CHAPTER ONE

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Performance linked reward is a part of performance management system. Organizations are using performance linked reward as a tool to enhance the performance of their employees. It is adopted by many organizations to create a performance oriented culture. The concept is not only a part of performance management system but it is also related with job satisfaction, job performance and motivational level of employees in the organization. This chapter attempts to introduce some of the key concepts related to the area of research.

1.1 Conceptual background of performance management system: Performance management is one of the cornerstones of human resource practices in organizations. Effective performance management is a key requirement for every organization having any number of employees, whatever the size of organization may be or how simple or complex business model it may adopt. Performance management specifies the jobs we need our employees to do, the way we measure their performance in these jobs, and design and implement systems to reinforce performance standards that have been set.

Sharma (1-35) stated Performance Management basically as a managerial process which consists of planning performance, managing performance through observation and feedback, appraising performance, and rewarding performance. It is a holistic and disciplined approach which includes planning, monitoring, developing, rating and rewarding employee performance. Bhatia stated performance management as a part of link between organizational strategy and results. So performance management system consists of the process used to identify, encourage, measure, evaluate, improve and reward employee performance at work.

A performance management system is a technique which provides information on the matters of importance (communication), provides appropriate behaviour (motivation), provides a mechanism of accountability and control and creates a mechanism for intervention and learning (improvements). When operated successfully performance management will give the means for evaluating and improving both individual and company performance against pre-defined business strategies and objectives (Williams 1-24). A holistic approach to performance management given by the Institute of Personnel management in 1992 produced the following definition of performance management: A
strategy which relates to every activities of organization set in the context of its human resource policies, culture, style and communication systems. The nature of the strategy depends on the organizational context and can vary organization to organization” (Bhattacharyya 1-20).

1.1.1 History of Performance Management: A close examination of the concept of performance management revealed that it has emerged from different concepts of human resource management like merit rating, performance appraisal, management by objectives etc. The roots of performance management as a concept can be tracked back through a number of organizations development themes from the past (Hale and Whitlam 2). According to Koontz (1971), the first example of performance appraisal took place during the Wei dynasty (AD221-65) when the emperor employed an ‘imperial rater’ whose task was to evaluate the performance of the official family. In the 16th century Ignatius Loyola established a system for formal rating of members of Jesuit society. Armstrong (25) stated in his book that “the first formal monitoring system, however, evolved out of the work of Frederick Taylor and his followers before the First World War. Rating for officers in the US armed services was introduced in the 1920s and this spread to the UK, as did some of the factory-based American systems. Merit rating came to the fore in United States and the UK in the 1950s and 1960s, when it was re-christened performance appraisal. Management by objectives then came and largely went in the 1960s and 1970s, and simultaneously, experiments were made with assessment techniques such as behaviourally anchored rating scales. A revised form of result-oriented performance appraisal emerged in the 1970s and still exists today. The term performance management was first used in the 1970s but it did not become a recognized process until the latter half of the 1980s”. The term ‘Performance Management’ first came into wide use in the HR field in the early 1990s, although objectives setting, assessment and review, and performance related pay had become common prior to that period, it was not until the late 1980s that organizations started to be concerned with the management of individual performance in a holistic way” (Armstrong and Baron 1). Even when the Institute of Personnel Management first carried out research in the area of performance management in 1992 there was confusion over what the term ‘Performance Management’ actually meant.
1.1.2 History of Performance Management in India: The personality and trait based systems of evaluation were in use prior to 1947 in the Indian armed forces and the civil services, though these were primarily used for merit pay and promotion related decisions. The leading private sector organizations like Union Carbide started using performance appraisal system for evaluating the performance of managerial personnel as far back as 1940, as followed by other well known organizations such as the Tata Iron and Steel Company, Voltas and Bata India, which introduced such system in the 1950s and the government adopted a confidential reporting system in public sector enterprises to evaluate its bureaucrats since after independence (Sharma et al. 181-82). Bolar conducted a survey in 1968 and it was found that some companies had adopted formal performance evaluation system but were rarely used (Sharma et al. 181). Furthermore, graphic rating scales were the most popular form of evaluation used at the time. In the late 1970s and early 1980s, most Indian organizations were using performance appraisal system to regulate employee behavior and help develop employees’ capabilities, which were known by various names such as “work planning and review system” in Life Insurance Corporation and “performance planning and review system” in National Development Diary Board. In later years, performance appraisal systems were revamped to incorporate quality initiative such as Total Quality Management. Indeed, organizations such as Xerox(India) become well known for incorporating quality dimension into their performance review systems, where individual performance review reflected the input of customer(both internal and external), and “quality of work” and “customer service” were some of the critical dimension on which both employees and executives were appraised (Parker and Datta 144).

Professionally managed organizations in India are giving emphasis on developing performance management systems based on their perceived performance management philosophy. Organizations now aim at developing employees so that they can deliver their best performance. Through well-crafted performance management systems, organizations ensure that people are geared for success and ultimately help organizations to achieve their business goals (Bhattacharyya 1-20). Specially performance management system is very popular now a days in service industries. To create a high level of customer service behaviour organizations are focusing on developing their human resource through performance management system.

With the emergence of new private sector and foreign banks in India importance of performance management and its need is growing day by day in banking sector.
Organizations of banking sector implement new approaches in their existing performance management system which enables their employees to get clear feedback and incentives based on performance results that help them to get a clear picture of need based training and development programmes. Performance management system is a continuous process. Based on the introductory discussions on conceptual background and history of performance management, the main features of performance management can be summarized as mentioned below:

i. Communicating vision to all employees
ii. Translation of vision to mission
iii. Converting mission to overall objectives of the organization
iv. Setting departmental and individual performance targets that are related to overall objectives
v. Converting such targets in terms of measurable outputs
vi. Developing the formal appraisal procedure and systems
vii. Linking performance to pay
viii. Conducting formal performance reviews to track the progress towards achieving the targets
ix. Using the review process as the basis to identify training, development and reward outcomes
x. Evaluating the performance holistically to improve organizational effectiveness

The main features of performance management system revealed that performance linked reward, performance standards, appraisal system are very important aspects which help the management to align individual goals with organizational goals. Also, such kind of system helps in maintaining the motivational level of employees and ultimately improves the performance at employees as well as at organizational level.

**1.2 Performance Linked Rewards:** In the present highly competitive environment, organizations have to ensure peak performance of their employees continuously in order to compete and survive at the market place effectively (Prasad). Now a days management of human resources in organizations is moving from traditional approach to custom-made system by addressing the specific needs and objectives of the particular organization (Billimoria 15-24). To be effective, any performance measurement system must be tied to
compensation or some sort of reward. Rewarding performance should be an ongoing managerial activity, not just an annual pay-linked ritual. The emphasis on quality-improvement teams and commitment-building programs is creating a renaissance for financial incentive of pay-for-performance plans. Organizations adopt alternative reward systems to increase domestic and international competition in order to make their employees more productive. The competitive reasons for the growing emphasis on performance-based compensation by companies are, cutting of costs, restructuring, and boosting performance.

The need today is to review, revamp and rejuvenate the existing people management (HR) systems, such as the reward and incentive systems, promotion and transfers, training and development programmes, recruitment and selection processes, employee relation, compensation, benefits and employee motivation such as pay for performance, gain sharing, team incentives. In reward management category, practices such as team rewards, performance linked bonus, variable rewards and family directed rewards were identified as innovative HR practices (Agarwala 315-331).

To ensure that the reward system is effective and motivates the desired behaviors, it is essential to consider carefully the rewards and strategies utilized and ensure that the rewards are linked to or based on performance.

Performance linked rewards are rewards given for performance, usually based on a normative value. Performance linked rewards are an important component of the reward system, that can be extrinsic or intrinsic in nature. These can motivate employees and influence the level of their performance and job satisfaction. Performance linked rewards are different from the general rewarding system because those are given to the employees on the basis of their extra efforts and outstanding performance. *Rewards should be given to employees when they earn them — that is the principle of performance linked rewards*, which mean employees should be rewarded on the basis of their performance instead of age and tenure.

Performance linked rewards provided by the organizations to their employees on the basis of performance is an important part of performance management system. In the present business environment, performance-related pay, both in the form of incentives (pre-agreed payments for certain levels of performance) or rewards (payment for performance achieved), is frequently used to support a performance-oriented ‘culture’ (Wright 83). Performance linked rewards are very popular in service industry. Banking industry specially is adopting performance linked rewards for creating performance-oriented culture for their employees. It
is also felt that in performance-oriented cultures, performance linked rewards are seen by employees as a more equitable reward system than systems that offer no relationship to performance. Performance linked rewards practiced in banking sector consists of extrinsic performance linked rewards and intrinsic performance linked rewards.

1.2.1 Extrinsic and Intrinsic Rewards in Banking Sector: Strategically designed rewards system linked to activities, attributes and work outcomes will help the organization’s strategic direction and foster the achievement of strategic goals. Such linkages can lead to increased employee knowledge or skill development, flexibility, commitment, retention and productivity (Howard and Dougherty 41-51). Organizations offer intrinsic and extrinsic rewards to their employees for the purpose of improving human resources outcomes (Mahaney and Lederer 42-54).

Extrinsic rewards are external to the job itself which comprise elements as pay, fringe benefits, job security, promotions, and social climate (Ozutku 29-48). When extrinsic rewards are linked to performance of the employees it can be competitive salaries, pay raises, merit bonuses, indirect forms of payment as holiday packages, foreign tours, awards, gifts etc. Such extrinsic performance linked reward provided by the organizations can enhance the organizational performance by boosting morale among employees, encouraging greater commitment to organizational goals, reducing quits and disruption caused by turnover, attracting quality human resource and inspiring existing manpower to put forth greater effort.

Intrinsic rewards are those that exist in the job itself such as achievement, variety, challenge, autonomy, responsibility, and personal and professional growth (Ozutku 29-48). It also consists of status, recognition, praise from superior, and co-workers, personal satisfaction, and feeling of self esteem (Mahaney and Lederer 42-54). Intrinsic rewards increase feelings of self-esteem and accomplishment. Such rewards are derived from the content of the task itself and include such factors as interesting and challenging jobs, self-direction and responsibility, variety, creativity, opportunity to use one’s skill and abilities, and sufficient feedback regarding the effectiveness of one’s efforts (Mottaz 365-85). Performance linked intrinsic rewards can be defined as enhancement of duties, responsibilities, challenging targets, recognition and appreciation of performance from supervisor. Employees are thought to be motivated to work hard to produce quality results when they have pride in their work, they believe their efforts are important to the team, and their jobs are fun, challenging and
rewarding (Mahaney and Lederer 42-54). Various authors have studied the concept of reward in banking sector and provide different views on intrinsic and extrinsic classification. Some of the studies are mentioned below.

Pratheepkanth (86-92) studied the impact of reward and motivation in commercial banks of Sri Lanka. He classified wages and salary, bonus, commission, status and promotion as extrinsic rewards, and opportunities to completion, responsibilities, meaningful work and working condition as intrinsic rewards. Likewise Shafiq and Naseem classified salary, bonus, commission, status and promotion as extrinsic reward and opportunities for advancement, training, skills, meaningful work and working condition as intrinsic rewards in banking sector of Pakistan. Tahir et al. (195-206) did a study on nationalized banks of Pakistan and described the extrinsic rewards as basic salary, increment, medical refunds and house loans, and intrinsic benefit plans as friendly work environment, promotion, training and development programmes. Ali and Ahmed (270-279) conducted a study on impact of reward and recognition on employee motivation in which they took nine dimension of reward and recognition as independent variable viz., work content, payment, promotion, recognition, working conditions, benefits, personal (feelings towards their job), leadership and general (alternative employment). Priya and Ishwar (70-78) divided rewards into three categories in commercial banks viz., extrinsic, intrinsic and social. The extrinsic rewards are the physical benefits provided by the organization such as pay, bonus, fringe benefits and career development opportunities, and intrinsic rewards refer to the rewards that come from the content of the job itself, and encompass motivational characteristics of the job such as autonomy, role clarity and training (adopted from Hackman and Oldham 1976), and social rewards arise from interaction with other people on the job and may include having supportive relationships with supervisor and co-workers. Perkins and White (1-24) defines extrinsic rewards for employees as tangible or ‘transactional’ reward for undertaking work in employment like salary, incentive, pay and benefits, which serves the purpose of directly recognizing the comparative value of organizational roles and the contribution individual may make in performing them, and intrinsic rewards as these derived from work and employment. They further subdivided the intrinsic reward into environmental rewards (which may be manifested in the physical surroundings in which work is performed, combined with other factors, such as the values displayed in the workplace by organizational leaders and work supervisors, and perceptions of their leadership quality) and development-oriented rewards (that tend to be more individually directed and may be offered to recognize
employee aspirations to receive learning and development opportunities, and to gain acknowledgement of outstanding work and build feelings of accomplishment.

From above discussions, it can be observed that extrinsic reward includes mostly the kind of rewards which are monetary in nature. The indirect form of monetary rewards like awards, holiday packages, foreign tours, gifts also comes under the extrinsic category. It was observed that intrinsic reward is non-monetary in nature and related with work, recognition and praise. This study covers only the rewards based on performance in banking sector of India and tries to link the performance based rewards with the job satisfaction level of employees. So, for the purpose of the study, performance linked rewards are classified into two categories, viz., extrinsic performance linked reward and intrinsic performance linked rewards. The provision of pay for performance, promotion and benefits are included under extrinsic performance linked reward. The work itself like enhancement of duties, responsibilities, and challenging targets, and recognition and appreciation from supervisor are included under intrinsic performance linked reward.

1.3. Job Satisfaction: Job satisfaction is a complex and multifaceted concept, which can mean different things to different people. Job satisfaction is usually linked with motivation, but the nature of this relationship is not clear. Satisfaction is not the same as motivation. "Job satisfaction is more an attitude, an internal state. It could, for example, be associated with a personal feeling of achievement, either quantitative or qualitative." Job satisfaction has been found to be associated with organizational trust and helps increase employee performance (Arnett et al. 87-96). Spector (693-713) describes job satisfaction as simply how people feel about their jobs and different aspects of their jobs. Poter and Lawler in 1965 define job satisfaction as the extent to which reward actually received, meet or exceed the perceived equitable rewards. The greater the failure of actual rewards to meet or exceed equitable rewards the more dissatisfied an employee will be. Thus, job satisfaction refers to people’s feeling about the rewards they have received on job (Ramayah et al.). Beer (34-44), defines job satisfaction as the attitude of workers toward the company, their job, their fellow workers and other psychological objects in the work environment.

Job Satisfaction is the extent to which the individual experiences a pleasurable emotional state as a result of fulfilling important job values. Job satisfaction is based on several fundamental factors, among which are the extent that personal job values are compatible with the values and goals of the organization, whether the reward is perceived as fair
compensation for performance, and whether or not rewards are perceived of as being applicable or dependent on performance (Gibbs). Turner and Brown said that the importance of job satisfaction lies not in its relationship with performance but with its stabilizing effects (reducing tardiness, absenteeism, and turnover) and through its effects on cohesion (increasing organizational citizenship behaviors and organizational commitment). Job satisfaction appears to mediate the effects of in-role performance, role conflict, and job-induced tension on intent to leave and extra-role performance. Thus job satisfaction is a feeling of pleasure which comes through rewarding the performance of employee by giving recognition to his/her efforts. From the above discussion of various definitions of job satisfaction it is clear that it is related to feelings of an employee towards his/her job.

Job satisfaction was measured by the authors from different dimensions. Smith, Kendall, and Hulin in 1969, Roznowski in 1989, and Gregson 1990 measure job satisfaction by a developed scale JDI(Job Descriptive Index) through five facets/dimensions namely work itself, pay, promotions, supervision, and coworkers (Fields 1-43). Castillo & Cano (65-74) attempted to investigate the factors explaining job by taking two factors (a) Job hygiene factors which includes interpersonal relationships, company policy, salary, supervision and work conditions, (b) Job motivator factors includes achievements, advancements, recognition and responsibility. Pietersen (19-25) studied job satisfaction of nursing staff of government hospitals in Capricorn District of south Africa. He took promotion and job itself as intrinsic factors and working condition, pay, supervisor behaviour, and organizational policy as extrinsic job satisfaction. Haque and Raihan (1-12) conducted a research on job satisfaction of top executives and junior executives of private commercial banks in Bangladesh. The study found fourteen determinants of the job satisfaction for employees of both category viz., job contents, job security, promotional opportunities, salary, job-status, benefits, working environment, job autonomy, work schedule, management policies, recognition for good work, participation in decision making, co-worker’s behaviour and supervision. Islam, Rasul and Ullah (35-46) tried to find out the main factors of job satisfaction and their impact on the job satisfaction of the employees of private companies in Bangladesh. They identified nine factors of job satisfaction; they are coordination and leave facility, reward and future opportunities, vision of the company, work process, empowerment, peer relationship, health and insurance policy, strategy of the company and fair retirement policy. Petrescu and Simmons (651-667) investigated the relationship between human resource management practices and workers’ overall job satisfaction and found out that human resource practices like work organization, supervision, employee
involvement, recruitment and selection, training and learning, and pay practices like seniority-based pay and performance-related pay significantly increase workers’ overall job satisfaction. Sehgal (124-146) took a study on job satisfaction of banks employees and identified five facets of job satisfaction which were measured by Job Descriptive Index viz., (a) work itself- responsibility, interest and growth; (b) quality of supervision- technical help and social support; (c) relationship with co-workers- social harmony and respect; (d) promotion opportunities- chances for further advancement; (e) pay- adequacy of pay and perceived equity. Singh and Pestonjee (159-165) conducted a study to explore the effect of job involvement and sense of participation on job satisfaction of bank employees and measure job satisfaction of employees by four factors namely, job, management, personal adjustment and social relations. Khalid et al. (550-56) measure job satisfaction from nine dimensions namely, pay promotion, supervision, benefits, contingent rewards, operating procedures, co-workers, nature of work and communication. From the above discussion on definitions and dimensions of job satisfaction it was observed that the most commonly used dimensions in the literature were work, co-worker behaviour, pay, promotion, recognition and benefits. It is also observed that reward play a crucial role in enhancing the job satisfaction of employees. The study attempt to explore the relationship of performance linked reward and job satisfaction. For this purpose six job satisfaction dimensions were selected. The dimensions are mentioned below.

i. Job satisfaction from pay for performance
ii. Job satisfaction from promotion
iii. Job satisfaction from benefit plans
iv. Job satisfaction from work itself
v. Job satisfaction from co-workers’ behaviour
vi. Recognition and appreciation from supervisor

1.4 Job Performance: Human resource is the most important resource in every organization. An organization can purchase or acquire the best technology and manpower, but, manpower without interest to work, dedication to organization, and commitment to duty cannot give the expected performance. It is dependent on employees’ competencies and motivation.

Performance has to be considered as a multi-dimensional concept. Researchers focused on job satisfaction from different aspects. Like Borman and Motowidlo in 1993; Campbell,
McCloy, Oppler, and Sager in 1993, Roe in 1999 distinguish performance as process aspect or behavioural aspect and an outcome aspect of performance (Volmer et al. 427-47). The behavioural aspect refers to what people do while at work, the action itself, on the contrary outcome aspects refers to the results of individual behaviour.

Researchers placed many arguments in favour and against the behavioural and outcome aspects of performance. Murphy (218-247) said that performance should be focused on behaviour rather than outcomes because a focus on outcomes could lead employees to find the easiest way to achieve the desired results, which is likely to be detrimental to the organization because other important behaviours will not be performed. Campbell et al. in 1993 explain that performance is not the consequence of behaviours, but rather the behaviour themselves. Motowidlo, Borman, and Schmit in 1997 argued against this statement and said that performance is behaviour with an evaluative aspect (Volmer et al. 427-47). This definition is consistent with the dominant methods used to measure job performance, namely performance ratings from supervisors and peers.

Based on the different definitions of performance from different aspects it can be said that “performance is the degree to which a particular job task is accomplished or the extent to which a job task is fulfilled” (Gibbs). Job performance is the accomplishment of assigned task from employee as well as supervisor’s point of view, thus helping the organization in accomplishment of organizational goals. Effort directed towards accomplishing a goal and manifested in performance, or the degree to which the desired goal is achieved is known as job performance.

In a competitive working environment, organizations are changing their mind set and are considering human resource as an important resource because it is only the manpower that makes the difference in the performance. Organizations now a days are providing ample efforts towards maintaining talented, motivated, and committed manpower. Through offering various kinds of performance linked rewards organization are continuously trying to increase the motivational level of their employees, which force them to perform well in their jobs.

1.5: Motivation: Motivation derived from the Latin word *movere*, which means to move or to carry. Motivation is the force that constantly induces one to move and perform things. The most practical definition proposed by social scientist is that, motivation is a psychological process that originates the stimulation, direction, and persistence of behaviour (Luthans et al. 247-69). Thus motivation becomes those psychological procedures that cause the arousal,
direction, and persistence of voluntary actions that are goal directed. Features such as incentives and rewards are the most favoured factors for employee motivation programs. Increasingly organizations correlate success factor with employee performance (Jehanzeb et al. 272-78).

Kiviniemi et al. said that job satisfaction of the employees’ increases by the rewards they receive from the organizations. Pay and promotion depends on performance and provide strong motivation for employees to work harder in order to be promoted. In any organization, exceptional performance is possible with committed employees who are motivated. Chiu et al. (402-31) highlighted that organization implements merit pay system to reward employees for meeting specific goals, which can affect employee motivation levels. Khalid et al. (550-56) said that in order to increase employee satisfaction with their jobs, they need to be motivated and compensated with rewards that are valued by the employees. Organizations require employees to perform in ways that lead to improved organizational performance. Satisfied employees can deliver good performance. To satisfy the employees, tailored rewards packages are required to alter employee behaviour. Management should identify the factors which increase job satisfaction and the desired behaviour from employees to ensure that rewards offered or provided could elicit employee’s motivation and subsequently the job satisfaction (Haque et al. 35-40).

Hence if rewards are based on performance of the employees, it will induce the employees to perform well in their jobs. So, employees derive motivation as well as job satisfaction from rewards, particularly linked with the performance of employees. It is generally believed that motivated work force can deliver outstanding performance in organization.

1.6 Working Environment: The work environment is an important determinant in employee engagement or disengagement. A good working environment reduces complaints and absenteeism while increasing productivity (Roelofsen 247-64). There is adequate evidence linking workplace conditions to job satisfaction (Wells 239-55). In recent years, employees comfort on the job determined by workplace conditions and environment has been recognized as an important factor for measuring their productivity (Mokaya et al. 79-90). The satisfaction of employees on their job increases when they get a good working environment where they can deliver their best performance.

Good working environments possess such characteristics where the employees tend to utilize their optimum effort. A positive work environment makes employees feel good about coming to work, and this provides motivation to sustain them throughout the day.
Organizations focusing on continuous improvement of employees’ job performance provide a work setting that can motivate and satisfy the employees, where they can utilize their skills, abilities, knowledge and expertise to the optimum. A good working environment provides opportunities of creativity and innovation in their job, where he/she will have the freedom of taking their decision, where people from diverse group can work together and where the organization would continuously develop a feeling of integrity, honesty and ethical behaviour among their employees.

**Chapter Summary:** Discussions on performance management system revealed that it is an important tool in human resource management to manage the performance of employees. Following good performance management system not only improves the employee performance but also enhance organization performance. Performance linked reward is an essential part of performance management system which brings job satisfaction and motivation among employees. The higher motivation and satisfaction towards job help an employee in delivering outstanding performance. In the next chapter extensive literature on performance linked reward and job satisfaction will be discussed to find out the possible research gaps.