



**Eastern University, Sri Lanka**  
**Faculty of Commerce & Management**  
**Third Year Second Semester Examination in Bachelor of Business Administration**  
**(Specialization in Human Resource Management)**  
**2013/14 (September /October 2016)**  
**(Proper/Repeat)**

**HRM 3043 Performance Evaluation and Compensation Management**

Answer all five (5) Questions.

Time: Three Hours

Q1. Read the case study and answer the questions given below.

**Appraising the Administrators at Sweetwater Company**

Mr. Ram, newly appointed vice president for administrative affairs at Sweetwater company. Three weeks after he came on board in September, Sweetwater's president told Ram that one of his first tasks was to improve the appraisal system used to evaluate secretarial and clerical performance at Sweetwater company. Apparently, the main difficulty was that the performance appraisal was traditionally tied directly to salary increases given at the end of the year. So most administrators were less than accurate when they used the graphic rating forms that were the basis of the clerical staff evaluation. In fact, what usually happened was that each administrator simply rated his or her clerk or secretary as "excellent." This cleared the way for all support staff to receive a maximum pay increase every year.

But the current company budget simply did not include enough money to fund another "maximum" annual increase for every staff. Furthermore, Sweetwater's president felt that the custom of providing invalid feedback to each secretary on his or her year's performance was not productive, so he had asked the new vice president to revise the system. In October, Ram sent a memo to all administrators telling them that in the future no more than half the secretaries reporting to any particular administrator could be appraised as "excellent." This move, in effect, forced each supervisor to begin ranking his or her secretaries for quality of performance. The vice president's memo met widespread resistance immediately from administrators, who were afraid that many of their secretaries would begin leaving for more rewarding jobs in private industry, and from secretaries, who felt that the new system was unfair and reduced each secretary's chance of receiving a maximum salary increase. A handful of secretaries had begun quietly picketing outside the president's home on the university campus. The picketing, cutting re-marks by dissatisfied administrators, and rumors of a forthcoming slowdown by the secretaries (there were about 250 on the company) made Ram wonder whether he had made the right decision by setting up forced ranking. He knew, however, that there were a few

performance appraisal experts in the company, so he decided to set up an appointment with them to discuss the matter.

He met with them the next morning. He explained the situation as he had found it: The performance appraisal system had been set up when the company first opened ten years earlier. The appraisal form had been developed primarily by a committee of secretaries. This once-a-year appraisal (in March) had run into problems almost immediately, since it was apparent from the start that administrators varied widely in their interpretations of job standards, as well as in how conscientiously they filled out the forms and supervised their secretaries. Moreover, at the end of the first year it became obvious to every-one that each secretary's salary increase was tied directly to the March appraisal. For example, those rated "excellent" received the maximum increases, those rated "good" received smaller increases, and those given neither rating received only the standard across-the-board cost-of-living increase. Since Sweetwater company administrators in particular have paid secretaries somewhat lower salaries than those prevailing in the industry, some secretaries left in a temper that first year. From that time on most administrators simply rated all secretaries excellent in order to reduce staff turnover, thus ensuring each a maximum increase. In the process, they also avoided the hard feelings aroused by significant performance differences otherwise highlighted by administrators.

Two Sweetwater experts agreed to consider the problem, and in two weeks they came up with the vice president with the following recommendations. First, the form used to appraise secretaries was grossly insufficient. It was unclear what "excellent" or "quality of work" meant. In addition, they recommended that the vice president cancel his earlier memo and not attempt to force Sweetwater company administrators arbitrarily to rate at least half of the secretaries as something less than excellent. The two consultants pointed out that this was in fact, an unfair procedure since it was quite possible that any particular administrator might have staff who were all or virtually all excellent or conceivably, although less likely, all average standard. The experts said that the way to get all the administrators to take the appraisal more seriously was to stop tying it to salary increases. In other words, they recommended that every administrator fill out a form at least once a year and then use this form as the basis for a counseling session. Salary increases would have to be made on some basis other than performance appraisal, so that administrators would no longer hesitate to fill out the forms honestly. Ram thanked the two experts and went back to his office to ponder their recommendations.

## Questions

- a) Identify the **problems related to current Performance Appraisal System** in the above case study. (05 Marks)
- b) What are the **resistances** came from the employees when **introduce a new Performance Appraisal System**? (06 Marks)
- c) What **Performance Appraisal System** would you **develop for the Administrators** at the organizational level? (06 Marks)
- d) Propose **appropriate recommendations** to the Vice President of Sweetwater Company to solve above problem. (06 Marks)

**(Total 23 Marks)**

- Q2. a) What is the difference between **Performance Management** and **Performance Appraisal**? (04 marks)
- b) "Internal alignment is to comparisons among jobs or skill levels inside a single organization". Why is **internal alignment** an important policy in a **strategic perspective of compensation**? (05 marks)
- c) "Performance Evaluation contributes to successful performance of many Human Resource Management functions". **Discuss**. (05 Marks)
- d) "Possibility of occurring evaluator errors is a severe threat to successful implementation of a Performance Evaluation programme". Explain any three **evaluator errors** of a Performance Evaluation programme. (06 Marks)

**(Total 20 Marks)**

Q3. a) What are the **organizational and external factors** that influence **internal pay structure** of a company? (04 M)

b) "Management by Objectives (MBO) has many advantages over traditional Performance Evaluation Methods" **Discuss.** (05 M)

c) What are the **criteria** for an **Effective Performance Appraisal System** and list out and describe the **elements of job performance.** (06 M)

d) "Compensation Strategy sets a clear guidance for the key remuneration principles in companies". How companies **would develop an effective compensation strategy?** (06 M)

(Total 21 M)

Q4. a) "Performance Appraisal is a long-term feature of human society and is an often debated human resource activity". List down **various contextual issues related to performance appraisal system** of Sri Lankan companies. (05 M)

b) Differentiate the terms "**Access Discrimination**" and "**Valuation Discrimination**". And list the **factors** that would lead to the **Earnings Gap** of the employees? (07 M)

c) "Establishing objectives of performance evaluation is an integral part of the process of Performance Evaluation". **Do you agree or not? Why?** (06 M)

(Total 18 M)

a) Contemporary organizations are using modern techniques to measure performance of the employees and organizations. Briefly describe **360- degree feedback method** that would be used to measure the performance.

(05 Marks)

b) "The best practices approach is superior to the best fit approach when designing a compensation system". **Discuss.**

(06 Marks)

c) You are the Human Resource consultant in a small business with about 40 employees. At the present time they offer only 05 days vacation, 05 paid holidays and legally mandated benefits such as insurance payment. Develop **a list of other benefits** you believe they should offer, **along with your reasons for suggesting them.**

(07 Marks)

**(Total 18 Marks)**