

# Performance appraisal

## Outline

- Assessment, appraisal and control
- From control to development
- Appraisal and performance management

## Objectives

1. Explain the purpose and uses of assessment and appraisal
2. Understand contrasting approaches to assessment and appraisal
3. Explain the use of assessment appraisal in performance management and employee development
4. Understand the use of different assessment and appraisal techniques

## Reasons for performance review

- Assess training and development needs
- Help improve current performance
- Review past performance
- Assess future potential and promotability
- Assist career planning decisions
- Set performance objectives
- Assess increases or new levels in salary

In many organizations appraisal will take place formally at predetermined intervals and will involve a discussion or interview between a manager and an individual employee.

The **purpose** can be categorised into:

- The making of administration decisions concerning pay, promotion and careers, work responsibilities
- The improvement of performance through the discussion of development needs, identifying training opportunities and the planning of action.

## Dangers of judgements: (Findings from studies)

- Criticism often has a negative effect on motivation and performance
- Praise has little effect
- Performance improves with specific goals
- Participation of the employee in goal-setting helps produce favourable results
- Interviews designed primarily to improve performance should not at the same time weigh salary or promotion in the balance
- Coaching by managers should be day-to-day and not just once a year

## A performance control approach to appraisal

Define work – set measurable targets – perform – assess against targets

## Objectives of reward management

- Attract and retain suitable employees
- Maintain or improve levels of employee performance
- Comply with employment legislation and regulations

## Types of reward systems

types of reward		types of effort
individual rewards	basic wage overtime piece rate commissions bonuses merit paid leave benefits	time: maintaining work attendance energy: performing tasks  competence: completing tasks without errors
team rewards	team bonuses gain sharing	cooperation with co-workers
organizational rewards	profit sharing share ownership gain sharing	

## Pay and performance

Can reward systems be designed to affect performance? Many of the answers to this question come from the theories of motivation. The most well-known need theories include Maslow (1954) and Herzberg (1966). Maslow argued that higher order needs become progressively more important as lower-order needs are satisfied. Herzberg demonstrated that pay takes on significance as a source of satisfaction when it is perceived as a form of recognition or reward. Monetary variables are a key component in the more recent 'process' theories of motivation. For example, Vroom's (1964) expectancy theory grants a prominent role to rewards.

Increasingly British and North American companies attempt to relate pay to performance: piecework, bonus schemes and commissions.

## Alternative reward systems

### All-salaried workforce

Both manual and non-manual employees receive a prescribed amount of money each pay period that is not primarily dependent on the number of hours worked. There are no differences between clerical and manufacturing workers in holiday entitlements, pensions and medical insurance. Every employee – including the plant's general manager – signs on daily in a reception register on arrival and departure. There is no clocking on and off.

### Pay for knowledge system

These systems vary pay as a function of the number of different jobs or skills that employees are able to perform competently. Pay increases are tied to learning multiple jobs at ever-higher levels of proficiency. They encourage functional flexibility and diversification in workers.

### Group incentive (gain sharing) plans

Gain sharing plans tie pay to performance by giving employees an additional payment when there has been an increase in profits or a decrease in costs to the firm.

## **Profit sharing**

In profit sharing the employer pays current or deferred sums based on company profits, in addition to established wages. Payment can be in form of current distribution (paid quarterly or annually), deferred plans (paid on retirement or disability) or combination plans.

Profit sharing is also associated with the growth of employee participation schemes.

## **Cost savings**

Psychological growth needs are fulfilled if the employee participates in organizational decision making while being equitably compensated for participation. Shop floor production committees generate suggestions to improve productivity and reduce waste. Bonuses are paid monthly or quarterly on a plant-wide basis. A common formula gives 25 per cent of the benefit of increased productivity to the company and 75 % to the employee.

## **Cafeteria style benefits**

Cafeteria benefit programmes allow employees to select benefits that match their individual needs. For example young employees might select dental or medical insurance while older employees might select pension contributions.

All these alternative reward systems represent experiments by the employees to better link rewards to individual performance, to encourage functional flexibility and team synergy and to foster individually oriented cultures.

## **Government and pay**

In European countries government has a profound impact on employees' rewards. Organizations within the European Union must take an account of Article 119 of the Treaty of Rome, which requires equal pay for equal work. Through such laws governments in Europe, in Canada and the US intervene directly in the pay-setting process.

## **Indirect government influence on reward management**

Employment laws (equal pay, minimum wage, hours/minor laws)

Manpower policies (education, training)

Fiscal/monetary policies (government employment, roads/housing/defence)

→ demand for labour and supply of labour

→ reward practices and pay paid

## **Reward management revision questions**

1. Explain the key functions of reward management
2. Explain the importance of job analysis information
3. Describe the job evaluation process
4. Describe the key determinants of pay
5. Evaluate the merits of alternative rewards systems
6. Explain how governments intervene in the pay-determination process