Contents

Performance management in India

A change beckons

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Foreword

While performance management is an area of immense personal interest, it has recently gained prominence as a topic of discussion, with many Indian companies initiating big as well as small changes to the way they approach the measurement and management of performance.

Over the last four decades, we have seen the outlook towards managing performance come full circle. From the qualitative evaluation of erstwhile confidential reports, organisations, globally and in India, moved towards greater objectivity, quantification and relative ranking. Together with this, came the approach towards forced distribution, which was revered and reviled in equal measure. From early 2014, we have been observing an interesting trend among global organisations, especially in the technology and consulting space, to make their performance management approach more development-focussed and less dependent on relative ranking and normalisation. This has also encouraged their Indian counterparts to critically evaluate their current performance processes and make modifications.

This phenomenon made us wonder whether it was ideal for Indian organisations across sectors to embrace these global changes. Are they applicable in our context? Are we ready for them? Or are we merely replicating a global trend without much evaluation or analysis?

It was with this background that we undertook this study, to better explore, understand and analyse the evolving contours of performance management in India. We hope that this report, which summarises our findings from an industry survey and multiple discussions with industry leaders, will allow you to explore the following:

- Identify some of the inflection points that trigger the need to evaluate and modify performance management approaches
- Understand the mindset of changemakers and discover the issues that they prioritise for resolution
- Juxtapose respective performance management systems and processes to relevant peers in order to draw parallels and predict or resolve potential issues

We hope this study will allow you to appreciate the changing face of performance management, and support you in proactively creating interventions that ensure that your organisation enjoys a rich performance-management experience that is effective, relevant and future-proofed.

Padmaja Alaganandan
Leader, People and Organisation
PwC India

Background

Global businesses are operating in the midst of challenging times. An organisation today, in order to be profitable and ahead of its peers, needs to compete in more markets, operate across more platforms and manage more stakeholders than ever before. The complexity of the current business landscape is further accentuated by the rise of additional challenges such as the ever-changing talent, technology and economic landscape.

India occupies a pivotal position within this canvas of change.

The country is arguably one of the most complex and dynamic work habitats in the globe. Its workplaces demand engaged, multiskilled and flexible employees who can thrive in a furiously fast-paced and highly competitive market.

Given its complexities, what is the formula for success in such a market?

Leaders will opine that it is the ability to deliver 'more for less over a longer period of time', which is to say that companies want to remain competitive in the long term and retain their options of future expansion, while simultaneously delivering current or short-term objectives and meeting cash flow goals with the leanest resources possible.

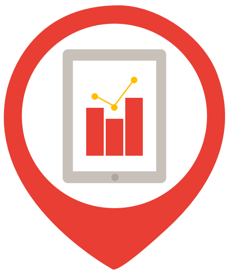
India occupies a pivotal position within the canvas of change

Advances in the workplace and networking technology

With virtual workplaces becoming commonplace, the human resource department as well as leadership will need to develop '**virtual management**' skills to handle a workforce that they may never meet in person. **Commoditised jobs may become redundant** as a result of technology and this will add to the burgeoning workforce that will be seeking employment opportunities.

Multigenerational workforce

Advances in medical technology have resulted in **increased lifespans**.[1] Ease of doing work has resulted in **increased retirement ages**.[2] This has created an ageing faction of the workforce that brings a diversity of skill sets to the workplace but also increases the complexity of employee management.



Optimistic Indian economy

Both the International Monetary Fund (IMF) and the World Bank predict that the Indian economy will thrive despite slowing global growth, and will **rise to become the fastest-growing economy in 2016**. This, alongside favourable food prices and a fall in oil prices, has resulted in a deceleration of inflation. These factors and the controlled deficit will mean that a mood of cautious optimism should guide organisational growth plans in the coming years.

Burgeoning young workforce

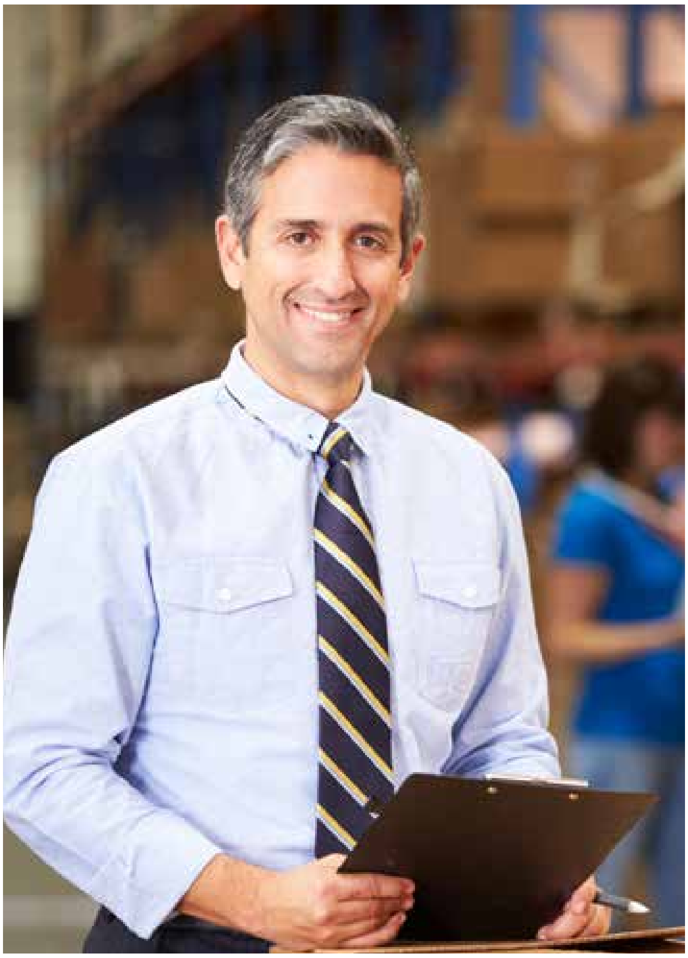
India is adding at least **7.2 million** new workers to its labour pool every year. However, low rates of high-school enrolment and completion mean that the country's formally **skilled workforce forms just around 2%** of the total youth workforce.[3] There is a need to not just provide employment but also increase the employability of the workforce.

1. Statistics released by the Union Ministry of Health and Family Welfare show that life expectancy in India has gone up from 42 years in 1960 to 62 years in the 2000s, to a current average of 68 years (2011–15).
2. PwC's Indian workplace of 2022 report (2015) found that 68% of employees in India are planning to retire after the age of 60 or not at all.
3. The ASSOCHAM-National Institute of Labour Economics Research and Development (NILERD) study 2015, Labour Bureau report 2014

Myriad initiatives have already been rolled out in the areas of activity reduction, streamlining and cost-cutting—which means that most companies are reaching or have reached the limit of what they can achieve significantly, thereby undermining their medium-term viability. India now stands at the point of inflection that requires organisations to not just cut costs but also transform the way work is conducted and overhaul the way performance is driven and measured.

One of the key drivers of this transformation will be an organisational approach to performance management. Creating new performance indicators, measuring employees on relevant metrics and motivating critical talent may be a vital enabler for corporate success in the future.

Where success in the workplace hinges on businesses' ability to generate value from employees, performance management is sure to be a key enabler.



A 2014 article titled *Kill your performance ratings* found that 95% of managers were dissatisfied with their performance management systems and only 23% of HR managers believed that their performance management system was capable of achieving its stated objectives.

According to a subsequent 2014 PwC global report, *Emerging trends in performance management*, 89% of organisations observed that their people managers were unable or unwilling to initiate difficult conversations with their team.

Business leaders are aware of these shortcomings, and this is likely why India is currently witness to a large number of organisations making significant changes to the way they approach performance measurement and management.

Several companies in India are revisiting their approach to employee performance management—some organisations have adopted an approach that calls for more managerial input, while others have made changes to make their processes more mechanised or automated. Certain changes to performance management have been made over the course of several assessment cycles, whereas other organisations have seen new processes being introduced in one cycle and then abandoned in the subsequent cycle.

In such a scenario, it will be of interest to study the factors that trigger these changes to manage timely and effective implementation of the necessary change to systems. It was with a view to understanding the changing face of performance management in India that PwC undertook this research.

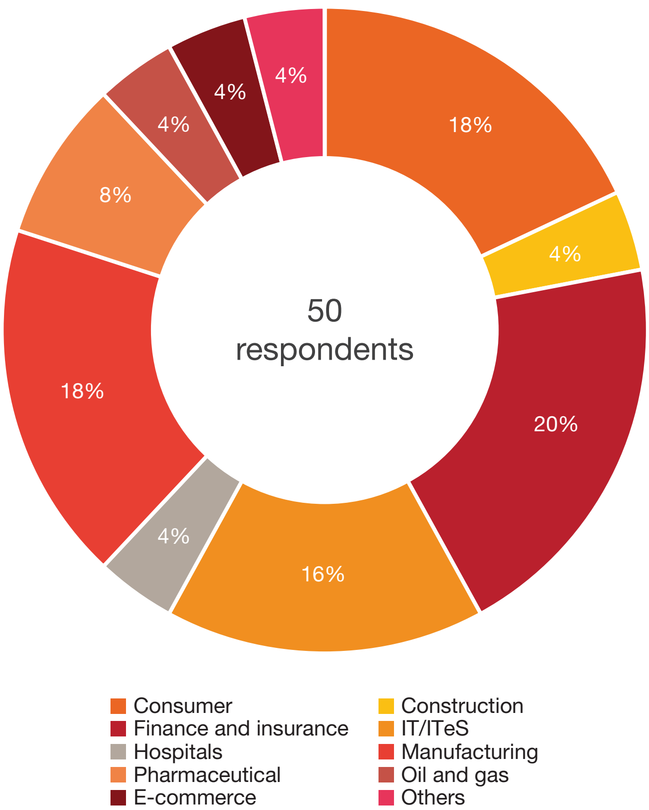
Report outline

This study draws its findings and analysis primarily from the Performance Management Trends Survey, conducted by PwC India in 2015. The key objective of the survey was studying the changes taking place in the field of performance management. The survey garnered viewpoints from 50 respondents across industries.

Over the course of time, these survey findings were discussed with a wide array of industry as well as HR leaders through panel and independent individual discussions. Views from those sessions have contributed immensely to the key themes and findings of this study.

We asked a wide range of questions in order to explore the various facets of organisational performance management, ranging from the purpose of current systems to what organisations are looking at changing about their current as well as future approach. The following key themes were explored:

Percentage break-up of survey respondents by industry:



Objectives and effectiveness

- What is the primary purpose of your organisation's current performance management system?
- How effective has your organisation's current performance management system been in achieving its identified purpose?

Impediments

- What issues prevent your current performance management system from achieving its intended purpose(s)—people-related and process-related impediments or systemic ones?

Structural aspects

- What is the nature of the rating process followed in your organisation?
- What is the perceived effect of linking rewards to performance evaluation outcomes?

Approach to change

- In the recent past, have you made any major changes to your performance management system, or are you planning to make any changes in the near future?
- What are the parameters which have changed or are changing in your performance management system?

While analysing the data, we found that there are several factors that seem to impact perceptions of performance management systems. For the purpose of this report, we have looked at the data from an overall perspective and also through the two select lenses of industry and organisational size (based on the number of employees) in order to offer more qualified and contextualised views.

The two lenses of analysis leveraged in this report and the variables therein

01

Industry

- Maturity of the industry
- Quantum of impact that single individuals can create on the overall business
- Nature of the roles

02

Size

- Managerial span and line of sight
- Size of teams and business units
- Complexity of reporting

Report highlights

Our survey revealed that **only 12% of the respondents believed that their current** performance management system **is highly effective in achieving its stated purpose(s)**. This sentiment of dissatisfaction was echoed across most of our panel discussions as well, and is the strongest indicator of the need for immediate and relevant changes to the process.

The shareholder continues to remain the primary stakeholder of the process, with 93% of the respondents indicating that 'supporting the business objectives' is the primary purpose of performance management systems. There appears to be little or no focus on employee outcomes such as promoting teamwork, driving organisational culture or linking process findings to developmental agendas. This can be a key contributor to employee dissatisfaction with the current processes and their perceived 'mismatch of expectations' during the performance-evaluation process.

The manager's ability to have difficult performance-related conversations with team members and take ownership of the performance process seemed to be a central impediment to the performance management process both within and outside India.

Could the last decade of hypergrowth have resulted in the creation of a cadre of managers who are not mature enough to handle this delicate process or have not had the time or requisite training to give this process its due?

If so, then we are at a point where taking necessary measures in enabling these managers can be a key driver of successful performance management.

More than half (52%) of the respondents surveyed have made changes or are planning to make changes to their existing performance management system. However, only 16% have done away with individual ratings. The intent to make systemic changes indicates that bold approaches to performance evaluation and management will be witnessed in the near future. While a majority of the respondents continue to adopt the forced distribution approach, it was interesting to see a strong trend within the IT/ITeS sector and among various start-ups of veering away from this model. These organisations are also making other changes to the process, such as institutionalising team or project ratings instead of individual ratings and increasing the frequency of their evaluation to more than just once a year. The IT/ITeS sector also enjoyed the highest perceived effectiveness of its performance process. Hence, this openness to change can be a key takeaway for other sectors.

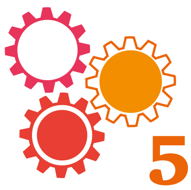
An overview of performance management systems in India

93%

Indicate that supporting the business objectives is the primary purpose of the performance management system

12%

Believe that their performance management system is highly effective in achieving its objectives



52%

Have made or are planning to make changes to their current PMS in the near future

16%

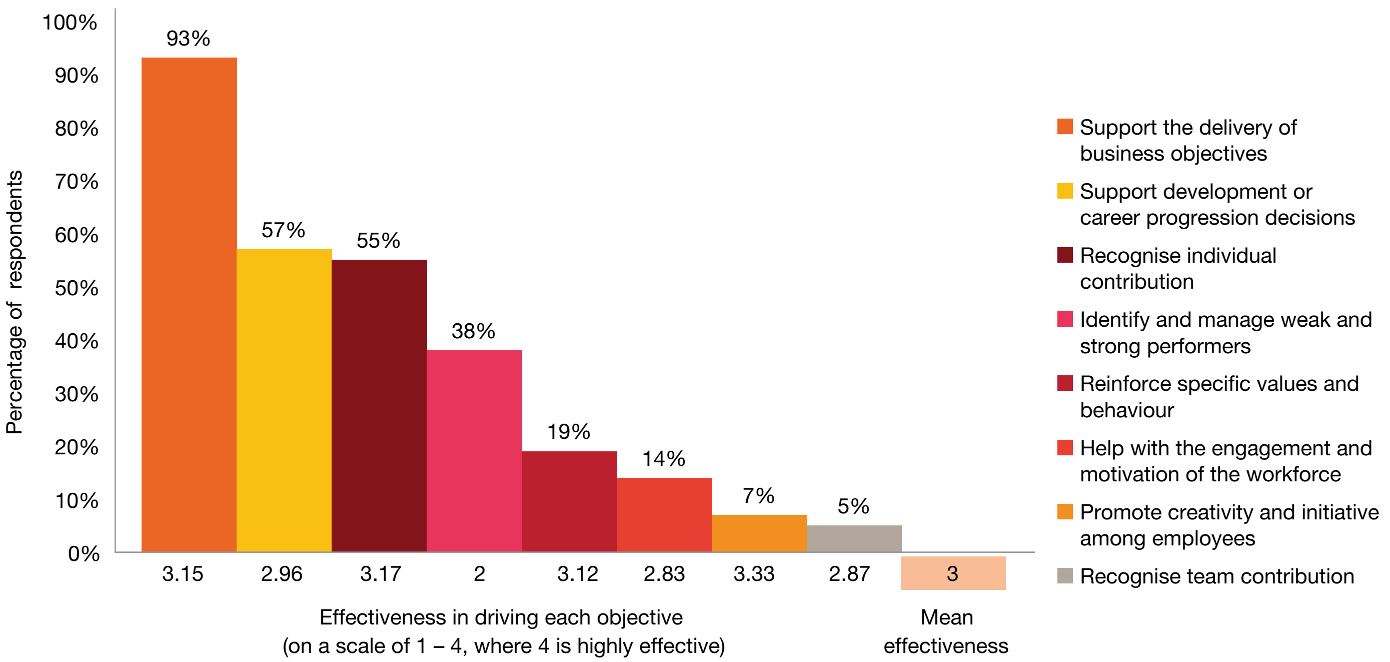
Have done away with all forms of individual ratings as part of their performance management system

1. Objectives and effectiveness

Our survey revealed that the most important objective of performance management systems is to support the delivery of business objectives (93%), followed by supporting career progression decisions (57%).

When juxtaposed with the perceived effectiveness of current performance management systems, some interesting insights emerged. Only 12% of the respondents felt that their current systems are highly effective in achieving identified objectives. The systems in place were found to be more effective in driving objectives such as 'promoting creativity among employees' rather than more oft-cited objectives such as 'supporting delivery of business objectives' or 'supporting development and career progression decisions'.

Objectives and effectiveness of performance management systems



It is interesting to note that while there is considerable use of performance systems in the recognition of individual contribution, they are not as frequently utilised in the recognition of team contribution. With collaboration being the cornerstone of workplaces today, it is worth exploring why organisations are not reflecting this reality by giving due weightage to team contribution in performance evaluation.

One of the biggest factors perhaps for ineffectiveness of existing systems is the unilateral linkage in the mind of the employee between performance ratings and pay. Employees view this as the single-point agenda, and all other conversations (including those on development focus) do not assume relevance. This hurdle can be overcome by incorporating stronger developmental outcomes and linkages to the performance evaluation process.

It is also observed that while performance management systems are quite effective in promoting certain values or behaviours and encouraging creativity, the outcomes of the system are not a current focus for most organisations. Current systems are focussed on shareholders and how employees have delivered returns to them (usually in financial or numeric terms). Employees themselves are lesser stakeholders in the entire process, as compared to when these systems were first implemented.

Today, employees are key stakeholders of the business, and organisations need to take cognisance of this to ensure that performance management approaches are geared towards employee development and welfare as well.

> ‘A performance management system which is only focussed on business objectives and does not have a developmental agenda is bound to disengage employees who may stop finding the process valuable.’
>
> **Saurabh Raye**
> Head, Performance Management and Careers, TCS

Industry lens

The objectives of performance management systems appear to be largely similar across industries, with most organisations leveraging their system in order to ‘support the delivery of business objectives’. We found that while objectives have a strong linkage to immediate outcomes (revenues and targets), performance management does not seem to be geared towards affecting potentially longer-term outcomes which can be driven by focussing on objectives such as ‘reinforcing specific values or behaviours’. This was in fact the least likely use of performance management systems—with only the IT/ITeS sector citing it to be at 38%.

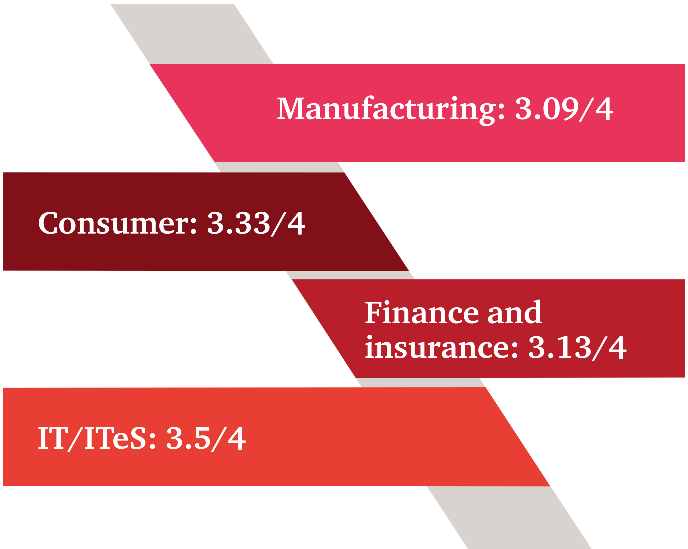
Could it be this unique focus that allows the IT/ITeS sectors to have the highest perceived effectiveness of their performance systems? It may be important for other sectors to take cognisance of how these alternative objectives may be leveraged.

Should performance management systems seek to address a wider range of issues and objectives? Do they need to focus on areas that can drive performance in the long term rather than focussing only on the current day’s performance?

It is also worth noting that despite being a relatively new industry with the highest quantum and frequency of process changes in recent years, the IT/ITeS sector has the highest perceived effectiveness of performance management systems. Could it be their ability to continuously transform themselves that is driving their effectiveness?

This belief may be bolstered by our finding that the manufacturing sector, which is typically a more stable and established industry, enjoys the least perceived effectiveness of performance management systems.

Perceived effectiveness of performance management systems by industry
(on a scale of 1–4, where 4 is highly effective)



Organisational size lens

When we looked at this data through the lens of organisation size (employee strength), we found that the importance of measuring individual contribution is much higher in smaller organisations and decreases with size. This is likely because the visibility of individuals as well as their impact on the business is much higher in smaller organisations.

Taking such realities of the business into account while identifying the objectives for performance management systems may be what allows companies of that size to enjoy a higher perceived effectiveness. Can companies, across sizes, look at objectives that are better linked to business realities such as recognising team contributions?

Are companies taking into account factors such as line of sight, individual impact and managerial visibility while identifying the objectives of their performance management systems?

Perceived effectiveness of performance management systems by size
(on a scale of 1–4, where 4 is highly effective)

Less than 1,000 employees	Between 1,000–10,000 employees	Between 10,000–50,000 employees	More than 50,000 employees
Effectiveness: 3.43/4	Effectiveness: 3.07/4	Effectiveness: 2.99/4	Effectiveness: 3.13/4

2. Impediments

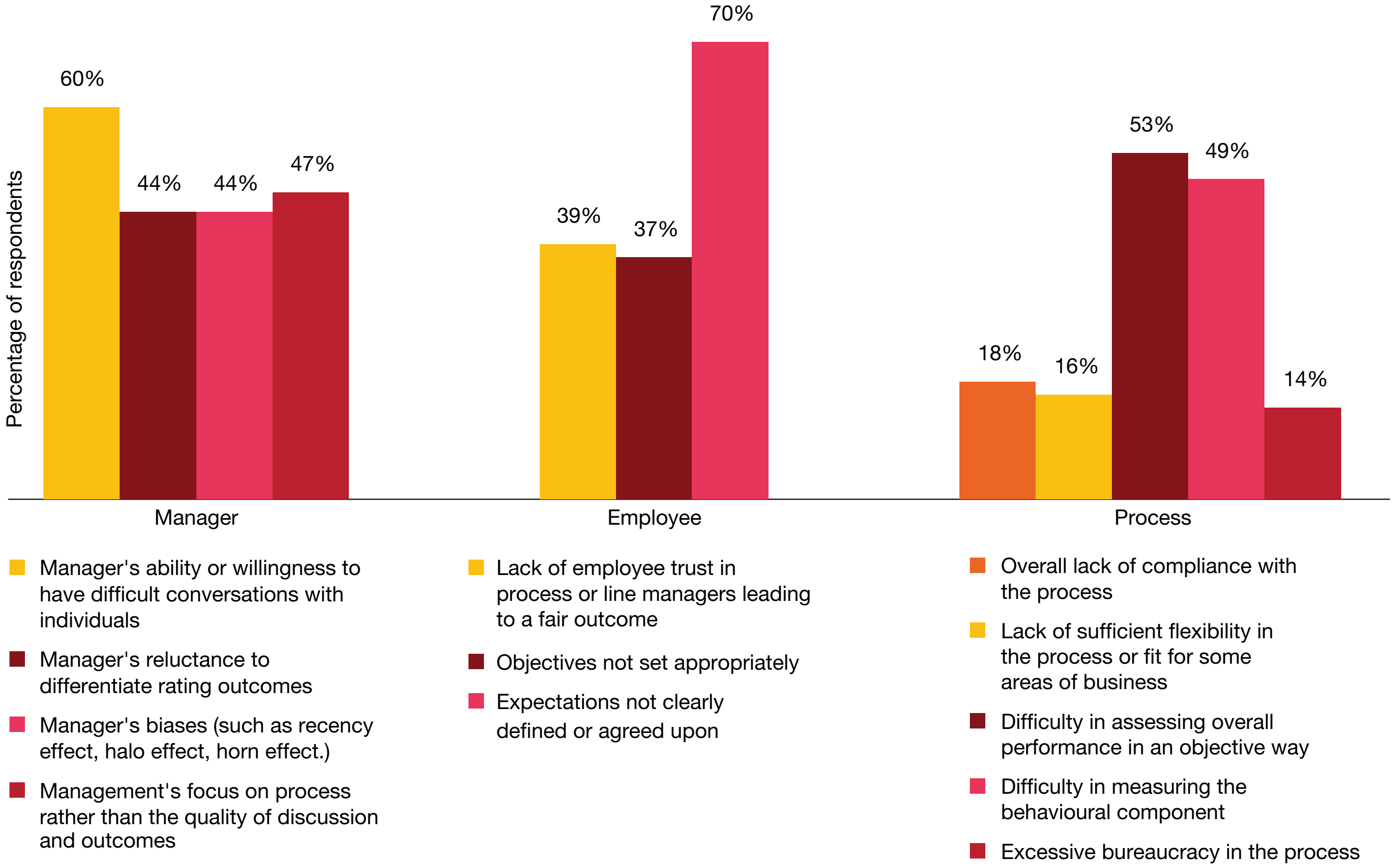
With regard to the factors that impede the effectiveness of performance management systems, the survey revealed that the structural elements of the system (process-related impediments, which are 30% on an average) do not seem to create as many roadblocks as people-related elements (managers and employees, 49% each on an average).

Manager's inability to have difficult conversations, along with inappropriate objective and expectation setting, tends to cause a considerable adverse impact on the system.

HR practitioners that we spoke to echoed this finding and spoke of 'unstated' expectations that always exist between the manager and the employee, beyond what is formally articulated through the process. This can be a major reason for an expectation mismatch and general dissatisfaction with the process outcomes.

Performance management can be broken down into two clear elements: behaviours and outcomes. Current systems tend to promote an objective-setting process that is outcomes driven, rigorous, and relies on technical data to a great degree, sometimes even at the cost of ignoring behavioural and other subjective markers.

Factors that are perceived as impeding the effectiveness of performance management



We found multiple evidence indicating the difficultly that organisations currently face in effectively conducting evaluations concurrently. To overcome the same, many organisations are today maintaining two separate processes: one to evaluate individuals on behavioural elements and another on quantifiable metrics, and both are taken into account while taking critical talent decisions. This reduces over-reliance on a single system. What may need to be evaluated is whether technology can play a larger role in monitoring and evaluating the behaviour of individuals in a more objective manner.

Inappropriately set objectives were found to be another frequently cited impediment to the process. Two factors should be considered as potential contributors to this problem—one being the frequency of objective setting and the other, the basis of objective setting.

Businesses are changing and evolving at a rapid pace, and employees today are working on diverse projects within a short span of time. In such a dynamic workplace setting, does an annual process of objective setting do justice? It is worth exploring if the frequency of objective setting needs to vary based on the nature of the business or the level of the individual who is being evaluated. In that same vein, it is also worth considering that objective setting tends to be largely based on historical data. Although this can be one of the data points, it must be seen alongside market predictions, business plans and other extenuating factors.

What this means for organisations is that while the process needs to be re-evaluated for its ability to support clear expectation setting, organisations need to focus on interventions that enable managers and employees to take more ownership of the performance evaluation process. **Organisations that are implementing purely structural changes to their performance management systems may be attempting to solve a people problem with process solutions.** They can enjoy a richer performance management experience by training managers to have performance conversations, creating a safe environment that encourages teams to engage in open-performance dialogue, and promoting a transparent and unbiased evaluation process.

'Current performance management processes are often unable to evaluate the social element of employee performance—how well you influence others, how open you are to views from others, how open you are to collaborating with others or how good you are at mentoring subordinates. Rich data of this nature can be generated if organisations are able to integrate the employees' contribution and inputs to intranet forums, official blog spots and other online communication platforms with existing performance management processes.'

Saurabh Raye
Head, Performance Management and Careers, TCS

'An effective performance management system needs to be built on the foundations of meritocracy, fairness and equity. While individual managers should be empowered to drive performance, a strong governance structure with adequate checks and balances is essential for ensuring that managerial bias is minimised and perception of fairness is not adversely impacted.'

Judhajit Das
Chief, HR, ICICI Prudential

Industry lens

Our survey analysed these impediments from an industry perspective, and found that managers across industries struggle with having difficult conversations around performance. Our analysis also revealed that employees face an expectation mismatch and the process appears to lack objectivity. These are areas that can be addressed with changes that create a sense of ownership in the organisation and allow factions to work together in order to make performance management effective. Interestingly, the IT/ITeS sector also struggles with managerial bias and lack of employee trust in the process. Could this be an outlook of mutual distrust that arises in young, competitive workplaces that are commonplace in the sector or is there another angle at play? Regardless, these two appear to go hand-in-hand and can be addressed with a single intervention.

Are managers and employees sufficiently empowered to own the performance management process?

Is there any weight to the argument that the effectiveness of performance management systems may be enhanced by taking process delivery responsibilities away from HR and handing them over to line managers, while limiting the role of HR to process design?

Degree of perceived impact of a particular factor
(on a scale of 1–10, where 10 means the factor is an extreme impediment)

Impact	Manufacturing	Consumer	Finance and insurance	IT/ITeS
Manager related	5.3	3.9	4.7	3.0
Major pain point	Ability to have difficult conversations	Ability to have difficult conversations	Reluctance to differentiate rating outcomes	Managerial bias
Process related	3.1	2.0	2.7	3.6
Major pain point	Difficulty in assessing performance objectively	Lack of compliance and difficulty in measuring behavioural component	Difficulty in assessing performance objectively	Difficulty in measuring behavioural component
Employee related	4.8	3.3	5.6	4.0
Major pain point	Expectations not clearly defined or agreed upon	Expectations not clearly defined or agreed upon	Expectations not clearly defined or agreed upon	Employees do not trust process to provide fair outcomes

Organisation size lens

When looking at our survey data from an organisation-size lens we found that, across the board, there is much to be gained from sensitising managers on how to navigate difficult performance-linked conversations.

Smaller-sized organisations have a greater perceived difficulty in assessing performance objectively and a higher level of managerial discomfort with differentiating rating outcomes. Both of these factors reduce with an increase in organisational size. Is this because of the model of evaluation adopted by small organisations or rather the biases that creep in where teams are small and managerial visibility is high? Smaller organisations struggle with creating a fair and open performance evaluation process. Does this struggle arise from the nature of the teams and the interpersonal relationships that exist?

Degree of perceived impact of a particular factor
(on a scale of 1–10, where 10 means the factor is an extreme impediment)

Impact	Less than 1,000 employees	Between 1,000–10,000 employees	Between 10,000–50,000 employees	More than 50,000 employees
Manager related	5	4.9	5.2	4.2
Major pain point	Reluctance to differentiate rating outcomes	Ability to have difficult conversations	Ability to have difficult conversations	Ability to have difficult conversations, manager bias
Process related	3.6	3.02	2.76	3.2
Major pain point	Difficulty in assessing performance objectively	Difficulty in assessing performance objectively	Difficulty in measuring behavioural component	Difficulty in measuring behavioural component
Employee related	3.3	5.1	5.1	4.7
Major pain point	Expectations not clearly defined or agreed upon	Expectations not clearly defined or agreed upon	Expectations not clearly defined or agreed upon	Employees do not trust process to provide fair outcomes

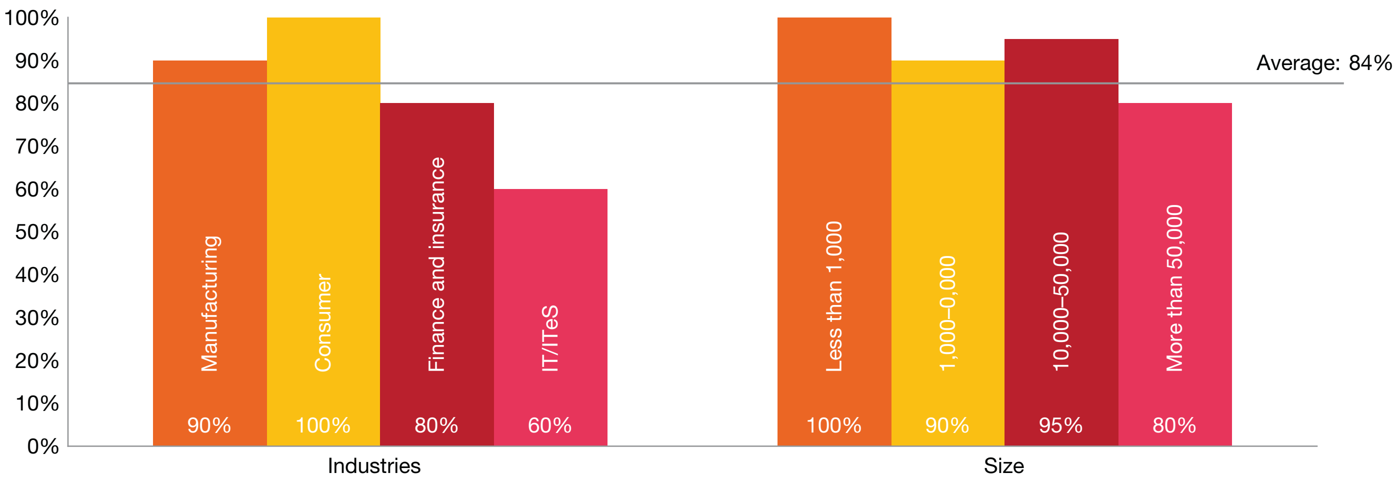
3. Structural aspects

When studying the structure of performance evaluation adopted by respondents, we observed that while on one hand, the use of individual ratings continues to be commonplace (84%), the IT/ITeS sector is moving away from this trend, with nearly 40% of the respondents leveraging project or team-based ratings.

When exploring what could be causing this shift, it is worth considering the age of an industry and the nature of the roles and work therein. The IT/ITeS industry, in comparison to the other industries (consumer, manufacturing and financial services), is a relatively new space and can simply be changing more rapidly than other sectors because of its ability to adapt faster to new approaches of performance evaluation. The sector also has a large number of roles which are better suited to project or team ratings as opposed to individual ratings.

While exploring the scope to implement team-based ratings, organisations need to consider whether a group approach to rating is likely to encourage individual members to excel, and to identify checks and balances to be incorporated to prevent social loafing.

Use of individual ratings



In recent times, India has been witness to myriad instances of organisations of various sizes doing away with the forced distribution approach, either at select or all levels. Many organisations are able to make these changes at a much faster rate, but they are also quick to abandon or reverse changes that do not show immediate results.

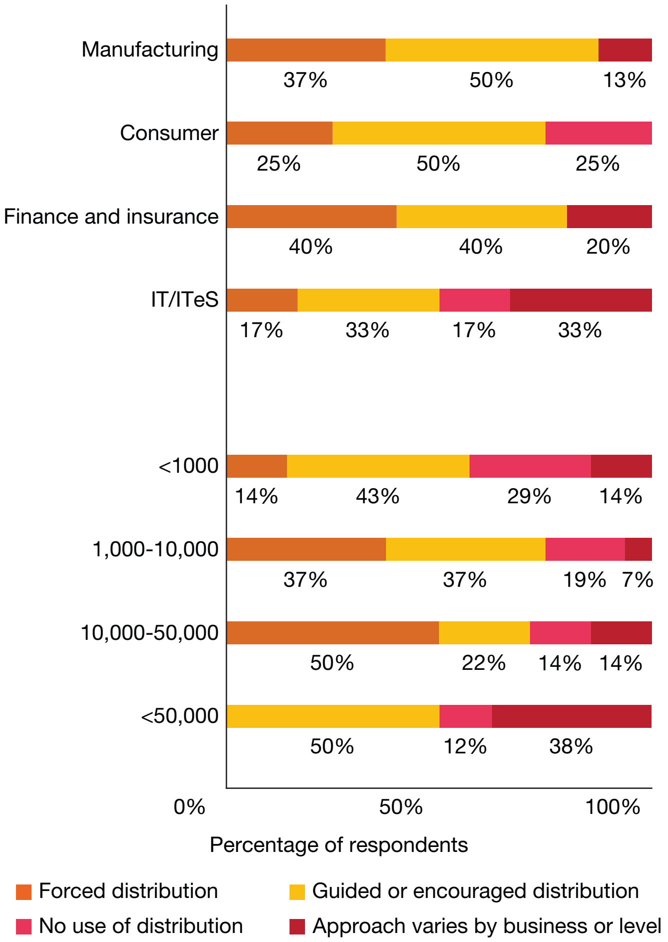
We explored this preference of organisations to move away from the forced distribution approach through our survey, and found that forced distribution at all levels continues to be a common practice in sectors such as finance and insurance and manufacturing as well as in mid-sized organisations across sectors. The IT/ITeS sector, however, is moving away from this approach in favour of adopting an approach that varies by level or type of business and utilises guided rather than forced distribution.

This variation across industries in adopting or abandoning forced distribution may boil down to the nature of roles that are prevalent in the sector. Roles that provide opportunities for an individual performer to add disproportionate business value are likely to be better suited to differentiation as compared to the standardised roles which may be common in sectors such as manufacturing and IT/ITeS.

When exploring this trend through conversations with HR practitioners, we found quite a few instances of a movement away from the concept of the bell curve. However, beyond this commonality, practices varied significantly.

One such instance involves an organisation that has eradicated the ratings system altogether. The new model adopted involves managers evaluating their employees in a holistic manner and providing ongoing feedback. There was no monitoring or follow-up on whether this feedback had been provided and no documentation was maintained either. The underlying philosophy was that managers had to be self-governing, and those who did not follow this practice would have to face the ire of their team during the year-end process. This organisation reported 80,000 hours of manager time being freed up as a result of this changed approach.

Use of distribution



While it maybe too early to pass a verdict on the success or failure of these new models that are replacing the forced distribution approach, these instances are a strong indicator of the fact that organisations are exploring approaches towards performance evaluation that are diametrically opposite to the 'traditional approach'.

On the other hand, it is worth considering that forced distribution serves the dual objective of adding an additional layer of governance to the performance evaluation process while at the same time normalising performance anomalies that may arise due to external factors. In a situation where goals may be set in an equitable manner, while accounting for all extenuating factors, the process of performance normalisation may be irrelevant. However, given the context of inappropriate objective setting and inadequate managerial ability established by the study, doing away with forced distribution can create additional employee distrust in the process.

'In performance rankings in most organisations today, any number except 1 automatically signifies a lower-status position, with pay levels and promotion prospects to match. People carry that number, and the insult implicit in it, mentally around with them for a year, until their next performance review.'

David Rock, Josh Davis and Beth Jones
in *Kill your performance ratings,* 2014

'Healthy differentiation of performance may prevent a good performer from being demotivated, but may not necessarily lead to significantly enhancing his or her motivation to perform better. Differentiation is also a parameter of the work culture that is prevalent in the organisation. Increasingly, one is noticing that people value varying differentiators. For some it could be compensation, for some it could be projects and for others it could be development opportunities. It is important to value them.'

Prabhakar Lingareddy
VP - HR, Agri Business Division, ITC

Performance management and rewards have always gone hand-in-hand and our survey found that current performance management systems are most likely to impact bonus payout decisions, followed closely by salary and career progression through bands.

The focus tends to be on immediate-term (annual) rewards, and this is witnessed in the lower impact (2.38) that performance management systems tend to have on decisions regarding long-term incentives as compared to short-term incentives such as salary (3.33) or bonus (3.56).

Degree of impact that the performance management system has on decisions regarding various kinds of rewards

(on a scale of 1–4, where 4 is strongest possible impact)

Impacts bonus
3.56

Impacts long-term incentives
2.38

Impacts salary
3.33

Impacts career progression
3.27

The focus also tends to be largely on monetary incentivisation of performance. Linking pay to performance is aimed at rewarding past achievement and motivating individuals to perform in the future. **What needs to be contemplated, though, is whether pay is the only or even the most significant mode of reward or if other modes such as career growth and developmental interventions are equally, if not more, effective.** It may be interesting also, inversely, to bear in mind that performance evaluation is only one of the many inputs which determines pay.

'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 ground-breaking products or solutions.'

Debiprasad Das
SVP & CHRO, CEAT

'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.'

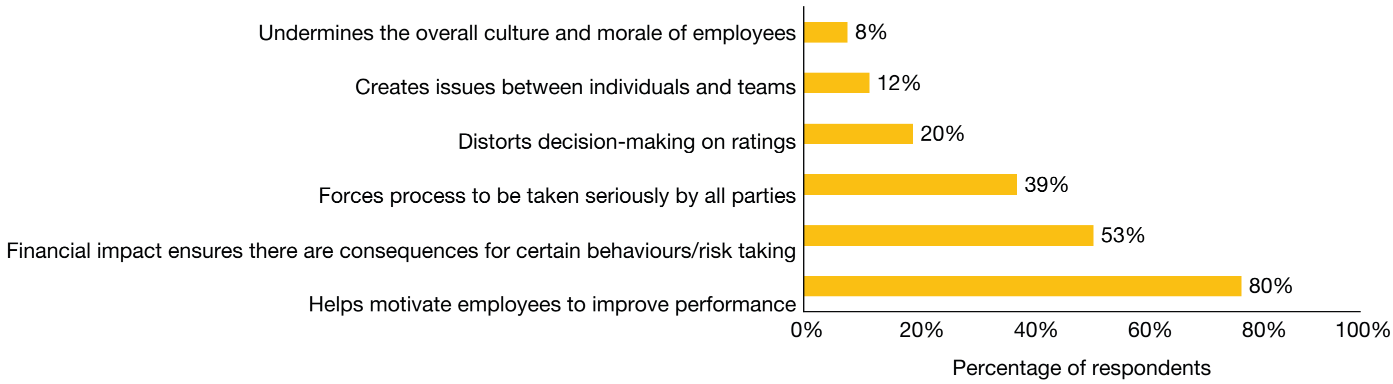
Judhajit Das
Chief, HR, ICICI Prudential

During the course of our survey, we found that while the advantages of linking performance management and the rewards systems seem to outweigh the disadvantages, undesirable outcomes still persist.

It is perceived that linking performance management to rewards distorts decision-making on ratings (20%), undermines morale (8%) and creates interpersonal issues (12%) within the teams.

In the long term, can these negative outcomes have a greater impact than the short-term positive outcomes? Can these concerns be addressed without taking away the advantages created by current linkages? Organisations may consider increasing the linkages between performance and developmental interventions in order to balance the current rewards-only focus and also create a longer-term outlook.

Perceived outcomes of linking performance management systems to rewards (positive and negative outcomes)



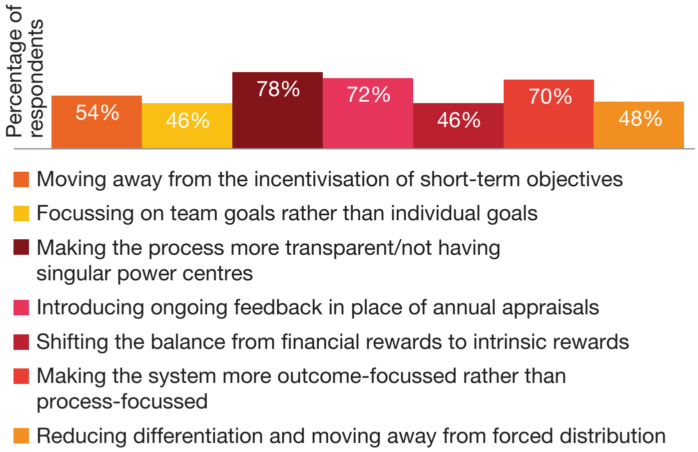
4. Approach to change

Organisations are gradually but certainly acknowledging the need for a change in their approach to managing performance. We found that 52% of organisations surveyed are either currently making changes to their performance management systems or plan to do so in the near future.

Our analysis indicates that organisations are responding to the various challenges of performance management by changing current systems with the aim of making the overall process fair and transparent (78%), introducing the concept of ongoing feedback (72%) and creating a process that is more outcome or result-focussed (70%). These changes tie in with the belief that the experience of an employee is what determines the success of performance management, rather than any process or design aspect such as rating scale and bell curve.

The concept of providing a performance 'experience' rather than a process will mean the introduction of real-time feedback, be it positive or developmental. This can take the shape of ongoing evaluations (throughout the year) with multiple managerial discussions, high-quality interventions and developmental inputs being provided.

Changes that are being made or planned by organisations surveyed



Another cornerstone of the performance 'experience' will be establishing support systems for managers and employees so as to drive systemic changes. This will enable managers to tackle difficult conversations and take ownership of guided-distribution approaches that are becoming commonplace, while enabling employees to better state expectations and also seek and appreciate feedback.

With these or any other changes to systems, most importantly, organisations need to be cognisant of how they are implemented and understood by employees. This will be key to ensuring that employee perception of the process fairness is not impacted.

'Effective performance management starts by contemplating some key questions in the context of your organisation. Should goal setting be top down or bottom up? Should the evaluation process be task based or competency based? How strongly should the performance management system impact development and rewards? Solving these will help to build a perfromance management system that meets organisational strategy.'

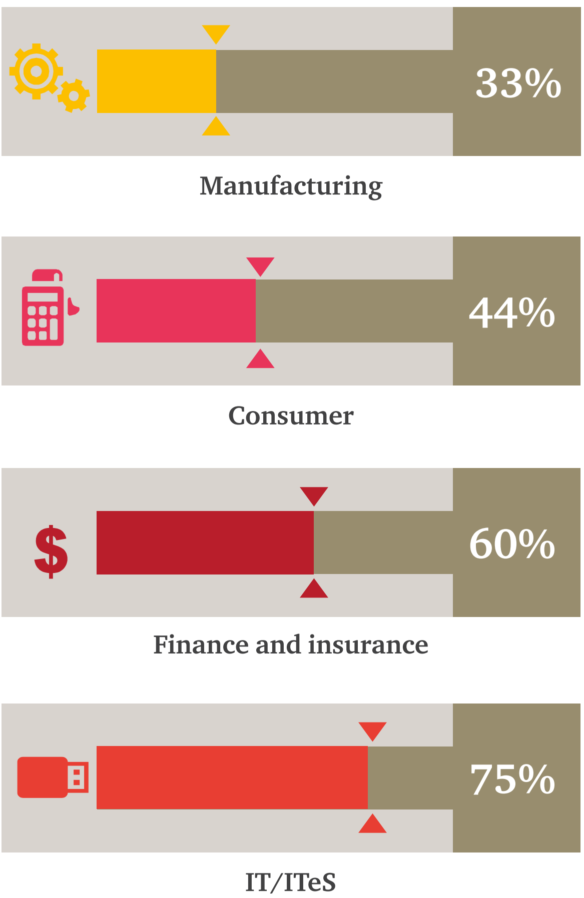
Debiprasad Das
SVP & CHRO, CEAT

'The bottom line is that everybody wants feedback. The millennial employee may want it on a daily basis, whereas more senior employees may want to know how they are doing every month. Frequent development discussion is the aspect which most performance management processes and systems miss or focus the least on.'

Vikram Tandon
Head, HR, HSBC

Industry lens

Percentage of respondents that are making or planning to make changes to their performance management systems



The percentage of manufacturing organisations that indicated an ongoing effort or an intent to make changes to their performance management systems was lower than that of other industries surveyed. This stands at odds with the fact that the sector's current systems enjoy the lowest perceived effectiveness. There is a need for a change, and our survey indicates that organisations are keen to focus on making their process 'more outcome-focussed' (78%) while also introducing the practice of providing 'ongoing feedback' (67%).

The consumer sector is seemingly investing in some changes and voiced the need to focus on creating a performance management process that is 'more fair' (78%), focusses on 'team objectives' and has a 'long-term focus' (56%). These changes do not, however, address the problem of 'compliance to process', which was cited as a major impediment to effective performance management within the sector.

There appears to be a considerable amount of change that is underway or being planned in the financial services space. The areas of focus are to create a process that is 'more fair' (90%), incorporates 'ongoing feedback' and is more 'result-focussed' (70%). These also tie in well with the problems that the performance management systems face in terms of lack of objectivity.

The IT/ITeS sector was found to be the sector with the highest population of respondents that were making or planning some form of change to their current performance management systems. The focus areas within this industry are creating a process that is 'less differentiated' and incorporating the practice of providing 'ongoing feedback'.

Organisation size lens

Our survey found that small organisations appear to be making very few or no changes to their performance management systems. They did, however, cite the need to create a performance management process that 'does not incentivise short-term objectives' (100%), and this is one aspect which will benefit organisations of all sizes.

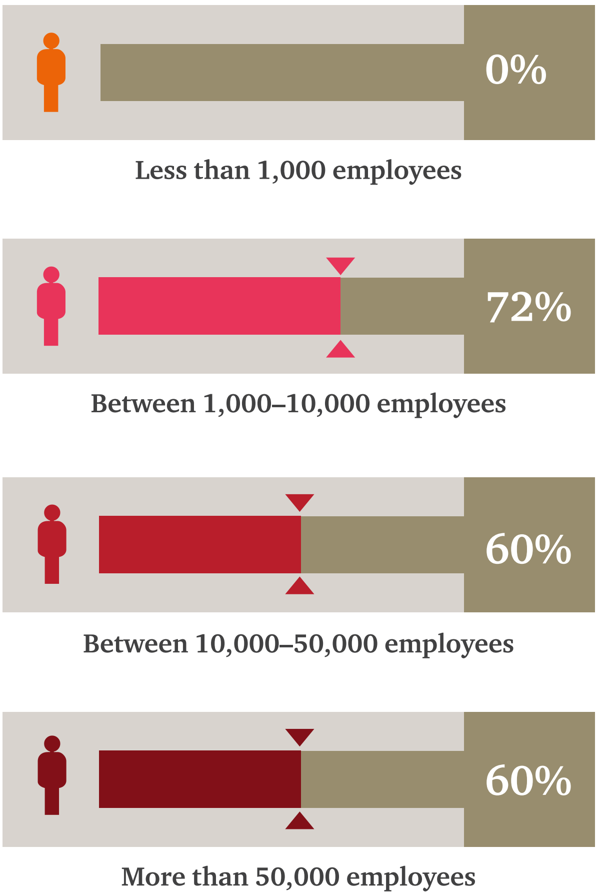
Larger organisations appear to be planning more changes to their current performance systems and one of their key focus areas is to make the process 'more fair', which was the most cited change sought by organisations in the 1,000–10,000 (83%), 10,000–50,000 (73%) and more than 50,000 (80%) ranges.

Additionally, companies with an employee strength of 1,000–10,000 were found to be the most dynamic group that is focussing on creating processes that are 'more outcome- or result-focussed' (72%). This may help them to tackle their concerns regarding their processes not being objective enough.

Organisations with a strength of 10,000–50,000 employees are focussed on incorporating ‘ongoing feedback’ (73%).

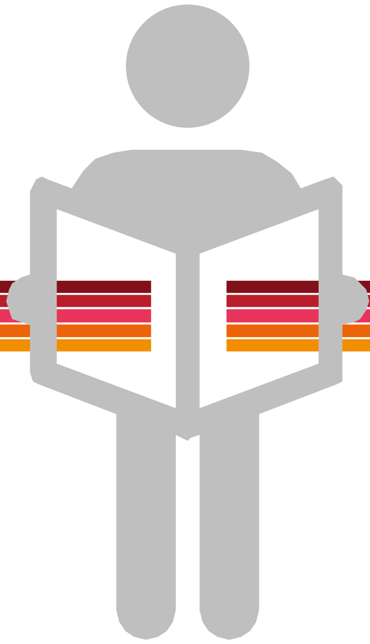
Still larger organisations (more than 50,00 employees) are looking to ‘move from a financial to intrinsic rewards system’ (80%), which is a promising sign since 20% of our respondents believe the outcomes of linking performance management systems to the rewards system to be negative.

Percentage of respondents that are making or planning to make changes to their performance management systems



Some of the changes that HR stakeholders are keen to make to their current performance management approach in order to ensure that their system is future ready and relevant

- Balancing short- and long-term objectives; emphasising long term while focussing on critical short-term objectives
- More transparent process with emphasis on conversations that enhance engagement with the process and outcome
- Ensuring that the performance management system focusses on developing individuals and not just measuring performance
- Introducing and enhancing behavioural competencies to drive individual and organisational performance
- Making the process more employee-centred and having a flexible performance management system, rather than one that is too rigid or structured



- Focussing on measuring the 'what' and 'how' of performance and giving each adequate weightage
- More objective process that is free of biases; introducing a talent council to reduce bureaucracy
- Increasing focus on the quality of the performance-review discussion—while ensuring objectivity
- Designing KRAs that are better linked to JDs and organisational goals, objective and measurable
- Ensuring that managers and employees are empowered and educated to own the performance management system process

Conclusion

The goal of performance management is to enhance the performance of the individual and the organisation 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.**

Therefore, what becomes an important first step is contemplating certain questions against the background of organisational context and realities.

What objectives would you like the performance management process to drive?

Our study reveals that if developmental aspects are not integrated with the key objective of strategy alignment, then the process runs the risk of being narrow in its outlook and unappealing to employees in the longer term.

How can weightage be given to the 'how' of performance?

We found that it is critical for performance evaluation systems to factor and record an 'employee's journey' through the course of his or her tenure rather than just acting as a marker of his or her 'annual destinations'. This means that subjectivity can have its place in the process as long as it does not create opacity.

Is your performance evaluation exercise a mechanistic process or does it offer an experience?

It emerged that a performance management system that only acts as an automated vehicle for the distribution of rewards creates distrust in the minds of employees and strips the managerial cadre of its opportunity to exercise discretion.

Are your employees truly a key stakeholder of the process?

At the end of the day, employees are critical stakeholders of an organisation and often have a longer-term association with the organisation than its shareholders. In this context, it is time companies changed their focus to implementing performance management models that are better geared towards meeting the needs of employees.

'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

Are your managers enabled and empowered enough to own the current processes?

Recent examples have indicated that training managers, trusting and empowering them, while leaving them to deal with the consequences of providing inadequate time to their employees, can also prove to be a sustaining and self-governing method of performance management.

Does your performance management system balance empowerment with governance?

While it is important to empower managers and employees alike to play a greater role in the performance management process, it is critical to ensure that there are checks and balances that keep the process from becoming unfair and creating centres of unbridled power of control.

'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, HSBC

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If you would like to discuss any of the issues raised in this report, you may connect with:

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