



# Performance Management System: Poison or Nectar ?



“No system is ever good or bad. It is users and the way they implement the system that makes it good or bad.”

**W**hy does the pleasure of a ‘Performance Management System’ often get replaced with pain? Why do employees, their managers and HR feel angst when it comes to implementing a Performance Management System? Why is there widespread discontent on a system that was introduced to develop performance? The answer to these questions lies more in the implementation of PMS rather than in the system. This article explores 8 important challenges or pain points in the Performance Management System, based on experience and diagnostic studies conducted for various organisations across the country. It aims to use the lessons learned from these challenges in a positive way and shares some guidelines to ensure that Performance Management Systems are implemented in the right way.

### The Importance of PMS

A Performance Management System is one of the most powerful tools available to management to aid and ensure continuous improvements at the individual, dyadic, group, and organization levels. A Performance Management System serves many purposes. It:

**E**nsures continuous improvement at all levels.

**P**revents overlap of work or resources

**O**ptimises resource usage through proper allocation and planning.

**M**otivates employees and teams to stretch and achieve more, better, or something new.

A Performance Management System is an imperative today—both for survival in a dynamic and competitive industry, and to put to use the talent of its people’s in the best way.

Diagnostics and consulting assignments undertaken across various organizations in the country indicate the following to be the typical challenges faced in a Performance Management System implementation:

### Challenge 1: Undue Focus on Rewards and Subdued Focus on Development

A Performance Management System ought to clearly state its objectives and relevance to the organisation. Where the primary objective is development, the entire process would reflect this and it would be communicated to its employees. But where the main role of the Performance Management System is to provide a mechanism for rewards and increments, the process would differ. The first pain point for managers in implementing a PMS occurs when objectives get crossed—stated objective is development but focus is on rewards. This undermines the entire development focus. There have been instances where the ratings were decided first (or rather, the increments to fulfill a prior commitment for salary correction or based on the monetary situation of the individual), and only then were the other achievements force fit. In one such organisation, the focus on the increments was so high that for



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# Challenges in PMS

1

Undue Focus on Rewards and Subdued Focus on Development

2

Lack of Role Clarity Leading to Faulty Goal Setting

3

Overpowering Focus on Output Obscuring Input and Effort

4

Absence of Clarity in the Rating Scale

If the spirit of development is upheld-irrespective of rewards, then each and every individual will feel that it is a win-win situation

most managers, arriving at the final rating was more of an Excel exercise, because the differences in rating between two individuals were indicated up to two decimal points. Such a system does not result in a win-win situation as only a few employees get significant increments. Should the spirit of development be upheld, and each individual feels- irrespective of rewards - that the Performance Management System has helped him stretch, utilise more of his capability, and enhance his learning, then the Performance Management System results in a win-win situation benefiting a much larger group. Successful implementation of the PMS hinges on giving development due attention versus focus on the last step i.e. 'appraisal.'. This focus needs to be communicated regularly by HR to all Line managers, and by managers to their teams. Organisations and individuals would reap greater benefit from the PMS by focusing primarily on development and treating rewards as just a by-product.

## Challenge 2: Lack of Role Clarity Leading to Faulty Goal Setting

Roles are the starting point for any Performance Management System. Lack of clarity at the stage of role definition could make, all subsequent components of a Performance Management System suffer. Role clarity workshops need to be undertaken even before embarking on a goal setting exercise. Key Performance Areas, leading to target formulation and listing of activities are derived from clear role definitions. Fuzzy role definitions lead to inaccurate goal setting and can create turmoil in the organization. In an organization where PMS workshops were conducted, a sales target of 'X' was set for the Senior Managers of 3 different departments: Retail, Marketing, and Sales. The same goals figured in the goal sheets of all three managers. On probing, it was revealed that the retail manager was responsible for ensuring secondary sales, the sales manager for primary sales, and the marketing manager's role was to support sales achievement indirectly without actually ensuring sales numbers. Hence, clarity on what constitutes one's role and the purpose of the role's existence is crucial-i.e. Is the role holder's responsibility 'doing', 'ensuring that it gets done,' or 'monitoring' or 'supporting' those doing it.



<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Late Identification of Training Needs	Absence of Detailed Performance Analysis	Lack of Development Oriented Performance Review Discussion	Lack of Focus on Competencies

### Challenge 3: Overpowering Focus on Output Obscuring Input and Effort

Many managers are comfortable stating only tangible or easy to measure goals. In a PMS, goals are normally top down and non-negotiable. However, individuals have full discretion to determine the extent of effort to be put in and the resources required to achieve the given goals. Exploring and listing the various steps to be taken to achieve the specified goals then becomes the major contribution of the manager and the employee. This step being non mandatory, often gets omitted, unfortunately, during the PMS implementation. PMS templates have in many cases not mandated the documentation of this key task. As a consequence, the details of how to go about achieving the target becomes a black box in situations where the employee has not planned the 'how' part of achieving the target.

This brings up several questions. How should an employee channelize his/her efforts in the absence of documented items of action?

How should an employee's productivity be gauged in the absence of input details?

What should be rewarded in the end – output or input?

How does one evaluate an employee who has achieved targets not through real effort, but largely due to external factors? How does one deal with an employee who has failed to achieve set targets but put in significant efforts?

Relevant documentation would help in both cases. The soul of Performance Management Systems lies in striking a balance between the mind and the heart – i.e. a balance between output and input.

### Challenge 4: Absence of Clarity in the Rating Scale

Well formulated rating scales clearly communicated to line managers can be a crucial enabler of the PMS. Managers mistakenly believe that achieving set goals justifies the highest rating. In reality, exceeding the set targets is what justifies the highest rating. This issue arises in the 5-point scale used by most organizations.

How can one ascertain the productivity of an employee by measuring only output and not input ?

What should be rewarded in the end – output or input?



Those using a 3-point rating scale which reads 'below expectations,' 'met expectations,' and 'exceeded expectations' may not face such a challenge. To add to this, many managers do not clearly communicate this to their subordinates right at the beginning of the performance period. Line managers must be sensitive to and familiar with the rating scale, and ensure that it is clearly communicated to all team members.

This challenge can be circumvented to some extent by investing in a detailed Performance Management System manual, which clearly explains the rating scale, and associated nitty gritty.

### Challenge 5: Late Identification of Training Needs

Identification of individual training needs should coincide with the goal setting process at the onset of the year. Early identification of training needs is comparable to preventive maintenance and if done post the performance period it is a case of breakdown maintenance. Ideally, the manager and the direct report should discuss the competencies (functional, behavioural or technical) even as the goals are being set. This helps in achieving milestones for the year ahead. Individuals being aware of their own strengths and areas of improvement, make it easy for the employee to identify his/her training requirements. Training needs having been identified, it is the joint responsibility of the manager and his direct report to ensure that the training is held as soon as possible. Timely training increases the employee's chances of success on the job. It has often been observed that the training calendar is finalised or circulated first, and people are nominated based on that schedule- a case of placing the cart before the horse.

### Challenge 6: Absence of Detailed Performance Analysis

Performance analysis deals with the process of identifying the factors that facilitated or helped an individual achieve the set targets, as well as those factors that hindered the individual's achievement of targets. A performance analysis needs to be undertaken separately by both the employee and his or her manager before they meet for a performance review discussion. Here are some positive fallouts at varying levels:

**1 Individual level:** A detailed self analysis of one's own performance definitely helps in understanding the reasons for good or poor performance. It captures the ground realities experienced by the individual. It clarifies whether the reasons are attributable to the performer, the manager, external factors or resources, etc. Hence, the analysis indicates which factors need to be controlled or minimised (hindering factors) and which factors need to be enhanced or encouraged (facilitating factors). Focusing on these two broad categories improves the chances of future success of the individual.

**2 Managers level:** The manager's analysis of the reasons for good or poor performance is well brought out by the analysis, including the observations of the superior, keeping his expectations in mind. All this, when shared with the performer, helps him and his manager explore ways for minimising the hindering factors.

**3 Department/ or Organisation level:** When the performance analysis is conducted across a department by consolidating the facilitating and hindering factors for all the individuals in that particular department, the set of factors affecting that department's performance can be arrived at. This provides critical insights to the department, and could have far





reaching effects even to the extent of altering the organization's business strategy

### Challenge 7: Lack of Development Oriented Performance Review Discussion

A Performance Review Discussion provides the manager and the direct report with an opportunity to understand the progress made towards the set targets, the efforts expended, and explore jointly what further needs to be done to ensure success at the end of the year. The manager and the performer share their perspectives—the birds eye view and the worms view—This is an excellent opportunity for two-way feedback and can result in the much needed course corrections. This discussion also provides an opportunity to revisit the training needs. While most Performance Management Systems have the component of Performance Review Discussions, its implementation is poor. The frequency of reviews should be such that it gives an individual timely feedback and also gives enough time for the individual to perform. There should be at least 2 review discussions—a mid term review and a year end review.

Some of the other flaws are insufficient time given for planning and preparing for the review and poor dedication given to the process. Most reviews suffer from the following common flaws.

They are conducted only once a year or held too late to influence course corrections.

They focus on results—not on the process, ending up as a department review and a loss of focus on the individual.

Documentation of the half yearly review is either missing or ignored. This makes it difficult in arriving at a fair and appropriate rating. This could also result in a recency bias where only recent accomplishments or mistakes are remembered by the manager.

### Challenge 8: Lack of Focus on Competencies

Human Resource Management in many organizations is not competency based and hence does not include the key competencies required for an employee to achieve his or her targets. While the first section dealing with Key Result/Performance Areas (KRAs or KPAs) specifies 'what' is to be achieved, the second section focusses on 'how' the goals are to be achieved. Productivity is maximised only by managing both. Managing competencies is sometimes the key to managing output or results. Often, under-achievement of targets could be due to other inherent behavioural issues or challenges. For example, if 'drive for results' is missing or the ability to plan and prioritise is missing, chances are high that the individual will not achieve the set targets. To get the best out of this individual, the focus should be on enhancing his planning or his drive rather than on results.

Given these challenges, a PMS is often reduced to a post-mortem tool. Managers end up force fitting what was actually done during the course of the year, instead of assessing the progress made on goals set in the beginning of the year. Such a practice is a mockery of the PMS and yields no benefit or continuous improvements either to the individual or to the company.

#### How does one overcome these challenges in a Performance Management System?

Here are few tips towards a perfect Performance Management System implementation:

Ensure that a short module on effective implementation of the Performance Management system is a part of the induction program.

Force fitting what was actually done during the course of the year to match the targets... is a mockery of the PMS and yields no benefit.





**H**old extensive two-day workshops for first time managers so that they appreciate the philosophy behind the Performance Management System and its potential as a tool to upgrade the productivity of the team. Have half-day mid-year reinforcement sessions to prepare individuals, just before the review discussions are to be held.

**E**ncourage the Performance Management System to be implemented even in one's personal life where goals dealing with finance, education, or self-development and spiritual well being are in focus. As participants begin to feel the impact, their appreciation of the Performance Management System will automatically become a part of their professional lives as well.

**I**nclude a few self-development goals and give them some weightage. **D**edicate certain periods or months of the year to the performance management system. For example, April, the first month of the financial year, can be dedicated to goal setting and training needs identification. September can be the DPRD (Developmental oriented Performance Review Discussion) month, and so on. Get entire departments to share their goal setting templates amongst themselves to bring clarity on what each person has to do, making it easy to establish guidelines and weightages.

**A**s a part of the induction kit, prepare and share a Performance Management System manual containing templates of filled in KPAs and targets. This will serve as a ready reference for all employees. The manual should give equal importance to targets and competencies required for the particular role.

**S**et up a feedback mechanism whereby comments on the way the manager conducts each performance review discussion are given to the manager to encourage improvement. This can be done anonymously, such that each direct report rates his or her manager on the way the Performance Review Discussion was conducted, the time dedicated to it, the quality of feedback, etc., in a specially designed questionnaire and then drops it in a common box without mentioning his name. Any person from HR can collate the data for all the managers and then hand over a summary to the manager. This practice has been successfully followed in many organizations and there was a marked improvement in the entire way reviews were conducted as well as in the attitude of the line manager. In one of the organizations that we did work for, changes in the implementation of the Performance Management System impacted the employee engagement scores in a drastic and positive way. While absolutely no changes were made to the system just conducting action oriented workshops and sharing the right way to implement the given system was sufficient to enhance employee engagement levels.

**G**ive equal focus to input and output. While most Performance Management Systems do not mandate documentation of the inputs, giving equal importance makes sure that the individual sees the entire system as being fair and ensures focus on what he or she has to do. Giving importance to input is a signal that it is the individual who is in charge of the final outcomes and external factors have limited impact on what is finally achieved. This is a very powerful signal in itself and it can be a huge motivator for individuals to put in their best.

