

# [Performance b or c levels. the root of](https://assignbuster.com/performance-b-or-c-levels-the-root-of/)

Performance Management at Vitality Health Enterprises, Inc.

1. What were the
problems with Vitality Health's old Performance Management System? What were
the root causes of those problems?

Answer: Vitality Health
Enterprises was seeing a very high performance in the year 2007 with 5500
employees in its HQ and 1500 in its global offices. However, the global
economic crisis in mid-2008 brought a relative stagnation to its growth and
Beth Williams was made the CEO of Vitality Health Enterprises. Vitality began
to roll out its new business strategy in the first quarter of 2009 which
included organizing a committee to review the policies and processes for
tracking the performance goals of all non-sales and non-executive employees
across the entire company.

The Performance
Management Evaluation Team (PMET) studied the evaluation and reward system for
the next four months and discovered that the present PMS system presented
problems for the 2500 professional Staff

Problem 1: The PMS aimed at
analyzing the employee's performance and give thirteen (13) different ratings.

Reason: This lead to managerial abuse as some managers were able to
influence the employee's rating based on his interest. As the managers wanted
to save their image in front of subordinates, they did not rate the employees
fairly fearing consequences. An analysis of the distribution of ratings showed
that maximum no of employees was rated as B or C (medium level) and very few
were put in the top performer and bottom performer category. Concluding, this
happened because managers feared that giving a D or E level would offend their
employees and that, giving A levels would also upset employees that deserved
only B or C levels. The root of this problem could be found in the Managers'
freedom to give whatever level they wanted to its employees' because the
evaluating criteria was overly subjective.

Problem 2: Performance Ratings were used to determine merit-based wage
increase and other rewards.

Reason: Each position had a base level monthly salary calculation and
performance band rises. The base level monthly salary was modified upward along
a pay policy depending on the no of " job evaluation points".  Individual salaries were further modified by
compa-ratio based on individual performance in the company. As the performance
wasn't fairly evaluated it led to employee dissatisfaction and demotivation.

Problem 3: There was a lack of
correlation between the job evaluation criteria and the goals that were set by
Vitality's strategy.

Reason:  Managers seem to define its subordinates'
levels according to their 'mood' and not to a rigorous and well defined
criteria - this prevents  the  company
from  assessing  properly
which  employees  are
contributing  to  the development of the organization.

2. Would an employee with superior
performance year after year keep receiving higher and higher pay increases?

Answer: With the help of Beth Williams, the Performance Management
Evaluation Team was able to review the methods and policies of the company,
through benchmarking, focus groups and interviews, in order to evaluate and
reward the performance of their employees. Post this exercise, they realized
that Vitality was using a system that in fact contributed to managerial abuses
and dissatisfaction and demotivation among its employees.

On top of all, this feeling of frustration
among the employees was being worsened by the point system that Vitality used
to determine salaries and raises. When developing this system, Vitality
attributed each position a base level salary, that could be increased depending
on the number of job evaluation points of each employee and the current
position in the structure hierarchy. These evaluation  points
were  calculated  through
the assessment  of  job
characteristics  that  were defined as relevant for Vitality's
business and strategy. The salaries of each individual were then adjusted by a
comparative ratio (compa-ratio) which reflected the performance evolution of
employees over time and it usually ranged from 80% to 125%. This part of the
salary led to very unsatisfied workers due to the fact that this process
allowed employees with consistently higher performances to receive smaller
raises than their less productive colleagues (the increase in comparative ratio
kept decreasing on the percentage basis as the employee climbed through the
range).

The current compensation structure did not
give sufficient concern to the overall performance since  there
was  no  bonuses
or  alternative  form
of  reward/recognition. The
benchmark compensation was set at 75th percentile with regard to their
compensation peer group, which made actual compensation figures go 7-8% higher
than the competition which ensured tenure would result in a high salary
irrespective of the overall performance.

Hence, it was difficult to identify and reward top performers or
terminate low performers and, the low turnover experienced by the firm was
among productive scientists and product engineers even led some employees
leaving the company.

Thus, this system was not suitable and proper for a company like
Vitality Health Enterprises as it wasn't paying its employees according to
their performance.

3. What are the key features of Vitality
Health's revised program?

Answer: As a solution to the problems identified by the PMET, in June
of 2009 a new performance management system was implemented by PMET with the
purpose of accurate identification of high-performing employees, as well as the
low-performing ones. This would enable them allocate rewards in a better way
and, consequently, retain and attract top talent and incentivize low performers
to put a bigger effort in their tasks, motivating improved performance
throughout the company. The features of this new method implemented included:

Revision
1: Shift from an absolute ranking system to a relative one. In the former,
the employee was evaluated based on his own performance in respect to objective
criteria, without any kind of comparison with other workers. On the other hand,
relative method consisted of rating employees with respect to one another,
comparing their performance with that of employees in similar positions and
roles.

Revision 2: Institution of a forced
distribution model of performance ranking that consisted of a rating system
that required the managers to evaluate each individual, and rank them into one
of five categories (Top Achiever; Achiever; Low Achiever; Unacceptable; Not
Rated), each one constrained to meet a certain target in terms of percentage of
employees. This forced the managers to differentiate employees based on their
performance and, having fewer categories than the previous system, made it
easier to determine which category the employee fits in and would bring
disciplined rigor to the management process.

Revision
3: Codification of responsibilities and measures for each job class in
order to have a straight evaluation, based on more objective criteria, and
further clarify the ratings process. Defining key duties in a more formal way
may enhance operational performance and improve internal controls by
establishing accountability for each specific task.

Revision 4:
Development of specific individual goals for each employee, which would be
elaborated by managers in coordination with their individual workers and used
as a secondary assessment tool. This is likely to promote personal development,
employee satisfaction, align personal goals with organizational objectives
leading to higher productivity that will have impact in the company results.

Revision
5: Rating of managers based on their performance in five aspects: meeting staffing
needs, their effectiveness in training, development and employee relations,
their clarity in communication, and their implementation of corporate
initiatives. This may incentivize and help managers to focus in some core areas
that are being neglected or to correct some management mistakes that impact the
company performance.

Revision 6: Evaluation starting in the
beginning of the calendar year at the same time as the annual goal-setting is
delivered to employees (same review cycle). This feature potentiates higher
effectiveness in the measuring process of workers' effort and avoids in a
certain extent the influence of external factors/events.

Revision 7: Besides salary
compensation, this new plan uses a system of performance-related short and long-term
cash and equity bonuses and limited stock options to upper levels of
management. Since increases in the value of a company and its stock are highly
correlated with employees' dedication, attributing these bonuses will motivate
them to work harder so they can reap a greater return in the future. On the
other hand, it increases the complexity of the compensation systems, especially
in fiscal terms.

Vitality's new performance management system operated in a trial
period for the two following years. Despite the best intentions of the new CEO
Beth Williams, the outcome of the new system were not the most satisfactory,
with employee surveys indicating that just over half of the affected employees
preferred the new system. Therefore, the system should be further improved,
taking their concerns into consideration.

4. What problems under the old system
are solved or mitigated by the new system?

Answer: The new system aimed
at solving the problem of multiple ranks by including 5 new categories - Top Achiever;
Achiever; Low Achiever; Unacceptable; Not Rated.

The introduction of
these 5 categories was successful in showing a definite shift in the
distribution of rankings. This helped in curbing the initial problem of not
identifying top and bottom performers and grouping the employees together in
the mid band.

The new system also
aimed at adjusting the compensation. The new system unlike the previous one
relied on short and long term cash and equity bonuses. The aim was to
incentivize the top performers to motivate them and make them stay back. In
addition to cash incentives, the new program also had a stock option for upper
management and directors as an incentive to incorporate the new Performance
Management System.

5. What problems arise under the new
system and what issues are still not resolved from the old system?

Problem 1: This system could be controversial due to the competition it
created, which may increase stress levels and result in an unpleasant working
atmosphere. Furthermore, it heightened the focus on individual performance and
did little for team building, which should have been highly encouraged in this
kind of corporate environment. As a further matter, this classification can be
counter-productive if there is not an active talk between the employee and the
evaluator, giving concrete feedback about what to do next year to get a better
ranking. Managers felt that the system of Forced distribution was too rigid. If
an entire team performed well or poorly, the manager was still forced to
nominate 'Top Achievers'. Besides, the reality is that not all employees will fit
neatly into one of the categories and might end up in a category that does not
reflect their true performance. The Not Rated category, which was for those
employees who could not receive an accurate rating as they were new to the
organisation, was too generic category and led to managers ranking all the
" new" employees as Not Rated, neglecting their performance and privileging in
this way veteran employees.

Problem 2: There is a risk that employees' vision narrows and they lose
sight of 'the big picture'. They restrict their duties only to those which are
involved in the their job description, neglecting others only because they are
not really rewarded.

6. Now that they are forced to
distinguish, what will managers do?

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7. When might relative performance
management systems be preferred?

Answer: The system of forced
distribution in contrast to the absolute ranking system was adopted to
eliminate the key problem of bulk employees receiving high ratings even when
the department had failed miserably in meeting goals.

The aim of the
introduction of a relative is to distinguish the top- performers from the
non-performers among all employees. However, the new relative approach revealed
to be too rigid and inappropriate and, therefore, some managers claim that
sometimes they cannot select the best ones and they are only selecting high
performers to satisfy the distribution curve defined by the HR department.

8. Why were managers lumping all
employees together before?

Answer: The managers were
lumping all the employees together as a result of 13 different ratings ranging
from A to E. Few managers were able to influence the employee's rating based on
his interest. The managers were protective about their image in front of their
subordinates resulting in unfair ratings fearing consequences. An analysis
of  the distribution of ratings showed
that the maximum number of employees were grouped together under band B or C as
a result of managers fearing a band of D or E would offend the employees and
giving a level of A for the fear of upsetting a sense of teamwork and
egalitarianism within the R&D groups which led to dissatisfaction among the
top performing employees. Managers had the freedom of distributing the ratings
between the employees owing to the subjective evaluation criteria.

All these reasons
together contributed to the cause of managers lumping all employees together in
the former Performance Management System.

9. Is pay more closely related to
performance under the new system?

Answer: The new PMS
incorporated a system of performance related short and long term equity
bonuses. This also allows for limited stock options to the top management and
directions as an incentive to successfully implement the new PMS.

The incentives are
more related to performance than the base pay and appear to be a motivating
factor for the employee. However, there should be a new system of performance
pay out that does not include a confusing forced distribution but values
individual performance.

10. If you were part of the Performance
Management Evaluation Team, what changes would you recommend and why? How would
you implement these changes?

Answer:

Recommendation 1: performance appraisal could be made through a list of key
attributes and respective degree of competence (Not a Strength, Sufficient, A
Strength). Besides, HR department could use a performance coding that
categorizes the employee's performance without giving them a label. Through the
color maps, for example, company is able to define performance and compare it
with a potential one, in order to understand if employees require replacement
or not.

Recommendation 2: Create objective criteria to define each of the rating levels
for each of the dimensions that are being evaluated, and at the same time make
comparison between employees. The aim of the introduction of a relative
approach was to force managers to differentiate the subordinates: allows the
company to distinguish who are top- performers and non-performers among all
employees. However, the new relative approach revealed to be too rigid and
inappropriate and, therefore, some managers claim that sometimes they cannot
select the best ones and they are only selecting high performers to satisfy the
distribution curve defined by the HR department. When using an objective
approach, managers exactly know in which category the employee fits into. If
well defined, these objective criteria, followed by a candidate comparison,
will allow the performance evaluation to reflect who are the ones who should be
retained and rewarded and the ones who need to be trained or fired.

Recommendation 3: As Vitality Health Enterprise aims at revising their new
corporate performance management system in conjunction with the corporate
vision they should ensure that the corporate performance management is aligned.
The common tool to align the PMS with the strategy is Kaplan and Norton's
Balanced Scorecard.

The BSC framework consists of four elements –
Financial, Customer, Internal Process and Learning Development. By cascading
these perspectives to the performance review, managers and employee always feel
what they are reviewing and conducting is a part of their job responsibility measured
through KPI.