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Goal / target setting and performance assessment as tool for talent management

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Abstract

With talent management becoming an area of growing concern in the industry and literature, this paper seeks to investigate talent management practices and trends that are shaping successful business enterprises. A case study of best practices in talent management is followed using personal interviews and archival data as shared by the organization. The case describes the talent management change initiative by a steel manufacturing firm. It discusses a newly implemented goal setting, performance management and employee development practices of the firm. The case analyses these initiatives, identifies the existing gaps in these systems and suggests a more integrated method for the same.

1. Introduction

The stage is all set for sustained or even permanent crises of serious or unfamiliar challenges (Heifetz, Grashow and Linsky, 2009). The fast evolving technologies, fierce global competition, energy constraints, climate change, political uncertainties and economic instability are becoming the defining features of the present business environment. The organizations are using several strategic initiatives like expansion, integration and consolidation. However, one factor that emerges as a constant and inevitable one is the need for appropriate, trained and skilled, motivated and above all pro-actively talented work-force. In this back-drop the organizations that are able to attract and retain talent would emerge as global leaders. Competition and the lack of availability of highly talented and skilled employees make finding

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and retaining talented employees major priorities for organizations (Fegley, 2006). It is for this reason that talent management has received lot of preferential and greater attention in the recent past.

Talent Management was coined by McKinsey & Company in their report The War for Talent (Michaels, Handfield-Jones, and Axelrod 1997; 2001), exposing the 'war for talent' as a strategic business challenge and a critical driver of corporate performance.

Broadly defined, talent management encompasses the instrumentation of unifying strategies or processes in order to enhance the output of a work place by deploying ameliorate systems and processes for attracting, development, retention and utilization of required skills and abilities of work force and their aptitude matched with the current and upcoming business needs. Talent Management typically involves the identification, development, appraisal, deployment, and retention of high-performing and high-potential employees (Collings and Scullion 2007).

Chief Executive officers are increasingly involved in the talent management process, with the majority of those surveyed in recent study spreading over 20 per cent of their time on talent issues (Economic Intelligence Unit, 2006). Lawler (2008) has even recommended that to be effective, the senior managers in "human capital centric organization (organizations that strive for success by attracting, developing, retaining, organizing and managing people) should spend 30-50 percent of their time into talent management. In the changing times, though talent management represents one of the greatest organizational challenges (Boudreau and Ramstad 2007) yet it remains an underdeveloped and under-researched concept (Lewis and Heckman 2006). Talent has become the key differentiator for Human capital management and for leveraging competitive advantage. There has been a spate in Indian Literature on the same (see Bhatnagar, 2004; Chugh and Bhatnagar, 2006; Bhatnagar, 2007) yet firm specific strategies that are well-researched, test-implemented and ratified by the results are needed in Indian Context. The present research is an attempt to partially fill this gap by documenting and analyzing firm specific talent management strategy.

The paper presents a case study of a conglomerate in India. The name has been changed at the organization's request for confidentiality. The organization is hence called as Samridhi Enterprises. A case study of best practices in talent management is followed using interviews and archival data as shared by the organization. The findings of the case looked at interventions of goal setting, performance assessment and employee development practices of the company. It identifies the existing gaps in these systems and suggests a more integrated method for goal setting, performance appraisal and employee development. Samiridhi enterprises is a seven decade old group of companies into myriad of activities like shipbuilding, media, travel, food, mining, steel manufacturing, medical research etc. It has an employee strength of 22,300 employees. It is a family-owned business and regardless of the location or industry, it use to operate with high level of owner involvement.

At its strategic inflection point (when the losses surmounted to $28,000) of its steel manufacturing business unit the conglomerate started looking for answers to create sustainable growth. The first positive move in this direction was appointment of Chief Executive Officer for its steel plant in 2006. The appointment of the CEO was done with the proposition that the new leader would bring in more professionalism in its business operation. CEO who had rich experience of more than 25 years in the sector believed that the best way to move forward was to look inwards. With this in mind an organization diagnostic exercise was undertaken. During which it was observed that there was absence of clarity of goals and performance measures to employee. Hence an objective method for goal setting, performance assessment and career progression was developed and implemented; they are now discussed in detail.

2. Goal/ target setting system

The objective of the Goal/ Target setting process is to create a fairer and objective method for defining expectations and performance evaluation. The first step towards an effective Goal/ Target setting process in Samridhi Enterprises is development of the budget by all the functional heads of the organization in the

month of February. The budgets are prepared bottoms up – first the Managers prepare the budget for their line of authority, followed by Senior Mangers, DGM's and GM's of the company. The budgets are then collated, presented and reviewed in management review meeting and then final budgets are presented to the top management (Chairman and members of Board of Directors). The Top management suggests changes, if any, based on the dynamics of the environmental forces) and then gives acceptance to the budgets.

Once the approval is obtained the same is converted into functional goals. CEO asks all the functional heads to give their department Key Performance Areas (KRA's).   The KRA's are prepared on 5 performance dimensions: a) Performance Factors b) Cost control & Cost Effectiveness c) Quality assurance & quality maintenance d) developmental initiatives & projects e) Employee development. For all the performance dimensions quantifiable goals, which are challenging yet attainable, with time frames are defined.

a) Function specific performance targets are prepared for the entire financial year by all the departmental heads- Works, Marketing, Finance, Material Management and Human Resource development. For example the performance factor for works includes production targets, consumption norms. Marketing includes targets for dispatches, turnover. Finance includes criteria like cash flow management, cost of funds, providing funds for new and development initiatives.

b) Cost control & cost effectiveness: parameters like consumption norms, reduction in generation of waste, utilization of waste, targets and frequency of review on cost are specified.

c) Quality assurance and quality maintenance targets are specified by all to meet the quality expectations of not only ISO 9001-2000, OSHAS and TPM (to which company is committed to) but also to have demonstrative performance for continual improvement.

d) Developmental initiatives and projects: All employees are encouraged to problem solving in perennial issues, debottlenecking and take initiatives to improve systems/ subsystems.

e) Employee development is not just an HR function but every manager has to own the responsibility of their subordinate's development.

KRA's are the critical functions of a job or role/ responsibility contributing to the achievement of organization goals. Initially the KRA's are broad in concept and scopes which need to be further refined into individual's key result areas. Relevant applicable criteria for measurement are also identified. Against each measurable, one KRA may have a number of key performance areas for which different measurements and targets are to be developed. All efforts are made so that KRA specific targets are developed and deliverables are well understood by the concerned individual.

Once the functional heads set the goals (on all the five performance dimensions) for their department, they sit with the CEO, wherein every point is discussed and after clarifications and subsequent revisions (if required) the goals are written down and the document is formally signed by the CEO and the functional heads. Similar contracts are developed at all levels with immediate boss and on mutual agreement of the goals, they are finally written down and signed by both the employee and the reporting officer. The company believes that this collaborative goal setting method helps in developing challenging yet attainable targets which are owned by the individuals and hence they are more committed to achieve them. The Goal setting is completed by 15th of March for the next financial year.

3. Performance appraisal & feedback mechanism

Performance appraisal is done twice a year- in the beginning of October and end of March. The process involves four phases: a) Self-appraisal, b) performance review and planning, c) performance assessment and d) evaluation and final grading. Self appraisal form is filled by appraisee every six months. The following are factually reported in the self appraisal form i) targets fulfilled ii) constraints faced iii) facilitating resources iv) suggestion for improvement after the end of six months. The targets are

then reviewed by the reporting officer after six months and feedback is provided to the individual on their progress towards the attainment of the goal.

At the end of the assessment year the appraisee again fills the self-appraisal form described above. In addition to this the appraisee also provides information about a) highlights of performance b) major strengths c) developmental needs.

Performance review and planning (PRP): After the self appraisal the reporting officer also completes the performance review based on the targets and then discusses extent of targets filled, major strengths, developmental needs of appraisee and suggestions for improvement of the individual and team performance. The outcome of PRP discussion is noted down and signed by both the reporting officer and appraisee.

Performance Assessment: After the PRP session the reporting officer assess the appraisee on 8 performance factors and six potential factors. Each factor carries different weightage. Performance factors (with weights in brackets) include: quantity of output (2), quality of output (2), cost control (2), job knowledge and skill (2), team spirit and lateral coordination (2), Discipline (1), development of subordinate (1), any other relevant factor (1). Potential Factors include: communication (2), Initiative (1), commitment and sense of responsibility (1), problem analysis and decision making(1), planning and organizing (1) and management of human resource (1). All the above factors are rated on 5 point Likert Scale, the rating scales are defined as follows:

Number	Description	Explanation
5	Outstanding	Employee is a top achiever and always goes above and beyond the standards of the behavior. Can be counted on to deliver exceptional results in the competency without fail, a majority of the time.
4	Exceeds Expectations	Employee goes above and beyond the standards of the behavior some of the time, and always meets the standards of the behavior.
3	Meets Expectations	Employee always meets the standards of the behavior. Consistently satisfies the requirements of the job.
2	Needs Improvement	Employee meets the standards of the behavior some of the time. Improvement is required in this area for the Employee to succeed.
1	Unacceptable	Employee fails to meet the standards of the behavior most of the time. Employee requires an unreasonable amount of direction from direct supervisor. Immediate improvement is required by the Employee.

To make the system fairer the assessment of the employee is also done by the reviewing officer. The reviewing officer will rate the appriasee on all the above both the performance and potential criteria's and prepares a summary sheet indicating the factor scores of the appriasee. The HR department collates all the total scores based on each individual factor and weightage given to reporting officer/ reviewing officer. The reviewing and reporting officer have to give justification for the rating if desired by the HR Managers. Further to this, normalization of the ratings is also done by the HR department. The total factors are then arranged in descending order for each functional department (works, marketing, material, finance, HR).

One of the output of the appraisal system is that the appraisee are put across the forced distribution method and divided into four different categories: O, A, B and C. Top 10% of the employees are in category O, followed by next 20% in category A, 55% in category B and 15% in category C ; for each functional group.

The CEO decides the final grading ensuring the distribution of appraisees into the four different categories. This is done to remove disparities, if any, in ratings. However, the moderations may not be of more than one stage up or down with respect to primary grading. The final assessment sheet is then filled

up and signed by the CEO. All the promotions and career progressions are linked with overall rating of the employees.

4. Development plans and career progression

The training needs of an appraise are indicated by the reporting officer(s) and reviewing officer. The training needs have linkage to the development plan discussed by reporting and reviewing officer as well as to the changing needs of the appraise and/ or the organization. They also make suggestions for Job rotation/ job enrichment if any.

There are two systems of promotion: i) promotion within groups ii) promotion between groups. Promotion within group is time bound and solely decided based on appraisals and fulfillment of qualification & experience criteria. Whereas, promotion between groups is based on appraisal ratings, qualification, experience and personal interview

Promotions are backed by suitable training and development interventions covering technical requirements as well as management development programmes. The employees are also encouraged to the upgradation of their qualifications, and are supported by payment of as much as 50% of the course fee provided prior approval for course and submission of proof of completion and award of diploma/ degree is obtained from management.

5. Conclusion

The strength of the existing scheme is the collaborative goal setting on measurable performance dimensions. Goal setting in this way provides specific and measurable goals and hence provides clarity to the employees on what is expected out of them.

The factor based performance rating also provides objective performance criteria's. On closer analysis of Samridhi Enterprises, we found that the basic flaw in the goal setting and performance appraisal system is that though both of them have their own set of strengths but they do not form an integrative system. The previous researches have proved that if efforts are not linked to performance and rewards (Murphy, Kevin J., (1990b), Milgrom, Paul R. and John Roberts (1990), Landy, F.J. and J.L. Farr (1980), they do not motivate an individual. Moreover, at Samiridhi the promotions within the group is mostly experience based and time bound (high performer O and A get a leverage of one year only!), It was further noted that even for promotion between groups performance assessment (please note that this is not linked to goal setting) is only one of the criteria others being time bound upward mobility and performance in the interview. This further proves a proposition that irrespective of the performance and effort:output ratio individual get promoted within the group and between groups based on experience, though this helps in rewarding those who stay longer with the organization but it also creates inequity and dissonance amongst the high performers.

Hence we recommend developing an integrated goal setting and performance appraisal system for promotion. Talent management practices related to professional development is viewed as most effective (Wellins and Schweyer). The system does encourage individuals to undertake training and development initiatives for their career advancement but we suggest creation of a more formalized career paths and career graphs at early stages of an individual's career which can facilitate onbording, performance, retention and growth of talent.

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