

A Study on Performance Management System in India

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Abstract

After the Globalization, companies from most of the countries across the globe showed their positive attitude to enter India to take advantage of huge market and this was the advent of cut-throat competition for Indian companies. Consequently, most of the Indian Companies started analyzing the factors which are going to play critical role in the said competitive situation and they found matching most of the variables such as, technology, capital, infrastructure, etc. is quite possible. This search for cutting edge led most of them to realize that all other competitive variables being same among the players, the only determinant variable they can bank upon is "Employee Performance" which not being indexed to any "rated capacity" like in a machine, can indeed be harnessed and cultivated to any organizationally designed objective realization process. This was the beginning of Performance Management System and turned out to be the most researched area of Human Resource Management. But the first goal in this research was how to define performance and then try to measure it since it is a well-recognized fact that what cannot be objectively measured cannot be improved. It was also agreed that once taken to empirical heights, Performance Management System (PMS) should be the only benchmark for administration of any compensation and reward mechanism in any organization. Thus having been choreographed to play the center-stage role in the survival and growth dynamics of companies, standardizing performance and recording the same on objective lines became the key.

Keywords: *Performance, Performance Measurement, Competitive Dynamics, Competitive Edge, Performance Improvement, Performance Management System.*

I. Introduction

Before Globalization in India, there was more focus of the organizations to provide jobs to a few and contribute in the development of infrastructure related to distribution and communication and these were being considered as the prime achievements for most of them, most of the organizations were little sensitivity to competition due to socialistic fervor. But, some of the organizations after fulfilling these idealistic socialist goals were still managing some productivity that could put them competitive enough in global perspective. Overall, in Indian context, priority was different. Accordingly, not only capacity utilization and machine performance ranked low in priority, there was also least importance attached to employee performance indices. In most organizations, as an annual ritual, confidential-reporting-system was prevalent, wherein the almighty boss will record in a free style manner, good, bad, evil of the subordinates, thus becoming the sole arbiter of the destiny of the subordinates in both career progression and compensation dispensation mechanism. Not for nothing, many exceptionally talented resources were doomed for failure just because for various reasons they could not master the trick of success in this highly subjective process and conversely, many below average performers marched ahead in career growth trampling the highly talented ones. This resulted not only in all round servile culture of nepotism and favoritism getting cultivated in organizations at the cost of productivity, but also the entirely subjective system smacked of bias and prejudice. But with the onset of competitive globalized era, when productivity became the sole criterion for survival, growth, and prosperity, there was a lot of research as to who drives productivity and when it was realized that employee performance is the most important driving force, attempts started being made to standardize it on scientific basis in a gradual manner and the process is still on based on feedback and research.

Performance Management System (PMS) is intended to get the pre-designed results from the organizations and the employees working in them with continuing efforts at improving their degrees of performance in measurable terms. Thus, periodic Performance Appraisal of employees is considered one of the most difficult tasks in the manager's job (Feldman,1981). The role of periodic performance appraisal of the employees in an organization has been well recognized and it has been strongly suggested that an effective performance management can yield significant positive benefits to the organizations. (Casico, 1982). Performance Management is a process of establishing shared understanding about what is to be achieved, and an approach to managing and developing people in a way which increases the probability that it will be achieved in the short and long term (Armstrong, 1995). While everyone has unambiguously pleaded for a strong role of PMS in the organization's growth process, the opinion of experts largely vary. When promoters and/or owners opt strongly in favor of PMS fulfilling organizational objectives, the employees largely look at it for fulfilling their career growth expectations, enhancing their morale and ensuring a continuing feel-good factor. Performance Appraisal

System in India vary significantly and has evolved greatly from simply no-appraisal to subjective confidential reporting system to 'sophisticated multipurpose, multi component based appraisal system' (Rao, 2004).

If we have to look at the effectiveness of PMS in any organization, we need to look at its design, implementation and maintenance part. Most of the researchers who have extensively worked in all these areas in Indian companies have always conducted their research from a particular stake holder point of view and could not made available a comprehensive or generalizable. The present study has been attempted to compile the perceived effectiveness of PMS in a Fast Moving Consumer Goods (FMCG) organization in India. A questionnaire survey was carried out to know the employees' perceptions about PMS on the basis of its application, maintenance, and effectiveness to add some value to the available knowledge about overall effectiveness of PMS.

II. Review of Literatures

Performance Management System maintains the check and balance in the realization process of vision and mission of the organization and since this is based on various paradigms of PMS as implemented in the organization, many critical success factors are drawn to achieve the goals. The literature review on effectiveness of PMS indicates multiple factors and other aspects of its effectiveness discussed in further paragraphs. The validity and reliability of instrument and perceived fairness before and after ratings are important factors of effectiveness of PMS particularly in public sector organizations in India (Mohammed A.H., 2012). Since, performance has been considered as the basic determinant of success or failure for an organization belonging to public or private sector, consequently it's been considered of paramount importance that the dissemination of performance standard and performance dimensions, and transparency to minimize subjectivity in performance assessment is properly taken care. But before we talk of several assessment methodologies, we need to keep in mind that performance expectation as derived from the vision statement must have been communicated clearly to all the managers in the hierarchy. Next, these performance parameters will need to be converted to quantifiable goals which are called as KRAs (Key Result Areas). Unless the performance is turned quantifiable, it cannot be measured and "what cannot be measured, cannot be improved". Quantifiable assessment of KRA realization by managers call for periodic review, providing continual feedback and implementing any mid-term course correction, which comprise the core ingredients of a robust performance appraisal system. Applying appraisal results for rewarding performance in an appropriate way is considered as a strong pillar of an effective appraisal system. For doing this, the best option is to link incentive, rewards or variable salary to the percentage realization of KRAs assigned to a manager. Most of the organizations have gradually moved to a variable salary structure which generally comprises 10 to 20 % of the total cost to company of a manager and since this component of salary is directly linked to % realization of individual KRA and thus that vital component of organizational goal, this not only is the most dynamic matrix of the organizational dynamics but also happens to be the most important factor of realization of vision of an organization. However, the basic purpose of an effective PMS is not only to identify high performers on the one hand and reward them for reinforcement of high performance and identify low-performers to remove them from the organization rather to apply several performance improvement plans such as, performance counselling, mentoring etc. to improve their performance up to the required standard (B. Lavigna, 2010). So, the fact is that the efficacy of any performance appraisal system is tested on the strength of having transformed how many low-performers to high-performer category.

Ron Drew S. (2009), found out three main shortcomings of performance management as a narrow framework used to view, analyze and discuss performance ineffective habits of various performers and improperly and inadequately defining the design steps. While suggesting that the effectiveness of PMS can be enhanced by taking care of the above shortcomings, one needs to be careful of being idealistic. So by focusing on critical 20% causes, one can solve eighty percent of the performance management related problems which should be the most practical approach. Jim Collins warns that 'People are the most Important asset of your Organization' is indeed misleading and it should be modified as only the right people are the strategic assets of your Organization' (in Crain David, 2009). He rightly emphasized on learning and development for the employees having a right attitude and getting rid of such employees who do not fit in to the bill, a strategy adopted by many including the iconic Wall Mart. So effectiveness of a PMS is decided on two important achievement variables, first, the system by following objective quantifiable methods of performance assessment and measurement through proper KRA identification, then based on that classify employees to high-performer, low-performer and non-performer categories. Then motivate and encourage high-performers with incentives, rewards and incremental variable salary with high-visibility index, low-performers to be put to learning and development, training, mentoring through a comprehensive performance improvement plans.

Segregating the role played by outcomes of effective PMS and factors that can harm it, can be one of the ways to assess the effectiveness of PMS. Hafiz, Zaid and Zaheer (2009), while studying the PMS in public and private sector organizations observed that the factors of effectiveness of PMS include 'employees knowing how they are performing' and 'Improvement in the accuracy of employees' performance' and the factors detrimental to PMS include 'Organizational politics affecting the performance of targeted employees', 'Doubts in the minds

of employees about the after effects of appraisal’, ‘Appraisal’s focus on short term goals’ and subjectivity of appraisal process.

The factors of effectiveness of PMS can be categorized in to personal factors and organizational factors (Wood and Marshal, 2008). The personal factors included ‘The appraiser experience’ and ‘Training’ while the organizational factors included management concern, accountability, instrument adequacy, instrument sensitivity and importance of appraisal.

Chandrasekhar S.F., 2007 while studying the perceived effectiveness of performance appraisal system (PAS) in an engineering company had found that perception of employees about effectiveness of PMS varies though not very significantly, with their job levels and personal factors. The higher level of employees (managers) are more likely to respond positively about effectiveness of PMS of the organization than their subordinates and possible reasons for this variation may be their depth of understanding about Performance Management System and its consequences due to their higher qualifications and organizational exposure.

Despite the universal realization that performance is the key to organizational success and continuing extensive research in the field, the questions that have yet to be more rigorously pursued in the literature include: How to explain a Performance Appraisal System (PAS) and its factors responsible for the effectiveness of PAS? How to establish a cause and effect relationship between effectiveness and desired result of a pursued Performance Appraisal System in an organization? Research shows that the measures and systems we now have, are not free from bias (Cleveland & Murphy, 1992; Dewberry, 2001; Scott & Einstein, 2001; and Lam & Schaubroeck, 1999 in Anderson, 2002). So, the research should be conducted to find and establish more and more common factors responsible for the effectiveness of Performance Management System.

Objectives

To understand the perception of employees about the effectiveness of Performance Management System (PMS).

III. Methodology

A structured questionnaire consisting of questions related to organizational factors such as, characteristics, design, process and linkages of appraisal results to career growth and compensation and benefits of the employees. This study is conducted in a FMCG company named as Moreish Foods Ltd., Jagdeo Path, Sheikhpura, Patna – 800014.

Data Collection Design

The primary data is collected in the form of responses of the employees with the help of structured questionnaire and the secondary data has been taken from literature and website of the company.

Instrument

A structured questionnaire consisting a list of items pre-validated through experts’ opinion (factors of perception recorded level-wise about effectiveness of PMS) and divided in to seven categories like Organizational factors, Design and features of PMS, Linkage of PMS features and KRAs with organizational productivity, Factors of processes of PMS, Perception index of employees of different levels about PMS as tool, Use of Appraisal results for career growth and Use of appraisal results for grant of compensation and benefits has been used for survey.

Sample Design

Convenience sampling has been used to collect responses and to deal with time constraints with employees (respondents). The sample size was 54 which was drawn from different categories of employees. The profile of the respondents is mentioned in the following table.

Table 1

Qualification			Age (yrs.)			Designation			Experience (yrs.)		
Category	No	%	Category	No.	%	Category	No.	%	Category	No.	%
Non-Graduate	23	42.59	20 - 30	28	51.85	Sales Trainee	14	25.93	0 – 5	23	42.59
Graduate	16	29.63	31 – 35	7	12.96	Sale Exec.	21	38.89	6 – 10	12	22.22
Post-Graduate/MBA	8	14.81	36 - 40	8	14.81	Sales Mgr.	8	14.81	11 – 15	9	16.67
MBA/CA/ICWA	5	9.26	41 – 45	9	16.67	Area Mgr.	9	16.67	16 – 20	7	12.96
CA/ICWA	2	3.7	Above 45	2	3.7	Top Mgt.	2	3.7	Above 20	3	5.56

Employees working at the bottom of the hierarchy of this company either matriculate or plus two +2 but not graduates and such respondents were nearly half (42.59%) of the sample size and they belong to the age group of 20-30 years with an experience of 0-5 years. Employees of this category were found either skeptical or bias to

PMS owing to their qualification and/or not able to establish the link between tangible benefits and Performance Management System. Graduates are working as executives whose age is ranging from 31-35 years and their experience is ranging from 6-10 years. The employees of this category have good understanding about PMS and its benefits which leads to very less chances of biased responses as compared to non-graduates working at the bottom of the hierarchy.

Around fifteen percent (14.81%) are Post-graduates/MBA belonging to the age group of 36-40 years with 11-15 years of experience, working as first-line managers responded with clear understanding of PMS and its benefits policy.

Nearly ten percent (9.26%) of the respondents are MBA/CA/ICWA having experience ranging from 16-20 years belonging to the age group of 41-45 years working as second-line manager (area manager) have responded with very good understanding of PMS and its linkage to organizational compensation and benefits policy. Approximately four percent (3.7%) CA/ICWA aged over 45 years working as top management with and above 20 years of experience responded with clear understanding of the organization's PMS policy and how it has a relationship and linkage with the organization's compensation policy. Hence response from this category is likely to be with very minimal error.

IV. Discussion and conclusion

Analysis of the responses indicates that the effectiveness and efficacy of Performance Management System can be established by improving the level of understanding amongst bottom level of the hierarchy who are either skeptical or not having understanding about PMS and its benefits. Therefore, the communication should be established to familiarize about the benefits of PMS and its role in organizational growth matrix, keeping employees in a continual state of high motivational level, greater job satisfaction, heightened sense of belonging, developing a culture of innovation and creativity and most particularly by bringing in a culture of healthy internal competition by linking PMS rating and KRA score to a differential compensation mechanism in the organization to all levels of employees especially the bottom level of hierarchy. Based on carefully identified KRAs which forms quantifiable result, an intensive training should be designed by taking key performance indicators in to account as per employee's job profile in an organization. There must be an appraisal cycle to assess the mid-training KRA realization and possible correction and improvement of their gray areas through counselling, hand holding, performance improvement programs, etc.

It has been noticed in various studies that, many of the self-appraisal tools such as, KRA based assessment, balanced score card, 360 degrees, etc. have been applied by different organizations and a lot of objectivity with transparency to the system are ascribed. Since a long time, a contemporary PMS models are practiced in different organizations have purely subjective and grossly biased confidential reporting system. As PMS deals with human beings, therefore the subjectivity cannot be eliminated completely but further can be reduced which indicates clear opportunity for further research.

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