

**EASTERN UNIVERSITY, SRI LANKA**

**FACULTY OF COMMERCE AND MANAGEMENT**

**Third Year Second Semester Examination in Bachelor of Business Administration Honours  
in Human Resource Management – 2021/2022 [Aug/Sep 2024] (Proper)**

**HRM 3083 Performance and Reward Management**

**Answer all 5 questions.**

**Allocated Time: 03 hours**

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**Q1. Read the following case study and answer the questions given below:**

HSBC Holdings is one of the largest banking and financial services organizations in the world, serving 58M customers across 81 countries and territories. Operating through its four global businesses of Retail Banking & Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking, the bank employs over 250,000 people based in 6,600 offices around the world. In the UK, close to 50,000 employees are located across 1,800 sites including the group's headquarters in Canary Wharf. HSBC aims to be the world's leading International bank, taking advantage of its strong network of businesses in the markets most relevant to International trade and capital flows and where wealth is being created.

The banking crisis of 2008 had a huge impact across the global economy and the financial services sector, including the much-publicized collapse of some well-known global banks and UK government bailouts of Lloyds and Royal Bank of Scotland (RBS). Risky lending, inadequate reserves, complex products and ineffective governance were seen as core contributors to the financial crisis. Blame has been pointed in many directions, including the use of inappropriate reward systems common across the banking industry, which have been widely held to have encouraged excessive risk-taking and mis-selling of products. The HSBC rewarded employees based on their sales performance, with targets set at 110% of the national average for key result areas. Bonuses were given to the top 40% of performers, but the system was implemented with minimal changes to other HR functions. The scheme shifted the bank's culture from a service-oriented approach to a high-pressure sales environment. Unrealistic targets placed immense pressure on employees, fostering a high-stress environment that encouraged unethical behavior such as fraudulent sales and pushy selling tactics. The lack of adequate monitoring and compliance checks exacerbated these issues, leading to significant negative impacts on employee morale, customer satisfaction, and the bank's reputation. There was much criticism of the culture within banks that had allowed the situation to arise. Governments and regulators reacted to the crisis with a range of measures including even stronger regulation and a specific focus on change to reward policy and practices.

HSBC Changes: A practical step was to review its reward policies including sales incentives and stop those that could encourage mis-selling. A more holistic issue was the need to take a completely different approach centered on shifting its culture to be successful in the future in light of the new world. The core of the change in culture has been an emphasis on values. This is not to pay lip service to empty values, but to make values central to the way in which everyone in the bank behaves. HSBC expresses this as: 'At HSBC we put great emphasis on our values. We want to ensure that our employees feel empowered to do the right thing and to act with courageous integrity. By doing so we will meet the expectations of society, customers, regulators and investors.' Whilst the bank had a range of recognition programmes, there was historic confusion between what recognition was and what reward was, with little differentiation between the two.

This meant plans that were notionally considered recognition (in practice non-cash awards) were often linked to cash-based incentives and so in some cases had become part of the problem. HSBC now clearly differentiates between reward and recognition: 1. Reward is fixed pay and variable incentives rewarding performance against objectives. 2. Recognition is about saying thank you to colleagues who demonstrate outstanding behaviour, rather than cash awards. HSBC's UK Bank has three strands to its recognition framework: Shine awards, National Champions awards, and business-specific awards. Shine awards programme was launched in 2009 and has been continually refined over recent years. The emphasis of Shine awards is the message from the manager to thank people for what they have done or, more typically, how they have done it in support of one or more of the values. HSBC ensures that Shine budgets are not used for sales or productivity incentive awards. Business-specific awards aim is to 'recognize colleagues who have made a significant impact in their business area or communities, showcasing our values'. The winners will get a chance to win a free ticket to a foreign country to see the best practices implemented in multinational companies. The financial value may be greater than the Shine awards, but must still be appropriate to ensure that it remains a support to the message rather than any type of incentive. National Champions awards launched in 2012, these awards are for 'recognizing the best of the best – colleagues who live, breathe and work our values'. HSBC believes that its approach to recognition is successful. In particular, it has evidence that shows the success of the Shine awards. The bank undertakes regular employee surveys and these have found that receipt of a Shine award correlated with a higher engagement index score across the UK Bank. (Source: Rose, 2014)

- a) **Identify** the key issues with HSBC's reward system before the banking crisis of 2008 and state how these issues **contribute** to the crisis. (04 Marks)
- b) Critically **analyze** how the inadequate performance-pay system in HSBC aligns with the argument of Kohn (1993 & Davis, 1995) regarding pay incentives. (05 Marks)
- c) As a compensation expert, **recommend** five essential requirements to implement successful performance-related pay in HSBC. (05 Marks)
- d) According to HSBC, "Recognition is about saying thank you to colleagues who demonstrate outstanding behaviour, rather than cash awards". Do you agree with this definition given for recognition? **Justify** your answer. (04 Marks)
- e) McAdams (1999) has identified seven basic forms of non-monetary recognition awards. **Classify** which types or forms of non-monetary awards of McAdams were used in HSBC's recognition framework currently. (06 Marks)
- f) **Illustrate** the lessons that can be learned from HSBC's experience with its reward and recognition systems. (04 Marks)

(Total 28 Marks)

Q2.

- a) Assume that you are working as a Human Resource Executive in an apparel firm. The management has assigned you to prepare a suitable contingent pay plan for sewing machine operators. **Suggest** three types of individual performance related pays that you can include in the pay plan. (04 Marks)
- b) **Illustrate** four solid economic reasons why organizations may choose to make a “base pay”. (04 Marks)
- c) **Determine** the key steps of skill-based pay system in organizations. (05 Marks)
- d) “*Traditional practice is fixing base pay according to the job or position occupied*”. Briefly **explain**, why the management should change their traditional salary increment system. (04 Marks)
- (Total 17 Marks)**

Q3.

- a) Briefly **describe** three purposes of developing an effective performance management system in an organization and **critique** how it contributes or drive organizational success. (07 Marks)
- b) “*Trait approach in measuring performance, focuses on the performer and ignores the situation*”. Critically **comment** on the statement above and **highlight** the challenges of implementing Trait approach. (05 Marks)
- c) “*Performance is multidimensional, where many behaviours are needed to understand an employee’s performance*”. Briefly **discuss** and **differentiate** between the two main types of behaviours to advance organizational goals. (05 Marks)
- (Total 17 Marks)**

Q4.

- a) Briefly explain the following characteristics of performance appraisal forms;
- i) Adaptability
  - ii) Comprehensiveness
  - iii) Communication
  - iv) Time orientation
- (04 Marks)
- b) Imagine you are requested to support the implementation of management system in your company. **Outline** a simple model to depict, what can be discussed at the **second stage** of the performance management cycle. (06 Marks)

- c) "Paired comparison" is a type of comparative system of measuring employee behaviour".
- i) Briefly **describe** how paired comparison is contrast to the alternation rank order procedures.
  - ii) Suppose if a supervisor needs to evaluate the performance of 8 employees. **compute** the number of pairs of employees to be compared.
  - iii) **State** two limitations of comparative systems. (08 Marks)

(Total 18 Marks)

Q5.

Rathnayaka, a senior manager at ABC Marketing Agency, was responsible for evaluating the performance of his team members. He is the only person, who had the authority to provide information regarding employees' performance. During the appraisal process, the following issues were identified. Rathnayaka had a tendency to give higher ratings than were deserved because he wanted to avoid conflict and maintain good relationships with his team. As a result, even underperforming employees received favorable evaluations which demotivated high-performing employees who felt their hard work was not properly recognized. Mangalika, one of Rathnayaka's team members, had successfully led a major project earlier in the year. Because of this, Rathnayaka rated her highly in all performance areas, even though her performance had declined in other aspects over the latter part of the year. This "halo effect" meant that her strengths in one area unfairly influenced her overall rating. Another employee, Mark, had been underperforming for most of the year but managed to show significant improvement just before the appraisal period. Rathnayaka rated him based on this recent improvement, rather than considering his overall performance throughout the year. This led to a rating that did not accurately reflect Mark's overall contribution. When unsure about how to rate employees with varying performance levels, Rathnayaka often gave them average ratings to avoid making tough decisions. The HR department recognized that these rater errors were undermining the effectiveness of the performance management process. They needed to address these issues to ensure fair and accurate evaluations in the future.

- a) **Identify** four types of rater errors that are evident in Rathnayaka's appraisal process and **classify** them as "intentional or unintentional errors". (04 marks)
- b) **Examine** how these rater errors might affect employee motivation, morale, and trust in the performance management system. (04 Marks)
- c) According to the case, Rathnayaka is the only person who evaluated the performance of employees. **Discuss** how self-assessment would eliminate the issues in performance management process. (03 Marks)
- d) **Recommend** steps that ABC Marketing Agency can take to minimize rater errors in future performance appraisals. (04 Marks)
- e) **Design** a rater training programme and highlight the content/s to be focused in the programme. (05 Marks)

(Total 20 Marks)