

**The Influence of Managers on the Performance
of Employees in the Private Sector**

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ABSTRACT

Reward management is cardinal for success of performance management and has unlimited potential in motivating employees to give their best performance. Managing reward and leveraging it as a performance management strategy requires a holistic approach and professional acumen. Reward is a double-edged sword. Reward must be made and extended keeping in mind individual and collective interests of employees, and at the same time it should have an intimate relationship and alignment with strategic objectives of an organization. Traditionally, interests of organization (management) and that of its employees as far as monetary rewards are concerned, are assumed to be conflictive. There is logic in such an assumption. However, modern economies, changing cultural ethos and ultra people management practices have altered this proposition to a great extent. As a result today there are practices like ESOPs, involvement, empowerment and partnerships offering to workforce. However, much remains to be done in this area. First priority for organizations is that they must reorient their compensation, incentive and recognition schemes to be performance focused. These individual and piecemeal practices should also be brought under the umbrella of reward management. In other words, reward must be used and deployed as a powerful corporate strategy to obtain superior employee and organizational performance. Keeping in view this first and important priority, this chapter presents reward-based performance management strategy to obtain superior instrument. This instrument is expected to enhance performance of employees and contribute towards creating performance excellence as a way of organizational life.

Keyword: Reward based on performance, Tirana district, performance management, performance evaluation, monetary and non-monetary reward, etc.

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Declaration Statement

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.
2. The program of advanced study of which this thesis is part has consisted of:
 - i) Research Methods course during the undergraduate study
 - ii) Examination of several thesis guides of particular universities both in Albania and abroad as well as a professional book on this subject.

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List of Abbreviations

MBO: MANAGEMENT BY OBJECTIVES

HR: HUMAN RESOURCE

PM: PERFORMANCE MANAGEMENT

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CHAPTER I

INTRODUCTION

Performance management is defined as the process of creating and executing the motivational strategies, drivers and interventions with a target for the aim to convert the unrefined potential of human resource into performance. Every single one of us possesses potential within ourselves in a few various functional areas. Due to various of reasons, unfortunately, utilization and conversation of this potential into results performances is trivial. Performance management operates as an agent in transforming these potential into performance by abolishing the mid between barriers as well as inspiring and rejuvenating the human source.

1.1. Scope of study

At first through this study I'll give some theory concepts regarding performance management, performance evaluation and reward based on performance. This was realized by the help of a lot of studies, articles, journals, etc; on these concepts.

In this study I'll present the perception of the employees of different companies/organizations regarding performance evaluation and reward based on performance in Tirana district.

1.2. Context of the study

The depth of the crisis in Albania and dramatic trends of unemployment have inevitable had on impact on wage policy of an enterprise. We will show the way how the employees should be paid, how a manager must decide on the level of employees' salaries, and how we should take the decision that the salary shouldn't be the same for each employee based on their performnce. Time has shown that performance evaluation provide basic information that serves for all other activities important for human resources management like selection, motivation and reward , ongoing planning and training of workers. The Companies in Albania, it is worth mentioning that

they still have a lot of work to do related to the employee compensation programs, based on the fact that many companies in Albania continue to deliver the salary in an envelope, by reducing the transparency of reward in these companies.

This study in fact made me think that what we thought till today about job satisfaction affected by performance evaluation and reward based on performance.

1.3. Structure of study

This study is separated in four chapters:

- Introduction,
- Literature review,
- Methodology
- Results and discussions.

The first chapter of Introduction includes some general data about context, scope and structure of the study.

The second chapter, Literature review includes the definitions of performance management, the rewards based on performance and the evaluation of performance. It includes also the types of various rewards which are based on performance, how is the performance measured, etc.

And the third chapter is dedicated to the methodology of the study, participants and instruments used to fulfill the objectives of the study.

Fourth chapter, that of Results and discussion we put all the data gathered through the questionnaire: general one and specific one focused on reward based on performance and performance evaluation

Finishing this study with the conclusions and bibliography used for this study, I'm hoping that in the future we will have best articles and studies in this field.

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Definition of Performance Management (PM)

To understand what Performance Management is, the following scenario will be considered:

At a colossal pharmaceutical company, Sally is working as a sales manager. In one week, the fiscal year will end. With end-of-the year tasks she is overwhelmed, the tasks includes administering a group of 10 salespeople., responding to phone calls of customers, reviewing the budget for the following year. It's the most hectic time of the year. The HR Department calls her saying: "For your 10 employees, Sally, no performance reviews were received from your side; the end of the fiscal year, is their deadline." Sally at that moment thinks "Those performance reviews are just a lost cause!" Her thoughts were that there is no point in dealing with these forms. Most of the times, due to the fact that her subordinates are in the field visiting customers, She does not get to see them. The only knowledge she has about their performance is that it is based on the sales figures, which depend mostly on the products which are offered and the geographical territory covered rather than the motivation and effort of every single salesperson. In terms of rewards, nothing occurs regardless of her ratings. In her organization, these are rough times, also rather than merit, unfortunately on seniority is what the salary adjustments are based on. In order for her to turn into her forms, no more than 3 days is at her disposal. What will she do? She decides to take the easy way out by: pleasing her employees, and giving every single one of them the best rating. With their ratings she believes they will be delighted, and Sally lucky enough will not have to deal with follow-up meetings nor

complaints. In less than 20 min, she fills out the forms and decided to get back to her “real job”¹.

Unfortunately with this picture there is something very wrong where in many organizations actually is a frequent situation. This process is called as “Performance management” by Sally’s HR department, actually it isn’t.

Performance management is defined as the ongoing process of identifying, measuring and enhancing the performance in the organization by connecting each individual’s objectives and performance to the organization’s goals and mission. The two vital components are;

1. **Continuous process.** The Performance management is continuous. An ongoing process of appointing objectives and goals is involved, as well as keeping one’s eye on performance and also receiving and giving continuous feedback and coaching.²
2. **Link to goals and mission.** Performance management depend upon that managers make sure that the employees’ outputs and activities are in harmony with the organization’s goals and therefore aid the organization to acquire a competitive business advantage. Therefore Performance management establishes a bridge between employee performance and organizational goals, and makes the employees’ contribution to the organization outspoken. Note, what is labeled a “performance management” system is what many organizations have.

However, performance appraisal and performance management must be distinguished. A system which once a year involves employee evaluations, without a continuing effort to grant coaching

¹ Arnold, H. J., & Feldman, D. J. (1982). A multivariate analysis of the determinants of job turnover. In H. J. Arnold. Journal of Applied Psychology 67(3).

²Aguinis, H. (2009). Performance management (2nd ed.). Upper Saddle River, NJ: Pearson Prentice Hall, 19.

and feedback so that the performance can be enhanced, actually it isn't a true performance management system³. Actually, it's only a performance appraisal system. Regardless of the fact that the performance appraisal (ex the systematic description of an employee's weakness and strengths) it's a vital element of performance management; actually it's just a fraction of the whole.

We will take Merrill Lynch as an example and see how she has managed to change from having a simple performance appraisal system into having a performance management system. Merrill Lynch is amongst one of the world's leading advisory and financial management companies, with private client assets of roughly around US\$1.1 trillion (<http://www.ml.com/>) and with offices in 36 different countries. As the investment bank, it's actually a dominant worldwide leader underwriter of equity securities, debt and strategic advisor to institutions, individuals, governments, and to corporations in the world. The transition from one performance appraisal annually to concentrating amongst the many of the vital principles of performance management was recently started by Merrill Lynch; the conversation amongst employees and managers where coaching is handed out if required and feedback is exchanged. The year's first review was that managers and employees were to set out the employee objectives. The mid-year reviews evaluates the improvement that has concentrated on the objectives and taken into account the personal development plans. Lastly, from several sources, the end review it incorporates feedback, evaluates the advancement made toward the targets and manages to indentify the areas which need improvement. Managers acquire training on how to conduct reviews and set targets. Also, in order to acquire for information on all various aspects of the performance management system, there is a website that managers can use. In contrast to their old performance appraisal system, Merrill Lynch has stated that the goal of the upcoming implemented performance management program is to say: "This is the way on how we will manage to aid you in your

³*Ibid*, Pp 53.

development, this is what is expected of you and relative to compensation, this is how you will be judged..”⁴

Performance management systems where the employee contributions are not made explicit to the organizational goals are actually not true performance management systems. Making an explicit connection between the organizational goals and an employee’s performance objectives also serves the intention of establishing a common understanding of how and what things are to be achieved.

As described above, in the case of Sally this is painfully clear, where from her point of view, regarding the contribution of every single one of her subordinates to the organization, not any useful information was provided by the performance review forms.⁵

In the following modules, best practices on how to create and execute the performance management systems will be described. However whereas for now, let’s just say that good-designed and fully implemented performance management systems make crucial contributions to the organization. These contributions will be described in detail.

2.1.1. What is not performance management?

Performance appraisal system is often baffled with performance management and frequently misunderstood as synonymous. Performance appraisal is the singular activity which is employed

⁴Bhatti, K. K., & Qureshi, T. M. (2007). *Impact Of Employee Participation On Job Satisfaction, Employee Commitment And Employee Productivity, International Review of Business Research Papers*, 3 Pp. 54.

⁵Bacal, R. (1999). *Performance Management. A Briefcase Book*, Pp, 84. New York: McGraw-Hill.

to access performance of employees for a predetermined period on a set of parameters. Performance management is the integrated activity which aims to sustain and institutionalize performance management as a fundamental system of a company. In this parlance, performance appraisal is considered to be one of the tools which is used in measuring the actual performance of employees on an assigned task⁶. Similarly, performance management is seen as the activity of setting goals and monitoring their achievement. Performance management in this sense is viewed as another form of management by objectives (MBO).

In fact, management by objectives is one of the vital features of performance management. In contrast to the popular misbelief, performance management is a comprehensive discipline that comprises of strategies to address the entire motivational need structure of human resource such as security, physiological, social, self-actualization and self-esteem through appropriate drivers and interventions.⁷.

2.2. Significance of performance management

Performance management has the potential to fulfill operational and strategic requirements of an organization and personal also professional needs of employees in a number of ways. A few of them are presented pictorially in the figure below.

| SIGNIFICANCE OF PERFORMANCE MENAGEMENT | |
|---|------------------------|
| Competitiveness | Sustainable Results |
| Business-HR Partnering | Collective Development |

⁶Cunneen, P. (12 January, 2006). *How to improve performance management. People Management. Pp. 42-43.* (Vols. 12, No 1).

⁷Fletcher, C. . (2001). *“Performance appraisal and management: the developing research agenda” Journal of Occupational and Organizational Psychology, Pp12* (Vol. 74).

| | |
|---------------------------------|-------------------------------------|
| Fulfilling HR Needs | Measurable Management |
| Core of HR | Integrated Motivational Tool |
| Optimizing Human Capital | Institutionalizing High Performance |
| Renewal of Competencies | Business-Employees Performance |
| Managerial Equity | |

Table 1. Significance of performance management

Source:Srinivas R. Kandula⁸

2.2.1. Competitive Business Environment

Due to increasing competition, present day organization/companies are demanded to deal with the performance-related issue more than in the past and the need to do more with fewer resources. In an uncertain business environment, human resource is the only asset that can make organizations survive, exist and succeed. Hence, more performance-oriented human resource management practices are preferred than those of maintenance and collective bargaining.

2.2.2. Business Human Resource (HR) Partnership

There is a growing pressure on human resource professionals to establish the worth of human resource function mainly on two forms: first of all, its contribution to the bottom line of organizations in term of profit, sales, turnover and earnings per share. Second of all, the utility of human resource function and its practices to the effective functioning of organizations in term of, employees’ performance, work culture and availability of human resource competencies and skills. Value addition could be attained only when performance management practices are given a high priority.

⁸Srinivas R. Kandula. (2006). "*Performance Management: Strategies, Interventions, Drivers*". New Delhi.

2.2.3. Fulfillment of Human Resources Needs

In the motivational hierarchy, most employees in business organizations are placed at the level of self-esteem and self-actualization. They look forward to

- i. Perform higher-level tasks and handle professional challenges with freedom and flexibility,
- ii. Seek appropriate rewards for their efforts, more of non-monetary nature,
- iii. Consistent updating of competencies,
- iv. A performance including work environment that includes teamwork and
- v. Seek open communication and transparency.

These demands could be met only by applying performance-oriented human resource practices.

2.2.4. Performance Management as Core of Human Resources

Performance driven practices such as reward, team building, career, culture, performance measurement, leadership and competency development, lie in the center of human resources management. These practices are capable of leading human resource function into the strategic domain of organizations. Whenever and wherever human resource function has accomplished in meeting the organizational and employees demands, it is due to the priority accorded to higher-level human resource practices known as performance driving activities.⁹

⁹Delaney, J., Huselid, M. (1996). *The impact of human resource management practices on perceptions of performance in for-profit and nonprofit organizations*. *Academy of Management Journal* 39 (4), 949–969.

2.2.5. Integrated motivation Tool

Performance management comprises of a set of motivational tool which are capable of acquiring superior performance of employees. They also simplify conversion of latent potential which exists inside human beings into contextual and tangible performances. These performance-oriented practices are broadly built on the framework of fully-established motivational theories such as Maslow's hierarchy of needs, Herzberg's hygienic-motivational factors and Vroom's valence-expectancy framework. Implementation of these performance-oriented practices also progresses in the same pattern as that of these motivational frameworks. Therefore, performance management is the key to motivating employees.¹⁰

2.2.6. Capable of Institutionalizing High Performance Work Culture

Performance management practices are centered on creating a distinguishable and salutary work culture. It promotes trust, openness, collaboration, empathy and proactivism. All these are vital ingredients for leading people to maximize their performances. It means performance management is a combination of a set of practices and processes called in this book as strategies, interventions and drivers. Practices guide as to what is to be done, whereas processes show how it is to be done.¹¹

2.2.7. Long-Lasting Impact and Sustainable Results

¹⁰Grant. (2008). *Does intrinsic motivation fuel the prosocial fire? Motivational synergy in predicting persistence, performance, and productivity.* Journal of Applied Psychology, 931.

¹¹Ibid .

Long-lasting positive results for both employees and the organization can be achieved only through implementation of performance management initiatives. This is because performance management balances both long-term and short-term requirements of the organization and its people. It is also possible to achieve a good fit between basic and higher-level interventions. For example, each performance driver and intervention will have a short-term goal like meeting current skill requirements and long-term objective of building substantive organization specific competencies to take care of future needs.

2.2.8. Individual and Collective Development

Performance management makes both individual and collective development possible in organization. An employee as an individual and also as a team member will have accessibility to all performance driven interventions. It means an employee will have the opportunity to perform and grow with a distinct identity and also as a team player wherever task execution involves interdependence.¹² Work in modern organizations requires both collective and individual form of performances and there needs to be harmony between them. Traditional human resource practices fall short in creating such a balance. Performance management with its integrated and comprehensive approach to people management successfully fills that gap.

2.2.9. Measurable Management

There is a widespread agreement that something which is not measurable, is not manageable. No benefit can be accrued from something that is not manageable. The biggest criticism conventional human resource management practices encounter is that they are non-measurable

¹²Bhatti, K. K., & Qureshi, T. M. (2007). *Impact Of Employee Participation On Job Satisfaction, Employee Commitment And Employee Productivity*. International Review of Business Research Papers, 3, 54-68.

and therefore, their efficacy is doubtful.¹³ As opposed to this view, strategies, interventions and drivers of performance management are highly measurable, quantifiable and demonstrable in results.

2.2.10. Optimizing Human Capital

Organizations generally own reservoirs of human potential. However, optimizing these potentials, channelizing them towards a defined objective, translating them into meaningful skills and competencies and using them smartly for business gains are real challenges. These challenges form the centre of performance management activities.¹⁴ Various strategies, interventions and drivers employed within the gamut of performance management, systematically ensure optimization of human capital. Human resource is stimulated to discover their inner capabilities, and organizations are equipped with soft competencies to achieve the set objectives.

2.2.11. Consistent and Continuous Renewal of Competencies and skills

The changing face of fluctuating market demands, technology and decreasing product life cycles, on a continuous basis presuppose renewal of human skills. Functional and organizational-level competencies also need to be redefined in tandem with changing business realities. Such competency and skills renewals are possible only when an organization pays enough attention to

¹³Delaney, J., Huselid, M. (1996). *The impact of human resource management practices on perceptions of performance in for-profit and nonprofit organizations* (Vol. 4). Academy of Management Journal .

¹⁴Cunneen, P. (12 January 2006). *How to improve performance management. People Management* (Vol. 12).

performance-oriented strategies, drivers and interventions. In other words, these performance-base practices can, lead organization to be contemporary and competitive even in the midst of rapid technological and market changes.

2.3. Definition of Reward Systems

Employee's compensation also known as tangible returns, involving cash compensation (ex., cost of living and merit pay, long and short term incentives, and base pay) and benefits (ex., work/life focus, income protection, allowances and reimbursement of tuition). However, the intangible returns which the employees receive which also referred to as relational returns, which include status and recognition, employment security, learning opportunities and challenging work and employment security. A reward system is the set of mechanisms for distributing both of the tangible and intangible returns as part of an employment relationship. It should be taken into consideration that not every type of returns are related directly to performance management systems. The reason behind it is that not every type of returns are assigned based on performance. For example, as opposed to performance, some allocations are based on seniority. Next, the various types of returns will be defined¹⁵

2.3.1. Base Pay

Base pay is given to the employees, in exchange for the work that has been performed. Rather than concentrating on an individual contribution, the base pay concentrates on the duties and position performed. For all the employees performing similar duties, the base pay is usually the same, and ignores the differences amongst the employees. However, such differences can also exist based on variables as differential performance and experience. In some countries (ex, the US), there is a difference between salary and wage. Salary is defined as the base cash

¹⁵The following discussion is based in large part on Chapter 1 from Milcovich, G. T., Newman, J. M. (2002). *Compensation management* (Vol. 7). New Yor: McGraw-Hill.

compensation which is obtained by the employees who are free from any regulations of the Fair Labour Standards Act and, also in many cases, are unable to receive the overtime pay. The Employees in many managerial and professional jobs are not liable employees, called as salaried employees. On the other side, based on an hourly wage, non-exempt employees receive their pay.

2.3.2. Cost-of- Living Adjustments and also Contingent

(COLA) , Pay Cost-of-living adjustment regardless of their individual performance, for all employees denotes the same percentage increase. Towards the strive to secure the employees' buying power, the Cost-of-living adjustments are given to fight the impacts of inflation. For example, in the United States, in 2003 a 2.1 per cent pay increase occurred by the organizations that implemented a COLA. In 2001, the same percentage was just 1.4 per cent. COLA percentages, annually can be acquired from agencies such as the Social Security Administration in the US (i.e., <http://www.ssa.gov/OACT/COLA/colaseries.html>).

As an addition, contingent pay is given to the base pay based on past performance. Contingent pay is defined as the amount of supplementary compensation which depends on an employee's level of performance. An, example, in the performance score distribution, the top 20 per cent of employees may acquire a 10 per cent per year increase, whereas a 4 percent increase are given to the employees which are at the middle 70 per cent of the distribution, and no increase at all is given to the employees in the bottom 10 per cent.

2.3.3. Short-term Incentives

Just like the contingent pay, the incentives are allocated on the past performance. But incentives are not added to the base pay, and it's based on the review period (e.g., annually or quarterly) are only temporary pay adjustments. So the reason as to why they are also ascribed to as variable pay is because incentives are one-time payments. Another difference between contingent pay and

incentives is that incentives are distinguished in advance.¹⁶ For example, in a pharmaceutical company a salesperson knows that, she will gain a \$3000 surplus at the end of the quarter if she meets her sales quota. She also knows that her bonus will be \$6000 if she surpasses her sales quota by 10 per cent. In contrast, in many cases the definitive value of the reward is not acknowledged, in the case of contingent pay.

2.3.4. Long-term incentives

The short-term incentive includes a trial to inspire performance in the short term (ex., quarter, annually) and includes cash surpluses or prizes (ex., two days break), long-term incentives try to impact the forthcoming performance over a prolonged time. They include options or stock ownership to acquire stocks at a reasonable price. The reason for long-term incentives is that the employees invest themselves in the organization's success, and this effort is anticipated to translate into a high level of performance. The short and long term incentives are pretty much famous in the US, take for ex the public sector. In late 1998, A survey administered to 400 local governments and 25state employing more than 6 people revealed that 242 (ex., 85 per cent) of the local governments and all but one of the state governments used some type of incentives.¹⁷

In case an employee is sick, disabled, or is unable to work, Income protection programmes is used as a back-up plan to the employees' salaries. Many countries decree income protection programmes by the law, e.g, in the case of a disability, the Canadian organisations cashes up into a fund which dispenses income protection. For instance, take, the University of Alberta, to

¹⁶Lawler, E. E. (2003). *REWARD PRACTICES AND PERFORMANCE MANAGEMENT SYSTEM EFFECTIVENESS*. Center for Effective Organizations.

¹⁷Lewin, D. (January,2002). *Incentive compensation in the US public sector: A study of usage, perceptions, and preferences*. . Atlanta, GA: Paper presented at the annual meeting of the Industrial Relations Research Association.

employees who become severely disabled they offer an income of 70 per cent of salary per month(<http://www.hrs.ualberta.ca/docs/Benefits>). Employers consists of 50 per cent of an employee's contribution to social security in the US in order for the income to get protected in case of a disability or of death, and when employees reach retirement age, e.g, an employee that has reached the age of 40, that earns a salary of \$90 000 per year, and until retirement age, is anticipated to continue to gain this salary, if his decision were to retire at age 62, he would receive \$1400 a month, if he retired at age 67 he would get \$2000 a month whereas if he were to retire at 70 he would get \$2500.

Savings plans, pension plans and medical insurance also fall into Long-term incentives as other forms of benefits varying from the income protection rubric. However, these lastly mentioned and not obligatory, but becoming more and more important. They have carrying a big weight on the applicant's decision on the job. Recently, a survey between employees and HR professionals proved that the following in a sequential order from most important and going down; health care/medical insurance, paid time off, retirement benefits.¹⁸

2.3.5. Work/life

In order to help employees achieve a better balance between work and non-work activities, there are focus benefits related to work/life focus included programs. Some of the main activities are a holiday from work/vacation, work schedules (example, telecommuting, time off that is not paid) and services to meet requirements (ex., financial planning counselling, on-site fitness room).

Let's take Sun Microsystems as an example which stimulates a fair enough balance among home and work life, and its close to Broomfield, Colorado, campus from December to January annually. This benefit (ex., holiday time for every employee in addition to their yearly vacation

¹⁸Esen, E. . (2003). *Society for Human Resource Management; Job benefits survey*. Alexandria, VA.

time) is Sun's culture. Sun attitude is work hard/play hard, as noticed by the CEO Scott McNealy statement, 'kick butt and have fun' motto.¹⁹

2.3.6. Allowances

Allowances covering transportation and housing are actually benefits in some countries and organizations. This works especially for top managers in many regions of the world.

For example, in South Africa it is usually one of the following that are provided when it comes to transportation allowances:²⁰

- A car is provided to the employee by the employer and they may be use it either for work or personal reasons.
- The employee is provided with a travel allowance.

2.3.7. Relational Returns

In nature, intangible are the Relational returns. Recognition and status are included, as well as employment security, opportunities to learn, challenging work, and opportunities to form personal relationships at work (including personal relations).²¹A great example can be, Sun Microsystems permits employees to enrol in SunU, which is Sun's main on-line education tool. SunU which provides online classes to students all over the world, just as they would be

¹⁹*Why Choose Sun?* Available on-line at <http://au.sun.com/employment/student/whysun.html>.

²⁰*Company car or allowance?* . Available on-line at <http://www.buyingacar.co.za/company.htm>.

²¹Pierce, C. A., Aguinis, H., Adams, S. K. R . (2000). *Effects of a dissolved workplace romance and rater characteristics on responses to a sexual harassment accusation*. Academy of Management Journal.

learning in a traditional classroom.²²Sun has created a large focus on its employees; their career progression and further development. There is a main goal which is that all employees build their way up professionally. Moving onwards, by development of the employees does not only help them only with their career within Sun, but also to help them further on in other future jobs in other companies. So this proves that some professional relations can last very long in the career life of employees and companies.

Provided in the table below are the returns mentioned, along with their amount of dependency on the performance management system. One example of a variable that has low dependence on performance management system is cost of living adjustment. This mean that there is no impact by the system on this specific type of return. On a different term of explanation, this kind of return is provided to every employee despite past performance. However, short-term variables have a greater amount of variance of dependency. By this, meaning that the return is selected by the performance management system; who gets to receives returns and is does not get to receive them. As seen in the table, there are a few returns that conclude to be “moderate”. Although, when it comes to returns such as “base pay”, there may or may not be a large influence by the performance management system.

| Return | Degree of dependence |
|---------------------------|-----------------------------|
| Base pay | Moderate |
| Cost of living adjustment | Low |
| Contingent pay | High |
| Long-term incentives | High |
| Income protection | Low |
| Work/life focus | Moderate |
| Allowances | Moderate |
| Relational returns | Moderate |

Table 2. Returns and their degree of dependence on the performance management system

²²Why Choose Sun? Available on-line at <http://au.sun.com/employment/student/whysun.html>.

2.4. Reward Management

Reward management in the context of performance management is defined as an integrated reward system that ensures equitable avenues to employees for fulfilment of their financial and non-financial needs and recognition urge for their contribution to attainment of organizational goals. Performance-stimulated reward system possesses the following characteristics:

1. Reward emphasizes not only financial compensation, but also non-financial rewards like enrichment of job, work autonomy/freedom, company sponsored family tours, best employee awards and popularization of employee achievements in house journals, etc.
2. Rewards must be offered in proportion to respective employee contribution/service in fulfilment of organizational responsibilities and achievement of organizational goals.
3. Reward must be equitable implying that there should be equilibrium in reward offered to an employee in comparison to others.
4. Reward must be integrated implying that there must be balance and comprehensiveness in design and application of the reward management strategy.
5. Reward should be capable of delivering dual results, i.e. fulfilment of motivational needs of employees and achievement of organizational objectives/goals.
6. Reward should be performance driven and create performance excellence through institutionalization of performance management systems.

2.4.1. Reward is Susceptible to Multiple Forces

Management of reward is subject to consideration of many internal and external factors. Internal factors typically concern the organization's ability to pay and reward employees. Of course, strength of collective bargaining forces also influences the reward system. External forces

include demand and supply forces, inflation and customers. These factors must be carefully analyzed and considered while designing a reward-based performance management strategy.²³

2.4.2. Reward is a Comprehensive System

Reward is not just equivalent to monetary compensation. Reward consists of monetary aspects such as basic pay, allowances, incentives and reimbursements, indirect monetary aspects like medical insurance, leave salary and retirement assurances and non-monetary aspects like recognition schemes. Each of these components is equally important to obtain the real impact. The reward system which is devoid of this comprehensiveness may not attain desired effectiveness in terms of employees' satisfaction and organizational performance. This variety in reward has come into existence corresponding with hierarchical motivational structure. Therefore, reward-based performance management must comprise all these rewards variety and apply them to employees, depending upon their motivational profile.

2.4.3. Job Enrichment as Reward Strategy

Theories such as job characteristics, goal setting and need for achievement motivation emphasize on:²⁴

- Challenging nature of work
- Opportunities for employees' involvement and participation,
- Problem-solving opportunities.

²³Bacal, R. (1999). *Performance Management. A Briefcase Book*. . New York: McGraw – Hill.

²⁴Bhatti, K. K., & Qureshi, T. M . (2007). *Impact Of Employee Participation On Job Satisfaction, Employee Commitment And Employee Productivity* (Vol. 3). International Review of Business Research Papers.

These can be effectively tapped as reward strategies. These theories are developed on the premise that employees to participate in decision making and enriching their jobs through task autonomy and task variety. Higher-end strategies like this must be made a part of the reward-base performance management strategy.

2.4.4. Fairness of Reward is Dependent upon Measurement

Job evaluation techniques play an important role in creating fairness in reward system. These techniques also highlight that measurement is important in creating equity. Measurement must be reliable and transparent. Reward systems tend to gain wide acceptance if measurement used while evaluating job, performance, competency are approved by employees. Therefore, the lesson here is twofold. Firstly, efforts must be made to employ measurement techniques to create a fair reward system and secondly, such measurement must be approved by majority of employees.

2.4.5. Compensation is Multilayered

Compensation must be evolved through many layers. These layers are basic pay and variable pay. Both are equally important as theories prove. Basic compensation provides stability and is paid for basic aptitude and general job profile. Equally powerful and becoming more important is variable compensation that includes production incentives and gain sharing. This intends to take care of exceptional performances and also to motive people to perform at their peak. Reward-based performance management strategy must consider both these components though more emphasis is accorded to variable compensation. Variable pay is an influential factor for obtaining superior performance of employees.

2.4.6. Reward-Motivation-Reward cycle

Motivation theories almost assume the status of cardinal principles for reward management. There is direct and cyclical relationship between motivation and reward. An equitable and

scientific reward structure leads to higher motivation, which drives superior performance and which results in obtaining rewards. Motivational theories are the foundation for design, implementation and renewal of the reward-based performance management strategy.

2.5. Reward-Based Performance Management Strategy: Interventions And Drivers

Reward-based performance management strategy is a comprehensive principle which is evolved holistically. Reward as a strategy of performance management includes all three: financial, indirect financial and non-financial reward. Objective of the strategy is twofold. Firstly, ensuring internal consistency within the framework of reward, thereby meaning there must be integration and cohesiveness among all reward-related policies and practices that prevail in an organization. A well-knit reward strategy creates a powerful positive impact and most importantly enhances performance of employees and improves bottom line of organizations. An integrated and performance driven reward strategy contributes to strengthen performance-oriented work and creates a path for institutionalization of performance management in organizations.²⁵ Therefore, an effective deployment of a reward strategy for the institutionalization of performance management is the second objective.

The strategy of reward-based performance management can be designed, executed, evaluated, renewed and institutionalized with the help of two formidable interventions.

These are the follows:

1. ***Nurturing reward-based Performance Management:*** an essential objective of this strategy is providing the base format to design and compatible with internal and external environment of an organization. Deliverables of this intervention are of two types. First is application of this intervention must result in the organization having a well-crafted reward system. Secondly, such a reward system must enable employees to optimize their

²⁵Deadrick, D. L., & Gardner, D. G. (1997). *Distributional ratings of performance levels and variability: An examination of rating validity in a field setting*. Group & Organization Management.

potential and the organization to achieve its goals including financial objectives. This intervention is developed consisting 10 tangible and pragmatic drivers. Adoption of these drivers makes organizations progress on their reward system.

2. ***Capitalizing on Reward Strategy in Institutionalization of Performance Management:*** the second intervention is committed to the general cause of institutionalizing the policy and practice of performance management comprising seven performance management strategies discussed in this book. Reward as a strategy has an independent identity and also possesses a collective character. Collective character is reflected in its natural relationship with other strategies such as career, measurement, and team.²⁶ For example, reward in order to be equitable must have a direct and positive relationship with the measurement-based performance management because rewards are contingent upon task fulfilment. In order to assess the extent of task fulfilment or non-fulfilment, application and usage of measurement-based management is desirable. This intervention is also designed to be implemented with the guidance of 10 drivers. These twin interventions along with respective drivers are discussed in the following section.

²⁶Delaney, J., Huselid, M . (1996). *The impact of human resource management practices on perceptions of performance in for-profit and nonprofit organizations* (Vol. 4). Academy of Management Journal .

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1. Methodology

The guidelines which are shown here are drawn upon the best of the academic research literature on performance management, the opinion of the participants of this study through the questionnaire and the writings of leading performance management experts .

Primary data was gathered by the responses of the questionnaire with its focus on reward based on performance systems used in Albanian companies/organizations in Tirana district.

A total of 100 professionals in their work from the private sector organizations were invited to participate in the questionnaire, but 30 of them, didn't participate. This happened for different reasons which are not in focus of this study to mention about.

The secondary data, which was mostly, focused in the characteristics of the performance management systems implemented in companies/organizations, what factors were most important for success and what difficulties were encountered. Information from this research literature, interviews and best practice publications was combined together to provide a roadmap for developing, implementing and evaluating performance management systems which reflect demonstrably effective and proven practices.

Throughout this thesis, many of the guidelines which are discussed are based on either practice or research. The Research-based guidelines are those that can be supported by systematic and rigorous research studies which have been published in peer-reviewed academic journals.

The bibliography was also chosen carefully, to take literary essence on reward based on performance.

3.2. Setting

This study took place at Tirana district in different companies. Also this study was shared on internet to some companies facilitating the process to be easier through email.

This master thesis, took place between 1 April and 1 June. The investigation came as a result of these two months sharing this questionnaire and fulfilling it, one by one in all the city of Tirana, except the email sent before.

3.3. Participants

There were a total of 70 participants, 52 of them answered physically and the other part online.

They all belong to the private sector, mostly under 30 years, but even over; mostly females were able to participate in the questionnaire with 57.1%. Also the major part of them had Masters degree as the highest level of education and their work experience was mostly till 5 years. Each of participants was asked to participate on a voluntary basis in the questionnaire.

There were a total of 100 questionnaires which overall were sent out. 52 of them were conducted face to face whereas the remaining amount were conducted online. Of the 100 questionnaires that were disseminated, 70 valid ones were returned.

3.4. Techniques and instruments for gathering of data

As Bonilla-Castro (1997) pointed out, the gathering of data has to do with qualifiable and quantifiable dimensions due to the particularities that each one has determines the employment of the appropriate recollection instruments in order to produce numeric data or textual data based on the narration and the description. The instruments implemented were considered in order to clearly describe concepts and definitions and alongside the reasons for implementing them. These definitions, reasons and implementations and for its applications are described below.

Questionnaires: According to Macintyre, 2000 a questionnaire is a “...survey of different opinions from (usually) a large number of people who provide anonymous replies. The questions

are standardized, i.e. each respondent receives the same number and kind²⁷. Questionnaires were implemented to have some quantifiable data regarding reward-based on performance, if in Tirana district these kind of systems are used or not, how and if the employees of these companies/organizations think that is the right choice. (See Appendix 1 for questionnaires.)

3.5. Limitation of the study

Even though this questionnaire was anonymous and volunteer, some of the employees contacted in different companies were a little skeptical to fulfill it. 23 participants were unwilling to participate in the questionnaires due to confidentiality reasons and also 7 were cancelled out due to lack of well responses.

²⁷Macintyre, C. *The Art of Action Research in the Classroom*. London: David Fulton Publishers, 2000. P. 74.

CHAPTER FOUR

RESULTS OF THE STUDY AND DISCUSSIONS

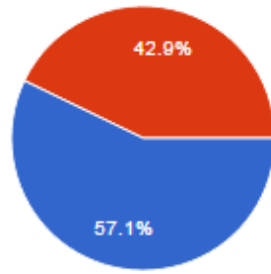
4.1. General Findings

A survey was carried out for the private sector in Tirana. A total of 100 questionnaires, in which 70 people managed to fill it in, 49 were interviewed face to face whereas 21 did the survey online. 23 people did not respond because of confidentiality reasons whereas 7 were cancelled out due to the lack of well responses.

Below is the list of the companies that participated in the survey;

Vodafone; Tregi Marketing Group; T-Mobile; Direct Media Communications; Century 21; Fondacioni Se Bashku; Tring Digital; Allan Lloyds; Western Union; Fondacioni I Kuranit; Milano Trader/Spot Capital Markets Ltd; Conad; Buffalo; Brecani Security; Digitalb; Parr Credit Srl; BCOM; Studio Gucci & Partners; Yes We Com; World Vision Albania; Ande-Im; Bet Advisor; Taiwan; Albanian Fruits; The Black Sheep Tirana; Lybensh; Evolflex; SIAR; Teach Away Inc; EU Mirror; First Investment Bank; Auto Servis Ani; Deutsche Color; Turgut Ozal College; Oni Shp-SISP; 3 Yje; Intesa San Paolo Bank; Superbast; IBM; Stae Food; Agon Channel; Caterina Firenze; Optika Roma; Dorsch Group; Raiffeisen Bank.

Gjinia juaj:



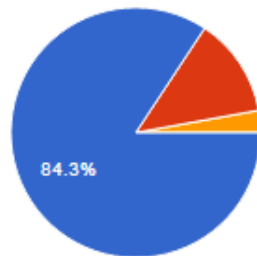
| | | |
|----------|----|-------|
| Femer | 40 | 57.1% |
| Mashkull | 30 | 42.9% |

Graphic 1. Gender of participants in the questionnaire

57.1%, of the participants that were reached were females and 42.9% were male.

The age of participants was also another variable which is taken in consideration. Age was considered, as a variable which affect the reward based on performance, because of the years of experience in work place and also of the maturity of the participants in work place, etc; but in the other hand, most companies choose to contract new and energetic people, not thinking about adequate experience (generally over 2 year experience in the sector).

Mosha:



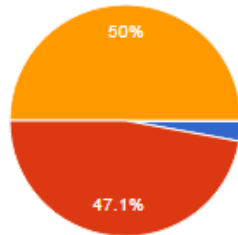
| | | |
|-------------|----|-------|
| Nen 30 vjec | 59 | 84.3% |
| 30-39 vjec | 9 | 12.9% |
| 40-49 vjec | 2 | 2.9% |
| Mbi 50 vjec | 0 | 0% |

Graphic 2. Age of participant of the questionnaire

A major part of the participants were under 30 years old. This was a surprising factor because usually companies contract and keep people with experience, which means, older than 30 years, but this perspective was not exact. Maybe this can be an indicator on the employment of new population in Tirana district, and also that the private sector is willing to hire young people.

Another variable included in this study which we can put to the general data collection, and is considered important for the study is also the level of education.

Niveli me i larte i edukimit:

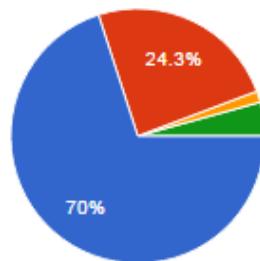


| | | |
|------------------------|----|-------|
| Shkolla e mesme | 2 | 2.9% |
| Universitet (Bachelor) | 33 | 47.1% |
| Master | 35 | 50% |
| Doktorature | 0 | 0% |

Graphic 3. The level of education of participants of the questionnaire

Here only 2.9 percent of people has a high school education, 47.1% finished their university whereas 50% have their masters.

Vite experience ne pune:



| | | |
|-------------|----|-------|
| Nen 5 vite | 49 | 70% |
| 5-10 vite | 17 | 24.3% |
| 11-15 vite | 1 | 1.4% |
| Mbi 15 vite | 3 | 4.3% |

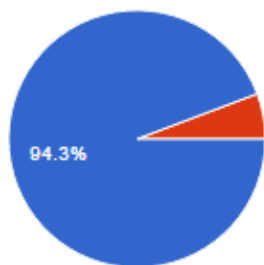
Graphic 5. Years of experience

The major part of the responses was to the alternative: Under 5 years for 70%, which means that the companies have generally a staff of new employees, also meaning that experience is not counted as a factor with great influence in the reward based on performance schemas, which could be implemented in these companies. 24.3% have 5-10 years of experience; 1.4% - 11-15 years and over 15 years with 4.3%.

4.2. Specific data on reward based on performance

The participants of the study were asked:“If in the company where they were working at, exists a reward based on performance schema?”;“If yes, then in what period it was applied on and on what criteria was it based?”, has the performance evaluation influenced the motivation, performance and promotion of employees?” etc. also they were questioned about the importance, the role of performance evaluation, if it affect job satisfaction or if they are satisfied with the evaluation of their performance and reward based on performance was adequate.

A ekziston nje sistem mbi vlersimin e performances ne kompanine ku ju punoni?

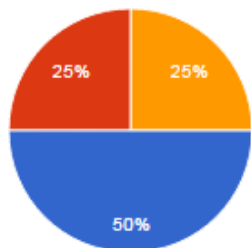


| | | |
|----|----|-------|
| Po | 66 | 94.3% |
| Jo | 4 | 5.7% |

Graphic 6. Is there a performance evaluation system in the company where you are working?

As we can see in the graphic above, 94.3% of the participants have responded yes, which it actually means that in these last 5 years reward based on performance is taken seriously.

Nese po, sa shpesh behet vlersimi i performances?



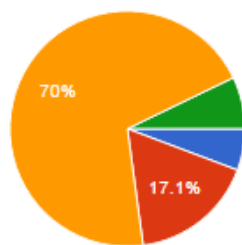
| | | |
|--------------------|----|-----|
| Nje here ne 3 muaj | 32 | 50% |
| Nje here ne 6 muaj | 16 | 25% |
| Nje here ne vit | 16 | 25% |

Graphic 7. If so, how often is performance evaluation made?

Most of performance evaluation systems, 50% are structured for review in once in 3 months period, whereas only 25% show the results for once in every six month and the same percentage, 25% also applies for once in a year.

Another important question is related with the criterias, methods, company objectives, or other variable used as base for performance evaluation.

Vlersimi i performances behet mbi bazen e:



| | | |
|------------------------|----|-------|
| Metodave | 4 | 5.7% |
| Kritereve | 12 | 17.1% |
| Objektivat e kompanise | 49 | 70% |
| Tjeter | 5 | 7.1% |

Graphic 8. On what is performance evaluation based on?

As we can see from the graphic above 70% say that their performance is evaluated in base of company objectives. 17.1% expressed that their performance evaluation was done according some criteria and 5.7% from methods. The remaining part, which is 7.1% said that were other factors for the evaluation of performance.

A ka ndikuar vlersimi i performances ne motivimin, performance dhe promovimin e punonjesve?



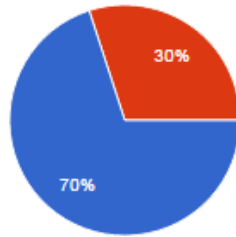
Graphic 9. Has the performance evaluation influence the motivation, performance and promotion of employees?

Asked if performance evaluation influences the motivation, performance and promotion of employees, 81.4% approved that yes, it influences, whereas 18.6% said no. This in fact is in total accordance with the literature review and logically is the right answer.

If an employee is not satisfied by the evaluation of his performance by the managers or direction, he/she is not motivated to work in the same way as before, if he/she is not motivated, his/her performance will be worst and so the chain goes one.

As we saw above, performance evaluation is made for different reasons, but one of the key reasons is the process of reward based on performance, which is totally depended on it. Every employee before being rewarded should be evaluated in base of his/her performance in the working place. This duty is generally addressed to managers, but in our country this is made by directors or the owner, because the most part of little business don't contract a manager.

A eshte marre parasysh ne menyre te drejte vlersimi i performances tuaj ne shperblimin e saj?



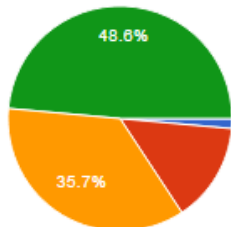
| | | |
|----|----|-----|
| Po | 49 | 70% |
| Jo | 21 | 30% |

Graphic 10. Has the performance evaluation been fair regarding the reward?

Most of employees which participate in this questionnaire think that they were been rewarded in base of the evaluation of performance correctly with 70%. This is an indicator of their satisfaction in their work place.

Job satisfaction is very important not just for the employee but also for company/organization, because a satisfied employee is motivated and he/she works better, giving e better individual performance and also increasing the performance of the company/organization, which can compete with the quality of product or service. An adequate reward based on performance system can help employees to be motivated, but in the other hand a wrong system can make the employees feeling bad with the work place, they will work like robots without motivation, and consequently the performance will be low.

Sa mendoni se vlersimi i performances ndikon ne kenaqesine, ne pune?



| | | |
|-----------------------------|----|-------|
| Aspak | 1 | 1.4% |
| Pak | 10 | 14.3% |
| Ne menyre te konsiderueshme | 25 | 35.7% |
| Shume | 34 | 48.6% |

Graphic 11. Do you think that performance evaluation affects job satisfaction?

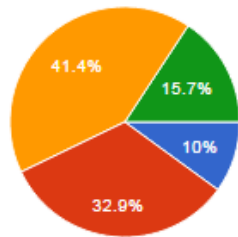
Just 1.4% of them think that it doesn't affect at all job satisfaction and 14.3% has a little effect in job satisfaction.

And the last question was if they were satisfied with their performance evaluation and reward based on performance, they answered with 41.4% that they were satisfied in a considerable way and a lot with 15.7%.

As we can see in the graphic below 10% were not satisfied at all and 32.9% a little. This means that more than half of them are satisfied in a considerable way and a lot with 63%.

These results are suitable for the level of the businesses and the economy in our country. A satisfied employee creates better opportunities for himself and the company/organization also.

Sa te kenaqur jeni me vlersimin e performances dhe shperblimin e saj?



| | | |
|-----------------------------|----|-------|
| Aspak | 7 | 10% |
| Pak | 23 | 32.9% |
| Ne menyre te konsiderueshme | 29 | 41.4% |
| Shume | 11 | 15.7% |

Graphic 12. How satisfied are you with your performance evaluation and reward based on performance?

Here from the results, we can see that the majority, 41.4% are satisfied in a considerable way, 15.7% answered ‘very’, 32.9% replied with ‘little’ and only 10% gave a ‘not at all’ answer

V. CONCLUSIONS

As we can see from the results of the survey, there does exist a performance evaluation system in the majority of companies. According to the results of how often this evaluation system takes place, the majority answered once in three months which seems to show that companies believe that the more often this system takes place, the better the results.

Furthermore, the objectives of the companies go hand in hand with the successful evaluation system. With the majority of respondents answering yes to whether the evaluation system has had an affect comes to show that there is a strong belief in the performance evaluation system, and they also strongly believe that the system is a fair one.

Almost half the respondents believe that the performance evaluation system has a great impact on satisfaction at work, again half the respondents answered with a ‘‘some what’’ to whether they were satisfied with the performance evaluation at their work place. So this all comes to show that employees and employers are pro to the performance evaluation system and strongly believe in it.

Due to the worry of organizations with accelerating the productivity of teams, huge attention was brought to the process of measuring performance. Many tools, models and methodologies are used to establish the measurement systems; the Goal-Question Metric, Balanced Scorecard, Capability Maturity Model Integration, Practical Software & Systems Measurement, etc.

In order to increase productivity, many strategies are defined. An example is that in a measurement programs indicators can be used as a way which defines the reward systems that may propel the team’s motivation by honoring them.

The reward mechanism objective is to fortify behaviors which ought to be repeated. The accomplishment of the productivity goals and quality ought to be rewarded with a premium or a bonus in order to show the participants as well as the individuals what the desired behaviors and goals are.

These type of systems are designed draw in, sustain and inspire people. In order for the person to be inspired, crucial value must be given to the results, they also must believe that the

supplementary effort will result to better performance and also this performance, later on will lead to great results or some form of recompense.

The rewards system vital element is financial recompense; there are also other different factors which propel the employees to be inspired and affect their performance. Actually, according to the reports of many studies the financial forms are not praised that much.

In order to guarantee an effective reward system that results to the wanted behavior, it is vital to take into account the advantages and strategies used and to be certain that the rewards are based on performance. Inspiring and rewarding the performance shouldn't just be a year per year ritual of numeration, but it must be a frequent management activity.

The reward system once it's fully set it has proved itself to be crucial tool for accomplishing goals. It's crucial for the plans to be kept simple in terms of pursuing, measuring, comprehending also regulating them so that the desired performance is accelerated. These programs are not always fully implemented and well defined.

The psychological and social aspect is a crucial point in the measurement systems. When the purpose of the measure aimed on inspiring people, they try to alter their behavior which is based on what is being supervised and measured.

This assures that the teams effort are focused only to the dimensions which are measured by the organization. The path to the problem of impairment pops up when these dimensions are not properly indicated.

The cost of measurement ought to be taken into account as well. The activities of indication, compiling, examination and promulgation of indicators can show a huge cost to the organization, so that the crucial indicators are thought through in the measurement system.

A huge challenge is among in examining the trade-off between; the importance of the indicator assembled, the cost connected with the total cycle of measurement, the interest it will convey the organizational process of decision making and the acceleration in the teams achievement.

This chapter provides different recommendations as guidelines where the managers are mentored on how to define and execute a reward program in a software development organization. When

the programs are awfully implemented, it focuses on the negative effects that these programs may have on the team's productivity.

Lastly, just like other guidelines, if the recommendations are accepted only in isolation, there is no certainty that an increase is guaranteed in the productivity of organizations, however the field analysis proves us the opposite that it can happen. Regardless, it is vital that the other strategies are to be taken into account for enhancing the productivity and that they be joined with this proposal. Also it's crucial that the guidelines ought to be adapted to the organizations culture and the senior management supports can be acquired simultaneously when adopting them and making sure that they are used productively.

As a recommendation, a culture which values feedback from the employees and employers side can be built in order to have a better understanding of the internal and external factors of what goes on in the company and also of the things which could be improved.

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APPENDIXES

This questionnaire is created in order to fulfill my master studies in Epoka University, I would be pleased if you can spend two minutes from your precious time, to answer it.

1. Gjiniajuaj?

- Femër
- Mashkull

2. Mosha:

- Nën 30 vjeç
- 30-39 vjeç
- 40-49 vjeç
- Mbi 50 vjeç

3. Nivelimëilartëiedukimit:

- Shkollë e mesme
- Universitet
- Master (ProfesionaloseShkencor)
- Doktoraturë

4. Nëcilinsektorpunoni?

- Privat
- Publik

5. Vite experience nëpunë:

- Nën 5 vite
- 5-10 vite
- 11-15 vite
- Mbi 15 vite

6. Aeksistonnjësitëmbivlerësimin e performancës në kompaninë kujupunoni?
- Po
 - Jo
7. Nësepo, sashpeshbëhetvlerësimii performances?
- Një here në 3 muaj
 - Një here në 6 muaj
 - Një here në vit
8. Vlerësimii performancës bëhet mbibazën e:
- Metodave
 - Kritereve
 - Objektivave të kompanisë
 - Tjetër...
9. A kandikuarvlerësimii performancës në motivimin, performancë dhe promovimin e punonjësve?
- Po
 - Jo
10. A është marrë parasysh në mënyrë të drejtë vlerësimii performancës tuaj në shpërblimin e saj?
- Po
 - Jo
11. A mendoni se vlerësimii performancës ndikon në kënaqësinë në punë?
- Aspak
 - Pak
 - Në mënyrë të konsiderueshme
 - Shumë

12. Sa i/e kënaqurjeni me vlerësimin e performancës dheshpërblimin e saj ?

- Aspak
- Pak
- Nëmënyrë të konsiderueshme
- Shumë

Thanks for your time!

Mirsada Landa

