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Class: **III B.com**
SUBJECT: **HUMAN RESOURCE MANAGEMENT**
MINIMUM LEARNING MATERIAL
Unit-V - PERFORMANCE APPRAISAL

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Definition:

“performance appraisal includes all formal procedure used to evaluate personalities and contributions and potentials of group members in a working organization.”..Dale yoder.

“Performance appraisal is a process of evaluating an employee’s performance of a job in terms of its requirements.”...Scot, clothier and Spiegel.

Features/ characteristics of Performance appraisal

1. It is a continuous process.
2. It is a systematic examination of an employees’ strength and weakness in terms of job.
3. It is a scientific study.
4. It is arranged periodically according to a definite plan.
5. It helps in securing information necessary for making objective and correct decision on employees.
6. It is an impartial rating of an employee excellence.

Objectives of the performance appraisal:

1. To improve the job performance of employees and also to identify there development potentialities.
2. To diagnose the strength or weakness of individuals so as to access the area in which training is required.
3. To prevent grievance and un disciplinary activities of the personnel.
4. To evaluate the success of training programmes
5. To motivate the employee to perform well.

6. To provide coaching, counseling and career planning to employees.
7. To test the effectiveness of recruitment, selection, placement and rotation process.
8. To facilitate research in personnel management.
9. To establish harmonious relationship between employer and employees.
10. To provide valid information for deciding promotion, transfer, placement, punishment, etc.

Process of performance appraisal:

1. Determining objectives: The first step in the process is determination of objectives of performance appraisal. Based on the objectives the remaining stages of process are initiated.
2. Establishing Performance standard or criteria: The standards are set up for appraising the performance of employees. Job performance standards are the work requirements that are expected from an employee on a particular job. These are the criteria against which to judge results or performance. These standards may be of physical nature. If work performance cannot be measured in quantitative terms for instance, in case of a personal quality then it should be mentioned in the appraisal form.

The person who are required to do appraisal, number of times, criteria, etc must be decided in advance.

3. Communicating standards: After determining the standard, it should be communicated to the employees. They must be aware of what is expected out of them. It should also communicate to evaluators. If there is any objection, it may be recorded. The standard can be modified in the feedback information obtained from evaluators and employees.
4. Measuring performance: In this stage actual performance of employees are measured. With the help of personal observation, written report, face to face interview, etc information regarding performance are gathered.
5. Comparison: Actual performance and standards are compared in order to find out the deviations.
6. Discussion: The results of the appraisal are then communicated to the employees. The deviations and reasons for deviations are analyzed and discussed with the employees. The discussion will enable the employees to know the strength and weakness of his own.
7. Corrective action: By way of conducting discussion with the employees, the steps required for improving performance can be assessed and corrective action can be taken. Coaching, training, counseling, etc can be conducted to improve the performance of employees.

Methods of Performance appraisal:

1. Traditional method
 - Ranking method

- Paired comparison method
- Grading system
- Graphic scale
- Check list
- Forced distribution
- Critical methods
- field review
- Confidential report
- Free essay method
- Group appraisal
- Comparative evaluation

2. Modern method

- Assessment centre
- Human resource accounting
- Behaviourly anchored rating scales
- Appraisal by MBO
- Psychological appraisal

Essential requirements of performance appraisal:

1. A good atmosphere should exist in the organization to create confidence and mutual trust among employees.
2. The objectives of the performance appraisal must be definite and clear.
3. Well defined performance standards should be developed. Procedures and techniques adopted in appraisal is also standardized.
4. Proper training should be imparted to appraisers.
5. The appraiser should focus on job related behavior and performance of employees.
6. Proper documentation of appraisal should be done.
7. There should be feedback regarding the performance and participation in fixation of standards.
8. The size, number of employees and organization set up must be considered while designing the appraisal system.
9. There must be post appraisal review.
10. A review committee should be constituted for reviewing and appeal against appraisal results.

Limitation of Performance appraisal

1. There is a possibility of inconsistent ratings.
2. An evaluator may appraise an employee based on the general impression i.e., Halo effect.
3. There is a possibility of personal bias
4. In order to avoid the possibility of giving a high or low rate, the evaluators may opt for average rating
5. Different standards are followed by different supervisors for evaluation.
6. There is a lack of training in appraisal techniques which reduce reliability.
7. Due to lack of knowledge and skills, the raters may fail to evaluate performance accurately.
8. There is a resistance from trade unions.
9. There is a possibility of similarity errors.
10. The evaluators have varied range of rating.

Problems of performance appraisal

Since performance appraisal is conducted by human beings, it is subjected to a number of errors, biases, weaknesses and pitfalls.

Some of these are discussed below.

1. The halo effect:

The halo effect is introduced when an overall impression of an individual is judged on the basis of a single trait. A high rating on one trait leads automatically to high rating on all other trait. Also, a very high rating may be given to protect an employee for whom there may be personal sympathy.

2. Constant error:

This error is a reflection on the trait of the rater. Some raters are, by nature, too liberal, others too strict and some tend towards rating most people in the middle.

3. Recency of events:

There is a tendency of many evaluators to give much more weight to the recent behaviour of the candidate than the past behaviour. This is based on the reflection that the future trend is established by the mere recent behaviour.

4. The central tendency:

It is the most commonly found error. It is the tendency of most raters to give average ratings to all or the center of the scale. This may be due to the fact that a very high rating or a very low rating could invite questions, criticisms or explanations.

Accordingly, an average rating is safer. It could also be due to the fact that the rater lacks sufficient knowledge about the applicant and hence, does not want to commit himself one way or another.

5. Errors of variable standards:

It is quite possible that organisations follow different standards of performance. Some divisional heads may require much higher quality of performance than others.

6. Other miscellaneous biases:

There may be some built-in biases in the minds of the rater, based upon his own perception of things, people and performances. A person may be rated higher because he is a 'nice' person or because of his seniority.

METHODS OF PERFORMANCE APPRAISAL

1. **Rating Scales:** Rating scales consist of several numerical scales representing job-related performance criteria such as dependability, initiative, output, attendance, attitude etc. Each scale ranges from excellent to poor. The total numerical scores are computed and final conclusions are derived. Advantages – Adaptability, easy to use, low cost, every type of job can be evaluated, large number of employees covered, no formal training required. Disadvantages – Rater's biases
2. **Checklist:** Under this method, a checklist of statements of traits of employee in the form of Yes or No based questions is prepared. Here the rater only does the reporting or checking and HR department does the actual evaluation. Advantages – economy, ease of administration, limited training required, standardization. Disadvantages – Rater's biases, use of improper weights by HR, does not allow rater to give relative ratings
3. **Forced Choice Method:** The series of statements arranged in the blocks of two or more are given and the rater indicates which statement is true or false. The rater is forced to make a choice. HR department does actual assessment. Advantages – Absence of personal biases because of forced choice. Disadvantages – Statements may be wrongly framed.
4. **Forced Distribution Method:** Here employees are clustered around a high point on a rating scale. Rater is compelled to distribute the employees on all points on the scale. It is assumed that the performance is conformed to normal distribution. Advantages – Eliminates Disadvantages – Assumption of normal distribution, unrealistic, errors of central tendency.
5. **Critical Incidents Method:** The approach is focused on certain critical behaviors of employee that makes all the difference in the performance. Supervisors as and when they occur record such incidents. Advantages – Evaluations are based on actual job behaviors, ratings are supported by descriptions, feedback is easy, reduces recency biases, chances of subordinate improvement are high.

Disadvantages – Negative incidents can be prioritized, forgetting incidents, overly close supervision; feedback may be too much and may appear to be punishment.

6. **Behaviorally Anchored Rating Scales:** statements of effective and ineffective behaviors determine the points. They are said to be behaviorally anchored. The rater is supposed to say, which behavior describes the employee performance. Advantages – helps overcome rating errors. Disadvantages – Suffers from distortions inherent in most rating techniques.

7. **Field Review Method:** This is an appraisal done by someone outside employees' own department usually from corporate or HR department. Advantages – Useful for managerial level promotions, when comparable information is needed, Disadvantages – Outsider is generally not familiar with employees work environment, Observation of actual behaviors not possible.

8. **Performance Tests & Observations:** This is based on the test of knowledge or skills. The tests may be written or an actual presentation of skills. Tests must be reliable and validated to be useful. Advantage – Tests may be apt to measure potential more than actual performance. Disadvantages – Tests may suffer if costs of test development or administration are high.

9. **Confidential Records:** Mostly used by government departments, however its application in industry is not ruled out. Here the report is given in the form of Annual Confidentiality Report (ACR) and may record ratings with respect to following items; attendance, self expression, team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness etc. The system is highly secretive and confidential. Feedback to the assessee is given only in case of an adverse entry. Disadvantage is that it is highly subjective and ratings can be manipulated because the evaluations are linked to HR actions like promotions etc.

10. **Essay Method:** In this method the rater writes down the employee description in detail within a number of broad categories like, overall impression of performance, promoteability of employee, existing capabilities and qualifications of performing jobs, strengths and weaknesses and training needs of the employee. Advantage – It is extremely useful in filling information gaps about the employees that often occur in a better-structured checklist. Disadvantages – It is highly dependent upon the writing skills of rater and most of them are not good writers. They may get confused success depends on the memory power of raters.

11. **Cost Accounting Method:** Here performance is evaluated from the monetary returns yields to his or her organization. Cost to keep employee, and benefit the organization derives is ascertained. Hence it is more dependent upon cost and benefit analysis.

12. **Comparative Evaluation Method (Ranking & Paired Comparisons):** These are collection of different methods that compare performance with that of other co-workers. The usual techniques used may be ranking methods and paired comparison method.

- **Ranking Methods:** Superior ranks his worker based on merit, from best to worst. However how best and why best are not elaborated in this method. It is easy to administer and explanation.
- **Paired Comparison Methods:** In this method each employee is rated with another employee in the form of pairs. The number of comparisons may be calculated with the help of a formula as under.

$$N \times (N-1) / 2$$

Modern Methods

1. **Management By Objectives:** It means management by objectives and the performance is rated against the achievement of objectives stated by the management. MBO process goes as under.

- Establish goals and desired outcomes for each subordinate
- Setting performance standards
- Comparison of actual goals with goals attained by the employee
- Establish new goals and new strategies for goals not achieved in previous year.

Advantage – It is more useful for managerial positions.

Disadvantages – Not applicable to all jobs, allocation of merit pay may result in setting short-term goals rather than important and long-term goals etc.

2. **Psychological Appraisals:** These appraisals are more directed to assess employees potential for future performance rather than the past one. It is done in the form of in-depth interviews, psychological tests, and discussion with supervisors and review of other evaluations. It is more focused on employees emotional, intellectual, and motivational and other personal characteristics affecting his performance. This approach is slow and costly and may be useful for bright young members who may have considerable potential. However quality of these appraisals largely depend upon the skills of psychologists who perform the evaluation.

3. **Assessment Centers:** This technique was first developed in USA and UK in 1943. An assessment center is a central location where managers may come together to have their participation in job related exercises evaluated by trained observers. It is more focused on observation of behaviors across a series of select exercises or work samples. Assesseees are requested to participate in in-basket exercises, work groups, computer simulations, role playing and other similar activities which require same attributes for successful performance in actual job. The characteristics assessed in assessment center can be assertiveness, persuasive ability, communicating ability, planning and organizational ability, self confidence, resistance to stress, energy level, decision making, sensitivity to feelings, administrative ability, creativity and mental alertness etc. Disadvantages – Costs of employees traveling and lodging, psychologists, ratings strongly influenced by assessee's inter-personal skills.

Solid performers may feel suffocated in simulated situations. Those who are not selected for this also may get affected.

Advantages – well-conducted assessment center can achieve better forecasts of future performance and progress than other methods of appraisals. Also reliability, content validity and predictive ability are said to be high in assessment centers. The tests also make sure that the wrong people are not hired or promoted. Finally it clearly defines the criteria for selection and promotion.

4. **360-Degree Feedback:** It is a technique which is systematic collection of performance data on an individual group, derived from a number of stakeholders like immediate supervisors, team members, customers, peers and self. In fact anyone who has useful information on how an employee does a job may be one of the appraisers. This technique is highly useful in terms of broader perspective, greater self-development and multi-source feedback is useful. 360-degree appraisals are useful to measure inter-personal skills, customer satisfaction and team building skills. However on the negative side, receiving feedback from multiple sources can be intimidating, threatening etc. Multiple raters may be less adept at providing balanced and objective feedback

CONCEPT OF CAREER PLANNING

Career planning is the process by which one selects career goals and the path to these goals. The major focus of career planning is on assisting the employees achieve a better match between personal goals and the opportunities that are realistically available in the organization. Career programmers should not concentrate only on career growth opportunities. Practically speaking, there may not be enough high level positions to make upward mobility a reality for a large number of employees. Hence, career-planning efforts need to pin-point and highlight those areas that offer psychological success instead of vertical growth.

Career planning is not an event or end in itself, but a continuous process of developing

Humanresources are for achieving optimum results. It must, however, be noted that individual and organizational careers are not separate and distinct. A person who is not able to translate his career plan into action within the organization may probably quit the job, if he has a choice. Organizations, therefore, should help employees in career planning so that both can satisfy each other's needs.

NEED FOR CAREER PLANNING

Every employee has a desire to grow and scale new heights in his workplace continuously. If there are enough opportunities, he can pursue his career goals and exploit his potential fully. He feels highly motivated when the organization shows him a clear path as to how he can meet his personal ambitions while trying to realize corporate goals.

Unfortunately, as pointed out by John Leach, organizations do not pay adequate attention to this aspect in actual practice for a variety of reasons. The demands of employees are not matched with

organizational needs; no effort is made to show how the employees can grow within certain limits, what happens to an employee five years down the line if he does well, whether the organization is trying to offer mere jobs or long-lasting careers, etc. When recognition does not come in time for meritorious performance and a certain amount of confusion prevails in the minds of employees whether they are 'in' with a chance to grow or not, they look for greener pastures outside. Key executives leave in frustration and the organization suffers badly when turnover figures rise. Any recruitment effort made in panic to fill the vacancies is not going to be effective. So, the absence of a career plan is going to make a big difference to both the employees and the organization. Employees do not get right breaks at a right time; their morale will be low and they are always on their toes trying to find escape routes.

Organizations are not going to benefit from high employee turnover. New employees mean additional selection and training costs. Bridging the gaps through short-term replacements is not going to pay in terms of productivity. Organizations, therefore, try to put their career plans in place and educate employees about the opportunities that exist internally for talented people. Without such a progressive outlook, organizations cannot prosper.

Career planning is needed for the following reasons:

1. Provides career goals and paths

Career planning is needed to provide career goals and career paths to an employee. It provides clear future directions in terms of career.

2. Develop competencies

Career planning motivates and encourages an employee to develop competencies for higher level jobs. The competencies can be conceptual, interpersonal and technical.

3. Creativity

Career planning is needed to increase employee creativity. It is needed for innovation in organization. It can be lead to entrepreneurship within the organization.

4. Employee retention

Career planning is needed for retention of qualified employees in the long-term. This is needed to decrease costs of recruitment, selection and training.

5. Motivation

Career planning motivates employees for higher performance. Upward movement in organization is based on the quality and quantity of performance.

Objectives

Career planning seeks to meet the following objectives:

- i. Attract and retain talent by offering careers, not jobs.

- ii. Use human resources effectively and achieve greater productivity.
- iii. Reduce employee turnover.
- iv. Improve employee morale and motivation.
- v. Meet the immediate and future human resource needs of the organization on a timely basis

CAREER PLANNING PROCESS

The career planning process involves the following steps:

Identifying individual needs and aspirations:

Most individuals do not have a clear cut idea about their career aspirations, anchors and goals. The human resource professionals must, therefore, help an employee by providing as much information as possible showing what kind of work would suit the employee most, taking his skills, experience, and aptitude into account. Such assistance is extended through workshops/seminars while the employees are subjected to psychological testing, simulation exercises, etc. The basic purpose of such an exercise is to help an employee form a clear view about what he should do to build his career within the company. Workshops and seminars increase employee interest by showing the value of career planning. They help employees set career goals, identify career paths and uncover specific career development activities. These individual efforts may be supplemented by printed or taped information. To assist employees in a better way, organizations construct a data bank consisting of information on the career histories, skill evaluations and career preferences of its employees (known as skill or talent inventory).

Analyzing career opportunities:

Once career needs and aspirations of employees are known, the organization has to provide career paths for each position. Career paths show career progression possibilities clearly. They indicate the various positions that one could hold over a period of time, if one is able to perform well. Career paths change over time, of course, in tune with employee's needs and organizational requirements. While outlining career paths, the claims of experienced persons lacking professional degrees and that of young recruits with excellent degrees but without experience need to be balanced properly.

Aligning needs and opportunities:

After employees have identified their needs and have realized the existence of career opportunities the remaining problem is one of alignment. This process consists of two steps: first, identify the potential of employees and then undertake career development

Programmers with a view to align employee needs and organizational opportunities. Through performance appraisal, the potential of employees can be assessed to some extent. Such an appraisal would help reveal employees who need further training, employees who can take up added responsibilities, etc. After identifying the potential of employees certain developmental techniques

such as special assignments, planned position rotation, supervisory coaching, job enrichment, understudy programs can be undertaken to update employee knowledge and skills.

Action plans and periodic review:

The matching process would uncover gaps. These need to be bridged through individual career development efforts and organization supported efforts from time to time. After initiating these steps, it is necessary to review the whole thing every now and then. This will help the employee know in which direction he is moving, what changes are likely to take place, what kind of skills are needed to face new and emerging organizational challenges. From an organizational standpoint also, it is necessary to find out how employees are doing, what are their goals and aspirations, whether the career paths are in tune with individual needs and serve the overall corporate objectives, etc.

CAREER DEVELOPMENT

Career Development is defined as the efforts that are made by the organization to equip its employees with the skills, knowledge & experience that help them to perform the duties of their current as well as future jobs effectively. The organization develops and implements certain policies including counseling the employees, promotion & opportunities to attain excellence that facilitate the employee to prepare their career. Development of career actually promotes the knowledge, skills, and experiences along with the behavior modification & techniques of refinement that promotes the addition of value for the employees by improving their work.

In career development, **human resource management** has the vital importance that centers the entire efforts of the organization. It is relatively different from the training in such a way that it has wide scope, longer frame of time & broader focus. Moreover the purpose of training is limited to the performance improvements but the goal of development is to make employees more capable and enriched.

In modern days the careers development not only fulfills the needs of the organization but also the needs of the employees.

The career development is looked as essential by the organizations due to the following reasons.

- It is a method of prevention from job burnout
- The career information is provided to the employees
- The quality of work life is improved
- The affirmative action goals are met

In short the careers development becomes essential for the organizations to be sustained in the competitive global environment.

Career Development Methods:

There are many methods that are used extensively for the purpose of careers development. But mostly these are used in combination of more than one method. Following are the commonly used methods of career development.

1. Discussion with Knowledgeable Individuals:

In this method the subordinate is combined with his superior to agree on the best career development activities. In certain cases guidance counselors & psychologists provide this service. In case of academic institutions like colleges & universities, specialized career planning & development guidance is provided to the students. Professors are usually responsible for such guidance.

2. Company Material:

There are certain organizations that have developed certain specific material for the development of its employees. The developed material is in accordance with the needs of the organizations. Moreover the job descriptions can be considered as good material that show the employees to decide either their strengths & weakness match with the requirement of any offering job within their own organization.

3. Performance Appraisal System:

The performance appraisal system in the organizations can also be regarded as good source of career development. When the strengths & weaknesses of employees are discussed with their relative supervisors than the needs for the development of employees emerged clearly. If there is not possibility to overcome the weakness of certain employee, then there can be a solution of alternative career path for that employee.

4. Workshops:

Certain organizations offer the workshops for their employees that last for two or more days so that the employees can be able to develop their career within the organization. The career objectives are described & match by the employees with the needs of the organizations. In other situations, the workshops are presented at the community level so that the employees may be sent or they may start the visit themselves.

5. Personal Development Plans (PDP):

There are some organizations that encourage their employees to present their own plans of personal development. Such plan consists of summary of needs of personal development of employees along with the specified action list for the achievement. So the management encourages the employees to analyze their weakness & strengths.

Compensation

Compensation refers to a wide range of financial and non-financial rewards to employees for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits

such as paid vacations, insurance, maternity leave, free travel facility, retirement benefits, etc.

Types of compensation:

1. **Base compensation:**

Base compensation involves monetary benefits in the form of wages and salaries. The term 'wage' is used to denote remuneration to workers and the term 'salary' is usually defined to mean compensation to office employees, foremen, managers and professional and technical staff.

2. **Supplementary compensation:**

Supplementary compensation involves 'fringe benefits' offered through several employee services and benefits such as housing, subsidized food, medical aid, crèche, etc. It is also known as non-wage payments/service programmes/employee benefits. It helps to retain the employees on a long term basis.

Wage and salary administration:

Wages and salaries represent a substantial part of total costs in most of the organization. Wage and salary administration is essentially the systematic approach to the problem of ensuring that employees are paid in a logical, equitable and fair manner.

The most important objective of any pay system is fairness and equity. The term equity has three dimensions:

1. **Internal equity:** This refers to the pay corresponding to difficulty level of the job assigned to an employee. More difficult jobs should be paid more.
2. **External equity:** External equity ensures that an employee is compensated equally in comparison to similar jobs in the labor market.
3. **Individual equity:** Individual equity highlights equal pay for equal jobs, i.e. each individual pay is fair in comparison to others doing the same/similar job.

Factors affecting wages/compensation:

1. **Demand and supply of labour:** wage is a compensation or price for the services rendered by a worker. Wages are based on the demand and supply of labour force available in the market. If there is huge supply of the labour, the wages will increase, on the other hand, if there is a scarcity of labour force, wage will increase.
2. **Ability to pay:** employer's ability to pay is an important factor affecting wages not only for the individual firm, but also for the entire industry. This depends on the financial position and profitability of the firm.
3. **Cost of living:** another important factor affecting the wage is cost of living of wages. This tends to vary money wage depending upon the variation in the cost of living index following rise or fall in the general price level and consumer index.
4. **Productivity of workers:** to achieve the best result from the worker and to motivate him to increase his efficiency, wages have to be productivity based. Productivity is the key factor in the operations of a company.
5. **Labour unions:** organized labour able ensures better wages than the unorganized one. Higher

wages may have to be paid by the firm to its workers under the pressure of trade unions. If trade union fail in their attempt to raise the wages and other allowance through collective bargaining they might resort too strike, this exerts influence on employer to concede at leastpartial demands of labour union.

6. Government: several laws have been enacted by the government to protect the working class. Laws on minimum wages, hours of work, equal pay for equal work, payment of dearness allowance, bonus, etc. have been enacted to bring about measure of fairness in compensating the working class. Thus, the laws enacted and labour policies framed by the government have an important influence on wages and salaries paid by the employers.
7. Prevailing wage rates: wages in a firm are influenced by the general wage level or the wages paid by the similar occupations in the industry, region and economy as a whole. External alignment of wages is essential because if wages paid by the firm are lower than those paid by the other firms, the firm will not be able to attract and retain efficient employees.
8. Other factors:

- Worker's capacity.
- Educational qualification.
- Work experience.
- Hazards in work.
- Promotion possibilities.
- Stability of employment.
- Demand for special skills.
- Profits earned by the organization.

Elements of compensation:

Workers are compensated in the form of following benefits:

- Monthly wage and salary or total pay including wage, house rent allowance, dearness allowance and city compensatory allowance.
- Bonus at the end of the year
- Economic benefits such as paid holidays leave travel concessions.
- Contribution towards insurance premium
- Contribution towards retirement benefits such as employee provident fund
- Transport and medical facilities

Dearness Allowance

The **Dearness Allowance (DA)** is a cost of living adjustment allowance paid to Government employees, Public sector employees (PSU) and pensioners in Pakistan, Bangladesh and India.

Dearness Allowance is calculated as a percentage of an Indian citizen's basic salary to mitigate the impact of inflation on people. Indian citizens may receive a basic salary or pension that is then supplemented by a housing or a dearness allowance, or both. The guidelines that govern the DA vary according to where one lives (for example, whether rural or urban).

Bonus:

A bonus is an additional compensation given to an employee above his/her normal wage. A bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company.

Fringe benefits

Supplementary compensation involves 'fringe benefits' offered through several employee services and benefits such as housing, subsidized food, medical aid, crèche, etc. It is also known as non-wage payments/service programmes/employee benefits. It helps to retain the employees on a long term basis.