

Performance measurement and reward systems business essay



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Within an organisation, an individual's behaviour is influenced by performance measures and direction and motivation guide these behaviours. An employee's passion and what guides them to produce a good quality product and/or service depends on the performance measures implemented. A business cannot operate if performance measures are not present as employees are not willing to work without incentives and guidance.

Managerial and Individual Performance

Directional influence on behaviour

Directional behaviour is where an individual is guided towards certain behaviours valued by the business. The business' tools help implement performance measurements and rewards, these tools are deemed important in directional behaviour. Moreover, attention of an employee is focussed and limited towards specific tasks and/or activities. Given there are numerous specific tasks in the business, performance measures and rewards not only can be achieved goals within a short period of time but also minimize the work load of employees.

Motivational influence on behaviour

Motivational behaviour is where employees are guided by targets and are rewarded when the specific targets are met. Employees are not as motivated if they knew, despite all their hard work, they would receive average wages. In essence, if there are no performance measures present, neither will motivation nor incentive for employees to perform to the best of their ability. In addition, it encourages work goals to be set for specific tasks and employee's performance dramatically improve due to greater efficiency once

these goals are set. In order for an employee to reach their targeted goal, these goals must be understood and challenging but achievable. In Fabian Advertising, their targets are impossible to meet and evidently, Peta, Executive and Accounts Director, is unable to achieve her targets. This resulted in cutting down on discretionary costs such as staff training and turning down capital investments. Despite the extreme targets, substantial rewards are given. However these “ Rewards” may be detrimental to the business in the long run, as these motivational behaviour cause dysfunctional behaviour amongst managers.

Limitations

Fabian Advertising’s current Performance measurement system and rewards system appears to solely based on quantitative financial measures that are based on the short term. There are various limitations with the factors measured, performance targets and rewards.

Financial measures are not useful in controlling the business as they describe what has happened and not providing a reason as why it has occurred. They report only on the immediate financial outcomes of actions and decisions. Managers are not informed with what requires fixing and are not timely as the reporting occurs at the end of the quarter. Performance measurement system is vital as it assesses how well they “ perform across a full range of strategically important areas such as quality and delivery performance, as well as cost” (Langfield-Smith, Thorne & Hilton, 1998 pg13.

3). Fabian Advertising have three financial factors of measurement (annual production output budget, time and cost budgets and performance rating)

which are important key success factors. However the target performance <https://assignbuster.com/performance-measurement-and-reward-systems-business-essay/>

for these, in particular production and time/cost factors, are not realistic. It is fine to have unfavourable variances as a target performance but they need to be achievable.

This not always the case as Tom Wick informs us that the marketing department on occasion misjudges demand for a particular range of pants and the production schedules and budgets are not changed to reflect the change in demand. This can and will most likely result in dysfunctional management decisions. A number of the managers complain bitterly about the bonus system and from their point of view it's inequitable and impossible to achieve. As a result of the tough budgets, performance targets become hard to achieve and the motivation level decreases. The qualitative factors have performance targets however there are no rewards attached to these and consequently the managers are lacking motivation to meet the targets. As identified by Mr Wick safety in particular is a concern as plant accidents have increased quite significantly. Another limitation noticed is that there doesn't seem to be any intrinsic rewards, which go a long way to improving self-esteem and create enjoyment within the workplace.

Dysfunctional Behaviour

Fabian Advertising mainly focuses on extrinsic rewards which can encourage dysfunctional decisions such issues raised by Matthew Gibson between a Directors' Meeting. Sherrin, Production Department Director, was pushing Matthew to complete commercial storyboards within the expected time in order to reach her target per quarter and receive her bonus. The storyboards as a result are not to standard and customers are disappointed. Sherrin's decisions clearly depicts dysfunctional behaviour as she is mainly focused

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on reaching her targets and disregarding the importance of quality and customer satisfaction. If the management control system evaluates the managers purely on a cost basis, Sherrin may be continue to disregard product quality and will not achieve goal congruence. (Reading 7)

Other dysfunctional decisions were also present within the Accounts department as Peta, the Accounts and Executive Director chose to reduce discretionary costs such as staff training and investment in equipment in order to meet her quarterly cost budgets. The Directors are focused on short term performance at the expense of the long term as it is encouraged by extrinsic rewards provided by the firm. Reducing costs of activities may achieve short term targets however, in the long run, the business's competitiveness is weakened in the future. (Langfield-Smith, Thorne & Hilton, 1998 pg 12. 15)

Recommendations

In regards to the discussions above, in order to improve performance measurement and rewards system currently in place, Fabian Advertising must apply a number of changes that should be implemented. Fabian Advertising is currently focusing on short term quantitative financial measures. This focus tends to cause dysfunctional behaviour amongst department directors. In order to avoid these kind of dysfunctional behaviour in the future, a balance scorecard should be developed. The balanced scorecard measures the business' performance on four different aspects, these aspects are " linked and derived from the organisation's vision, strategy, and objectives" (Davis & Davis 2011). Therefore instead of only focusing on quantitative financial measures, Fabian Advertising can also

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examine the three other aspects in the balanced scorecard, these are the customer, process, leading and growth perspective. By incorporating the four aspects, rather than a single financial measure, Fabian advertising will attain greater information and guidance in analysing their overall performance efficiently.

Quantitative factors without a reward attached with it will not encourage directional and motivational influence on behaviour, regardless if the business has performance targets or not. The business should not set tough budgets only because performance tends to be lower than what management expected, this makes work goals unclear and hard to achieve. Therefore in order to encourage both directional and motivational influence on behaviour, management should set goals as clearly and challenging yet achievable, evidently this was not the case. Additionally rewards guide employees to focus and limit attention towards specific tasks thus motivating. In turn, produce greater quality products and/or services in this case commercials.

In addition to challenging but achievable performance targets, the reward system must also be clear standards for performance so that employees accept. “ Standards help employees to assess whether their skills and efforts develop results that the performance measurement system captures and reports as outcomes” (Atkinson et al. 2007). Lastly, “ the performance measurement system should consider all aspects of performance so that employees do not lay down performance on an unmeasured element for performance on an element that the reward system measures”. (Atkinson et al. 2007).

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