

# Performance Appraisal

The term “performance appraisal” refers to the regular review of an employee’s job performance and overall contribution to a company. Also known as an annual review, performance review or evaluation, or employee appraisal, a performance appraisal evaluates an employee’s skills, achievements, and growth, or lack thereof.

Companies use performance appraisals to give employees big-picture feedback on their work and to justify pay increases and bonuses, as well as [termination](#) decisions. They can be conducted at any given time but tend to be annual, semi-annual, or quarterly.

## How Performance Appraisals Work

Performance appraisals are usually designed by [human resources \(HR\)](#) departments as a way for employees to develop in their careers. They provide individuals with feedback on their job performance, ensuring that employees are managing and meeting the goals expected of them and giving them guidance on how to reach those goals if they fall short.

Because companies have a limited pool of funds from which to award incentives, such as raises and [bonuses](#), performance appraisals help determine how to allocate those funds. They provide a way for companies to determine which employees have contributed the most to the company’s growth so that companies can reward their top-performing employees accordingly.

Performance appraisals also help employees and their [managers create a plan](#) for employee development through additional training and increased responsibilities, as well as to identify ways that the employee can improve and move forward in their career.

## DEFINITIONS:

“Performance appraisal is a systematic periodic and impartial rating of employee’s excellence in matters pertaining to his present job and to his potentialities for a better job.” (Flippo)

Performance appraisal is a method of acquiring and processing the information needed to improve an individual employee’s performance and accomplishments. – (Douglass)

### Objectives of Performance Appraisal

#### 1. Promotion Decisions

Performance appraisal is a tool which helps managers to take promotion or demotion decisions. This method assesses the performance level of employees. Efficient workers can be promoted to a higher level whereas inefficient one can be demoted.

#### 2. Provides Feedback

This process provides feedback to workers regarding their performance. Performance appraisal identifies the strengths and weaknesses of employees and suggests ways for enhancing their efficiency.

#### 3. Development Of Employees

Performance appraisal helps in designing the training and development programmes as per the requirements of employees. It by diagnosing the performance level enables supervisors in identifying what kind of training should be provided for developing the skills of peoples.

#### 4. Motivates Employees

Motivation of employees towards their role is must for attaining desired goals. This method by checking the efficiency of workers and awarding them accordingly motivates them for better performance.

#### 5. Compensation Decisions

It plays an effective role in deciding various compensation decisions for employees. Decisions like a hike in employees’ pay or incentives are taken by managers by judging their performance level.

## 6. Improve Employer-Employee Relations

Performance appraisal facilitates communication between employers and employees within the organization. Employers regularly check performances of employees and provide them feedback on their work. They suggest ways to their subordinates for overcoming their deficiencies. Employees also communicate with their employers for clearing their doubts and issues while focusing on their roles.

## PERFORMANCE APPRAISAL PROCESS



### Step 1: Establish performance standards

Performance standards are set to ensure achievement of departmental goals and objectives and the organization's overall strategy and objectives. Standards are based on the position, rather than an individual. In order to be clearly understood and perceived as objective, standards should adhere to the same rules that apply to goal-

setting; that is, they should be “SMART:” specific, measurable, achievable, relevant and timebound.

Indiana University’s Human Resource department explains that “while a list of major job duties tells the employee what is to be done, performance standards provide the employee with specific performance expectations for each major duty.”<sup>[1]</sup> Performance standards include both observable behaviors—the how—and the expected results that comprise satisfactory job performance.

### Step 2: Communicate performance standards

In order to be effective, performance standards must be clearly communicated and understood to be expectations. Performance standards assume that an individual is competent, so initial and corrective training should be factored into the performance management process. If there is a specific training period after which an employee is assumed to be competent and performing to standards, that should be communicated as well.

### Step 3: Measure performance

Performance that is expressed in numeric terms—for example, cost, quantity, quality, timeliness—is relatively easy to measure. Performance in the area of soft skills—for example, communication, customer service and leadership—is more difficult to evaluate. DeCenzo, Robbins and Verhulst recommend using a variety of sources of information including personal observation, oral reports and written reports. They note, however, that what is measured is probably more critical than how an aspect is measured.<sup>[2]</sup> The focus should be on measuring what matters rather than measuring what’s easy to measure.

### Step 4: Compare actual performance to performance standards

In this step of the appraisal process, actual performance is compared to the performance standards. Documentation should highlight actions and results. For example, “Amir left confidential documents on the printer even after he had been

warned to maintain control of confidential information.” Or “Amir’s process improvement recommendations saved the department \$3,500.”

Indiana University’s Human Resource department identifies the following characteristics of effective documentation:<sup>[3]</sup>

- Accurate
- Specific
- Consistent (covering the entire review period)
- Factual (not based on conjecture)
- Balanced, including instances of both positive and unsatisfactory performance
- In writing

#### Step 5: Discuss the appraisal with the employee

This is generally the step in the process that is the most difficult for managers and employees alike and it can be a challenge to manage emotions and expectations. Even when performance is strong, there can be differences of opinion on the next action. A significant difference of opinion regarding performance can create an emotionally-charged situation. If the manager is providing feedback and coaching on a regular basis, this shouldn’t be the case. Related point: If an employee has consistently poor performance, the issue should be addressed—corrective action taken—in a timely manner and not deferred to an annual review. To identify and prepare for differences of opinion, management can ask employees to complete and submit a self-evaluation prior to the appraisal meeting. A key point to keep in mind is that the manager’s ability to remain calm and civil will have a significant impact on the employee’s confidence, motivation and future performance.

#### Step 6: Implement personnel action

The final step in the appraisal process is the discussion and/or implementation of any next steps: a reward of some sort—a raise, promotion or coveted development opportunity—or corrective action—a performance plan or termination. Note, however, that corrective action that might help an employee achieve expectations

shouldn't be tabled until the next formal appraisal. As performance gaps are identified, supervisors and managers should take the time to identify why performance is not meeting expectations and determine whether the employee can meet expectations with additional training and/or coaching. As mentioned above, if performance is such that termination is warranted, that action should be taken in a timely manner as well.

## Performance appraisal methodss



**1. Management by Objectives(MBO):** This method was developed by Peter Drucker. In this method, certain tasks(objectives) based on their job role are given to the employees and a team is assigned to monitor the tasks.

- This will help the organization to know the **skill gap of the employees.**
- This will help the organization to plan the **training modules.**
- The **setting of objectives to determine the true potential** of the employees is a difficult and time-consuming task.

**2. 360-degree appraisal:** In this method, an employee is **appraised by the supervisors, the clients, the subordinates, the customers, including themselves.**

- This will help the organization to know about **the strong and weak areas of the employees.**
- The employees can freely **express their views and suggest any changes** in the training methods.

**3. Assessment centres:** In this method, a group of employees are selected and are asked to perform a few tasks individually and a few tasks in teams.

- These tasks are mainly aimed to check the teamwork, leadership qualities and skill set of the employees.
- The tasks are mostly related to their job responsibilities.
- This method is used to decide whether an employee is to be promoted or trained.

**4. Behaviourally Anchored Rating Scales (BARS):** In this method, all the critical incidents are identified and are divided into different groups based on their departments.

- The employees are rated on their behaviour towards the incidents rather than on the traits.
- This will enable the organization to know the involvement of the employees.

### **Traditional methods**

The traditional methods of performance appraisal are as follows:

**1. Ranking method:** In this method, the employees are ranked by taking their performance levels and other characteristics into consideration.

- Very useful to divide a good and an average performer.
- Can be used easily for a small set of employees.
- The ranking becomes difficult when a large set of employees have similar characteristics.

**2. Grading method:** In this method, different grades are given to the employees based on their contribution to the organization.

- Grades may be in the form of alphabets (A, B, C, D, E, F..) or in words like excellent, very good, moderate, bad, very bad, worst or excellent, good, bad.

- Based on the grades given, **promotions, hikes, training, etc. are planned.**

**3. Paired comparison method:** In this method, the **appraiser compares two employees and marks the better performer.** The process is continued until all the employees are compared with one another in this manner.

- After the entire process is completed, **ranking is given to all the employees based on the number of times** that the employee has been marked as a better performer.
- This method is **very difficult for an organization that has a large number of employees.**

**4. Forced choice method:** In this method, the **appraiser is given a set of statements** and asked to select one statement which defines the employee.

- Let us consider the following three statements,
  - He/ She is a team player.
  - He/ She needs to be trained to improve the skill set.
  - He/ She completes the assigned tasks in time.
- The appraiser has to **select one statement as a part of the evaluation process.**
- This is a **time-consuming method.**

**5. Graphical rating method:** In this method, **different characteristics of the employees are rated.** The appraiser **rates the employees on each characteristic** in the form of points like 1, 2, 3, 4, 5, 6, 7 or in the form of excellent or average or bad, etc.

- **Let us consider two characteristics like efficiency and training.** If an employee performs very well in the training sessions, then that employee will be given the rating as 6 or 7 on 7 point scale.
- If the same employee performs poorly on the project related tasks, then that employee will be given 2 points or 1 point for efficiency.

**6. Forced distribution method:** In this method, **the appraiser has to distribute the employees into five levels** like excellent, very good, average, very bad and worst performers.



- For example, if there are 1000 employees, the appraiser **has to distribute the employees into various categories as per their performance levels.**
- If there are 200 excellent performers, they fall into the excellent category. If the performance levels of another 200 employees are not up to the mark, then they fall into the very bad category. This method is continued until every employee is distributed into some category.

**7. Checklist method:** In this method, **all the characteristics in the question form are written in order and two options yes and no** is given to the appraiser for every question. The appraiser has to **tick the yes box when the given characteristic is found and no box when it is not.**

- All the responses are counted, and a final rating is obtained.
- It is a **time taking process** and not accurate.

**8. Essay method:** In this method, the appraiser **writes about the characteristics of the employee in his own words in the form of an essay.**

- With this, **the strong and weak points can be easily known.**
- But the **essay depends on the writing skills of the appraiser.** Sometimes, there may be a **chance of weak areas getting more highlighted than the strong areas** of an employee. This may demotivate the employee.

**9. Critical incidents method:** In this method, **the performance of the employees during critical incidents** is taken into consideration.

- All the **critical tasks performed by each employee are written and are compared with each other** by the appraisal team.
- The rating is done based on the **severity of the critical incident.**

**10. Field review method:** In this method, the appraiser **takes the help of subordinates and supervisors to rate an employee.**

- This method is mostly used during the **promotions and increments.**
- It is a time-consuming process.

# Compensation Management

Compensation Management refers to the establishment and implementation of sound policies, programmes and practices of employee compensation.

It is essentially the application of a systematic and scientific approach for compensating the employees for their work in a fair, equitable and logical manner.

Compensation Management is concerned with the compensation to employees for their work and contribution for attaining organisational goals.

An organisation's goals or objectives can be achieved when its employees put in their best efforts in the right direction. Hence, they should be nurtured properly and paid well for their work, performance, services, etc. Besides wages or salaries, organisations provide different kinds of incentives, benefits and services to their employees.

## Objectives of Compensation Management:

### **1.To Establish a Fair and Equitable Remuneration**

Effective compensation management objectives are to maintain internal and external equity in remuneration paid to employees. Internal equity means similar pay for similar work. In other words, compensation differentials between jobs should be in proportion of differences in the worth of jobs. External equity implies pay for a job should be equal to pay for a similar job in other organizations. Payments based on jobs requirements, employee performance and industry levels minimize favoritism and inequities in pay.

### **2.To Attract Competent Personnel**

A sound wage and salary administration help to attract qualified and hardworking people by ensuring an adequate payment for all jobs. For example, IT companies are competing each other and try their level best to attract best talents by offering better compensation packages.

### **3.To Retain the Present Employees**

By paying competitive levels, the company can retain its personnel. It can minimize the incidence of quitting and increase employee loyalty. For example, employee's attrition is high in knowledge sectors (Ad-agency, KPO, BPO etc..) which force the companies to offer better pay to retain their employees.

#### 4.To Improve Productivity

Sound wage and salary administration help to improve the motivation and morale of employees which in turn lead to higher productivity. Especially private sectors companies offer production linked compensation packages to their employees which leads to higher productivity.

#### 5.To Control Cost

Through sound compensation management, administration and labour costs can be kept in line with the ability of the company to pay. It facilitates administration and control of pay roll. The companies can systematically plan and control labour costs.

#### 6.To Improve Union Management Relations

Compensation management based on jobs and prevailing pay levels are more acceptable to trade unions. Therefore, sound wage and salary administration simplify collective bargaining and negotiations over pay. It reduces grievances arising out of wage inequities.

#### 7.To Improve Public Image of the Company

Wage and salary programme also seek to project the image of the progressive employer and to company with legal requirements relating to wages and salaries.

#### 8.To Improve Job Satisfaction

If employees would be happy with their jobs and would love to work for the company if they get fair rewards in exchange of their services.

#### 9.To Motivate Employees: Employees

All have different kinds of needs. Some of them want money so they work for the company which gives them higher pay. Some of them value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plans that hits workers' needs is more likely to motivate them to act in the desired way.

#### 10.Peace of Mind

Offering of several types of insurances to workers relieves them from certain fears, as a result

worker now work with relaxed mind.

## 11.Increases Self-Confidence

Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just rewards. As a result, their performance level shoots up.

## Remuneration – Definitions

Remuneration may be defined as money received in the performance of work, plus many kinds of benefits and services that organisations provide their employees. Money is a direct compensation, known as wages, gross pay. Benefits are indirect compensation, it includes, life insurance, accident insurance, health insurance, employees contribution to retirement benefits such as gratuity, pension, pay for vacation, pay for illness/ sickness, simply it includes payment for welfare and social security.

## Remuneration – 12 Main Objectives

- (1) To acquire qualified competent personnel
- (2) To retain the present /existing employees
- (3) To secure internal and external equity means similar wages for jobs within an organisation. External equity implies payment of similar wages to similar jobs in comparable organisations.
- (4) To ensure desired / positive behaviour of employees.
- (5) To enhance employee morale and motivation.
- (6) To keep control on labour and administrative cost.
- (7) To protect in public as progressive employers and to comply the wage legislation.
- (8) To satisfy people/employees to reduce the labour turnover, grievances and frictions over pay inequities.
- (9) To pay according to the content, challenges, difficulty, risk of the job and according to the effort and merit of the employees.

(10) To facilitate pay roll administration of budgeting and wage and salary control.

(11) To simplify and facilitate collective bargaining procedure and negotiations.

(12) To facilitate growth and survival of the organisation and to promote organisation feasibility.

## **Remuneration – 7 Popular Theories:**

### **1. Relational Frame Theory and Expectancy Theory:**

It advocates that a behaviour which has a rewarding experience is likely to be repeated. The implication for remuneration is that high employee performance followed by a monetary reward will make future employee performance more likely. Similarly, high performance not followed by a suitable reward will make its recurrence unlikely in future. Like the RF theory, Vroom's expectancy theory focuses on the link between reward and behaviour.

Motivation according to this theory is the productivity of valence, instrumentality and expectancy. Some other authors include variables like attractiveness, performance – reward linkage and effort-performance linkages, in their theories.

### **2. Equity Theory:**

Adam's equity theory advocates that an employee who perceives inequity in his or her rewards seeks to restore equity. This theory emphasises equity in pay structure of employee's remunerations.

### **3. Subsistence Theory:**

This theory was developed by the economists of the classical school in the mid 1800's. The theory develops relationship between the wages and population, supply of labour and subsistence level. According to this theory wages tend to settle at subsistence level.

### **4. The Wage Fund Theory:**

John Stuart Mill is associated with this theory. According to this theory wages depend upon two factors. Firstly the wage fund or the circulating capital set aside for employment of labourers, this is a fixed amount. Secondly, number of labourers

seeking employment. Level of wages is determined by dividing Wage Fund by number of workers.

### **5. The Residual Claimant Theory:**

According to this theory, after rent, interest and profits have been paid; the remaining amount goes to the workers as wages. In other words, the labour is the residual claimant.

### **6. Bargaining Theory of Wages:**

According to this theory, wages are determined by the relative power of the Trade Unions. Wage level depends upon the relative bargaining power of the two parties. In many countries, the bargaining is guided by certain environmental factors such as economic condition, political machinery, Govt. policies, and legal aspects and so on.

### **7. Agency Theory:**

The Agency Theory focuses on the divergent interests and goals of the organisation's stakeholders namely employers and the employees (Principals and Agents). The Agency theory states that the Principal must follow a scheme which would align the interests of agents with Principal's own interests. The contract scheme encompasses merit pay, stock option scheme, profit sharing and commissions. As profits go up, rewards increase. Remunerations fall when profits go down.

## **Wage Policy in India**

### **Institutions Engaged in Wage Fixation | Labour Economics**

The managerial prerogative of setting terms and conditions of employment is increasingly being limited due to either the emergence of trade unions or active intervention by the state.

As a result of the growth of unionism, collective bargaining has become an important method of wage fixation, even though state intervention, adjudication machinery and wage boards retain their primacy in the wage system.

### **(I) Adjudication:**

The government labour policy supports compulsory adjudication system.

Its rationale for doing so is based on the following arguments:

- (i) It was feared that collective bargaining might result in work stoppages and slowing down industrialization.
- (ii) It was held that strikes should be used as a weapon by the politically motivated trade unions disrupting the industrial relations system.
- (iii) It was assumed that the trade unions were still weak at the plant level and therefore, collective bargaining may not result in an equal trial to strength between the unions and the management.
- (iv) It was felt that in the absence of compulsory adjudication the state would be handicapped in maintaining industrial peace.
- (v) It was hoped that compulsory adjudication would result in terms and conditions of employment which may be considered fair and objective by both workers and employers.

The system of adjudication has led to the enunciation of important principles of wage determination of India.

While adjudication has helped in evolving socially desirable concepts of wage determination, it cannot be said that it has been able to arrive at just solutions to problems of industrial relations. First, it is doubtful whether the courts possess competence in rule-making although they might have been useful in the interpretation of the rules themselves.

Second, because of compulsory adjudication a litigatory approach is being adopted towards wage determination. This has cost a lot both to unions and management, and it has eroded the scope for constructive relationship between them at the plant level.

Work stoppages continue both before a dispute is referred to the court and after the award has been received. Consequently, one of the supposed advantages of compulsory adjudication has really not materialized. This phenomenon can perhaps be explained by the fact that compulsory adjudication does not impose a responsibility on both unions and the management for developing a constructive relationship and honouring the awards pronounced by the courts.

The argument that the trade unions are still weak to undertake successful collective bargaining is belied by the emergence of trade unions in important sectors of the economy. Lack of government's enthusiasm to encourage collective bargaining may, in fact, have perpetuated the weakness of trade unionism in the country rather than curbed some trade unions from agitating for bargaining rights.

## **(II) Wage Boards:**

Government of India sets up tripartite Wage Boards on industry wise basis to fix and revise pay. These Boards are set up on adhoc basis on the demand of trade unions and employers as there is no law providing for their establishment.

A Wage Board consists of an impartial chairman, two independent members, and 2 or 3 representatives of workers and employers each. The recommendations of Wage Boards are first submitted to the government. The Government may accept modify or reject the recommendations. Once accepted, the parties are requested to enforce the recommendations.

While determining wages, Wage Boards take into account the following factors:

- (i) Various wage legislation
- (ii) Level of income and its distribution
- (iii) Place of the industry in the economy
- (iv) Needs of industry in a developing economy
- (v) Requirements of social justice
- (vi) Need to provide incentive for improving productivity
- (vii) Need-based minimum wages
- (viii) Industry's capacity to pay
- (ix) Productivity of labour
- (x) Prevailing rates of wages

Wage Boards have been helpful in standardisation of wage structures. But they suffer from several weaknesses.

- (a) They take unduly long time in completing their task,
- (b) Majority of their recommendations are not unanimous and
- (c) Their recommendations have not been fully implemented as these are not statutory.

The National Commission on Labour has recommended the following measures to make Wage Boards more effective.

- (i) A wage board should be required to submit its recommendations normally within the year,
- (ii) Unanimous recommendations should be made statutorily binding,
- (iii) The recommendations of a Wage Board should remain in force for a period of five years, and
- (iv) A manual of procedure for Wage Boards should be prepared.



### **(III) Pay Commissions:**

Wages and allowances of Central and State Government employees are determined through pay commissions. The disputes arising out of pay commissions awards and their implementation are decided by commissions of inquiry, adjudication by tribunals and the Joint Consultative Machinery.

### **(IV) State Regulation of Wages:**

#### **(1) The Minimum Wages Act, 1948:**

The Government realised that wages in 'sweated' trades cannot be left to be determined on the basis of free play of demand and supply in the labour market. Therefore, the government (central and state) prescribes minimum rates of wages in certain sweated and unorganized employments specified under the Minimum Wages Act.

The Act also provides for regulation of overtime rate. The minimum wages can be fixed by hour, day, month or such other longer period. The Act provides for setting up of a tripartite machinery (consisting of representatives of employers, unions and the government) to advise the appropriate Government in the fixation and revision of minimum wage rates.

#### **(2) Section 529-A of the Companies Act, 1956:**

This section aims to protect worker's claim in the event of insolvency of their employer. In case of winding up of a company workers' dues are to be paid in priority all other debts in full. If the company's assets are inadequate to meet these in full, these dues and debts due to several creditors are to abate in equal ratio.

#### **(3) The Industrial Disputes Act, 1947:**

Under the Act conciliation is compulsory in all wage disputes in public utility services and optional in other industrial establishments. The Act also empowers the appropriate Government to constitute one or more Industrial Tribunals or National Tribunals and to refer a wage dispute to these Tribunals for adjudication.

#### **(4) The Payment of Wages Act, 1936:**

The main object of this Act is to ensure regular and prompt payment of wages and to prevent unauthorised deduction and arbitrary fines from wages. It also regulates the rate of payment for overtime work. The Act is applicable to persons employed in factories/industrial establishments and drawing less than Rs. 1600/- per month.

#### **(5) The Equal Remuneration Act, 1976:**

The main object of this Act is to prevent discrimination in remuneration on the basis of sex. Under the Act it is the duty of the employer to pay equal remuneration to men and women workers for the same work or work of a similar nature. No discrimination is to be made against woman in recruitment and in conditions of service unless provided for under any law for the time being in force.

### (v) Concept of Collective Bargaining:

Collective bargaining relates to group bargaining, as opposed to individual bargaining about wages and salaries and conditions of work in the broadest sense. The groups include trade unions or federations of them on the one side and an employer or his representatives or an employers' association or federation on the other side. The term 'collective bargaining' denotes a procedure under which two parties, namely, workers and management, reach an agreement about wage rates and basic conditions of employment.

Collective bargaining is a process in which representatives of two groups (employers and employees) meet and attempt to negotiate an agreement which specified the nature of future relationship (pertaining to employment) between the two. According to Beach, "Collective bargaining is concerned with the relations between unions representing employees and employers (or their representatives). It involves the process of union organisation of employees; negotiation, administration, and interpretation of collective agreements covering wages, hours of work, and other conditions of employment; engaging in concerted economic action; and dispute settlement procedures."

According to Date Yoder, "Collective bargaining is the term used to describe a situation in which the essential conditions of employment are determined by a bargaining process undertaken by representative of group of workers on the one hand and of one or more employers on the other. In the words of Fillipo, "Collective bargaining is a process in which the representatives of a labour organization and the representative of business organization meet and attempt to negotiate a contract or agreement, which specifies the nature of employee employer-union relationship."

"Collective bargaining is a mode of fixing the terms of employment by means of bargaining between organised body of employees and an employer and association of employers acting usually through authorised agents.

A manual issued by the International Labour Office on 1960 defines collective bargaining as "negotiations about working conditions and terms of employment between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more representative workers' organisations, on the other, with a view to reaching an agreement."

It also asserted that "the terms of an agreement serve as a code defining the rights and obligations of each party in their employment relations with one another, it fixes large number of detailed conditions of employment, and during its validity none of the matters it deals with can, in normal circumstances give grounds for a dispute concerning an individual worker."

According to a guide for union training issued by the International Confederation of Free Trade

Unions, collective bargaining is “a workers Bill of Rights” and serves several objectives of the union. These objectives include unit recognition as an authority in the shop- floor, raised standards of living of workers and greater share for them in the company’s profit, due respect to the workers and their participation in decisions influencing their working conditions, establishment of practices to settle disputes arising in day-to-day situation in the enterprise and workers interests throughout the country.

Collective bargaining is a technique for the accomplishments or the objectives of employees as well as employers and is an integral part of industrial society. “It implies agreement between representatives of management and freely designated representatives of employees relating to the solution of industrial problems with minimum government dictates.” It is, in fact, an extension of the principles and practices of democracy to industry. Since it is a dynamic process, it is still in the process of growth and is constantly expanding. As observed by Slitchter, “Collective bargaining is the beginning of industrial jurisprudence. It is a method of enforcing citizenship right in industry, i.e., management should abide, by certain rules rather than taking arbitrary decision.”

According to John 1, Dumop, the term Collective Bargaining has multiple meanings.

Collective bargaining is:

- (i) “A system which establishes revises and administers many of the rules which govern the workers’ place of work;
- (ii) A procedure which determines the quantum of compensation which employees should receive and which influence the distribution of economic ills;
- (iii) A method of settling disputes during the pendency of agreement and of determining, after its expiry, whether a dispute should be reopened or whether a strike or a lock-out should be resorted to or not.”

On the basis of structural arrangements, collective bargaining may be classified into two broad categories:

- (a) Single-employer bargaining and
- (b) Multi-employer bargaining.

(a) Single-Employer Bargaining:

Single-employer bargaining take place between one company and either one union, or more than one union where there are several unions at different plants.

(b) Multi-Employer Bargaining:

Multi-employer bargaining signifies collective bargaining between the employers’ federation and the workers of an industry represented by the federation of all the trade unions. This type of bargaining may take place at local, regional or industry level.

## Types of wages:

1. Minimum Wage
2. Living Wage
3. Fair Wage

## Minimum wage

The concept of —Minimum Wage stands for different standard of different countries. The fair wage committee in India has observed that in India the level of the national income is so low at present that it is generally accepted that the country cannot afford to prescribe by law a minimum wage must provide not merely for the bare sustenance of life but for the preservation of the efficiency of the worker. Thus, a minimum wage is one, which may be sufficient to enable worker to live in reasonable comfort having regard to all obligations to which an average worker would ordinarily be subject.

The objective of minimum wage

1. To prevent exploitation of workers and secure a wage equal to work load.
2. To raise the wages in the industries where they are low, thus prevent sweating in industry.
3. To promote peace in industry by guaranteeing a wage rate this will enable them to meet their minimum requirements.
4. Raise the standards of living and efficiency of workers.

## Living wage

According to the committee in fair wages, —The living wage represented the higher level of wage and it would include all amenities which a citizen living in a modern civilized society could afford. After considering various observations made by Indian authorities, the committee on Fair wages observed, the living wages should enable to male earner to provide for himself and his family the bare essential of food, clothing and shelter but a measure of frugal comfort including duration for the children, protection against ill health requirement of essential social needs and a measure of insurance against the more important misfortunes including old age.

## Fair wage

To bring improvement in the relations between labour and management the industrial truce resolution was passed in 1947, which provided for the payment of fair wages of labour, govt. of

India appointed a Fair wages committee in 1948, and the committee report was published in 1949. Marshall and Pigou have defined fair wages. Marshall Says, —In any given industry wages are fair relatively to wage in industry in general. Lower limit of fair wages must be the minimum wage for workers and upper limit will be the industry capacity to pay. However, between these two limits following factors have to be considered:

- a. The productivity of labour
- b. The prevailing rate of wages in the same or neighboring locality
- c. The place of the industry in the economy

The level of national dividend and its distribution

# COLLECTIVE BARGAINING

## Introduction

The organization find it difficult to survive and grow in an environment of conflict and misunderstanding, it is desirable that both the parties sit together to resolve their differences and conflicts through mutual discussions and negotiations without the intervention of the third party. This process of resolving the differences between union and the management in the absence of any third party may be called as collective bargaining.

Collective Bargaining – Contract Negotiation and administration involves the relations between employers operating through their representatives and the organised labour. It can be defined as the process through which representatives of management and union meet to negotiate a labour agreement. This means that both management and labour are required by law to negotiate wages, hours, and terms and conditions of employment “in good faith”. Good faith bargaining is a term that means both parties are communicating and negotiating and that are being matched with counter proposals with both parties making every reasonable effort to arrive at agreements. It does not mean that either party is compelled to agree to a proposal.

The Asian Regional Conference of ILO held in 1953, asserts that collective agreements are usually the best measures for the determination and adjustment of wages and that attempt should be made as early as possible to develop systems of collective negotiations based on free associations of employers and workers.

## Scope of Collective Bargaining

The scope of collective bargaining is quite vast because of the delicacy of the employer, employee relationship, changing necessity of the organization and its employees, changes in the business environment and competition within the industry and across industry.

According to Monappa, the scope of collective bargaining agreements now covers issues such as wages, bonus, overtime, paid holidays, paid sick leave, safety wear, production norms, hours of work, performance appraisal, workers participation in management, hiring, firing of job evaluation norms and modernization.

The scope of collective bargaining varies from organization to organization and industry to industry depending upon existence of strong and matured union and its leadership trust and confidence between union and management, past history and present status of organization with respect to negotiation and their implementation.

## Features of Collective Bargaining

The main characteristics of collective bargaining are:

1. It is a group action as opposed to individual action and is initiated through the representatives of workers. On the management side are its delegates at the bargaining table; on the side of workers is their trade union, which may represent local plant, the industry membership or nation-wide membership.
2. It is flexible and mobile, and not fixed or static. It has fluidity and ample scope for a compromise, for a mutual give-and-take before the final agreement is reached or the final settlement is arrived at.
3. It is a bipartite process. The employers and the employees are the only parties involved in the bargaining process. There is no third-party intervention. The conditions of employment are regulated by those directly concerned.
4. It is a continuous process which provides a mechanism for continuing and organised relationships between management and trade unions. "The heart of collective bargaining is the process for a continuing joint consideration and adjustment of plant problems."
5. It is industrial democracy at work. Industrial democracy is the governance of labour with the consent of the governed workers. The principle of arbitrary unilateralism has given way to that of self-government in industry. Collective bargaining is not a mere signing of an agreement granting seniority, vacations and wage increases. It is not a mere sitting around a table, discussing grievances. Basically, it is democratic: it is a joint formulation of company policy on all matters which directly affect the workers.
6. Collective bargaining is not competitive process but is essentially a complementary process, i.e. each party needs something that the other party has, namely, labour can make a greater productive effort and management has the capacity to pay for the effort and to organize and guide it for achieving its objectives.

## Process of Collective Bargaining

The process of collective bargaining involves six major steps

1. Preparing for negotiations
2. Identifying bargaining issues.
3. Negotiating

4. Settlement and contract agreement

5. Administration of the agreement. One bargaining environment is the type of bargaining structure that exists between the union and the company. The four major types of structures are

The bargaining process is comparatively simple and easy if the structure is of first type and becomes difficult and complicated in the remaining.

## 1. Negotiation Stage

At the negotiation stage, certain proposals are put forward which explore the possibility of their acceptance and have the way to mutually agreed terms after careful deliberation and consideration. The negotiation stage itself involves three steps namely preparation for negotiation, identifying bargaining issues and negotiating.

### Preparation for negotiation

Careful advance preparations by employers and employees are necessary because of the complexity of the issue and the broad range of topic to be discussed during negotiations. Effective bargaining means preparing an orderly and factual case to each side. Today, this requires much more skill and sophistication than it did in earlier days, when shouting and expression of strong emotions in smoke filled rooms were frequently the keys to getting one's proposals accepted.

### From the management side the negotiations are required to:

- i. Prepare specific proposal for changes in the contract language.
- ii. Determine the general size of the economic package the company proposes to offer.
- iii. Prepare statistical displays and supportive data for use in negotiations, and
- iv. Prepare a bargaining book for company negotiations, a compilation of information on issues that will be discussed, giving an analysis on the effect of each case, its use in other companies, and other facts.

### From the employee's side,

the union should collect information in at least three areas:



- The financial position of the company and its ability to pay.
- The attitude of the management towards various issues in past negotiation or inferred from negotiations in similar companies.
- The attitudes and desires of the employees. The other arrangements to be made are selecting the negotiators from both sides and identifying a suitable site for negotiation.

**2. Identifying Bargaining Issues:** The major issues discussed in collective bargaining fall under the following four categories:

- a. Wage related issues: This includes such topics as how basic wage rates are determined, cost of living adjustments, wage differentials, overtime rates, wage adjustments and the like.
- b. Supplementary economic benefits: These include such issues as pension plans, paid vacations, paid holidays, health insurance plans, retrenchment pay, Unemployment pension, and the like.
- c. Institutional issues: These consist of the rights and duties of employers, employees, unions, employee's stock ownership schemes, and the like.
- d. Administrative issues: These include such issues as seniority, employee discipline and discharge procedures, employee health and safety, technological changes, work rules, job security, and the like. While the last two categories contain important issues, the wage and benefit issues are the ones which receive the greatest amount of attention at the bargaining table.

### 3. Negotiating:

Preparations have been made and issues being identified, the next logical step in collective bargaining process is negotiation. The negotiating phase begins with each side presenting its initial demands. The negotiation goes on for days until the final agreement is reached. But before the agreement is reached, it is a battle of wits, playing on words, and threats of strikes and lockouts. It is a big relief to everybody when the management representatives and the union finally sign the agreement. The success of negotiation depends on skills and abilities of the negotiators. At times, negotiations may breakdown even though both the labour and the management may sincerely want to arrive at an amicable settlement. In order to get negotiations moving again, there are several measures that are usually adopted by both the parties, which sometimes even includes unethical measures:

- a. Through third party intervention such as arbitration and adjudication,
- b. Unions tactics like strikes and boycotts, and
- c. Management strategies such as lockouts, splitting the union, bribing union leaders and using political influence.

### 4. Contract Administration

When the process of negotiation has been completed, it is time to sign the contract, the terms of which must be sincerely observed by both the parties. The progress in collective bargaining is not

measured by the more signing of an agreement rather, it is measured by the fundamental human relationships' agreement. Once an agreement is signed, both the trade union and the management are required to honour it in letter and spirit. The union officers and company executives should explain the terms and implications of the contract to employees and supervisors with a view to ensuring that the day to day working relationship between workers and management is guided by that contract. It is important that contract must be clear and precise. Any ambiguity leads to grievances or other problems. The whole process of contract administration is identified by two steps, namely settlement and contract agreement i.e. settlement of disputes by collective bargaining and find a solution as a contract agreement between union and management and administration of agreement i.e. implementation according to the letter and spirit of the provisions of the agreement.

## **INDUSTRIAL RELATION MANAGEMENT**

### **Introduction**

he relationship between Employer and employee or trade unions is called Industrial Relation. Harmonious relationship is necessary for both employers and employees to safeguard the interests of the both the parties of the production. In order to maintain good relationship with the employees, the main functions of every organization should avoid any dispute with them or settle it as early as possible so as to ensure industrial peace and higher productivity. Personnel management is mainly concerned with the human relation in industry because the main theme of personnel management is to get the work done by the human power and it fails in its objectives if good industrial relation is maintained. In other words, good Industrial Relation means industrial peace which is necessary for better and higher productions.

### **Definition: -**

- i. Industrial Relation is that part of management which is concerned with the manpower of the enterprise – whether machine operator, skilled worker or manager- (Bethel, Smith & Group)
- ii. Industrial Relation is a relation between employer and employees, employees and employers and employees and trade unions. – (Industrial dispute Act 1947)
- iii. While moving from jungle of the definitions, here, Industrial Relation is viewed as the “process by which people and their organizations interact at the place of work to establish the terms and conditions of employment.” The Industrial relations are also called as labour - management, employee-employer's relations.

### **Objectives of Industrial Relation**

**Following are the important objectives of industrial relation:**

- 1) To safeguard the interest of labour and management by securing the highest level of mutual understanding and good-will among all those sections in the industry which participate in the process of production.
  - 2) To avoid industrial conflict or strife and develop harmonious relations, which are an essential factor in the productivity of workers and the industrial progress of a country.
  - 3) To enhance productivity to a higher level in an era of full employment by lessening the tendency to high turnover and frequency absenteeism.
  - 4) To establish and nurse the growth of an Industrial Democracy based on labour partnership in the sharing of profits and of managerial decisions, so that an individual's personality may grow its full stature for the benefit of the industry and of the country as well.
  - 5) To eliminate, as far as is possible and practicable, strikes, lockouts and gheraos by providing reasonable wages, improved living and working conditions, said fringe benefits.
  - 6) To establish government control of such plants and units as are running at a loss or in which production has to be regulated in the public interest.
  - 7) Improvements in the economic conditions of workers in the existing state of industrial managements and political government.
  - 8) Control exercised by the state over industrial undertaking with a view to regulating production and promoting harmonious industrial relations.
  - 9) Socialisations or rationalization of industries by making the state itself a major employer.
  - 10) Vesting of a proprietary interest of the workers in the industries in which they are employed.
- The main aspect of Industrial Relations

The main aspects or dimensions of industrial relations are. I. Labour Relations, i.e. relations between union and management.

II. Employer-employee's relations, i.e. relations between management and employees.

III. Group relations, i.e. relations between various groups of workmen.

IV. Community or Public relations, i.e. relations between industry and society V. Promotions and development of healthy labour-managements relations.

VI. Maintenance of industrial peace and avoidance of industrial strike

VII. Development of true industrial Democracy.

## Importance of Industrial Relations:

An economy organized for planned production and distribution, aiming at the realization of social justice and welfare of the mass can function effectively only in an atmosphere of industrial peace. If the twin objectives of rapid national development and increased social justice are to be achieved, there must be harmonious relationship between management and labour. The healthy industrial relations are key to the progress. Their significance are discussed as under;

1. **Uninterrupted production** – The most important benefit of industrial relations is that this ensures continuity of production. This means continuous employment for all from manager to workers. The resources are fully utilized, resulting in the maximum possible production. There is uninterrupted flow of income for all. Smooth running of an industry is of vital importance for several other industries; to other industries if the products are intermediaries or inputs; to exporters if these are export goods; to consumers and workers, if these are goods of mass consumption.

2. **Reduction in Industrial Disputes** – Good industrial relation reduces the industrial disputes. Disputes are reflections of the failure of basic human urges or motivations to secure adequate satisfaction or expression which are fully cured by good industrial relations. Strikes, lockouts, go-slow tactics, gherao and grievances are some of the reflections of industrial unrest which do not spring up in an atmosphere of industrial peace. It helps promoting co-operation and increasing production.

3. **High morale** – Good industrial relations improve the morale of the employees. Employees work with great zeal with the feeling in mind that the interest of employer and employees is one and the same, i.e. to increase production. Every worker feels that he is a co-owner of the gains of industry. The employer in his turn must realize that the gains of industry are not for him alone but they should be shared equally and generously with his workers. In other words, complete unity of thought and action is the main achievement of industrial peace. It increases the place of workers in the society and their ego is satisfied. It naturally affects production because mighty co-operative efforts alone can produce great results.

4. **Mental Revolution** – The main object of industrial relation is a complete mental revolution of workers and employees. The industrial peace lies ultimately in a transformed outlook on the part of both. It is the business of leadership in the ranks of workers, employees and Government to work out a new relationship in consonance with a spirit of true democracy. Both should think themselves as partners of the industry and the role of workers in such a partnership should be recognized. On the other hand, workers must recognize employer's authority. It will naturally have impact on production because they recognize the interest of each other.

5. **New Programmes** – New programmes for workers development are introduced in an atmosphere of peace such as training facilities, labour welfare facilities etc. It increases the efficiency of workers resulting in higher and better production at lower costs.

6. **Reduced Wastage** – Good industrial relations are maintained on the basis of cooperation and recognition of each other. It will help increase production. Wastages of man, material and machines are reduced to the minimum and thus national interest is protected. Thus, from the above discussion, it is evident that good industrial relation is the basis of higher production with minimum cost and higher profits. It also results in increased efficiency of workers. New and new

projects may be introduced for the welfare of the workers and to promote the morale of the people at work.

## Approaches to Industrial Relations

**Definition:** Industrial relations is that part of human resource management which studies the formal relationship of the workers with the administration and the employers and ensuring a proper mechanism to manage the industrial disputes and conflicts.

### *1. Psychological Approach:*

According to psychologists, differences in the perceptions of employers and workers give rise to problems of employer-employee relations. The two parties view and interpret situations and issues involved in employer-employee conflict in different ways.

Employer and employee consider each other less appreciative of the other's position and less dependable than himself. Similarly, the perceptions of trade unions are different from those of employers' associations. In addition, dissatisfaction with pay, working conditions, nature of job, etc. cause frustration and aggression on the part of workers.

These in turn lead to strikes, gherao, boycott, and works to rule, etc. Similarly, employers resort to lockout and other forms of protest on account of frustration over market conditions, government policies and other constraints.

### *2. Sociological Approach:*

Industry is a part of society and it is a community made up of individuals and groups with different family background, educational level, personalities, emotions, likes and dislike, etc. These differences in individual attitudes and behaviour create problems of conflict and cooperation in industry.

The value systems, customs, status symbols and institutions of the society in which industry functions affect relations between the parties involved. Urbanisation, housing and transport problems in industrial areas, disintegration of joint family system, and other social problems cause stress and strains along workers. The social and cultural changes shape behaviour patterns and cause adjustments in employer-employee relations. There cannot be harmony and peace in industry when the society is in turmoil.

### *3. Human Relations Approach:*

Industry consists of living human beings who want freedom of thought and expression and control over their lives. When employers treat workers as inanimate objects and encroach upon their interests and desires, conflicts and disputes arise.

Workers want security of service, good pay and working conditions, recognition for job well done, opportunity to participate in decision-making. Employers must understand the needs, attitudes and aspirations of workers.

Human relations approach explains the behaviour of individuals and groups at work and helps in modifying or utilizing such behaviour towards the achievement of organisational objectives. If management and labour both understand and apply human relations approach to their mutual relations industrial conflict can be minimised. Human relations approach is inter-disciplinary in nature because knowledge drawn from several disciplines like psychology, sociology, anthropology, economics and political science is used in it.

### *4. Giri Approach:*

According to Shri V.V. Giri, the late President of India, collective bargaining's and mutual negotiations between management and labour should be used to settle

industrial disputes. He suggested that there should be bipartite machinery in every industry and every unit of the industry to settle differences from time-to-time with active encouragement of Government.

Outside interference should not encroach upon industrial peace. Giri's stress was on voluntary efforts of the management and the trade unions to wind up their differences, through voluntary arbitration. He was against compulsory adjudication which cuts the very root of the trade union movement. He advocated collective bargaining for securing industrial peace.

Thus, the Giri Approach to employer-employee relations implies the encouragement of mutual settlement of disputes, collective bargaining and voluntary arbitration. The essence of this approach is internal settlement in preference to compulsion from outside and voluntary arbitration and collective bargaining rather than compulsory arbitration.

#### *5. Gandhian Approach:*

Gandhian approach to employer-employee relations is based on the fundamental principles of truth, non-violence and non-possession. If the employers follow the principle of trusteeship, there is no scope for conflict of interests between them and labour.

Workers can use non-cooperation (Satyagraha) to have their grievances redressed. Gandhiji accepted the workers' right to go on strike but they should exercise this right in a peaceful and non-violent manner. Workers should resort to strike for just cause and after the employers fail to respond to their moral appeals.

## **Introduction**

While working together, some time employees feel uncomfortable, aggrieved or disappointed about certain managerial decisions, policies and service conditions. There can be a feeling of ignorance altogether. With this ignored approach employees remains unhappy and unsatisfied with working conditions. If this dissatisfaction of employees goes unattended, the increased irritation of the employees may cause unfavourable attitude towards supervisors, colleagues and the organisation and ultimately a disturbed relationship maintain in an organization.

To a large extent, the approach will be governed by several variables such as style of management, size of enterprise, level of education of the workforce, technology of the plant and the extent of unionization of the workforce. In this present setup, especially in democratic system where an employee can express their frustration, dissatisfaction, whether it is a minor problem, or a serious problem, or a difference of the opinion with the supervisor over terms and conditions of employment. In India, the government has been making a plea for grievance machinery at the plant level ever since

## **Grievance- Definition**

The term “grievance” has been defined by different researchers in different ways.

Mondy and Noe defined grievance as “employee’s dissatisfaction or feeling of personal injustice relating to his or her employment.”

Jucius defines grievance as “any discontent or dissatisfaction, whether expressed or not and whether valid or not, arising out anything connected with the company which an employee thinks, believes, or even feels, is unfair, unjust or inequitable”.

Thus, above definitions describes grievance as any dissatisfaction of an employee which is based on his or her perception about the situation within an organization. The term ‘grievance’ varies from company to company, which would include any discontent, which affects the organizational environment. As such, grievance can be real or imaginary, written or oral, legitimate or illegitimate.

## **Nature of grievance**

A grievance may be submitted by workers, or several workers, in respect of any measure or situation, which directly affects, or is likely to affect, the conditions of the employment of one or several workers in the organization. Where a grievance is transformed into a general claim either by the union or by a large number of



workers, it falls outside the grievance procedure and normally comes under to purview of collective bargaining. From a study conducted by Chandra, the following areas were causes of employee grievance:

1. Promotions
2. Continuity of Service,
3. Compensation,
4. Disciplinary action,
5. Fines,
6. Increments,
7. Leave,
8. Medical Benefits,
9. Nature of Job,
10. Payment,

### Grievance procedure: 6 steps

While no two companies have to have the same grievance procedure, here is a general guide to how they go.

1. **The employee makes a formal, written complaint.** A company may provide a form (online or on paper), or the employee may write something up on email or freehand. Regardless, grievances are formal complaints and are generally written. An employee can present a verbal complaint, but then the HR person/supervisor would write down the employee's statement, creating a formal document. This document will be the guiding document throughout the procedure. While the employee will (most likely) be interviewed as part of later steps, the employee should include as much information as possible, including names and dates (approximate dates should be accepted.)

**2. Once the employee files the grievance, a formal investigation begins.** How this occurs can vary wildly depending on the type of complaint. If the employee complaint is an inaccurate paycheck, a call to payroll, and a look at the timecards can often resolve the issue within minutes. If the claim is that a senior manager has been sexually harassing the employee, a lengthy investigation with many

interviews, viewing of security films, auditing emails, etc., can all be part of the investigation.

Some investigations can be handled directly by the supervisor or the HR person tasked with the job, while others may require an outside expert.

2. **The investigator writes a conclusion.** This may be a black and white situation – for instance, with unpaid overtime, finding unprocessed time cards definitively show that the employee is right. With a case of discrimination or harassment, the conclusion can be in the gray area. You may find that the employee’s coworkers used racial epithets in a fight with the complainant. But, you may also find out that the complainant also used racial epithets in the argument. The conclusion may not be what the complainant expected.
3. **A mediator can be called in.** This is often the case when the grievance procedure is dictated in a union or other contract. The mediator works with both the employee and the business to come to a conclusion. In some cases, the company may have no formal conclusion before meeting with the mediator. In this case, both sides present their case to the mediator, and the mediator helps them find a solution.  
In the case of a union contract, the union often represents the employee in formal grievance procedures. In mediation, the union representative (and possibly lawyer) would accompany the employee and plead their case.
4. **There are consequences.** Whether there is a formal agreement made during mediation or the investigator makes a formal recommendation that the company accepts, the company and employee take some action. It can be a simple action, or someone can lose their job.
5. **If the employee is not satisfied,** and there is no contract prohibiting a court case (some contracts require mediation to be the final word), the employee can take his grievance to the courts.



















