

**Performance and Reward Management**  
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**Lecture – 01**

**Understanding Meaning of Performance Management and Reward Systems  
Management with Performance Management Process**

Welcome to the NPTEL Online Certification Course on Performance and Reward Management; myself Dr. Susmita Mukhopadhyay associate Professor Vinod Gupta School of Management IIT, Kharagpur. We will take you through this journey of performance at reward management. Let us start with the first week's module with the first module the topic of which is Understanding the Meaning of Performance Management and Reward Management system with Performance Management Process. So, let us begin.

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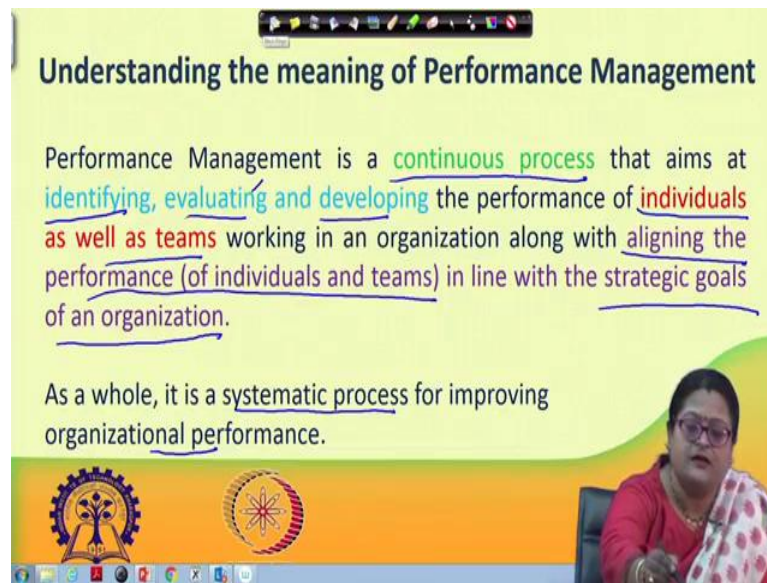
The slide is titled "CONCEPTS" and lists the following topics:

- Meaning of Performance Management
- Key Components and Guiding Principles of Performance Management
- Aims and Objectives of a Performance Management System

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The topics that will be covered in this the concepts which will be covered in this chapter are meaning of performance management, key components and guiding principles of performance management, aims and objectives of a performance management system.

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**Understanding the meaning of Performance Management**

Performance Management is a continuous process that aims at identifying, evaluating and developing the performance of individuals as well as teams working in an organization along with aligning the performance (of individuals and teams) in line with the strategic goals of an organization.

As a whole, it is a systematic process for improving organizational performance.

So, let us understand: what is the meaning of performance management. Performance management is a continuous process that aims at identifying, evaluating and developing the performance of individuals as well as teams working in an organization along with aligning the performance of individuals and teams; in line with the strategic goals of an organization.

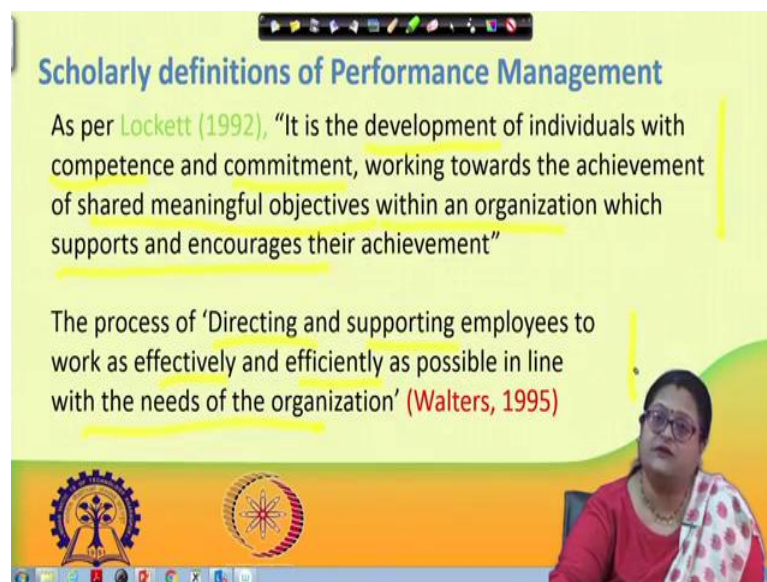
So, let us analyze this definition. If you see this definition, in this definition there are two or three key points which are highlighted which will help us to understand better what is a performance management a system or as a process. If you see the first highlighting point of this definition is, it is a continuous process. So, performance management is a continuous process, it is not that which is done it is the one like a onetime affair. It is continuous process which is done throughout the year and like and it is followed like maybe every day every week, to find out where we are reaching.

And it involves three main steps, like it starts with identifying, evaluating and developing the performance. So, it is not only evaluating, you have to understand performance management is not only evaluating the performance of individuals, but rather it is identifying, evaluating and developing the performance of whom? Performance of individuals as well as teams, performance of individuals as well as teams working in an organization along with, this line is very very important we have to focus over here,

aligning the performance of individuals and teams with the strategic goals of an organization.

So, we have to understand the every organization has a strategy goal to achieve. And, performance management is a continuous process, which helps to align the performance of individuals and teams with the strategic goals of the organization. By identifying, evaluating and developing the performance of individuals and the teams and get it aligned with the organizations' objectives. So, we take it to be a systematic process, we have to understand it is a systematic process for improving organizational performance. So, this is the key meaning of when we talk of what is performance management. Now, let us see: what are the definitions, some definitions given by some scholars.

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**Scholarly definitions of Performance Management**

As per Lockett (1992), "It is the development of individuals with competence and commitment, working towards the achievement of shared meaningful objectives within an organization which supports and encourages their achievement"

The process of 'Directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization' (Walters, 1995)

So, that which will help us to understand what is performance management from a scholarly perspective. The scholar definitions of performance management first we go by the definition given by Lockett in 1992. It is the; if you see this definition it is written, it is the development of individuals. So, the word development is very important it will come again and again when you are talking of performance management. Because performance management the focus is on the development of individuals and improving their performance and getting it aligned with the organizational objectives.

And of course, the departments objectives and organizational objectives; so, it is the development of individuals with competence and commitment. So, with competence it is

the development of individuals. So, that they become more competent, that their competence they become more competent and they become more committed to the working towards the achievement of; what they want what is to be achieved?

Achievement of shared meaningful objectives; the word shared meaningful objectives is very important. When you talk of only reaching the organizational objectives, it may appear such; like somewhere the individuals' goals, objectives of life are getting lost and individuals and teams are getting utilized to reach the organizational objectives. But when we are talking of performance management the case is not so. It is a shared objectives and it is meaningful objectives, because if we want to achieve something in life achieve goal in life, first I should understand the meaning of it. Then only I can I will be motivated to like go for it.

So, the shared meaningful objectives within the organization; so, it is within the organization which supports and encourages their achievement these words are also very very important part of the definition. So, when we talk of achievement, it is not only the organization reaching its goal and fulfilling its purpose and becoming more effective. But the individuals are also having a sense of achievement; because by in working towards the organization goals because the person's goals and organizational goals are getting aligned to each other.

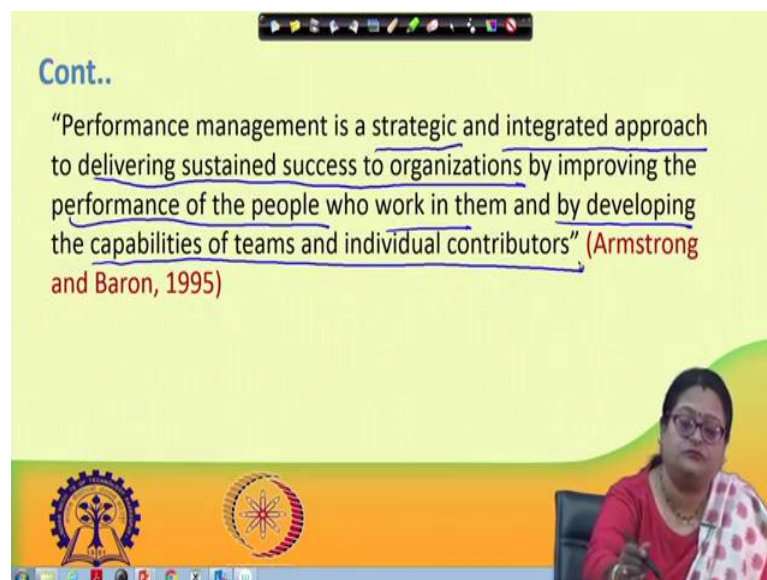
The individuals are also having a sense of achievement of reaching their personal goals. So, this definition is very important as it shows the linking the alignment of the individuals goals purpose in life with the goals and purpose of the organization. And both how both together they are sharing their purposes and reaching towards the fulfillment on a sense of achievement, both individual sense of achievement and organization's sense of achievement.

The next definition which is by Walters 1995; it tells about the process. Now what turns as a process? So, what you find is the definition of Lockett, it is the philosophy that we are talking of what is known as performance management. And when you talk of performance management as a process, the definition of Walters tells, it is the process of directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization.

So, it is like the process of directing and supporting employees. So, it is not only directing, but it is also handholding, support giving them the resources. So, that can they can like reach the goal the objectives given to them and aligning them; so, that they can work effectively and efficiently, in line with the needs of the organization. And when you talking of these needs of the organization if we go to the force definition these needs of the organization and the needs of the individual are quite matched together.

And they reach a shared vision. And this is where the actually the challenge of performance management lies, like how to align the needs aspirations of the individual steams with the needs and aspirations of the organization. As such more we go into the details of the course we will get to understand the processes of doing such.

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“Performance management is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors” (Armstrong and Baron, 1995)

So to continue, we will look now to the definition given by Armstrong and Baron, according to Armstrong and Baron, So it, this is a comprehensive definition given by Armstrong and Baron which talks of performance management. If you see it is a strategic performance management, is a strategic and integrated approach. When we talk of strategic approach it means it is at the organizational level; which talks of the organization's vision mission and goals and what it wants to achieve, how it wants to get its competitive advantage, how it wants to survive and sustain. An integrated approach means all the systems are integrated with each other, all the systems of the organization

are integrated with each other; individual goals are integrated with the departmental goals, departmental goals are integrated with the organizational goals.

So, here we are talking of both vertical and horizontal integration; of what? It is a strategic and integrated approach to delivering sustained success to organizations. The word sustained success to organization is very important. So, it is not that we just do it for a onetime effort for onetime success. But if a proper performance management system is designed if it is achieved then it leads to a sustained success to organizations. By improving how we achieve this, how we can achieve the sustained success of the organization. The process is by improving the performance of the in people who work in them and by developing the capabilities of teams and individual contributors.

So, if we just look into the definition, you will find over here. The word evaluation is not coming here much that is not the high term which is highlighted over here. It is more focusing on improving developing. So, it is a positive approach which looks towards, like what is your competency now? What is the gap in the competency that is expected competency? And how we can handhold you? How the organization can handhold you, help you to improve so, that you improve as a performer and vis-à-vis you contribute towards the better performance of the organization also.

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- ❖ Aligning the performance in line with the strategic goals of an organization : Managers must ensure that activities undertaken by employees must aim at the achievement of overall objectives of an organization, not their or employee's personal goals.

Handwritten notes and diagram:

- A blue circle contains two arrows pointing in opposite directions, labeled "personal goals" on the left and "Organizational goals" on the right.
- A blue line connects the text "not their or employee's personal goals" to the "personal goals" label.
- The word "Balance" is written in blue above the circle.
- A blue arrow points from the circle towards the right.

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So, if you see by this definition, now we will try to understand the; from this if you want to summarize the definition we will find like there are certain key components of

performance management that we have discussed through these definitions that we did define till now.

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**Understanding the key components of performance management**

❖ A continuous process: Performance management is a continuous and never ending process, goals are set, objectives are formulated, performance is observed and feedback is shared on an ongoing basis to improve the performance.

What you see one of the key components of the definition of performance management that we highlighted at the start of defining; what is the performance management is very important is that, performance management is a; like it is a continuous, performance management is a continuous process. It is a continuous process you have to like do it through like, you just cannot tell like we are not focused towards performance management.

Or from like from this day to that date we will be focusing on performance management. No so, it is a continuous never ending process in which goals are set, objectives are formulated, performance is observed and feedback is shared on an ongoing basis to improve the performance. So, if you just look into this like there are maybe four key components if you want to see. A performance management is a continuous and never ending process number 1, goals are set. In which the goals are set, objectives are formulated, performance is observed and very very important, feedback is shared on an ongoing basis.

Feedback is shared on an ongoing basis, to what is the aim of doing so, is to improve the performance. So, goals are set, objectives are formulated, performance is observed, feedback is shared on an ongoing basis to improve the performance. And that is why this

is taken to be a continuous process. Next what is again the important point; next important point of our performance management is aligning. You have to see it is aligning the performance in line with the strategic goals of the organization. This is a very very important point.

So, managers what they need to ensure is that, the activities undertaken by the employees must aim at achieving the overall objectives of the organization and not their; not only their employees personal goals. So, we have to see over here, is that there are two key parts of the definition; is it is aligned with the strategic goals of an organization and they have to ensure like this activities undertaken by the employees so, must be focused towards the achievement of the overall objectives of the organization. And it is not only; and it is not only the employee's personal goals. The personal goals personal goals of the employees; the personal goals of the employees needs to be mapped with the organizational goals. The personal goals of the employees needs to be mapped with the organizational goals and it has to be aligned. Personal goals of the employees needs to be mapped with the organizational goals, and it needs to be aligned with each other.

It should not be that I like the, I am the management should not its not like the managers are only focused towards achieving organizations goal and they are not focused towards the individual goals. That scenario should not also be there, also it should not be like the individual goals are what the managers are only focused. And this goes this way and organization goes this goes this way and there is no linking between this, no.

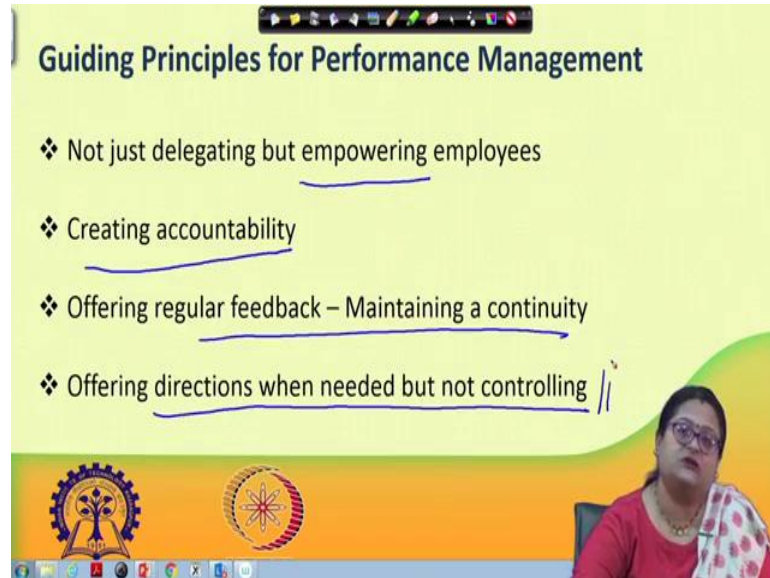
The personal goals and the organizational goals have to be linked and mapped together which each other. And so, a sense of balance needs to be reached. This word is very important we have to understand sense of balance needs to be reached over here. So, the main; like critical point of a performance management as HR people when we do it. Is how to achieve this balance, how to achieve this balance.

Because otherwise what happens after this when we go for reward management system. If this personal goals are not balanced and mapped towards the organizational goals or the organizational goals are not mapped to the personal goals. Then reward management becomes a problem. And these rewards actually do not lead to, the any result for the organization's improvement of performance. So, that is very important like both; we have to align the, we have to take activities, we have to align the goals of the



organization. First you have to understand what the organization wants to achieve. Then like, cascade it down to the departmental level and map it to the individual's goals.

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So, when you focus, now when you understand this; like this is what we mean by what is performance management? Then what are the guiding principles for performance management? There are few guiding principles let us focus on them very slowly. So, first what we understand by performance management, is that performance management is not just delegating the employees, like you have to do this is your responsibility, but empowering them for decision making also.

Like they can choose how to do it, they are choose how to do it and how much to do. So, it is not only delegating, but empowering employees. And, when we empower employees also it is very important to create accountability. I am responsible for my action. I have to I am answerable for certain things. So, it is not only delegating, but it is empowering. So, it is not just delegating along with it empowering, but empowering also brings the process of accountability. Offering regular feedback, maintaining a continuity and offering directions.

This is again very important, offering directions when needed, but not controlling this is where this is the point may be where many of the HR practicing managers practitioners do have problem of while practicing these are again skills, competencies that we need to develop as like managers. Likes somewhere we cannot like there is a thin line of

difference, when we talk of like offering directions when needed when asked for. But, I am not controlling somewhere through our attitudes, through a body language we are not able to keep this fine thread of difference and we start controlling the people.

So, this is what we need to understand. If you are empowering people to choose how they will be doing certain things and take decisions and making them accountable also for their actions then we have to offer directions when needed. Either they ask for it or we feel like this is where they need our hand holding support. Because we as experts we feel like these are the jerks that are going to come. But we may give suggestions, but we cannot tell you have to do this because as a senior I am telling you to do it.

So, these are certain maybe practices which we need to like look forward to when we are talking of a performance management; if you have to implement performance management as a process as a system in the organization.

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- ❖ Control should only be exercised by exception
- ❖ Taking timely actions
- ❖ Coaching, counselling and feedback should aim at correcting deviations for achieving the strategic goals of an organization **not the individual goals**

Align and bridge

Next is control is only exercised by exceptions. If we think like situations are going out of hand. And the person whom to whom we are given the responsibility is not able to handle it properly. Then maybe we can feel think of controlling that is why it is told control is exercised by exceptions.

So, here maybe the leadership style the development level of the followers, like when we talk of like, to whom to give the responsibility like whom to empower. All these kind of

things are need to be thought also before we move forward to do like empowering people with certain decisions. We you have to think like what is the development level, competence level? What they need to develop as a competency before they become ready to take certain independent decisions or things do things in an independent way. Take timely actions, is another important point.

We have to see, like the coaching, counseling and feedback should aim at correcting the deviations for achieving the strategic goals of an organization and not the individual goals. Why this is highlighted over here? Is like the; it is this due to this alignment. We have to see like for when you are coaching as a performance, if you are coaching for the performance management process and system. We have to see like how to bridge these two things together the goals of the individual and the goals of the organization.

How to like align and bridge these are the important, align and bridge two things together. This is very important ok. So, like it is when you talking a coaching, counseling and feedback should aim at correcting the deviations for achieving the strategy of goals of the organization and not the individual goals. This should not be misunderstood at the fact, like the organization is not concerned about the personal goals of the individuals. No, organization is concerned both for the personal goals of the individuals and the organizational goals also, but it needs to be mapped together.

So, that because it is the performance management system that we are talking of and it is functioning within the organization, the individuals goals should find a place in the organization's goal. That is where we need to align it. And when you are talking of coaching, counseling and feedback then what happens, the individual should be able to find a place realize the importance of the individual's goals, and his or her contribution towards the organization goals.

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**Differentiating between Performance Management and Performance Appraisal**

**Performance Appraisal (PA) vs. Performance Management System (PMS):**  
Performance Appraisal is simply a systematic description of an employee's strength and weaknesses. It is restricted to evaluating an employee's performance either once or twice a year, and is not at all an ongoing process that offers regular feedback for aligning the individual goals with goals of an organization.

PA is just a small part of PMS

*Suzmita*

When we talk of the difference between performance management and performance appraisal; these are two terms that we see, like sometimes we get confused, sometimes you know like we feel like these are one and same, but it is not. There is some difference between the two terms, when we talk of performance appraisal and performance management system. So, what is the difference is, performance appraisal is a systematic description of an employee's strength and weakness. It is restricted to evaluating. So, performance appraisal is restricted to evaluating an employee's performance either once or twice in a year.

And it is not an ongoing process that offers a regular feedback, for aligning the individual's goals with the organization's goals. So, it is a just a like small part of a; it is a very small part of a total performance management system. So, it is like a; when we talk of performance management is a; it is of like holistic regular process. And when we talk of like performance appraisal it is restricted to the evaluating of the individuals performance once or twice a year. So, when you talk of performance appraisal is just a small part of a performance management system.

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The key differences between performance appraisal and performance management as proposed by Armstrong and Baron (1998) are:

**Performance Appraisal:** Top-down assessment  
**Performance Management:** Joint process through dialogue

**Performance Appraisal:** Annual Appraisals  
**Performance Management:** Continuous reviews

**Performance Appraisal:** Use of ratings  
**Performance Management:** Ratings less common

So, what we see as the key difference between performance appraisal and performance management is that; performance appraisal is a top down assessment, in performance management it is, if you see this part it is a joint process, it is a joint process through dialogue. If you remember initially we talked of it is a shared objectives that is going to be reached. And shared meaning which is to be achieved. So, it is a joint process through dialogue.

When you talk of performance appraisal, it is annual appraisals. When you talk of performance management it is a continuous reviews. Performance appraisal use lots of rating scales and other things, in performance management it is less common because [here](#) it is more of jointly we discussed to reach an objective. We find out, we frame out how these can be reached. And then we move slowly towards achieving these objectives for the organization.

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**Performance Appraisal:** Monolithic system  
**Performance Management:** Flexible system

**Performance Appraisal:** Focus on Quantified values  
**Performance Management:** Focus on values, behaviors and objectives

**Performance Appraisal:** More likely linked to pay  
**Performance Management:** Less likely to be only linked to pay

So, performance appraisal is a monolithic system. Performance management is a flexible system. Because it is based on like I will suggest like this is what we want to do and I feel you can reach this objective the employee may suggest, you know based on the constraints in my life that there may be the other things that I have I will be achieve I will be able to do this much and I because I am involved in that setting of that core. I know like this is what is achievable for me and I can do it.

So, it is a list of dialogue and it is a flexible system. Performance appraisal is focused on quantified values. Performance management is more focused on values, behaviors and objectives. Performance appraisal is more likely to link to peak when we talk of performance management, under the holistic system and when it when you talk of less likely to link to pay it is the holistic system, which talks of career growth and development. Performance appraisal is an ingrained part of performance management. The part of performance management which is linked to pay is known as performance appraisal.

The other things, performance management is a broader set. It is a performance management is a big set in which performance appraisal is an included set in performance management.

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**Performance Appraisal:** Complex paperwork  
**Performance Management:** Paperwork minimum

**Performance Appraisal:** Owned by HR Department  
**Performance Management:** Owned by Line Managers

In performance appraisal there is a complex paperwork, in performance management it is more of like, less of paperwork and more of observing individuals. Knowing their competence getting to know your employees in a better way; know the strengths and weaknesses where you need to develop, knowing your organizations in a better way. In performance appraisal it is generally owned by the HR department.

In performance appraisal is owned by the HR department. In performance management it is more owned by the line managers. Why? Actually HR is a philosophy in which every manager has to be an HR manager. And, because why performance management is more owned by the line managers is performance management is a system is a continuous process which is linked with achieving the organizations' goals and objectives and connecting individual's goals, objectives, activities with the goals and objectives of the organization.

So, it is the line managers who are directly involved in like the processes where the through the input throughput and output process they are in the direct interaction with employees every day. They see they performing reaching the; doing the tasks given to them, what are the hurdles that they are facing. And what hand holding support they will require to reach that objective. Departmental goals are given to them they also understand what are the resources they required to achieve these goals in a better way. That is why performance management is owned by the line managers.

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**Aims and Objectives of a Performance Management System**

- ❖ Empowering, motivating and rewarding employees
- ❖ Making sure employees not only do right things but also do things right
- ❖ Managing and improving performance
- ❖ Best and judicious use of resources

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What are the aims and objectives of performance management? It is empowering, motivating and rewarding employees making sure, employees not only do the right things, but also do things right. Managing and improving performance, best and judicious use of resources, that is very important. Because we have to be efficient and effective both and we have to be sustainable for that the wastages should be less and best and judicious use of resources is a very very important part of performance management. Like why we want to do a performance management.

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- ❖ Identifying needs for training
- ❖ Ensuring role clarity
- ❖ Aligning individual and organizational goals
- ❖ Defining standards for managing performance

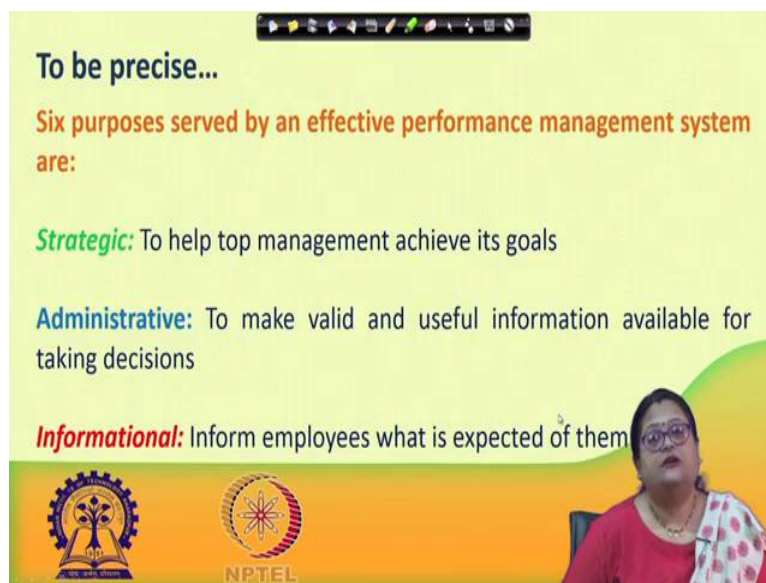
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It helps in identifying needs for training, ensuring role clarity as I was telling. Because the line managers are people who are knowing, seeing what are the employees doing, what are the drawbacks were they facing, the hurdles. They can identify the need for training and they can explain their role properly also. So, ensuring role clarity is the next aim.

Aligning individual and organizations goal, the most important part of performance management thing; this is very very important and defining standards for managing performance. Whenever we are talking of performance management this needs to be very very clear. Like what if achieved what are the standards if achieved, what we need to achieve for what are the standards that we need to achieve; so, that if we know like we have reached that, we can understand like we are on the right track both from the individual departmental and at the organization's levels.

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**To be precise...**

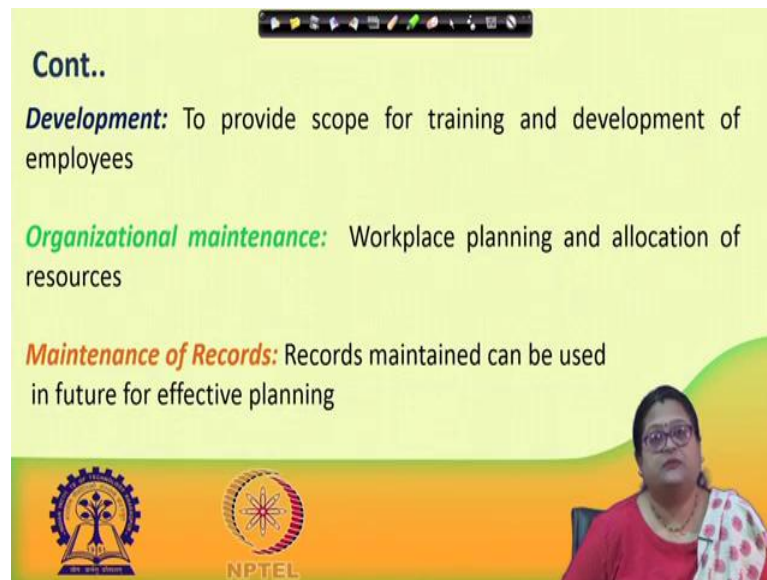
**Six purposes served by an effective performance management system are:**

- Strategic:** To help top management achieve its goals
- Administrative:** To make valid and useful information available for taking decisions
- Informational:** Inform employees what is expected of them

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To be precise, when we talk of the six purposes solved by an effective performance management system are, first is a strategic purpose to help top management to achieve its goals; administrative purpose to make valid and useful information available for taking decisions. Informational to inform employees what is expected of them.

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**Development:** To provide scope for training and development of employees

**Organizational maintenance:** Workplace planning and allocation of resources

**Maintenance of Records:** Records maintained can be used in future for effective planning

Development purpose to provide scope for training and development to the employees; organizational maintenance purpose, workplace planning and allocation of resources; maintenance of records is a very very important part of performance management. Because in performance management we understand, if we want to change something first we need to measure it, what it cannot be measured cannot be changed ok.

So, records maintained used to be; if you want to bring some change management, if you want to introduce certain change in behavior pattern change it what needs to be achieved; first we need to record the baseline like. So, we just cannot; if you do not have like basic platform from which we need to improve whenever we are talking of improving, so, it needs to be measured. Because if we do not have the idea, what we are achieved till now very precisely then we cannot plan to what to achieve next. So, maintenance of records is very important, records maintained can be used in future for effective plan.

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And all this is done with the sole objective of improving the organization's performance. So, organizations performance gets holistically improved, when the organization's goals are cascaded down to the departmental goals and the individual goals. And individuals also feels a sense of self expression, happiness, motivation and they feel like yes I am contributing in a much better way, I am an important part of the organization. Performance management has that beauty, it helps employees to reach a sense of self fulfillment to understand their importance in the organization as a very very important contributor towards the like the development of the organization.

And, that gives a sense of like happiness that gives a sense of self fulfillment. I have contributed meaningfully towards the organization's goals. And in that process I have also like reached my dream of whatever I wanted to achieve as an individual in my like life also. Because, what is the aim over here it tries to align the individual's goals with the organization's goals. And together it leads to the improvement of the performance of the organization.

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These are certain references based on which the discussion is like till now whatever discussion we had, you can have a look at these references for further reading in depth reading.

And, like in any doubts that you have, any ideas that you need to clarify, we are there in the you can always come back to the discussion forum where we will be open to answer any queries from your side, any problems that you give maybe we will take up those issues in the next upcoming discussions also.

Thank you for now, meet you in the next module.

Thank you.