



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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A STUDY OF THE VARIOUS PERFORMANCE MANAGEMENT SYSTEMS ADOPTED BY SELECT INDIAN PRIVATE SECTOR ORGANISATIONS

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ABSTRACT

As companies, especially those in the private sector, confront the challenges of increased competition and a highly unpredictable business environment, they are seeking new ways to evaluate performance and better meet their targeted goals. Performance management is the practice of actively using performance data to improve an organization's performance. This practice involves strategic use of performance measures and standards to establish performance targets and goals, to prioritize and allocate resources, to inform managers about needed adjustments or changes in policy or program directions to meet goals, to frame reports on the success in meeting performance goals, and to improve the overall quality of work in any organization. Alternatively Performance Management is also the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a complete work system that begins when a job is defined as needed and ends when the employee performs according to the standards laid by you. This paper tries to find out the Performance Management Systems adopted by select Indian Private Sector Companies and the kind of measures they use to measure their performance. This research finds that all the companies are using both financial as well as non-financial measures to measure their performance and most of the managers are satisfied with their existing performance management systems.

KEYWORDS

Performance Management, Financial measures, Non financial measures.

INTRODUCTION

Performance management is the practice of actively using performance data to improve an organization's performance. This practice involves strategic use of performance measures and standards to establish performance targets and goals, to prioritize and allocate resources, to inform managers about needed adjustments or changes in policy or program directions to meet goals, to frame reports on the success in meeting performance goals, and to improve the overall quality of work in any organization.

Alternatively Performance Management is also the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a complete work system that begins when a job is defined as needed and ends when the employee performs according to the standards laid by you. The goal of performance management is to achieve the company mission and vision. An effective performance management system sets new employees up to succeed, so they can help your organization succeed. It provides enough guidance so people understand what is expected of them. It provides enough flexibility and room so that individual creativity and strengths are nurtured. It provides enough control so that people understand what the organization is trying to accomplish.

Today is the era of knowledge work and knowledge workers, where work is information-based and working is a mental activity, work routines are configured by the workers in response to fluid, changing requirements. The task of management in this new world of work is to enable and elicit employee contributions of value to the organization and to continue with a system designed to exact and enforce compliance is not correct, hence the need for newer performance managements systems becomes the need of the day.

REVIEW OF LITERATURE

It is widely recognized that performance measurement systems are tools for achieving organisational objectives. The traditional management accounting literature advocates the use of financial performance measures in evaluating managerial performance. Many writers (e.g. Anthony, 1965; Merchant, 1998) argue that financial performance measures communicate financial objectives, provide an overall summary of performance, do not require top management involvement in operating decisions taken at business units, can play a diagnostic

role in deciding whether or not to continue with the current strategies and do not require additional costs in order to prepare them since they are already available for external financial reporting purposes.

Hugh Evans et al (1996) state that traditionally, management accountants have provided financial results, which aim to gauge the health of the business. Over the years these results have become short-term in perspective, such as month-on-month profitability, and narrow in scope, e.g. return on capital employed. Furthermore, they argue that companies must adopt a more enlightened approach to assessing and managing company performance. If they do not, they will have increasing difficulty in coping with the challenges they face and achieving the goals they set themselves.

Kaplan & Norton (1993), characterize performance measurement systems as an essential part of company strategy. Further, they explain that executives may introduce new strategies and innovate operating processes intended to achieve breakthrough performance, then continue to use the same short-term financial indicators they have used for decades, measures like ROI, sales growth, and operating income. Effective measurement, in their opinion, must be an integral part of the management process.

Organisations have now come to realize the importance of a performance measurement & management system that enables them to more effectively drive and manage their business operations. Eccles and Pyburn (1992,) argue that financial performance measures are 'lagging indicators' since they determine the outcomes of management's actions after a time period. Therefore, it is difficult to establish a relationship between managers' actions and the reported financial results. Also, any corrective action has nothing to do with the past and it will be difficult to identify which action leads to a particular result. In addition, financial performance measures give little or no guidance to future performance since they do not include any measures relating to customers' satisfaction and organizational learning. Furthermore, Eccles and Pyburn (1992) claim that financial performance measures are oriented internally rather than externally.

According to Meyer (1997), a survey conducted by the Institute of Management Accounts (IMA) in 1996 found that only 15% of the respondent's measurement systems supported top management's business objectives very well, while 43 percent were less than adequate or poor. However, the fact remains that

optimizing and managing organizational performance across the enterprise is critical to the success of every business. The challenge has been that most companies have not understood the significant level of commitment required to accomplish this mission while dedicating the level of required resources (Smith, 2002). Management accounting literature also advocates the use of non-financial performance measures as a tool in order to overcome the deficiencies attributed to financial measures. Solomons (1965,) argue that non-financial performance measures should be used, besides traditional financial performance measures (e.g. residual income and return-on - investment),in order to identify the forces that determine financial performance. These measures may include measures for productivity market effectiveness, product leadership, personnel development, employees’ attitudes and public responsibility. Similarly, Parker (1979) suggests that traditional financial performance measures should be supplemented by non-financial performance measures, such as measures for productivity, market share, social responsibility, product development and employee turnover. In the intervening years, the call for a broader set of performance measures has been continuing. For instance, Kaplan (1983) calls for improving performance measurement through the use of non-financial performance measures, such as measures for productivity, quality, inventory costs, product leadership, manufacturing flexibility and delivery performance. Similarly, McNair *et al.* (1990) argue that non-financial performance measures are necessary for operational control purposes

OBJECTIVES OF RESEARCH

- To study the different performance measurement systems (other than the Balanced Scorecard) adopted by Indian Companies
- To know the various financial and non-financial parameters used to measure the performance of the organization
- To understand the effectiveness of the PMS used and to know if the managers feel the need to change in their existing PMS

RESEARCH METHODOLOGY

The researcher has interviewed both Managers and Academicians from different companies and Institutes in order to know their experiences related to the subject matter of the study. The experiences gathered from these two sects formed a major support in designing the questionnaire. A thorough search of literature available in different books, journals, conference papers, Internet etc. has been made by abstracting and indexing journals, besides tapping sources like EBSCO database, SSRN database, etc. A questionnaire is prepared to answer the questions raised by the objectives as described above. This study is based on primary data and the researcher has contacted top and midlevel managers in selected Indian Private Sector organizations. To identify the firms for the sample extensive search was carried out through the internet and also interviews with some of the consultants helped in choosing the organizations so in this research Judgmental sampling has been used to select the respondent organisations. In this study the questionnaire was mailed to a total of 300 Indian Private Sector Companies not using the Balanced Scorecard and the total response received from the companies was 58, however only 55 were found to be complete so 3 questionnaires were omitted. So the final total sample for the purpose of analysis was taken as 55 companies. **The respondents were assured that neither their names nor their organizations names will form a part of this paper.**

The response rate was around 18 %.

RESPONDENT PROFILE

THE RESPONDING COMPANIES WERE FROM THE FOLLOWING INDUSTRIES

Consumer Durables formed 7% of the sample, FMCG and food Products formed 11%, Pharmaceuticals formed 7%, Telecom and electronics formed 13%, Automobiles and Auto Ancillary formed 17%, Construction, Cement and steel formed 11%, Tyres formed 2%, Banking and Financial services formed 7%, Information Technology formed 7% and other miscellaneous organizations formed 18% of the total sample of 55 companies.

DESIGNATION OF RESPONDENTS

25% were in the position of C.E.O, 18% were in the position of Manager (strategy), 40% were in the position of General Manager, 11% in the position of HR Manager and 6% were in the position of Finance Manager.

ALIGNMENT OF INDIVIDUALS/TEAMS PERFORMANCE MEASURES TO THE ORGANISATIONS STRATEGY

Almost 82% of the respondents said that their organisation had not aligned the performance measures to their strategies. The 18% who answered were the ones who were in the process of doing the same and had not completely aligned the performance measures to their strategies.

LINKING COMPENSATION/INCENTIVE SYSTEM TO STRATEGIC PERFORMANCE OF ALL THE EMPLOYEES IN THE ORGANISATION

Only 12% said that the compensation/incentives were linked to strategy and the remaining 88% said that it wasn't linked.

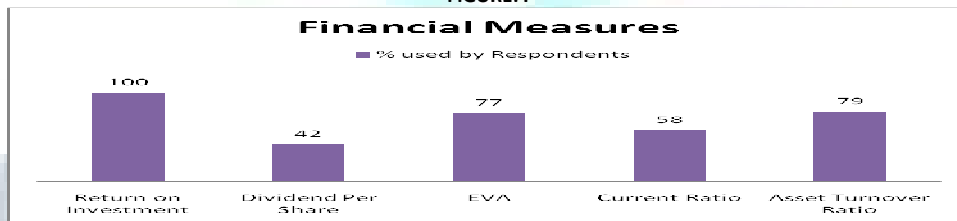
PRACTICES FOLLOWED BY COMPANIES

In case of practices followed by organizations 65% of respondents said that top level management compensation & incentives are aligned to strategic performance. Around 15% said that the Top and Middle level ranks compensation are aligned to strategy, zero percent said that compensation was linked to all levels of the organisation And 20% said that no compensation was linked to the strategic performance of the organisation.

SOME KPI'S (KEY PERFORMANCE INDICATORS) COMMONLY USED BY INDIAN COMPANIES

FINANCIAL MEASURES

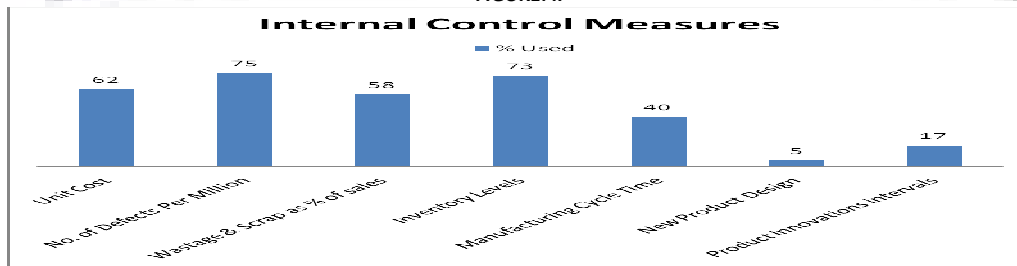
FIGURE: I



All the responding companies were using ROI as a financial measure, 42% were using Dividend Per Share, 77% were using EVA, 58 % were using Current Ratio and 79% were using Asset Turnover Ratio as the financial measure in their organizations. Some of the respondents also gave some other performance indicators but since they were only a few in numbers they were omitted from the analysis. The other performance measures specified were Operating Profit Ratio (4%), Overhead Variances (6%), and Cash Flow (2%).

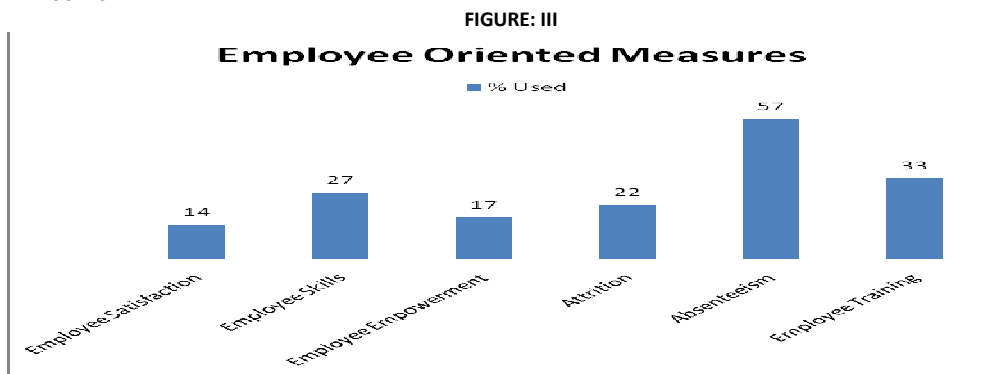
INTERNAL OPERATING MEASURES

FIGURE: II



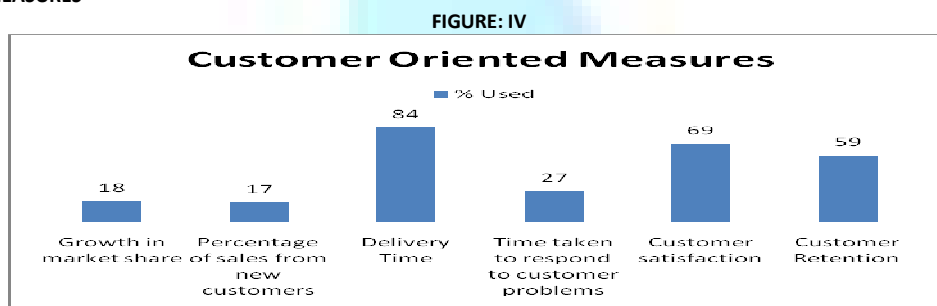
There is a 62% usage for measures like Unit cost. 75% for Number of defects per million, 58% used Wastage and Scrap as percentage of sales, 73% used Inventory levels whereas measures like New product designs, Product innovations etc. are in between 5-20% and manufacturing cycle time was around 40%. Also some other measures were also suggested by the respondents that are in use by their organisations but since the extent of usage was very less they have been omitted from the analysis. Some the measures suggested by them were Machine productivity (2%), Labour Productivity (4%), Set-up time (3%), Distribution reach (3%) etc.

EMPLOYEE ORIENTED MEASURES



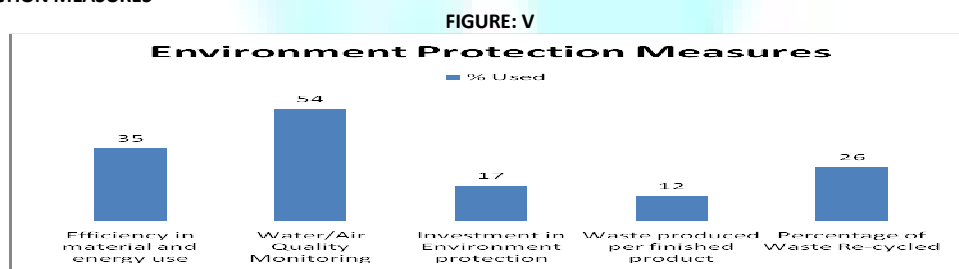
In case of usage of the Employee Oriented Measures the usage in case of Employee satisfaction as a performance measure was 14%, in case with other measures also like Employee Skills it was 27%, in case of employee training 33% of the respondents use this measure and in case of Employee Attrition it is 22% and 57% in case of Absenteeism, the lowest use was seen in case of Employee Empowerment only 17%.

CUSTOMER ORIENTED MEASURES



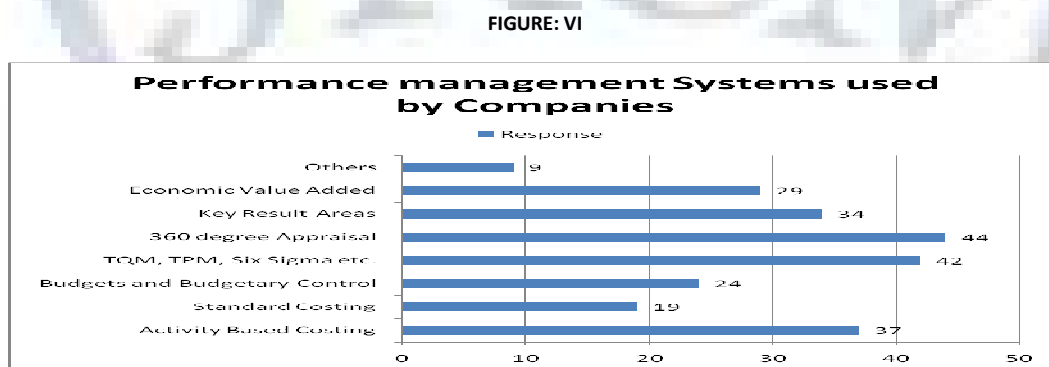
With reference to the customer oriented measures it can be seen that measures like Growth in market share, 18% and percentage sales from new customers 17% is not very popular measure, but in case of the measure like Delivery time 84%, which signifies the importance that these organisations place to making timely delivery to their customers, and for measures like Time taken to respond to customers it is 27% and customer satisfaction it is 69%, also the last measure Customer retention it is 59%.

ENVIRONMENT PROTECTION MEASURES



The usage of environmental measures was introduced to check the extent companies were into environment protection and it can be seen that out of the various measures specified only two measures found significant usage amongst the companies and they are Efficiency in material usage 35% and Water/Air quality monitoring 54%. This can be justified from the fact that companies either are ISO 14000 certified or are governed by the various Water and Air Pollution control laws and hence have to ensure that the waste products that they release are in accordance with the limits specified for specific industries. Also some other measures were also suggested like, number of environmental accidents (4%), Co2 emissions (5%) etc. but were not included because of less usage.

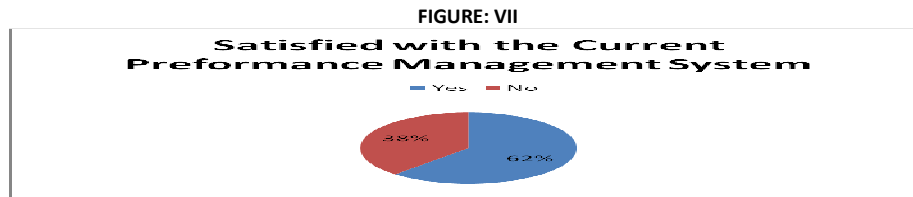
MENTION THE PERFORMANCE MANAGEMENT SYSTEM USED BY YOUR ORGANISATION



The respondents have chosen multiple options since they were using more than one performance management systems at one time.

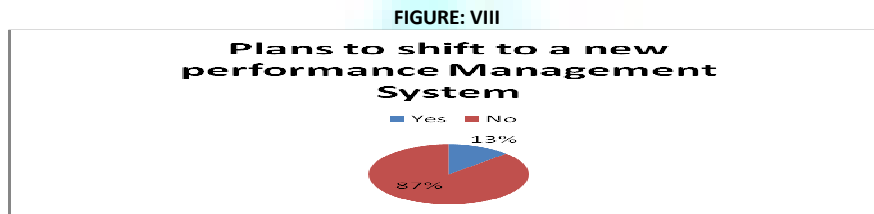
Most of the respondents around 80% said that they used 360 degree appraisal system. The second performance management system of choice was TQM, TPM and Six Sigma which around 76% said they used. The third was Activity Based Costing the usage of which was around 67% followed by Key Result Areas having 61% of usage. Economic Value Added had a usage rate of 52% whereas 43% said they used Budgets and Budgetary Control. 34% said they used Standard Costing and 16% said they used some other system of performance management like Benchmarking, Customer Profitability Analysis, Target Costing, etc.

SATISFIED WITH THE CURRENT PERFORMANCE MANAGEMENT SYSTEM



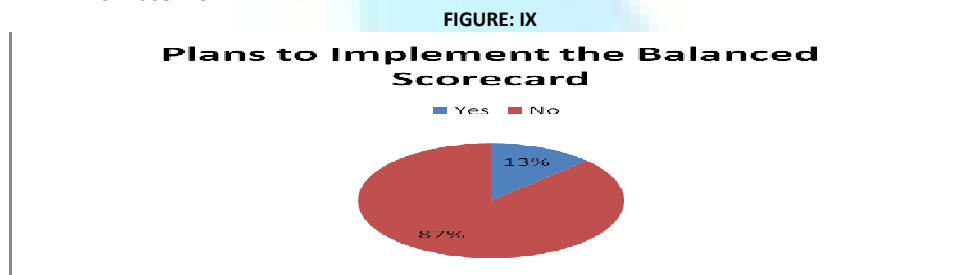
Around 62% of the respondents said that they were satisfied with their existing performance management system whereas as 38% said that they were not satisfied.

PLANS TO SHIFT TO NEW PERFORMANCE MANAGEMENT SYSTEM



Only 12% of the respondents said that they were planning to shift to a new Performance Management System whereas 88% said that they had no immediate plans of shifting from the existing system

PLANS TO IMPLEMENT THE BALANCED SCORECARD



Only 12% of the respondents said that they had plans to implement the Balanced Scorecard, whereas 88% said that they had no plans.

CONCLUSION

The main objective of this research was to find out the different types of Performance Management systems that were used by the Indian Private sector Companies. A whole lot of Performance Indicators were revealed by the companies surveyed consisting of both financial and non-financial ones and all Companies were using a whole lot of financial as well as Non-financial Measures in every functional aspect be it customers, environment, employees and even internal control.

The most widely used performance management system as per this survey was the 360 degree appraisal followed by TQM, and Activity Based Costing. This shows that organizations are more oriented towards employee appraisal than the whole performance of the organization.

Most of the Managers were happy with their existing performance management system and very few were thinking of changing their existing PMS. The one's wanting to change their PMS said that they would like to go for the contemporary PMS like the Balanced Scorecard.

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