

Performance Management: Linking Rewards to Performance

Mitushi Jain

Abstract

Performance management (PM) includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product of service, as well as many other areas. PM is also known as a process by which organizations align their resources, systems and employees to strategic objectives and priorities.

Today organizations are showing a high degree of commitment towards reinforcement of reward practices which are aligned with other HR practices and the goals of the organization for attracting, retaining and motivating employees. Efficient reward practices helps in attracting result driven professionals who can thrive and succeed in performance based environments.

Hence, it is a crucial motivator and may contribute towards the enhancement of the productivity of the employees if implemented properly. For example, *Continental Airlines* as a part of their turnaround strategy introduced on time bonus incentive package according to which an employee will gain a bonus of \$65 every month for ensuring on time flight operations.

Keywords: Meaning of performance management; Importance; Reward system; Benefits of performance-based rewarding approach; Pay for performance strategy.

Introduction

The word "Performance" mean a lot in the organizational sector. Organizations need to perform well continuously to sustain its place in the competitive market. For an organization to perform well, the contribution from each individual employee working for it, should reach its height. How to gain higher performance from individual employees? – is an important question, for which the HR people need to come out with the possible solution suited for their organization. The term coined to handle this process is referred as "Performance Management".[1-3]

Performance management can be defined as a continuous process of assessing and measuring the performance of an individual and aligning it with the organizational goals. It is the job of the HR people to design an effective performance management system.

Expansion for the word "Perform", best explains it.

- P - Potential**
- E - Enthusiasm**
- R - Reliability**
- F - Flexibility**
- O - Orientation**
- R - Reengineering**
- M - Motivation**

Author's Affiliation: *Associate Professor, Dept. of Applied Science and Humanities (Management), IIMT Engineering College, Meerut, Uttar Pradesh, India.

Reprint's request: Dr. Mitushi Jain, Associate Professor, Dept. of Applied Science and Humanities (Management), IIMT Engineering College, Meerut, Uttar Pradesh, India.

E-mail: molshri2000@rediffmail.com

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Importance

Before proceeding further, let us have a look on why performance management is needed. If there is no measure to performance, there will be no sign of feedback and continuous

improvement. When employees monitor and assess themselves on their performance, then no lines can be drawn to link employee's contribution with organizational goals. At the end there will be a large gap which remains unfilled thereby affecting the organization's growth.

In any marketing firm, number of sales and customer service are the determining factors. Sales persons should be motivated to improve the number of sales in a day, by measuring their performance, giving them actual feedback for their improvement and acknowledge them for their outstanding performance.[4-7]

Reward System

Many think that appraisal (measuring performance) is the only necessary branch out from the performance management system, but the system includes two other important subsystems,

- Feedback system – for aligning performance with organizational goals.
- Reward system – for motivation and continuous improvement.

The reward systems include returns given to the employees in the form of cash (benefits, pay raises) or recognition programs (intangible form).

The traditional approach of rewarding employees was only based on their job description and not on how they perform. Even the benefits and incentives are biased to the seniority position in a job. Though the employee performs well, he has to wait in a queue to attain the seniority for the pay raise. So this approach had no records for motivation and continuous improvement in the minds of employees.[8-11]

Why Link Reward to Performance

To connect two ends of the rope, a knot is required; to make it lengthy and useful for long run. Likewise, the tie up between the reward and performance should be made for employee

retention and their commitment to work, which ultimately improvise the contributing factor of the employee. Employees should perform well to be rewarded and the approach designed for this is "Pay for Performance". Apart from the base pay, which is based on job description, a variable pay should be announced for their outstanding performance.[12,13]

Although the pay raise motivates the employees to an extent, ultimately they want them to be appreciated and recognized in a society for their work, here comes the employee recognition program. Many employees become less committed to work not because of their low pay structure, but for the lack of recognition. Both types of rewarding system should be ensured for higher motivation, retention, engagement and job satisfaction.[14]

A simple example for performance based reward system can be best explained by the game of cricket. When a bowler or batsman performs well in a match, his performance is rewarded by the cricket council through the title "Man of the Match" and cash award. It motivates the winner and also the team players to perform well for their team.[15]

Benefits of Performance-based Rewarding Approach

An effective Performance-based Rewarding approach can bring out multiple benefits to an organization and employees,

1. Decreased attrition rate, which empowers employee retention in long run and commitment. Due to decreased attrition rate and increased employee retention, recruitment cost is less which helps in the financial stability of the organization.
2. Motivate employees to perform better, aligning with the organizational goals. Employees get a clear insight of what should be done to meet the goals.
3. Employee involvement (Participation Management) is increased which results in autonomy, more productivity and

satisfaction. Employees feel that they are part of a big success, enabling more confidence and innovation in work.

4. Rather than working on routine jobs, employees volunteer to work on challenging jobs to increase their recognition levels in the working society. It enforces healthy competition among individuals to perform better.
5. Employee gets a chance to learn and enhance their skills, which highlights their development in career.[16]

Pay for Performance Strategy

A healthy pay for performance strategy should incorporate the following components as is provided in the table given below:

Today, variable pay is a very vital component in the reward practices of an organization and it differs across various sectors also. A table given below presents the trends in the usage of variable pay component across different sectors in two different years:

Rewards can be a vital source of motivation for the employees but only if it is administered under right conditions. Few strategies which improve the effectiveness of rewards are given below:

- Linking rewards with the performance
- Implement team rewards for the interdependent jobs for example Xerox.
- Ensuring that the rewards are relevant. Example Wal-Mart, rewards bonuses to the top executives which is based on the company's overall performance whereas the frontline employees earn bonus on the basis of the sales figure or targets attained by their store.
- Ensuring that the rewards are valued by the employees.
- Checking out for the undesirable consequences of administration of any reward practice.[17-20]

Conclusion

For the real success of the system, it should be implemented without any bias or oversight. When employees perform well, he should be acknowledged rightly by the supervisors. HR department should not make this process to follow over a night; its importance has to be stressed to the supervisors and employees at all levels. When a perfect system is implemented, it results in higher retention of talented employees and greater profits to the organization.

An effective reward system should be linked with the performance development system, which focuses on performance based pay and offers ample learning opportunities along with a healthy work environment. Variable pay can play a crucial role in boosting the performance of the employees especially the star performers instead of the fixed pay packages. Few such reward practices may take the forms of gain sharing, bonuses, team based incentives, profit sharing, ESOP's and equity based incentive awards.

An efficient management of reward system may have a beneficial effect upon the performance in several ways - instilling a sense of ownership amongst the employees, may facilitate long term focus with continuous improvement, reduces service operating costs, promotes team work, minimizes employee dissatisfaction and enhanced employee interest in the financial performance of the company.

Few organizations like General Mills, reward their employees for attaining new skills which may add value to the organizational performance and thereby facilitate job rotation, cross training and self managed work teams.

Few organizations also recognize exceptional performance by providing recognition awards and lump-sum merit awards for winning employee commitment and attaining long term beneficial results.

Example, TISCO, offers instant or on the spot rewards, monthly rewards and annual rewards to its employees under its 'Shabashi scheme'.

Besides the monetary rewards, the contemporary employees desire for non monetary rewards which may be in the form of better career opportunities, skills development and recognition programs. Many IT and project based organizations give much importance to non-monetary rewards for maximizing employee satisfaction.

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