

## **Unit-7 Performance Appraisal and Reward management**

Performance is an individual's action toward any kind of activities. It shows how an individual exert his/her effort in work. So it is directly linked with productivity, efficiency and ultimately, with the achievement of organizational objectives.

Performance appraisal is the process of evaluating an individual's effort on job, and take corrective measures if any deviation is found between actual and standard performance required for a job.

According to Casio, performance appraisal is defined as “ The systematic description of job-relevant strength and weakness of individual or group.”

Thus, performance appraisal is process of systematically evaluating performance of an individual with a view to meet prior objective of a job.

### **The performance appraisal process:**

- a. Establish performance standard.
- b. Communicate performance expectations to employees.
- c. Measure actual performance.
- d. Compare actual performance with standards.
- e. Discuss the appraisal with the employees.
- f. If necessary, initiate corrective actions.

### **Use of performance appraisal:**

The basic uses of performance appraisals are as follows:-

- a. **Reward management:** Performance appraisal can be used as a basis for reward allocation. Decisions as to who gets salary increased, promotion and rewards are determined by performance evaluation.
- b. **Training and development decision:** Performance appraisal can be used for identifying areas where development effort are needed. In an organization, management needs to find out those individuals, who have specific knowledge or skill deficiencies. This helps the management to take decision on training and development programs. So to overcome such problems like skill deficiencies, performance appraisal can be used as a major tool.
- c. **Validation of selection test:** Higher score in selection test means higher performer. This can only be valid when and individual performance is evaluated and meets the expectation of job.
- d. **To evaluate and individual performance:** Performance of an individual play vital role in the achievement of an organizational goal effectively and efficiently. Whether workers are putting their full effort on work or not can only be ascertained by certain evaluation. So performance appraisal helps in finding out the ability and performance relation and takes corrective action if necessary.

## Methods of performance appraisal:

Following are the method used for performance appraisal.

- a. **Essay Method:** Under this method, the appraiser/rater write an essay related to the employee strength and weakness, previous performance and his/her potentials. Besides, appraiser also point out the weakness and suggest the way for improvement. It is a simple method and gives detailed information of employee. However, it is time consuming and not easy to compare between employees .The biasness of appraiser may also exist in such methods.
- b. **Checklist method:** Under this method, the possible average behavior and characteristics of an individual are listed out. The appraiser check (put tick mark) on those behaviors which are present or showed by the employee. Once the checklist is complete, it is usually evaluated by human resource department not the person doing the check list. The analyst in the personal department scores the checklist as per the importance of listed behavior and feedback to the employee and take corrective action if necessary. This method is easy and helpful in reducing the bias of rater or appraiser. However, it is costly and mainly focuses on employee behavior rather than performance criteria.
- c. **Forced choice method:** The forced choice appraisal is a special type of checklist, but he rater has to choose **between** two or more statement all of which may be favorable or unfavorable. The appraiser's job is to identify which statement is most descriptive of the individual being evaluated. Once the evaluation is done, the HR department score the answer based on the key (validate answers). This method is bias free. However, it is costly and may be disliked by the appraiser because of forced selection of option.
- d. **Critical incident:** Under this method, the appraiser write down a little story (note ) that describe the key behavior of an individual, that make the difference between doing a job effectively or doing it ineffectively. This method looks at the behavior and help HRM to identify the desirable and undesirable behaviors of an individual and take corrective action if necessary. However, it is not used for comparison.
- e. **Graphic rating scale:** A graphic rating scale is the simplest and most popular technique for appraising performance. It lists traits (such as quality and reliability) and a range of performance values (from unsatisfactory to outstanding) for each trait. The supervisor rates each subordinates by circling or checking the score that best describe his/her performance for each trait. The assigned values for the traits are then totaled. This method is easy to develop and comparisons among employees are possible. However, this method is not free from bias, similarly in some cases, the evaluation criteria may not reflects the job performance.
- f. **Behaviorally Anchored Rating Scale (BARS):** It combines the benefits of narrative, critical incident and quantified (graphic rating type) scales by anchoring a rating scale with specific behavioral examples of good or poor performance.

Developing BARS typically requires five steps:

- i. **Generate critical incidents:** person who know the job (jobholders and or supervisors) describe specific illustration (critical incidents) of effective and ineffective performance.

- ii. Develop performance dimension: All these critical incidents are grouped on 5 to 10 different job dimension (e.g. Technical ability, knowledge and judgment, human relation skills etc).
- iii. Reallocate incidents: Supervisor reallocates the incidents. Each relevant incident is assigned to specific performance dimension.
- iv. Scale the incident: All the incidents are scales on 7 to 9 points scales.
- v. Each employee in the particular job is rated on each dimension or appropriate scale of the BARS.  
Even though it is more time consuming than others appraisal methods. It has the advantages of preciseness, consistency and effectiveness of job evaluation.
- g. Alternative ranking method: Under this method, employees are rank from best to worst on a particular trait, choosing highest ,then lowest, until all are ranked .This method takes considerable time for appraising and is based on subjective judgment.
- h. Paired comparison method: This method rank employees by making a chart of all possible pairs of the employees for each trait and indicating which the better employee of the pair is. This method allows for the comparison of each employee with every other employee. The paired comparison method is calculated by taking the total of  $n(n-1)/2$  comparisons. This method compares each employee with another one .However it is very difficult when larger number of employees need to be compared.

### Reward / Compensation Management

- *“The extent to which an individual perform his/her duty will depend on the perceived attractiveness of the rewards offered”.*
- *How much and employee should be paid? , is deal with compensation management.*

Reward is something of value given in return for an act. In other words, reward is what employees received after his/her contribution in an organization. E.g. pay, benefits services etc. In organization, reward is a vital factor for employees’ motivation. So reward system must be managed effectively, for the effective performance of employees.

According to Gary Dessler “employee compensation /reward refer to all forms of pay or rewards going to employees and arising from their employment”.

### Types of rewards

There are two types of rewards. They are:

- a. Intrinsic reward: Job related rewards are intrinsic rewards. They are the satisfaction one gets from the job itself. These satisfactions are self-initiated rewards, such as having pride in one’s work, having a feeling of accomplishment, or being a part of a team. The techniques to provide intrinsic rewards are job enrichment, job rotation, flex time, shorter work-weeks etc.
- b. Extrinsic reward: Money related rewards are extrinsic reward. They include money, promotions, other fringe benefits and the facilities provides from management etc. They

are external to the job and come from management. Extrinsic rewards are further classified into two categories. They are:-

- i. Non-financial rewards: They do not enhance employees' financial position. Instead, they emphasize on making the life on job more attractive. E.g. preferred (advanced) office furnishing, private parking spaces, business cards, one's own secretary, impressive title etc.
- ii. Financial rewards: Financial rewards include both direct and indirect financial payments. E.g. salary, wages, incentives, medical insurance, paid leaves, pension etc. Financial rewards if further divided into two categories. They are:-
  - Performance based reward: when the reward is allocated or pay-off for performance, it is called performance based reward. E.g. commission, piece work pay plans, incentives system, group bonuses etc. This type of reward system helps to enhance the performance of employees and increases job satisfaction.
  - Membership based rewards: When the reward is allocated on the basis of being a permanent member of the organization, it is called membership based reward. This includes, cost of living increases, profit sharing, benefits, salary increase on the basis of seniority etc.

### **Qualities of effective reward/compensation management:**

Following are the qualities of effective reward management:

- a. Importance: Reward should be important to person receiving them. Since, reward is significantly affected by age, marital status, knowledge level etc; of individuals it should be designed in such a way that, it should reflect the importance to employees.
- b. Visibility: Reward should be visible. Employees should know and realize what they get against their effort. This helps in comparison between others as well as in enhancing the employees' satisfaction level.
- c. Equitable distribution: Reward must be fairly distributed in comparison to the referent group (such as in comparison to other individuals in similar job, in comparison to similar job and in other organization and in comparison to the effort used and outcome received).
- d. Flexibility: An effective reward is one that has the flexibility to change with the changes in performance. It should be flexible in terms of the amount paid and the people to whom it is given in an organization.
- e. Low cost: Reward should be cost effective. Cost-benefit analysis should be considered while designing the rewards.

### **Determinants of Compensation:**

Followings are the determinants of compensation:

- a. Legal consideration: Government rules and regulation provides many guidelines to compensate employees. Companies have to comply with these rules and regulation while determining the pay level for employees.

- b. Market rates: Competitive pay system is only possible when organization match its pay with the prevailing market rate. So organization should thoroughly analyze the labour rates and its trends to determine the pay system.
- c. Union Pressure: Labour union represents the voice of employees. It plays major role in determining the salary and wages along with other non-financial rewards. Thus, organization should constructively discuss with unions for determining effective reward policy.
- d. Job evaluation: Effective job evaluation leads to effective reward policy. So organization should analyze cost and benefits relation, skills required and organizational standard on determining rewards.

### **Methods of establishing (setting) employee compensation:**

Compensation against effort determines the motivation level of employees. So while setting a pay rate or compensation, management should meticulously analyze different variables or determinants affecting compensation.

Following are the methods to set pay rates:

- a. The salary survey: It is a method of collecting factual information on pay practices within specific communities and among firms in their industry for comparison purpose. It can be formal (i.e. structural questionnaire is used to collect the data) or informal (i.e. telephone or internet queries.)
- b. Job evaluation: It is a systematic comparison done in order to determine the worth of one job relative to another. The fundamental compensable elements of a job, such as skills, efforts, working conditions and responsibility are compared to one another and set pay for each job. Different methods like, ranking method, classification method, factor comparison method and point method can be used to evaluate the job.
- c. Wage curve fitting: When management arrives at point totals from job evaluation and obtains survey data on what comparable organizations are paying for similar job, then wage curve can be fitted to the data. Wage curve shows the relationship between the value of the job and the average wage paid for this job.(Fig from book)
- d. Wage structure: Finally, the jobs that are similar in terms of classes, grades or points are grouped together and are plotted in a graph to develop an organization's wage structure. The wage structure shows the pay ranges in each grade at stated time period. (Fig from book)

### **Current trends in Compensation:**

Current trends in compensation are as follows:

- a. Competency based pay: Competencies are the demonstrable characteristics of a person, including knowledge, skills and behavior that enable performance. So, when the company pays for employee's range, depth and types of skills and knowledge, rather than for the job title s/he holds, then it is called competency based pay. Now a days, companies are

focusing on determining the compensation as per the competency due to the following reasons:

- i. Pay for skills or knowledge enhances motivation, which uplifts performance.
  - ii. Paying for skills, knowledge and competencies is more strategic.
  - iii. Measurable skills, knowledge and competencies are the heart of any company's performance management process.
- b. **Broad-banding:** It means collapsing or grouping salary, grades and ranges into just a few wide level or bands, each of which contains a relatively wide range of jobs and salary level. Broad-banding supports the hierarchical arrangement of management systems as well as strategic performance improvement initiatives. So it is becoming popular in today's organization.
- c. **Comparable worth:** Comparable worth refers to the requirement to pay men and women equal wages for jobs that are the comparable (rather than strictly equal) value to the employer. Under this several job factors like, skills, effort and responsibility and authority etc are assigned with points and total points are compared between different jobs to provide the similar compensation for similar points. This is used to determine the compensation for dissimilar job such as nurse to truck mechanic or technician etc.

#### **Incentive Plans:**

Incentive is an additional pay for higher performer to enhance motivation level. In other words, it is monetary benefits paid to employees for outstanding performance .E.g. gain sharing, commission, bonus, piece work plans etc.

#### **Types of incentive plans:**

- a. **Individual incentive plans:** It is concerned with individual performance on work sites. Under this, following types of rewards are provided to an individual.
- i. **Piece rate (piece work) pay:** Usually, it is provided to manufacturing worker. Under this, standard output is determined first and the workers are paid higher rate for the output produced above that standard output.
  - ii. **Commission plan:** Usually, it is provided to the sales person or the mediator who helps in enhancing the organizational effectiveness. It may be direct (i.e. pay commission per unit sold) or indirect (i.e. pay on overall sales by adding with the salary paid)
  - iii. **Bonus plan:** It is a onetime lump-sum amount paid to the management or professional employee for their outstanding performance. Different types of bonus scheme are provided by the organization such as, end of year bonus (i.e. paid at the end of year), spot bonus (i.e. paid on spot once the target is achieved by an individual) etc.
- b. **Group Incentive plan:** It is concerned with providing the reward for the group performance. They are:
- i. Piece rate
  - ii. Commission Plan

- iii. Bonus Plan.
- c. Organizational incentive plan: It is concerned with the improvement of overall organizational performance. Under this, the additional extrinsic reward is provided to all of the employees to appreciate their efforts. Following are the types of organizational incentive plan:
  - i. Productivity gain sharing: It is related to productivity improvement. The cost that has been saved on production or operation because of outstanding efficiency improvement is distributed as bonus to the employees.
  - ii. Profit sharing: Under this, certain percentage of profit is distributed as bonus to all the employees as bonus for their effective performance.
  - iii. Employee share ownership: Under this employees are given opportunity to participate in ownership by providing shares either as a gift or below the market price. This type of incentive helps to build belongingness towards organization and boost up motivation level.

**Union influence on compensation program:**

Union is a representative body who vocal the issues and grievances of employees to the management. It collectively promotes and protects the mutual interest of employees. So union play vital role in determining the compensation program in an organization. The union influences compensation programs in the following ways:

- a. Pressure to increase salary following some changes in the consumer price index (CPI): CPI give idea about the increasing or decreasing of product. So, when CPI is increased union may give pressure to management to increase the salary or other benefits to meet the cost of living.
- b. Securing Jobs: Unions always advocate on securing the jobs of the employees. They vocal on employees' improvement through training and development program instead of little increment in incentive.
- c. Work to develop trust between union- management: Union work closely with management. They take part in major HR related decisions such as on compensation, safety, training and development etc., which not only enhance the relation between them but also foster participate management in an organization.