Project of the Performance Appraisal System Creation in the XYZ Company, UK

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Master thesis
2010

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Univerzita Tomáše Bati ve Zlíně

Fakulta managementu a ekonomiky

Ústav managementu a marketingu

akademický rok: 2009/2010

ZADÁNÍ DIPLOMOVÉ PRÁCE

(PROJEKTU, UMĚLECKÉHO DÍLA, UMĚLECKÉHO VÝKONU)

Jméno a příjmení: **Hana MÁDROVÁ**

Studijní program: **N 6208 Ekonomika a management**

Studijní obor: **Management a marketing**

Téma práce: **Projekt vytvoření systému hodnocení pracovníků ve společnosti XYZ, UK**

Zásady pro vypracování:

Úvod

I. Teoretická část

- **Proveďte průzkum literárních pramenů a zpracujte teoretické poznatky týkající se problematiky hodnocení pracovníků.**

II. Praktická část

- **Analyzujte potřebu zavedení systému hodnocení pracovníků ve společnosti XYZ.**

- **Navrhněte firmě projekt systému hodnocení pracovníků.**

- **Zhodnoťte předpokládané náklady, přínosy a rizika spojená s realizací projektu.**

Závěr

Rozsah práce: **70 stran**

Rozsah příloh:

Forma zpracování diplomové práce: **tištěná/elektronická**

Seznam odborné literatury:

[1] ARMSTRONG, Michael. A Handbook of Human Resource Management Practice. 9th edition. London : Kogan Page, 2003. 1268 s. ISBN 0749441054.

[2] FLETCHER, Clive. Appraisal, Feedback and Development: Making Performance Review Work. 4th edition. London : Routledge, 2008. 184 s. ISBN 9780415446914.

[3] REDMAN, Tom, WILKINSON, Adrian. Contemporary Human Resource Management: Text and Cases. 2nd edition. Harlow : Financial Times Prentice Hall, 2006. 341 s. ISBN 0273686631.

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Vedoucí diplomové práce: **Ing. Petra Kressová, Ph.D.**
                                           Ústav managementu a marketingu

Datum zadání diplomové práce: **29. března 2010**

Termín odevzdání diplomové práce: **3. května 2010**

Ve Zlíně dne 29. března 2010

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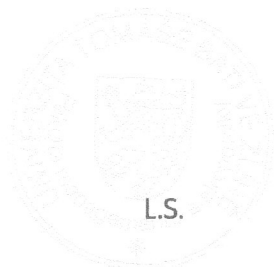
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ABSTRAKT

Cílem této diplomové práce je vytvořit projekt systému hodnocení pracovníků ve společnosti XYZ, UK. V teoretické části jsou zpracovány teoretické poznatky týkající se řízení lidských zdrojů a konkrétně hodnocení pracovníků. Na základě těchto poznatků bude autor schopen vytvořit projekt nového systému hodnocení. V analytické části je analyzován současný stav hodnocení pracovníků ve společnosti, který je pouze neformální a pro společnost a její zaměstnance nevyhovující. Na základě této analýzy byl vypracován projekt nového systému hodnocení pracovníků, jehož součástí je hodnotící pohovor a formuláře, podle kterých bude hodnocení prováděno, a to nadřízeným. Na závěr byly zhodnoceny náklady, přínosy a rizika spojená s realizací projektu, které je ovšem možno omezit.

Klíčová slova: řízení lidských zdrojů, hodnocení pracovníků, hodnotící pohovor, metody a kritéria hodnocení, proces hodnocení pracovníků, hodnotící formulář

ABSTRACT

The objective of this master thesis is to create a project of the performance appraisal system creation in the XYZ company. In the theoretical part, theoretical backgrounds related to human resource management and specifically to the performance appraisal. The author is able to create the project of performance appraisal with knowledge based on the theoretical part. The current state of the performance appraisal within the company is analysed in the analytical part and considered as deficient for the company's and employees' needs. The project of the new performance appraisal system creation was created and based on the analytical findings. The new performance appraisal contains appraisal interview and forms which are used as basis for the appraisal of employees done by the superiors. Finally costs, benefits and risk factors were considered when the risk factors may be minimised.

Keywords: human resource management, performance appraisal, appraisal interview, methods and criteria of the performance appraisal, process of the performance appraisal, appraisal forms

ACKNOWLEDGEMENTS

CONTENTS

INTRODUCTION

Many organisations have realised that satisfied, skilled, hard working and especially motivated employees are very important for the organisation not only because of higher performance and productivity. At the present time they may be a source of competitiveness as well. The question arises how to motivate employees, make them happy to work for the organisation and let them participate on the organisation's success.

A performance appraisal, as a part of human resource management, is a good tool how to manage employees when it is set properly and both sides, the organisation and employees, understand why the performance appraisal is so important. The performance appraisal helps the organisation to observe employees' performance, behaviour, skills, need for training or further education, etc. It helps the employees as well because they know where they are, what is expected from them and what they need to do to fulfil organisation's expectations. It motivates them especially when the performance appraisal is related to remuneration.

The main objective of this master thesis is creation of a new performance system in the XYZ company, UK which would which would replace the current informal one and suit the company's and employees' needs. Due to the relationship with the founder of the company and former working experience within the company, the author of this paper was asked to propose a project of the performance appraisal. When the author met Mr Newstead-Bishop, the founder of the company, in September 2009 he was very disappointed with his employees. Most of his current employees were not happy and not motivated enough to work for the company anymore and they were looking for a new job. Also every second new employee quit the job within first three months. The situation was unbearable. Also the author has studied human resource management and this project was a great opportunity for her to develop her skills and gain more experience in this area.

The first chapter of the master thesis reviews theoretical background of human resource management and performance appraisal. The author used mainly academic literature which relates to the aim of this paper.

In the second chapter the author is going to introduce the XYZ company, its activities and employees. The analysis of current state of the performance appraisal system will follow. Information from this analysis is going to be used as a basis for developing a proposal for new performance appraisal system to be used in the company.

I. THEORY

1 HUMAN RESOURCE MANAGEMENT

Human resource management has developed during past twenty years and has gained a lot of attention. The interest in human resource management has been caused by development of technology, greater competition and greater importance of productivity. [2]

According to Tyson and York [9] inception of people management begun in 18th century at the time of the Industrial Revolution. Personnel management, the most commonly used term for managing people, has been replaced by human resource management during the recent twenty years. Some authors argue that this change has been simple fashionable renaming of personnel management while others contradict it and indicate human resource management as completely new approach. [6, 8, 9]

Human resource management is a broad concept with range of definitions. Bratton and Gold [2, p.3] define human resource management as *"a strategic approach to managing employment relations which emphasizes that leveraging people's capabilities is critical to achieving sustainable competitive advantage, this being achieved through a distinctive set of integrated employment policies, programmes and practices."*

The key human resource activities very often vary in terms of name but the characteristics are similar. These activities are strategic and international human resource management, recruitment and selection, performance management, training and development, reward management, union-management relations and employee relations, and employees' health and safety. [9]

At the current situation of worldwide globalisation (e.g. enlargement of the European Union) human resource functions must deal with demographic changes (e.g. employees' diversity, cultural differences) more than ever before. Improvement in total quality management and business process redesign are important for increasing focus on managing people as the probable source of competitive advantage. [6, 9]

1.1 Performance Management

Performance management is one of the functions of human resource management. In recent years, it has obtained a lot of attention as a key feature in achieving competitive advantage and high performance. Performance management is concerned in managing the organisation and its employees to get better results from them. It helps employees to understand the organisation's goals and requirements and how they can partake in

achieving objectives and higher performance of the organisation. Performance management is often seen as synonymous with performance appraisal but the performance appraisal is only part of the performance management process. [1]

2 PERFORMANCE APPRAISAL

Performance appraisal has been used for decades in organisations to serve employees' and organisations' needs. It is defined by Snape et al. [18, p.846] as *"a formal assessment of how well an employee performs his or her job, usually carried out on a regular basis (e.g. annually). It usually takes a systematic approach, involving documentation and possibly a meeting between appraiser and appraisee."*
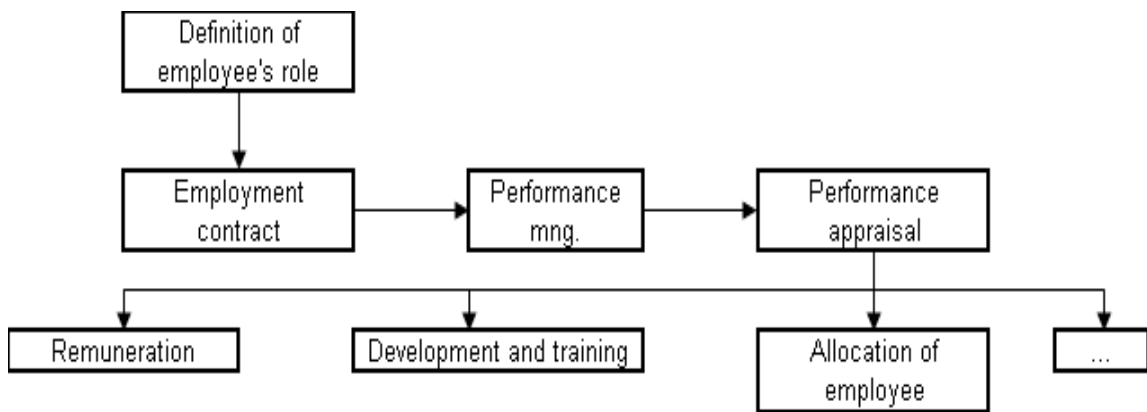
Figure 1 Process of Human Resource Management [5]

Performance appraisal is a complex of issues that need to be considered e.g. content of appraisal, how to appraise, who conducts appraisal and who is appraised, when and how often, how to tell and use results, etc. It is not easy to set up suitable and efficient appraisal that would suit to organisations' and employees' expectations as well. Inadequate performance appraisal system is very costly and does not produce any benefits for organisation and its employees. [15]

2.1 Why Appraise Employees' Performance?

An appraisal is a process when a company appraises employees' performance. If the appraisal is performed well it brings benefits to employees, their superiors, to the human resource department and the whole company.

2.1.1 Formal and Informal Appraisal

There are two types of appraisal conducted according to its frequency and purpose.

An informal appraisal is a part of everyday interaction superior-employee and it is very random; it is influenced by the current situation and need. It is the part of running checking of employee's behaviour and fulfilment of tasks. The appraisal is usually verbal and not recorded and it does not serve as basis for performance management. It should motivate the employees and give feedback to them and to the superiors as well. [2]

A formal appraisal is standardised, periodical, planned and systematic. However, it can also be occasional in terms of actual need (e.g. before employee's promotion or before transfer to another position). It serves as basis for performance management; it is recorded and saved in the employee's profile. The following figure shows the formal appraisal in time [1]:
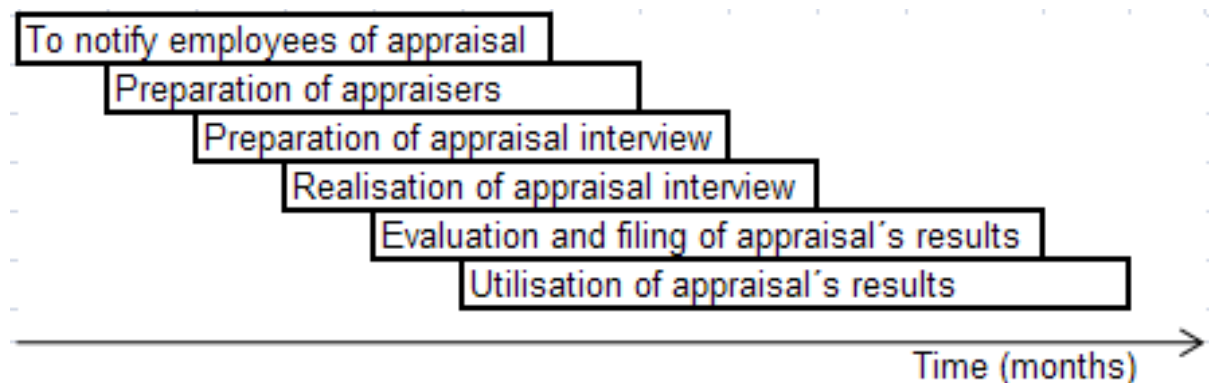
Figure 2 Formal Appraisal in Time [1]

2.1.2 Objectives of Appraisal

The main objective of the appraisal is to evaluate employee's performance fairly. It creates assumptions for employee's utilization within the company and for his/her e.g. motivation, performance or career. Only some of the main objectives are introduced as follow [2]:

- To appraise to what extent the employee fulfils his duties

- To qualify level of the employee's performance

- To appraise if the employee does his/her best at work

- To formulate development of the employee

- To recommend the employee's transfer to more/less exacting work place

Other objectives of the appraisal may differ according to the situation within the company or according to the purpose of appraisal (e.g. periodicity, changes in the company). Among these partial objectives belong [2]:

- To improve the employee's performance

- To gain information about the employee's opinions, values

- To identify suitable candidates to be promoted

- To identify educational needs

- To check foreknowledge of the employee

- To identify how to improve relationship between management of the company and the other employees

- To discuss work issues with the employee

- To identify work and social needs of the employee

- To check motivation impact of the appraisal and remuneration

- To find out level of the employee's satisfaction

In practice only some of these objectives are met by the appraisal. It depends on the purpose of the appraisal. The whole appraisal is more about the performance in a case of the appraisal focused on remuneration. The appraisal, focused on character of the employee or his/her behaviour, is oriented on management of development and employee's motivation.

The appraisal system, which is realised effectively, provides the company with very important feedback about management of the company and the employee's perception of it. Managers are supposed to do the appraisal to find out what provisions are necessary to adopt. They are also supposed to support employee's success or on the other hand to discipline failings and to motivate.

Also employees expect benefits from the appraisal. The employee gets feedback about his/her performance which may motivate him/her to do better job. They get an opportunity to find out whether their requirements harmonise with the company's vision or they can discuss his/her remuneration. [1, 2, 3]

2.2 What to Appraise?

To conduct the appraisal well an appraiser must know which criteria are crucial for the certain employee's position and which are adequate to the form and purpose of the appraisal too. Different criteria may apply to different positions within the company. They can be general (they apply to the all positions) or special (adjusted to the particular position). These criteria should be clear, unambiguous, measurable or comparable (if possible), objective, reliable and giving evidence. For example skills which do not relate to work cannot be taken into consideration during appraisal. The appraisal observes knowledge, skills, competence and behaviour of the employee (work-related and social). The appraisal observes [6]:

1) Labour performance

   - Quality and quantity of work during certain time and with certain costs

   - Employee's value-added to the company

2) Labour efficiency (ability to reach a target)

   - Behaviour

   - Expertness

   - Personality

   - Motivation

3) Work-related and life condition of the employee

However, the most common criteria are as follow [3]:

   - Character and skills needed for work performance

   - Qualifications and behaviour during work

   - Labour efficiency

   - Interpersonal relations and style

2.3 How to Appraise? Appraising Methods

Appraising method is a procedure which allows a company to collect, check, classify, provide and use information gained from employees and about employees in order to

improve their performance. There is a wide range of appraising methods in various modifications according to the employee's position. The methods are developing and new ones are emerging. They cannot be adopted from foreigner countries due to influence of national culture. The appraisal cannot break the rights of employees. It is important to choose the right method which relates to certain criteria. [1, 3, 6]
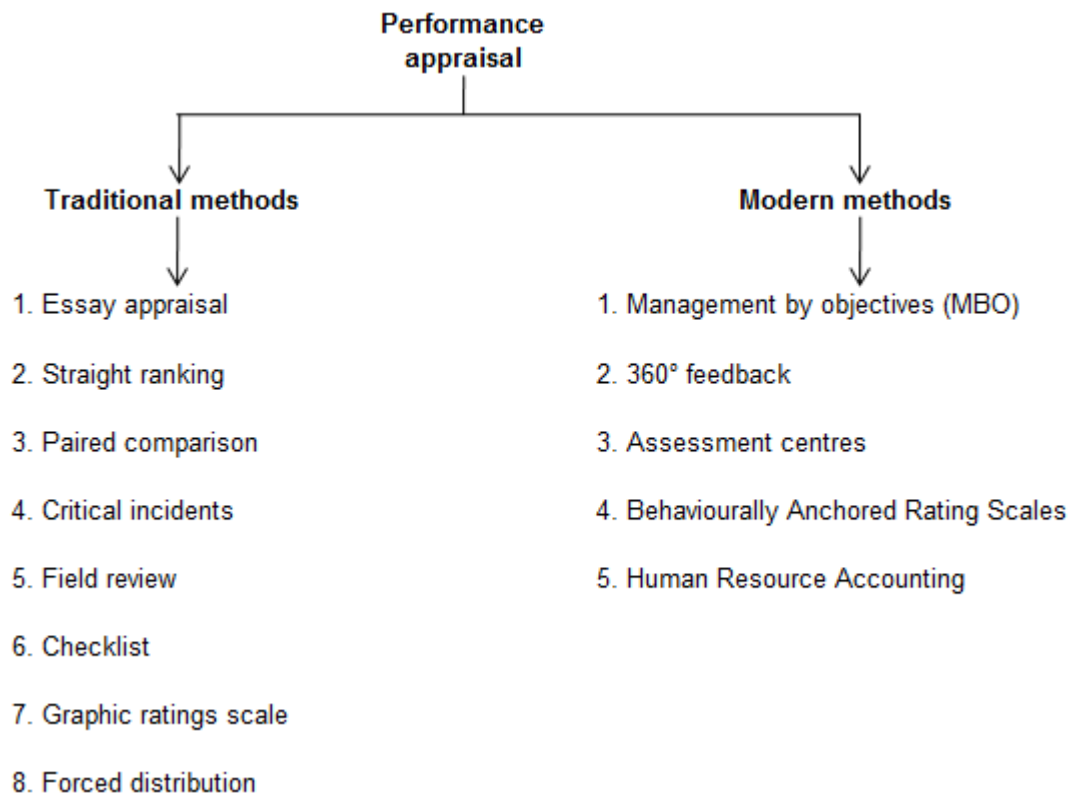
Figure 3 Methods of Performance Appraisal [6]

The author offers only brief summary of the appraising methods.

2.3.1   Appraisal According to Defined Objectives (Management by Objectives)

This method has been used for appraisal of managers and specialists. The objectives and plans which should be completed by the employee by the deadline are appraised. These objectives are measurable and should be SMART [11]:

- **S**pecific

- **M**easurable

- **A**chievable

- **R**elevant

- **T**ime-bound

The appraisal reviews fulfilment of the objectives, necessary improvements and it sets up new objectives for the next period. This method is future oriented and it has its own principles [11]:

- chronological sequence of company's objectives and goals

- certain objectives for each employee

- decisions made collectively

- definite period of time

- performance appraisal, evaluation and feedback

2.3.2 Appraisal According to Norms

This method is used for appraisal of employees in manufacturing and it appraises meeting norms. These norms are usually quantified therefore measurable but it is not possible to compare the results with other employees from different sectors. The appraisal measures fulfilment of norms and it sets up new norms to be accomplished. [3]

2.3.3 Appraisal According to Scale

Appraisal according to scale is probably one of the oldest and the most wide-spread form of performance appraisal. An appraiser subjectively evaluates employee's performance according to scale. It is multi-purpose method which can be used for self-appraisal as well. Each criterion of performance (e.g. quality, accuracy, knowledge,...) is appraised separately by identifying achieved level of performance. This method relates to pay rise according to achieved level of performance or for example according to the number of points gained. The appraisal according to scale is unexacting, not time-consuming and can be used for large amount of employees. However, the problem is formulation and interpretation of criteria and level of performance. There are three types of scale which can be used [3, 13]:

- Numerical

- Graphic

- Verbal – levels of appraisal are expressed with adjectives (e.g. outstanding, above average, average, satisfactory, fail) or with brief characteristic of situations (e.g. criterion of cooperation – highly cooperative, good cooperation, etc.)

The numerical scale is quite popular because of an average which can be gained from the digits and which relates directly to the level of remuneration (certain average relates to the certain percentage of remuneration).

2.3.4 Behaviourally Anchored Rating Scales Method (BARS)

This method is used for behaviour appraisal. It focuses on employee's approach to work, working technique and behaviour during work. Each activity is recorded and appraised according to scale with up to 7 levels supplemented with verbal characteristic (e.g. 7-outstanding, 6-above average,...1-unacceptable). [14]

The appraisal is conducted according to reality and feedback is assured. It minimise subjectivity, bias and misleading numerical or volume measures. The only disadvantage is demandingness of preparation. However, when this type of appraisal is understood and set up properly, it is a valued method. [14]

2.3.5 Descriptive Appraisal

Descriptive appraisal is quite problematic method due to its subjectivity (every appraiser is subjective to some extent) and lower comparability. The appraiser evaluates employee's performance in writing, his/her strengths and weaknesses and the appraiser proposes how the employee could improve his/her performance. This method is difficult and its results are not quantifiable. Therefore they cannot be comparable. [6]

2.3.6 Appraisal According to Key Events

The appraiser must record every situation of extraordinarily good or bad behaviour of the employee which relates to his/her work duties. These situations are called key events. The appraiser records these events during the whole appraisal period. He/she records positive and negative situations which are then classified and serve as objective basis for the appraisal interview. [3]

However, there are some limitations as well. Negative events tend to be more easy-to-remember and remind all the complaints on the employee. The supervisor must watch the employee very closer that may be unpleasant for the employee and he/she also may forget to record some key events due to busyness. [3]

2.3.7 Appraisal According to Employees' Comparison

This type of appraisal includes several methods which compare employee's performance with performance of his/her colleagues. The comparison is usually conducted by superiors. The results of these methods help distinguish the worst and the best employees and they also identify percentage of pay rise, possible promotion or bonuses. These methods are very practical but they offer low feedback and they could be prejudiced against the employee due to the appraiser's subjectivity. The most common forms of the employees' comparison are [3, 4]:

- sequence of employees – the appraiser creates the sequence of appraised employees from the best employee to the worst one; it is simple evaluation with simple interpretation but you never know to what extent is one employee better/worst than the other one

- forced classification into categories – the employees are divided into categories according to their performance, credibility, etc.; differences among employees are not known as well as in the previous form and there must be employees who get worst ratings (due to the forced classification) even if their performance is not so bad

- paired comparison – the appraiser compares employee's performance individually with other employees within the same group and he/she identifies the final sequence according to scoring in certain criteria; the employee who is in most cases first will be the best employee

2.3.8 Checklist Method

When using questionnaire or so-called checklist the appraiser follows stated, clearly formulated questions and only ticks off 'yes' or 'no' by the questions. It is very simple method and it is used quite often for evaluating employee's performance. [2, 3]

One of the serious disadvantages is demanding, time-consuming preparation and high costs. The appraiser may not well distinguish questions which are positive or negative. He/she may weigh the importance of questions not adequately and very subjectively. It is also very difficult for appraisers to analyse and evaluate checklist's results according to stated questions. [2, 3]

2.3.9 Assessment Centre

This method is a complex appraisal of employee's performance, capabilities and potential development possibilities of the employee. The employee is appraised during an individual and group solution of model tasks and case studies related to his/her job requirements. [6, 8]

Main objectives of the assessment centre are as follow [6, 8]:

a) the employee has enough time to think about met objectives, further personal ambition, plans and ways of their fulfilment

b) to find out actual motivation of employees

c) to identify reason of satisfaction/dissatisfaction of employees

d) to evaluate employee's key competencies, relevant skills and knowledge needed for the certain position

e) to provide employee with feedback containing his/her current skills and possible areas of development

f) to generate plans for higher education and personal development of employee for the next appraisal period

The appraisal is conducted in model environment which may differ from the reality. However, this method offers broad range of information obtained during appraisal. The combination of psychodiagnostic tools and observation of employee's behaviour in real time provides broader and real picture of the employee. Therefore advantages of assessment centre prevail [6, 8]:

- increased motivation of employees

- being send to an assessment centre means for the employee that a company values him/her

- potential of employee is increasing which means improved level of employee's performance

- possibility to plan further employee's education for long-time which fits him/her and develops the employee

- possibility to recognise perspective employees, focus on them and help them to develop their career

- investments in education and development of employees are spent adequately on the right place

- higher number of appraisers which means more opinions and different look on the employee

- wide range of techniques and methods used

- possibility to see the employee in interaction with colleagues

- lower costs and less time required due to higher number of employees participating in assessment centre together at the same time

- possible comparison of development of employees as a group with development of individuals

- opportunity to gain more information about the employee - personal profile, level of knowledge and skills, potential to develop, etc.

- identification of individual employee's needs

- variability of the content of assessment centre according to required outputs and needs of company

2.4 Who Should Conduct Appraisal?

It is clear that everyone (from employees to directors) within the organisation should be appraised whilst the question arises who should conduct appraisal. The following figure shows who can conduct appraisal [2]:
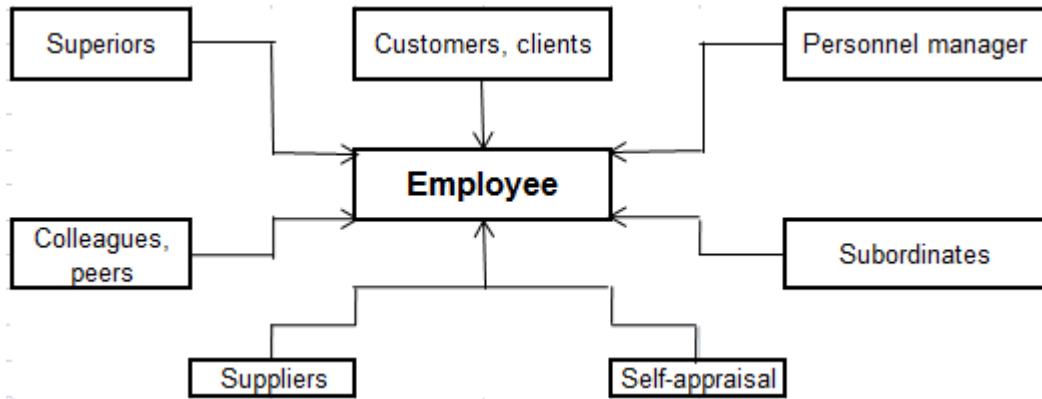
Figure 4 Who Can Conduct an Appraisal [2]

A traditional supervisor or boss appraisal approach has been widely used as a rationale that the boss is the most suitable person for appraiser position due to relationship and contact with subordinates. However, this type of appraisal has become problematic in terms of fairness and objectivity. New variations of appraisal have been developed and some of them are characterised as follow. [1]

2.4.1 Self-Appraisal

According to Shore and Tashchian [17] self-appraisal system has long tradition and in recent years it has been applied in the overall performance appraisal in terms of subordinates' comments and registration of any disagreements. They suggest that self-appraisal is connected with a range of benefits such as higher employee's focus on development, higher perception of fairness, accuracy and acceptance of appraisal and finally it positively affects employee's performance.

In contrast, according to Bretz et al. [10], there is a danger of leniency in self rating (especially if the appraisal is pay-related) and inaccuracy. Also Shore and Tashchian [17] admit other disadvantage of possible influencing supervisor's opinion when supervisor receives employee's self-appraisal prior finishing his own evaluation of the employee. Self-appraisal is the most effective where appraisal is not pay-related and where self-appraisal is not based on comparison against the other employees.

2.4.2 Appraisal by Peers

Appraisal by peers has been popular for quite short time. Some authors emphasises benefits of peer appraisal such as identifying individual and also organisational actions

needed for achieving objectives or greater perception of responsibility within team. [19, 20]

On the other hand others highlight negative aspects of peer appraisal in terms of rating severity (or leniency) and limitation caused by conducting appraisal by the same peers. Appraisal by peers is mostly perceived as a part of multi-source appraisal (or 360° feedback), other type of appraisal. [19, 20]

2.4.3 Appraisal by Superiors

Based on research of Fletcher [3], appraisal by superiors is a quite new approach adapted by organisations due to changes in structure of the organisations particularly increasing use of matrix management. This appraisal differs from the traditional one in appraising employee by several superiors because of his/her different projects with different leaders.

In traditional appraisal by superior the employee is appraised only by one manager (supervisor). Manager (supervisor) tends to divide employees into two groups - the excellent ones and the worst ones and rate them a little bit higher/lower than they really deserve. Due to the appraisal by single person the results may be biased in terms of level of relationship between the manager (supervisor) and the employee, leniency and strictness or carelessness of the appraiser. [3]

2.4.4 Appraisal by Subordinates (Upward Appraisal)

Appraisal by subordinates is not that much common as the previous appraisals and it is in most cases included in the 360° feedback but Rubin [16] supports this appraisal as valuable and significant source of information for organisations.

This method helps managers (supervisors) to realise if what they say and what they do match up and is consistent, what they lack and what are their areas of possible improvements and progress. Managers (supervisors) may also improve their relationships with subordinates; the appraisal helps them to realise how they treat their subordinates and what they could do better. However, there is a risk of biased subordinates.

2.4.5 Multi-Source Appraisal - 180° Feedback

180° feedback is a combination of the appraisal by superiors and the appraisal by subordinates as it is shown in the following figure:
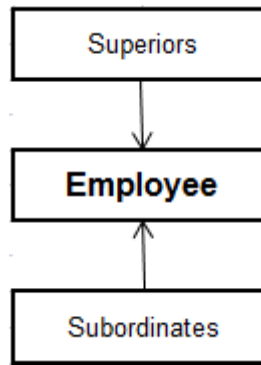
Figure 5 Multi-Source Appraisal 180° Feedback [Own Creation]

2.4.6   Multi-Source Appraisal - 360° Feedback

Fletcher [3] considers multi-source appraisal as one of the most adopted by organisations. It used to be not very common to obtain multiple perceptions of performance but organisations employ this method and it has been adopted all over the world. 360° feedback offers appraisals from the actual superiors, subordinates, peers from the same department or from the different parts of the company, further from internal customers and internal suppliers. If an employee is appraised by an external customers or an external suppliers as well the appraisal may be called as 540° feedback. Self-appraisal is also part of 360° feedback where the same criteria apply as for the other appraisers. This type of appraisal is usually anonymous and the appraisal's feedback is presented only to the employee and to his/her superiors as well.
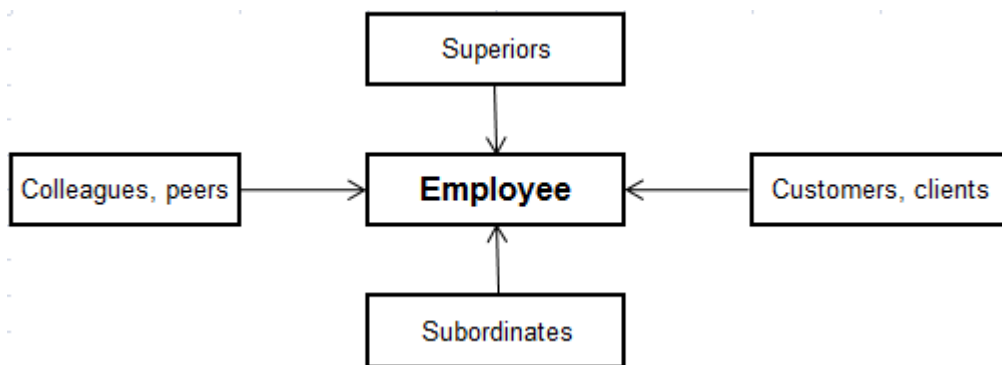
Figure 6 Multi-Source Appraisal 360° Feedback [Own Creation]

According to Fletcher [3] and Ghorpade [12] 360° feedback is based on two main assumptions [3, 12]:

1. awareness of differences between facts, how the employee can see himself/herself and how the employee has been seen by others, gives the employee an idea about his/her real performance

2. performance of employee (especially of team leader, manager, etc.), who is aware of his/her real performance according to appraisal, maximalises and is good basis for development of management skills

360° feedback focuses on employees' behaviour in comparison to created model of the "right" behaviour, skills and approach to work. This model (or the ideal employee) should include [3, 12]:

- ability to lead

- be team player/leader

- self management

- communication

- vision

- organisational skills

- quick decision maker

- expertise

- energy

- entrepreneurship

- adaptability

This multiple appraisal provides range of information about the employee's behaviour, his/her weaknesses and strengths, provides the employee with feedback (about his/her performance, what the others think about him/her, etc.), it motivates, improves performance, perceived fairness and communication between employees, it finds need for further training and development and it also provides information for remuneration.

To make 360° feedback work and to be successful the following criteria should be met [3, 12]:

- management support which accepts and provides feedback

- to inform employees of 360° feedback aim and advantages which provides to the company and to employees as well

- willingness to use feedback for development and further education

- to set up criteria for behaviour model and skills reasonably

- to discuss results of this multiple appraisal

- results to remain anonymous

- ease of use

- lower administration

This type of appraisal is widely used however there are five problems related to effectiveness, privacy and validity. These paradoxes are concerned with development of employees, amount of information received from various appraisers, anonymous ratings, possibility of misleading and irrelevant feedback and finally with superiors' influence. [3, 12]

2.5   Appraisal Process and Interview

According to Bratton and Gold [2], Lucas et al. [5] and Torrington et al. [8] the whole appraisal process can be defined by three phases [2, 5, 8]:

1. Preparation phase – a concept of appraisal should be established, employees should be informed about the appraisal process and its objectives as well as appraisers, criteria for appraisal should be stated and clear

2. Realisation phase – to observe and find out employee's performance and his/her behaviour through the use of observation, questionnaire or interview; everything is written and filed in the employee's personal file

3. Evaluation phase – evaluation of results and discussion with the employee; proposal of employee's performance improvement, further development and objectives

The appraisal should not be focused only on employee's weaknesses but especially on his/her strengths, what he/she has done and he/she can do. The aim of appraisal should be improvement of cooperation between appraisers and employees which they can benefit from. It is relevant to inform employees how the appraisal is important, what the criteria

are for appraisal and remuneration. The appraisal interview is significant for accomplishing appraisal process.

The appraiser should know that communication with employees is the most important during appraisal. There are rules and advices how the appraisal should be conducted. Firstly the right friendly and quiet atmosphere (may be with some refreshment) is basic. The appraiser is friendly with informal voice and he/she should inform the employee about objectives and process of appraisal interview. The appraiser may ask the employee to evaluate his/her own performance since last appraisal. Probably the employee does not realise his/her inadequate performance and it is necessary to explain reasons for his/her unsatisfactory results of appraisal. The whole appraisal should be discussion between the appraiser and the employee to improve employee's performance, cooperation, etc. The appraiser can ask open questions to get more information where it is insufficient and unclear or to check the information found out earlier. Secondly the appraiser comments employee's performance, behaviour or attitude. He/she should mention strengths and areas which need improvement and how the improvement can be met. At the end of appraisal interview next employee's objectives, plans for development and training, relocation, etc. should be stated. The appraisal conclusion may look like this [2, 5, 8]:

- The appraiser summarise what issues have been discussed and on what issues he/she agreed with the employee

- The employee should comment discussed issues

- The appraiser considers employee's suggestions and thoughts

- The appraiser appreciates discussion and shows support to motivate the employee

- The most discussed issues are in written together with an appraisal form completed by the employee; these documents are filed in the employee's personal profile

- The appraisal finishes with encouragement to the next appraisal period

At the end of appraisal process managers evaluate appraisal's results and undertake steps to realise appraisal conclusions. At the same time they evaluate overall appraisal results, formulation of conclusions, fairness, etc. [2, 5, 8]

2.6 Errors in Appraisal System

There are several errors which may occur within an appraisal. An appraiser should be aware of them and he/she should try to minimalise them. The errors may be divided into six groups [3, 4, 9]:

- wrong appraisal scale - an appraiser is either too tolerant or too strict. An average performance is considered as the worst and everyone better than the worst one is considered as above-average. However, in contrast an appraiser can consider an average performance as the best and everyone worst than the best one is below average. Effect of the wrong appraisal scale is lower motivation of apraisees based on the appraisal.

- levelling trend in appraisal - also this case means lower motivation of appraisees based on the appraisal. The appraiser tends to use middle grades to get rid of need to comment imperfections of performance. The appraiser can only recommend which areas an employee may improve.

- early conclusion or prejudice of an appraiser against the apraisee - the appraiser knows how he/she will rank an apraisee in advance without knowing current performance of the employee. The appraiser holds prejudice according to the previous appraisals or conflicts, etc. which he/she have had with the employee. Especially unethical and illegal is prejudice based on race, nationality, sex, etc. The prejudice influences appraisal's results usually not for the benefit of employee.

- results from past - the appraiser looks on the employee according to what he/she has done before. The appraiser does not even look at results from the previous appraisal. The employee should get the opportunity to improve his/her performance and appraisal's results in every future appraisal period.

- arrogance - the appraiser is the only person who is every time right. The appraiser tends to ignore facts which are for the benefit of employee and he/she also does not allow any possible discussion about employee's appraisal he/she has made. The appraiser does not accept any relevant arguments of the employee in the benefit of him/her.

- unethical misuse of appraisal - this is the biggest error which the appraiser can make. The appraiser does not have any morality and he/she uses appraisal for

example to reward his/her most favourite employees, to give employees from his/her department better results than to the others, etc. Only superiors of appraisers may control these issues. If they do not it may negatively influence relationships and atmosphere within the company.

2.7 Performance Appraisal and Remuneration, Further Education and Career Development

Performance appraisal is an important basis for remuneration, identification of further education and career development of an employee. According to performance appraisal results the employee can be rewarded by two forms of remuneration - financial and non-financial. The financial form is salary based which means the employee gets pay rise according to the level of his/her performance. The non-financial form is broader and contains recognition, promotion, employee benefits, financial and other support during further education, etc. [1, 3, 4]

The system of remuneration has its purpose and advantages [1, 3, 4]:

- stimulation and motivation of employees

- higher level of employees' future performance

- increase interest in higher more responsible positions

- increase interest in further education

- to reward employees for their hard work, met objectives, loyalty, experience and skills

- to attract more qualified employees

- compliance with norms and laws

- to gain competitive advantage on the market

The question is how to link performance appraisal with remuneration. The remuneration can be related to employee's performance, behaviour, met objectives, etc. The criteria of remuneration level according to the appraisal results should be defined precisely and the employee should be aware of them. The criteria are supposed to be simple and understandable. If the relation between remuneration and appraisal is not clear or not followed the appraisal will not be so useful and successful. [1, 3, 4]

3   SUMMARY OF THE THEORETICAL PART

The aim of performance appraisal is to find out to what extent certain tasks or any other requirements are met by the employee. It motivates the employee and helps stimulate his/her performance. But the appraisal is also necessary for the organisation's needs.

The appraisal of employee and his/her performance is important part of manager's job which the manager should complete. Every employer needs to know who his/her employees are, how do they work and how they contribute to the success of the organisation. However, the employees also want to know what their level of performance is.

The appraisal of employee's performance belongs to the most important parts of human resource management. Its aim is mainly cognitive and stimulative. From the appraiser's point of view the main purpose of appraisal is to find out what the employee's performance is, what the development areas are, what the employee potential is, to find out employee's interests and basic information for remuneration. The appraiser identifies if the employee is ready to be promoted and is satisfied with work and environment within the company, if the company wants to provide the employee with further education and training, etc. At least but not last the appraisal provides the employee with feedback what the level of his/her performance is and how he/she can improve his/her performance. It motivates the employee to improve the level of his/her performance, to meet targets and gain better results in the following appraisal. It also gives the organisation power to control and stimulate the employee according to needs of the company and needs of the employee too.

The basic of appraisal is to specify employee's position, its description and tasks to be met, what method will be used for the appraisal process and who will conduct the appraisal. Also certain appraisal period should be stated together with criteria for appraisal and the whole appraisal process.

The appraisal interview is also one of very important parts of appraisal. The appraiser should be competent to conduct the appraisal, should be friendly but professional, fair, opened to discussion and should give the employee some space to express his/her opinion. The appraiser should inform employees about purpose of appraisal, its criteria and process of evaluation. Unfortunately the appraisal is very often biased. It influences the whole appraisal results therefore it is necessary to conduct the appraisal fairly according to rules.

The appraisal's results have impact on the other parts of human resource management (e.g. already mentioned remuneration).

The following part of the master thesis is going to characterise the XYZ company, especially its human resource management, state of the performance appraisal system and its usage.

II. ANALYSIS

4 INTRODUCTION OF THE XYZ COMPANY, UK

XYZ company is based in South-West of London, the United Kingdom and it offers a broad range of services in terms of garden work, from regular lawn care to ongoing maintenance, general garden upkeep and hard landscaping for both residential and commercial clients. The company's values are quality service and satisfied customers which go hand in hand. Also motto of the company expresses attention to quality - *"When care and attention to your garden matters..."*. May be this is the reason why the company has celebrated 20th anniversary of foundation last year.

4.1 The Past and Present of the Company

The company was established in 1989 by Mr Newstead-Bishop. He was only 20 years old but he managed to establish the company (with support of his parents) and run it only by himself. He had a van, some basic tools and he used to work on his own for a couple of years. His dream was to become the biggest company in South-West of London area. He gained contracts for regular gardening works and managed to attract more and more clients therefore he hired two employees.

In 1999, the founder hired a Czech guy Mr Ostradecky, the professional gardener. At the same time Mr Newstead-Bishop bought a second van and was able to employ another two gardeners. Mr Ostradecky became a team leader very quickly due to his great skills and diligence. However, he had to leave the UK due to the law - it was illegal to work in the UK without visa.

In 2004, Mr Newstead-Bishop created company's web site pages, leaflets, free phone and also bought other van, the third one. In the same year, when the Czech republic became a part of the EU, Mr Ostradecky came back from the Czech republic and started to work for the company again together with another two Czech guys. Since that time the company was becoming more Czech oriented in terms of employees due to their efforts to work hard and do the best for the company. The founder stopped manually working and had enough time to take care of the business more. Mr Ostradecky became a manager. Better advertisements (e.g. on the vans), skilled employees doing great jobs and increasing number of clients allowed the company to grow very quickly. XYZ was one of the biggest gardening company covering the South-West of London.

However, the credit crunch in the end of 2007 continuing in 2008 caused problems for the XYZ company as well as to the others. Many clients (exactly 19 from all 63clients) had to end the contract or could not effort to pay for gardening services anymore and run into debt with the company. It was hard time for the company; it lost many clients and could not find any new one. It survived due to its strong position on the market and quality of services. The company has recovered from the financial crisis and it gains new clients again. Its profit is about £15000/month but Mr Newstead-Bishop's target for year 2010 is £18000/month. The monthly profit is only a guess; the founder does not want to share information related to the company's profit and revenue from the part years. He does not consider it important for the thesis and does not want to make this sensitive information public at all. The company's strategy is to provide customers with quality services reasonably priced for middle class. It means that most of the company's clients are from middle class who request bigger projects and can afford to pay for it. Therefore the target could be met or even beated. [Company's web page]

4.2 Services Provided

It has been mentioned that the XYZ company offers a broad range of services. The company is able to provide the clients with the overall makeover of their gardens according to their needs.

a) Garden maintenance

- weeding, cutting, trimming, mowing, watering

b) Garden makeovers

- all services from garden maintenance to jet washing included

c) Planting

- bedding plants, mature trees, shrubs, semi-mature trees, young trees

d) Lawn mowing and care

- lawn mowing, regular cutting, scarifying, treatments for moss and weeds, re-laying a new lawn

e) Landscaping

- paving, brick laying, stone laying, decking, walling

f) Ponds

- creating any size of ponds, waterfalls, water features

g) Fencing

- timber boundary fencing, chain link fencing, field fencing, stock fencing

h) Aviaries

- for small birds, for poultry, for water fowl, for small pets (e.g. kennel)

i) Jet washing

- cleaning and renovating of most of stone, brick or paved paths, patios, driveways, etc. [Company's web page]

4.3 Customers, Competitors and Suppliers

The XYZ company serves any clients, both residential and commercial. The gardeners continuously take care of 80 gardens on long-term basis due to good long-term relationships. Some of them require the company's services every week, every month or only once a year. Bad and rude language is prohibited in the company and the founder guarantee security of the garden and whole property and privacy of customers.

There are many competitors of the XYZ company but most of them are smaller. These are a lots of small companies with three employees using a van in South-West area of London. However, they cannot compete with such a bigger and well known company with tradition as the XYZ is. It has gained 'Guild of Master Craftsman' which is recognised by the public as a valued sign of quality and assurance. Another advantage of the XYZ company is a long-term friendship with Mr Hembry. He is a founder of a landscaping company and he cooperates with Mr Newstead-Bishop in terms of arranging jobs for each other. They can make over whole garden with hard landscaping together. It is also one of the ways how to get new clients easily.

The XYZ company uses only high quality tools e.g. hedge cutters from Stihl, mowers from Hayter, etc. It does not need any regular suppliers. Any common tools (e.g. scissors, gloves), weed killers and so one, the company buys from B&Q store which sells goods for home and garden. [Company's web page]

4.4 Organisational Structure

The organisational structure of the company is very simple. Due to the low number of employees the structure is straightforward. The founder, owner and head manager is Mr Newstead-Bishop. He makes all the decisions regarding the company. The only manager is Mr Ostradecky who is in charge of all employees. The employees are team leaders and team members who are led by team leaders. The following figure shows the organisational structure of the XYZ company:
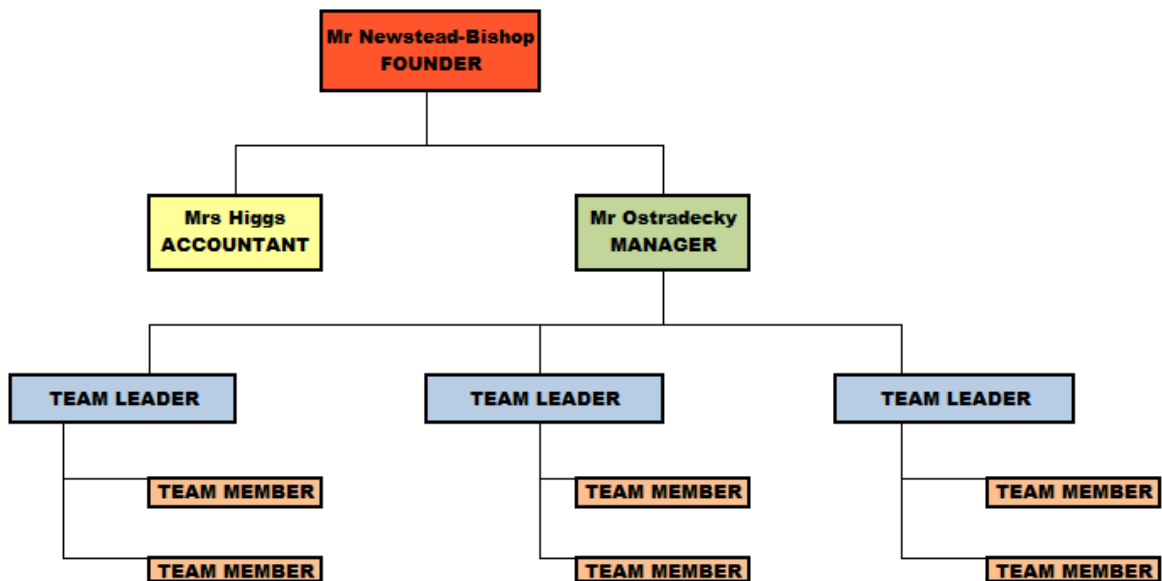
Figure 7 Organisational Structure of the XYZ Company [Own Creation]

4.5 Employees

The XYZ company currently employs 11 employees. Due to the nature of work all of them are men apart from the accountant who is a woman. The employees come from different countries with different levels of education and age.

The following table shows that most of the company employees come from the Czech Republic. According to the author the Czech guys represent hard working and cheaper labour in comparison to the English ones.

Table 1 Countries of Employees' Origin [Own Creation]

Nationality of employees	Number of employees (heads)
Czech Republic	5
Hungary	3
Pakistan	1
United Kingdom	2

The next table and figure represent age structure of employees. It is evident that manager's and team leader's positions require years of experience and these employees are a bit older than team members. However, it is not a rule.

Table 2 Age Structure of Employees [Own Creation]

	20-24	25-29	30-34	35-39	40+
Manager			1		
Team leaders		3			
Team members	3	2		1	
Accountant					1

Another table and figure represent level of education of the employees of the XYZ company. Most of the employees (37 %) have a vocational certificate but 27 % of employees have A level and another 27 % have a bachelor degree. Only one person has a master degree (the accountant) which is required by the position held. The question is if the employees are educated in gardening and landscaping. Only the manager, two team leaders and two team members have studied gardening. The others have studied different disciplines for example engineering, IT, building, etc.

Table 3 Level of Education of the Employees [Own Creation]

	Vocational certificate	A level	Bachelor degree	Master degree
Manager			1	
Team leaders	1	1	1	
Team members	3	2	1	
Accountant				1

5 ANALYSIS OF NEED OF PERFORMANCE APPRAISAL SYSTEM CREATION IN THE XYZ COMPANY

This chapter is going to analyse need of performance appraisal system in the company. The author used to work for this company for several months (August 2009 - December 2009) and she is very familiar with the pros and cons of the company. When the author met Mr Newstead-Bishop, the founder of the company, in September 2009 he was very disappointed with his employees. Most of his current employees were not happy and not motivated enough to work for the company anymore and they were looking for a new job (at the moment four of all eleven employees). Also every second new employee quit the job within first three months. From September 2009 to February 2010 six new employees were hired and three of them quit the job during the probationary period. The employees tried to speak to the founder and sort out the problems they had (e.g. overtimes not paid, none pay rise, insufficient training, low support from the manager or the other colleagues, etc.) The situation was unsustainable. The author and the founder agreed to cooperate on this master thesis to create a project of performance appraisal system for the company to retrieve the situation. Mr Newstead-Bishop also asked the author to create a project of the company's competitiveness. However, the founder realised (after the consultation with the author) that satisfied and motivated employees with high level of performance are more important for the company at the moment than its competitiveness which can be built also on the employees' level of performance.

5.1 Objectives of the Analysis

The objectives of the analysis are as follow:

- to find out current system of performance appraisal

- to find out if it is necessary to change the current new performance appraisal system

- to find out what criteria and methods should be used in the new performance appraisal system according to opinions of the founder and his employees

- to find out if the new performance appraisal system could be used in terms of further training and development of the employees

The analysis chapter should find out what the state of the current performance appraisal system is and if there is a need for creation of the new one. The analysis will find out

which criteria and methods of appraisal would suit the best to needs of the company and employees as well. The question is why the performance appraisal system should be used and how.

The author has created three hypotheses which will be verified in this analytical part.

Hypothesis 1 - The author suggests that the company uses an appraisal (formal or informal) at least to some extent.

Hypothesis 2 - The author suggests that there is not any appraisal conducted regularly and related to pay rise.

Hypothesis 3 - The founder realises importance of the appraisal system and its contributions to the well being of the company and its employees.

5.2 Methodology

To fulfil objectives of the analysis it was necessary to gain enough information about the current performance appraisal system and requirements for the new one. Three methods of data collection were considered:

- interview

- questionnaire (finally refused)

- experiences

The author decided to collect primary data by means of semi-structured interview. Interview is characterised by its advantages however, some disadvantages occurs as well. The author values depth of information which can be gained, possibility of intervention and flexibility in terms of venue and time required for the questions' completion. The following table express pros and cons of interview. [7]

Table 4 General Advantages and Disadvantages of Interview [7]

+	−
a. Depth of information	**a.** Time-consuming
b. Insights	**b.** Data analysis
c. Equipment	**c.** Reliability
d. Informants' priorities	**d.** Interviewer effect
e. Flexibility	**e.** Inhibitions
f. Validity	**f.** Invasion of privacy
g. High response rate	**g.** Resources
h. Therapeutic	

Another method of primary data collection - questionnaire - was refused by author due its disadvantages and unsuitability for the purpose of the analysis for example no interviewer intervention available, cannot be long or complex, skewed responses (the employee may be afraid of lack of anonymity of his/her responses), etc. [7]

The primary data were collected by using interview during February 2010. The objectives of interview were to find out answers for the stated questions from all employees of the company and from the founder as well. Therefore the author has interviewed 12 persons - the founder, the manager, team leaders, all team members and also the accountant. The anonymity and privacy was secured during personal meetings between the author and interviewed persons. The author has been acquainted with the employees for a couple of months and has gained their trust. The whole process of interview, including questions and answers, was recorded on dictaphone and then rewritten on hard copy. Interview with the founder lasted longest but lots of information was collected already during regular meetings. The other interviews lasted about 10 minutes each.

Other source of information about the company's system of performance appraisal is personal experience of the author herself. It has been mentioned that the author used to work for the company for several months. Therefore she is able to provide unbiased information about the process of appraisal in the course of three months and due to experiences from different jobs.

5.3 Human Resource Management

In the XYZ company, human resource department does not exist. The company is quite small to have its own human resource department but at least a personalist would be necessary. However, the founder takes care of all issues related to the human resource management which are:

- recruitment process - usually the company looks for a new employee (team member) due to a leaving current employee or due to a new position created. The vacancy is advertised on the Jobs Centre Plus website or current employees may recommend someone. The criteria for the job applicant are not very strict. The applicant should be handy and hard working. He/she even does not have to be educated in gardening/landscaping but it is an advantage as well as gardening experience and driving licence. The new employee goes through interview with the founder and is recruited by signing the employment contract. It is only up to the founder if the applicant is recruited or not. It seems it is more about impression which the founder has and the applicant makes than about professional skills of the applicant.

- new staff training - the new staff is trained only by his/her colleagues. The experienced ones do not need so much attention but the employee without experience and knowledge of gardening must be led by his/her colleagues for longer time. There is not any special training in terms of health and safety. Colleagues of the new employee are supposed to train him/her how to use tools correctly and what protective equipment he/she should wear e.g. gloves, glasses, etc. The author suggests proper training by professionals according to law. It is in the interest of the company and the employees as well to provide and get proper training to avoid unnecessary accidents.

- staff training - there is not any system of staff training. The staffs learn from each other and give each other gained experiences. Even if the employee lacks skills necessary for the job, he/she must rely on his/her colleagues. This type of training is not very suitable especially when the new employee has not got any experience. It takes very long to teach him/her everything and high quality of training is not assured.

- promotion - each employee starts as a team member and must make his/her way up to become a team leader or a manager. The employee must be skilled enough, have a driving licence and be responsible. However, he/she must wait till the position falls vacant then he/she can apply for it. It may be demotivating for the employees because they can wait more than a couple of years to be promoted.

- benefits - the company provides its employees with uniform (t-shirts, jackets, waterproof jacket and trousers, boots) otherwise it does not offer any benefits at all. The employees are allowed to borrow tools for personal use (e.g. maintenance of their garden) but it is prohibited to use tools and a van for private jobs.

- the appraisal system - see the following chapter

- the system of remuneration - new employees get minimum wage assessed by the state. There is not any system in pay rise therefore employees must ask Mr Newstead-Bishop when they want pay rise. However, it is not sure they get any. The founder tries to save money on labour therefore it may take several months to get pay rise which employees deserve.

- attendance - the founder monitors the staff attendance - sickness, lateness, etc. For example if someone used to call to be sick one day a week he/she should get first verbal warning, then written and finally dismissal.

- end of the employment - the employment may finish with expiration of the employment agreement, immediate dismissal with the notice, due to the organisation reasons, insubordination, etc. The fired employee gets P45 form which serves as a base for the new employer. P45 form contains detail of the employment e.g. start date and the last day, gross salary, taxes which have been paid for, tax code, etc.

5.4 Partial Findings

The founder has expressed interest in creation of the new performance appraisal system but firstly it is necessary to find out what is the state of the current performance appraisal system if there is actually any. The research has shown that there is only an informal

appraisal as it is obvious from the following transcript of interview with the founder Mr Newstead-Bishop and with his employees.

5.4.1 Interview with Mr Newstead-Bishop

The author asked Mr Newstead-Bishop a couple of questions as follow:

1. How do you appraise your employees on the present?

"I have not created any system in appraising employees. The appraisal, if I can call it like that, is very random and depends on situation. I used to tell my employees what they did right, wrong or what could be better. I do not do any formal appraisal which I would record in employees' files or something like that. If I am not happy with employee's performance I give him/her warning and then a notice. In terms of pay rise it is not a secret that every new employee gets minimum wage and pay rise is not regular and compulsory. It is only up to me if someone gets pay rise or not. May be it does not sound professionally but that is how I run my business. If someone does not like it, he/she is free to go. I know there are dozens more unemployed guys waiting to get job so it is not a problem for me to replace that person immediately."

It is evident that the founder does not take care of the employees as he should. The pay rise is given randomly and probably more according to sympathy with the employee, as the author suggests. It seems that the founder employs whoever but does not consider his/her skills, experience, time necessary for training, etc.

2. Why would you like to start using performance appraisal system?

"To be honest I have got enough of this situation. I have got some great workers which I do not want to lose and some others already want to quit job. I have realised that repeated leaving employees and hiring new ones is more expensive than to take care of the current ones. Also hard working and skilled employees are not all the time available and I must hire for example a bricklayer. It is not what I want and it takes time and money to train him/her to do at least standard level of gardening."

The founder realised what needs to be done but it is important that he knows what it contains. He must keep the promise and try to do the best for his employees for example if he agrees to give out pay rise he cannot do any excuses and do it regularly.

3. What criteria are important for you in terms of employees' appraisal?

"I think that every manager or owner of a company would like to have reliable, hard working, skilled and unassuming employees. For me personally are important skills, speed and accuracy, discipline and desire to work."

The founder knows what criteria are important for him but he has not followed them so far. He must be strict and do not employ just everyone. He must conduct proper interview and think if that person is really what he wants.

4. What kind of methods of appraisal do you think you would like to use?

"I would prefer appraisal to be conducted by me or my manager. I do not really get in touch with my employees too often so it would not be appropriate if I do the appraisal. Therefore I suggest my manager to do it. He knows all the employees the best and he works with everyone regularly. He should be able to conduct appraisal objectively."

It is important that the founder realises he is not the right person for conducting the appraisal. The manager really seems to be the best candidate for appraiser.

5. How would you like to use new performance appraisal system, for what purpose?

"As I have said, I do not want any more employees to leave the company and also I want to retain the best employees. I hope that the appraisal system will motivate my employees; they will be more loyal and do their best for the company. I will be able to check their performance, indicate the weak employees and push them towards better results. I understand it is important to link the appraisal with remuneration but I do not want to give employees pay rise more than once a year if they deserve it."

It is a dream of every manager to have such a employees. The author believes it is possible but the founder needs to be patient and do also his best for his employees e.g. regular and objective remuneration.

5.4.2 Interview with the Employees

The author asked a couple of questions the employees as well:

1. Would you acclaim a performance appraisal system in the company?

Vast majority of the employees (90 %) replied very similarly. The manager, team leaders and team members would acclaim a performance appraisal a lot. They are not happy with

the current situation, they are not motivated, they do get any recognition of hard work they do or on the other hand they do not know what they could improve. They have to ask for pay rise which they even do not get sometimes or it takes several months. One of them said that it is the worst when you have to ask for money. They would appreciate integrated system according to which they know what are their strengths and weaknesses and when they can expect pay rise. The accountant would acclaim the performance appraisal as well however, she works for the company only two days a week and therefore she does not really care about that.

The rest of employees (10 %) would like to acclaim the performance appraisal but they are very sceptic because they are not sure it would help to change the situation.

2. What kind of criteria and methods of appraisal would you expect?

Also responses within this question were very similar. In terms of criteria of appraisal employees would expect these:

- teamwork
- accuracy
- attendance and sickness
- level of knowledge and skills
- speed
- behaviour
- interaction with clients
- complaints from clients
- organisation of work
- attention to detail
- damaged tools

Opinions on methods of appraisal varied slightly more. Basically employees would like their manager to conduct the appraisal but they would like to be able to express their opinions as well. They can see their manager as the right person for conducting appraisal because he knows them best, works with them and is objective. In the case of manager, it can be the founder who will conduct the appraisal. Any other type of appraisal (as

appraisal by peers or by clients) was not identified as suitable mainly due to concerns about bias. However, employees would like to get opportunity to express their opinions, thoughts, needs, to explain some issues which were misunderstood, etc.

3. What do you expect from the appraisal generally?

The responses were also very similar and expressed what employees actually miss in the company. The most common answers were as follow:

- recognition of the work done (verbal and pay related)

- feedback in terms of quality of work, speed, etc.

- motivation

- to get pay rise according to performance

- to identify strengths and weaknesses

- to identify areas of possible improvements

- to record employees' development

- to serve as basis for promotion

Answers of the founder and his employees are quite similar, especially two of them - motivation and pay rise. The employees need to be motivated, they need to know their strengths and weaknesses and be rewarded for their work. The founder needs motivated employees to work hard and do their best for the company. Therefore he realises that pay rise is a good tool how to do that. Another issue, which is common, is selection of the manager as the appraiser. The founder and his employees agree that he is the best person for conducting the appraisal.

5.4.3   Findings from the Author's Personal Experience

It has been stated that the author used to work for the company. According to her gained experience she must agree with the founder and the employees as well. She got the job without any previous gardening experience and had to be trained by her colleagues. It was good for her but it was not professional from the founder. However, she did her best and she was as good as the others in a couple of month. Despite of the nature of the job (physically hard) she did not get any recognition at all. It does not matter if the employee works hard or not. No one praise or motivate the employee. The author was also interested

in pay rise but she found out that there was not any. Very rarely someone got pay rise. That person was usually the founder's favourite employee. From the author's experience is evident that the appraisal system is necessary for the company to retain its employees and for the employees to be motivated.

5.5 Summary of the Analytical Findings

The company has not got any system of appraisal - only the informal. The analyses, based on interview with the founder and his employees and the author's working experience within the company, has revealed some positives of the informal appraisal but more negatives. The current situation is not beneficial to employees and to the company either. The only positive thing is that the current system does not cost the company penny and does not take any time. The founder or the manager only tell the employees what they did right or wrong at the time when it had happened. This is the only feedback which employees get.

The negatives of the current system prevail. The employees are not motivated at all. They do not get any benefits or reward from well done job, from their efforts to do their best. They cannot expect any pay rise only when they ask for it but it is still not for sure. Too many employees ended the job or are looking for a new one. The company is not able to maintain the best and skilled employees.

The founder realised that labour may be source of competitiveness and new performance appraisal may be good tool how to retain employees and it does not have to be so costly. According to the analyses also employees realised need of some system which would motivate them, bring deserved reward and develop them.

According to the author's opinion it is more than necessary to establish appraisal system which would suit the founder's and the employees' needs. From her working experience within the company she would not work for the company anymore at the moment. She is not afraid to express her opinion that the company could go bankrupt without changes that must be done.

Hypotheses 1 has been confirmed. The company uses only informal appraisal which is not recorded.

Hypotheses 2 has been confirmed as well. The company uses informal appraisal which is not regular but random. This system is not pay related; it does not serve as a basis for employees' pay rise.

Hypotheses 3 has been confirmed because the founder realised how important the appraisal is not only for the company but for its employees as well.

In the following part of the master thesis the author is going to develop a project of the performance appraisal system creation in the XYZ company. The author is going to take into consideration requirements of the founder and his employees together with her suggestions to develop the most effective performance appraisal for the company.

6 PROJECT OF THE PERFORMANCE APPRAISAL SYSTEM CREATION IN THE XYZ COMPANY, UK

6.1 Objectives of the Project

The main objective of the project is creation of an integrated performance appraisal system of employees which is going to meet the needs and requirements of the company. The requirements of the company have been already stated in the previous chapter. Also requirements, criteria, opinions and suggestions of the employees are going to be taken into consideration. The project of appraisal is going to be connected to remuneration and further development of employees. These employees will get constructive feedback what their performance is. A form, as a part of the new performance appraisal system, is going to be developed to help the appraisers to conduct the appraisal.

6.2 Reasons for the Need of Solution

It is evident from the analytical part that current situation in the company regarding to the appraisal system is dismal. The founder and also his employees have expressed interest in the new performance appraisal system creation which would meet its purpose.

The system of informal appraisal in the company is not sufficient and adequate. The founder has not been really interested in his employees. He has not rewarded them for their hard work; he has not motivated them and developed them. There actually has not been any reason for employees to stay in the company and some of them have been looking for a new job. They do not have any motivation to do their best for the company and maintain a quality of services. Finally the founder has realised that he must do something for his employees on behalf of the company. A new performance appraisal system is supposed to be the right tool to maintain, motivate and reward employees.

One of the ways how to explain reasons for the need of solution is so called SPIN analysis. The capital letters stand for **S**ituation which is currently in the company, **P**roblem which is caused by the situation, **I**mplication of the problem and **N**eed for the solution of the situation. The following table represents SPIN analysis:

Table 5 SPIN Analysis [Own Creation]

INNOVATION In order to make the performance appraisal more effective the new system is going to be develop together with a form for appraisal
S - there is only an informal appraisal in the XYZ company which is not sufficient
P - employees do not get any regular feedback, they are not motivated and their skills are not developing further
I - if the new performance appraisal is not created, it is possible that a quality of services would drop, employees would be demotivated and ready to leave the company
N - a need of performance appraisal system creation has arose which would motivate employees, give them feedback, an appropriate remuneration and development

6.3 The Current State of the Performance Appraisal and Situation in the XYZ Company

The analysis, which was conducted by means of interview with the founder Mr Newstead-Bishop and his employees and which was also based on the author's personal experience, has revealed what is the current state of the performance appraisal system and situation in the company.

The founder has not been aware of the performance appraisal and its advantages. He did not see any need to use such a system. The only system he uses is an informal system when he says to the concrete employee what he/she did right, wrong or what could be done better. That is how he appraises the employee. The employee gets feedback only on the quality of work but anything else. The founder wants to be sure that the employee knows where he/she did mistakes and that it cannot happen again. This appraisal is not pay

related. The employees do not get pay rise until they ask for it. They do not have any motivation in terms of remuneration.

The current informal appraisal in the company is conducted by the founder, the manager and by the team leaders as well. This appraisal by superiors is the easiest way how to provide employees with feedback in this case because the superiors know the employees the best and work with them. The founder comments only the major issues (for example when the employee built a wall on the wrong place). The manager works with all the employees very often and he comments every day issues (for example uneven level of a wall). The team leaders tell their team members what they can do more quickly and how. They give them their experiences and train them more than really appraise. All these superiors comment employees' performance whenever it is necessary - every day or once a week, once a month, etc.

Due to the nature of the appraisal the superiors' comments are not recorded as well as what has actually happened. The superiors speak to their employees personally but usually in clients gardens. The employees are told what has happened and what they need to do now. This kind of feedback should be a guarantee that the problem will not happen again. It may be considered as training to some extent.

It is obvious that this kind of appraisal cannot be satisfactory for both sides, employees and company. The following proposal of the project of the performance appraisal system creation should be the right tool for the company how to motivate and develop its employees.

6.4 Proposal of the Project of the Performance Appraisal System Creation in the XYZ Company

Due to the current state of the performance appraisal and the situation within the company it is necessary to find solution and create new performance appraisal system which would suit to the company and employees as well. The founder Mr Newstead-Bishop, his employees and the author of this thesis have been cooperating to help the author understand their needs and requirements. Finally the project of the performance appraisal system creation in the XYZ company has been proposed as follows.

6.4.1   Objectives and Aim of the New Performance Appraisal System

The founder and his employees expressed their needs, opinions how the new appraisal system should look like and reasons why the company should use such a system. The proposal is going to meet their needs.

From the Mr Newstead-Bishop point of view the main objectives of the new appraisal system are:

- to motivate employees

- to retain employees

- to monitor employees' performance

- to reward employees

- to save money by means of loyal skilled employees

According to employees' opinion the objectives of the new appraisal system are nearly the same as the founder's ones. However, they think only about benefits for themselves not for the company which is quite obvious. But if the employees are motivated, satisfied and working hard, it is a benefit for the company as well. The objectives of the new system according to employees are:

- need of motivation

- need to know level of their performance

- need of reward

The success of the project will be measured after its realisation. The founder and the author of the project will monitor its progress in time. One of the indicators of the success will be number of leaving employees. At the moment four of all employees are planning to quit the job. If the project is successful they should decide to stay with the company and no one else should not think about leaving the company. The Performance Review form (please see below) will help the company to monitor employees' satisfaction, motivation, opinions, etc. Also new employees should be less likely to leave (if the founder does not decide so) due to new appraisal system.

6.4.2 Criteria of the New Performance Appraisal System - "BAST"

Criteria of the appraisal were set up also according to the founder's and employees' needs. The author can see four of them as crucial and the most important and she calls them BAST where the letters stand for:

B = behaviour (how the employee communicates with a client, displays a positive/negative can-do attitude and a high/low level of enthusiasm for the job, does not use bad language, etc.)

A = accuracy (the employee ensures work is right first time, attends to critical details, completes tasks by following the correct procedures, displays job knowledge and pass it to the others, etc.)

S = speed (the employee works quickly and hard/slowly while on the job, is on time/late on the job, helps his/her colleagues to do the job quickly, etc.)

T = teamwork (the employee works cooperatively and collaboratively with others, supports the overall success of his/her team, inspires other members of his/her team, has great relationships with his/her colleagues, etc.)

These criteria will be considered during appraisal of employees. The appraiser will take into account these four personal attributes and conduct appraisal according to the level of performance within these attributes. The author has created forms and guidelines which will be used during the performance appraisal interview. The appraiser will use and follow the Probationary Review form (see Appendix PI), the Performance Review form (see Appendix PII) and the Performance Review Guidelines (see Appendix PIII). The Probationary Review form is for new employees who are going to just finish probationary period. The Performance Review form serves as basis for interview and the Performance Review Guidelines serves as description of each criterion to help the appraiser complete the Performance Review sheet and decide what rate number corresponds with the employee's level of performance.

6.4.3 Course of the New Performance Appraisal System

The author proposes to use an appraisal by superior, specifically by the manager, as the appraisal method. According to interview with the founder and his employees (see analysis) they would appreciate appraisal to be conducted by the manager Mr Ostradecky. The founder will be in the position of appraiser only in the case of appraising the manager

who has the same conditions for appraisal as the other employees. There is no need for more than one superior who conducts the appraisals due to the low number of employees. The manager used to be a team member and he has made his way up within the company. He used to study gardening and also he has gained more than sufficient knowledge of and experience with gardening and landscaping while working for the company. He is able to objectively evaluate quality of the job done by the employee, his/her performance, speed, accuracy, teamwork and behaviour. The manager works with the employees on every day basis and knows them and their work enough to be the right person to become the appraiser. In a case of the accountant it has been agreed with the founder and her personally that she will not be participating on the appraisal. The nature of her job and number of hours she does have been considered not in need to be appraised.

The manager works with all the employees regularly therefore he can observe their performance all the time. The appraisal itself consists of already mentioned Probationary Review form, Performance Review form and Performance Review Guidelines which will be used during interview process (see chapter 5.4.5).

The Probationary Review form (Appendix PI) is going to be used only for appraisal of new employees at the end of their probationary period. It is simplified form of the Performance Review one. It helps the manager to rate the employee's personal attributes and decide if he/she is suitable for the permanent position. The form contains "BAST" criteria with short description with each of them. The manager only needs to tick off these statements if the employee meets them. There are eight statements to be ticked off when each of them represents one point. The employees are successful if he/she receives minimum six points out of eight. There is a space for Manager's comments (e.g. what further training is necessary, what are the employee's strengths and weaknesses,...) and also for the employee's comments (e.g. what training he/she would like to get, if he/she is happy with colleagues, ...). These comments give both sides opportunity to comment anything and have it recorded. The last table has been proposed for the employee's feedback. The employee ticks off for example if he/she agrees with the probationary review, if he/she has got a copy of the Performance Review Guidelines, etc. If he/she does not agree with anything it is recorded and may be taken to the founder for further discussion. On the other hand it is useful for the manager as well because once the feedback table is all ticked off and the form signed the employee cannot attack the manager that for example he/she did not received the guidelines, etc.

The Performance Review form (Appendix PII) is going to be used for current employees' appraisal. It may be pay related or not. There are "BAST" criteria included again but without descriptions (statements). The manager is supposed to comment each criterion to what extent it is met by the employee and rate it. It will help the manager to decide what overall rating the employee will received. The rating is from 1=unacceptable performance to 4=exceptional performance. The author has created four numbers rating because there cannot be chosen any 'middle way'. The employee's performance is either significant or unsatisfactory if there is some improvement necessary. According to this rating the employee gets pay rise (only in the case of performance review). There is again space for manager's and employee's comments and the table for employee's feedback is included as well. At the end the manager records current hourly rate, new hourly rate (only in the case of performance review) and date from which the pay rise is effective. The new hourly rate comes from the current hourly rate plus the rate of pay rise which depends on the overall rating. The rate of pay rise according to overall rating can be found in Table 6.

The Performance Review Guidelines (Appendix PIII) serves as basis for the manager and employees. There are all four criteria included together with explanation along with the level of performance (from 1=unacceptable to 4=exceptional). The employee knows what performance he/she must meet (what does it involve) to be rated with exceptional performance. On the other hand the manager has guideline to follow and check what rate the employee deserves.

6.4.4 Performance Appraisal Schedule

For well proposed appraisal is important to think about frequency of the appraisal and the right timing. Especially the employees should know exactly when they can expect the appraisal, mainly the pay related one.

It has been already stated that the Probationary review is designed for new starters. The usual probationary period is three months. However, due to the nature of job it would take too long to find out if the new employee is suitable for the position. He/she must be trained by his/her colleagues and if he/she is not the right person for the position his/her colleagues would only waste time. Therefore it has been proposed to conduct the Probationary Review after one month from the starting date. The employee should have more than enough time to show his/her potential, knowledge and skills. According to the appraisal results the employee will have to leave the company due to unsatisfactory performance or the

permanent contract will be offered to him/her. There is no need to do another appraisal when three months probationary period is finished because the employee is employed/rejected immediately with the Probationary Review after one month from starting date. However, the employee still has the right to leave the company during three probationary months without giving the reason. The Performance Review follows after another five months (six months from starting date).

If the employee is successful in the Probationary Review and accepts permanent contract he/she can expect the Performance Review after five months which means after six months from the starting date. This Performance Review after a half year is not pay related. It serves as a regular checking of the employee's performance, personal attributes and development within the company. It should motivate the employee to improve his/her performance towards next appraisal which will be pay related. The pay related Performance Review will be conducted after another six months, simply after a year from the starting date. The current employees will undertake the Performance Review (not pay related) when the system is launched (to integrate all the information regarding to employees' performance) and then the Performance Review, which is pay related, after six months. The appraisal will be regular and at the same time for everyone.

Both the Probationary and Performance Reviews should be conducted at the end of month when the appraisal is supposed to take place.
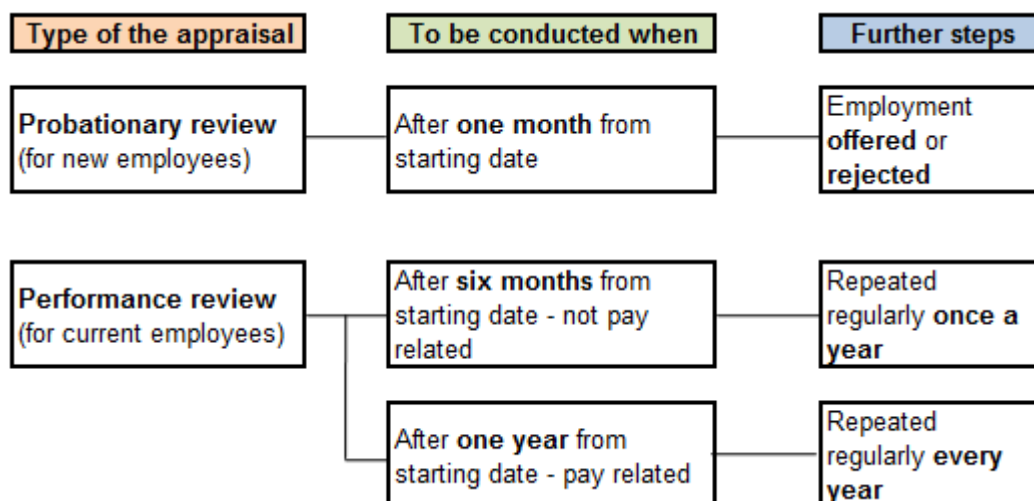

Figure 8 Scheme of the Performance Appraisal Schedule [Own Creation]

6.4.5 Performance Appraisal Interview

The new performance appraisal is conducted by the manager during interview which is actually more discussion between the manager and the employee (or if appraising the manager it is discussion between the founder and the manager). The interview will take place in the company office where is a good pleasant environment for the purpose of interview. Despite of the fact that the employee (as well as the manager and the founder) will be trained on the new system, the manager is supposed to remind the employee what the process of appraisal is and what the criteria are. All issues regarding to the appraisal process should be clear.

The manager will follow the Probationary or the Performance Review form along with the Performance Review Guidelines and discuss with the employee his/her performance, personal attributes, strengths and weaknesses, opportunities for improvement, further necessary training and development, objectives, etc. Everything must be recorded in the forms together with the manager's and the employee's comments and filed in the employee's personal file.

The manager should not discuss only "bad" issues of the employee's performance but also highlight his/her advantages, success, positives, etc. and motivate him/her to do the best to improve weak areas and meet objectives by the next appraisal. This should be happening all the time in terms of informal appraisal to make sure that the employee knows his/her mistakes/advantages and improves/develop his/her performance all over the year. All the issues discussed during the appraisal interview should not be actually surprising for the employee.

6.4.6 How to Use Results

The new performance appraisal system would not meet its objectives without right utilisation of the results. The results should give the employee feedback what his/her performance was and what it should be. It shows his/her strengths and weaknesses, areas of possible improvement. Moreover it helps to reward the employee fairly and to assess necessary training.

The overall rating from the Performance Review will serve as a basis for the pay rise. The proposal suggests that everyone gets pay rise once a year. The rate of pay rise relies only on the overall rating from the Performance Review. The pay rise will be effective from the

first day following month after the conducted appraisal. Although the pay rise is fixed, the founder may decide to give an employee extra pay rise (increased fixed hourly rate) due to promotion to team leader, for example. The following table shows how the overall rating corresponds to the rate of pay rise.

Table 6 How the Overall Rating Corresponds to the Rate of Pay Rise [Own Creation]

Overall rating	Rate of pay rise (in pence/hour)
1 = unacceptable performance	0p
2 = some improvement required	10p
3 = significant performance	25p
4 = exceptional performance	50p

The author would like to link the appraisal to training and development of employees. However, Mr Newstead-Bishop does not agree because he cannot afford to pay for certified training or any other kind of further education. The new employees must be trained only by their experienced colleagues. In that case the author suggests offering available position only to the experienced, educated gardeners or landscapers (in case of the accountant to the experienced accountant). Then there will not be any need for further training and development. Furthermore, such a skilled employees may teach and train the others and give them their experience.

The Probationary and Performance Review forms also serve as backup and feedback for the company how its employees improve their performance and personal attributes. Therefore the company should file all the review forms in the employee's personal file till the employee works for the company.

6.5 Participants with Justified Interest

The new system of performance appraisal will affect everyone who gets in touch with the system. These persons are called participants with justified interest.

The employees (team members, team leaders apart from the accountant) participate on the Probationary or the Performance Review form and they are actually the objects which are appraised. Therefore they have got an opportunity to discuss everything they want, need, and are not happy with, their objectives and development, remuneration, etc.

The manager participates on the reviews as well as employees but from the appraiser's perspective. Thanks to the forms and the guidelines the manager has the opportunity to prepare for the appraisal, make some notes, etc.

The owner and founder of the company do not get involved with the appraisal nearly at all, only when appraising the manager. However, it influences him in terms of costs of the appraisal and costs of remuneration (based on the appraisals) which he has to pay for.

6.6 Matrix of Cooperation and Responsibilities

The matrix of cooperation and responsibilities expresses responsibilities of persons (the founder, the manager, the employees and the author of the project) for activities related to the new performance appraisal system. These activities are arranged according to time sequence from assignment of the appraisal project to its realisation. The following table clearly demonstrates responsibilities of persons for each activity.

Table 7 Matrix of Cooperation and Responsibilities [Own Creation]

Responsibilities		Persons responsible for the activity			
M = managing **MoF** = matter-of-fact **A** = approval		The founder	The manager	The employees	The author of the project
Description of activities					
1.	The project assignment	M			
2.	Definition of requirements	M	MoF	MoF	
3.	Setting of objectives	M	MoF	MoF	
4.	Proposal of the project	A			M
5.	Costs planning	A			M
6.	Timetable	A			M
7.	Proposal of the appraisal forms	A	MoF		M
8.	Training of interested persons				M
9.	Execution of the appraisal	M	M	MoF	

6.7 Limitations of the appraisal project

The new performance appraisal system has a couple of limitations which cannot be solved at the moment but there is a possibility of their minimisation and further development of the project in the future. The limitations are:

- low budget which does not allow the author to link the appraisal to training and development of employees in terms of their skills and further education

- the company cannot afford a personnel manager who would be experienced enough to conduct the appraisal and take care of the employees

- there is not any IT system in the company which could be use for the purpose of the appraisal

6.8 Costs of the Project

Costs, which the company will have to pay for, go along with the creation of the performance appraisal project. The costs include printing of the forms and guidelines, labour costs during training and finally pay rise which is connected to the appraisal.

First of all the printing costs of the Probationary Review form, the Performance Review form and the Performance Review Guidelines. These costs are necessary for the appraisal and must be invested every year or even during the year if needed (case of the Probationary Review form which is need for every new employee). The printing costs are evaluated in the following table.

Table 8 Printing Costs of Appraisal Forms [Own Creation]

Form	Volume (format A4)	Costs per sheet (£)	Volume needed per year	Total costs (£)
Probationary Review	2	0,15	2	0,3
Performance Review	2	0,15	40	6
Performance Review Guidelines	2	0,15	44	6,6
Total				**£12,9**

Another costs are labour ones during the training of the employees and the founder as well. The author has offered to explain the new system and train the founder, the manager and the employees for free. Therefore, the only costs arise during the actual training of the

founder and his employees. The company does not have to invest extra money in an external trainer. Mr Newstead-Bishop allowed the author to look at the employees' wages to be able to figure out labour costs exactly. The author did not take into account the founder's costs because he has not got any regular salary. The labour costs can be found in the following table.

Table 9 Labour Costs [Own Creation]

Activity	Duration (h)	Number of employees	Calculation	Costs (£)
To inform the employees about new performance appraisal system	0,5	9	0,5 * 58,5	29,25
To train the employees how to use and understand the performance appraisal	0,5	9	0,5 * 58,5	29,25
To train the manager as the appraiser how to use and conduct the performance appraisal	1	1	1 * 9,5	9,5
Total costs				**£68**

The performance appraisal is connected to the remuneration, pay rise. The pay rise must be taken into account regarding to costs as well. If the author considers that each employee get maximum pay rise which is 50p/hour the maximum pay rise costs will be **£9600**/year. This figure will vary due to different levels of pay rise but it cannot be higher. The author suggests that not everyone gets the highest pay rise.

The total costs related to the performance appraisal are **£9680,9/year**. The author suggests 10% reserve due to possible variances. The total costs then may vary from **£8712,81/year** to **£10648,99/year**.

Table 10 Total Costs Related to the Performance Appraisal [Own Creation]

Activity	Costs (£/year)
Printing of forms	12,9
Labour costs	68
Costs related to pay rise	9600
Total	**£9680,9 (+/- 10 %)**

The founder was very positively surprised with the total costs. He expected the costs much higher. He thought that the project realisation and pay rise for employees would cost him more than £13000. He says: "It is still a lots of money but if the appraisal's purpose is met then it is worthy".

6.9 Conditions of the Project

The project of the performance appraisal creation in the XYZ company has been created and will be used under these conditions:

- The founder, the manager and the employees will continuously support the appraisal system. The author of the project will be happy to help and will be available in a case of need and support.

- The founder must financially and continuously support the performance appraisal project and keep the promise to give pay rise on time without delays.

- If the organisational structure changes, especially if the manager is replaced, it could influence project's costs and fluency of the appraisal

- The current situation on the market is quite stable at the moment. In a case of any major changes (e.g. financial crisis) the performance appraisal could be influenced due to insufficient financial sources for giving out pay rise.

6.10 Time Sequence of The Appraisal Implementation

To create new system of performance appraisal it was necessary to analyse current situation which has been done in the previous chapter. Also objectives of the new appraisal have been stated and the system can be implemented. To do it right it is necessary to follow tasks according to the time sequence of project activities and also harmonogram of proposed appraisal activities.
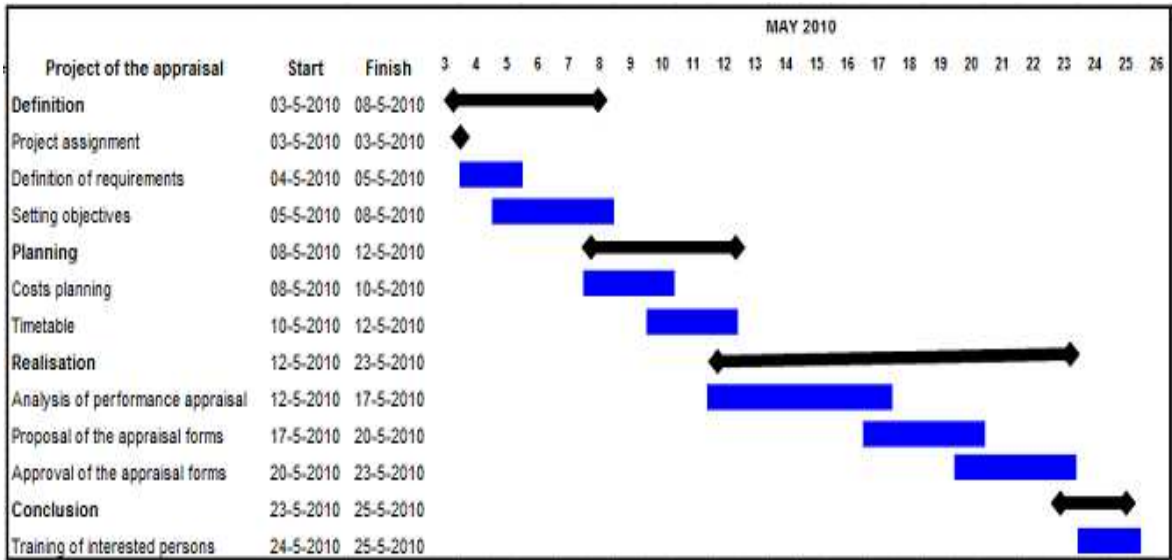
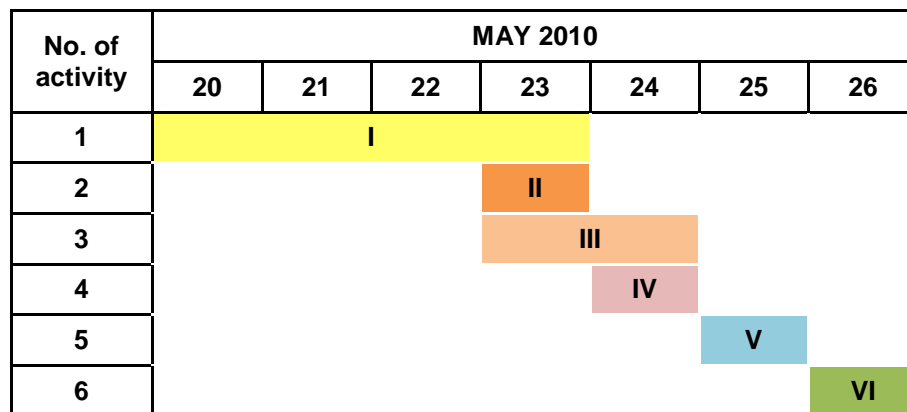*Figure 9 Gantt Diagram of the Project Activities [Own Creation]*

No. of activity	MAY 2010						
	20	21	22	23	24	25	26
1	I						
2				II			
3				III			
4					IV		
5						V	
6							VI

Figure 10 Harmonogram of Proposed Activities [Own Creation]

I   Approval of the Probationary Review form, the Performance Review form and the Performance Review Guidelines is important for the all following activities. Once it has been approved the final stage of the appraisal implementation may begin

II   The forms and the guidelines can be printed off when they are approved by the founder

III   The author and trainer in one needs some time to prepare herself for training employees and the manager as the appraiser

IV   Employees are informed about the new system of performance appraisal and trained how to use and understand the forms and the guideline

V Also the manager is trained but how to conduct the appraisal and interview, how to tell results, etc.

VI The actual appraisal may begin. It is suitable when it starts by the end of month due to the pay rise which can be given very next month.

The following table demonstrates individual activities of the project realisation together with time required for its completion.

Table 11 Individual Activities of the Project Realisation with the Time Required [Own Creation]

Activity	Name of the activity	Time required (in days)	Previous activity
A	Submit the project to the founder	1	
B	Approval of the project and of the appraisal forms	2	A
C	The forms to be printed off	1	B
D	Preparation of the trainer	2	B
E	Employees are informed about the new system and trained	1	C,D
F	Manager is trained how to conduct appraisal	1	C,D
G	Realisation of the project	1	E,F

The following graph represents also activities but only their time required for the project realisation and it shows critical path for its completion. There are two critical paths which are highlighted with red colour. According to the graph, which was created by means of WinQSB program, the total time necessary for the project realisation completion is 7 days.
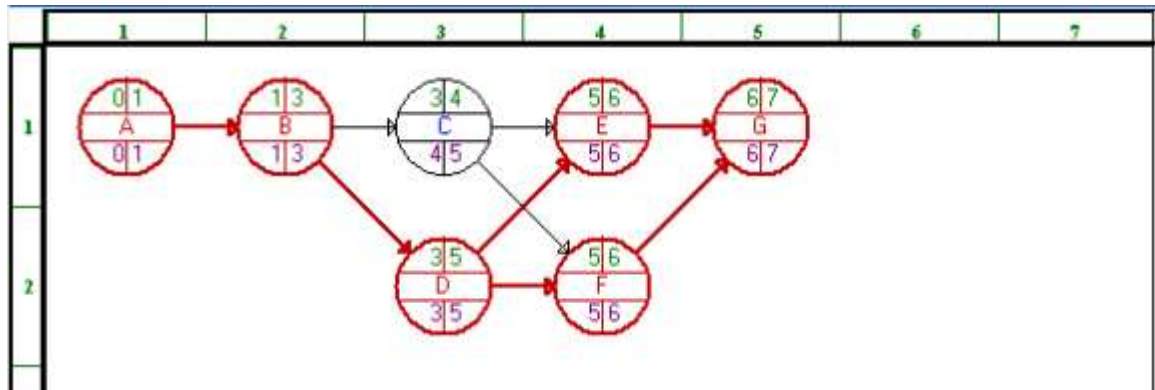
Figure 11 Graph of the Project Realisation with Time Required

6.11 Benefits of the Project

The project of the performance appraisal has been created and the question arises if it is good enough to be approved by the company. Benefits of the project should outweigh negatives and show that the project is worthy. The benefits should be obvious from lower number of leaving employees, lower number of employees' complaints, improved attendance, higher quality of services (jobs done), increased number of clients, etc. Benefits are as follow:

- higher costs due to pay rise are balanced by the lower costs of hiring new employees too often (lower or zero costs spend on advertisement, labour costs during interview with candidates, etc.). It will not be necessary to hire new employees so often therefore these costs spent on hiring employees can be used on pay rise for employees.

- opportunity costs emerge due to lower need of new employees which means lower or zero costs spend on advertisement, labour costs during interview with candidates, etc. Also opportunity costs arise with training done by colleagues not professional certified companies

- the Probationary Review reveals poor new employees already after one month which save another two months time spend with training them till the end of probationary period

- the appraisal is not really time consuming due to low number of employees and low frequency of appraisals

- the employees are more loyal due to the appraisal and do not leave the company so often. The company does not have to spend money on looking for and hiring new employees and will rather retain and reward the current ones.

- the appraisal increases motivation of employees which means they are happy to go to work, there is not any reason for complaints, they can express their opinion and be sure that the manager will sort it out, etc.

- the quality of work is increasing with employees' awareness of their mistakes and increasing level of knowledge passing from one employee to another. The employees learn from their mistakes because they now know what they did wrong or what they could do better. They get feedback which they missed.

- more effective human resource management - it is possible to monitor employees' performance over time and allocate them in teams how it is necessary

- the employees get opportunity to express their opinions on any issues during the appraisal and comment rating straight away

- easy use of the forms and the guidelines

The project does not include only benefits but also some advantages:

- financial demandingness is very low due to low printing costs and training to be conducted by the author for free

- it is not necessary to invest into information technologies and any external help is not necessary (e.g. personalist)

6.12 Risk Analysis of the Project

It is important to conduct risk analysis of the project before its implementation because some of the risks could be minimised or avoided at all. The author has introduced a few risk factors which may occur:

- insufficient support from the founder and the manager

- insufficient motivation of employees

- insufficient interest in the appraisal from employees' side - negative attitude

- the advantages of the appraisal does not balance costs

- insufficient amount of financial reserves for the pay rise

- criteria selected inappropriately

- superior's benevolence with new employees during the Probationary Review

- superior's unfairness, prejudice against the employee

- training of employees and superiors done not appropriately

- absence of the superiors - the founder and the manager

- personnel changes

The author has analysed these potential risk factors related to the implementation of the project of performance appraisal and she has created a table of probability of risk factors' presence and its importance. The probability of presence and risk factors' importance of influence can be expressed as low, middle or high. High probability and importance of risk factors' presence require considerable attention while the low probability and importance of influence is not too significant but must be taken into account as well. The table of the risk factors' probability of presence and importance of influence follow as well as more detailed description of the potential risks and possible ways how to avoid them.

Table 12 Probability of Risk Factors' Presence and Importance of Their Influence [Own Creation]

Risk factor	Probability of presence	Importance of influence
Insufficient support from the founder and the manager	Low	**HIGH**
Insufficient motivation of employees	Middle	Middle
Insufficient interest in the appraisal from employees' side - negative attitude	Middle	Middle
The advantages of the appraisal does not balance costs	Low	**HIGH**
Insufficient amount of financial reserves for the pay rise	Middle	**HIGH**
Criteria selected inappropriately	Low	**HIGH**
Superior's benevolence with new employees during the Probationary Review	Middle	Middle
Superior's unfairness, prejudice against the employee	Low	**HIGH**
Training of employees and superiors done not appropriately	Low	**HIGH**
Absence of the superiors - the founder and the manager	Low	Low
Personnel changes	Low	Low

Insufficient support from the founder and the manager - the probability of presence is low because the funder expressed need for new system which is supported by the manager as well. But if this risk occurs it is very important issues. The appraisal system would have to be adjusted according to their requirements or even cancelled. It is necessary to make sure that the performance appraisal system fulfils the founder's expectations and objectives of the system.

Insufficient motivation of employees - Also the employees expressed interest in the new performance appraisal system creation but it depends if the system has been created well enough to motivate them. It also depends on the superiors how they can use the appraisal and motivate their employees.

Insufficient interest in the appraisal from employees' side - negative attitude - Even if the employees expressed interest in the new system it may not be conducted right by superiors, it may be biased, the pay rise does not correspond to the employee's performance, etc. All these issues may have impact on employees' perception of appraisal. It is necessary to make sure that the appraisal is conducted according to rules and stated clear activities in the previous chapter.

The advantages of the appraisal do not balance costs - this situation should not really occur because the costs are quite low and advantages clear. If disadvantages prevail it would be necessary to reassess the appraisal system. The appropriateness of the system must be checked all the time and problems with the appraisal solved immediately and efficiently.

Insufficient amount of financial reserves for the pay rise - such a situation would upset employees and demotivated them. However, it may happen in terms of worldwide financial crisis as two years ago. The founder was warned to create some kind of funds especially for this purpose.

Criteria selected inappropriately - the potential of this risk factor is low but importance of influence is huge. The author was careful while choosing the criteria and took into account requirements of the founder and employees as well. In a case the criteria could be adjusted according to needs.

Superior's benevolence with new employees during the Probationary Review - the superior has the guidelines to follow to and to avoid biased rating but he/she still has sympathy with a new employee. It would influence future costs if the employee is not a good worker. The superiors will be trained to strictly follow the guidelines and avoid personal feelings to the employee.

Superior's unfairness, prejudice against the employee - the manager knows each employee very well and has not got any prejudice against anyone. The author trained him and gave him advices how to avoid such issues. In a case that the prejudice, unfairness, etc. happens it would demotivate employees and they would lose trust in the system.

Training of employees done not appropriately - this situation should not happen because the author has knowledge based on theoretical part of this master thesis and she has been studying human resource management. Therefore the potential of presence of this risk factor is low. If the author's training is not sufficient the company may hire professional personalist to retrain employees and superiors.

Absence of the superiors - the founder and the manager - despite of the fact that the manager will conduct all the employees' appraisals there is still the founder who knows how to do it as well. There is very low chance that both of them would be away when the performance appraisal is supposed to be conducted which is twice a year.

Personnel changes - Any personnel changes are not expecting within the company. The most important is the founder and the manager as superiors but someone else (e.g. new manager) can be trained how to conduct appraisals very quickly by the author for free.

6.13 Summary of the Project Part

This chapter was based on findings from the analytical part. The author was supposed to propose a project of the performance appraisal system creation which would suit to the company's needs and requirements but to its employees as well.

During the development of the project the author has applied gained knowledge about performance appraisal from the theoretical part and also some practical knowledge from the analytical part.

The project has been created and based on the appraisal by superiors. Two forms (the probationary and the performance ones) and the guidelines has been proposed to help the superiors to conduct the appraisal. The forms are easy to use and very clear. There are four criteria "BAST" according to which the employees will be appraised. The criteria were carefully chosen according to the founder's and employees' requirements. The Guidelines consists of description of each criterion according to the level of performance. It helps the superiors to rate employees appropriately.

The new performance appraisal system will help the founder to monitor employees' performance, to improve discussion among him (or the manager) and employees and it should also motivate employees to improve their performance. The employees will be rewarded once a year by pay rise which is based on the results from the annual performance appraisal review.

The performance appraisal system is a very important part of human resource management. The company should actively participate on its development and right utilisation.

CONCLUSION

The aim of this thesis was to create a project of the performance appraisal system in the XYZ company, UK. The company had used only informal appraisal and the founder expressed interest in the creation of formal one which would be suitable for the company and which would fulfil its needs and requirements.

The thesis was divided into two main parts, the theoretical and the analysis. The theoretical part served as theoretical background for the following part and the author had the opportunity to gain enough knowledge about the performance appraisal.

The part called analysis was divided into two main chapters, the analysis and the project. First of all the author had to find out what was the current state of the performance appraisal in the company. She analysed the informal appraisal using interview with the founder and his employees and she also used personal working experiences from the company to assess state of the appraisal. The author found out that the company used informal appraisal which was only oral, not recorded and very random. It did not give any feedback to the employees on their performance; it did not motivate them and was not connected to remuneration, training and development of them. These were the reasons why some of the employees wanted to leave the company.

Objectives of the project were developed in the project part together with the actual project creation. The founder and his employees expressed their opinions what the objectives should be and the author took them into account. The main aim of the project creation was to motivate employees, retain employees, monitor employees' performance, and reward them and to save money by means of loyal skilled employees. From the employees' point of view the objectives of performance appraisal creation were to be motivated, to get feedback of the level of their performance and be rewarded for the hard work they did.

The author developed the project based on appraisal by superiors together with the Probationary Review form for new employees and the Performance Review form for current ones. The employees were supposed to be appraised according to these forms. To help the appraisers conduct the appraisal right and assess criteria right the Performance Review Guidelines form was developed as well. The performance appraisal (of current employees) was supposed to be pay related and non pay related and conducted every six months. The employees got opportunity to comment appraisal results as well. The benefits

and potential risk factors of the new performance appraisal system were stated to avoid any possible complications.

The XYZ company appreciated help of the author of this thesis and was very satisfied with the project proposal of new performance appraisal. The founder was planning to follow the harmonogram and conduct their first new performance appraisal in the end of May 2010.

The author was satisfied with the thesis outcome as well. The objective of the thesis was met and it is only up to the company how actively the appraisal will be used.

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LIST OF ABBREVIATIONS

BAST   Abbreviation for behaviour, accuracy, speed and teamwork.

IT   Informational technologies

Mr   Mister

UK   United Kingdom

LIST OF FIGURES

LIST OF TABLES

APPENDICES

PI   The Probationary Review form

PII   The Performance Review form

PIII   The Performance Review Guidelines

APPENDIX P I: THE PROBATIONARY REVIEW FORM

Logo of the company   **PROBATIONARY REVIEW**

Employee's name………………………………………….   **Date**………………………

Personal Attributes Rating (tick if the employee's performance meet the description)

Behaviour		Accuracy	
Attempts to deliver outstanding service		Ensures work is spot on, attends to critical details	
Is sensitive towards the needs of the customer		Everytime on time at work	

Speed		Teamwork	
Works quickly and continuously during the shift		Works cooperatively and collaboratively with others	
Aims to complete tasks promptly and efficiently		Shows concern and respect for others	

Overall rating (satisfactory min. 6 ticks)   [   ]

Manager's Comments

Employee's Comments

Employee's Feedback

I've received a copy of the Performance Review Guidelienes	
I agree with the content of this Probationary Review	
I know when my pay rise is due	
I understand what my objectives are	
Overall I am happy with my job at XYZ Company	

Current Hourly Rate……   **New Hourly Rate**…..   **Date effective**……

Manager's signature………………………….   **Employee's signature**……………………….

APPENDIX P II: THE PERFORMANCE REVIEW FORM

Logo of the company   **PERFORMANCE REVIEW**

Employee's name..   Date..........................

Pay review   YES/NO

Personal Attributes - "BAST" (please rate 1 to 4 each of the attributes)

Behaviour	**Accuracy**

Speed	**Teamwork**

Exceptional Performance = 4	Significant Performance = 3	Some Improvement Required=2	Unacceptable Performance =1

Overall rating

Manager's Comments

Employee's Comments

Employee's Feedback

I agree with the content of this Performance Review

I understand what my objectives are

Overall I am happy with my job at XYZ Company

Current Hourly Rate......   **New Hourly Rate.....**   **Date effective......**

Manager's signature............................   **Employee's signature..........................**

APPENDIX P III: THE PERFORMANCE REVIEW GUIDELINES

	Behaviour	Accuracy	Speed	Teamwork
Exceptional Performance	Always displays positive can-do attitude Always displays high level of enthusiasm Always communicates effectively the	Always completes tasks Displays outstanding job knowledge Always ensures the job is done perfectly	Always arrives on time to work Always complete tasks promptly and efficiently Does quick job and leads by example	Inspires team with a positive approach Has a great attendance record Proactively completes tasks Has great working relationships with others
Significant Performance	Displays can-do attitude Consistently displays high level of enthusiasm Communicates effectively with customers	Completes tasks by following the correct procedures Displays good job knowledge Usually ensures that the jobs done are spot on	Arrives at work on time consistently Completes tasks promptly and efficiently Deliver speed service	Accepts responsibilities willingly Has a good attendance record Asks for tasks to be compeleted Has good working relationships with others
Some Improvement Required	Inconsistent attitude towards the job Sometimes fails to display enthusiasm Must be reminded to communicates effectively	Sometimes completes tasks, has to be reminded On occasions displays poor knowledge	Arrives at work on time the majority of the time Must be reminded to complete tasks Delivers speedy service when prompted to do so	Is reluctant to accept responsibilites Has received discipline due to non-attendance Must be asked to complete tasks Good working relationships with some employees
Unacceptable Performance	Displays a negative attitude towards the job Frequently fails to communicate effectively Displays non enthusiasm	Does not complete assigned tasks Displays no knowledge of the services provided	Has received discipline for time keeping Frequently must be reminded to complete tasks Frequently fails to deliver speedy service	Frequently fails to accept responsibilities Has received discipline due to non-attendance Is not happy to complete tasks Does not provide support to team members