offering salaries and benefits in line with industry standards, the company aims to appeal to top talent and minimize the risk of losing valuable employees to competitors.

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3. Approaches to Compensation

Fixed versus Variable Pay is a pivotal aspect of compensation management, involving the decision on the proportion of total compensation allocated as base pay versus variable pay tied to performance.

Fixed Pay

Fixed pay is a stable component of compensation and includes the base salary that employees receive regularly, regardless of individual or organizational performance. It provides financial security to employees and is often associated with traditional salary structures.

Variable Pay

Variable pay is contingent on specific criteria, such as individual, team, or organizational performance. It fluctuates based on the achievement of predetermined goals or targets. This approach ties compensation directly to results, motivating employees to excel in their roles and contribute to the overall success of the organization.

Consider a sales team in a retail organization. The company employs a mix of fixed and variable pay to motivate and reward employees. The fixed pay includes a base salary that remains consistent, providing financial stability to employees. In contrast, the variable pay is linked directly to the sales performance of the team. Sales commissions, bonuses, and incentives constitute the variable pay, fluctuating based on individual and team achievements. This approach encourages high performance, as individuals have the opportunity to increase their earnings based on their contributions to the company's sales targets.

Broadbanding

Broadbanding is a compensation strategy involving wider salary bands than traditional structures. Instead of a 40 percent difference between the minimum and maximum pay, broadbanding may have a 100 percent difference. It provides flexibility in compensating employees based on their skills, experience, and contributions, allowing for a broader range of pay within a single band.

3. Approaches to Compensation

Monetary versus Non-Monetary Rewards is a fundamental consideration in compensation management, involving the choice between financial incentives and non-financial perks.

Monetary Rewards includes:

- **Bonus:** Additional compensation provided as a reward for achieving specific goals or outstanding performance.
- **Commissions**: Variable pay based on a percentage of sales, often used in sales and commission-based roles.
- **Profit Sharing**: Distribution of a portion of the company's profits among employees, fostering a sense of shared success.
- **Merit Pay**: Salary increases based on individual performance, skills, or contributions to the organization.

Non-Monetary Rewards includes:

- **Life Insurance Benefits**: Coverage that provides financial protection to employees' beneficiaries in the event of death.
- **Allowances**: Financial support for specific work-related expenses, such as travel or housing allowances.
- **Health Care Benefits**: Comprehensive medical, dental, and vision coverage, contributing to employees' overall well-being.

Balancing monetary and non-monetary rewards requires a strategic approach, considering the organization's culture, industry practices, and the preferences of the workforce. The combination of both types of rewards can create a comprehensive compensation package that addresses the diverse needs and motivations of employees.

In a tech company, employees may receive both monetary and non-monetary rewards. Monetary rewards could consist of annual bonuses, performance-based commissions, and profit-sharing. These financial incentives directly impact employees' take-home pay and are tied to individual or team achievements. On the other hand, non-monetary rewards may include comprehensive health care benefits, life insurance coverage, and allowances for work-related expenses. While these benefits do not contribute directly to an employee's salary, they enhance the overall compensation package, promoting a holistic approach to employee well-being.

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3. Approaches to Compensation

Competency-Based Pay is a distinctive approach in compensation management, focusing on rewarding employees for the skills, knowledge, and competencies they possess and apply in their roles.

Consider a software development company that adopts competency-based pay to recognize and compensate employees for their specific skills and expertise. In this approach, employees with advanced programming languages, specialized certifications, and the ability to lead complex projects receive higher compensation.

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3. Approaches to Compensation

Pay Secrecy is a practice in compensation management that involves keeping certain aspects of an organization's pay system confidential, including details such as individual salaries, raises, and pay grades.

Imagine a large corporation that maintains a high level of pay secrecy within its organizational culture. Employees are discouraged from discussing their individual salaries or compensation packages with their colleagues. The company may have a policy explicitly stating that such discussions are confidential, and violations could result in disciplinary action. This approach aims to prevent potential issues related to disparities in pay perception and maintain a level of confidentiality around sensitive compensation information.

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3. Approaches to Compensation

Government Legislations in Compensation Management play a crucial role in shaping the framework for fair and lawful compensation practices within organizations.

Consider the Minimum Wages Act 1948, a government legislation that mandates the lowest remuneration that an employer can legally pay their employees. This act sets a baseline wage to ensure that workers receive a fair and minimum level of compensation for their labor.

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4. Factors influencing Compensation Structure

The challenge facing any organization lies in establishing a compensation system that is fair and equitable, with the complexity of the process stemming from diverse perspectives and priorities. While employers often focus on productivity, employees may emphasize the need for higher compensation to cope with the rising cost of living and align with market standards.

A key foundation for a sound compensation structure is a Job Evaluation program, which systematically assesses job contents to establish equitable differentials in payments based on the inherent variations in roles.

Beyond the essential factors provided by job descriptions and evaluations, several additional considerations influence the determination of a compensation structure:

Organisation’s Ability to Pay: The financial capacity of the organization becomes a pivotal factor, ensuring that compensation aligns with the company's financial health.

Supply and Demand for Labour: The dynamics of the labor market, including the availability of skilled workers and the demand for specific roles, impact compensation decisions.

Prevailing Market Rate: Benchmarking against prevailing industry standards helps organizations stay competitive in attracting and retaining talent.

Cost of Living: Reflecting the economic environment, the cost of living is a crucial factor that influences the adequacy of compensation.

Productivity: Aligning compensation with individual and collective productivity serves as a fundamental criterion in reward structures.

Trade Union’s Bargaining Power: In unionized environments, the strength of trade unions plays a role in negotiations and determining compensation levels.

Job Requirements: The nature and complexity of job roles contribute to the assessment of compensation, ensuring that it reflects the skills and responsibilities involved.

Managerial Attitudes: Leadership perspectives and attitudes towards compensation impact the overall philosophy guiding remuneration decisions.

Psychological and Sociological Factors: Employee morale, motivation, and societal expectations are integral elements that contribute to the psychological and sociological dimensions of compensation decisions.

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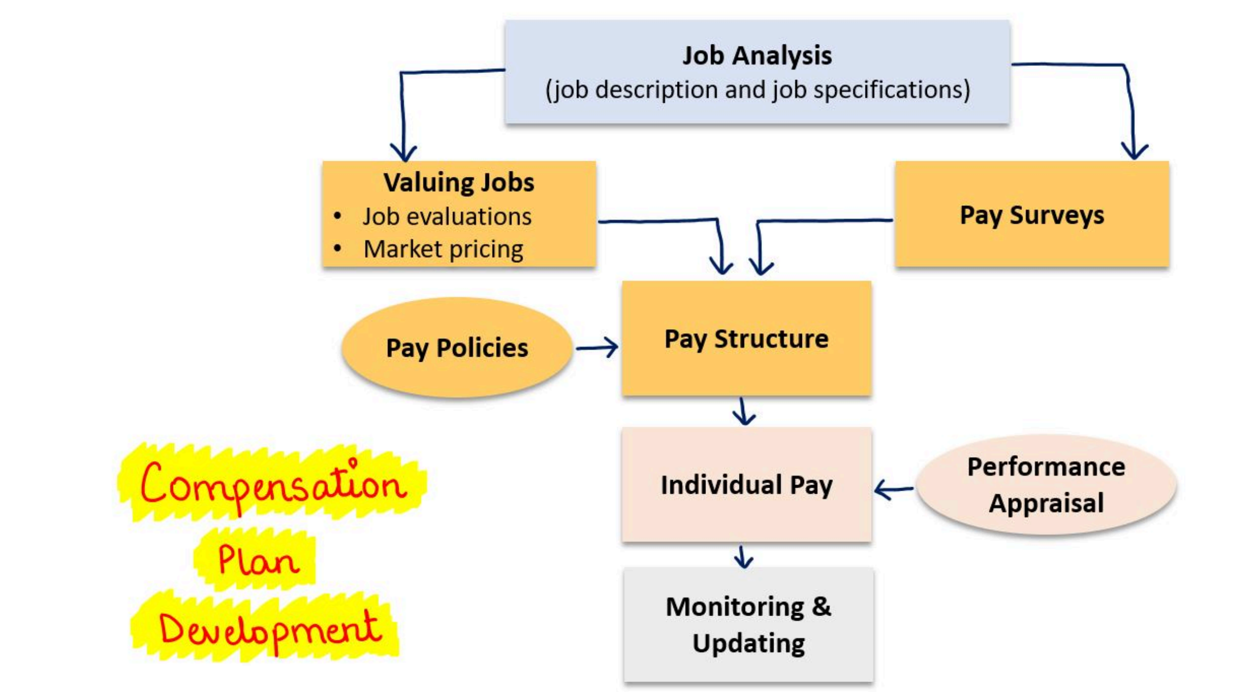
5. Developing Compensation Plan



The process of compensation development can be divided into 4 steps:

Step 1: Developing a Base Compensation System

In the initial phase of crafting a comprehensive compensation plan, organizations rely on current job descriptions and Job specifications to establish a foundational base compensation system.

This involves a dual analysis approach, incorporating **internal job valuation** and **external pay surveys**. Internally, jobs are evaluated for their content and responsibilities using methods like point factor systems. Simultaneously, external market competitiveness is assessed by benchmarking against industry pay surveys. The goal is to achieve a delicate balance of internal equity and external competitiveness.

Step 2: Designing Pay Structures and Pay Grades

Following the compilation of data from job valuation and pay surveys, organizations move on to the crucial step of designing **pay structures**. This involves creating pay grades and establishing minimum-to-maximum pay ranges based on the analyzed information. Rather than adopting a one-size-fits-all approach, diverse pay structures may be established for different job families within the organization.

Job families, characterized by common organizational traits, lead to the creation of distinct pay structures. Examples include hourly versus salaried roles, or various categories like office, plant, technical, professional, managerial, clerical, IT, supervisory, and executive positions.

The determination of the number and nature of pay structures is influenced by the organization's culture, structure, and overall objectives.

Pay structures are built upon the foundation of **pay grades**, grouping jobs of similar value. The establishment of pay grades often involves utilizing job evaluation points or data derived from traditional job evaluation methods. One method involves plotting a market line that correlates job value determined by evaluation points with job value derived from pay survey rates.

Market banding, another approach linked to market pricing, groups jobs into pay grades based on similar market survey data.

Determining **pay ranges** within each pay grade is essential. Using the market line as a reference, organizations set minimum and maximum pay levels (Pay Range), creating a flexible and competitive pay structure.

Broadbanding, a practice of employing fewer pay grades with broader ranges, fosters horizontal movement, skill acquisition, organizational flexibility, and career development. This strategic use of pay structures lays the groundwork for fair and dynamic compensation systems aligned with organizational goals.

Step 3: Job Placement and Individual Pay Adjustments

Following the establishment of pay structures, the next step involves placing individual jobs in the appropriate pay grades and adjusting employees' pay based on their length of service and performance. Managers utilize the predefined pay ranges to determine specific individuals' compensation, offering flexibility within each pay grade for progression without necessitating a move to a higher grade for a raise. This approach enables managers to reward high-performing employees while upholding the integrity of the overall pay system.

Individual pay increases can be influenced by various factors, such as performance evaluations, seniority, cost-of-living adjustments, across-the-board increases, lump-sum increments, or a combination of these approaches. Despite a well-constructed pay structure, there may be instances where an individual's pay falls below the minimum or exceeds the maximum due to historical pay practices, diverse levels of experience, and varying performance levels.

Employees with pay above the range set for their job are considered **red-circled,** indicating that their current pay surpasses the designated pay grade range. Conversely, **green-circled** employees have pay below the range set for their job, often resulting from promotions. In the case of green-circled individuals, it is advisable to provide frequent pay increases to bring their compensation closer to the minimum of the relevant pay grade.

Pay compression is a significant challenge for employers, occurring when the pay differences among individuals with distinct experience levels and performance become minimal. This issue often arises when labor market pay levels increase more rapidly than adjustments made to current employees' pay, highlighting the importance of periodic evaluations and adjustments to maintain competitive and equitable compensation practices.

Step 4: Monitoring and Updating the Pay System

Once the pay structures and individual job placements are established, ongoing monitoring and periodic updates become essential for maintaining an effective compensation system.

Continuous evaluation ensures that the pay system remains aligned with organizational goals, labor market conditions, and internal equity considerations. Regular reviews enable organizations to adapt to evolving business landscapes, market dynamics, and changes in employee expectations.

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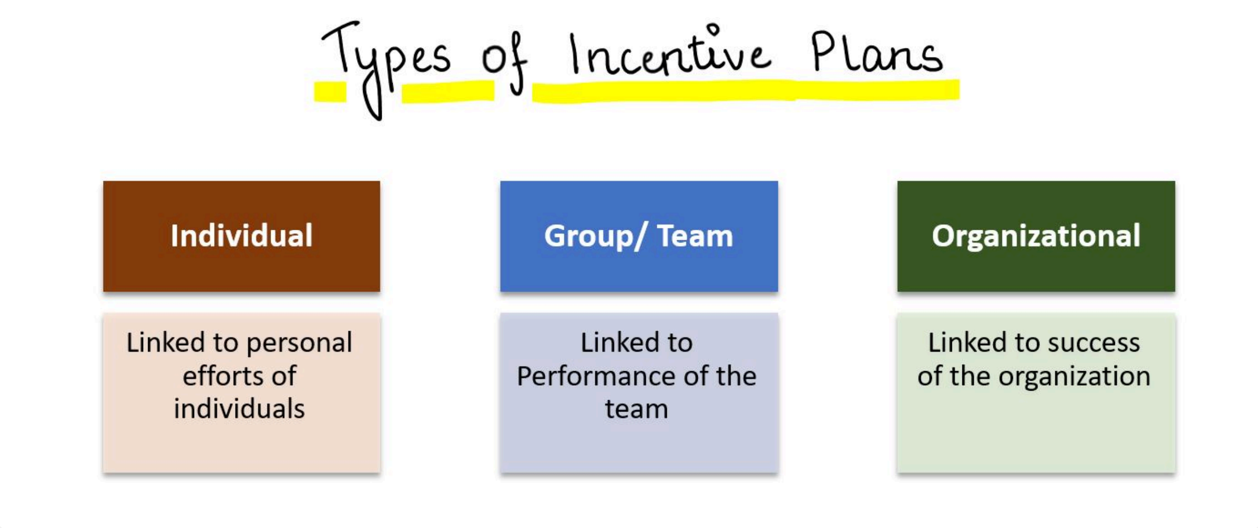
1. Introduction

Variable pay is designed to link financial rewards directly to individual, team, or organizational performance that goes beyond standard expectations. This approach aims to motivate employees by offering tangible incentives, encouraging them to exceed their regular job responsibilities and contribute to the overall success of the organization.



They are of 3 types:

1. Individual Incentive Schemes
Individual incentive schemes focus on rewarding individual employees based on their personal performance. This can include achieving specific targets, surpassing key performance indicators (KPIs), or demonstrating exceptional skills. Common examples are performance bonuses, commission structures, and profit-sharing arrangements tailored to individual contributions.

2. Team-Based Incentive Schemes
Team-based incentive schemes shift the focus to collective efforts and achievements. In this approach, rewards are tied to the collaborative performance of a group or team. Successful completion of team projects, meeting collective goals, or achieving specific milestones may trigger incentives. Profit-sharing for entire teams or gain-sharing arrangements are examples of team-based incentive schemes.

3. Organization-Wide Incentive Schemes
Organization-wide incentive schemes extend rewards to a broader scope, encompassing all or a significant portion of the workforce. Such schemes typically connect incentives to the overall success and profitability of the organization. Profit-sharing plans, stock options, and annual performance bonuses for all employees are examples of organization-wide incentive schemes.

2. Individual Incentive Schemes

Individual incentive schemes tie personal effort to additional rewards. Individual performance must be identified. The performance of each individual must be measured and identified because each employee has job responsibilities and tasks that can be separated from those of other employees.

Under the **Piece Rate System**, the wages are paid according to the quantity of work done. A rate is fixed per unit of production and wages are calculated by the following formula:

$$\text{WAGES} = \text{RATE PER UNIT} \times \text{NUMBER OF UNITS}$$

On the other hand under the **Time Rate System**, workers are paid according to the time for which they work. Payment may be on hourly basis, daily basis or monthly basis. In this system, no consideration is given to the quantity or quality of work done. When payment is made on hourly basis, total wages payable are calculated as follows:

$$\text{WAGES} = \text{RATE PER HOUR} \times \text{NUMBER OF HOURS}$$

Bonus

A bonus is an additional form of compensation granted to individual employees, constituting a one-time payment separate from their base pay. Widely adopted across various organizational levels, individual bonuses represent one of the most prevalent short-term incentive plans employed by many firms. Not integrated into the employee's base pay, bonuses serve as a popular mechanism to recognize and reward exceptional performance.

Spot Bonus

A "spot" bonus is a spontaneous, unplanned reward given at any time for exceptional performance. Employed across various organizational levels, spot bonuses provide immediate recognition for outstanding contributions. They serve as a flexible way to acknowledge exceptional efforts without adhering to a fixed schedule.

Incentive Rewards

Cash, merchandise, gift certificates, and travel are commonly used as incentive rewards for significant individual performance. These rewards offer tangible benefits, motivating employees to strive for excellence.

Recognition Programs

Organizations, especially in industries like hotels, restaurants, and retail, implement programs such as "Employee of the Month" and "Employee of the Year" to recognize individual excellence. Recognition programs celebrate outstanding achievements, fostering a positive work culture and motivating employees to perform at their best.

Service Awards

Service awards are often associated with recognizing employees' length of service, such as 1, 3, 5, or 10 years. While these programs are portrayed as rewarding long-term commitment, they often emphasize tenure more than actual performance.

3. Time Rate System

The Time Rate System is a method of compensating employees based on the amount of time they spend working.

In this system, employees are paid a fixed rate per hour, day, week, or other time unit, regardless of their level of productivity or output. It is a straightforward approach where compensation is determined by the time spent on the job rather than the quantity or quality of work produced.

Let us discuss, some of methods under Time Rate System.

3. Time Rate System

This plan was originated by F. A. Halsey.

In the Halsey premium plan, the employee is entitled to get the incentive for the time saved by him in a certain proportion. Thus, the employees are induced to complete the work well ahead of the standard time. Besides, minimum wages are assured for the employees even if they fail to complete the job within the standard time.

Thus, an efficient employee gets time wages for the actual work done and a bonus in certain percentage for the difference between the actual time and the standard time, i.e., the time saved.

Although the bonus is normally fixed as 50 per cent of the time saved, the organization can also fix higher or lower ceilings for the bonus percentage.

The formula for this method is:

$$\text{EARNINGS} = \overbrace{\boxed{\text{TIME RATE} \times \text{ACTUAL TIME TAKEN}}}^{\text{TIME WAGE}} \underbrace{+ \boxed{50\% \text{ of } (\overbrace{\text{TIME SAVED}}^{} \times \text{TIME RATE})}}_{\text{BONUS}}$$

$$\text{TIME SAVED} = \text{STANDARD TIME} - \text{ACTUAL TIME}$$

The merit of this method is its simplicity as it can be easily installed and operated. It encourages the efficient employees but never penalizes any employee on account of poor performance. It guarantees hourly wage rates even for the employees who are unable to meet the standard time. The limitation of this method is that the incentive available in it is not very attractive to induce the efficient employee to work hard on a continuous basis.

Illustration

In a factory, the standard time allowed for producing 80 pieces of a product is eight hours. Employee A produced 80 pieces of that product in eight hours while Employee B produced 80 pieces of it in six hours. The hourly rate is Rs 4. Calculate the earnings of the employees under the Halsey plan.

Solution:

$$\begin{aligned}\text{EARNING of A} &= 8 \text{ hour} \times \text{Rs } 4 \\ &\quad + 50\% \text{ of } \big((8-8) \times \text{Rs } 4\big) \\ &= \text{Rs } 32\end{aligned}$$

$$\begin{aligned}\text{EARNING of B} &= 8 \text{ hour} \times \text{Rs } 4 \\ &\quad + 50\% \text{ of } \big((8-6) \times \text{Rs } 4\big) \\ &= \text{Rs } 36\end{aligned}$$

3. Time Rate System

This plan was introduced by James Rowan.

The only difference between Halsey plan and Rowan plan is with respect to the calculation of bonus. Instead of 50% of the time saved, bonus is calculated as a proportion.

In this method, an employee gets the time rate for the actual worked hours and also a bonus for the time saved if he completes the job within the standard time. On the other hand, the employee who is unable to complete the job within the standard time gets the time rate for the actual worked time. In this method, the bonus is computed as a proportion of the time rate. This proportion is arrived at by dividing the actual time worked by the standard time.

The merit of this method is that it guarantees the time rate for all the employees for the hours worked by them no matter whether they meet the standard time or not. It helps in eliminating excessive speeding in the job performance as the time saved beyond 50 per cent fetches a decreased bonus. The limitation of this method is that it discourages the employees with exceptional skills by slowing down the rate of growth in earnings beyond 50 per cent of the time saved. It involves a complex computation procedure for determining the earnings of the employees.

The equation for calculating the earnings is:

$$\text{EARNINGS} = \text{TIME RATE} \times \text{ACTUAL HOURS} + \left(\frac{\text{ACTUAL TIME}}{\text{STANDARD TIME}}\right) \times \text{TIME SAVED} \times \text{TIME RATE}$$

Illustration

In a factory, the standard time allowed for producing 80 pieces of a product is 8 hours. Employee A produced 80 pieces of that product while Employee B produced 80 pieces of it in 6 hours. The time rate is Rs 4 per hour. calculate the earnings as per Rowan incentive plan.

Solution:

$$\text{EARNING of A} = (8 \text{ hours} \times \text{Rs } 4) + \frac{8}{8} \times (8-8) \times \text{Rs } 4$$

$$= \text{Rs } 32$$

$$\text{EARNING of B} = (8 \text{ hours} \times \text{Rs } 4) + \frac{6}{8} \times (8-6) \times \text{Rs } 4$$

$$= \text{Rs } 38$$

3. Time Rate System

The first step in the Bedeaux system is the determination of the standard time for various jobs.

The standard time fixed in the Bedeaux system is usually expressed in terms of minutes, popularly called Bedeaux points (B points). Each B point is equal to one minute and each job has a standard number of B points.

This can be explained numerically in this way. The standard time for completing job X is 4 hours, which should be expressed as 240 B points (minutes). Now, employee A completes the job X in 3 hours and 30 minutes, which is equivalent to 210 B points. Employee A saves 30 B points by completing job X within the standard time. Now, the B points are converted back into hours by dividing these B points by 60. As per the Bedeaux system, 75 per cent of the earnings from the time saved should go to the employee concerned and 25 per cent should go to the foreman who supervised the performance of the job.

Thus, the employee gets final earnings as per the following formula:

$$\text{EARNINGS} = \text{TIME RATE} \times \text{ACTUAL TIME} + \frac{75}{100}\left(\frac{\text{B POINTS SAVED}}{60}\right) \times \text{HOURLY RATE}$$

The merit of this method is that the employees are eligible for guaranteed minimum wages regardless of whether they are able to reach the standard time or not. The limitation of this method is the difficulty in the conversion of minutes into B points and vice versa.

Illustration

The standard time for a job is 480 B points and the actual number of points earned in 8 hours is 560 B points. The rate of pay is Rs 8 per hour. What will be earnings as per the Bedeaux system?

Solution:

$$\text{B POINTS} = 560 - 480$$
$$= 80$$

$$\text{EARNINGS} = (8 \times 8) + \frac{75}{100} \times \frac{80}{60} \times 8$$

$$= \text{Rs } 72$$

3. Time Rate System

The basic feature of this system is that the employees are eligible to get the specific reward if they are able to perform the job within the standard time and then get an additional bonus if they are able to better that time. Like the other schemes, the basic necessity in this system is the accurate assessment of the time required for performing the job. This system takes into consideration the hourly rate, piece rate, and the bonus plan for deciding the wage earnings of the employees. This method guarantees the payment of minimum wages to employees irrespective of whether they reach the standard time.

The classification of the Gnatt system is given below:

ACTUAL OUTPUT < STANDARD OUTPUT

→ Minimum Guarenteed Time Rate

ACTUAL OUTPUT = STANDARD OUTPUT

→ Time Rate at 100% + Bonus is 20% of Time Rate

ACTUAL OUTPUT > STANDARD OUTPUT

→ Higher Peice Rate (120% of piece rate)

Illustration

In a factory, a standard time allowed for completing a task (50 units) is 8 hours. The guaranteed time wages is Rs 20 per hour. If a task is completed in less than the standard time, a high rate of Rs 4 per unit is payable. Compute the wages of the employees and the rate of earning per hour if the task is completed by employee A in 8 hours and by employee B in 6 hours.

Solution:

EMPLOYEE A

SINCE ACTUAL OUTPUT = STANDARD OUTPUT

→ Time Rate + Bonus at 20%

EARNINGS = (8 hour × Rs 20) + $\frac{20}{100}$ × 160 = Rs 192

EARNING per hour = $\frac{192}{8}$ = Rs 24

EMPLOYEE B

SINCE ACTUAL OUTPUT > STANDARD OUTPUT

→ Higher Piece Rate

EARNINGS = (50 units × Rs 4) = Rs 200

EARNING per hour = $\frac{200}{6}$ = Rs 33.33

3. Time Rate System

Accelerated Premium Bonus Plan, also known as **Sliding Scale Bonus Plan**, is not based on any formula. In this plan, for output below standard, guaranteed minimum wage is assured. As the efficiency of the worker improves, the earnings accelerate - the earnings increase in greater proportion to output. Based on this, each firm has to develop its own formula. Worker thus, has a strong motivation to achieve higher outputs.

This plan is suitable when there is an urgency to push workers for higher and higher output. But, it is not suitable when quality is a concern, not quantity.

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3. Time Rate System

This plan was introduced by Mr. Hemington Emerson.

The main feature of this incentive plan is the availability of guaranteed minimum wages for the employees irrespective of their output in a
day. Another uniqueness of this method is the presence of a provision for rewarding the employees according to a graduated scale of improvement in production.

In the Emerson efficiency plan, a standard time is set for each job and then the hourly rate is determined. Finally, incentives are decided in the form of a bonus for different degrees of efficiency. As per this incentive plan, each employee is eligible for an hourly rate based on the actual working hours and also for the bonus calculated on the basis of his efficiency.

This method has wide acceptance among both the employees and the employers. The employees prefer it because they are assured of minimum day wages and also get a bonus depending upon their efficiency. It is preferred by the employers because it encourages the employees to increase efficiency and achieves better employee cooperation.

However, its main limitation is that it may not be very effective in inducing the employees to work hard as they are assured of their daily wages. Its incentives may not be sufficient to induce the employees to offer their best to the job.

An Emerson plan classification is listed below:

OUTPUT BELOW 67%

→ Only hourly rate

OUTPUT FROM 67% TO 100%

→ Hourly rate + Bonus at 20% of basic wage

OUTPUT ABOVE 100%

→ Hourly rate + Bonus at 20% of basic wage
+ Additional Bonus of 1% of hourly rate for every
1% increase in efficiency above 100%.

Illustration

Compute the Earnings as per the Emerson Efficiency Plan.
Standard output = 120 units
Daily wage rate = Rs 80
Piece rate = Re 0.20
Case (i): Output = 70 units
Case (ii): Output = 120 units
Case (iii): Output = 140 units

Solution:

OUTPUT = 70 units

Efficiency $= \frac{70}{120} \times 100 = 58.33\%$ (which is less then 67)

$\longrightarrow$ Daily wage rate of Rs 80 only.

OUTPUT = 120 units

Efficiency $= \frac{120}{120} \times 100 = 100\%$

$\longrightarrow$ Rs 80 + 20% of 80 = Rs 96

OUTPUT = 140 units

Efficiency $= \frac{140}{120} \times 100 = 116.67\%$ (above 100%)

$\longrightarrow$ Rs 80 + 20% of 80 + (140 − 120)% of 80 = Rs 112

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4. Piece Rate (production based) System

The Piece Rate System, also known as a production-based incentive plan, is a compensation method where employees are remunerated based on the number of units they produce or tasks they complete. In this system, a standard output or production target is established, and workers receive payment for each unit they produce or task they accomplish. The key feature is that the employees earn incentives when they exceed the predetermined standard output.

The process involves setting a specific rate or price per unit, and workers receive compensation based on their actual production. If employees surpass the standard production level, they earn additional incentives. This approach is particularly common in manufacturing, assembly line, and piecework settings, where the quantity of output can be easily measured.

It includes following 3 plans:

1. Barth plan
2. Taylor plan
3. Merrick plan.

These are discussed next.

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4. Piece Rate (production based) System

The distinguishing feature of the Barth plan is the absence of any guaranteed time rate for the employees. As per the Barth scheme, the rise in employee earnings need not be proportionate to the output. Empirically, this scheme is found to be better suited for trainees or learners. The merit of this method is that this method provides more earnings than the straight piece rate does for lower-level jobs and less earnings for the higher-level jobs.

In this method, the employee earnings are calculated by multiplying the rate per hour with the square root of the product of standard hour and actual hour.

$$\text{EARNINGS} = \text{RATE PER HOUR} \times \sqrt{\text{STANDARD HOUR} \times \text{ACTUAL HOUR}}$$

This scheme does not guarantee minimum time wages.

Illustration

The standard time allowed for a job is 8 hours and the hourly rate is Rs 10. Employee A took 6 hours to complete the job while employee B took 10 hours. Compute the earnings of these employees under the Barth plan.

Solution:

EMPLOYEE A

$$\text{EARNINGS} = \text{Rs } 10 \times \sqrt{8 \times 6} = \text{Rs } 69.28$$

$$\text{EARNING PER HOUR} = \frac{69.28}{6} = \text{Rs } 11.55$$

EMPLOYEE B

$$\text{EARNINGS} = \text{Rs } 10 \times \sqrt{8 \times 10} = \text{Rs } 89.44$$

$$\text{EARNING PER HOUR} = \frac{89.44}{10} = \text{Rs } 8.95$$

4. Piece Rate (production based) System

F. W. Taylor is one of the pioneers to advocate differential incentive schemes for individual employees. The purpose of Taylor's differential piece rate is to encourage efficiency and discourage inefficiency among the employees.

Under this piece rate plan, two wage rates are available to the employees:
(i) low piece rate for those employees whose performance is less than the standard; and
(ii) high piece rate for any performance which is equal to or more than the standard.

The standard performance is decided by the organization usually through work study comprising time study, motion study and fatigue study. In this method, the efficiency of the employee can be expressed as a percentage in terms either of the actual time taken for a job against the time allowed or of the actual output against the standard output. The merit of this method is that it grants attractive incentives for highly skilled and hard-working employees. Further this scheme is easily understandable and executable.

The formula for computation of earnings under Taylor's differential piece rate is:

$$\text{EARNINGS} = \text{ACTUAL OUTPUT} \times \text{PIECE RATE}$$

$$\text{EFFICIENCY LEVEL} = \frac{\text{ACTUAL OUTPUT}}{\text{NORMAL OUTPUT}} \times 100$$

A classification based on Taylor's differential piece rate is presented in given below:

$$\text{ACTUAL OUTPUT} < \text{STANDARD OUTPUT}$$

PIECE RATE → 80% of normal piece rate

$$\text{ACTUAL OUTPUT} \geq \text{STANDARD OUTPUT}$$

PIECE RATE → 120% of normal piece rate

Illustration

Compute the earnings as per Taylor's differential piece rate.
Weekly working hours = 48;
Hourly wage rate = Rs 7.50;
Piece rate per unit = Rs 3;
Normal time taken per piece = 24 minutes
Normal output per week = 120 pieces;
Actual output for the week = 150 pieces

Solution:

EFFICIENCY $= \frac{150}{120} \times 100 = 125\%$ (Above standard)

→ 120% of Normal piece rate

PIECE RATE $= \frac{120}{100} \times 3 =$ Rs 3.60

EARNINGS = ACTUAL OUTPUT × PIECE RATE

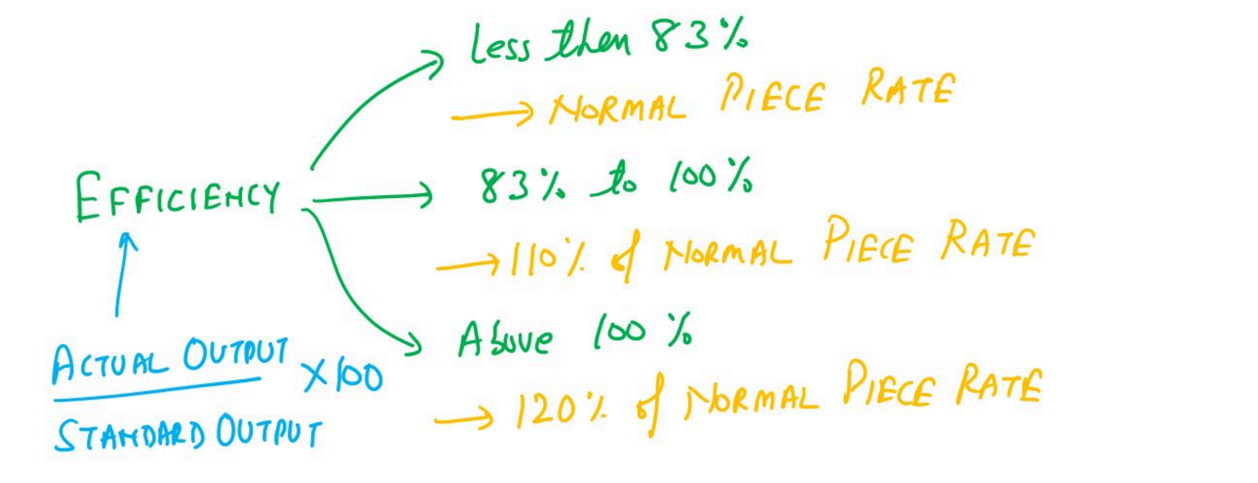
= 150 × Rs 3.60 = Rs 540

4. Piece Rate (production based) System

It is generally viewed as an improvement upon Taylor's piece rate plan. It contains 3 piece rates as against Taylor's 2 piece rates.

It provides for gradually rising piece rates for the additional range of output produced by the employees. Like in Taylor's piece rate system, the standard hours for performing a job should be decided by the organization carefully. The merit of this method is its ability to reward the highly efficient employees adequately by keeping one more rate for these high achievers. Besides, the provision of an additional scale for employees performing below the standard output is more acceptable to all the unions since it does not penalize any employee.

A classification based on Merrick multiple piece rate plans is given below.



Illustration

Calculate the Earnings as per Merrick Multiple Piece Rate Plan.
Standard output = 120 units
Piece rate = Re 0.20
Case (i): Output = 100 units
Case (ii): Output = 150 units
Case (iii): Output = 75 units

Solution:

OUTPUT = 100 → Efficiency = $\frac{100}{120} \times 100 = 83.33\%$

→ 110% of Normal Piece Rate

EARNINGS = $100 \times \left(\frac{110}{100}\right) \times 0.20 =$ Rs 22

OUTPUT = 150 → Efficiency = $\frac{150}{120} \times 100 = 125\%$

→ 120% of Normal Piece Rate

EARNINGS = $150 \times \left(\frac{120}{100}\right) \times 0.20 =$ Rs 36

OUTPUT = 75 → Efficiency = $\frac{75}{120} \times 100 = 62.5\%$

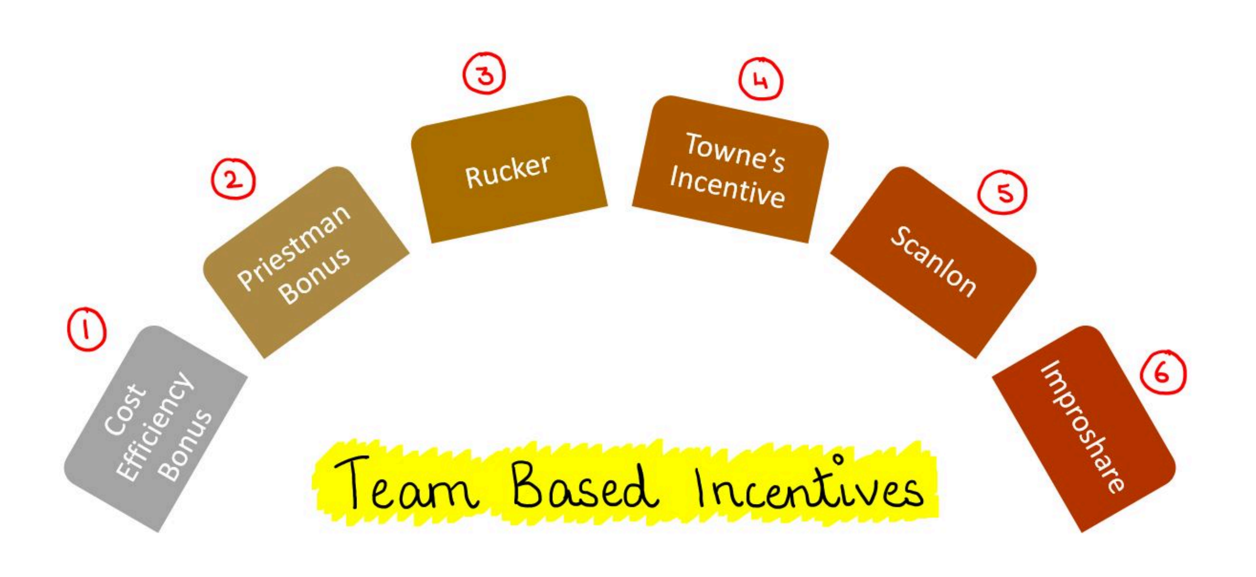
→ Only Normal Piece Rate

EARNINGS = 75 units $\times 0.20 =$ Rs 15

5. Merit Pay

Under merit pay (also known as merit raise), a high performing employee is rewarded with an increase in his/her base pay. It is based on how well an employee performs his/her assigned job. It is different from bonus and profit sharing which involves one-time payment without any increase in employee’s base pay.

6. Team Based Incentives



Organizations implement group incentive schemes to mitigate issues of interpersonal competition leading to the mutual hindrance of employee performance. In cases where assessing individual job performance is challenging, group incentive schemes become a preferred choice.

The primary objectives for organizations adopting such schemes are to enhance employee efficiency and foster teamwork. Many contemporary job roles necessitate collaborative efforts, and individualistic attitudes may impede successful task execution. Consequently, individual success is intertwined with group achievements, compelling organizations to introduce group incentive programs to meet organizational and performance objectives.

Group incentives typically involve members sharing gains through cost reduction measures. The critical factors influencing decisions on group incentive schemes include the group's size and the nature of its activities. Smaller groups are preferable to facilitate member awareness and group cohesion, while a common product or service for the entire group promotes better coordination.

In group incentive schemes, the total bonus allocated to a group is determined based on its collective performance and is subsequently distributed among members, either equally or according to predetermined factors such as individual time rates and skill levels.

Some of the important group incentive schemes are the cost efficiency bonus plan, the Priestman bonus plan, the Rucker incentive plan, Towne’s incentive plan, Scanlon incentive plan, and the Improshare incentive plan.

These plans are explained next.

6. Team Based Incentives

The Cost Efficiency Bonus Plan is a system in which an organization sets predetermined standard costs for different elements, including material, labor, and production-related overheads. This plan may also encompass a standard cost for the total of these elements. Once these standards are established, the organization evaluates the actual costs incurred by a group in achieving production goals. The comparison between the actual group costs and the predetermined standard costs enables the identification of cost savings generated by the group.

In line with the cost efficiency plan, a pre-determined percentage of these identified savings is distributed as bonuses to the employees. This approach aims to incentivize groups to operate more efficiently, reduce costs, and contribute to overall organizational savings, fostering a culture of cost-effectiveness and productivity among employees.

Illustration

Suppose the standard cost for production of 1,000 units of product X is fixed at Rs 300,000 for a group and the actual cost incurred by that group for producing 1,000 units is Rs 270,000. If the group is eligible for a 60 per cent bonus and there are 10 members, calculate the bonus of each member.

Solution:

STANDARD PRODUCTION COST = Rs 3,00,000

ACTUAL PRODUCTION COST = Rs 2,70,000

SAVINGS = 3,00,000 – 2,70,000 = Rs 30,000

BONUS = 60% of 30,000 = Rs 18,000

EACH MEMBER WILL GET = $\frac{18,000}{10}$ = Rs 1800

6. Team Based Incentives

In this plan, a group of experts set the standard performance in terms of the number of units for the whole work to be carried out by a group within a specific period. Then, the actual performance of the group is measured and this performance is compared with the standard performance.

When the actual performance exceeds the standard performance, the group members are entitled to a bonus computed on the basis of the excess production achieved by them. However, when the group's performance is below the standard performance, they are paid on the basis of time rate without any bonus.

This method is suitable for developing collective effort and team spirit among the members of the group. However, it may affect the motivation and efficiency of the individuals as all of them would be sharing the bonus equally.

Illustration

A factory has 400 employees in its metal works division. The standard production fixed for a normal month is 12,000 points and the actual production during that month is 15,000 points. The compensation policy of the company permits the transfer of 75% of the increase in the efficiency to the employees in the metal division as a bonus. What is the group bonus under the Priestman plan.

Solution:

ACTUAL PRODUCTION = 15,000

STANDARD PRODUCTION = 12,000

EFFICIENCY ACHIEVED = 15,000 − 12,000 = 3,000

% INCREASE IN EFFICIENCY = $\frac{3,000}{12,000} \times 100 = 25\%$

BONUS = 75% of 25% = 18.75%

6. Team Based Incentives

It was given by Allen Rucker.

The Rucker Incentive Plan is distinctive in its objective to achieve cost savings not only in labor expenses but also in overhead costs. In this plan, the group's reward is determined based on the difference between labor costs and the sales value of production. The total reward available to a group hinges on the savings achieved through efficient utilization of machinery, materials, and other equipment, contributing to the overall value of production.

The plan calculates a ratio that expresses the value of production required for each rupee in overall labor costs. This value of production encompasses the aggregate of labor costs, overhead, and profit. In the Rucker plan, any savings achieved by the group in the value of production becomes the basis for determining the group incentive.

For example, if the standard ratio of labor costs to the value of production is fixed at 55% of the total value, and the group manages to restrict labor costs to 52%, thereby saving three percent in labor costs, the group is entitled to receive a proportion of these savings as a bonus. The organization may distribute a portion of the savings to the group, allocate another portion to a reserve account payable later to the group in case of deviations from the standard cost, and retain the remaining portion as the organization's share in the savings.

Similarly, the group may also receive a share in the savings achieved in the ratio of the overhead cost to the total value of production. This incentivizes the group to operate efficiently and reduce costs across various elements of production.

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6. Team Based Incentives

Towne’s Incentive Plan focuses exclusively on the savings in labor costs when determining rewards for the group. The process begins by establishing the standard labor cost for the entire task in advance. Subsequently, the actual labor cost for the work is measured and compared with the predetermined standard labor cost. The resulting saving in labor costs is then calculated, and a portion of this monetary saving is distributed among the group members.

However, it's worth noting that a portion of the saving is typically allocated to the supervisors as a recognition of their role in achieving cost savings. Additionally, the organization may retain a share in the saving achieved in labor costs. One key advantage of this system is its ability to foster a collective interest among group members in initiatives aimed at reducing costs. However, a notable limitation is the relatively modest amount of reward available to individual members and the absence of individual initiative in achieving goals.

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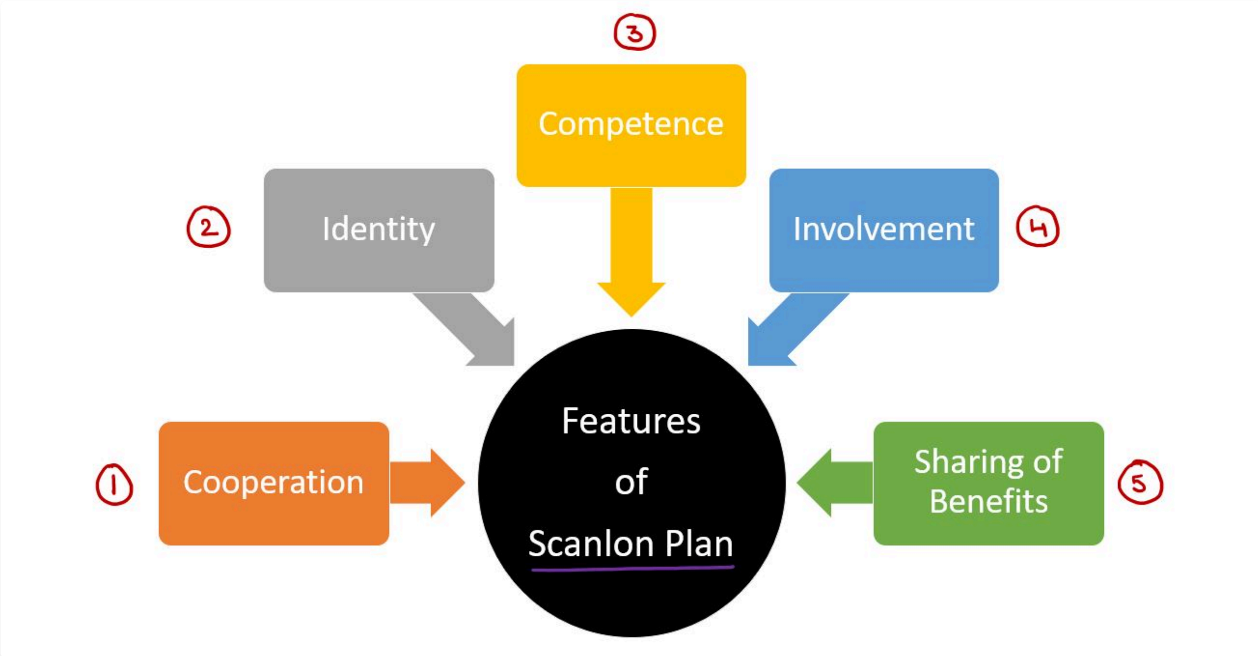
6. Team Based Incentives

The Scanlon incentive plan focuses on achieving savings in the labour cost alone.

Yet, this method is different from the Towne's plan in the sense that it focuses on the total labour cost instead of direct labour cost alone. In this method, the bonus is decided on the basis of the difference between the total labour cost and the sales value, including the closing stock of goods. For example, in the Rucker incentive plan, a portion of the saving in labour cost is retained for payment during lean seasons when the group is unable to achieve any cost reduction.



Scanlon plan have 5 basic features.

1. The **first** is Scanlon's philosophy of **cooperation**. This philosophy assumes that managers and workers must get rid of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.
2. A **second** feature is what its practitioners call **identity**. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs.
3. **Competence** is a **third** basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competency from employees at all levels." This suggests careful selection and training.
4. The **fourth** feature of the plan is the **involvement system**. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.
5. The **fifth** element of the plan is the **sharing of benefits** formula. If a suggestion is implemented and successful, all employees usually share in 75% of the savings.

Illustration

Calculate the bonus payable to the group.
Average annual sales of an organization for the past four years = Rs 440,000.
Average annual labour cost for the same period = Rs 110,000.
Sales achieved during the current year = Rs 140,000.
Actual total labour cost during the current year = Rs 30,000.

Solution:

$$\frac{\text{LABOUR COST}}{\text{ANNUAL SALE (Historic Data)}} = \frac{1,10,000}{4,40,000} = 25\%$$

← Average Ratio of Labour cost to Sale.

SALE OF CURRENT YEAR = Rs 1,40,000

CALCULATED LABOUR COST = 25% of 1,40,000 = Rs 35,000

ACTUAL LABOUR COST = Rs 30,000

BONUS = 35,000 − 30,000 = Rs 5000

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6. Team Based Incentives

Improshare is an incentive plan wherein an organization aims to achieve cost savings by producing a predetermined quantity of goods within a standard time. The standard time is typically determined through the time and motion study principles pioneered by F. W. Taylor. This method establishes a relationship between the targeted output and the standard time to decide on group bonuses, with the objective of encouraging efficient and swift production.

The calculation of incentives is based on the proportion of time saved due to improved and faster production. Notably, this approach does not take into consideration factors such as selling price, volume, or technology when determining group bonuses. For example, if the targeted production is 32 units, and the standard time for production per day is 8 hours, a group completing the production of 32 units in seven hours would be eligible to receive a share in the time saved, which, in this case, is one hour.

7. Organization-wide Incentive Schemes

Organization wide incentive schemes reward employees on the success of an organization. These are the schemes in which all or most of the employees can participate and includes Profit sharing, Bonus, and Stock Related Schemes. Such schemes encourage employee loyalty and commitment.

These are discussed next.

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7. Organization-wide Incentive Schemes

A profit-sharing plan is a way for employers to pay employees a portion of net profits based on the employees' compliance with certain service conditions and qualifications. The objective of a profit-sharing plan is to create a sense of loyalty and commitment among employees and to foster unity of interests and cooperation among employees. Employees are more likely to work harder if they believe their efforts will lead to higher profits that will be shared with them.

Different types of profit-sharing plans exist.

- In a **cash plan**, the company distributes a percentage of profits, usually 15% to 20%, to employees at regular intervals.
- In **deferred profit-sharing plans**, a predetermined portion of profits is placed in each employee's account under a trustee's supervision, to be paid to the employee at retirement or other stated situations.
- A **combination profit-sharing plan** exists where part of the profits is paid out currently to employees, and part is put into an employee's account in a trust fund.

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7. Organization-wide Incentive Schemes

Bonus refers to a lump sum payment provided to employees, typically in addition to their regular base pay. This additional compensation can be awarded as a form of appreciation or recognition for individual or team accomplishments, significant achievements, or outstanding performance. The distribution of bonuses can be discretionary, meaning it is given as a "thank you" gesture by the organization to express gratitude for exceptional efforts.

Alternatively, bonuses can be stipulated by employment contracts, outlining specific criteria or conditions under which employees are entitled to receive this extra compensation. In some cases, companies may distribute bonuses during periods of financial success when the organization can afford to provide additional rewards to its workforce. The purpose of bonuses is to motivate and incentivize employees, fostering a positive work environment and encouraging high levels of performance and dedication.

Pooja Bonus is an incentive given to employees during festive occasions or for their outstanding work, while **Profit-Based Bonus** is a monetary benefit given to employees when the organization earns profits beyond a certain level. **Customary Bonus** is given on specific occasions like Diwali or Christmas, and it is a token of appreciation for their hard work during the year. **Contractual Bonus** is a part of the employee's contract, and it is paid if the employee meets certain pre-determined goals or objectives.

7. Organization-wide Incentive Schemes

Profit sharing plans and gain sharing plans are often confused, but they have distinct differences.

Gain sharing focuses on performance improvements directly within the control of employees. This means that the rewards are tied to specific and measurable improvements made by the employees in their day-to-day activities. The emphasis is on factors that employees can influence and impact directly.

On the contrary, **profit sharing** considers a broader range of factors beyond just performance improvements. It takes into account elements such as depreciation, bad debts, taxation, and other financial aspects that may be outside the direct control of employees. The distribution of profits is linked not only to operational success but also to financial metrics that might be influenced by external economic factors.

Additionally, profit sharing is typically distributed on an annual, half-yearly, or quarterly basis, aligning with the financial reporting periods of the company. In contrast, gain sharing rewards can be more frequent, allowing for more immediate recognition and reinforcement of positive behaviors and achievements by employees.

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7. Organization-wide Incentive Schemes

An employee stock ownership plan is a retirement plan developed in the US in the early 1990s, but not very popular in India. It was invented by Louis Orth Kelso.

Under this plan, a trust fund is set up for employees, into which companies contribute cash or shares to purchase its own stock or have the plan borrow money to buy new or existing shares. These contributions are tax deductible for the company, and employees only pay tax when they receive the stock at the time of retirement or when they leave the company. The plan maintains an account for each employee, and the shares in the account increase as the employee gains seniority with the company. When employees leave the company or retire, they receive their stock, which the company must buy back from them at its fair market value or if a public market for shares exists, then the employees can sell the shares in the market.

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7. Organization-wide Incentive Schemes

An Employee Stock Option Plan (ESOP) is when a company gives its employees the option to buy a specific number of shares in the company at a predetermined price within a specific period of time. The idea is that the share price will go up, and the employees will benefit by buying the shares at a lower price and selling them later at a higher price. However, if the share prices go down, the options can become worthless, and companies may revalue the exercise price to retain employees. Broad-Based Stock Options are a new type of plan that allows more employees to participate and share in the ownership of the company.

ESOP vis-a-vis Employee Stock Ownership Plan

Note that, Employee Stock Ownership Plan is a retirement plan in which the company contributes to a trust fund that employees receive when they leave the company or retire. This should not be confused with Employee Stock Option Plan, where employees are given the option to buy shares from the company at a lower price than the market price.

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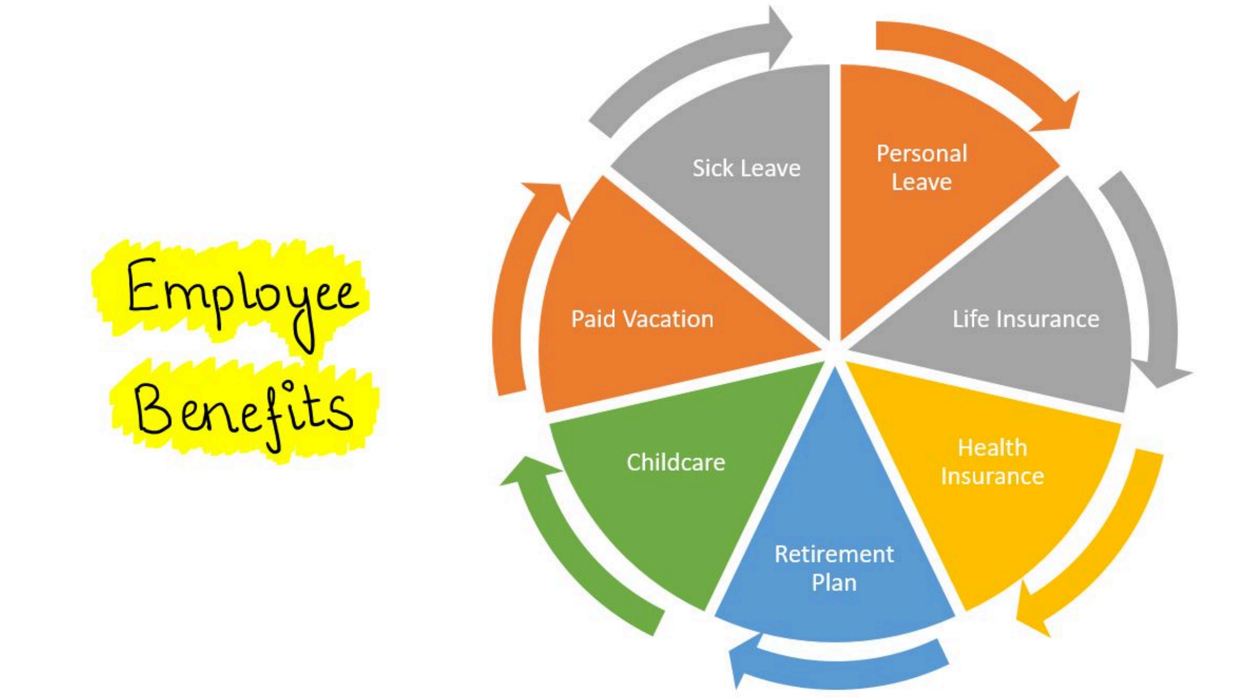
1. Employee Benefits

In addition to pay, benefits are essential for employers to attract, retain, and motivate employees. Offering a range of benefits allows employers to customize their compensation packages to attract and retain the right employees. Employees expect to receive a minimum level of benefits, and providing additional benefits can give organizations a competitive edge in the labor market. Although providing benefits is a significant expense, employers offer them because employees value them and some benefits are legally required.

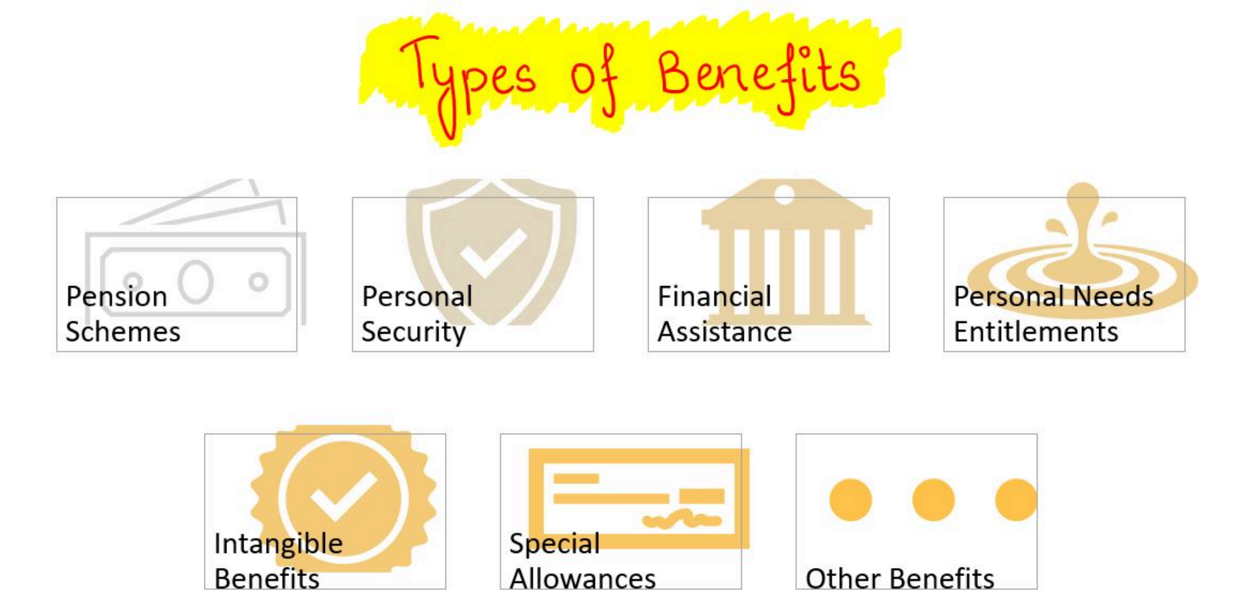


Employers can design benefit plans to provide flexibility and choices for employees, or they can be standardized for all employees. Increasingly, employers are recognizing that providing employees with some flexibility and choice allows them to tailor their benefits to their own individual needs. However, providing more choices also increases the administrative demands placed on organizations. When designing benefit plans, employers must make key decisions such as determining the total compensation that can be provided, the proportion of compensation that should be allocated to benefits, which employees should be provided with which benefits, the acceptable expense levels for each benefit, what the organization is receiving in return for each benefit, and the level of flexibility that should be offered in the benefits package.

Flexible benefits plan are the programs that allows employees to select the benefits they prefer from groups of benefits established by the employer.

2. Types of Benefits

Benefits can be divided into categories as given below.



Pension schemes

These include Personal and Family Pension schemes.

Personal security

These are benefits which enhance the individual's personal and family security with regard to illness, health, accident or life insurance.

Financial assistance

These include loans, house purchase schemes, relocation assistance and discounts on company goods or services etc.

Personal needs Entitlements

These include entitlements which recognize the interface between work and domestic needs or responsibilities, e.g., holidays and other forms of leave, child care, career breaks, retirement counselling, financial counselling and personal counselling in times of crisis, fitness and recreational facilities.

Intangible benefits

These represents characteristics of the organization which contribute to the quality of working life and make it an attractive and worthwhile place in which a person is to be employed.

Special Allowances

Employers may offer various types of allowances and special payments to their employees, such as location allowances, subsistence allowances (including accommodation and meal reimbursements), shift payments for those working at night, and stand-by and call-out allowances for employees who must be available to come in to work when required.

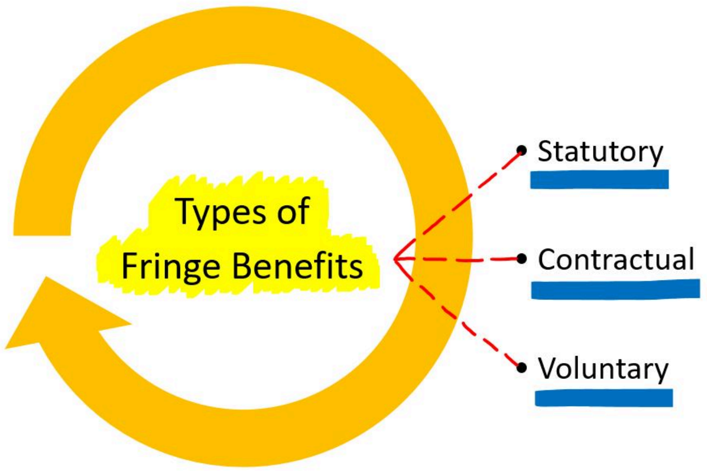
Other benefits

Other benefits include benefits which improve the standard of living of employees such as subsidized meals, clothing allowances, refund of telephone costs, mobile phones (as a 'perk' rather than a necessity) and credit card facilities, company cars and petrol allowances etc.

3. Fringe Benefits

Fringe Benefits

Fringe Benefits refer to the additional benefits and services that employees receive on top of their regular wages or salaries. These benefits are provided to enhance the overall compensation package of employees and can include various perks, such as health insurance, retirement plans, paid time off, and other non-wage benefits.



Types of Fringe Benefits

Fringe benefits are categorized as statutory, contractual, and voluntary.

Statutory Benefits

These are those that are mandated by law, such as social security, medical care, unemployment compensation, workmen's compensation, provident fund, and gratuity. These benefits are typically funded through contributions from both employers and employees.

Contractual Benefits

Contractual benefits are those that are provided to employees through an agreement between the employer and the employees, such as dearness allowance, house rent allowance, city compensatory allowance, medical allowance, night-shift allowance, heat allowance, transport, housing and educational allowances. These benefits are usually negotiated as part of a collective bargaining agreement or employment contract.

Voluntary Benefits

Voluntary benefits are those that are provided by the employer at their discretion, without being mandated by law or contractually required. Examples of voluntary benefits include group insurance, death benevolent fund, washing allowance, leave encashment, leave travel concession, conveyance allowance, incentive for family planning, service awards, and suggestion awards.

3. Fringe Benefits

The objectives of fringe benefits encompass various aspects aimed at enhancing employee well-being and organizational success. These objectives include:

Attracting the best talents: Fringe benefits play a crucial role in attracting top-tier talent to the organization. The additional perks and facilities create a positive image of the organization in the labor market, making it more appealing to potential employees.

Tax-free for the employees: Fringe benefits are often non-taxable forms of earnings for employees. This tax advantage allows employees to receive the full value of the compensation due to them, contributing to their overall satisfaction.

Improving employee morale: Fringe benefits are recognized as an effective tool for boosting employee morale and motivation. By offering extra benefits, organizations aim to increase employee satisfaction, leading to higher retention rates and reduced labor turnover.

Achieving the desired unity: Fringe benefits contribute to unity among employees, as these benefits are typically extended to all employees regardless of their individual performance. This practice helps eliminate feelings of envy and resentment among employees, fostering a more cohesive work environment.

Improving industrial relations: Fringe benefits serve as efficient tools for enhancing industrial relations within the organization. By addressing concerns related to basic wages and incentives, these benefits can contribute to a more harmonious and cooperative workplace.

Concern for employee well-being: Fringe benefits signify the organization's commitment to the health and safety of its employees. Providing such benefits communicates a genuine care for employee well-being, reinforcing a positive employer-employee relationship.

3. Fringe Benefits

Section 115WB (2) of the Income Tax Act 1961 considers the following as the elements of deemed fringe benefits:

- entertainment
- provision of hospitality
- conference
- sales promotion including publicity
- employees' welfare
- conveyance
- use of hotel, boarding and lodging facilities
- repair, running (including fuel), maintenance of motor cars
- use of telephone (including mobile phone)
- festival celebrations
- use of health club and similar facilities
- gifts
- scholarships
- tour and travel

Section 115WB (1) specifies that the "fringe benefits" means any consideration for employment provided by way of:

- any privilege, service, facility or amenity, directly or indirectly, provided by an employer, whether by way of reimbursement or otherwise
- any free or concessional ticket provided by the employer for private journeys of his employees or their family members
- any contribution by the employer to an approved superannuation fund for employees
- any specified security or sweat equity shares allotted or transferred, directly or indirectly

4. Cafeteria Plan

A **Cafeteria Plan** is a type of employee benefit program that allows employees to choose from a variety of pre-tax benefit options, much like selecting items in a cafeteria. This approach empowers employees to customize their benefits package to best suit their individual needs and life situations.

Key Features:

- **Flexibility:** Employees can select only the benefits that are relevant to them.
- **Pre-Tax Advantage:** Contributions toward selected benefits are deducted from the employee's gross salary before taxes—reducing taxable income.
- **Customizable Packages:** Employees can mix and match options within an approved benefit pool.

Common Benefit Options Offered:

- Health insurance (medical, dental, vision)
- Life insurance
- Health Savings Accounts (HSA) or Flexible Spending Accounts (FSA)
- Retirement plan contributions
- Meal vouchers or cafeteria subsidies
- Transportation or commuter benefits
- Childcare assistance

Benefits for Employees:

- Tax savings increase net take-home pay
- Personalization of benefits
- Access to a wider range of support services

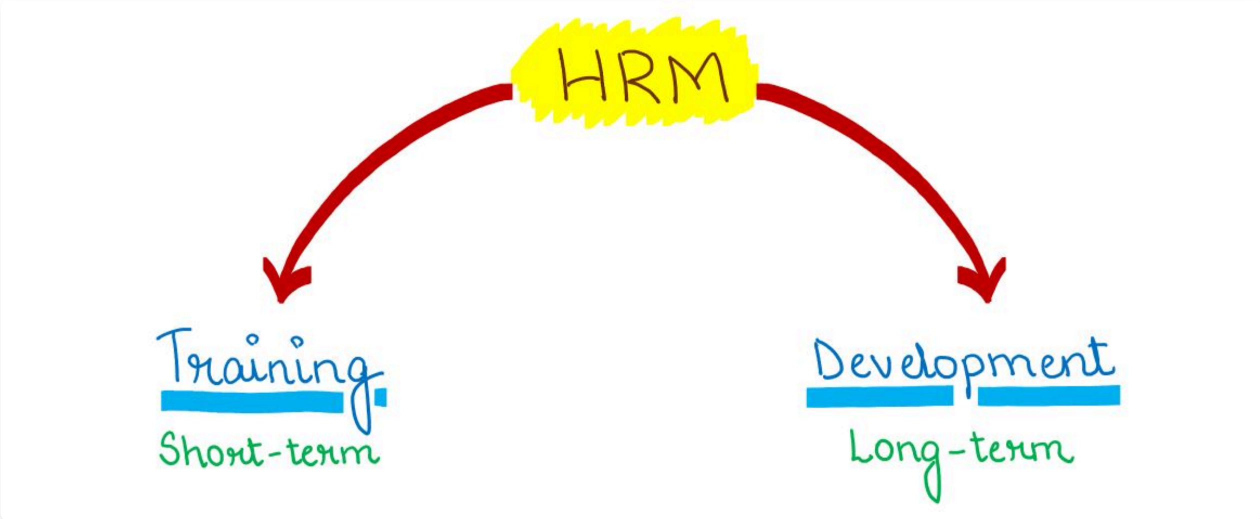
Benefits for Employers:

- Improved employee satisfaction and retention
- Better control over benefit costs
- Competitive advantage in talent acquisition

1. Introduction

Training and development are two important components of Human Resource Management (HRM).

Training refers to the process of enhancing employees' skills, knowledge, and abilities for the specific job they are currently performing. It involves imparting job-related knowledge, skills, and attitudes to employees through instruction and practical experience. Training is often provided to employees when they join the organization, when they are promoted to a new role, or when they need to acquire new skills to adapt to changes in technology or processes.



On the other hand, **development** refers to a long-term process of preparing employees for future responsibilities or roles. It involves not just job-specific training but also broader education and experiences that will help employees develop new perspectives and enhance their potential for growth within the organization. Development programs aim to improve employees' personal and professional qualities and enable them to take on more significant roles in the future.

For example, training could involve providing employees with the necessary skills to use a new software program that has been introduced in the organization, while development could involve sending employees to a leadership program to prepare them for future leadership roles in the organization.

Thus, training is a shorter-term activity focused on improving job-specific skills, while development is a longer-term process aimed at preparing employees for future responsibilities and broader career opportunities. Both training and development are critical components of HRM, as they help to improve employee performance, engagement, and satisfaction, which in turn contributes to the organization's success.

2. Process of Training

An effective training program is built by following a systematic, step-by step process.

The steps in the process of training are given below.

1. Establishing a training needs analysis

This step involves identifying activities that justify investing in training. Data collection techniques, such as surveys, observations, interviews, and customer feedback, are necessary to determine specific training needs, such as customer dissatisfaction, low morale, low productivity, and high turnover.

2. Developing training programs and manuals

This step involves creating job descriptions, standards, and procedures that serve as training tools. Clear and concise job descriptions can help identify guidelines for future training. A list of standards and procedures should be established for each responsibility outlined in the job description to standardize training guidelines.

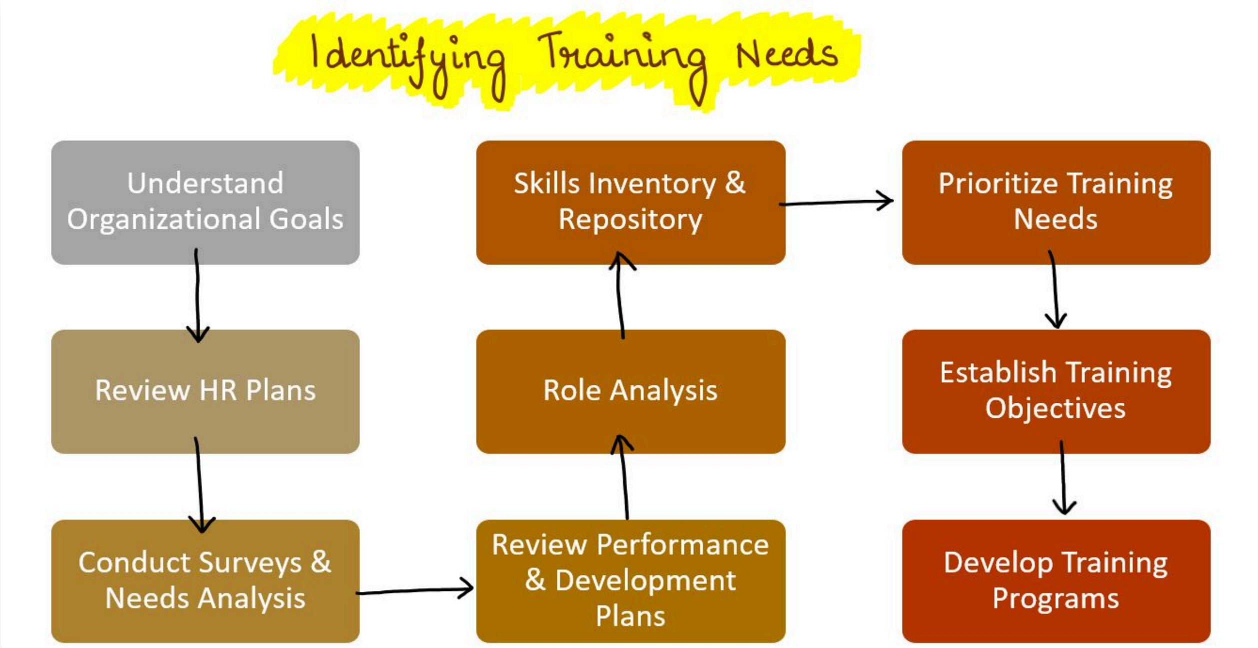
3. Deliver the training program

This step involves instructing and delivering the training program using various techniques, such as one-on-one training, on-the-job training, group training, seminars, and workshops.

4. Evaluate the training program

This step involves assessing the effectiveness and profitability of the training program. Evaluation methods include pre-and post-surveys, customer feedback, cost/benefit analyses, and an increase in customer satisfaction and profits. This step helps determine the effectiveness of both the training and the trainer.

3. Identifying Training Needs



Identifying training needs is a crucial step in ensuring that employees receive the necessary skills and knowledge to perform their jobs effectively. Here is a step-by-step process for conducting a Training Needs Assessment:

1. Understand Organizational Goals
Start by reviewing the organization's business plans and strategic objectives. Identify key priorities, growth areas, and changes in technology or market dynamics that may impact the skills and knowledge required.

2. Review HR Plans
Examine HR plans to understand workforce demographics, turnover rates, and projections for expansion or restructuring. Consider how changes in the workforce might impact skill requirements.

3. Conduct Surveys and Needs Analysis
Administer surveys to employees, managers, and other stakeholders to gather input on perceived training needs. Analyze the survey results to identify common themes and areas where skill gaps may exist.

4. Review Performance and Development Plans
Evaluate individual and team performance reviews to identify areas where employees may be struggling or where additional training could enhance performance. Review development plans to understand the aspirations of employees and align them with organizational goals.

5. Role Analysis
Conduct a detailed analysis of various roles within the organization. Identify the skills, competencies, and knowledge required for each role. Compare this analysis with the current skill sets of employees to pinpoint gaps.

6. Skills Inventory and Repository
Utilize the organization's skill set repository to assess the current skills and competencies of employees. Identify areas where there is a shortage of critical skills or where skills are becoming obsolete due to technological advancements.

7. Prioritize Training Needs
Based on the information gathered from the above steps, prioritize training needs. Consider factors such as the criticality of skills, impact on business goals, and the urgency of addressing specific gaps.

8. Establish Training Objectives
Clearly define the objectives of the training program. Determine the specific skills, knowledge, or competencies that employees should gain from the training to address identified needs.

9. Develop Training Programs
Design training programs that align with the identified needs and objectives. Consider various formats, including workshops,

online courses, on-the-job training, or external seminars, based on the nature of the skills to be acquired.

3. Identifying Training Needs

Some techniques of Training Needs Analysis are given below.

- **Analysis of Activities:** List in a logical sequence, the activities involved in producing a product or service or part thereof and determine the requirements of new knowledge or skills.
- **Analysis of Problems:** Analyse problem areas and determine additional skills, knowledge or insights that are required to solve them.
- **Analysis of Behaviour:** Analyse typical behaviour of individuals and groups and determine the corrective action relating to training.
- **Appraisal of Performance:** Analyse performance and determine additional requirements of knowledge, skill and understanding.
- **Brainstorming:** Bring together a homogeneous group and ask individuals in the group to throw up ideas or innovation relating to meeting their training needs. Alex F. Osborn is considered the 'Father of brainstorming'.
- **Buzzing:** Ask homogeneous groups of supervisors and managers, as to the next desirable goals of the training programmes in order to explore additional areas of knowledge, skill or understanding.
- **Card Sort:** Potential training needs are written down on cards. They are then handed over to the persons whose views are being sought, to arrange these cards in what they feel is their order of importance in conformity with the perceived training needs. Training programmes are then structured accordingly.
- **Checklist:** Breakdown a job, process, programme, activity or area of responsibility into a list of detailed and a logical sequence. Then to have items checked off by each employee the items about which he feels he would like to acquire additional skill or knowledge.
- **Committee:** An advisory committee composed of persons responsible for or with a direct interest in an activity is constituted to identify training needs.
- **Comparison:** Comparison with practices prevalent in other similar enterprises and thereby identifying additional skill requirements. Emphasis is consequently on fighting one's own obsolescence.
- **Consultants:** External consultants are invited to determine training and development needs.
- **Conference:** Training needs are identified in appropriately structured conferences.
- **Counselling:** Discussions between a training practitioner and a person seeking guidance regarding ways he can improve his on-the-job performance or prepare for advancement.
- **In-basket:** To measure or test a manager's ability to handle some of the day-to-day challenges which come to him in writing from various sources in his 'inbox'.Incident Pattern: To note in terms of success or failure, the responses to crisis situation and to study the pattern of deviation and thus, determine the training needs.
- **Interviews:** Formal meetings are conducted with the persons or group concerned employing the interview techniques.
- **Observation:** Observe and closely monitor indicators of training needs specially those which are latent or sub-surface.
- **Problem Clinic:** Arrange meeting of a homogeneous group to discuss a common problem and develop a solution.

- **Skill Inventory:** To establish and annually update an inventory of the skills of their employees and to identify gaps or blind spots.
- **Surveys:** Surveys are undertaken to determine training needs.

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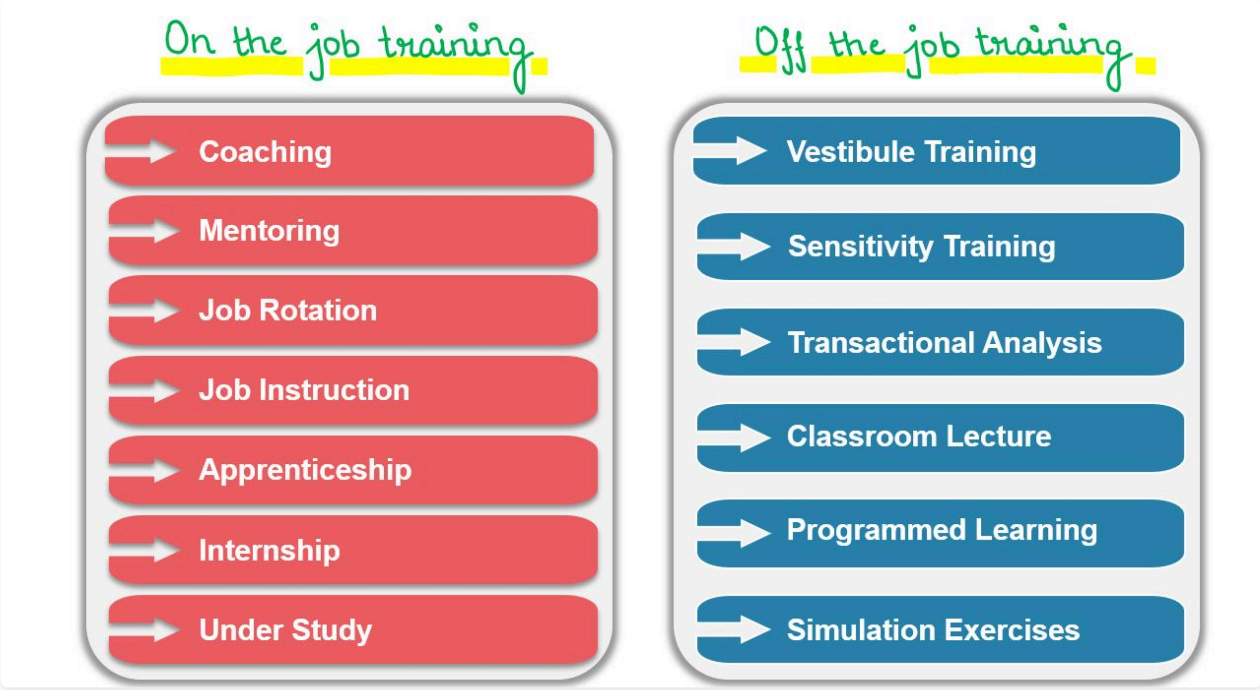
4. Methods of Training

There are 2 methods of imparting training to workers:

1. On-the-job training and
2. Off-the-job training.



As their name suggests, the former refers to the training imparted at the actual job location involving ‘hands-on’ training, whereas the latter method involves giving training to the employees at a place other than the real job location.

These Methods are discussed next.

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4. Methods of Training

This method involves training workers at their actual job location, providing them with hands-on experience.

The techniques for on-the-job development are as follows.

Coaching

A supervisor functions as a coach in training the individual and provides feedback and suggestions for improvement.

Mentoring

An ongoing relationship is developed between a senior and junior employee, providing guidance and understanding of the organization's vision and mission.

Job Rotation

Employees are trained by rotating them through a series of related jobs to alleviate boredom and develop rapport.

Job Instruction Technique (JIT)

It is a Step by step (structured) on the job training method in which a suitable trainer (a) prepares a trainee with an overview of the job, its purpose, and the results desired, (b) demonstrates the task or the skill to the trainee, (c) allows the trainee to show the demonstration on his or her own, and (d) follows up to provide feedback and help. The trainees are presented the learning material in written or by learning machines through a series called 'frames'.

Apprenticeship

It is a formalized method of training curriculum program that combines classroom education with on-the-job work under close supervision. The training curriculum is planned in advance and conducted in careful steps from day to day. Most trade apprenticeship programs have a duration of 3 to 4 years. This method is appropriate for training in crafts, trades and technical areas, especially when proficiency in a job is the result of a relatively long training or apprenticeship period, e.g., job of a craftsman, a machinist, a printer, a tool maker, a pattern designer, a mechanic, etc.

Internship training

An internship is an opportunity offered by an employer to potential employees, called interns, to work at a firm for a fixed period of time. Interns are usually undergraduates or students, and most internships last between a month and three months.

Understudy Training

The incoming or current employee works directly with a senior manager or with the person they are to replace, gradually taking on the predecessor's responsibilities.

4. Methods of Training

This method involves providing training to employees at a place other than the real job location.

The methods of off-the-job training are given below.

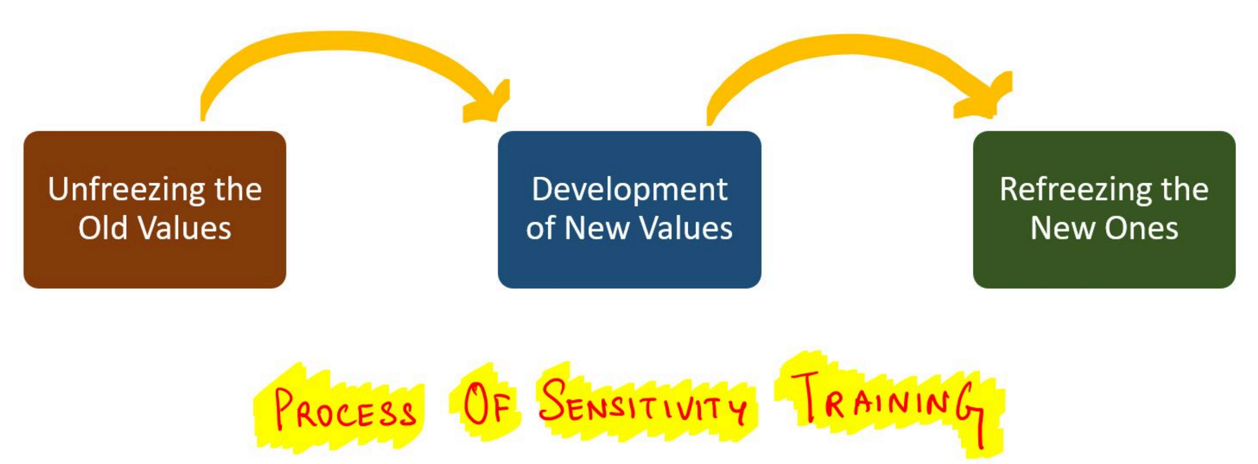
Vestibule Training

Vestibule training is a method in which trainees learn on the actual or simulated equipment they will use on the job but are trained off the job (perhaps in a separate room or vestibule). Vestibule training is necessary when it's too costly or dangerous to train employees on the job.

Sensitivity Training

Sensitivity Training, (also known as T-group, where T stands for Training) is a training approach evolved from the group dynamics concept of Kurt Lewin and the first sensitivity training session was held in 1946 in State Teachers' College, New Britain, USA. Sensitivity training is also known as "Laboratory or T-group training".

This training is about making people understand about themselves and others reasonably, which is done by developing in them social sensitivity and behavioural flexibility. It is ability of an individual to sense what others feel and think from their own point of view. It reveals information about his or her own personal qualities, concerns, emotional issues, and things that he or she has in common with other members of the group. It is the ability to behave suitably in light of understanding. A group's trainer refrains from acting as a group leader or lecturer, attempting instead to clarify the group processes using incidents as examples to clarify general points or provide feedback. The group action, overall, is the goal as well as the process. Sensitivity training focuses on small group (T-group) with number of members ranging from 10 to 12. Based on the sources from where these members are drawn, there may be 3 types of T-group: stranger-lab, cousin-lab, and family-lab. In the stranger-lab, all participants are from different organizations, and they are strangers to each other. In cousin-lab, all participants are from the same organization but from different units. In family-lab, all participants are from the same organization and from same unit.



Sensitivity Training requires 3 steps:

1. *Unfreezing the Old Values:* Recognize and challenge existing attitudes, beliefs, and values to create openness to change.
2. *Development of New Values:* Actively explore and cultivate alternative, inclusive perspectives and attitudes.
3. *Refreezing the New Ones:* Solidify and internalize the newly developed values through ongoing practice and integration into daily behavior.

Transactional Analysis

Transactional Analysis (TA) is a psychoanalytic theory and method of therapy wherein social transactions are analysed to determine the ego state of an individual as a basis for understanding behaviour. In transactional analysis, the individual is taught to alter the ego state as a way to solve emotional problems. TA provides a comprehensive model to understand behavioural patterns, communication, interpersonal relationship, motivation, time management, attitudes, conflict management, and life span development. These skills have been found to be essential for an employee to work effectively in an organisation. Hence, TA acts a great tool to managers in understanding their employees, find out where they are lacking and provide training accordingly.

Classroom Lecture

This method is effectively used for the purpose of teaching administrative aspects or on management subject to make aware of procedures and to give instructions on particular topic.

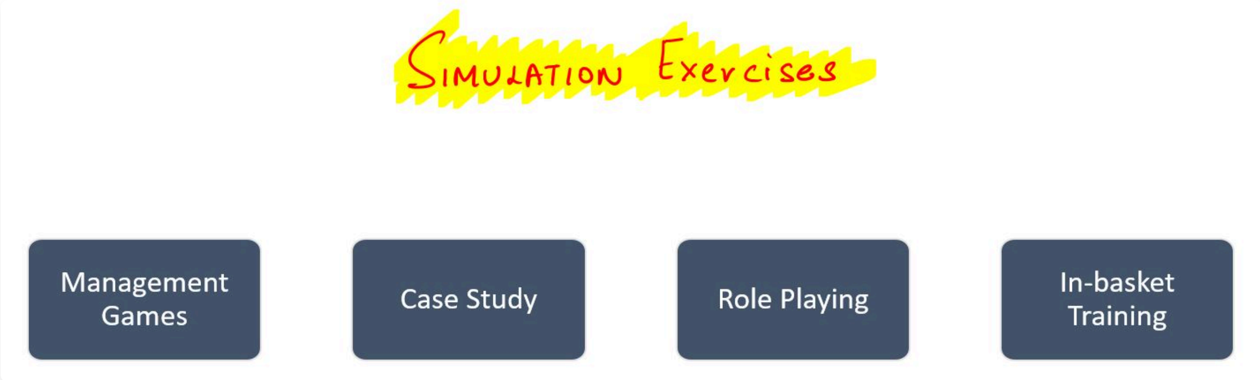
Programmed Learning or Programmed instruction

Programmed Learning or Programmed instruction is a step-by-step learning process that consists of 3 parts:

1. Presenting questions, facts or problems to the trainees.
2. Allowing the trainee to respond.
3. Providing feedback on the accuracy of answers.

Simulation Exercises

Simulation is any artificial environment exactly similar to the actual situation. There are 4 basic simulation techniques used for imparting training: management games, case study, role playing, and in-basket training. In addition, virtual reality and avatars are forms of online simulations.



Management Games

Properly designed games help to ingrain thinking habits, analytical, logical and reasoning capabilities, importance of teamwork, time management, to make decisions lacking complete information, communication and leadership capabilities. Use of management games can encourage novel, innovative mechanisms for coping with stress. Management games orient a candidate with practical applicability of the subject. These games help to appreciate management concepts in a practical way. Different games are used for training general managers and the middle management and functional heads.

Case Study

Case studies are complex examples which give an insight into the context of a problem as well as illustrating the main point. Case Studies are trainee centered activities based on topics that demonstrate theoretical concepts in an applied setting. A case study allows the application of theoretical concepts to be demonstrated, thus bridging the gap between theory and practice, encourage active learning, provides an opportunity for the development of key skills such as communication, group working and problem solving, and increases the trainees' enjoyment of the topic and hence their desire to learn. The case method in legal education was invented by Christopher Columbus Langdell, Dean of Harvard Law School from 1870 to 1895.

Role Playing

During a role play, the trainees assume roles and act out situations connected to the learning concepts. It is good for customer service and training. This method is also called 'role-reversal', 'socio-drama' or 'psycho-drama'. Here trainees act out a given role as they would in a stage play. Two or more trainees are assigned roles in a given situation, which is explained to the group. There are no written lines to be said and, naturally, no rehearsals. The role players have to quickly respond to the situation that is ever changing and to react to it as they would in the real one. It is a method of human interaction which involves realistic behaviour in an imaginary or hypothetical situation. Role playing primarily involves employee-employer relationships, hiring, firing, discussing a grievance problem, conducting a post appraisal interview, disciplining a subordinate, or a salesman making presentation to a customer.

In-basket training

In-basket exercise, also known as "In-tray training", consists of a set of business papers which may include e-mail SMSs, reports, memos, and other items. Now, the trainer is asked to prioritise the decisions to be made immediately and the ones that can be delayed.

Avatars

When simulations are conducted online, trainees often participate by creating avatars, or computer depictions of themselves, which they manipulate onscreen to play roles as workers or other participants in a job-related situation.

Virtual reality

Virtual reality is a computer-based technology that provides an interactive, three-dimensional learning experience. Using specialized equipment or viewing the virtual model on a computer screen, trainees move through the simulated environment and interact with its components. Devices relay information from the environment to the trainees' senses. For example, audio interfaces, gloves that provide a sense of touch, treadmills, or motion platforms create a realistic but artificial environment.

5. Learning Management System (LMS)

Learning Management System (LMS) is a computer application that automates the administration, development, and delivery of training programs. Managers and employees can use the LMS to identify training needs and enroll in courses. LMSs can make training programs more widely available and help companies reduce travel and other costs by providing online training. Administrative tools let managers track course enrollments and program completion. The system can be linked to the organization's performance management system to plan for and manage training needs, training outcomes, and associated rewards together.

6. Management Development Programs

Management Development Programs (MDPs) aim to enhance the managerial and leadership capabilities of individuals within an organization. The primary goal is to prepare managers to handle current challenges and to equip them with the skills and insights needed for future leadership roles.

MDPs typically target mid to senior-level managers, executives, and leaders within the organization. The focus is on individuals who play critical roles in decision-making, strategy implementation, and team leadership.

The content of MDPs covers a broad range of topics relevant to managerial and leadership roles. This can include strategic planning, organizational behavior, change management, communication skills, financial acumen, and other areas crucial for effective management.

MDPs utilize diverse delivery methods, including workshops, seminars, lectures, case studies, simulations, and experiential learning. These programs may also incorporate online modules, coaching, mentoring, and peer learning to provide a well-rounded educational experience.

In India, many organizations have established management development programs to enhance the capabilities of their managers. For example, the Tata Group, one of the largest conglomerates in India, has a comprehensive management development program called the Tata Administrative Services (TAS). This program recruits young talent from top management schools and provides them with a two-year training program that includes exposure to different businesses within the group, mentorship, and formal training.

Another example is the Hindustan Unilever Limited (HUL), a subsidiary of Unilever, which has a management development program called the Unilever Future Leaders Program (UFLP). This program aims to develop future leaders by providing them with challenging assignments, mentoring, and exposure to different functions and businesses within the company.

6. Management Development Programs

One way to identify and address development needs in management is through competency-based management development. This approach utilizes competency frameworks to identify necessary skills and direct managers towards self-managed learning opportunities or training provided by the organization.

Competency-based management development typically focuses on a set of core or generic competencies that the organization considers essential for their managers to drive the company forward according to its strategic plans.

Examples of these competencies include:

- **Strategic capability**, which involves understanding the changing business environment, identifying opportunities for product-market development, and developing strategies to respond to competitive challenges and the strengths and weaknesses of the organization.
- **Change management capability**, which entails identifying change needs, designing change programs, and persuading others to willingly participate in implementing the changes.
- **Team management capability**, which involves bringing together diverse groups of people from different disciplines to work effectively towards common goals.
- **Relationship management capability**, which encompasses networking effectively with others to share information and pool resources to achieve shared objectives.
- **International management capability**, which requires the ability to manage across international borders, work well with people of different nationalities, and navigate cultural differences.

7. Development Centres

Development Centers (DCs) in organizations are structured and systematic processes designed to assess and enhance the skills, competencies, and potential of individuals within the workforce. Development Centers are typically used for talent development, succession planning, and identifying areas for improvement. These centers focus on evaluating an individual's performance in various contexts, such as job-related tasks, leadership, communication, and interpersonal skills.

Here are key features and components of Development Centers:

Multi-Method Assessment

Development Centers use a combination of assessment methods to provide a comprehensive view of an individual's capabilities. This can include role-playing exercises, simulations, in-tray exercises, interviews, psychometric assessments, and other tools.

Objective and Competency-Based

Assessments within Development Centers are aligned with specific competencies and objectives relevant to the individual's role and the organization's strategic goals. These competencies can include leadership, teamwork, problem-solving, communication, and more.

Participatory Approach

Participants in Development Centers actively engage in a series of activities and assessments. These activities are designed to simulate real-world situations, allowing individuals to demonstrate their skills and behaviors in a controlled environment.

Feedback and Coaching

A crucial aspect of Development Centers is the provision of detailed feedback to participants. Trained assessors observe and evaluate participants' performance and provide constructive feedback on strengths and areas for development. This feedback often includes actionable insights for improvement.

Development Planning

Following the assessment, individuals, along with their managers or mentors, create personalized development plans. These plans outline specific actions and strategies for enhancing skills, addressing weaknesses, and preparing for future roles within the organization.

8. Training Evaluation models

To prove the usefulness of training, the training manager can do a training evaluation. This means collecting information about the training program to make decisions about whether to keep, change, or improve it. Some organizations skip this step because they don't have enough resources, don't believe in evaluations, or lack confidence. However, an evaluation can be very helpful in identifying what's working well and what needs improvement. After the training is done, its effectiveness is measured using one of several models.

These Training Evaluation Models are discussed next.

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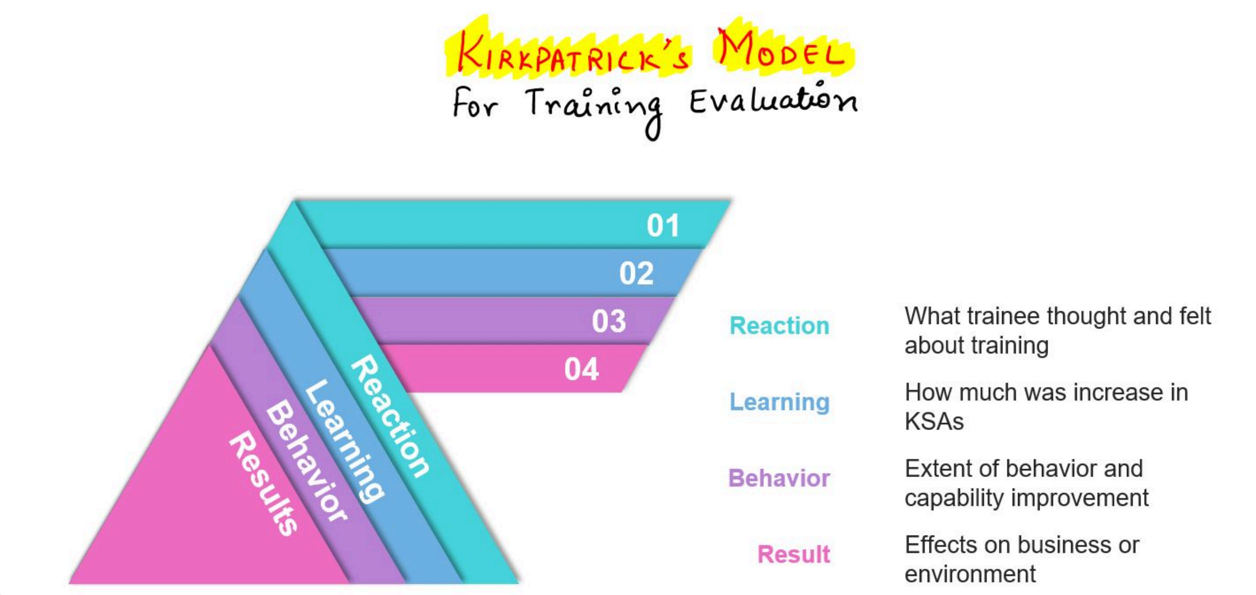
8. Training Evaluation models

Donald Kirkpatrick's 1975 book 'Evaluating Training Programs' defined his originally published ideas of 1959, Kirkpatrick's four-level model is now considered an industry standard across the HR and training communities. The 4 levels of training evaluation model was later redefined and updated in Kirkpatrick's 1998 book, called 'Evaluating Training Programs'.

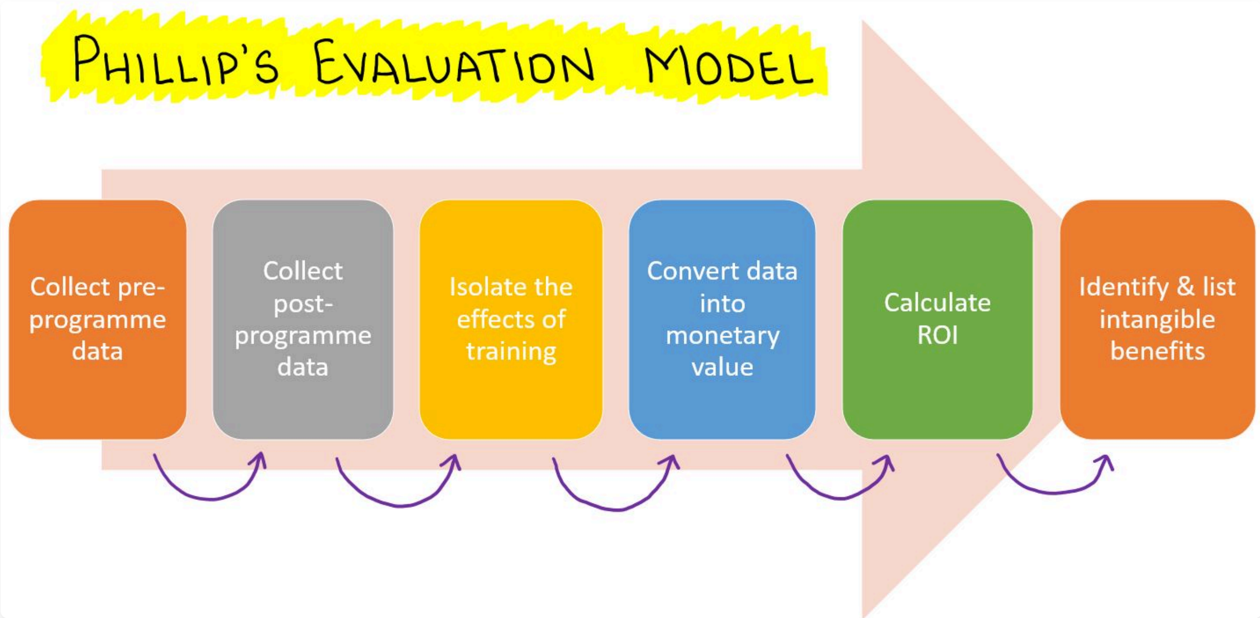


The 4 levels of Kirkpatrick's evaluation model essentially measure:

1. **Reaction:** What trainee thought and felt about the training (how much they liked the training).
2. **Learning:** How much was increase in knowledge, attitudes, skills or capability.
3. **Behavior:** Extent of behavior and capability improvement and implementation/application. Behavior outlines a relationship of learning (the previous measurement level) to the actualization of doing. Kirkpatrick recognized a big difference between knowing principles and techniques and using those principles and techniques on the job.
4. **Results:** Effects on the business or environment resulting from the trainee's performance, such as reduced costs, reduced turnover and absenteeism, reduced grievances, improved profits or morale, and increased quality and quantity of production.

8. Training Evaluation models

Based on Kirkpatrick's model, Dr. Jack Phillips added a fifth step which gave a practical way to forecast the Return on Investment (ROI) of a training initiative.



ROI can be calculated by following a 7-stage process:

- **Step 1** - Collect pre-programme data on performance and/or skill levels.
- **Step 2** - Collect post-programme data on performance and/or skill levels
- **Step 3** - Isolate the effects of training from other positive and negative performance influencers.
- **Step 4** - Convert the data into a monetary value (i.e. how much actual value is the change worth to the organisation).
- **Step 5** - Calculate the costs of delivering the training programme.
- **Step 6** - Calculate ROI (programme benefits in Rs./programme costs in Rs.)
- **Step 7** - Identify and list the intangible benefits.

This last step is important as Phillips recognised that some training outcomes cannot be easily converted into a monetary value. For example, trying to put a monetary value on outcomes such as a less stressful working environment or improved employee satisfaction can be extremely difficult.

Phillips recommended that these "soft" business measures should be reported as intangible benefits along with the "hard" business improvement outcomes (such as increased sales, reduction of defects, time savings etc.).

9. New approaches to Training

In today's fast-paced, technology-driven world, traditional training methods are no longer sufficient to meet the evolving needs of modern organizations and learners. As businesses strive for agility, innovation, and efficiency, new approaches to training have emerged to ensure that employees acquire the right skills, at the right time, and in the most effective way possible.

This section explores how training has shifted from static, one-size-fits-all programs to more dynamic, learner-centric solutions. These innovative approaches leverage digital technologies, data insights, and flexible learning models to boost engagement, retention, and performance.

Key emerging trends and methods in modern training include:

- **E-learning** – Flexible, scalable, and accessible online learning solutions.
- **Micro-learning** – Bite-sized content designed for quick consumption and immediate application.
- **Development Centers** – Comprehensive programs to assess and accelerate talent development through simulations and real-time feedback.

In the following pages, we'll take a closer look at each of these approaches and how they are transforming the landscape of learning and development.

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9. New approaches to Training

E-learning, or electronic learning, refers to the use of digital technologies to deliver educational content remotely. It has become a cornerstone of modern training strategies due to its scalability, flexibility, and cost-effectiveness.

Key Features:

- **Accessibility:** Learners can access content anytime, anywhere—ideal for remote or hybrid work environments.
- **Scalability:** Easily deployed across global teams, ensuring consistent learning experiences.
- **Interactive Content:** Incorporates videos, quizzes, simulations, and gamification to boost engagement.
- **Self-Paced Learning:** Allows learners to progress at their own speed, promoting better retention and comprehension.
- **Tracking and Analytics:** Enables monitoring of learner progress, completion rates, and performance metrics through Learning Management Systems (LMS).

Benefits for Organizations:

- Reduces travel and instructor costs
- Speeds up onboarding and upskilling
- Provides data-driven insights to personalize future training
- Supports just-in-time learning for real-world application

Challenges:

- Requires self-discipline and motivation from learners
- May lack the human interaction of classroom settings
- Needs robust IT infrastructure and technical support

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9. New approaches to Training

Micro-learning is an innovative training method that delivers information in small, focused bursts. Designed for maximum efficiency, it allows learners to absorb and apply knowledge quickly—often in just a few minutes.

Key Characteristics:

- **Short Duration:** Lessons typically last between 2 to 10 minutes.
- **Focused Content:** Each module targets a single learning objective or skill.
- **Multi-format Delivery:** Includes videos, infographics, podcasts, quizzes, and interactive modules.
- **Mobile-friendly:** Optimized for smartphones and tablets, enabling on-the-go learning.
- **On-Demand Access:** Learners can retrieve content exactly when they need it—ideal for just-in-time training.

Benefits:

- Increases engagement and retention by avoiding cognitive overload
- Fits easily into busy work schedules
- Enhances performance by providing relevant content at the moment of need
- Encourages continuous learning and self-directed development

Use Cases:

- Product updates and feature walkthroughs
- Compliance training refreshers
- Customer service tips and soft skills practice
- Reinforcement of larger training programs

9. New approaches to Training

Development Centers are structured, multi-method programs designed to assess and develop an individual's competencies, skills, and potential—often used for leadership development, talent identification, and succession planning.

Unlike traditional training programs, Development Centers focus on **real-time feedback**, **simulation-based learning**, and **personalized growth**. They are particularly effective for high-potential employees, managers, and future leaders.

Core Components:

- **Simulations and Role Plays:** Realistic scenarios such as team meetings, problem-solving exercises, or client interactions.
- **Psychometric Assessments:** Tools to evaluate personality traits, cognitive abilities, and behavioral tendencies.
- **Behavioral Observations:** Trained assessors observe participant behaviors against defined competency frameworks.
- **Feedback and Coaching:** Participants receive detailed feedback and development plans based on performance insights.
- **Individual Development Plans (IDPs):** Tailored roadmaps to guide future growth and capability building.

Benefits:

- Offers a deep understanding of current strengths and development areas
- Builds self-awareness and motivation for improvement
- Enhances leadership pipelines and internal mobility
- Supports strategic workforce planning

Best Practices:

- Align center design with organizational goals and competency models
- Use a mix of tools for a well-rounded assessment
- Follow up with coaching and ongoing development support

Development Centers are not just assessment tools—they are powerful platforms for **experiential learning** and **behavioral transformation**, making them invaluable in any modern talent strategy.

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10. Key Terms

Few important terminologies, used in training (especially Sensitivity Training), are:

- **Ice Breakers**: Games to get team members know each other
- **Leading Games**: Exercise to each different styles of leadership
- **Skill Games**: Test to develop analytical skills
- **Communication Games**: Exercise to build bias free listening and talking
- **Strategic planners**: Games to test ability to plan ahead
- **Team building games**: Exercise requiring collaborative effort
- **Role reversal**: Exercise to teach plurality of view
- **Doubling**: Bring out the ideas that are not often expressed
- **Tag Teams**: One role played alternately by two participants
- **Mirroring**: Training with external perspective
- **Monodrama**: Insight into a given interaction
- **Shifting physical position**: Highlighting of communication problems
- **Structured role playing**: Role play with predetermined objective
- **Multiple role playing**: Providing a common focus of discussion
- **Built-in-tension**: Teaching the importance of resolving matter
- **Shadowing**: Working under a senior to watch and learn
- **Outward bound training**: Adventure sports for teams
- **9 + 1 + 23**: Self-assessment by a leader of leadership skills
- **Lateral Thinking**: Thinking randomly to come up with new ideas
- **Morphological Analysis**: Listing of alternative solution to problems
- **Gordon Technique**: Steering a discussion to crystallize solutions
- **Attribute Listening**: Isolation, selection and evaluation of a problem
- **Cross-Cultural Training**: Programmes to teach specifics of varied cultures.

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1. Introduction

The HR function has become an important strategic function of an organization, and it is no longer seen as a reactive, intangible, and support function. It is now considered a value-adding, developmental, and proactive function of the organization.

HR Evaluation refers to the systematic process of assessing the performance, effectiveness, and impact of various HR practices and initiatives within an organization. HR evaluation can take many forms, such as evaluating the effectiveness of recruitment and selection processes, performance management systems, training programs, and employee engagement initiatives. The purpose of HR evaluation is to identify areas of strength and weakness in HR practices and initiatives, and to use this information to make data-driven decisions and continuous improvements to HR processes. HR evaluation helps organizations to measure the return on investment (ROI) of HR initiatives, and to align HR strategies with overall business objectives.

Criterion to evaluate HR effectiveness

To evaluate the effectiveness of the HR function, the following criteria can be used:

- **Organizational wide criteria:** such as added value per employee, profit per employee, sales value per employee, costs per employee and added value per Rupee of employment costs.
- **Employee behavior:** such as retention and turnover rates, absenteeism, sickness, accident rates, grievances, disputes, references to employment tribunals, successful suggestion scheme outcomes.
- **HR service levels and outcomes:** such as time to fill vacancies, time to respond to applicants, cost of replies to advertisements, and measurable improvements in organizational performance.

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2. Evaluation Criteria

Evaluating HR effectiveness is crucial for organizations to ensure that the Human Resources function aligns with business goals and contributes to overall success.

Here are several criteria that organizations commonly use to assess the effectiveness of their HR functions:

Alignment with Organizational Goals

HR activities and initiatives should align with the broader strategic objectives of the organization. Assess how well HR strategies support the achievement of business goals and contribute to long-term success.

Talent Acquisition and Recruitment

Evaluate the effectiveness of the talent acquisition process, including the ability to attract and hire high-quality candidates in a timely and cost-effective manner. Measure key metrics such as time-to-fill, cost-per-hire, and the quality of new hires.

Employee Retention and Engagement

Assess HR's role in promoting employee retention and engagement. Consider factors such as turnover rates, employee satisfaction surveys, and initiatives to enhance workplace culture and employee well-being.

Training and Development

Evaluate the HR function's effectiveness in providing relevant training and development opportunities for employees. Assess whether training programs align with organizational needs and contribute to the enhancement of skills and competencies.

Performance Management

Measure the effectiveness of performance management processes, including goal-setting, feedback, and performance reviews. Assess how well performance management contributes to employee development and the achievement of organizational objectives.

Succession Planning

Assess the HR function's efforts in identifying and developing future leaders within the organization. Evaluate the effectiveness of succession planning initiatives to ensure a strong leadership pipeline.

Compensation and Benefits

Evaluate the fairness, competitiveness, and effectiveness of the organization's compensation and benefits programs. Consider factors such as salary benchmarks, employee satisfaction with benefits, and the ability to attract and retain top talent.

Compliance and Risk Management

Assess HR's effectiveness in ensuring compliance with relevant labor laws, regulations, and industry standards. Evaluate the organization's risk management strategies related to HR practices.

Diversity, Equity, and Inclusion (DEI)

Evaluate HR's efforts in promoting diversity, equity, and inclusion within the workplace. Assess the effectiveness of initiatives aimed at creating an inclusive and equitable work environment.

HR Technology and Analytics

Measure the effectiveness of HR technology systems and analytics in streamlining HR processes, providing relevant data for decision-making, and enhancing overall efficiency.

Employee Relations

Assess HR's role in managing employee relations, including conflict resolution, grievance handling, and maintaining a positive work environment. Evaluate the effectiveness of communication channels between HR and employees.

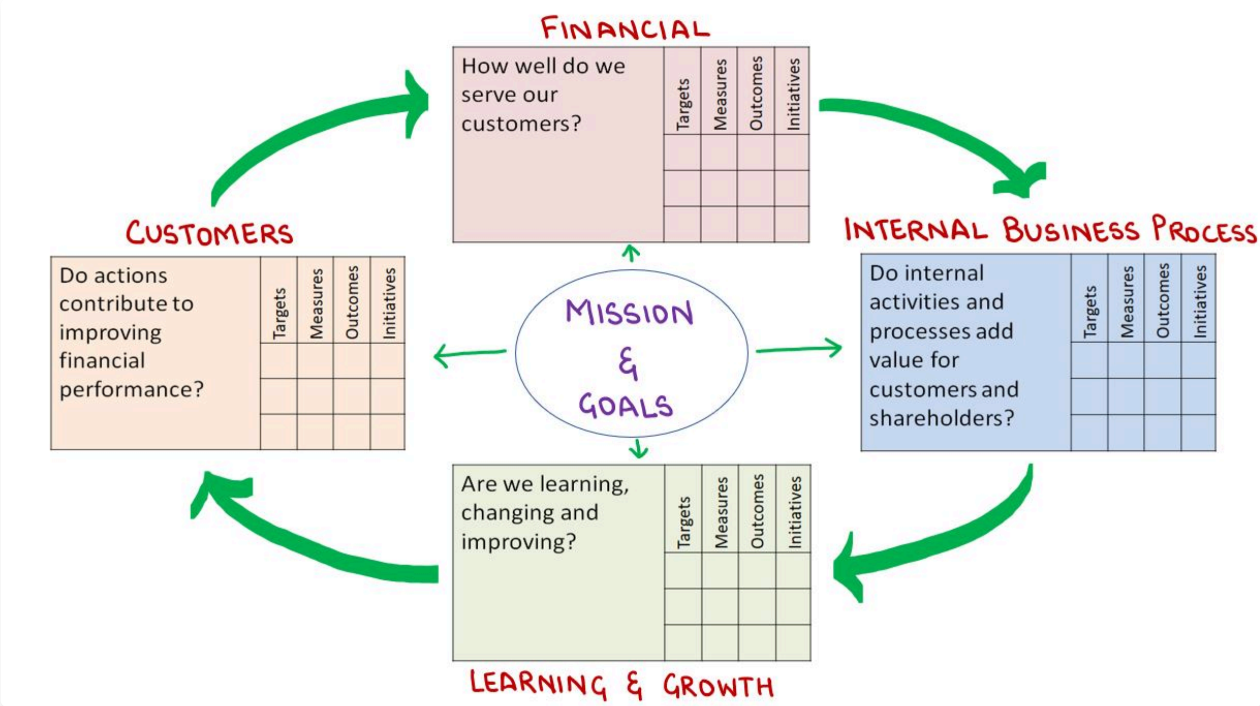
Cost-effectiveness

Assess the cost-effectiveness of HR initiatives and processes. Evaluate HR's ability to achieve organizational goals within budget constraints and demonstrate a positive return on investment.

Customer Satisfaction

Measure the satisfaction of internal stakeholders, including managers and employees, with HR services and support. Assess HR's responsiveness, professionalism, and ability to meet the needs of the organization.

3. Balance Scorecard



The Balanced Scorecard (BSC) is a strategic performance management framework that allows organizations to manage and measure the delivery of their strategy. It helps organizations to communicate their goals to their employees and customers, and provides a balance between external measures and internal measures, and between measures that show past performance and those that show future performance. The concept was initially introduced by Robert Kaplan and David Norton in a Harvard Business Review.

The BSC breaks performance monitoring into four interconnected perspectives, which are the Financial Perspective, the Customer Perspective, the Internal Process Perspective, and the Learning and Growth Perspective. When evaluating the HR function in an organization, the BSC can be used to assess the effectiveness of HR initiatives and the impact of HR activities on the organization's overall strategy.

Using Balanced Scorecard to Evaluate HR Function

Here's how the BSC can be used to evaluate HR function in an organization:

1. Financial Perspective

HR initiatives should be aligned with the organization's financial objectives. Therefore, the financial perspective can be used to assess the impact of HR initiatives on the organization's financial performance. For example, HR can track the cost savings generated through employee retention programs or the ROI of training programs.

2. Customer Perspective

HR initiatives should focus on improving employee satisfaction and engagement, which in turn improves customer satisfaction. Therefore, the customer perspective can be used to assess the impact of HR initiatives on customer satisfaction. For example, HR can track the employee turnover rate and correlate it with customer satisfaction levels.

3. Internal Process Perspective

HR plays a critical role in ensuring that internal processes are efficient and effective. Therefore, the internal process perspective can be used to assess the effectiveness of HR processes such as recruitment, performance management, and employee development. For example, HR can track the time-to-fill metric for open positions and correlate it with the quality of hires.

4. Learning and Growth Perspective

HR initiatives should focus on developing the organization's human capital, which is critical for long-term success. Therefore, the learning and growth perspective can be used to assess the impact of HR initiatives on employee skills and capabilities. For example, HR can track the number of employees who have received training and development opportunities and correlate it with their performance and contribution to the organization's strategy.

Thus, the BSC provides a framework for evaluating HR function in an organization by assessing the impact of HR initiatives on the organization's financial performance, customer satisfaction, internal processes, and employee skills and capabilities. By using the BSC to evaluate HR function, organizations can ensure that their HR initiatives are aligned with the overall strategy and contribute to the long-term success of the organization.

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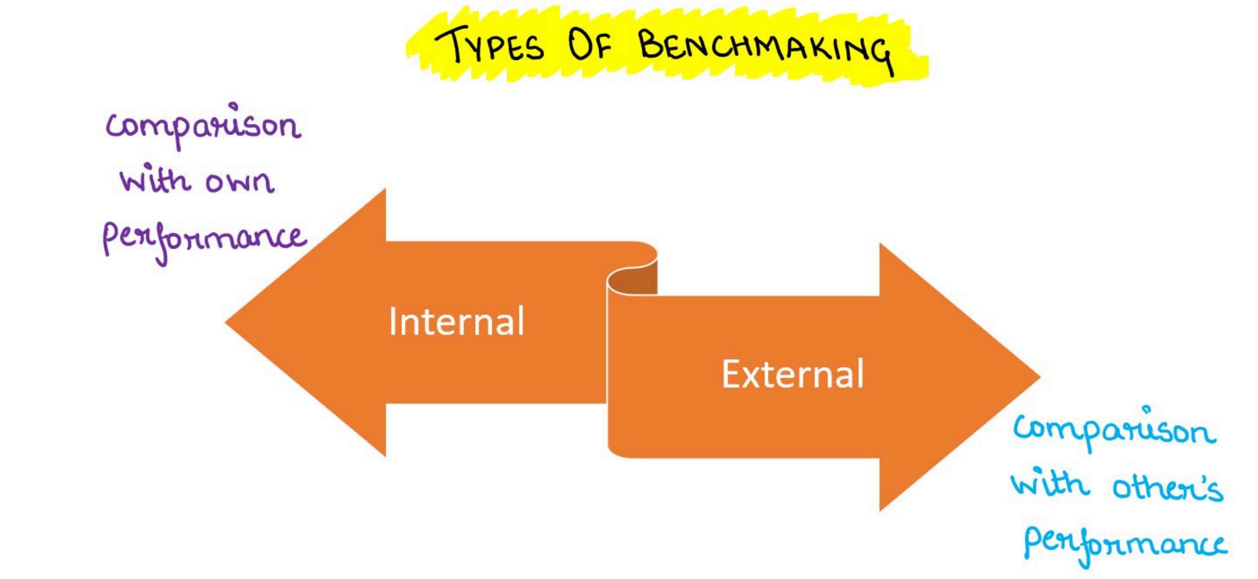
4. Benchmarking

Benchmarking in HRM is a process of comparing an organization's HR practices with those of similar organizations to identify areas for improvement and learn from best practices. The goal is to improve the quality of HR practices and gain a competitive advantage in the market. For example,

Toyota is often cited as a benchmark for lean manufacturing practices, with many companies in the industry using Toyota's methods as a reference point for their own production processes. By benchmarking against Toyota, companies can identify areas for improvement and work towards achieving higher efficiency, better quality, and increased sustainability.

Types of Benchmarking



There are 2 types of benchmarking.

1. Internal benchmarking

It involves comparing an organization's own performance over time. For example, an organization may compare its employee turnover rate from the past year to the current year to see if there has been any improvement or deterioration. This type of benchmarking can help an organization identify areas of HR where it needs to focus its improvement efforts.

2. External benchmarking

External benchmarking involves comparing an organization's performance to that of other organizations. For example, a company may compare its recruitment and selection process with other companies in the same industry to identify best practices and areas for improvement. This type of benchmarking helps organizations learn from others in the industry and adopt the best practices to improve their own HR processes.

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5. HR Audit

HR Audit is a critical process that organizations undertake to assess the effectiveness and efficiency of their HR functions. It involves a comprehensive review of policies, procedures, documentation, systems, and practices related to HR. An HRM audit is a formal review of the outcomes of HRM functions. This process is essential to identify areas of improvement, identify compliance with legal regulations, and stay up-to-date with the latest HR trends.

Role of HR Audit

One of the key advantages of conducting an HR audit is that it helps organizations to adapt to the evolving expectations of millennials. With a changing workforce, companies need to ensure that their HR functions are equipped to meet the demands of a new generation of employees. Through an HR audit, organizations can identify their strengths and weaknesses and eliminate guesswork around processes. The audit also offers the opportunity to improve the organizational structure, reduce costs, and identify outsourcing opportunities.

The table lists examples of these measures for a variety of HRM functions: staffing, compensation, benefits, training, appraisal and development, and overall effectiveness.

Business Indicators	Customer Satisfaction Measures
1. Staffing	
1.1 Average days taken to fill open requisitions	
1.2 Ratio of acceptances to offers made	Anticipation of personnel needs
1.3 Ratio of minority/women applicants to representation in local labor market	Timeliness of referring qualified workers to line supervisors Treatment of applicants
1.4 Per capita requirement costs	Skill in handling terminations
1.5 Average years of experience/education of hires per job family	Adaptability to changing labor market conditions
2. Compensation	
2.1 Per capita (average) merit increases	
2.2 Ratio of recommendations for reclassification to number of employees	Fairness of existing job evaluation system in assigning grades and salaries
2.3 Percentage of overtime hours to straight time	Competitiveness in local labor market
2.4 Ratio of average salary offers to average salary in community	Relationship between pay and performance Employee satisfaction with pay
3. Benefits	
3.1 Average Unemployment Compensation Payment (UCP)	Promptness in handling claims
3.2 Average Workers' Compensation Payment (WCP)	Fairness and consistency in the application of benefit policies
3.3 Benefit cost per payroll dollar	Communication of benefits to employees
3.4 Percentage of sick leave to total pay	Assistance provided to line managers in reducing potential for unnecessary claims
4. Training	
4.1 Percentage of employees participating in training programs per job family	Extent to which training programs meet the needs of employees and the company
4.2 Percentage of employees receiving tuition refunds	Communication to employees about available training opportunities
4.3 Training dollars per employee	Quality of introduction/orientation programs
5. Employee appraisal and development	
5.1 Distribution of performance appraisal ratings	Assistance in identifying management potential
5.2 Appropriate psychometric properties of appraisal forms	Organizational development activities provided by HRM department
6. Overall effectiveness	
6.1 Ratio of personnel staff to employee population	Accuracy and clarity of information provided to managers and employees
6.2 Turnover rate	
6.3 Absenteeism rate	Competence and expertise of staff
6.4 Ratio of per capita revenues to per capita cost	Working relationship between organizations and HRM department
6.5 Net income per employee	

An HR audit is not limited to compliance with legal regulations but can also examine any other measure associated with successful management of human resources. For example, the audit may look at compliance with equal employment opportunity laws, succession planning, maintaining a safe workplace, and positive labor relations. By examining these factors, an HR audit ensures that organizations create a healthy and safe work environment for their employees.

An HRM audit using customer satisfaction measures supports the customer-oriented approach to human resource management. After identifying performance measures for the HRM audit, the staff carries out the audit by gathering information. This information is usually available in the organization's documents, but sometimes, the HR department may need to create new documents for gathering specific types of data. Surveys are often used to measure customer satisfaction, and employee attitude surveys provide information about the satisfaction of these internal customers. Many organizations also conduct surveys of top-line executives to get a better view of how HRM practices affect the organization's business success.

To benefit from the HR profession's best practices, companies may invite external auditing teams to audit specific HR functions. For example, a consulting company like KPMG or PwC can conduct similar assessments. An external audit can provide an unbiased view of an organization's HR functions, which can be valuable in identifying areas for improvement.

6. Methods of HR Audit

The different approaches adopted for HR audit are outlined below.

Comparative Method

The Comparative Method involves selecting another organization or department with better results or practices as a model, and then comparing the results of the audited organization with the best practices of the model organization. This approach can be used to evaluate specific activities or programs, such as turnover, absence, compensation data, and human resource plans. This approach helps identify areas that need improvement and helps organizations learn from other organizations' best practices. For example, a company might compare its turnover rate with that of a competitor to determine whether its practices need improvement.

Outside Authority Method

The Outside Authority Method involves setting standards based on consultant recommendations or published research findings as benchmarks for the HR audit team. The consultant or researcher provides specific standards for the organization's HR function, which is then used to assess the organization's performance. This method helps organizations ensure that they meet industry standards or regulatory requirements.

Statistical Method

The Statistical Method is based on performance measures that are drawn from an organization's existing information system. The HR audit team generates statistical standards from existing records to evaluate activities and programs. By comparing data from one period to another, the team can identify errors in HR practices and address them before they become major problems. This method can be supplemented with comparative data from external sources, such as other organizations or industry association surveys. For instance, a company might compare its employee satisfaction rating with the industry average.

Compliance Method

The Compliance Method involves reviewing past practices to determine whether the actions taken comply with legal requirements and organizational policies and procedures. The HR audit team looks for deviations from laws and organizational policies and procedures to ensure that the organization is complying with relevant regulations. This method is particularly useful in identifying areas where the organization may need to improve compliance efforts.

MBO (Management by Objectives) Method

The MBO (Management by Objectives) Method involves setting specific objectives for managers and specialists in their areas of responsibility. The HR audit team then researches the actual performance and compares it with the objectives that were previously set. This approach helps organizations ensure that their HR objectives are being met and that managers are accountable for achieving those objectives.

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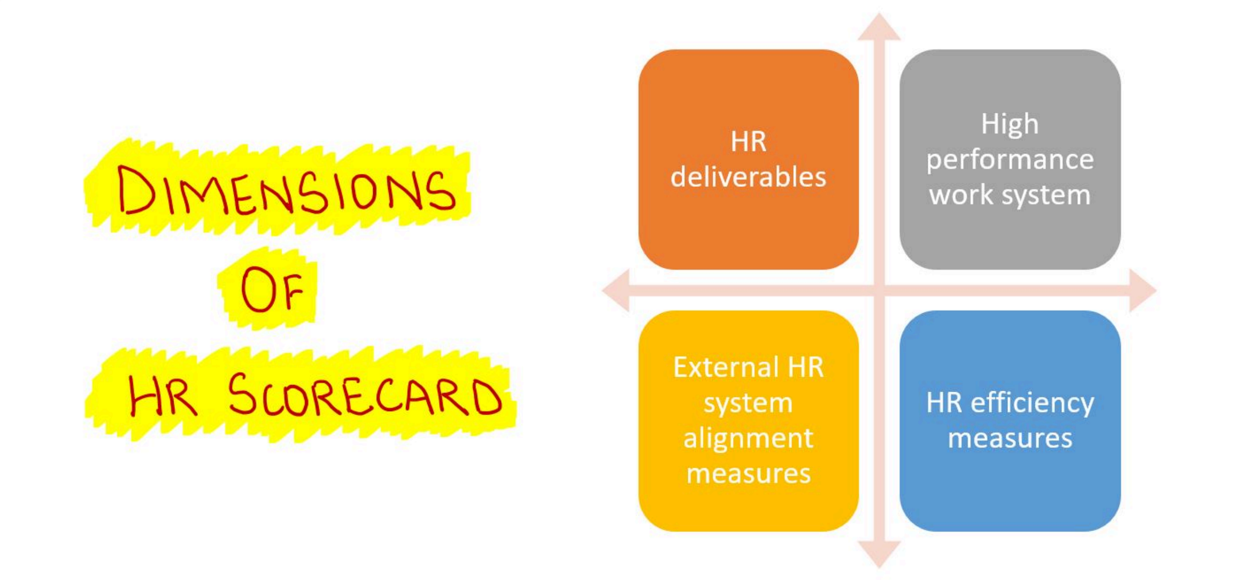
7. HR Score Card

The HR Scorecard matches business strategy against HR deliverables and objectives to provide a statistical basis by which HR efficiency and contribution to strategy implementation can be measured. It also measures the HRD maturity level of an organization. T V Rao and Udai Pareek developed HRD Scorecard for assessment of HR maturity of an organization.

The HRD maturity level is based on 4 factors: HRD systems maturity, HRD competencies, HRD culture, and business linkages.

Dimensions of HR Scorecard



The HR scorecard has 4 basic dimensions:

1. HR deliverables (performance drivers)
2. High performance work system (generated through HR policies, practices, and processes)
3. External HR system alignment measures (how well the HR system is aligned with the organization's key performance drivers)
4. HR efficiency measures (metrics, benchmarks, and standards by which the HR system's performance will be evaluated).

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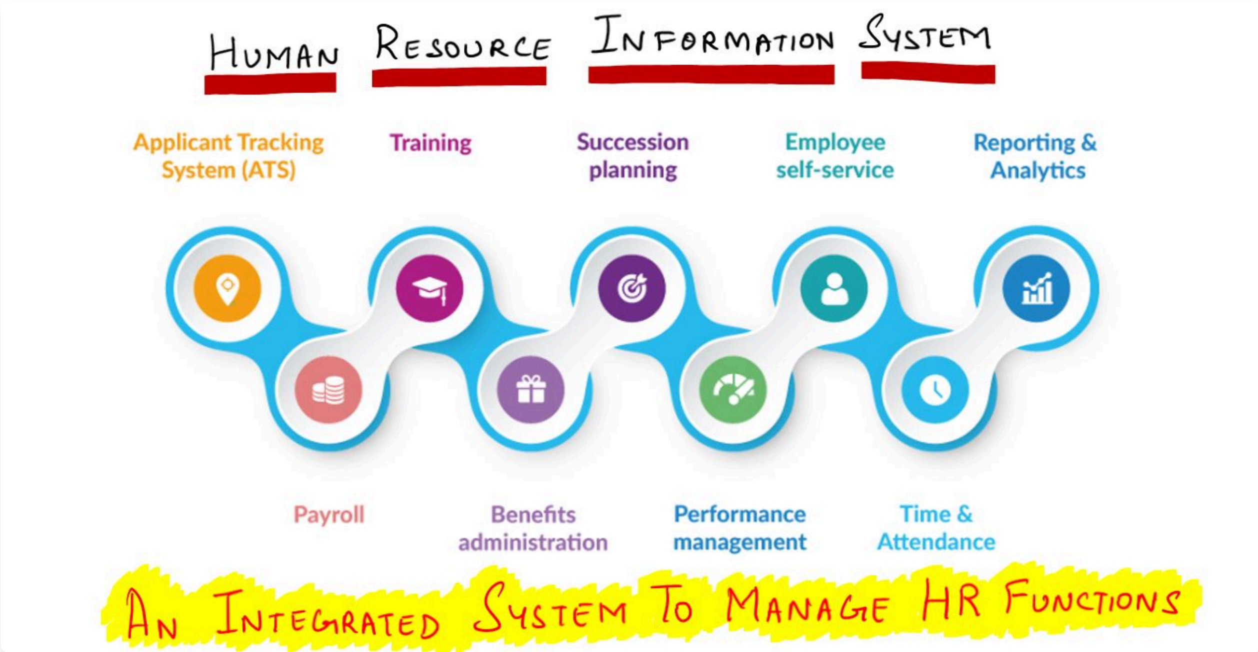
1. Introduction

Human Resource Information System (HRIS) is a type of software that automates many of the functions performed by the Human Resources (HR) department in an organization. It is designed to streamline HR processes and improve communication within the organization.



HRIS is an integrated system that manages various HR functions, including recruitment, onboarding, employee records, payroll, benefits, training and development, and performance management. HRIS helps organizations manage their human capital effectively, and helps HR professionals make informed decisions.

Some of the latest HRIS products are SAP success factors, Namely, Workday, BambooHR, Exelsys, Optimum HRIS.

2. Need for HRIS

HRIS (Human Resources Information Systems) is essential for organizations due to several reasons that contribute to improved efficiency, accuracy, and strategic decision-making within the HR function.

Here are key reasons why HRIS is crucial for organizations:

Centralized Data Management

HRIS provides a centralized and secure repository for all HR-related data, including employee information, benefits, payroll details, performance evaluations, and training records. Centralization simplifies data access and ensures data consistency across the organization.

Efficient HR Processes

Automation of routine HR processes, such as payroll processing, leave management, and performance reviews, reduces manual workload and minimizes the likelihood of errors. This efficiency allows HR professionals to focus on more strategic and value-added activities.

Time and Cost Savings

HRIS automates repetitive administrative tasks, leading to significant time and cost savings. This includes streamlining recruitment processes, automating onboarding, and reducing the manual effort required for data entry and record-keeping.

Improved Reporting and Analytics

HRIS provides robust reporting and analytics capabilities, allowing HR professionals and organizational leaders to access real-time insights into workforce metrics, trends, and key performance indicators. This data-driven approach supports informed decision-making.

Compliance Management

HRIS helps organizations stay compliant with relevant labor laws, regulations, and industry standards. Automated tracking of compliance requirements, reporting, and alerts assist HR teams in proactively addressing legal and regulatory obligations.

Enhanced Employee Self-Service

HRIS often includes employee self-service portals, empowering employees to manage their personal information, submit time-off requests, access benefits information, and participate in training programs. This self-service functionality improves employee engagement and satisfaction.

Strategic HR Planning

HRIS facilitates strategic workforce planning by providing insights into current workforce demographics, skills, and potential talent gaps. This information is valuable for long-term planning, succession management, and identifying training needs.

Recruitment and Talent Acquisition

HRIS streamlines the recruitment process by automating job postings, resume screening, and applicant tracking. This accelerates the hiring cycle, improves candidate experience, and helps organizations attract top talent more effectively.

Performance Management

HRIS supports performance management by automating the performance appraisal process, tracking employee goals, and facilitating continuous feedback. This contributes to a more transparent and objective performance evaluation system.

Employee Engagement and Satisfaction

By automating administrative tasks, providing self-service options, and fostering a streamlined work environment, HRIS contributes to overall employee satisfaction and engagement. Satisfied employees are more likely to be productive and committed to their roles.

Integration with Other Systems

HRIS can integrate with other business systems, such as finance and accounting software, time and attendance systems, and learning management systems. This integration ensures seamless data flow across departments, minimizing data silos.

Security and Data Confidentiality

HRIS systems prioritize data security, protecting sensitive employee information and ensuring compliance with data privacy regulations. Access controls and encryption measures safeguard confidential HR data from unauthorized access.

Adaptability to Organizational Changes

HRIS systems are scalable and adaptable to organizational growth, changes in structure, and evolving HR requirements. This scalability ensures that the system remains effective as the organization expands or undergoes structural changes.

3. Modules under HRIS

HRIS (Human Resources Information Systems) typically consists of various modules, each designed to address specific functions within the HR domain. The specific modules may vary depending on the HRIS software vendor and the organization's needs, but common modules include:

Employee Information Management
Centralizes and organizes employee data, including personal details, contact information, job history, and qualifications. This module serves as a comprehensive database for HR-related information.

Recruitment and Applicant Tracking System (ATS)
Facilitates the recruitment process by managing job postings, applicant tracking, resume screening, and interview scheduling. It helps streamline the hiring workflow and ensures a more efficient and organized recruitment process.

Onboarding
Manages the onboarding process for new hires, including document submission, orientation scheduling, and the completion of necessary forms. Onboarding modules help organizations create a smooth and engaging introduction for new employees.

Time and Attendance Management
Tracks employee working hours, attendance, and time-off requests. This module often integrates with payroll systems to ensure accurate and timely processing of employee compensation.

Leave Management
Allows employees to request and track leaves, and enables HR to manage and approve these requests. Leave management modules help organizations maintain compliance with leave policies and regulations.

Performance Management
Supports the performance appraisal process by automating goal-setting, feedback collection, and performance reviews. Performance management modules aid in evaluating employee performance and setting development goals.

Training and Development
Manages employee training programs, including course enrollment, tracking completion, and assessing training effectiveness. This module helps organizations identify skill gaps and plan for employee development.

Employee Self-Service (ESS)
Provides a portal for employees to access and manage their own HR-related information, such as personal details, benefits enrollment, and leave requests. ESS modules empower employees and reduce administrative burdens on HR staff.

Benefits Administration
Manages employee benefits programs, including health insurance, retirement plans, and other perks. Benefits administration modules help HR professionals oversee benefit enrollment, changes, and compliance.

Payroll Management

Automates the calculation and processing of employee salaries, taxes, and other deductions. Payroll modules ensure accuracy and compliance with tax regulations.

Succession Planning

Identifies and develops potential future leaders within the organization. Succession planning modules help HR professionals create talent pipelines and ensure a smooth transition for critical roles.

Employee Relations

Tracks and manages employee relations issues, grievances, and conflict resolution. This module helps HR professionals address workplace concerns and maintain positive employee relations.

Analytics and Reporting

Provides tools for generating reports and analytics on various HR metrics, such as turnover rates, workforce demographics, and performance trends. Analytics modules support data-driven decision-making.

Compliance Management

Helps organizations stay compliant with labor laws, industry regulations, and internal policies. Compliance management modules assist HR in monitoring and addressing legal and regulatory requirements.

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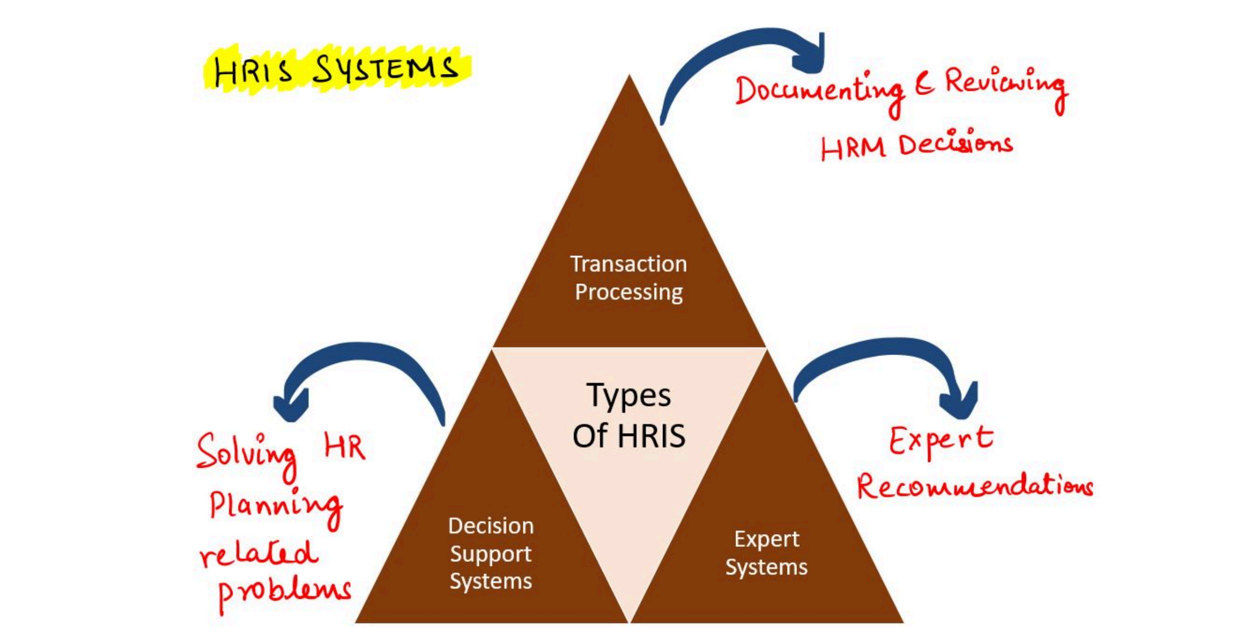
4. HRIS Systems

HRIS (Human Resource Information Systems) is an important technology for HR professionals. It has revolutionized the way they manage employee data and other HR processes.

Types of HRIS



There are 3 types of HRIS systems, including transaction processing, decision support systems, and expert systems. These are discussed below.

1. Transaction Processing

Transaction processing is a type of HRIS system that involves documenting and reviewing HRM decisions and practices. It includes calculations and computations that are associated with decisions made on employee relocation, training expenses, and enrollments in courses and benefit plans. For example, when an employee enrolls in a health insurance plan, the system automatically calculates the employee's contribution and the company's contribution, updates the employee's record, and generates reports. This process ensures that HR professionals can keep track of employee benefits efficiently.

2. Decision Support Systems

Decision support systems are computer software systems designed to help managers solve problems related to HR planning. They usually have a "what if?" feature that managers can use to enter different assumptions or data to see how the likely outcomes will change. For example, if a manager wants to estimate the number of new employees needed for the next quarter, they can try out different assumptions about turnover rates to see how they affect the number of new employees needed. This type of system can help managers make informed decisions based on data. Decision support systems are also useful for forecasting and succession planning.

3. Expert Systems

Expert systems are computer systems that incorporate the decision rules used by people who are considered to have expertise in a certain area. They help users make decisions by recommending actions based on the decision rules and the information provided by the users. For example, an expert system could guide an interviewer during the selection process by recommending questions based on the candidate's skills and qualifications. Some organizations use expert systems to help employees decide how to allocate their money for benefits, such as in a cafeteria plan, and help managers schedule the labor needed to complete projects. Expert systems can deliver both high quality and lower costs. By using the decision processes of experts, an expert system helps many people arrive at decisions that reflect the expert's knowledge.

5. HR Dashboard

An HR Dashboard is a visual representation of key human resources metrics, performance indicators, and workforce data. It provides HR professionals, executives, and managers with a concise and easily understandable snapshot of critical HR analytics, allowing them to monitor and assess various aspects of the workforce.

HR Dashboards typically use charts, graphs, and other visual elements to present data in a way that facilitates quick and informed decision-making.

6. HR Analytics

HR Analytics (also known as People Analytics or Workforce Analytics) refers to the process of collecting, analyzing, and interpreting human resource data to improve workforce performance and drive strategic decision-making.

It transforms traditional HR functions into data-driven processes that help organizations optimize hiring, retention, development, and overall workforce planning.

Key Functions of HR Analytics:

- **Talent Acquisition Analytics**
  Track time-to-hire, cost-per-hire, source effectiveness, and quality of hire.
- **Employee Engagement & Retention**
  Analyze survey results, attrition trends, and turnover predictors to improve satisfaction and reduce churn.
- **Performance & Productivity Metrics**
  Identify top performers, skill gaps, and training impact using performance data.
- **Workforce Planning**
  Forecast staffing needs, succession gaps, and future talent requirements based on business trends.
- **Diversity & Inclusion Analysis**
  Monitor workforce composition and equity across roles, pay, and promotions.

Common Data Sources:

- HRIS (Human Resource Information Systems)
- ATS (Applicant Tracking Systems)
- LMS (Learning Management Systems)
- Employee surveys and feedback tools
- Time tracking and payroll systems

Benefits of HR Analytics:

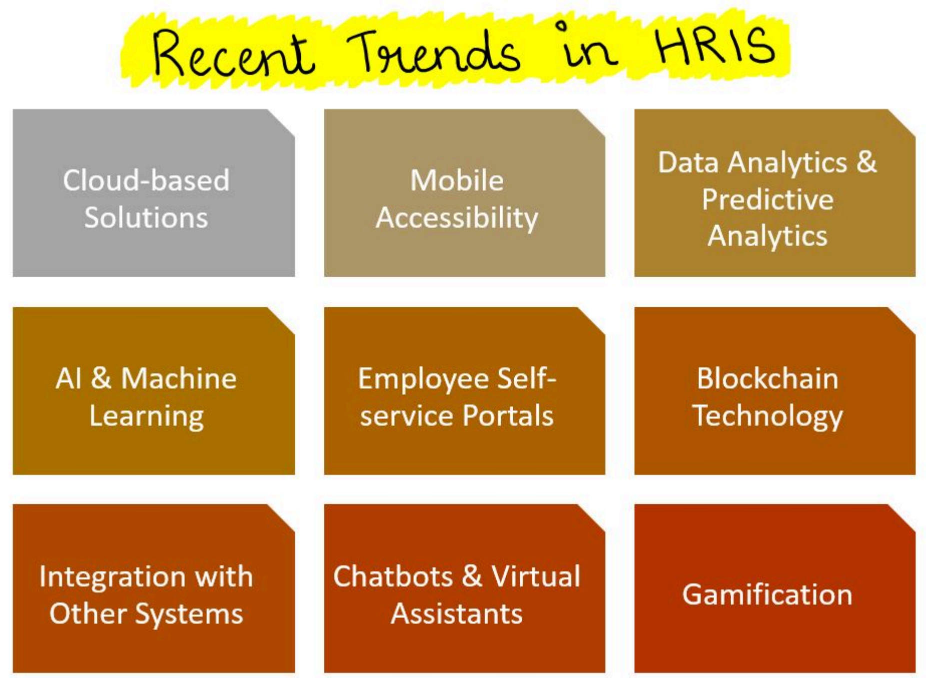
- Improves strategic workforce decisions
- Increases employee satisfaction and engagement
- Reduces turnover and hiring costs
- Aligns HR efforts with business objectives
- Demonstrates ROI of HR initiatives

Levels of HR Analytics Maturity:

1. **Descriptive Analytics** – What happened?
2. **Diagnostic Analytics** – Why did it happen?
3. **Predictive Analytics** – What is likely to happen?
4. **Prescriptive Analytics** – What should we do about it?

7. Recent trends in HRIS

Technology is significantly influencing the evolution of HRIS (Human Resource Information Systems), bringing about transformative changes in the way HR professionals handle workforce data.



Here are key ways in which technology is shaping HRIS:

Cloud-Based Solutions
Traditional, on-premise HRIS solutions are being replaced by cloud-based systems. Cloud solutions offer greater flexibility, accessibility, and scalability. They enable real-time data access from anywhere, reduce infrastructure costs, and provide seamless updates and maintenance.

Mobile Accessibility
There is increased emphasis on mobile-friendly HRIS applications. Mobile accessibility allows HR professionals and employees to access HRIS data and functionalities on-the-go. This enhances workforce flexibility, facilitates remote work, and improves overall user experience.

Data Analytics and Predictive Analytics
There is integration of advanced analytics tools into HRIS. HR professionals can leverage data analytics to derive meaningful insights from workforce data. Predictive analytics helps in identifying trends, making informed decisions, and proactively addressing issues such as employee turnover and skills gaps.

AI and Machine Learning
There is integration of artificial intelligence (AI) and machine learning (ML) capabilities. AI and ML enhance HRIS functionalities by automating routine tasks, predicting candidate success, and personalizing learning and development plans. Chatbots powered by AI are also being used for employee queries and support.

Employee Self-Service (ESS) Portals
We have, these days, improved and more intuitive ESS interfaces. Enhanced ESS portals empower employees to manage their own HR-related tasks, reducing the administrative burden on HR professionals. Employees can access information, submit requests, and participate in HR processes more efficiently.

Blockchain Technology
HR managers have taken up exploration of blockchain for secure data management. Blockchain offers enhanced security and transparency for HRIS data. It can be used to securely manage employee records, certifications, and other sensitive information, reducing the risk of data breaches.

Integration with Other Systems
There is emphasis on seamless integration with other business systems. HRIS platforms are increasingly integrating with ERP

(Enterprise Resource Planning), finance, and other business systems. This integration ensures a unified approach to data management across different departments.

Chatbots and Virtual Assistants

These days, we have integration of chatbots and virtual assistants for HR support. Chatbots provide immediate responses to employee queries, guide them through HR processes, and offer 24/7 support. This improves HR service delivery and enhances the overall employee experience.

Gamification

Gamification is being used to make HR processes more engaging, such as in training and development programs. It can boost employee participation, motivation, and skill development.

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1. Consultants for HRM

A **consultant** is an external advisor hired by organizations to help identify and solve business problems objectively and independently. Consultants are not typically part of the organization's staff, and they have no direct influence within the organization. They are financially, administratively, politically, and emotionally independent from the client, and their consulting activities are typically backed by the resources of a firm.

Companies hire consultants for various reasons, including gaining access to specialized expertise, improving efficiency, reducing costs, managing change, and solving complex problems. Hiring a consultant can provide organizations with an objective, independent perspective that is not influenced by internal politics or biases. Consultants are also able to bring in a fresh perspective and provide innovative solutions that may not have been considered by the internal team.

Consultants can provide a wide range of services, from strategic planning to operational improvement and process redesign. They can also provide training and coaching to develop employee skills and capabilities.

Why Companies hire Consultants

Some of the key reasons why companies hire consultants include:

- **Expertise:** Consultants are hired for their specialized knowledge and experience in a particular area. For example, a company might hire a financial consultant to help them with a complex financial restructuring or a marketing consultant to develop a new marketing strategy.
- **Objectivity:** Consultants provide an outside perspective that is not influenced by internal politics or biases. They can help organizations make tough decisions and identify areas for improvement without being influenced by internal politics or biases.
- **Efficiency:** Consultants can help organizations streamline processes and eliminate waste, resulting in improved efficiency and reduced costs.
- **Change management**: Consultants can help organizations manage change effectively, such as implementing a new technology system or restructuring the organization.
- **Problem-solving:** Consultants are often brought in to help solve complex problems that the internal team may not have the expertise to solve.

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1. Consultants for HRM

The best relationships occur when all parties know exactly what is expected of them. This includes responsibilities, objectives, costs, timeframes and also less obvious things such as access to information and individuals, use of your company's facilities and equipment and what is and what is not covered by expenses. Clear and open communication is a key part of the relationship between a training consultant and client. It is a good idea to hold regular progress meetings, where the client can monitor how the programme is coming along, and the consultant can bring up any unforeseen problems or hiccoughs which have arisen.

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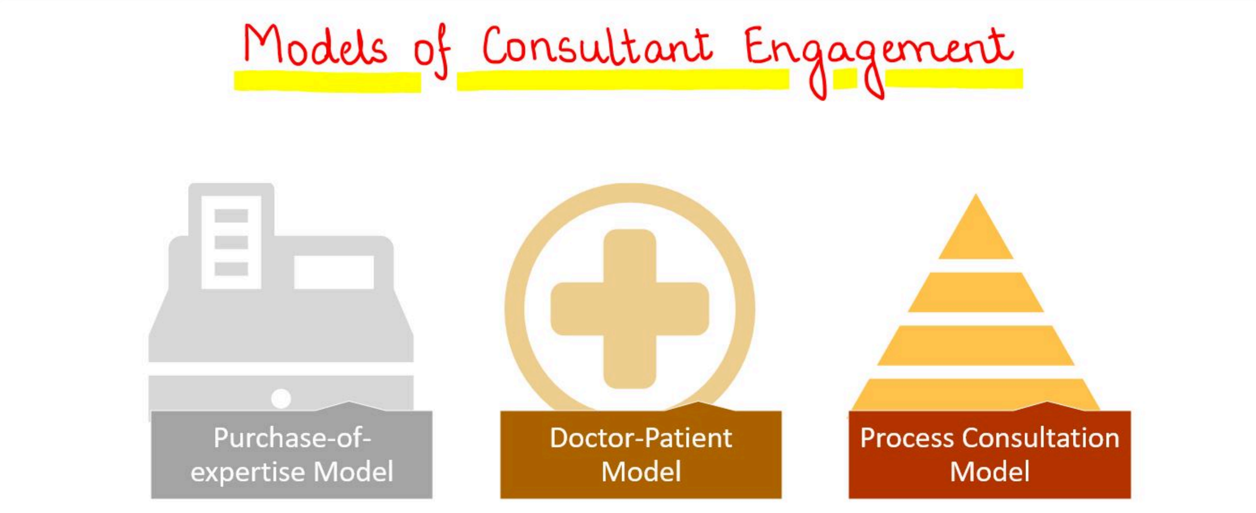
2. Models of Consultant Engagement



Schein (1990) has identified 3 broadly accepted models of consultation: purchase of expertise, doctor-patient, and process consultation.

1. **The Purchase-of-expertise Model:** Consultants provide an independent perspective to bear on specific challenges without focusing on the client relationship.
2. **The Doctor-Patient Model:** Consultants use a diagnostic approach to examine the client organization's problems and build a strong relationship with the client.
3. **The Process Consultation Model:** Consultants act as facilitators and provide a framework and methodology for defining the problem and the best possible alternatives.

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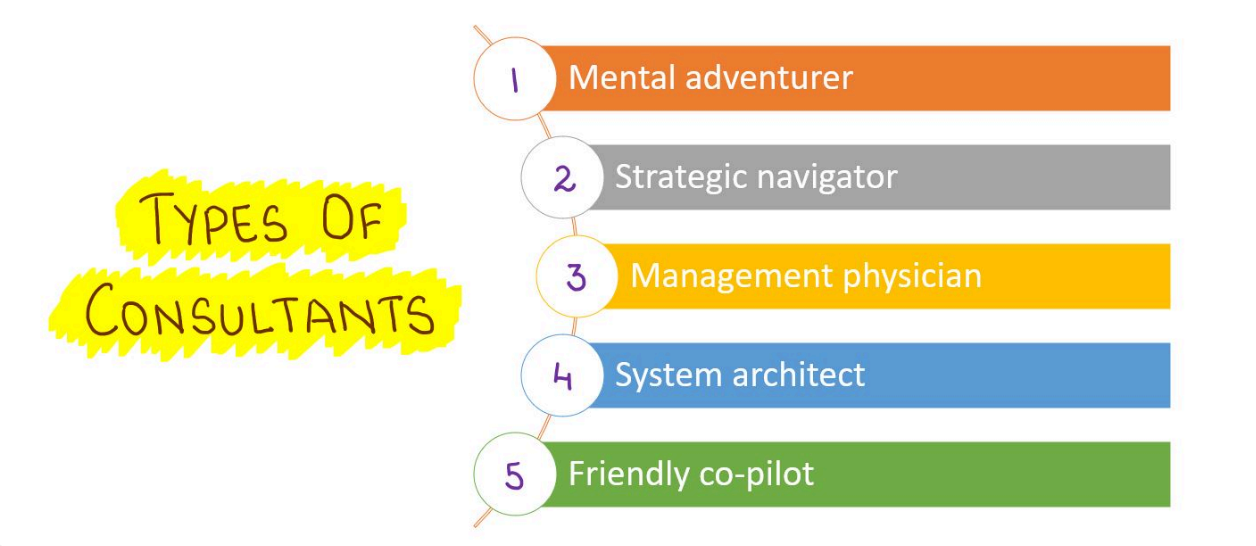
3. Types of consultants



Nees and Grenier (1985) suggest 5 types of consultants:

1. The **mental adventurer** analyzes tough problems like long-term country development using economic methods and experience.
2. The **strategic navigator** uses quantitative understanding of markets and competition to recommend action without considering the client's perspective too much.
3. The **management physician** understands the client organization's internal dynamics and makes recommendations based on what's realistically achievable, even if it sacrifices some objectivity.
4. The **system architect** helps redesign processes, routines, and systems in close collaboration with the client.
5. The **friendly co-pilot** counsels senior managers as a facilitator, without providing new knowledge to the client.

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1. Introduction

Human Resource Accounting may be defined as the measurement and reporting of the costs incurred in recruiting, hiring, training and developing employees and their present economic value to the organisation.

HR accounting (HRA) is similar in principle to the preparation of an accounting statement. Just as financial accounting reflects the costs and value of assets (land, buildings, machinery, etc.), HR accounting also tries to make assessment of the costs and value of the people as organisational resources. HR accounting is primarily a management tool that informs the management about the changes that arc taking place in the human resources of an organisation.

The basic purpose of HR accounting is to facilitate the effective and efficient management of human resources as it provides required information about acquiring, developing, evaluating and rewarding human resources. HR accounting related to Human Capital Accounting. Just like HR accounting, human capital accounting also attempts to make a financial assessment of the knowledge and skills of an organisation's employees or human capital.

If the value of human resources is not duly reported in profit and loss account and balance sheet, the important act of management on human assets cannot be perceived. Expenses on recruitment, training, etc. are treated as expenses and written off against revenue under conventional accounting. All expenses on human resources are to be treated as investments, since the benefits are accrued over a period of time.

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1. Introduction

There are several advantages of using HR Accounting.

- It provides valuable information to managers about the value of human capital.
- It facilitates human resource planning by highlighting strengths and weaknesses of existing workforce.
- It helps management evaluate the effectiveness of its policies relating to human resources.
- It provides valuable information to potential investors about a firm's human assets.
- It may improve employee motivation and morale by creating a feeling that the organization cares for them.

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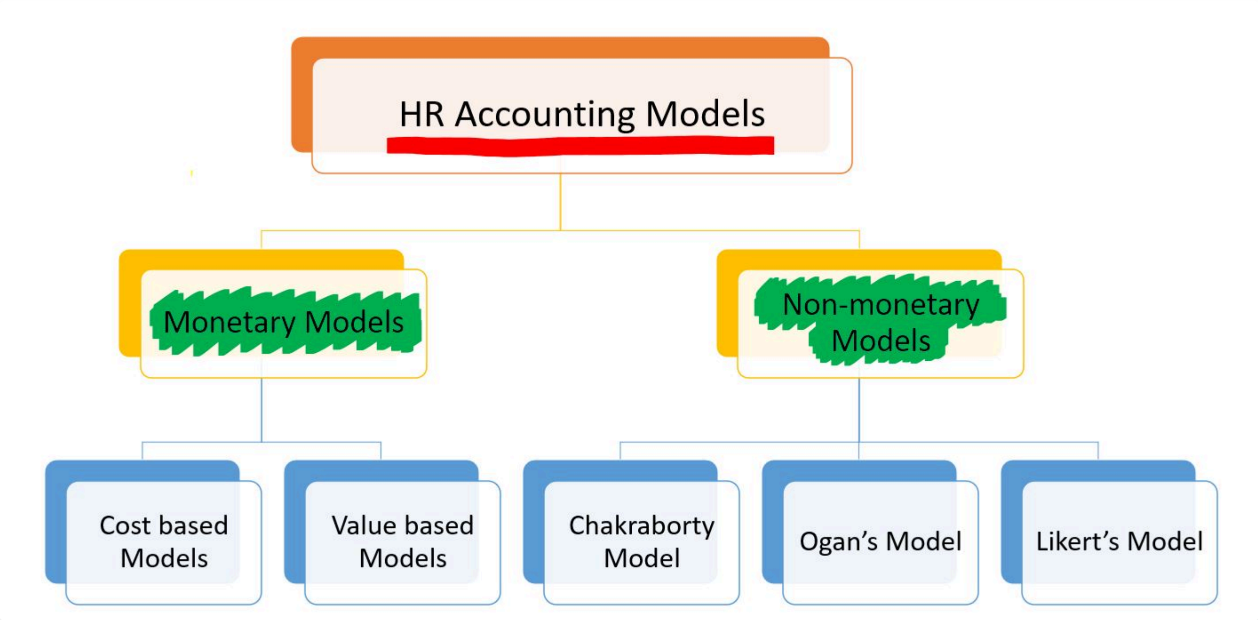
2. Methods of HR Accounting



Various models of HR Accounting can be divided into 2 categories:

1. Monetary Models and
2. Non-Monetary Models.

The Monetary Models can be further divided into 2 categories:

1. Cost Based Models and
2. Value Based Models.

These Models are discussed next one by one.

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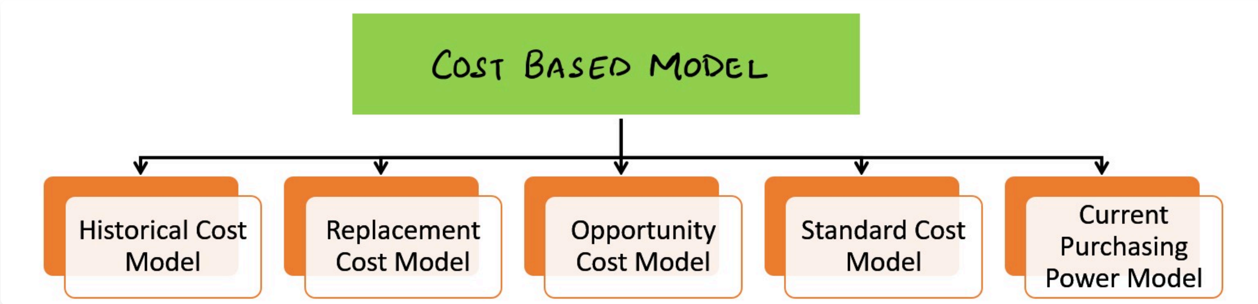
3. Cost based Monetary Models

Let us discuss the various cost based monetary models one by one.



Historical Cost Model

Brumnet, Flamholtz and Pyle have developed this method. In this approach, actual cost incurred on recruiting, hiring, training and development of the human resources of the organization are capitalized and amortized over the expected useful life of the human resources. Thus, a proper recording of the expenditure made on hiring, selecting, training and developing the employees is maintained and a proportion of it is written off to the income of the next few years during which human resources will provide service.

Replacement Cost Model

Rensis Likert & Eric G.Flamholtz propounded it. This is a measure of cost to replace a firm's existing human resources. Human Resources are to be valued on the assumption that a new similar organization has to be created from scratch and the cost to the firm is calculated if the existing resources were required to be replaced with other persons of equivalent talents and experience. It takes into account all costs involved in recruiting, hiring, training and developing the replacement to the present level of efficiency. As against historical cost methods which take into account the actual cost incurred on employees, replacement cost takes into account the notional cost that may be required to acquire a new employee to replace the present one. Replacement cost is generally much higher than the historical cost.

Opportunity Cost Model

Heckiman and Jones first advocated this approach. This is also known as **Market Value Method**. This method of measuring the value of human resources is based on the economist's concept of *opportunity cost*. Opportunity cost is the value of an asset when there is an alternative opportunity of using it. In this method there is no opportunity cost for those employees who are not scarce. As such only scarce people should form part of the value of human resources. The employee is considered as scarce only when the employment in one division of an individual or group denies this kind of talent to another division. Thus the opportunity cost of an employee in one department is calculated on the basis of offer made by another department for the employees working in this department in the same organization.

Standard Cost Model

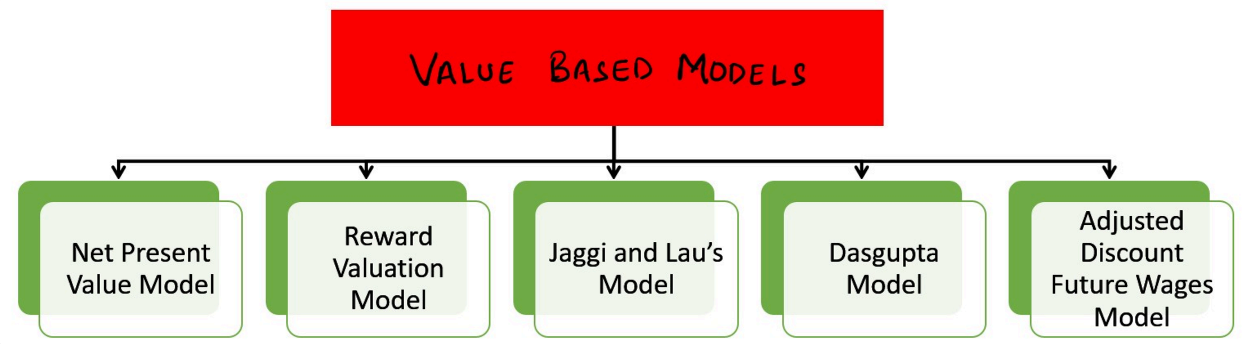
David Watson has suggested this approach. For using standard cost, employees of an organization are categorized into different groups based on their hierarchical positions. Standard cost is fixed for each category of employees and their value is calculated. According to this approach, standard costs of recruiting, hiring, training and developing per grade of employees are determined year after year. The standard cost so arrived at for all human beings employed in the organization are the value of human resources for accounting purposes. The approach is easy to explain and can work as a suitable basis for control purposes through the technique of variance analysis.

Current Purchasing Power Method

Under this method, instead of taking the replacement cost to capitalize, the capitalized historic cost of investment in human resources is converted is converted into current purchasing power of money with the help of index numbers. If there is an increase in the index number, it will result in a corresponding increase in the value of human resources. The standard cost method and the current purchasing power method also suffers from all drawbacks of the replacement cost except they are simpler calculation.

4. Value Based Monetary Models

Under this approach, value of human resources of an organization can be found out by discounting the future salaries and other capital costs by a certain rate of discount or by discounting the future earning of the organization at a certain date by suitable rate and allocating a part of the present value of earnings to human resources.



The valuation models developed under this approach are as under.

Net present value method

This was given by Lev and Schwartz. The model of measurement of human capital suggested by Lev and Schwartz in 1971 is based on the economic concept of the human capital. Human capital is defined as the source of income over a period of time and its worth is the present value of future incomes discounted by a certain rate. According to them, the value of human capital is represented by a person of age is the present value of his remaining future earnings from his employment.

Reward valuation method

This was given by Flamholtz. Under this model the limitations of Lav and Schwarts are removed. This is an improvement on the present value method. It takes into consideration the possibility or probability of an employee's movement from one role to another in his career and also of his leaving the firm earlier than his death of retirement.

Jaggi and Lau's Model

This model fulfills the various limitations which belong to every employee which is related with the changes in the working path of employee in career. Thus, in this model, company calculates the value of *employees' groups*. These groups are homogeneous in nature.

Adjusted Discount Future Wages Model

This was given by Hermansons. Under this model the value of human resource calculated by four steps. *Firstly,* estimating the salary and wages of employees for the next five years, then in the *second step,* Company calculates the present value of these estimated wages and salaries for the five years, then after in next step company calculated the efficiency ratio and in final step company multiplies the present value of estimated wages of five years with efficiency ratio.

Dasgupta model

In this model popularly known as **Total cost concept**, Professor *M. Dasgupta* has taken somewhat different and broad canvas. According to him the total cost incurred by the individual up to that position in the organization should be taken as the value of person which is further adjusted by his intelligence level. The value thus calculated is revised to time based on- age, performance, experience and capabilities.

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5. Non-Monetary Model

The non-monetary method does not assess human resource based on money terms or dollars but rather on rating or indices and ranking. This method can be used as compliment to monetary method. Non-monetary method usually includes simple inventory of capabilities and skill of people in a firm. In assessing the benefit derived from use of human resource, behavioral measurements techniques may be used.

Let us discuss the three models that have been developed under this approach.

Chakraborty model

This is the model envisaged by the Indian author *Prof. S. K. Chakraborty* in 1976, on the human resources. He has valued the human resources in aggregate and not on an individual basis. He suggested that managerial and non managerial manpower can be evaluated separately. The value of human resource on a collective or group basis can be found and by multiplying the average tenure of employment of the employees in that group and shown as investment in the position statement. The average annual salary grade structure and promotion schemes of the enterprise. He has further stated that recruitment, including selection development and training costs of each employee could be records separately and these could be attributed as deferred revenue expenditure to be written off over the expected average tenure of the employee in the organization. The deferred portion should be shown in the position statement of the organization. If there is permanent exit on account of that year attributable to that person should be written off against the income in the year of exit itself.

Ogan's Model

Pekin Ogan suggested this approach which is a further extension of net benefit model as developed by Morse. In this approach, the value of human resource is determined in future for the enterprise.

Likert's Model

This model was developed by *Rensis Likert and David G. Bowers* and is centered on social variables. The model assumes that the organizational productivity can be explained in terms of the human organization. It is comprised of three classes of variables-casual, intervening and end result.

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1. Introduction

International Human Resource Management (IHRM) involves overseeing people in global organizations. It covers everything from hiring and developing employees to rewarding them, extending beyond the management of expatriates.

IHRM comes with unique challenges not encountered in a single-country operation. These challenges include adapting to various organizational models, adjusting HRM policies for different countries (either making them more similar or different), navigating diverse cultures and environments, and handling the selection, deployment, development, and rewards of expatriates who may be from the parent company or 'third-country nationals' (TCNs).

The key issues in IHRM revolve around the impact of globalization, which involves the movement of people, ideas, products, and information worldwide to meet local needs. Environmental differences, like markets, regulations, and cultural variations, also play a crucial role. Addressing these challenges requires tailoring HRM policies to each country and effectively managing expatriates.

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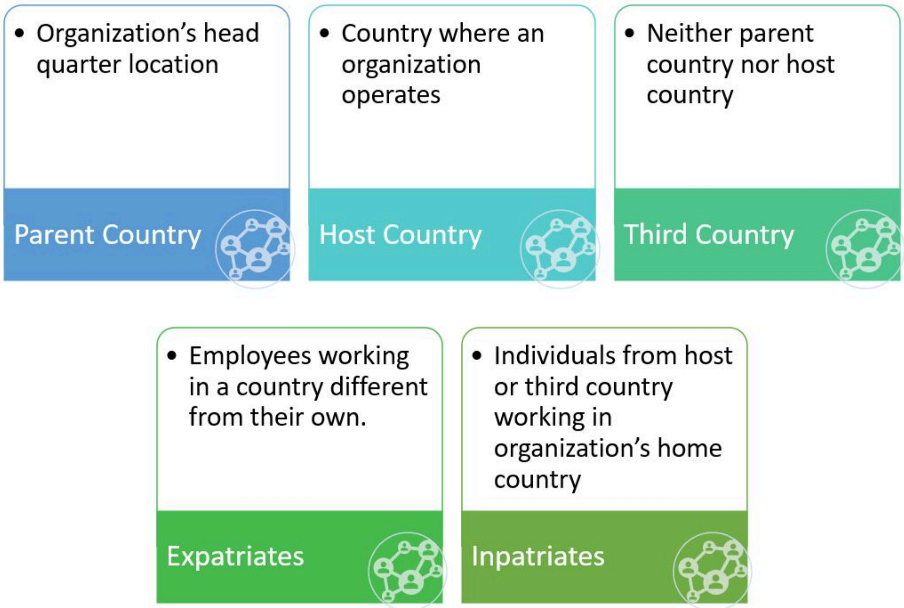
2. Sources of Manpower

When organizations operate globally, their employees are very likely to be citizens of more than one country. Employees may come from the employer's parent country, a host country, or a third country.



Parent Country

The parent country is the country in which the organization's headquarters is located. For example, India is the parent country of Infosys, because Infosys's headquarters is in Bangalore. An Infosys employee who was born in India and works at Infosys's headquarters or one of its Indian centres is, therefore, a parent-country national. This is also called home country approach.

Host Country

A host country is a country (other than the parent country) in which an organization operates a facility. Australia is a host country of Infosys because Infosys has operations there. Any Australian software engineer hired to work at Infosys's Melbourne facility would be host-country nationals, that is, employees who are citizens of the host country.

Third Country

A third country refers to a country that is neither the parent country nor the host country. In the example of Infosys operations in Melbourne, the company could hire a British manager to work there. The British manager would be a third-country national because the manager is neither from the parent country (India) nor from the host country (Australia).

Expatriates

When organizations operate overseas, they must decide whether to hire parent country nationals, host-country nationals, or third-country nationals for the overseas operations. Usually, they hire a combination of these. In general, employees assigned to work in another country are called expatriates.

Inpatriates

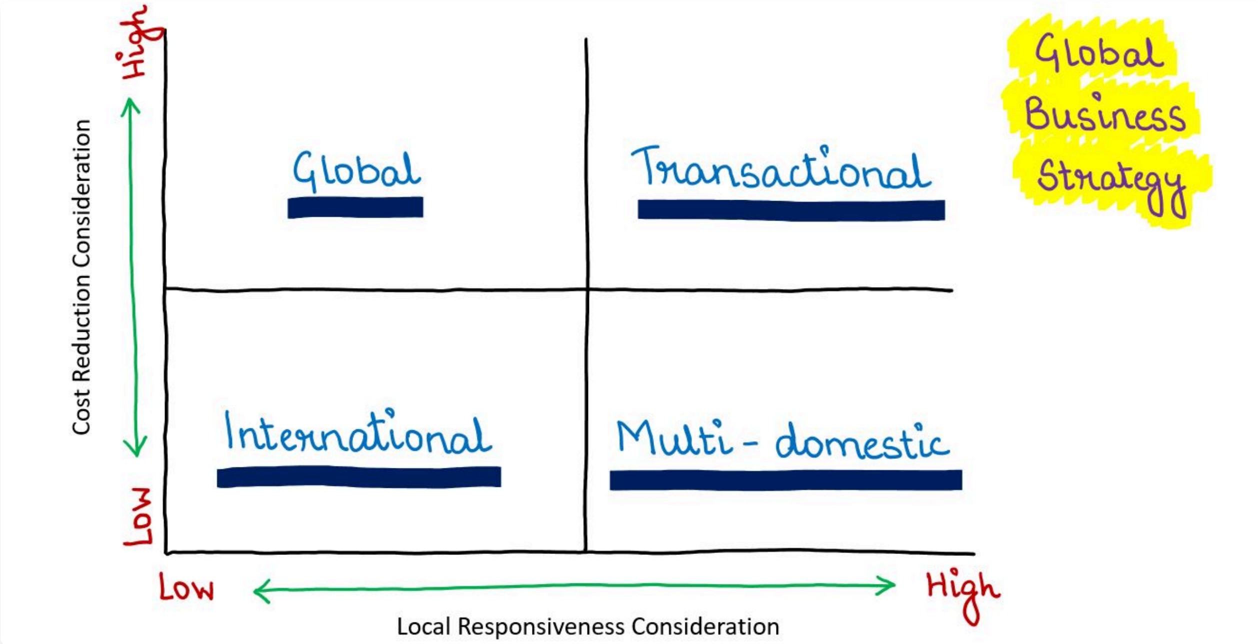
In recent years a new term has emerged in international management— inpatriates. An inpatriate, or inpat, is an individual from a host country or a third-country national who is assigned to work in the home country.

3. Mode of Expansion

As organizations grow, they often begin to meet demand from customers in other countries.

A **Multinational Enterprise (MNE)** usually refers to any company with foreign direct investments. However, some writers reason that a company must have direct investments in some minimum number of countries to be an MNE. The term multinational corporation or multinational company (MNC) is often used as a synonym for MNE. It takes a global approach to foreign markets and production. It is willing to consider market and production locations anywhere in the world.

There are two main considerations when going international, **global integration (standardization for the purpose of cost reduction)** and **local responsiveness** as shown in the figure (called Integration-Responsiveness Grid, IR Grid).



Based on these 2 considerations, there are 4 strategies.
1. International Strategy
2. Multi-domestic Strategy
3. Global Strategy
4. Transactional Strategy

Let's delve into the details of each strategy individually.

3. Mode of Expansion

Companies implement an international strategy when they leverage core competencies around the globe in an industry marked by low pressure for global integration and local responsiveness (the lower left quadrant of the IR Grid). This approach emphasizes replicating home-country-based competencies, such as production expertise, design skills, or brand power, in foreign markets. The primacy of replication requires that foreign units operate activities that are configured and coordinated by the home-country headquarters. Ultimate control resides with executives there, given their reasoning that they best understand the application, protection, and extension of the company's core competencies. The testing ground of new idea is the home market, not foreign countries; hence, subsidiaries have limited autonomy to adapt products or processes. MNCs implementing an international strategy include Apple, Airbus, and Google.

This strategy is also often referred to as an exporting strategy. Products are produced in the company's home country and sent to customers all over the world. Subsidiaries, if any, functioning in this case are more likely to have local channels through which the products are being sold to the end-consumer.

3. Mode of Expansion

Some MNCs face high pressure for local responsiveness and a low need to reduce costs via global integration (the lower right quadrant of the IR Grid). In these industries, unique local cultural, legal-political, and economic conditions spur the MNCs to adapt value activities. This approach represents the multidomestic strategy. Value-chain design follows the lead of foreign operations, not the home office's direction. That is, the company's subsidiaries in their respective local markets design, make, and market products that respond to local preferences. For example, a backpack factory in Singapore decides the size, shape, and style of product to make given their understanding that local customers see greater appeal in their preferred design even if their choices differ from those made by fellow operations in Turkey, Kenya, and Colombia.

The organization decentralizes operational decisions and activities to each country in which it is operating and customizes its products and services to each market. For example, McDonald food chain introduced "aloo tikki" burger in India for localization needs. For years, U.S. auto manufacturers maintained decentralized overseas units that produced cars adapted to different countries and regions. General Motors produced Opel in Germany and Vauxhall in Great Britain while Chrysler produced the Simca in France and Ford offered a Canadian Ford.

3. Mode of Expansion

The global strategy drives worldwide performance by making and selling common products that vary little from country to country. Effectively, managers face high pressures for global integration yet low pressures for local responsiveness. Industries of this sort are found in the upper left quadrant of the IR Grid. MNCs in this situation implement absolute production and marketing standards to achieve the maximum efficiency gains of global integration.

The global strategy pushes companies to create products for a world market, manufacturing them on a global scale in a few highly efficient plants, and marketing them through a few focused distribution channels. It requires that MNCs aggressively exploit location economies to maximize the scale effects of making a standardized product for a global market segment; using resources for anything other than improving efficiency erodes competitiveness. Likewise, the strategy calls for selling globally standardized products that require little to no local adaptation. Hence, the global strategy sees the world as a single market.

The organization offers standardized products and uses integrated operations. For example, the same Tata Nano was exported in all countries, that was being made in India.

3. Mode of Expansion

Today’s environment of interconnected consumers, industries, and markets requires that an MNC, of the sort we see in the upper right quadrant of the IR Grid, configure a different type of value chain. It must exploit location economies while also applying coordination methods that leverage core competencies and, throughout it all, reconcile a complex mix of global and local pressures. Managing this feat enables the MNC to implement a transnational strategy, thereby differentiating capabilities and contributions from country to country, finding ways to learn systematically from its various environments, and diffusing this knowledge throughout its global operations.

The transnational strategy requires a sophisticated value chain that simultaneously implements integration, responsiveness, and learning. It configures its value activities, subject to satisfying minimum efficiency standards, from country to country given prevailing cultural, political, legal, and economic conditions. But, in a critical break from the multidomestic strategy, the transnational strategy champions the cause of interactive “global learning.”

Rather than top-down (headquarters to a foreign subsidiary) or bottom-up (foreign subsidiary to the headquarters) coordination, the transnational strategy promotes knowledge flows from idea generators to idea adopters, no matter where one or the other resides. Headquarters only applies systems to motivate communication and collaboration.

3. Mode of Expansion

	International Strategy	Multi-Domestic Strategy	Global Strategy	Transnational Strategy
Orientation	Leverage core competencies and home country innovations into competitive positions abroad.	Differentiate products to respond to national differences in customer preferences, industry characteristics, or government regulation.	Target universal needs or wants that support selling standardized products worldwide. Emphasize volume, cost minimization, and efficiency.	Simultaneously manage the tensions of global integration and local differentiation in ways that leverage specialized knowledge and promote worldwide learning.
Value Chain Configuration	Concentrated: value configuration activities are set and directed by the home office.	Dispersed: Subsidiaries command discretion to adapt value activities to local conditions.	Concentrated: value chain configuration exploits location economics.	Concentrated to tap location economies. Dispersed. Subject to minimum efficiency standards to meet local preferences.
Value Chain Coordination	Centralized coordination: Coordination processes as the parent retains control of value activities to apply, regulate, and protect core competencies.	Subsidiaries operate quasi-independently. Autonomy lets them adapt activity to local marketplace circumstances.	Industry pressures to maximize standardization and contain costs require coordinating value activities operations from a global perspective.	Simultaneous goal of integration and responsiveness calls for sharing coordination between headquarters or subsidiaries.
Key Advantage	Facilitates the transfer of skills and expertise from the parent company to international units.	Reduced need for central support to manage local activities. Greater sensitivity to local preferences.	Make low-cost, high-quality products that differ little but appeal to consumers worldwide.	Supports efficiency, compels effectiveness, and leverages learning that drives innovations through units worldwide.
Key Disadvantage	Centralizing the value chain in the home country often weakens configuration efficiency and coordination flexibility.	Encourages “mini-me” phenomenon that replicates value activities across subsidiaries.	Reduced learning opportunities given the dominance of global standards. Requires rigorous coordination to regulate a global matrix of inputs and outputs.	Requires elaborate mechanisms to integrate dispersed operations. Difficult to configure, tough to coordinate and prone to performance shortfalls.