

# FACULTY OF JURIDICAL SCIENCES

# Lecture-37



## **COMPONENTS OF EMPLOYEE REMUNERATION**

An employee in the organized sector is entitled to several benefits both financial as well as non-financial. To be specific, typical remuneration of an employee comprises wages and salary, incentives, fringe benefits, perquisites, and non-monetary benefits

### **1. Wages and salary**

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by an employee. Wages and salaries are subject to annual increments. They differ, from employee to employee, and depend upon the nature of job, seniority, and merit.

### **2. Incentives**

Also called “payments by results”, incentives are paid in addition to wages and salaries. Incentives depend upon productivity, sales, profit, or cost reduction efforts.

There are: (i) individual incentive schemes, and (ii) group incentive programmes.

Individual incentives are applicable to specific employee performance. Where, a given task demands group effort for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

### **3. Fringe Benefits**

These include such employee benefits as provident fund, gratuity, medical care, hospitalization, accident relief, health and group insurance, canteen, uniform, recreation and the like. These are hidden costs of employers which are given to the employees.

### **4. Perquisites**

These are allowed to executives and include company car, club membership, paid holidays, furnished house, stock option schemes and, the like. Perquisites are offered to retain competent executives. In the crisis and available labor market even perquisites play an important role.

### **5. Non-monetary Benefits**

These include challenging job responsibilities, recognition of merit, growth prospects, competent supervision, comfortable working conditions, job sharing, and flextime. These benefits are not directly linked to money. But organizations spend a lot of money for the welfare of the employees.

## **BASE AND SUPPLEMENTARY**

What is meant by base and supplementary employee remuneration?

Base or Primary compensation refers to basic pay in the form of wages and salaries. It is a fixed and non incentive payment on the basis of time expended on the job. Supplementary compensation consists of incentives and variable payments , based on either individual output or output of the group as a whole.

What is the difference between base and supplementary compensation?

Supplemental wages are a form of compensation employers offer in addition to base income. **While base pay consists of hourly wages or a monthly salary, supplemental pay includes earnings such as: Severance pay. Bonuses.**

## **PERFORMANCE**

An ongoing, continuous process of communicating and clarifying job responsibilities, priorities, performance expectations, and development planning that optimize an individual's performance and aligns with organizational strategic goals.

When people hear the words performance management, the fiscal year evaluation may be their first thought. However, an effective performance management process involves much more than just the annual evaluation.

Human Resources has established modules to assist in managing employee performance. Human Resources recommends in addition to setting goals at the beginning of the evaluation period and evaluating performance at the end of the evaluation period, that feedback sessions are held throughout the year. These meetings include:

- **Initial Meeting: Goal Setting and Development Planning** – During the first meeting, at the beginning of the evaluation period, the employee and supervisor will mutually develop goals that align directly with the goals of the department, school and university. A development plan that supports goal completion will also be developed and agreed upon.

- **Quarterly Feedback Sessions (October, January, April for the fiscal year evaluation period)** – During the feedback sessions, the employee and supervisor will discuss the employee's progress toward goal completion and any support that may be needed.
- **Final Meeting: Evaluation Review** – During the final meeting at the end of the evaluation period, the employee and supervisor will discuss overall performance and goals and development plan outcomes.

### POTENTIAL APPRAISAL

The potential appraisal refers to the appraisal involving identification of the hidden talents and skills of a person. The person might or might not be aware of them.

Potential appraisal is a future-oriented appraisal whose main objective is to identify and evaluate the potential of the employees to assume higher positions and responsibilities in the organizational hierarchy.

Many organizations consider and use potential appraisal as a part of the performance appraisal processes. Potential appraising is different from appraising performance.

Potential refers to abilities of an employee which are currently not brought to use by an organization. Potential means the talent capacity to undertake higher challenges on job in future. A fundamental premise behind potential appraisal is that every individual has certain hidden qualities in varying proportion. When these qualities are not properly tapped and utilized, these remain dormant. For example, K. Ramchandran, Director, Human Resource and Operational Policy, Philips India Limited, where potential appraisal is undertaken in a very systematic way, has observed as follows-

“People are like icebergs. What you see above the surface (performance) is only a small part. A large part of the attributes needed to perform excellently in a future job, which I call potential, is not immediately visible. It is hidden below surface.”

Potential appraisal is concerned with unfolding these hidden attributes. These attributes may be in the form of analytical power, creative imagination, sense of reality, ability to see future, ability

to work in varied environment, risk propensity, initiative, being proactive, passion for high achievement, problem-solving and decision-making skills, and so on.

All these attributes constitute potential of an individual and through potential appraisal, all these are identified. From this point of view, potential appraisal differs from performance appraisal; the former is related to future role of an individual while latter is concerned with his present role. In the modern era of human resource management, appraisal system lays greater emphasis on the development of employees rather than on their evaluation. This is better fulfilled by the potential appraisal which involves assessing the capability of an employee which he possesses but that is not being utilized fully.

It may be mentioned that an employee who is doing his present job effectively may not be equally effective in a higher-order job specially when transferability of skills relevant to his present job is limited because of the nature of different jobs.

Potential appraisal is used in a number of human resource management functions such as human resource planning, career planning, succession planning, promotion/termination decisions, and employee training and development. Because of different uses of potential appraisal, it has become one of the important tools for managing human resources throughout the world including India.

Many companies in India undertake potential appraisal either independently of performance appraisal or integrating both the systems into one. However, potential appraisal system works better when it is taken independently.

In this context, potential means a prospective employee who is capable to undertake different challenging assignments. Potential of employees need to be discovered for organizational effectiveness. Organizations must aim to utilize the full potential of the workforce, institute an environment to unleash the latent creativity, create conditions promoting innovation and team working, and so forth. Potential is actually a useful succession term if you filter it through the leadership pipeline model.

Three categories of potential are turn potential, growth potential, and mastery potential-

i. Turn potential is the ability to do the work at the next level in an organizational hierarchy in the next three to five years, or sooner.

- ii. Growth potential refers to the ability to do work which is complex, more challenging, needs innovative skills, pioneering expertise, etc., at the same level in the near future.
- iii. Mastery potential is the ability to do the same type of work that is currently being done, in a better.

### **Assessing the Potential of the Employee:**

1. Find out the requirements of the higher job and see how the employee meets those requirements.
2. Does the employee have the knowledge, skills and attitude which could be utilised in the higher job?
3. How good are the personal performance parameters such as quality of decision making, willingness to take up additional load/responsibilities, dependability, initiative, imagination, open minded to suggestions and new ideas, interpersonal relationship etc.?
4. How could the employee develop those qualities required for performing the job at higher level effectively?
5. Follow-up – Once the management has identified the person, they could provide necessary guidance, training and development so that the person can take higher responsibilities and perform well in his new role.

### **The basic objectives of potential appraisal are to:**

1. Identify the abilities of an employee in order to evaluate whether that employee is suitable for future assignments or otherwise, and
2. Occupy higher positions in the organizational hierarchy and undertake higher responsibilities because past performance may not be a good indicator for future and higher role.
3. Inform employees about their future roles;
4. Make suitable corrections in training efforts from time to time;
5. Inform employees about they must do something for their career prospects;
6. Help organization for suitable succession plan;
7. Improve quality and quantity of performance of an employee; and
8. Give proper feedback to the employees for their potential.

## LIMITATIONS

### Top 8 Limitations of Performance Appraisal System

- Bias of Appraiser: ...
- Ambiguity in Standards: ...
- Insufficient Evidence: ...
- Several Qualities Remain Without Appraisal: ...
- Leniency or Strictness Tenancy: ...
- Average Rating Problem: ...
- Influence of Man's Job: ...
- Similarity Error: