

How To Enhance Performance of Your Employees: Reward Based Performance Management System

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Abstract- Performance enhancement of employees can only be achievable by implementing Performance Management System in the organization. Performance Management is a strategic and integrated process that establishes a culture of sustained success to organizations by improving the performance of the employees who work in them and by developing the capabilities of individual contributors and teams. Performance Management, in its fullest sense, is concerned with what employees do (their work), how they do it (their behavior) and what they achieve (their results). It embraces all formal and informal measures adopted by an organization to increase to organizational, team and individual effectiveness continuously and to enhance knowledge, skill and competence.

Keywords- Performance Management, Performance Management System, PMS, Critical Success Factors, Key Performance Indicators, Key Results Areas (KRA), Reward.

I. INTRODUCTION

“Ones we decide we have to do something, we can go miles ahead” - Shri Narendra Modi, Prime Minister of India.¶

1.1 Concept of Performance Management

In today’s era Performance Management System (PMS) is an essential instrument to senior managers, consultants, Government, officials, academician, trade union leaders and all those who have an active interest in enhancing performance. Of all human resource managements, performance management has a special place since it is a strong determinant of organizational excellence. Organization of contemporary era have realized that human resources needs to be continuously exited and provided with opportunities for gratification of motivational needs in order to sustain business growth. Performance management as a concept and practice has substantive potential to fulfill business demands of an organization by integrating its growth with motivational needs of human resource.

1.2 Definition and Purposes of Performance Management System:

Performance management system is the process of creating a work environment or setting in which employees are enabled to perform to the best of their abilities. Performance management system begins when a job is defined as needed and ends only when the employee leaves the organization.

Performance Management System is the process of performance planning (goal setting), Performance Monitoring and coaching, measuring (evaluating), individual performance linked to organizational goals, giving him/her feedback, rewarding the individual based on his/her achievements against set performance goals and record competencies, and working out a plan for his/her development

1.3 Performance Management System: Actions and Purposes:

- Develop clear job descriptions.
- Select appropriate employees with an appropriate selection process.
- Negotiate requirements and accomplishments in terms of performance standards, outcomes, and measures.
- Provide effective orientation, education, and training.
- Provide ongoing coaching and feedback.
- Design effective compensation and recognition systems that reward employees for their contributions.
- Provide promotion/career development opportunities for staff.
- Assist exit interviews to understand why valued employees leave the organization.

Performance Management System also facilitates:

- Career Planning
- Redeployment/Transfers
- Career Counseling
- Assessment of Potential
- Job Redesign
- Clarity of Performance Goal and Direction

Most of the traditional strategies for creating a learning organization have involved extracurricular activities. Training events, special programmes and meetings are

conducted for creating a learning culture. One side effect of these special efforts is that they reinforce the limiting belief that learning and doing are separate and competing activities. Organizations are constantly under pressure to estimate how much learning takes place before it starts interfering with productivity. Organizations often worry about the —transfer of learning to workplace. Worldwide business is entering a phase of diminishing returns from automation and further technological improvements. Although improvements in these areas will continue and continue to affect productivity, real gains in productivity must come from changes in human behavior. There is no dearth of ideas on how to improve human behavior. But the fundamental question is, are they relevant to the workplace? Today's organizations face a performance crisis. The declining performance of both public and private sector organizations is of increasing concern to managers, economists and politicians, in fact to all those, who are interested in enhancing human performance.

Improvement in performance can come from two sources: (1) technological changes such as higher investment per worker in capital goods and technological improvements in capital goods or (2) changing human behavior in organizations. Whereas increased mechanization technological change, and increased investment per worker in capital goods can all contribute to improved productivity, it is changes in human behavior which result in higher payoffs. The purposes of performance management may be grouped as under:

Informational Purpose: To let an employee know how his performance compares with job standards. To assist in identifying special talents and abilities. To identify employees needing performance improvement. To allow employees to evaluate management.

Motivational Purpose: To establish closer employer-employee relationships and communicate the job requirements and standards of performance in a periodic basis. To provide financial rewards of recognition for a job well done. To work out plans to solve performance problems. To encourage initiative, creativity, and develop a sense of ownership amongst the employees.

Developmental Purpose: To identify individual employee training needs. To identify individuals for potential development. To help the employee strengthen current performance and prepare for higher responsibilities. To show organizational interest in attracting and retaining capable employees.

Managerial Purpose: To translate organizational goals into individual job/ performance objectives. To

communicate management's expectations regarding employee performance. To provide feedback to the employee about job performance in the light of management's expectations. To coach the employee on how to improve job performance on a periodic basis. To diagnose the employee's strength and weakness. To determine what kind of development activities might help the employee better utilize his competencies/skills on the job.

II. STRUCTURE OF PMS

Performance Management refers to a comprehensive scientific approach to ensure a link between efforts of individual employees with vision and goals of the organization, to achieve excellence in organization on one side and satisfaction and growth of employees on the other side. Performance Management is more a philosophy than a set of policies and tools. The most prevalent notion of Performance management is that of creating a shared vision of the purpose and aims of the organization, helping individual employees to understand and recognize their part in contributing to them and thereby managing and enhancing the performance of both individual and the organization. Performance Management has the following characteristics:

Performance management is supposed to be owned and driven by line management and not by HR department or one or two executives. There is emphasis on shared corporate goals and values. Performance Management is not a package solution; it is something that has to be specific for a particular organization. Executives of the organization should develop their own plan of managing performance of all employees.

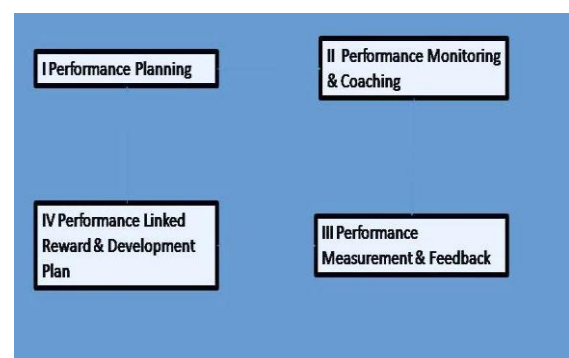


Figure 1: Basic Diagram of PMS

III. NEEDS FOR PMS

There are assured needs for PMS as mentioned below:

- All employees have potential to contribute to job and organization, but only a few of them make good contributions.

- Potential of Indian executives is high and can be compared with the best from other countries like USA, UK, Germany, etc.,
- Most employees only manage to demonstrate average performance.
- A number of employees develop negative attitude and frustration at work place.
- Work culture in some Indian organizations is poor or weak.
- In spite of high potential employees fail to develop their competence in organizations.
- When employees start their career at the age of 22-25 years, most of them show high motivation and interest for work but they fail to sustain in overtime.
- Many organizations have rigid and bureaucratic structures that are not conducive to creativity and innovation, although this trend is gradually changing and some companies are developing flexible structure.
- Awareness and skill level of workers is increasing; companies should attempt to utilize their skills for organizational goals.
- Technology is changing very fast, continuously impacting job content. While some executive can adjust, many cannot, a factor leading to low job performance.
- It is observed that many employees develop rigid and inflexible attitudes. Consequently they become poor performers, despite the high potential.

Performance Management System has the potential to fulfill strategic and operational requirements of an organization and personal as well as professional needs of employees in a number of ways. All employees have potential to contribute to job and organization, but only a few of them make good contributions. Potential of Indian executives is high and can be compared with the best from other countries like USA, UK, Germany, etc. However most of the employees manage to deliver only average performance. A number of employees develop negative attitude and frustration at work place. Work culture in some Indian organizations is poor or weak. In spite of high potential employees fail to develop their competence in organizations. When employees start their career at the age of 22-25 years, most of them show high motivation and interest for work but they fail to sustain it overtime. Many organizations have rigid and bureaucratic structures that are not conducive to creativity and innovation, although this trend is gradually changing and some companies are developing flexible structure. As awareness and skill level of workers is increasing; companies should attempt to utilize their skills for organizational goals. Technology is changing very fast, continuously impacting job content. While some executive can adjust, many cannot, a factor leading to low job

performance. It is observed that many employees develop rigid and inflexible attitudes and consequently they become poor performers, despite the high potential. In this context it is not exaggeration to say that PERFORMANCE MANAGEMENT SYSTEM is a critical component in enhancing the overall productivity of any company and their realize its strategic business goals.

IV. BENEFITS OF PMS

Performance Management offers multiple benefits to employees and organizations, which include:-

- Ensuring business- HR partnership
- Fulfilling individual and collective needs of employees
- Institutionalizing high performance work culture
- Facilitating long lasting and sustainable results through measurable employees management
- Optimizing human capital through continuous renewal of human skills and competencies.
- Ensuring equity in employees management issues
- Helping organizations to exit survive and succeed in a competitive, globalised and uncertain business environment.

V. REASONS FOR POOR PERFORMANCE

The job performance of executives in any organization depends on a number of variables such as the structure of the organization, human resource policies, technology, knowledge, skill and personality of executives etc. It is necessary to identify reasons of poor performances before adopting any intervention for performance enhancement in the organization. An attempt has therefore been made to analyze reasons of poor performance among executives. Following are the common reasons identified:

- Wrong/unscientific selection policies.
- Ineffective Performance appraisal system e.
- Career development opportunities not available.
- Organizational structure is bureaucratic and rigid.
- No linkage between job performance compensation and reward.
- Clarity in role and responsibilities lacking.
- Executives lacking in knowledge and skill required for job.
- Negative attitude of executives.

- Highly repetitive nature of executive's job.
- Dissatisfaction and frustration.

VI. MASLOW'S HIERARCHY OF NEEDS

Abraham Maslow is the architect of the Need Hierarchy theory of Motivation. This theory proposes that unsatisfied needs of an individual become motivators and they exist in the form of a hierarchy. The premise of this hierarchy is that once a need in hierarchy is fulfilled, human beings are driven to seek gratification of the next higher need. Therefore, this theory is called hierarchy of needs. This hierarchy consists of five major steps as follows

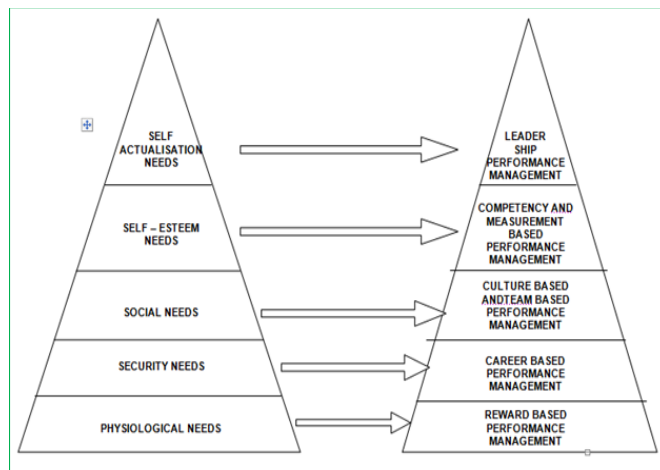


Fig. 2: ALIGNING STRATEGIES OF PERFORMANCE MANAGEMENT WITH MASLOW'S HIERARCHY OF NEEDS:

- **Physiological Needs:** It is the most basic level need in the hierarchy. Fulfillment of this level is sought to sustain human life itself. Needs here include food, water, clothing, sleep, sexual satisfaction and shelter.
- **Security Needs:** This is a need of belongingness. Human beings want acceptance, affection, love and recognition from other human beings in society/organizations. They will be driven by this need once their physiological and security needs are met.
- **Self-esteem Needs:** This is an inner need. At this stage of need hierarchy, human beings are motivated on their own and strive to do things which make them feel proud of themselves. They are guided by their conscience.
- **Self-actualization Needs:** This is on the peak of need structure. Human beings when they reach this level of need

hierarchy, Endeavour to realize their potential completely and seek outstanding accomplishments.

Basic assumption of this theory is that once a lower-level need on this hierarchy is fulfilled, the next level of need drives human beings. It means, the need that gets gratified loses its power of motivating employees although that need continues to be in the background. Therefore, understanding this need hierarchy and also identifying and placing employees where they stand on this hierarchy assumes critical importance in performance management. This is because motivating employees is cardinal to the success of performance management. For this purpose, performance managers must clearly understand the motivational stance of employees. As discussed earlier in this chapter, the structure of performance management is based on these motivational theories. Relevance of hierarchy of needs for performance management is illustrated in the figure by juxtaposing both: hierarchy of needs vis-à-vis strategies of performance management. As shown in the figure, each of the strategies of performance management is patterned after hierarchy of needs.

VII. STRATEGIES IN PERFORMANCE MANAGEMENT

Development of a performance management system involves three dimensions:

- Assessing status of existing performance management system.
- Mapping desirable performance management system.
- Executing performance management system based on seven Performance Management Strategies as discussed below

Performance management is an integrated and comprehensive framework that encompasses seven principal strategies such as:-

- Reward – Based Performance Management
- Career – Based Performance Management
- Culture – Based Performance Management
- Team – Based Performance Management
- Competency – Based Performance Management
- Measurement – Based Performance Management
- Leadership – Based Performance Management

In this study we will discuss on Reward Based Performance Management and its impact on developing performance of employees in the organization.

VIII. REWARD- BASED PERFORMANCE MANAGEMENT

Reward is highly critical in management of employee performance. In fact, reward is the foundation for motivational behavior of employees. An effective reward strategy can lead to high motivational levels, whereas an ineffective reward strategy contributes towards de-motivation and complexity. This double-edged sword needs to be managed in a systematic and scientific manner. So reward is the cardinal component of performance management. Significance of a reward strategy in attaining performance excellence of employees can be determined with the help of following principal factors such as:-

- Reward as an effective source of organizational effectiveness.
- Reward as a medium between organization and employees.
- Reward as an avenue for multiple motivational fulfillment.
- Reward as factor of motivation.
- Reward as a performance guide.
- Reward as a source of talent distinction.
- Reward as a source of employee involvement
- Reward as a source of innovativeness.
- Reward as a source of competitiveness.
- Reward as a source of organizational harmony.

8.1 Theory of reward-based performance management strategy: Basic and application oriented reward theories that have practical implications for the design of a reward-based performance management strategy are as follows:-

8.1.1 Lawler's reward and job satisfaction model:

Edward Lawler based on his years of research on relationship between pay and job satisfaction, held that job satisfaction of an employee is contingent upon his/her perception of being paid proportionately to the service/effort rendered or work performed. Employees tend to be disappointed, culminating in job dissatisfaction, if they believe that they are compensated disproportionate to their contribution. Therefore, it is incumbent upon an organization that compensation system should not only be in proportion to performance, but also be managed in such a way that employees perceive it as equitable.

8.1.2 Sweeney, McFarlin and Inderrieden's pay and job satisfaction: This is a model developed using relative deprivation theory for explaining relationship between pay and job satisfaction. According to this model, six factors cause pay dissatisfaction in employees. These are:

- Discrepancy between what employees want and what they receive
- Discrepancy between a comparison outcome and what they get
- Past expectations of receiving more rewards
- Low expectations for future
- A feeling of deserving or being entitled to more than they are getting
- A feeling that they are not personally responsible for poor results. This model is similar to Lawler's theory and focuses on equity principle, stressing on importance of employee perception of fairness in pay.

8.1.3 McNally's three compensation strategies:

According to Kathleen McNally, an organization must choose one of the three compensation strategies explained here. First is called high pay strategy. Basic philosophy of this strategy is: paying higher than industry average ensures superior performance, enables attraction of talented human resource to an organization, minimizes unwanted employee attrition and infuses high morale among employees and makes them believe that they are above average.

Second strategy is known as low pay strategy. Premise behind this strategy is twofold. Firstly, organizations may not be able to offer high or reasonable compensation because of external constraints like adverse market conditions and internal factors like poor financial performance and budget limitation. Secondly, a few organizations believe that lessening compensation enhances organizations' competitiveness due to low labour costs. Third strategy is called comparable pay strategy. This is the most popularly applied strategy in organizations. It is based on conformist principle implying that pay is susceptible to cost of living index, compensation trends in industry, government legislation and bargaining power of collective bargaining forums. All these three strategies have their own merits and demerits.

8.1.4 Hay Guide chart profile method:

This is one of the techniques used in evaluation of jobs. This is similar to the point method but a more reliable and sophisticated technique. Hay guide determines the worth of a job based on four vital parameters. These are:

- Know-how: knowledge and skills required to perform job effectively.
- Problem Solving: Abilities related to analyzing , reasoning, evaluating, developing solutions and making execution plans

- Accountability: This refers to responsibility for a performance or action or decision taken
- Ability: Additional compensable elements such as unique and exceptional conditions in which a job is to be performed.

These parameters are broken into further measurable elements. Points are accorded to each of these elements that form the basis for establishing said relative worth of a job.

8.1.5 Broad banding:

Broad banding is a compensation strategy that originated in 1970s but came into lime light in 1980 by virtue of increasing emphasis on flattening organizational structures and creating organizational flexibility. Broadband is a simple concept but immensely hard to implement. Broadband means collapsing or merging number of job grades into smaller number. For example, transforming a 20 grades organizational structure into five grades for salary and job enrichment purposes. This gives opportunity for all employees to perform quality of tasks and also receive proportionate rewards without the hurdle of tall salary grades. Broadband system has assumed importance in the new economic era and is practiced worldwide.

8.1.6 Eight practical lessons that have implications for design and execution of the reward-based performance management strategy are drawn from the following theories:

- Reward is more of a psychological phenomenon rather than physical
- There is an element of contingency in reward strategy
- Reward is susceptible to force of multiple factors
- Reward is a comprehensive strategy
- Job enrichment is the higher end of reward strategy
- Fairness of reward is dependent upon objective measurement
- Compensation is multilayered system
- Reward-motivation-reward is a cyclical process.

8.2 Interventions and Drivers of reward-based performance management:

Strategy, interventions and drivers of reward-based performance management are presented. Core objective of the first intervention, referred to as nurturing reward-based performance management, is enabling the organization to create a performance centric reward management.

8.2.1 A set of 10 drivers assists in realization of this intervention.

These are:

- Setting objectives of reward strategy
- Tracking antecedents of past and present reward system
- Determining and applying reward methodology
- Determining reward components
- Determining components in monetary reward
- Design of reward system.
- Consultation and communication on reward-based performance management.
- Implementation of reward-based performance management
- Evaluation of reward-based performance management.
- Refinement and reinforcement of reward-based performance management.

8.2.2 Second intervention i.e., capitalizing on the reward strategy in institutionalizing performance management as a way of organizational and employee work life. This intervention also consists of 10 drivers which are:

- Reward for institutionalization of performance management.
- Reward as follow up of performance excellence
- Reward as centre of performance excellence
- Integrating reward system with measurement management
- Integrating reward with culture strategy
- Melding reward with culture strategy
- Leadership as ultimate form of reward
- Career as a form of reward
- Reward as a source of employee involvement
- Using process centric reward system for institutionalization of performance management.

IX. CHALLENGES OF PERFORMANCE MANAGEMENT SYSTEM

Apart from various strategies to enhance performance of employees there are several challenges of PMS, which in turn develop performance of all employees. These are illustrated in the figure-2.

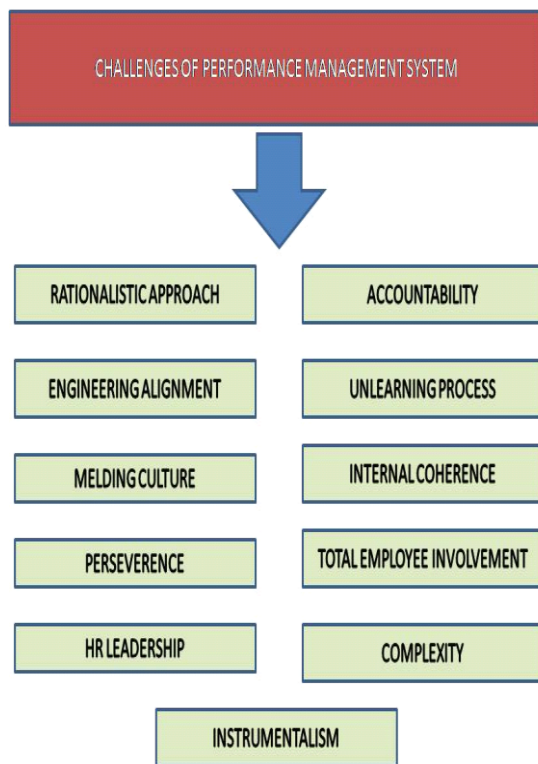


Figure 3: Challenges of Performance Management System

X. CONCLUSION

This paper illuminates the positive approach of PMS on the overall growth of employees and organization through reward based performance management. The Reward Based Performance Management has direct impact to motivate employees. The motivated workers give their best and maximum to the organization, on the one hand, and share of the fruits of organizational progress jointly with management. On the other hand a structured PMS provide an understanding of where employee fit into the company and how they contribute to the overall success of the organization. This starts with company and executive strategic goal setting, which pour into manager, team, and individual goal setting. Bring into line your entire workforce with higher arching business goals sets clear priorities and direction, which ensures individuals, can feel ownership in the business through individual objectives.

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