

PERFORMANCE MANAGEMENT SYSTEM – A STRATEGIC TOOL FOR ENHANCING EMPLOYEE PERFORMANCE

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ABSTRACT:

Performance management is one of the complex and challenging technique in human resource management. Performance appraisal allows organizations to apprise their employees about their rates of growth, their competencies, and their potentials. If used well, performance appraisal is an influential tool that organizations have to organize and coordinate the power of every employee of the organization towards the achievement of its strategic goals (Grote, 2002; Lewis, 1996)

This article summarizes the conceptual foundation on the evolution of traditional and modern performance measurement techniques, its features, advantages and disadvantages. The article concludes with the performance management practices and framework of Dr.Reddy's Laboratories, Hyderabad.

Key words: Employee, Performance, Performance Management system, Performance Appraisal, Performance planning, Feedback.

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INTRODUCTION:

The term **performance** is not a universally accepted term. It may mean different to different people. This may be mainly because the meaning of the term differs from one situation to other. In general terms, dictionary defines performance as:

“An action/process of carrying out a task or function.”

Defining in the context of Human Resource Management, **Performance Management System** is defined as ‘A systematic and continuous process of planning, communicating and evaluating the performance of employees, along with providing them feedback regarding their performance at regular intervals’. However it is important that the performance of employees should align with the organizational goals and objectives.

REVIEW OF LITERATURE:

Sindhu. T. Tejaswini (2015) says that the pharmaceutical industry is enormously large, profitable and active in India. This study focuses on the purpose and benefits of performance appraisal from two perspectives that is the employees and organisation. It also speaks about the other benefits of performance management system. This article gives a clear idea of how performance management helps to clearly understand the need of the system and what is expected out of each of them.

- Employee Viewpoint: From the employee viewpoint, the purpose of performance appraisal is of four-fold:
 - It helps them understand what exactly they are supposed to do.
 - It tells them how well they have performed.
 - It helps them to improve their performance
 - Rewards them for doing well.

- Organization Viewpoint: The reason for having a system of performance appraisal is to establish and uphold the principal of accountability. The chief cause of organization failure is —non-alignment of responsibility and accountability. The principle of accountability breaks down completely. Hence, organizational failure is the only possible outcome.

- Other benefits of appraisal:

- Appraisals can motivate employees and they also gain confidence and satisfaction when feedback about their performance is communicated.
- Training and development needs of employees can also be met based on their previous performance.
- Induction techniques based on their past performance can make employee satisfied and feel responsible for the job.

The article also discusses various methods of performance appraisal, which were classified into traditional methods and modern methods. Traditional methods include graphic rating scales, ranking methods, paired comparison method, forced distribution method, essay or free form appraisal, group appraisals, etc. Modern methods followed are Behaviorally Anchored Rating Scales (BARS), human resource accounting, management by objectives, etc.

Leena Toppo and Twinkle Prusty (2012) discusses about how performance management comprises of all organizational process that define how well employees, teams and the organization achieve their goals. The process includes human resource planning, recruitment and selection of employees, training & development, profession planning and progress and compensation. An organization should have certain means of evaluating the level of employees' and team performance to make suitable development plans. Performance appraisal is one component of performance management that is vital, as it directly reflects the organization's strategic plan. But it is noticed that many people considered performance management and performance appraisal are different terms of the same system. Performance appraisal is the originator and performance management system is the successor. Performance appraisal has limited scope than Performance management. Performance management is a combined process of planning, appraisal, feedback and counselling of employee performance. It may also consolidate goal setting, performance assessment and developing it into a common system which aims to ensure that the company's strategic aims are met through employee's performance.

With reference to health care sector, performance appraisal is one of the most significant components in the systematic and balanced process of human resource management. The facts obtained through performance evaluation provides basics for recruiting and employing

new hires, training and development of existing staff, and motivating and upholding a quality work force by effectively and properly gratifying their performance. Without a consistent performance appraisal system, any system in a human resource management ceases to perform well, resulting in a total wastage of the treasured human assets that the company has. The aim is not to debate that there must not be a formal mechanism for assessing performance but, it should be regarded as one of the of mechanism for enhancing the quality of clinical care. (Choudhary & Shankar, 2014)

EVOLUTION OF PERFORMANCE MANAGEMENT SYSTEM:

The evolution of performance management system is not a one-time achievement. It was done over years from 3rd century AD by the ancient Chinese followed by Romans, Egyptians, etc. it gained its prominence during the period of Industrial revolution when the wages of the workers is paid based on their productivity.

However, the development of modern performance evaluation systems has been accredited to researchers and philosophers like Peter Ducker and Douglas McGregor, who formulated ideas like Management by Objectives (MBOs) and employee motivation. More than 60% of American organizations had a formal performance appraisal system by the early 1960s. Since then, researchers in the west have been continuously developing theories on different performance evaluation methods which can contribute to the success of the organization.

PERFORMANCE MANAGEMENT DURING THE EARLY CIVILIZATIONS:

The olden civilizations used different types of performance management techniques:

1. **Chinese dynasty:** In the 3rd century AD, Wei dynasty of China was known for its innovations in their civil services. One of their advancements was the “Nine Rank System”, under which the employees were ranked/categorized based on their abilities. They were also given reviews on the assessment of the employees. A bad ranking would chase a candidate out of the system. This is similar to ‘Forced Distribution’ and ‘Bell Curves’.
2. **The Roman Empire:** It was customary for emperors, leaders and generals to erect massive monuments like the arches to share their victories about their job performance, which is similar to a present concept called “Self-appraisal”.

3. **Early medieval Europe:** Clovis, king of the franks was a best example of bad performance reviews due to biased managers. He killed a soldier for a mistake that he had done sometime before without considering opinion of others. This in present day is commonly known as ‘Manager Point of failure’.

4. **Napoleonic wars:** Royal Navy officers in the nineteenth century were subjected to review and feedback from their peers. This raised issues about employees who spent too much effort in escalating support and not satisfying in performing their duties. ‘360 degree performance reviews’ is what it is called today.

Even though a formal performance management system was not followed in the past, there were similar concepts as that of present days. However, the term performance management system gained its prominence when competition among firms started ascending and the organizations felt that there was a need to establish a formal performance management system for enhancing the overall performance effectiveness and productivity of their employees.

PERFORMANCE MANAGEMENT DURING THE 19th CENTURY:

Proper evaluation of performance of the employees, for the first time, is assumed to have been approved during the First World War. The US adopted person-to-person rating system for assessing the military workforce. During the period between 1920 and 1930, rating scores were used to evaluate the hourly paid workers in the industrial units. This appraisal system was called “MERIT RATING”. It is also believed that performance management was used as a source to justify the income of employees. It was also used to determine the wages centred on performance of workers. Performance management was also used by organizations to motivate employees to get required outcomes. It was successful on employees who were purely driven by financial benefits. But it failed miserably in case of employees who were seeking learning and development skills from their job. There was a huge gap between justification to pay and increasing the skills and knowledge of employees in the implementation of performance management system. In 1980’s it became evident that a more integrated method to manage and reward employee performance is required. During this period, factory management became responsive of the significance in production outputs based on employees’ performance.

The evolution of performance management can be broadly classified into the following 5 phases:

1. **First phase:** The foundation for performance management system can be found during the early 1960's. This was the period during which performance appraisal system was being followed. The behavior of the employees was being controlled using “*Annual Confidential Reports (ACR's)*”, also known as “*Employee Service Records*”. These records provided considerable information on employee's performance. Any undesirable comment would adversely affect the career prospects of the employee. The evaluation was done on a 10 point or a 5 point scale, measuring traits such as leadership, job knowledge, enthusiasm and approach towards work etc. the comments on these reports were under no circumstances conversed with the employees and maintained absolute confidentiality continued along the whole process. Employees remained in ignorance of their performance due to lack of transparency in communication and feedback.

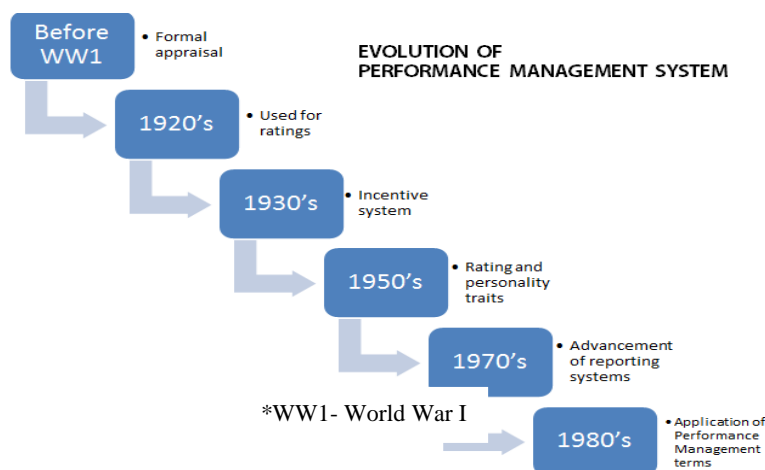
2. **Second phase:** Existed from end of 1960's to early 1970's. The transformation in this period was that the adverse comments that were made about employees, in the first phase, were communicated to them. This made employees to take some corrective actions to improve their future performance. The limitation of this phase was that the official performance rater had the power to dominate his opinion over others on the ratings of the employees. The employees would get a written communication formally only if their ratings were below 33% for any particular trait.

3. **Third phase:** ACR was substituted with performance appraisal in this phase. The major improvement in this stage was that workforces were allowed to express their accomplishments in their reports. Self-appraisals were introduced during this period, where employees were asked to rate themselves. They were also given freedom to describe one's own achievements, at the completion of the year, in their self-appraisal forms. Many quantifiable traits like targets achieved, etc. were introduced by many organizations that could measure productivity. Rating scales were used to measure these traits. Some organizations also introduced in their appraisal forms, the concept of employee reviews on training and development needs. Even after so many advances in the system, the element of confidentiality was still being maintained at some point or the other. It was more of control oriented process rather than development oriented.

4. **Fourth Phase:** The origin of this phase was in India; in mid-1970. Great business tycoons introduced substantial reforms in this field which was led by Larsen & Toubro. L&T was followed by the SBI and several others in the later years. In this period, appraisal process was improvement oriented, goal(performance) based and participative. It was also open to new ideas and developments. The focus shifted from a mere confidential process to a methodological approach which included, planning, review and developmental aspects of employees. The process of deciding the KRA's of employees was done on a mutual understanding between the reporting head and the employee. KRA's were set up in the commencement of the year and reviewed once in 6 months. In every review period, all the causes for inadequate performance of employee were discussed along with the required training needs of the employee. Any alterations to the existing targets were also made in a collaborative environment.

This phase had laid foundation to introduction a new HR department in many organizations that focused on progressive issues of the business.

5. **Fifth Phase:** This phase considered development in approach of managing employees' issues. It was performance oriented and importance was given to scheduling, developing, and improving employee performance. Good culture, team appraisals and quality circles etc. which were recognized for evaluating the improvement in the overall productivity of the employee were given extreme importance.



PERFORMANCE MANAGEMENT IN THE MODERN DAYS:

Present trend of performance management has progressed still further. Companies are trying to pull down their traditional hierarchy and trying to implement more equal working environment. This led to the implementation multiple feedback sources in the performance management systems while evaluating an employee's performance. This is branded as 360° feedback.

Performance Appraisal System:

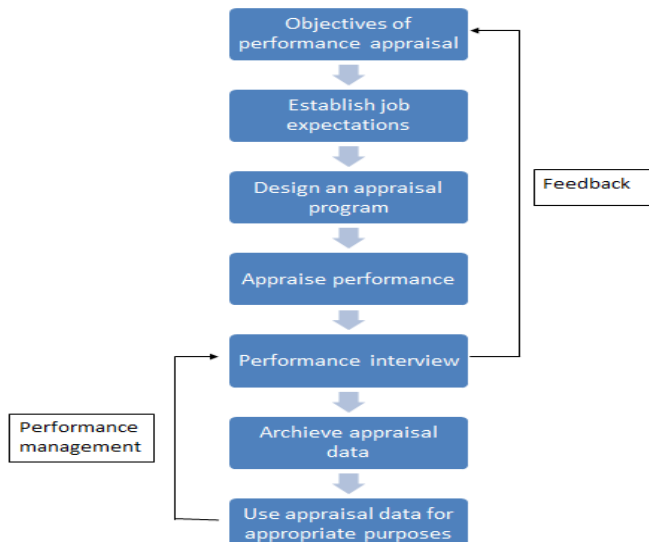
Traditionally, the technique used to evaluate employees is called performance appraisal system. It focused more on employee performance and the supervisors gave feedback on their performance. There was hardly any focus on the development needs of the employee.

Performance Appraisal is a systematic and continuous process of assessing the employee's individual contribution to the job in relation to a set of pre-established objectives of an organization. Other features such as individual's accomplishments, possible future enhancements, strengths and weaknesses are also considered during performance appraisals. These are mostly judgemental and the most commonly used evaluation methods. Previously PA's were conducted annually, where the superiors tell the employees about their performance, counselling them and discussing compensation issues along with their job status and corrective decisions. It is also referred to as: **performance review, performance evaluation, employee appraisal** or **career development discussion**.

PROCESS OF PERFORMANCE APPRAISAL:

The process of performance appraisal can be broadly classified into two stages:

1. Performance management: This phase begins with employees discussing with the managers and setting the goals and ends when the performance interview of the employee is conducted.
2. Feedback: This stage consists of the post-performance management activities like achieving appraisal data to use for appropriate purposes, giving the feedback of the employee, and taking relative actions based on their performance like deciding their compensation, rewards and recognition and promotions (if any).



PERFORMANCE MANAGEMENT SYSTEM:

Since performance appraisal just provided feedback on employees' performance and could not focus on the development aspect of the employees. Employees became future-oriented and wanted to know ways to increase their performance rather than knowing their past performance. In fact employees wanted to enhance their future performance based on their past. This led to a new concept called 'Performance Management System'.

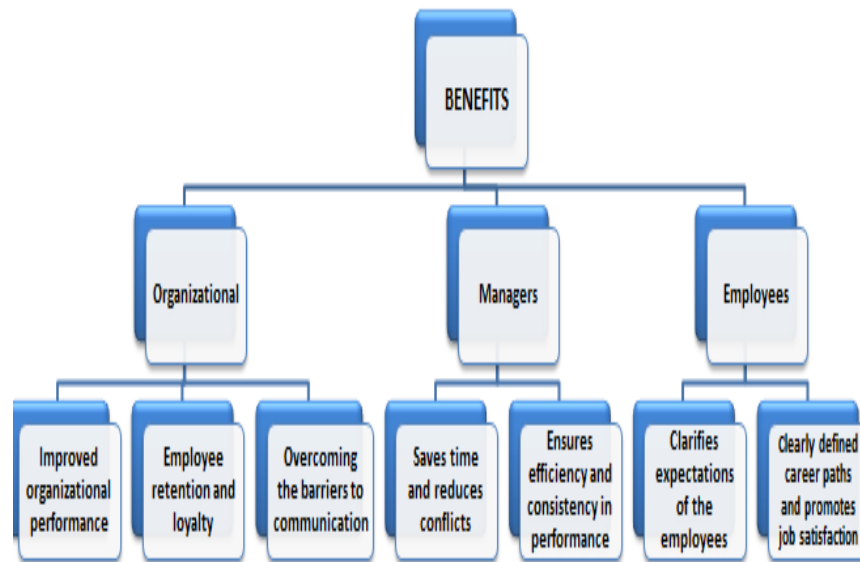
Features of Performance Management System:

- Goal congruence (employee's goals- team goals - organisational goals).
- Effective goal management.
- Training and development linked to individual goals and in turn align with organization's objectives.
- Identify key job performance magnitudes.

Methods of Performance Appraisal:

Name of the scale	Format of writing	measures	Measurement of the scale	Traits measured	Measured by
Rating scale method	Rating scale	Traits or characteristics of an employee relevant to the job are measured	Bipolar scale from 'Poor' to 'Excellent'	Assessed traits include: communication skills, team-relationships, punctuality, technical skills required for the job etc.	Supervisors
Essay method	Written statement	Strengths and weaknesses of the employee related to the job			Supervisors
Management by Objectives (MBO)	Written statement	Amount of work he has done according to the pre-determined objectives by the supervisors		Subjective to the pre-determined objectives by the supervisors	Superiors
360° performance appraisal	Rating scale				Superiors, peers, subordinates and clients
720° performance appraisal	Rating scale				Self, peers, supervisors, subordinate, suppliers, customers, family and shareholders
Behaviourally Anchored Rating Scale (BARS)	Rating scale	Narratives, critical incidents, and quantified ratings	Points from 5 to 9 (good to poor performers)	Ratings of the target person's behaviour or performance.	Superior
Forced distribution	Graphical representation (normal distribution curve)	Employees that are to be removed from the organization.		Overall performance of the employee based on any of the above method	Superiors

Following is the figure classifying the Traditional and the Modern appraisal techniques:

Advantages:**Dis-Advantages:**

- **Time consuming:** To implement an effective performance management system, there should be an on-going, one-to-one feedback to all the employees. Even though it is effective when it is properly communicated, it is very time consuming.
- **Discouragement:** When the employee's performance is not satisfactory, the review may not be a pleasant experience for him. At this point of time, if the superior does not communicate positively, there is a lot of scope for the employee to get discouraged and de-motivated.
- **Inconsistent message:** If a proper record of employee is not maintained, there may be chances that the supervisor for communicating an inconsistent feedback during the review process.
- **Biases:** biases are inevitable in any performance appraisal process. There is a strong need of structural and objective process to avoid biases in the process. Even the manager who is assessing should be a matured person and understand the possibilities natural biases to fairly evaluate the employees.

BALANCED SCORE CARD:

Traditionally, many public sector organizations measured their performance by concentrating on internal or process performance, like the number of programs controlled by the organization, or

the size of the budget that is allocated to them, etc. In comparison, private sector companies focused mainly on the financial measures which include: return-on-investment, market share, and earnings-per-share. Either of these approaches when applied alone provided the manager with the information that could be used by him effectively. Hence a new method of integrating the internal and process measures with results and financial measures, managers will have a more complete picture and will know where to make improvements.

Balancing Measures

"Balanced scorecard" a set of measures that give top managers a fast and a comprehensive view of the organization's performance which include both process and results was developed by Robert S. Kaplan and David P. Norton. The intricacy of managing an organization requires the managers to view performance in several areas simultaneously. A balanced scorecard or a balanced set of measures provides that valuable information.

Four Perspectives

The managers are recommended to gather information from four important perspectives:

- **The customer's perspective.** This perspective helps the managers to know if their organization is fulfilling their customer needs. The answer to the question, 'How do customers see us?' must be answered.
- **The internal business perspective.** Managers need to focus on those critical internal operations that enable them to satisfy customer needs. They must answer the question, what must we excel at?
- **The innovation and learning perspective.** An organization's capability of innovating, improving, and learning is directly related to its value. Managers essentially should enquire into the question, Can we continue to improve and create value for our services?
- **The financial perspective.** In the private sector, the financial measures should be focusing on profit and market share. Whereas in a public sector, financial measures may include measures that are result as per the requirements of the Government Performance and Results Act of 1993 (GPRA). Managers should be able to answer the question, how do we look to the government and other stakeholders?

Linking to Employee Performance

The balanced scorecard viewpoint applies not only at the organizational level but can be applied even to performance appraisal of employees. It is one of the effective ways of getting a complete expression of an employee's work performance and not just a limited view. Excessively, employee performance policies measure the employees' behaviors, actions, or processes and they fail to measure the results of employees' work. With this, the organization might be successful in measuring the behaviors or actions of the employees, and end up in rating most of its employees as 'Outstanding' in spite of the objectives of the organization as a whole have failed to be achieved.

By using balanced processes at the organizational level for performance management, and by making the results available to supervisors, teams, and employees, managers, the organization is helping the managers by providing information that is needed to align employee performance strategies with organizational goals.

PERFORMANCE MANAGEMENT PROCESS AT DR. REDDY'S LABORATORIES:

Company Profile:

Dr. Reddy's Laboratories Ltd is founded in the year 1984 by Dr. K. Angi Reddy. It is one of the India's largest pharmaceutical companies. It has been ranked the second largest pharmaceutical company in India. Its headquarters is located in Hyderabad, India. The major functions of the company include producing and selling pharmaceutical ingredients, finished medicines and biologics. It is a prominent manufacturer of ulcer medicines, antibiotics, pain relievers, antidepressants and cardiovascular drugs.

Market of Dr. Reddy's Laboratories extend approximately in about 100 countries, while the main focus is retained on Europe, India, USA and Russia. Dr. Reddy's Laboratories became the first pharmaceutical company in the Asia Pacific region to be listed on New York stock exchange. Research and development is carried out in the company on a continuous basis in diabetes, cancer, cardiovascular diseases and bacterial infections. The company's products have an average of 120 medications and 60 active pharmaceutical ingredients that are required for further drug manufacturing.

Dr. Reddy's has been the only Indian Pharmaceutical Company that has been ranked 13 among the top 25 companies in India.

PerfECT process:

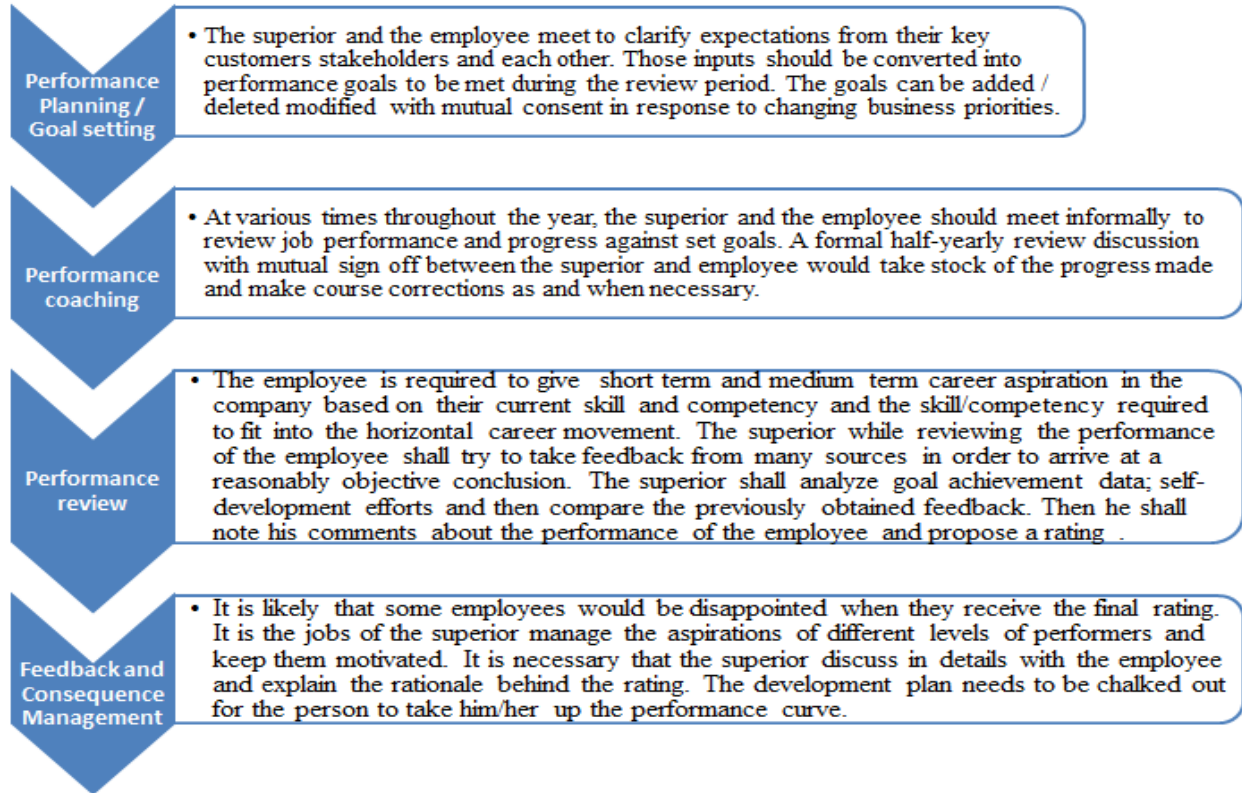
The performance appraisal at Dr. Reddy's Laboratories is called 'PerfECT'. PerfECT stands for Performance Enhancement and Coaching Tool. This tool is all-inclusive in the organization.

Dr. Reddy's Laboratories' HR team believes that a great supervisor is not just a superior but actually a brilliant coach. Performance management process of Dr. Reddy's Laboratories, 'PerfECT', gets managers to do just that – COACH. It is not only about inspiring the employees to think innovatively, but also about challenging their limits. It is about an empowering environment to get employees to be at their best – ALWAYS.

What more? Employees love being respected for what they are and beating their own expectations. Dr. Reddy's Laboratories help employees to inspire themselves!

Objective:

PerfECT at Dr. Reddy's fundamentally focuses on employee development, which means the superior has to necessarily take primarily a role of a developer or a coach in relation to the employee. This implies that the focus is on employee performance improvement and growth and not merely on rewards and discrimination, but in alignment with the organizational strategy. A performance rating is thus not the primary aim of the PerfECT process.

KEY PROCESS OF Perfect:

Source:secondary data

Conclusion:

This is not the end for the evolution of the performance management system. In fact, it is right if it is said that performance management system is still in the developing stage as companies can never feel that the performance of employees is excellent because humans always have scope for improvement. So to be precise, the aim of any performance management system is not to make employees the best performers. Rather it is to make employees feel contented with whatever they are contributing to the organization, be it small or big.

The Performance Management System is still progressing and in the coming future one may presume a far more impartial and a transparent system.

Modern performance management systems, unlike old-fashioned annual evaluation are providing employees with continuous feedback when and where required. The system also permits continuous re-evaluation of objectives, performance and development. The process however

requires more communication among the supervisors and appraisees. It also boosts the professional progress of employees and to meet the firm's dynamic needs. While this changing assessment process is slow, the improved efficiency levels subsequent to the performance management have already been confirmed to be valuable in several organizations.

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