

**Strategic Performance Management**  
**Prof. K. B. L. Srivastava**  
**Department of Humanities and Social Sciences**  
**Indian Institute of Technology, Kharagpur**

**Lecture - 36**  
**PMS in Indian Organisations**

Ok; so, very good afternoon to all of you. Now, we are moving to the last week lecture that is week 8 and in this week, we are going to talk about a lot of issues which has not yet been talked about in performance management.

Since, we are trying to relate and make it in a strategic issue because performance does matter not only for the individual, but also to the group and the organisations and we ensure that it is aligned with the goals and objectives of the organisation.

We also need to ensure that it is congruent at different levels. So, that is individual group or the organisation. So, it is very very important to identify those factors. In addition to what we have discussed which may contribute to the performance of the organisation, right?

Now, in this week what we are going to present you is the role of several other factors external environmental factors which may contribute to the performance management system. So, what we are going to do here is that first of all we will discuss that what is happening to the performance management system in Indian organizations.

So, we are going to present you some survey and data reports and based on that we will try to say that in what way Indian organizations are moving so far as performance management system is concerned.

And next, we are going to discuss about the role of culture because culture plays a very important role in the organisation. So, we will also try to link culture and how it is impacting performance management.

Next, we will also look into the role of technology because many of the activities are being enabled through it systems in today's organizations and that is also happening with performance management system; where, we are moving technologically in enabled

performance management systems having systems in software for evaluating and monitoring of the performance of the employees right.

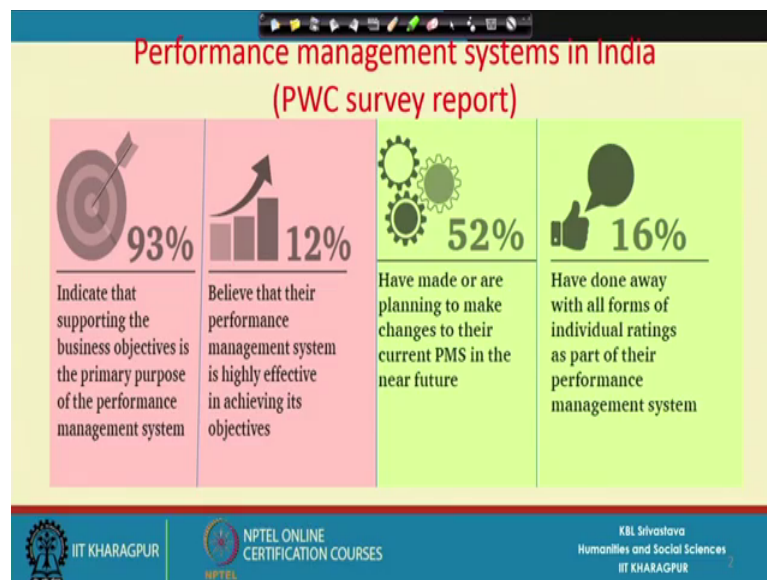
So, how technology is helping us to be more accurate accountable and error free so far as performance is concerned, right. And then, we will see that what is happening through performance management system per say as such what kind of trainings are there?.

In what way performance appraisal is moving? How companies are evolving their performance appraisal and what is there in the futuristic? Ok.

So, these are the brief outline which we are going to take up in this week that is the last week ok. And we are going to start with what is happening to the performance management system in India. So, this is based on some of some of the survey reports which have been published.

And we will also look to look at it that what is happening to the performance management system in Indian organizations.

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Now, this is a survey report which I am trying to present which is which is carried out by price water or coopers ok. I am not going to present you data, but what I am I am just going to share some of the results which are very very important. In the sense, now if you look at some of the issues that have been raised relate to the performance management throughout the lecture right.

For example, you remember, we start talking about performance planning and there we say that whether it is aligned or not? Right. Whether performance management system is aligned with the goals and objectives of the organisation or not?

Now, the survey data reports that Yes, 93 percent organisations do agree that yes there is support from the performance management system and performance management system is being aligned with what you call the goals and objectives of their business right.

It means down the line is starting with the individual to the groups and the organisation, it is congruent and consistent with each other and everyone is trying to ensure that through their performance they are trying to contribute to the business objectives of the organisation right.

Now, another issue that was raised that how effective it is; See, first in case what happens? Everybody agree that yes, performance management system should support the business objective.

But, what is happening in reality? Is it really happening in the organisations are not right. So, when the data were collected from the managers it was found that only 12 percent says that yes, performance management system is effective in achieving the business goals and objectives. Now, you see that there loss gap between what people say and the reality right.

Those people assist and they say that yes, we will have a system which is supposed to contribute to the business objectives, but in reality most of the performance management systems which organisations have adopted have not been able to contribute to achieve success. It means that the performance management system is not proper ok.

It means when we are talking about performance management systems and different stages is starting with planning to evaluation; there is some faults somewhere. Now, another question that was raised to in this survey was that if your performance management system that you have ok, are you going to make any changes in or not?

Now, if you look at this 52 percent respondents, they were all organizations, they suggests that yes, we intend to make or we are planning or we have made changes in the performance management system to congruent to the future requirement ok. Now, what

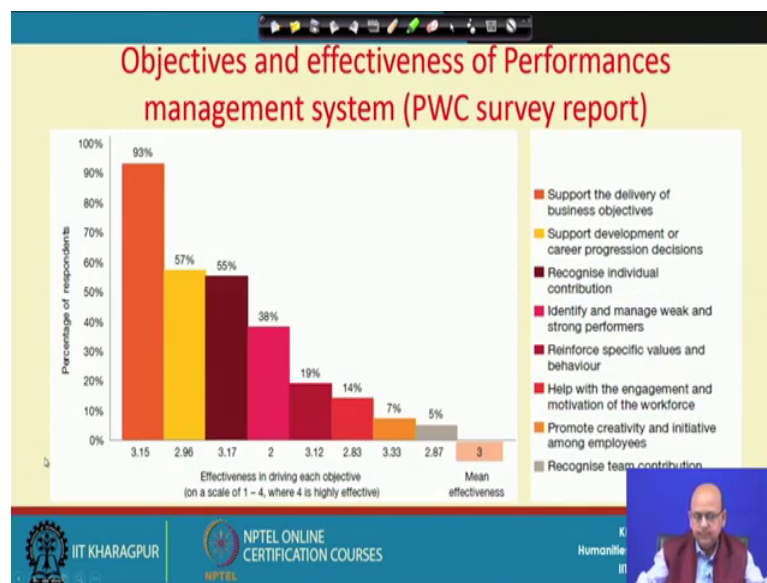
does it mean? It means that is now, most of the organizations in India have realized the importance of performance management system and they are trying to bring about structural changes in the performance management system of the organisation.

Now, another question that was raised that how you will be going to rate individuals are you still following individual rating?

So, 16 percent organisations say that they have done away all forms of individual rating. It means that from individual rating, where a superior is going to rate their subordinate; they have moved to other forms of rating, could be 360 degree. It could be self appraisal. It could be team appraisal.

So, since there are different mechanisms available for rating. So, most of the companies have moved to these kind of things right. So, this was the first part of the survey.

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Moving further, let us see. And look into the objectives and effectiveness of the performance management system right.

Now, if you look at the number of respondents on the this side, this is the 100 up to 100 percent and effectiveness of achieving each of these individual objective like supporting the delivery of the business objectives. Yes, 93 percent said yes, but when supporting the development are career progression decisions only 50 percent is said yes.

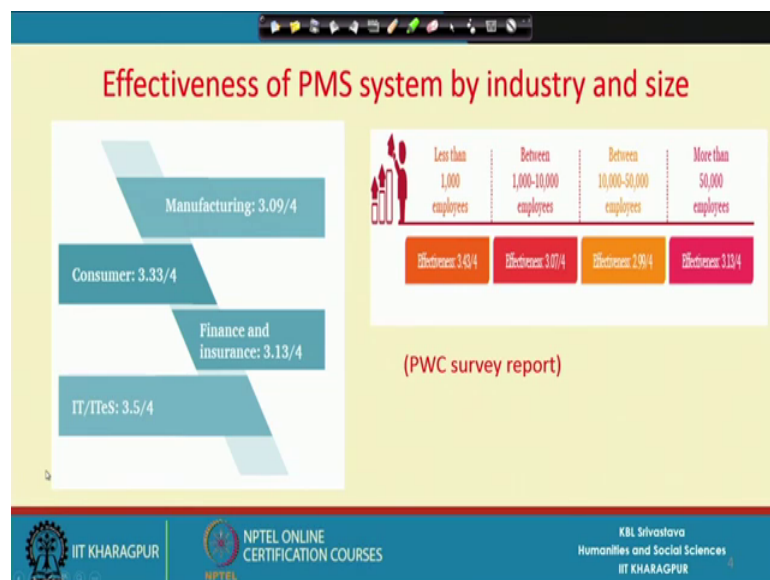
But, red comes to recognize recognizing the contribution of the individual. It further it came down to 55 percent ok. And then, we have to comes to identifying weaknesses and strength, it was only 30 percent. It means most of the performance appraisal system have been effective only in taking certain administrative decisions.

But, when it comes to development and decisions, not many organisations have been doing that or they are not able to identify strengths and weaknesses of the employees right. And similarly, they are not being able to reinforce a specific behaviour which is required for the performance right or similarly engage with motivation of the workforce.

So, it means that they do not take responsibility to ensure that what kind of interventions would be required to improve the performance of the employees right. And the last, if you look at is that they are not able to recognize at all the contribution that is made by the team. So, what does it suggests?

This suggests that the performance management systems Indian organizations are not meeting all the criteria which could be termed or related to the objectives and effectiveness. It means that they are not meeting either the objectives as if look at the effectiveness they have not been able to do well right.

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Moving further, now, if you look at the effectiveness of performance management system by the industry and size; So, here if you look at the industry it has been classified

into 4 categories that is Manufacturing, Consumer, Finance and IT and IT related companies or it enabled services.

Now, if you look at this, you will find that the most effective are IT and IT enabled services. What I am trying to say tell you here that they have implemented a better performance system compared to other kind of organizations ok. And the least effective is the manufacturing organizations.

Moving from IT and IT enabled service is to Finance and Insurance companies; then, Consumer products and then, moving to Manufacturing services ok.

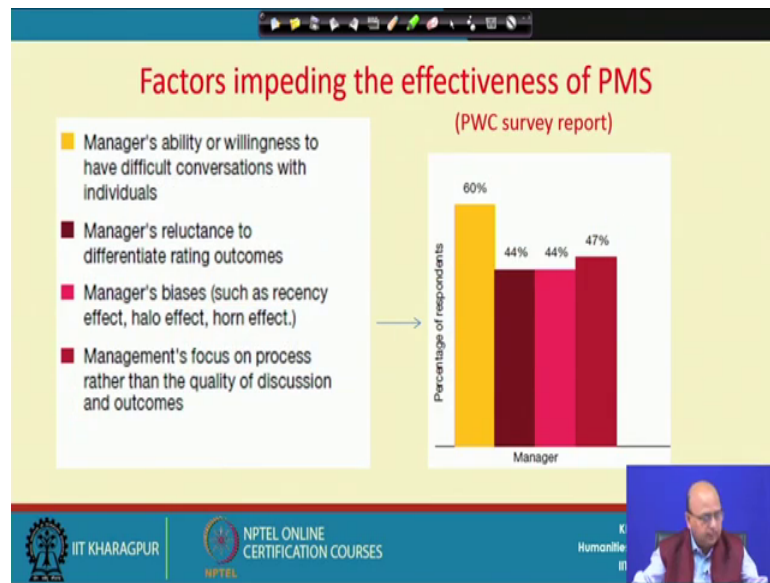
So, the data suggest that yes, the IT and IT enabled services are doing better so far as effectiveness of the performance management system is concerned compared to others. It does not mean that they are not doing well, but they also trying to improve upon that.

By if you look at the rating; it is close to 75 percent right. Now, if you look at the size of the organisation. Now, this suggest that those organizations which are having less than 100 employees, they are better half. So, they are more effective compared to those organisations which are really big.

Now, if you look at this, you will find that very large organizations having 50000 plus employees are effective compared to sorry less effective compared to what you call between 10000 to 50000 employees. Their effectiveness level is 2.99 right. But the most effective is where the size is less. So, what does it suggests?

This suggests that if the size of the organisation is less it is better and it is more effective in terms of managing employees and their performance because where size goes up, it become difficult for the management to manage the performance of the employees right.

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Now, moving further we will also look into those factors which have affected the performance of the organisation. It means when we are going to examine the performance management system of the organisation and we are trying to categorize them and classify them based on industry and size; there are certain factors which are coming up like IT, IT enabled services are going well.

Those organizations which are having a strength of less than 1000, they are doing well. So, what are the problems that other organisations are facing or what are the factors which are affecting and the effectiveness of performance management system in the organisation right.

Now, if you look at this. This actually indicates an identification of 4 major factors which could be responsible which we had basically will create a kind of barrier so far as effectiveness of performance management system is concerned right.

Now, if you look at these factors, the most important is giving feedback to the employees or interacting with the employees.

So, the first factor is the manager's ability or willingness to have difficult conversations with individuals. It means if employees are not performing well or they are having certain problems managers are either not interacting or they are having difficulties in interacting with their employees.

To ensure that any problem related to the performance is corrected ok. It means this suggest that manager should come forward to ensure and in see that employees are able to manage their performance well and they should facilitate the process right.

And then, managers reluctance to differentiate rating outcomes; What are this suggested? It means that managers are making certain errors; it could be attributed to either intentional errors or unintentional errors which is creating lot of biases.

And sometimes the most important thing is that they are making intentional errors like going for either average rating or high rating or low rating.

So, this creates a problem of differentiating employees based upon their performance because if you are going to rate everyone as average; then, how you are going to differentiate or if you are going to everywhere as low performer or very high performer; then, how we are going to differentiate.

It means this factors suggest that mangers should be trained to accurately rate the employees based on their performance.

So, that you are able to differentiate between high performing employees and low performing employees right. The reason is that they are biased.

So, if the biases which are very very important which has come out in the discussion with the managers when the survey was being conducted was related to recency effect, halo effect, horn effect. Recency effect mean that most of the managers are looking at their the last performance right. They do not look at the entire performance throughout the period of the appraisal.

So, what they do? They have just go through quickly about the last two 1 month 2 months performance and if it is done well they are rated well right or if they have a positive image about the employees; then, they are being rated well. That is what you know is halo effect and if they are being a negative image about the employees even despite to having good performance; they are being rated as low.

So, they are not only making intentional error, but unintentional error as well and that is why if you remember when we are talking about rating and feedback, we clearly



communicated that yes managers need to be trained. So, that they do not make any kind of error in the rating either intentionally or intentionally.

So, they are need to be trained. So, that they can do this job more accurately and it is similarly, the focus on process is rather than the quality of the discussion and the outcomes ok.

Most of the managers, I have seen that they are concerned with how the process is being carried out in terms of evaluating the performance. So, they are more concerned about the process than the quality of the discussion and the outcome.

So, if the processes followed properly and the outcome is not good or bad, they are not concerned about it because ultimately you are going to evaluate the performance of an employee based on certain criteria which could be measured either quantitatively or qualitatively.

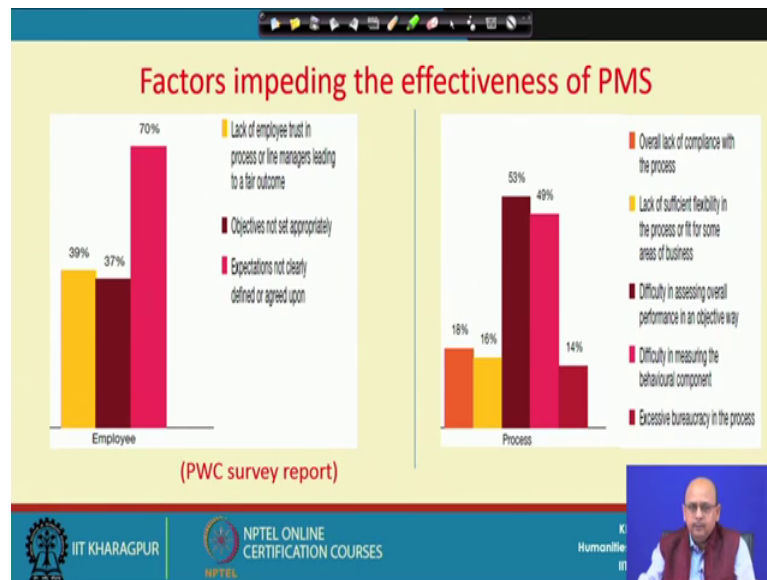
So, you need to look at those measures of performance and whether the people have been able to achieve those measures or not in terms of the objectives that have been set. Now, the problem here is that most of the managers look into the process because in most cases it is being standardized.

So, they are follow it and try to ensure that individuals have gone through these processes when it comes to evaluation and they might be having some this regard to the outcome that is to be achieved and the kind of feedback that is being given to the employees right.

So, these are the issues have comes to the forefront and that is what we have been discussing that when you are going to have a good performance management system which is properly and properly accurately link linked to the reward which could be legally defended.

So, make sure that these kind of problems are not coming up and that is where the managers need to be trained; So, that they can do this job fairly well right.

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Moving further we also try to find out some other factors which you are important ok, which basically impede the effectiveness of the performance management system which was related to the employees.

So, we have talked about the manager's perspective. Now, we are going to talk about from the employees perspective. Now, in what way employees are going to be responsible. So, what actually happens?

Now, if you look at some of the factors which have been identified and then, the most important factor is the expectations are not clearly defined or not agreed upon. It means the management does not communicate to the employees what are the expectations that need to be met by the employees right or there is performance standards which need to be achieved by the employees are not agreed by the employees.

So, if the employees not agreeing to the performances as standard which has been set either by the management or in consultation with the employees and if they do not agree to this, then what will happen?

This is going to affect the performance of the employees. So, either they are not communicated about the standards or they do not agree to the standards, that is to be achieved and this has come as the most prominent factor. In addition to that if those other factors which have been identified that include objectives not set appropriately.

It means that they are concerned at how the objectives related to their performance is set. So, whether the management has followed a standard process in setting the goals and objectives, whether if the goals and objectives have been set realistically which could be achieved within a given time frame or not?.

So, these factors are not considered by the management and that is why implies thing that if the employees objectives are not set appropriately, it would be difficult for them to achieve; Then, the trust in the process or the line managers.

So, trust has also been identifies an important factors. So, where employees lack trust in the management or the process, it is going to effect the performance. So, it does not lead to a fair outcome.

So, if you look at from the employees perspective, you the management need to ensure that is they trust in the system in the process of performance management, objectives are set clearly.

They are communicated and they must agree to it so that you are able to achieve the performance as per this standard. Now, we are talked about it from two perspectives on the management and the employees perspective.

Now, we also look into the process part. Now, if you look at the process part, two factors which have emerged as very very important is the evaluation that takes place whether the supervisors or the managers who are given the task of rating or doing it objectively or not.

In most cases, it has been found that the process adopted by managers or supervisors in evaluating the performance is not very good; ok, it is not objective at all and another important factor that be identified is that how they are going to access behavioural components because for evaluating performance, you have both the behaviour in the results. Result can be measured in concrete to work terms.

Because it is quantifiable, but the problem happens with the behavioural outcomes because that is where subjectively comes in. And sometimes when the subjectivity comes in, the managers are not able to properly evaluated.

So, we need to ensure that when you are going to have behavioural leading each and every component is very well defined, each and every level is described.

So, that it helps in managers to evolve a process of rating which is more accurate. In addition to that they are certain that there are other factors have been also important like lack of compliance with the process; most of the managers do not follow the process right.

And they are flexible in the process or they will leave some of the areas which could be important for the organizations right or there is a I mean the processes too bureaucratic. So, these are some of the problems which could be related with the process. So, what does this message give?

This suggests that yes, you need to adopt a process which leads to more objectivity whether you are going to evaluate behavioural criteria or result oriented criteria. Make sure that the process is followed in a standard in uniform way for all the employees right.

Similarly, we are not going to leave out any area and do not be too bureaucratic. So, if you are going to work in a very mechanistic way, it does not help right.

So, make sure that you are flexible enough when you are going to rate and that is where you talked about also look at the context in which the person has performed right. So, that you are able to do an objective assessment of their performance of the employees.

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**Impact of PMS on Reward Decisions**

Category	Score
Impacts bonus	3.56
Impacts long-term incentives	2.38
Impacts salary	3.33
Impacts career progression	3.27

**Quote 1:** 'The notion that financial rewards is the only way or the primary lever for motivation is ill-conceived. There are many large institutions like the armed forces, the clergy, volunteer organisations etc. that work outside this paradigm and use alternate levers of purpose and passion to drive motivation and performance.'

**Quote 2:** 'The risk with making a performance evaluation process hard-coded to rewards is that it could become self-defeating in the long term. Employees will be averse to taking on stretch goals, and this will adversely affect the organisation's ability to take the risks needed in order to deliver groundbreaking products or solutions.'

**Judhajit Das**  
Chief, HR, ICICI Prudential

**Debiprasad Das**  
SVP & CHRO, CEAT

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When it comes to linking a performance management system with the reward, see what happens? Now, what is this data suggests? This data suggest that whether that is incentives or bonus or currier progressions or salary this or this.

It depends upon how did you link performance management system with the reward right. So, the most obvious impact, you can say is on the bonus because bonus is given yearly and looking at your annual performance your given bonus. So, the most direct impact that could be seen is on the bonus.

Next comes is salary because you are going to take certain administrative decision based on that and then, it is followed by the currier progression. So, if you are doing very well then, you could be promoted. And finally, long term incentives that could be given to you.

Now, if you look at some of the statements that have been made by prominent organizations like CEAT or and ICICI provincials these are the statements given by the HR managers which I am going to quote here it is that “the financial reward is the only way on the or the primarily lever for a motivation is we ill conceived.”.

So, if you remember when we discussing about the link between performance and reward, we say that we need to go for both financial reward as well as non financial rewards. So, what the HR managers think that if we are giving only financial reward; then, it is not good. It is not going to motivate the employees ok.

Many big institutions basically like in armed forces, elergy and volunteer organisations ok, who are going to work outside the paradigm line. It means that they are not only providing financial reward, but also challenging assignments and other kind of things which is basically going to drive the purpose and passion.

So, that people are motivated for higher performance. So, what is trying to suggest is that it is not the financial performance which is going to drive the passion and motivate people for high performance, but it is the non financial performance which is more important right.

Now, I am quoting under statement from the head HR of CEAT and what he is telling that yes, when you are going to risk of making performance evaluation process hard coded to reward is that it could become self defeating in the long term.

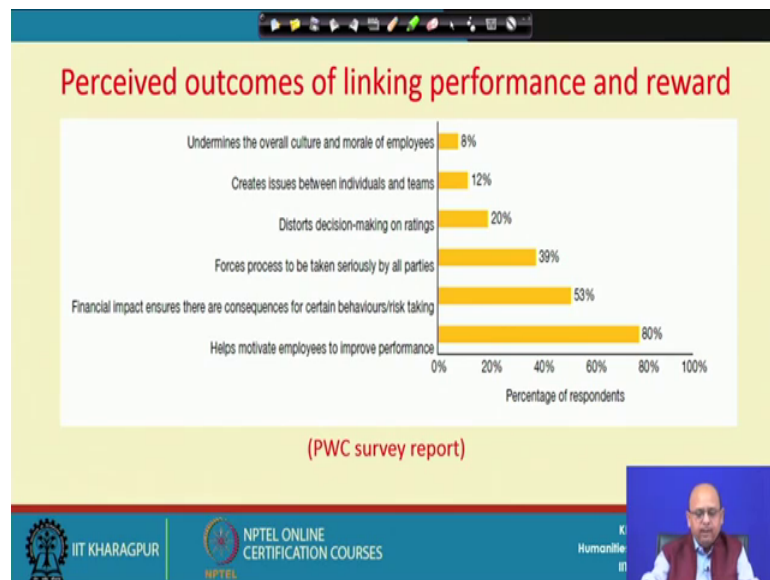
So, he is suggesting that we should dealing reward with the performance because employees are not willing to take on a stretch goals and it is going to affect their ability basically to take risk because they think that if they are not able to perform well, they are going to lose out some money.

So, he is suggesting that instead of linking performance with reward ensure that you try to do something so that it motivates the employees for better performance ok.

And you develop abilities which help like risk taking ability because if they are able to take moderate level of risk, it is going to help employees for better performance right. So, when we are going to link reward with performance management.

What is this survey indicate? This suggests that we need to focus more on non financial rewards to motivate employees for higher performance right.

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Now, if you look at what are the what were the outcomes of linking performance with the reward ok?

Now, if you look at the most important outcome is that if you are going to follow non financial reward it, yes it does help to motivate employees for better performance right and if you it and if organisation is doing well, then definitely it will have certain behavioural changes so far as the employees concerned.

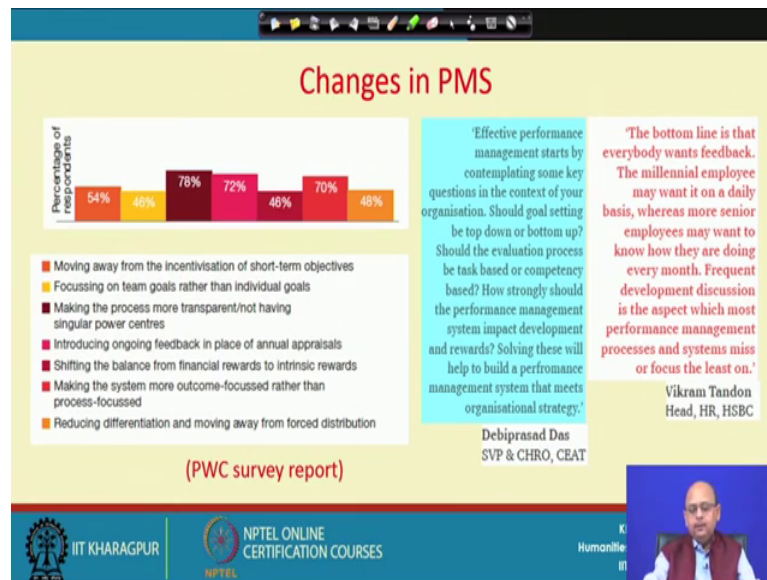
Because they think that if the organisation is doing well, organisation is performing well; then, they have contributed and it would and then, they going to try to see that they are going to contribute in such a way in the consistent manner. So, that it is going to improve the performance of the organisation and then, they also concerned about the process ok.

So, all the concerned a stakeholder which is the management, the employees, the line managers are those immediate supervisors, they must be seriously consider this process as very important because sometimes what happens that the managers think that it is a ritual which they have to perform at the end of the annual review ok. And this becomes a big problem. So, if we are not going to take this process seriously, then, we are not going to do an objective evaluation ok.

And then, the rating must be done properly. If you are going to restart rating or you are going to take certain decisions based on these ratings which are not correct. Then, there is a problem ok. Similarly, you also need to look at the culture and morale of the employees. Does it help you to motivate employees.

So, it is very very important and that is why if you look at the outcome of linking performance of the reward you ensure that it is motivating employees the rating is proper. So, the decision of linking the reward performance is proper and everybody takes this process seriously.

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Now, this is the last part of the survey which is suggesting what kind of changes are being brought in by the performance management system. So, now, what is happening that most of the organisations are moving away from incentives of short term objectives and they are also focusing on team goals than the individual goals.

So, instead of in say providing incentives or rewards of the employs individually; they are focusing on team goals or objectives and they are trying to reward them ok.

And they are trying to see that the process is more transparent and accountable and objective in the sense that there is a regular feedback system. So, they are moving from away from what you call the annual appraisals to continuous feedback to the employees right and also they are shifting the balance from financial rewards to intrinsic rewards.

So, they are trying to make some kind of balance between financial and nonfinancial rewards and they are trying to make the system more focused outcome focused right rather than the process focus.

There are to consider the process of evaluation, but what comes out of the out of this process, this is more important. Whether people happy or satisfied with the performance whether you are linking properly it with the reward or not. So, that is more important from the organisation right.



So, if you look at these kind of changes which is happening the performance management system and then, I am also going to quote the same people again. So, it says that this in a good system starts where contemplating some key questions in the context of the organisation; whether it is top down or bottom up ok.

Whether it is starts based or competency based and whether the PMS impact development and reward or not. So, these are some of the questions that is being raised in the organisation today and whether it is going to build a system which is meeting the goals and objectives of the organisation or not right. So, the bottom line is that everybody wants feedback and if you look at today's employees the millennial employee they want it on a daily basis.

So, you give them continuous feedback as much as possible. So, frequent development discussion is very very important and if it will make sure that your performance management system is focusing on the employees their growth and development. So, that is very very important.

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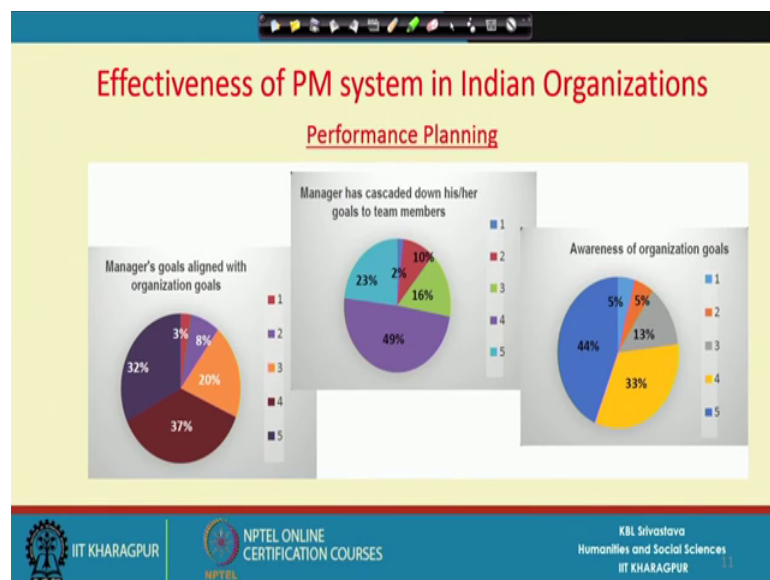


So, moving away from this, if you look at this these lot of changes this have been made. What I have been talking about like balancing short and long term objectives, balancing financial nonfinancial rewards right making sure that the PM system is focused on outcomes developing individuals and also making the process more transparent employees entered right.

Similarly, the focus is on measuring the what and how work performance and make sure that each one of them gets equal weightage right and making the process more objective, focus on the quality of the performance discussions review and discussions, identifying key result areas that are very very important which are linked with the job description the goals and objectives of the organisation right.

So, these are the some of the you can say conclusions that could be drawn and the kind of things that is happening and based on that organisations are trying to change their performance management system to ensure that they are ready for their future.

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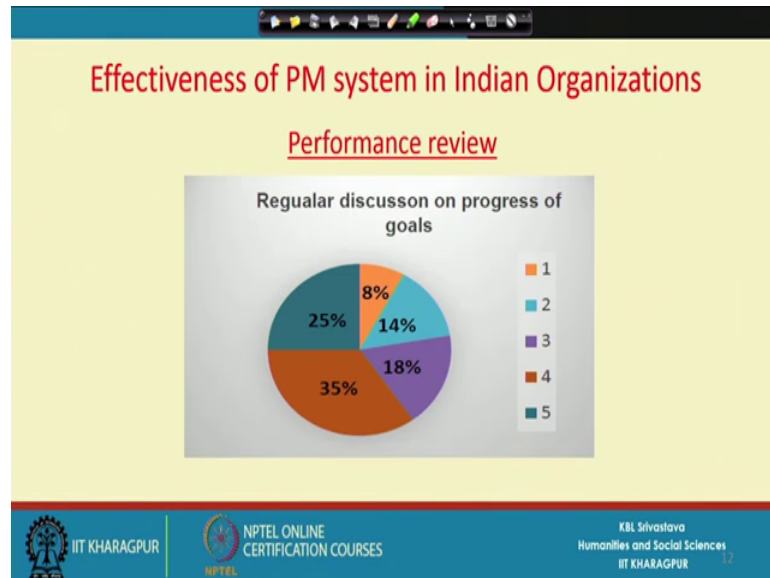
Now, if you look at the process. So, sorry we have been talking about the system. Now, we are going to look into 3 major processes and what is happening to them and these 3 processes include Performance Planning, Performance Review and Performance Evaluation. What is happening to these processes in Indian organisations.

Now, if you look at the Performance Planning, yes, only few organisations suggest that yes, their goals are aligned with the goals of the objectives of the organisation and managers as cascaded down that goes to teams and individuals the alignment in terms of goals and in alignment in terms of objectives from individual to the organisation ok.

It has been found that yes, there is a very little support to these kind of things and many of the individuals do not get communication about the goals and objectives of

organisations; they do not know what are what automation is suppose to achieve and this is creating a problem. So, for this planning part is concerned.

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Now, if you look at review part ok; regular discussion on the progress of goals right. Only 8 percent companies are doing that. If you look at the ranking, it says that only 8 percent companies go for regular discussion review of the performance of the employees and almost 35 percent companies do it at least. Look into the third process, third part that is evaluation; what is happening?

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Ok. Whether it is adding the carrier development? Only 13 percent say yes; Clear distinction between high performance and low performance; only 8 percent again.

It means the performance management system and system in India is still evolving itself to make it more transparent objective enlined with the goals and objectives and whether performance and reward is being linked or not ok. How many? Only 8 percent again. HR support to performance management process ok; only 12 percent.

So, what is this data suggest? If you look at the processes; different processes, you remember earlier we talked about the entire system as such and the factors affecting performance management system, the changes that is happening. Now, in this case, if you look at this, the different stages like starting with Planning, Review and Evaluation, we find that most of the organisations are not going as expected.

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**Challenges of PMS in India: Statement of Industry Leaders**

'Performance management in India suffers from the challenge that process compliance itself has assumed greater significance than the purpose and outcome which it is expected to drive. Also, in most cases, the performance management system becomes limited to just the annual or periodic performance appraisal process.'

Prabhakar Lingareddy  
VP - HR, Agri Business  
Division, ITC

'Creating a high-performance culture means committing time and energy to developing capability and reinforcing the right behaviour at work. Managers play a critical role in creating the right environment for high performance, and employees must actively seek feedback to support their development, both short and long term.'

Vikram Tandon  
Head HR HSRC

The goal of performance management is to enhance the performance of the individual and the organization by evaluating and rewarding performance in an equitable and reliable manner. The challenge facing organisations today is to implement a system that meets the diverse and often tangential needs of the various stakeholders of the process. There is no one-size-fits-all approach to managing performance and we observed that having a 'right' approach in place depends considerably on the context of each organisation.

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Now, these are some of the statements of the industry leaders ok. Especially relate to the Indian context; for example, VP HR ITC, who is looks after the Agri Business Division, he suggest that yes, the lot of challenges that India is suffering so far as their Indian organisations are suffering.

So, for their performance management system is concerned because they are not able to achieve the goals and objectives and they are basically only concerned with annual performance right.

Now, Vikram Tandon who is Head HR of HSBC; he suggest that yes, we do not have a performance culture; High performance culture in Indian organizations right and managers who are supposed to play a critical role to create an enabling environment or going so.

They are not giving feedback; it is not developmental in the approach ok. Now, in to concludes we can say that yes, the goal performance management to enhance the performance of the individual in the organisation.

And it depends upon how you evaluate and reward the performance in a equitable and reliable manner. So, that you take care of reward and you also have a system which is legally defensible right. So, this is a challenge which is faced by the many organisations.

So, you need to develop a system which means the requirement of everyone right; all the stakeholders. So, it does not mean that you are the same kind of performance management system can be adopted by all because one size it does not fit to all.

And it is very very important that you develop a approach to manage your performance in such a way. So, that you are able to achieve the goals and objectives of the organisation.

It is aligned with the goals and objectives and also ensure that it is aligned a cross individual group and the organisation and only then, you are going to have a system which could be said to be good and effective in the long the run.

Thank you very much.