



Lecture Notes

MBPC1006- HUMAN RESOURCES MANAGEMENT (3-0-0)

Course Objectives:

1. To introduce and explain different phenomenon of Human Resource Management (HRM).
2. To enrich the students' understanding on HRM, which may enable them to implement the concepts in the workplace?

Module II: Performance Appraisal: Meaning, Objective, Process and Methods; Potential Appraisal; Biases in performance appraisal; Methods of job evaluation; Meaning of Compensation; Types of compensation; Types of wages and theories; Wage differentials; Pay structure, Wage Law in India, Executive Compensation.

Module II

Performance Appraisal and Compensation Management

1. Performance Appraisal

➤ Meaning:

- Performance appraisal is the **systematic evaluation** of an employee's performance based on **preset criteria** such as skills, efficiency, attitude, and productivity.
- It helps organizations assess employees' **strengths, weaknesses, and areas for improvement**.

➤ Objectives of Performance Appraisal:

- **Employee Development:** Helps employees recognize their strengths and weaknesses and improve performance.

- **Compensation Decisions:** Used for salary hikes, bonuses, and other benefits.
- **Training Needs Identification:** Helps determine which employees need additional training.
- **Promotion & Career Planning:** Used for deciding promotions, transfers, and career advancement.
- **Legal Documentation:** Acts as proof in case of disputes regarding promotions or terminations.

➤ Process of Performance Appraisal:

1. **Setting Performance Standards:**
Establishing measurable and clear performance expectations for employees.
2. **Communicating Expectations:**
Informing employees about the criteria on which they will be evaluated.
3. **Measuring Actual Performance:**
Supervisors assess performance through different methods.
4. **Comparing with Standards:**
Evaluating whether the employee's performance meets expectations.
5. **Providing Feedback:** Discussing the results with the employee for improvement.
6. **Decision Making:** Based on appraisal results, organizations decide on rewards, promotions, or corrective measures.



2. Methods of Performance Appraisal

➤ Traditional Methods:

1. **Ranking Method:** Employees are ranked from best to worst based on performance.
 - ✓ Simple and easy to use.
 - ✗ Can be biased and subjective.

2. **Paired Comparison Method:** Employees are compared in pairs, and the one with better performance is ranked higher.
 - ✓Helps in detailed comparisons.
 - ✗Time-consuming for large teams.
3. **Graphic Rating Scale:** Employees are rated on a scale (e.g., 1 to 5) for different performance aspects.
 - ✓Provides quantitative data.
 - ✗Can be influenced by personal biases.
4. **Essay Method:** The supervisor writes a detailed evaluation of an employee's strengths, weaknesses, and overall performance.
 - ✓Gives qualitative insights.
 - ✗Time-consuming and lacks consistency.

➤ **Modern Methods:**

1. **360-Degree Feedback:** Performance is evaluated by multiple sources (peers, supervisors, subordinates, customers).
 - ✓More comprehensive.
 - ✗Can lead to biased feedback if not managed properly.
2. **Management by Objectives (MBO):** Employees set goals with managers and are evaluated based on goal achievement.
 - ✓Encourages goal-setting and motivation.
 - ✗Time-consuming to implement.
3. **Behaviorally Anchored Rating Scale (BARS):** Performance is rated using pre-defined behavioral examples.
 - ✓Reduces bias in evaluations.
 - ✗Difficult to develop for every job role.
4. **Assessment Centers:** Employees are evaluated using role-plays, simulations, and case studies.
 - ✓Helps in leadership identification.
 - ✗Expensive and complex.

3. Potential Appraisal

- Focuses on assessing an employee's **future capabilities** rather than past performance.
- Used for **succession planning** and identifying **future leaders**.
- **Example:** A company assigns a junior employee to lead a project to assess leadership potential.

4. Biases in Performance Appraisal

- **Halo Effect:** One good trait overshadows poor performance in other areas.
- **Horns Effect:** One negative trait influences the entire evaluation.
- **Leniency Bias:** The evaluator rates everyone too generously.
- **Strictness Bias:** The evaluator is too harsh on all employees.
- **Recency Effect:** Focuses only on recent performance, ignoring overall contributions.
- **Similarity Bias:** Managers favor employees with similar interests or backgrounds.

Example: A manager gives high ratings to an employee just because they went to the same university.

5. Methods of Job Evaluation

➤ Meaning:

- **Job evaluation** determines the relative **worth of different jobs** to establish fair pay structures.

➤ Methods:

1. **Ranking Method:** Jobs are ranked from highest to lowest in importance.

- ✓ Simple and quick.
 - ✗ Not suitable for large organizations.
2. **Point Method:** Each job is assigned points based on different factors (e.g., skills, experience, responsibility).
- ✓ Provides detailed evaluation.
 - ✗ Requires expertise to develop.
3. **Factor Comparison Method:** Jobs are compared based on key compensable factors like skills and effort.
- ✓ More precise than ranking methods.
 - ✗ Complex to administer.
4. **Job Grading Method:** Jobs are classified into different grades or categories.
- ✓ Helps in structured pay scales.
 - ✗ Can be rigid.

Example: An IT company uses the **point method** to differentiate salaries for software engineers and managers.

6. Compensation Management

➤ Meaning:

- **Compensation** refers to all rewards (monetary and non-monetary) given to employees for their work.

➤ Types of Compensation:

1. **Monetary Compensation:** Salary, bonuses, commissions, incentives.
2. **Non-Monetary Compensation:** Benefits like flexible work hours, health insurance, company-sponsored vacations.

7. Types of Wages

1. **Minimum Wage:** The lowest legal salary that an employer can pay.
2. **Fair Wage:** Higher than the minimum wage but lower than a living wage.
3. **Living Wage:** A wage sufficient to cover basic living expenses.
4. **Incentive Wage:** Pay linked to performance.



Example: A salesperson earns a **base salary + commission** for every sale made.

8. Wage Differentials

- Wages vary due to factors like:
 - **Skill Level:** Doctors earn more than clerks.
 - **Industry Type:** IT professionals earn more than factory workers.
 - **Geographical Location:** Employees in metro cities earn more than rural areas.

Case Study: IT engineers in **Bangalore** earn 30% more than those in smaller cities.

9. Pay Structure

- **Time-Based Pay:** Fixed monthly salaries.
- **Performance-Based Pay:** Bonuses and incentives.
- **Skill-Based Pay:** Higher wages for specialized skills.

10. Wage Laws in India

1. **The Minimum Wages Act, 1948** – Ensures fair pay for workers.
2. **The Payment of Wages Act, 1936** – Regulates timely wage payments.
3. **The Equal Remuneration Act, 1976** – Prevents gender-based wage discrimination.

Example: A factory is penalized for paying workers below the **minimum wage**.

11. Executive Compensation

- **Base Salary:** Fixed pay.
- **Stock Options:** Shares in the company.
- **Bonuses:** Performance-based rewards.
- **Perks:** Company cars, travel allowances, etc.

Case Study: Elon Musk receives stock options instead of a **fixed salary** at Tesla.

Assignment Questions

1. Define performance appraisal and explain its objectives.
2. Compare traditional and modern methods of performance appraisal.
3. What are the biases in performance appraisal? How can they be reduced?
4. Explain different job evaluation methods with examples.
5. Discuss the importance of compensation and different types of wages.
6. What is wage differential? Why does it exist?
7. Explain wage laws in India and their impact.
8. Discuss executive compensation and how it differs from regular pay.



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