A Study on Performance Management System
(With reference to Dr. Reddy’s Laboratories, Hyderabad)

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Abstract: This study was undertaken for a period of four weeks at Unit-II of Dr. Reddy’s Laboratories Ltd., Hyderabad. The main aim of the study was to evaluate the existing performance management system and to find out the employees’ opinion regarding its effectiveness and to provide suggestions to the management. A standardized questionnaire was administered to 46 employees of various departments which included packing, quality assurance, production, warehouse, manufacturing, human resources, teaching and training. The employees selected for the study varied in terms of their experience and work levels. The researcher had adopted convenient sampling technique for collecting data from various departments. The collected data was analysed using SPSS and MS Excel. The statistical tools like correlation, and chi-square were performed to find the relationship between dependent and the independent variables. After the analysis and interpretation of data, it was observed that the overall performance management system is effective within the organization and there are standardized procedures to implement the performance management system across departments in the organization. The organizational culture is very supportive and encouraging and all the employees are respected irrespective of their position. On the other hand, it was found that the employees had a perceived fairness about activities relating to communication of goals and decisions from the top management, rewards and recognition policies etc. and priority is being given to the experience of employees’ in the organization.

1. Introduction

Organizations need various resources for their functioning. The required resources are grouped into four categories: Human, Informational, Material and Financial. Among these, human resources are decisive, because the other resources are directly generated through the decisions of human effort. In any organization, no matter its size or object of activity, general management is influenced by a series of issues like the communication between departments, the employee’s satisfaction derived by work, the current organization of human resource management activities, the motivation, the quality of the hierarchical relationships and the employee’s willingness to accept major changes. In light of the rapid growth and development at industrial sectors, it is crucial to keep control of what is going on in the organization and where the organization is going. The essential tool for keeping track of employee performance and to find future potential for the organization is performance management system and it is used to monitor the development and take actions accordingly.

Organizations can achieve its set goals only when they have a committed group of employees. In this dynamic organizational environment, employees are expecting much more than benefits in cash or kind. Gone are the days where employees would work for financial benefits. For an organization to be a successful employer, it has to satisfy the changing needs of the employees. If it is not done effectively, there are all the possibilities for the employees to either leave the organization (which increases the attrition rate in the organization), or the more worst scenario, where the employee will still work for the organization, but his/her performance will not be satisfactory.

Any employee leaving the organization is less dangerous than an employee staying in the organization and not performing well. The cost to the organization increases if they retain such employees. Thus an effective performance management system is indispensible for an organization to retain the valuable human resources. Hence the present study on effectiveness of performance management system is need of the hour.
2. Literature Review

In the present world, organizations are forced to face many competitive conditions and they have to deal with the changing environments, which is making the organizations to enter into a new era of dynamism, optimization of resources and increasing the productivity of the company. These concepts have thus brought performance management into a core juncture. Consequently organizations are starting to implement performance management that replicates the new form of the organization and its prominence on assimilating work, multidimensional guidance and flexible employments. Arvey & Murphy (1998) Mohrman & Cohen(1995)

In view of HRD practices, Performance management is regarded as an integrated system of collecting relevant information, providing feedback to the employees and other teams or work groups and relating that information for refining the effectiveness of the organization (Bernardin et al., 1998). Thus performance management is considered to extend beyond evaluations and arrangements that have been focused so much in many researches and practices.

Nevertheless, performance management has extensively been considered as one of the most serious yet troubling parts of HRD along with HRM. Austin (1992) Bernardin, Kane, Ross, Spina, Johnson (1996) Cardy & Dobbins(1994). Defining the term performance in a performance management system is considered to be a critical one.

Various researches on performance evaluation have concentrated on defining performance. Performance is typically depicted as anticipated results, conducts, approaches or traits. However there are some researchers who define performance as the end result of the accomplishment. Bernardin & Beatty (1984) define performance as the record of results produced on an identified job function, action, or conduct during a specified period.

Over a period of time, assessing the performance of employee was restricted primarily on the qualitative outcomes that are mostly stagnant and sometimes dysfunctional. But with the changing nature of work, the need for continuous improvement and adaptability is necessary which focuses mostly on a more dynamic and process-oriented view on the performance of the employee.

Furthermore, the challenging task for several HRD experts is not only to establish an effective performance management system that reduces the negative consequences but a system that also generates positive results to both individual and organizational performance. Lawler (1994), Mohrman, Resnick, Lawler (1989). The following hierarchy chart shows the three important elements of the performance management system. (Eul(2006)

3. Gap Analysis

The review conducted by the researcher give a detailed account of the various aspects of an effective performance management system. The studies highlight numerous factors that contribute to make a performance system more effective and the attributes that an employee looks into for a good performance management system. Various studies are conducted in various sectors; this study is very specific to pharmaceutical industry. And hence the study on the effectiveness of Performance management system in Dr. Reddy’s Labs was undertaken by the researcher.

4. Company Profile

Dr. Reddy’s Laboratories Ltd was founded in the year 1984 by Dr. K. Angi Reddy. It is one of the India’s largest pharmaceutical companies. It has been ranked the second largest pharmaceutical company in India. Its headquarters is located in
Hyderabad, India. The major functions of the company include producing and selling pharmaceutical ingredients, finished medicines and biologics. It is a prominent manufacturer of ulcer medicines, antibiotics, pain relievers, antidepressants and cardiovascular drugs.

Market of Dr. Reddy’s Laboratories extend approximately in about 100 countries, while the main focus is retained on Europe, India, USA and Russia. Dr. Reddy’s Laboratories became the first pharmaceutical company in the Asia Pacific region to be listed on New York stock exchange. Research and development is carried out in the company on a continuous basis in diabetes, cancer, cardiovascular diseases and bacterial infections. The company’s products have an average of 120 medications and 60 active pharmaceutical ingredients that are required for further drug manufacturing.

Dr. Reddy's has been the only Indian Pharmaceutical Company that has been ranked 13 among the top 25 companies in India. Hewitt Associates (a global management consulting firm) along with Business Today (one of India’s leading business magazines) announced Dr. Reddy’s as “Best Employers in India - 2002.”

4.1 Performance Management process in Dr. Reddy’s Laboratories:

The performance appraisal at Dr. Reddy’s Laboratories is called „PerfECT”. PerfECT stands for „Performance Enhancement and Coaching Tool”. This tool is all-inclusive in the organization.

PerfECT at Dr. Reddy’s fundamentally focuses on employee development, which means the superior has to necessarily take primarily a role of a developer or a coach in relation to the employee. This implies that the focus is on employee performance improvement and growth and not merely on rewards and discrimination, but in alignment with the organizational strategy. A performance rating is thus not the primary aim of the PerfECT process.

5. Research Methodology

5.1 Introduction

Research Methodology is an approach to find out the outcome of a given problem on a definite matter or problem also referred to as research problem. In Methodology, researcher uses diverse criteria for solving/searching the specified research problem. Different researchers adopt different styles of methods for solving a problem.

The researcher after reviewing several article on performance management system has understood the importance and significance of having an effective performance management system to motivate and retain employees who are the core assets of the organization. Hence the study was conducted in Unit-II of Dr. Reddy’s Laboratories; Hyderabad to analyze the effectiveness of the performance management system. A structured questionnaire was designed in consultation with the HR personnel and it was administered among 20 employees for pilot testing. The population was approximately 200. Due to time constraints the researcher has used convenient sampling techniques and has administered questionnaire to 46 employees.

The collected questionnaires were checked for their validity and reliability using the cronbach alpha method where the reliability factor was 0.80 denotes an acceptable internal consistency for a questionnaire. The questionnaire was analysed using Statistical Product and Service
Solutions (SPSS) software after setting the hypothesis. Percentage analysis, correlation and chi-square tests have been used to find the relationship among dependent and independent variables and their degree of relationship.

5.2. Hypotheses:

A hypothesis is a specific statement that predicts in concrete terms as to what is expected to happen in a study. Any statistical analysis begins with setting the hypothesis. A study may have more than one hypothesis.

Following are the hypotheses that are set for the present study:

For Chi-Square:

(A). Relationship between independent variable and the department in which the employee is working:

i) Overall performance management system:
H0.1: There is no significant relationship between Department in which the employee is working and overall performance management system.
H1.1: There exists a significant relationship between Department in which the employee is working and overall performance management system.

ii) Career and personal growth:
H0.2: There is no significant relationship between Department in which the employee is working and Career and personal growth.
H1.2: There exists a significant relationship between Department in which the employee is working and Career and personal growth.

iii) Communication in the organization:
H0.3: There is no significant relationship between Department in which the employee is working and communication in the organization.
H1.3: There exists a significant relationship between Department in which the employee is working and communication in the organization.

iv) Policies and procedures:
H0.4: There is no significant relationship between Department in which the employee is working and policies and procedures.
H1.4: There exists a significant relationship between Department in which the employee is working and policies and procedures.

v) Rewards and recognition:
H0.5: There is no significant relationship between Department in which the employee is working and Rewards and recognition.
H1.5: There exists a significant relationship between Department in which the employee is working and Rewards and recognition.

vi) Compensation:
H0.6: There is no significant relationship between Department in which the employee is working and Compensation.
H1.6: There exists a significant relationship between Department in which the employee is working and Compensation.

(B). Relationship between independent variable and the years of experience the employee has in the organization:

vii) Overall performance management system:
H0.7: There is no significant relationship between Department in which the employee is working and overall performance management system.
H1.7: There exists a significant relationship between Department in which the employee is working and overall performance management system.

viii) Career and personal growth:
H0.8: There is no significant relationship between years of experience the employee has in the organization and Career and personal growth.
H1.8: There exists a significant relationship between years of experience the employee has in the organization and Career and personal growth.

ix) Communication in the organization:
H0.9: There is no significant relationship between years of experience the employee has in the organization and communication in the organization.
H1.9: There exists a significant relationship between years of experience the employee has in the organization and communication in the organization.

x) Policies and procedures:
H0.10: There is no significant relationship between years of experience the employee has in the organization and policies and procedures.
H1.10: There exists a significant relationship between years of experience the employee has in the organization and policies and procedures.

xi) Rewards and recognition:
H0.11: There is no significant relationship between years of experience the employee has in the organization and Rewards and recognition.
H1.11: There exists a significant relationship between years of experience the employee has in the organization and Rewards and recognition.

xii) Compensation:
H0.12: There is no significant relationship between years of experience the employee has in the organization and Compensation.
H1.12: There exists a significant relationship between years of experience the employee has in the organization and Compensation.

(C). Relationship between independent variable and work level of the employee in the organization:

xiii) Overall performance management system:
H0.13: There is no significant relationship between Department in which the employee is working and overall performance management system.
H1.13: There exists a significant relationship between Department in which the employee is working and overall performance management system.

xiv) Career and personal growth:
H0.14: There is no significant relationship between work level of the employee in the organization and career and personal growth in the organization.
H1.14: There exists a significant relationship between work level of the employee in the organization and career and personal growth in the organization.

xv) Communication in the organization:
H0.15: There is no significant relationship between work level of the employee in the organization and communication in the organization.
H1.15: There exists a significant relationship between work level of the employee in the organization and communication in the organization.

xvi) Policies and procedures:
H0.16: There is no significant relationship between work level of the employee in the organization and policies and procedures.
H1.16: There exists a significant relationship between work level of the employee in the organization and policies and procedures.

xvii) Rewards and recognition:
H0.17: There is no significant relationship between work level of the employee in the organization and rewards and recognition.
H1.17: There exists a significant relationship between work level of the employee in the organization and rewards and recognition.

xviii) Compensation:
H0.18: There is no significant relationship between work level of the employee in the organization and compensation.
H1.18: There exists a significant relationship between work level of the employee in the organization and compensation.

6. Data Analysis

6.1 Introduction:
This section analyses the data that the researcher has collected for the research. It condenses the whole questionnaire into tables and charts and interprets them. Since questionnaire was the main source of data collection, qualitative data analysis is adopted by the researcher.

The main analysis that was performed by the researcher is correlation and chi-square. The former is used to find the relation between the dependant variable with each of the independent variable. The latter is done to find out the extent of relation that the demographics have with those of the variables, both dependent and independent.

6.2 Quantitative Data Analysis:

6.2.1 Correlation analysis:
A correlation can be defined as a relationship between two variables. The purpose of doing a correlation analysis in research is to understand which variables are connected to each other. The more the correlation value is towards 1, more the variables are related.

In the present correlation analysis, the dependent variable i.e., overall performance management system is correlated individually with each of the independent variables to find out which variable contributes the most to the effectiveness of performance management system. The following table shows the correlation coefficients between overall performance management system and each of the other variables:
Analysing the above table, it can be concluded that career and personal growth and overall performance management system are strongly related to each other with correlation coefficient 0.67 followed by rewards and recognition with value 0.62, communication with coefficient 0.59 and for compensation being 0.52. Policies and procedures’ correlation coefficient is 0.29 which shows a weak relation with the overall performance management system.

5.2.2. Chi-square:

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>CORRELATION COEFFICIENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career and personal growth</td>
<td>0.67</td>
</tr>
<tr>
<td>Compensation</td>
<td>0.52</td>
</tr>
<tr>
<td>Rewards and Recognition</td>
<td>0.62</td>
</tr>
<tr>
<td>Communication</td>
<td>0.59</td>
</tr>
<tr>
<td>Policies and Procedures</td>
<td>0.29</td>
</tr>
</tbody>
</table>

It was found that each of the independent variable have a positive/direct relation with the dependent variable.

Following are the suggestions that are given by the researcher to the findings that has been derived from the analysis. Each finding is given a unique suggestion for improving the effectiveness of the performance management system.

Finding - 1:
Promotion decisions are not directly linked to their performance. (Years of experience and the work level of the employee are affecting career and personal growth).

Suggestions:
The company can incorporate a combined reward, recognition and career planning based on the potential and performance of the employee. Following are the suggestions based on the capabilities of the employee.

<table>
<thead>
<tr>
<th>Category</th>
<th>Management Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Potential</td>
<td></td>
</tr>
<tr>
<td>Low Performance</td>
<td></td>
</tr>
<tr>
<td>To be weeded out</td>
<td></td>
</tr>
<tr>
<td>High Potential</td>
<td></td>
</tr>
<tr>
<td>Low Performance</td>
<td></td>
</tr>
<tr>
<td>o To be counselled that despite high potential, his performance is below the mark.</td>
<td></td>
</tr>
<tr>
<td>o Opportunities to be provided to use high potential through career planning.</td>
<td></td>
</tr>
<tr>
<td>Low Potential</td>
<td></td>
</tr>
<tr>
<td>High Performance</td>
<td></td>
</tr>
<tr>
<td>o High performance can be moderately rewarded but career planning not needed due to low potential</td>
<td></td>
</tr>
<tr>
<td>o Can be consulted for a job change (if potential is moderate)</td>
<td></td>
</tr>
<tr>
<td>o Succession Planning is necessary for such employee because he could be a specialist</td>
<td></td>
</tr>
<tr>
<td>High Potential</td>
<td></td>
</tr>
<tr>
<td>High Performance</td>
<td></td>
</tr>
<tr>
<td>o To be suitably rewarded</td>
<td></td>
</tr>
<tr>
<td>o To be watched – he might have “gypsy” attitude because of his awareness that he has a good market value</td>
<td></td>
</tr>
<tr>
<td>o To give avenues of growth through career planning</td>
<td></td>
</tr>
<tr>
<td>o Succession Planning should always be ready for such employees</td>
<td></td>
</tr>
</tbody>
</table>

Finding – II:

8. Suggestions to the company:
Compensation is one of the ways to recognize the effort but not the only way and employees are expecting recognition beyond annual-increments.

Suggestions:
- Formal commendations and awards.
- Favourable mention in company publications.
- Private, informal recognition for jobs well done.
- Public recognition
  - Praise
  - Certificate of accomplishment,
  - Letters of appreciation.
- Status indicators such as
  - New and enhanced job title
  - Larger work area, promotion
  - Ability to supervise more people and newer or more equipment.
- Time such as
  - Taking long breaks
  - Leaving work earlier (in case of some urgency)
- Sabbaticals.
- Freedom
- More challenging work environment.

Finding – III:
Feedback given to employees regarding their performance is not adequate and timely and the process should be more fair and transparent.

Suggestions:
The purpose of performance management is to improve every employee’s day-to-day involvement at work. To achieve this performance management need not be a top-down process. Essentially it could be as simple as an instant tip from a teammate (and a thank you in response). This will help the company to build a culture of knowledge sharing which in turn enhances the performance of employees.

The discussion about past performance can be challenging, particularly when performance levels have not reached the acceptable level. Following are the 4 simple steps that solve two critical issues of performance management system i.e., perceived opinion of the employees that the system is not fair and transparent and adequate feedback that the manager can give to the employee to enhance his performance for the next year.

Step: 1 – Ask the employee to voice their views about their performance during the past year. Specifically ask them to share the things they believe they particularly did well and areas in which they think they can do better.

Step: 2 – The manager should tell them about the performance evaluation that is prepared.

Step: 3 – Talk about the issues which both the manager and the subordinate agree upon.

Step: 4 – Discuss the issues for which both of them may have different perspectives. Manager should explain the reasoning behind his/her views and hear from the subordinate his/her views. In terms of evaluation, first make sure that both of them agree on the specific goals and objectives of the job. Then discuss about the results achieved by the subordinate during the year. Finally, the manager has to discuss the overall rating and should give reasons for the appropriate score. At the end the manager should conclude with informal conversation for couple of minutes.

Finding – IV:
All departments do not have same level of communication from the top management regarding the goals, vision, mission and any other decision taken by them.

Suggestions:
According to the analysis, it was found that the employees perceive that there are barriers to communication. These can be minimized with considering the following ways that minimize the effects of communication barriers:

1. Involve employees:
Involve employees in the design of the system. People support what they help create. The higher the level of participation is in designing the system, the greater the support for the system will be.

2. Understand employee needs:
Understand the needs of the employees and the ways that can be met through performance management. Provide a clear, convincing and personal answer to “What’s in it for me?” question.

3. Strike first:
Whenever there are changes in the performance management system, make the employees aware of the advantages and reasons for the change before any rumours are created. Discuss some of the arguments that might crop up in the future and provide evidence to counter them.
4. **Provide facts and consequences:**
General facts do not speak for themselves. It is the duty of the management to clearly explain the facts to the employees before they interpret it themselves. Do not let the employees draw their own conclusions as they may not be same as yours.

5. **Put it in writing:**
It is commonly believed by the Westerners that written communication is more powerful and credible as it gives the viewer the time to carefully examine and it can also be challenged for accuracy. So create documents about the system and pass it online to all the employees.

6. **Use multiple channels of communication:**
It is always effective to communicate to the employees in different ways. The information can reach to employees through e-mails, paper communication and meetings. Make employee exposed to the message through different channels so that he can reinforce the message. But the company should make sure that there is consistency in the messages sent through all the channels.

7. **Use credible communicators:**
Communication should be delivered by people who are trusted the most within the organization. It would be more effective, if the person through whom the message is communicated is one of the key dominant players of the organization.

8. **Say it, and then say it again:**
Repeat the same information frequently. People can absorb only a small amount of information at a time. So the message will be registered more effectively if it is frequently communicated.

**General suggestions:**
These are the general suggestions that the company can consider to make a difference in the performance of the employee. All these suggestions do not need a drastic change in the company’s policies or a turn-around strategy. All that the company needs to do is encourage managers to follow these steps and encourage others to do so. If every person in the company follows these effortless steps, it changes the culture of the organization slowly but surely.

1. Best-practice performance management is in looking forward and focusing on constructive reinforcement, goals, acknowledgement and autonomy.

2. To achieve a high performing organization, the company should understand that intrinsic motivation helps employees work more effectively than positive or negative reinforcement. An effective performance management system aims at three elements required for intrinsic motivation:

   - **Autonomy** is provided by giving people targets and the freedom to achieve them in their own way.
   - **Mastery** is driven by giving feedback and coaching, which supports employees to build their capabilities and skills.
   - **Purpose** is formed by giving people clarity to business objectives by means of constructive feedback and frequent check-ins (and the company should ensure that all goals are aligned with those targets).

3. To promote a culture of feedback, a leader can have an informal conversation with the employee regularly, preferably on a weekly basis or every fortnight and provide feedback to different people which convey:

   - 4 pieces of positive feedback, and
   - 1 piece of constructive feedback.

4. **Other suggestions:**

   - In case employee change from one department to another, or if there is a change in the boss, employees believe that the feedback will be more effective if bosses to be available during review and rating of change in Boss or department
   - Employees are expecting feedback from L+1 and L+2 during review period. (L=Level; L+1= Next level in hierarchy)
   - The company can also think about building on the factor that employee and L+1 are on the same platform for performance management.
   - Employees are feeling that the process is complicated, time-consuming and also the frequency of interaction with leaders should be increased for more effective results.
   - Managers are to be trained well about the effective communication not the performance of their subordinates.
   - Replace bell curve method of performance appraisal with another
approach as it is very demotivating and they also feel that Z-raters should also get at least a minimum reward.

- Employees will be ambiguous about the appraisal process if they do not have proper idea of what exactly are the policies followed in case of performance appraisal. The management should ensure that the employees are clear about the policies being communicated to the employees and involve employees in each and every stage of performance management system to ensure that the process is transparent and unbiased.

6.4 Competency centred performance management systems:
In the present corporate world, competency centred performance management systems are serving as useful tools for enhancing employee understanding about the expectations of the company and the ways for improving their competencies. This process aims at standardizing and integrating all human resource activities by depending upon competencies which support accomplishment of organizational goals.

Performance management systems are built on employees’ personal competencies will differentiate high and average performers and these personal competencies should be derived from the principles and core competencies of an organization.

Competencies can be combined with the performance management process by any one of the following two ways:

1. By recognizing and defining the key competencies that are essential for accomplishing the performance goals/objectives: The key competencies are to be defined jointly by the manager and the employee during the phase of setting performance plans, goals and objectives. These competencies should be eventually assessed during the performance review period in association with the performance goals/objectives that the employee has realized.

2. By recognizing the competencies which are essential for performing a job/role into the performance management process: In this case, the competencies are derived from the competency profile of a particular role or job perspective and these should also include the performance ends for being assessed. The performance ends i.e., goals/objectives should clear about what must be achieved during the review period and the competencies should also disclose the way in which an employee should achieved the pre-determined performance goal by exhibiting an outline of expected behaviour.

Given below is the model of how competencies are aligned with performance management cycle:

7. Scope for further research:
- The main limitation of the study is the lack of time for collecting the data. The further studies can increase the sample size and conduct the study on longitudinal period basis, which will help to generalize the results. Also, the number of sub-variables/drivers of engagement included under each factor can be increased by understanding the organization needs and by doing more literature reviews.
- Also, the research can be done by changing the mode of data collection and by adding more qualitative aspects. Interviews can be conducted and grounded theory can be applied. Case study method can be another way of conducting the research by comparing the companies and generalizing the results. Also organizational development interventions can be suggested by understanding the functioning of the organization and its policies.
- Also by collecting the views of leaders and management of the organization and its employees will help to give a better suggestions and recommendations to the company. Comparison can be made
between domestic and multinational companies.

8. Conclusion:

Core competency of any company is not in its R&D or vertical integrations. It is about taking the people, their skills and talent and putting them in a right way. It’s about recognizing that every employee is unique. Employees are the physical personifications of core proficiencies of any company.

It is always effective to ask employees for their feedback and opinions rather concentrating on the models and external practitioners and this will help to build up relations and trust which will further lead to enhanced engagement. If engagement levels increases it will lead to increased scale of business. And management should realise that employee engagement is the duty of every leader and manager but not only of HR department.

References:


