EMPLOYEES’ PERCEPTION OF THE EFFECTIVE USE OF THE PERFORMANCE APPRAISAL SYSTEM IN A FINANCIAL INSTITUTION

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TSHANGWANE VIRGINIA SERAKWANE

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Study Leader: Prof. W. Backer

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ABSTRACT

PROBLEM STATEMENT
Although performance appraisals exist in most organisations, they are not implemented correctly. In many organisations the link between the performance appraisal ratings and the outcome is not so obvious. This has led to mistrust of the performance appraisal process by the users and the total process does not command the credibility it deserves.

A summary of problems with performance appraisals systems and processes are as follows:

- Preparations prior to appraisal with staff are not adequate.
- Users of the system are not formally trained.
- Performance appraisal processes are often considered to be unpleasant and time consuming.
- The performance appraisal processes are subject to subjectivity.
- The rating scales and performance dimensions used in the systems are open to different interpretations due to lack of clear guidelines.

RESEARCH OBJECTIVE
The main objective of this study is to establish the employees’ perception on the effective use of the performance appraisals system in a financial institution in South Africa.

RESEARCH METHOD
Exploratory research was used to conduct this study. The information was gathered using a questionnaire as a research instrument. The sample, using probability sampling, was extracted from a target population of employees from Retail Credit and Group IT who have been with the bank for at least two years. The sample was stratified by division (Retail Credit and Group IT) and position level (managers and non-managers). The sample size of 64 cases was used for this study.
CONCLUSIONS

Preparation for the performance appraisal
Most banks employees are given less than a week to prepare for the appraisal discussion with their managers/supervisors.

Training of the performance appraisal process
Managers/supervisors have not been formally trained to conduct performance appraisal interviews.

Understanding of the performance appraisal system and process
Although employees feel that the measurement scales are easy to understand, the performance appraisal process is not understood. Employees have different understandings of when moderation takes place in the process. Employees feel that input in the moderation process from their line managers is not considered and their managers/supervisors use predefined ratings.

Performance appraisal discussion
A large proportion of staff has a negative feeling towards performance appraisal discussion. Although a significant number of staff is asked for input during the discussion, employees do not believe that their input is used.

Use of the outcome of the performance appraisal rating
Employees do not believe that the appraisal discussion drives outcomes like bonuses, salary increases, promotions and development. This is also explained by their lack of knowledge of where in the forced ranking their final rating places them.

Career development in performance appraisal discussions
Career development discussion is not formalised by the appraisal forms used and is in most cases not covered during the discussions. More disturbing is the comment from employees that the bank offers them jobs and not careers.
Overall perception of employees on effective performance appraisal discussions

Employees do not believe that their managers/supervisors know what they are doing regarding the performance appraisal, due to lack of training and use of predefined ratings. Coupled by the lack of proper understanding of the process (e.g. moderation, forced ranking, etc) employees do not believe that the performance appraisal ratings drive any outcome.

RECOMMENDATIONS

Recommendations to address the problems identified in the themes described above are presented below:

- All staff in the organisation needs to go through a training process so as to establish a common understanding of the organisation’s philosophy on performance appraisal and the process. Training must be incorporated into the induction package for all new staff members.

- The final rating of staff must be communicated to staff within the context of the 20/70/10 forced ranking process. The 20/70/10 forced ranking must be explained within the context of salary increase and bonus calculation to all staff.

- Definition of Key Result Area must be linked to the organisation’s objective. The link must be obvious both at senior management level, and also at the very lowest level of staff members.

- Management must be held accountable to agree and finalise KRA with their staff members at the beginning of each year. Measurement criteria must be agreed upon and signed by both parties.

- Performance appraisal and development planning should be treated as separate discussion sessions between line manager and staff. This will
ensure that both performance and development issues are formalised and given attention.
CHAPTER 1: Background and Rationale

1.1 INTRODUCTION

In the second wave management style era, performance appraisals were the main function of Human Resources Divisions. Globalisation has led to many functions of companies being more specialised. Specialisation of functions has therefore moved the responsibility of performance appraisals to be a line manager’s function.

The challenge with this is that line managers specialise in their respective disciplines and not necessarily human resources issues. Line managers are result focused and therefore at times do not give the performance appraisal processes the attention that they deserve. This has therefore resulted in a clouded and different understanding of the purpose of the performance appraisal process amongst managers and their subordinates.

The objective of this study to establish the perception of employees on the effective use of the performance appraisal system in a financial institution. Performance appraisal systems and processes, if performed accurately and effectively, provide managers with a tool to give credit where credit is due whilst at the same time addressing areas that need development in a constructive manner. Performance appraisal is a process rather than an event and if done properly, it can facilitate a healthy working relationship between manager and subordinate.

Constructive feedback for both good and not so good areas can only translate into a healthy working environment that offers employees job satisfaction, and motivation, and encourages good performance. Individual good performance that is supported and encouraged by management translates directly into the performance of the organisations.

According to Wilson & Cole (1990:46) the objective of the performance appraisal is to set objectives, assess performance and personal development.
Performance appraisals are used to develop employees by looking at past performance. The outcome of performance appraisal is used for salary reviews, promotions, retention and bonuses.

According to Fletcher & Williams (1986:12), for the performance appraisal process to be done accurately the appraiser needs to know how to use the forms, and administrative procedures; how to adhere to deadlines when completing the appraisal process, and getting the forms approved timeously. The appraiser must have the following qualities:

- Be in a position to observe the behaviour and performance of the employees;
- Be knowledgeable about the dimensions and features of performance;
- Have understanding of the scale format and the appraisal systems instrument itself; and
- Be motivated to do a conscientious job of rating.

This study will investigate the employees’ perception on the appraisal system implementation and the qualities of the appraisers as specified by Fletcher & Williams (1986:12) as well as the purpose of the appraisals as specified by Wilson & Cole (1990:46) above.
1.2 PROBLEM STATEMENT

According to the researcher, performance appraisals should not only be used as a tool to tell individuals where they stand but more so, as a career development tool. Performance appraisals should be used as a process from which the individual can be advised of their strengths and area of development for their own long term benefit and that of the organisation.

The researcher has had experiences with the performance appraisals systems and processes in the organisation and has observed the following:

- The performance appraisal processes are subject to subjectivity. Subjectivity of the performance appraisal process could be due to a number of reasons such as favouritism, users not being familiar with the system or lack of adequate evidence.

- The rating scales and performance dimensions used in the systems are open to different interpretations due to lack of clear guidelines. This therefore undermines the comparability and consistency of assessment done by different assessors.

- Assessors show central tendency and positively skewed ratings and therefore do not provide differentiating performance levels.

- Similar rating scales are used for people doing different jobs.

- Appraisals are done hastily with inadequate preparation and long term view from both parties. In most cases performance appraisal processes are at the bottom of managers “to do list” and are completed at the last minute to meet a deadline set by human resources. Assessors are results focused because of projects deadlines and do not spend enough time thinking about individuals' long-term career goals and aspirations and the management support that may be required to achieve those goals.

- Performance appraisal processes are often considered to be unpleasant and time consuming.

- Most of the assessors have not been formally trained to use the performance appraisal systems.

This type of conduct raises questions as to whether management understand the relevance of the performance appraisal process and the impact that the
level of understanding has on the subordinates’ performance and motivation levels and the overall performance of the organisation. With this being the trend of performance appraisal processes, what then drives the process to acknowledge and reward good performance, and accurate and fair recognition of development area requirements?

According to Kreitner & Kinicki (2001:301), findings of a study of 239 US companies, revealed that only 25% of managers doing the performance appraisal had been trained for the task. 62% of managers reported that leniency was their number one appraisal problem. 95% of appraisers dislike “playing God”

1.3 PURPOSE OF THE STUDY
The purpose of this study is to investigate and establish the perception of the employees towards the effective use of the performance appraisal system in a financial organisation. To investigate the effective use of the performance appraisal system according to literature review, an empirical research was performed to determine perception towards the following:

- Purpose of the appraisal process.
- Practical implementation of the appraisal system (preparation, knowledge, understanding and interpretation).
- Practical use of the outcome of the appraisal process.
- Areas that need to be improved with the current appraisal process.

1.4 IMPORTANCE/BENEFITS OF THE STUDY
Employees’ and managers’ day to day relationship can be enhanced and be productive if the performance appraisal system is used effectively. Employees and managers need to be in agreement in terms of expectations and the measurement criteria. The managers can provide necessary support in terms of areas that need development. This approach will benefit any organisation because employees will not see managers who are only result focused but managers that show interest in the overall development of staff.
Effective use of a performance appraisal system is important not only to individuals, but also to the organisation as a whole. Accurate and effective performance appraisal processes align individual goals with the overall goals of the organisation. When employees are aware of their contribution to the whole organisation performance, receive constructive feedback and appropriate compensation they become even more motivated. Accurate and effective implementation and use of a performance appraisal system could result in a performing and competitive organisation that is able to retain quality human capital.

1.5 RESEARCH OBJECTIVE

Research objective is the definition of what the research should accomplish in measurable terms, Zikmund (2003:99).

1.5.1 Primary objective

The main objective of this study is to establish the employees’ perception on the effective use of the performance appraisal system in a financial institution in South Africa.

1.5.2 Secondary objectives

In establishing the effectiveness of the performance appraisals system the following areas will be explored:

- Employees’ and management employees’ understanding of the purpose of the performance appraisals process for managerial and non-managerial employees from different divisions in the organisation.
- Employees’ and management attitude towards the current performance appraisals process and system and the general concept of feedback process amongst managerial and non-managerial employees from different divisions in the organisation.
- Employees’ and management perception on the use of the current performance appraisals systems and processes for managerial and non-managerial employees from different divisions in the organisation.
1.6 RESEARCH HYPOTHESIS

A research hypothesis is an unproven proposition that tentatively explains certain facts or phenomena and can be tested empirically, Zikmund (2003:99). The following hypotheses have been formulated and are tested in this study:

\( H_1 \): Different divisions’ perception on the effective use of the performance appraisals systems and processes is the same.

\( H_2 \): Managerial and non-managerial employees’ perception on the effective use of the performance appraisals systems and processes is the same.

\( H_3 \): Understanding of the purpose of the performance appraisals systems and processes is the same in all divisions.

\( H_4 \): Understanding of the purpose of the performance appraisals systems and processes is the same among managerial and non-managerial employees.

\( H_5 \): Perception of users is that performance appraisal outcomes drive compensations, promotions and development plans in the organisation.

1.7 DEMARCATION AND SCOPE OF THE STUDY

This is an exploratory study aimed at investigating the perception of employees on the effective use of the performance appraisal system in a financial institution in South Africa. In conducting the study the following aspects should be noted:

- The study covers the main uses of the appraisal system as revealed in the literature review.
- The investigation focused on the effective use of a performance appraisal system as derived from literature review. To establish the effective use, the study covers issues such as i) purpose of the appraisal process; ii) implementation of the process; iii) issues that employees have with the current performance appraisal system and process.
- The investigation is done in two divisions of the financial institution (Retail Credit and Group IT) and conclusions are drawn from the outcome of this study and from the outcome of a similar survey conducted by human resources in another division (Group Finance) of the institution.
The perceptions on whether the performance appraisals systems and processes are used effectively are established, evaluated and compared for managerial and non-managerial employees.

1.8 CLARIFICATION OF KEY CONCEPTS

- Understanding of performance appraisal system and process – users of the system know the system, understand the guidelines and have consistent interpretation.
- Consistent performance ratings – ratings are evaluated using consistent measurement criteria.
- Objectivity of the performance appraisal processes – evaluations are specifically on the job performance and not personal.
- Use of the performance appraisal – the outcome drives, incentives, promotions and identification of developmental areas.

1.9 EXPOSITION OF CHAPTER

The study consists of the following chapters:

Chapter 1: Background and Rationale
This chapter sets the scene for the study with a problem statement, purpose of the study, importance of the study, scope of the study and the hypotheses to be tested.

Chapter 2: Organisations Internal Practices
This chapter illustrates the philosophy and process of the performance appraisal system as documented by the organisations. This will be a source of reference when the actual practices on the ground are established using the outcome of the empirical analysis.

Chapter 3: Literature Review
This chapter sets out to illustrate ideal performance appraisal processes as documented by various subject experts in different books and articles.
Chapter 4: Empirical Research Results
This chapter highlights the empirical analysis results of the study as captured by the researcher using a questionnaire as the research instrument.

Chapter 5: Conclusion
The conclusions drawn from the respondents of the questionnaire and the survey done by Group Finance Human Resources.

Chapter 6: Recommendations
This chapter seeks to recommend possible areas that perhaps need attention given the findings, and what literature suggests are good practices of performance appraisals.

1.10 SUMMARY
The objective of this chapter is to clarify the main objective of the study and the approach taken to achieve the objective. The next chapters will discuss in detail the overview provided in the exposition section.
CHAPTER 2: Organisations Internal Practices

The banks intranet, People Mates was referenced to extract the information below.

2.1 Retail Banking Practice

The scope of this paper is to evaluate the perception of effective use of the Performance Appraisal ("PA") process and system in one of the four big banks in South Africa. The divisions that will be studied are in the Retail Banking Division of the bank. The internal practices of Retail Bank are discussed below and in the next section selected business units within Retail Bank (i.e. Retail Credit, Group IT and Group Finance) practices are discussed in detail.

The diagram below (figure 2.1) illustrates the link of individuals' Key Results Area ("KRA") to the organisations' main objectives and strategy. The individuals' KRA's contributes to the Business Units ("BU") strategy. Because of this contribution and the link between the Individual and the bigger organisation's objectives, individuals need to be continuously assessed in terms of how they are doing toward achieving these objectives and also to ensure that they are rewarded accordingly for the contribution that results in organisations' success.

![Figure 2.1: Retail Bank Individual Key Results Areas link to Organisation](image-url)
According to figure 2.2 below, Retail Bank Performance Management system has three main components, namely:

- Performance Contracting and Planning;
- Performance Coaching and Feedback; and
- Performance Assessment and Reward.

2.1.1 Contracting & Planning

In the Retail Bank, the Performance Contract is a mandatory element of the Performance Management System. This area of the Performance Management Process focuses on the setting of objectives and contracting of behavioural expectations. The idea behind the Performance Contracting is to create an agreed record of the role clarification and performance expectation between the manager/supervisor and the employee. A very important part of the Performance Contract is the learning and development plan of the employee, which indicates the developmental objectives for the period to ensure higher levels of value-adding behaviour and competence.

The performance contracting process requires the definition of principal accountabilities and corresponding behaviour, aligned with the team/department/business unit’s strategy and broader organisations’ objectives.
Key Result Areas are a statement of “WHAT” should be achieved; Critical Behaviours are a statement of “HOW” key result areas should be achieved.

2.1.2 Coaching & Feedback

Throughout the year, all employees should receive continuous coaching and feedback from their manager. This consists of:

- Formal sessions where feedback is given and objectives are aligned or modified to fit changing business conditions.
- Informal discussions that will occur whenever an opportunity arises to discuss performance against objectives and individual development.

Coaching and feedback are two-way processes. The manager provides ongoing counsel and the individuals are expected to actively seek feedback and assistance as needed. The key is to maintain an open dialogue about how to improve performance.

At regular intervals during the year, managers should hold performance reviews with their employees. During these reviews:

- Their performance against the "Performance Contract' is to be discussed and good performance acknowledged and reinforced;
- The employee should be given the opportunity to discuss specific ways of doing a better job, and to participate in the discussion about their own future;
- Any problems should be noted, together with actions to rectify problems;
- If it becomes necessary to modify the employee's outputs in line with the Business Score Card and/or his "Personal Development Plan, areas of the "Performance Contract" are to be re-negotiated and amended.
Notes of these meetings should be kept and inserted into the Performance File for future reference. The more frequent the updating and interaction, the more effective the Performance Management process is. It is encouraged that the process is done throughout the year, completing necessary documentation to avoid any surprises.

2.1.3 Assessment & Reward

During July and November of each year, formal performance appraisal discussions are held, with the process being concluded with a ranking allocation awarded to all employees, based on their performance for the specific period.

At the end of the year, which is also the financial year-end of the Bank, the performance ratings and resulting performance rankings are utilised as input in the reward discussions for the allocation of increases to employees.

2.2 Retail Bank Performance Appraisal (“PA”) Rating System

The PA system has two sections namely the KRA and the Critical Behavioural section. The KRA weighs 70% whilst the Critical Behaviour weighs 30%.

2.2.1 Key Results Area (“KRA”)

Table 2.1: Key Results Area rating scale

<table>
<thead>
<tr>
<th>DESCRIPTOR</th>
<th>QUANTIFIED AS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unacceptable</td>
<td>0,0 – 1,9</td>
</tr>
<tr>
<td>In need of improvement</td>
<td>2,0 – 2,9</td>
</tr>
<tr>
<td>Meets all criteria</td>
<td>3,0</td>
</tr>
<tr>
<td>Exceeds to some extent</td>
<td>3,1 – 4,0</td>
</tr>
<tr>
<td>Exceeds consistently</td>
<td>4,1 – 5,0</td>
</tr>
</tbody>
</table>
Performance is unacceptable (0.0 – 1.9)
Has not met the basics expectations for delivery as set out in the Performance agreement.

Performance in need of improvement (2.0 – 2.9)
Generally capable of performing at the desired level, but performance output levels / provision of customer care may be inconsistent due to a lack of skills and/or an inability to apply skills/knowledge on the job.

Performance meets all criteria (3.0)
The requirements of the job have been met on all levels. All the required skills and knowledge have been appropriately applied to perform the job competently and provide consistent levels of output and customer service.

Performance exceeds expectations to some extent (3.1 – 4.0)
Demonstrates a sustained commitment to excellent performance, providing well above average output levels and customer service by putting in extra effort on most occasions. Rarely, if ever requires supervision. Contribution to the team is constructive and the level of customer service provided by the whole team is enhanced by the individual’s approach.

Performance exceeds expectations consistently (4.1 – 5.0)
Produces an exceptional level of work and is able to function beyond the requirements of the role consistently. Functions as an informal leader, using depth of knowledge and personal skills to encourage the improvement of performance/customer service delivered by the entire work team.

2.2.2 Critical Behaviours (“CB”)

Table 2.2: Critical Behaviours rating scale.

<table>
<thead>
<tr>
<th>Critical Behaviour Descriptor</th>
<th>CB Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>0.0 – 2.4</td>
</tr>
<tr>
<td>Fair</td>
<td>2.5 – 3.4</td>
</tr>
<tr>
<td>Good</td>
<td>3.5 – 4.5</td>
</tr>
<tr>
<td>Excellent</td>
<td>4.6 – 5.0</td>
</tr>
</tbody>
</table>
POOR (0.0 – 2.4)
Has not met the basic behavioural expectations. Demonstrates no willingness to live the bank culture / has no respect for team members and colleagues. Behavioural Counselling or poor performance process in place or in process.

FAIR (2.5 – 3.4)
Generally capable of demonstrating positive critical behaviour as per expectations set, but tend to be inconsistent due to a lack of skills and/or an inability to apply himself/herself to the job or in the specific work environment. Development initiatives underway or to be discussed.

GOOD (3.5 – 4.5)
The individual demonstrates the required level of behaviour and applies him/herself appropriately in the work environment with some instances of exemplary behaviour quoted, although not consistently enough applied to be regarded as a role model.

EXCELLENT (4.6 – 5.0)
Demonstrates a sustained level of exemplary behaviour, is considered to be a role model by colleagues and peers. Contribution to the team is constructive and the level of customer service provided by the whole team is enhanced by the individual’s approach.

2.2.3 Ranking & Moderation
In terms of the bank’s policy, all managerial and general staff are ranked within ranking populations in their respective business units and centralised services for the purpose of performance and reward management. This is done in such a way that the top-performing 20% of total employees and the least-satisfactory performing 10% of total employees is distinguished from the main body of employees. This takes place within business units and centralised services.

The ranking is effected in the following two stages:
During the first stage, line management, supported as priority arranged by HR, will rank the staff based on the achievement of agreed key results and the consistent demonstration of agreed behaviours. This is done to enable management of each department to do the first ranking on the aforementioned 20:70:10 bases.

The second stage is a moderation stage. The combined spreadsheets for the ranking population are submitted for moderation to the moderating committee/s. The purpose of the moderation is to enhance fairness by eliminating irregularities. All ranking populations must be subject to moderation by the moderation committee/s. As a general rule, for every employee who is justifiably moved from one category to another, another employee must be justifiably moved in the opposite direction, such that each band remains populated by 20%, 70% or 10% of the ranking population (ranking bands reflect relative, not absolute, performance).

2.3 Performance Appraisal Rating System in division selected for the study

The three divisions examined in the study use the appraisal forms in Annexure D, for non managerial staff and Annexure E, for managerial staff. The division in the study are:

- Retail Credit;
- Group IT; and
- Group Finance.

The practices in each division will be discussed briefly and later an assessment of compliance with the Retail Banking practices will be done, which will also be compared with the theory of Performance Management/Appraisal processes and practices.
2.3.1 Retail Credit

The bank is in the business of lending money. This division is mainly responsible for ensuring that the lending to customers is done in accordance to the risk appetite agreed at executive level throughout the credit life cycle.

Retail Credit has 20, 70, 10 ranking system with 70% for KRAs and 30% for CB.

2.3.2 Group IT

Group IT has recently implemented an electronic appraisal process system to be conducted twice a year. Group IT offers IT service to other divisions within the bank. Each individual specific target goal is set with the manager at the beginning of the year. Group IT employees belong to a pool of resources from which they are assigned different projects within the bank. There is therefore a matrix reporting structure and feedback on individuals is gathered from different individuals with which the individual has worked.

Group IT also has 20, 70, 10 ranking system with 70% for KRAs and 30% for CB.

2.3.3 Group Finance

Group Finance is a very specialised area and consists of the following divisions:

- Group tax;
- Investment relations;
- Corporate Services;
- Financial Accounting;
- Capital Management; and
- SAP Knowledge management.
During the course of the study the division was finalising the competency model for each job. According to their human resources consultant, objectives and KRAs are set at the beginning of each year. After each appraisal session development plans are set for individuals with time frames to be met and requirements to meet the development plans.

Group Finance also has 20, 70, 10 ranking system with KRA being 70% and 30% for Critical Behavioural competencies.
CHAPTER 3 : Literature Review

3.1 INTRODUCTION

Employees play a key role in the performance of organisations.

According to Dessler (1988:112-113), personnel management is becoming increasingly important today as a result of social, economic and political trends. According to the US Bureau of Labour Statistics, one out of every four graduates entering the labour force has not been to college. There is therefore more supply than demand, which is why some graduates find themselves in jobs for which they are overqualified. Having to motivate a better-qualified work force becomes a critical issue. Men and women of all ages seem to be choosing lifestyle and career rather than just a job. Career development and adapting to the flexible lifestyle and changing interest of workers are becoming increasingly important. A variety of new laws have been passed that drastically alter the actions that managers can take, e.g. equal employment opportunities, occupational health and safety, etc.

Over and above the above demands, every organisation consists of different levels of management playing different roles in making sure that the main objectives of the organisation are met. Every organisation can have different key objectives, but the main objective is to create shareholder value and outperform its competitors.

These will only be possible if strategic plans are defined to meet those objectives. Different levels of management set objectives, which contribute to the overall organisational objective. The objectives are strategic at executive level, tactical at management level and operational at lower level. This clearly illustrates that every individual day-to-day activity in the organisation should support the bigger organisational objective.

Workplace (The Star, 2004:6), had an article on Edcon Group. The article supports Dessler’s (1988:112-113) argument above. When Edcon Group was
in trouble and on the verge of cost cutting through people layoffs, they realised that their success was very dependent on how they look after their people who are in the stores and in contact with the customers. 20% of all managers’ performance was based on human resource management. Training, leadership development, and employment equity and employee perception surveys are considered when key performance areas are evaluated for managers.

Training and development became one of Edcons’ eight strategic themes. Training is highly individualised and aimed at the development of people up the career ladder. Investing in employees is key to success. Edcon believes that if employees are satisfied they will pass it on to the customers, which will be to the organisation’s benefit. The latest Edcon performance bares testimony.

3.1.1 Overall Organisation Strategy

According to Bacal (1999:26), the link between strategic management and performance management is encompassed in the general mission and vision

![Overall Organisation Strategy Diagram](image)

**Figure 3.1: Organisation’s Strategy.**
**Source:** Bacal (1999:26)
of the company and its long-term goals. According to McAdams (1996:58) the
degree to which organisations vision and mission are fulfilled depends on the
following:

- How well management implements processes to ensure that day to
day operations reflect the vision and mission; and
- How much employees actually experience the processes rather than
just being aware of them.

Managers training must include addressing the promise of the vision and
mission. The training must also focus on making managers coaches who are
employee sensitive, reinforcing, consultative and supportive of individual’s
development.

Each company has at least four stakeholders, McAdams (1996:62):

- **Financial stakeholders (shareholders)** who invest in the company
  and expect returns for their investments;
- **Product/service stakeholders (customers)** who provide a lifetime
  revenue potential and expect high value in the product/service;
- **Community stakeholders (community)** who expects the company to
  operate in a socially responsible manner;
- **Career stakeholders (employees)** who invest in their time, energy,
skill and creativity and expect respect, opportunity to increase their
contribution to the company’s success and share in the gains of the
success; and
- **Suppliers** are stakeholders in some companies, and expect to be
  treated as business partners in serving the end customer and be
  compensated in a fair and equitable manner.

Organisation’s short and long-term goals should be translated into business
units and into each employee’s goals and objectives. Individual goals and
objectives must have the following phases, Bacal (1999:27-29):
- **Phase 1**: Performance *planning* is drawing up a performance contact that clearly states what is expected. This phase addresses WHAT must be achieved.

- **Phase 2**: Performance *execution* details how activities must be executed in terms of the critical behaviour demonstrated. This phase addresses HOW to achieve the set objectives.

- **Phase 3**: Performance *assessment* requires regular feedback sessions, which are formally documented and discussed with the employees. This phase ASSESSES the strengths, development areas and compensation.

- **Phase 4**: Performance *discussion* takes place between the manager and the employee and has outcomes in terms of identifying areas that need to be improved and how to improve the time period within which they are to be attained. This phase addresses COACHING and training.

The above phases will be covered in detail in different sections of the study.

According to Lawler & McDermont (2003:50), globalisation has brought more emphasis on human capital and has therefore forced most organisations to place more energy on performance management systems. These systems need to support the organisation in meeting its strategic goals through employees’ efforts that are aligned to organisation’s vision and strategies. Efforts should be supported by adequate and applicable competencies and capabilities and the outcomes should be measurable. Organisation will prosper if strategic initiatives are met with success. It is critical that employees who make this possible share in the success through recognition, monetary rewards, promotions and continuous development.

### 3.1.2 Improving business performance

Satisfying shareholders by improving business performance has been management's job. Recognition and group based reward plans can satisfy all stakeholders. Development of employees’ competencies to do the jobs...
required by the needs of the organisation allows them to value and identify their contribution in the organisation's performance. Contribution will be more valued if everyone shares in the organisations performance and that will be the shareholders as well as the employees through appropriate compensation plans. As already mentioned there is an assumed influence of employees’ satisfaction to customers’ satisfaction. Customers who receive the expected value for the money spent can only bring an improved growth to the organisation's performance.

According to McAdams (1996:73), a study was done on 437 companies of which some used performance management (“PM”) and some did not. In most cases it was found that companies that had PM programs had higher profits, better cash flow, stronger stock market performance and stronger stock value than companies that did not have PM. Productivity was also better in companies with PM.

Performance management has to be seen as a system within a bigger system. PM is a system that consists of components such as performance planning, ongoing communication, observation, assessment and coaching.

High performance culture has the following accelerators McAdams (1996:73-74):

- **Define performance** – understand what is expected. Staff must have a perspective of how their contribution fits into the bigger picture.
- **Contract performance** – mutually agreed performance contract covering, what is expected, how it should be achieved and by when.
- **Measure performance** – measure periodically against the contract.
- **Analyse performance** – Gap analysis between contracted and achieved. Understand causes of gaps (e.g. lack of skill, knowledge, resources, etc). If contract met, recognition is warranted.
- **Optimise performance** – accelerate performance using training, resources, motivation, recognition or reward.
- **Reward performance** – monetary rewards are introduced to further enhance performance.

According to Hartle (1995:56), effective PM is further enhanced by the organisational climate. The climate that optimises performance has the following building blocks:

Culture and climate guide employees’ behaviour.

- **Flexibility** – encourage staff innovation;
- **Responsibility** – freedom to make independent decisions and encouragement of calculated risks;
- **Standard** – encourage performance enhancement, set high standards and challenging goals;
- **Reward** – reward based on excellent performance. Praise and recognition must outweigh criticism;
- **Clarity** – staff are clear about expectations, procedures and plans; and
- **Team commitment** – employees' trust, cooperation and sharing of information and resources to get the job done.
3.2 CULTURE

3.2.1 Business Objectives and Desired Culture
McAdams (1996:101-104) argues that the effectiveness of the reward system depends on the organisation’s culture.

![Diagram of Organisation's Culture]

Figure 3.2: Organisation’s Culture

3.2.1.1 Apathetic culture
No emphasis on people or performance improvement. Seniority rules, play by the rule and procedure is extremely important in such organisations. These organisations are risk averse and non-competitive and stick to “We have always done it this way”. Managers protect themselves from criticism and are concerned about job security. Promotions are slow and automatic and evaluations are rare. This culture is found in most government agencies.
3.2.1.2 Caring/Paternalistic culture
Focus on people with less concern for performance. People feel trusted and believe they are treated fairly. Most of these organisations meet employees’ needs such as day care, flexitime, etc. Organisation is hierarchical with an iron fist in a velvet glove to protect themselves. Change is slow and often forced by outside influences and competition is minimal.

3.2.1.3 Demanding culture
Reward plans focus is on organisations’ core value, which is financial. These are mostly learning organisations, focusing on efficiency, competition, individual performance and job position. Most pay well but pay is based solely on performance. “If you don’t perform, you are gone”. There is constant challenge to improve and they are highly competitive (e.g. consulting practices). Special services are introduced to improve employees’ productivity.

3.2.1.4 Integrative/Involvement culture
Core values are both people and performance. Organisations with this culture are innovative, foster cooperation, risk taking and group performance improvement. People are nurtured constantly to improve performance. Goals are accomplished by involving people and are true learning organisations. Team orientated environment are believed to be most effective. Everyone is given a stake in group incentive plan and stock ownership.

3.3 COMPETENCIES
Fletcher (1997:200) defines competencies as a set of behaviours combining skills, knowledge and personal attributes required to perform a job to an acceptable standard. Fletcher (1997:201) argues that competence and competencies are used interchangeably. Competences are about the work and its achievements and competencies are about the people who do the work. Competencies usually refer to behavioural-based descriptors of performance. They describe the inputs, which help achieve successful performance at work.
3.3.1 Categories of competencies:

According to Fletcher (1997:201-203), different competencies are required for different levels in the organisation as detailed below:

- **Job specific competencies (tactical level)** – aspect of a particular job role or position. Jobs are stratified according to their level of complexity. Individuals are assigned to positions based on competency, level of maturity and ability to solve problems at that level. Training could be used to close the gaps between actual capability and desired competency. These are more important at junior level and are an ideal measure of performance and promotions.

- **General management competencies (across all levels)** – persons’ interaction with others in the organisation. These are requirements of any job.

- **Corporate specific competencies (strategic level)** – adjustment required to operate successfully within the culture of an organisation irrespective of role. Individuals that possess these competencies can move easily and successfully between unrelated functions within the organisation. These become of more value as an individual moves up through the organisations hierarchy.

Integrated performance management system – combines both performance results (what) and competency behaviour (how).

3.4 TRADITIONAL PERFORMANCE APPRAISAL

According to McAdams (1996:132), in most organisations, top management determines objectives that will affect each stakeholder (shareholders, suppliers, customers, community and employees), develop strategies and tactics and cascades them down into the organisation. At each succeeding management level, managers address objectives they can influence, develop action plans and tactics and cascades them down to the next level.
Traditional performance evaluation attempts to connect individual employees to the cascaded objectives. Although this is meant to provide evaluation that is objective, in most cases the individual’s contribution does not flow back up to the chain of command. The connection between planning and performance can be improved when employees are treated and rewarded as valued contributing stakeholders.

McAdams (1996:134) writes that people strategy can be characterised as follows:

- Getting the right people and keeping them (attract and retain);
- Making people more effective in their specific jobs (or broadly defined roles) and develop people to meet organisations’ needs; and
- Improve organisation’s business performance.

### 3.4.1 Performance Management

According to Swanepoel and Slabbert (1998:405), there are major differences between Performance management and performance appraisal. PA is where employees’ strengths and weaknesses are identified, measured, recorded and developed.

<table>
<thead>
<tr>
<th>Performance management (“PM”)</th>
<th>Performance appraisal (“PA”)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition: Umbrella for conducting PA, setting goals, communicating expectations, observing, documenting, giving feedback and helping employees to develop skills</td>
<td>Definition: PA is the ongoing process of evaluating and managing both behaviour and outcomes in the workplace</td>
</tr>
<tr>
<td>All members of the organisation are partners in the process. (Shared understanding of what is to be achieved and how this is to be achieved).</td>
<td>Pre-designed form list</td>
</tr>
<tr>
<td>Continuous process based on agreements of accountable expectations and development plans</td>
<td>Form encompasses company values</td>
</tr>
<tr>
<td>Performance review is a joint affair</td>
<td>Appraisers are trained (behaviour</td>
</tr>
<tr>
<td><strong>Performance management (“PM”)</strong></td>
<td><strong>Performance appraisal (“PA”)</strong></td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>observation, goal setting, developing people, confronting unacceptable behaviour, persuading, problem solving and planning).</td>
<td>Improve performance, develop competencies and release potential</td>
</tr>
<tr>
<td>Use the outcome to drive promotions, salary, development, transfer, and training and termination decisions.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Edmonstone (1996:10)

According to Edmonstone (1996:9), performance management have the following building blocks:

- Develop organisation’s mission statement and objectives;
- Enhance communication in the organisation so that staff are aware of the objectives and business plans and contribute to their formation;
- Clear individual responsibilities and accountabilities;
- Define and measure individual performance;
- Implement appropriate reward strategies; and
- Develop staff to improve performance and career progression.

Performance management manages organisation’s performance (vision, strategy and supporting structure, technology, business systems and procedures), staff performance (joint effort between manager and managed) and integrate organisation and staff performance.

3.4.1.1 Application of PM

Edmonstone (1996:10) continues to address applications of PM as follows:

**Planning** – Key priorities, define responsibilities of each position, list skill and competencies required for each position. Goal setting, responsibilities and behaviour required contributing to team and organisational success.

There is a shift requirement from management to leadership.
Leadership has the power to inspire and motivate staff to aim for high performance, which translates to high organisational performance.

**Managing** – ongoing process. Coaching, counselling and performance review. Timely, two way dialogue, focus on positive and negative issues and agreement on specifics.

**Monitoring & review** – partnership between manager and managed. Staff should manage own performance management process. Both parties must prepare for the review sessions and eliminate surprises. Assess performance trends and plan for the future.

### 3.4.1.2 Importance of Performance Management

PM involves setting expectations, observing behaviour, determining performance, coaching and providing feedback. Management effectiveness is not meeting time lines to complete PA reviews so that increases can be put into the computer for the new pay rises, but it is a process of developing, coaching and providing continuous feedback to employees to meet their career aspirations and the needs of the organisation, McAdams (1996:151-154).

![Performance Management Cycle](image-url)

*Figure 3.3: Performance Management Cycle
Source: McAdams (1996:151)*
**What's needed?**

What job needs to be done? This precedes behaviour and requires things such as job description, goals, measurement, training, policies and education. Other than people being told what to do, McAdams (1996:151) says that people do their jobs better if they understand how their efforts fit into the organisation's framework. New employees' orientation is the perfect time to provide context for the employee.

**Performance**

Results are how the effect of behaviour is measured and the degree to which it impacts the organisation. Performance is what people do and what happens as a result of what they do. Behaviour and results together constitute performance.

**Consequences**

Behaviour is a function of its consequences. People will increase or decrease frequency of behaviour according to the type of reinforcement applied. According to McAdams (1996:152) there are three kinds of reinforcement in any organisation namely a) positive reinforcement, b) punishment and c) extinction. Positive reinforcement increases the frequency of behaviour whilst punishment and extinction decrease the frequency of behaviour.

McAdams (1996:153) also states that organisations that manage through punishment, although they can be productive and profitable, are generally not fun or healthy places to work in. These organisations waste a lot of time trying to catch people doing something wrong. Of the three consequences, positive reinforcement is the most effective and efficient way to improve performance. Here consequences must be positive and immediate. People have to know within a few days how they are doing.

Certainty is equally important in a performance based reward plan. Lack of certainty exists in the merit increase or discretionary bonus plans but it is up to the discretion of management as to how they distribute the bonus pie among employees. There is a general perception that most will receive
something, but how much is unknown. The biggest complaint about this is that merit is in the eyes of the manager and his or her subjective discretion. Lack of measurable objectivity is a killer to certainty. There is little certainty in what one has to do to earn.

Because employees are not certain and unsure of the consequences, they are not motivated to change their behaviour. Management discretion leaves employees wondering whom they are serving, external, internal, customers or their bosses. Unfortunately managers do not always have enough performance information or funds to make appropriate reward decisions. In many instances they base their decision on what the person got last year. McAdams (1996:154) however states that what is positive is in the eye of the recipient.

According to Laud (1995:25), PA outcomes are used to guide salary increases and bonuses. He however argues that the lack of specificity in the linkage leaves room for mitigation factors, which may obscure motivational purpose of the process. Many organisations today undermine the possibility of using PA outcome for non-monetary rewards such as increased job autonomy, opportunity for learning, growth, praise and peer support.

**Feedback**
According to McAdams (1996:154) measurement and reinforcement are feedback in their own right, but feedback is a two-way communication. Feedback usually fall into two categories namely a) performance feedback (to employees and management) and b) employee feedback (to management).

- **Performance feedback** is a continuous process of letting employees know how they are doing and the organisation’s performance against the objectives. This feedback must be clear, exact and frequent.
- **Employee feedback** is not so frequent. Management must ensure and formalise the structure for this feedback to take place, otherwise it will not take place. This is employees’ feedback to management covering issues such as perception of fairness, clarification of issues
not understood, etc. Employees’ feedback is normally solicited through surveys, focus groups, meetings, etc.

*Was it worth it?*

The measure of the reward must be the value gained for the time, money, and energy spent.

### 3.4.2 360 degree feedback

In 360 degree feedback approach, PM is expanded to include reviews from other employees, Molefe (2004:83). It increases the scope and accuracy of performance feedback. Feedback that breaks the traditional “top down” approach, with input from the appraised, manager, subordinates and peers. The aim is to receive a balanced view from various perspectives. The feedback must focus on behaviour and not traits. The behaviours should flow from organisational vision and values.

**Benefits:**

- Increases understanding of strengths and needed development areas.
- Feedback is more credible if coming from various sources other than a single source.
- Feedback is compelling and viewed in a different light.

**Limitations:**

- Survey fatigue – numerous questionnaires leading to inaccurate and invalid ratings

DeNisi (1996:54) also suggests active acquisition of performance information by managers. Although information could be gathered from different sources, rating inaccuracies stem from the following sources:

- Poor information gathering. The manager might simply not collect enough or the correct information. The rating itself might be accurate
but will be deemed inaccurate because of inadequate information therefore not reflecting the true performance of the subordinate.

- Inadequate information processing. The information collated might be accurate but the manager is unable to process it accurately to arrive at the accurate evaluation.
- Organisational constraints, which do not allow the manager to express the rating properly as they do not allow the manager to deviate from the rating format.

DeNisi (1996:55) also argues that time pressure facing managers influences information gathering acquisition processes. He states that managers tend to search for fewer cues, rely on negative information and results of past evaluations. Nature of rating instruments dictates to managers the type of information to be gathered.

3.4.3 Management by Objective (“MBO”)

According to Dessler (1988:162), MBO applications range from person to person goal setting, and a feedback session to formal organisation-wide programs. With respect to the former, managers meet periodically with their subordinates to jointly set goals, and subordinates’ performance is then measured in terms of these goals. MBO is based on the following principles:

- Know what is expected – employee & manager have common knowledge of expectations;
- Know the result – prompt and constructive feedback; and
- Coaching and counselling as required.

3.4.4 Attracting and retaining employees

Identifying the right people requires identification of an organisations' needs, recruiting and evaluating candidates, hiring appropriate candidates, offering enough pay (market related), adequately preparing them for their roles. All this, if done properly will translate into a successful company.
Retention can be a cost-control strategy. This is done through fixed labour costs while maintaining appropriate turnover rate. Most organisations reduce labour cost through salary freezes and layoffs. This strategy benefits shareholders (financial stakeholders) in the short term whilst being devastating to employees in the short and long term. As long as not all stakeholders benefit, then the organisation is not delivering its mandate as stipulated in the vision and mission.

Compensation plans such as individual incentives, employees’ ownership, skills and competency development and merit/salary increases influence an individual’s performance.

3.4.5 Making people more effective

Making people more effective is both an individual and collective developmental issue. Managers must think of employees as people rather than the jobs they do. Compensation plans (individual incentives, promotions, salary increase) can have some effect but developing individuals’ capability plans (competencies and skills) to do the job and to make a contribution to the organisation is key. It is compelling to align organisations competencies to that of employees. The effect of this to the shareholders’ satisfaction has not been quantified, but there is an assumed connection between employees’ satisfaction, largely influenced by compensation plans, and customers’ satisfaction.

3.5 PERFORMANCE APPRAISAL (“PA”)

3.5.1 Defining PA

Greenhill (1988:17) states that the PA should not be regarded as a chore but rather as an important element in developing all employees so that they can satisfy their personal ambitions while at the same time helping the company to achieve its commercial objectives. He further states that a typical appraisal programme is as follows:
Table 3.2: Performance Appraisal Structure

<table>
<thead>
<tr>
<th>Part</th>
<th>Heading</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal details</td>
<td>Relevant fact about the person – Name, date of appointment, qualifications, training courses attended</td>
</tr>
<tr>
<td>2</td>
<td>Assessment of skills and expertise</td>
<td>Specific assessment of skills and expertise achieved by the person</td>
</tr>
<tr>
<td>3</td>
<td>Major achievements</td>
<td>Individual identifies major experiences during the relevant period and rates them in terms of satisfaction, technical development and influence to career development</td>
</tr>
<tr>
<td>4</td>
<td>Performance review</td>
<td>Professional, technical, management and human skills are rated on a defined rating scale. These are core for appraisal and guide development and training recommendations.</td>
</tr>
<tr>
<td>5</td>
<td>Future developments</td>
<td>Identify strengths on which to build and weaknesses to be addressed. Weaknesses should have consequential training and developmental requirements.</td>
</tr>
<tr>
<td>6</td>
<td>Business and personal objectives</td>
<td>Identify objectives for the next period in respect of professional, technical, management and human skills. Identify business development where relevant.</td>
</tr>
<tr>
<td>7</td>
<td>Review and summary</td>
<td>Assess the achievement of objectives set at the beginning of the relevant period as recorded in previous appraisal form.</td>
</tr>
</tbody>
</table>

Source: Greenhill (1988:18)

3.5.1.1 Steps in PA definition

Dessler (1988:157-158) writes that PA has three main steps namely:

- **Define the job;**

Agreement between line manager and the subordinate on what is expected from the subordinate, his accomplishments and the standards under which they will be appraised. Job descriptions are usually insufficient to clarify what is expected from the subordinate. Although people may have the same description, some specific activities may be required because of their level in that job. E.g. Head of sales manager requirements may include “supervision of sales force”, “responsible for marketing of the product”, etc, whilst that of
the sales manager may include “personally sell R600, 000 worth of products”. Measurable standards must be attached to each activity.

- **Appraise performance; and**
  Comparing actual performance with the agreed set of standards expected. The comparison is usually rated using the format provided by the human resources.

- **Provide feedback.**
  Feedback sessions during which the subordinate performance and progress is discussed. Plans are laid out during this session for any development required.

According to Greenhill (1988:19-23), PA programme has the following minimum requirements:

- Criteria for performance appraisal must be relevant to the types of jobs which are being covered. It is unlikely that one set of criteria can be applied to all employees.
- The points to be appraised must be related to the performance during a stated period, usually one year. Managers should regard appraisals as a continuous process.
- Guidelines for determining standards of performance in respect of each criterion should be produced for each manager responsible for appraising the subordinate.
- The procedures for the PA program should be published for all employees so that they know how the program operates, its purpose and the ways in which they will have evidence of the results.
- Each employee (managers included) being appraised should participate in the exercise by means of discussions with their managers and incorporating self-appraisal.
- The results of the appraisal should be produced in written form and be subject to acceptance and rejection by the employee being appraised.
There should be an immediate translation into monetary values for pay increment purposes. The written appraisal must be forwarded to higher authority for assessment alongside appraisals of other employees in other units.

Individual should regularly be given feedback in terms of how they perform. The feedback comes in the form of an appraisal, which should look at individual contribution to the organisation's goals as per agreed contract and individual career development. According to Orpen (1994:26-27), an appraisal process is characterised by features detailed below.

3.5.1.2 Clear Objectives

The objectives must assist the organisation to reach its goals and assist the employee to reach goals that are important to him. The objectives must be clearly stated, limited in scope, feasible, realistic and consistent. These assist in influencing behaviour by doing something before it has occurred. These are supported by goals, objectives, standards, rules and instructions. They set the standard for performance to take place. Coaching and training are however necessary to ensure desired outputs.

3.5.1.3 Positive appraisal climate

The appraiser needs to be able to assess the situation accurately. This must be coupled with flexibility and sensitivity varying with circumstances. Discussions must be open and frank. Parties to the process must be willing to jointly work together to achieve set goals. The emphasis of the discussion must be mutual goal setting and problem solving. The appraiser needs to be specific and provide as much information as possible for specific situations. Feedback must be immediate (i.e. in the form of a bonus, awards, etc). Targets must be realistic, within reasonable effort.
3.5.1.4 Properly trained appraiser

Appraisers must be trained to have the capacity to make accurate and reliable judgement about the performance of employees for all types of circumstances.

3.5.1.5 Regular review

For an appraisal process to be effective it must be subject to continuous scrutiny and reviews based on the experience of those who use it. This will ensure continuous relevance to the environment within which they operate.

3.5.2 Purpose of PA

Traditional performance appraisal is an isolated formal meeting in which employee and manager discuss the past performance and set goals for the future period. Managers are expected to assign a rating to the employee’s performance measured against a preset standard. Goals for a future period are ranked and weighted by importance.

Performance appraisal is an ongoing process of evaluating and managing both the behaviour and outcome in the workplace. According to Wilson & Cole (1990:46) the objectives of the performance appraisal should be to identify individuals with high potential, reward performance and develop employees.

The objectives can be achieved by ensuring that:

- Objectives are set;
- Performance is regularly assessed; and
- Personal development plans exist for staff.

According to Grobler, Warnich, Carrell, Elbert & Hatfield (2002:266), the main objectives of performance appraisals are:

- Evaluative.
- Developmental.
Evaluative objectives cover:

- Compensation – pay-increases, bonuses, etc.
- Staffing – promotions, etc.
- Evaluation of the recruitment, selection and placement process of on the job performance.

Developmental objectives cover:

- Performance feedback – all employees want to know how their managers feel about their performance. This feedback recognises strengths and weaknesses in past performance and how the two will be maintained and improved respectively.
- Developmental – mainly focus on the direction for future performance.
- Identify training and developmental needs – identify critical skills and abilities that need to be developed to perform the job and achieve future goals.

Wilson & Cole (1990:47) conducted a study in the National Health Service (“NHS”). The study scope of the study was to review the NHS appraisal process. The authors felt that the traditional appraisal process tries to do too much, i.e. set work objectives, assess work performance for salary reviews and improve performance of individuals. They felt that because of the wide scope of the traditional PA process, individual development is often neglected. Their study revealed that this neglected part of the process was key to employees’ needs. A questionnaire to employees revealed that they:

- Want to be clear about their scope and the content of their jobs and expected results;
- Want to know how where they stand, how they are progressing and that their achievements are recognised;
- Be consulted about their careers prospect and personal development;
- Be able to communicate with their managers about their personal progress and work in general; and
- Assist corporate succession planning about their skills and experience.
According to Dessler (1988:156), PA is the step where one finds out how effective they have been at hiring, placing and motivating employees. PA has three main uses. The uses are as follows:

- Provide information upon which promotion and salary decisions are made;
- Provide an opportunity for the manager and the subordinate to sit down and review the subordinate’s work related behaviour (feedback); and
- Allow the manager and the subordinate to map out a plan to rectify identified deficiencies affecting required performance level.

The research established that the outcome of the PA is used for employee development and administering of merit pays, promotions, lay-offs, transfers, termination and validation of hiring decisions. The uses of PA was summarised as

- Review of past performance,
- Reward past performance,
- Goal setting for future performance; and
- Employee development.

Smith, Hornsby & Shirmeyer (1997:10-13) agrees with Wilson and Cole (1990:47), but suggest that caution must be exercised when using the same PA methods for multiple applications since each application may require different type of data, qualitative and quantitative.

Smith, Hornsby & Shirmeyer (1997:10-13) study found that most firms did their PA annually. The comment from the finding was that the intervals are long and not optimal especially in cases where the use is also for development. Development growth needs more regular feedback so that progress can be noted and strength can be acknowledged and exploited and immediate corrective actions can be taken for weak areas.
3.5.3 Problems with PA processes

Performance appraisals are tightly structured and inflexible. They are done at a certain time of the year, using pre-printed forms and pre-specified procedures. A specified format drives discussion and does not allow other questions, which might be more relevant to the discussion. According to Laud (1992:25) performance appraisals are focused on short-term goals rather than long term strategic planning and individual development. Mavis (1994:44) states that assistance required by employees for areas that need improvement and solid plans on how to improve them are often overlooked during the performance appraisal feedback process. The lack of specificity in the linkage however, leaves room for numerous mitigating factors to intrude, and may obscure the motivational purpose of the system as stated by Laud (1992:29).

According to Grobler, Warnich, Carrell, Elbert & Hatfield (2002:260), a survey done by the University of Stellenbosh revealed a bleak picture of the performance appraisal systems of leading South African organisations. The study revealed amongst other issues the following:

- Insufficient line management support of the performance management systems.
- Lack of follow up performance reviews.
- Over emphasis of appraisal aspects rather than development.
- Inadequate performance information and objectivity.
- Lack of a formal performance appraisal system.

Howell & Cameron (1996:28) argue that there are three key reasons why managers fail to carry out proper performance appraisal processes:

- Projects delivery comes first.
- Employees move from one project to the other working with different managers and are not given feedback for each project.
- Managers feel uncomfortable carrying out appraisals.
Cook (1995:3) argues that PA processes are at times not a true reflection of work performance because of various reasons. PA processes are subject to biases inherent in raters without their being aware. Influences include issues such as “own race”, gender, age and physical appearance. Women could be poorly rated in masculine jobs, older employees are poorly rated and good-looking people are advantageously positioned.

In-group/out-group is one of the influences of ratings during performance appraisals. This is most common for employees who receive confidence from their managers and are assigned tasks that are either more challenging or receive the attention of top management. Employees in the in-group grow in the organisations through other influenced means rather than hard work. Inherent bias renders appraisals that are not accurate, but in ways that are not obvious to the managers or the subordinates. There are however other deliberate reason why managers give employees higher or lower ratings.

Higher ratings are given to:
- Avoid confrontation;
- Maximise merit increase;
- Protect persons with personal problems affecting work performance; and
- Rid people by promoting them up or out.

Lower ratings are given to:
- Shock an employee back onto a higher performance track;
- Discipline rebellious employees;
- Assist an employee to consider leaving the organisation; and
- Build a record to speed up dismissal.

Cook (1995:4) writes that impression management is one of the factors that influence incorrect PA processes. These can introduce low morale amongst employees, as they are in most cases obvious. “Who you know and not what you know” has also been seen to be an influence on PA ratings.
Laud (1992:26) argues that management are faced with the challenge of encouraging a healthy working environment because of decreased productivity and disenchantment with the labour environment. Typical PA process has focused on short-term goals rather than long term planning and individual development.

Other problems that arise during PA session are due to inappropriate use of the system e.g. leniency. Poor communication leading to arguments may also arise during the feedback session.

According to Dessler (1988:165), below are the common problems in PA:

- **Lack of standards** – This leads to subjective guess-work or feeling of the performance and results in no objective evaluation of the results.
- **Irrelevant/subjective standards** – Standards should be job related and should be established after analysing the job.
- **Unrealistic standards** – Standards are goals with motivating potential. Standards that are reasonable but challenging have the most potential to motivate.
- **Poor measures of performance** – Standards must be measurable, e.g. project completed within the agreed time, budget, deliverables and quality.
- **Rater’s errors** – The errors include bias, prejudice, halo effect, central tendency and fear of confrontation.
- **Poor feedback to employees** – Standards and their respective ratings must be communicated to the employee for any performance evaluation to be effective.
- **Negative communication** – The communication must be positive, flexible, and not defensive and have a developmental approach.
- **Failure to apply evaluation data** – The outcome of the evaluation must be used to derive decisions such as promotions, personnel development and salary reviews.
3.5.4 How to improve PA processes

The outcome of the study suggested that the PA process and the personal development ("PD") planning session be separated. The PD session was to be held once a year. The PD form produced was short and simple and was completed by the subordinate to assist in the discussion. After the discussion with the manager, heads of departments and senior managers convene to discuss training requirements and career moves for employees.

According to Wilson and Cole (1990:48), courses are minor compared to the on the job training. Subordinates need regular discussion regarding their progress, delegation, encouragement, giving praise and correcting. The researchers felt that for the PA process and the PD processes to work effectively, a survey must be done to establish the users’ perception of the system.

- The system must have one single purpose (i.e. PA and PD separate),
- The system must be simple;
- Users must be properly trained.
- The PD process is a joint effort between the manager and the subordinate.

According to Goodale (1997:77-80), a well-designed appraisal system can strengthen good relationships between managers and employees. A performance appraisal system process must have the following activities:

- Performance agreement and plans between managers and their employees.
- Management of the performance on the job must be a continuous process.
- Performance reviews must be a formal process leading to new performance agreements.
- Development and training requirements of an employee must be prompted by the outcome of the performance review.
- Performance rating procedures must have a clearly defined guidelines and be understood by both managers and employees.
- Rewards must be performance related.
Goodale (1997:77-80) continues to state that ways to improve performance appraisals must cover the following:

- Collaborative approach;

A consensus approach for the development of an acceptable appraisal system should exist between managers and employees.

The development should cover:

- Goals to be achieved;
- Problems to be avoided; and
- Dimensions of performance to be evaluated.

Different departments are likely to have similar objectives but may define performance dimensions differently. Performance dimensions must be observable and job related. The development process must cover guidelines on how to implement the system. Managers must be trained to handle performance appraisal discussions (i.e. avoid personal feedback, set clear objectives, etc).

- Periodic and regular review;

The performance appraisal system must be regularly reviewed. For the performance appraisal system to remain appropriate, it can be changed based on the experiences of those who use it and changes of circumstances.

PA processes should be linked to long-term career planning by referencing to:

- Strengths and weaknesses;
- Written development plans;
- Identification of future career options; and
- Timing for movements specified.

Long term career planning must be supported by commitment, long term growth orientation, financial capacity to commit resources with no immediate returns, the organisation must be large enough to absorb trained individuals;
or they will be lost to competitors. Laud (1995:26-27) also suggests that the PA process discussion be separated from the career planning session. He further states that the PA process can be used in strategic planning if:

- Senior executives are matched to strategic plans;
- Personnel are identified for their future potential in carrying out strategic plans;
- Design reward system to drive managers’ long term strategic objectives as opposed to short term objectives; and
- Design development programmes to support strategic objectives.

According to Greenhill (1988:23), PA should not be concerned with the likeability of the employee but with the standards of his performance in carrying out the requirements of his job. PA should determine the extent of jobholder’s quality of the jobholder achievements of the specifications of his job. The job specification itself should be done under job evaluation. PA should also be applied for training and developmental purposes and more importantly to influence pay levels and there must be clearly defined standards for those carrying out the appraisals.

Greenhill’s (1988:23-24), discussion continues to state that the process below be followed to avoid PA problems

- **Train raters** – this eliminates raters’ errors and improves the effectiveness of the PA system;
- **Evaluate employees frequently** – this provides reinforcement when the employer is doing well and opportunity to improve when not doing so well;
- **Be familiar with the performance of the subordinate** – critical incidents can come in handy here;
- **Ensure agreement** between manager and subordinate regarding job duties, expectations and standards;
- **Solicit subordinate’s assistance** when formulating plans to eliminate performance weaknesses;
- **Involve subordinates in developing the appraisal tool.** This ensures a favourable reaction when using something where they were party to its development.

### 3.5.5 Managers role in a PA process

Dessler (1988:169) argues that the line managers play a central role in the actual PA process as they are the ones doing the appraising. It is therefore critical that they are completely familiar with the appraisal techniques used; they understand the problems that can cripple the appraisal system and that they carry out the appraisal fairly and objectively. Human resources serve as policy makers, advisory with respect to PA and are responsible for training line managers’ appraisal skills. Human resources leave the final decision with line managers.
3.5.6 PA techniques

Dessler (1988:175-179) discussed different methods used to rate employees. These are discussed below:

3.5.6.1 Graphic rating scale

This is the most popular technique. Traits (e.g. communication) are listed and are rated on a performance scale ranging from unsatisfactory to exceptional. Assigned values for each trait are added up and totalled.

<table>
<thead>
<tr>
<th>Employee</th>
<th>Job Title</th>
<th>Date</th>
<th>Department</th>
<th>Job number</th>
<th>Manager</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Factor</th>
<th>Unsatisfactorily</th>
<th>Fair</th>
<th>Good</th>
<th>Superior</th>
<th>Exceptional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creativity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reviewed by……………………………………….
Employee comment………………………………
Date……………………………………….Signature………………………………

3.5.6.2 Alternation ranking

Rank employees from best to worst on a particular trait.

<table>
<thead>
<tr>
<th>CREATIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Column I (BEST)</td>
</tr>
<tr>
<td>1. Joe Soap………………</td>
</tr>
<tr>
<td>2…………………………</td>
</tr>
<tr>
<td>3…………………………</td>
</tr>
<tr>
<td>4…………………………</td>
</tr>
<tr>
<td>5…………………………</td>
</tr>
</tbody>
</table>

3.5.6.3 Paired comparison

For every trait every subordinate is compared to every other subordinate in pairs. The number of times the employee is rated better on any particular trait is added up. The employee with the highest number of better counts is the highest for that trait.
3.5.6.4 Forced distribution

Employees’ distribution is forced to follow a particular grading curve for each trait. E.g. 35% High performers, 30% Average performers and 35% Low performers.

It is however impossible to remove the subjectivity that goes with evaluation processes and managers are also reluctant to deal with non-performance. To overcome this organisations have resorted to forced ranking approach where staff performance are ranked from top to bottom in relation to one another (e.g. Top 20%, middle 70% and bottom 10%). The outcome of the ranking is used to allocate limited funds from the bonus pool.

Benefits:

- Create next generation of leaders
- Promote top performers and warn low performers
- Managers are forced to be honest to their staff
- Guideline of where to invest precious resources

Limitations:

- The process mandates bottom 10% even in a department of star performers, good but not great performers in super teams may end up in bottom 10% and mediocre performers in struggling teams may end up in top 20%.
- Inspire competition
- Forces person vs. person evaluation
- Impossible to completely eliminate favouritism and other subjectives

3.5.6.5 Critical incident
The manager keeps a record of good or undesirable work related behaviour. The record is reviewed with the employee at predetermined times. The advantage of this method is that:

- It provides hard facts;
- Makes the manager conscious of the employees’ appraisal throughout the year; and
- Reflects the whole history of events rather than the most recent.

3.5.6.6 Narrative forms
The manager describes employees’ performance in terms of position standard, goals, action plans and development activities.

3.5.6.7 Behavioural Anchored Rating Scale (BARS)
Combines the narrative and quantified ratings. BARS requires the following steps:

- Generate critical incidents – effective and ineffective performance
- Develop performance dimension – cluster incidents into smaller sets of performance dimensions
- Reallocate incidents – reassign incidents into clusters
- Scale incidents – effective or ineffective performance of the cluster dimension
- Develop final instrument – Subset of incidents are used as behaviour anchors for each dimension.
### Table 3.3: Performance Appraisal Techniques

<table>
<thead>
<tr>
<th>Technique</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graphic rating scale</td>
<td>▪ Simple to use&lt;br▪ Quantitative rating</td>
<td>▪ Standards may be unclear&lt;br▪ Halo effect, central tendency, leniency, bias</td>
</tr>
<tr>
<td>Alternative ranking</td>
<td>▪ Simple to use&lt;br▪ Avoid central tendency</td>
<td>▪ Causes disagreements among employees&lt;br▪ Unclear if all employees are good</td>
</tr>
<tr>
<td>Paired comparison</td>
<td>▪ Quick and easy to use for few employees</td>
<td>▪ Compares employees on overall performance rather than specific job criteria</td>
</tr>
<tr>
<td>Forced distribution</td>
<td>▪ Predetermined number of people in each group</td>
<td>▪ Results depend on adequacy of cut-off points</td>
</tr>
<tr>
<td>Critical incident</td>
<td>▪ Specify “wrong” &amp; “right” employee’s performance&lt;br▪ Manager evaluates employee on an ongoing basis</td>
<td>▪ Difficult to rate/ranks employees relative to one another</td>
</tr>
<tr>
<td>Narrative</td>
<td>▪ Forces manager to discuss specific incidents</td>
<td>▪ Time consuming</td>
</tr>
<tr>
<td>BARS</td>
<td>▪ Very accurate&lt;br▪ Clear standards&lt;br▪ Feedback with independent dimensions and consistent.</td>
<td>▪ Difficult to develop</td>
</tr>
</tbody>
</table>

Source: Dessler (1988:180)

DeNisi (1996:63) argues that development of a total performance management system, which managers and employees trust, is more important than worrying about what dimensions must appear on the rating scale.
3.5.6.8 Problems with rating scales

Dessler (1988:181) continues to discuss problems with rating scales. Unclear standards – Trait and degrees of merit are open to interpretation. E.g. another manager can view good performance as average. Descriptive phrases need to be used to define each trait

- **Halo effect** – Getting along between manager and employee can influence the rating to be favourable.
- **Central tendency** – Results in all employees being rated average. Ranking helps to reduce the central tendency, as the employees will not all be the same.
- **Leniency / Strictness** – Results in employees falling into one category. Forced ranking distribution helps to avoid concentration in one category.
- **Bias** – Characteristics such as race, age and gender have been found to influence managers when rating employees.

3.6 COMPENSATION AT WORK

Employee compensation means all forms of pay or reward going to employees and arising from their performance. Employee performance has three components:

- **Direct financial payments** – wages, salaries, commission, bonus, etc
- **Indirect payment** – financial fringe benefits e.g. vacation, insurance, etc
- **Non-financial rewards** – challenging jobs, flexible working hours, parking, prestigious office, etc.

According to Maslow Needs Hierarchy (Physiological, safety, social, ego, and self actualisation), Herzberg (Hygiene, motivators, job enrichment) and McClelland (achievement, power and affiliation) people have needs and are motivated when those needs are satisfied. Dessler (1988:209) argues that
only some of the needs are directly satisfied by money. Other needs such as
achievement, affiliation, power and self-actualisation motivate behaviour but
are indirectly as a consequence of money. Yet with our more modern
motivation techniques, there is no doubt that money is still the most important
motivator.

There are essentially two bases on which to pay employees: increments of
time and volume of production. Increments of time are paid wages
(hourly/daily) or salaries (set period like week or month) whilst volume of
production are paid piecework (number of pieces produced).

Labour relation laws and court decisions also impact on compensation
decisions. This is due to legal protection and the right of employees to self-
organisation, to bargain collectively and to engage in concerted activities for
the purpose of collective bargaining or other mutual aid or protection.
Historically the wage rates were the main issue in collective bargaining
although other issues such as time off with pay, health care benefits have also
become important.

According to Dessler (1988:173), individual awards are driven by the available
bonus pool. Typically a target bonus is set for each individual. Performance
ratings are obtained from which bonus compensations are computed and
adjusted accordingly. There is a difference between profit sharing and an
individual incentive bonus. With profit sharing, each person gets a bonus
based on company results, regardless of the individual’s effort. An individual
incentive bonus is based on individuals’ efforts and these are rewarded in a
form of a bonus.

Merit pay or merit raise is awarded to an employee based on their
performance. Merit pay has its advocates and detractors. Advocates argue
that merit pay that is tied directly to performance can motivate improved
performance. Detractors of merit pay present arguments that merit pay
usefulness depends on the validity of the performance appraisal system and
its accurate use in determining employees’ raises. Most employees believe
that they perform above the average and being paid a merit pay that is below the average can be demoralising. Dessler (1998:177) argues that despite the detractors’ arguments, merit pay does improve performance, however for this to hold true the performance appraisals must be carried out effectively.

### 3.7 PERFORMANCE REWARDING PLANS

For employees to be motivated, they must believe that their efforts will lead to reward. Reward plans should reinforce those things that support the organisation’s culture and business objectives.

According to McAdams (1996:207), employees need to be aware of the reward plans so that they can know what to do to earn a reward. Awareness is a function of the type and size of award. Reward includes aspects such as praise, promotion, bonus or merit pay.

Promotion as a way to give more money is the worst possible scenario, according to McAdams (1996:207). Promoting outstanding individuals who have limited skills and little interest sets up the organisation and the individual for failure. Cross training and career planning provide the best ways to make appropriate promotions.

Powerful rewards have either financial or psychic value. Financial value is in “Rand” terms whilst psychic value meets intrinsic needs and reinforces self-esteem and peer acceptance. These come in the form of time off, education opportunity, trophies, travel or training. For the organisation value results in financial terms.

#### 3.7.1 Why performance reward plans fail

McAdams (1996:208), argues that performance reward plans fail because of:

- **Unfair standards** – standards are too high or unattainable;
- **Standards are raised** – if performance exceeds standards for a long time, ratings are reduced;
- **Group restriction/peer pressure** – if the group views the plan as fair, loafers are kept in line and high standards are maintained; if the plan is viewed as unfair, productivity level of the group is kept low; and
- **Misunderstanding of plans** – plans are complex or not communicated to employees in an understandable way.

### 3.7.2 Successful implementation of performance reward plans

Greenhill (1988:134-135) argues that a performance related pay programme must have the following aspects:

- Performance appraisal must be related to the factors which are truly concerned with the skills and abilities of the person and tangible achievements in the job;
- Performance standards should be appraised on a continuous basis and assessed over a relatively long period (minimum one year) to determine the established standard of performance;
- The PA process should be fully acknowledged to be directly linked to the determination of individual rewards;
- Salary increments are not incentives; they are only rewards, because the person does not know what precisely has to be achieved in order to be granted a certain level of increment;
- It is the absolute level of salary rather than the rate at which it changes which is most effective in letting the top performer know that he has been recognised as having consistently performed to a higher standard than others;
- The salary ranges of the basic pay structure need to be used in a discerning way to distinguish the real worth of employees of recognisable different established performance standards;
- The plan must be understandable and easily calculable by the employees (calculate rewards received for various levels of efforts, see effort – reward link);
- Efforts and rewards must be directly related;
- The reward must be valuable to employees;
- Careful study of methods and procedures;
- Set effective standards (fair, reasonable, specific standards);
- Guarantee standards (contract with employees); and
- Guarantee an hourly base rate.

McAdams (1996:209) writes that everything begins with organisations’ objectives. Everyone working in the organisation is in business all the time. Management must prepare the staff to be able to make a contribution and make a difference in the organisation. Everyone in the organisation must share the rewards of the organisation’s improving performance in the market place.

### 3.8 CAREER PLANNING MODEL

According to Dessler (1988:273), development is any attempt to improve current and future performance by imparting knowledge, changing attitudes or increasing skills. This includes in-house programs like courses, on the job coaching, rotation of assignments and other professional or university programs. On the job experience is by far the most popular development tool used as illustrated by the table below.

Table 3.4: Coaching approaches

<table>
<thead>
<tr>
<th>Means of development</th>
<th>% Reporting most effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the job experience</td>
<td>68.2</td>
</tr>
<tr>
<td>Coaching by superior</td>
<td>20.9</td>
</tr>
<tr>
<td>In house classroom</td>
<td>4.7</td>
</tr>
<tr>
<td>Rotational assignments</td>
<td>2.4</td>
</tr>
<tr>
<td>University programs</td>
<td>2.3</td>
</tr>
<tr>
<td>Consultant programs</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source : Dessler (1988:273)
McAdams (1996:11) states that improvement is a continuous 5-Cs process, being:

- **Collaboration** - allowing people to work together in an environment of teamwork;
- **Content** – making the job interesting;
- **Choice** – providing more freedom in work through empowerment;

Because of the demands of the market place and key stakeholders there are two more Cs required in improvement namely:

- **Change**;
- **Competitiveness**.

### 3.8.1 Organisational Career Cycle

Each component provides input to the other.

![Organisational Career Cycle Diagram](image)

According to Otte & Hutcheson (1992:86), career development is a lifelong series of activities that contribute to a person’s career exploration, establishment, success and fulfilment. Career planning on the other hand is a deliberate process through which an individual becomes aware of personal skills, interests, knowledge, motivations and other characteristics. Acquired information about opportunities and choices identifies career-related goals and establish action plans to achieve specific goals. Career planners need
concrete specific information about themselves. Both career development and planning are associated with assessment of current and future situations.

A self evaluation for career path (City Press, 2005:4) article states that self-evaluation is a continuous process since people skills and interest are constantly changing. When one goes through this process one must consider the duties and responsibilities which the future position should encompass and what skills one possesses to fulfil future function.

One should establish one’s interests so that one can seek to make one’s organisation great, i.e. “What work makes one compelled to continuously try to create greatness”. Abilities depend on a person’s education, personality and skills. During self-evaluation one must identify what one does well. Knowing one’s skills and abilities ensures that one select a career in which one is constantly challenged, proficient and at the same time interesting. Knowing ones abilities is also about knowing one’s weaknesses and how to work on them. These should include inputs from friend and family. Understanding cultural fitness between self and company that one works for is very important and this can be done by knowing one’s values.

According to Otte & Hutcheson (1992:88-90), a thorough assessment is done through different sources, namely:

- **Individual assessment** – provides the career planner with information and insight of who he is and what he can do well and what he wants to do.
- **Self-assessment** – aspects of self-skills, interests, values to determine some relative strengths and priorities.
- **Assessment by others** – provides individuals with information about the perception of those who have information that might be useful to them in planning their careers
- **Standardised assessment** – use published instruments to provide individuals with information of how they compare with others.
Commonly used instruments or psychological tests include the following:

- **Intelligence** – general learning or problem solving abilities;
- **Aptitude** – capacity of learning covering verbal, mathematical reasoning, etc;
- **Personality** – behavioural tendencies;
- **Occupational interest** – preferences for working in certain types of situations, e.g. team vs. individual, outdoors vs. indoors;
- **Values** – what the individual considers important e.g. pay, time for leisure, etc.

- **Environmental assessment** – gathering information about the world of work, how jobs and organisations are changing; what skills are priced for today and the future; the goals of the business, different functions and the skills, knowledge and experiences required for those functions; the structure of the organisation and the career trends in the company.

Career planning and development according to Dessler (1988:201) is giving an employee the assistance to form realistic career goals and the opportunity to realise them. A career planning model offer links with other parts of the career development system. According to Otte & Hutcheson (1992:91), reputable organisations have outstanding career development systems. Career development models are supported by the following beliefs:

- Individuals are responsible for their own career growth and development;
- Information about self, how others see you, about the organisation, and about options lead to more realistic goals and more effective decision making;
- The organisation is responsible for creating an environment that allows individual growth, making information available about the company’s philosophy, policies and work options;
- Managers play an important role in supporting and facilitating employee’s career development;
- Growth begins on the current job assignment; and
- Skills can be developed to make everyone more effective in personal career management.

3.8.2 Stages of career planning

Although expressed differently, both Otte et al (1992:91-93) and Dessler state that (1988:203) different stages of career planning emphasise the importance of self-assessment and self-concept and realisation.

According to Otte & Hutcheson (1992:91-93), there are six stages of career planning namely:

**Stage 1: Information about self**
To plan your career you need to have clear and specific information about your skills, interests, work, values and motivations. This area helps one to examine past experience as a basis for identifying the most important ingredients of personal growth and future success.

**Stage 2: Information about work**
Different work options provide different challenges and payoffs. This allows one to look at the job opportunities within the company to discover assignments which might offer learning, variety and career growth.

**Stage 3: Reality testing**
It is important to know how others see you, your skills, and knowledge and career accomplishments. It is also important to know how they view the work options within the organisation. Examine others’ perception of you and use this information in your career decisions.

**Stage 4: Goal setting**
Career plans should be based on long-term goals that are exciting, meaningful and realistic. Identify ingredients important to your success.
Stage 5: Decision-making
Find better ways to make your career decisions based on your goals. This is an important step for managing ones career more effectively.

Stage 6: Action planning
The most important step in career planning is to turn plans and dreams into positive action steps, inch-by-inch steps rather than major leaps. Develop detailed plans to translate goals into concrete actions.

Dessler (1988:203-205) however states that each person goes through stages summarised below:

Stage 1: Growth
This period is from birth through to age 14 during which the person develops self-concept by identifying with and interacting with other people such as family, friends and teachers. Toward the end of this period children experiment with different ways of acting by way of role-playing. This helps in the development of self-concept and identity. Toward the end of this period children begin some realistic thinking about alternative occupations.

Stage 2: Exploration
The period is around the ages of 15 to 24, during which the person seriously explores occupation alternatives. This is the period where alternatives are matched with realistic interest, abilities, leisure activities, etc. Broad occupation choices are made at this stage and are refined at a later stage, then the person learns more about the choices and himself. The person discovers and develops values, motives and ambitions and makes sound educational decisions based on reliable sources of information about career alternatives.

Stage 3: Establishment
This stage is around the ages of 24 to 44 and is the core of most people’s career lives. If fortunate a person may lock into a chosen occupation early although in most cases people continuously test their abilities and ambitions
against those of the initial occupation choice. The establishment stage has three sub stages:

- **Trial**
  Ages 25 to 30. Several career changes are attempted if the chosen field is not suitable.
- **Stabilisation**;
  Ages 31 to 40. Firm occupational goals are set and the person does more explicit career planning to determine sequence of promotions, job changes and educational activities that are necessary to accomplish these goals; and
- **Mid career crisis**.
  Ages 41 to 44. During this period people make major reassessment of their progress relative to original dreams and goals. This is the time that they may even realise that they will not realise their goals e.g. being the company’s CEO. This is the time to decide the importance of work and career in their lives. This is when career anchors such as security, independence, freedom, etc become critical.

**Stage 4: Maintenance**
Ages 45 to 65. Efforts are now directed towards securing a place in the world of work.

**Stage 5: Decline**
Retirement age approaches. At this stage people have to accept reduced levels of power and responsibility and have to learn to develop new roles as mentors and confidantes for those who are younger. A person is now faced with finding alternative use of time and effort.

**3.8.3 Roles, Benefits and Risks of career planning**

Otte & Hutcheson (1992:98), argues that it is not employees alone who must draw their career plan, but employee, manager and organisation are responsible and play different roles as indicated in the table below.
<table>
<thead>
<tr>
<th>Roles</th>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Accept responsibility for own career | ▪ More self determination  
▪ More sense of growth  
▪ Better fit with job  
▪ Better skills in marketing self in career  
▪ Less stress from feeling out of control  
▪ Improved relationships  | ▪ Unbalanced direction of self interest  
▪ Overwhelmed with options  
▪ Stress from decisions involved with making changes  
▪ Stress from frustrations of limitations  
▪ Fear of discovering incompetence  
▪ Having to change or give up dreams  
▪ Stress from impatience with status quo  |
| Assess interest, skills and values |  |  |
| Seek out career information and resources |  |  |
| Establish goals and career plans |  |  |
| Utilise development opportunities |  |  |
| Talk with your manager about your career |  |  |
| Follow through on realistic career plans |  |  |
| **Manager**            |                                                      |                                                       |
| Provide timely performance feedback | ▪ Safe way to let employees know that you care about them as people  
▪ Joy in being able to trust employees and discovering that many fears about employees have no basis  
▪ Have jobs done well within the unit  
▪ Feeling that employees care about you  | ▪ Perceived by employees as less than perfect  
▪ Stress from change  
▪ Confrontations and conflicts brought to the surface  
▪ Feeling that jobs are not done if time is taken with employees  
▪ Sense of failure when process does not work well with certain employees  |
<p>| Provide developmental assignments and support |  |  |
| Participate in career developmental discussions |  |  |
| Support employees’ developmental plans |  |  |</p>
<table>
<thead>
<tr>
<th>Roles</th>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicate mission, policies and procedures</td>
<td>Better use of human resources</td>
<td>Unmet employees’ expectations</td>
</tr>
<tr>
<td>Provide training and developmental opportunities</td>
<td>Productivity improvement in quality and quantity</td>
<td>People overdeveloped for current jobs</td>
</tr>
<tr>
<td>Provide career information and career programs</td>
<td>Organisational adaptability</td>
<td>Too much emphasis on life planning and less emphasis on current job performance planning</td>
</tr>
<tr>
<td>Offer a variety of career options</td>
<td>Employee commitment</td>
<td>More conflict of employees and organisations</td>
</tr>
<tr>
<td></td>
<td>Less turnover, absenteeism and tardiness</td>
<td>Too much mobility</td>
</tr>
<tr>
<td></td>
<td>Better compliance with legal requirements</td>
<td>Destructive employee competition</td>
</tr>
<tr>
<td></td>
<td>Fewer grievances</td>
<td>Reverse discrimination</td>
</tr>
<tr>
<td></td>
<td>Better morale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>More teamwork spirit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee responsible for self development</td>
<td></td>
</tr>
</tbody>
</table>

Source: Otte & Hutcheson (1992:98)

Ways to win over your employees – companies who are keen on keeping their people need to look at how they are treating them. A (Sunday Times, 2005:11) article reported that although employees do not want to change jobs every two years, they are usually disillusioned with the idea of loyalty to the organisation.

Companies can also not afford to replace employees that frequently leave, and train new employees. Both parties need to strike a balance, hence the need for companies to rethink how they manage their people. According to the article companies can follow the model with the following guidelines:

### 3.8.3.1 Align career growth with company goals
Use assessment tool and career coaches to identify employees’ strengths and how to lever such talents for the company’s good. Encourage employees to have meetings with their managers, boss’s boss and company coaches to discuss possibilities in the company.
3.8.3.2 Design work with variety and autonomy

Jobs that provide variety and freedom to make decisions and mistakes engender loyalty. Allowing people to take ownership of projects gives them the opportunity to develop new skills.

3.8.3.3 Focus on relationships

The article writes that the reason why people leave their jobs is due to the day-to-day relationships with their managers. Fostering supportive relationships among employees enhance their loyalty. Enable people to work through conflict constructively to give them a sense of “We are in this together, we are a team”.

3.8.3.4 Highlight link between employees’ values and company’s mission

Create an environment that creates a feeling of personal involvement with the company.
3.8.4 Traditional focus versus Career Development focus

Otte & Hutcheson (1992:102) continue to discuss the differences between traditional performance appraisals and career development.

Table 3.6: Traditional Performance Appraisal versus Career Development

<table>
<thead>
<tr>
<th>Activity</th>
<th>Traditional</th>
<th>Career development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and Development</td>
<td>Provides opportunities for learning skills, information and attitudes related to jobs.</td>
<td>Adds individual growth or training by objective orientation.</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>Rating and/or rewards</td>
<td>Adds developmental plans and individual goal setting.</td>
</tr>
<tr>
<td>Recruitment and placement</td>
<td>Match organisations needs with individual qualifications.</td>
<td>Match individual and jobs based on a number of variables</td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>Reward for time, productivity, talent, etc</td>
<td>Adds non-job related activities.</td>
</tr>
</tbody>
</table>

Source: Otte & Hutcheson (1992:102)

3.8.5 Career discussion process

3.8.5.1 Set the stage

Create the physical and psychological environment that makes it easier for manager and employees to feel comfortable. The setting should be comfortable and private. The time and date must be established well in advance to allow both parties adequate time to prepare.

3.8.5.2 Listen

Listen actively to be able to a) hear concerns, b) clarify issues and c) listen for themes.

3.8.5.3 Respond

This is the stage where the manager has the opportunity to share viewpoints, perspective and information he feels are required to move the discussion
forward in a realistic way. The manager needs to share perception and insight, be open, flexible and specific.

Response may cover the following:

- **Summarising** – ensuring that the conversation is on track;
- **Sharing perception** – how the manager sees the employee, gently challenging what the employee has presented;
- **Confronting inconsistencies** – tactfully confront conflicting messages that the employee is sending;
- **Provide information** – manager can provide information that can affect employees’ development plans e.g. company’s direction, future projects, etc; and
- **Reality testing** – employee needs to think through the probability of succeeding in the selected career direction. Manager can offer their perception of reality, and encourage employee to check with others whose opinion they respect.

### 3.8.5.4 Develop alternatives

This requires the ability to be creative and provide information about the opportunities within the organisation. First focus should be on the job, special assignment or individualised exploration. Training programs should be kept as the last resort as are often used as an easy way out by managers.

### 3.8.5.5 Reach joint conclusion

Manager must summarise key points of the discussion, identify action steps and review follow-up plans. Managers must not take responsibility for the next step, but must leave this to the employee.
3.9 CONCLUSION

Developing reward plans often forces all levels of management to come to consensus on a few critical business objectives and their measures. The process requires consensus on the primary message to the work force about what is important, how they know how they are doing and the degree of commitment the organisation is willing to make in “rand” terms in addition to talk and plans. The reward plan must be designed with the best interest of all stakeholders in mind, according to DeNisi (1996:211).