# Performance Management

## Module - I:

### Performance Management (PM) Conceptual Frame Work:

An effective strategy is desirable to align the goals of the organization with the practice by creating a more direct relationship between individual performance and organization growth. Performance refers to the degree of accomplishment of the task that makeup an individual job. It indicates how well an individual is fulfilling the job requirements and it is always measured in terms of result. Performance management is the systematic process by which an Organization involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of its mission and goals. Performance management is a process by which managers and employees work together to plan, monitor and review an employee's work objectives and overall contribution to the organization. More than just an annual performance review, performance management is the continuous process of setting objectives, assessing progress and providing on-going coaching and feedback to ensure that employees are meeting their objectives and career goals. Performancemanagement involves enabling people to perform their work to the best of their ability, meeting and perhaps exceeding targets and standards. Based on globally followed HR practices and principles, this performance management system provides right tools to engage employees in productive work, help employees' to achieve their goals, bringing objective and transparency in employee evaluations and manage employee trainings, compensations, promotion and career. For successful performance management, a culture of collective and individual responsibility for the continuing improvement of business processes needs to be established, and individual skills and contributions need to be encouraged and nurtured.

This is used most often in the workplace, can apply wherever people interact — schools, churches, community meetings, sports teams, health setting, governmental agencies, social events and even political settings - anywhere in the world people interact with their environments to produce desired effects. Armstrong and Baron (1998) defined it as a "strategic and integrated approach to increasing the effectiveness of companies by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors."

The role of HR in the present scenario has undergone a sea change and its focus is on evolving such functional strategies which enable successful implementation of the major corporate strategies. In a way, HR and corporate strategies function in alignment. Today, HR works towards facilitating and improving the performance of the employees by building a conducive work environment and providing maximum opportunities to the employees for participating in organizational planning and decision making process. Today, all the major activities of HR are driven towards development of high performance leaders and fostering employee motivation. So, it can be interpreted that the role of HR has evolved from merely an appraiser to a facilitator and an enabler.

Performance management is the current buzzword and is the need in the current times of cut throat competition and the organizational battle for leadership. Performance management is a much broader and a complicated function of HR, as it encompasses activities such as joint goal setting, continuous progress review and frequent communication, feedback and coaching for improved performance, implementation of employee development programmes and rewarding achievements. The process of performance management starts with the joining of a new incumbent in a system and ends when an employee quits the organization. Performance management can be regarded as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means for promoting superior performance by communicating expectations, defining roles within a required competence framework and establishing achievable benchmarks.

Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as needed. It ends when an employee leaves your organization.

Performance management is an ongoing, continuous process of communicating and clarifying job responsibilities, priorities and performance expectations in order to ensure mutual understanding between supervisor and employee. It is a philosophy which values and encourages employee development through a style of management which provides frequent feedback and fosters teamwork. It emphasizes communication and focuses on adding value to the organization by promoting improved job performance and encouraging skill development. Performance Management involves clarifying the job duties, defining performance standards, and documenting, evaluating and discussing performance with each employee.


According to Armstrong and Baron (1998), Performance Management is both a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals. The term performance management gained its popularity in early 1980’s when total quality management programs received utmost importance for achievement of superior standards and quality performance. Tools such as job design, leadership development, training and reward system received an equal impetus along with the traditional performance appraisal process in the new comprehensive and a much wider framework. Performance management is an ongoing communication process which is carried between the supervisors and the employees throughout the year. The process is very much cyclical and continuous in nature.

**A performance management system includes the following actions.**

Developing clear job descriptions and employee performance plans which includes the key result areas (KRA') and performance indicators.

Selection of right set of people by implementing an appropriate selection process.

Negotiating requirements and performance standards for measuring the outcome and overall productivity against the predefined benchmarks.

Providing continuous coaching and feedback during the period of delivery of performance.

Identifying the training and development needs by measuring the outcomes achieved against the set standards and implementing effective development programs for improvement.

Holding quarterly performance development discussions and evaluating employee performance on the basis of performance plans.

Designing effective compensation and reward systems for recognizing those employees who excel in their jobs by achieving the set standards in accordance with the performance plans or rather exceed the performance benchmarks.

Providing promotional/career development support and guidance to the employees.

Performing exit interviews for understanding the cause of employee discontentment and thereafter exit from an organization

A performance management process sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization’s mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes. By establishing clear performance expectations which includes results, actions and behaviors, it helps the employees in understanding what exactly is expected out of their jobs and setting of standards help in eliminating those jobs which are of no use any longer. Through regular feedback and coaching, it provides an advantage of diagnosing the problems at an early stage and taking corrective actions.

To conclude, performance management can be regarded as a proactive system of managing employee performance for driving the individuals and the organizations towards desired performance and results. It’s about striking a harmonious alignment between individual and organizational objectives for accomplishment of excellence in performance.

**Objectives of Performance Management:**

According to Lockett (1992), performance management aims at developing individuals with the required commitment and competencies for working towards the shared meaningful objectives within an organizational framework. Performance management frameworks are designed with the objective of improving both individual and organizational performance by identifying performance requirements, providing regular feedback and assisting the employees in their career development. Performance management aims at building a high performance culture for both the individuals and the teams so that they jointly take the responsibility of improving the business processes on a continuous basis and at the same time raise the competence bar by upgrading their own skills within a leadership framework. Its focus is on enabling goal clarity for making people do the right things in the right time. It may be said that the main objective of a performance management system is to achieve the capacity of the employees to the full potential in favor of both the employee and the organization, by defining the expectations in terms of roles, responsibilities and accountabilities, required competencies and the expected behaviors. The main goal of performance management is to ensure that the organization as a system and its subsystems work together in an integrated fashion for accomplishing optimum results or outcomes.

**The major objectives of performance management are discussed below:**

- To enable the employees towards achievement of superior standards of work performance.
- To help the employees in identifying the knowledge and skills required for performing the job efficiently as this would drive their focus towards performing the right task in the right way.
- Boosting the performance of the employees by encouraging employee empowerment, motivation and implementation of an effective reward mechanism.
- Promoting a two way system of communication between the supervisors and the employees for clarifying expectations about the roles and accountabilities, communicating the functional and organizational goals, providing a regular and a transparent feedback for improving employee performance and continuous coaching.
- Identifying the barriers to effective performance and resolving those barriers through constant monitoring, coaching and development interventions.
- Creating a basis for several administrative decisions strategic planning, succession planning, promotions and performance based payment.
- Promoting personal growth and advancement in the career of the employees by helping them in acquiring the desired knowledge and skills.

**Some of the key concerns of a performance management system in an organization are:**

- Concerned with the output (the results achieved), outcomes, processes required for reaching the results and also the inputs (knowledge, skills and attitudes).
- Concerned with measurement of results and review of progress in the achievement of set targets.
- Concerned with defining business plans in advance for shaping a successful future.

- Striving for continuous improvement and continuous development by creating a learning culture and an open system.
- Concerned with establishing a culture of trust and mutual understanding that fosters free flow of communication at all levels in matters such as clarification of expectations and sharing of information on the core values of an organization which binds the team together.
- Concerned with the provision of procedural fairness and transparency in the process of decision making.

The performance management approach has become an indispensable tool in the hands of the corporates as it ensures that the people uphold the corporate values and tread in the path of accomplishment of the ultimate corporate vision and mission. It is a forward looking process as it involves both the supervisor and also the employee in a process of joint planning and goal setting in the beginning of the year.

**Evolution of Performance Management:**

The term performance management gained its importance from the times when the competitive pressures in the market place started rising and the organizations felt the need of introducing a comprehensive performance management process into their system for improving the overall productivity and performance effectiveness.

**The performance management process evolved in several phases.**

- First Phase: The origin of performance management can be traced in the early 1960's when the performance appraisal systems were in practice. During this period, Annual Confidential Reports (ACR's) which was also known as Employee service Records were maintained for controlling the behaviors of the employees and these reports provided substantial information on the performance of the employees. Any negative comment or a remark in the ESR or ACR used to adversely affect the prospects of career growth of an employee. The assessments were usually done for ten traits on a five or a ten point rating scale basis. These traits were job knowledge, sincerity, dynamism, punctuality, leadership, loyalty, etc. The remarks of these reports were never communicated to the employees and strict confidentiality was maintained in the entire process. The employees used to remain in absolute darkness due to the absence of a transparent mechanism of feedback and communication. This system had suffered from many drawbacks.
- Second Phase: This phase continued from late 1960's till early 1970's, and the key hallmark of this phase was that whatever adverse remarks were incorporated in the performance reports were communicated to the employees so that they could take corrective actions for overcoming such deficiencies. In this process of appraising the performance, the reviewing officer used to enjoy a discretionary power of overruling the ratings given by the reporting officer. The employees usually used to get a formal written communication on their identified areas of improvements if the rating for any specific trait used to be below 33%.
- Third Phase: In this phase the term ACR was replaced by performance appraisal. One of the key changes that were introduced in this stage was that the employees were permitted to describe their accomplishments in the confidential performance reports. The employees were allowed to describe their

accomplishments in the self appraisal forms in the end of a year. Besides inclusion of the traits in the rating scale, several new components were considered by many organizations which could measure the productivity and performance of an employee in quantifiable terms such as targets achieved, etc. Certain organizations also introduced a new section on training needs in the appraisal form. However, the confidentiality element was still being maintained and the entire process continued to be control oriented instead of being development oriented.

- Fourth Phase: This phase started in mid 1970's and its origin was in India as great business tycoons like Larsen & Toubro, followed by State Bank of India and many others introduced appreciable reforms in this field. In this phase, the appraisal process was more development driven, target based (performance based), participative and open instead of being treated as a confidential process. The system focused on performance planning, review and development of an employee by following a methodical approach. In the entire process, the appraisee (employee) and the reporting officer mutually decided upon the key result areas in the beginning of a year and reviewed it after every six months. In the review period various issues such as factors affecting the performance, training needs of an employee, newer targets and also the ratings were discussed with the appraisee in a collaborative environment. This phase was a welcoming change in the area of performance management and many organizations introduced a new HR department for taking care of the developmental issues of the organization.
- Fifth Phase: This phase was characterized by maturity in approach of handling people's issues. It was more performance driven and emphasis was on development, planning and improvement. Utmost importance was given to culture building, team appraisals and quality circles were established for assessing the improvement in the overall employee productivity.

The performance management system is still evolving and in the near future one may expect a far more objective and a transparent system.

**Evolution in the concept of Performance Management between 1991 and 1997**
Adapted from Armstrong and Baron (2000) by the author.

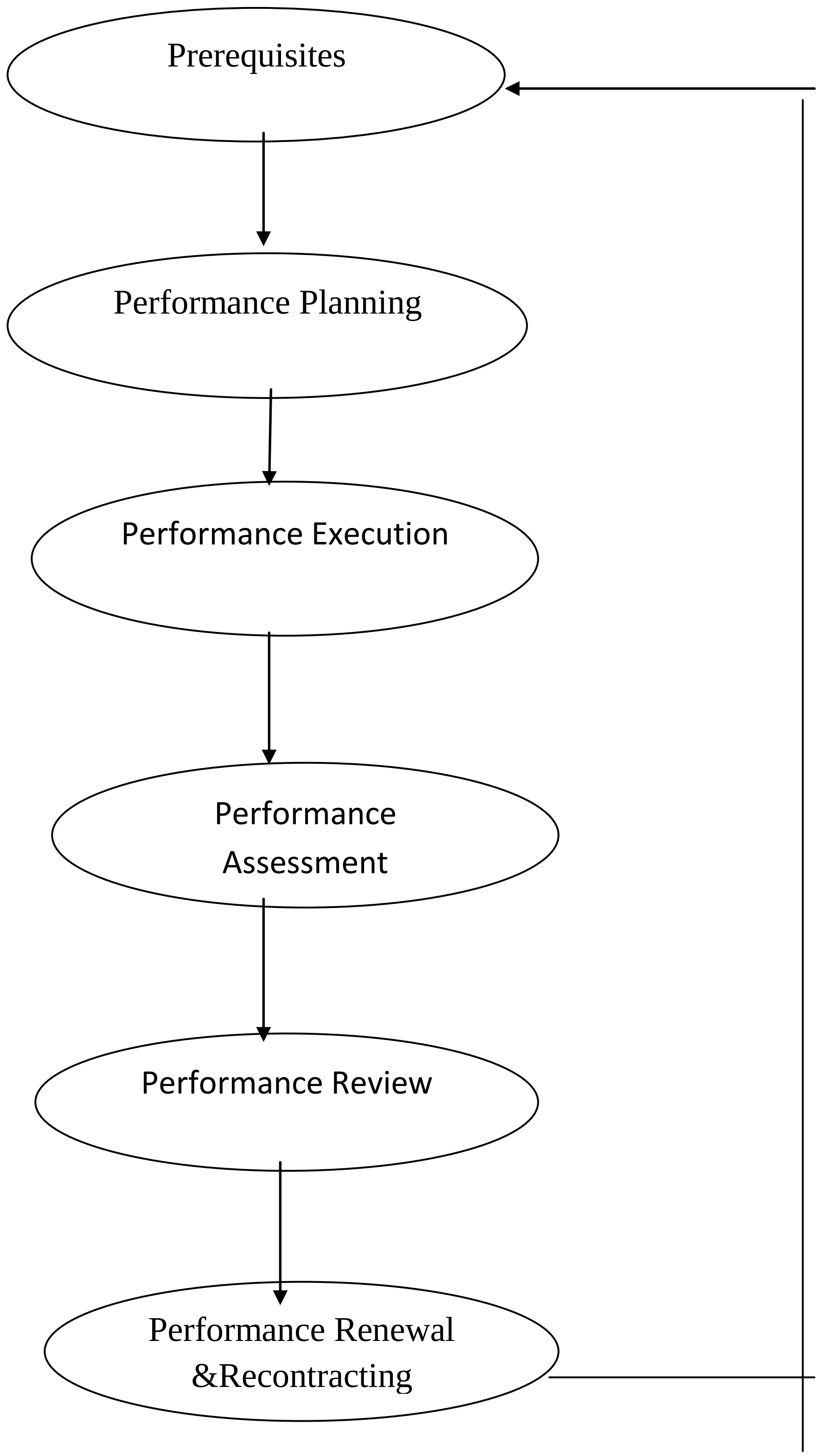
| From | To |
|---|---|
| • System | • Process |
| • Appraisal | • Joint review |
| • Outputs | • Outputs/inputs |
| • Reward oriented | • Development oriented |
| • Ratings common | • Less rating |
| • Top-down | • 360 degree feedback |
| • Directive | • Supportive |
| • Monolithic | • Flexible |
| • Owned by human resources manager | • Owned by users |
| • Profession/Cadre-based | • Service-based |

**Components of Performance Management System:**

Any effective performance management system includes the following components:

- Performance Planning: Performance planning is the first crucial component of any performance management process which forms the basis of performance appraisals. Performance planning is jointly done by the appraisee and also the reviewee in the beginning of a performance session. During this period, the employees decide upon the targets and the key performance areas which can be performed over a year within the performance budget., which is finalized after a mutual agreement between the reporting officer and the employee.
- Performance Appraisal and Reviewing: The appraisals are normally performed twice in a year in an organization in the form of mid reviews and annual reviews which is held in the end of the financial year. In this process, the appraisee first offers the self filled up ratings in the self appraisal form and also describes his/her achievements over a period of time in quantifiable terms. After the self appraisal, the final ratings are provided by the appraiser for the quantifiable and measurable achievements of the employee being appraised. The entire process of review seeks an active participation of both the employee and the appraiser for analyzing the causes of loopholes in the performance and how it can be overcome. This has been discussed in the performance feedback section.
- Feedback on the Performance followed by personal counseling and performance facilitation: Feedback and counseling is given a lot of importance in the performance management process. This is the stage in which the employee acquires awareness from the appraiser about the areas of improvements and also information on whether the employee is contributing the expected levels of performance or not. The employee receives an open and a very transparent feedback and along with this the training and development needs of the employee is also identified. The appraiser adopts all the possible steps to ensure that the employee meets the expected outcomes for an organization through effective personal counseling and guidance, mentoring and representing the employee in training programmes which develop the competencies and improve the overall productivity.
- Rewarding good performance: This is a very vital component as it will determine the work motivation of an employee. During this stage, an employee is publicly recognized for good performance and is rewarded. This stage is very sensitive for an employee as this may have a direct influence on the self esteem and achievement orientation. Any contributions duly recognized by an organization helps an employee in coping up with the failures successfully and satisfies the need for affection.
- Performance Improvement Plans: In this stage, fresh set of goals are established for an employee and new deadline is provided for accomplishing those objectives. The employee is clearly communicated about the areas in which the employee is expected to improve and a stipulated deadline is also assigned within which the employee must show this improvement. This plan is jointly developed by the appraisee and the appraiser and is mutually approved.
- Potential Appraisal: Potential appraisal forms a basis for both lateral and vertical movement of employees. By implementing competency mapping and various assessment techniques, potential appraisal is performed. Potential appraisal provides crucial inputs for succession planning and job rotation.

**Process of Performance Management:**



- **Prerequisites:** There are two prerequisites that are required before a performance management system is implemented:

*Knowledge of the organization's mission and strategic goals, and*

*Knowledge of the job in question.*

Knowledge of the organization's mission and strategic goals is a result of strategic planning. Strategic planning allows an organization to clearly define its purpose or reason for existing, where it wants to be in the future, the goals it wants to achieve, and the strategies it will use to attain these goals.

The second important prerequisite before a performance management system is implemented is to understand the job question. This is done through job analysis. Job analysis is a process of determining the key components of a particular job, including activities, task, products, and services. A job analysis is a fundamental prerequisite of any performance management system.

- **Performance Planning:**Employees should have a thorough knowledge of the performance management system. At the beginning of each performance cycle, the supervisor and the employee meet to discuss, and agree upon, what needs to be done and how it should be done. This performance planning discussion includes a consideration of results and behaviours, as well as development plan.

*Results:*Results refer to what needs to be done or the outcomes an employee must produce.

*Behaviours:*A consideration of behaviours includes discussing competencies, which are measurable clusters of KSAs that are the critical in determining how results will be achieved.

*Development Plans:*An important step before the review cycle begins is for the supervisor and employee to agree upon a development plan. At a minimum, this plan should include identifying areas that need improvement and setting goals to be achieved in each area.

- **Performance Execution:**Once the review cycle begins, the employee strives to produce the results and display the behaviours agreed upon as well as on development plans.

But at the performance execution stage, the following factors need to be present:

- Commitment to goal achievement
- Ongoing performance feedback & coaching
- Communication with superiors
- Collecting and sharing performance data
- Preparing for performance reviews

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do his or her share of the work. Supervisor has primary responsibility over the following issues:

- Observation and documentation
- Updates
- Feedback
- Resources
- Reinforcement

- **Performance Assessment:** In the assessment phase both the employee and the manager are responsible for evaluating the extent to which the desired behaviours have been displayed, and whether the desired results have been achieved. It is important that both the employee and the manager take ownership of assessment process.
- **Performance Review:**The performance review stage involves the meeting between the employee and the manager to review their assessments. This meeting is usually called the *appraisal meeting or discussion*. The appraisal meeting is important because it provides for a formal setting in which the employee receives the feedback on his or her performance.
- **Performance Renewal and Recontracting**: Essentially, this is identical to the performance planning component. The main difference is that the renewal and recontarcting stage uses the insights and information from the other phase.

The performance management process includes a cycle starting with prerequisites and ending with performance renewal and recontracting.

**Strategies for effective implementation of performance management**

In an environment characterized by increasing competition, complexity and turbulence, organizations can remain competitive by continuously improving their performance so as to rapidly sense and respond to environmental changes. By improvement, we do not mean incremental improvement, but leap-and-bound improvements. This is because the era of ‘mass production’ is now being increasingly replaced by ‘mass customization’. Today, organizations are expected to deliver products and services that best meet individual customer’s needs with near mass production efficiency. Therefore, devising appropriate strategies for effective implementation of performance management is crucial to the very survival of organizations.

**Some of the strategies for effective implementation of performance management are:**

- Top management agreement, commitment and leadership
- Building a performance-oriented work culture
- Manager’s participation and accountability
- Training and feedback
- Benchmarking best practices
- De-linking reward administrative system
- Communication and feedback
- Information infrastructure

- Organizational behavior improvement
- Principles of performance management

**Some of the major principles of performance management are enlisted below:**

- It translates organizational objectives into work units, departmental, team, and individual goals.
- It provides clarity of goals and objectives of the organization to all the employees and managers.
- It is continuous and integrated process for developing organizational, team and individual performance.
- It seeks to build commitment towards organizational, team, and individual performance expectations.
- It empowers individual employees to find avenues for improving performance.
- It requires an organizational culture that fosters corporate values of openness, mutuality, trust, fairness, and respect, paving the way for two-way communications.
- It creates a system of regular feedback with positive reinforcement of employee's behavior and action.
- It provides for evaluation of employee's performance against jointly agreed performance criteria in a congenial work environment.it provides for an effective and contextual management of external environment for overcoming obstacles and impediments in the way of effective managerial performance.
- It is more of a developmental tool rather than administration of financial reward.

**Performance management benefits**

- **Alignment of Goals and Objectives**

The overall purpose of performance management is the alignment of unit/department goals and activities with the overall goals and objectives of the company.

The role of the manager is to ensure that all goals and activities of his or her individual employees directly contribute to the overall success of the unit. In this capacity, the manager establishes the individual goals and targets to assure that the overall objectives are obtained. Once this has been accomplished, any decisions to be made regarding the performance of individual employees must be made with each of their goals in mind. Managers are able to make decisions to ensure that every action and activity an employee makes advances him or her toward the accomplishment of their unit's goals.

- **Focus on the Target Market**

The use of performance management techniques allows managers to redefine or refine the target market so that it is aligned with the objectives established by senior management. As a decision-making parameter, managers can guide and direct employees through plans to better focus their efforts on these intended niche markets. As markets are increasingly more competitive, rapid changes and shifts in marketing strategies are often required. The use of performance management criteria allows managers to shift their people's focus and ensure all decisions they make are consistent with this impetus.

- **Guidance**

The company's mission statement, goals and objectives provide guidance to the manager and the basis for their performance management program. Additionally, these provide managers with specific parameters with which to guide and direct their own actions and those of their employees, while also giving them the guidance they need when making decisions. There will be times when senior management may need to clarify issues and concerns, but the progression of goals and objectives should flow smoothly from senior management to the individual employee.

- **Benchmarks for Performance**

One of the keystones of performance management is the ability to benchmark the individual work of each employee. These provide managers with the tools to monitor and evaluate performance as well as the basis for any decisions and actions that must be made.

The specific performance of an employee influences all decisions a manager makes concerning that individual. An employee performing at a high level will be given more leeway in the decisions made about him or her since results are being produced. A poorly performing individual will have more stringent decisions made about him or her.

- **Pinpointing Performance Problems**

The use of specific metrics in a performance management program allows managers to make decisions regarding performance breakdowns. Initially, it allows the manager to pinpoint problems and take the proper corrective actions to immediately rectify them before they become a major issue.

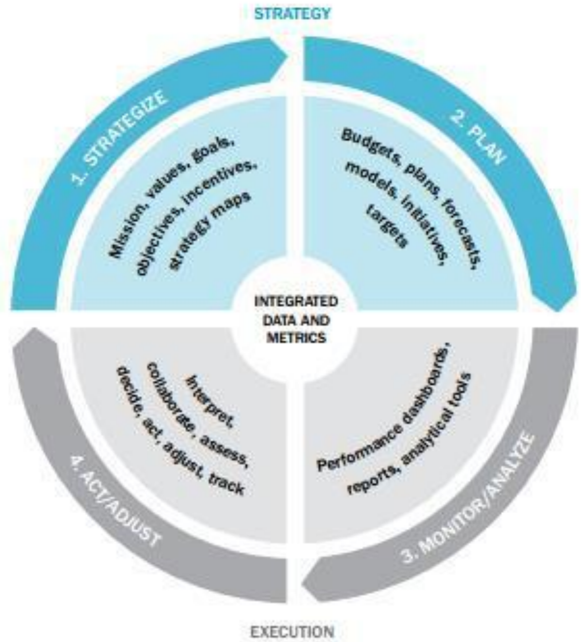
- **Providing Focused Feedback**

Performance management allows managers to make decisions and focus their feedback on issues directly related to the achievement of the individual employee's goals and objectives. Any other issues distracting the employee that don't contribute to the unit or department's performance can be quickly and effectively handled and eliminated.

**Performance management strategies**

Performance metrics are a critical ingredient of performance management, a discipline that aligns performance with strategy. Performance management harnesses information technology to monitor the execution of business strategy and help organizations achieve their goals.

Performance management is a four-step virtuous cycle that involves creating strategy and plans, monitoring the execution of those plans, and adjusting activity and objectives to achieve strategic goals. This four-step wheel revolves around integrated data and metrics, which provide a measurement framework to gauge the effectiveness of strategic and management processes.




Performance Management

A performance management system supports this virtuous cycle. It consists of an interlinked business architecture and technical architecture. Performance metrics are the lynchpin that fastens the business and technical architectures into a coherent whole.

The metrics sit at the bottom of the business architecture and embody an organization’s approach to each layer above. In essence, performance metrics distill an organization’s strategy to serve its stakeholders, linking strategy to processes.

Performance metrics are a powerful tool of organizational change. The adage "What gets measured, gets done," is true. Companies that define objectives, establish goals, measure progress, reward achievement, and display the results for all to see can turbo-charge productivity and gracefully move an organization in a new direction.

Executives use performance metrics to define and communicate strategic objectives tailored to every individual and role in the organization. Managers use them to identify underperforming individuals or teams and guide them back on track. Employees use performance metrics to focus on what’s important and help them achieve goals defined in their personal performance plans.

But performance metrics are a double-edged sword. The wrong metrics can have unintended consequences: they can wreak havoc on organizational processes, demoralize employees, and undermine productivity and service levels.

**Link between Performance Management and Performance Appraisal**

The contemporary organizations are undergoing a transformation for coping against the changing needs of the environment and excelling in the business by building up their adaptive capabilities for managing change proactively. The traditional performance appraisal system did not suffice the needs of the changing scenario as it was mainly used as a tool for employee evaluation in which the managers were impelled to make subjective judgments about the performance and behavior of the employees against the predetermined job standards.

Performance appraisals were mostly carried out annually for measuring the degree of accomplishment of an individual and were implemented on a top down basis in which the supervisors had a major role to play in judging the performance of an employee without soliciting active involvement of the employee.

Performance appraisals were mostly discredited because it was backward looking concentrating largely on the employee’s inabilities and flaws over a period of a year instead of looking forward by identifying the development needs of the employees and improving them.

Traditionally, the performance appraisals were organized in a bureaucratic manner and suffered from unnecessary delays in decisions and corruption. Performance appraisals were mostly narrowly focused and functioned in isolation without bearing any linkage with the overall organizational vision or goals. The side effects of the performance appraisal system was it generated skepticism amongst the managers and the employees on any new initiative of the HR.

In the present scenario, the organizations have shifted their focus from performance appraisals to performance management as a result of internationalization of human resources and globalization of business.

The functions of HRM have become far more complicated as today the major focus of strategic HRM practices is on the management of talent by implementing such development programmes which enhance the competencies of the employees.

The performance management approach focuses more on observed behaviors and concrete results based on the previously established smart objectives. By adopting techniques like Management by Objectives (MBO), smart objectives are established in terms of either facts and figures and in the entire process the superior plays the role of a coach or a facilitator.

The objectives are mutually decided at the beginning of the performance season and serve as a standard of performance for evaluation. In this method, the employees can offer a feedback on their contributions by filling up a self appraisal form.

Performance management is a much broader term in comparison with performance appraisal as it deals with a gamut of activities which performance appraisals never deal with. This system is a strategic and an integrated approach which aims at building successful organizations by developing high performance teams and individuals and improving the performance of people.

This process starts when a job is defined. Performance management emphasizes on front end planning instead of looking backward unlike performance appraisals and the focus is on ongoing dialogue instead of appraisal documents and ratings. Thus, performance management may be regarded as a continuous process.

A table depicted below shows a comparison between performance appraisal and performance management:

| Performance Appraisal | Performance Management |
|---|---|
| Focus is on top down assessment | Stresses on mutual objective setting through a process of joint dialogue |
| Performed annually | Continuous reviews are performed |
| Usage of ratings is very common | Usage of ratings is less common |
| Focus is on traits | Focus is on quantifiable objectives, values and behaviors |
| Monolithic system | Flexible system |

| | |
|---|---|
| Are very much linked with pay | Is not directly linked with pay |

Performance management is concerned with assumptions, mutual obligations, expectations and promises (Guest, D E et al, 1996). The views of some of the leading organizations of performance management approach are given below:

According to Eli Lilly and Co., performance management focuses on aligning the individual goals with the goals of the organization and ensures that the employees work on the right tasks and do the right things.

According to Standard Chartered Bank, performance management is concerned with those processes and behaviors by way of which the managers manage the performance of the employees for developing high achieving organizations.

**Benefits of a Performance Management System:**

A good performance management system works towards the improvement of the overall organizational performance by managing the performances of teams and individuals for ensuring the achievement of the overall organizational ambitions and goals.

An effective performance management system can play a very crucial role in managing the performance in an organization by:

Ensuring that the employees understand the importance of their contributions to the organizational goals and objectives.

Ensuring each employee understands what is expected from them and equally ascertaining whether the employees possess the required skills and support for fulfilling such expectations.

Ensuring proper aligning or linking of objectives and facilitating effective communication throughout the organization.

Facilitating a cordial and a harmonious relationship between an individual employee and the line manager based on trust and empowerment.

***Performance management practices can have a positive influence on the job satisfaction and employee loyalty by:***

- Regularly providing open and transparent job feedbacks to the employees.
- Establishing a clear linkage between performance and compensation
- Providing ample learning and development opportunities by representing the employees in leadership development programmes, etc.
- Evaluating performance and distributing incentives and rewards on a fair and equated basis.

- Establishing clear performance objectives by facilitating an open communication and a joint dialogue.
- Recognizing and rewarding good performance in an organization.
- Providing maximum opportunities for career growth.

An effectively implemented performance management system can benefit the organization, managers and employees in several ways as depicted in the table given below:

| | |
|---|---|
| Organization's Benefits | Improved organizational performance, employee retention and loyalty, improved productivity, overcoming the barriers to communication, clear accountabilities, and cost advantages. |
| Manager's Benefits | Saves time and reduces conflicts, ensures efficiency and consistency in performance. |
| Employee's Benefits | Clarifies expectations of the employees, self assessment opportunities clarifies the job accountabilities and contributes to improved performance, clearly defines career paths and promotes job satisfaction. |

Clearly defined goals, regular assessments of individual performance and the company wide requirements can be helpful in defining the corporate competencies and the major skill gaps which may in turn serve as a useful input for designing the training and development plans for the employees. A sound performance management system can serve two crucial objectives:

**Evaluation Objectives:**

- By evaluating the readiness of the employees for taking up higher responsibilities.
- By providing a feedback to the employees on their current competencies and the need for improvement.
- By linking the performance with scope of promotions, incentives, rewards and career development.

**Developmental Objectives**

The developmental objective is fulfilled by defining the training requirements of the employees based on the results of the reviews and diagnosis of the individual and organizational competencies. Coaching and counseling helps in winning the confidence of the employees and in improving their performance, besides strengthening the relationship between the superior and the subordinate.

In a nutshell, performance management serves as an important tool for realizing organizational goals by implementing competitive HRM strategies. It helps in aligning and integrating the objectives with the KPI's in an organization both vertically and horizontally across all job categories and the levels and thus helps in driving all the activities right from the bottom level towards one single goal.

**Role Analysis:**

Role analysis,the process of collecting, analyzing and recording information about the requirements of roles in order to provide the basis for a role profile. Role analysis focuses on the demands made on role holders in terms of what they need to know and be able to do to deliver the expected level of performance (competency).

Role analysis is based on the concept of a role. This can be defined as the part played by people in fulfilling the purposes of their work by operating effectively and flexibly within the context of the institution's purposes, structure and processes. The concept of a role can be distinguished from that of a job in which the duties are fixed, irrespective of who is carrying out the work. Both roles and jobs can be analyzed systematically to determine their relative size, a process normally termed job evaluation as defined below.

A systematic process for defining the relative worth or size of jobs or roles within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs in the structure and managing relativities. The terms job evaluation and role evaluation are often used interchangeably although it could be argued that if the focus is on roles as defined above rather than jobs, then the term role evaluation would be more appropriate.

*Importance of Role Analysis:*

The aims of role analysis and job evaluation are to:

- Establish the relative value or size of jobs or roles, i.e. internal relativities
- Produce the information required to design and maintain equitable grade and pay structures
- Provide as objective as possible a basis for placing jobs or roles within a grade structure Enable consistent decisions to be made about grading jobs or roles
- Ensure that the organization meets legal and ethical equal pay for work of equal value requirements and the legal and ethical requirements not to discriminate on grounds of race, disability, sexual orientation or religion.

Evaluating Performance Management:Create focus groups of line managers and employees and review the effectiveness of your company's Performance Management initiatives.

| Need for Change | | Effective Performance Management |
|---|---|---|
| Process is viewed as a set of tasks that need to be completed by a specific date | Vs. | Performance management is "the way we run the business" |
| Emphasis is on filling out forms and calculating ratings for making pay decisions, giving the process a transactional feel | Vs. | Emphasis is on ongoing feedback, meaningful performance conversations and clear performance messages |
| The process is driven by the manager and "done to" the employee | Vs. | Interactions and conversations about performance are initiated by both managers and employees |
| Employee objectives are not well defined nor closely tied to the drivers of business strategy | Vs. | Employee objectives are clearly defined and linked to the strategy; people feel connected to the business |
| Performance information is hard to access and yields limited ideas for growth and development | Vs. | Performance information is highly accessible and yields robust ideas for growth and development |
| Large investments in enabling technologies have yielded little improvements in overall effectiveness | Vs. | Enabling technologies have been supported by sustained efforts at improving process execution |
| Performance management works in some parts of the organization and fails in others | Vs. | Performance management is consistently executed and effective across the organization |

**Performance Appraisal:**

A performance appraisal (PA) or performance evaluation is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organizational objectives

The process by which a manager or consultant

(1) examines and evaluates an employee'sworkbehavior by comparing it with preset standards, (2) documents the results of the comparison, and

(3) Uses the results to providefeedback to the employee to show where improvements are needed and why.

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

- The supervisors measure the pay of employees and compare it with targets and plans.
- The supervisor analyses the factors behind work performances of employees.
- The employers are in position to guide the employees for a better performance.

**Objectives of Performance Appraisal**

Performance Appraisal can be done with following objectives in mind:

- To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
- To identify the strengths and weaknesses of employees to place right men on right job.
- To maintain and assess the potential present in a person for further growth and development.
- To provide a feedback to employees regarding their performance and related status.
- To provide a feedback to employees regarding their performance and related status.
- It serves as a basis for influencing working habits of the employees.
- To review and retain the promotional and other training programmes.

**Advantages of Performance Appraisal**

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

- Promotion: Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
- Compensation: Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
- Employees Development: The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
- Selection Validation: Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.

- Communication: For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:
- Through performance appraisal, the employers can understand and accept skills of subordinates.
- The subordinates can also understand and create a trust and confidence in superiors.
- It also helps in maintaining cordial and congenial labour management relationship.
- It develops the spirit of work and boosts the morale of employees.
- All the above factors ensure effective communication.
- Motivation: Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

**Methods of Performance Appraisal:**

**Traditional Methods:**

**Essay Appraisal Method**

This traditional form of appraisal, also known as *"Free Form method"* involves a description of the performance of an employee by his superior. The description is an evaluation of the performance of any individual based on the facts and often includes examples and evidences to support the information. A major drawback of the method is the inseparability of the bias of the evaluator.

**Straight Ranking Method**

This is one of the oldest and simplest techniques of performance appraisal. In this method, the appraiser ranks the employees from the best to the poorest on the basis of their overall performance. It is quite useful for a comparative evaluation.

**Paired Comparison**

A better technique of comparison than the straight ranking method, this method compares each employee with all others in the group, one at a time. After all the comparisons on the basis of the overall comparisons, the employees are given the final rankings.

**Critical Incidents Methods**

In this method of Performance appraisal, the evaluator rates the employee on the basis of critical events and how the employee behaved during those incidents. It includes both negative and positive points. The drawback of this method is that the supervisor has to note down the critical incidents and the employee behaviour as and when they occur.

**Field Review**

In this method, a senior member of the HR department or a training officer discusses and interviews the supervisors to evaluate and rate their respective subordinates. A major drawback of this method is that it is a very time consuming method. But this method helps to reduce the superiors' personal bias.

**Checklist Method**

The rater is given a checklist of the descriptions of the behaviour of the employees on job. The checklist contains a list of statements on the basis of which the rater describes the on the job performance of the employees.

**Graphic Rating Scale**

In this method, an employee's quality and quantity of work is assessed in a graphic scale indicating different degrees of a particular trait. The factors taken into consideration include both the personal characteristics and characteristics related to the on the job performance of the employees. For example a trait like Job Knowledge may be judged on the range of average, above average, outstanding or unsatisfactory.

**Forced Distribution**

To eliminate the element of bias from the rater's ratings, the evaluator is asked to distribute the employees in some fixed categories of ratings like on a normal distribution curve. The rater chooses the appropriate fit for the categories on his own discretion.

**Modern Methods:**

**Assessment Centres -**

An assessment centre typically involves the use of methods like social/informal events, tests and exercises, assignments being given to a group of employees to assess their competencies to take higher responsibilities in the future. Generally, employees are given an assignment similar to the job they would be expected to perform if promoted. The trained evaluators observe and evaluate employees as they perform the assigned jobs and are evaluated on job related characteristics.

The major competencies that are judged in assessment centres are interpersonal skills, intellectual capability, planning and organizing capabilities, motivation, career orientation etc. assessment centres are also an effective way to determine the training and development needs of the targeted employees.

**Behaviorally Anchored Rating Scales**

Behaviorally Anchored Rating Scales (BARS) is a relatively new technique which combines the graphic rating scale and critical incidents method. It consists of predetermined critical areas of job performance or sets of behavioral statements describing important job performance qualities as good or bad (for eg. the qualities like inter personal relationships, adaptability and reliability, job knowledge etc). These statements are developed from critical incidents.

In this method, an employee’s actual job behaviour is judged against the desired behaviour by recording and comparing the behaviour with BARS. Developing and practicing BARS requires expert knowledge.

**Human Resource Accounting Method**

Human resources are valuable assets for every organization. Human resource accounting method tries to find the relative worth of these assets in the terms of money. In this method the Performance appraisal of the employees is judged in terms of cost and contribution of the employees. The cost of employees include all the expenses incurred on them like their compensation, recruitment and selection costs, induction and training costs etc whereas their contribution includes the total value added (in monetary terms). The difference between the cost and the contribution will be the performance of the employees. Ideally, the contribution of the employees should be greater than the cost incurred on them.

**360 Degree Appraisal:**

360 degree feedback, also known as 'multi-rater feedback', is the most comprehensive appraisal where the feedback about the employees’ performance comes from all the sources that come in contact with the employee on his job.

360 degree respondents for an employee can be his/her peers, managers (i.e. superior), subordinates, team members, customers, suppliers/ vendors - anyone who comes into contact with the employee and can provide valuable insights and information or feedback regarding the "on-the-job" performance of the employee.

**Management By Objective (MBO);**

The concept of ‘Management by Objectives’ (MBO) was first given by *Peter Drucker* in 1954. It can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be taken as the criteria for measurement of their performance and contribution and deciding the course of action to be followed.

**Approaches to performance appraisal**

Creamer and Janosik (2003) outline several approaches to performance appraisal, including behavior-based approaches, result-focused approaches, and appraisals of team performance.

*Behavior-based approaches*

These approaches tend to use specific performance factors to evaluate employees. Measures of performance can be either quantitative or qualitative. Some such behavioural approaches are:

- Rating scale
- Behaviourally anchored rating scale
- Weighted checklist
- Forced choice method

- Result-focused approaches
- Management by objectives approach
- Accountabilities and measures approach

**Obstacles in Appraisal:**

The main barriers to effective performance appraisal are as follows:

- *Faulty Assumptions:*

Very often performance appraisal is not effective due to unrealistic assumptions on the part of both superiors and subordinates. Some of these assumptions are given below:

The assumption that managers desire to make accurate and fair appraisals is not always true. Many a time they want to avoid formal appraisal. They assume that personal opinion is better than formal appraisal.

Some managers consider the appraisal system as perfect and expect too much from it. They rely too much on it. In reality no appraisal system is absolutely perfect.

The assumption that subordinates want to know frankly where do they stand and what their superiors think about them are not valid. In fact subordinates resist to be appraised and their reaction against appraisal is often strong.

- *Psychological Barriers:*

The effectiveness of appraisal depends upon the psychological characteristics of managers to a great extent. Managers' feeling of insecurity, their being excessively modest or sceptical, the tendency to consider appraisal as extra burden, disliking or resentment to subordinates, etc., are the principal psychological characteristics that inhibit appraisal. These factors make the appraisal biased or subjective thereby defeating the basic purpose of appraisal.

- *Technical Pitfalls:*

The main technical difficulties in performance appraisal are as follows:

(a) Lack of clear-cut or unambiguous criteria for appraisal.

(b) Errors and bias in appraisal due to human weakness, e.g., halo effect, constant error, central tendency, liking or disliking for people, etc.

**Challenges of Performance Appraisal:**

An organization comes across various problems and challenges Of Performance Appraisal in order to make a performance appraisal system effective and successful. The main *Performance Appraisal challenges* involved in the performance appraisal process are:

- *Determining the evaluation criteria*

Identification of the appraisal criteria is one of the biggest problems faced by the top management. The performance data to be considered for evaluation should be carefully selected. For the purpose of evaluation, the criteria selected should be in quantifiable or measurable terms

- *Create a rating instrument*

The purpose of the Performance appraisal process is to judge the performance of the employees rather than the employee. The focus of the system should be on the development of the employees of the organization.

- *Lack of competence*

Top management should choose the raters or the evaluators carefully. They should have the required expertise and the knowledge to decide the criteria accurately. They should have the experience and the necessary training to carry out the appraisal process objectively.

**Errors in rating and evaluation**

Many errors based on the personal bias like stereotyping, halo effect (i.e. one trait influencing the evaluator's rating for all other traits) etc. may creep in the appraisal process. Therefore the rater should exercise objectivity and fairness in evaluating and rating the performance of the employees.

*Resistance*

The appraisal process may face resistance from the employees and the trade unions for the fear of negative ratings. Therefore, the employees should be communicated and clearly explained the purpose as well the process of appraisal. The standards should be clearly communicated and every employee should be made aware that what exactly is expected from him/her.

**Errors in Performance Appraisal:**

*Central Tendency Error*- Some supervisors tend to rank all employees at about average, regardless of an employee's performance. A supervisor who believes in never rating an employee as excellent is demonstrating central tendency error.

*Contrast Error*-Supervisors who rate subordinates as they compare against each other rather than how they compare against the performance standards commit contrast error. This error can cause an employee who is performing average against performance standards to rate high because his peers are under performing.

*False Attribution*- False attribution is the tendency to attribute bad performance to internal causes and good performance to external causes. In other words, if an employee performs well, it's because the employee had help, such as a good leader; and if the employee performs badly, it's because the employee did something wrong, such as procrastinate.

*Halo Effect*- The halo effect is when a supervisor forms a positive impression of an employee's skill in one area and then gives her high ratings across all rating criteria. Humans tend to view some traits as more important than other traits. When a supervisor rates employees with the traits that he deems more important higher in all rating areas than employees who do not possess those traits, the supervisor is committing the halo effect error.

*Leniency Error*- Leniency error is the tendency of a supervisor to rate an employee higher than what his performance warrants. Reasons that a supervisor might do this could include avoiding confrontations, or feeling that by giving the employee a high rating, he will work harder to live up to the rating.

*Perceived Meaning*- Perceived meaning becomes an issue when appraisers do not agree on the meaning of the rating criteria. For example, one supervisor may perceive an employee's constant reporting of problems as initiative, while another supervisor may feel this behavior demonstrates dependence on supervisory assistance instead of initiative.

*Recency Error*-Recency error happens when a supervisor uses recent events to rate the employee. This usually occurs due to a lack of documentation of the employee's performance over the course of the entire performance appraisal period. An employee who performed highly over the course of the appraisal period may be rated low if the most recent events where negative.

*Severity Error*- Severity error is the opposite of leniency error. In severity error, a supervisor tends to rate an employee lower than what her performance warrants. A potential cause of the error could be the use of unrealistic standards of comparison, such as the supervisor rating a new employee against himself. In this scenario, the supervisor forgets that it took time to reach the level of performance he operates at, and a new employee would not have had enough time to develop to that level.

*Stereotyping*- Stereotyping is the tendency to apply the same generalizations to all members of specific social groups. One of the more common types of stereotyping that occur in the workplace is gender stereotyping. Research conducted by Madeline Heilman, a professor of psychology at NYU, suggests that women are often evaluated more negatively than men, even when both are trained to do a job the same way.

**Essentials of effective appraisal:**

The following steps may be taken to make performance appraisal accurate, objective and reliable:
(1) Before an appraisal system is established, its objectives should be defined clearly. The specific objectives may be pay increase, promotion, transfer, training and development. The objectives will reveal whether emphasis should be placed on measuring performance on the current job or on potential for higher jobs.

(2) The raters should be carefully selected and trained. They must be familiar with the job and the person to be rated. Two independent persons (one immediate supervisor and the other staff expert) may appraise each employee and their ratings may be averaged. This will help to reduce bias and subjectivity in appraisal.

**Designing appraisal for better results:**

A properly implemented performance appraisal system can move your organization forward to improve performance and productivity. How well employees perform job duties and meet job responsibilities are critical to the employee's success and the company's success. We will prepare you to deliver appraisals that can improve performance all year long.

Key Information

**Uses of Performance Appraisals**

• Developing employees to be more productive

• Documentation for compensation purposes

• To help with selection decisions such as promotions, demotions, terminations, layoffs, transfers, and training

**Eliminate the Surprises**

• How to turn a dreaded task into a performance-boosting tool

• Learn a proper format for a performance appraisal form

• Steps to an ideal performance appraisal procedure

• Effectively communicate your expectations

**Preparing for Performance Appraisals**

• Establishing performance goals based on company objectives

• Why job descriptions are a critical part of appraisals

• Practice developing and writing useful job descriptions

• Find out the key employee "dreads" and their impact on productivity and job satisfaction

**Common Errors to Avoid**

• Why your reviews may be doing more harm than good

• Gain knowledge on the applicable laws and legal ramifications

• Are you tired of feeling like you are judging others?

• Uncover the common biases that could decrease accuracy

**Goals of Performance Appraisals**

• Get better results from everyone you supervise

• Feel more comfortable and confident conducting performance appraisal interviews

• Increase employee organizational commitment

• Decrease turnover

**Performance Appraisal Interview:**

What is a Performance Appraisal Interview?

A performance appraisal interview is the first stage of the performance appraisal process and involves the employee and his or her manager sitting face to face to discuss threadbare all aspects of the employee's performance and thrash out any differences in perception or evaluation. The performance appraisal interview provides the employee with a chance to defend himself or herself against poor evaluation by the manager and also gives the manager a chance to explain what he or she thinks about the employee's performance.

In a nutshell, the performance appraisal interview precedes the normalization process and is subsequent to the employee filling up the evaluation form and the manager likewise doing so. The interview is the stage where both sides debate and argue the employees' side of the story as well as the manager's perception.

Performance appraisal interview is an interview that conduct between HR dept/manager and employee per year/6 months, 3 months and the employee gets useful feedback information about how effectively and efficiently he is able to discharge the assigned duties. It also gives the opportunity to employee to explain his views about the ratings, standards, rating methods, internal and external causes for low level of performance.

***Purpose of performance appraisal interview***

- To provide an opportunity for employees to express themselves on performance-related issues.
- To help employees do a better job by clarifying what is expected of them.
- To let employees know where they stand.
- To strengthen the superior-subordinate working relationship by developing a mutual agreement of goals.
- To plan opportunities for development and growth.

**Performance Appraisals - The Interview Process:**

Managers often delay completing performance appraisals. They can feel uncomfortable with the interview process and unsure of how to get their message across in a tactful way.

Here you will find practical steps to make these important interviews go smoothly - and result in fostering a positive attitude in the workplace.

Why conduct an Interview?

The interview involves a manager and an employee having an open discussion in a positive setting. It covers:

√ the employee's progress against goals set for the previous period

√ future goals and how they might be achieved

√ training and development needed to do the job

√ training and development needed to assist in possible career development moves

√ any other issues or concerns relating to the job

Above all, the key purpose of the meeting is to motivate the employee and build a good working relationship.

Interviews are typically held once every six months or once a year. They can last anything from 30 minutes to two hours or more depending on the nature of the job.

Too often, employees have told me *"we only hear from our manager when things go wrong"*.

Regard the interview as a great opportunity to *really* listen to their concerns, encourage and support them AND give lots of positive feedback!

Before the Interview:

√ Give the employee a self appraisal form to complete at least two weeks before the interview

√ Review performance evidence since the last appraisal. Get this from a variety of sources, such as feedback from teams which involved the employee

√ Review any learning and development activity that took place. Was it successful?

√ Choose a venue and timing to minimize interruptions

√ Set up the room to create a relaxed atmosphere - informal seating, refreshments etc.

During the Interview:

√ Start by explaining the purpose/scope of the interview

√ Adopt open body language and a calm, positive tone of voice

√ Use open questions (tell me about etc.) and listen intently to encourage discussion

√ Explain the "big picture" and your vision for the future

√ Help the employee solve their own issues - resist the temptation to take them on yourself

√ Adjourn the interview if necessary to achieve what you want from the discussion

√ Review your document in conjunction with the self appraisal form and agree/sign off on the final version

√ Agree follow-up actions

After the Interview:

√ Always complete promised actions

√ Store forms in a confidential location

√ Continue to give positive feedback and address areas for improvement as situations arise

√ Ask for feedback on your skills as an Appraiser - can you improve?

In most cases, employees will quickly pick up on the amount of time and effort you put into the appraisal process. It shows respect for the employee, which will most likely be appreciated - and will make your job easier!

## Module II

Criteria for performance measures

The criteria for assessing performance should be balanced between:

- achievements in relation to objectives;
- the level of knowledge and skills possessed and applied (competences);
- behaviour in the job as it affects performance (competencies);
- the degree to which behaviour upholds the core values of the organization;

Day-to-day effectiveness.

The criteria should not be limited to a few quantified objectives as has often been the case in traditional appraisal schemes. In many cases the most important consideration will be the jobholders' day-to-day effectiveness in meeting the continuing performance standards associated with their key tasks. It may not be possible to agree meaningful new quantified targets for some jobs every year. Equal attention needs to be given to the behavior that has produced the results as well as the results themselves.

The main criteria that are used for measuring performance are:

- Achievement of objectives
- Quality
- Customer care
- Competence
- Contribution to team
- Working relationship
- Aligning personal objectives with organizational goals
- Flexibility
- Productivity
- Skill/learning target achievement
- Business awareness

- Financial awareness

Hence, performance measures should:

- Be related to the strategic goals and measures that are organizationally significant and drive business performance.
- Be relevant to the objectives and accountabilities of the teams and individuals concerned- they are effective only if they are derived from statements of accountabilities or are based on well-researched competence framework, or both
- Focus on measurable outputs and accomplishments
- Indicate the data or evidence that will be available as the basis for measurement
- Be verifiable-provide information that will confirm the extent to which expectations have been met
- Be as precise as possible in accordance with the purpose of the measurement and the availability of data.
- Provide a sound basis for feedback and action
- Be comprehensive, covering all the key aspects of performance

Classification of performance measures

There are various types of measures, selected on the basis of the criteria given above, the most important being that they are relevant, significant and comprehensive. It has been suggested by Kane (1996) that the key measures are concerned with quantity, quality and cost effectiveness. Measures or metrics can be classified under the following headings:

- Finance- income, shareholder value, added value, rates of return, costs
- Output- units produced or processed, throughput, new accounts
- Impact- attainment of a standard (quality, level of service etc), changes in behavior (internal and external customers), completion of work/ project, level of take-up of a service, innovation
- Reaction- judgement by others, colleagues, internal and external customers
- Time- speed of response or turnaround, achievements compared with timetables, amount of backlog, time to market, delivery times.

**Types of measure: Organizational**

Jack Welch, CEO of the General Electric Company, believes that the three most important things that need to be measured in a business are customer satisfaction, employee satisfaction and cash flow. More specifically, the different approaches to measuring organizational performance are:

- The Balanced Scorecard
- The European Foundation For Quality Management (EFQM) Model
- Economic Value Added

**Other traditional financial measures**

**The Balanced Scorecard**

The concept of the balanced scorecard as originally developed by Kaplan and Norton addresses this requirement. They called the balanced scorecard as a set of measures that gives top managers a fast but comprehensive view of the business. Balanced scorecard is a performance management tool that is used to align business activities to the vision and strategies of an organization by monitoring performance against strategic goal.

The goal of the balanced scorecard is to tie business performance to organizational strategy by measuring results in four areas: financial performance, customer knowledge, internal business processes, and learning and growth.

*History of the Balanced Scorecard*

In 1992, an article by Robert Kaplan and David Norton entitled "The Balanced Scorecard - Measures that Drive Performance" in the Harvard Business Review caused a lot of attention for their method, and led to their business bestseller, "The Balanced Scorecard: Translating Strategy into Action", published in 1996.

The financial performance of an organization is essential for its success. Even non-profit organizations must deal in a sensible way with funds they receive. However, a pure financial approach for managing organizations suffers from two drawbacks:

It is historical. Whilst it tells us what has happened to the organization, it may not tell us what is currently happening. Nor it is a good indicator of future performance.

It is too low. It is common for the current market value of an organization to exceed the market value of its assets. Tobin's-q measures the ratio of the value of a company's assets to its market value. The excess value is resulting from intangible assets. This kind of value is not measured by normal financial reporting.

The 4 perspectives of the Balanced Scorecard

The Balanced Scorecard method of Kaplan and Norton is a strategic approach, and performance management system, that enables organizations to translate a company's vision and strategy into implementation, working from 4 perspectives:

- Financial perspective.
- Customer perspective.
- Business process perspective.
- Learning and growth perspective.

This allows the monitoring of present performance, but the method also tries to capture information about how well the organization is positioned to perform in the future.

*The Financial Perspective*

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will make sure to provide it. In fact, there is often more than sufficient handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financial issues leads to an unbalanced situation with regard to other perspectives. There is perhaps a need to include additional financial related data, such as risk assessment and cost-benefit data, in this category.

*The customer perspective*

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any company. These are called leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline. Even though the current financial picture may seem (still) good in developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers, and of the kinds of processes for which we areprovidingaproductorservice tothosecustomergroups.

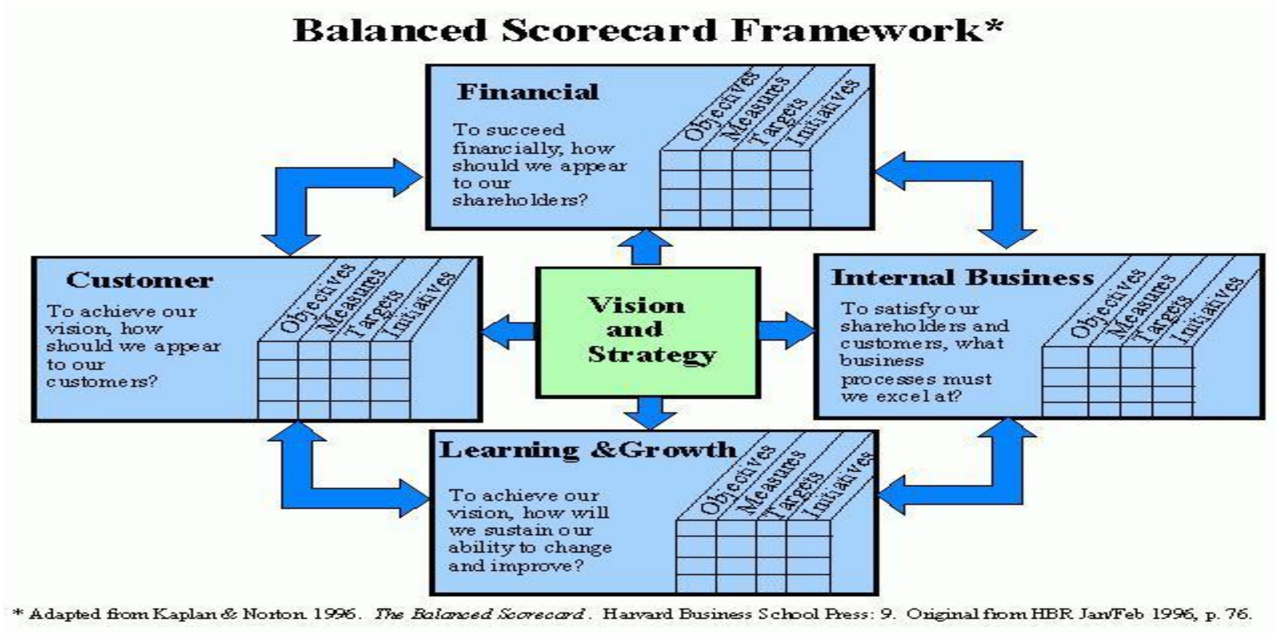
*The Business Process perspective*

This perspective refers to internal business processes. Measurements based on this perspective will show the managers how well their business is running, and whether its products and services conform to customer requirements. These metrics have to be carefully designed by those that know these processes most intimately. In addition to the strategic management processes, two kinds ofbusiness processes may be identified: Mission-oriented processes: Many unique problems are encountered in these processes. Support processes: The support processes are more repetitive in nature, and hence easier to measure and to benchmark.

*Learning and Growth perspective*

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge worker organization, people are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to learn continuously. Government agencies often find themselves unable to hire new technical workers and at the same time is showing a decline in training of existing employees. Kaplan and Norton emphasize that 'learning' is something more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it isneeded.Italsoincludes technologicaltoolssuchasan Intranet.

The integration of these four perspectives into a one graphical appealing picture, has made the Balanced Scorecard method very successful as a management methodology.




**Objectives, Measures, Targets, and Initiatives**

For each perspective of the Balanced Scorecard four things are monitored (scored):

*Objectives:* major objectives to be achieved, for example, profitable growth.

*Measures:* the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth might be measured by growth in net margin.

*Targets:* the specific target values for the measures, for example, 7% annual decline in manufacturing disruptions.

*Initiatives:* projects or programs to be initiated in order to meet the objective.

The balanced scorecard forces managers to look at the business from four important perspectives. It links performance measures by requiring firms to address four basic questions:

- How do customers see us? - Customer perspective
- What must we excel at? - Internal perspective
- Can we continue to improve and create value? - Innovation & learning perspective
- How do we look to shareholders? - Financial perspective

**Benefits of the Balanced Scorecard**

- Kaplan and Norton cite the following benefits of the usage of the Balanced Scorecard:
- Focusing the whole organization on the few key things needed to create breakthrough performance.

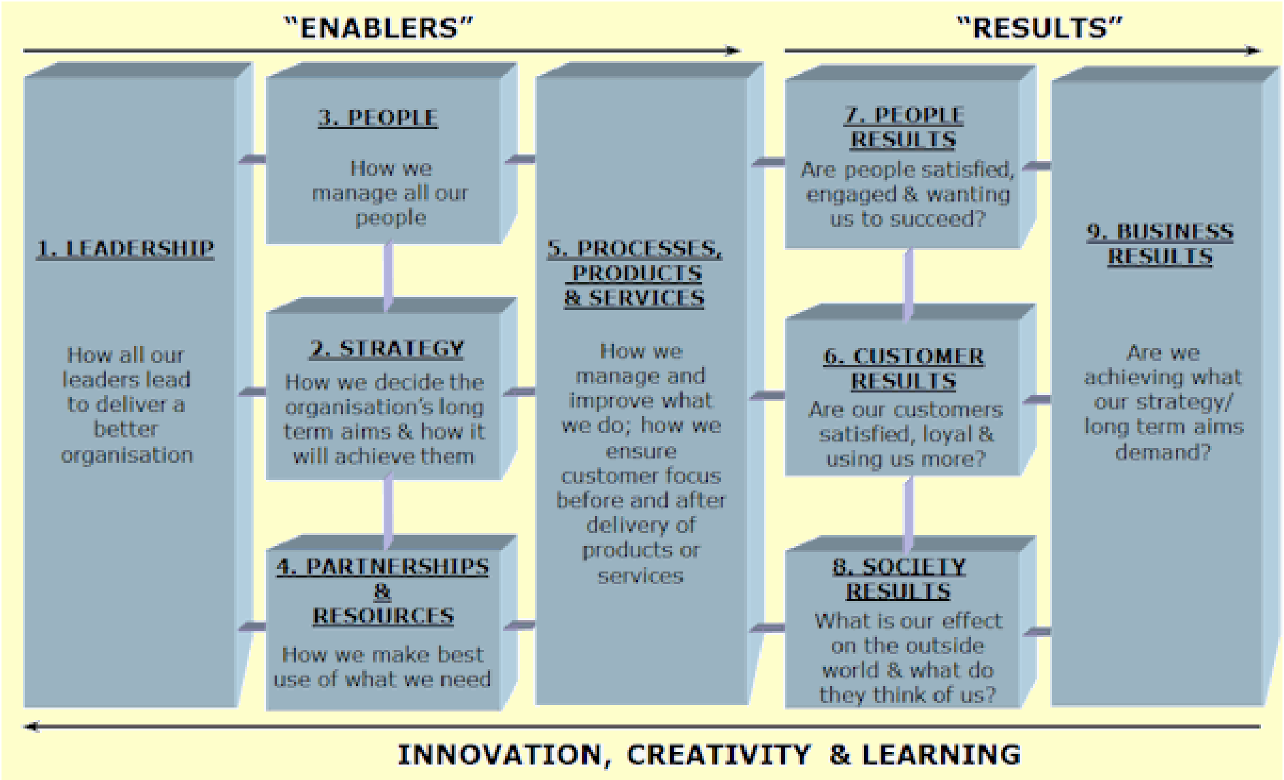
- Helps to integrate various corporate programs. Such as: quality, re-engineering, and customer service initiatives.
- Breaking down strategic measures towards lower levels, so that unit managers, operators, and employees can see what's required at their level to achieve excellent overall performance.

## THE EUROPEAN FOUNDATION FOR QUALITY MANAGEMENT (EFQM)

The EFQM model indicates that customer satisfaction, employee satisfaction and impact policy and strategy are achieved through leadership. This drives the policy and strategy, people management, resources and processes leading to excellent in business results.

- The European Foundation for Quality Management (EFQM) was launched in 1991.
- The **EFQM Excellence Model** is a non-prescriptive business excellence framework for organizational management, promoted by European Foundation for Quality Management (EFQM) and designed for helping organizations to become more competitive.
- Regardless of sector, size, structure or maturity, organizations need to establish appropriate management systems in order to be successful.
- The EFQM Excellence Model is a tool to help organizations do this by measuring where they are on the path to excellence, helping them understand the gaps, and stimulating solutions.
- The philosophy underlying the EFQM model is that customer satisfaction, employee satisfaction and the beneficial impact on society are achieved through leadership.
- The EFQM model seeks to drive policy and strategy, employee management, resources and processes, leading to excellence in business results.

Organizations using the EFQM model accept its underlying premise that performance measurement is important and multidimensional performance measures must be continuously refined and improved (Gupta et al., 2004).




*EFQM MODEL*

**Components of EFQM model**

- ***Eight core values*** or key management principles that drive sustainable success
    - Adding Value for Customers
    - Creating a Sustainable Future
    - Developing Organisational Capability
    - Harnessing Creativity & Innovation
    - Leading with Vision, Inspiration & Integrity
    - Managing with Agility
    - Succeeding through the Talent of People
    - Sustaining Outstanding Results

- ***Nine criteria, separated into 5 'Enablers'*** (leadership, people, strategy, partnerships & resources, and processes, products & services)and ***4 'Results***' (people, customer, society, and business results)

- ***RADAR logic***, continuous improvement cycle used by EFQM. It was originally derived from the PDCA cycle.
    - Determine the **R**esults aimed at as part of the strategy
    - Plan and develop a set of **A**pproaches to deliver the required results now and in the future
    - **D**eploy the approaches in a systematic way to ensure implementation
    - **A**ssess and **R**efine the deployed approaches based on monitoring and analysis of the results achieved and ongoing learning

## ECONOMIC VALUE ADDED

Economic value added (EVA) is an internal management performance measure that compares net operating profit to total cost of capital. The cost of capital includes the cost of equity- what shareholders expect to receive through capital gain. It is also referred to as economic profit. Economic Value Added (EVA) is important because it is used as an indicator of how profitable company projects are and it therefore serves as a reflection of organization performance. The idea behind EVA is that businesses are only truly profitable when they create wealth for their shareholders, and the measure of this goes beyond calculating net income. Economic value added asserts that businesses should create returns at a rate above their cost of capital.

### BREAKING DOWN 'Economic Value Added - EVA'

- EVA is the incremental difference in the rate of return over a company's cost of capital.
- Essentially, it is used to measure the value a company generates from funds invested into it.
- If a company's EVA is negative, it means the company is not generating value from the funds invested into the business.
- Conversely, a positive EVA shows a company is producing value from the funds invested in it.

### Calculating EVA

- The formula for calculating EVA is: <u>Net Operating Profit After Taxes (NOPAT)</u> - <u>Invested Capital * Weighted Average Cost of Capital (WACC)</u>
- The goal of EVA is to quantify the charge, or cost, for investing capital into a certain project, and then assess whether it is generating enough cash to be considered a good investment. The charge represents the minimum return that investors require to make their investment worthwhile. A positive EVA shows a project is generating returns in excess of the required minimum return.

### The Benefits of EVA

- The purpose of EVA is to assess company and management performance.
- EVA champions the idea a business is only profitable when it creates wealth and returns for shareholders, and requires performance above a company's cost of capital.
- EVA as a performance indicator is very useful. The calculation shows how and where a company created wealth, through the inclusion of balance sheet items. This forces managers to be aware of assets and expenses when making managerial decisions. However, the EVA calculation relies heavily on the amount of invested capital, and is best used for asset-rich companies that are stable or mature. Companies with intangible assets, such as technology businesses, may not be good candidates for an EVA evaluation.

*Other traditional financial measures*

The traditional financial measures include:

- Return of equity
- Return on capital employed
- Earnings per share
- Price/earnings ratio
- Return on sales
- Asset turnover
- Overall overheads/sales ratio
- Profit or sales or added value per employer
- Output per employee (productivity)

**Types of measure: Team**

Team performance measures can be relate to team, outputs, team processes, customer relations, quality standards, speed of response or delivery time, project management, financial results and cost control.

Steps to develop team measures are:

- Review and revise organizational and business-unit measures.
- Review and revise business operating systems measures.
- Identify team measurement points-process steps and final output/outcome.
- Identify individual accomplishments that support the team’s processes by listing the key process steps taken by the team and the accomplishments needed to support each process.
- Develop team and individual performance measures (quantity, quality, timeliness, cost).
- Develop team and individual performance objectives.
- Measuring team-related performance can be approached in at least four ways. Two of those approaches measure performance at the individual level and two measure performance at the team level.

**Individual Level: An Individual's Contribution to the Team**

*Individual Behavior.* Employees can be measured on how well they work with team members. Examples of these types of measures could include the degree to which: the employee participates in team meetings; the employee volunteers for team projects; the employee communicates with members in a constructive and non-threatening manner; other members find that the employee is pleasant to work with and fosters cooperation.

*Individual Results.* Employee work products that contribute to the final team product or service can be assessed and verified. Examples of these types of measures could include error rates, the timeliness of the product, the number of suggestions made, or the accuracy of the data provided.

**Team Level: Measuring the Team's Performance**

*The Team's Processes.* The team can be measured on its internal group dynamics. These types of measures could address: how well the team works together as a group; the effectiveness of team meetings; the ability of the team to reach consensus; and the team's problem-solving techniques.

*The Team's Results.* The team can be measured on its work results or products. These types of measures could include: the number of cases completed; the use, acceptance, and understandability of the team's final report; the number of customer requests for the team's report; the subscription rate of the team's newsletter.

These types of measures can be applied with the three types of performance elements that can be used in the performance appraisal process.

A critical element is a work assignment or responsibility of such importance that unacceptable performance on the element would result in a determination that an employee's overall performance is unacceptable. Because critical elements are limited to addressing individual performance, only the individual level measures of contribution to the team and individual results could be used as critical elements.

Non-critical elements can be a dimension or aspect of individual, team, or organizational performance that is measured and used in assigning a summary level. In the past, "non-critical" meant "not as important." However, programs can be designed so that non-critical elements have as much weight or more weight than critical elements in determining the final summary level. Since it is only through non-critical elements that group or team level performance can be factored into an employee's summary level determination, using non-critical elements can be auseful tool for setting group goals, planning group work, measuring group performance, andproviding feedback on group performance.

Additional performance elements address a dimension or aspect of individual, team, or organizational performance that is not used in determining summary levels. Additional elements are used for various other purposes, such as setting goals, providing feedback on individual or group performance, and recognizing individual or group achievements.

**Types of measure: Individual**

Unlike team measures, individual measures are also related to accountabilities and set out under the main criteria headings of quantity, quality, productivity, timeliness and cost-effectiveness.

**Guidelines for defining performance measures**

Performance measures should be agreed at the same time as objectives are defined. This provides for the fair assessment of progress and achievements and for individuals and teams. It will provide the best basis for feedback. The following are guidelines for defining performance measures:

- Measures should relate to results and observable behaviours.
- The result should be within the control of the team or individual, and be based on agreed targets.
- Behavioural requirements (competencies) should be defined and agreed.

- Data must be achievable for measurement.
- Measures should be objective.

**Obtaining and analyzing information for measurement purposes**

Information for measurement purposes is obtained from performance data, competence (behavior) analysis and benchmarking.

*Performance data*-Performance data is obtained from relevant management information systems, which enable comparisons to be made between what has been achieved and what should have been achieved.

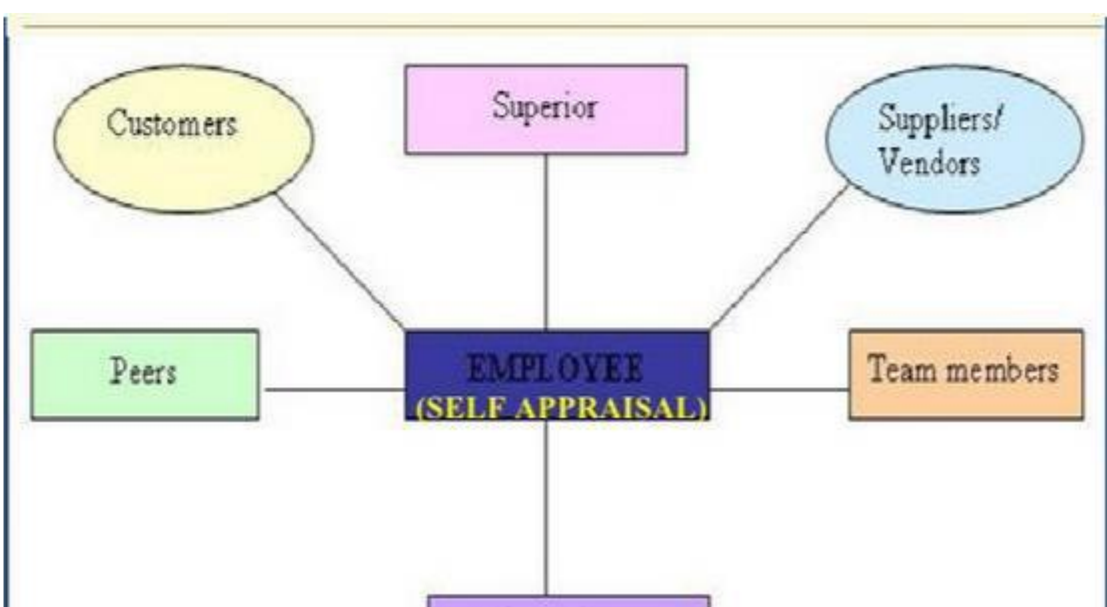
*Competency levels*-Competency levels can be measured only by analyzing actual and observable behavior so that comparisons can be made.

*Benchmarking*-Benchmarking involves measuring the performance of the organization, teams or individuals against the best practice for the industry, function or particular activity. Benchmarking for organizations means analyzing the performance of comparable businesses under appropriate headings e.g., productivity, and when the performance of the business is inferior, assessing why this is the case. .

**360 degree feedback**

360-degree feedback is the latest and, for some people, the most exciting development in the field of performance management. 360-degree feedback can be defined as the systematic collection and feedback of performance data on an individual or group derived from a number of the stakeholders on their performance. It is also referred to as multi-source assessment or multi-rater feedback.

Performance data in a 360-degree feedback process can be generated for individuals from the superior, peers, subordinates, customers and suppliers etc. The purpose of the 360 degree feedback is to assist each individual to understand his or her strengths and weaknesses, and to contribute insights into aspects of his or her work needing professional development.



## Uses of 360-degree feedback

The uses of 360-degree feedback are numerous. It is generally believed to be a highly effective performance evaluation tool. The primary reason to use this full circle of confidential reviews is to provide the worker with information about his/her performance from multiple perspectives. From this feedback, the worker is able to set goals for self-development which will advance their career and benefit the organization. With 360-degree feedback, the worker is central to the evaluation process and the ultimate goal is to improve individual performance within the organization.


## Reasons for introducing 360-degree feedback

- It is seen as best practice.
- It is suitable for a non-hierarchical, flexible organization.
- It assists managers with limited knowledge of performance after restructuring.
- It reflects value that wider groups should have input into performance management.

360-degree feedback: Methodology

- The questionnaire

The processes of 360-degree feedback usually obtain data from questionnaire that measures from different perspectives the behavior of individuals against a list of competencies. The dimensions of competencies may broadly refer to leadership, team player/manage people, self-management, communication, vision, organizational skills, decision-making, expertise, adaptability etc.

- Ratings

Ratings are given by the generators of the feedback on a scale against each heading. For instance the scale recommended by Edwards and Ewen (1996) consists of 10 points:

- 9-10 an exceptional skill
- 7-8 a strength skill
- 5-6 appropriate skill level
- 3-4 not strength
- 1-2 least skilled

- Data processing

Questionnaires are normally processed with the help of software developed within the organization or, most commonly, provided by external suppliers. This enables the data collection and analysis to be completed swiftly, with the minimum of effort and in a way that facilitates graphical as well as numerical presentation.

- Feedback

The feedback is often anonymous and may be presented to the individual, to the individual's manager or to both the individual and the manager or to both the individual and the manager.

- Action

The action generated by the feedback will depend on the purposes of the process i.e., development, appraisal or pay.

**Assessment Centers**

Assessment center is a comprehensive, standardized procedure in which multiple assessment technique is used to evaluate individual employees for a variety of decisions. In other words it can be defined asa "variety of testing techniques designed to allow candidates to demonstrate, under standardized conditions, the skills and abilities that are the most essential for success in a given job". Mostfrequently the approach has been applied to individuals being considered for selection, promotion, placement or special training and development in management.

The assessment centre focuses on a set of varied exercises, which are designed to simulate different aspects of the work environment. These assessment centre exercises assess how closely your behaviours, that are required for the role, match.

Over the many years that assessment centre's have been used as part of the recruitment process a core group of exercises have become recognized as the best ones to assess a candidates' competencies and behaviours. For some for the exercises you may know them by slightly different names and phrases, but for simplicity we have used the term most commonly for each exercise.

The majority of assessment centre exercises you will encounter fall into one of the following categories.

- In-Tray & Justification
- Presentations
- This includes exercises like flip-chart, group exercise, impromptu, prepared, verbal career etc.
- Group Exercises which includes critical Incident, organizational Issue, problem Solving & simulation and written Output.
- Role-play
- Media Interview

## Module -III

### Performance Management Application & Improvement:

Over the past two decades there has been a significant increase in the use of performance-management systems in the public sector and private sector internationally. These systems are widely used, but also criticized. While there is a lot of performance management going on, there is rather little performance-based strategic steering. Performance measures and reporting are now widely used within public sector organizations but there is a lack of evidence regarding their usefulness. The performance-management systems are primarily used by senior managers. It seems to be more difficult to report on results than to formulate goals and objectives, and most difficult of all to use performance information as an incentive, whereby good results are rewarded and poor results punished. In practice differences in polity features, cultural factors and tasks seem to produce a lot of variation in the use of performance management. After two decades of experience with performance management systems the responses vary from ‘true believers’, via ‘pragmatic sceptics’ to ‘active doubters’.

A best practice Performance Management Program has the following in place:

- All-Round System Buy-in and Training
- A Corporate Performance Management Policy specifying the WHY, WHO, WHAT, WHEN and HOW of performance management in the organization, coupled with a well-designed communication plan to get management and employee buy-in at all levels.
- Thorough training of HR, line and staff in all aspects of system application.
- Top management buy-in and visual support.

*Key System Features*

- Performance Goals are linked to the Corporate Strategy and Goals logically cascaded down organization units to individual level.
- Written Performance Agreements/Plans are drawn up via one-on-one goal-setting sessions between line managers and direct reports, as early as possible at the start of a new performance year.

- Individual Performance Agreements include performance measures that are derived from a position's job/role description, as well as relevant corporate cascaded-down goals.
- Line managers ensure that employees have sufficient resources and tools to get the job done, and that systems, processes and policies facilitate (and not hinder) optimal performance.
- Both line managers and their direct reports are keeping a record of the latters' performance to refer to during performance reviews.
- Performance Agreements are adapted as and when priorities and the situation on the ground change.
- Performance feedback (positive and/or 'negative' - constructive), and related coaching, are given to employees on an ongoing basis, so that there are no unpleasant surprises at performance review time.
- In addition to the formal performance reviews, line managers and their direct reports should meet at least monthly (1-1) to discuss performance progress and challenges.
- Employees are given adequate warning (at least 14 days) of performance reviews (date and time mutually agreed).

Performance reviews are facilitated by line managers in a way that involves the employee and asks for their input first on how they have fared on each measure and what ratings they think best reflects their performance. Line managers add their own view, and facilitate agreement. Second-level line managers are brought in with disputes, and have the final say. A grievance policy and procedure exists as employee last resort when still unhappy.

Personal Development Plans (as a performance review output) are based on current competency shortfgalls as well as new role challenges and employee career goals.

Performance is linked to remuneration in a way that sends a clear message to both good and poor performers. Sufficient reward differentiation is made so that top performers are lifted out materially and psychologically for their efforts.

Employees experience the entire process as positive, motivating and career-enhancing.

**Performance Management in Manufacturing, Service and IT Sector**

*PM in Manufacturing sector:-*

The success and sustainability of an organization depends on performance of the organization and how their objectives are carried out to its effect. Organizations are trying to manage performance of each employee, team and process to ensure that the goals are met in an efficient and effective manner consistently. Effective utilization of performance management system is critical to enhance organizational performance, so as to achieve a competitive position in global marketplace. With rapid introduction of new technologies and changes in the manufacturing sector, the manufacturers are struggling to measure and manage performance across their operations effectively. This need has given rise to the importance of a comprehensive performance management system, which would enable the manufacturers to improve all the facets of their operations and to attain competitive edge in the market. A successful performance management system ensures that work performed by employees accomplishes the goals and mission of the organization and that employees have a clear understanding of what is expected of them. Benefits of a successfully adopted performance management system include an organization that is directly aligned to its goals and objectives and a motivated workforce where every employee understands his or her importance and role in the organization. Some of the popular performance management systems utilized by manufacturing industries are:

1. Balanced scorecard

The balanced scorecard is a strategic planning and management system that is used extensively for both strategic and operational purposes in business. It is a measurement framework which has integrated the non – financial performance measures to traditional financial systems which gives the executives a balanced wholesome outlook on organizational performance.

2. Performance benchmarking

The performance benchmarking in Indian manufacturing sector is a relatively new concept though it has been adopted worldwide as an instrument of continuous improvement. Benchmarking was initially developed by Xerox as a continuous, systematic process of evaluating companies recognized as industry leaders so as to understand the best practices and establish rational performance goals for itself. However it must be acknowledged that benchmarking initiative does not provide the solutions automatically. The organization needs to find the right measures for comparison so as to analyze the performance gap and to

3. TOPP system

The Terminal Operated Production Programme (TOPP) system is a type of questionnaire that determines the performance of a firm in all the areas of manufacturing. The TOPP system ascertains the performance measurement along three dimensions.

Effectiveness – to satisfy customer needs.

Efficiency – optimal utilization of enterprise and economic resources.

Ability to change – strategically handling changes.

The TOPP questionnaire analyses the firm’s areas of manufacturing and instigates the firm to consider the areas which earlier was of lower importance. This enables the firm to estimate their likely future status as well as to introduce improvements. It is therefore suitable for making comparisons between enterprises.

4. AMBITE system

The Advanced Manufacturing Business Implementation Tool for Europe (AMBITE) system is a modern performance management system which can be used to assess impact of strategic decisions made by a firm. This system facilitates in translating the business plan into a set of performance measures which directly relates to the strategy of a firm.

4. EFQM model

The EFQM Excellence Model (2010) was introduced initially at the beginning of 1992 as the framework for assessing and improving organizations, in order to achieve sustainable advantage.

*PM in Service Sector:-*

The service sector being the people-centric sector a great degree of attention need to be given on theperformance of the manpower. With its employment potential and contribution to national income, theservice sector constitutes a vital component of Indian economy. Also known as tertiary sector, thissector presently account for 60 per cent of its gross domestic product (Indian Brand Equity Foundation,2014). India has second fastest growing service sector in the world with its compound annual growthrate at 9 per cent, just below China's 10.9 per cent, during 2001 to 2012. Further, among the world'stop 15 countries in terms of GDP, India ranked 10$^{th}$ in terms of overall GDP and 12$^{th}$ in terms ofservices GDP in 2012, as said by Economic Survey. Apart from public sector organization, this sector

also includes healthcare, education, retail, transport, tourism etc. There has been increasing demand to improve productivity in service organizations, although this is challenging. Performance management is one of the effective tool that can be applied to achieve quantum leaps in the productivity of these organizations. It will lead to enhancing quality of services, increasing stakeholder satisfaction, and improving the overall cost-effectiveness and transparency of service organizations. It also helps to recognize and reward outstanding performers and to develop modest one.

**Performance Counseling:**

Performance counseling is the process of improving employee performance and productivity by providing the employee with feedback regarding areas where he or she is doing well and areas that may require improvement.

Performance counselling is basically given by the manager to an employee exhibiting poor performance. Mostly, counselling sessions take place when an employee fails to improve his performance even after receiving an informal notification or advice about the same.

Therefore, formal performance counselling sessions take place to discuss the problem areas and methodologies to overcome it. This can be done under various circumstances like the regular performance appraisal process, analyzing the performance of a probationer or during a regular assessment of key development needs of the employees.

The primary purpose of counseling is to define organizational mission and values, discuss individual job expectations and performance, reinforce good performance/work related behavior, identify and correct problem performance/work related behavior, and enhance the employee's ability to set and reach career goals.

The best counseling is forward looking, concentrating on the future and what needs to be done better.

Counseling should be timely.

Counseling should begin with feedback from the employee about his/her performance before giving your feedback. Answer these questions: What worked? What did not? What would you do differently?

Supervisors are involved in the day to day management of their departments, work groups, and teams. It is important for all supervisors to create an environment where feedback is routinely provided as well as solicited, through formal and informal performance counseling. Feedback, counseling, and evaluating employees are an important part of the supervisor's job. Failing to address an employee's performance deficiencies can lead to more serious issues and decreased morale. Timely action is necessary to maintain a productive working environment.

The Process


**The Counselling Process**

Generally counselling sessions happen in private between the manager and the employee with an observer/support person attending the sessions if required.

Effective counselling sessions are characterized by an interactive, two-way and open communication. The employee is given an opportunity to explain the reasons for underperformance.

The job standards expected are communicated to the employee and an action plan for a given timeframe is drafted.

Records of counselling sessions are maintained, duly signed by the participants

The manager follows up at regular intervals to ensure that the employee is progressing as per the plan and the set timelines.

**Principles of Performance Counseling:**

- Strengthening communication between manager and employee
- Making the employee understand performance level exhibited by him
- Involving the employee in the problem-solving process
- Enabling the employee to identify elements that contributed to success
- Helping the employee to attaining performance objectives
- Motivating the employee for gaining commitment to improve performance
- Maintaining and increasing the employee's self-esteem
- Providing support, guidance, and resources as may be required by the employee to successfully achieve performance objectives
- Encouraging the employee to learn
- Focusing on behavior, not personality
- Using reinforcement techniques to shape behavior
- Reposing trust and confidence in the employee for achieving performance objectives
- Documenting the discussion

**Preparation**

- Schedule the counseling session and notify the employee; suggest the employee write down or be ready to discuss expectations and requirements.
- Get a copy of the employee's job description and appropriate counseling checklist & blank evaluation form.
- Think about how each outcome or critical element of the performance plan supports the mission/objectives of the organization.
- Decide what you consider necessary for success in each outcome or critical element. Be specific
- Make notes to help you with counseling.

**During The Counseling Session**

- Discuss mission/objectives of organization and how his/her performance contributes to success of organization.
- Discuss items that require top priority effort *(areas of special emphasis)*—realizing this may change later.
- Discuss what tasks and level of performance you expect for success. Review employee's written input if he/she provides it
- Discuss competencies needed to perform duties. Ask employee for ideas about what how he/she might perform assigned duties.
- If you and the employee have different views, discuss them until you both are clear on requirements. Even if the employee disagrees, he/she must understand what you expect.

- Emphasize the employee's positive strengths. Give examples of what excellence performance is to give the employee specifics to aim for.
- Ask the employee about career goals and training needs.

**After Counseling**

- Summarize key points of the counseling on relevant form
- Give the employee the form to review/initial.
- If the employee gave written input, attach it.
- Give the employee a copy and keep the original to use for the next counseling session.

**Responsibilities for Counseling**

Leaders at all levels have a responsibility to assist and develop team members through coaching and guidance. All leaders must be coaches, trainers and teachers. If leaders do not counsel their own team members, they are not doing what is necessary to grow individuals and teams.

If a leader fails to counsel, he has failed to fulfill a major leadership responsibility. When evaluating the performance of junior leaders, a leader must consider how often and how well the junior leader counsels his team members. People expect to be told how they are performing and have a right to seek assistance and guidance from their leaders, which, in turn, enables individuals to learn from the experience and knowledge of their leader. These one-on-one relationships foster individual growth and improved organization and team performance.

It is an absolute requirement that leaders regularly counsel the people they are responsible for leading. Leader Actions

Counseling requires that your actions demonstrate knowledge, understanding, judgment and ability. It involves learning and applying techniques for more effective counseling skills which show a caring attitude of sincere concern-the most effective characteristic for effective counseling. Moreover, your conduct must be consistent with that if you are to be an effective coach. Leaders must not just say they are concerned; they must do things to show concern for their people's well-being.

To be an effective counselor, you must set a proper example and be ethical in all personal and professional actions. You must know your own duties, your team members job requirements, and your individual team members capabilities and limitations. You must understand what methods of counseling they are most comfortable with. Above all, you must demonstrate the standards of personal conduct and the performance expected of your team members.

In developing proper attitudes and behaviors, you should be aware of the particular aspects of effective counseling. These include:

- Flexibility-Fitting the counseling style to the unique character of each team member and to the relationship desired.
- Respect-Respecting individuals as unique compelling people with their own sets of beliefs, values, and norms.
- Communication-Establishing an open, two-way communication with team members, using spoken language and non-verbal actions, gestures and body language. Effective counselors listen more than they talk.
- Support-Supporting and encouraging team members through actions and interest while guiding them through their problems.

Motivation-Getting every team member to actively participate in coaching/counseling and teaching team members the value of counseling. Team members will respond differently. Thosewho need and want counseling are more likely to profit from it, but your concern must also extend to those who need, but do not want, counseling.

Purpose-Seeking to develop responsible and self-reliant team members who can solve their own problems.

You must be aware that much of the information an individual gives during a coaching session is given in confidence. As a rule, this information should not be passed on without the individual's consent. This may be overridden, however, by your responsibility to keep the others informed, especially with regard to ethics and safety.

There are as many approaches to counseling as there are counselors and counselees. Effective leaders approach each individual as an individual and probably never use the same approach with other team members. The broad approaches used in counseling are:

- Directive
- Non-Directive
- Combined

During counseling sessions, you must be flexible in selecting your approach. The personality of the individual physical surroundings and the amount of time available will influence the approach you choose.

*Directive*

The directive approach to counseling is counselor-centered. It is a simple, quick approach to problem solving that provides short-term solutions. This approach assumes the leader has all the skills and knowledge to assess the situation and offer courses of action. It uses clear thinking and reason and combines suggesting, persuading, confronting and directing specific actions to obtain the results desired by the leader.

The leader does most of the talking - states the problem, identifies the causes, offers explanations, gives advice and offers a list of solution options available.

This approach may be appropriate if an individual's problem solving skills are limited or if the team member is immature or insecure and needs guidance. Often, a team member prefers guidance and seeks this kind of counsel.

Sometimes, the directive approach is the only method that can be used, especially with an unresponsive team member or individuals who will not make a connection between their behavior and its' consequences. This approach may also be the best way to correct a simple problem quickly. The final decision regarding a problem rests with the individual. When the counselor has selected a course of action, rather than assisting the individual to select one, the individual's only decision is to accept or reject the solution.

*Non-Directive*

The non-directive approach to counseling is individual-centered. The counselor influences the individual to take responsibility for solving the problem and helps the team member become self-reliant. This approach is usually more relaxed and focuses on self-discovery, so it takes longer than the directive approach. In the non-directive approach, the counselee has the opportunity to work out solutions to the problem through personal insight, judgment and realization of facts. However, counselees must understand and fully accept two basic rules. First, defensive attitudes must not prevent discussing the problems openly and honestly. Second, individuals must understand that they will be responsible for the problem-solving process and for the resulting decisions.

This type of counseling session is partially structured by the counselor. It is necessary that the individual understands and accepts responsibility for selecting the topic of discussion, defining the problem and making all decisions. Structuring includes informing the counselee about the counseling process, what is expected, and allotting a certain amount of time for each session.

The non-directive approach provides sheltered situations in which team members can look inside themselves. They can realize a freedom to be what they want to be, feel as they want to feel and think as they want to think. The result is individuals who better understand themselves. This self-understanding usually comes gradually from their personal insight into problems and their attempts to solve these problems. For this reason, non-directive counseling is far more time consuming and can involve many counseling sessions.

The leader communicates to the individual that someone is interested in listening to his problem. The leader is not the decision maker or advice giver but rather a listener. He tries to clarify statements, because the individual to bring out important points, understand the situation and summarize what was said. The leader should avoid giving solutions or opinions. He may, however, provide certain facts when the individual requests or needs them to continue.

*Combined*

In the combined approach to counseling, the leader uses part of the directive and non-directive approaches. This allows the leader to adjust the technique to emphasize what is best for the team member. There isn't one single-best approach for all situations. The combined approach, which blends the leader's ability and personality to fit the situation, is the most frequent choice.

The combined approach assumes that the individual must eventually be responsible for planning and decision-making. The individual will take charge of solving the problem but may need some help along the way. This approach allows both the leader and the team member to participate in defining, analyzing and solving the problem. Still, the purpose is to develop self-reliant team members who can solve their own problems. The leader can be directive, however, when a team member seems unable to make decisions or to solve a particular problem. In counseling an individual for poor performance, it may be best to switch to a non-directive approach.

The technique involved in the combined approach often follows the problem-solving process. While the individual is talking, the counselor should listen for information to define the problem. This will help form a basis for suggesting solutions. He may suggest all the possible courses of action, or he may suggest just a few and then encourage the individual to suggest the others. The counselor helps analyze each possible solution to determine its' good and bad points and its' possible side effects. The counselor then helps the individual decide which solution is best for him and the particular situation. The team member is enabled and encouraged to assume as much responsibility as possible. The decision whether or not to implement a solution is the individuals.

**Performance counseling Skills**

The most difficult part of counseling is applying the proper techniques to specific situations. To be effective the technique must fit the situation, your capabilities, and the individual's expectations. In some cases, a problem may call for a brief word of praise. In other situations, structured counseling followed by definite action may be appropriate.

A leader may learn one or two techniques but still may lack the skills necessary to be an effective counselor.

All leaders should seek to develop and improve their counseling skills. Counseling skills are developed by studying human behavior, knowing the kinds of problems that affect individuals, and becoming good at dealing with people. These skills, acquired through study and through practical application of counseling techniques, vary with each session. They can generally be grouped as:

- Active listening
- Responding
- Questioning

*Active listening*

Listening skills involve the counselor concentrating on what the individual says and does. Thus, the counselor can tell whether or not the individual accepts what is said, understands what is important and understands what the counselor is trying to communicate.

Spoken words by themselves are only part of the message. For example, the leader must recognize the amount and type of emotion used by an individual when describing his concerns or problems. The emotion provides a clue to determine whether the individual is a symptom or the problem itself. The tone of voice, the inflection, the pauses, the speed, the look on the individual's face, are all parts of the total message.

One important skill is active listening. Part of active listening is concentrating on what the individual is saying. Another part is letting the individual know the counselor is understanding what is said. Elements of active listening that the counselor should consider include:

- eye contact
- posture / attentive silence
- head nod / one-word responses
- facial expressions
- verbal behavior
- paraphrasing
- in / out note taking

Active listening also means listening thoughtfully and deliberately to the way an individual says things and being alert for common themes of discussion. Opening and closing statements,as well as recurring references, may indicate the ranking of his or her priorities. Inconsistencies and gaps may indicate that the individual is not discussing the real problem or is hiding something. Often, an individual who comes to the leader with a problem is not seeking help for that problem; rather he is looking for a way to get help with another, more threatening problem. Confusion and uncertainty may indicate where questions need to be asked.

While listening, the counselor must also be aware of the individual's non-verbal behavior. These actions are part of the total message being sent. Many situations involve strong personal feelings. The individual's actions can demonstrate the feelings behind the words. Not all actions are proof of an individual's feelings, but they must be watched. It is important to note differences between what the individual is saying and doing.

*Responding*

Responding skills are a follow-up to listening and watching skills. From time to time the leader needs to check his understanding of what the individual is saying. The counselor's response to the individual should clarify what has been said. Responses should also encourage the individual to continue. As part of active listening, responding skills allow a leader to react to nonverbal clues that the individual is giving.

*Questioning*

Although a necessary skill, questioning must be used with caution. Too many questions can aggravate the power differential between managers and employees and place the employee in a passive mode. The employee may also react to excessive questioning as an intrusion of privacy and become defensive. Generally the questions should be open-ended to gain insight into an employee's performance related problems. Wee-posed questions may help to verify understanding, encourage further explanation, or help the employee move through the stages of the performance counselling session.

**The Counseling Process**

Preparation is the key to a successful coaching session. Sometimes, however, planning is not possible. This is the case when an individual asks for immediate help or when you give a pat on the back or make an on-the-spot correction. In such situations, however, knowing the individuals and their roles/responsibilities mentally prepares you to respond to their needs. This allows you to always provide effective and timely guidance.

In preparation for scheduled counseling sessions, you should consider the following points:

- Notify the individual
- Schedule the best time
- Choose a suitable place
- Decide the right atmosphere
- Plan the discussion

<u>Performance Coaching</u>

The term coaching typically refers to methods of helping others to improve, develop, learn new skills,find personal success, achieve aims and to manage life change and personal challenges. Coachingcommonly addresses attitudes, behaviours, and knowledge, as well as skills, and can also focus onphysical and spiritual development too.

Performance coaching is:

- A series of conversations that are designed and conducted to enhance someone's wellbeing or performance.
- A process that both parties enter into willingly with clear expectations and agreements on how the process will work.
- A relationship, or partnership, that allows anything to be asked, said or considered.
- Based on the premise that performance in any field can be enhanced by creating a partnership and setting aside time to explore in conversation how performance might be taken to a new level.

Performance coaching can be described as a series of guided conversations that enable the "coachee" to discover and implement personal solutions to challenging issues or areas of performance. These solutions, because they are intrinsic to the "coachee," are more likely to succeed and endure than solutions imposed externally.


Fig1: Performance Coaching

*Features of coaching:*

Usually coaching contains some or all of these features:

- one-to-one - involving a coach (teacher, trainer, mentor, coach) and learner (student, trainee, sometimes called the 'coachee')
- on-going and regular - coaching is commonly a continuing arrangement
- personalized - by the coach for the individual learner
- enabling - rather than prescriptive or imposed
- adapted and adaptable - to the changing needs of the learner
- planned - the coach normally works to a plan or structure
- model-based - coaching tends to be based on a structured 'proven' tested concept or methodology
- focused on aims - coaching normally works towards achieving agreed measurable outcomes or targets
- measured and recorded - by the coach, and/or the learner
- time-based - coaching sessions, schedules, and outcomes normally are time-bound

Types of coaching:

- Skills coaching: Helps clients develop a specific skill set (e.g., improved communication, presentation, or negotiation skills). Coaching interventions are usually short-term (three to six sessions), focused on specific behaviours, and involve a detailed modelling, rehearsal, and feedback process.
- Performance coaching: Aims at improving performance over a specific period of time (one month to two years). It focuses on the way clients set goals, deal with challenges, and monitor and appraise their performance as they work toward their goals.

- Developmental coaching: Helps clients deal with more intimate questions of personal and professional development (e.g., building emotional competencies or collaborating more successfullywith team members). Sometimes termed “therapy for people who do not need therapy”, it creates a personal reflective space where clients can explore challenges and opportunities for change in a confidential, supportive environment.

The Coaching Process

Coaching is a major responsibility for every manager, and for many people, it can be a major challenge. Managers need to be able to maintain performance standards, be certain people are following policies and procedures, and hit individual and team targets—through other people.

*Step One: Identify the Opportunity*

There are five ways to identify opportunities.

- You identify an opportunity for another person.
- An individual identifies an opportunity for themselves.
- A customer, vendor, or other outsider identifies an opportunity.
- You identify new skills needed within your team.
- A situation creates an opportunity.

These different opportunities may arise due to a new need or out of taking on a new job or project that requires a new skill, or they may come out of a performance review or be identified after a mistake occurs. Multiple opportunities arise for people on your team, and it is your job as a manager to prioritize those needs to keep others on your team from getting overwhelmed by the possibilities. Jot down some opportunities that you see for yourself or for others in your workplace. Are you the right person to point out these needs? What is the best way to do so?

*Step Two: Picture the Desired Outcome*

Once the opportunity is identified, it is important to take the time and pinpoint what the situation will look like when the gap is filled. This is the step that many people skip or don’t develop fully, which can lead to confusion, misunderstanding, and frustration for everyone. One of the most importantconcepts in coaching is having a vision or end goal in mind. Without that, people often lose sight of the importance of making the needed changes. How we create this picture of what is possible is the central component of this step in the coaching process. People with a clear vision of the end result of coaching tend to move in that direction more quickly than those without. It is crucial that both the coach and the trainee own the goal. Without that sense of ownership, coach or trainee may lose motivation. We focus on motivation and buy-in even more in the next step of the process, but this is where direction and motivation really begin.

*Step Three: Establish the Right Attitudes*

How well you really know your team may determine how quickly you know if you have the right trainee for the job and are able to gage their motivation. This step is a critical part of the process of effective coaching. Without it, you spend a great deal of your time just overcoming resistance.You often hear that people resist change. It isn't true. People resist being changed when they:

*Don't see the need, Don't want to do it, Believe that the change is not possible for them*

In this step, you should focus on some of the skills required to cut resistance and move through the coaching process with less friction. These skills are: *Leadership, Communication, Building trust,Getting commitment vs. compliance*

*Step Four: Provide the Resources*

In order for a coaching process to be successful, it is important the appropriate resources available. This includes time and, most importantly, a personal commitment to succeed from everyone. Other resources may include money, equipment, training, information, and upper level buy-in and support. Ensure that the appropriate resources are in place and available. Nothing is a frustrating as being promised something and then not getting it. It can make everyone feel like they have been set up to fail.

*Step Five: Practice & Skill Development*

Once the resources are in place and the correct skill set has been identified, explained, and demonstrated, it is now time for the trainee to practice and apply what has been learned. For knowledge to evolve into a skill, you must practice it and perfect the skill with the help of a coach, who can ensure that you are practicing the new skill and not the old habit.

Practice also allows the coach to identify strengths and opportunities for improvement.

How to encourage others to success

How closely to monitor and when to let go

How to hold others accountable for progress

*Step Six: Reinforce Progress*

Making progress is one thing, but without a way to reinforce and maintain it, people may quickly go back to their old habits. One of the biggest fallacies managers hold on to is the assumption that if people know something, they will do it. People don't do what they know; they do what they have always done.

Try to use these strategies to reinforce learned skills: Empowering people to get results after they have learned new skills, Giving the right kind of feedback, Following up, Handling nonperformance issues, Handling mistakes and people who get off track

*Step Seven: Reward*

One of the best ways to cement growth and progress is to reward it. Rewarded behavior is repeated, and what gets repeated becomes habit. But change can be uncomfortable. That is why people often revert to their habits if reinforcement and reward are not motivating forces. Habit is stronger than knowledge. To ensure that change happens quickly and is kept in place as long as needed, celebration and reward are important.

Some of the skills you put into coaching in this step of the process are: Praise and recognition, Positive feedback techniques, Recognizing people's strengths and accomplishments, Having the right credibility and impact in the delivery

## Module IV

Reward Systems and Legal Issues

Performance Management linked Reward Systems:

**Reward Management:**

Reward management involves the analysis and effective control of employee remuneration and covers salary and all benefits. It assesses the nature and extent of rewards and the way they are delivered as well as considering their effect on both the organization and staff.

*Reward management is about the design, implementation, maintenance, communication and evolution of reward processes which help organizations to improve performance and achieve their objectives.*

*Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization.*

Reward processes are based on reward philosophies and strategies and contain arrangements in the shape of policies and strategies and contain arrangements in the shape of policies, guiding principles, practices, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of reward. This constitutes the financial reward aspect of the process which incorporates processes and procedures for tracking market rates, measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, reward management is not just about money. It is also concerned with those non-financial rewards which provide intrinsic or extrinsic motivation.

The key issues facing reward management are:

- How to ensure that reward management strategies support the achievement of the organization's business strategies and satisfy the needs and aspirations of employees for security, stability and career development?
- How to achieve internal equity and external competitiveness?

- How to respond to a fragmenting pay market and maintain a reasonably coherent pay structure?
- How to concentrate on rewarding for output and maintain, indeed enhance quality standards?
- How can we reward individual performance and contribution and promote teamwork?
- How to introduce sophisticated performance management process and ensure that managers are committed and have the skills required to get the best out of them?
- How can we give high rewards to high achievers and motivate the core of the employees upon whom we ultimately have to rely?
- How to achieve consistency in managing reward processes and provide for the flexibility needed in ever-changing circumstances?
- How can we devolve power to the line managers to manage their own reward processes and retain sufficient control to ensure that corporate policies are implemented?
- How to continue to provide motivation for those who have reached the top of their pay range and maintain the integrity of the grading system and contain costs?
- How to introduce more powerful pay-for-performance schemes and ensure to get value of money from them?
- How to deliver the message that improved performance brings increased reward and cap bonus earnings to cater for windfall situations or a particularly loose incentive scheme?
- How to operate enterprise-wide bonus scheme and ensure that they increase motivation and commitment?
- How to reward people for their outputs and their inputs?How to operate job evaluation schemes as a means of allocating and controlling gradings in a formal hierarchy and cater for the role flexibility which is increasingly required in the organization?

**Key Reward Management Trends:**

Following are the key reward management trend in today's scenario.

- Greater sensitivity to sector and functional market practice to enable more effective market positioning to help with attracting and retaining high caliber employees.
- The implementation of increasingly focused performance awards starting at the top and working down through organizations as performance orientation increases.
- Pay increases linked to market worth and individual or team performance-not service and/or cost of living.
- More attention given to achievement or success-oriented individual bonuses rather than payment increases in base pay.
- A move towards team pay as the importance of teamwork increases.
- More flexible pay structures based on job families and using broader pay bands or pay curves.
- More integrated pay structures covering all categories of employees.

- A growing linkage between pay practice and training and development initiatives through the design and implementation of skills and competency based pay processes which reward the acquisition and use of new skills and behaviors.
- The development of integrated performance management systems with the emphasis on coaching development, motivation and recognition through the identification of opportunities to succeed.
- A search for simpler and more flexible approaches to job evaluation which enable a move away from the control of uniformity to the management of diversity. This will make use of techniques such as job family modeling and computer assisted job evaluation.
- Increased awareness of the need to treat job measurement as a process for managing relativities which, as necessary, has to adapt to new organizational environments and much greater role flexibility and can no longer be applied rigidly as a system for preserving existing hierarchies.
- More emphasis on the choice of benefits and ‘clean cash’ rather than a multiplicity of perquisites.
- Greater creativity and sensitivity in benefit practice.

**Purpose and Aim**

The purpose of a pay structure is to provide a fair and consistent basis for motivating and rewarding employees.

The aim is to further the objectives of the organization by having a logically designed framework within which internally equitable and extremely competitive reward policies can be implemented, although the difficulty of reconciling often conflicting requirements for equity and competitiveness has to be recognized.

The structure should help in the management of relativities and enable the organization to recognize and reward people appropriately according to their job role size, performance, contribution, skill and competence. It should be possible to communicate with the aid of the structure the pay opportunities available to all employees.

The pay structure should also help the organization to control the implementation of pay policies and budgets.

**Criteria for Pay Structures**

Pay structure should:

- Be appropriate to the characteristic and needs of the organization: its culture, size and complexity, the degree to which it is subjected to change and the type and level of the people employed.
- Be flexible in response to internal and external pressures, especially those related to market rates and skills shortages.
- Facilitate operational and role flexibility so that employees can be moved around the organization between jobs of slightly different sizes without the need to reflect that size variation by changing rates of pay.
- Give scope for rewarding high level performance and significant contributions while still providing appropriate rewards and recognition for the effective and reliable core employees who form majority in most organizations.

- Facilitate rewards for performance and achievement.
- Help to ensure that consistent decisions are made on pay in relation to job size, contribution, skill and competence.
- Clarify pay opportunities, development pathways and career ladders.
- Be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees.
- Enable the organization to exercise control over the implementation of pay policies and budgets.

Reward management has an important part to play in the development of cultures in which individuals and teams take responsibility for continuous improvement. It affects organizational performance because of the impact it has on people’s expectations as to how they will be rewarded

Organization must reward employees because in return, they are looking for certain kind of behavior; they need competent individuals who agree to work with a high level of performance and loyalty. Individual employees, in return for their commitment, expect certain extrinsic rewards in the form of salary, promotion, fringe benefits, perquisites, bonuses or stock options. Individuals also seek intrinsic rewards such as feelings of competence, achievement, responsibility, significance, influence, personal growth, and meaningful contribution. Employees judge the adequacy of their exchange with the organization by assessing both set of rewards.

Reward system or management usually means the financial reward on organization gives its employees in return for their labour. While the term, reward system, not only includes material rewards, but also non-material rewards. The components of a reward system consist of financial rewards (basic and performance pay) and employee benefits, which together comprise total remuneration. They also include non-financial rewards (recognition, promotion, praise, achievement responsibility and personal growth) and in many case a system of performance management. Pay arrangements are central to the cultural initiative as they are the most tangible expression of the working relationship between employer and employee.

Why reward system is required?

These components will be designed, developed and maintained on the basis of reward strategies and policies which will be created within the context of the organizations between strategies, culture and environment: they will be expected to fulfill the following broad aims;

- Improve Organizational Effectiveness: Support the attainment of the organization's mission, strategies, and help to achieve sustainable, competitive advantage.
- Support and change culture: Under pin and as necessary help to change the 'organizational culture' as expressed through its values for performance innovation, risks taking, quality, flexibility and team working.
- Achieve Integration: Be an integrated part of the management process of the organization. This involves playing a key role in a mutually reinforcing and coherent range of personal policies and process.
- Supportive Managers: Support individual managers in the achievement of their goals.

- Motivate Employees: Motivate employees to achieve high levels of quality performance.
- Compete in the Labour Market: Attract and retain high quality people.
- Increased Commitment: Enhance the commitment of employees to the organization that will a) want to remain members of it, b) develop a strong belief in and acceptance of the values and goals of the organization and c) be ready and willing to exert considerable effort on its behalf.
- Fairness and Equity: Reward people fairly and consistently according to their contribution and values to the organization.
- Improved Skills: Upgrade competence and encourage personal development.
- Improved Quality: Help to achieve continuous improvement in levels of quality and customer service.
- Develop team working: Improve co-operation and effective team working at all level.
- Value for money: Pride value for the money for the organization.
- Manageable: Be easily manageable so that undue administrative burdens are not imposed on managers and members of the personal department.
- Controllable: Be easily controllable so that the policies can be implemented consistently and costs can be contained within the budget.

**Objectives of Reward Management:**

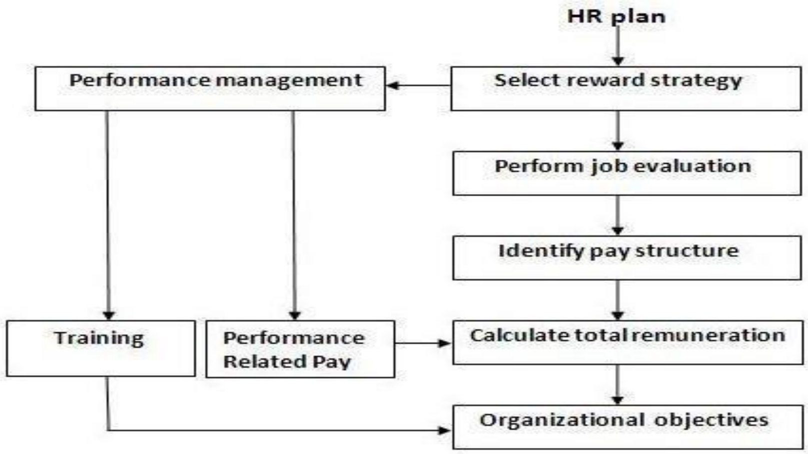
- To reduce the dissatisfaction of the employees on promotion criterion
- To reduce the dissatisfaction of the employees on appraisal system
- To reduce the dissatisfaction of the employees on salary, bonus and other fringe benefits.
- To improve the work performance
- To improve the productivity
- To reduce the level of occupational stress that arises from feeling of inequality on reward
- To reduce the perceptional gap on reward management system and develop a culture of high performance.

**Reward Management Process:**

Reward management is a central activity to regulate the employer-employee relationships. Employers use a wide variety of rewards to attract and motivate the employees and retain their interest in the job.

The design of the reward system for employees is subject to internal and external factors affecting an organizations performance. Also, the organizational objectives are kept in mind before designing the reward structures.

The reward management process is illustrated as follows:




The Reward Management Process

**Components of Reward System:**

- Strategic reward
- Total rewards
- Financial & Non-financial rewards
- Valuing jobs through job evaluation and market pricing
- Grade & Pay structure
- Pay progression through contingent & service related schemes
- Recognition scheme
- Employee benefits and pensions

**Strategic Rewards:**

- It is the process of planning the future development of reward practices through the formulation and implementation of reward strategy
- It can be described as an attitude of mind- the view that is necessary to plan ahead and make the plans happen
- It is based on beliefs about what the organization values & wants to achieve. It does this aligning reward practices with both business goals and employee values.

**Total Rewards:**

The concept of total rewards describes an approach to reward management which emphasizes the need to consider all aspects of the work experience of value to employees, not just a few, such as pay & employee benefits

The aim of total rewards is to blend the financial & non-financial elements of reward into a cohesive whole.

It is view of reward which looks at the overall reward system in order to determine how its elements should be integrated so that they provide mutual support in contributing to the overall effectiveness of the system.

***Financial Rewards:***

All rewards have a monetary value and add up to total remuneration- base pay, contingent pay & employee benefits

The management of a reward system requires decisions of level of pay, how jobs should be valued, the design of operation of grade & pay structures and choice of benefits.

***Non-financial Rewards:***

Rewards are not involving the payment of salaries, wages or cash which focus on the needs people have to varying degrees of achievement, recognition, responsibility, autonomy influence & personal growth.

Job Evaluation:

A systematic and formal process for defining the relative worth or size of jobs within an organization in order to establish internal relatives.

It is carried out through either an analytical or an analytical scheme

Market Pricing:

It is the process of obtaining information on market rates to inform decisions on pay structures and individual rates of pay. It is called “extreme market pricing.”

In short, we can say that it is the process of establishing market going rates

Grade & Pay Structures:

A hierarchy of job grades to which are attracted pay ranges which provide scope for payprogression based on performance, contribution, competence or service.

Pay Progression:

This basis upon which pay increases within a pay structure. It may be contingent on performance, contribution or skill or it may take place in the form of fixed increments related to service.

Recognition Scheme:

An arrangement to recognize a person's achievement publicly or by a gift or a treat.

Employee benefits:

Arrangements for providing personal security, financial assistance or company car and for satisfying personal needs.

**Linkage of Performance Management to Reward and Compensation Systems:**

An effective reward system should be linked with the performance development system, which focuses on performance based pay and offers ample learning opportunities along with a healthy work environment. Variable pay can play a crucial role in boosting the performance of the employees especially the star performers instead of the fixed pay packages. Few such reward practices may takethe forms of gain sharing, bonuses, team based incentives, profit sharing, ESOP's and equity based incentive awards.An efficient management of reward system may have a beneficial effect upon the performance in several ways - instilling a sense of ownership amongst the employees, may facilitate long term focus with continuous improvement, reduces service operating costs, promotes team work, minimizes employee dissatisfaction and enhanced employee interest in the financial performance of the company. Few organizations like General Mills, reward their employees for attaining new skills which may add value to the organizational performance and thereby facilitate job rotation, cross training and self-managed work teams. Few organizations also recognize exceptional performance by providing recognition awards and lump-sum merit awards for winning employee commitment and attaining long term beneficial results. Example, TISCO, offers instant or on the spot rewards, monthly rewards and annual rewards to its employees under its 'Shabashi scheme'.

A healthy pay for performance strategy should incorporate the following components as is provided in the table given below:

Pay for Performance Strategy

| Category | Performance Measures | Basis for Rewards |
|---|---|---|
| Corporate Leaders | BSC, shareholders returns and EVA | Employee stock ownership and profit sharing. |
| Business Unit Leaders | Profitability of the unit | Results Sharing. |
| Functional Leaders | Level of contribution towards the corporate goals | Milestone Awards |
| General Employees | Specific KRA's achieved measured periodically | Profit/gain sharing, bonuses |

Source: Sullivan E (1999), "Moving to a pay for performance strategy: Lessons from the Trenches", In Risher, H(Ed.), Aligning Pay and Results, AMACOM:NY.

Today, variable pay is a very vital component in the reward practices of an organization and it differs across various sectors also. A table given below presents the trends in the usage of variable pay component across different sectors in two different years:

Rewards can be a vital source of motivation for the employees but only if it is administered under right conditions. Few strategies which improve the effectiveness of rewards are given below:

- Linking rewards with the performance
- Implement team rewards for the interdependent jobs for example Xerox.
- Ensuring that the rewards are relevant. Example Wal-Mart, rewards bonuses to the top executives which is based on the company's overall performance whereas the frontline employees earn bonus on the basis of the sales figure or targets attained by their store.
- Ensuring that the rewards are valued by the employees.
- Checking out for the undesirable consequences of administration of any reward practice.

Besides the monetary rewards, the contemporary employees desire for non monetary rewards which may be in the form of better career opportunities, skills development and recognition programs. Many IT and project based organizations give much importance to non-monetary rewards for maximizing employee satisfaction.

***Seven Steps to Successful Performance-Based Rewards:***

- Develop clear expecta1tions. Before they can develop effective performance-based rewards, senior management must know what it expects of employees and be able to articulate those expectations through clearly defined goals. Because overall organizational goals may not apply to all employees, it is important to break down broad organization goals into specific goals for each division, department, group and, sometimes, individual employees. Big Foods understood this need and communicated its priorities to its sales force by providing the highest per unit incentive products in its Develop category.
- Create a clear line of sight. Employees must see that their direct efforts will impact the results that management wants. No one wants to be held accountable for something they cannot directly effect. With the proper training and direction, the more experienced sales people in Big Foods were quickly able to redirect their sales efforts to increase market share in the Develop product lines in order to earn worthwhile incentive payouts.
- Set achievable goals. Performance-based rewards must be tied to either individual or group goals that have a reasonable chance of being achieved. If the goals are such a stretch that most employees believe that they cannot be attained, the program is doomed from the outset. Few will be motivated to try to achieve such goals; others will become discouraged early on. On the other hand, goals should not be so easy that incentives are paid for results that would have otherwise been achieved through normal effort. To prevent either of these scenarios, Big Foods trained employees to sell its new products and to recognize the characteristics of the customers most likely to buy them. Through the training program,

management communicated to the sales force the potential of the new products and convinced them of the probability of success.

- Establish a credible measurement system. Sales incentive plans, like the one developed by Big Foods, are among the easiest performance-based rewards programs to establish because sales can be measured quantitatively. In all types of performance-based rewards programs, it is essential to provide quantitative measures of results. The less quantifiable the measurement, the greater the role of subjective judgment in deciding rewards, and the greater the potential for dispute and participant dissatisfaction. If performance-based rewards are to succeed, participants must have faith in the fairness of the measurement system. In addition, the calculation of the measurement should be understood and agreed upon by both management and participants at the beginning of the performance period.

  In many cases, the performance of staff professionals is measured using Management by Objectives, which includes both quantitative and qualitative goals. In these situations, a company must rigorously establish qualitative measures that do not leave too much of an employee's performance to supervisory discretion. When much of the appraisal is subject to judgment, the credibility of the performance-based program is at risk. Employees are concerned that management can manipulate the results to reward those they favor instead of those whose performance is outstanding.
- Empower employees.Employees need to believe not only that the goals against which theyare measured and rewarded are achievable, but that they are capable of achieving those goals. Have employees been adequately trained in the skills that they need for superior performance? Do employees have the information they need to make intelligent decisions? Are employees empowered to make decisions on their own? Are other departments cooperating and providing these employees with information on a timely basis? In short, is the entire system geared to maximum productivity, communication and cooperation? If the answers to these questions are no, companies must be prepared to see the incentive system backfire and result in more stagnation, resentment and mistrust of management.To avoid this, Big Foods segmented the marketplace based on its new product categories (Develop, Maintain and Harvest) and provided employees with the latest market research. Big Foods also focused its more seasoned sales people on the Develop products while assigning the less experienced salespeople to the Maintain and Harvest product lines. This approach not only freed the experienced sales people to devote more time to the new products, it provided a better training opportunity to less experienced personnel. Although the Maintain and Harvest products had lower per unit incentives, these products were easier to sell in an already established marketplace.
- Make rewards meaningful. Researchers in the field of compensation have long held that, for incentives to be truly effective the actual reward must be significant--that is, 15% to 20% of base pay. Big Foods set its annual target awards at 25% of base pay for achieving goal; however, the award could increase to as much as 40% of base pay for superior performance. This was a significant increase over the old plan which had a maximum award of 30% of base pay. Performance-based rewards programs that provide marginal rewards-that is, less than 10% of base pay-are rarely motivational enough to change behavior and are probably not worth the trouble and expense involved in implementation.

- Make payouts immediate. There should be as little time as possible between employee performance and the related payout. Employees need to "feel" the impact of their efforts by quickly experiencing the results.

Many performance-based rewards programs are based on full-year performance results because it makes sense from a management point of view. After all, company performance is most often judged on annual results. However, for the connection between performance and reward to be truly motivational, companies should strive for a much shorter time frame for incentive payouts whenever possible for example, on a quarterly or semiannual (as Big Foods has chosen to do) basis. This is particularly important in companies developing incentives for lower-level, nonexempt employees. The time from performance to payout for this population should be as short as possible. Unlike exempt employees who tend to be accustomed to annual incentive systems, nonexempt employees often live from paycheck to paycheck and need to see an immediate connection between their efforts and their rewards.

These seven steps should guide every performance-based rewards program from gain sharing plans that reward production workers for minimizing production costs to stock-based programs that reward executives for increasing shareholder value. No matter what type of performance-based rewards program a company adopts, these steps must be completed and reviewed periodically to ensure that the program is achieving its objectives.

**Pay for Performance Plans**

Pay is the first reward system available to managers or owners. The pay system is one ofthe most importantmechanisms that firms and managers can use to attract, retain, and motivate competent employee’s to perform in ways that support organizational objectives. It also has a direct bearing on the extent to which labor costs detract from or contribute to business objective and profitability.

Under pay for performance plan, pay varies with some measure of individual, team and organizational performance.

Methods of pay:

- Base pay:It is the first and the largest element of total compensation. It comprises fixed pay an employee receives on a regular basis, either in the form of a salary or as an hourly wage. It is determined by market conditions
- Merit pay: It is paid according to predetermined criteria.
- Pay for performance: Pay for performance is typically a financial incentive employees receive for meeting a certain performance objective or target. Companies use this type of system to motivate employees to achieve results that increase profits or improve service. Examples of incentives might include bonuses for perfect attendance, meeting a certain service quality target, and achieving a specific sales growth target
- Purpose of Pay for performance:achieve a strategic business objective;are flexible in that their variable component could absorb downturns in business and reduce labour costs;are oriented

towards better performance in terms of productivity, quality, profit, etc;are capable of enhancing workers' earnings through improved performance;are capable of reducing the incidence of redundancies in times of recession or poor enterprise performance through the flexible component of pay;are able to reward good performance without increasing labour costs, andare able to attract competent staff.

The criteria for the determination of performance pay should be:

- objective
- measurable and measure only what is important
- that it is operated along with an appraisal system which measures performance appropriately
- designed to feedback information to employees, and not only to management
- easily understood
- related to what is controllable, so as to exclude what is beyond the control of employees.

Types of Pay for Performance Plans:

- Individual Based Pay
- Team Based Pay
- Plant wide Pay
- Corporate wide pay

Individual-based plans ofMerit pay

oPiece-rate system o Bonus programs

oLump-sum paymentsoIndividual spot award

Individual incentive plans

Merit pay: A common method which has long been in existence is pay increases - in the form of increments, for example, for individual performance. Its workability and effectiveness depend on the existence of a suitable performance appraisal system, which has often been found to be lacking. Due to its integration into the salary, it is not lost due to poor performance later, and therefore may cease to be an incentive. Piece-rate system: A compensation system in which employees are paid per unit produced.

Bonus Individual bonus programs are given on a one time basis and do not raise the employee's base pay permanently. Bonuses tend tobe larger than merit pay increases because they involve lower risk to the employer.

Bonuses can also be given outside the annual review cycle when employees achieve certain milestones or offer a valuable cost-saving suggestion.

These are thought as the substitute for merit pay and are earned at the end of a specified time period, such as monthly, quarterly, or annually, when an employee achieves a specific level of his work or quota.

Lump-sum payments: Single large payment made all at once, in lieu of several smaller payments made at regular or infrequent intervals.

Individual spot award: Spot Awards are generally for a special contribution accomplished over a relatively short time period. A Spot Award lets employees know that someone has noticed their noteworthy contribution. It is paid in in the form of tangible prize like Paid vacation, a television set, service medal etc.

Individual incentive plans: It give employees a personal stake in achieving a higher productivity rate or other company goal. It aimed at increasing employee productivity.

Advantages:

- Performance that is rewarded is likely to be repeated (reinforced)
- Expectancy theory: people tend to do those things that are rewarded
- Can shape an individual’s goals over time
- Helps the firm achieve individual equity

Disadvantages:

- May promote single-mindedness
- Employees do not believe pay and performance are linked
- They may work against achieving quality goals, and they may promote inflexibility.

**Team Based Pay**

Teambased pay plans normally reward all team members equally based on group outcomes. These outcomes may be measured objectively or subjectively whether the criteria for defining a desirable outcome are broad or narrow. As in individual-based programs, payments to team members may be made inthe form ofa cash bonus orinthe form of non-cash awards such astrips,time off, or luxury items. Team-based pay mostly paid in the form of bonuses and awards.

Advantages of team-based-pay-for-performance plans

- They foster group cohesiveness.
- They aid performance measurement

Disadvantages of team-based-pay-for-performance plans

- Possible lack of fit with individualistic cultural values
- The free-riding effect
- Difficulties in identifying meaningful groups
- Inter-group competition leading to a decline in overall performance

**Plant wide Pay**

- Rewards all workers in a plant or business unit based on the performance of the entire plant or unit
- Not the performance of the whole corporation, but the efficiency within a unit
- Normally measured in terms of labor or material cost savings compared to an earlier period

Three common types of plant wide pay are:

- Bonuses

- Awards
- Gainsharing

*Gainsharing*A portion of the company’s cost savings is returned to workers

Usually in the form of a lump-sum bonus

Conditions to be considered

- Firm size
- Technology
- Historical performance
- Corporate culture
- Stability of the product market

Three major types of gainsharing plan:

- Scanlon Plan
- Rewards labor savings, most appropriate for companies that have a "high touch labor" content. Scanlon Plans focus on the cost of labor and encourage cooperation among employees.
- Rucker Plan
- Most appropriate for organizations that want to improve other variables, such as scrap reduction or energy consumption, in addition to labor.
- Improshare

It stands for "Improved productivity through sharing" and is a more recent plan. With this plan, a standard is developed that identifies the expected number of hours to produce something, and any savings between this standard and actual production are shared between the company and the workers.

Advantages

- eliciting active employee input
- increasing the level of cooperation
- fewer measurement difficulties
- improved quality

Disadvantages

- protection of low performers
- problems with the criteria used to trigger rewards
- management-labor conflict

Corporate-wide Plans

Macro type of incentive program and is based on the entire corporation's performance

- Profit-sharing plans

Cash plans-Employees receive cash shares of the firm’s profits at regular intervals.

The Lincoln incentive system-Profits are distributed to employees based on their individual merit rating.

Deferred profit-sharing plans-A predetermined portion of profits is placed in each employee's account under a trustee's supervision.

Employee stock ownership plans (ESOPs)-A corporation annually contributes its own stock—or cash (with a limit of 15% of compensation) to be used to purchase the stock—to a trust established for the employees.

The trust holds the stock in individual employee accounts and distributes it to employees upon separation from the firm if the employee has worked long enough to earn ownership of the stock.

Advantages

- Financial flexibility for the firm
- Increased employee commitment
- Tax advantages

Disadvantages

- Risk for employees
- Limited effect on productivity
- Long-run financial difficulties.
- Potential drawbacks of pay for performance plan
- Do only what you get paid for
- Decrease intrinsic motivation
- Decrease job satisfaction
- Increase stress
- Negative effects due to competitions between individuals or groups

***Do only what you get paid for***

This is one of the organizational factors that contribute to the challenge of implementing performance-oriented compensation plans.

This syndrome implies "the closer a compensation is tied to particular performance indicators, the more employees tend to focus on those indicators and neglect other important job components.

New Pay Techniques

Commissions beyond sales to customers

It is an incentive plan in which employees are given commission on factors other than sales to customers. These factors may include customer satisfaction etc.

Rewarding leadership roles

This incentive plan is linked with the leadership ability of the managers. It is based on employee satisfaction and the ability of the manger to produce the desired results for the organization

Rewarding new goals

As indicated by the name, this plan is linked with the employee's ability to achieve other goals than the core goals of profits and sales. These goals may include an improved productivity or customer satisfaction etc.

Pay for knowledge

This plan is based on the knowledge of the workers in the organization. For example in a team, some of the employees may be more knowledgeable than the others; therefore, they are paid more.

Skill pay

Under this plan, employees are paid on the basis of their skills rather than the job they perform.

Competency pay

This plan tends to reward the competencies of the employees which are not visible but are useful for the organization. For example an employee may know more than one language.

Broad-banding

This refers to setting a range of pay within which certain employees may exist. For example, the pay rangefor middle level managers may be 10,000 to 50,000. The top management may increase pay within these limits and does not need any pay grading system.