EFFECT OF FAULTY REWARD SYSTEM IN ORGANIZATIONS' PERFORMANCE MANAGEMENT SYSTEM

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Abstract
The importance of an effective reward system in an organization's performance management system has been widely researched with researchers noting that performance appraisal is performed by organizations for either evaluative or developmental reasons; but the effect of faulty reward system to organizational performance has not been widely examined, hence the need for this study. This study examined the effect of faulty appraisal reward system to the overall performance of an organization and made recommendations on how these effects can be remedied.

Introduction

Performance management literature have noted that some reasons why organizations embark on performance appraisal is to help employers determine the training and developmental needs of employees, increase overall organizational performance, reassign task to employees based on identified competence areas (Naquin & Holton III, 2006), reward performance, sustain competitive advantage (Green & Wesselkamper, 2005) etc. Although researchers have considered the importance of rewarding performance in organizations, the effect of faulty appraisal reward system in the performance management of organizations has not been critically examined.

In some organizations, where there is no uniformity in the key performance indicators (KYIs) amongst the different units, there is bound to be dissatisfaction amongst employees who perceive the reward system not to be fair and transparent. Rather than motivate such employees, the reward system may decrease their morale and productivity. Lawler III (1995) noted that rewarding some behaviors and not rewarding others will have negative effect on performance; he suggested that in designing strategic plan, organizations should pay close attention to the reward system by defining key performance objectives that will motivate the right performance. In organizations where key performance of some departments is quantitatively measured and others is qualitatively (subjectively) measured, there is need for HR to develop an objective reward system that will be generally acceptable and beneficial to all employees irrespective of the department they find themselves. According to Bernardin and Villanova (2005), many employees have argued that using appraisal system with quantitative indices is more effective as this does not depend on the psychological and/or emotional state of the appraiser (rater). Employees accept the outcome, validity measure, and credibility of objective appraisal more than subjective appraisal because it better motivates them. Organizations that tie their rewards system to objective measures experience more acceptability of the system than organizations that base reward on subjective, non verifiable measures such as a supervisor's rating (Lawler III, 1995). This is because quantitative or objective measures of performance are well defined with specific indices such as sales increase, productivity volumes, cost-reduction ideas, subordinates development, staff retention level, customer satisfaction rating etc. Subjective appraisal system has been widely criticized as ineffective and prone to error because its outcome depends largely on the personality trait of the rater (Bernardin & Villanova, 2005).

For all employees to perceive an appraisal system to be transparent, fair, and just; the reward system must be perceived to be objective and faultless. The effect of perceived injustice and procedural unfairness in the appraisal system can lead to decreased morale, lack of organizational commitment, lack of job satisfaction, and decreased performance (Curtis, Harvey, & Ravden, 2005). This study seeks to examine the effect of faulty appraisal reward system to the overall performance of an organization and to make recommendation on how these effects can be remedied.

Literature Review

Performance management and human resource development have been widely researched in the past but the focus has been more on the reactions of raters and ratees (Cawley, Keeping, & Levy, 1998), the need for employees to participate in appraisal process, the need for distributive and procedural justice (Curtis, Harvey, & Ravden, 2005), self efficacy of raters (Bernardin & Villanova, 2005), creating sustainable competitive advantage (Schleicher, Bull, & Green, 2009) etc. The importance of rewarding performance has also been stressed but the effect of faulty appraisal reward system to organizational performance has not been widely examined.

In designing reward system, organizations are faced with the challenge of relating pay to performance particularly organizations that adopt subjective appraisal system. In addition to determining what level of performance will qualify for reward, they must also determine what kind of rewards will apply to particular level of performance (whether stock or cash); frequency of payment of rewards (bi-annually or annually); and whether performance will be measured individually, at group level or based on the overall organizational performance. Several reward systems have been considered in the field of human resource management. These reward systems range from individual performance based to skill-based, team-based, and organizational performance based systems.

Appraisal Reward Systems

Organizations design and adopt different appraisal reward systems depending on the strategic focus of the organization. Irrespective of the reward system they choose to adopt, it is critical that only employees who are relevant to the attainment of organizational goals and whose personal goals align with the strategic goal of the organization are attracted and retained. Appraisal rewards should be distributed in a manner that will create a sense of satisfaction among beneficiaries without creating envy and tension from non-beneficiaries. Within the same organization, the reward system should be perceived by all employees to be fair, just, equitable, and capable of fostering motivation for higher productivity. Individuals doing similar jobs should be rewarded equitably; this is necessary as feelings of injustice, unfairness, and inequity will only unmotivate rather than motivate employees to perform effectively.

According to Lawler III (1995), the design of appraisal reward systems could take either of these forms:

Skilled-Based Reward System

This is a reward system where employees are paid based on the skills they possess that have been applied in adding value to the organization in its quest for actualizing organizational goal. This system of reward encourages employees to learn and develop new skills. It promotes the development of talented workforce with ability to multi-task. Despite its benefit to the organization, this system of reward has been criticized because organizations have failed to

develop acceptable structure for determining the worth of individual skills within the organization and in the marketplace.

Job-Based Reward System

This is a reward system where organizations evaluate employees based on the content of their jobs and not the skills applied in doing the jobs. This approach assumes that job worth can be determined and that the person doing the job is worth only as much to the organization as the job itself (Lawler III, 1995). It benchmarks an organization's compensation costs with that of competitors, thus giving the organization an objective basis for its compensation policies/practices.

Performance-Based Reward System

Rather than reward employees based on their individual skills or job content, some organizations reward performance based on individual, team/group, and/or organizational performance. In designing this type of reward system, organizations are faced with the challenge of determining what constitute performance particularly when the appraisal is based on subjective measures, how will reward be harmonized across departments with different job functions without creating a sense of unfairness and injustice, and what kind of performance should be rewarded. Under this type of reward system, it has been suggested that group and organizational compensation plans work best in fostering and encouraging teamwork. This is because team or group work encourages individuals to synergize and work effectively for optimal result and reward; unlike the individual plan that encourages unhealthy competition and rivalry. Group or organizational compensation plans support and encourage good performance because employees tend to take responsibility for their individual action and the action of others so as to achieve better financial results.

Appraisal Reward System and Organizational Performance

Organizations carry out performance appraisal for either evaluative (administrative) or developmental reasons. The evaluative reason is concerned with examining how employees have performed within a given time period based on the key performance indicators that were set at the beginning of the appraisal period. The developmental reason on the other hand is concerned with improving the performance of employees by identifying areas of improvement, setting performance targets for the future, communicating employees' performance expectations, determining employees' potentials, and agreeing on plan to monitor progress in areas that require improvement. Performance appraisal outcome is critical for decision making; HR uses appraisal outcomes for decisions relating to employees' promotion, redeployment, transfers, exit interviews, layoff of poor performers, salary administration, compensation, training needs, and structuring of employees development plan (Siaguru, 2011). Performance appraisal outcome has also been widely used for performance improvement, research, and evaluation of human resource policies and programs.

Siagura (2011) argued that for effective performance management systems, rewards should be based on the outcome of performance appraisals as this will motivate managers and employees to effectively perform their jobs so as to benefit from the allocated reward. When employees are aware that their reward is determined by their level of performance as reflected in the appraisal outcome, they put in their best performance so as to benefit from whatever reward that is due to them. Managers also mount pressure on their direct reports in order to bring out the best from them so that all their reportees will benefit from the reward system without any seen as less favoured or an underperformer.

While effective performance management system promotes healthy competition amongst employees which invariably enhances organizational performance, the effect of faulty appraisal system on organizational performance can be detrimental to the development of the organization as a whole. A faulty appraisal system can be described as one that fails to address the issue of procedural and distributive justice, perceived fairness and equity, appraisees' participation in the appraisal process, and appraisal feedbacks. When an appraisal system fails to define the standards and/or measures upon which performance will be measured at the end of an appraisal period, such an appraisal system can be said to be faulty and has the likelihood of triggering dissatisfaction amongst employees. Also, an appraisal system can be termed to be faulty where standards have been set and communicated to employees and management without recourse to employees adjust such set standards. Where all these elements are present in an appraisal system, employees lose confidence in the whole process and they bother less about the appraisal outcome. Employees over time will develop apathy towards the appraisal outcome of a faulty appraisal system. Some employees will even refuse to participate in the appraisal while those who participate may do so just to fulfill organizational requirement not necessarily to benefit from the reward that comes with the appraisal outcome. This attitude and reactions from employees is because of the perceived injustice, unfairness, and lack of trust on the management of the organization. Whiting, Kline, Theresa, and Sulsky (2008) noted that when employees are satisfied with their performance appraisal systems, they tend to trust the judgment of supervisors. When supervisors are supportive and provide quick and timely feedback to employees on their developmental needs and career advancement plan, they feel satisfied, motivated and better productive. Also when subordinates are allowed to express their feelings about the appraisal outcome, their satisfaction and motivational level increase and this translates into higher productivity. When appraisers/supervisors understand the job roles of appraisees and they frequently evaluate the performance of appraisees, employees will perceive the appraisal system to be fair

Employees also believe that the outcome of a faulty appraisal system is not a true reflection of their performance but a reflection of management's pre-conceived idea. The decision for management to adjust already set standards without discussing it with the employees/ratees can be perceived as a deliberate attempt not to pay reward based on employee

performance. According to Curtis, Harvey, and Ravden (2005), there is a positive correlation between procedural justice and employees' organizational commitment. Cawley, Keeping, and Levy (1998) noted that where subordinates' reactions to performance appraisal are satisfactory, it enhances productivity, motivation, and organizational commitment. They opined that self-appraisal is a way of enhancing ratees' participation in appraisal interview and employees' participation has a positive relationship with their reactions to appraisal outcomes and level of satisfaction. Employees' satisfaction enhances motivation and job performance.

Research Questions
This paper seeks to provide answers to the following research questions:
1. What are the effects of faulty appraisal reward system to the overall performance of an organization?
2. What are the possible remedies for minimizing the effect of faulty appraisal reward system in organizations?

Conclusion and Recommendations
An effective appraisal reward systems is no doubt important to the overall performance of organizations but these benefits can only be reaped if organizations design their appraisal reward system in a manner that employees will perceive it as fair, just, and transparent. When employees perceive the appraisal process to be fair and just, it creates a sense of satisfaction which translates into motivation and high productivity. In a bid for organizations to avert the negative effects of faulty appraisal reward systems, they need to set appraisal standards upon which performance will be measured, communicate these standards to all employees involved, employees should be given opportunity to discuss the appraisal measures/standards for possible inputs, these standards should not be subject to change without employees' involvement and/or consent, managers and supervisors should provide regular and timely performance feedback to subordinates, supervisors should keep detailed record of employees' performance upon which appraisal should be based, managers and supervisors should be properly trained on how not to allow their personality traits and personal bias influence their appraisal decisions, an enabling environment that will promote good working relationship between supervisors and subordinates should be encouraged. The consideration and implementation of these recommendations by organizations will enhance employees' satisfaction, motivation, and productivity which will ultimately increase organizational profitability.

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