

**Eastern University, Sri Lanka**  
**Faculty of Commerce & Management**  
**Third Year Second Semester Examination in Bachelor of Business Administration**  
**(Specialization in Human Resource Management)**  
**2015/16 (July /August 2018)**  
**(Proper/Repeat)**  
**HRM 3043 Performance Evaluation and Compensation Management**

Answer all five (5) Questions.

**Time: Three Hours**

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

**Performance Management at Network Solutions, Inc.**

Network Solutions, Inc. is a worldwide leader in hardware, software and services essential to computer networking. Until recently, Network Solutions, Inc., had over 50 different systems to measure performance within the company, many employees did not receive a review, fewer than 5 percent of all employees received the lowest category of rating, and there was no recognition programme in place to reward high achievers. Overall, it was recognized that performance problems were not being addressed, and tough pressure from competitors increased the costs of not managing human performance effectively. In addition, quality initiatives (Six Sigma) were driving change in several areas of the business, and Network Solutions decided that these initiatives should also apply to 'people quality'. Finally, Network Solutions wanted to improve its ability to meet its organizational goals, and one way of doing this would be to ensure they were linked to each employee's goals.

Given the situation described above, in 2001 Network Solutions' CEO announced he wanted to implement a forced distribution performance management system in which a set percentage of employees are classified in each of several categories (e.g., rating of 1 to the top 20 percent performers, rating of 2 to the middle 70 percent performers, and rating of 3 to the bottom 10 percent performers). A global cross-divisional HR team was put in place to design and implement the new system. The first task for the design team was to build a business case of the new system by showing that, if organizational strategy was carried down to team contributions and team contributions were translated into individual goals and then business goals would be met. Initially the programme was rolled out as a 'year round people management system that raises the bar on performance management at Network Solutions by aligning individual performance objectives with organizational goals by focusing on development of all employees'.

The desired outcomes of the new system included raising the performance level of all employees, identifying and retaining top talent, and identifying low performers and improving performance. Network Solutions also wanted the performance expectations for all employees clear.

Before rolling out the programme, the design team received the support of senior leadership. They did this by communicating that the performance management system is the future of Network Solutions, and by encouraging all senior leaders to ensure that their direct reports understand the process and also bought into it. In addition, they encouraged senior leaders actually to use the system with all of their direct reports, and to demand and utilize output from the new system. The design team encouraged the senior leaders to stop the development and use of any other performance management systems, and pushed for standardization of performance management across all divisions. Finally, they had senior leaders call attention to the new programme involving employees in training about talent management and assessing any needs in their divisions that the new system would not address.

The Network Solutions global performance management cycle consists of the following processes:

1. Goal cascading and team building
2. Performance planning
3. Development planning
4. Ongoing discussions and updates between managers and employees
5. Annual performance summary

There are training resources available on Network Solutions' intranet for managers and individual contributors, including access to all necessary forms. In addition to the training available on the intranet, 1–2-hour conference calls took place before each phase of the programme was rolled out. Part of the training associated with the performance management system revolves around the fact that the development planning phase of the system is the joint year-round responsibility of managers and employees. Managers are responsible for scheduling meetings, guiding employees on preparation for meetings, and finalizing all development plans. Individual contributors are responsible for documenting the developmental plans. Both managers and employees are responsible for preparation for the meeting, filling out the development planning preparation forms, and attending the meeting. With forced distribution systems, a set number of employees must fall into set rating classifications. As noted above, in the Network Solutions system employees are given a rating of a 1 (given to the top 20 percent of employees in the performance distribution), 2 (given to the middle 70 percent), and 3 (given to the bottom 10 percent).



employees in the performance distribution), or 3 (given to the bottom 10 percent of employees in the performance distribution). Individual ratings are determined by the execution of annual objectives and job requirements as well as a comparison rating of others at a similar level at Network Solutions. Employees receiving a 3, the lowest rating, have a specified time period to improve their performance. If their performance does improve then they are released from the plan, but they are not eligible for stock options or salary increases. If performance does not improve, they can take a severance package and leave the company, or they can start on a performance improvement plan that has more rigorous expectations and timelines than the original action plan. If performance does not improve after the second period, their employment is terminated without a severance package. Individuals with a rating of 2, receive average to high salary increases, stock options and bonuses. Individuals receiving the highest rating of 1, receive the highest salary increases, stock options and bonuses. These individuals are also treated as 'high potential' employees and given extra development opportunities by their managers. The company also makes significant efforts to retain all individuals receiving this rating.

Going forward, there is a plan to continue reinforcing the needed cultural change to support forced distribution ratings. HR centers of expertise continue to educate employees on the system to ensure that they understand that Network Solutions still rewards good performance; they are just measuring it differently. There is also a plan to monitor for and correct any unproductive practices and implement correcting policies and practices. To do this, they plan on continued checks with all stakeholders to ensure that the performance management system is serving its intended purpose.

### Case Study Questions

- a) Identify the **problems related to current Performance Appraisal System** in the above case study. (04 Marks)
- b) What are the **features** of the system implemented at Network Solutions? (04 Marks)
- c) Based on the description of the system at Network Solutions, what do you anticipate will be **some advantages and positive outcomes** resulting from the implementation of the system? (06 Marks)
- d) Based on the description of the system at Network Solutions, what do you anticipate will be **some disadvantages and negative outcomes** resulting from the implementation of the system? (06 Marks)

(Total 20 Marks)

- Q2. a) Define the terms of “**Performance Management**” and “**Performance Appraisal**”. And are the **objectives of conducting annual or periodical Performance Appraisal** of the workforce in an organization? (05)
- b) How does **Performance Management integrate with other Human Resource Functions** in an organization (specifically focused on Training, Workforce Planning and Recruitment Hiring decisions)? (03)
- c) “The appropriateness of a system of Performance Appraisal depends on the characteristics of the organization and the HRM system adopted by the employer”. **Do you agree or not?** (04)
- d) Jon Hindman (Workforce Magazine, September, 2008) argues that “Total Compensation can be used as a recruiting tool”. **Discuss.** (05)

(Total 17)

- Q3. a) What is the difference between **Wages and Compensation**? List and define the **internal and external factors** that can be influenced to design a Compensation System in any organization? (05)
- b) What are the **advantages of implementing good Performance Appraisal System** at organization level? How can **Performance Appraisal System** be aligned with the **Strategic HRM Planning** of an organization? (06)
- c) What do you mean by **Job based pay, Skills based pay and Competency based pay**? How does an organization **align** the Compensation strategy with its HR strategy and Business strategy? (06)
- d) Compensation and Reward decisions are likely to be arbitrary in the absence of a **Performance Management System**. **Do you agree or not? Why?** (05)

(Total 22)

- Q4. a) Define the term “**Internal Alignment**” and Briefly describe the **potential outcomes** of well designing the internal alignment of pay structure in modern organization. (05 Marks)
- b) “Employees want to be paid, but money is not the only factor that is important when designing Reward Systems”. **Discuss with suitable examples.** (05 Marks)
- c) What is **External Competitiveness**? And list out the **factors** that can be shaped to determine the external competitiveness of the **pay structure** in the Sri Lankan Banking Industry. (06 Marks)
- d) What is the relationship between **External Pay Policies** and **Compensation Objectives**? And how do **Pay Policy** and **Compensation Objective** help to achieve the competitive advantages of an organization? (06 Marks)
- (Total 22 Marks)**

- Q5. a) Contemporary organizations are using modern techniques to measure performance of the employees and organizations. Briefly describe **Management By Objectives (MBO)** and **Assessment Centre** that would be used to measure the performance of employees in an organization. (04 Marks)
- b) Briefly explain **two main approaches** that would be used to appraise the performance of the employees in an organization. (04 Marks)
- c) Briefly explain the **process** of building market competitive Compensation System for the Insurance Companies in Sri Lanka. (06 Marks)
- d) **Who will be involved** in the Performance Appraisal Process? What is **the role of Human Resource Department** in developing and implementing Performance Appraisal System at the organizational level? (05 Marks)
- (Total 19 Marks)**