

EASTERN UNIVERSITY, SRI LANKA
Faculty of Commerce and Management
Third Year 2nd Semester Examination in Bachelor of Business
Administration (Specialization in HRM) 2009/2010 (Jan/Feb-2012)
HRM 3043 Performance Evaluation and Compensation Management

Answer all five (5) questions

Time: 03 hours

Q1. Case Study: New Performance Appraisal System at ABC

The ABC Company is a city-based garment manufacturer in Sri Lanka. When Jabbour established the company in 2005, he was keenly aware of the importance of a highly motivated workforce, and how the company's success, in fact, depended on it. Therefore, Jabbour had to ensure that each employee would work as diligently as possible for the good of the organisation. Jabbour realized that the best way to motivate employees would be to link the company's reward and performance evaluation system to its goals. To establish this connection, Jabbour developed and implemented a comprehensive incentive system. Its aim was to improve the company's overall performance by allowing contributing workers to share in the proceeds. The plan rewards employees for turning out quality products efficiently while controlling costs. The system includes the following components: Paying by the piece rate: Production workers are paid according to the number of "pieces" or product units they produce that are not defective. To reward workers further for their efforts, Jabbour introduced a year-end bonus system that gives all workers an opportunity to nearly double their base wages. Workers get the bonus if the company's annual profit increases. Providing stock options: Jabbour also provided his employees with the option of buying company's stock at a low cost. Employees are also given shares of the company's stock based on annual profits.

In the mid-2010s ABC Company was faced with a problem-its performance appraisal system was not working. Rather than motivating the employees, its system was leaving them discouraged and dissatisfied. ABC recognized this problem and developed a new system to eliminate it.

Old Performance Appraisal System

The original system used by ABC encompassed seven main principles:



1. The appraisal occurred once a year.
2. It required employees to document their accomplishments.
3. The manager would assess these accomplishments in writing and assign numerical ratings.
4. The appraisal included a summary written appraisal and a rating from 1 (unsatisfactory) to 5 (exceptional).
5. The ratings were on a forced distribution, controlled at the 3 level or below.
6. Merit increases were tied to the summary rating level.
7. Merit increase information and performance appraisals occurred in one session.

This system resulted in inequitable ratings and was cited by employees as a major source of dissatisfaction. In fact, in 2011, the Business Group (BG), ABC's main division, reported that 95 percent of its employees received either a 3 or 4 on their appraisal. Merit raises for people in these two groups only varied by 1 to 2 percent. Essentially, across-the-board raises were being given to all employees, regardless of performance.

New Performance Appraisal System

Rather than attempting to fix the old appraisal system, ABC formed a task force to create a new system from scratch. The task force itself was made up of senior human resources executives; however, members of the task force also consulted with councils of employees and a council of middle managers. Together they created a new system which differed from the old one in many key respects:

1. The absence of a numerical rating system.
2. The presence of a half-year feedback session.
3. The provision for development planning.
4. Prohibition in the appraisal guidelines of the use of subjective assessments of performance.

The new system has three stages, as opposed to the one-step process of the old system. These stages are spread out over the course of the year. The first stage occurs at the beginning of the year when the manager meets with each employee. Together, they work out a written agreement on the employee's goals, objectives, plans, and tasks for

the year. Standards of satisfactory performance are explicitly spelled out in measurable, attainable, and specific terms.

The second stage is a mid-year, mandatory feedback and discussion session between the manager and the employee. Progress toward objectives and performance strengths and weaknesses are discussed, as well as possible means for improving performance in the latter half of the year. Both the manager and the employee sign an “objectives sheet” indicating that the meeting took place.

The third stage in the appraisal process is the formal performance review, which takes place at year’s end. Both the manager and the employee prepare a written document, stating how well the employee met the preset performance targets. They then meet and discuss the performance of the employee, resolving any discrepancies between the perceptions of the manager and the employee. This meeting emphasizes feedback and improvement. Efforts are made to stress the positive aspects of the employee’s performance as well as the negative. This stage also includes a developmental planning session in which training, education, or development experiences that can help the employee are discussed. The merit increase discussion takes place in a separate meeting from the performance appraisal, usually a month or two later. The discussion usually centers on the specific reasons for the merit raise amount, such as performance, relationship with peers, and position in salary range. This allows the employee to better see the reasons behind the salary increase amount, as opposed to the summary rank, which tells the employee very little.

A follow-up survey was conducted the year after the implementation of the new appraisal system. Results were as follows:

- 81 percent better understood work group objectives
- 84 percent considered the new appraisal fair
- 72 percent said they understood how their merit raise was determined
- 70 percent met their personal and work objectives
- 77 percent considered the system a step in the right direction



In conclusion, it can be clearly seen that the new system is a vast improvement over the previous one. Despite the fact that some of the philosophies, such as the use of self-appraisals, run counter to conventional management practices, the results speak for themselves.

Questions:

- (a) What type of performance appraisal is central to new system at ABC? (05 Marks)
- (b) Given the emphasis on employee development, what implications does this have for hiring and promotions? (07 Marks)
- (c) How do you think, management feels about the new performance appraisal system? Why? (09 Marks)
- (d) Are there any potential negative aspects of the new performance appraisal system? Briefly explain these aspects. (07 Marks)
- (Total 28 Marks)

Q2.

- (a) "The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organization". Discuss the other objectives of compensation management. (07 Marks)
- (b) Briefly describe at least three past oriented and two future oriented performance appraisal methods. (06 Marks)
- (c) In order to achieve the objectives of compensation management, it should be proceeded as a process. Describe the pay management process. (05 Marks)
- (Total 18 Marks)

Q3.

(a) Explain the difference between 'task performance' and 'contextual performance'. What benefits may arise to an organisation from an employee's contextual performance?

(10 Marks)

(b) "Extrinsic rewards create movement not motivation." Discuss.

(08 Marks)

(Total 18 Marks)

Q4.

(a) Identify and explain the causes of wage differences within and among organisations.

(05 Marks)

(b) Explain with examples the role of reward in changing employee behaviours in an organisation.

(07 Marks)

(c) List out the steps which are needed to evaluate job performance of an employee by his or her supervisor/manager in an organisation.

(06 Marks)

(Total 18 Marks)

Q5.

(a) 'Some companies are giving more career development opportunities to their employees rather than paying at a higher level.' Describe the consequences of this practice from different view points.

(07 Marks)

(b) What kinds of understandings a person can develop about the performance evaluation system of an organization by analyzing performance evaluation forms of that system?

(05 Marks)

(c) Assume that you have been appointed as a graduate HR Management Trainee in a Telecommunication company, the HR manager of that company requested you to study the satisfaction of current reward system of the company.

What are the aspects/factors you would consider when you study the satisfaction of the current reward system of the company? Explain.

(06 Marks)

(Total 18 Marks)

