A. Johnson & Johnson

Company Profile

Johnson and Johnson (J & J) is a global leader in the pharmaceutical industry. It was established in 1886 in New Brunswick (New Jersey) and incorporated on November 10, 1887. The Company is one of the oldest firms in the world. Its overseas expansion began in 1919 when its international operation started in Canada. Since then, the Company has experienced an encouraging annual compound rate of growth of 11 per cent. It is world’s most comprehensive and broad based manufacturer of health care products as well provider of health services for the consumer pharmaceutical and medical devices and diagnostic markets. With 257 operating companies located in 57 countries, the Company recorded sales of $ 53.3 billion during 2006. It focuses on research and technology products, and boasts of manpower of 1,20,000 of which nearly 40 per cent is employed in USA. Listed on the New York Stock Exchange in 1944 under the symbol J & J, the company plays a pivotal role in search of new drugs. This leadership has been achieved by concentrating on a unique form of decentralised management being largely focused on human values.

Corporate Structure

William C. Weldon is the Chairman of the Board and the Chief Executive Officer, and Christine A. Poon is the Vice Chairman. Including these chiefs, the Board of Directors consists of 12 members. Its eight-member Executive
Committee being a principal management group looks after management of operations and allocation of resources. The Committee oversees and coordinates activities of the consumer, pharmaceutical and medical devices division and diagnostics business segments. Several Executive Committee members serve as Worldwide Chairmen of the Group Operating Committees.

The management of each operating company is headed by a chairman, and followed by the president or managing director, which reports directly, or through a line executive to the Group Operating Committee. Concurrent with the policy of decentralisation, each international subsidiary is, with a few exceptions, managed by the experts of the country of its location.

The functional structure of J & J is divided in two segments namely core and support functions (Exhibit 6.1). In the former, marketing and quality assurance play a crucial role because while marketing generate revenue, quality supports brand image - the most important ingredient in modern corporate environment. As regards the latter, finance, legal and company secretary and HR & administration contribute equally to improve company’s prospects.

### Exhibit 6.1
**Core and Support Functions at J & J**

<table>
<thead>
<tr>
<th>Core Functions</th>
<th>Support Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Marketing</td>
<td>- Finance</td>
</tr>
<tr>
<td>- Quality and technology assurance (QTA)</td>
<td>- Legal and company secretary</td>
</tr>
<tr>
<td>- Customer development origination called sales</td>
<td>- HR &amp; administration</td>
</tr>
<tr>
<td>- Operations</td>
<td></td>
</tr>
<tr>
<td>✓ Manufacturing</td>
<td></td>
</tr>
<tr>
<td>✓ Supply chain</td>
<td></td>
</tr>
</tbody>
</table>
Present Performance Appraisal System

J & J possesses formalised and standardised the performance management system. Its employee performance planning and evaluation process may be viewed fair, with a robust feedback mechanism (Exhibit 6.2). The process provides value to employees’ prospects through development plans which get implemented throughout the year, thereby driving individual and organisational performance to the higher level.

Exhibit 6.2

J & J Evaluation of Parameters and Application

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Evaluated (Y/N)</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to Financial Goals</td>
<td>Y</td>
<td>• Sales per employee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Market share</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cost improvement programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attrition</td>
</tr>
<tr>
<td>Contribution to Non-Financial Goals</td>
<td>Y</td>
<td>• People development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Leadership development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Distribution expansion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operational excellence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Execution, administration and communication)</td>
</tr>
<tr>
<td>Behavioural Competencies</td>
<td>Y</td>
<td>• Global leadership profile</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(J &amp; J leadership Competencies) is a part of each person’s performance plan</td>
</tr>
<tr>
<td>Technical Competencies</td>
<td>Y</td>
<td>• Functional competencies are also assessed as a part of the appraisal</td>
</tr>
<tr>
<td>360° Feedback</td>
<td>No</td>
<td>• 360° method is used only for development purposes</td>
</tr>
</tbody>
</table>

Details of the performance management process are presented in the following time sequence.

- Step 1: In September/October, the Business Plans are defined for the next year.
- Step 2: In January the Goals/Objectives are set to be aligned with the business plan.
- Step 3: Mid-term review: July
- Step 4: Year-end review and development planning: December

**Exhibit 6.3**

**J & J HR (India) Strategic Roadmap, 2006-11**

<table>
<thead>
<tr>
<th>VISION</th>
<th>MISSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build an organisation of outstanding People and Capabilities that enable us to win in the market place</td>
<td>Offer superior value through “Best-in-Class” policies and practices, fostering employee delight.</td>
</tr>
</tbody>
</table>

**KEY FOCUS AREAS**

- Culture
- Organisation
- Talent
- Superior Performance
- Rewards & Recognition

**MAJOR HOWS**

1. **Building culture**
   - Credo based & GLP Workshops
2. **Process Excellence**
   - Basic awareness modules
3. **Safety**
4. **Positive work Environment**
5. **Employee Giving**
   - Contributions Programme
6. **To develop Credo Testimonial on intranet**

**ENABLERS**

1. **Learning & Development Initiatives aligned with Business Strategy**
   - Training Partners meet for business and learning focus
   - Learning needs analysis
   - J&J-e-University
2. **Competency profiling for People Heavy Functions**
3. **Effective Organisation design**
4. **Competence building in OTC, EM, Modern trade & skin, Supply Chain, Global R&D**
5. **100% PPE process roll out**
6. **Workshops on PMS/POP**
7. **Deployment of Lead (360 Degree Feedback) Process.**
8. **Goal Setting – All goals to be firmed up & sent to HR by Jan of every year**
9. **Year end Performance Moderation**
10. **Develop process for Team formation, functioning, evaluation, rewards and communication**

**Employee Involvement, Innovation, IM & GHRT Implementation**
Stage 1: There is an objective setting plan in place. This, in turn, gets linked to the company’s strategic plan, and is further linked to the functional plan. Each function does have its own strategic road map plan of five years (Exhibit 6.3).

Stage 2: J & J follows Key Result Area (KRA) method. The objectives are set at the beginning of the year (Exhibit 6.4). These are in line with the company’s objective function which in turn, is in line with that of a country to which the employee represents.

Exhibit 6.4

J & J Performance Measurement Parameters

<table>
<thead>
<tr>
<th>Objectives (Specify Target Completion Dates)</th>
<th>Weight</th>
<th>Achievement of Objectives</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Achievement of objectives rated on a scale is described as to what each scale represents or stands for. The rating on a scale of 1 to 9 is presented in a tabular form (Table 6.1).

Table 6.1

J & J Performance Rating Scale

<table>
<thead>
<tr>
<th>Performance Rating Objectives</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistently exceeds job standards by a significant degree while overcoming exceptional challenges or applying unique solutions.</td>
<td>9</td>
</tr>
<tr>
<td>Consistently exceeds job standards, with contribution above what is normally expected.</td>
<td>7-8</td>
</tr>
<tr>
<td>Consistently meets and sometimes exceeds job standards, making valued contributions to the success of business at the level that is expected.</td>
<td>4-5-6</td>
</tr>
<tr>
<td>Marginally meets but occasionally is below acceptable job standards, contributing at a level requiring more supervision and guidance.</td>
<td>2-3</td>
</tr>
<tr>
<td>Consistently does not meet job standards over the rating period.</td>
<td>1</td>
</tr>
</tbody>
</table>
Stage 3: A planned bonus of a specific sum is stipulated for each level. This bonus is directly linked to the factor which varies from 0.8 to 1.2 per cent, the reason being that it is not below 0.8 and not above 1.2 so that no huge difference prevails between planned bonus and what the employee actually gets. The factor, in turn, is directly related to regional performance. The maximum difference, thus, would be 20 per cent above or below the normal level. To explain the concept of “factor”, and to get better understanding the same, two examples are presented below.

Example 1: Planned bonus for a particular level (level C) is Rs. One Lakh. This employee belongs to J & J India. Suppose J & J India gets a rating (factoring) of 1.2. Then, the employee at level C will get 20% more. Thus,

\[
\text{Planned Bonus} = \text{Rs. 1 lakh} \times 1.2 = \text{Rs. 1.20 lakh (20 \% more)}
\]

Example 2: Planned bonus for a particular level (level B) is Rs. Two Lakh. This employee belongs to J & J Indonesia. Suppose J & J India gets a rating (factoring) of 0.8. Then, the employee at level B will get 20% less. Thus,

\[
\text{Planned Bonus} = \text{Rs. 2 lakh} \times 0.8 = \text{Rs. 1.60 lakh (20 \% less)}
\]

Unique Features of Performance Appraisal System

- The Performance appraisal system is connected to other HR processes such as training and compensation.

Examples:

a) A talent review process that helps succession planning to derive its key inputs from the performance management system.
b) Increase in merit and performance bonus has a direct link of the performance rating

- J & J possesses a clearly defined behavioral/technical competency framework.
  - behavioural competency includes
    - Individual leadership
    - People leadership
    - Senior leadership
  - technical competency includes
    - Functional competency

For both these competencies, assessment is based on observed incidents, and each competency is rated on a 9-point scale. The scale is a common scale used for performance evaluation. There also exists a mechanism for discussing and reviewing the performance ratings. Each review is done by the skip level manager (supervisor’s supervisor) and HR with the immediate supervisor and the individual.

- A process for resolving grievances arising out of the performance management process is in place. In every cycle, grievances get discussed and sorted out during the review meeting. Escalation is to be sent to the General HR Manager. However during 2007, there was only one grievance related to performance appraisal discussions in India.

**Overall Observations about J & J**

- The salaries for all the functions across the departments are same at each level.
- 360° feedback is used as a developmental tool only.
> On an average, the attrition rate of J & J is 9 to 10 per cent - half the rate that of the FMCG and Pharma industry.

> Strong succession planning is in place. This falls under three categories

- For current – 0 to 2 years
- For ready later – 1 to 3 years
- Ready future – long term future

B. Mahanagar Telephone Nigam, Ltd. (MTNL)

Company Profile

MTNL was established on 1st April, 1986 by the Government of India to upgrade quality of telecom services, expand telecom network, introduce new services and raise revenue for telecom development needs of India’s key metros of Delhi and Mumbai. The Government of India currently holds a majority stake of 56.3 per cent in the Company. Since its inception, the Company made rapid strides to emerge as India’s leading and one of Asia’s largest telecom operating companies. Besides having a strong financial base, MTNL achieved a customer base of 5.92 million by 31st March 2006. It expanded rapidly by modernising the network through induction of State-of-the-art technologies and adopting a customer friendly approach due to its being a service oriented industry. The Company also remained in the forefront of technology induction by converting cent per cent of its telephone exchange network to the state-of-the-art digital mode.

MTNL has built-in organisational structure (Table 6.2). The novelties include training, vigilance in the core function and customer services in the
support function. Furthermore, MTNL’s manpower structure developed over a period of time is unique in the history of public sector undertakings in India (Exhibit 6.5). Though bottom heavy, manpower is highly trained catering to the customer needs relating to technology and the other problems inherent in the IT industry.

Table 6.2
MTNL: Organisational Structure

(No. of Employees)

Executive Director (MTNL MUMBAI)

Higher Admin Grade
Executive Director ------- (1)
Chief General Manager ---- (4)

Senior Admin Grade
General Manager ----- Chief Engineer ------- (30)

Junior Admin Grade
Deputy General Manager --Senior Engineer------(90)

Grade A Officers
Divisional Engineer/ Assistant General Manager/ Chief Accounts Officer-- (500)

Grade B Officers
Sub divisional Engineer Accounts Officer ------ (2,000)

Grade C Officers
Assistant Manager / Junior Accounts Officer ---- (3,000)

Non-Executive i.e. Clerical/Telephone operator /
Technician / Wiremen / Motorman / Driver grade ------- (25,000)

Exhibit 6.5
Core and Support Functions at MTNL

<table>
<thead>
<tr>
<th>Core Functions</th>
<th>Support Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Engineering and Technology</td>
<td>• Accounts</td>
</tr>
<tr>
<td>• Training</td>
<td>• Administration</td>
</tr>
<tr>
<td>• Vigilence</td>
<td>• Customer Services</td>
</tr>
<tr>
<td>• Operations</td>
<td></td>
</tr>
</tbody>
</table>
MTNL - Operations

Operations of MTNL did grow at an encouraging rate between 1986 and 2006 (Table 6.3). While the number of exchanges increased by 326 per cent from 114 to 529, equipped capacity recorded 859 per cent growth. The subscriber base also increased by 589 per cent.

Table 6.3
Growth in Network Infrastructure of MTNL - Mumbai

<table>
<thead>
<tr>
<th></th>
<th>1986</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exchanges</td>
<td>114</td>
<td>529</td>
</tr>
<tr>
<td>2. Equipped capacity (Million)</td>
<td>0.88</td>
<td>8.44</td>
</tr>
<tr>
<td>3. Subscriber base (Million)</td>
<td>0.75</td>
<td>5.92</td>
</tr>
<tr>
<td>i) Basic Wireline &amp; CDMA Fixed</td>
<td>0.75</td>
<td>3.88</td>
</tr>
<tr>
<td>ii) CDMA-Mobile</td>
<td>-</td>
<td>0.10</td>
</tr>
<tr>
<td>iii) GSM Cellular</td>
<td>-</td>
<td>1.94</td>
</tr>
<tr>
<td>4. Internet</td>
<td>-</td>
<td>11,88,204</td>
</tr>
<tr>
<td>5. Broadband</td>
<td>-</td>
<td>2,11,935</td>
</tr>
<tr>
<td>6. Public call offices (Local and long Distance)</td>
<td>10,593</td>
<td>2,79,041</td>
</tr>
<tr>
<td>7. Stations on Long distance network</td>
<td>264</td>
<td>39,303</td>
</tr>
<tr>
<td>8. Countries connected overseas on ISD</td>
<td>11</td>
<td>239</td>
</tr>
<tr>
<td>9. Digitalisation of exchange network</td>
<td>Nil</td>
<td>100%</td>
</tr>
</tbody>
</table>

Operational Geographic Divisions of MTNL Mumbai

MTNL Mumbai is divided in nine operational areas viz South, Central, North, West, West 2, West 3, East 1, East 2 and Navi Mumbai. Owing to improved efficiency, MTNL manpower strength decreased from 58,072 during 2002-03 to 47,422 by 2007-08.

Its salary structure is unique wherein paid staff welfare expenses, leave encashment and pension contribution add to income (Table 6.4)
### Table 6.4
**Remuneration and Benefits at MTNL, 2007-08**
(Rs. Million)

<table>
<thead>
<tr>
<th>Remuneration and Benefits</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, Wages, Allowances and other Benefits</td>
<td>11,528</td>
</tr>
<tr>
<td>Staff Welfare Expenses</td>
<td>99</td>
</tr>
<tr>
<td>Medical Expenses/ Allowances</td>
<td>878</td>
</tr>
<tr>
<td>Bonus/ Ex-Gratia</td>
<td>520</td>
</tr>
<tr>
<td>Leave Encashment</td>
<td>529</td>
</tr>
<tr>
<td>Pension Contribution</td>
<td>3,534</td>
</tr>
<tr>
<td>Contribution to Provident Fund</td>
<td>251</td>
</tr>
<tr>
<td>Gratuity</td>
<td>527</td>
</tr>
<tr>
<td>Compensation under VRS Scheme</td>
<td>619</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>18,485</strong></td>
</tr>
<tr>
<td>Less: Allocation to Capital WIP</td>
<td>(2,403)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,082</strong></td>
</tr>
</tbody>
</table>

**Present Performance Appraisal System**

MTNL boasts of a standardised appraisal system which was initiated right from its inception. The Company has an 'Annual Confidentiality Report' prepared by the seniors for each employee.

The Company looks after its valuable workforce through:

- Incentive Scheme: A suitable productivity-linked scheme has been developed for the employees.

- Employees' welfare schemes include subsidised canteen facility, holiday homes, creches, recreation and community centres, housing
and medical facilities, schooling, grant of scholarships and group insurance.

There is, however, absence of a structured performance appraisal system. Recruitment, promotions for various levels take place in the following manner.

- At the entry level, 65 per cent employees get hired by direct recruitment and the rest 35 per cent employees are recruited internally.
- At the Grade B officer level, 66 per cent employees get hired by direct recruitment and 34 per cent is promoted by seniority.
- At the Grade A officer level, 50 per cent are recruited by seniority, 25 per cent by internal promotion and the rest 25 per cent by direct recruitment.
- At the junior, senior and higher administrative grades, the vacancies are filled internally based on seniority.

The appraisal system is based on the annual confidentiality service report (CSR). Each person once recruited has his/ her own file wherein all his performance updates are stored. If CSR is missing, his/ her promotion is stalled. The CSR remains till the retirement / exit of the employee. Upto the non-executive level, the reporting officer writes the review for his reportee in the following order.

Self appraisal ----→ Reporting officer ----→ Reviewing officer

Coverage of confidentiality report

The confidentiality report about employee’s appraisal at MTNL may be viewed as the most comprehensive one (Exhibit 6.6).
Exhibit 6.6
MTNL: Coverage of Confidentiality Report

**Nature and Quality of Work**
- Whether the authority is in line with self appraisal
- Quality of output
  - Standard of work
  - Constraints
- Knowledge sphere of work
  - Technical
  - Financial
  - Administrative

**Attributes**
- Attitude to work
- Decision making ability
- Initiative
- Ability to inspire and motivate
- Communication skills (written and oral)
- Interpersonal relations and team work
- Relations with the public
- Attitude towards scheduled castes / scheduled tribes/ weaker sections of the society
- Interest to keep abreast the latest technological developments in his / her field of activity.

**Additional Attributes**
- Planning ability
- Supervisory ability
- Coordination ability
- Aptitude and potential
- Grading (outstanding, very good, good, average, below average)

**To be Recorded by the Reporting Official**
- General assessment
- General comments

**Remarks of the Reviewing Authority**
- Length of services under him
- Level of satisfaction
Several aspects ranging from nature and quality of work, behavioural attributes, management related attributes to remarks by the reporting officials and reviewing authority constitute the cornerstone of the confidentiality report.

**Overall Observations about MTNL**

- Though is no HR department, an owned training institute is in place.
- Only salary is considered as an important criterion. There is no performance based pay. Salaries are paid irrespective of performance.
- Increments are given according on internal exams passed and experience.
- The employees can appear for the competitive examinations after five years of service. Three chances are given to appear for exam to qualify for promotion. The employee is permitted to appear for one exam per year for three consecutive years.
- Appraisal is carried out once a financial year.
- The employees trained in one branch, are posted in another branch.
- The telecom officers get training of 32 weeks.
- Being overstaffed and therefore to curtail excess staff strength, voluntary retirement scheme was introduced in 2006-07.
- A strong union known as ‘Kamgar Sangh’ is active and powerful.

**Issues**

- Absence of objectivity in the appraisal system.
- Absence of feedback mechanism.
➢ Absence of appraisal training.
➢ Complacency in the system.
➢ Absence of transparency in the evaluation system.
➢ Job security led to inefficiency and pragmatism in the Company.

C. ABC Services

Company Profile

ABC is an IT services, business solutions and outsourcing organisation. Its staff includes over 1,11,000 IT consultants spread over 50 countries, with annual sales of $5.7 billion during fiscal year ending on March 31st, 2008.

Present Performance Appraisal System

History of Performance Appraisal

- Till 2000, there was traditional concept of carrying out appraisal with the appraisal forms.
- Since 2001, a system for performance evaluation and employee development (SPEED) based on the legacy system, was introduced.
- In 2003, an updated and robust system replaced the earlier system.

Current Appraisal System

- Appraisal is carried out for the financial year (April to March).
- Goal setting and review are done twice a year for the confirmed associates.
- For the associates in the multiple projects, project ends can be done for each project.
Quarterly goal setting and review of the trainees and experienced professionals on probation continue to be in operation.

Performance development plan as a mechanism to chart out the development plan for the whole year is in place.

A goal sheet of the previous appraisal cycle is available for reuse/ modification.

The appraisal process at ABC is a lengthy and exhaustive one (Exhibit 6.7). It starts with goal setting exercise in joint discussion among the functional reviewer, appraiser and appraisee.

The goal is set by the appraiser for the employee. The former is monitored and necessary support is given. At the end of the review period, the appraisee self evaluates himself/ herself.

Post this, the appraiser comments and rates the goals. Following such comments, the reviewer checks the remarks/ rating given by the supervisor. Subsequently, discussions take place between the appraiser and reviewer.

Using finalised ratings data, a normal curve is fitted to find out mean and standard deviation of the ratings.

The HR department then processes variable pay / bonuses accordingly, and which is credited to the employee’s account.
ABC Services: Appraisal Process - An Overview

In case of practice resources

Inputs to Appraiser for assigned goals

Assign Goals

Confirms Goals

Comments on Self Evaluation

Goal Buy In

Self Evaluation

Incorporates Changes in self evaluation if requested by appraiser

Time out in 5 days
If practice reviewer does not respond with comments on Goals

Evaluation...

Time out 5 days for Goal Buy In

Practice/Functional Reviewer

Appraiser

START
Appraise

Initiate

Confirm Allocation

Change Allocation

Goal Setting

PDP initiation: intimation to Appraise

HR

In case allocation is incorrect

Data Validation

Reviewer

Comments On Evaluation (Can ask appraiser to reconsider max twice)

Comments On Evaluation

View the comments written by the appraisee and closes the appraisal cycle. Intimation goes to the appraisee

Can view Evaluation And writes his comments

Evaluates goals and attributes

Appraiser

Appraiser

Evaluation

Sharing Evaluation

Time out in 5 days
If Reviewer/Practice
Reviewer does not respond on rating

Time out in 5 days
If Reviewer/Practice
Reviewer does not respond on rating
**Appraisal Types**

- Mid year (H1) appraisal/ project end appraisal: applicable to the confirmed associates.
- Year end (H2) appraisal/ project end appraisal: applicable to the confirmed associates.
- Quarterly appraisal: applicable to unconfirmed associates (trainees and probationers).

**Appraisee Categories**

- Practice associates
  - Associates specifically identified/ tagged to industry or service practice are known as practice associates (legal/consultants).
- Functional associates
  - These include those tagged to the functions such as the finance and administration facilitation groups.
- Center associates
  - Associates who do not practice or functional associates.

**Phases of Performance Management**

Step 1: *Data validation:* Validate data pertaining to the entities which play a crucial role in the appraisal process.

Step 2: *Goal setting:* Appraiser sets goals.

Step 3: *Evaluation:* Self-evaluation of performance by the appraisee; followed by evaluation by the appraiser. For the year end appraisal, this also includes normalisation process for each unit.

Step 4: *Sharing:* Sharing and agreement / disagreement of appraisal.
**Key Acronyms**

► **HI** - The mid-year appraisal of the confirmed employees is called HI. It covers first half of the financial year, i.e. six months - April to the September.

► **H2** - Year end Appraisal for confirmed employees is called H2. It covers the second half of the financial year, i.e. six months from October to March.

► **Goal (part A)** – Refers to a set of measurables against which associate’s progress is tracked.

► **Attribute (part B)** – Consist of qualities/ competencies that the employee is expected to demonstrate in the role that he/she is performing.

► **Perspective** – Four cornerstones of the Balanced Scorecard framework is used exhaustively, forming a balanced measurement system. These include financial, customer, internal processes and learning and growth.

► **Goal Head** – Each perspective is further categorised as a goal head for clearly defining the target.

► **Target** – Each goal head has a numeric achievable called target attached to it, thereby making the goal measurable and objective.

► **Difficulty Level** - An indicator of the level of effort and/or complexity required from the employee in order to achieve the goal. The scale may be narrated as follows:

  - The goal is achievable as part of routine activities.
  - Achievement of the goals needs extra time and effort.
Achievement of the goal is highly dependent on extraneous factors and opportunities.

Weightage: The goals and attributes are assigned weightages from 1 to 5, which are as follows:

- Not important for role = 1
- Less important for role = 2
- Important for role = 3
- Very important for role = 4
- Critical for role = 5

Rating Scale: Defined as a scale on which individual level appraisal of an employee is conducted by the supervisor. Being a 5 point scale, the same ranges with 1 being the lowest and 5 being the highest.

Overview of Appraisal Process

The company follows a Balanced Scorecard (BSC) approach

1. BSC includes four perspectives
   a. Internal perspective
   b. Financial perspective
   c. Customer perspective
   d. Human resource perspective

2. Each perspective gets further divided in terms of the goals and is structured with alignment of the organisation-wide goals, besides goal setting and periodic reviews. The system empowers the appraisers to get involved and thus reinforces developmental aspect of performance management owing to the Personal Development Plan.
This consists of

- Goal setting (Quarterly/Mid-year/Year-end/Project-end)
- Goal review and evaluation
- Personal Development Plan (PDP)

3. The Company has an Economic Value Addition (EVA) linked variable compensation policy based on its overall performance and that of the employee. The variable pay component is paid monthly, based on company’s expected performance for the quarter. Variable pay may also change based on actual performance of the Company and that of the employee.

**Appraisal Forms has Two Parts Goals and Attributes**

1. **Goals** (Table 6.5)
   
   a) The goals are defined as the Individual Performance Factor (IPF) that the associate gets during quarterlies, midyear, year end and project end reviews.
   
   b) The goal consists of the following sub-categories
      
      o **Goal Heads**
         
         # Goal Measures (single/multiple) - Each measure has “Defined Target”, “Difficulty Level” and “Weightage”.
      
      c) Goal setting – A maximum of the five goal heads across four perspectives is allowed. Each goal has maximum of 5 goal measures. All perspectives need not have the goals which can be under one perspective depending on its relevance to the role.
      
      d) Each goal measure is rated on a scale of 1 to 5 on the basis of the target achieved for the measure, the same being linked to the
difficulty level of goal measure.

Goal IPF is calculated in decimals.

e) The weightage and level of difficulty is pre set, only the rating can vary.

f) The Goal IPF is the weighted average of the rating of the individual Goals, is calculated as under:

\[
\text{Goal IPF} = \frac{\sum (\text{Weight of Goal Measure} \times \text{Rating of Goal Measure})}{\sum (\text{Weight of Goal Measure})}
\]

The level of difficulty demonstrates toughness of the goal to be achieved.

Table 6.5
ABC Services: Goal Measure Sheet

<table>
<thead>
<tr>
<th>Goal Perspective</th>
<th>Goal Measure</th>
<th>Target / Unit</th>
<th>Weight-age</th>
<th>Level of Difficulty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>Customer satisfaction index at project level</td>
<td>3</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Number of customer complaints/escalations</td>
<td>Max 2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Internal Process</td>
<td>Total defect containment effectiveness</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>% Rework effort arising out of the developed code by the associate</td>
<td>&lt; 5 %</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Productivity - Effort slippage</td>
<td>&lt; 10 %</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Schedule slippage</td>
<td>&lt; 5 %</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Compliance to process (Project Mgmt Portal, IPMS, Reviews)</td>
<td>100 %</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>% of defects detected post delivery to the client</td>
<td>&lt; 20 %</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Certification</td>
<td>Min 1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Training, CBTs attended/conducted</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>
2 Attributes (Table 6.6)

i) Each attribute is well defined in advance.

ii) The attribute IPF is calculated at year end, project end and final confirmation.

iii) Attribute IPF is the weighted average of ratings of individual attributes.

The attribute is rated on a scale of 1 to 5.

\[ \text{Attribute IPF} = \frac{\sum (\text{Weight of attribute} \times \text{Rating of attribute})}{\sum \text{Weight of attribute}} \]

iv) The attribute is rated on a scale of 1 to 5.

Table 6.6
ABC Services: Attributes and Weightage

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Definition</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge / technical required</td>
<td>Ability to learn technology / concepts rapidly and enhance performance</td>
<td>1</td>
</tr>
<tr>
<td>for the job</td>
<td>applying to jobs.</td>
<td></td>
</tr>
<tr>
<td>Result orientation</td>
<td>Ability to ensure meeting of project deliverables.</td>
<td>2</td>
</tr>
<tr>
<td>Initiative / personal drive</td>
<td>Ability to actively seek solutions to problems and proactively look ahead</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>for specific opportunities for contribution.</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>Ability to listen actively and understand requirement accurately, with</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>good oral, written and presentation skills.</td>
<td></td>
</tr>
<tr>
<td>Team skill</td>
<td>It is ability of an individual to create environment of trust and cooperation</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>through open exchange of ideas for achieving team goals.</td>
<td></td>
</tr>
<tr>
<td>Analytical Ability</td>
<td>Ability to make systematic and rational judgments based on relevant</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>information.</td>
<td></td>
</tr>
</tbody>
</table>
Final IPF is calculated as follows

\[
\text{Final IPF} = \text{Weight of the Grade for Goal IPF} \times (\text{H1 Goal IPF} + \text{H2 Goal IPF})/2 + \text{Weight of the Grade for Attribute IPF} \times \text{H2 Attribute IPF}.
\]

Note: For H1, attribute IPF is qualified with comments from relevant entities.

For H2, it is a function of both the goal and attributes.

Performance calculation of Goal for ABC services is based on sample data (Table 6.7). It consists of two parts: Part A is related to Goal and part B to Attributes.

Table 6.7

**ABC Services: Sample Goal Sheet**

<table>
<thead>
<tr>
<th>No.</th>
<th>Goal measure (A)</th>
<th>Weightage (B)</th>
<th>Rating (C)</th>
<th>Weighted goal rating (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Compliance to time sheets</td>
<td>5</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Customer satisfaction index</td>
<td>3</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td><strong>Sum</strong></td>
<td><strong>8</strong></td>
<td><strong>7</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

\[
\text{Goal IPF} = \frac{\sum D}{\sum B} = 3.125
\]

**Attribute sheet - part B**

<table>
<thead>
<tr>
<th>No.</th>
<th>Goal measure (E)</th>
<th>Weightage (F)</th>
<th>Rating (G)</th>
<th>Weighted goal rating (H)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Team building</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>Quality consciousness</td>
<td>5</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td><strong>Sum</strong></td>
<td><strong>8</strong></td>
<td><strong>7</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

\[
\text{Attribute IPF} = \frac{\sum H}{\sum F} = 3.625
\]
**IPF calculation examples**

**Example 1**

Grade weightage is 50% for the goals and 50% for the attributes for all grades below C3A in CC and D in facilitation.

Assume that the associate is ITA:

Has H1 Goal IPF of 3.222, H2 Goal IPF of 3.125 and H2 attribute IPF of 3.625

Hence, the associate’s final IPF = 50% X (3.222+3.125)/2 + 50% X 3.625

= 3.3993

**Example 2**

Grade weightage is 70% for the goals and 30% for the attributes for the grades of C3A in CC and D in facilitation and above.

Assume that the associate is a Consultant (C4)

Has H1 Goal IPF of 3.222, H2 Goal IPF of 3.125 and H2 attribute IPF of 3.625

Hence, the associate’s final IPF = 70% X (3.222+3.125)/2 + 30% X 3.625

= 3.3089

**Normalisation process**

- Final IPF is then made available to the review committee for the unit level review and rationalisation process.

- Individual performance aggregates and contribution towards achieving the goals are set out at the organisation level.

- The organisation is categorised as “units” for the purpose of measuring and reviewing performance.
A “unit” is a logical cluster. It may be large account such as GE, a Branch such as Chennai, geography like USA or a Corporate Function like Administration.

Based on mandated distribution and the performance of the unit, associate’s performance is ranked within the unit.

Till now, this scale was defined as 1-5, with 5 being highest. Terminology used was “Normalised Rank”.

Starting appraisal cycle FY 06-07, the same has been changed to Performance Bands A, B, C, D, E - A being the highest. These bands are percentile driven, and based on mandated distribution for the financial year.

D. SIEMENS, Ltd.

Company Profile

Siemens in India is a unique player in the fields of electrical and electronics engineering industries. It operates in various sectors such as energy, communication, transportation, lighting, healthcare and information technology. The Company has presence across India. Its operations include 17 manufacturing plants and an extensive network of the sales and service offices. It is part of Siemens’ vast global network employing 4,75,000 personnel, and operates in over 190 countries.

Organisational Structure

Siemens in India is headed by the Managing Director and the Executive Director overlooking the business (Exhibit 6.8)
Exhibit 6.8

Siemens: Organisational Structure

Corporate Management
Managing Director  Executive Director

Business Segments
Industry  Power
Industrial Solutions  Automation & Drives  Power Generation  Power Transmission & Distribution

Corporate Resources
Corporate Communications  Corporate Strategic  Liaison Office  Corporate Accounts
Purchase & Logistic (Colombo, Sri Lanka)
Corporate Planning  Corporate Secretariat  Siemens One and Key Account Management  Corporate Taxation
Top Projects Planning  Regional Compliance Office  Intellectual Property  Corporate Finance

Present Performance Appraisal System
Various functions of Siemens are classified in two categories (Exhibit 6.9).

Exhibit 6.9

Core and Support Functions at Siemens

<table>
<thead>
<tr>
<th>Core Functions</th>
<th>Support Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Manufacturing</td>
<td>• HR</td>
</tr>
<tr>
<td>• Sales</td>
<td>• Legal</td>
</tr>
<tr>
<td>• Marketing</td>
<td>• Commercial</td>
</tr>
<tr>
<td>• R &amp; D</td>
<td>• Corporate</td>
</tr>
<tr>
<td>• Engineering / Service</td>
<td>• Communication</td>
</tr>
<tr>
<td>• Operations</td>
<td>• Accounts</td>
</tr>
<tr>
<td></td>
<td>• Corporate Finance</td>
</tr>
<tr>
<td></td>
<td>• Internal Audit</td>
</tr>
<tr>
<td></td>
<td>• Corporate</td>
</tr>
</tbody>
</table>
**Key Factors**

Several key factors play a crucial role in the performance appraisal system at Siemens

- The employees are rated by the peers and managers.
- The employees are rated by the following four parameters measured by the scale of 1 to 5
  - Salary
  - Ratings on performance
  - Potential
  - Career
- The company follows ‘Four Eye’ principle by which the employees get appraised
  
  $E_1$ – Indicates Exposure (on company training)
  
  $E_2$ – Indicates Experience (on becoming productive)
  
  $E_3$ – Indicates Expertise
  
  $E_4$ – Indicates Excellence
- For bonus / variable pay, overall performance of the employees is rated on the following factors on a scale of 1 to 5
  - Management
  - Divisional
  - Sub-divisional
  - Individual

**3 X 3 Performance Potential Matrix**

Siemens follows a 3 X 3 potential performance matrix (Chart 6.1). On the basis of the ‘Four Eye’ principle and the employee’s rating, they are fitted in
the potential performance matrix. A Normal Distribution curve for performance and Gaussian Curve for potential identification are fitted.

Chart 6.1

3 X 3 Performance Potential Matrix of Siemens

![3 X 3 Performance Potential Matrix of Siemens](image)

**Categories of Performers**

*High Performance – High Potential (Toppers / High Fliers)*

The employees having high potential and high performance level are the ones who form a major / vital talent pool of the company. They constitute the ‘Engine’ that drives the organisation, and form the cream. They are termed as ‘Entrepreneurial Employees’.

*High Performance – Low Potential (Solid Citizens)*

These constitute ‘Solid Citizens’. They need to be groomed and can be fitted / rotated in case of an emergency vacancy. If given right support, they form the pillars of the Company.
**Low Performance – High Potential (Watch Listers)**

They are ‘Watch Listers’. The Company continuously needs to track their performance. Their potential, if utilised fully, can move to the category of high fliers. If potential remains underutilized, it is like weeds in the garden, which if not removed, spoil the entire garden. If their performance cannot be fully utilised, they need to be weeded out.

**Medium Performance – Medium Potential**

These employees are here to stay for sure as they know their limitations. They may be viewed as compartments with the help of which the Company can launch its products. They form knowledge base of the Company.

**Low Performance – Low Potential**

The employees in this category need to be terminated. They are just there to warm the position and a decision will always be taken by the seniors with regard to their continuing or termination.

The present pay structure contains a variable pay component with respect to the levels of employees. Distribution of variable pay varies in the context of their status (Table 6.8). In the case of the entrepreneurial employees, variable pay constitutes 60 per cent which depends on Company revenue, whereas it is 40 per cent when it comes to individual contribution. However, variable pay is not applicable (NA) at the company level. For other categories of decision making employees, knowledge employees and systemic employees respectively get 40 per cent, 50 per cent and 20 per cent of variable pay at the divisional level.
Table 6.8
Siemens: Percentage of Variable Pay, Level and Statuswise

(Per Cent)

<table>
<thead>
<tr>
<th>Status</th>
<th>Entrepreneurial Employees</th>
<th>Decision Making Employees</th>
<th>Knowledge Employees</th>
<th>Systemic Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>40</td>
<td>60</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>Divisional</td>
<td>NA</td>
<td>40</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Company</td>
<td>60</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Note: NA stands for Not Applicable

Overall Observations

➢ Siemens follows a ‘Four Eye’ principle.

➢ The Company declared a Voluntary Retirement Scheme during 1998-99. The employees who opted for it formed a group named Swayam Siddha. Siemens acquires a major part of its resources from this group.

➢ If the peers don’t rate the employee well, salary gets frozen.

E. Asian Paints, Ltd.

Company Profile

In the beginning of 1957, armed with scant knowledge and endowed with a firm determination, Champaklal H. Choksey, Chimanlal N. Choksi, Suryakant C. Dani and Arvind R. Vakil together planned to manufacture paint in a garage located on Foras Road, Mumbai (then called Bombay) as their family owned company. They named it as ‘Asian Oil & Paint Company’ - a name they
picked up randomly from a telephone directory. Today, this family-owned Company is one of the professionally managed companies. Besides being India's largest paint company, it is now also one of the top ten decorative coatings paints companies in the world. With turnover of Rs.36.7 billion (USD 851 million), the Company can boast of having enviable reputation for professionalism, fast track growth and building shareholder equity.

Asian Paints owns 29 paint manufacturing facilities in 21 countries for serving the consumers in 65 countries across the globe. Besides Asian Paints, the group also operates around the world through its subsidiaries namely Berger International Limited, Apco Coatings and SCIB Chemicals and Taubmans. Internationally renowned Forbes Global magazine of USA ranked Asian Paints among the 200 world's small companies in 2002 and 2003, and presented the 'Best under a Billion' award to the Company. It is the only paint company in the world to receive this recognition.

Measured by production, it is twice the size of the second largest paint company in India today. Vertical integration led it to diversify in the products such as Phthalic Anhydride and Pentaerythritol. To keep abreast new technologies and to protect its competitive edge, Asian Paints has a 50:50 per cent joint venture with Pittsburgh Paints and Glass Industries (PPG) of USA - world leader in automotive coatings - in order to meet ever increasing demand of the Indian automobile industry. Yet another wholly owned subsidiary namely, Asian Paints Industrial Coatings, Ltd. which was set up to cater to the powder coatings market - the fastest growing segment in the industrial coatings market. This wholly owned subsidiary of Asian Paints entered in
tie-up with Canada based Protech Chemicals - one of the top ten powder coatings companies - for technological know-how for powder coatings so as to provide the customers with a wider product - mix in this segment.

**International Operations**

As narrated earlier, Asian Paints operates in 21 countries across Asia, Africa and the Pacific. With manufacturing facilities in 6 regions, it is the largest paint company in several overseas markets (Exhibit 6.10).

**Exhibit 6.10**

**Asian Paints: International Operations**

<table>
<thead>
<tr>
<th>Regions</th>
<th>Countries</th>
<th>Operating System</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Pacific</td>
<td>Australia, Fiji, Solomon Islands, Somoa, Tonga</td>
<td>Asian Paints and its subsidiaries</td>
</tr>
<tr>
<td>South East Asia</td>
<td>China, Malaysia, Singapore, Thailand</td>
<td>Berger International and its subsidiaries</td>
</tr>
<tr>
<td>South Asia</td>
<td>India, Bangladesh, Nepal, Srilanka</td>
<td>Asian Paints and its subsidiaries</td>
</tr>
<tr>
<td>West Asia</td>
<td>Bahrain, UAE, Oman</td>
<td>Berger International and its subsidiaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Asian Paints and its subsidiaries</td>
</tr>
<tr>
<td>Caribbean</td>
<td>Barados, Jamaica, Trinidad and Tobago</td>
<td>Berger International and its subsidiaries</td>
</tr>
<tr>
<td>Africa and others</td>
<td>Egypt</td>
<td>SCIB Paints</td>
</tr>
</tbody>
</table>

**Organisational Structure**

The present organisational structure of Asian Paints is well structured (Exhibit 6.11). The Board of Directors led by the Chairman decides the policies.
Exhibit 6.11
Asian Paints: Organisational Structure

The employees are clubbed in the following four categories:

- Entrepreneurial employees – Vice President, Chairman and President
- Decision making employees – General managers and chief managers
- Knowledge level employees – Senior managers and managers
- Robotic employees – Junior officers, entry level employees and shop floor workers
Present Performance Appraisal System

The present appraisal system adopted by Asian paints for the three categories, of robotic employees, knowledge employees and decision making employees is as follows:

Robotic employees – They include the workmen level/shop floor employees and are paid salary. Neither a variable component in the salary nor concept of annual increment prevails, though there exists mechanism of ‘wage negotiations’ via union. Negotiations take place once in three years. All rules/regulations/policies/procedures (percentage increment in wages) are defined in a document called ‘negotiation settlement document’.

Knowledge employees – They comprise of the executive staff and senior managers. A person hired as a management trainee would be designated as a manager after one year’s training. For all the knowledge employees, the key performance indicators (KPIs) are very person specific. KPIs are defined by the immediate supervisor. However, there is no correlation between variable pay and KPIs. The employees are given a fixed salary, though increment in salary is in vogue every year in the range of 10 to 15 per cent, irrespective of performance and is solely at discretion of the seniors. This increment is due to the employees at the same level across all departments.

Decision making employees – They consist of the corporate level employees, and are given project related KPIs which are person specific. Unlike the knowledge level employees, there is direct correlation between
variable pay and KPIs which continues to be the cornerstone of the policy. KPIs, in this case, are defined by the immediate supervisor. These employees are given combined fixed and variable salary.

The factors by which KPIs are measured include the following behavioural and skill based factors

*Behavioural factors*

- Team work contributing towards meeting team objectives.
- Personnel development
- Taking initiative
- Mentoring junior staff
- Ability to set personal examples
- Tolerance for mistakes
- Risk taking ability
- Innovation
- Ability to nurture and groom successor
- Delegation
- Communication

*Skills based factors*

- Listening
- Technical expertise required for the job
- Ability to seek solutions to problems
- Updating knowledge and keep abreast with the innovations
- Ability to speed up
- Developing competencies
The decision making employees are further sub-classified as

a) Top management – General manager and above
b) Middle management – Senior and chief manager
c) Lower management – Managers

Key Performance Indicators (KPIs)

KPIs are decided on one to one basis, and no set policy or rule for deciding the same is in vogue. It is based on the following procedure:

- Quantifiable KPIs (Role related) (40% weightage) - This weightage is solely decided by the seniors, and varies from employee to employee.
- Identifiable KPIs (Initiative related) - These KPIs get measured by initiative taken by an employee for a project or task. The weightage is solely decided by the senior.

The variable pay is divided as follows

67 % for Company’s performance 33 % for Individual performance

The break-up is as follows

PAY

\[
\begin{align*}
\text{(Basic Salary} - 65\%) & \quad \text{(Variable Pay} - 35\%) \\
\frac{2}{3} \text{ Company performance} & \quad + \frac{1}{3} \text{ Individual performance}
\end{align*}
\]

Entrepreneurial Employees

At the entrepreneurial level, variable pay is divided equally at the company, business and individual levels. However, there is no percentage division/
specificity when it comes to variable pay with respect to the quantitative and qualitative parameters.

For example, the Vice President gets salary of Rs. 10 lakhs per annum (the breakup of which would be as follows:

a) Rs. 8 lakhs fixed per annum across all the divisions called as retention fees.

b) Rs. 2 lakhs variable component is given in lump sum in the month of May.

The breakup of pay is Basic Salary (70 per cent) and Variable Pay (30 per cent). Variable pay is equally weighted by the component of the Company, business unit and individual

Description of the KPIs with respect to levels (Exhibit 6.12) presents a clear picture to the supervisor regarding the performance evaluation criteria used.

Exhibit 6.12
Asian Paints: Description of Appraisal Evaluation with Respect to Levels

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>Performance on the tasks/areas assigned is far below expectations or there is deterioration qualitatively on areas/tasks specified vis-à-vis that of the previous years’</td>
</tr>
<tr>
<td>Level 2</td>
<td>Performance on the tasks/areas assigned just about meets set standards or there is status quo on tasks/areas specified compared to that of the previous years’</td>
</tr>
<tr>
<td>Level 3</td>
<td>Performance on the tasks/areas assigned is sound and above expectations or there has been substantial improvement qualitatively in the tasks/areas specified to that of the previous years’</td>
</tr>
<tr>
<td>Level 4</td>
<td>Performance on the tasks/areas assigned far exceeds expectations or there has been commendable and noteworthy improvement qualitatively on the tasks/areas specified vis-à-vis those of previous years’</td>
</tr>
</tbody>
</table>
Basis of pay structure is well structured and developed in Asian paints (Exhibit 6.13).

Exhibit 6.13

Asian Paints: Present Pay Structure
In Terms of Fixed and Variable Components

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Entrepreneurial Employees</th>
<th>Decision Making Employees</th>
<th>Knowledge Employees</th>
<th>Systemic Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed pay v/s Variable pay</td>
<td>Fixed salary besides Variable pay (1/3rd of Company performance + 1/3rd of Departmental performance + 1/3rd of Individual performance)</td>
<td>Fixed salary besides Variable pay (2/3rd of Company performance + 1/3rd of Individual performance)</td>
<td>Only fixed salary applicable (Variable pay not applicable)</td>
<td>Only fixed salary applicable (Variable pay not applicable)</td>
</tr>
<tr>
<td>Concept</td>
<td>Variable pay is paid in terms of bonus</td>
<td>No departmental performance. Variable pay is paid in terms of bonus</td>
<td>Increment of 10% to 15% every year depending on the policy of Company</td>
<td>Wage negotiations</td>
</tr>
</tbody>
</table>

Critical Issues

- Unionism needs to be curbed. The company should rethink strategically about negotiations. The concept of wage negotiations may be changed from the traditional approach to be in line with Company's global perspective. This is a sensitive and delicate issue and therefore needs to be handled diligently. There will be strong opposition to the approach to be introduced in respect of wage negotiations as the feeling of insecurity may prevail.

- In case of loss, the systemic and knowledge employees get their salaries as no variable component is attached.
Presently, fixed component covers around 70 per cent of pay and variable component accounts for the rest.

The managers are not trained systematically with the performance appraisal techniques.

The appraisal process is not exhaustive.

**Overall Observations**

- Despite being a family managed business, Asian Paints has attained a reasonable level of professionalism.

- A strong union is present.

- Recruitment takes place via campus from B-schools. Candidates join as trainees and after one year, join the junior management cadre.

  a. Vacancies in the system arise in the following ways:

    i. Business diversification and growth

    ii. Retirement of employees

    iii. Attrition in the system

  b. A succession plan is in place.

- Performance appraisal is carried out in the Company once in six months.

- The appraisal system is static irrespective of market conditions

- The appraisal evaluation is conveyed to the employees within a month.

- When it comes to functions such as core and support, disparity in the context of incentives and variable pay plays a marginal role.

- Variable pay is paid in terms of onetime bonus in the month of May.

So the issue is whether the employees can take their bonus and leave.
Lack of Balanced Scorecard concept in appraisal exists in the Company. Appraisal is based on ‘Key Result Areas (KRA)’ method. However, KRA method is considered only for both the knowledge and decision making employees. Each individual employee has his/her own KRAs. These KRAs are decided by the immediate supervisor.

The KRAs are based on

i. Level of knowledge
ii. Level of education
iii. Level of experience

Supervisor sets the goals at the beginning, to be reviewed later.

The appraisal system has top down approach, thus implicitly questioning transparency.

F. Hindalco Industries, Ltd.

Company Profile

Hindalco Industries, Ltd. - the metals flagship company of the Aditya Birla Group - leads the aluminium and copper industries. A metals powerhouse with a consolidated turnover exceeding of $14 billion, Hindalco being the world's largest aluminium rolling company and one of the biggest producers of primary aluminium in Asia, overtakes the others. Its copper smelter happens to be the world's largest copper smelter at a single location.

Established in 1958, Hindalco commissioned in 1962 its aluminium facility at Renukoot located in Eastern U.P. Later acquisitions and mergers with Indal, Birla Copper and the Nifty and Mt.Gordon copper mines in Australia
strengthened Company's position in value-added alumina, aluminium and copper products, with vertical integration through the access to captive copper concentrates.

In 2007, acquisition of Novelis Inc.- a world leader in aluminium rolling and cans recycling - marked a major milestone in the history of the aluminium industry in India. With Novelis under its fold, Hindalco ranks in global top five aluminium majors. As an integrated producer with modern alumina and aluminium facilities combined with high-end rolling capabilities and a global footprint in 12 countries outside India, Hindalco plays a crucial role in the aluminium market. With consolidated turnover of $14 billion, it is placed it in the Fortune 500 league.

Hindalco enjoys a leadership position in the Indian aluminium and copper markets. Company's aluminium units across the country encompass the entire gamut of operations from bauxite mining, alumina refining, aluminium smelting to downstream rolling, extrusions, foils and alloy wheels, along with captive power plants and coal mines. The Birla copper unit produces copper cathodes, continuous cast copper rods along with other by-products including gold, silver and DAP fertilisers.

All the units of Hindalco are ISO 9001:2000, ISO 14001:2004 and OHSAS 18001 certified. The Renukoot and Taloja units have gone a step further with an Integrated Management System (IMS), by combining ISO 9001, ISO 14001 and OHSAS 18001 as a Business Excellence Model.

The Company has been accorded Star Trading House status in India. Its aluminium metal is accepted for delivery under the High Grade Aluminium
Contract on LME (London Metal Exchange), while its copper quality standards are internationally recognised as referred in its registration with LME with Grade “A” accreditation.

Some of the Company’s recent milestones include the following

- In January 2006, Company concluded 4:1 rights issue on partly paid basis. It was the largest ever rights issue in the history of corporate India and first one to issue partly paid instruments.
- In March 2006, Company acquired an aluminium rolling mill and wire rods facility from Asset Reconstruction Company (India), Ltd. (ARCIL) belonging to Pennar Aluminium Company, Ltd.
- In May 2006, Company signed MoU with Government of Madhya Pradesh for setting up greenfield aluminium smelter and a captive power plant. The Company also entered in a joint venture with Essar Power (M.P.), Ltd. to develop and operate coal mines at Mahan, Madhya Pradesh with a view to supplying coal to the proposed aluminium smelter and power complex in Madhya Pradesh.
- In May 2007, Novelis became Hindalco subsidiary with the completion of the acquisition process. This transaction made Hindalco the world’s largest aluminium rolling company and one of the biggest producers of primary aluminium in Asia, as well as India’s leading copper producer.
Corporate Structure of Hindalco Industries, Ltd.

The present organisational structure of Hindalco Industries, Ltd. has a comprehensive set up (Exhibit 6.14)

Exhibit 6.14
Organisational Structure of Hindalco

Present Performance Appraisal System of Hindalco

The functional structure of Hindalco is divided into core and support functions (Exhibit 6.15). Its main feature is that its Maintenance Department forms part of its core function.

Exhibit 6.15
Core and Support Functions at Hindalco

<table>
<thead>
<tr>
<th>Core Functions</th>
<th>Support Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Accounts</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Finance</td>
</tr>
<tr>
<td>Maintenance</td>
<td>HR</td>
</tr>
<tr>
<td>Operations</td>
<td>Administration</td>
</tr>
<tr>
<td></td>
<td>Legal</td>
</tr>
</tbody>
</table>
Hindalco follows an yearly appraisal system. Feedback is conveyed in a month’s time. An exhaustive Balanced Scorecard system is in place. The employees are appraised on the basis of the following four parameters:

a) Internal customers  
b) Financial perspective  
c) Learning and development  
d) Internal business process

The entire appraisal system is online. However, appraisal of the juniors or trainees is seldom considered.

Matrix of distribution of pay vis-à-vis levels of employees shows overall distribution of pay vis-as vis levels of employees (Table 6.9). It is vital to note that this structure is applicable only to the core functions

**Table 6.9**

**Distribution of Pay vis-à-vis Levels of Employees in Hindalco**

(Per Cent)

<table>
<thead>
<tr>
<th>Level of Employees</th>
<th>Entrepreneurial Employees</th>
<th>Decision Making Employees</th>
<th>Knowledge Employees</th>
<th>Entry Level Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>35</td>
<td>40</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td>Individual Performance Pay</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Business</td>
<td>15</td>
<td>20</td>
<td>15</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>25</td>
<td>10</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Hindalco introduced a variable pay plan as a short-term measure. Then it moved to long-term plans with employee options. Employee Stock Option Plan (ESOP) was introduced. The plan basically offers the managers a
long-term incentive plan and retains the best talent. The scheme complements the variable pay plan that has been in place for last four years. This scheme was adopted to deepen employee’s sense of ownership and accountability.

**Overall Observations of Hindalco**

- Appraisal is undertaken annually. The results of evaluation are conveyed to the employees within a month.
- Balanced Scorecard method of appraisal is in place. The managers are well trained for making appraisal before starting assessment of employees’ performance.
- A People Soft HRIMS tool is used.
- Relationship between the benchmarks and appraisal parameters is more of a cause - consequence relationship.
- A Key Result Area (KRA) process is in place as a part of appraisal.
- Once in two years, all the employees get incentives to buy an electronic product irrespective of their status in the Company.
- Though salary is an important criterion, there are performance based pay and incentives.
- Each refining / manufacturing plant has a union. The union for its strength depends on the number of employees at the plant level.
- Hindalco believes in empowerment, delegation and calculated risk taking endowments of the employees.

**Comparative Aspects of Sample Companies**

A comparative picture of six sample companies is presented in a tabular form in order to highlight the strengths and weakness of their appraisal systems (Table 6.10).
<table>
<thead>
<tr>
<th>Parameters</th>
<th>ABC Services</th>
<th>MTNL</th>
<th>Johnson and Johnson</th>
<th>Asian Paints</th>
<th>Siemens</th>
<th>Hindalco</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Environment</td>
<td>A consultancy organisation, professional environment with a decentralized structure. Role of HR department is of a business partner. The attrition rate is 8 to 10 per cent which is half the rate prevailing in the industry. Huge investment is made for talent recognition and retention. For this, succession planning and career mapping are in place.</td>
<td>A public sector undertaking, service based organisation, having a matrix and centralized structure, with HR as a core function. There is no concrete data available with respect to attrition. The process of talent recognition and retention is overlooked to a large extent. Incentive linked to performance, hierarchical based succession planning.</td>
<td>An MNC belonging to the FMCG industry, having a professional environment. Role of HR department as a business partner. The attrition rate is around 10 per cent minimum as compared to the industry. <strong>Core functions</strong>  - Marketing  - Customer development origination called sales  - Quality and technology assurance (QTA)  - Operations ✓ Manufacturing ✓ Supply chain</td>
<td>A family owned and professionally managed company in the paint and chemical industry. Role of HR department as a support function and peripheral. <strong>Core functions</strong>  - Supply chain  - Quality and technology assurance (QTA)  - Strategic planning  - Research and development</td>
<td>A German electrical and electronics engineering company with professional environment and decentralised structure. Role of HR department is more of support. Though HR acts as a support function, it plays a major role in recognizing and nurturing talent. Huge investment is made for talent recognition and retention. For this, succession planning and career mapping are in place. <strong>Core functions</strong>  - Human Resources  - Legal  - Commercial  - Corporate Communication  - Accounts  - Corporate Finance  - HR and administration <strong>Support functions</strong>  - Manufacturing  - Sales  - Marketing  - R &amp; D</td>
<td>A private sector undertaking, service based organisation, having a matrix and centralized structure, with HR as a core function. There is no concrete data available with respect to attrition. The process of talent recognition and retention is overlooked to a large extent. Incentive is linked to performance. Hierarchal based succession planning. <strong>Core functions</strong>  - Marketing  - Manufacturing  - Maintenance</td>
</tr>
</tbody>
</table>
### Table 6.10 (Continued)

<table>
<thead>
<tr>
<th>Parameters</th>
<th>ABC Services</th>
<th>MTNL</th>
<th>Johnson and Johnson</th>
<th>Asian Paints</th>
<th>Siemens</th>
<th>Hindalco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Methods Used</td>
<td>Appraisal is done semi annually and is conveyed to all within a month. The appraisal process is very exhaustive and robust. A Balanced Score Card method of appraisal is used. The appraisal system is revised depending on the industry benchmarking. The Company appraisal benchmarking is done vis-à-vis industry. Feedback mechanism is good. Transparency in the appraisal system is average and is</td>
<td>Appraisal is carried out on annual basis and is conveyed in three months time. It is a low profile process. A top down approach of appraisal is followed. Here, the supervisor appraises the juniors. The appraisal system is revised depending on Government regulations. The feedback mechanism is almost absent negligible. At the end a confidentiality report of the employee is</td>
<td>Appraisal is done semi annually and is conveyed to all within a month. The appraisal process is exhaustive and robust. Key result area method is used. 360° method is used as developmental tool rather than linking it to salary. Discussion/brainstorming is held between employees and the superior, before freezing KRA. Transparency is maintained at a level of 80 per cent. A Creado survey is conducted for appraisal analysis.</td>
<td>Appraisal is done semi annually and is conveyed to all within a month. The appraisal process is exhaustive and robust. A potential performance matrix and a four eye principle is used. On the basis of ‘Four Eye’ principle and the employee’s rating, they are fitted in the potential performance matrix. A process of Normal Distribution curve on performance and Guassian Curve for potential identification is used. The Company appraisal benchmarking is done vis-à-vis the</td>
<td>Appraisal is done semi annually and is conveyed to all within a month. The appraisal process is exhaustive and robust. A people soft HRIMS tool is used. A top down approach of appraisal is followed. Supervisor appraises the juniors. The appraisal system is revised depending upon the industry. The feedback mechanism is poor. Only salary is an important criterion. There is no performance based incentive or pay.</td>
<td></td>
</tr>
<tr>
<td>Parameters</td>
<td>ABC Services</td>
<td>MTNL</td>
<td>Johnson and Johnson</td>
<td>Asian Paints</td>
<td>Siemens</td>
<td>Hindalco</td>
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<td>------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Qualitative and Quantitative Appraisal Parameters</td>
<td>maintained to 60 per cent. A web based application oracle is used.</td>
<td>generated which is added to his appraisal file and is updated immediately. There is hardly any transparency in the appraisal process. No software is used for preparing appraisal, everything is maintained in a handwritten hard copy.</td>
<td>Appraisal benchmarking is done visa-a-vis industry</td>
<td>percent. A SAP HR tool is used for appraisal. An appraisal survey is based on the questionnaire method.</td>
<td>industry. Employees who fall under the category low potential and low performance are terminated. Feedback mechanism is good. If the peers, don't rate an employee well, their salary gets frozen. Transparency in the appraisal system is good and is maintained to 70 percent.</td>
<td>Salary is paid irrespective of incentive.</td>
</tr>
<tr>
<td>Scope and use of quantitative parameters in appraisal are considerably less. Percentage of quantitative parameters used in appraisal is around 40 per cent. There is no relationship between the benchmarks and</td>
<td>Scope and use of quantitative parameters in appraisal is Low. But the quantitative parameters used in appraisal are not applicable as there is no benchmarking. As there is no formalised/structured appraisal process, employees</td>
<td>Scope and use of quantitative parameters in appraisal is average. Percentage of the quantitative parameters used in appraisal is more than 70 per cent. There is no relationship between benchmarks and appraisal parameters.</td>
<td>Scope and use of quantitative parameters in appraisal is high. But the percentage of the quantitative parameters used in appraisal is between 41 to 60 per cent. Relationship between benchmark and appraisal parameters is of cause and</td>
<td>Scope and use of quantitative parameters in appraisal is low. Percentage of the quantitative parameters used in appraisal is more than 40 per cent. Appraisal is related to turnover of the Company. Employees are generally satisfied</td>
<td>Scope and use of the quantitative parameters in appraisal is Low. Percentage of the quantitative parameters used in appraisal is not applicable. A Key Result Area (KRA) process is in place. There is a formal structure.</td>
<td></td>
</tr>
<tr>
<td>Parameters</td>
<td>ABC Services</td>
<td>MTNL</td>
<td>Johnson and Johnson</td>
<td>Asian Paints</td>
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</tr>
<tr>
<td>appraisal parameters. Appraisal is related to turnover of the Company. Employees are generally satisfied with the appraisal process.</td>
<td>are dissatisfied with the system and complacency has set in.</td>
<td>Appraisal is related to turnover of the regional company. Employees are overall satisfied with the appraisal process.</td>
<td>consequence. The satisfaction level of employees towards the appraisal system is average.</td>
<td>with the appraisal process.</td>
<td>Satisfaction of employees with respect to qualitative and quantitative parameters in appraisal is average.</td>
<td></td>
</tr>
<tr>
<td>Employee Participation</td>
<td>There is huge employee participation in terms of goal setting, goal review and personal development. Employees are partially trained for the appraisal process.</td>
<td>There is lack of employee participation in the appraisal as it is a top down approach. No training is imparted to employees for preparing appraisal report.</td>
<td>There is huge employee participation in terms of goal setting, goal review and personal development. Employees are partially trained for the appraisal process.</td>
<td>Though a top down approach is followed, there is participation of the employees at all levels. Targets are set which is finalised only when there is a consensus. Employees are not trained for the appraisal of the junior staff members.</td>
<td>There is approximately 70 per cent of employee participation in the appraisal process. In 1998-99 Voluntary Retirement Scheme was introduced. Employees who opted for it formed a group named Swayan Siddha. Siemens acquires major part of its resources from it.</td>
<td>There is lack of employee participation in appraisal as it is a top down approach. No training is imparted to make appraisal of various categories of employees. In two years all employees get incentives to buy an electronic product irrespective of their level in the Company.</td>
</tr>
</tbody>
</table>
Comparison of Salient Features of Multinational Companies (MNCs) and Indian Companies

Similarities

► Impact of company culture while deciding quantitative parameters
  • There is presence of a Human Resource department in both sets of the companies.
  • Union continues to be a predominant factor influencing appraisal. This creates resistance while objectively deciding the quantitative factors. Unionism appears to be more of a subjective element and is ruled by its terms and conditions. The union assures employee’s permanency in employment, and hence the measurement of appraisal via quantification becomes difficult. The same is observed in both the Indian companies and MNCs.

► Contribution to financial and non-financial goals
  • Both MNCs and the Indian companies use the quantitative parameters, and link them to the financial and non-financial goals.
  • Number of parameters may vary departmentwise as well as levelwise, but both link them to the bottom line.
  • Both sets of the companies find it difficult to bring in objectivity while linking the goals to performance.

► Measuring behavioural and technical/functional competencies
  • Both MNCs and the Indian companies use quantitative parameters to bring in objectivity while measuring behavioural, technical and functional competencies.
• Scope for using quantitative parameters is more in technical/functional related areas as compared to those of behavioural competencies.

➤ Role of organisational structure

• Organisational structure plays an important role in deciding the quantitative parameters for appraisal in both sets of the companies.

• The way the organisation is structured, decides the way the appraisal system is set in which, in turn, decides about the role of the quantitative parameters in the entire process.

Differences

➤ Transparency through quantitative factors in appraisal

• In MNCs, culture is more open and transparent so that employee participation gets encouraged as compared to their Indian counterparts. The employees are free to talk and decide about what they can work. Ample opportunity is given to brainstorm and experiment innovation. In MNCs, there is hardly a concept called negative feedback; rather it is considered as developmental feedback.

➤ Research mindset

• The Indian companies do have poor research mindset to identify the qualitative and quantitative parameters. In MNCs however, a pilot study of experimental group, is conducted to check validity and reliability of the quantitative parameters in appraisal. This approach turned out to be missing in the Indian companies in a major way.
• Most of the appraisal forms in the Indian companies are standardised tools. Tailor made tools required for developing the quantitative parameters or to bring in objectivity remain missing to a large extent in their case. MNCs, however, use the quantitative parameters as a developmental tool so as to identify the strengths and areas of improvement if any, whereas the Indian companies use this as a link to salary. MNCs use the 360° feedback system, whereas most of the Indian companies resort to top down approach and go much deeper in defining the quantitative parameters.

► Identifying potential

• MNCs do resort to ample discussions on requirement and potential of the employees. Division of quantitative and qualitative appraisal parameters gives MNCs sense of direction, to know what the employee is good at, and it helps them to tap potential. Segregating the quantitative and qualitative parameters makes these companies understand skills, knowledge and behavioural aspects such as attitude, time management, leadership ability, ability to scale under work pressure and handling stress of the employee.

• MNCs not only focus on performance of the employees but also attempt to identify their potential to perform a particular job. Identifying potential by measuring quantitatively helps the companies to plan for career progression of the employee. The Indian companies, on the other hand, rely too much on overall
satisfaction of superiors, and hence quantifying of appraisal parameters is not such an important option for them.

- MNCs invest heavily to understand each role so that the complex qualitative parameters can be understood in simpler terms. Potential of an employee which is a subjective element, thus, can be presented by the simpler terms to bring in objectivity.

- More than measuring the subjective parameters, they can be used to identify potential areas of improvement. A heavy stress is put on them.

► Benchmarking

- MNCs invest heavily on benchmarking the appraisal parameters. However in contrast to the Indian companies, MNCs set their own standards and constantly improve them rather than following what is available. The Indian companies, however, rely more on MNCs for benchmarking process.

- Most of the Indian companies rather than evolving their own appraisal practices, use MNC’s appraisal practices as benchmarks. MNCs set Industry standards which the Indian companies follow.

► HR as a business partner

- Most of MNCs have HR as a business partner and is actively involved in strategic decision making to decide company’s growth plan. This helps MNCs to understand the strategic aspect of HR and helps to define the quantitative parameters accordingly and makes them to further think and strategise appraisal for bifurcating
the same in the qualitative and quantitative terms. The Indian companies, however, treat HR more or less as a support function.

- For MNCs, the employees are not a cost center but rather an asset to capitalise on. They invest heavily in employee development and training, and are more concerned about long term progress of the employee and in turn of the company.

- The HR department in the Indian companies is not actively involved in strategic decision making. As a result, complacency sets in and the thinking process gets rusted. This blocks the mindset to think independently in terms of appraisal measurement and mapping the potential and growth of the employee.

**Scope and use of quantitative parameters**

- It is true that MNCs emphasize on measuring performance of the employees quantitatively. However compared to their Indian counterparts, scope for use of the quantitative parameters is more in MNCs, both at the departmental and employee levels.

  a. **Levelwise:** As one goes higher up from robotic employees to entrepreneurial employees, the role of qualitative aspects like behavioural competencies increase in MNCs. These aspects are further split in measurable factors. This way, objectivity is bought in as compared to the Indian companies. Example: risk taking ability of an employee is measured in MNCs as compared to their Indian counterparts thereby minimizing errors in respect of innovation.
b. **Departmentwise:** The scope for the quantitative parameters is more, when one defines the parameters in directly measurable entities such as sales and marketing as compared to HR and finance in which scope for such refinements is much less. Notwithstanding, the support functions are more scalable in MNCs as compared to their Indian counterparts.

Considering complexities of functioning of the corporate world, understanding the same continues to be nightmare. Nonetheless, a comparative analysis of the major Indian companies and MNCs undertaken above presents a true picture and provides deep insights in the overall structural strengths and weaknesses. No doubt, similarities are more common than differences thereby implying that the corporate world is heading towards homogeneity which may perhaps be attributed to globalisation.