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?

Answer: 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

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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.