

# [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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this way veteran employees.

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.