

Performance Management System of Indian VIS-À-VIS International Companies: A Literature Review

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Abstract

This literature review examines the differences and similarities in the performance management system (PMS) in Indian and international companies. Performance management system is the transformation from performance appraisal system which is very important for every organization. In this study, it also investigates that what the important aspects are of PMS. The result indicates that most of the Indian and international companies did not have much differences in their PMS except cultural differences. The important aspect of PMS is its implementation in the organization and acceptance by the employees.

Key words: Performance management system, Performance appraisal system.

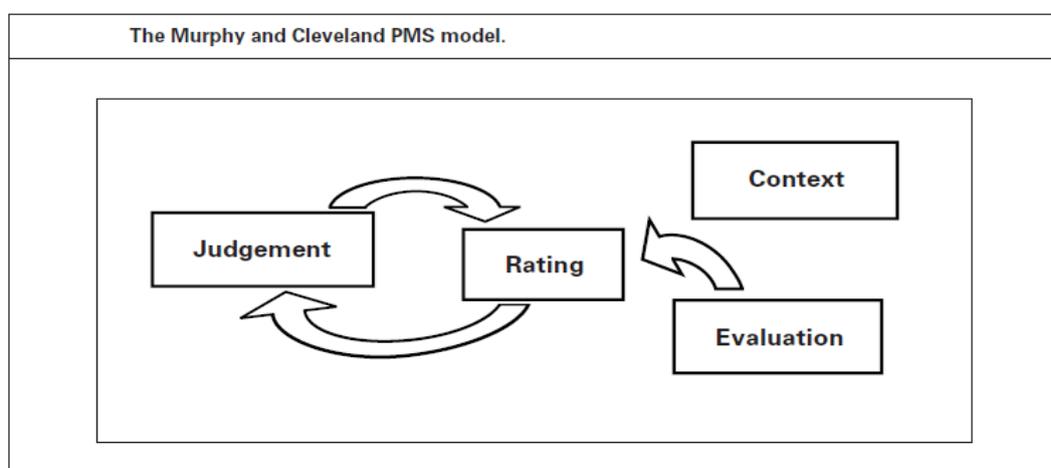
Introduction

Till 1950s in America and the 1960s in Europe, approximately a half to two-thirds of major companies had some performance appraisals process and in the 1970s in America and the 1980s-1990s in UK it was government legislation concerning such things as the same opportunity, civil rights, etc. that compelled organizations to adopt some sort of system. Performance management systems are a powerful tool for change and they were used in the 1980s-1990s to try to bring about change in public sector ethos and culture. Resulting from these efforts, there are now deep value differences between the new performance culture and the historic public sector service culture. (Furnham, Adrian 2004).

The historic service culture was based on the principle of equality and experience and people in the same job with the same experience as well as same qualifications expected and got the same pay and had around the same prospects of promotion. By providing many years of service, one gained experience and showed loyalty and commitment as well as learned the corporate culture. Reward and their seniority were based on number of years of service and if people were in the same job they were paid equally, irrespective of performance.

The need of practical guidance on tailoring the approach to conducting appraisal according to the individuals and the situation involved is important (Fletcher, Clive, 2001).

Murphy and Cleveland (1995) have a four-component model. There are four components which are context, performance judgment, performance rating and performance evaluation.



A paradigm shift is taking place in Indian industry with increasing liberalization and competitiveness while, global organizations with well-defined processes and practices are

trying to expand their foot-hold in the country, the consumer demand within India is not expanding proportionately. To be competitive and to even retain their market-share in the local economy, companies have to look beyond Indian shores and offer products and services of global quality and prices. This requires benchmarking of practices, standards of performance and efficiency in line with the worldwide competition. The performance management has importance wherein companies have to monitor their performance factors affecting them on a proactive and hands-on basis (Rao, A Srinivasa, 2007).

Performance Management System (PMS) can be a good instrument which can be comprehensively designed and executed or implemented in all sincerity. Changes can be made to improve the effectiveness of PMS and can be more effective. Before designing the PMS, first and foremost thing to understand the significance of nature, complexities, potential etc.

Strebler, M –et al (2001) have suggested five issues which were thought to be very important – 1.feedback and counselling 2.rating performance 3.setting goals 4.assessing performance against objectives 5.identifying training and development needs but they were only carried out moderately well by the PMS.

The need to address performance management effectiveness processes in Indian companies arises for four reasons wherein first is “high performance work systems have been shown to be essential to sustain global competitiveness and these rely upon adequate performance management processes and objective (Marquardt and Engel, 1993; Cardy and Dobbins, 1994; Smither, 1998) and second, “the performance management process in Indian managerial practices is a relatively underemphasized factor” (Sparrow and Budhwar, 1997). Third is “the productivity of work cultures in Indian organizations is jeopardized by employee performance appraisal practices which appear to be ad-hoc, biased and un integrated in a globally competitive human resource management system” (Mendonca and Kanungo, 1990; Virmani and Guptan, 1991; Shenkar, 1995) and fourth is “Indian managers have been criticized for not involving employees in the performance management process” (Mendonca and Kanungo, 1990; Virmani and Guptan, 1991).

Review of Literature

Beer -et al (1979), McAfee and Champagne (1993), Allan (1994), Armstrong and Baron (1998). They have strongly suggested that PMS if well designed and implemented leads to positive individual and organizational outcomes. However, researchers have seen very specific elements or outcomes of PMS rather than the whole system that may have been implemented and for example performance discussions between subordinate and supervisors, during the performance management process have been found to influence the performance and behavior of employees (Beer, 1981).

There is a sufficient amount of empirical evidence exists in private sectors that indicates that merit pay plans generally have a positive impact on employee performance and organizational productivity (Heneman, 2002; Huselid, 1995; Jenkins, Mitra, Gupta, & Shaw, 1998, Locke, Feren, McCaleb, Shaw, & Denny, 1980).

Rao(2001). Conducted a survey of appraisal practices in 45 different organizations (34 private and 11 public sector) and he found that about 50percent of the organizations seem to profess the purpose of their appraisal as regulating employee behavior as well as developing employee capabilities. About 30 percent of them still use appraisals only for controlling and regulating employee behavior whereas only about 10 percent seem to use appraisals mainly for developmental purposes.

Gangotra(1983). In a survey conducted in Jyoti Limited, Baroda wherein 70 managers responded to a questionnaire on performance appraisal system. Out of these 37 responded as appraisers and 33 responded as appraisees. Jyoti's have an evaluation system requiring each appraiser to assess his subordinates on performance related qualities. After completing his assessment, each appraiser is expected to discuss with his appriasee before sending form to personnel department.

Longenecker, Gioria and Sims (1987), Fried and Tiegs (1995). There is some evidence that raters deliberately distort subordinates performance ratings for political

reasons, like manager provides inflated ratings to their subordinates in order to project his/her good image or to avoid any confrontation.

Longenecker, Gioia, and Sims (1987). This indicates that managers have frequently used the decision autonomy available to them under more traditional performance management systems to bias and alter employee evaluations where both deflating and inflating them, in order to further their own interests and given that procedurally just performance management systems make such distortions more difficult, it seems doubtful that managers will react favorably to restrictions on their ability to act unilaterally. In support of this study, Brett, Ury and Goldberg (1989) have found that managers who were "winning" under existing organizational conflict resolution systems presented significant barriers to the implementation of procedures that safeguarded the interests of both employees and their organization. Thus, there is evidence that managers will react unfavorably to procedurally just performance management systems, both because managers place a higher priority on efficiency in HR procedures than on fairness and because they prefer to avoid constraints on their decision autonomy.

Wehrenberg, Stephen B. (1988). For measurement and evaluation of employee performance, supervisors need to be trained otherwise correct evaluation cannot be done which can cause damage to the employee evaluation.

Perry, James L –et al (1989). Four hundred and ninety six PMRS employees were selected, employed by the U.S. General Services Administration (GSA). The results indicate that PMRS merit increases have become automatic and the tendency to rate large numbers of employees "fully doing well" which assures that many employees receive performance awards as well. The opportunities to achieve large increases in pay under PMRS still appear to be quite small.

Eisenberger, Robert and Valerie Davis-LaMastro (1990).The study combining across 361 respondents in nine organizations such as manufacturing, insurance etc. There was a highly consistent positive relationship of perceived support with employee attendance and job performance. In addition, the positive relationship found in the study between perceived support and employees' diligence in carrying out conventional role responsibilities, perceived support might be associated with constructive innovation on behalf of the organization without the anticipation of direct reward or personal recognition.

Parikh and Garg (1990). Explained the effect on managerial responsibility for performance appraisal as an example of value dilemmas in Indian managerial roles and Indian managers often confuse their professional role in a rational, objective, organizational system with their social hierarchical role with expectations of conformity and paternalism which resulting in a superficial commitment to the performance appraisal process. This ambivalence, adversely affects Indian managerial attitudes towards their professional responsibility for objective PA and subordinate's self-worth. Further, Virmani and Gupta (1991) point out the resulting disagreement of interest in India between promotional and developmental goals of the PA process.

Guinn, Kathleen A and Corona, Roberta (1991). The lack of clarity about performance goals reflected a lack of focus on results. It was perceived by the employees that pay was increased based on their length of service than their performance.

O' Neal, Sandra and Palladino, Madonna (1992). A system which supports the primary goals of the business by significantly improving the outcomes and management of an employee performance where in performance management can succeed and the challenges can be met by involving employees in the process and providing tangible and fair rewards for observable high performance.

Farr (1993) competes that day-to-day or informal feedback is more significant than feedback that occurs during the semi-annual or annual performance appraisal session in terms of its impacts on attitudes and work performance. Likewise, Taylor -et al (1984) proposed that regular feedback should bring about closer agreement over performance standards between organization and the employees.

Waldman, David A (1994). Suggested that performance management efforts focused on group level rewards and appraisal will have a greater positive effect on Total Quality Management implementation efforts than on efforts focusing on individuals, particularly at lower hierarchical levels. Moreover, these effects will be further maximized when coupled with a continuous improvement approach to work systems.

Huselid, Mark A.(1995).Evaluated the links between systems of high performance work practices and firm performance. Sample of nearly one thousand firms indicate that these practices have an outcome of turnover and productivity of corporate financial performance.

Murphy and Cleveland (1995). Performance management systems will work most excellent when the formal goals and organizational uses of performance appraisal are consistent with the goals of other appraisal elements along with the rater and the rate.

Sabharwal (1995), Gopalan and Rivera (1997). Studies indicate that the Indian society is characterized by a culture of high power distance between superiors and subordinates.

Flapper, Simme DP –et al (1996). Have a consistent PMS more is required than a consistent performance measurement system where the functions in the organization and the tasks for which they are held responsible have been understood to be given. This does not apply for new organizations or new tasks however, but in that case it has to be decided which responsibilities should be assigned to which functions.

Sparrow and Budhwar(1997). The findings indicated that leader credibility and motivation to change on the part of the leader significantly increases employee acceptance toward performance management and merit pay. In research study, it was found that the performance appraisal process is a relatively underemphasized factor in Indian managerial practices, which will jeopardize the external strategic competitiveness of Indian firms.

Mount, Michael K –et al (1998). 2350 managers rated their own performance and were also rated by two subordinates, two peers and two bosses and result indicated that trait effects in the performance ratings.

Rao, Amba(2000). Employee involvement and successful experiences will help reduce employee anxiety and skepticism toward performance management processes in Indian firms.

Stivers, Bonnie P and Joyce, Teresa (2000). Performance management systems should include a balanced set of procedures that are linked to the organization's strategic objectives wherein managers require timely "gauges" to control operations and get feedback on strategy achievement wherein these gauges must be provided in a balanced performance management system which includes both non financial and financial measures.

Chen, Zhen Xiong –et al (2002). The sample was taken from six Chinese companies to investigate the relationship between loyalty to supervisor and employee's in role and extra role performance in comparison with that of organizational commitment. The result indicated that loyalty to supervisor was more strongly associated with both in role and extra role performance than organizational commitment.

Thach, Elizabeth C (2002). 281 executives participated in a six months coaching and 360 degree feedback process and result suggested that combination of individual coaching and multi-rater feedback do increase leadership effectiveness, eventually coaching and 360 degree feedback makes positive impact in terms of developing leaders.

Lawler and McDermott (2003) in their study on performance management practices of medium and large US corporations found that PMS design related practices or factors such as goals, business strategy driven performance, joint establishment of performance goals, performance results, development planning and salary linkage were highly correlated with system effectiveness.

Paul and Anantharaman (2003).Used interviews with employees in 35 different software companies located in India to show the positive effect of 'people management

practices' on organizational performance and people management practices were defined by nine indicators, training, performance appraisal, induction, selection, job design, work environment, compensation, career development and incentives.

London, Manuel –et al (2004). They suggested that educating employees and managers in the context of the expected performance dimensions, can help them to recognize desired behaviors, evaluate performance correctly and provide meaningful feedback, as well as guide their own goal setting and performance tracking. Feedback workshops, appraisal discussions and coaching can make these processes. Performance evaluation and goal setting can be used to establish a wide range of developmental assignments and an ongoing program evaluation is required to identify areas for continuous enhancement of the system.

Varman, Rahul (2005). Evaluation of performance appraisal system of Kashipur textile showed that implementation of performance appraisal system in family run business, found difficult as well as professionalize their management system which inculcate, lack of information for goal setting, discrepancy between self rating and supervisor's rating, communication barriers and the PA system was based on personality traits.

Nankervis and Compton (2006). In this study, 961 Australian organizations were covered and came out with few ideal principles of PMS design and implementation. These principles are: user friendliness, strategic alignment of organizational goals and employee goals and outcomes, clear links between appraisal and salary review, consistency, equity and transparency, human resource development, coaching and succession plans.

Bhatnagar, Jyotsna (2007). The result of 272 BPO and ITES employees survey, showed low engagement at the beginning of the career and after completion of 16 months with the organization, they showed high engagement levels and also indicated high loyalty but only for a limited time. Organizational culture, career planning, incentives with organizational support are three distinct factors in which the first two were pinpointing of high attrition.

Rao, A Srinivasa (2007). Study conducted in Grasim cement industry, where it is found that employees were aware about goal setting process and the system in general but there was a gap in communication by superiors, discussing helping or hindering factors and laying down clear roles to appraisees. It indicates that there is no clear communication and understanding by superiors regarding company objectives, the rewards and recognition program, career planning and merit pay related aspects. Performance appraisal process is being used as a weapon to assert superior's authority and performance appraisal data is used for administrative transfers only. The performance reviews are not done systematically and are done on ad-hoc basis only. Although the overall implementation process in the unit as a whole was not effective, some managerial qualities like effective team working, exposure to the system, system discipline and high achievement orientation were found to be effective for systematic implementation of the system.

Sanwong, K (2008). 75 employees studied at a Thai university and covered supervisors, clients, juniors and employees wherein it has been found that the 360-degree appraisal system is successful to evaluate employees.

Kumari, Geeta –et al (2010). This study was done on performance management system applied in Endurance private limited, Maharashtra in India wherein most of the employees were in the opinion that performance management system is strongly needed and it carries a very high impact on performance of the employees. Moreover, this system should also be continuously reviewed and if there is a need, it should be changed as per the need.

All the employees must have a clear vision about "what they have to achieve" therefore proper guiding the subordinates to decide their performance targets for the employees to work accordingly as well as supervisors must help their subordinates to decide their performance targets.

Liu, Xiangmin and Batt, Rosemary (2010). This multilevel study examined the role of supervisors in improving employee performance through the use of coaching and group management practices and result indicates that the amount of coaching that an employee received each and every month predicted objective performance improvements over time. Workers showed higher performance where their supervisor emphasized group incentives and group assignments as well as wherein technology was more automated. Eventually, the positive relationship between coaching and performance was stronger where supervisors made greater use of group incentives and technological changes were less frequent.

Goyal,Rita (2011). For the purpose of the study, data were collected through personal contact of 250 employees in four branches of LIC in northern India. The result of study revealed that difference is significant between the perception of male and female employees regarding performance appraisal. Female employees have favourable attitude towards performance appraisal as compared to male employees. There is no significant difference among employees at different level regarding their perception of performance appraisal selected branches of LIC.

Omboi, Bernard Messah and Shadrack, M. Kamencu (2011).In this study population of interest in the selected tea estates of Kenya wherein 70 respondents were selected. The study revealed that competence, assessment and development, management by objectives, performance based pay and employee training all affected employee performance in Kenya tea development agency.

Reddy, Anuradha (2011). This study conducted to analyze the impact of culture and cultural dimensions on performance management in UAE organizations. The conclusion found that policies and procedures need to be shaped in such a way that it comply with culture of both the countries. The most important explanatory variable is subsidiary role and national culture of the country of origin. This carry significance as organizational capabilities of the subsidiary companies increase, the role of subsidiary employee in achievement of corporate objectives also increases.

Azzone, Giovanni and Palermo, Tommaso (2011). This study was done on six Italian central government institutions and study shows that performance appraisal and rewards as a mechanism to provoke a shift in organizational culture and the behaviour clearly tends to neglect the learning dimension of the change Process.

Francis O. Boachie (2012). The study conducted on polytechnic in Takoradi, Ghana where data was collected 140 employees of the institution, which included both academic and administrative staff both. The study indicates that employees of the institution perceive that the performance appraisal system of the institution is affected by some major errors.

Sahoo, Chandan K and Jena, Sambedna (2012). Performance management system utilized by the manufacturing sectors shows that no single system is successful in enhancing the performance of an organization and the PMS's function has a significant positive impact on performance of the employees when it is implemented successfully.

Conclusion

By doing extensive literature review, it has been found that performance management system is not having much difference except cultural implication in both Indian and international companies. PMS has both negative and positive aspects in Indian and international companies. In most of the companies the traditional appraisal system is existing, where appraisal is done once or twice in a year and in some companies, feedback system was very poor or absent. This created bias in employee evaluation because if they have been given poor rating then they will not be in the position to know about their mistakes. If they are given good rating then they will not bother to know their mistakes so that they can improve. Moreover, companies introduced PMS but unable to implement properly which does not fulfill the purpose and some time employee acceptance level is low for the PMS. Therefore, introduction of PMS will not serve the purpose; it required effective implementation and well accepted by employees.

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