

Module 6

Rewarding Employees

Overview

In this module, you will learn ways to reward employee which are related to the implementation of a sound policy of compensation based on performance appraisals. Specifically, this module deals with rewarding employees through performance appraisal, compensation and job evaluation. Employee compensation refers to all forms of pay or reward to employees. A compensation plan must be support the company's strategic goal. You will learn the reason and importance of performance appraisal in an organisation. You will be introduced to various methods of payments and benefits that HRM usually would be carry in every organisation.

Upon completion of this module you will be able to:



Outcomes

- *describe* the basic concepts of performance appraisal, the role they play in management and how they are carried out.
- *discuss* the concepts, roles and methods of job evaluation.
- *explain* how performance appraisals are carried out.
- *describe* the concepts and principles of compensation and employee benefits.

Terminology



Terminology

Appraisal interview:	An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies.
Appraisee:	Employee who are being appraise in the appraisal interview
Appraiser:	Usually is the supervisor of the appraise, or someone who conduct/give the appraisal interview
Behaviourally Anchored Rating Scale (BARS):	An appraisal method that combines the benefits of narrative critical incidents and quantifies ratings by anchoring a quantified scale with specific narrative examples of good and poor.

Benefits:	Indirect financial and non-financial payments that employee receive from their company
Bias:	The tendency to allow individual differences such as age, race and sex to affect the appraisal ratings employee receive.
Compensation:	Compensation is the monetary reward paid by an enterprise for the work done by an employee.
Competencies:	Demonstrable characteristics of a person such as knowledge or skills
Graphic rating scales:	A scale that lists a number of traits and a range of performance for each trait. The employees are then rated by identifying the score that best describes their level of performance for each trait.
Performance appraisal:	Evaluating employees' current and a past performance relative to their performance standards.
Performance management:	The process employers use to make sure employees are working toward organisational goals.
Promotion:	Advancement to a position of increased responsibility (or pay scale).

Basic concepts of performance appraisal

Although the terms “performance evaluation” and “performance appraisal” are interchangeable, only the latter term will be used in this course so as to minimise potential confusion throughout the text. Performance appraisal can be defined as a formal and structured system by which management measures, evaluates and assesses an employee’s job-related attributes, behaviours and outcomes. It is undertaken to discover how productive the employee is and whether the employee can continue to perform in future to help achieve the organisation’s goals. It constitutes an essential part of the human resource management process and is a factor in determining the crucially important dimensions of employee and organisation effectiveness for success. As the following diagram illustrates, it occupies an important subroutine function within the human resource management function of an organisation. As indicated in the diagram, performance appraisal can be linked to the career planning and development of the employee.

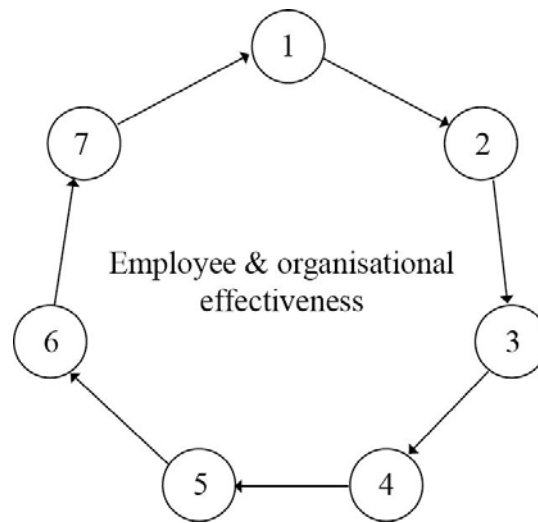


Figure 6.1 Performance appraisal

Key

1. Personnel planning and forecasting
2. Employee recruitment and selection
3. Employee training and development
4. Performance appraisal as well as career planning and development
5. Compensation and employee benefits
6. Promotion, transfer and separation
7. Labour relations

Employee and organisational effectiveness

When you examine the above diagram carefully, you will note that the whole process is central to the organisational effectiveness as well as personal effectiveness. HR departments start with personnel planning and forecasting. The previous module discussed this aspect under HR planning. Once the requirements are determined, then recruitment and selection is done (as discussed in Module 4) and the personnel thus acquired need to be oriented, trained and developed. When a new employee works, there needs to be an appraisal of his/her work periodically.

The reasons for and the importance of performance appraisal

As an individual whose work performance may have been appraised in a formal process, you may not be conscious of one of the features of this organisational activity. The feature is somewhat abstract but worthy of note. It is that only a minority of activities in HRM – selection, appraisal,

and grievance resolution or discipline – are concerned with appraising or evaluating employees as individuals. In all other cases, the focus of attention is on jobs, structures, procedures or people as groups and not on individuals per se.

For example, job evaluation focuses on jobs and not job holders. Job design and organisation development focuses on job/task structures. Wage and salary administration focus on procedures. HR planning and collective bargaining focuses on people as groups.

As Cole (1991) argues, appraisal or evaluation of an employee's performance in terms of his/her job performance is a serious activity requiring the quality of managerial judgement that places considerable responsibility on the managers involved. As you have observed in the diagram above, compensation, further development and promotion depend on how managers evaluate an employee's performance. As Cole very aptly says, "it is a task that is delicate as well as complex".

According to Cole (1991), there are several reasons why appraisals are carried out in organisations. These may be summarised as follows:

- To identify an individual's current level of job performance.
- To identify employee strengths and weaknesses.
- To enable employees to improve their performance.
- To provide a basis for rewarding employees in relation to their contribution to organisation goals.
- To motivate individuals.
- To identify training and development needs.
- To identify potential performance.
- To provide information for succession planning.

The most likely reason for the adoption of appraisal of employees is to draw attention to present performance in the job in order to (1) reward people fairly, and (2) identify those with potential for promotion or transfer.

Today, performance appraisals throughout the world play an integral part in making various critical decisions in the management of human resources. The order of importance among these uses from the most important to the least important is as follows:

1. Salary administration
2. Performance feedback
3. Identifying individual strengths and weaknesses
4. Documenting personnel decisions
5. Recognising individual performance
6. Identifying poor performance



7. Assisting in goal identification
8. Making promotional decisions
9. Retention or termination of personnel
10. Evaluating goal achievements

You have seen the various reasons why performance appraisal is so important in the HR/personnel function of organisations and some forms of prioritising on the uses of appraisal of person's performance. This is not all. One of the key areas why performance appraisal is so diligently carried out by managers concerns the productivity of people in jobs. Let us in the next section explore some concepts as well as practical approaches on productivity and their reliance on performance appraisal.

Performance appraisal and productivity

Productivity experts recommend that people work smarter and not harder. While education and appropriate training are required to do this, it is crucial to note that the relevant process does not end with training. When training ends, performance begins and merges with performance appraisal to support productivity increase.

Hence, today's employees in modern organisations need instructive performance appraisal leading to supportive feedback that links to desired rewards for the desired behaviour (behaviour that engages acquired knowledge to improve productivity). It can thus be seen that the performance appraisal process (when construed instructively) can channel an employee's efforts into strong job performance with sustainable growth of productivity. Similarly, the opposite is also true. Weak and uncoordinated performance appraisals linking to equally weak feedback and reward systems can surely lead to poor results. Here lies the crux of the matter: human effort in the final analysis must be managed and nurtured well for superior performance.

Figure 6.2 illustrates this intimate link between effort, performance appraisal and job productivity.

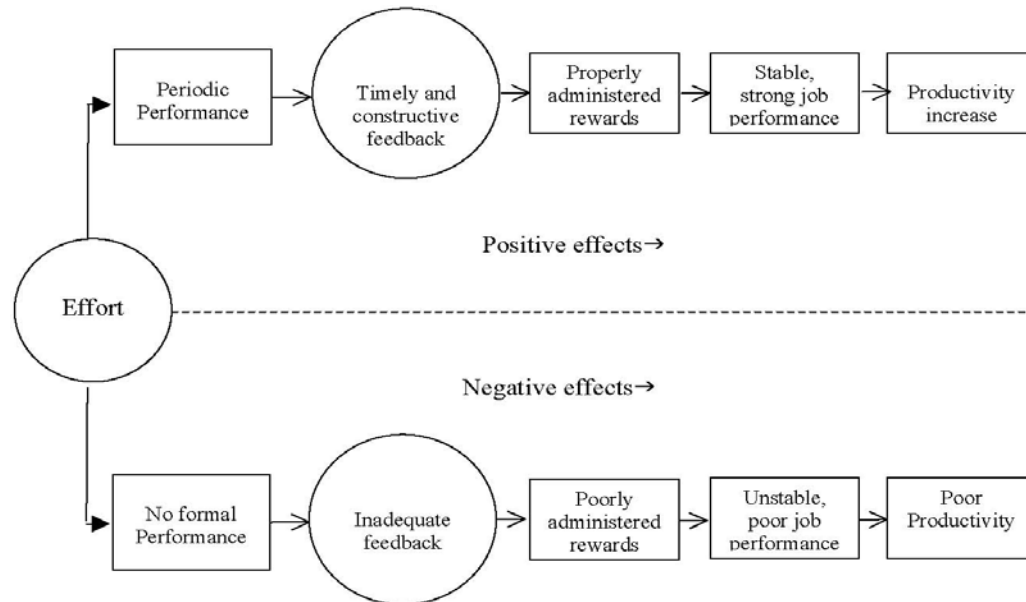


Figure 6.2 Effort, Performance Appraisal and Job Productivity

If you examine the above diagram, you will notice that performance appraisal needs to be done periodically and feedback should be made available immediately to the employee. It has to be timely and constructive. In other words, comments by a manager or a supervisor about an employee's job performance needs to be available to the employee as early as possible and should also point to a direction where the employee is able to correct any wrong job behaviour so that his/her performance will be according to the expected outcomes in the job description.

As you will have noted, the whole process of performance appraisal involves key elements. The next section helps you closely examine what these are so that you can fully comprehend the complexity of (and the potential for improvement in) any appraisal you must do in your organisation.

The process and the components of performance appraisal

The performance appraisal process can be broken down into four elements – the appraiser, the appraisee, the appraisal method and the outcomes. Figure 6.3 explains the process graphically.

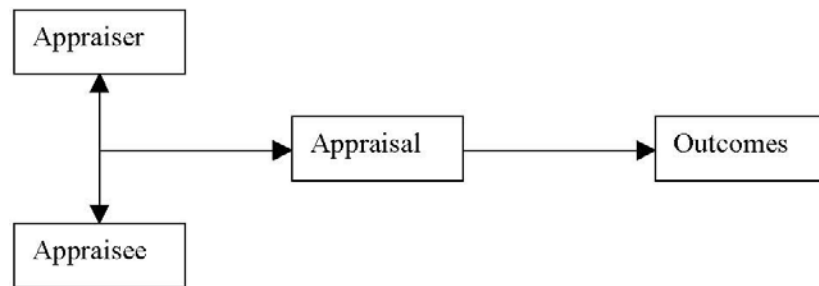


Figure 6.3 Performance Appraisal Process

The appraiser

The appraiser is a key element in the process but managers generally dislike playing the role of appraiser of their employees. In most situations, the immediate supervisor or his/her senior conducts this task. Research by U.S. companies indicates that many dislike it and try to avoid it. The problem arises due to complexity and difficulty of the process the diagram above depicts in very simple terms. The essence of the complexity lies in the fact that appraisal involves a human being observing and judging the performance of another. The purpose is to be completely objective and neutral as an appraiser – devoid of personal considerations whatsoever. Yet, charges of bias and perceptual distortion (based on race, gender, age and such) are often levelled at appraisers. Common perceptual errors such as the halo effect, leniency, central tendency, recency and contrast are tractable to the human factor involved here.

Experts on the subject have specified four important criteria that must be satisfied for a person to become a performance appraiser (Kreitner & Kinicki, 1992, p. 478):

- Able and willing to observe the behaviour and performance of the appraisee at work.
- Knowledgeable about the dimensions and/or features of performance.
- Understand the instrument used, its format and the scale.
- Possess the motivation to conduct a performance appraisal conscientiously.

The appraisee

In the appraisal process, the appraisee (the subject) usually plays a passive role when the appraiser is observing his/her performance. Therefore, the appraisee may find it a demeaning and potentially threatening experience unless he/she is properly prepared to understand the process. Some experts suggest that the appraisee needs to play the role of analyser, influencer, planner and protégé in the process, to achieve a sort of equality with the appraiser (Kreitner & Kinicki, 1992).

The basic goal of this proactive role for the appraisee is to link performance appraisal and career development as well as to achieve a mutually beneficial development programme. Proactive appraisee roles include the following:

1. Analyser	<ul style="list-style-type: none"> • Performs self-assessment of goal achievement. • Identifies performance strengths and weaknesses. • Makes suggestions for performance improvement. • Takes personal responsibility for solving performance problems.
2. Influencer	<ul style="list-style-type: none"> • Improves communication skills (e.g., negotiating, advocating, providing information, advising, soliciting feedback and listening). • Strives for collaborative relationship with the boss.
3. Planner	<ul style="list-style-type: none"> • Develops a clear vision of why his/her job exists. • Identifies the quality of service goals relative to customers/clients. • Understands what his/her job contributes (or does not contribute) to the organisation.
4. Protégé	<ul style="list-style-type: none"> • Learns from high-performing roles without compromising uniqueness. • Learns through initiative rather than by waiting for instruction from others.

Table 6.1 Appraisee roles

Source: (Jacobson & Kaye, 1986, pp. 26-32)

Having discussed the appraiser and the appraisee, you can now turn to the appraisal method which needs elaboration. Over the years, various methods have evolved and been tried out, sometimes producing controversy. Once you have spent a few minutes on Assignment question 6.3 at the end of this module, proceed to the explanations of the following three principal approaches: (1) trait approach, (2) behavioural approach, and (3) results approach.

Trait approach

As the term implies, this approach involves rating the individual employee's personal traits or characteristics such as initiative, decisiveness and dependability. Though used commonly by management, this approach is considered to be the weakest. This basically arises from the fact that these traits are ambiguous relative to the actual job performance and the needed improvement. Appraising someone as having low initiative does not say anything precise about how that person can improve. Also, this can trigger a defensive reaction on the part of the employee being appraised.

Behavioural approach

This approach points directly to the person's actual work behaviour rather than a trait in his/her personality. For example, it can be focused to seek



information as to whether the employee works alone on all projects, on most projects or about half the projects. Similarly, find out whether he/she teams up with others on major projects or works alone on all major projects. When these behavioural patterns are coupled with performance rating, appraisal is enhanced.

Results approach

This approach focuses on the product or the outcome of one's effort. It seeks to identify and evaluate what has been accomplished by an employee subject to appraisal. Management by objectives (MBO) is usually regarded as the most appropriate format to using the results approach.

Performance appraisal is undertaken to serve a variety of management purposes. The controversy regarding which approach is best can only be resolved when you consider the reasons for doing the appraisals. Hence, the contingency approach has an overarching consideration here. Table 6.2 presents appraisal methods from the perspective of the management purposes they serve.

Management purpose or functions	Appraisal methods	Strengths and weaknesses
Promotion decisions	Trait	Appropriate when competing appraisees have <i>dissimilar</i> jobs.
	Behavioural	Appropriate when competing appraisees have <i>similar</i> jobs.
	Results	Same as above.
Development decisions	Trait	Tend to cause defensiveness among low-esteem employees.
	Behavioural	Pinpoints specific performance improvement needs.
	Results	Identifies deficient results and not why.
Pay decisions	Trait	Weak performance–reward linkage.
	Behavioural	Enhances performance reward linkage.
	Results	Same as above.
Layoff decision	Trait	Inappropriate, potentially discriminatory.
	Behavioural	Weighted combination of behavioural, result plus seniority is recommended.
	Results	Same as above.

Table 6.2 Contingency Approach to Appraisal Methods

Source: (Wesley & Klimoski, 1984, pp. 35-79)

The above tabulation indicates clear strengths of the behavioural approach. However, much depends on the nature of the role and the character of the appraisee. For roles in which the nature of the role is less prescribed and yet has a significant effect on outcomes, the results-based approach may be favoured. This is often the case with management roles

for which many organisations favour the results-based model of MBO. Performance appraisals are employed by management to inform human resource development decisions and productivity. It is therefore crucial that performance appraisals be effectively conducted so as to provide instructive information.

Formal evaluation

The main purpose of appraisal is to help staff improve their performance. To that end, it is imperative that credibility is built into appraisal system, thereby maintaining employee goodwill. Therefore, it is necessary to develop a formal procedure that is clearly understood by all employees. There should be an appeal procedure should disagreement and misunderstanding occur in the course of implementation. This appeal procedure must provide for staff to be assisted by a trade union or staff representative (if requested).

As an appraisal system can be used to measure performance, behaviour and attitude, the actual method used can be a combination of both quantitative measures such as rating scales and qualitative measures involving unstructured and narrative reports on specific factors or overall levels of behaviour and work performance.

Methods of performance appraisal

The efficacy of the performance appraisal system as a whole in human resource management is dependent on the right choice being made as to methodology. Many tools and techniques are employed in the appraisal process. Let us focus on some of the key ones to understand their relative merits.

Written essays

These are written narrative describing an employee's strengths, weaknesses, past performance, future potential and suggestions for improvement. Although this is a simple method, it requires a great deal of writing ability and the use of objective language on the part of the appraiser. Therefore, what can be considered a good or poor appraisal is dependent not only upon the employee's actual level of performance but also upon the appraiser's writing skills.

Therefore, this method is not generally suitable for most organisations except for professional organisations where there are generally accepted terms and vocabularies that are considered to be objective and expressive.

Critical incidents

In this method, the appraiser focuses attention on those key factors within the whole array of factors in the appraisee's behaviour that renders the performance effective or ineffective.

The appraiser observes the actual behaviour of the employee and notes the key factors that lead to effective outcomes. The entire focus is on critical factors which are observable, specific behaviours and not vaguely



understood personality traits. When performance appraisal is conducted properly, the appraiser records and interprets a list of critical incidents that can inform the appraisee of behaviour that most significantly affects outcomes. The employee can then focus on such behaviour to ensure results that are acceptable or expected. You should note that this method places demands on the competency and objectivity of the appraiser in identifying, noting and relying on a regular basis those activities that determine the employee's effectiveness.

Graphic rating scales (GRS)

This is an old method of performance appraisal used by managers. Under this method, a set of performance standard criteria is developed. These standards are usually related to such factors as quantity and quality of work, the extent of knowledge related to job tasks, attendance, initiative, honesty and loyalty. Once these criteria are determined, we decide on the scale to be used for evaluating each criterion established. Typically, five scale points are used for evaluation. For example, the required job knowledge might be rated from Level 1 (being equated to poorly informed about work duties) to Level 5 (equated to complete mastery of all job tasks and duties).

Though graphic rating scales are easy to administer, they do not provide the depth of information that essays or critical incidents do. Nonetheless, one important advantage is that GRS allows quantification and easy analysis for comparison.

Behaviourally anchored rating scales (BARS)

This combines both the critical incident and GRS methods. Under this method, the appraiser rates the employee based on predetermined items on a continuum scale and the points scored measures actual behaviour rather than traits or general employee characteristics. Thus, BARS is designed to assess definite, observable and measurable job-related behaviour.

The BARS technique is well recognised for its objectivity and for reducing common sources of appraiser errors such as generalising an overall impression about the employee onto all the factors being assessed (the halo effect), the leniency factor and central tendency. However, three types of problems are commonly associated with BARS. Firstly, initial anchors (i.e., the baselines for measurement) are difficult to specify and apply objectively. Secondly, each scale is developed for a specific behaviour and cannot be commonly applied to other situations. Thirdly, development of the BARS technique is costly and time-consuming. Thus, many organisations may not be in a position to afford this method.

Individual ranking, paired comparisons and group order ranking

Irrespective of the techniques used to appraise performance, organisations often then rank their employees. There are three common approaches to ranking: (1) individual ranking (2) paired comparisons, and (3) group order ranking.

1. Under the **individual ranking approach**, individual employees are ranked from the level of best to the level of worst. The result is the rank ordering of employees in a particular category from the highest performer to the lowest one. The problem with such ordering is that, while it shows who is better than whom, it gives no absolute measure of performance or the degrees by which any individual is better or worse than another.
2. Under **paired comparisons**, each employee is compared with another, and one is considered as superior or weaker of the pair. When all paired comparisons are completed, each employee is assigned a summary ranking based on the number of superior scores achieved. This approach ensures that each employee is compared against each other. However, this comparison system can easily become unwieldy if the number of employees is large.
3. **Group order ranking** is the method by which the employees are categorised after evaluation into groups such as the top 5%, the next 15 per cent and so on. This takes away the need to rank order each and every individual. Instead, employees are ranked into groupings like the top 5 per cent or such. When the number of employees is small, these groupings become rather meaningless.

Group order ratings by a combination of approaches: 360-degree feedback

A survey of Fortune 500 companies showed that only about 10 per cent of employees were satisfied with their organisation's performance appraisal methods (Vinson, 1996). According to Ivancevich (1998), it is therefore not surprising that organisations are experimenting with alternatives to the traditional "supervisor only" downward appraisal. One system of appraising performance that appears to be growing in popularity is the 360-degree feedback system. As the name implies, this method uses multiple appraisers that include supervisors, subordinates and peers of the target person. In some cases, it also includes self-appraisals. The appraisal is 360-degree feedback in that information is collected and feedback is provided in full circular fashion – top to bottom and back to the top.

Many organisations now utilise some form of 360-degree feedback programmes. The programme at British Aerospace is typical (Ivancevich, 1998, p. 271). The upward portion of the feedback programme involves an anonymous system whereby team members provide information about their supervisors by using a questionnaire. Then, these results are collated so that a report can be prepared for the manager. Anonymity is generally considered important except in an environment where there is an exceptionally high degree of trust.

Ivancevich (1998) further argues that research does suggest that including upward and peer feedback in an appraisal can have positive effects on managers' behaviour. Further, he argues that these effects seem to be sustainable over time. Thus, there appears to be a future for 360-degree feedback. These programmes were originally believed to be useful to develop feedback. At the same time, increasingly more companies seem

to be using it for helping with personnel decisions such as merit pay increases and promotions. However, some authors have pointed out that improper attempts to introduce 360-degree systems into climates not prepared for them (for example, where there is a low level of trust or too much competition) can have predictably disastrous effects.

Feedback on performance

Feedback is conceptually objective information about adequacy of one's own job performance. It serves two basic functions – instructional and motivational. In its instructional function, it clarifies the role or teaches new behaviour as when an accountant (for example) is advised to handle a certain entry as capital item rather than as an expense item or when a college professor is led to replace reading assignments with take-home writing assignments for first-year law students. Secondly, feedback can well serve as a motivational factor when the boss compliments an employee verbally with a promise of a reward for successfully completing a project before the deadline.

An effective feedback system entails the following basic elements: (1) a set of performance standards (2) a mechanism for monitoring performance, and (3) the act of providing objective feedback. It is said that self-control or regulation is the desired end result for all feedback control systems.

Feedback Model

A conceptual feedback model on job performance may be composed as follows:

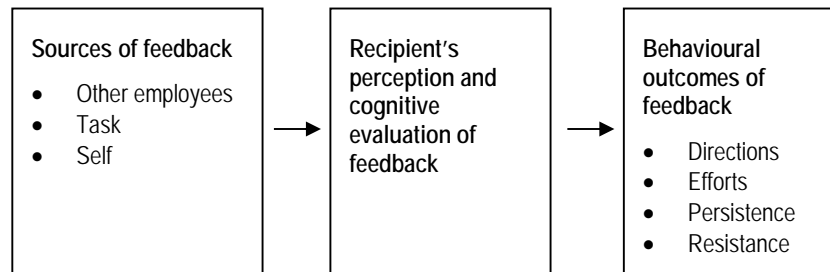


Figure 6.4 Feedback model

Source: (Taylor et al., 1984)

The above conceptual model indicates that employees receive feedback from a variety of sources – peers, subordinates, supervisors and outsiders, the task itself and oneself. Self-managed persons and those with high self-confidence rely on own personal feedback more than feedback from others. The presence of multiple sources for feedback may leave an employee bombarded by feedback from all sources and this would require that the recipient establish some means of screening them.

In most situations, the request for feedback information as perceived by the employee comes too late and with no effect on performance. The

typical example is when a restaurant server asks the guest “How was everything?” before presenting the bill. This probing question should have been asked while eating was in progress where the guest’s response would have been more timely. Hence, managers need to consider the situational variables in the feedback system.

The most critical factor in the feedback is whether it is positive or negative. It is critically important to consider the ultimate impact of feedback on the employee’s motivation and behaviour. Certain kinds of negative feedback (for example, the employee being told that his/her performance is below average) can have a positive impact on improving performance when the employee takes it as a challenge and sets higher goals to pursue. However, care must be taken when negative feedback is given to minimise the threat content and avoid creating undesirable insecurity and defensiveness.

Cognitive evaluation of feedback

People cognitively evaluate factors such as accuracy, the credibility of the source, the fairness of the system of appraisal, the performance-reward expectancies and the reasonableness of the standards set by the organisation. Any feedback that fails to clear one or more of these cognitive hurdles will be rejected or downplayed by the employee. Personal experiences of the employee largely dictate how these will be considered and weighed. In a performance appraisal system, the credibility of the source of the feedback is determined by three crucially important perceptions about the provider: (1) trustworthiness (2) expertise, and (3) dynamism. It is said that belief in the credibility of the manager providing the feedback is what matters most in the performance appraisal feedback system.

The expectancy motivational theory suggests that a proper feedback system must foster the belief that high effort in attaining performance expectancies leads to performance rewards if it is to motivate desired behaviour from the employee. Hence, evidence of a powerful linkage should be inbuilt in the chain of activity, efforts and performance. It should also be made evident and be reinforced by the performance appraisal feedback system.

Reasons for malfunction or failure

There is room for any system or function (e.g., performance appraisals) to malfunction at some point in time. Many managers are aware of this possibility and have heeded the warning of experts to “beware”. Let us examine some of the problems that performance appraisal can develop and the ways to avoid them. Generally, the problems are concerned with system design and operation, the appraiser and the employee.

System design and operating problems

Poor design can be the cause of some performance appraisal systems failing or malfunctioning. The design can be blamed if the criteria for appraisal are poor, the technique used is cumbersome, or if the system is



more form than substance. If the criteria used focus on activities (instead of output results) or on the person (rather than performance), performance appraisal will be faulty. These will be explained as you proceed. Many managers resist some appraisal techniques as they take a long time to perform and may also require extensive written analysis. Another technique can be chosen if that is the problem.

Problems with the appraiser

Even if the system is designed well, problems can arise if the appraisers (usually supervisors) are not cooperative and well-trained. Supervisors may not be comfortable with the process of appraisal or what Douglas McGregor has called as “playing God”. Often, this is because they have not been adequately trained or they have not participated in the design of the programme. Inadequate training of appraisers can lead to any one of the recognised appraiser problems outlined here.

The halo effect

The halo effect appears in an appraisal when the appraiser tends to assign the same rating or level to each factor being rated for an employee. This results from an overall assessment of the person that totally colours the appraiser’s view of the employee. Appropriate supervisory training can reduce halo problems which are present more in some techniques (e.g., graphic rating scales) than in others.

Standards of appraisal

Appraisal standards may also cause problems in performance appraisal. This arises because of perceptual differences in the meaning of the words used to evaluate. Thus, “good”, “adequate”, “satisfactory” and “excellent” may mean different things to different appraisers. If only one appraiser is used, the appraisal can be distorted and there may be a constant error between the two. This is also not practical in work situations. In many systems, there is a tendency to rate persons higher than they should be – especially if negative ratings must be explained to employees. Training of the appraisers plus review of the appraisal patterns by the appraiser’s superiors can help reduce this problem.

Central tendency

Some appraisers rate all their personnel within a narrow range. Although there are actual performance differences between individuals, supervisors may rate them all as “average” or “above average”. This distorts the results for promotion and compensation decisions. The problem is most likely to be found with graphic rating scales. Appraiser training would probably help to resolve this problem.

Recent-behaviour bias

One difficulty with many of the appraisal systems is the time frame of the behaviour that is being evaluated. Appraisers may forget more about past behaviour than current behaviour. Thus, many persons are evaluated more on the results of the past several weeks than on average behaviour over the previous six months. You would have noticed that some employees

are well aware of this difficulty. If they know the dates of the appraisal, they make it their business to be visible and noticed in many positive ways for several weeks in advance. This fault in appraisal can be mitigated by using a technique such as critical incidents, management by objectives (MBO) or by irregularly scheduled appraisals.

Personal biases

Various studies have indicated that appraisers' biases can influence their appraisals of employees. If appraisers favour certain employees better than others, this can influence the ratings they give. This problem is related to the effects of prejudices against certain groups of people. Some studies indicate that gender and racial stereotypes can creep into appraisals and discriminate certain communities. Effective training of appraisers helps to remove these biases. Some appraisal techniques (such as forced choice, field review, performance tests and MBO) tend to reduce this problem. It is the manager's responsibility to examine the patterns of appraisal and promotion to determine if there might be systematic discrimination at appraisal time and take steps such as supervisory training or discipline to reduce this bias.

You would have observed through the topics discussed here that many appraiser problems can be solved by training the appraiser. This training is of two types: (1) how to rate effectively and (2) how to conduct effective appraisal interviews. It has been clearly established that appraiser training reduces rating errors. You should note that the quality of the appraiser is more important to effective appraisal than the technique used. Training alone will not eliminate all appraiser problems just as driver training alone does not eliminate speeding and accidents. Nonetheless, appraiser training combined with good system design can make performance appraisal more effective.

Employee problems with performance appraisal

For the appraisal system to work well, the employees must understand it, feel it is fair and be work-oriented enough to care about the results. If the system is not explained to the employees so that they understand it, they may not work well. One way to foster this understanding is for employees to participate in system design and be trained to some extent in performance appraisal. Reflect upon the scheme of appraisal used to evaluate your performance. Do you feel that you have participated in the design of it?

Another is the use of self-appraisal systems. With regard to fairness, performance appraisal is in some ways like grading systems in schools. How would you react if you got a lower mark than you had hoped you would get? You may get angry or give up. Similar responses can come from employees as well if performance appraisals are incompetent or unfair.

Performance appraisal may also be less effective than desired if the employee is not work-oriented and sees work only as a means to ends sought off the job. It might be seen only as paperwork unless the appraisal



is so negative that the employee fears termination. Reaction to positive and negative feedback varies depending on a series of variables: (1) the importance of the task and the motivation to perform it (2) how highly the employee rates the appraiser (3) the extent to which the employee has a positive self-image, and (4) the expectancies the employee had prior to the appraisal (for instance, had the employee expected a good appraisal or a poor one?).

Let us briefly look at how performance appraisal can be a useful personnel activity. Whether formal appraisal becomes a problem for an enterprise or has a positive influence on it depends on four factors:

1. **When appraisal takes place** – The timing (when to do it and how often).
2. **Who evaluates** – The appraisers (there can be several supervisors and the HR department personnel).
3. **What is evaluated** – The criteria for appraisal (Examples include the quality of work, the quantity of work and the employee's interpersonal relations. However, the criteria should be relevant, unbiased, significant and practical).
4. **How appraisal takes place** – Appraisal techniques can consist of individual appraisal methods, multiple-person appraisal methods and other methods.

Job evaluation

In addition to relating pay levels to those paid for comparable jobs in other enterprises, the enterprise must also determine pay structures for its employees having different jobs within the organisation. Factors similar to those affecting pay levels do also affect these pay structures.

Managers can cope with the attempt to provide equal pay for positions of approximately equal worth by arbitrary management decisions, collective bargaining and/or job evaluation. If managers try to make these decisions without help from tools such as job evaluation, it can result in unsystematic decision making that is likely to lead to perceived inequities. Decisions based on bargaining alone can lead to outcomes based solely on relative power. Therefore, most management experts suggest that compensation decisions be based on systematic job evaluation that is influenced by the results of collective bargaining. Later on in this course, we will be discussing collective bargaining. Let us now discuss job evaluation.

Definition of job evaluation

What do you understand by the term “job evaluation”? Job evaluation is the formal process by which the relative worth of various jobs in the organisation is determined for pay purposes. Essentially, it attempts to relate the amount of the employee's pay to the extent that his/her job contributes to organisational effectiveness (Glueck, 1978).

You will not find it easy to evaluate the worth of all the jobs in an enterprise. Take the example of a physician and a nurse's aide. It may be obvious that the effective physician will contribute more to the goals of patient care in the hospital than the nurse's aide. What is important is how much that differential is worth. Since it is difficult to compute how much a particular job contributes to organisational effectiveness, proxies for effectiveness are used.

Let us see what these proxies are. These are skills required to do the job, the amount and significance of responsibility involved, the effort required, and the working conditions. Compensation must be in keeping with the differing demands of various jobs if employees are to be satisfied and if the organisation is to be able to attract the personnel it wants.

You should also know how job evaluation is done. It is usually performed by analysing job descriptions and (occasionally) job specifications. Early in the process, it is imperative that job evaluators check the availability and accuracy of the job descriptions and specifications. It is usually suggested that job descriptions be categorised into several job series such as managerial, professional, technical, clerical and operative.

The next step is to select and weigh the criteria used to evaluate the job. Typical factors frequently used for job evaluation are education, experience, amount of responsibility, job knowledge, work hazards and working conditions. It is important that the factors used are accepted as valid for the job by those being evaluated.

Once the method of evaluating the job is chosen, evaluators make job evaluations. As those familiar with the jobs tend to rate them higher (especially if they supervise the jobs), it is useful for each committee member to evaluate each job individually. Then, the evaluators should discuss (factor by factor) each job on which the ratings differ significantly until an agreement is reached.

Job evaluation methods

While there is little research in the area, it appears that four methods perform relatively equally well in terms of evaluating jobs. The four most frequently used job evaluation methods are: (1) job ranking, (2) factor comparison, (3) classification, and (4) the point system.

Job ranking

The simplest system used primarily in smaller, simpler organisations is job ranking. Instead of analysing the full complexity of jobs by evaluating parts of jobs, the job ranking method has the evaluator rank order whole jobs (from the simplest to the most challenging). Ranking is probably the least frequently used method of job evaluation.

The evaluator sorts the jobs into ranks that allow for the possibility of ties. If the list of jobs is large, the paired-comparison method (whereby each job is compared to every other job being evaluated) can be used. The evaluator counts the number of times a particular job is ranked above



another. The one with the largest number of highest rankings is the highest ranked. There is no assurance that the ranking thus provided is composed of equal-interval ranks. The differential between the highest job and the next highest may not be exactly the same as that between the lowest and the next lowest. If the system is used in an enterprise with many jobs to be rated, it is clumsy and the reliability of the ratings is not good.

Factor comparison

At the other extreme is the most complex (and the next least-frequently used) system – the factor comparison method. This is probably the most costly method and it is probably slightly more reliable than the other methods. The factor comparison method requires five steps:

1. **Choose the key jobs to be evaluated.** These jobs are well known in the enterprise and (in the opinion of the evaluators) are properly paid at present.
2. **Rank the key jobs on important factors of job evaluation.** These factors are usually mental requirements, skill requirements, physical requirements, responsibility and working conditions.
3. **Divide the current pay among the factors.** Thus, the rater may be asked “If the jobs pay USD 8 per hour, how much of the USD 8 is for mental requirements?” and so on.
4. **Reconcile the differences in rankings** found in Steps 1 and 2 by the committee members.
5. **Place the key jobs on a scale for each factor.** This becomes the basis for evaluating non-key jobs in the structure.

Classification or grading system

This system is used in many levels of governments. Such a system groups a set of jobs into a grade or classification. These sets of jobs are then ranked according to levels of difficulty or sophistication.

The classification approach is more sophisticated than ranking but less so than the point system or factor comparison. It can work reasonably well if the classifications are well defined. It is the second most frequently used system.

The point system

Most job evaluation plans use the point system not only because it is more sophisticated than the ranking and classification systems but also because it is relatively easy to use. Essentially, the point system requires evaluators to quantify the value of the elements of a job.

On the basis of the job description or interviews with job occupants, points are assigned to the degree of various factors such as skills required, physical and mental effort needed, the degree of dangerous or unpleasant working conditions involved, and the amount of responsibility involved in the job. When these are summed up, the job has been evaluated. Most point systems evaluate about ten aspects of each job. The aspects chosen

should not overlap. They should distinguish real differences between jobs, be as objectively defined as possible, and be understood and acceptable to both management and employees. As not all aspects are of equal importance in all jobs, different weights reflecting the differential importance of these aspects to a job must be set. These weights are assigned by summing the judgements of several independent and knowledgeable evaluators. Thus, a clerical job might result in the following weightings: education required 20 per cent, experience, 25 per cent; complexity of job, 35 per cent; responsibility for relationships with others, 15 per cent; and working conditions and physical requirements, 5 per cent.

Compensation

Compensation is part of a transaction between an employee and an employer that results in an employment contract. From the employee's side, pay is a necessity in life. Compensation received for work is one of the chief reasons people seek employment. Pay is the means by which they provide for their own and their family's needs. Pay can do more than just provide for the physiological needs of employees. It can also serve their recognition needs.

Compensation is also one of the most important HR functions for the employer. Compensation claims a large part of the cash flow in an enterprise. It may be the major method used by an enterprise to attract the employees needed to get the work done. It can also function as a means to motivate employees towards more effective performance.

Definition

Compensation is the monetary reward paid by an enterprise for the work done by an employee.

You should note that compensation or pay is only one way. The employee is rewarded for work. Work also provides benefits, promotions and status, intrinsic rewards of the job and other rewards. The relative importance of pay to the other rewards varies between employees.

Objectives of compensation

The objective of a compensation system is to create a system of rewards that is equitable to the employer and employee alike so that the employee is attracted to the work and motivated to do a good job for the employer. Glueck (1978) cites Thomas Patten who suggests that there are seven criteria in compensation policy for effectiveness. The compensation should be:

1. **Adequate:** Minimum governmental, union and managerial levels should be met.
2. **Equitable:** Each person is paid fairly in line with his/her effort, abilities, training and so on.
3. **Balanced:** Pay, benefits and other rewards provide a reasonable total reward package.



4. **Cost-effective:** Pay is not excessive, considering what the enterprise can afford to pay.
5. **Secure:** The employee's security needs (relative to his/her pay and the needs which his/her pay satisfies) are met.
6. **Incentive-providing:** Pay motivates effective and productive work.
7. **Acceptable to the employee:** The employee understands the pay system and feels it is a reasonable system for the enterprise and him/her.

Compensation decision makers

Three groups of managers are involved in compensation decisions. The first are HR executives; the HR department develops the pay system and administers it. For smaller enterprises, the personnel specialist does this as part of the total job. When an enterprise has more than about 500 employees, a compensation manager (also known as the wage and salary administrator) may be made responsible for the compensation activity. The compensation administrator is a consultant, coordinator, catalyst and implementer of the system which is designed in conjunction with top managers and the chief HR/personnel executive.

Secondly, operating managers make the raise decisions. A crucial factor is the policy decisions made by the third group (top management). They determine the pay policies of the enterprise (for instance, to be a pacesetter or a follower in the industry). Top managers make the decisions that determine the total amount of the budget that goes to pay, the form pay will take (time versus incentive) and other pay policies such as raise levels, secrecy and communication policies, security in pay policies and executive compensation. Compensation decisions are generally then made by operating management (as advised by HR/personnel). Such decisions are administrated and implemented by HR/personnel.

Compensation decisions

How do you think pay is determined? Do you believe that pay can be determined by a manager and an employee sitting down and talking it over, or do you think the government and/or unions determine it? In fact, pay is influenced by a series of internal and external factors.

Pay can be determined absolutely or relatively. There is a school of thought which states that a pay system set by a single criterion for a whole nation or the world and that an absolute control of pay is the best procedure. However, attempts to use this approach have not yielded great success. Since absolute pay systems are not used, the pay for each individual is set relative to the pay of others.

Glueck (1978) cites Allen Nash and Stephen Carrol who point out that pay for a particular position is set relative to three groups. These are:

1. **Group A:** Employees working on similar jobs in other enterprises.
2. **Group B:** Employees working on different jobs within the enterprise.
3. **Group C:** Employees working on the same job within the enterprise.

The decision to examine pay relative to Group A is called the **pay-level decision**. Let us look at this first. The objective of the pay-level decision is to keep the enterprise competitive in the labour market. The major tool used is the pay survey. The pay decision relative to Group B is called the **pay-structure decision** and uses job evaluation. The decision involving pay relative to Group C is called **individual pay-determination**.

Methods of payment

Payment for time worked

Employees can be paid for the time they work, the output they produce, or a combination of these two factors. The great majority of employees are paid for time worked in the form of wages or salaries. Pay surveys are used to establish competitive pay for the industry. Job evaluation is the principal method for setting time-pay schedules. Pay ranges, pay classifications and similar tools are developed for the final step in a time-based pay system – individual pay determination.

Typically, most employees are paid salaries. Exceptions are blue-collar and some clerical employees who are paid hourly wages. One issue in the time-pay system is whether everyone should be paid a salary. Would you rather be paid strictly by the hour and not know your income week to week, month to month, or be paid a salary so that you could plan your life more assuredly? In general, most blue-collar employees are given hourly pay but there has been a movement to place all employees on salaries and give them the same benefits and working conditions others have. The advantage claimed for this move is that blue-collar workers become more integrated into the enterprise and this improves the climate of employee relations.

If everyone goes on salaries, it is possible that the long-run security of positions will be diminished. With hourly workers, it is relatively easy for an enterprise to reduce the hours worked daily or weekly, save the labour costs and adjust to the realities of the marketplace if business is down. If everyone is on salary, management tends to look towards full lay-offs or reduction in the labour force by attrition or terminations. Salaries for everyone changes labour costs from variable to fixed. This can have serious employment security implications.

The success of a total-salaries programme requires stable, mature and responsible employees, a cooperative union, willing supervisors, and a workload that allows for continuous employment.



Incentive plans

Methods for paying employees on the basis of output are usually referred to as incentive forms of compensation. Incentives can be paid individually, to the work group, or on an enterprise-wide basis. Incentive compensation assumes it is possible and useful to tie performance directly to pay.

Individual incentives

The oldest form of compensation is the individual incentive plan in which employees are paid for units produced. Today, the individual incentive plan takes several forms: (1) piecework (2) production bonus, and (3) commissions. These methods seek to achieve the incentive goal of compensation. One or more of these methods may be present in your workplace.

Straight piecework usually works this way. An employee is guaranteed an hourly rate (probably the minimum wage) for performing an expected minimum output (the standard). For production over the standard, the employer pays so much per piece produced. This is probably the most frequently used incentive pay plan. The standard is set through work measurement studies as modified by collective bargaining. The base rate and piece rates may develop from pay surveys.

A variation of the straight piece rate is the differential piece rate. In this plan, the employer pays a smaller piece rate up to a certain standard and then a higher piece rate above the standard. Experience shows that the differential piece rate is a more effective incentive than the straight piece rate although it is much less frequently used. Production bonus systems pay an employee an hourly rate and then a bonus when the employee exceeds production over the standard.

Commissions are paid to sales employees. Straight commission is the equivalent of straight piecework and is typically a percentage of the price of the item. A variation of the production bonus system for sales is to pay the salesperson a small salary and commission or bonus when he/she reaches production over the standard (the budgeted sales goal).

Individual incentives are used more frequently in some industries (clothing, steel, textiles) than others (lumber, beverage, bakery) and more in some jobs (sales, production) than others (maintenance, clerical).

For incentive schemes to work, they must be well designed and administered. It has been observed that incentive plans are likely to be more effective under certain circumstances. These are when:

- The task is liked.
- The task is not boring.
- The supervisor reinforces and supports the system.

- The plan is acceptable to employees and managers who probably include them in plan design.
- The standards are carefully designed.
- The incentive is financially sufficient to induce increased output.
- Quality of work is not especially important.
- Most delays in work are within the employees' control.

Group incentives

Piecework, production bonuses, commissions and other individual incentives can also be paid to groups of individuals. This might be done when it is difficult to measure individual output, when cooperation is needed to get production, and when management feels this is a more appropriate unit on which to base incentives. Group incentive plans also reduce administrative costs. Group incentive plans are used less frequently than individual incentive plans.

Enterprise incentive schemes

Four approaches to incentive plans are used at the enterprise level: (1) suggestion systems (2) company group incentive plans (3) profit sharing plans and (4) stock ownership plans.

Suggestion systems

Most large and medium-sized enterprises have suggestion systems designed to encourage employee input for improvements in enterprise effectiveness. Typically, the employee submits the suggestion in writing by perhaps placing it in a suggestion box. If the idea is tried and proven useful after being screened by a committee, the employee receives a financial reward. If the savings due to the idea are hard to compute, the employee is given a standard reward. If they are measurable, the employee receives a percentage of the first year's savings and it is typically 2 per cent to 10 per cent.

Effective administration of the suggestion programme is essential to its success. The reasons for rejecting a suggestion must be carefully explained to the submitter. If a group idea is successful, it is useful to reward the whole group rather than an individual. In general, suggestion systems seem to be useful incentive plans.

Company group incentive plans

Several enterprises have developed elaborate group incentive and participation schemes which generally have been quite successful. For these plans to succeed, management must be willing to encourage and work with participating workers. All workers must provide their fair share of suggestions and work. The union must develop a new degree of cooperation. It is likely to be more successful in organisations that are less than gigantic. It has also worked well in troubled companies that provide the necessary conditions of participation, communication and identification.



Profit sharing plans

Essentially, profit sharing is the payment of a regular share of company profits to employees as a supplement to their normal compensation. Many enterprises do this today. Profit sharing plans divide a set percentage of net profit among employees. The percentage varies but 25 per cent is about normal. The funds can be divided equally based on the base salary, the job grade or in several other ways. The profit share can be paid often (such as quarterly), less frequently (such as yearly) or deferred until retirement.

Advocates of profit sharing contend that the plans successfully motivate greater performance by employees. Many firms also see profit sharing as a way to increase employee satisfaction and quality workmanship as well as to reduce absenteeism and turnover. Essentially, they contend that employees who have profit sharing plans identify more closely with the company and its profit goal, and thus they reduce waste and increase productivity.

There are problems with profit sharing. First, an enterprise cannot share what it does not have; and in bad years, there are no profits to share. The employees may have cut costs and worked hard, but perhaps a recession slowed sales and thus profits, or management chose an expensive but ineffective marketing programme. Profit sharing has had limited success because of the difficulty of tying individual rewards to effort and the problems raised when there are no profits to share. The plans are probably more successful in smaller firms.

Stock ownership plans

Many companies encourage employee purchase of company stock (often at advantageous prices) to increase employees' incentives to work, satisfaction and work quality as well as to reduce absenteeism and turnover. Purchase plans often allow for payroll deductions or company financing of the stock. Sometimes, the company will agree to buy the stock back at a guaranteed rate if it appears that the employee would take a significant loss. Companies use these plans for the same reasons as they do profit sharing plans – when employees become partners in the business, they work harder.

Some of these plans are very successful. However, stock purchase plans in general have most of the disadvantages of profit sharing. It is hard for an employee to identify his/her working harder with an increase in the value of his/her stock.

Executive compensation

Executive pay

One of the most controversial groups in terms of designing reward structures is the CEOs of large privately-held firms. It is well known that they make many times what the average worker earns. According to Ivancevich (1998), the ratio of CEOs to average workers especially in medium-sized and small corporations is 15:1 or less. While the executive

pay is of interest to stockholders, managers and other employers, the basis upon which it is built has been changing. Traditionally, salaries of executives were based on the competitive-pay approach. Companies within and across industries would act as if they were engaging in a price war by trying to outbid each other with large pay envelopes for proven performers.

Today, executive pay packages are more likely to be based on comparative performance. This new pay design has five underlying principles (Ivancevich, 1998):

1. Compensation committees made up of stockholders and company directors link the pay of CEOs to returns paid to shareholders.
2. Variable performance-based pay is emphasised over guarantees.
3. CEOs are encouraged to invest in company stocks.
4. Performance yardsticks are linked to actual key productivity indices, to the competition, or to both.
5. CEOs are held responsible for the cost of capital. This forces them to look for vehicles of growth rather than just amass personal wealth.

As CEOs are paid very high salaries, shareholders and other stakeholders hold them to a tighter standard. They expect CEOs to take a personal risk basing their own pay on their ability to perform, investing their own money in the business, and to provide candid disclosures about both arrangements.

Executive perks

In addition to the pay, executives receive special perquisites and extras commonly called perks. In different countries, these may vary but generally they include better office decor, choice office location, a company car, reserved parking, a car for personal use and first-class air tickets. For more information, the details are covered in previous module.

Bonuses

As you may already know, a bonus is a payment that supplements salary and can be paid in the present or in the future (in which case it is called a deferred bonus). The size of bonuses and long-term payments relative to salary clearly changes with the size of the CEO's company. The larger the company, the greater the proportion of incentive awards making up the total annual compensation.

A majority of large firms pay bonuses on the belief that this leads to better profitability and other advantages for their enterprises. Bonuses involve large expenditures of funds. They vary from 80 per cent of the salaries of top executives to 20 per cent of the salaries of lowest-level participants.



Employee benefits

What do you understand by benefits? Let us look at one definition.

Definition

Employee benefits and services are a part of the rewards (including pay and promotion) that reinforce loyal service to the employer. Major benefits and services programmes include pay for time not worked, subsidised insurance, subsidised retirement and services (Glueck, 1978). This definition is a bit vague because the term “benefits and services” is applied to hundreds of programmes.

Let us also see why benefits and services programmes are offered to employees? The programmes offered in work organisations today are the product of efforts in this area for the past number of years. Some employers provide these programmes for labour market reasons – to keep their respective enterprises competitive in recruiting and retaining employees in relation to other employers. Alternatively, they may provide for them to keep a union out or because the unions have won them. Another reason often given is that they are provided because they increase employee performance.

Reasons for using fringe benefits

Beardwell and Holden (1998) list some of the reasons for using fringe benefits:

- Most fringe benefits do not attract tax and can thus be advantageous for employer and employee (particularly the high earner).
- Some benefits can be provided cheaply through economies of scale.
- Some benefits are needed to facilitate the execution of the job duties of the employee – company cars for sales representatives, special equipment or clothing.
- Some companies may be able to offer discounts on their own products and/or services – banks, building societies, retailers, car manufacturers, and so on.

Cafeteria benefits

Beardwell and Holden (1998) observe that there appears to be a movement towards flexible compensation schemes more commonly known as “cafeteria benefits”. Cafeteria benefit schemes operate by setting a price for each level of the selected benefits within a menu and each employee is allocated a budget to spend on benefits, expressed as credits, points or cash amounts. Thus, employees are able to decide which benefits they prefer and how to balance the amount of cash pay to benefits.

Though companies have not adopted cafeteria benefits on a large scale, Beardwell and Holden (1998) provide some of the objectives of those employers who do introduce flexible benefit schemes:

- To ensure flexibility in the compensation package to improve retention and recruitment.
- To offer employees the rewards they desire and thereby increase their motivation.
- To maintain value for money with the benefits provided.
- To create single status employment.

Basic types of benefits

According to Beardwell and Holden (1998), the following are the basic types of benefits.

- Company cars – Britain seems to be unique in the provision of cars as a managerial status symbol. However, recent evidence suggests the supply of cars is no longer so widespread in Britain.
- Subsidised meals and/or the supply of canteen facilities.
- Holiday entitlements.
- Opportunities for foreign travel.
- Telephone costs.
- Discounted, or the provision of, insurance.
- Private health care, dental treatment and eye tests.
- Crèches.
- Office accommodation and facilities that may indicate a certain level of status.
- Sabbaticals.
- Sports and/or social facilities that can encourage identification with the company.
- Discount and company purchase plans where employees can purchase goods at favourable prices.
- Assistance with housing – company-owned houses, house-moving expenses and assistance with house purchases.
- Help with educational courses.
- Pension schemes.

Companies need to recognise what they want to achieve from the provision of each benefit and understand the motivational characteristics of each benefit for their employees.

Module Summary



Summary

When people perform in jobs, their performance needs to be appraised or evaluated. This is called performance appraisal. Performance appraisal can be defined as a formal and structured system of measuring, evaluating and assessing an employee's job-related attributes, behaviours and outcomes as well as absenteeism by the management to discover how productive the employee is and whether the employee can continue to perform in future in achieving the organisation's goals.

In general, managers of most organisations use performance appraisal information for multiple purposes in human resource management such as salary administration, performance feedback, documentation of personnel decisions, recognition of individual performance, identification of poor performance and promotional decisions.

A strong performance appraisal process that provides systematic feedback and is linked to a reward system can channel employees' efforts into strong job performance with sustainable growth of productivity. A weak and uncoordinated performance appraisal linking to equally weak feedback and reward systems can surely lead to poor results.

There are different approaches to performance appraisal. This section has discussed three of them: trait, behavioural and results approaches. Various methods are used in performance appraisal and each of them will have its advantages and disadvantages. Thus, a manager will have to carefully select the method appropriate for the organisation and the person being appraised. In recent times, 360-degree feedback programmes have been used. Feedback is conceptually objective information provided to employees about the adequacy of their job performance.

We have noted that there can be system design errors of various types that will defeat the purpose of performance appraisal. Also, problems can arise if the evaluators (usually supervisors) are not cooperative and well-trained. Inadequate training of evaluators can lead to a series of problems in the execution of their roles. These are the halo effect, standards of evaluation and personal biases. Various studies have indicated that evaluators' biases can influence their evaluation of employees. There can also be problems with the system of evaluation due to employees not being fully aware of the system.

Job evaluation is the formal process by which the relative worth of various jobs in the organisation is determined for pay purposes. It is usually performed by analysing job descriptions and (occasionally) job specifications. Typical factors frequently used for job evaluation are education, experience, amount of responsibility, job knowledge, work hazards and working conditions. The four most frequently used job evaluation methods are job ranking, factor comparison, classification or the grading system, and the point system.

Compensation is the monetary reward paid by an enterprise for the work done by an employee. Work also provides benefits, promotions and status, intrinsic rewards of the job and other rewards. The importance of pay relative to the other rewards varies between employees. The objective of a compensation system is to create a system of rewards that is equitable to the employer and the employee alike so that the employee is attracted to the work and motivated to do a good job for his/her employer. Pay and other benefits provide a reasonable total reward package. Employees can be paid for the time they work, the output they produce, or a combination of these two factors. The great majority of employees are paid in the form of wages or salaries for their time worked.

Finally, this module has discussed a variety of employee benefits and services that form an overall reward structure (including pay and promotion) that reinforces loyal service to the employer.

Assignment



Assignment

1. With reference to your organisation, write a brief account on the uses of performance appraisal schemes. Compare them with the uses outlined in the text above.
2. In a commercial organisation which deals with the marketing of consumer products, what role can performance appraisal play to increase productivity?
3. Have you seen a performance appraisal interview? For an appraisal interview to be successful, what skills should an appraiser possess?
4. Examine the performance appraisal schemes (at least one each from the public, private and non-profit or non-government sectors) in your country and write a comparative account on the strengths and the weaknesses of each scheme.

Assessment



Assessment

1. How is performance appraisal carried out in your organisation? Is it done objectively and does it serve the purpose it is meant for?
2. What do you understand by the term “job evaluation”? How is it different from “performance appraisal”?

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