



**PERFORMANCE MANAGEMENT ISSUES IN INFORMATION
TECHNOLOGY INDUSTRY: A ‘CHECKPOINT’**

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ABSTRACT

In recent times, the Information Technology based companies are experiencing a dramatic change in their landscape and work patterns, traditionally, they have tended to look at employees only from the output point of view and have been largely ignorant about personal aspirations and achievements, they also have been experiencing attrition which has led to loss of serious talent,now, the bellwether of IT companies, the International Business Machine or IBM as it is more popularly known has decided to change the way it conducts appraisal and also the way it assesses employee performance, they have opted to include elements based on feedback from 3,80,000 of their employees from 180 countries thus making it an inclusive system, It sets a trend of sorts for the other companies to follow suit. This paper intends to explore the various elements of the new appraisal system introduced by IBM.

Key words: IBM, Performance Appraisal System,outcome measures, IT companies.

Introduction

Performance and Management of Performance has been a key issue for all the industries for a long time now, from the atavistic methods of discretionary impression of performance based on likeliness of the candidate to Merit Ranking/ Paired comparison, we have slowly progressed towards calibrated appraisal rating methods and there is a constant need of improvement in assessment as number of employees increase. The current scene is such that organisations are facing an economy which believes in 'Perform or Perish'¹ The IT companies have enjoyed a long run of success ,however they are now taking cognizance of the fact that they need to change and evolve. IBM has started this by re-vamping their appraisal system totally.

Objectives:

1. the article wishes to study the newly introduced performance appraisal system by IBM.
2. Try and analyse the details of each of the elements of each new system.
3. Compare it to the earlier system to find out the advantages.

Rationale

The rationale for this article is that, earlier, IBM followed forced ranking method which was singularly focused on output measured in terms of targets achieved, also it used to be unidimensional, however, performance may have many dimensions to it. Adding to the it, it was a yearly process which was primarily concentrated on the last project done by the employee rather than what has happened throughout the year.

Some of the popular dimensions of performance are Time, Input, Output, Team& Quality. Here time refers to the timely completion of tasks, Input are the various materials/resources needed for the same, output has multiple facets and could imply total productivity, satisfaction, resource utilisation etc. The team dimension is an ignored dimension which focuses on an individual's role as a team member also dyadic performance that is performance of individual in a two member team (for example: a team of fighter jet pilots flying the same aircraft) and finally quality of work done implying work satisfaction, productivity and optimum utilisation of resources.

A brief look into the concept of performance

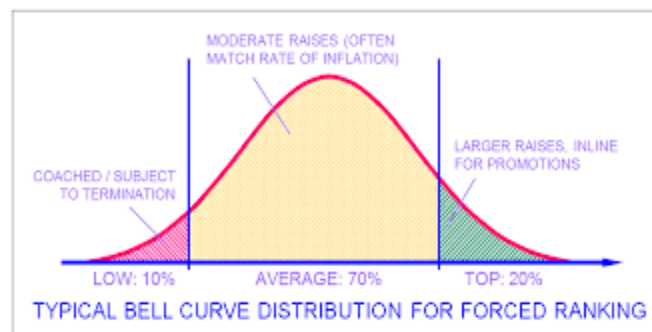
So what does Performance mean?

1. Prof. T. V. Rao defines performance *as the manner in which or the efficiency with which something reacts or fulfills its intended purpose.* (T.V.Rao, 2004)

1.1 There are also various dimensions of performance like *Quality of performance, Quantity of target achieved, Time, Team work* etc. (T.V.Rao, 2004)

1.2 Forced Ranking method: Forced Ranking is one of the most popular methods used for appraisal of a large number of employees. According to Dick Grote, HR expert & president of Grote Consulting, almost 60% of Fortune 500 use forced ranking method, he also goes on to claim in his book titled Forced Ranking: Making Performance Management Work (Grote, 2005) that, if implemented properly Forced Ranking method can help managers identify and retain their top performers also it should be done for a **short term** only implying four to five years.

This method relies on categorization of employees into three categories viz outstanding, average and under-performers. This offers a lot of convenience to the appraisers as they can easily decide on future course of action of rewarding, maintaining or firing employees.



A representative image of Forced Ranking

Source: (<http://www.rightattitudes.com/2006/09/27/performance-management-forced-ranking>)

The IT industry context

The progression of Information Technology sector saw it growing multi fold and major companies adopted the forced-ranking (bell-curve) method for rating the employee. This method

focused on ranking all the employees compulsorily into three categories, Top, Average & Bottom. The rule of the thumb being that the top rated employees got all the perks, benefits & incentives, the average rated employees were given a normal increment and the ones at the lower rung of the ladder would have to be content with no rise in salary or could be warned about improvement of performance,

Jack Welch, who for almost two decades was the CEO of General Electrical was the one who made this method popular and had a 20-70-10 formula in which he richly rewarded the top 20% making them eligible for perks, incentives & promotions, while the average performers were given routine increments and he used to simply fire the bottom employees as they were considered unworthy of working in that environment (Welch, 2005). When he retired, one of the workers gave a feedback, “You only used my hands, while you could have had my brains available all the time for free”. This is a very important statement as it points out the limitations of using the forced ranking method.

Many IT companies widely used the forced ranking method for appraisal purposes including IBM, Deloitte, Accenture, Microsoft etc (Bort, 2012). IBM is the bellwether as far as I.T. industry is considered and whatever practices it introduces tend to set the trend for the others to follow.

About IBM

IBM or International Business machine is a New York Stock Exchange (NYSE) listed multinational company having presence in over 170 countries, in the financial year 2016 their revenue stood at \$79.9 billion and each share priced at \$174.51. (www.ibm.com, 2017).

It was incorporated in 1911 on June 16th, it started off as a company manufacturing clocks and cash registers but later on moved into software and service provider domain, their current business offerings include cloud based solutions, Business Analytics, IT infrastructure, Financing, Security etc.

For a long time, IBM had used stack ranking method (forced ranking method) where in the employees were compared with one another. There was a need felt for having an appraisal system wherein short-term goals could be set and regular feedback could be given. Hence, they slowly changed and adapted a new system which would take into consideration the multiple

dimensions of employee performance and also be deemed inclusive thus making it a comprehensive system. Thus, they set out with a plan to revamp the existing system.

The Process

1. IBM started out by contacting its 3, 80,000 employees based across 170 countries, the employees were asked various improvements they wanted to see in the rating system and mini-online polls were used to get feedback from them.
2. A new system thus evolved which broadly consisted of five criteria for evaluation: Business results, Impact on client's success, Innovation, Personal responsibility to others and Skills. Earlier there used to be yearly goals set and reviews were conducted during mid-year. This has now been upgraded to regular, continuous assessment.
3. There are many benefits to be had from this, there is a distinct segregation of employees based on location, nature of work being undertaken and the flexibility in goal settings there in.
4. The employees who are currently engaged in projects are given annual reviews and their goals are aligned to the project. Employees are also empowered to shift their goals through out the year & have frequent feedbacks.

Changes

There are many perceived changes as a result of embracing new methodology of assessment.; the Business Results which largely focused on achievement of targets & goals has become more flexible, A new factor like Impact on client success is being added to assess the performance parameter, this is a radically new way of thinking and is important because many of IBM's employees are based on client site, Innovation and personal responsibilities are linked to IBM's values.

Management of change

Changing the assessment system for such a large number of employees is never easy and since the new system was to be implemented across all locations of IBM it was a tough job. The earlier system deemed the assessment end in the month of December and new assessment year start from January. Hence, the new system was deployed from January.

The preparation

IBM first trained its managers for assessments, it also simultaneously engaged its employees through the intranet wherein queries were answered by HR experts.

For a better understanding of the system, let's try to explore and understand the significance of each factor in the new system:

- 1. Business Results:** The first factor that is Business results, it deals with achievement of the set business targets and remain a critical factor for the company as it deals with the expectations of self as well as clients. The targets set need to be achieved and any deviation therein needs to be taken care of via feedback.
- 2. Impact on client's success:** IBM has factored through feedback that they need to take cognizance of the role of their employees towards the success of their client's projects. It may have a direct impact in terms of renewing contract, extending it or granting fresh contract. This way the employee directly adds to the company's revenues and in his appraisal suitable consideration can be granted for the same.
- 3. Innovation:** In day to day jobs there is very little that one can do to improvise, however scope must be given for and taken into cognizance the innovations being done by the employees which in long term serve to be beneficial for the company as well as for the clients.
- 4. Personal Responsibility to others:** IBM believes in a culture of cooperation and helping each other as a part of the team this attitude is also factored in their appraisal and it is considered to be in sync with the company's values.
- 5. Skills:** The skills that are useful for successful achievement of the targets and also the new skills learnt along the course of the duration are taken into cognizance for they have a significant role on successful and efficient completion of tasks.

The view: Checkpoint is a crucial development for IBM and it sees that as a transformational tool, It was possible due to feedbacks, mini surveys, open communication etc.

Observations

Following observations can be made about the new system of performance appraisal system 'Checkpoint'

- A. Comparison between the earlier stacked ranking system and the new Checkpoint system:
1. The earlier system was one-dimensional as in it focused only on achievement of business results, this has changed and new factors like Impact on client success, Personal responsibility towards others, Innovation etc have found scope in the assessment.
 2. Earlier the assessment was on a yearly basis which took into consideration largely the last project you worked on while ignoring previous projects that might have happened during the year, however, the new system is flexible to offer yearly assessment for long term projects and also continuous assessment for others.
 3. The emphasis now is on performance management and taking cognizance of significant contributions to success be it at client end or at the company itself rather than mere ranking.
 4. The earlier system was imposed and hence many employees could not relate to it, plus being ranked as a bottom end performer is de-motivating for the employee as it downs his morale as a non-performer and is at risk of losing his job. Now, the employee can register his significant aspects of performance in team work context or helping out clients or even contributing to skill enhancement and innovation apart from the regular set of Business results.
 5. This new method may result in better employee engagement and retention and cut down company costs of recruitment cycle.
- B. Checkpoint may result in giving IBM a decisive edge over its compatriots because it engages the employees, caters to his well being and has the backing of employees.
- C. There's a definitive shift in view point as to how the company should be taken forward in line with the values of the company.
- D. In this quest, they have managed to create a system which acceptable in all the countries where they are functional.

Conclusion

To conclude we can say that Performance Management has come a long way since its evolution from 1960s till date, the organisations have gone from non-cognition of performance to rudimentary methods and now the latest ones which factor in all the aspects of work that an employee has a role to play. In Information Technology sector IBM has set the precedent and the

ball rolling for other IT based companies and in recent times, TCS, Infosys, Delloitte, Microsoft among others have responded by resorting to moving away from the forced ranking method. In fact, Delloitte acknowledged the need to change by surveying it's 65,000 workforce and modifying the process as the rater's bias was found to be the most common factor causing problem, Instead, they are now rated based on action the rater would like to do with the appraisee like rewarding the person and wanting him/her to be a part of your team or deserves a promotion or is at risk of low performance. This has also drastically reduced time for Delloitte which was clocked at 2 million man hours earlier per year.

Hence we can conclusively say that investing in a better Performance Management system is a wise thing as it saves lot of man hours and increases the efficiency and level of engagement of the employees.

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