

EASTERN UNIVERSITY, SRI LANKA  
Faculty of Commerce and Management



Third Year/Second Semester Examination in BBA - Specialization in HRM - 2008/2009  
(June 2010)

HRM 3223 Performance Evaluation and Compensation Management

Answer all five questions

Time: 03 Hours

**Q1. Case Study: Chaos at ABC Company**

ABC was the country's first telecommunications company and is the successor to the former government owned Telecommunications Department. It leads the telecommunication industry with 85 per cent of the fixed line network. In 1996 ABC was incorporated as a public limited liability company and in 1997 NNN Communications Ltd. invested USD 225 million to take a 35 per cent stake in ABC.

ABC PLC is one of the country's most valuable blue chip companies with an annual turnover in excess of Rs. 40 billion. The company has also been awarded an AAA (Sri) rating by Fitch Ratings Lanka followed by a BB-international rating by Standard and Poor's reflecting its robust financial image.

In 2006, a salary appraisal at ABC, conducted by the management consultancy firm Ernst & Young that had covered three non-executive employee levels such as the minor staff, technical staff, and clerical staff. Regarding that appraisal, ABC employees say that their suggestions were not included in that assessment, further employees revealed that they did not have clear understanding about the outcome and the proposed remedial measures suggested by the consultancy firm to the ABC management. Due to that, employees of ABC blame that the management has misled them, that an assessment conducted in 2006 on salary anomalies has been a sham. That salary appraisal did not give any remedies for their salary anomalies when compare with increasing cost of living.

ABC employee unions say that the management has kept the appraisal report out of their reach. Unions had a view that this assessment not give lasting solutions to their problems and that a deterioration of ABC cannot be avoided under the present namesake management.

Workers are not satisfied regarding their pay management. Especially in the perspective of non-executive employees they demand pay increases through their HR division to the management. But management did not consider their request or did not approach their pay related problems in a genuine manner. Regarding non-executive employees pay management problem, whenever they make a request to increase the salary (due to increasing cost of living) the HR division and management passing the ball here and there but were not

approach their problems genuinely. Among the non-executive employees, have a feeling that there is a huge pay difference or salary difference between non-executive employees and executive employees. There is no transparency regarding their pay management. ABC's management is maintaining a secret/undisclosed salary system. In Sri Lanka, especially day by day price levels are increasing, as a result of that cost of living also increasing but management did not listen to the non-executive employees' salary anomalies.

Non-executive employees express their dissatisfaction regarding pay management several times to the company's management in democratic ways. But management does not listen to the employees or unions requests or demands. Even though employees had salary problems, they did not have intention to organize a strike against management.

But a critical incident happened in Kandy ABC office that was an immediate cause for a labour union action (strike) at ABC. One of the employee union representatives of Kandy region was hit by an ABC manager, that confrontation had induced the workers to start strike at ABC immediately.

As a result of that incident and other contradictions with management, employees did not have any other alternatives to solve their problems except call for a strike. So that, due to that immediate cause and other accumulated problems employees are compelled to call for a strike and involved in strike in order to solve their pay related problems and salary anomalies. But due to various interferences, the efforts of employees were not successful.

Apart for the above aspect, most of the employees believe that the current PE system of ABC did not meet the employees' expectation in terms of criteria, policy, method, transparency, accuracy, reliability, and feedback. In other words the current PE system of ABC has so many weaknesses for a long time without any single improvement in measuring performance of employees. Employees have a feeling that the existing PE system criteria and objective does not link with their job tasks and duties. Implementation bias also a severe virus is continually attracting real performance of good and bad employees' performance at ABC. There is no transparency regarding employees' performance evaluation.

According to the existing PE system employees are treated differently. PE policy also biased because non-executive employees performance evaluation conducted semi-annually at the same time executive employees performance evaluation is conducted every month. So that when compare with non-executive employees, executive employees have higher chance or possibility to get more advantages and benefits due this PE policy.

Due to this different approach, non-executive employees feel that they are treated badly. Because to maximize their performance based benefits they only get two chances per year but

executive employees have 12 chances per year. There is a good example indicates that, there is no uniformity in their PE policy in terms of frequency of performance evaluation and distribution of benefits among the employees.

In general, among the employees most of them have an opinion that the current PE system does not match with the organization goals and objectives. That means the current PE system objectives are not align with organization mission and vision. Practically, employees feel that there are implementation bias and no participation of individual employee regarding his/her performance evaluation.

Other important issue is there is no transparency (black box) in the existing performance evaluation system at ABC induces to think among the workers about reliability of the PE system at ABC. Due to these main weaknesses of PE system again adding points to employees' problem further especially among the non-executive employees of ABC.

Even though, the ABC has a continuous process of recognition integrated deep into its culture and work processes, an enhanced performance management system did not introduce to align employees with company goals and objectives, to monitor the performance of the employees and to provide feedback and their development opportunities. To enhance the effectiveness of the performance appraisal scheme, current methods are not being customized to the needs of the jobs. As the results of this appraisal system real employees' performance are not match with their career progression plans. Ultimately the above situation adversely affects the overall business performance of ABC and also reasons for many chaos in its day to day operation.

#### Questions:

1. Identify the major chaos at ABC from the above information. (05 Marks)
2. Describe the current role and effectiveness of Human Resource Management Division of ABC in managing employee performance and reward system to achieve its business performance. (06 Marks)
3. Can ABC work well in the Sri Lankan competitive telecommunication business industry in the long run with the existing PE and RM practices? Explain. (06 Marks)
4. Diagrammatically illustrate the consequences of pay dissatisfaction at ABC Company. (05 Marks)
5. Suggest viable and appropriate HR solutions to solve the major issues/problems you identified in this case study. (06 Marks)

(Total 28 Marks)

**Q2.**

(a) Define the term "Performance Evaluation Criteria" and list out important characteristics of a good performance evaluation criterion.

**(05 Marks)**

(b) Describe six best ways for managers to do employee performance appraisals in a more effective manner in an organisation?

**(04 Marks)**

(c) Assume that you are a newly appointed HR manager of ZYZ Company. The big challenge in front of you is: how to improve employees' job performance in the company. At the same time the ZYZ Company has a formal Performance Evaluation System. The top management of ZYZ expects from you a report about the satisfaction of existing Performance Evaluation System. What aspects you must consider in preparing a report about the existing Performance Evaluation System Satisfaction at ZYZ Company?

**(09 Marks)**

**Q3.**

(a) Explain how the following characteristics of evaluator/rater influence the performance evaluation/performance rating of an evaluatee/ratee.

- Personal characteristics of evaluator/rater
- Type of rater
- Evaluator/rater knowledge of ratee and job

**(10 Marks)**

(b) Discuss the following issues of Performance Evaluation System in an organisation.

- Why an organization must have a legally defensible performance appraisal system.
- Ethics of Performance Evaluation

**(08 Marks)**

**Q4.**

(a) Briefly describe about three (3) types of organisational justices and also explain how these justices are related to the reward or compensation management system of an organisation.

**(10 Marks)**

(b) Describe the pros and cons of 'pay for performance' and also explain in which context it is most appropriate.

**(08 Marks)**

Q5.

(a) In a highly competitive industry (like commercial banking industry in Sri Lanka), explain, how organizations (banks) are managing their reward system in a more effective manner.

(06 Marks)

(b) Elaborate the characteristics of an effective reward or compensation system in general.

(06 Marks)

(c) Describe the relationship among the following compensation related system components by using a framework.

- Compensation goals
- Compensation strategy
- Compensations system design concepts
- Consideration and activities
- Compensation decisions
- Organizational strategy and
- Other constraints

(06 Marks)