Chapter –I

Introduction
1. Introduction: There has been growing criticism of financial measures in performance evaluation system in post-reform India as they are historic in nature and lack futuristic outlook. In the information age, with the companies engaged in building of internal assets and capabilities, the relevance of performance evaluation systems are questioned. The situation may worsen when the firm is compelled to pursue short-term goals at the cost of the organisation’s long-term objectives. Also there is need for organisations to have multi-dimensional corporate performance appraisals which compel the firms to align their performance measurement and controls from different dimensions. The traditional view of business performance measurement as a vehicle to control performance is immature. The use of performance measures as a means of control led to managing the measures rather than performance by the people, whose performance is measured. The management may reject a positive net present value project, simply because it may have adverse impact on short term return investment due to depreciation and asset valuation policy (Dearden, 1969).

Over the last two decades at least two trends have emerged as major factors in the performance of organisations in many sectors. These organisations may range from the corporations of business and industry to the enterprises of government. These trends suggest that managing human and organisational performance will be the central concerns in the coming decades due to the processes and forces of globalization which have shrunk the world in ways that would have been incomprehensible to the most sophisticated managers of three decades ago and remain incomprehensible to much of the humanity today. Increase in the flow of information, ideas and resources across national and sectoral boundaries has created interdependencies and demands for mutual understanding, influence and learning that exceed the expectations of all but the most radical visionaries. Globalization demands more capacity to deal with differences, greater ability to learn from experience at local, national and international
levels and enhanced investment in recruiting, coordinating and developing human resources from a wide range of grounds back.

Further, it has become increasingly clear that sustained effectiveness of organisations depends in large measure on their ability to manage performance and develop capacities of their human resources. Long term competitive advantages of corporations, depend on their abilities to attract, manage, develop and retain high quality talent. The capacity of organisations to promote large-scale social improvements turns on their success to attract and sustain effective leaders and volunteers. Challenges of managing and developing human performance have been recognized as vital for many years. But they have assumed even greater importance in recent years as attention has shifted to the critical roles that human resources will play in meeting challenges of the 21st century.

The liberalization and globalization of the Indian economy in 1991 brought substantial changes in the levels of competition, production environment and cost structure of firms that led to rapid development of advanced technologies. The corporate India was compelled to adopt contemporary management accounting techniques in order to ensure survival and maintain competitive advantage (Joshi, 2001). The performance evaluation is an integral part of management accounting (Emmanuel and Otley, 1995). After 1991, the Indian organisations started to face intensified competition both from domestic and multinational corporations. It has also made the organisations to think inwardly to have high performance with all respects and to evaluate and measure an employee performance in job life. The concept and practice of an employee performance appraisal has undergone many changes, especially after liberalization and globalization era.
In a liberalized economy, like in India, the public and private sector organisations require proper evaluation system and methodology to appraise their employees, in order to hold competitive, skilled employees and distributing benefits. Moreover, strategic human resource management policies are required in order to achieve high productivity and success in the organisation under stiff competition.

If organisations have to be competitive, more productive and economically sustainable, they require highly skilled, knowledgeable, innovative and relatively stable workforce. In the United States and Europe, most of the companies, implement management systems and human resource practices with greater employee involvement. In any organisation, to increase productivity and quality and to gain the competitive advantage the workforce must align strategically with the organisation’s goals and objectives. There are organisations that are increasingly recognizing the efforts to improve productivity and quality. But, it is necessary to have attention on employee motivation, commitment and morale (Schuster et al., 1997 and Kravetz, 1988)\(^4\).

Critical organisational processes such as information sharing, training, decision-making and rewards are now being moved down to the lowest levels of the organisation. This approach to human resource puts knowledge, power, rewards and a communication network in place at every level in an organisation. If organisations are to be sustainable in the medium to long-term scenario, employees must be motivated towards their work, to acquire knowledge-related skills and to perform with best of their abilities (Lawler, 1994)\(^5\).

Further, greater employee involvement could be achieved through a carefully managed process that strives for participation by integrating every employee in the organisation. This may lead to achieving high productivity and competitive advantage in the organisation. Under this process, employees at all levels are given power to influence decision-making; they are given
information about the organisation’s operations and performance, and also trained to operate the business with a proficient understanding. However, high quality employees do not assure an organisation of having a sustainable competitive advantage or even a short-term advantage. If employees are poorly motivated or if the correct organisational systems are not in place, the employees’ talent may be wasted or lost to competitors. In addition, leadership is critical to the sustainability of an organisation and it needs to be recognized that the leaders of organisations now require new skills and competencies. Old styles of leadership, reinforced by traditional bureaucratic hierarchies are no longer appropriate to Indian organisations that now face the challenges of competing in global markets and rapid technological change.

It is a common practice to evaluate a company’s performance by the profits it makes. It is true that to survive, a company needs to generate profits on a continuous basis. In fact, the relative measures of profitability like profit margin, return on investment, return on equity, earnings per share, etc., are the ‘bottom-line’ results which are used to rate the performance of companies. However, the survival of a company does not depend on profitability alone; managers in practice have learnt the hard way that an unequal focus on the financial health of the organisation results in several irreparable adverse consequences. Managers of successful companies do recognize that the financial measures are ‘after-the-events’ or ‘lagging’ indicators of performance, which depend on numerous events that would have occurred months or years before and over which they do not have any control at present. The problem with financial measures is that they do not directly focus on the customers’ needs and satisfaction. Some decisions may result in higher profits in the short-run but they might impair the long-term relationships with the customers, who might cause a permanent damage to a company’s reputation, competency and ultimately the market share. Cost cutting on research and
development, employee training, brand building or after-sales services are examples, which might conflict with the short-term profit objective and the long-term customer satisfaction. The performance improvement process is a critical component of the strategic planning process. Call it by any name, the process is very vital, and it has always been practised by many companies worldwide right from 20th century. Further, performance measurement and evaluation should be multi-dimensional, continuous and comprehensive. A performance measurement system requires the measurement of lagging, current and leading indicators.

1.1 Change leaders

Despite so many problems, there are some Indian organisations increasingly becoming conscious of the problem of a form-driven approach to performance appraisal and are willing to weigh their system against global benchmarks. Even, some multinational corporations in India like, GE India, Coca-Cola India and LG India have instilled in their organisations a relentless need to hire and foster the world’s best talent and to continuously evaluate, differentiate and reward exceptional performances. At GE India, appraisal process is known and forces a detailed measurement of the performance and as well as alignment between the company ratings and rewards while they are supporting overall goals of business. At LG India, the appraisal system has three parameters – performance, attitude and knowledge.

At Tata Tele Services, a third party research report on the fairness of the company’s appraisal system showed employee scores were 80 percent in 2001 and 90 percent in 2003. On linkages between appraisals and rewards, the scores were 81 percent and 84 percent, respectively. An employee is first evaluated within the function by everybody at the next level and then by the next level of other functions. The scores are plotted on a normal distribution curve at the employee’s level, across different functions, the circle, and finally the company. At Johnson and
Johnson, the human resource team in the company undertakes a credo feedback survey (based on protocol written 60 years ago by the company’s founder) to test the climate and culture within the organisation. Each employee fills a questionnaire and the scores are used to rate the company on 27 parameters that reflect employee perceptions on processes, policies, work culture, decision-making and development within the company. At Max New York Life, performance is monitored monthly and discussed publicly; Key Result Areas (KRAs) are placed from the managing director’s level to functional level to be placed on the company intranet. Wipro follows a unique practice of rewarding the best mistake made by an employee. The practice brings with it two benefits; it helps one to recognize one’s weaknesses and second to understand one’s worth in the organisation. The company also does quarterly appraisals to help people and the company keeps in touch with their expectations from each other. Essar group takes this a step forward by making appraisals a monthly affair and the regular meetings are held between the appraiser and the appraisee to ensure corrections which are made instantly in case of any ambiguity or misalignment of expectations.

All the above techniques and methods are practised by all corporate organisations even though they are incomplete in their efficacy. Still employee performance appraisal is an unsolved issue in most of the organisations in India. Each of the methods has got its own drawback and deficiency while evaluating the performance appraisal. Still the appraisal methods are lying in uncomfortable zone with most of the organisations. The employee performance evaluations are not as simple as they look. There is no perfect system that can be adopted without modifications. There are many different appraisals appearing to be successful but in reality they are not. Employees are resisting and saying “no-no” to single manager driven system. The form of appraisal should be simple without complexity. Traditional appraisal systems have lost their significance in the competitive field. The ratings given have become
subjective in decision-making. Subjectivity increased because appraisals are linked to financial benefits such as pay, rewards and other benefits. Ultimately managers are forced to be dishonest on the appraisals.

**Douglas McGregor** opined that it is a form filling ritual called annual performance appraisal (APA). Companies are saying that it is transparent, objective and so on. But there is uneasy look at performance appraisal. Managers are uncomfortable when put in the position of playing GOD. They do not want to pass judgment on the personal worth of their team members. Before judgment, examination, analysis of the appraisal the middle level managers know the kind of increments that the top management would allow and tailor their appraisals to justify the pre-determined increments.

**M.S.Banga - former Chairman of HLL** comments on the performance appraisal system thus; “good things get said, bad things, tough things remain unsaid”. Managers are focusing on performance, but employees are focusing on how much money comes into the pocket. A Company should need to be identified, through performance appraisal system what it wants and should check the present appraisal system for its feasibility. From the employee’s point of view, there must be faith on existing system. Most often, managers lack the skills to perform the appraisal. Therefore, managers should coach by identifying suitable variables and attributes in the appraisal system. Furthermore, giving honest and direct feedback is still a problem. So, whenever the appraisal happened in the organisation, the top management should check the system with the following attributes like reduction in subjectivity, manager’s complete knowledge and fitness to do performance appraisals and employees readiness to take tough target.

**Anil Sachdev, founder and CEO of Grow Talent company**, opined that giving honest and direct feedback is still a problem. Most managers hesitate to give negative feedback for their
juniors because skills are not coached which are necessary for the purpose and secondly, it is found that assessing people in a certain way at the time of hiring and assessing, the same is different at the time of appraisal is not proper and fair.

On account of the above statements by the top notch professionals in the industry, this particular research intends to probe some bottlenecks which can be removed in the appraisal, both in private sector and public sector which do not possess a proper framework in appraising their employees to get high performance with motivated environment. Hence, there is a need to probe the bottlenecks of the employee performance appraisals.

1.2 History of employee performance appraisal coming to the history of employee performance appraisal, the terminology was used for the first time during the first world war, by Walter Dill Scott of US Army, who adopted “man-to-man rating system” for evaluating military personnel. During the 1920-30 period, relational wage structure for hourly paid workers were adopted in industrial units. Under this system, the policy of giving grade wage increments on the basis of merit was accepted. These early employee plans were called merit rating programmes which continued to be called-up to mid-fifties. By then most of these plans were of the rating-scale type, where emphasis was given to factors, degree and points. In the early fifties, however, attention began to be devoted to the performance appraisal of technical, professional and managerial personnel. Since then, as a result of experiments and a great deal of study, the philosophy of performance appraisal has undergone tremendous changes, like merit rating, personnel appraisal, progress report, staff assessment, behavioral assessment, etc. Rock and Lewis have classified the methods into two broad categories viz., the narrow interpretation and broad interpretation., the former considered as post-mortem of subordinates, later one known as accountability of management, whereas Robbins has given three categories, viz., i) single-trait, single-subject refers to subjects which are not compared with other person and each trait is
measured alone. ii) single-trait, multiple-subject in which the subjects are compared with other subjects. iii) multiple-trait, single-subject in which forced choice rating is done by either the subject himself or evaluation. Strauss and Sayles classified the performance appraisal methods into traditional, and newer or modern methods.

Exhibit: 1.1

Methods of performance appraisal

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<tr>
<th>Traditional Methods</th>
<th>Modern Methods</th>
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<td>1. Straight ranking method</td>
<td>1. Assessment centre</td>
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<td>2. Man-to-man comparison method</td>
<td>2. Appraisal by results or MBO</td>
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<td>4. Graphic rating scales</td>
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<td>5. Forced choice description method</td>
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<td>6. Forced distribution method</td>
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<td>7. Check lists</td>
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<td>8. Free form essay method</td>
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<td>9. Critical incidents</td>
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<td>10. Group appraisal</td>
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<td>11. Field review method</td>
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Furthermore, there are other modern techniques developed, like 360 degree feedback, upward assessment, the Bell Curve, the Balanced Score Card, DMP model and Success Dimension Model, etc. The most popular forms of appraisal are the 360 degree feedback and upward assessment, the latter being a relatively new concept in India.
1.3: 360° Feedback: The 360-degree feedback, or multi-rater feedback was used by 90% of Fortune 500 companies last year (Caruthers, 2003). It is generally believed to be a highly effective performance evaluation tool, yet there are many, who doubt its benefits. Considering factors for the success and the failure of this popular method will provide guidelines and suggestions for its use. The 360-degree feedback is an evaluation method that incorporates feedback from the worker, his/her peers, superiors, subordinates and customers. The results of these confidential surveys are tabulated and shared with the worker, usually by a manager. Interpretation of the results, trends and themes are discussed as part of the feedback. Under ideal circumstances, the 360-degree feedback is used as an assessment for personal development rather than evaluation (Tarnow, W., 1998). Unfortunately, not all circumstances are ideal.

Dr. John Sullivan, of San Francisco State University, stated his concerns about the 360-degree feedback thus; as there is no proof it actually improves productivity, increases retention, decreases grievances or that it is superior to forced ranking and standard performance appraisal systems. It sounds good, but there is no proof that it works better than what a lot of companies have found.

Weighing the pros and cons

Reviewing comments from practitioners and corporate users of this method will provide further understanding of the pros and cons of 360-degree feedback. Alan Hoffmanner (personal communication, February 1, 2004) of Agiledge has facilitated the use of 360-degree feedback programs with dozens of companies and listed many positive results of using the 360-degree method.
A. Randal (personal communication, January 26, 2003), formerly of Hewlett-Packard and Agilent Technologies, distributed the 360-degree surveys frequently and rarely had any surprise information revealed. Typical comments received showed respect and appreciation of co-workers but seldom any negative remarks. This perplexing result can be explained by the open methodology of the survey (they were not confidential), and the fact that the workers usually made their complaints verbally to her. Organisational climate indeed plays a large role in the effective use of this assessment tool (Tarnow)\textsuperscript{10}.

Almost all leading companies used $360^\circ$ feedback as they believed that the days of traditional supervisor – subordinate performance evaluations are numbered, rather than having a single person play judge, a $360^\circ$ appraisal acts more like a jury. Companies are turning to such appraisal, which pool feedback from both internal and external customers to receive a broader, more accurate perspective on employees. The biggest benefit of the $360^\circ$ feedback is that it helps discover whether an employee is an effective performer in all interactions or whether the worker is simply an effective performer when the boss is around. There are organisations like Aditya Birla Group, Infosys and Wipro which are following $360^\circ$ method successfully. The popularity of is $360^\circ$ undeniable, yet, the perceived benefits will help the personnel development under right organisational climate. When this method is utilized in the wrong environment, the results can be detrimental. With close consideration and evaluation of the environment, the decision to employ this tool or another, should be made carefully.

1.4 Upward Assessment: In India, this method is mainly followed by the HDFC Bank Ltd. According to Mandeep Mitra\textsuperscript{11} – under this method, subordinates are encouraged to provide feedback on how they rate their supervisors on three critical areas: (i) communication, where the employee writes on things like: does the boss listen attentively? Is he or she responsive to the
subordinates’ concern? (ii) Direction and feedback, where the areas assessed include things like whether the boss gives appropriate recognition. Whether he gives proper feedback on the gaps and weaknesses? (iii) Empowerment, under which one is asked questions, like whether the boss is empowering his direct subordinates to carry out the job adequately, etc. This method is aimed at reinforcing good or exceptional performance by supervisors.

1.5 The Bell Curve\textsuperscript{12}: This theory explains that most of the employees are in the middle as far as performance is concerned. There is a bunching of excellent performers at the top and the worst cases (the bottom 10 percent) at the other end. Managers have to keep this broad picture in mind, when they rate their team members.

**Exhibit 1.2: The Bell curve:**

![Bell Curve Diagram]

The HR consultants even blame the management’s obsession towards Bell curve and they say the artificial structural rigidities often lead to a huge number of de-motivated people in the organisation. The Bell curve concept sounds similar to the rank and yank strategy being practiced by around 20 percent of the companies in India mostly multinationals, like Microsoft, Ford, General Electric, PepsiCo, Coke, Cisco and Sun Microsystems the crucial difference is this: while Jack Welch, actually sacked the bottom 10 percent and kept raising the bar, Indian
companies only succeed in creating de-motivated employees who get average increments and continue to do routine jobs in a routine manner.

1.6 Balanced Scorecard: The Balanced Scorecard is a system of combining financial and non-financial measures of performance in one single scorecard. It includes performance measures for four perspectives: financial, customer, internal business processes and learning and growth (innovation). It need not be restricted to four perspectives; more may be added. The social responsibility and environmental concerns are other two possible perspectives. The balanced scorecard focuses its attention on the link between business processes and decisions and results. It is concerned as a device to guide strategy formulation, implementation and communication. It also helps in tracking the performance and providing quick feedback for control and evaluation. A number of companies in the USA and a few companies in India have implemented the balanced scorecard. The success of the balanced scorecard will depend on the clear identification of non-financial and financial variables and their accurate and objective measurement and linking the performance to rewards and penalties.

It provides multiple measures for overcoming the limitations of single measures; there is no clear provision for very long-term measure; the distinction between means and ends is not well defined and the model probably needs additional empirical validation. The lack of focus on a company’s human resources dimension is perhaps the most notable weakness in the balanced scorecard.

1.7. Dynamic Multi-Dimensional (DMP) Model: Alan C. Maltz, Aaron J. Shenhar and Richard R. Reilly in their study considered organisational success as a continuous challenge for the managers. The DMP model synthesizes previous empirical research on performance into five distinct success dimensions and creates a framework that is multi-dimensional in nature, viewing success as a dynamic, on-going concept that is being assessed on various timeframes and that
represents multiple stakeholders. In the DMP model, there are twelve potential baseline measures, identified across five major success dimensions (financial, market, process, people and future) that can be examined as applicable to different firms and firm types. This study does not claim that a single set of measures is universal for all companies: rather, it suggests that each company should use the components of the framework in different ways with different degrees of importance. The suggested framework captures the different measures that companies may deem important to assess organisational success. The appropriate set of measures depends on the firm’s size, technology, strategy and particular industry and environment in which a firm operates.

1.8 Success Dimensions Model\textsuperscript{14} : Shenhar and Dvir’s “Success Dimensions” model is a multi-dimensional concept that defines effectiveness across three organisational levels (project, business unit and company) and four time horizons (very short, short, long and very long time-frames). The key premise is that measuring the success of an organisation using only one time dimension would be misleading. Indicators of short-term corporate success (sales, profit and cash position) are measured at a single point of time and may change during the following quarter or next year. More importantly, these measures may not be indicative of long-term corporate success. Any lack of corporate vision and values, technology, strategy, investments on people, new businesses and ventures typically will not be evident in a short-term organisational view, but must be observed and assessed over the long-term. Shenhar and Dvir, suggested that using the ‘ability to see the future’ and to ‘define new needs’ before competitors and customers as the critical success measure in the ‘very long’ term.

The “Success Dimensions” approach provides a framework over both short and long time-frames; its primary limitation is that no specific operational measures are provided for any dimension. The constructs of “strategic leverage” and “creating the future” do not easily translate
into measurable variables for organisations. Moreover, while Shenhar and Dvir’s model has been empirically tested at the strategic business unit and project levels, it has not been tested at the corporate level.

1.9. The social context of performance appraisal:\^15:\^

It is important that identifying, measuring and defining the organisational context as an integral part for understanding and developing effective performance appraisal. Starting from 1990 to the 21st century, it is believed that this has been a framework for driving, to explore the research in performance appraisal. Whether, it is discussed as the social-psychological process of performance appraisal (Murphy & Cleveland 1991), the social context of performance appraisal (Ferris, Judge, Rowland & Fitzgibbons, 1994) the social milieu of performance appraisal (Ilgen et al., 1993) performance appraisal from the organisational side (Levy & Steelman, 1997) the games that raters and ratees play (Kozlowski, Chao & Morrison, 1998) or the due process approach to performance appraisal (Folger, Konovsky & Cropanzano, 1992), it argues that along with this scholars, performance appraisal takes place in a social context and it plays a major role in the effectiveness of the appraisal process and the reaction of the participants in the process (Farr & Levy, in Press). It has been suggested that research over the last 10 years has moved noticeably away from a limited psychometric scope towards an emphasis on variables that composed of social context (Levy and Williams, 2004). Although it agrees that a new backdrop has emerged, no specific analysis, review, or synthesis of the literature has been attempted to validate this conclusion. In attempting to bring this kind of analysis to the literature, it began by developing a streamlined model denoting the potential role played by the social context in the appraisal process. The next step is to embark on a thorough review of the performance appraisal literature with a very clear emphasis on the social context.
Conclusion:

To conclude, over the period of time, organisations have failed to identify the factors of managing human resource and to maintain upward organisational performance. This led them to have greater concern about the performance evaluation systems by the organisations. Further, while reaching corporate objectives, employee’s skills and competencies have become of prime importance. Therefore, organisations have considered that to improve the skills and competency of the employees is necessary. So far, the appraisal tools that are used in the organisations are narrow by nature and filled with limitedness in their application. Therefore, they are required to have multidimensional, continuous and comprehensive appraisals.

Most of the MNCs are limiting themselves by having limited parameters in their tools without strategical perspective. This may lead to have some errors in the appraisal processes. Like Wipro, organisations are striving to identify the employee’s strengths and weaknesses despite errors in organisational environment. In addition, organisations are also trying to have perfect match between employee expectations and organisational goals. The performance evaluation systems are unable to describe comprehensively when the employees have reached the targets up to 90% and are not able to achieve the remaining 10%. Further, in the appraisal processes, good things are informed to the employees but tough and bad things are not informed by the managers because they themselves feel appraising their colleagues is uncomfortable for them.

Further, 360 degree, balanced score card etc., have failed to evaluate and provide outcomes with greater level of accuracy. Finally, there is a growing concern that appraisals must be look into from social perspective rather than anything else. Viewing appraisal process in the societal perspective provides insights to have greater clarity and accuracy to reach the highest performance levels of the employees in any organisations. Therefore, in this study an attempt is made to analyze the impact such as strategical, general and operational factors which would
influence the performance management to be as a feedback provider and to remove the bottlenecks in the job life of the respondents.

1.10 References:


10. Ibid.,

12. Ibid.


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