

## Performance Appraisal Systems and Their Effects on Reward Management in Universities

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**Abstract:** Employee retention relates directly to how we reward them. Replacing employees in a company can be an arduous and an expensive exercise. Even in more secure industries such as the public sector, performance needs to be managed and staff motivated as in the private sector. Retention of experienced staff in both these industries is important to create competitive advantage and organisational success is restricted by the economic climate, retaining high performers with rewards has to be achieved while making all staff feel valued. As more and more organisations cross international boundaries to conduct business, rewards that are relevant in one country may not be as important in another. Organisations need to accurately measure and evaluate the performance of their employees and reward them accordingly. There should therefore be a direct link between a performance appraisal system and rewards emanating from that system. Many a time, performance management systems do not show any connection with the rewards that the employer gives to its employees thus rendering the performance approval system irrelevant.

**Keywords:** Management, universities, appraisal systems, effects, reward.

### INTRODUCTION

Available literature tends to show that the quest for accurate and effective performance appraisal in universities points to the fact that the process of performance appraisal often fails to achieve expected results [1]. The problem is that there is scanty research on the organisational context and efforts of managers as determinants of appraisal outcomes.

Further, the extent to which performance appraisals are viewed by senior managers as essential remains unclear. Given such a scenario, it is necessary to examine how judgements and rating behaviours are arrived at. Indeed, improvements in the design of appraisal systems and the conduct of appraisals emanating from research include job-relevant criteria and more effective formats [2,3]. There has also been a call for training interventions to improve rating accuracy [4, 5].

Other weaknesses as viewed by staff emanate from lack of research-based recommendations for improving performance. Indeed, research agendas that have shaped a lot of empirical work do not address many of the problems of great concern to the senior managers. In fact, the traditional view of performance appraisal as a measurement problem remains prominent in appraisal research. Moreover, very little emphasis was made on rating accuracy in favour of other motivational and dynamics of the appraisal process. Further [5] indicated a new focus on how managers form impressions and make appraisal judgements guided by Social Cognition [6] and information processing.

In fact, a number of positives seem to emerge pertaining to effectiveness of performance appraisal and implications on reward management. Studies by Shiyamala [7] confirm that there is a relationship between fairness of the compensation and the workers' level of stress and burnout on the job. This implies that compensation viewed as fair will motivate staff to be committed to their job. Another critical observation was made by Mpofu [8] who stated that if an organisation rewards ethical behaviour and employee efforts fairly, workers will tend to reciprocate by putting extra effort to improve organisational performance. This further confirms empirical evidence by Heneman [9] who concluded that merit pay plans generally lead to higher levels of employee and organisational performance. The above findings are pertinent to my study since the researcher intended to examine how appraisal systems could impact on rewards vice versa.

Research on employees' reactions to performance appraisals seems unclear. Cole [10] stressed the need for organisations to develop highly skilled employees who can survive in a competitive environment. Indeed, researchers bemoan the absence of research on employee reactions to performance

appraisals. Earlier on, Meyer [4] had stated that strong psychometric properties alone had little impact when the appraisal system was not accepted. Current literature however calls for the need to examine current practices and to assess their effectiveness. The issue of appraiser/appraisee perceptions was further explored by Thompson [11] who noted that there were limited reactions in everyday practices. However, this was a contradiction of what Roberts [1] had observed when he said that appraisal satisfaction was positively related to organisational commitment. What seems clear is that research has not yet fully explored the role of worker values [12]. This study will explore

### Considerations for developing reward systems

Agarwal [13] focused on management systems with a focus on emerging trends and issues. He indicated the following key considerations in developing reward systems:

- The need for skill based pay
- The need for broad banding

In the broad banding structure, an employee can easily be rewarded for lateral movement or skills development as opposed to the traditional multiple grade salary. There is redesigning to allow pay ranges to reflect what obtains in the market. This allows common sense salary structures which provide for plenty of room to compete for talent. The system continues to reward stars without exceeding the pay grade ceiling. This involves consolidating traditional pay structures consisting of many narrow pay ranges into few wide ranges. Variable pay as a method of paying employees above and beyond the pay base depending on successful attainment of specific objectives is also favoured. A variable pay design can put into consideration achievement based on individual performance, group performance or company performance. It is significant to note that team rewards have been known to be effective in improving not only team performance but also individual performance within the team [14].

Indeed, the philosophy of reward management includes the need to achieve fairness, equity, consistency and transparency in operating a reward system [15]. They state that for any system to obtain good returns. It is necessary to reward differently and to ensure elements of rewards are clearly stipulated. This implies that policies provide clear guidelines on approaches to guide the rewards. Practices adopted should indicate rewards including contingent pay. They also state that it is important to ensure that there are clear processes which focus on assessing individual performance and also evaluate the relative size of jobs. Further, they state that procedures which serve to maintain the system and allow for predictability should be well articulated and finally that there should be a clear structure which provides a framework for pay.

The above confirms the need for performance pay as a way of improving quality. Linking pay with performance includes well laid out requirements that progress through all levels of pay. It is further emphasised that staff should fulfil set levels of performance. Performance pay has yet another advantage in that it increases staff motivation since the staff will be recognised for achieving or exceeding desired objectives.

Given the view that staff will be fully appraised, there are chances that there could be cost savings from non-payment of under-performing staff and since such a system calls for observance of discipline, this will save costs in that there will be fewer staff who have to be charged for indiscipline.

Yiannis, Loannis and Nikolaos [16] examined current performance appraisal practices on reward, financial or non-financial rewards using lessons from literature and results of a qualitative analysis as revealed from interviews of some executive members. It is significant to note that they indicated that there was scarcity of empirical case study work on organisations pertaining to workings of performance appraisal and factors which result in positive effect. While the literature reviewed recognised the importance of effective systems regarding performance measurement and reward, it was not clear how to measure team performance and how to structure rewards to achieve maximum effectiveness [9, 17].

Of importance is the view that reward systems should comply with the overall management style of an organisation. It is also significant to note that there has always been a debate on the merits of financial versus non-financial and extrinsic rewards.

- Non-financial rewards are evidenced by recognition.
- Provision of opportunities to succeed related to role design and development activities.
- Skills development and career planning which encompass coaching, learning and review discussions.
- Promoting job enlargement which emphasises intrinsic motivation factors like job satisfaction and job outcomes.
- Commitment by integrating individual and organisational objectives.

According to Sprink [18], most formal performance appraisal systems use financial extrinsic rewards such as individual merit-based pay, skill-based pay as well as knowledge-based pay based on learning and knowledge other than skills.

For team merit-based pay, gain-sharing and / or profit sharing based on organisational level

performance, special rewards and bonuses are also used. It is further stated that it is essential to measure performance or competence to determine what to pay for performance with regard the above. Armstrong [15] hinted that assessment should be based on good information and informed opinion. He further indicated that the person being assessed should be encouraged to contribute to the process of obtaining evidence to support the assessment. The appraisee should be able to appreciate why the assessment was made and should be given an opportunity to appeal against the assessment.

While efforts have been made to define performance and behaviour expected, it was found difficult to motivate individuals and teams to meet desired expectations [19] indicates conceptualisation model is not widely accepted. In fact, research is not agreed. Some studies indicate that pay is the most important factor while others rate it lower. There is therefore lack of consistency pertaining to the role of pay as a motivator. Indeed in a survey conducted on the third quarter of 2005, the following themes emerged:

- Irrespective of the size of the organisation, cash is always the mostly provided reward and is usually in the form of bonus or other award.
- Long term incentive plans are utilised throughout organisations.
- Companies tend to offer low cost creative rewards coupled with learning activities which in turn upgrade skills and improve morale.

While the above findings relate to the application of rewards in the private sector, their importance in relation to rewards management in the universities under study remains to be seen. Further, a clearer assessment of performance appraisal systems in selected universities can best be understood through the exploration of a number of critical concepts. This study will therefore focus on the following:

- The role of merit pay
- Management by objectives
- Results based management
- Balanced scorecard
- Organisational commitment
- The four Cs; and
- Benchmarking

#### **The role of merit pay**

The issue of merit pay plans has remained controversial among researchers [20]. Their study focused on current performance appraisal practices on rewards financial and non-financial using lessons from literature and results from qualitative analysis as revealed from interviews conducted on some executive members. Research results indicated regular use of appraisal system by leaders in order to better organisational results. Such results included reward

elements like basic pay, contingent pay, employee benefits or intrinsic rewards from the work place.

In another study on merit pay plans in Higher Education Institutions, Terpstra and Honoree [21] focused on the need to provide empirical data on effects of merit pay plans in Higher Education institutions. They used a sample size of 500 faculty members from four-year colleges and universities in the United States. In their findings, they concluded that merit pay plans in general has somehow a positive effect on Faculty performance levels in areas of teaching research and service.

Of note is the view that formal appraisal systems would use individual merit pay, skill based pay, knowledge based pay, team merit based pay as well as gain sharing or a profit sharing system. They concluded that pay was the commonly provided reward. It was found to have significant impact on performance. Tied to the above Chief Executive Officers preferred compensation related to job description so as to have measurable results. While merit pay plans have been seen to have a somewhat positive effect on performance appraisal in the public sector financial incentives were seen to have a greater impact on quantity than quality. It is significant to note that research to date has not empirically investigated the impact of merit pay plans upon performance levels of faculty in university setting hence the need for this study.

Indeed as further evidence of contradictions on the relevance of merit pay plans in Higher Education Institutions, Schutz and Tanguay [22] state that merit pay has been the hallmark of pay for organisational programmes for years. They even go further to say that merit pay systems are based on well communicated predetermined standards which provide greater rewards to those performing at higher levels. Further confirmation comes from Lawler *et al.* [17] who stated that pay for performance can motivate staff and that there is a connection between results of performance appraisal and compensation of individuals.

From what has been advanced so far, neither monetary incentives nor non-monetary incentives could be said to exclusively impact on employee performance. The researcher would like to find out the situation which obtains in the selected universities.

#### **CONCLUSIONS**

Performance management systems can be seen as cynical and measured using irrelevant criteria and sometimes people can be rewarded for meeting these criteria. Unfair reward systems can also be viewed in such a manner and be considered procedural rather than fitting an individuals or team's needs.. We need to be able to accurately measure performance to determine if the investment in creating and maintaining complex

reward systems is economically viable. This needs to be considered in terms of cost associated with motivating employees and return on investment from that in terms of staff movement to other companies.

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