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BLOCK 2:

PERFORMANCE MANAGEMENT FRAMEWORK

The second block on the course on Performance Management and Reward System (PMRS)  
deals with

understanding the development, implementation, and evaluation of the performance management system itself. The block contains three units. Unit four deals with developing an appropriate performance management framework. Unit five deals with the designing and launching of a performance management system. Unit six takes a look at ways in which the performance management system can be evaluated. Unit four, Developing the Performance Management Framework, opens with a discussion on the factors that affect performance management. This is followed by an in-depth analysis on how to develop the performance management framework. The unit then describes three important performance measurement techniques – Budgeting, Economic Value Added, and Balanced Scorecard. Subsequently, there is an examination of the important characteristics of a good measure of performance. The unit closes with an in-depth discussion on the desirable features of a performance management system.

Unit five, Designing and Launching the Performance Management System, begins with a discussion on the various stages in the designing of the performance management system.

It also discusses the possible barriers that can arise in the launching of the performance management process. Unit six, Evaluation and Maintenance of Performance Management, thoroughly examines the various desired areas of evaluation. It then goes on to discuss the different evaluation methods along with their consequences. This is followed by an in-depth discussion on performance monitoring along with its objectives. The unit closes with a discussion on the various methods of monitoring performance.

Unit 4 Developing the Performance Management Framework Structure 4.1 Introduction 4.2 Objectives 4.3 Environmental Factors 4.4 Devising a Performance Management Framework 4.5 Gathering Information 4.6 Performance Measurement Techniques 4.7 Characteristics of Good Performance Measures 4.8 Desirable Features of a

Performance Management System 4.9

Summary 4.10 Glossary 4.11 Self-Assessment Test 4.12 Suggested Readings/Reference Material 4.13 Answers to Check Your Progress Questions “

The

real purpose of performance indicator is to provide business insight and monitor the progress and performance.” - Pearl Zhu 4.1 Introduction As has been propounded by Pearl Zhu, performance indicators or framework is a pertinent part of measuring the successes and failures of business. It allows organizational leaders to get an overview of how their business or individual department is performing at any given time. In the previous unit, we have discussed the key concepts associated with 360-degree feedback. Understanding the development of the performance management framework is necessary as organizations differ greatly from each other with regard to their organizational culture and the operating environment. In many cases, organizations lack a formal performance appraisal system altogether. This means that the entire performance management system has to be devised from scratch; in other cases, the organization may want to make changes in its present system in order to achieve the desired results. There cannot be a ready ‘standard’ model that suits all the organizations and which can be readily applied.

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Thus, it is vital to have an understanding of how the performance management framework can be devised. Along with this, it is necessary to have an understanding about the various measures of performance management. This unit focuses on the environmental factors that affect performance management. The important performance measurement techniques like budgeting, Economic Value Added and Balanced Scorecard are discussed in detail along with the characteristics of good performance management system. 4.2

Objectives After studying this unit, you should be able to: ?

Discuss the

impact of environmental factors on performance management ? Explain

how a performance measurement framework can be developed ? Examine the role of Budgeting, Economic Value Added and Balanced Scorecard in performance measurement ? Enumerate the features of good performance measures

? Enlist the features of a good performance management system 4.3 Environmental Factors The framework of performance management is greatly influenced by the internal environment of the firm. The internal factors that principally affect the environment are organizational culture and organizational structure. ? Organizational culture is a collection of values and norms that are shared by the members of the organization. It defines the way in which the members of the organization interact with each other and with external stake-holders. The performance management system must be devised in such a manner that it fits in with the existing culture and value system of the organization. ? Organizational structure refers to the hierarchical structure that helps achieve the organizational objectives in the best possible way. For instance, in centralized organizations, a particular approach is followed by the entire organization towards performance management. However, if there is a high degree of decentralization, each department has the freedom to devise the performance management function in the way that is most suitable for them. Example Zappos defined its corporate culture with its ten core values and its performance evaluations reinforce the culture. Managers do cultural assessments rather than performance evaluations and give employees feedback on their fit within the culture and how to improve on the same. For more details, check out <https://www.zappos.com/about/why-culture-matters> (accessed on 11/4/2022)

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Devising a Performance Management Framework The steps involved in devising a framework for performance management are enumerated below: Diagnostic review: A diagnostic analysis is required to determine what needs to be done, why it has to be done, and how it should be done.

Essentials of diagnostic review can be enumerated as follows: ? Thorough examination of the strengths and weaknesses of any previous arrangement for reviewing performance is required. ? An understanding of the strategic plans under operation in the organization has to be undertaken. ? An identification of the various stakeholders needs to be undertaken. ? During the process, there has to be utmost clarity on what would have to be done in order to achieve the key objectives of the organization. ? This would lead the appraiser to look for the skills and competencies that exist in the organization and would be required in the future to achieve the key objectives of the organization. ? Essentially, a fit between the organizational and individual objectives must be ensured. ? The diagnostic process should evaluate in terms of the costs and the benefits that accrue to the organization. Identifying the Crucial Drivers: The drivers are the long-term organizational goals that are desired to be achieved through the performance management system. The Key Performance Indicator (KPI) would measure the progress in achieving this 'difficult' aim by taking a measureable objective which can be one of the outcomes of achieving the organizational goal. Typically, the formulated KPIs must have the qualities of being specific, measureable, achievable, relevant, and time-based. These qualities are summed up by the popular acronym SMART. Procedural issues in Performance Management: Usually, performance management systems are introduced throughout the organization, from the senior level employees down to the line management. Taking the line management and employees along is essential. Some experts feel that the best way to do this is to establish a working group for the same purpose. Framework: A crucial step while determining the framework would be to develop an understanding of the various objectives or goals of the organization, in the order of importance. Related issues are defining and identifying the related

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competencies that would be required to achieve the desired goals, along with the associated desired performance measures. Implementation: The various aspects that needs to be considered during implementation are: ? An important aspect in implementation is communication, which plays an important role in ensuring the achievement of organizational aims and the desired objectives and the various nuances of the performance management system are clearly understood by all the employees. ? There should be a clear understanding of the level of performance that has to be attained in order to achieve the desired objectives. ? The information flows would have to be considered – including the feedback and feed-forward loops that would be necessary for an organization to learn from its experience. Pilot-testing: The framework should incorporate pilot-testing of the important aspects of performance management. This would enable the management to have a hands-on experience of the working of the system, so that any changes can be made in time before the results of the system start showing in their entirety after a span of one year. This is necessary to develop confidence in the performance management system. These are the essentials for devising a framework for performance management. Each and every organization, depending on its requirements, would address each of these issues in its own way. Exhibit 4.1 illustrates about Synergita, an employee performance management software. Exhibit 4.1: Employee Performance Management Software Synergita provides agile employee performance management, employee engagement and (Objective and Key Results) OKR solutions to an organization that thrives to achieve high performance-driven growth. Features of Synergita ? AI-powered sentiment analysis to conserve and nurture positive feedback culture across the organization. ? A lightweight, result-focused OKR solution enables organizations to launch OKR instantly to specific functional teams or across organizations. ? Deep functionality such as matrix goals management, continuous check- ins, 360-degree appraisal feedback, 1-1 meeting. Contd....

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Smart promotion management delivers complete automation of digital transformation of performance. ? Culture score to measure adherence to company culture by employees across the organization. ? Configurable dashboards and reports to help you get insightful people and performance analytics. Suitability: Synergita provides best-in-class continuous performance management, employee engagement, and OKR solution to build high- performing teams. Source: <https://www.synergita.com/> (accessed 12/4/2022) Check Your Progress - 1 1. The performance management system has to be devised in such a manner that it fits into which of the following elements of the organization? a. Communication b. Culture c. Contingency factors d. Members e. Rules and procedures 2. In which of the following types of organization, each department has the freedom to devise the performance management function in its own way? a. Centralized b. Vertical c. Decentralized d. Fragmented e. Structured 3. In devising a performance management framework, which of the following steps deals with what would need to be done, why it has to be done, and how it should be done?

a. Procedural issues b. Diagnostic review c. Implementation aspects d. Drivers for introducing performance management e. Cultural aspects

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Performance Management Framework 6 4. Which of the following is the last step in devising the performance management framework? a. Procedural issues b. Diagnostic review c. Pilot-testing d. Implementation aspects e. Identifying crucial drivers

4.5 Gathering Information An important component of performance management is gathering information from appraisees. Usually, this is done through performance appraisal forms. It is essential to know the details of performance appraisal forms for gathering information: Major Components of Appraisal Forms: 1 Basic Employee Information - Information required includes job title, division, department, other work group information, employee number, pay grade etc. 2 Accountabilities, Objectives, and Standards - Information required here includes name and description of each accountability, objectives agreed upon by the manager and employee, and conditions under which performance was achieved. 3 Competencies and Indicators - Information includes definition of competencies to be assessed with behavioural indicators. 4 Major Achievements and Contributions - Here major achievements of the employees are to be recorded. 5 Stake-holder Input - Information is gathered from people who have first-hand knowledge and are affected by the performance of employees. 6 Employee Comments - The comments of the employee are essential so as to give weightage to the views of appraisees. 7 Developmental Achievements - This includes summary of activities and new skills learned are documented. 8 Developmental Needs, Plans and Goals - This information gathered is future-oriented and includes information about specific goals and time-tables in terms of employee development. 9 Signatures - This final section includes the signatures of the persons who have evaluated and rated the employees.

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Desirable Features of Appraisal Forms: In order to have effective performance appraisals, the appraisal forms should follow these features. ? Simplicity - Forms should be easy to understand, easy to administer, quick to complete, clear and concise. ? Relevance - The information gathered should be relevant and is related directly to the tasks undertaken by the employee. ? Descriptiveness - The raters should be able to understand the points of assessment without any ambiguity. ? Adaptability - The forms should be capable of being adapted to the needs and situations of the company. ? Comprehensiveness - Forms are to be comprehensive and include all major areas of performance. ? Definitional Clarity - Competencies and results are to be clarified for consistency. ? Communication - Evaluators should be communicated about the meaning of each component. ? Time Orientation - The forms should address the past and the future expectations of the performance. Determining Overall Rating Employees are rated in the following ways: ? Judgmental strategy - Information is collected by immediate supervisors based on subjective decision-making. ? Mechanical strategy - Information collected is not subjective but based on pre-determined parameters. The mechanical strategy for overall rating of employees appears to be superior in most cases as it is devoid of biases. Appraisal Period Some prefer annual, some others six monthly and quarterly appraisals. Who should Provide Information? Performance information can be gathered from supervisors, peers, subordinates, self and customers. Errors are to be minimized. Managers have to analyze which dimension of performance of the employee is known to which source and accordingly gather information.

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Example The "Googlegeist" is an annual survey of all the employees of Google where they are asked to rate their managers and life at Google.

The same is used for eliciting information about the performance management as well.

For more details, check out <https://www.cnn.com/2022/03/14/> (accessed on 11/4/2022) 4.6 Performance

Measurement Techniques Measurement is the logical basis for deciding and taking action. Put simply, the use of a measure is essential in performance management, since one cannot improve something if it cannot be measured. Performance measurement is the process of gauging how much has been achieved against the stated goals. It relies greatly on devising SMART (Specific, Measurable, Achievable, Reliable and Time-bound) indicators that are used to measure and track organizational success. We discuss one traditional measure of performance management which is given by the budget and two modern measures - Economic Value Added and Balanced Scorecard. 4.6.1 Budget as Performance Measurement Budgeting has historically been very popular with organizations, as it can summarize the entire organizational activity in coherent measures. A budget is a form of financial planning that explains how an organization will spend money and how it will arrange to meet these expenses. This means that a budget is a measurement aid that sets desired limits on the working of the organization. Budgeting would see performance through the eyes of profitability: the output is measured through revenue, and input is measured through cost. This allows a budget to be used as an instrument for developing and enforcing the strategy of a company through an encompassing framework in which the organization's activity is encapsulated into a single set of financial statements. The drawbacks of budgeting are: ? First, budgeting makes decisions about the future that are based on past performance. ? Second, the budget is a lagging indicator - rapid changes in the operating environments mean that an annual budget will not be able to keep track of all the changes taking place. ? Third, budgeting works on the principle of hierarchy which can lead to inflexibility in times of rapid change. ? Fourth, a budget only looks at the financial results; it pays no attention to the means by which those results are achieved. ? Fifth, there are measurement issues as the various divisions or departments of a business may have inconsistent measures.

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It should be noted that budgets influence employee behaviour. Goals that are easy to attain may not lead to much effort from employees. If however, the goals are too difficult, there is the danger that the employees and managers will use unethical means to achieve the targeted goals. Thus, many experts feel that budgets should be set in such a manner that they are challenging, but attainable. This problem with budgeting can apply at any level – from the top, to the lowest where the person is appraised for meeting targets on a day to day basis. These issues have led practitioners to favor modern methods of management: ? The first is a purely financial performance measure of the Economic Value Added and ? The second is the Balanced Scorecard approach developed by Kaplan and Norton which explicitly adopts a multi-dimensional framework. It is emphasized here that these approaches should not be seen as competing, but taken as complementary to budgeting.

#### 4.6.2 Economic Value Added

The Economic Value Added is a single, value-based measure that evaluates business strategy with the objective of maximizing shareholder wealth. Objectives of Economic Value Added: ? The primary objective of maximizing shareholder wealth enables it to have the entire organization pointing in one direction – that of maximizing shareholder wealth. ? This enables it to avoid inconsistencies of traditional measures like budgets. ? It promotes value-maximizing behavior among the managers of a firm. ? It works on the principle of creating value by comparing the profits with the cost of capital required to produce them. This makes managers' focus on projects that create shareholder wealth. The EVA approach sets performance targets and links them to the reward system. Rewards are given to those managers who are able to turn investor capital into profit in the most efficient manner. Research shows that in effect, the EVA system makes the managers think like owners. The system removes the risk of short-run behaviour to maximize gains by rewarding only performance that is consistently maintained over a substantial time period. However, there are also areas of concern with regard to the EVA approach: ? First, EVA does not consider areas of social responsibility which means that expensive investments like effluent treatment plants are not set up as they impede maximizing shareholder wealth. ? Second, the single minded concern for maximizing shareholder wealth can lead to falling levels of customer satisfaction. ? Third, the system does not focus on the means by which the ends are achieved.

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#### The Balanced Scorecard

The Balanced Scorecard was developed as a performance measurement system by Robert Kaplan and David Norton at the Harvard Business School in 1992. It was conceptualized as a multi-dimensional approach to performance management with deep links to organizational strategy. It primarily suggests that along with financial measures of performance, attention should be paid to various other perspectives, such as the consumer perspective, innovation, learning, and the long-term sustainability of the firm. The 'balanced' perspective is created due to the unique combination of leading and lagging indicators: ? Leading indicators show where the performance of the organization is headed and so enables proactive action. Leading indicators tend to be characterized by the particular organization concerned: for instance, if there is a piling up of high priority orders over the span of the next few months along with medium to low priority orders – which was caused by sloppy schedule compliance – it means that the capacity of the manufacturing process is going to be stretched to the core and is highly likely to collapse in the coming days. Other common examples of leading indicators are customer satisfaction levels to the on-time delivery record of the firm. ? Lagging indicators are given by all the other remaining indicators. A common lagging indicator is the Mean Time Between Failures (MTBF) that gives the predicted time that has elapsed since the breakdown of a system. Other common examples of lagging indicators are profitability and revenue generation in an organization. The balanced scorecard identifies four perspectives of performance: financial, customer, internal, and innovation and learning. Each perspective has its own measures. ? For instance, the innovation and learning perspective would look at measures like the percentage of revenue growth from new services, number of employee suggestions received, and revenue per employee. ? The internal business perspective would look at the safety index, tender success rate, and the time spent with customers in new work. ? The financial perspective looks at, among other things, the return on capital employed and cash flow. ? The consumer perspective would look at the pricing strategy, market share, and customer satisfaction index. Further, the inter-linkages between each of these perspectives would also have to be looked into. There is a close link between business unit strategy and the selected performance measures. In fact, a major strength of the Balanced Scorecard approach is its emphasis on linking performance measures with business unit strategy – for many

organizations there is no other way of addressing this issue except through a Balanced Scorecard. It has to be noted that the Balanced Scorecard has undergone considerable evolution and is a leading performance measurement system. The drawbacks of balanced scorecard are: ? There are few details given on how to select the specific performance measures. Though some of these should be from the key result areas, in other areas we need to incorporate the strategic plans of the organization in reflecting the choices made to achieve the desired results. ? Little guidance is provided on how means and ends should be linked analytically. ? Further, there has been little attention paid to the role of feedback from the Balanced Scorecard. Feedback gives information to the extent to which a company is achieving its key strategic aims. However, most of these drawbacks have been addressed in the newer versions of the Balanced Scorecard wherein Kaplan and Norton proposed a double-loop process that integrates the concepts of Balanced Scorecard and Strategy Map to support managers to define and execute the firm's strategy more effectively. In the first loop strategies are defined and in the second loop defined strategies are implemented, leading to substantial improvement in organizational performance. Thus, we see that the Balanced Scorecard has emerged as a dynamic tool, the contents of which will change over time as strategies develop and key success factors change Example Rare, a global nonprofit environmental organization, makes use of the Balanced Scorecard to measure and manage its performance. With measures at the heart of its operations, this global conservation nonprofit has been able to achieve greater transparency and accountability— while expanding its scale, reach, and impact. With its scorecard in place, Rare has been able to draw upon its metrics to report biological impacts to constituents and to the public— something they couldn't dream of before their scorecard implementation. For more details, check out <https://rare.org/> (accessed on 11/4/2022)

#### 4.7 Characteristics of Good Performance Measures

The characteristics of good performance measures are as follows: ? Have a quantitative or qualitative orientation as per the requirements: Though performance measures can be either of the two, it is only by taking qualitative measures that the objective and strategies get linked and the various cost/effect relationships are understood.

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Data is valid, reliable, and accurate: The performance measures should be of good quality. For this, they have to satisfy three conditions. This means that they would have to be valid (actually measuring what they are supposed to measure) and reliable (given a set of conditions, the information collected would not greatly vary) along with being accurate (conforming to the actual value being measured) and timely. In case the management feels it is necessary, expert statistical advice may be relied on to improve the data collection techniques. ? Promote performance and accountability: Various measures should be used for assessing the overall performance of the program. The measures should be selected in such a way that they consider various aspects of performance and promote greater accountability. ? Balance costs against profit: It should be kept in mind that the benefits of accurate measures should be balanced against the cost of collecting, storing, and using the information. In making these decisions, one can look into the following aspects: a) Are there strong chances of the information getting redundant in the future? b) Is there a possibility of following poor data collection procedures while considering large data sets, which render the entire exercise meaningless? c) What are the relevant costs of data collection procedures being followed? ? Use of appropriate number of measures: Although there can be no 'ideal' number of measures to be used, the emphasis should be on quality and usefulness. However, it should be kept in mind that a smaller set of measures can sometimes be more manageable, and thus useful. If performance measures should be meaningful and constructive, all these characteristics need to be considered. Example In order to be more objective and effective, Accenture created a technology solution by designing Performance Achievement, a new performance management approach by replacing the existing performance management tools by a new, digital performance tool while leveraging reusable components in the process of staying on the leading edge architecturally and leverage on- demand cloud computing platforms to allow for fast development and experimentation. For more details, check out <https://www.accenture.com/in-en> (accessed on 12/4/2022)

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Desirable Features of a Performance Management System An examination of the performance management system being practiced in various organizations reveals the following integral features: ? Agreement among the line managers on various aspects of the performance management system. ? Complete support being extended by supervisors towards the plan. ? Both the appraiser and appraisee should be aware of the nuances of the performance management system. Moreover, they should have a clear understanding of the desired goals and behaviors. ? A good fit between the performance management plans as well as the structure and operations of the concerned organization is desirable. ? A climate of trust in the organization, which enables appraisals to be constructive is equally important. ? Existence of appeals against an unfair appraisal, so as to build greater confidence among the employees is required These are the essential features of a good performance management system. Example Google follows midpoint employee performance check-ins and self- evaluations in the performance reviews and holds regular one-to-one meetings and implements upward feedback survey. By relying on "people analytics," a mix of qualitative and quantitative data, the company has been able to improve their performance management processes, employee performance, and overall employee experience.

For more details, check out <https://about.google/> (accessed on 11/4/2022)

Check Your Progress – 2 5. Which of the following is

true in case of balanced scorecard and economic value added in case of budgeting system? a. Complementary b. Competing c. Divergent d. Convergent e. Conflicting

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Of the following, which has been a historically popular measurement technique? a. Economic Value Added b. Balanced Scorecard c. Budgeting d. Ratios e. BARS 7. Which of the following statements describes a strategic drawback of budgeting? a. Deciding on the future based on the past performance b. Balancing cost against profit c. Having a quantitative orientation d. Balancing cost against sales e. Having a qualitative orientation 8. Who among the following developed the Balanced Scorecard? a. Stern Stewart Corporation b. Philips c. Kaplan and Norton d. Kenneth Lavy e. Davis 9. Which of these performance measures best links with the strategy of the firm? a. The budget b. Balanced scorecard c. Economic Value added d. Balance sheet e. Traditional ratios 10. A good performance measure can have which of the following measurement features? a. Quantitative b. Qualitative c. Abstract d. Variable e. Both quantitative and qualitative

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Activity 4.2 Tablot FMCG services Tablot, a Fast Moving Consumer Goods company, was established during the early 1970s. Over the years, it built up a reputation for quality products and being a great organization to work with. However, there was a substantial change in the operating environment and a downturn that forced firms to go in for cost cutting. Given this downturn, the organization revised its performance management system to becoming more output and result oriented and heavily penalizing the underperformers. As a consequence of the new performance management system, many people lost their seniority in the organization and there were cases of demotion as well. This caused substantial employee unrest. Imagine yourself in the place of the HR director, who has justified these changes in the policy on account of the economic downturn. How will you take the employees along, and yet ensure that the business survives the downturn? Answer: 4.9 Summary ? The framework for performance management is highly dependent on the contextual factors of organizational culture as well as the way in which the organization is structured. ? Structural considerations also impact the way in which the performance management system is introduced into the organization. ? Devising a performance management framework includes an in-depth diagnostic review that would look at various aspects such as the strengths and weaknesses of the current arrangements, understanding drivers behind performance management framework and going for a pilot testing before final implementation. ? There are three commonly used performance measurement techniques namely budgeting, economic value added and balanced scorecard. ? A budget is a form of financial planning that explains how an organization will spend money and how it will arrange to meet these expenses. This means that a budget is a measurement aid that sets desired limits on the working of the organization.

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The Economic Value Added is a single, value based measure that evaluates business strategy with an objective of maximizing shareholder wealth. ? The Balanced Scorecard was conceptualized as a multi-dimensional approach for performance management that has deep links with organizational strategy. Four perspectives are propounded- financial, consumer, innovation, learning and ong-term sustainability. ? Good performance measure should have quantitative and qualitative orientation, should be valid, accurate and reliable, should promote performance accountability and should have a judicious balance between cost and accuracy. 4.10 Glossary Environmental factors: These are the contextual factors of organizational culture as well as the way in which the organization is structured. Organizational culture: This can be seen as a collection of values and norms that are shared by the members of an organization; it defines the way in which the members of the organization interact with each other as well as with external stakeholders. Organizational structure: Organizational structure refers to the hierarchical structure which exists in order to best achieve the organizational objectives. It determines the way in which an organization operates. Diagnostic review: The diagnostic analysis is necessary to understand what would need

to be done, why it should be done, and how it should be done

by the concerned organization. Budgeting: A budget is a form of financial planning that explains how an organization will spend money and how it will arrange to meet these expenses. Economic value added: The Economic Value Added is a single, value based measure that evaluates business strategy with the objective of maximizing shareholder wealth. The balanced scorecard: It was conceptualized as a multi-dimensional approach for performance management having deep links with organizational strategy. 4.11 Self-Assessment Test 1. How do the environmental factors impact the development of the performance management framework? 2. Explain in detail the steps in devising a performance management framework. 3. How can budgeting be used as a performance measure? 4. What is Economic Value Added? Are there any drawbacks associated with using it? 5. Explain the use of the Balanced Scorecard as a technique of performance measurement.

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the

Performance Management Framework 17 4.12

Suggested Readings/Reference Material 1. John Shields, Jim Rooney, Michelle Brown, Sarah Kaine; Managing Employee Performance and Reward: Systems, Practices and Prospects, 3<sup>rd</sup> Edition, Cambridge University Press, 2020 2. Susan L. Verhulst, David A. DeCenzo, Rama Shankar Yadav; Human Resource Management, 13<sup>th</sup> Edition, Wiley, 2021 3. Durai Pillai, Total Reward Strategy: Retain Your Best Talent, 1<sup>st</sup> Edition, Notion Press, 2020 4. Stephen J Perkins, Sarah Jones, Reward Management: Alternatives, Consequences and Contexts, 4<sup>th</sup> Edition, Kogan Page, 2020 5. Kevin R. Murphy, Jeanette N. Cleveland, Madison E. Hanscom, Performance Appraisal and Management, Sage Publications, 2020 4.13 Answers

to Check Your Progress Questions 1. (b)

Culture Cultural considerations have a great effect on performance management. The performance management system has to be devised in such a manner that it fits in with the existing culture and value system of the organization. 2. (c) Decentralized In decentralized organizations, each department may be given the freedom to devise the performance management function in its own way. 3. (b) Diagnostic Review The diagnostic review is necessary to understand what would need

to be done, why it has to be done, and how it should be done

by the concerned organization. 4. (c) Pilot-testing The framework should incorporate pilot-testing of the important aspects of performance management. This would be required since the complete performance management cycle would take at least one year. 5. (a) Complementary The Balanced Scorecard and the Economic Value Added should be considered as complementary to the Budgeting system. 6. (c) Budgeting Budgeting has historically been very popular with organizations, as it can summarize the entire activity of an organization in coherent measures.

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a) Deciding on the future based on the past performance In Budgeting, along with the advantage of being an encompassing framework for which the organization's activity is encapsulated into a single set of financial statements, there is also the great drawback of deciding about the future based on past performance. 8. (c) Kaplan and Norton The Balanced Scorecard Approach was given by Kaplan and Norton of the Harvard Business School. 9. (b) Balanced scorecard A major strength of the Balanced Scorecard approach is its emphasis on linking performance measures with business unit strategy – for many organizations there is no other way of addressing this issue except through the Balanced Scorecard. 10. (e) Both quantitative and qualitative A good performance measure can have both the quantitative or qualitative orientation as per the requirements of the situation.

Unit 5 Designing and Launching the Performance Management

System Structure 5.1 Introduction 5.2 Objectives 5.3 Steps in designing the performance management system 5.4 Barriers in the implementation of the performance management system 5.5 Overcoming the barriers 5.6

Summary 5.7 Glossary 5.8 Self-Assessment Test 5.9 Suggested Readings/ Reference material 5.10 Answers to Check Your Progress

Question "The

performance of the whole is never the sum of the performance of the parts taken separately, but it's the product of their interactions." – Russell Ackoff 5.1 Introduction As has been popularized by Russell Ackoff, effective performance management is essential to businesses. Through both formal and informal processes, it helps them align their employees, resources, and systems to meet their strategic objectives. The previous unit elucidated the broad framework which is required for performance management. It also discussed the various measurement techniques that are involved in the performance management system. Given the fact that organizations have their own unique experiences and dynamics as they mature, one cannot have a universal performance management system that fits all organizations. Thus, there is a need for every organization to have its own performance management system that is in tune with its own culture, requirements, and experience. This unit focuses on designing the performance management system. It elaborates the possible barriers that they may encounter and strategies to deal with the same.

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Objectives After going through this unit, you should be able to: ? Describe the steps in designing a performance management system ? Examine the



barriers in implementing the performance management system ? Enumerate the measures to overcome the barriers in implementing the performance management system

### 5.3 Steps in Designing the Performance Management System

Every organization need to design its performance management system in line with its organization structure and culture. Designing the same involves a series of steps that aim at ensuring achievement of two important objectives: ? First objective is to provide a sense of direction to the activities of the entire organization. ? The second objective is to create and nurture a sense of ownership about the performance management system throughout the organization. Both these objectives are essential in ensuring that the performance management system is able to achieve the desired result. The various steps involved in designing a performance management system are enumerated below:

**STEP I:** The most crucial aspect is that a sense of ownership and commitment to the performance management system should be created in the management. It is only with this kind of commitment that the performance management system has a chance of being well planned and executed constructively throughout the organization over a long period of time. The essentials at this stage are: ? The most important step at this stage would be to describe the program to the various corporate or divisional managers of the organization on an individual basis. ? The divisional managers in turn should be aware that any attempt to force a system down the throats of line managers would generate resentment towards the performance management system and would doom it to eventual failure. ? The same rule would apply to line managers when they try to force the system on employees. ? It is most important to ensure that the employees down the line are taken into confidence and made to understand the working of the performance management system. Thus, the creation of a sense of ownership and commitment among both the managers and the employees is vital to ensure the eventual success of the system.

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**System 21** This would ensure that the managers will be committed to the system, no matter what difficulties arise in the implementation of the process. In the absence of trust, the performance management system can lead to substantial employee unrest and resentment. The best way forward would be: ? To introduce the system to one division at a time on a voluntary basis. ? Care should be taken to avoid putting unnecessary pressure on the line managers. ? While selecting the divisions, the management should consider those that are the most receptive to intervention and would be most willing to benefit from the program.

**STEP II:** The second step focuses on the creation of an overall approach that the entire organization has to take towards the performance management system. This requires the following aspects: ? At the outset, it has to be clarified what are the various aspects that the system would try to achieve. For instance, it could be made clear if the system is aimed at assisting in making personnel decisions such as promotion, demotion, or firing, or at the development of the employee concerned. ? The linkages of the performance management system with the organizational objectives should be strong and made clear to all members of the organization. ? There should be development of a clear sense of understanding of the levels at which the performance management system shall operate and how it will be used to deliver organizational outcomes like promotions. ? There should be the creation of a clear understanding of the benefits that are being anticipated through the use of the system. ? The various performance measures that would be used should be decided on, along with the desirable competencies and traits of the employees that would be considered during the appraisal. ? Timelines should be fixed for the entire review process. ? The role of the Human Resources department in the forming and running of the performance management system should be considered. The need and feasibility of employing external consultants should be considered in case of any gaps in the functioning of the HR department to devise and execute the desired performance management system. To achieve a clear understanding on these objectives, a series of training workshops can be organized throughout the organization. Other instructional techniques like films, role play, and discussion groups would also be useful.

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STEP III: This step works at creating an overall direction for the performance management system that fits into the needs of the organization. To expedite the entire process with the greatest possible attention being paid to details, organizations generally create teams comprising competent professionals who have had substantial experience. The teams discuss the desired performance appraisal process with the employees in order to understand and incorporate their baseline perspectives. Such discussions lead to the emergence of useful new ideas that ensure the acceptability of the system. The following aspects need to be looked into: ? What are the objectives/purposes of the system – is the system meant to be developmental, administrative, or something else in nature? ? Can there be benefits from linking the performance management system with the other human resource sub-systems that are already in place within the organization? ? The main feature of the approach of the performance management system should be highlighted, through the involvement of the rating system and the feedback mechanism. ? Who are the people that are going to be covered by the performance management system? ? What is the area with the greatest potential in the performance management system – for instance, are better results to be expected from introducing the system in the marketing department or the production department? ? Last, what is the role of the human resources department in the entire exercise? Most importantly, it has to be understood that if the current HR team is strong enough to rise up to the challenges or if there is a need for outside experts. STEP IV: The fourth step principally involves summing up the entire developments of the previous three stages and then presenting the entire conceptualized performance management system for the comments of the senior management. It has to be ensured that the system is so designed that all the employees are involved in executing the various aspects of the performance management system. It is only after the employees, especially at the junior and middle levels, agree to give their consent about participating in the system that the system in its entirety should be presented to the senior management for its approval. STEP V: This step considers the suggestions made and discussions held with the senior management and the project team on giving shape to the performance management system. There should be complete documentation of the discussions, so that the source faults, if any, can be identified and there can be a complete monitoring of the system. The desired changes should be incorporated. During

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this deliberation process, the following aspects must be considered by the top management: ? What are the primary objectives that the system wants to achieve? What are the results that the system emphasizes? ? To what extent has an in-depth understanding of the rating system been developed by the candidates? ? What kind of role is the HR department going to play? ? What is the feasibility of going in for a pilot test of the performance management system before its full scale adoption? ? What are the linkages of the performance management with the other training and reward systems in the organization? STEP VI: The sixth step ensures that the performance management system gets introduced slowly as a step-by-step approach. Most of the organizations go in for pilot testing. It is only after the outcomes of these tests are examined and the desired changes made, that the system gets implemented throughout the organization. This step ensures that any inconsistencies in the performance management system can be removed and there can be greater confidence and monitoring over the entire process. It is clear that the development of a new performance management system is a complex process. It is a step by step comprehensive process that needs careful monitoring. Example Accenture makes use of Prohance that creates an enterprise-wide objective and robust performance management system which

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**MATCHING BLOCK 1/1**

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provides visibility across multiple organizational levels allowing teams to work seamlessly while remaining location agnostic

and provides real time insights for informed decision making.

For more details, check out <https://www.prohance.net/> (accessed on 12/4/2022) Check Your Progress – 1 1.

What

should be placed as step one in the development of a performance management system? a. Sense of ownership and commitment of the management with the performance management system b. Creating an overall direction in order to fit the needs of the organization c. Introduction of the system d. Understanding the linkages of performance management with other systems e. Deciding upon the various performance measures to be used.

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Which of the following options best describes step four of the performance management system? a. Placing the performance management system before the senior management for approval b. Understanding the linkages of performance management with other systems c. The competency of the HR department in playing the desired role d. Creating an overall direction in order to fit the needs of the organization e. Deciding upon the various performance measures to be used. 3. Of the following, which step would stress complete documentation of the discussions so that the source of any faults can be identified? a. Step V b. Step VI c. Step I d. Step II e. Step III 4. Which stage is concerned with the slow and step by step implementation of the performance management system? a. Stage V b. Stage VI c. Stage III d. Step I e. Step II Activity 5.1 Nicci Retailing Nicci heads the retailing department of an established fashion retailing house. The performance of the firm has been good, but of late, she has been noticing that the firm stores are not stocked with merchandise that is in keeping up with the fashion trends. Nicci is concerned and wants to implement performance management to fix accountability in the organization. How do you think she should go about designing a performance appraisal system for the employees with an eye on fixing accountability? Answer:

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Barriers in Implementing the Performance Management System A sound performance management system is an invaluable asset for an organization. Substantial investments are made in creating a new performance appraisal system or even tweaking the existing one to achieve the desired ends. For the successful implementation of a performance management system, various processes would have to be systematically followed. Most importantly, it should not be perceived as an easy task. Thus, there are high chances that results may not always match up with the desired expectations. Kaplan and Norton describe four barriers that can come in the way of successful implementation of the performance management system: ? First, it may happen that the vision and strategy are not actionable. This may occur as the senior management fails to arrive at a consensus in achieving the desired vision. As a consequence, different groups having varied interests act in their own way, without linking their actions to the overall strategy of the organization. ? Second, the employees concerned follow the traditional performance criteria that hinder the introduction of a new strategy. This happens as the strategy may not be linked to department, team, and individual goals. Further problems are caused if the incentive system is not aligned with that of the organization. ? Third, the long-term strategic planning process and annual budgeting process get separated. This might happen as the strategy may not be linked to resource allocation, so that funding and capital allocations become unrelated to the strategic priorities. ? Fourth, the feedback may only look at the short-term results. This can happen if the feedback system is tactical and not strategic. There is a focus on short-term results (such as financial measures) and little time to review strategic indicators. Example One of the main tools Google uses to ensure that growth is an ongoing process is the all year self-assessment form, through which their employees are able to solicit feedback on any topics they see fit, rather than waiting for an end of year assessment. This enables the managers to make more objective decisions while better understanding potential obstacles.

For more details, check out <https://about.google> (accessed on 13/4/2022)

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Overcoming the Barriers This section focuses on measures to overcome the various problems that might emerge in the implementation of the performance management system. It deals with trying to understand the purpose of performance management, promoting openness and objectivity. It also highlights how a better understanding of the operating environment could lead to fewer difficulties in implementing the performance management system. The barriers in meeting the purpose of the performance management system can be dealt with through the following measures: 5.5.1 Better Understanding of the Purpose of Performance Management This can be achieved by using performance management as a performance increasing tool as well as by giving constructive and regular feedback to employees. The same is discussed below: ? First, performance management should be used as a performance increasing tool rather than a mere tool for rating. There has to be an emphasis on the development of employees through the proper use of the performance management system. The senior management can ensure that the performance management system is working in the right direction by measuring and comparing the extent of improvement taking place among the employees. ? Second, there should be constructive and regular feedback to employees. Employees are keen to know about their on-the-job performance. This can happen if the appraisal system identifies the needs and strengths of each and every employee. Only then will the organizations be able to extend the desired help through appropriate training and development. It should be ensured that the sensitive areas in which the employee needs to improve are brought out into the open and constructive steps are taken to help employees better their performance. ? The supervisors have the desired qualities of being observant, analytical, and communicative with innate leadership abilities to understand their subordinates. Any area of deficit in the personality should be improved over time, as it will affect the quality of analysis and intervention being given to the subordinates. 5.5.2 Greater Openness Traditionally, organizations had the tendency of keeping the process of employee evaluation and its results confidential. Given such a system, the employee had no means of knowing on which parameters he/she was being assessed. In fact, this led to various situations where the very purpose of the performance management and the appraisal system was defeated as the employee was not explicitly aware of the parameters on which he/she was being assessed.

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It is only when there is greater trust between the managers and employees that the performance management system achieves its desired objectives. There is a positive change being witnessed in the human resources policies of various organizations with a move toward greater transparency in the system. The current performance management appraisals have no place for 'confidential' reports except at the highest levels of management. Organizations now have a greater number of workshops throughout the year, as well as ensuring that the performance appraisal forms are being circulated among the employees, in order to familiarize them with the process. The greater stress on self-appraisal implies that the employee himself/herself gives an assessment of the work done by him/her and where he/she thinks that further improvements are required. A related aspect is the adoption of 'performance counseling' that gives feedback for future growth of the employee. ? These sessions focus on the extent to which an employee can achieve results. ? It helps the employee overcome the various obstacles that come in the way of his/her achieving the desired goals. ? Suggestions are tactfully made for the betterment of the employee so that he/she takes the desired steps for improving his/her performance.

**5.5.3 Ensuring Objectivity** It is of utmost importance to ensure that the entire appraisal process is objective. Objectivity means that the evaluation process is free of the judgment of a particular person. Only then would the entire performance management and appraisal process be considered fair and lead to the desired benefits. Threats to objectivity are enumerated below: ? There are various threats to objectivity from the use of point rating scales and the tendency of centering of ratings. Given the use of point rating scales, there is a great chance that the evaluator would have a tendency to inflate or deflate the results. This can turn into a serious threat for maintaining objectivity. ? Then there can be situations where an inexperienced or biased evaluator would give average ratings to a majority of the employees which are not reflective of their true performance. It is only a culture of openness that can save an organization from being vitiated by biased appraisals. However, sometimes the internal workings of organizations do not allow for openness. In such cases, checks and balances have to be devised to ensure validity in the appraisal.

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Steps to ensure objectivity are enumerated below: ? Companies can set up committees comprising the heads of various departments to look into the entire appraisal process. To break the tendency of centering, companies like General Electric devised the 'forced distribution system' which instructs the evaluator about the percentage of cases to be placed into each category on the grading scale. ? However, many companies in recent times are planning to ditch annual performance reviews and ratings because of its drawbacks. Instead they want to focus on creating a continuous feedback culture. ? Another method of ensuring objectivity is to give a write up or justification for the grading of employees, with detailed write ups. ? Organizations are taking steps to ensure that officers are more sensitized toward giving more objective appraisals, especially when the appraisal systems have more plans and are increasingly rooted in psychology. The process of sensitization is both comprehensive and fast when the training begins with senior officers first and they in turn train those down the line. ? Data-based appraisal systems can also help to ensure objectivity in the appraisal system. Critical-incidence based techniques can also ensure objectivity, since the rater has to make a note of the various instances of positive or negative behavior that had implications for performance. However, mere experimentation with various types of appraisal should not become an end in itself. In the end, depending on the needs of the organization, greater objectivity should be ensured. Otherwise, there would be a risk that the elaborate procedures only result in empty paperwork that serves no purpose.

**5.5.4. Moving from Traits to Targets** There is an increasing realization among organizations that the managements should have a more target-oriented approach than a trait-based approach in their performance management and appraisal systems. Organizations should lay stress on what the employee does – i.e., emphasize performance. The earlier systems had placed emphasis on merits like personality, initiative, and dependability. However, many organizations are now shifting toward ratings that are based on behavior: these comprise indices such as 'relations with subordinates', 'relations with colleagues' that have led to substantial improvements in performance.

**5.5.5. Ensuring 'Constructive' Appraisal** Rather than a 'Cold' Analysis It should be ensured that the appraisal process is a constructive one that tries to find ways and means of improving employee performance. A cold appraisal which is poorly communicated as a formal 'judgment' would cause a defensive response among the employees, defeating the very purpose of appraisal.

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Considering the Organizational Environment The appraisal system followed by the organization should be consistent with its managerial style and culture. For instance, an organization that has historically had a large amount of power distance among the managers and employees would not find its employees very enthusiastic about self-evaluation. On the other hand, in organizations where the power distance has been very little or almost negligible, the employees will easily come forward to do a self-review. Thus, it is required that the policies should be consistent with the prevailing environment. For this, the respective managements will have to make a choice about the desired managerial style along with the beliefs about employee development. The performance evaluation system is indispensable for the modern organization. However, if not used properly, it can cause a heightened level of frustration. However, the various issues discussed here will ensure the creation of an effective performance management system. Exhibit 5.1 discusses about Fourvision- a performance management app that can help organizations in ensuring objectivity in performance management Exhibit 5.1: Fourvision - Performance Management Web App Fourvision is a performance management Web App that helps in monitoring the progress of the work teams. The details of the app are enumerated below: ? The employee performance dashboard allows the employees to set up personal performance actions in their Career Development Plan (CDP). ? The CDP remains easy to update, change, or add new goals regularly. ? Furthermore, supervisors will receive notifications of each new entry or view the progress made through insight reporting. ? In addition to this, the CDP gives performance metrics and overviews of obtained goals, or overdue goals, to form the basis for assessments or annual reviews. That is how the managers know if an employee is reaching goals or if they may need help with some of them. ? In addition, one can set up professional growth plans in a CPD or Continuous Professional Development. Depending upon its need, the human resources department of the organization using Fourvision can configure any type of performance review, 360-degrees review, or assessment to monitor the progress of each individual employee. In addition, organizations can configure workflow requirements tailored to specific positions within their company and link those to (future) goals for individual employees. Contd....

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This will enable them to set up statuses and workflows for succession and give insights into what is required for each position within your organization. Templates can be configured easily based on your internal performance and review policies as performance requirements can be enabled or disabled for succession; creating custom forms and 'requirements to be met' for each position that employees hold or may grow into. It is possible to set up a Team for performance management and bring the Web App into one of the tabs in the top. The Web App is based in Azure account, so that one does not struggle logging in (single sign in applies). One can freely browse through the App in the Teams tab and easily perform all the tasks as a manager or employee respectively, based on pre-configured roles and security policies within the App. All of this helps the organization to take care of their performance management tasks straight from collaborative workspace within Microsoft Teams. Source: <https://www.fourvision.com> (accessed on 12/4/2022) Activity 5.2 Sonotoro Candy Santos is a manager at Sonotaro Candy Bars, a firm based in California that makes candies in 50 flavours. Being a closely knit family held company, the firm had a strong culture of taking employees along and ensuring that they were delivering what was required of them as well as getting adequately rewarded for their efforts. The firm required a new performance management system when two branches of the family business were reunited as one. One of these branches was using an outdated performance management system. The task of consolidating the performance management system fell on Santos. What advice would you give Santos while he goes about his task? Remember that this is a traditional candy making company, and hence ease of use would be very important. Answer:

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Check Your Progress – 2 5. What can be an outcome of a poorly run performance management system? a. A high level of frustration b. High levels of turnover c. High level of motivation d. Encouraging employee retention e. A high level of frustration caused due to high level of turnover 6. In case the feedback mechanism in performance management has tactical feedback, what is its likely implication? a. Actions would have a short-term orientation b. It is highly likely that strategic actions would be absent in the firm c. Both the above d. Actions would have a long term orientation e. Strategic actions accelerate 7. Which of the following options promotes greater understanding of the purpose of the performance management system? a. Leading by example b. Giving regular and constructive feedback c. Use as a performance increasing tool d. Giving no feedback e. Leading by example and using objective tool as well as providing constructive feedback 8. Which of the following speaks about the changes that have taken place in the performance management system? a. They have become open b. They are non-transparent c. There are no changes d. They have become complicated and subjective e. They have become time consuming 9. What does objectivity imply in the case of performance management? a. Being influenced by the judgment of a particular person b. Being free of the judgment of a particular person c. Being beyond the influence of a particular person d. Being influenced by all stakeholders e. Being influenced by colleagues

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Which of the following does the modern performance appraisal system emphasize upon? a. Trait-based approach b. Target-based approach c. Object-based approach d. Task-based approach e. Subjective approach

5.6 Summary ? While designing a performance management system, care should be taken to create a sense of ownership and commitment, focus on a comprehensive approach, creation of an overall direction and summing up the entire developments. ? Further, there is a need to consider the suggestions from the organizational members in developing the performance management system. ? Performance management system needs to be introduced in a step-by-step approach with outcomes of the pilot testing being examined and desired changes being brought into the system as it gets implemented. ? The barriers in the way of successful implementation of performance management system are: Vision and strategy are not actionable, the employees concerned follow traditional performance criteria, separate long-term strategic planning process and annual budgeting process, feedback looks at the short-term results only. ? Understanding of the purpose of performance management, openness and objectivity in the system, a constructive target-oriented approach that is consistent with the organizational culture would help in overcoming the above-mentioned barriers.

5.7 Glossary Cold appraisal: An appraisal which is poorly communicated as a formal 'judgment' that would cause a defensive response among the employees Constructive appraisal: An appraisal which tries to find ways and means of improving employee performance Personnel decisions: These are decisions taken by the personnel regarding hiring, firing, demotions or employee development. Timeline: a device used to show the events as they would occur over a long period of time.

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Self-Assessment Test 1. Explain in a step-by-step manner how you would go about designing a performance management system for your organization. 2. Conceptualize the barriers one may face while designing and executing the performance management system. 3. Explain the steps that can be taken to overcome the barriers in the implementation of the performance management system. 4. What is the role of ensuring objectivity in the entire appraisal process?

5.9 Suggested Readings/Reference Material 1. John Shields, Jim Rooney, Michelle Brown, Sarah Kaine; Managing Employee Performance and Reward: Systems, Practices and Prospects, 3rd Edition, Cambridge University Press, 2020 2. Susan L. Verhulst, David A. DeCenzo, Rama Shankar Yadav; Human Resource Management, 13th Edition, Wiley, 2021 3. Durai Pillai, Total Reward Strategy: Retain Your Best Talent, 1st Edition, Notion Press, 2020 4. Stephen J Perkins, Sarah Jones, Reward Management: Alternatives, Consequences and Contexts, 4th Edition, Kogan Page, 2020 5. Kevin R. Murphy, Jeanette N. Cleveland, Madison E. Hanscom, Performance Appraisal and Management, Sage Publications, 2020

5.10 Answers to Check Your Progress Questions 1. (a)

Sense of ownership and commitment of the management with the performance management system The first step towards development of successful performance management system is creation of a sense of ownership and commitment of the top management, failing which it would not be designed and implemented properly. 2. (a) Placing the performance management system before the senior management for approval It is in step four, after the employees, especially at the junior and middle levels, have given their consent to the form of the system, that the system in its entirety should be placed before the senior management for its approval.

#### Block 2: Performance Management Framework 34 3. (

a) Step V Step five considers the suggestions made and discussions held with the senior management and the project team on giving shape to the performance management system. There should be complete documentation so that the source of any faults can be identified and there can be a complete monitoring of the system. 4. (b) Stage VI Step VI is concerned with the slow and step by step implementation of the performance management system 5. (e) A high level of frustration caused due to high level of turnover A poorly run performance management system would lead to high levels of frustration and turnover among the employees. 6. (a) Actions would have a short-term orientation The feedback mechanism may look only at the short-term results. This can happen if the feedback system is tactical and not strategic. There would only be a focus on short term results (such as financial measures) and little time to review strategic indicators. 7. (e) Leading by example and using objective tool as well as providing constructive feedback A better understanding of the purpose of performance management can be achieved by trying to use it as a performance increasing tool, giving constructive and regular feedback to employees, and ensuring that supervisors lead by example. 8. (a) They have become open Traditionally, organizations had the tendency of keeping the process of employee evaluation and its results confidential. However, there is an increasing trend towards greater openness in the performance management systems being followed by organizations. 9. (b) Being free of the judgment of a particular person It is of the utmost importance to ensure that the entire appraisal process is objective and free from judgment of single person. 10. (b) Target-based approach There is an increasing realization among organizations that the managements should have a more target-oriented approach than a trait-based approach in their performance management and appraisal systems.

#### Unit 6 Evaluation and

Maintenance of Performance Management Structure 6.1 Introduction 6.2 Objectives 6.3 Areas for evaluation 6.4

Evaluating the

Performance Management Systems 6.5 Performance monitoring 6.6 Objectives and

methods of monitoring 6.7

Summary 6.8 Glossary 6.9 Self-Assessment Test 6.10 Suggested Readings / Reference Material 6.11 Answers to Check Your Progress Questions “

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organizations are perfectly designed to get the results they are now getting. If we want different results, we must change the way we do things.” – Tom Northup 6.1 Introduction As has been advocated by Tom Northup, the success of performance management system depends upon the extent to which it produces intended results. To ensure that the performance management system delivers what was conceptualized, it should be periodically reviewed. In the previous units, we looked at the framework and designing of performance management systems. We also looked at various performance measures as the different ways to ensure motivation. We shall now address a very different issue – how a manager can maintain and evaluate the performance management system itself. In order to have a relevant and effective performance appraisal system at place, the same has to be evaluated. Some of the tasks in this evaluation process would be examining the various linked areas, conceptualizing and using diagnostic check-lists, carrying out evaluations, and reviewing the main methods of evaluation. This unit begins with examining the various desired areas of evaluation. It then goes on to discuss the various evaluation methods and their consequences. This

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is followed by an in-depth discussion on performance monitoring along with its objectives. The unit closes with a discussion on the various methods of monitoring performance. 6.2

Objectives After going through this unit, you should be able to: ? Identify the areas of

evaluation of the performance management system ? Enumerate the various evaluation methods available. ? Explain the essentials of performance monitoring ? Describe the objectives of monitoring and follow-up ? Enlist the methods of monitoring 6.3 Areas for Evaluation The following issues should be considered while evaluating a performance management system: ? Integration of the organization’s objectives with its performance system. Linkage to the organization’s critical success factors. ? Relationship with individual objectives. ? Bonding of job responsibilities and performance expectations. Effective encouragement to personal development. ? Objective or subjective, clear or ambiguous evaluation criteria. Addressing of company policies and procedures. ? Effective usage of supervisors and employees in the system. The extent of association of performance with pay and rewards. ? The fit of the performance management with the culture of the organization. Commitment and constant support from top management. ? Collective ownership of line managers and employees. Alignment to the real work of the organization. ? Coordination of organizational, team, and individual objectives. ? Addition of value in terms of both short-term and longer-term development. ? Integration of the performance management system with the business planning processes. ? Compatibility of the performance management system with the other HR processes. ? Involvement of all the desired stakeholders in the design, development, and implementation of performance management system. ? The way the performance management system operates — whether in a transparent, fair, and equitable way.

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Whether managers are ensuring that there is a shared understanding of vision, strategy, goals, and values of the organization. ? If the performance management processes are being used by managers in a way to help people feel that they are valued by the organization. ? Performance management processes are meant to align individual and organizational goals, but this is not a matter of a top-down flow of objectives. Individuals and teams should be given the opportunity to put forward their views on what they can achieve, and their views should be duly considered. ? Performance management should primarily focus on the development of people. Financial rewards in the process should act only as a secondary consideration. ? The aim and operation of performance management and how it can benefit all concerned are communicated thoroughly and effectively. Example The performance review of the employees of McDonald’s is based on competencies that are defined to be important for their role. The review occurs twice a year and is an opportunity to measure performance, set objectives and discuss the training and development needs of the employee. The performance management system of McDonald’s focuses on development of the people. For more details, check out <https://www.mcdonalds.com> (accessed on 13/4/2022) 6.4 Evaluating the Performance Management

Systems Evaluation of performance is always a key area in performance management systems. In this regard, Armstrong (2012) primarily used the following methods for evaluating the Performance Management System. These are: review meetings, attitude surveys, and focus group discussions. 6.4.1 Review Meetings Evaluation can be done by asking individuals to complete questionnaires and then following up with a review meeting. The questionnaire asks people to rate the effectiveness of the review meetings on a points scale. The respondents are asked to indicate their reactions — fully agree, partly agree, partly disagree, and fully disagree with the following statements: ? I was given plenty of opportunities to contribute to the formulation of my objectives. ? I am quite satisfied with the objectives I agreed to frame. ? I felt that the meeting to agree on objectives helped me to focus on what I should be aiming to achieve.

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received good feedback from my manager during the year on how well I was doing. ? The manager fully recognized my achievements during this year. ? If any criticisms were made during the review, they were based on fact, not on opinion. ? I was given plenty of opportunities by my manager to discuss the reasons for any problems with my work. ? I felt that generally the comments made by my manager at the review meeting were fair. ? The review meeting ended with a clear plan of action for the future with which I agreed. ? I felt well motivated after the meeting. ? Respondents have to indicate their reactions on these statements for evaluation. Feedback from people enables review meetings effective. 6.4.2 Attitude Surveys Attitude surveys are conducted using this same set of questions. These are designed to capture the opinion that prevails after a meeting. In effect, they are an alternative to having an immediate expression of opinion after a meeting. 6.4.3 Focus Groups Focus groups are used to provide more in-depth feedback on how well performance management is working. The questions for discussion could be along the lines of those given above, but there would be an opportunity to hear extended views supported by the reasons for expressing them. Interaction between members of the group may also create useful additional insights into the effectiveness, understanding, and acceptance of performance management. Example Culture Amp provides tools to run performance reviews and pulse and culture surveys, and managers can review data based on demographics or time frame. The same can be used for conducting attitude surveys. This software also has a reporting feature that performs a driver analysis, so that one can see the most important "drivers" for evaluation. Account managers of the system can set up team surveys, so that personalized questions are sent to specific employees and only the right managers have access to the reports. For more details, check out <https://www.cultureamp.com/> (accessed on 13/4/2022)

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Check Your Progress – 1 1. Before a review meeting is held, which important activity has to be carried out? a. Questionnaires should be completed b. The point of agreement should be understood c. Conflict resolution d. The point of disagreement to be noted e. The mutual consent of reviewers and reviewees to be taken 2. Which of the following describes interactions where there are questions for discussion along pre-decided lines, along with the opportunity to hear extended views that are supported by the reasons for expressing them? a. Focus group discussions b. Attitude surveys c. Review meetings d. Coded interaction e. Personal opinions 3. Which of these is designed to capture the opinion that prevails after a meeting? a. Attitude surveys b. Focus group c. Review meeting d. Coded interaction e. Subjective opinions 6.5 Performance Monitoring When implementation is carried out properly, it establishes the performance appraisal systems in the work place. The performance management and appraisal system then becomes an instrument to build people through the continuous attention of the top management and the senior executives. Further, the data generated in the performance appraisal system can be used to take various developmental and managerial decisions. The various purposes being served by monitoring the performance management system are as follows: ? First, it gives the required direction and support to the appraisee as well as the appraiser for executing the objectives of the system in the desired way. ? Second, it establishes the significance of the performance appraisal system. ? Third, it reminds the employees that the performance management system is an integral part of the routine of the employees.

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Performance management systems, by their very nature, are a product of a structured thought process. If they are not being well implemented, the reason would have to do more with poor monitoring and follow-up. It has been observed that managers may not put in much effort in implementing the performance management system for various reasons as given here: ? Performance appraisal is an activity that can be postponed without immediate damage to productivity, effectiveness, or performance of the organization, it gets neglected. ? Performance appraisal takes place only once or twice a year, which may not be adequate to achieve desired results. ? The organization may lack a well-defined corporate culture to deal with the performance planning and review discussions. This will have a negative impact on the performance management system. ? Finally, there may be the absence of systematic ways to monitor the data as well as give feedback to the various line managers Exhibit 6.1 illustrates about performance monitoring using a cloud-based software, Kallidus. Exhibit 6.1: Performance Monitoring using Kallidus Capterra Inc, a free online marketplace vendor deploys Kallidus, a software that can be used for monitoring the performance management systems. Kallidus provides solutions for: ? Effortlessly upgrading from traditional appraisal systems to reduce cost, save time and increase productivity on cloud. ? Facilitating check-ins and reviews any time, any place, anywhere through a modern, responsive interface. ? Setting flexible objectives, frequent feedback, and collaboration empowering your team to improve performance in real-time. ? Efficiently tracking productivity against objectives to accurately capture performance reporting. ? Quickly understanding who needs support for complete clarity of individual and team performance. ? Rendering full transparency of performance management across the organization to drive better decision-making. ? Adaptively building on team capabilities to get the very best out of the performance cloud platform. ? Quickly overcoming performance management challenges to prioritize maximizing output and achieving goals. Source:

<https://www.saplinghr.com> (accessed on 13/4/2022)

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**Objectives and Methods of Monitoring** The principal objective of monitoring would be to understand the appraisee along with his or her unique requirements. Performance monitoring should lead to the following:

- ? Bring out the factors that enable the appraisee to reach the desired performance standards in relation to the various performance parameters associated with the job.
- ? Examine the factors that have prevented the appraisee from reaching his/her potential in various areas. The analysis should concentrate on the objective which would bring out those factors about which the organization can do something. In case appropriate steps can be taken, a detailed action plan to achieve the desired objectives should be drawn up.
- ? Opening up of various communication channels that would enhance the understanding about the appraisee.
- ? There are various methods being practiced in the performance monitoring process. Armstrong gives the most commonly used methods:

**6.6.1 Individual Contact** Individual contact refers to the method of monitoring performance of employees by contacting each and every employee to ascertain their views. This method aims to find out the implementation status through interviews and to provide guidance wherever necessary. Here, the human resources department plays a lead role by contacting and interviewing the employees to find out the implementation status, benefits and problems. If the group is large it may be useful to contact all reporting or reviewing officers or a sample of them. An interview schedule may be developed to actualize this process.

**6.6.2 Analysis of Forms** In this method the information given by employees through forms will be analysed to monitor their performance. The forms so received are analyzed to find out appraisal trends, problems and the data is fed back to line managers for monitoring the system. The performance plans, tasks and targets are then compiled department-wise to spot any omission in the tasks and targets and identifies most frequently mentioned inhibiting factors which serves as a feedback to the departmental heads. This serves as the basis for identifying the performance gaps and devise training methods.

**6.6.3 Forming Departmental and Line Manager Task Forces** Organization-wide or department-based task forces can be formed to monitor the implementation of performance appraisal system. Such task forces evolve their own methods of monitoring the system, which include a combination of individual contacts, questionnaire surveys, short review workshops and analysis

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of forms. When such line manager task forces are formed, employees tend to see a high significance attached to the system than when the HR department alone monitors and implements it.

**6.6.4 Departmental Review Meetings** Each department should set aside a day or half-a-day in six months or in at least every year to review the implementation of the performance appraisal system. These reviews should be marked by the active participation of all the employees and the expression of their views. The commonly experienced difficulties should be identified and the desired technical assistance extended to rectify the problems. Such reviews tend to improve the significance of the performance appraisal system.

**6.6.5 Questionnaire Surveys** This is the most commonly used method. In this method, a follow-up questionnaire is designed and sent to all employees. The questionnaire deals with one aspect or comprehensively deals with all aspects of implementation of the system. It is designed to solicit factual information as well as perceptions, feelings, and reactions. It can be collected anonymously to get a free and frank response or collected by name to get factual information and provide feedback. It is always better to collect information from all with the help of the questionnaire.

**Activity 6.1** Imagine yourself as a manager of a Retail shop and you have to evaluate the performance of a sales person. Design a questionnaire to gather information from the sales person to evaluate his performance during the financial year of 2015-2016. Answer:

**6.6.6 Presentation to top Management or Head of Departments** This is not a separate method to monitor the performance appraisal system. It is used as a potential mechanism to communicate the significance of data generated in the performance appraisal system exercises. In this method, the personnel of the HRD department or line manager or task forces review the implementation and make a presentation of their recommendations for improving it. Analysis of data and questionnaire surveys also could be presented to them. Such presentations help top management to become aware of various issues and to communicate to the employees about its involvement. Such presentations should be followed by some action or at least a communication to all employees about the implementation status and concerns of top management.

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6.6.7 Comprehensive Reviews and Renewal In the initial stages, there is an excitement about the new performance management system. However, after a period of time, the performance management system faces the threat of turning into a routine chore in the organization. It is observed that usually by the third or fourth year people come to realize the inadequacies, imperfections and difficulties in the performance management system. However, it would be a good practice for organization to review the system at least once every five years. Such reviews and renewal exercises may be conducted internally by an inter-departmental task force or by an external agent. Such renewal exercises may use various methods like individual interviews, questionnaires, surveys, and workshops. Such renewal exercises and consequent decisions go a long way in keeping the spirit of the performance appraisal system appropriate. Example Squarespace, an American website building and hosting company deploys Reflective, an automated tool that helps its managers to conduct yearly, quarterly, or even monthly performance reviews through the platform. It also has a feature where the company and team goals can be enlisted so that the direct reports always know what they should be working towards. Employees can provide feedback to other team members through Reflective, in addition to being able to provide responses to manager-controlled morale polls. For details, check out <https://www.reflektive.com/> (accessed on 28/4/2022)

Activity 6.2 National Sales Manager You have joined recently as the National Sales Manager of a B2B marketing company. The firm sells various industrial products to certain manufacturing companies. The organization has a flat sales unit with Sales Representatives reporting to a Zonal Manager. There are four Zonal Managers reporting to the National Sales Manager. The sales force is evaluated on the basis of the achievement of sales targets and compliance with company policies. What methods will you follow to monitor the performance of your sales force? Answer:

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Check Your Progress - 2

4. Which of the following methods would find out the implementation status through interviews and provide guidance wherever necessary? a. Questionnaire survey b. Individual contact c. Analysis of forms d. Departmental review e. Task forces

5. Which method would have a combination of individual contacts, questionnaire surveys, short review workshops, and analysis of forms? a. Departmental review b. Questionnaires c. Task forces d. Individual contact e. Analysis of forms

6. According to Armstrong, it is useful to review the system once in how many years? a. Four b. One c. Five d. Three e. Two

7. Among the various methods being practiced in the performance monitoring process, what would you mean by the analysis of forms? a. Forms got from employees are analyzed to find appraisal trends and problems b. Individual contracts are made c. Presentations are made to the top management d. Explanations to be given for non-conformity e. Departmental reviews are made

8. What should be the desirable time period for the departmental review meetings? a. One year b. Six months c. Less than these d. Three years e. Two years

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9.

A questionnaire would not be able to give which of the following types of information? a. Perceptions b. Feelings c. Facts d. Attitudes e. Inconsistencies

10. In case the performance management system gets reduced to a mere routine to be followed, which of these can be relied upon? a. Comprehensive review and renewal b. Presentations being made to the top management c. Questionnaires d. Attitude surveys e. Review meetings

6.7 Summary ? Evaluation is one of the important parts of a performance management system, which includes integration of the organization's objectives with the performance system, relationship with individual objectives, association with pay, and effective encouragement to personal development etc. ? A diagnostic checklist is also used to evaluate the performance of the employees. It comprises of considering cultural fit, commitment and support from top management, integration of organization, team and individual objectives and assimilation of other HR processes. ? Methods of evaluation comprise of review meetings, attitude surveys, and focus groups. ? Poor monitoring and follow-up leads to failure of the entire exercise. The performance management and appraisal system should be instrumental in people development and provide information for managerial decision making. ? The most commonly used methods for monitoring the performance appraisal process are: individual contact, analysis of forms, forming departmental task forces and line manager task forces, departmental review meeting, questionnaire survey and presentation to top management or head of department. ? The performance appraisal systems are not merely appraisal instruments but also the instruments to improve management practices and build professionally effective management culture. ? Evaluation of performance management system helps the organization to attain the performance goals.

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6.8

Glossary Analysis of forms: In this method, the forms are analyzed to find out appraisal trends, problems, etc., and the data is fed back to line managers for monitoring the system. Attitude surveys: These are done periodically using a set of questions. These could be an alternative to an immediate expression of opinion after a meeting. Comprehensive reviews and renewal: Over a period of time, when employees begin to experience the inadequacies, imperfections, problems and difficulties in the system, that is the time to review and renew the system. Departmental review meetings: In this, each department sets aside a day or half-a-day every year or every six months to review the implementation of performance appraisal system. Focus groups: These are used to provide more in-depth feedback on how well the performance management is working. The questions of discussion are followed by an opportunity to hear extended views supported by the reasons for expressing them. Individual contact: This is a method to find out the implementation status through interviews and provide guidance wherever necessary. Line manager task forces: Organization-wide or department-based task forces that are formed in order to oversee the implementation of performance appraisal system. Presentation to top management or head of departments: This is a potential mechanism where the significance of the data generated in the performance appraisal system is communicated through the personnel of the HRD department by means of a presentation. Questionnaire surveys: This is a commonly used method where a follow-up questionnaire is designed and sent to all employees to solicit factual information as well as perceptions, feelings and reactions. Review meetings: Review meetings are done to help in evaluation. They are done by asking individuals to complete questionnaires immediately and are followed by a review meeting. 6.9 Self-Assessment Test 1. Prepare an exhaustive list of the issues to be considered while evaluating a performance management system. 2. Describe various methods that are available for evaluation of the performance management system. 3. What are the reasons for the performance management system not being implemented? 4. Explain how you would monitor the various activities of the performance management system. 5. What are the objectives of monitoring and follow-up?

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Suggested Readings/Reference Material 1. John Shields, Jim Rooney, Michelle Brown, Sarah Kaine; Managing Employee Performance and Reward: Systems, Practices and Prospects, 3<sup>rd</sup> Edition, Cambridge University Press, 2020 2. Susan L. Verhulst, David A. DeCenzo, Rama Shankar Yadav; Human Resource Management, 13<sup>th</sup> Edition, Wiley, 2021 3. Durai Pillai, Total Reward Strategy: Retain Your Best Talent, 1<sup>st</sup> Edition, Notion Press, 2020 4. Stephen J Perkins, Sarah Jones, Reward Management: Alternatives, Consequences and Contexts, 4<sup>th</sup> Edition, Kogan Page, 2020 5. Kevin R. Murphy, Jeanette N. Cleveland, Madison E. Hanscom, Performance Appraisal and Management, Sage Publications, 2020 6.11 Answers

to Check Your Progress Questions 1. (

a)

Questionnaires should be completed Evaluation can be achieved by asking individuals to complete questionnaires immediately and then following it up with a review meeting. The questionnaire asks people to rate the effectiveness of the review meetings on a point scale. They are asked to indicate their reactions on the given statements. 2. (a) Focus group discussions Focus groups are used to provide more in-depth feedback on how well performance management is working. There are questions for discussion as well as an opportunity to hear extended views supported by the reasons for expressing them. 3. (a) Attitude surveys Attitude Surveys are conducted using the same set of questions as used for the Review meeting. These are designed to capture the opinions that prevail after a meeting. 4. (b) Individual contact The method of individual contact would look at the implementation status through interviews and provide guidance wherever necessary. 5. (c) Task forces Organization-wide or department-based task forces can be formed to monitor the implementation of the performance appraisal system. Such task forces evolve their own methods of monitoring the system, which includes a combination of individual contacts, questionnaire surveys, short review workshops, analysis of forms, etc.

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c) Five According to Armstrong, it is useful to review the system once at least after 5 years. 7. (a) Forms got from employees are analyzed to find appraisal trends and problems In this method, the forms received from the employees are analyzed to find out appraisal trends, problems, etc., and the data is fed back to line managers for monitoring the system. The performance plans, tasks, targets, etc., are compiled department-wise to spot any omission in the tasks and targets. 8. (b) Six months Each department should set aside a day or half-a-day in every six months or at least once a year to review the implementation of the performance appraisal system. 9. (e) Inconsistencies In this method, a follow-up questionnaire is designed and sent to all the employees. It is designed to solicit factual information as well as perceptions, feelings, and attitudes, but inconsistencies are not dealt with. 10. (a) Comprehensive review and renewal After a period of time there is a high chance that the performance management system faces the threat of turning into a routine chore in the organization. This indicates that it is time to review the system and renew it.

Performance Management and Reward Systems Course Structure Block 1: Foundations of Performance Management

Unit 1 Introduction to Performance Management Unit 2 Performance Appraisals Unit 3 360° Feedback

Block 2: Performance Management Framework Unit 4 Developing the Performance Management Framework Unit 5

Designing and Launching the Performance Management System Unit 6 Evaluation and Maintenance of

Performance Management

Block 3: Performance Measurement of Individuals, Teams and Organizations Unit 7 Measuring Individual Performance  
Unit 8 Measuring Team Performance Unit 9 Measuring Organizational Performance  
Block 4: Compensation and Reward Management Unit 10 Rewards and Recognition Unit 11 Reward Management Unit 12  
Performance Management and Compensation Unit 13 Job Evaluation and Pay Structure Unit 14 Performance  
Competence and Skill Based Pay  
Block 5: Performance Development Unit 15 Performance Management and Employee Development Unit 16 Motivation  
and Performance Improvement Unit 17 Emerging Trends in Performance Management

### Hit and source - focused comparison, Side by Side

**Submitted text** As student entered the text in the submitted document.  
**Matching text** As the text appears in the source.

1/1	SUBMITTED TEXT	16 WORDS	100% MATCHING TEXT	16 WORDS
	provides visibility across multiple organizational levels allowing teams to work seamlessly while remaining location agnostic		Provides visibility across multiple organizational levels allowing teams to work seamlessly while remaining location agnostic	
	<b>W</b> <a href="https://www.prohance.net/">https://www.prohance.net/</a>			